

# Aquila Tax-Free Fund For Utah

## Podcast Transcript August 21, 2019

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**Interviewer:**

Hello, this is Pierre Etienne from the Aquila Group of Funds. Today we are talking to JT Thompson, portfolio manager of the Aquila Tax Free Fund for Utah. JT, thank you so much for taking the time to chat today.

**JT Thompson:**

You're welcome.

**Interviewer:**

Summer is typically a time of higher redemptions in the municipal bond market. What is the environment like for individual bond buyers right now considering the scarcity of new issue supply, and what advantages do you have as an institutional buyer?

**JT Thompson:**

Well, the market now is high demand and a very light calendar. There are some states that are down 50%, 60%. In the state of Utah, issuance is off 34%, but the demand remains high, and what we are seeing is that for the larger deals, issuance that they're way over subscribed. They're being priced basically to perfection. Where we find the best opportunities are in these smaller deals that are brought by some of the smaller and regional muni bond dealers. These deals, the par value, is too small for the major institutional investors to be involved in, and so they come to us, the intermediate investor, institutional investor. Usually they call a day or two before they come to market to see what type of structure as far as coupons and yields that we're looking for. That gives us an opportunity to let them know what we're looking at buying. For the most part, we have an advantage over probably the individual buyer in that we're able to help them get the deal done that is best for the issuer.

**Interviewer:**

The Fed recently caught the target rate by 25 basis points. What are your thoughts on interest rates that are remainder of the year and what are your expectations for the yield curve?

**JT Thompson:**

Well, when people talk about the Fed cutting interest rates, they can only affect the short end of the curve. The market makers are the ones that make a difference in the longer end of the curve. What you're seeing now with negative interest rates across the globe, and basically right now in the 10 year, there's only like three or four other countries that have higher yields than the United States, and that would be Mexico, Brazil, China, and Greece.

And so I think the market, everybody is saying that the Fed should probably cut another 25, 50 basis points coming. They have reduced or cut back on allowing their balance sheet to just run off. They're re investing that, which is in essence an easy, so I see interest rates probably going forward. There will be pressure to have positive returns versus negative interest rates but the yield curve to stay very flat for the rest of the year.

**Interviewer:**

We have had roughly a decade of economic expansion since the great recession. What are your thoughts on where we are currently in the economic cycle, and what are your expectations if economic growth slows?

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**JT Thompson:**

In the state of Utah, we're not seeing any economic growth slowing. I think some of the numbers that have come out have showed that the economy continues to grow. I think it's a little bit bifurcated. I think the high-priced goods and services are being reduced, I mean, slowing down as it is globally. But as far as the small and medium size businesses, we're seeing, especially in Utah, huge growth. I've talked with a number of people that are electricians, metal fabricators, window suppliers, cabinet makers, all sorts of business, and they say right now the toughest thing is to find anybody with experience and that all of them are turning away business because they have so much business going on that they can't even compete. So I think again, the economy and the smaller priced items is still growing strong. So I really don't see any slow-down in the near future.

**Interviewer:**

What is the overall health of the municipal bond market nationally and in Utah, and what are the benefits of investing in a state specific bond fund versus the national bond fund?

**JT Thompson:**

I think the health of the municipal market in the United States is very good. The bond market is priced to perfection. Credit spreads have narrowed quite a bit. And in Utah, most issuers, their balance sheets have improved greatly. We are off 34% in issuance this year compared to 2018, and in 2018 we were off at 30% than 2017. If you were to look at 2019 compared to 2017, issuance is off 44% in Utah.

Most issuers are being careful about issuing debt here in Utah, and that's why issuance is off so far. They're being a lot more careful on what types of infrastructure, et cetera, that they're willing to commit to in the tax space too. And so very, very healthy here in the state of Utah. I think nationally there's a few states that are struggling, but for the most part, I think balance sheets have strengthened across the nation.

**Interviewer:**

What is your current strategy and positioning of the Fund? Secondly, are there any sectors where you have found value this year?

**JT Thompson:**

I think at the moment right now patience is probably the best strategy. Being able to be flexible, to take advantage of some of the smaller deals, or any type of yield that the market can give you. Any of these market movements, you've got to be flexible to take advantage of those. I'm probably adding more AMT bonds to the mix. You can still pick up 20 basis points for AMT and still have the same credit quality. With the new tax law, fewer and fewer people are subject to the AMT, so it's an area where you can pick up extra yield.

**Interviewer:**

Thank you very much, JT.

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