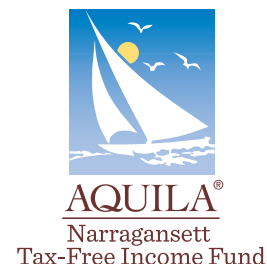




Aquila Narragansett Tax-Free Income Fund

Podcast Transcript January, 2021



This is Candace Roane, Director of Marketing for Aquila Group of Funds. Today is January 19th, and I am joined by Jeff Hanna, Portfolio Manager of Aquila Narragansett Tax-Free Income Fund. Welcome to the podcast, Jeff.

Jeff Hanna:

Thank you. Great to be here.

Candace Roane:

Now that we know that the Democratic Party will control the Executive and the Legislative branches for at least the next two years, what are your thoughts on policy changes that may impact the muni market?

Jeff Hanna:

Well, there's quite a few things, right? I mean, certainly tax policy is going to be very important. At least at this point seeing perhaps an increase in the corporate tax rates, your state threshold, perhaps decreasing. But you're also going to see continued infrastructure programs. You could also see a cap on the SALT exemption, the state and local tax exemption also, from a personal standpoint. So that actually may have some actual benefit from the standpoint of those higher tax states where people get capped out quite often.

Candace Roane:

Do you think that you'll see advanced refundings come back at a tax-exempt level?

Jeff Hanna:

Hard to say. I mean, the taxable munis certainly are definitely gaining popularity. I mean, issuance in Rhode Island of taxable bonds was greater than 50% in 2020. I kind of see that trend continuing into 2021. It's hard to say if that will, again, if that tax change will happen. I mean, it makes sense the fact that bonds are actually diffused, and are no longer backed by the municipality, the state local government or project. So yeah, it's kind of up in the air at this point. There's a lot of things out on the table. I think that's probably small in comparison to some of the other items.

Candace Roane:

Let's talk about defaults. I know we discussed defaults on our last podcast, but I think it's worth discussing again. We have a new administration committed to focusing heavily on implementing measures to control the pandemic. Do you think we'll see shutdowns? Do you expect to see more stress on certain muni sectors and maybe defaults in Rhode Island and nationally?

Jeff Hanna:

It's a little too early to tell, but I mean, certainly this administration seems to be more willing to put together a package that's expected to include assistance for state and local governments. So from that standpoint, not specifically bailouts, but I mean, certainly there's additional stimulus perhaps that will get governments back on their feet. I mean, there's also remaining pandemic money from the CARES Act that could also be repurposed. And honestly, those already stressed credits may actually end up getting some help. But there may be others that are too late. I mean, surprising that there weren't as many defaults given the situation. But again, I think a lot of the stimulus and some moratorium on payments and the like have been implemented and felt. The issue I think tends to be more at the local level with respect to small businesses. And from that standpoint, I think, that's where it's been felt. I think the governments and some of the projects probably won't be too bad. And particularly, since the stimulus bills that we've had and look to continue to have here, at least initially what we're talking about. Our continued infrastructure programs that'll kind of keep things moving along.

Candace Roane:

Jeff, tell me a little bit about some of the provisions around muni bonds in Rhode Island, specifically.

Jeff Hanna:

Sure, yeah. I mean, Rhode Island, like about half of the other states has some provisions related to defaults and bankruptcies. So, with respect to that, basically the State takes on oversight for a particular community. And this was done back in 2012, just prior to the Federal Chapter 9 bankruptcy of Central Falls, Rhode Island. And the purpose behind that was to ensure that bondholders were secured from the standpoint of being paid. And that really was put into place because there was a concern about if there were a default, how that would impact other communities borrowing within the State. So what ended up happening it was put in legislation and passed. So it is law that for general obligation bonds, that bondholders are paid first. And that provides some additional oversight, some additional protection if you will, were general obligation bonds of the local cities and towns within the State of Rhode Island.

Candace Roane:

That's great. It sounds like the muni market has held up the way we expected it to. Let's build on that and then close this out with your outlook for the muni market nationally and in Rhode Island, say over the next few months. Where do you think yields are going to go from here?

Jeff Hanna:

I think, 2020 certainly was one where initially spreads have tightened considerably in anticipation of a new administration, and higher tax rates, and resulting higher interest rates. But it's still a little bit early to tell. I mean, the trend for rates appears to be higher. And that's really from the situation of additional borrowing that we'll see. And munis will probably move along in a similar vein. But for individuals, tax rates certainly are higher. If they are higher, their scope will be certain amount of demand for them. And the supply is limited. I mean, we talked about taxable issuance earlier. The difference being a taxable issuance is really has a different group of investors. I mean, you're looking more at your typical corporate investor and even have foreign investors in here. So from that standpoint, that's a whole new dynamic to the municipal bond market. And it looks as though truly tax-free issuance will probably continue trending down at this point, unless you get a change in either tax law or you get a change in the types of projects that are being funded by taxable bonds.

Candace Roane:

Thank you for joining me today, Jeff. And as always, we're grateful for your valuable muni insight.

Jeff Hanna:

Great. Thank you very much.

Disclosure:

Thank you for listening to this podcast. 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 when you visit www.aquilafunds.com or call (800) 437-1020.

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

Mutual fund investing involves risk. Loss of principle is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived the chronic decline in credit quality of the issuer, borrower, counterparty or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. Fund performance could be more volatile than that of funds with greater geographic diversification. The Fund seeks to provide a high level of income exempt from state and federal income tax as is consistent with capital preservation. Past performance does not guarantee future results.

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 generally range from AAA highest to D lowest, to indicate the credit worthiness of underlying bonds in the portfolio. Where the independent rating services differ in the rating fee assigned to an issue or do not provide a rating for an issue, the highest available rating is used in calculating allocations by rating. Pre-refunded or escrowed bonds are issued for the purpose of retiring or regaining an outstanding bond issue at a specific call date. Until the call date, the proceeds of the bond issuance are typically placed in a trust and invested in US treasury bonds or state and local government securities.

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.

Yield refers to the earnings generated and realized on an investment over a specific period of time. 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.

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.