



Aquila Narragansett Tax-Free Income Fund

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Interviewer:

Today we're talking to Jeff Hanna, Portfolio Manager of Aquila Narragansett Tax-Free Income Fund. Jeff, at midyear 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?

Jeff Hanna:

You know, July 1 usually is a big day for maturities. We did have some. Those were actually pre-refunded bonds. But issuance year-to-date's been fairly light and now even, due to the summer, in the next few weeks, it'll still continue to be light because we're about three weeks into the end of a fiscal year for the state and local cities and towns. So there is some issuance coming but I would anticipate that that would continue to be light through the end of the year.

Interviewer:

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

Jeff Hanna:

Yeah, well, spreads have tightened recently. After a weak 2017, performance was not particularly good for municipals. A little bit slow in the first quarter but we really see a bounce back in municipals. We actually had some slightly positive performance year-to-date. I'd say as far as where the market's been trading, it's actually been fairly attractive. But you have, like I said, seen spreads tightening so there's certainly a little tougher to find value out there.

I think a lot of that depends on your interest rate outlook and that will really determine where you think you find value on the yield curve. Since we manage to an intermediate benchmark in duration, the furthest we're probably looking out here is kind of the eight to fifteen year range where I think we may find value. And again, a lot of that has to do with where you think the yield curve is going. We've seen short-term interest increases. Long-term interest rates haven't really moved all that much but there is an expectation that we see a little more inflation which will push long-term interest rates up. So you kind of have to dance carefully on the yield curve.

Interviewer:

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

Jeff Hanna:

Yeah, most states have seen some pretty good pickup. Rhode Island ended the fiscal year with a surplus. Cities and towns rely a bit more based on property taxes. So there's less impact, although they should benefit from the increase in state tax collections.

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 this decision will be significant to the state?

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Jeff Hanna:

Well, I'd say it's definitely positive from that standpoint. You do have some large online retailers remitting or collecting and remitting taxes to the state. You know, is it significant? I'm not sure at this point. It certainly will help revenue that previously was lost but I'm not sure, and it's still I think too early to tell, if there's a significant impact.

One thing to note, Rhode Island does not tax clothing. So from that standpoint, historically a lot of online was clothing, although I would say less so now. So it would be somewhat neutral from that standpoint. But I think positive, yes, but still too early tell the impact from revenues that were previously lost to instate sales.

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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