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# Aquila Churchill Tax-Free Fund of Kentucky
# Podcast Transcript January 14, 2019

**Interviewer:**
Today we're talking to Royden Durham, portfolio manager of Aquila Churchill Tax-Free Fund of Kentucky. Royden, there have been reports that the Fed will be patient in regard to near-term changes in the Federal Funds Rate. What are your expectations for Fed policy over the course of 2019, particularly as that policy might affect municipal bond investors?

**Royden Durham:**
The Fed chairman, Powell, has stated there are going to be two Fed increases of 25 basis points in 2019. The governor of Atlanta Fed just came out the other day and said there's only going to be one increase. I think that two things to watch are the CPI, which just announced at 1.9%, and GDP. If the GDP is in the mid 2% range, and the CPI is below 2%, the Fed was going to have a hard time raising the rate. The China tariffs and weather can play havoc with GDP, so rates on the 10-year Treasury after the Fed rate increase in December went from 3.23% on November the 3rd, to 2.7%, or an increase of about 50 basis points. In general, I think rates will drift higher through 2019, but rally on the two Fed rate increases that we experience in 2019.

**Interviewer:**
There was a significant decline in the supply of municipal bonds in 2018, largely due to the elimination of pre-refunded bonds. What are your expectations for supply in 2019?

**Royden Durham:**
It was an anomaly in Kentucky. From appearances, we issued five billion in debt in 2018, or 40% more than in 2017. Nationally, issuance was down 20%, which reflects the discontinuance of advance refundings, or pre-refundings as you stated it, which was in the tax bill. In reality, Kentucky issued four gas bonds that were $3.5 billion, so the remaining $1.5 billion in issuance would have had state issuance down 56% over 2017. I expect tight supply, which is apparent from the advance offering calendar that currently shows only $70 million in issuance over the next 45 days. There are few spending projects coming out of the Republican government in Franklin.

**Interviewer:**
How would you characterize the tone of the municipal bond market currently? Are you seeing any particular opportunities or areas of concern?

**Royden Durham:**
When it comes to Kentucky, your question can be summed up simply by stating that if the short session legislature does not pass a bill that shores up our public pensions to the liking of the credit rating agencies, then we're going to have another downgrade. There were negative comments made by one of the major credit rating agencies on December the 20th after the adjournment of the special session. Another came out recently, and they feel good about the credit because of the recent full fundings by the legislature. So, it's kind of a mixed bag, but a bill that is not challenged by the AG(Attorney General) in court, and a change to the 401(k) plan going forward for the teachers, would do much to shore up Kentucky's credit, which is fourth worst behind Illinois, New Jersey, and California.

**Interviewer:**
The word volatility is cropping up more frequently in the press, particularly in relation to equities. How does volatility in the municipal market compare with that of other types of investment securities?

**Royden Durham:**
Well, as stocks have fallen, and in spite of the Fed, bonds have rallied. So, since the yield curve has flattened slightly, longer maturities have performed better as a result of the price leverage attributed to longer bond maturities. Our intermediate maturities over the long run reduce some of the price volatility, as evidenced by our lower standard deviations. Our long-term mountain chart, which is included in all of our marketing materials, is a great optical aid in making this point.

**Interviewer:**
Tax returns being filed this coming April will provide investors with some clarity regarding the impact of the Tax Cuts and Jobs Act. How are you expecting to see the upcoming tax season play out for the municipal bond market?

**Royden Durham:**
Well, typically, it's been my experience that when tax changes are written into law, and specifically the flat 5% Kentucky tax from the graduated tax scale of the past, it will come as a shock to taxpayers when they go through their tax returns in April. So, my expectation is that many more municipal buyers will appear after April 15th.

**Interviewer:**
What is your current strategy for the Fund?

**Royden Durham:**
Our guiding principles are high quality and intermediate maturity. Within that framework, the Fund has been slightly shorter than the Barclay's Quality Intermediate Index, which is our yardstick. The rationale is, since the Fed had been raising rates, shorter has been better. That has worked for most of the past five years; but, with the winding down of Fed bond purchases and international demand for our yields, which are significantly higher than abroad, assuming rates drift higher, we intend to move out the curve slightly to more like an average weighted maturity of 10 years, of about nine years currently.

**Interviewer:**
Thank you very much. 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, from your financial advisor, and when you call 800-437-1020.

Thank you for listening to this podcast.