AQUILA®
Three Peaks
High Income Fund

AQUILA®
GROUP OF FUNDS

AQUILA®
Three Peaks
Opportunity Growth Fund

Investment Commentary

August 31, 2014

- Following weak July performance from both equities and high yield bonds, the markets reacted favorably in August as investor sentiment benefited from a combination of improving U.S. labor market conditions, encouraging data on business investment, abundant M&A activity, and fairly solid quarterly earnings reports from many companies. The S&P 500 generated its second best monthly return of the year, which helped push the Index to a new all-time high level just above 2,000 on the last day of trading for the month. The "technical" picture within the high yield market began to improve, as the average yield-to-worst for the high yield market breached 6% for the first time this year in early August (a yield level that was attractive enough to end a string of weekly retail outflows). M&A activity remained elevated in August, as $320 billion of global M&A deals were announced, which brings the year-to-date dollar amount of deal announcements to just shy of $3.0 trillion, according to Bloomberg. We continue to believe M&A activity will remain prevalent, which could continue to support and even propel equity valuations as the year progresses.

- Economic indicators throughout August continued to indicate positive momentum as to the strength of the consumer, employment in the U.S., and economic growth. Employment data trended in a positive direction, as July Nonfarm Payroll growth was above 200k for the sixth consecutive month and weekly Initial Jobless Claims continued to trend around 300k, with both data points improving to pre-2008 levels. Data surrounding auto sales, home construction activity, and consumer confidence remained reasonably stable throughout the month. With the Fed on a path of reducing its quantitative easing program, data regarding inflation, employment, and economic activity will be closely monitored as they relate to future Fed actions.

- High yield new issuance was meager in August, as only 15 deals for $4.9 billion priced during the month. Given the weak technical picture in the market at the beginning of the month and with companies wrapping-up earnings, it was not a surprise to see light new issuance. We expect new issuance to pick up more dramatically in September, and for the remainder of the year to be busy on the new issue front. Year-to-date, 461 deals for $242.1 billion have priced, which is slightly behind last year's record pace of $258.3 billion through August. High yield mutual funds and ETFs experienced outflows of $2.1 billion during August after experiencing $11.4 billion of outflows in July. Inflows during the latter half of August helped to offset outflows during the first two weeks of the month that totaled nearly $4.5 billion. Year-to-date, high yield mutual funds and ETFs have experienced $8.5 billion of outflows. We believe that fund flows could remain volatile due to uncertainty regarding Fed actions, Treasury yield movements, and economic strength. Default activity remains minimal and, more importantly, distressed debt continues to be meager, which we believe is a positive indicator for the high yield and equity markets.

- We continue to focus our research efforts on finding companies that operate in stable industries and with management teams that are exceptionally communicative and focused on strengthening the balance sheet while growing operations. We believe that the credit-quality curve (yield differential between higher-rated and lower-rated bonds) and the maturity curve (yield differential between shorter-maturing and longer-maturing bonds) within high yield bonds remain relatively flat. As such, we believe there is still not a material benefit from increased credit risk or increased duration in the current environment. We remain committed to finding companies and securities that we believe will exhibit less price fluctuation should volatility continue to increase within the high yield market or should Treasury yields rise. We believe this strategy is exceptionally prudent at this time. We also believe our approach to selecting companies who are using leverage prudently will benefit the performance of our equity strategy should the equity market remain on solid footing. We expect the resurgence in M&A activity will provide some support to the equity market and potentially be beneficial for high yield companies as they either look to grow or become a target of a larger suitor.

- Thank you for your continued support and investment.

Barclays Capital US Corporate High Yield Index Performance Analysis

Returns by Quality	Jul-14	Aug-14	YTD '14	Best Performing Sectors	Jul-14	Aug-14	YTD '14
Barclays HY Bond Index	-1.33	+1.59	+5.70	Midstream	-1.18	+2.77	+1.55
Ba	-1.28	+1.90	+6.48	Metals & Mining	-1.27	+2.15	+4.47
B	-1.33	+1.45	+5.11	Packaging	-1.46	+2.15	+5.13
Caa	-1.40	+1.41	+5.79	Cable Satellite	-1.82	+2.03	+6.67
Ca-D	-4.35	-8.26	-15.17	Pharmaceuticals	-1.37	+1.99	+5.83
Returns by Duration				**Worst Performing Sectors**			
0-3 yr	-0.85	+0.22	+2.69	Gaming	-1.74	-1.26	-1.33
3-4 yr	-1.43	+0.70	+4.90	Textile	+0.00	+0.00	+2.10
4-5 yr	-1.53	+0.75	+5.62	Airlines	+0.04	+0.26	+5.59
5-6 yr	-1.89	+1.21	+7.13	Restaurants	-0.31	+0.29	+3.67
6+ yr	-1.53	+1.45	+11.07	Paper	-1.48	+0.33	+7.66

Source: Barclays Research - High Yield Corporate Update

High Yield Market Overview

	Year-End 12/31/13	Quarter-End 3/31/14	Quarter-End 6/30/14	Month-End 7/31/14	Month-End 8/30/14	YTD 2014
Average Spread to Worst	440 bps	413 bps	405 bps	455 bps	435 bps	**-5 bps**
Average Yield to Worst	5.77%	5.35%	5.22%	5.93%	5.53%	**-0.24%**
Average Bond Price	$103.33	$103.57	$105.52	$104.08	$104.41	**$1.08**
5-Year Treasury Yield	1.73%	1.72%	1.63%	1.75%	1.63%	**-0.10%**
10-Year Treasury Yield	3.03%	2.72%	2.53%	2.56%	2.34%	**-0.69%**
Mutual Fund Flows ($ billion)	($4.7)	$3.4	$1.6	($11.4)	($2.1)	**($8.5)**
New Issue Amount ($ billion)	$398.5	$88.3	$121.2	$27.6	$4.9	**$242.1**
New Issues	820	177	211	58	15	**461**
Refinancing as % of New Issue	56.0%	57.3%	62.1%	56.5%	47.0%	**59.4%**
Acquisition/LBO as % of New Issue	17.4%	18.3%	22.2%	23.4%	39.5%	**21.3%**
Lower-rated as % of New Issue	18.8%	16.9%	21.7%	20.4%	31.2%	**20.0%**
Defaults	21	5	4	2	0	
Default Amount ($ billion)	$8.0	$1.6	$19.9	$1.0	$0.0	
LTM Default Rate par amount	0.66%	0.61%	2.06%	1.95%	1.93%	
Default Rate Excluding TXU			0.70%	0.59%	0.57%	
Below 50% of par ($ billion)	$12.3	$11.4	$5.9	$6.6	$8.2	
Below 50% of par (% HY)	1.0%	1.0%	0.5%	0.5%	0.6%	
Below 70% of par ($ billion)	$19.8	$18.5	$9.2	$13.9	$12.9	
Below 70% of par (% HY)	1.6%	1.6%	0.8%	1.1%	1.0%	
Upgrades - issuers	351	81	92	41	22	**236**
Downgrades - issuers	325	82	92	24	28	**224**
Upgrade/downgrade ratio	1.1	1.0	1.0	1.7	0.8	**1.1**
Upgrades - volume ($ billion)	$442.1	$75.6	$98.7	$38.9	$27.5	**$240.8**
Downgrades - volume ($ billion)	$312.4	$72.4	$113.8	$23.2	$13.1	**$222.3**
Upgrade/downgrade ratio	1.4	1.0	0.9	1.7	2.1	**1.1**

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

Before investing in a 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.

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