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Hawaiian Tax-Free Trust®

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Moderator:
Today we're talking to Yvonne Lim Warren, Senior Portfolio Manager and Vice President with Bank of Hawaii and Steve Rodgers, Chief Investment Officer and Executive Vice President with Bank of Hawaii, and both portfolio managers of Hawaiian Tax-Free Trust. Let's first talk about issuance. What level of new issuance have you seen in Hawaii so far this year, and what are your expectations over the remainder of 2016?

Yvonne Lim Warren:
Year to date, we have had about $1.1 billion in new issuance, which is about on par with what we had year-to-date last year. Kaua'i came with a $235 million issue in February, followed by the state of Hawaii GO new money issue of $525 million, which was a competitive deal. The state also issued refunding bonds of about $340 million at the end of March.

If rates continue to stay low, we will probably see more refunding issues. The calendar is expected to remain rather light until the latter part of the year. We expect next to see Hawaii highways then probably followed by Hawaii harbors.

We may also see a Kaua'i County deal, as they are traditionally on the same cycle as the big island of Hawaii. And with the legislative session over, we probably will see or hear of more issues in the pipeline.

Moderator:
Through April month-end, the Barclay's Municipal Index posted a 10th consecutive month of positive total returns. What factors do you believe have contributed substantially to those results?

Yvonne Lim Warren:
The main reason for the performance of the index is that we were in a declining rate market, with lower inflation and subdued economic growth expectations worldwide. Rates are lower and so as rates go down, bond prices go up, and the index performs. In a lower rate environment, and with so much uncertainty in the headlines, investors are reaching out for yield and safety.

Municipal bonds offer a very attractive solution, because of the higher after-tax yield, and also because of the lower default risk compared with similarly rated corporate bonds. And seasonal supply and demand constraints also played a part in the performance. Municipal bonds were relatively cheap, relative to the Treasuries, but as the supply got absorbed it became a little bit more expensive.

Moderator:
It's now mid-May and there are reports that a rate hike by the Fed's seems unlikely to occur in June and there are also some questions about whether the Fed will hike rates prior to the November elections. How is the current rate environment affecting the municipal bond market?

Steve Rodgers:
Actually the current rate environment is very conducive for municipal bonds and this ongoing low interest rate environment continues to be attractive to municipal bond investors as people are looking for ways to conservatively continue to receive after-tax income levels that are attractive.

It's difficult in this very low rate environment to get super excited about the interest levels that are offered, but relatively, municipal bonds continue to be attractive in this rate environment and it appears as though all the Fed's communication has suggested that they are going to be very cautious about raising short-term interest rates, and the market has taken that into account on the longer end of the yield curve.

As many people know the Fed really only controls the overnight Fed Funds rate, if they're not doing any other additional quantitative easing which really impacts the long end of the yield curve.

At the end of the day this continues to be an attractive environment. It does not appear as if interest rates are going to dramatically increase anytime soon. And so as investors continue to seek out, again, conservative options for investing their money in this low rate environment, municipal bonds continue to be very attractive.

Moderator:
Hawaiian Tax-Free Trust holds bonds that were purchased in the past at yields higher than those available in the market today. How does the investment strategy benefit currently and evolve over time based on those holdings?

Yvonne Lim Warren:
Bonds which were purchased during a previously high yield environment helped maintain the distribution yield at a relatively attractive level. And as those higher coupons and high yielding bonds matured, or got refunded, we opportunistically replaced them with new securities, based, of course, on optimal pricing relative to the current rate environment. We also try to balance the yield and principle preservation objectives by putting an emphasis on higher credit quality and by conservatively positioning the portfolio. In other words, we do not take huge interest rate bets.

Moderator:
Let's shift to the local economy. What trends are you seeing in Hawaii and how are those affecting the market for local municipal bonds?

Steve Rodgers:
You know, the local economy here in the state of Hawaii continues to be very strong on multiple levels. Tourism levels have continued to reach new highs in terms of the number of visitors, number of hotel rates, as well as the spending levels, as well as construction and healthcare, continue to be very strong and, in fact, the state's unemployment rate has dropped down near 3 percent, which is one of the lowest rates throughout the country.

On the real estate side, real estate continues - median real estate prices continue to trend higher. And so we're really running on all cylinders right now in the local economy. And, again, that strength of the economy supports the credit quality of all the Hawaii issuers, which continues to make Hawaii municipal bonds attractive on a strong credit basis. And as we talked about earlier in this low interest rate environment, having that double tax-free income is helpful for investors. So it's really a good part of the economic cycle that we're in at this point.

Moderator:
Yvonne and Steve, thank you very much for speaking with us today. For those of you listening, before investing in the Fund, carefully read about and consider the investment objectives, risks, charges, expenses and other information found in the Fund prospectus, which is available on this site, from your financial advisor and when you call 800-437-1020.

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