

Hawaiian Tax-Free Trust

PORTFOLIO MANAGER COMMENTARY

Q4 2024



A Shares: HULAX

C Shares: HULCX

F Shares: HULFX

Y Shares: HULYX

Municipal Bond Market Overview

For the fourth quarter of 2024, the Federal Reserve continued to pursue a rate reduction program. The Federal Open Market Committee added two additional 25 basis point (bp) cuts in the short-term overnight benchmark rate after the surprise 50 bp cut in September. The reduction in November came only one day after the election followed by a second cut in December. The total reduction in the FOMC rate in 2024 came to a full 1% for the entire year. Since that point, we have seen a pivot by the Fed to a wait and see approach. Presently, the Federal Reserve is taking a breath to monitor forward economic data before continuing. The concern is, we remain above a 2% inflationary target and recent numbers have revealed upward bias on price statistics. Additionally, potential weakness in the employment situation is causing concern for sustained economic growth. The new administration under Trump has been busy since the inauguration. Bond market concerns have shifted the market for long maturity yields higher as the Fed has tamped down on shorter yields. The market has a weather eye out for the return of inflationary pressure with new expansionary fiscal policy initiated by the Trump administration. We feel the near-term course is range bound volatility in longer maturities until the future becomes clearer for the economy and inflation.

Hawaii Municipal Bond Market and Economy

In the fourth quarter, the municipal market experienced a significant sell off. The decline in municipal market bond prices mirrored the trend in taxable securities as yields increased. The Bloomberg Municipal Bond Index and the Bloomberg Hawaii Index¹ rose by 1.1% and 1.0%, for the entire year despite a tough 4th quarter draw down of -1.2% and -1.0% respectively. Municipals outperformed compared to US Treasury bonds in the most recent quarter. The ratio of Bloomberg BVAL “AAA” 10- year bond tax-exempt yields² increased from 68% to 69% at the start of the quarter. In contrast, Municipals have gained investor attention after starting at 58% at the beginning of the year to the current 69%. The ratio of tax-exempt to taxable yields can be compared as the inverse to the marginal tax rate. Despite the out performance of municipals in the fourth quarter, higher issuance set up an opportunity heading into the year-end issuance cycle. National municipal issuance surged by 21% in the 4th quarter compared to the same quarter of the previous year. Overall, for 2024 new municipal bond issuance broke a historical record ending the year with \$555 billion in total or an increase of 27%. During the same period, Hawaii saw declining issuance, falling 7% below the prior year’s 4th quarter and higher by 14% for the year.

The Hawaii State economy has remained steady during 2024 and the recovery from the Lahaina fires is underway. Overall, tourism (both head count and expenditures) is relatively unchanged in 2024 over the previous year. This past year remains approximately 7% lower than pre-pandemic 2019. The visitor count from Japan remains a weak area of recovery. The Governor has released funding for supporting a tourism recovery plan campaign. Concerns about lingering effects on visitor count from Maui fires, as well as potential impact on recent California fires have supported a need for a proactive communication approach to potential visitors.

The general economic climate in Hawaii has remained solid with a promising forward anticipation of significant US and local Government infrastructure investment over the next ten years. State of Hawaii construction payroll jobs reached a record high in the fourth quarter of 2024. The State unemployment rate continues to tighten with an expected 2.9% for this year. According to the Department of Business, Economic Development and Tourism forecast the unemployment rate is expected to fall to 2.7% in 2025. On the negative side the State has experienced a higher rate of inflation with 2024 expected to be 4.3% which is significantly above the 2.9% US consumer inflation rate for the same period.

In summary, State and County revenues remained strong providing flexibility in funding operations, debt service and upcoming capital investment initiatives. The State continues to improve funding in the pension benefit program and has moved from a pay as you go to funding for forward employee and retiree healthcare expenses. All positive efforts to solidify the economic strength of the islands and issuers.

Fund Strategy and Outlook

We expect the year to be filled with uncertainty of new initiatives from the Trump administration. The impact is difficult to completely forecast on economic activity and inflation. However, we remain vigilant in monitoring trends and developments as we move forward into 2025. So far, we remain sanguine about the prospects for positive developments in economic activity.

The strategy of the funds remains consistently focused on the potential stability of principal and maximization of double tax-exempt income to Hawaii shareholders. Over time, we have slowly increased duration and average maturity of the Trust to lock in the current higher market yields. The interest rates in longer maturities may offer an advantage of higher income and potential sustainability of that income for years to come. We believe that Hawaii tax exempt municipals have the potential to generate an attractive after-tax equivalent income over the current rate of inflation.

For specific information about fund characteristics, holdings and performance please see the Fund Fact Sheet on our website at www.hawaiiantaxfreetrust.com. **Index performance is not indicative of fund performance. Past performance does not guarantee future results.**

Fund Facts as of 12/31/2024

Lead Portfolio Manager REID SMITH	Inception Date 2/20/1985	Total Investments \$428.70M	Number of Holdings 143
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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.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus or summary prospectus with this and other information about the Hawaiian Tax-Free Trust please contact your financial advisor, visit www.hawaiiantaxfreetrust.com OR please call 800-437-1000. Read the prospectus or summary prospectus carefully before investing.