

Hawaiian Tax-Free Trust

Podcast Transcript August 27, 2018

Interviewer:

Today we're talking to Janet Katakura, portfolio manager of Hawaiian Tax-Free Trust. At mid-year, we typically see an increase in municipal bond maturity dates and call dates. How would you describe the supply of municipal bonds, currently, and what are you anticipating over the remainder of the year?

Janet Katakura:

July 1st is a heavy maturity and coupon interest payment date for Hawaii issuers. Given the tax law changes, we anticipated that there would be less primary and secondary market supply of bonds available and we were proactive in positioning the portfolio. We are expecting new issuance in August from at least two local issuers though.

Interviewer:

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

Janet Katakura:

Municipal bond rates never reached the near zero lows seen in the Treasury markets a couple of years ago, so short-term rates haven't been impacted as much by monetary policy. Diminished supply, coupled with decent demand for tax-free income, has resulted in a pretty stable muni bond market year-to-date.

The yield curve for muni bonds is much steeper than the taxable market. Meaning we are receiving more incremental yield on munis in the 8- to 15-year range – that's maturity dates. Yields at about 2.2 percent in the intermediate range are the equivalent of 3.7 percent for a taxable bond. On a risk-adjusted basis, that's a very attractive tax-exempt rate.

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?

Janet Katakura:

Hawaii's economy has been strong and our unemployment rate is historically low, so tax receipts are increasing. For example, for the first quarter of 2018, tax receipts in the state General Fund were up over 8 percent. GET (General Excise Tax) revenues increased over 15 percent, and the Transient Accommodations Tax (a tax on lodging accommodations in Hawaii) increased by 12 percent, also, for the first quarter. In May, the Council on Revenues raised its 2018 revenue forecast for the General Fund from 5.3 to 7.3 percent, citing the higher state personal income tax – which, by the way, makes the tax-exempt interest earned by investors in Hawaii Tax-Free Trust even more attractive.

Our four counties are also enjoying strong economic conditions and we do expect continued growth. Visitor arrivals are at record levels, airline seats have increased, and we prosper from healthy economic conditions in the US and Asia, as well as recent federal tax cuts, which provide more disposable income.

Before investing in the Fund, carefully read about and consider the investment objectives, risks, charges, expenses, and other information found in the Fund prospectus. The prospectus is available on this site, from your financial advisor, and when you call 800-437-1020.

A few comments about Hawaii County, the Big Island, and the continued volcanic activity. National news focused for a while in the 'destruction in paradise'. I guess it was a welcome change from reporting on political events. The impact of the Kilauea eruption is contained in a limited and sparsely populated area of the Big Island. While certainly the devastation experienced by homeowners and businesses in the area is unfortunate, we don't expect it to have a significant impact on that island's economy. Hotels bookings for the month of June declined about 6 percent, but year-to-date, including June, were up by 8 percent. The cruise ships stopped landing in Hilo for a couple of scheduled days but are back to their regular schedule.

Keep in mind that 2017 was a record year for the Big Island, which also enjoyed the greatest expansion of airline seats. We are hoping that Volcano National Park opens some safe viewing areas for this new eruption. That park is the No. 1 attraction in the islands.

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's prospectus, which is available on this site, from your financial advisor, and when you call 800-437-1020.

Thank you for listening to this podcast.

Before investing in the Fund, carefully read about and consider the investment objectives, risks, charges, expenses, and other information found in the Fund prospectus. The prospectus is available on this site, from your financial advisor, and when you call 800-437-1020.

For more information on the entire Aquila Group of Funds, please visit www.aquilafunds.com