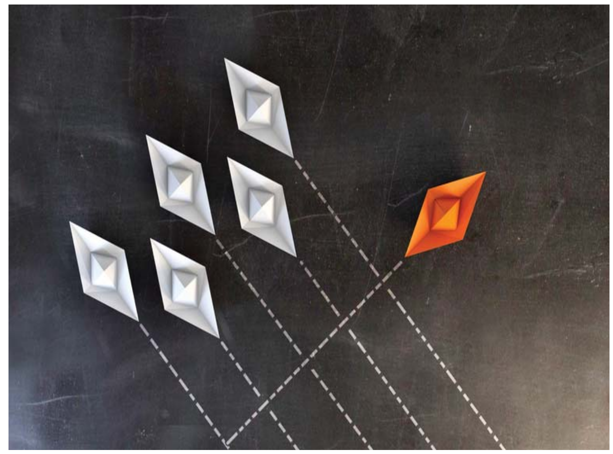
A Different Approach to High Yield

AQUILA®
GROUP OF FUNDS

AQUILA®
Three Peaks
High Income Fund

Aquila Three Peaks High Income Fund does not belong in the same box as other high-yield bond funds. Relative to other high-yield corporate bond funds, Aquila Three Peaks High Income Fund does not take the risks required in order to produce the highest yield or the highest returns in the category during a rally in the high yield market. The Fund is designed for the investor who hopes to earn a reasonable rate of return while reducing elements of risk.



In managing the Fund, we conduct extensive research and search for:

• High-yield bonds with particular characteristics. We seek to maintain a relatively low duration and avoid defaults.

• High-yield bond issuers in less-cyclical industries that have historically been able support leverage.

• Experienced management teams that have demonstrated fiscal responsibility and who use leverage prudently.

• Covenants that protect the interests of bondholders.

• High-yield issuers that are generating free cash flow, enabling them to pay down debt and improve the corporate balance sheet.

The Aquila Three Peaks High Income Fund investment strategy was developed based on observations of relative returns among investment assets, and an evaluation of the ways in which elements of risk might be reduced. Yes, the Fund invests in high-yield corporate bonds. But that fact alone does not mean that Aquila Three Peaks High Income Fund is like all other high-yield bond funds.

Relative to other high-yield corporate bond funds, Aquila Three Peaks High Income Fund won't have the highest yield or the highest total return during a rally in the high-yield bond market, because we don't take the risks required in order to achieve those results. Aquila Three Peaks High Income Fund is designed for the investor who hopes to earn a reasonable rate of return while reducing certain elements of risk.

Arguably, a reasonable rate of return has been generated over time in equity markets, both on an absolute basis and relative to other asset classes. However, investors may be concerned about the volatility of equity returns. Research has demonstrated that high-yield corporate bonds – those rated below investment grade – have generated returns that are competitive with equity returns over long-term periods, and that the volatility of returns in the high-yield market is roughly half that experienced in the equity market.[1]

[1] *JP Morgan High-Yield Review, 2018*

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We attempt to reduce interest rate risk by actively managing portfolio duration. Overall, duration in the high-yield bond market is inherently shorter than in the investment grade bond market. Duration mathematically describes the change in the price of a bond that is expected with a given change in interest rates, and short duration bonds have less price sensitivity to a change in interest rates than long duration bonds. Short duration bonds will generally have shorter maturities and higher coupons than long duration bonds. High-yield corporate bonds are issued with maturities of 10 years or less, while maturities in the investment grade bond market can be 20 years or more. Due to their higher credit risk, high-yield bonds are typically issued with coupons higher than those in the investment grade market. Even though high-yield bonds generally are shorter in duration than investment grade bonds, we will actively shorten portfolio duration when we believe it is prudent to do so.

We minimize investments in the lowest rated bonds in order to reduce credit risk. Rating agencies assign credit ratings to individual bonds based on the agency's evaluation of the issuer's ability to maintain principal and interest payments. These ratings range from AAA for the highest rated issuers to D for the lowest rated issuers. Bonds in the high-yield market are rated below investment grade with ratings of BB+ or lower. We invest in high-yield issuers, and minimize holdings in bonds rated CCC or lower, in order to reduce credit risk. We also conduct extensive research on the issuers of the bonds we hold in order to better understand their ability to maintain payments on their debt, and to search for management teams using leverage prudently and committed to improving the corporate balance sheet by paying down debt.

We avoid investing in highly-cyclical industries in order to reduce credit risk. Cyclical industries are those that experience a high degree of variability in revenue between the top of an economic cycle and the bottom of an economic cycle. Examples include airlines, autos, steel, paper, chemicals and retailers. Companies in these industries have issued high-yield debt in the past, and although they may be able to maintain payments on their debt while the economy is strong, they may struggle to maintain payments during a period of economic weakness. We look for issuers in industries that experience less cyclicality, where revenue generation is more consistent throughout the economic cycle.

Having worked to reduce certain sources of risk, we avoid actively adding other elements of risk. The strategies of fund managers investing in high-yield corporate bonds differ widely. Some seek to enhance returns by investing not only in high-yield bonds, but also in securities with equity-like volatility, such as stock, convertible bonds, preferred bonds, zero-coupon bonds and payment-in-kind bonds. These types of investments can contribute to volatility. We choose to invest as much as 100% of fund assets in high-yield bonds, and take advantage of their lower volatility relative to equity.

If you are looking for a true high-yield fund with an objective of managing risk, reducing volatility, keeping a relative low duration and avoiding defaults, Aquila Three Peaks High Income Fund might be just what you are looking for.