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For Utah

Aquila Tax-Free Fund For Utah
Podcast Transcript May 18, 2017

Interviewer:
Today we're talking to JT Thompson, portfolio manager of Aquila Tax-Free Fund for Utah.

JT, in spite of some volatility following the 2016 election, the municipal market has seen positive returns during 2017. What factors do you believe contributed to the earlier volatility and then later to the recovery in 2017?

JT Thompson:
Obviously, the elections created volatility, uncertainty, and we do have a president that is unlike any other president we've ever had. And his methods of communicating have created some volatility in the market.

In 2017, we saw a spike in interest rates until January of 2017, and they've come back down. And that's what's helped with some of the recovery in returns in 2017. The other is such a high demand for municipals. A good example is Salt Lake International Airport, which was debt free; they're expanding their facilities there. They came to market in February with a $900 million dollar municipal bond deal. They had nearly $8 billion dollars in orders for that $900 million dollar offering.

And so we've seen high demand for municipal bonds and, therefore, credit spreads have compacted a little bit.

Interviewer:
We've heard a lot about potential federal spending on infrastructure. How might that ultimately be implemented?

JT Thompson:
Most likely I think would be the public-private partnership, which is commonly known as P3 bonds. And they're usually issued for transportation projects like toll roads, bridges, et cetera. But I think that will be expanded to other projects and certain limitations on P3 bonds will be taken off, and most likely that will allow some private money to come in, whether it's through tax credits or actual reimbursement from tolls, et cetera.

Interviewer:
And from a relative value perspective, how do municipal bonds look currently?

JT Thompson:
There's value in municipal bonds. You have to look at value in a couple of different ways. Number one, you look at how tax-exempt yields are to Treasury yields; that's one way you look at it. And right now we're in 92-93 percent of Treasuries for a AAA municipal bond. That's still a little high historically; normally on a 10-year AAA it's in the 80-percent range.

Then next you have to look at how are municipal bonds trading currently against a AAA municipal bond's other credits. We've seen that credit heightened quite a bit recently and so that's where you're seeing some real value in municipal bonds, and they have further to go. So I do think that there is still some intrinsic value in municipal bonds.

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Interviewer:
What is your assessment of the Utah municipal market from a credit quality perspective?

JT Thompson:
The State of Utah has a constitutional amendment that every entity has to have a balanced budget, so most cities, counties, and even the state are very careful in issuing debt. So, the credit quality has been very good.

The State of Utah, just recently – the Legislature – approved $1 billion dollars in bonds for improving the roads in the State of Utah. And those bonds, when they're issued, will only have a 15-year final maturity. The State of Utah really likes to keep their debt service consolidated to short periods of time and, therefore, they have to reasonably expect that they can pay off that debt service in that short of time. So Utah, for the most part, is fiscally a conservative state and most of the credits are in good shape.

Interviewer:
Thank you.

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