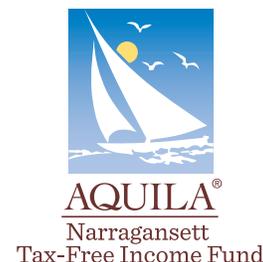




Muni Market Update

with Jeff Hanna, CFA®

Podcast Transcript April 3, 2020



This is Candace Roane with Aquila Group of Funds. I'm joined today by Jeff Hanna, Portfolio Manager of Aquila Narragansett Tax-Free Income Fund. Jeff has been in the bond business for nearly 30 years and has been managing the Fund since 2004.

Welcome, Jeff.

Jeff Hanna:

Thank you, Candace.

Candace Roane:

This is the time of year, it's April, when investors would normally be worried about filing tax returns, which typically gives us an opportunity to remind them about the benefits of investing in tax exemption municipal bonds. But since we recently just experienced one of the most precipitous market declines in modern history and tax day has been rescheduled due to Covid-19. Let's focus today on what happened in the month of March, in the first quarter, and then how it impacted municipals. And I'd also like to get your thoughts on what we have in store for the remainder of 2020.

So, to start, the municipal bond asset class is typically a place of respite for investors during times of economic unrest. But the recent virus-induced market volatility took municipal bonds on a ride along with other bond sectors and equities. Jeff, can you give our listeners insight on how investor sentiment changed and the impacts that had on the bond market?

Jeff Hanna:

Sure. I think, obviously we're in very difficult times currently, and with the coronavirus. And I think what you'll find during times of stress across the board, the correlations of asset classes tend to go to one. Though, which it all seem to move in the same direction and that's a little bit of what we seen in here.

But I think with respect to the municipal bond market, what we've seen, particularly in March, you had more of an impact from some large players, municipal bond players, Funds and ETFs that needed to sell bonds. And what you had was more sales than you had purchases, and the buyers couldn't absorb the bonds. So the way that the market interprets that is, it lowers the price, increases the yields. And we saw that considerably. I mean, more than at areas and spreads and movements that I have never seen in nearly 30 years of being in this business.

What you did have, is about two and a half billion dollars of leveraged investment strategy that went awry, and short-term interest rates and borrowing costs spiked. So this is what really drove municipal bonds to also join the equities in other bond sectors to negative returns for the first part of the month.

Candace Roane:

How has the Fund's investment approach handled the recent volatility, and were you able to locate opportunities among some of those price dislocations?

Jeff Hanna:

Yeah, well increase in the volatility always leads to opportunities. And in a way, I manage the Fund, always looking for that, making sure that again, we have our eyes out for anything that comes about. And I think it's, the market was way oversold and as many people observed, came back very quickly.

But the idea behind this is really not to panic. Look to understand why the movements are happening, and then look to the opportunities that are being presented. And then longer term, look to see if there are longer term impacts that are underlying or fundamental to the overall market or the overall bond or sector within the municipal bond market.

Candace Roane:

We know that most municipalities entered the year with strong revenue growth and solid fundamentals after a strong recovery. But it's unknown what's going to happen with what we're dealing with from a health crisis here in the United States. Are you concerned about revenue declines in Rhode Island with the way things are right now, and what are you monitoring closely?

Jeff Hanna:

Sure. Yeah, I mean the States over the years really since the great recession, have rationalized themselves. And as you mentioned, we have seen a few years here of increased tax revenues, budgeting, certain budget surpluses, establishment or increasing rainy day funds. So, from that standpoint, the municipalities, the states, are certainly better prepared than they were back in 2008.

But again, we're experiencing something here that we have never seen before. Short term, I think, our maybe three months or so, things will be fine, get back on our feet and things get back to a normal. The economy gets started back up and people get back to work. If it's longer than that, maybe greater than six months, six to nine months or so, there'll be some other issues. But we have seen the Federal Reserve come in and basically become the one best resort. And we've also seen the fiscal side of things with the stimulus program that are coming into place that are actually providing some help to the states and then also the cities, the towns.

Candace Roane:

Considering that we could be moving towards a recession, can you give our listeners your thoughts on future volatility for the remainder of this year and thoughts on the next few quarters?

Jeff Hanna:

Sure. Yeah, again, with the increase in volatility, certainly uncertainty within the markets, I think states need to be creative about their programs, both the state and local levels. Interest rates I think will continue to remain low. You will see movements in the yield curve. We have seen that more recently.

And I think oversight of the portfolio, looking at sectors as well, making sure that you're keeping a watchful eye on particular credits, particular sectors that may be impacted more than others. And again, being as well diversified within the state as possible, which I've made every attempt to do over the last number of years. And making sure that we can all ride this out.

Candace Roane:

Thanks, Jeff, for joining me and for all of this insight.

Jeff Hanna:

You're welcome. Thank you.

Disclosure:

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Information regarding [holdings](#) is subject to change and is not necessarily a representative of the entire portfolio.

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For certain investors, some dividends may be subject to federal and state income taxes, including the alternative minimum tax referred to as A and T. Please consult your tax professional. Independent rating services such as Standard & Poor's, Moody's and Fitch assign ratings which

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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 the 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 in excess of an applicable threshold amount. The acronym PERS, P-E-R-S, stands for public employee retirement system. The acronym PERA, P-E-R-A, stands for public employees' retirement association.

CARES Act Stands for Coronavirus Aid, Relief, and Economic Security Act.

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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.