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High Income Fund

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Investment Commentary

June 30, 2014

Aquila Three Peaks High Income Fund & Aquila Three Peaks Opportunity Growth Fund

Highlights

- The capital markets rewarded fixed-income and equity market participants during the second quarter, as both bonds and equities generated solid returns, extending the gains experienced in the first quarter.
- With the Fed on track to reduce its asset purchases to zero by year end, thereby ending what is commonly known as QE3, economic data will continue to be heavily scrutinized by market participants trying to decipher when the Fed will signal its first rate hike.
- We believe that the high yield market offers attractive relative value compared to other fixed-income asset classes, yet we continue to believe it is important to maintain a relatively short duration and maturity profile given the potential for increases in Treasury yields, elevated volatility in the fixed-income markets, and since the average yield-to-worst in the high yield market continues to hover near record-low levels.
- In our opinion, the flat credit-quality and maturity curves indicate that investors are not being sufficiently compensated for increased credit risk or duration risk, which is why we continue to position our strategy in shorter-duration securities of high yield companies that we believe are higher-quality in nature.
- In general, first quarter corporate earnings results from many U.S. companies were well received by investors. Importantly, the outlook for the remainder of 2014 provided by many companies showed positive signs for future growth of cash flow.
- In our opinion, the equity market could continue to benefit from positive mutual fund flows, expanding consumer and business confidence, and increased shareholder-friendly activity from corporations in the form of share repurchases, dividends, mergers, and acquisitions.
- Historically-low yields across many fixed-income asset classes and the strength of high yield new debt issuance continue to provide many companies with a tailwind in the form of lower interest costs and increased financial flexibility. We expect that access to relatively cheap capital will continue to benefit companies as we move through 2014, and we feel that the companies we are choosing to invest in are well positioned given their focus on balance sheet improvement and prudent use of cash flow.
- We have been pleased with the strong absolute and relative performance of our equity strategy over this timeframe and with the strategy's ability to weather the more volatile months throughout the period. We continue to believe that the strong performance highlights that the companies we are choosing to invest in for both the high yield strategy and the equity strategy are fundamentally performing well.

The capital markets rewarded fixed-income and equity market participants during the second quarter, as both bonds and equities generated solid returns, extending the gains experienced in the first quarter. For the fixed-income market, the conflict in Ukraine, tensions in the Middle East, declining government bond yields, and choppy economic data out of Europe and China further propelled a flight-to-quality trade that has been occurring since the beginning of the year. For the equity market, the old adage of "sell in May and go away" would have led investors astray this year. Improving U.S. economic data, reasonably good corporate earnings, and a persistent resurgence of M&A activity supported equities throughout the quarter and propelled the stock market to its eighth consecutive quarter of positive returns. History shows that it is a bit unusual for both bonds and stocks to move in the same direction so dramatically. We will continue to closely monitor economic data, in particular employment and inflation data, as it relates to future Federal Reserve actions and economic growth, which can sway how market participants view different asset classes.

With the Fed on track to reduce its asset purchases to zero by year end, thereby ending what is commonly known as QE3, economic data will continue to be heavily scrutinized by market participants trying to decipher when the Fed will signal its first rate hike. Currently, many strategists expect this to occur sometime between the first quarter of 2015 and the first quarter of 2016. In our opinion, the lack of clarity from the Fed could create uncertainty with regard to Treasury yield movements and could serve to elevate volatility within fixed-

income asset classes, including the high yield market, as the year progresses. The ability of the high yield market to withstand a fairly significant rise in Treasury yields throughout 2013 was vital to its strong relative performance and should continue to prove important to asset allocators throughout the remainder of 2014. We believe that the high yield market offers attractive relative value compared to other fixed-income asset classes, yet we continue to believe it is important to maintain a relatively short duration and maturity profile given the potential for increases in Treasury yields, elevated volatility in the fixed-income markets, and since the average yield-to-worst in the high yield market continues to hover near record-low levels.

The equity market continued to exhibit positive price momentum during the quarter. We have yet to see broad-based behavior from corporations or investors that would signal excessive risk-taking, even though the equity market has experienced fairly significant returns in recent years and interest rates remain at low levels. In our opinion, the equity market could continue to benefit from positive mutual fund flows, expanding consumer and business confidence, and increased shareholder-friendly activity from corporations in the form of share repurchases, dividends, mergers, and acquisitions. In general, we view equity valuations for the overall market as reasonably fair in the current environment. While increased M&A has helped support, if not expand valuations, we are also cognizant that cash flow and earnings growth will be key drivers of future equity price performance.

High Yield Performance Overview – June 2014

The Aquila Three Peaks High Income Fund Class Y share (ATPYX) generated a positive 1.58% total return (net of fee calculation) during the second quarter. By comparison, the Barclays High Yield Bond Index generated a positive 2.41% return during the quarter. The continued and somewhat surprising decline of the 10-year Treasury yield positively impacted the longer-duration bonds of the high yield market, which outperformed the overall high yield market in a fashion similar to the first quarter. High yield mutual fund flows were steadily positive throughout the quarter, as investors sought out incremental yield from the asset class. The combination of muted Treasury yield volatility and positive fund flows into the asset class have also helped fuel high yield new issuance, which has also positively impacted the performance of high yield bonds. In addition, the performance of most fixed-income asset classes continued to benefit from the decline in the 10-year Treasury yield and positive fund flows during the quarter.

We continue to believe the direction of the high yield market will be influenced by mutual fund flows and investor sentiment, which will likely be swayed by Treasury yield movements, job growth, economic activity, and Federal Reserve commentary. The fundamental strength of the high yield market remains fairly solid, as many companies have been prudent with their use of debt/leverage and have been focused on strengthening their balance sheets in recent years. However, there continue to be some indications of more aggressive corporate behavior beginning to occur that will need to be closely monitored as we progress through 2014.

For the year-to-date period ended June 30, 2014, the Aquila Three Peaks High Income Fund Class Y share (ATPYX) generated a positive 3.94% total return (net of fee calculation). By comparison, the Barclays High Yield Bond Index generated a positive 5.46% return during the period. Many market participants, including us, entered the year with a belief that Treasury yields would likely trend higher throughout 2014 as economic data continued to show strength and the Fed began tapering its asset purchase program. However, adverse weather throughout the first quarter that significantly impacted U.S. economic data, conflict between Russia and Ukraine, tensions in the Middle East, concerning economic data in Europe and China, and declining European government bond yields stymied the rise in Treasury yields and actually fueled a flight-to-quality trade that has persisted since early in the year.

Barclays Capital US Corporate High Yield Index Performance Analysis

Returns by Quality	2013	1Q'14	2Q'14	YTD '14	Best Performing Sectors	1Q'14	2Q'14	YTD '14
Barclays HY Bond Index	+7.44	+2.98	+2.41	+5.46	Electric Utility	+2.16	+4.63	+6.89
Ba	+5.05	+3.11	+2.66	+5.85	Banking	+3.08	+4.02	+7.23
B	+7.27	+2.75	+2.19	+5.00	Pipelines	+4.12	+3.77	+8.04
Caa	+13.82	+3.31	+2.41	+5.80	Wirelines	+4.36	+3.73	+8.26
Ca-D	+5.04	-1.72	-1.64	-3.33	Financial Other	+2.00	+3.56	+5.63
Returns by Duration					**Worst Performing Sectors**			
0-3 yr	+6.87	+1.60	+1.14	+2.76	Gaming	+1.36	+0.34	+1.70
3-4 yr	+9.31	+2.70	+2.18	+4.94	Consumer Products	+3.08	+0.97	+4.08
4-5 yr	+8.83	+3.10	+2.40	+5.57	Pharmaceuticals	+3.81	+1.35	+5.22
5-6 yr	+7.96	+3.65	+3.05	+6.81	Industrial Other	+3.56	+1.43	+5.04
6+ yr	+4.11	+5.12	+4.64	+10.00	Packaging	+2.98	+1.43	+4.44

Source: Barclays Research - High Yield Corporate Update

Last year, the 10-year Treasury bond declined nearly 8%, which caused many fixed-income asset classes to produce negative returns during the year as investors withdrew a significant amount of capital from various fixed-income funds. Yet in contrast, the Barclays High Yield Index generated over a 7% positive return in 2013. Thus far in 2014, many fixed-income asset classes that are more correlated to Treasury yield movements, including the longer-dated bonds within high yield, have benefited from the 10-year Treasury bond generating over a 6% return due to a decline in the yield from 3.03% at the beginning of the year to 2.53% at the end of June. Considering last year's lackluster performance across many duration-sensitive fixed-income asset classes, we can't help but wonder if redemptions from fixed-income funds will be quick to occur at the first sign of a significant upward movement in Treasury yields.

As we've been suggesting in recent commentaries, we believe the credit-quality curve (the difference between higher-rated and lower-rated securities) and the maturity curve (the difference between shorter-dated and longer-dated securities) remain relatively flat. In our opinion, the flat credit-quality and maturity curves indicate that investors are not being sufficiently compensated for increased credit risk or duration risk, which is why we continue to position our strategy in shorter-duration securities of high yield companies that we believe are higher-quality in nature. For example, based on the JPMorgan Domestic High Yield Index, the yield differential between the BB-rated (higher-quality) portion of the Index and the CCC-rated (lower-quality) portion of 333 basis points (bps) at June 30, 2014 is near its all-time low and approximately half the average of the last ten years. For further perspective, during 2001 and 2008, when default concerns were on the rise, the yield differential between BBs and CCCs was above 2,000 bps during both periods. While defaults are not currently a significant issue for the high yield market, should concerns begin to rise, we believe the yield differential would likely become more representative of these past periods.

We remain cautious of highly-leveraged companies and highly-cyclical industries. We believe the return potential of such fixed-income investments is not significant enough to compensate for the elevated risk of financial distress if the economy slows. On the other hand, we continue to believe that as economic growth expands, we may begin to see more aggressive corporate behavior from some companies in the more cyclical industries that could be detrimental to credit quality and corporate balance sheets. If this behavior becomes more prevalent throughout the year, it could be a signal that excessive risk-taking is filtering into the economy and the markets, and could lead to future investment pitfalls. It is also not lost upon us that a more significant rise in Treasury yields could have an adverse effect on the purchasing power of consumers and economic activity.

While we primarily remain positioned in shorter duration bonds due to the risk to the high yield market from upward pressure on Treasury yields, we will continue to look to add bonds that fit our investment criteria should unwarranted volatility create attractive investment opportunities. We remain focused on evaluating high yield issuers based on our fundamental research process in which we look for companies that are improving their balance sheet and growing their business in a disciplined manner. We believe our focus on providing a less volatile investment strategy within the high yield asset class is prudent given the potential for elevated volatility in this relatively low-yielding fixed-income environment.

Equity Performance Overview – June 2014

The Aquila Three Peaks Opportunity Growth Fund Class Y share (ATGYX) generated a positive 7.43% total return (net of fee calculation) during the second quarter. By comparison, the Russell 3000 Index, which is the Fund's primary benchmark, generated a positive 4.87% return during the quarter. Positive economic data, including favorable employment data, as well as continued positive fund flows into equity funds, and strong M&A activity provided the fuel for many equity indices to end the quarter at or near all-time high price levels. In general, first quarter corporate earnings results from many U.S. companies were well received by investors. Importantly, the outlook for the remainder of 2014 provided by many companies showed positive signs for future growth of cash flow. There had been concern that weak economic growth during the first quarter, which was largely attributable to adverse weather conditions, would cause more of a problem for corporate earnings. We were generally pleased by the results and outlooks that many of our companies provided to the market during the quarter. A somewhat recurring theme over the last year has been larger companies struggling to meaningfully grow revenue, while smaller companies have been able to show reasonably solid top-line growth in addition to earnings and cash flow growth. We believe this trend is likely to continue in the absence of more significant economic growth, which may force larger companies to more actively pursue M&A going forward.

As we have highlighted in recent commentaries, many key indicators within the high yield market continue to suggest that default risk and

concerns about credit strength are less of an issue in the current environment. Additionally, historically-low yields across many fixed-income asset classes and the strength of high yield new debt issuance continue to provide many companies with a tailwind in the form of lower interest costs and increased financial flexibility. We expect that access to relatively cheap capital will continue to benefit companies as we move through 2014, and we feel that the companies we are choosing to invest in are well positioned given their focus on balance sheet improvement and prudent use of cash flow.

For the year-to-date period ended June 30, 2014, the Aquila Three Peaks Opportunity Growth Fund Class Y share (ATGYX) generated a positive 11.39% total return (net of fee calculation). By comparison, the Russell 3000 Index generated a positive 6.94% return during the quarter. Following fairly strong performance in 2013, we have been pleased with how well our equity strategy has continued to perform. Some of our companies have benefited from the increased M&A activity as they have either been a target or an acquirer, but by-and-large, we believe the stock prices of many of our companies are reaping the benefits of past actions by management teams to prudently use leverage to increase cash flow which is being used to fund growth projects and repay debt in an attempt to increase the value of the company.

We believe a testament to our disciplined equity strategy is not only the solid absolute performance, but also strong relative performance over the last three years. For the three-year period ended June 30, 2014, the Aquila Three Peaks Opportunity Growth Fund Class Y share (ATPGX) generated a positive 19.61% annualized total return (net of fee calculation). By comparison, the Russell 3000 Index generated a positive 16.45% annualized return. According to Lipper Inc., the Fund's Class Y share performance for the three-year period ended June 30, 2014, ranked in the 1st percentile, beating 99% of competitors in the mid-cap core category. In addition to the strong three-year performance, Lipper Inc. indicates that recent performance has remained solid, as the Fund's Class Y share performance for the one-year period ending June 30, 2014 ranks in the 4th percentile while the year-to-date performance for 2014 ranks in the 1st percentile. While we have been pleased with the strong absolute and relative performance over this timeframe, we have been exceptionally pleased with the strategy's ability to weather the more volatile months throughout the timeframe. We continue to believe that the strong performance of our equity strategy highlights that the companies we are choosing to invest in for both the high yield strategy and the equity strategy are fundamentally performing well.

Below is a chart recapping the performance of major fixed-income and equity market indices for the second quarter of 2014 and prior periods.

Major Index Performance

Fixed Income Total Return	2013	1Q'14	2Q'14	YTD '14
Aquila Three Peaks High Income (ATPYX)	4.86%	2.32%	1.58%	3.94%
10-Year Treasury	-7.83%	3.38%	2.66%	6.13%
Barclays US Aggregate Bond	-2.03%	1.84%	2.04%	3.93%
Barclays US Investment Grade Corp Bond	-1.53%	2.94%	2.66%	5.68%
Barclays US High Yield Corp Bond	7.44%	2.98%	2.41%	5.46%
Equity Total Return				
Aquila Three Peaks Opportunity Growth (ATGYX)	37.61%	3.68%	7.43%	11.39%
Dow Jones Industrial Avg.	29.65%	-0.15%	2.83%	2.68%
S&P 500	32.38%	1.81%	5.23%	7.13%
NASDAQ	40.17%	0.84%	5.32%	6.21%
Russell 1000	33.13%	2.05%	5.12%	7.27%
Russell 2000	38.82%	1.12%	2.05%	3.19%
Russell 3000	33.57%	1.97%	4.87%	6.94%
Credit Suisse Leveraged Equity	33.84%	1.25%	6.61%	7.94%

Source: Barclays Research, Merrill Lynch Research, Credit Suisse Research, Bloomberg

Observations – June 2014

Jobs, Inflation, and the Fed – Following a winter deep freeze during the first quarter in which economic data seemed to have been significantly impacted by adverse weather, the spring thaw during the second quarter started to show signs of life. Key indicators for economic strength such as employment, housing, autos, and retail sales began to accelerate during the second quarter after falling short of expectations throughout much of the first quarter. In particular, the April and May employment reports both showed job creation of over 200,000 jobs, marking four consecutive months of over 200,000 jobs created and with estimates for June calling for a fifth consecutive month, it would be the best growth streak in many years. The unemployment rate declined from 6.7% at the beginning of the year to 6.3% at the end of May. If job growth continues at the recent pace, it seems likely that over the coming months the unemployment rate will drop below 6.0%, a level not experienced since July 2008. The four-week continuing jobless claims average, a good indicator for the unemployment rate, has already declined to 2007 levels. While wage growth has been slow to increase, there are signs that future wage pressure is on the horizon which could cause inflation measures to accelerate more rapidly. The question of how much employment slack there really is in the economy is becoming an important one. Inflation gauges have been increasing recently, and while commentary from the Federal Reserve has yet to point out a concern about inflation, it has become a significant topic of discussion among many market participants. A sharp rise in inflation over the coming months would likely cause the Federal Reserve to increase the Fed Funds rate sooner than expected by many market participants. Upcoming commentary out of the Federal Reserve, in addition to heavily scrutinized economic data, will likely shape viewpoints with regard to how market participants allocate capital. We believe positive economic data and the potential for better economic growth could be viewed positively by the equity market and could overshadow the potential for rising bond yields over the coming quarters.

Resurgence of Merger & Acquisition Activity – M&A activity accelerated significantly during the second quarter. According to Bloomberg, global M&A announced during the quarter approached $1.3 trillion, making it the second most active quarter in the last twelve years behind the second quarter of 2007. Year to date, nearly $2.2 trillion of global M&A has been announced. For comparison, announced global M&A averaged $2.6 trillion per year from 2010-2013. This annualized pace of more than $4 trillion puts M&A volumes on track with the LBO-crazed years of 2006 and 2007. However, we have yet to see much in the way of large-scale LBO activity materialize, as targets have generally been strategic in nature. Many of these strategic acquirers are seeking cost/revenue synergies and/or looking at foreign acquisitions to utilize overseas cash or take advantage of tax inversion strategies. This has not only positively impacted the stock price of the target company, but it many cases the stock price of the acquiring company has increased as well.

Even though M&A activity has been elevated this year, it has not yet been all that widespread across industry groups. From our perspective, M&A has largely been focused in the Telecom, Cable, Pharmaceutical, Energy-Midstream, and Food & Beverage industries. We would not be surprised to see activity start to pick up more meaningfully in other industry groups over the remainder of the year. In our opinion, a few industries that could begin experiencing increased M&A activity include: Energy-E&P, Lodging, Consumer Products, Healthcare, and Industrials. The relatively stable operating trends, reasonable long-term growth prospects, and relatively fragmented nature of these industries seem to make them conducive to M&A in the current environment. We would also not be surprised to see increased M&A in the more cyclical segments of the economy as companies look to build scale in an attempt to further increase shareholder value.

With equity prices hovering around record highs and corporate bond yields near record lows, the cost of capital to finance these deals has been fairly attractive. While we have seen some aggressively debt-financed deals, by and large, the financing has included a component of cash and equity that has helped balance sheets stay in reasonably solid shape. A concern is that companies may begin using much more debt, thereby significantly increasing the leverage profile of the combined company. We could also begin to see LBO activity reignite. We closely monitor the financing structure of these deals, in particular those where one of our holdings is involved, and we will not hesitate to exit an investment if we feel the leverage profile, credit worthiness, or management style has deteriorated outside of our comfort level. That being said, the increased M&A activity may continue to support, if not further expand, equity valuations over the coming quarters.

Tracking Fund Flows – The Investment Company Institute (ICI) reported that both equity and bond funds continued to garner fund flows throughout the second quarter. According to ICI, equity mutual funds took in over $7 billion of fund flows during the quarter while bond mutual funds experienced over $28 billion of inflows. Given the strength of the equity market throughout the quarter we are

surprised that the pace of fund flows into equity funds slowed so significantly compared to the $54 billion that equity funds reaped during the first quarter. Given the recent geopolitical headline risk and strong equity market returns in recent years, it would not have been all that surprising to have seen equity fund flows turn negative as investors took profits. Flows into bond funds in 2014 have been bolstered by a declining 10-year Treasury yield with minimal volatility due in part to geopolitical concerns. After suffering over $110 billion of outflows during the last six months of 2013, bond funds have experienced nearly $50 billion of inflows in the first six months of 2014. We continue to believe that bond fund flows will remain highly dependent on Treasury yield movements and Federal Reserve commentary regarding potential Fed Funds rate changes. According to ICI, during the 2008-2012 timeframe, equity mutual funds experienced over $500 billion of outflows while bond mutual funds experienced over $1 trillion of inflows. In our opinion, this indicates that investors may feel the need to shift more towards equity funds over the coming years to help remedy the imbalance of investment flows that occurred during that timeframe.

As investors become more comfortable with the current state of the economy and the improvement in the equity market, we believe fund flows may favor the equity markets in anticipation of incremental return prospects rather than going towards bond funds, which could elevate volatility in the high yield market. However, we continue to believe that investors should be attracted to the strong relative yield characteristics of the high yield asset class, as well as the shorter duration profile relative to investment grade bond funds and Treasury securities. In the current environment of modest economic growth, limited options for yield across many fixed-income asset classes, and the potential for upward pressure on Treasury yields, we continue to believe that the high yield market is positioned well relative to other fixed-income asset classes. We would expect positive inflows to equity funds to continue to have a positive impact on equity market valuations, which could further benefit the performance of our equity strategy.

High Yield Market Review – June 2014

The high yield market continued to benefit from declining Treasury yields and equity market strength as well as positive fund flows throughout the second quarter of 2014. High yield mutual funds experienced $3.8 billion of inflows during the quarter to bring the year-to-date inflow to $7.2 billion. The average yield-to-worst of the JPMorgan Domestic High Yield Bond Index declined 13 bps during the quarter, while the average bond yield spread of the Index declined 8 bps. The 5.22% average yield-to-worst of the Index is nearing the all-time low set in May 2013, while bond yield spreads of 405 bps have reached a post-financial crisis low. Given the relatively low yield-to-worst of the high yield market, we believe any significant rise in Treasury yields from today's levels could negatively impact longer-duration securities within the high yield market. In our opinion, much of the recent new issuance in the high yield market carries elevated interest-rate risk due to longer maturity structures in combination with historically low coupons. As such, we remain conservatively positioned with a relatively shorter duration and maturity profile, in addition to being cautious with regard to the new issues. Naturally, we continually survey the high yield market for attractive investment opportunities, and we will look to actively deploy capital to take advantage of any opportunities should an increase in Treasury yields create volatility within the high yield market, thereby putting downward pressure on bond prices. For reference, high yield bond spreads averaged 373 bps from 2004-2007 and reached an all-time low level of 266 bps in June 2007 prior to the financial crisis occurring. Directional movements in bond yields and bond yield spreads are an important indicator for how we position both our high yield and equity strategies, and they will be closely monitored.

High Yield Market Technicals

	Year-End 12/31/13	Quarter-End 3/31/14	Quarter-End 6/30/14	YTD 2014
Average Spread to Worst	440 bps	413 bps	405 bps	**-35 bps**
Average Yield to Worst	5.77%	5.35%	5.22%	**-0.55%**
Average Bond Price	$103.33	$103.57	$105.52	**$2.19**
5-Year Treasury Yield	1.73%	1.72%	1.63%	**-0.10%**
10-Year Treasury Yield	3.03%	2.72%	2.53%	**-0.50%**
High Yield Mutual Fund Flows ($ bn)	($4.7)	$3.4	$3.8	**$7.2**

Source: J.P. Morgan Research - High Yield Market Monitor

New high yield bond issuance continued to price at an elevated pace throughout the quarter. In total, $121.2 billion of new issuance priced during the second quarter, which was significantly more than the $88.3 billion that priced during the first quarter of 2014, and was just enough to eclipse the previous quarterly record $121.1 billion that priced during the first quarter of 2013. Refinancing activity once again dominated the use of proceeds, as corporate bond yields declined. With that said, acquisition/LBO issuance increased to 22% of proceeds after averaging nearly 19% per quarter over the prior four quarters. Lower-rated issuance also increased significantly, as the second quarter was only the third time in the last four years that lower-rated bond issuance exceeded 20% of total issuance. New issuance trends will continue to be closely monitored throughout the year, as they can provide insight into potential positive or negative credit events, as well as potential positive or negative catalysts for a company's equity.

As mentioned above, we continue to believe a more pronounced resurgence in M&A activity could help support and potentially increase equity valuations, which could benefit our equity strategy. We have slowly seen an increase in more aggressive issuance over the past three years and expect this trend to continue throughout 2014. We would become more concerned with aggressive lending and risk-taking behavior if the acquisition/LBO category comprised a more significant piece of total issuance and/or lower-rated issuance increased to over 25% of total issuance. We continue to believe that many high yield companies may look to take advantage of relatively low financing costs to extend debt maturities and lock-in rates in anticipation that Treasury yields may move higher as the year progresses. The interest savings and elimination of upcoming debt maturities will continue to be a positive tailwind for many corporations and may continue to positively impact names held in our high yield and equity strategies.

High Yield New Issuance

	Year-End 12/31/13	Quarter-End 3/31/14	Quarter-End 6/30/14	YTD 2014
New Issue Amount ($ billion)	$398.5	$88.3	$121.2	**$209.5**
New Issues	820	177	211	**388**
Refinancing as % of New Issue	56.0%	57.3%	62.1%	**60.1%**
Acquisition/LBO as % of New Issue	17.4%	18.3%	22.2%	**20.6%**
Lower-rated as % of New Issue	18.8%	16.9%	21.7%	**19.7%**

Source: J.P. Morgan Research - High Yield Market Monitor

Excluding the highly anticipated default of Texas Competitive Electric (TXU) in April, defaults continue to be meager and are not much of a concern in the current environment. During the second quarter, four companies defaulted on $19.9 billion of bonds; although excluding TXU only three companies defaulted on $3.3 billion of bonds. The trailing-twelve-month default rate increased to 2.06% at quarter end from 0.61% at the end of the first quarter; although excluding TXU the rate only increased marginally to 0.70%. The ex-TXU default rate remains around pre-2008 levels and is well below the 25-year average of 3.90%. Distressed debt also continues to trend favorably and indicates that the high yield market is not overly concerned about near-term defaults. Many high yield strategists continue to predict that the default rate will remain below 2% (ex-TXU) throughout 2014 and into 2015, as there is minimal distressed debt and since there is little in the way of material near-term debt maturities due to strong refinancing activity in recent years. With that said, we continue to monitor these indicators closely, as any signs of unexpected corporate insolvency could be a shock to the high yield market with the credit-quality curve trading as flat as it is currently.

High Yield Defaults and Distressed Debt	Year-End 12/31/13	Quarter-End 3/31/14	Quarter-End 6/30/14	YTD 2014
Defaults	21	5	4	**9**
Default Amount ($ billion)	$8.0	$1.6	$19.9	**$21.5**
LTM Default Rate par amount	0.66%	0.61%	2.06%	
Below 50% of par ($ billion)	$12.3	$11.4	$5.9	**($6.4)**
Below 50% of par (% HY)	1.0%	1.0%	0.5%	**-0.5%**
Below 70% of par ($ billion)	$19.8	$18.5	$9.2	**($10.6)**
Below 70% of par (% HY)	1.6%	1.6%	0.8%	**-0.8%**

Source: J.P. Morgan Research - High Yield Default Monitor

Credit trends, illustrated by the upgrade/downgrade ratio, remained fairly inconclusive during the second quarter, as an equal number of high yield rated companies were upgraded compared to those that were downgraded. We continue to believe that companies may feel pressure to increase shareholder returns through unfriendly credit actions, such as the use of debt for acquisitions, dividends or share repurchases, which could result in deteriorating credit trends as we progress through 2014. Additionally, prolonged sluggish economic growth could become a more meaningful drag on cash flow growth of companies, which could also accelerate credit deterioration over the coming quarters. We will continue to track this metric closely, as the upgrade/downgrade ratio has historically been a fairly good leading indicator of future distressed debt levels, defaults, and other credit concerns that could sway investor sentiment with regard to the bonds and equity of a particular company or industry.

High Yield Credit Trends	Year-End 12/31/13	Quarter-End 3/31/14	Quarter-End 6/30/14	YTD 2014
Upgrades - issuers	351	81	92	**173**
Downgrades - issuers	325	82	92	**174**
Upgrade/downgrade ratio	1.1	1.0	1.0	**1.0**
Upgrades - volume ($ billion)	$442.1	$75.6	$98.7	**$174.4**
Downgrades - volume ($ billion)	$312.4	$72.4	$113.8	**$186.2**
Upgrade/downgrade ratio	1.4	1.0	0.9	**0.9**

Source: J.P. Morgan Research - High Yield Market Monitor

The Three Peaks Approach – June 2014

We remain committed to our time-tested and disciplined research process that not only includes detailed analysis of every credit owned in our high yield and equity strategies, but also uncovers new opportunities within the high yield and equity markets. We continue to look for fiscally responsible management teams that are committed to growing operations prudently and who recognize they can improve their credit profile and equity valuations by focusing on credit-specific measures. Our efforts remain focused on stability and predictability in the investment selection process so as to provide a less volatile high yield strategy that can generate a reasonably consistent total return, while also attempting to find attractive equity investments that could experience further capital appreciation.

The construction of the high yield strategy continues to be highlighted by securities that we believe have the ability to weather negative headlines and heightened volatility should this occur over the coming year. We will maintain our discipline of minimizing volatility to the extent possible by generally avoiding bonds that appear to have equity-like characteristics, as well as by focusing on sectors we consider to

be relatively stable and higher-quality in nature due to greater predictability of revenues and stability in cash flow. We continue to believe this approach is warranted in this uncertain economic environment and with the potential for elevated Treasury yield volatility as we progress through 2014. We believe our positioning in higher-quality names within the high yield universe while maintaining a relatively short duration and short maturity profile is prudent in this environment. We have been hesitant with regard to increasing the credit risk in the bond portfolio due to the lackluster economic growth and our perception that the value of such securities does not adequately compensate investors for future investment risks. Maintaining a short maturity profile not only allows the securities held within the bond portfolio to better withstand a rise in interest rates or increased market volatility, but it also increases the potential that holdings will be redeemed via a natural bid from the company through either a call, tender, or maturity. As cash is created by these actions, it allows us the ability to assess the opportunities present in the high yield market at that time. In instances where we have not participated in new issuance because we believed it carried excessive interest rate risk, we may have an opportunity to deploy cash at more attractive prices and yields should rising Treasury yields create such opportunities.

The construction of the equity strategy continues to focus on companies using debt/leverage prudently to grow free cash flow in an attempt to propel future equity value. We will continue to use our knowledge and understanding of the high yield market to decipher the equity investment landscape. In our opinion, our focus on understanding bond covenants provides a very distinct advantage to our research in stock selection. Frequently, high yield companies may have a maximum leverage ratio, minimum interest coverage ratio and/or restrictions on the amount of stock the company can repurchase or dividends they can pay out. These covenants generally influence corporate decisions and can change as the credit worthiness and financial strength of a company improves, which could potentially lead to higher equity values. We continue to emphasize important debt covenants and key credit metrics in our research when considering stock selection. While understanding these issues is not always the primary focus of many equity analysts, we believe our high yield process for finding improving high yield bond stories leads us to these types of improving equity stories and sets our strategy apart from other equity strategies.

While we continuously search for attractive investment options, we believe a strict adherence to our rigid investment philosophy, extensive research process, and discipline in choosing investments for our high yield and equity strategies will be integral throughout 2014. Given the significant positive moves in the high yield and equity markets in recent years, which have been bolstered in part by Federal Reserve policies that have begun to wind down, we believe it is important not to become too complacent in the current investing environment. As such, we constantly monitor economic data and commentary from companies across various industries, as well as commentary from the Federal Reserve and out of Capitol Hill that may shed light on future investment opportunities or potential investment pitfalls.

In conclusion, we will continue to balance potential risks to the economy and the capital markets with the opportunities presented within high yield bonds to construct a high yield strategy that we believe will have a very compelling risk/return profile throughout various economic cycles and periods of elevated market volatility. We also continue to believe that the relative strength and positive credit factors that currently exist in the high yield market bode well for the companies held in our equity strategy. We continue to believe a more meaningful increase in economic growth or a more significant shift in fund flows going toward equity funds could positively impact the performance of our equity strategy over the course of the year.

Thank you for your continued support and investment.

July, 2014

AQUILA THREE PEAKS HIGH INCOME FUND PERFORMANCE STATISTICS AS OF JUNE 30, 2014

			CUMULATIVE RETURN			AVERAGE ANNUAL RETURN						
	SEC Yield	Distribution Rate	2nd Qtr 2014	YTD	1 year	3 year	5 year	Since Inception	Inception Date	Max Sales Charge	Max CDSC	Expense Ratio
A Shares NAV	---	3.95%	1.42%	3.84%	8.42%	6.03%	8.21%	5.53%	6/01/06	----	----	1.20%
A Shares MOP	3.57%	3.79%	-2.66%	-0.28%	3.94%	4.59%	7.33%	5.00%	6/01/06	4.00%	----	1.20%
C Shares w/o CDSC	2.92%	3.15%	1.22%	3.43%	7.38%	5.19%	7.32%	4.70%	6/08/06	----	----	1.99%
C Shares w/ CDSC	----	----	0.21%	2.41%	6.33%	----	----	----	6/08/06	----	1.00%	1.99%
I Shares	3.74%	3.95%	1.53%	3.84%	8.37%	6.02%	8.21%	5.67%	6/29/06			1.22%
Y Shares	3.92%	4.15%	1.58%	3.94%	8.57%	6.28%	8.42%	5.76%	6/01/06	----	----	0.98%
Barclays US Corp HY			2.41%	5.46%	11.73%	9.61%	14.04%	9.22%				
Barclays US Aggregate Bond			2.04%	3.93%	4.37%	3.63%	4.84%	5.41%				

Performance current to the most recent month-end is available at: 800-437-1020 or www.aquilafunds.com.

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 800-437-1020 or visit www.aquilafunds.com.

Performance data is based on past performance and does not guarantee future results. Current performance may be higher or lower. Data current to the most recent month end is available at 800-437-1020 or www.aquilafunds.com. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Total return calculations include changes in share price and reinvestment of dividends and capital gain distributions in a hypothetical investment for the period shown. Class A shares have a maximum sales charge of 4.00%; Class C shares have no initial sales charge, but a 1.00% contingent deferred sales charge applies to Class C shares redeemed within 12 months of purchase. Class I and Y shares have no initial and no contingent deferred sales charge and are available only through certain financial institutions. An explanation of the share classes appears in the Fund prospectus.

Information contained herein has been obtained from sources we consider reliable, but its accuracy is not guaranteed. Any opinions expressed are based on the interpretation of data available to Three Peaks Capital Management, LLC, investment sub-adviser of Aquila Three Peaks High Income Fund, and are subject to change at any time without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. The Barclays High-Yield Bond Index is an unmanaged index that covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market therefore, its performance does not reflect management fees and expenses like those associated with the Fund. The Barclays Capital U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with components for government and corporate securities, mortgage pass-through securities, and asset-backed securities, therefore, its performance does not reflect management fees and expenses like those associated with the Fund. One cannot invest directly in an index. Independent rating services (such as Standard & Poor's, Moody's and Fitch) assign bond ratings, which generally range from AAA (highest) to D (lowest), to indicate the credit worthiness of the underlying bonds in the portfolio Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The Members, Officers and Employees of Three Peaks Capital Management, as a policy of the firm, are required to disclose and report investments in reportable securities as defined in Rule 204A-1(e)(10) of the Investment Advisers Act of 1940. Three Peaks Capital Management, LLC may from time to time buy or sell securities of companies mentioned in this report for its advisory clients. Aquila Investment Management, LLC, as well as certain of its Investment Companies or Investment Advisory accounts, may own the Securities being reviewed or recommended in this report. Aquila Investment Management, LLC and others associated with it may from time to time have long or short positions and effect transactions in the securities of companies mentioned in this report.

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AQUILA THREE PEAKS OPPORTUNITY GROWTH FUND PERFORMANCE STATISTICS AS OF JUNE 30, 2014

	Cumulative Return		Average Annual Return									
	2nd Qtr 2014	YTD	1 year	3 year	5 year	10 year	Since Inception	Inception Date	Max Sales Charge	Max CDSC	Total Operating Expense	Net Expense Ratio
A Shares NAV	7.33%	11.19%	30.34%	19.22%	21.00%	7.27%	8.61%	7/25/94	--	--	1.91%	1.55%
A Shares MOP	2.77%	6.47%	24.80%	17.50%	19.95%	6.81%	8.34%	7/25/94	4.25%	--	1.91%	1.55%
C Shares w/o CDSC	7.12%	10.81%	29.43%	18.35%	20.11%	6.48%	7.21%	5/01/96	--	--	2.53%	2.25%
C Shares w/ CDSC	6.12%	9.81%	28.41%	--	--	--	--	5/01/96	--	1.00%	2.53%	2.25%
I Shares	7.38%	11.34%	30.72%	19.60%	21.42%	--	7.01%	12/01/05	--	--	1.81%	1.49%
Y Shares	7.43%	11.39%	30.76%	19.61%	21.36%	7.58%	8.24%	5/01/96	--	--	1.55%	1.25%
Russell 3000	4.87%	6.94%	25.22%	16.46%	19.33%	8.23%	--					
Lipper Ranking Mid-Cap Core Funds			48 of 787	11 of 737	149 of 703	434 of 551						
Lipper Percentile			6th	1st	21st	79th						

Performance current to the most recent month-end is available at: 800-437-1020 or www.aquilafunds.com.

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Information contained herein has been obtained from sources we consider reliable, but its accuracy is not guaranteed. Any opinions expressed are based on the interpretation of data available to Three Peaks Capital Management, LLC, investment sub-adviser of Aquila Three Peaks Opportunity Growth Fund, and are subject to change at any time without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. Performance of an index does not reflect management fees and expenses which are reflected in Fund performance. An investment cannot be made directly in an index. The Members, Officers and Employees of Three Peaks Capital Management, as a policy of the firm, are required to disclose and report investments in reportable securities as defined in Rule 204A-1(e)(10) of the Investment Advisers Act of 1940. Three Peaks Capital Management, LLC may from time to time buy or sell securities of companies mentioned in this report for its advisory clients. Aquila Investment Management LLC, as well as certain of its Investment Companies or Investment Advisory accounts, may own the Securities being reviewed or recommended in this report. Aquila Investment Management LLC and others associated with it may from time to time have long or short positions and effect transactions in the securities of companies mentioned in this report.

Lipper, Inc., a mutual fund rating service, compiles performance data used to derive their own ranking data. Lipper rankings are based on total return calculations without an adjustment for sales charges. As of March 31, 2014, Lipper placed Aquila Three Peaks Opportunity Growth Fund in the 26th percentile for the 1-year period within their Mid-Cap Core Category, which on that date included 820 funds. Lipper data for additional periods appears in the table above.