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Hawaiian Tax-Free Trust

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Interviewer:
Today, we're talking to Stephanie Nomura, portfolio manager of Hawaiian Tax-Free Trust. Stephanie, in spite of some volatility following the 2016 election, the municipal market has seen positive returns during 2017. What factors do you believe most contributed to the earlier volatility and then to the recovery this year?

Stephanie Nomura:
Well the unexpected election of President Trump, coupled with the opportunity to harvest tax losses caused the municipal bond prices to decline in the fourth quarter of 2016. Investors were anticipating that many of the changes that were advocated by President Trump during his campaign would result in significantly faster economic growth and tax law changes that could negatively impact the attraction of municipal bonds.

As is frequently the case, the market overreacted and it created a buying opportunity for us. We were able to take advantage of the attractive yields available with some swaps out of shorter-term bonds and lock in higher yields on some of the longer-term securities.

And since the inauguration of President Trump, it has been very evident that it will not be easy to quickly bring to fruition many of his ideas that he's promoting. There, specifics and extent of his potential tax reform is still unclear, but we believe the higher quality bonds issued in higher tax states, such as Hawaii, will continue to remain as a valuable investment option, as well as an important tax management tool.

Interviewer:
We've heard a lot about potential federal spending on infrastructure. How might that ultimately be implemented?

Stephanie Nomura:
Well there's a variety of funding sources that have been discussed by the administration, such as the potential repatriation tax credits for investors or an infrastructure bank.

Although President Trump opposed an infrastructure bank during his campaign, his appointed Treasury Secretary is an advocate. An infrastructure bank would provide federal funding for loans and loans guarantees and other forms of assistance. Needless to say, thus far there's a lot of discussion about the types of projects that would be included, as well, as various funding methods. So, just stay tuned.

Interviewer:
And from a relative value perspective, how do municipal bonds look currently?

Stephanie Nomura:
On a risk adjusted after tax basis, municipal bonds are still an attractive investment. In fact, the demand for muni bonds has drifted from traditional investors to institutional demand. Interestingly, foreign buyers who can't take advantage of the tax exemption have also stepped into the markets as yields on many developed countries' government bonds remain significantly lower than U.S. rates.

So investors should keep in mind that municipal bonds are an important portfolio diversifier that is typically low in volatility, high in credit quality, and still provides a tax-free income advantage.

Interviewer:
And what is your assessment of the Hawaii municipal market from a credit quality perspective?

Stephanie Nomura:
Well the State of Hawaii is one of the few state issuers whose general obligation debt was recently upgraded by the credit rating agencies in September 2016. The debt is currently rated AA-1 / AA+, which is one notch below AAA. This is just a recognition that our economy remains strong and well diversified, and that our elected officials have taken a very conservative approach to the state's finances. The Hawaii State Department of Business, Economic Development and Tourism second quarter's report was just released this past week and they also raised the economic outlook for our state.

In addition to the State of Hawaii, six other Hawaii issuers were either upgraded or put on positive outlook in 2016 and 2017, so therefore, we are very positive on Hawaii municipal debt.

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.