# Churchill Tax-Free Fund of Kentucky Podcast Transcript August 21, 2019

**Interviewer:**
Hello. This is Pierre Etienne from the Aquila Group of funds. Today we have the pleasure in speaking with Royden Durham, portfolio manager for the Aquila Churchill Tax-free Fund of Kentucky. Royden, how are you today?

**Royden Durham:**
I'm doing great, Pierre, how are you?

**Interviewer:**
Excellent. Excellent. Again, thanks so much for taking the time. So Royden, let's jump right into it.

**Interviewer:**
Summer is typically a time of higher redemptions in the municipal bond market. What is the environment like for individual bond buyers right now considering the scarcity of new issue supply and what advantages do you have as an institutional bond buyer?

**Royden Durham:**
Well Pierre, this year with a lack of legality of pre-refunding bonds, which we've had in the past, redemptions have slowed precipitously. It has the possibility of increasing since rates are so low that it could trigger certain refundings. One of those types of refunding trends has been swapping tax-frees for taxable bonds and then also the reverse. For individual rates have outpaced to lower yields versus current fund yields when comparing like duration. As a result, the funds are a bargain we believe.

Additionally, we have had opportunities as an institutional buyer to pick from ample supply and the best deals. We were able to buy cheap Transylvania University and U of K parking issues negotiated in one hand deals by Hilltop Securities and Key Bank. These are not your everyday financial agents in the Kentucky market.

**Interviewer:**
The Fed recently cut the target rate by 25 basis points. What are your thoughts on interest rates for the remainder of this year and what are your expectations for the yield curve?

**Royden Durham:**
The President continues to urge the Fed to lower rates, but I believe the economic numbers may surprise to the upside. It seems that in high cost states things are slowing while in lower cost areas, prices of labor and housing are on the upswing. With the 10-year treasury currently at about a 160, I'd be sticking with JP Morgan's estimate at year end of about 1.9%. I have not forgotten that the Italian tenure at the ridiculous rate of 1.43% today. The low yields abroad really tend to muddy this picture. My sense is that we continue on an inverted curve in the front end with a positive slope longer. Currently a 1.74 in the one year, a 1.60 10 year and a 2.08 in the longer end. I think that shape will be maintained. There seems to be huge demand in the intermediate part of the curve to fill SMA requests. So bar-belling short and using long maturities is really paying off.

**Interviewer:**
We've had roughly a decade of economic expansion since the great recession. What are your thoughts on where we are currently in the economic cycle and what are your expectations if economic growth begins to slow?

**Royden Durham:**
This cycle's already beat prior expansion cycles in duration. The expansion from the depths of the recession were meager limping along at about 1.4% until about 2016. This probably contributed to the longevity of this cycle. The recession was so intense at a like uptrend to compensate. Since average GDP averaged about 2.7% since 1980, the commeasured move is what is actually happening now. It could go on for some time to come. The monkey wrench, of course, are the tariffs. If the China trade deal were signed tomorrow, there'd be another upswing in productivity, if you asked me. If growth were actually to slow, don't expect us to embrace negative interest rates like Europe. I feel like we have just too much debt on the books for us to resemble what is going on over there right now. Apparently they have negative mortgages in Denmark. Wow.

**Interviewer:**
What is the overall health of the municipal bond market nationally and in Kentucky and what are the benefits of investing in state specific bond funds versus national funds?

**Royden Durham:**
I think if you are Kentucky investor, you know the challenges the state faces with regard to underfunded pension situation. The good thing about that is, is we are compensated to a degree with wider spreads on our bonds in comparison to other states nationally for, let's say, a single A rated bond. Because the state still has a single A on most of its debt, it attracts national buyers who are not full on the name and will want the additional yield. If you're in a high tax bracket, the triple tax-exempt yield is unbeatable as written in a recent J.P. Morgan article. They put out a piece on all 50 States' tax rates comparing 5, 10, and 30 year maturities and at every maturity Kentucky municipals yields substantially more than other fixed income alternatives.

**Interviewer:**
Lastly, what is your current strategy and positioning of the Fund and are there any sectors where you have found value this year?

**Royden Durham:**
With a political football they call the pension reform in Frankfurt, the lawsuits and the court renderings that ensued plus the gubernatorial election this year, we have kept the Fund's duration under 4.3 years. That has netted us a good return with less volatility. That is how the goal of an intermediate fund is really attained. With regard to sectors, the rally has spreads tightening as buyers reach for yield. The value in such markets historically resides with the highest grade. They perform the best when rates rise and spreads widen. I was ecstatic about the AAs U of Ks at what was a very, very cheap price.

**Interviewer:**
Thank you so much, Royden, for the market update and your perspective. 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, the financial advisor when you call (800) 437-1020.

Thank you for listening to this podcast.