AQUILA®
Three Peaks
High Income Fund

AQUILA®
GROUP OF FUNDS

AQUILA®
Three Peaks
Opportunity Growth Fund

Investment Commentary Highlights

September 30, 2016

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

Following are highlights from the full quarter-end Commentary, which is available on our web site.

- The highlight of the third quarter was the lack of volatility across the capital markets, in particular the equity market, despite looming uncertainty surrounding Fed actions, the upcoming U.S. Presidential election, Brexit, and oil prices. In fact, July and August were two of the most benign months for equity market volatility in many years.
- We continue to question the seemingly excessive use of monetary policy accommodation from central banks around the world and its true effectiveness in promoting economic growth. We are concerned there is an elevated risk of unforeseen negative economic and/or financial market implications to such lasting accommodation.
- With oil up nearly 85% from its near $26 per barrel low in February and 30% higher since the beginning of the year, securities of many energy and energy-related companies have benefited over the last two quarters. This has had more of a direct impact on the high yield market, due to the energy segment's outsized weighting in the high yield market compared to the equity market. The positive price action since the beginning of the year has also alleviated some of the solvency concerns surrounding the industry, at least for the time being. In our opinion, the capital markets (in particular the high yield market) will continue to be heavily influenced by directional movements in the price of oil over the balance of the year.

High Yield

- For the quarter ending 9/30/16, the Energy segment carried a 13.85% weighting in the Barclays High Yield Index, while the Basic Industry segment (which includes the Chemicals, Metals & Mining, and Paper industries) accounted for an 8.62% weighting in the Index. For the quarter, the Energy and Basic Industry segments generated 6.75% and 8.04% returns, respectively, which outperformed most other industry segments of the Barclays Index. The lower-rated segment of the Barclays Index continued to outperform throughout the quarter.
- The Caa-rated or lower-rated portion of the Index generated an 8.20% return during the quarter and carried a 15.30% weighting at the end of September. The longer-duration segment of the Barclays Index also outperformed throughout the quarter with the 6+ year duration segment generating a 7.04% return.
- Our relatively defensive positioning across industry segments and credit ratings, as well as our lower relative duration and maturity profile, muted the performance of our strategy relative to the Barclays Index during the quarter. We continue to have a cautious view of lower-rated companies and remain underweight the segment.
- The industry segments and ratings categories that had a negative impact on the high yield market throughout 2015 (primarily Energy, Basic Industry, and lower-rated), are predominantly responsible for the relatively strong year-to-date performance of the Index. In our opinion, the fundamental outlook for these segments has not improved as dramatically as the prices of the securities of many of the companies within these segments would indicate.
- The access to capital (debt and equity) has dramatically improved since the beginning of the year and many companies across the high yield market (including some in the industry segments mentioned above) have been actively improving their balance sheet and credit strength by reducing debt, extending debt maturities, and enhancing liquidity profiles.
- The risk to the performance of our high yield strategy relative to the Index is that the risk-on trade that occurred in the high yield market during the second and third quarter across the segments mentioned above persists for a prolonged period of time. We continue to believe there are elevated risks to investing across the more cyclical and commodity-related segments of the high yield market.

Equity

- The positive price movement and relative stabilization within the equity market since mid-February has been impressive. Many of the best performing areas within the equity market are considered relative safe-havens such as consumer staples, utilities, and REITs.

With relatively low fixed-income yields around the world, investors have sought out incremental yield and relative safety in these areas of the equity market. This has had a significant positive impact on the prices of many equity securities

- Corporate earnings results have been generally weaker than many had expected heading into 2016 and continue to show anemic revenue and earnings growth across many companies and industries. This has some market participants, including us, concerned that earnings results may prove to be relatively lackluster heading toward 2017.
- With U.S. monetary policy likely on a path towards becoming less accommodative over the coming quarters, equity returns going forward are likely to be more driven by company-specific factors. Some of the factors we look for include: balance sheet improvement, company-specific growth catalysts, and potentially increased shareholder-friendly actions, such as share repurchases, dividend payments, and/or merger/acquisition activity.
- In our opinion, effective balance sheet management can afford companies the ability to manage operations efficiently and potentially capitalize on activities to boost shareholder value, while avoiding undue financial risk. Many of our companies have been able to reduce interest burden and extend debt maturities due to relatively easy access to lower-cost debt over the past few years. This has resulted in improved credit-ratings, stronger balance sheets, and better overall financial position.
- Consumer and business confidence will be important to monitor as we approach the U.S. Presidential election in November and head toward 2017, as any potential weakness could impact future GDP growth, employment measures, and corporate earnings. Current market expectations are for one Fed Funds rate hike by the end of 2016, followed by continued gradual monetary policy tightening throughout 2017.

Market Review

- The "technical" picture of the high yield market continued to improve during the third quarter. The average yield-to-worst of the JPMorgan Domestic High Yield Bond Index declined to 6.67% at the end of September from 7.68% at the end of June and ended the third quarter 261bps lower than the 9.28% average yield-to-worst to start the year. The average bond yield spread of the Index declined to 558bps at the end of September from 669bps at the end of March and ended the third quarter 199bps lower than the 757bps average bond yield spread to start the year.
- Distressed debt continued to decline throughout the quarter and has shown continual improvement on a monthly basis since the end of February. Bonds trading below 70% of par ended the quarter at 3.7%, a sharp improvement compared to the 18.8% at the end of January and the 14.5% at the end of 2015. The dramatic improvement in distressed debt is an indication that the high yield market is becoming less concerned about a significant increase in default activity over the foreseeable future.
- Credit trends, illustrated by the upgrade/downgrade ratio, showed signs of improvement during the third quarter, with more companies receiving ratings upgrades than those receiving downgrades. This is the first quarter since Q2 2015 where credit trends improved. Year-to-date and over the last twelve months, downgrades have been nearly double the number of upgrades, which we believe is an indication of corporate credit strength that should not be overlooked.
- 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 continue to occur. We continue to believe this approach is warranted in this uncertain economic environment and with the potential for elevated volatility over the foreseeable future. We believe our positioning in higher-quality names within the high yield universe, while maintaining a relatively low duration and shorter maturity profile, is prudent in this environment.
- 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 believe that our focus on understanding bond covenants and credit metrics provides a very distinct advantage to our research and stock selection. We believe our credit-oriented research process for finding improving high yield bond stories leads us to improving equity stories and sets our strategy apart from other equity strategies.

Thank you for your continued support and investment.

September, 2016

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.