AQUILA®
Three Peaks
High Income Fund

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Three Peaks
Opportunity Growth Fund

Investment Commentary

February 28, 2015

- The month of February brought an increase in investor appetite for risk. An absence of additional negative news combined with some stability in oil prices and a short-term resolution pertaining to the financial situation in Greece, helped propel performance of the high yield market and the equity market in February. The high yield market continued to benefit from a search for yield, in addition to a recovery within many names in the Energy sector, as oil has stabilized for the time being and was range-bound between $48 and $53 per barrel during the month. Following a very volatile and somewhat disappointing January, the equity markets experienced a strong recovery with many equity indices setting new all-time high price levels toward the end of February. The 5.75% return generated by the S&P 500 was the best monthly performance in over three years.

- A strong January employment report, which included a significant upward revision to job creation in November and December, was viewed positively as it relates to the strength of the consumer and the potential for increased consumer spending. However, continued strength in employment measures has many market participants concerned that the Federal Reserve may look to begin normalizing monetary policy (i.e. raise the Fed Funds Rate) sooner than expected. As a result, US Treasury yields rose steadily throughout February, with the 5-year Treasury yield rising to 1.50% from 1.16% at 1/31/15 and the 10-year Treasury yield rising to 2.00% from 1.64% at 1/31/15. This move in February nearly offset the decline Treasury yields experienced during January. Investors will be looking for important data points with regard to Fed policy when in the Federal Reserve next meets in mid-March.

- Fourth quarter and full-year 2014 corporate earnings reports have nearly ended, with many companies generally reporting better-than-expected earnings on what would be considered slightly better revenue growth. A key theme over the past few years has been companies showing good bottom-line growth, as management teams focus on maintaining or reducing costs, while top-line growth has been less than stellar. Merger and acquisition activity continues to be prevalent and has been spreading across many industries, as companies look to bolster product offerings and/or generate cost synergies to drive shareholder value. After several years of balance sheet discipline by many companies, we are starting to see a more meaningful use of debt and increased leverage to fund shareholder activity. This is a trend we will closely monitor as we progress through the year, as excessive use of debt could create future solvency issues.

- The average spread of the JPM High Yield Index declined to 519bp at the end of February from 599bp at the end of January, while the average yield-to-worst of the Index declined to 6.41% at the end of February from 6.99% at the end of January. The high yield primary market steadily improved throughout the month as market sentiment continued to improve. A total of $33.5 billion of new issuance priced during February compared to $22.0 billion for January. Year-to-date new issuance of $55.5 billion is ahead of last year's $49.8 billion over the same timeframe. Refinancing and acquisition proceeds account for 37% and 36%, respectively, of YTD 2015 volume, compared to 54% and 26% for all of 2014. While we believe there will continue to be opportunities for companies to refinance debt maturities, the trend of more aggressive uses for proceeds (i.e. M&A, dividends, stock repurchases) is likely to continue to increase as we progress through the year. Two companies defaulted in February affecting $1.5 billion of high yield bonds. The LTM default rate declined slightly to 2.97%, while the LTM rate excluding the defaults of Energy Futures and Caesars remains below 1.0%. Bonds trading at distressed levels (below $70) improved to 3.1% from 4.4% at the end of January and indicates that in the current environment default activity is expected to remain relatively benign.

- 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 remain committed to finding companies and securities that we believe will exhibit less price fluctuation should volatility 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.

- Thank you for your continued support and investment.

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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