

Hawaiian Tax-Free Trust

PORTFOLIO MANAGER COMMENTARY

Q3 2025



A Shares: **HULAX**

C Shares: **HULCX**

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Municipal Bond Market Overview

The third quarter of 2025 marked an important inflection point for fixed-income investors as the bond market rallied out of the summer months. Sentiment improved on the back of softer employment trends and increasing expectations for monetary easing. While inflation remained stubbornly above the Federal Reserve's 2% target, at approximately 3%, the central bank signaled growing confidence that price pressures were moderating. In September, the Fed reduced the federal funds rate by 25 basis points to a range of 4.00%–4.25% and indicated the potential for additional cuts should economic conditions warrant. Although policy decisions remain data-dependent, the shift toward easing represents a meaningful change in direction after nearly a year of steady rates.

The municipal bond market responded favorably. Over the past three months, 10-year tax-exempt yields declined 0.29 basis points to 2.9%, while 10-year U.S. Treasury yields fell a more modest 0.08 basis points to 4.2%. This relative outperformance of municipals reflected both attractive valuations at midyear and favorable seasonal supply-and-demand dynamics. For the first nine months of 2025, the Bloomberg Municipal Bond Index¹ returned 2.6%, while the Bloomberg Hawaii Index² advanced 3.3%, underscoring the strength of the state's credit profile and strong investor appetite for high-quality, tax-exempt income.

Hawaii's municipal market remained active and resilient. During the quarter, \$1.25 billion of new bonds were issued, a 56% increase compared with the same period last year. Year-to-date issuance reached \$2.72 billion, nearly one and a half times the level of 2024. The state's robust issuance was driven largely by infrastructure and essential-service financings, along with strategic refunding's that took advantage of lower long-term borrowing costs. Demand for these offerings remained strong, with new deals consistently well received by both local and mainland investors.

Nationally, the ratio of 10-year municipal yields to 10-year Treasury yields rose from 64.7% to 71.3% over the past six months, improving the relative value of tax-exempt bonds. This trend particularly benefits investors in higher tax brackets, for whom the after-tax equivalent yield strongly favors municipal investments. Overall, these dynamics continue to support a constructive outlook for the Hawaii municipal bond market as we move toward year-end.

Hawaii Municipal Bond Market and Economy

Hawaii's economy continues to demonstrate stability and moderate growth, according to the latest data from the State Department of Business, Economic Development and Tourism. Over the first half of 2025, total visitor arrivals were mixed and weakened somewhat into the third quarter. Japanese visitor traffic—while improved from last year—remains below pre-pandemic levels, constrained by a persistently weak yen relative to the U.S. dollar. The trend appears to be moderating into the second half of the year, reflecting a gradual normalization of international travel patterns.

Importantly, the local economy is diversifying, with notable job growth in the construction and healthcare sectors. Both public and private construction activity have increased meaningfully, contributing to steady employment gains and local income growth. Maui, in particular, has led the recovery, recording a 50% increase in private building activity as reconstruction efforts accelerate following the devastating Lahaina fire. Inflation, as measured by the Honolulu Consumer Price Index, has declined from 4.1% in January to 2.3% in July, reflecting easing cost pressures in housing and energy. Nonetheless, as internal demand strengthens, we remain attentive to the possibility of renewed input cost pressures heading into 2026. Overall, Hawaii's economic backdrop remains healthy and supportive of long-term municipal credit quality.

Fund Outlook and Strategy

Looking ahead, we continue to position the portfolio to optimize income while preserving flexibility. Over the past few years, we have modestly extended the maturity structure of the Trust to lock in higher long-term yields and enhance income durability. During the recent period, we emphasized longer maturities with strong call protection, which strengthened the sustainability of the fund's tax-exempt income over time. As the Federal Reserve transitions toward lower short-term rates, we believe the Trust is well situated for the evolving interest rate environment and the long-term benefit of shareholders.

At the Asset Management Group of the Bank of Hawaii, investment adviser to the Hawaiian Tax-Free Trust for over 40 years, we remain committed to disciplined, research-driven management. Our approach emphasizes identifying relative value opportunities within high-quality municipal sectors that can support stable, long-term income potential. We continue to believe that this patient, value-oriented strategy is prudent given current market conditions and consistent with our mission to deliver durable, double tax-free income for Hawaii investors.

We thank you for your continued confidence and trust. Our team remains focused on preserving capital, maintaining consistent income, and seeking opportunities that align with the Trust’s objectives. As we enter the final quarter of 2025, we are optimistic about the prospects for municipal investors and confident in the strength and stability of Hawaii’s economy and credit markets.

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 09/30/25

Lead Portfolio Manager REID SMITH	Inception Date 2/20/1985	Total Investments \$384.1M	Number of Holdings 104
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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

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.

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 Municipal Index is an unmanaged index composed of a broad range of municipal bonds of issuers in the united states. Indices are unmanaged and are not available for direct investment. Past performance does not guarantee future results.

²The Bloomberg Hawaii Index is an unmanaged index composed of a broad range of municipal bonds of issuers in the state of Hawaii

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A Basis Point (BPS) is a unit of measure equal to one hundredth of one percent (0.01%)

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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