

Hawaiian Tax-Free Trust

PORTFOLIO MANAGER COMMENTARY

Q3 2024



A Shares: HULAX

C Shares: HULCX

F Shares: HULFX

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Municipal Bond Market Overview

During the third quarter of 2024, the big surprise was a 50 basis point or ½% cut in the Fed Funds rate in September. Many expected a smaller 25 basis point reduction. However, weakening employment conditions and a commensurate decline in inflation statistics lent to a more robust effort to improve monetary conditions. The bond market took that as a sign more was to come in upcoming meetings. A strong September jobs number took the wind out of the exuberance yet still the trend seems to point to a soft landing as the Federal Reserve and market participants weigh incoming data.

To be sure, the Federal Reserve Committee has time for a measured reduction in the short rates. The goal remains a neutral rate environment with a positively sloped yield curve. The current economy remains solid by all accounts with corporate earnings on the rise. For the next twelve months, there may be a general slowing and a settling of inflation close to the Federal Reserve's target of 2%. Certainly, with a Presidential and Congressional election in the 4th quarter, we remain vigilant monitoring any changes in fiscal policy that could impact expectations in 2025.

Hawaii Municipal Bond Market and Economy

By the end of the most recent quarter, the municipal market experienced a solid rally, mirroring the trend in taxable securities as yields fell. The cut in short interest rates put downward pressure on tax-exempt bond yields. The Bloomberg Municipal Index and the Bloomberg Hawaii Index rose by 2.71% and 2.44%, respectively. Municipals underperformed compared to U.S. Treasury bonds which exhibited a stronger rally in the third quarter. The ratio of Bloomberg BVAL "AAA" 10-year bond tax-exempt yield² increased to 70% from 65% at the start of the quarter. Higher issuance is setting up a potential opportunity heading into the seasonal yearend issuance cycle.

National municipal issuance surged by 50% in the 3rd quarter compared to the same quarter of the previous year. During the recent market rally, this additional liquidity contributed to a lower decline in municipal bond yields versus US Treasury securities. In the same time period, Hawaii saw higher issuance, spiking 70% above the prior year's 3rd quarter. State of Hawaii issuance was propelled by a large \$621 million City and County of Honolulu Wastewater new money and refunding deal in September.

According to Bloomberg, the national 10-year "AAA" municipal yield decreased from 2.8% to 2.6%, while the Hawaiian 10-year yield went from 3.0% to 2.8%. Similar to 2nd quarter, the higher yield on Hawaiian bonds relative to national municipals presents a potential value opportunity for local investors. For income-focused investors seeking tax-free dividends, a Hawaii-only mutual fund portfolio, such as the locally-managed Hawaiian Tax-Free Trust, remains a strong investment option.

In the third quarter economic release by the State of Hawaii Department of Business, Economic Development and Tourism (DBET), factors for the State's economy remain mixed. State general fund tax revenues incrementally increased overall during the first half of the year, primarily led by the transient accommodations tax rising 6.2% despite a decrease in overall visitor count. Other revenues were relatively unchanged from the prior year bringing the overall State general revenues to a 1.4% increase through mid-year. In the second quarter, the unemployment rate flatlined, roughly ending ever so slightly lower at 2.8% (-.01%). On a positive note, the overall State GDP increased during the 1st quarter of 2024 by 4.9%. More troubling is Honolulu's Consumer Price Index which increased 4.7% during the first half of the year compared with a 3.2% increase in the national U.S. CPI. The overall results for the local economy were mixed with a heightened concern for inflationary price increases.

Fund Strategy and Outlook

Our outlook is optimistic for a soft landing and a measured reduction of short-term interest rates by the Federal Reserve. The U.S. economy is fundamentally in good condition despite the volatility in the monthly jobs numbers and some recent increases which could be seen as points of weakness. To be sure, we remain vigilant in monitoring the ongoing release of economic and inflation statistics. As long as the Federal Reserve remains in a statistical evaluation mode to determine monetary policy, continuing vigilance is paramount. That being said, we are flexible and remain nimble, positioning the portfolio in seeking to mitigate downside loss shareholder investment in Hawaii municipal bonds. Additionally, we are focused on continually increasing income sustainability, investing in higher yielding bonds with longer maturities which should perform well in a potentially declining yield market and lock in income for many years going forward.

We have strategically extended your Fund's average maturity to capitalize on current elevated interest rates. We believe this approach will enhance the Fund's potential for future returns and support continued generation of double tax-exempt income distributions. The Fund's strong relative performance over the past year can be attributed to its greater exposure to longer-maturity bonds, which fared better than shorter-maturity bonds during the quarter. **Index performance is not indicative of fund performance. Past performance does not guarantee future results.**

As of the end of the 3rd quarter, the Fund's portfolio has strategically purchased an overweight in recently-issued essential service bonds, such as those from the Honolulu City & County Board of Water Supply and the Honolulu City & County Wastewater System Revenue. This positioning contributed to the Fund's performance relative to the Bloomberg Hawaii Index¹. We welcome the opportunity to add significant diversification to essential service bonds balancing the risk of the portfolio. With higher yields now generally available, the Fund intends to continue taking advantage of new issues, with the goal of benefiting shareholders with increased and sustainable double tax-exempt Hawaii income.

For specific information about fund characteristics, holdings and performance please see the Fund Fact Sheet on our website at www.hawaiiantaxfreetrust.com.

Fund Facts as of 9/30/2024

Lead Portfolio Manager REID SMITH	Inception Date 2/20/1985	Total Investments \$434.25M	Number of Holdings 149
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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, www.hawaiiantaxfreetrust.com. Securities of the issuers referenced were portfolio holdings of Hawaiian Tax-Free Trust during the third quarter of 2024.

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.

¹The 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.

²The AAA ten-year muni yield to ten-year U.S. Treasury Yield Ratio

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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.