



Aquila Narragansett Tax-Free Income Fund

PORTFOLIO MANAGER COMMENTARY

Q4 2023



A Shares: **NITFX**

C Shares: **NITCX**

F Shares: **NIFFX**

Y Shares: **NITYX**

Municipal Bond Market Overview

The fourth quarter of 2023 was a contrast with respect to fixed income markets. October saw one of the largest sell-offs in recent memory as the Federal Reserve (the “Fed”) reiterated its hawkish stance to help contain inflation further with potentially more rate hikes. This quickly faded in November, as the Fed pivoted to a more dovish tone and markets shifted from rate hikes to rate cuts.

The U.S. Treasury yield dropped 69 basis points from 4.57% to 3.88% during the quarter. Municipal bonds followed Treasuries with a bull-steepening move and saw spreads tighten even with issuance about one-third higher than the same quarter a year ago. While Municipal-to-Treasury ratios were not cheap at the beginning of the quarter, these ratios tightened considerably at the end of the quarter, testing historically tight ranges.

Rhode Island Municipal Bond Market and Economy

New municipal bond issuance within the State was slightly over \$372 million for Q4, consisting of a three-part RI Housing issue, and a two-part State General Obligation—both with taxable and tax-exempt tranches. The Providence Redevelopment Agency issued a taxable two-part Certificate of Participation Bond with long final maturities, and a rare New Shoreham General Obligation was the final issue in mid-November to close out the year. The \$48 million Pawtucket Redevelopment Agency issue to fund the Tidewater Landing Phase 1A for the professional soccer stadium was postponed until early 2024. Total issuance for the quarter consisted of tax-exempt (57%) and taxable (43%) issues.

In November, Rhode Island’s total non-farm employment rose by 1,900 to 496,900, its largest gain since last February. On a year-over-year basis, the Rhode Island economy has lost 1,000 jobs. During November, we saw nine employment sectors add jobs, six remain the same, and three sectors showing job losses. Health Care & Social Assistance showed the largest job growth (+800) during the month, reversing its October losses.

The State’s part-time legislature began its New Year session with a considerable amount of caution and a warning from the Speaker of the House that there will need to be some tough decisions made during the second half of the fiscal year. A number of major initiatives that need to be seen through are the \$300-million approved for affordable housing, and the shortage of primary care physicians in the State and Medicaid reimbursement rates. This comes on the heels of a significantly bloated state budget from billions in federal pandemic aid monies that can no longer be counted on.

Despite the concerns over the upcoming budget decisions to be made, a number of politicians have their wish lists for 2024. As an example, General Treasurer James DiOSSa would like to see the state issue “Baby Bonds,” which would provide for \$3,000 for every Medicaid-eligible child in the State to be invested by the State’s Treasury and available to the children upon turning 18 years of age. The funds could then be used for education, purchasing a home or starting a business. The initial cost of this program would be about \$14 million.

Fund Strategy and Outlook

With the rapid pivot by the market towards potential Fed easing, the Fund benefitted by seeing its net asset value rise quickly. This was mostly driven by the yield curve flattening, with longer rates providing outsized returns following this pivot—a result of investors locking in longer-term yields at attractive levels.

During the fourth quarter of 2023, we also took advantage of this opportunity to swap out of lower-yielding bonds and lock in higher yields in order to increase the Fund’s distributable income. Rhode Island had issuance considerably above prior years, and given the number of current initiatives and priorities, one would expect 2024 issuance to remain above the trend of the past few years. While the Fed seemingly has inflation under control and trending lower, many exogenous factors could continue to keep them fighting for longer than the markets currently believe. As has been indicated previously, the Fed will be consistent in its pursuit of taming inflation even if higher levels of unemployment result.

While a “soft landing” for the U.S. economy appears to be the current base case, the ride may be considerably bumpier than most market participants are expecting. Being nimble and opportunistic in these markets is of utmost importance while we continue to search and find value within the investment-grade market on behalf of our shareholders.

For specific information about the Fund’s characteristics, holdings and performance please see the [Fact Sheet](#) on our website at www.aquilafunds.com.

Fund Facts as of 12/31/2023

Portfolio Manager JEFF HANNA, CFA®	Inception Date 9/10/1992	Total Investments \$189.2M	Number Of Holdings 163
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This information is general in nature and is not intended to provide investment, accounting, tax or legal advice, nor is it intended to represent a recommendation or solicitation related to any particular investment, security or industry sector. The opinions shared are those of the portfolio manager and do not necessarily reflect those of the Investment Adviser of the Fund. Past performance does not guarantee future results.

Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio. A complete list of the Fund’s current holdings, including percentage allocation, is available on our website and by contacting Aquila Group of Funds.

A credit spread or a yield spread is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities.

Municipal-to-Treasury Ratio compares the rates of municipal bonds with those of U.S. Treasury bonds in percentage terms.

Mutual fund investing involves risk; loss of principal is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived decline in credit quality of the issuer, borrower, counterparty, or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. State-specific fund performance could be more volatile than that of funds with greater geographic diversification. Past performance does not guarantee future results.

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 from your financial advisor, and when you call 800-437-1020 or visit www.aquilafunds.com.