

Carret Kansas Insight



Turning the Corner on Tax Revenues

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The big news during the 2nd quarter of 2017 in Kansas was the passage of the budget bill that attempts to solve the fiscal woes of the State. The new legislation that was approved by both houses of the legislature should raise taxes for all Kansans. The state will be phasing in the income tax increases during 2017 and 2018. Eventually, Kansas will have three tiers of income taxation with rates of 3.10%, 5.25%, and a top rate of 5.7%. The preferential treatment that had been given to some small business owners was eliminated. The new tax increase is expected to be sufficient enough to satisfy the Kansas Supreme Court, which ordered the State to more adequately fund public education. The governor ultimately yielded and signed the newly agreed upon legislation.

Stemming from the passage of this tax hike, the credit rating agencies are beginning to reassess their outlook for Kansas and its many related municipal entities. One state agency (Kansas–DFA Impact Program) was upgraded in June as its revenue base is directly tied to the level of state income taxes.

Firm AUM

\$2.5 Billion

While the tax and revenue situation of the State of Kansas appears to be improving, parts of the statewide economy appear to be facing challenges. A wheat virus, a late winter snowfall, and the impact of the grass fires in southwest Kansas may affect the state’s Agriculture picture this year and ultimately may be a drag on the statewide economy.

The Kansas municipal bond market is striving to keep pace with the national markets. Nationally, long-term interest rates remain low by historic standards (10 yr. AAA municipal yield at 1.86%) even as the Federal Reserve Bank (FED) has raised the FED Funds rate, which in turn increased short-term interest rates. Inflation, a key driver of mid to long term interest rates, remains below the FED’s target rate. During the quarter, several local Kansas issues came to market with deals that offered attractive yields. The lion share of new issues continue to be refinancing deals designed to refinance older bond issues, thereby helping to relieve a portion of state and local budgetary pressures.

We remain cautiously optimistic regarding our viewpoint on the state. There is still a lot

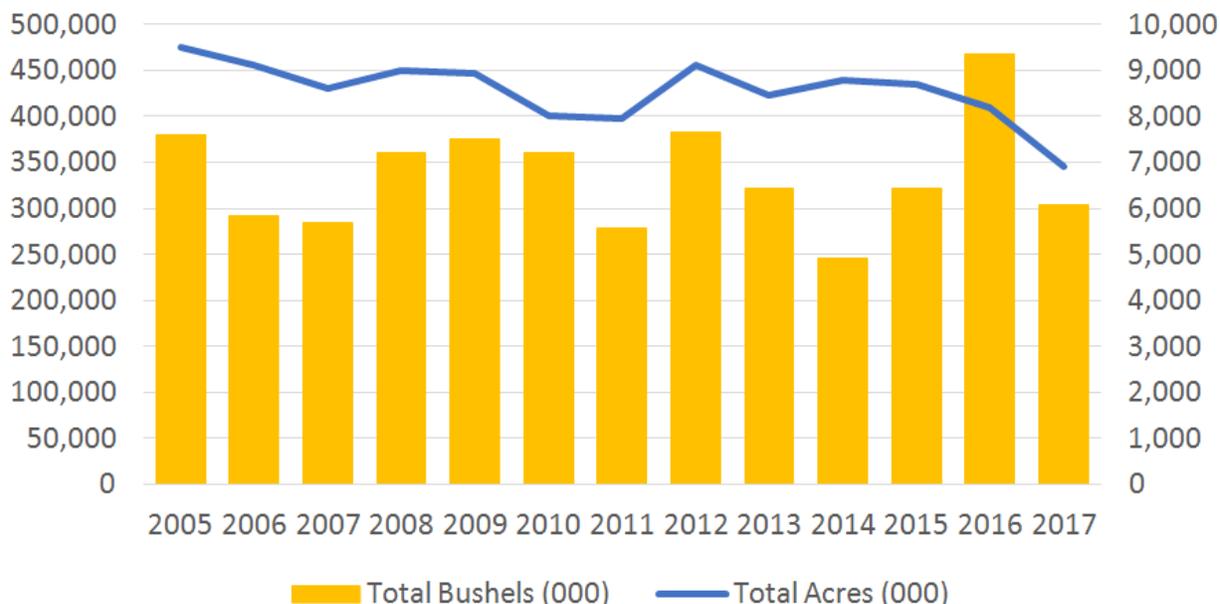
Key Interest Rates	6.30.17	12.31.16	12.31.15
5 Yr U.S. Treasury Note	1.88%	1.92%	1.76%
10 Yr U.S. Treasury Bond	2.30%	2.44%	2.27%
5 Yr AAA Municipal Bond	1.35%	1.79%	1.26%
10 Yr AAA Municipal Bond	1.99%	2.33%	1.93%
5 Yr AA Municipal Bond	1.46%	1.91%	1.38%
10 Yr AA Municipal Bond	2.20%	2.53%	2.12%

Source: Municipal Market Data (MMD), FactSet

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that needs to play out with the tax increases and new fiscal policies. We will continue to emphasize premium-coupon essential service revenue bonds and select general obligation bonds from around the state. We see good value higher quality credits and will maintain an intermediate duration bias. Lastly, we will continue to opportunistically add value through proactive trading and reinvestment of redeemed positions.

Kansas Wheat Production



Source: Kansas Wheat History, USDA, National Agricultural Statistics Service

Separately Managed Account Strategies:

Kansas Municipal: Carret’s Municipal Bond Strategy is designed to maximize tax efficiency through opportunistic portfolio management while preserving principal through practical portfolio structuring and fundamental credit analysis. We actively manage investment-grade portfolios with a diversified blend of issuers, sectors and maturities aimed at delivering consistent, risk-adjusted total return with an emphasis on tax-free current income.

Mutual Fund Strategies:

American Independence Kansas Tax-Exempt Bond Fund: The Fund’s investment objective is to preserve capital while producing current income for the investor that is subject to both Federal and Kansas state income taxes. This Fund is intended for investors seeking investment income exempt from Federal taxes and Kansas state tax. The Fund seeks to generate monthly income focusing on investment-grade intermediate duration bonds.

For more complete information on the American Independence Funds and Rx Funds, you can obtain a prospectus containing complete information for the Funds by calling 866.410.2006 or by visiting www.americanindependence.com. You should consider the Fund's investment objectives, risks, charges, and expenses, carefully before you invest or send money. Information about these and other important subjects is in the Fund's prospectus. The prospectus and, if available, the summary prospectus should be read carefully before investing. Shares of the American Independence Funds and Rx Funds are distributed by Matrix Capital Group, Inc., which is not affiliated with RiskX Investments, LLC, or Carret Asset Management, LLC.

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