Aquila Tax-Free Fund For Utah

Podcast Transcript

August 31, 2020

This is Candace Roane with Aquila Group of Funds. Today is August 31st, and I'm joined by JT Thompson, Lead Portfolio Manager of Aquila Tax-Free Fund For Utah. JT also co-manages Aquila's single state municipal strategies in Arizona and Kentucky. Welcome, JT.

JT Thompson:
Good morning. How are you doing, Candace?

Candace Roane:
Doing well. We last spoke in April, following the outbreak of the pandemic and the market events that occurred in March. Can you tell us what happened in the municipal market through the remainder of the second quarter?

JT Thompson:
Candace, throughout the second quarter, what we did see were credit spreads starting to tighten a little more. The Utah Fund, with nearly 80% AA rated, did not see as widening like the lower rated funds experienced. We were able to hang in there during the second quarter quite well.

Candace Roane:
JT, how did that impact your shareholders' experience?

JT Thompson:
I think they were very pleased. Our share price stayed extremely stable, and in the second quarter rose slightly, but we did see inflows into the Fund.

Candace Roane:
Great. Shifting to the Fed, after offering no assistance during the previous financial crisis, the Fed stepped in this year with aid for the municipal markets. What was the difference this time, and can you give us an update on how the CARES Act and the Municipal Liquidity Facility offered assistance to state and local governments?

JT Thompson:
Well, as we know, the Fed was definitely accommodative and continue to be accommodative to the market. In Utah, we saw CARES funding of $40 million for commercial rental assistance, about $5 million in Safe In Utah grant reimbursements, about $9 million in culture assistance, $12 million in tourism and $25 million of Shop In Utah. The nice thing about the state of Utah, our unemployment rate, due to coronavirus, jumped to 4 and a half percent, versus 10% nationally. That was up from two and a half percent last July, 2019. So, as you can see, our unemployment rate is extremely low, even during the coronavirus. Financially, the state of Utah has been faring well.

Candace Roane:
JT, let's talk about muni default risk. State and local governments appear to be resilient and prepared to sustain temporary revenue shortfalls. Do you think that the concern out there is valid?

JT Thompson:
As far as risks are concerned, for essential services and general obligation, I think it will take a lot longer before we start seeing defaults in those areas. What we normally see are what we call conduit financings. That is to say, let's say a senior living facility using a municipal issuer to issue tax exempt debt, but the issuer has no financial responsibility for the bonds. It's solely the revenue of the issuer. You see that in housing bonds, in bonds for senior care living, for apartments, and also for convention centers and hotels. Those are the ones that need special attention to make sure that they have sufficient revenues, cash on hand to weather the storm.

Candace Roane:
Are there any particular sectors that you're watching closely in Utah right now?

JT Thompson:
In Utah, a couple of the tourist convention centers, most of what we have in our portfolio, does have some backing by the local issuer, not 100% conduit financing. So, we're paying attention, watching the financials of those closely.

Candace Roane:
Thank you. Last question on the Fed's response, what do you expect going forward regarding stimulative monetary policy? The Fed has stated that rates will remain low for the foreseeable future. Do you expect to see measures like yield curve control?

JT Thompson:
I think that they're going to be accommodative. They've kind of mentioned that they wouldn't mind seeing inflation exceed two to two and a half percent. They're looking more at employment figures. So yeah, they're going to be accommodative. It will be interesting as the financial numbers come out to see exactly what the Fed does, but I think they are data dependent.

Candace Roane:
Thank you for that. To wrap things up today, what is your outlook for the muni market as we head into the last few months of 2020, as we're facing a potential resurgence of COVID-19 and an election that may result in a change of control in Washington?

JT Thompson:
I think that we will see a knee jerk reaction like we did in 2016. Because of the divergent views of the political parties, there will be a knee jerk reaction. When Trump was elected, when they announced that he was elected, I think the stock market was lock limit down and interest rates had dropped tremendously. By the next morning, the stock market was lock limit up and interest rates rose more than one and a half percent. We were able to take advantage when rates shot up rapidly and then finally gradually dropped and strengthened, and we purchased while those rates were high and that helped the Fund. We will be probably a little bit higher in cash than we normally are so that we can take advantage of any knee jerk reaction that happens.

Candace Roane:
JT, as always, thank you for joining me today and offering your valuable insights.

JT Thompson:
Thanks, Candace.

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 perspective. 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.