



Aquila Narragansett Tax-Free Income Fund

Podcast Transcript May 10, 2019

Interviewer:

Welcome to the podcast for Aquila Narragansett Tax-Free Income Fund. I'm Mike Gavan, and I'm joined here today by the Fund's portfolio manager, Jeff Hanna. Thank you for joining us, Jeff.

Jeff Hanna:

Thanks for having me.

Interviewer:

Starting with our first topic. On May 1st, federal reserve officials decided to hold rates steady, and stated that key economic activity had slowed during the first quarter. How have bond markets reacted to that announcement?

Jeff Hanna:

Well, bond markets really haven't reacted too much. I'd say you could kind of hit the snooze bar. That was already expected, so there really was not much of an impact. Certainly, the markets are looking much more at the employment figures, which came out on Friday, earnings, fiscal issues, trade issues, and the like. So, I don't think it was anything of a surprise. It would have been a surprise if either language had changed, or if there was actually an action taken by the fed, which it did not.

Interviewer:

Thank you for that. Now, Americans recently filed their first tax returns with the state and local tax, or SALT, deduction caps in place. Do you think that change in the tax law had a noticeable impact on the municipal bond market?

Jeff Hanna:

I definitely think it did. We've talked about this fairly regularly on this podcast over the last year or so, and with these changes, certainly had a significant impact on a lot of folks, particularly in the higher tax states, including Rhode Island. So, I think from that standpoint, yes. Once people started filing their taxes in 2019 for the 2018 tax year, I think they started to realize that municipal bonds certainly offer value. I would say, honestly, most are probably late to the game if that's the first time they're thinking about municipal bonds. But I think municipal bonds have had a good year so far, so I think some folks are taking advantage of that, and again, there are very few tax free income items left. Municipal bonds happen to pretty much be it.

Interviewer:

How has new issue supply year-to-date changed versus 2017 and 2018, and what are you anticipating over the remainder of the next year?

Jeff Hanna:

Yeah, in general, we've seen pretty much a 20% decline nationally, and I think that would probably expect to continue, maybe not to quite that degree. What I will say, in Rhode Island, compared to a year ago, we're actually up a little bit in issuance by about nine and half percent. Although it's still early in the year, and we have seen a lot of issues. They tend to come somewhat bunched. I would expect the remaining part of the year, I wouldn't be surprised if we're similar to levels that we had last year, or even slightly below.

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Interviewer:

We've seen generally positive economic indicators in the recent months. How would you assess the financial strength of the municipal bond issuers in general, and are there particular sectors that you find attractive?

Jeff Hanna:

I think, from the standpoint of the economic indicators, certainly at the national level, they've been very good. States, I would say in general, have been pretty good. We're starting to see a little bit of a slow down here in Rhode Island, and I would say, as far as financial strength, again, I think we are at what appears to be the tail end of a pretty long-term rally, and I think that municipal bond issuers, credit quality is probably at its peak. And I think there may be some challenges lying ahead, particularly with concerns about changes in the fiscal programs here, not only at the state level, but also at the federal level.

As far as particular sectors that are attractive, we've stayed away from certain things, and we've maintained our non-AMT in the portfolio. However, if there are sectors that look attractive, certainly I think higher Ed (Education) tends to look fairly attractive here within Rhode Island. There's also some opportunities within specific projects, and there's certain general obligations that look attractive, as well.

Interviewer:

Thanks for sharing all that, Jeff. Now, at this point, could you take a few minutes to describe your current strategy and the positioning of the fund?

Jeff Hanna:

Sure. Yeah, as far as the current strategy, it really hasn't changed, and we've maintained a very high quality. Maintained our duration position a little bit above that, of the benchmark of the Bloomberg Barclay's intermediate quality. And I think from that positioning, we tend to be a little bit longer. Again, we continue to see long-term rates move down, so we've seen a little bit of flattening here on the municipal side of things, although the curve is steep. It's not like the Treasury yield curve where we see a little bit of inversion and fairly flat. There's still certainly a yield pickup, but the issue with municipals is that you continue to have to go considerably longer to pick up additional yield. You know, we are intermediate term funds, so we are careful with the bonds that we choose, duration, and managing that duration position.

Interviewer:

Great. Well, thank you very much for the time today, Jeff. 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 1-800-437-1020.

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