

# Hawaiian Tax-Free Trust

## PORTFOLIO MANAGER COMMENTARY

### Q1 2024



A Shares: HULAX

C Shares: HULCX

F Shares: HULFX

Y Shares: HULYX

### Municipal Bond Market Overview

During the first quarter of 2024, the municipal bond market declined in sympathy with its taxable counterparts as yields increased. The Bloomberg Municipal Index and the Bloomberg Hawaii Index fell -0.38% and -0.28%, respectively. Municipals outperformed the higher increases in the U.S. Treasury bond in the first quarter. The ratio of Bloomberg BVAL “AAA” tax-exempt yields fell by the end of the quarter to 59.4% on higher market new issue supply. The inverse of this ratio is an indicator of the tax savings breakeven against taxable bond equivalents.

Higher interest rates, combined with a late quarter increase in supply of newly-issued bonds during March, cheapened bond prices and decreased relative returns. According to Bloomberg, the national municipal 10-year maturity “AAA” yield increased from 2.3% to 2.8%. During the same period, the Hawaiian 10-year maturity rose from 2.4% to 2.9%. Issuance remained muted historically even with an increase of 21% new issuance from the prior year. A yield higher than national municipals is a relative value opportunity for Hawaii bonds. This represents a chance for Hawaii residents to obtain the benefits of a higher Hawaii tax advantage compared to mainland yields.

An interesting observation is the unusual shape of the tax-exempt yield curve that occurred at the end of the quarter. Unlike U.S. Treasury yields in similar maturities, municipals exhibited a greater value in longer maturities. From the previously mentioned ratio in the 10-year range of 59.4% at the end of the quarter, the ratio increases to 88% for 30-year maturities. In fact, the yield of a 30-year Hawaii bond is almost 60 bps (0.60%) higher between the 1-year and 30-year maturity. This gap is a negative 49 bps (-0.49%) in the U.S. Treasury market. This underscores the relative value between the two markets in the longer end of the tax-exempt maturity curve. It is exactly the spot we have focused on with new holdings for the Hawaiian Tax-Free Trust portfolio over the last several months. We continue to seek the maximum amount of tax-exempt income and sustainability of dividends over many years for the long-term success of the Fund.

### Hawaii Municipal Bond Market and Economy

Although the economic numbers were mixed in 2023, the Hawaiian economy is solidly pushing forward this year, based on State of Hawaii (DBEDT) statistics. During the year, tourism arrivals fell -1.7%, and for the fourth quarter 2023, the daily visitor census dropped 4.7%, according to the State of Hawaii’s most recent release of information. However, in contrast, in 2023, total salary jobs increased 2.2%, with the State’s unemployment rate dropping from 3.5 to 3.0%.

In addition, for the fourth quarter of 2023, the State’s general fund tax revenue increased \$191 million, or a positive 9.5%, compared to 2022. During the same time period, State General Excise tax collections increased 2.3%, while at the same time individual income taxes increased 23.3%. This appears to position the State of Hawaii in a steady and net favorable situation.

Although firm estimates are fluid, the investment in infrastructure across all the islands proposed for the next five years is significant. From the redevelopment of essential water, wastewater and port facilities on all the islands, to the rebuilding of Maui, this will be a welcome relief for many local residents and jobs.

### Fund Strategy and Outlook

Looking forward, we believe the Federal Reserve (the “Fed”) is holding interest rates at the current level for now. We expect the economy may slow in coming quarters and inflationary pressures could continue to ease despite the current stickiness. To be sure, it is unknown whether the Fed’s goal of lower inflation can be achieved without precipitating a recession. For now, the outlook points towards a generally constructive environment for the performance of investment-grade municipal bonds. We have opportunistically extended the Fund’s average maturity to lock in elevated interest rates. We believe this bodes well for the Fund in seeking to achieve its stated objectives, including the continued generation of double tax-exempt income distributions.

For specific information about fund characteristics, holdings and performance please see the [Fund Fact Sheet](#).

## Fund Facts as of 3/31/2024

Lead Portfolio Manager REID SMITH	Inception Date 2/20/1985	Total Investments \$475.1M	Number of Holdings 170
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This information is general in nature and is not intended to provide investment, accounting, tax or legal advice. It is not intended to represent a recommendation or solicitation related to any particular investment, security or industry sector. The opinions shared are those of the portfolio manager and do not necessarily reflect those of Asset Management Group of the Bank of Hawaii, Investment Adviser for Hawaiian Tax-Free Trust.

Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio. A complete list of the Fund's current holdings, including percentage allocation, is available on our website.

Independent rating services (such as S&P Global Ratings, Moody's Investors Services and Fitch Ratings) assign ratings, which generally range from AAA (highest) to D (lowest), to indicate the credit worthiness of the underlying bonds in the portfolio. Where the independent rating services differ in the rating they assign to an issue, or do not provide a rating for an issue, the highest available rating is used in calculating allocations by rating.

A credit spread or a yield spread is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities.

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 Bloomberg Municipal Bond Index covers the U.S. dollar-denominated, long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The Bloomberg Hawaii Index is an unmanaged index composed of a broad range of municipal bonds of issuers in the State of Hawaii. Indices are unmanaged and are not available for direct investment. Past performance does not guarantee future results.

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Mutual fund investing involves risk; loss of principal is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived decline in credit quality of the issuer, borrower, counterparty, or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. State-specific fund performance could be more volatile than that of funds with greater geographic diversification.

*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, and when you call 800-437-1000 or visit [www.hawaiiantaxfreetrust.com](http://www.hawaiiantaxfreetrust.com).*