January 18, 2023

Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Via email to rule-comments@sec.gov

RE: Proposal Regarding Swing Pricing (File No. S7-26-22)

We, the independent Trustees of the Aquila Group of Funds ("AGOF" or the "Funds"), are writing to voice our opposition to the Commission's recently released proposal to implement swing pricing and the associated "hard close" for shareholder trades.

The AGOF consists of nine open-end mutual funds with approximately $2.3 billion of assets under management as of December 31, 2022. As Trustees of a smaller fund family, we are especially concerned about the costs and competitive disadvantages that are likely to result if the Commission's proposal were to be adopted and express concern over the one size fits all prescriptive nature of the rule proposal.

While we appreciate and support the objective of protecting shareholders against dilution or accretion as the result of large redemption and subscription activity, we don't believe that implementing swing pricing or a hard close is the solution, nor, based on our experience, is it necessary.

Our experience to date has not indicated a need for such a draconian set of prescriptive rulemaking requirements. As is required of all mutual fund families under the existing rule, we have implemented a comprehensive Liquidity Risk Management ("LRM") Program, including: the following components:

- A cash reserve strategy designed to effectively manage cash and project future cash availability;
- A large order notification system whereby financial intermediaries are requested to provide early notification of either large purchase or redemption orders;
- Pre-identification of securities that might be sold in the event of significant redemptions and broker dealers that might be willing to shorten the security settlement cycle;

- An overnight overdraft facility offered by the Funds' Custodian Bank (at its discretion) based upon specific facts and circumstances;
- A committed line of credit from the Fund's Custodian Bank; and
- An AGOF-specific SEC exemptive order allowing for the use of interfund lending for certain funds comprising the AGOF.

These summary features of the AGOF LRM program have been designed with the intent to provide liquidity in the event the Funds experience significant redemption activity. Additionally, we monitor frequent trader activity and where appropriate notify shareholders and intermediaries of the Funds' frequent trading policies and procedures.

Prior to adoption and implementation of the AGOF LRM Program outlined above, we performed an analysis of past redemption activity. Given that most of our funds invest primarily in municipal bonds we looked at periods of market stress in this particular asset category. During the March 2020 market turmoil and going back to the 2010 Meredith Whitney warning of municipal bond defaults, along with periods of significant interest rate increases and decreases over the past ten years, we as a fund family did not experience significant redemption activity on any given day. Even during those periods of market stress, we were able to meet our redemptions as a result of our normal cash on hand balances, components of the LRM program described above and orderly trading where cash balances needed to be augmented. Although available components of the overall AGOF LRM Program, the Funds have never been required to activate the committed line of credit or engage in interfund lending in order to fund redemption requests.

The proposal to mandate the implementation of swing pricing seems to be overly prescriptive and burdensome. It imposes a "one size fits all" approach, even where there are other time-tested ways to address the problems that the Commission seeks to avoid. The existing regulatory requirements for monitoring and reporting liquidity, along with prudent cash management tools and practices, are sufficient to manage anticipated redemptions, even large redemptions. Funds such as our fixed income and municipal bond funds regularly receive interest and principal payments which can serve as a resource to meet redemptions. Significantly large redemptions (e.g., when an intermediary makes changes in its investment models) normally come with advance notice and can be handled by other means to help manage any potential dilutive impacts.

Given these other tools that are available to funds, swing pricing may be unfair to investing or redeeming shareholders by imposing on them actual costs that exceed potentially dilutive costs, if any, actually borne by the funds.

The proposal will impose costs on funds whether there is ever a situation that could result in the meaningful dilution the proposal seeks to avoid. Service providers will not put the systems in place to facilitate the necessary calculations, nor make those calculations, for free. Moreover, smaller funds are more likely going to have to engage service providers to assist them in quantifying the estimated costs of historical trading, including market impact, in order to apply an estimated swing pricing factor adjustment. The impact of those costs on smaller fund families, especially those with a concentration in fixed income assets, will be disproportionately large, as

smaller fund families don't have the same ability as larger fund groups to spread those costs against a vast base of assets. The cumulative financial impact of implementing and maintaining other recent rules (including the existing LRM rule and the new valuation and derivatives risk management rules), along with fees associated with committed lines of credit, are already impacting shareholder expenses to a great degree. We fear that additional regulatory requirements to implement and maintain swing pricing will only further increase shareholder costs without a demonstrable benefit. For smaller fund families, like the AGOF, it places us in a competitive disadvantage which is significant. Each incremental basis point of expense is felt by the shareholders directly.

There is also the impact to the day-to-day fund operations that needs to be considered. Our fund complex already dedicates significant resources on a daily basis to monitor and evaluate the pricing process, including price verifications, price challenges, back testing, fair-valuations, etc. Adding an additional complexity to the NAV calculation procedure the same day to evaluate the potential impact of shareholder activity has significant time compression impact on the day's normal activities and increases the potential for issues and problems.

Additionally, swing pricing contemplates the implementation of a hard close at 4:00 p.m. Eastern time in order to accomplish the goal of having all shareholder activity accounted for and available at the Transfer Agent prior to NAV calculation. Under current industry practice, Fund intermediaries have until early the next business day to communicate transactions effected with them by the existing 4:00 pm close to the Fund Transfer Agent. That hard close change is not currently doable in the shareholder processing environment we all operate under. As a firm that operates primarily through financial intermediaries to sell our funds, we are dependent upon their technological capabilities. To the extent that they are unable to meet the "hard close" requirements needed to meet the proposal not only are we at a significant disadvantage in regard to new sales but our existing shareholders are also impacted significantly. Many of the state specific AGOF municipal bond funds are located in western states including Hawaiian Tax-Free Trust. Currently, if they want to redeem they can put their order in by 4:00 pm Eastern time and still get today's price. Implementation of a one size fits all 4 pm close will significantly disadvantage all shareowners physically located in western time zones. The disadvantage to shareholders in western time zones (ability to receive same day net asset values) is likely to far outweigh the dilution (if any) that might result from large redemption transactions. These are the same shareholders that the proposal is purporting to protect. Swing pricing and hard 4 pm ET cutoffs are potentially very counterproductive to what is in the overall best interest of shareholders.

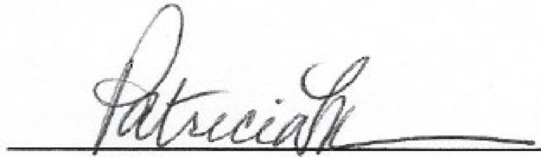
Although we do not believe swing pricing or a hard close is the answer, we note that fund boards that conclude that swing pricing or a hard close would be in shareholders' interest are free, even under current rules, to implement those measures.

In closing, we appreciate that the Commission is attempting to address an issue in an effort to protect shareholders. That is our primary concern as well. But we fear that the proposal will hurt shareholders by imposing additional costs on them without a meaningful benefit and will even deprive them of rights to transact at current day pricing that they currently have. Moreover, the proposal puts small fund groups, and fund groups that primarily sell through intermediaries, at a marked competitive disadvantage. We believe that the existing set of rules, policies and

procedures, along with decades of experience in actively managed portfolio management, which includes prudent cash management, within the current regulatory and oversight environment, are sufficient to address the concerns outlined in your proposal.

If it were helpful to the Commission, we would be happy to discuss our concerns with members of the Commission or the Commission's staff.

Sincerely,



Patricia Moss
Independent Chair
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Aquila Funds Trust
Hawaiian Tax-Free Trust

On behalf of the Independent Trustees of the
Aquila Group of Funds