AQUILA®
Three Peaks
High Income Fund

AQUILA®
GROUP OF FUNDS

AQUILA®
Three Peaks
Opportunity Growth Fund

Investment Commentary

April 30, 2015

- The month of April was a relatively strong month for the high yield market, while equities were more subdued in price movement, despite many equity indices setting a new all-time high price levels during the month. Economic data was fairly mixed at best, with many key indicators showing weakness in March. While weather, the West Coast port closure, and the strengthening dollar are the culprits being blamed for the weakness, this slowing trend is leading many market participants to believe that the Fed will remain complacent with their monetary policy stance. As such, 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 the price of oil rose steadily from $49 a barrel to near $60 a barrel throughout the month. The movement among equity indices during April was interesting, as there was a divergence in performance by market capitalization, with large-capitalization stocks significantly outperforming small-capitalization stocks. The Russell Top 200 Index (largest capitalization stocks) generated a positive 1.45% return, while the Russell MidCap Index generated a negative 0.91% return and the Russell 2000 Index (small capitalization stocks) generated a negative 2.55% return during the month of April. This pattern of performance can, in a way, be perceived as a flight-to-quality within the equity market. Should it continue throughout the year, it may be a sign of concern with regard to future economic growth.

- First quarter 2015 corporate earnings reports are in full swing, with many companies generally reporting better-than-expected earnings on what would be considered slightly better revenue growth. Expectations were fairly low for the first quarter, as many analysts recognized the strength of the dollar throughout the quarter would impact corporate results. That being said, not all companies are getting a hall pass and those that are not showing reasonable revenue growth or the ability to maintain margins are seeing equity valuations adjusted lower. Merger and acquisition activity continued 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 522bp at the end of April from 549bp at the end of March, while the average yield-to-worst of the Index declined throughout the month to 6.43% from 6.65%. U.S. Treasury yields rose slightly during April, with the 5-year Treasury increasing 6bps to 1.43% and the 10-year Treasury increasing 11bps to 2.03%. The high yield primary market remained active throughout the month as market sentiment continues to welcome the supply. A total of $37.7 billion of new issuance priced during April compared with $40.1 billion, $33.5 billion, and $22.0 billion for March, February, and January, respectively. Year-to-date new issuance of $133.3 billion is ahead of last year's $129.7 billion over the same timeframe. Refinancing and acquisition proceeds account for 53% and 25%, 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. Three companies defaulted in April affecting $2.6 billion of high yield bonds. The last twelve months default rate declined to 1.70%, while the last twelve months rate excluding the default of Caesars Entertainment remains below 1.0%. Bonds trading at distressed levels (below $70) improved to 3.2% from 4.0% at the end of March and indicates that default activity is expected to remain relatively benign in the current environment.

- 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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