

Aquila Tax-Free Fund For Utah Podcast Transcript July 31, 2018

Interviewer:

Today we're talking to JT Thompson, portfolio manager of Aquila Tax-Free Fund for Utah. At mid-year, we typically see an increase in municipal bond maturities and calls. How would you describe the supply of municipal bonds, currently, and what are you anticipating over the remainder of the year?

JT Thompson:

Supply of new issue bonds in Utah is off over 35 percent through June. What's even more startling was the meager \$10 million worth of bonds issued in the month of July. In Utah, we normally average between \$200 and \$300 million in new issuance per month. So, as you can see, that \$10 million is extremely low. I imagine that going forward we're going to see new issuance down between 35 and 50 percent over what it was last year.

The benefit of low issuance is in the secondary market. Utah pieces are trading at very nice premiums, so that is always good, and all of our positions that - we have value created in those positions. I don't see a lot changing between now and the end of the year for Utah issuance or Utah securities.

Interviewer:

Based on comments from the Federal Reserve, it seems as though we can anticipate one or two additional increases in the Fed Funds Rate during 2018. How has the municipal bond market been trading and where on the yield curve do you see value?

JT Thompson:

What's really interesting is the municipal yield curve has reacted completely different than the Treasury curve. For example, since the Fed has been raising, the Treasury curve has flattened. And from the two to thirty year it's flattened; there's only 43 basis points difference between the two and thirty year. Whereas, in the municipal curve, we've steepened during the raising of interest rates. In fact, we're about 142 basis points steeper in the yield curve than we were before. And what this bodes well for is munis still have a long way to - they can outperform Treasury securities, even though the Fed is raising. Municipals, especially in the long end, have quite a ways to flatten and that would increase the value of those municipal bonds.

Interviewer:

We've continued to see positive economic indicators in the first half. Are municipal bond issuers seeing improvements in tax collections and other revenue sources?

JT Thompson:

Yes, I think there is a gradual improvement in that area. There have been no downgrades recently in the State of Utah, and there's been quite a few upgrades of issuers that they've been put on positive outlook. Utah issuers are still very hesitant to issue debt for projects like golf courses, theaters, fitness centers. They're being very conservative in the way they issue bonds. And I think a lot of that is because they still remember 2008 and the staff they had to cut back on. I think they're looking for even stronger revenue growth than what they've seen, recently.

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Interviewer:

The Supreme Court recently determined that states could require retailers to collect sales tax on Internet transactions. Do you anticipate that sales tax receipts from the decision will be significant for the state?

JT Thompson:

It will help. I know for years, Utah has lost tens of billions of dollars in sales tax revenue. And a couple of years ago the State of Utah entered in a contract with Amazon, giving Amazon a percentage of the sales tax they collect on people in Utah that purchase through Amazon. And that has increased sales tax revenue. It's too early to tell how much but, I definitely feel that it cannot hurt the sales tax revenue received in the State of Utah.

Interviewer:

Thank you very much. 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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