



Aquila Narragansett Tax-Free Income Fund

PODCAST TRANSCRIPT

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Interviewer:

Hello everyone, welcome to another Aquila Group of Funds podcast. I'm your host Matthew DiMaggio. Joining me is Jeff Hanna, Portfolio Manager of Aquila Narragansett Tax-Free Income Fund. We'll be discussing Rhode Island's post-stimulus economic situation, infrastructure, as well as municipal spreads, and rates. Thank you for joining us today, Jeff.

Jeff Hanna:

Thank you for having me.

Interviewer:

Let's jump right in. So, we're about five to six months down the road from the American Rescue Plan Stimulus Package. How is Rhode Island faring in the economic recovery?

Jeff Hanna:

Actually, Rhode Island is faring okay. Revenues actually are a little bit higher than expected, unemployment continues to move downward. Again, like many states in the region here, we do have a fair amount of companies and businesses that are related to the tourism industry, and they suffered a little bit during the summer, difficulty getting employees. But for the most part, revenues have been pretty good. They've been pretty steady, moving in the right direction.

Interviewer:

Let's talk about demand for a moment. Demand is high across municipal segments, with relative supply being somewhat moderate. How would you say that affects the municipal markets. And do we expect the demand to continue at these levels?

Jeff Hanna:

Well, we are probably going to see increases in taxes and potentially higher tax rates, particularly for those folks who are making less, or I should say above \$400,000 annually. I think in the other case, that things will be somewhat tax neutral. But municipals definitely are tax-driven, so I think most people are sensitive to that. And I think that's again, going to continue to be an issue here in the second half of the year.

Interviewer:

Thanks Jeff for the insight. In regard to supply, an infrastructure bill recently passed through the Senate is awaiting a vote in the House. If passed, does this bill affect supply and municipal markets in general?

Jeff Hanna:

Yeah, I mean it definitely will. Right now, we're definitely seeing demand outstripping supply, particularly on Rhode Island. There still are a number of projects waiting to be funded in coming to market. So, I think overall here, that will be providing some additional supply, but there is definitely a demand to meet that here in Rhode Island, particularly given the current tax situation. But should tax rates get changed and see some movements here coming out of the Biden Administration, either before the end of the year or early next year, again, I think folks are anticipating that will be the case.

Interviewer:

Great, thank you. Jeff, you alluded to a potential tax increase coming out of Washington. Can you speak more broadly to that and how it might affect the municipal market, and how you see it involving rates?

Jeff Hanna:

Sure, yeah. I think what you have to kind of take a step back here and realize that munis are really tax-driven, so they're a little less sensitive to the overall movement in rates. They follow Treasury rates to some degree, but again, they are tax-driven. And again, from what's happened here the first half of the year, spreads have gotten very tight because of supply. But what you're also seeing is that is an anticipation that there will be some change in tax rates. Now, if that doesn't happen, or if there's something significantly different than kind of what's been put out there, you could see spreads widen out a little bit. But again, I wouldn't expect munis in the second half of the year here really to tighten much further. I mean, you really can't squeeze much more juice out of that orange.

Interviewer:

Yeah, that's an important topic. And you mentioned, as well, credit spreads. And we're seeing incredibly narrow levels, especially historically. Does this say anything about the mind-set of investors more specifically?

Jeff Hanna:

Well, I think spreads have really tightened in, right? So, you end up with high-quality spreads of being about the same as low-quality spreads. And normally when you see that happen, upping quality trade makes more sense. In other words, buying a single-, even double- or triple-A paper as opposed to the triple-B, or below investment-grade, paper. And because, again, the chances are you're going to start to see some spread-widening. Normally that happens in the lower-quality.

Interviewer:

Jeff, what are your expectations for the rest of 2021 and heading into 2022 around rates, and more importantly inflation? Tell us how you positioned your portfolio currently.

Jeff Hanna:

Sure, yeah. I think we're starting to see some signs of inflation abating a bit. Right now, you have seen a few areas where these bottlenecks have kind of backed off a little bit, and prices coming down. There are some that are still elevated because of matters related to COVID-19. And then, of course, you have the Fed in here talking about tapering. The expectation, anyway, is that they may start doing that towards the end of the year. And again, with respect to that and whatever happens with the infrastructure bill that gets passed, and whatever dollar amount that is, again, that could in and of itself push rates a little bit higher, other things being equal. In anticipation of that, I'd say the portfolio has been positioned somewhat defensively. I have looked towards kind of higher coupons in the portfolio with some shorter maturities, and clearly want to make sure that should we start to see rates move up higher. Those bonds, actually, relatively speaking, will perform better. So, we want to make sure that's the case. The duration of the portfolio, which is a reflection of price sensitivity, is somewhere around, between four and a quarter years. I think that's fairly defensive. And the impacts, sometimes what's more important, is not just the movement of interest rates, but the impact has to do with more of the shape, and the shape of the yield curve. So, there are points along the yield curve where there's some value, and that's what we're looking for.

Interviewer:

All very insightful information, Jeff. Thanks again for joining us for this Aquila Funds Podcast.

Jeff Hanna:

Thank you very much.

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Modified and effective duration both measure the value of a security in response to a change in interest rates. Effective duration also takes into account the effect of embedded options. The weighted average life, also referred to as weighted average maturity, is a reflection of the quickness with which the

principle of an issue is expected to be paid.

A credit spread is a difference in yield between two bonds of similar maturity, but different credit quality.

Taxable equivalent yield is the return that is required on a taxable investment to make it equal to the return on a tax-exempt investment.

For certain investors, Net Investment Income Tax, known as NIIT may apply. NIIT is a 3.8% tax established by the patient protection and affordable care act that applies to the lesser of, the net investment income, or a taxpayer's modified adjusted gross income above an applicable threshold amount. The acronym PERS, stands for Public Employee Retirement System. The acronym PERA, stands for Public Employees' Retirement Association. CARES Act Stands for Coronavirus Aid, Relief, and Economic Security Act.

Yield refers to the earnings generated and realized on an investment over a specific period. Yield is expressed as a percentage based on the invested amount, current market value, or face value of the security, and includes the interest earned or dividends received from holding a particular security.

The yield ratio represents the comparison of the expected yield of one bond to the expected yield of another. A yield ratio is important when deciding whether to invest in one bond or another. Generally, the higher yield is considered better.