Aquila Tax-Free Trust of Arizona

PORTFOLIO MANAGER COMMENTARY

Q2 2022

A Shares: **AZTFX**	C Shares: **AZTCX**	Y Shares: **AZTYX**

Municipal Bond Market Overview

Following the increase in the federal funds rate by the Federal Reserve (the "Fed") on March 16, 2022, the Fed implemented two additional rate hikes during the second quarter of 2022. The additional increases occurred on May 4 (50 basis points), and on June 15 (75 basis points). This currently places the Fed's target rate at 150 to 175 basis points, which is considered its "upper band." These rate hikes were slightly more aggressive than expected and created dramatic swings in the bond market.

The 10-year U.S. Treasury bond reached a yield of 3.47% on June 14, having started the quarter at 2.33% and ending at 3.01%. The 10-year MMD (AAA Municipal Market Data Yield Curve), which began the quarter at a yield of 2.18%, rose to 2.91% on June 16, and ended the quarter at 2.72%. The Bloomberg Municipal Bond Index continued to decline during Q2 and closed out the quarter with a year-to-date return of -8.98%. The Bloomberg Municipal Bond Quality Intermediate Total Return Index Unhedged USD fared better on a relative basis, although it's returned-6.00% year-to-date as of 6/30/22.

Municipal bond yields contracted on the short end of the yield curve, while yields on the U.S. Treasury securities flattened. Overall, the municipal curve retained a positive slope.

Municipal/U.S. Treasury Ratios

	March 31, 2022	June 30, 2022
5-year	81.3%	73.7%
10-year	93.7%	91.5%
30-year	103.5%	101.9%

There are some signs of inflation moderating, which should determine how aggressive the Fed will be regarding future tightening moves. At this point, the Fed seems more concerned with inflation projections than fear of triggering a recession. We believe this is being currently reflected given the recent rally in the fixed income markets, with the 10-year U.S. Treasury yield at 2.88% (as of 7/6/22), down from 3.01% on July 1, 2022.

Arizona Economy and Municipal Bond Market

Arizona municipal bond issuance has historically accelerated in the second quarter, and this year witnessed another strong seasonal upswing in issuance during the second quarter of 2022. This took place against the headwind of significantly higher yields and borrowing costs for issuers, creating several value-adding opportunities for investors.

In Arizona, $2.555 billion of new municipal bonds were issued in the quarter ending 6/30/22, an increase from the $2.501 billion issued in the same period last year. Issuance was characterized by great breadth across issuers and size, with the five largest issuers ranging in size, from $107 million in excise tax revenue bonds issued by the town of Queen Creek, to a $473 million Gilbert Township senior lien utility system revenue bond. Of greatest interest to the Fund was a $154.18 million revenue issue from a fairly infrequent issuer, the Arizona Sports and Tourism Authority. Proceeds from this A1/AA rated issue are primarily funding improvements to State Farm Stadium, as it prepares to host Super Bowl LVII in February 2023. These include HVAC system upgrades that will provide enhancements to the heating facilities, something the stadium notably lacked in 2014 when it hosted the 2015 Fiesta Bowl, on an evening in which the area came under a freeze warning. The bond issue came to market in May during a window of underwhelming investor demand, enabling the Fund to acquire a $6 million block of 8-year maturity bonds at a yield of 3.59%. This was equivalent to capturing 129% of then-available 7-year U.S. Treasury bond yield of 2.79%–a significant value-add to the Fund. It also speaks to the recent improvement of municipal bond valuations, as measured by the Municipal/Treasury ratio, which compares the yields on municipal bonds to those on their U.S. Treasury bond counterparts.

Arizona's labor and employment recovery continues to outpace that of the overall economy. The Arizona unemployment rate in May was 3.2%, at which time the State had recovered 115% of the jobs that were lost at the outset of the COVID-19 pandemic. This compared very favorably to the overall 96% recovery rate of jobs lost nationally, as employment was 822,000 jobs below the employment level in February 2020. Historically, Arizona has been an "employment laggard," having a higher unemployment rate than the national average. This historically was attributable to the outsize population growth in the State and longer time frame required for the jobs market to "absorb" the expanding labor pool. However, the rapid acceleration and diversification of the State's economy now enables it to create new jobs at a much faster pace. As a comparison, in February 2020, the State's unemployment rate of 5.0% exceeded the national unemployment rate of 3.5%.

Another indicator of the breadth and strength of the State's economy has been the resilience of its higher education sector. Undergraduate enrollment at Arizona colleges and universities have bucked the national trend in declining enrollments. Similar to the outperformance of Arizona's jobs recovery compared to that of the overall economy, the State has significantly outperformed the nation in the recovery of its higher education sector. Between Spring 2019 and Spring 2022, enrollments in Arizona's higher education institutions grew 4.5%, increasing from 423,089 students to 442,122 students. This compared to a sharp 7.8% drop in undergraduate enrollments nationwide during the period. In fact, Arizona was one of only eight states to register public higher education growth in this period, that encompassed the start of the pandemic in March 2020.

Fund Outlook and Strategy

In the second quarter of 2022, the maturity composition of Aquila Tax-Free Trust of Arizona was further defensively positioned to insulate against any surprise spikes and volatility in long-term yields that could arise, as the markets sort out the prospects of aggressive Federal Reserve tightening actions. At the same time, the call protection of the Fund has been further increased in order to: 1) reduce reinvestment risk that bond portfolios can encounter in the latter portion of a complete Federal Reserve Policy cycle; and: 2) position the Fund to benefit from the increasing steepness of the yield curve that exists going from short to intermediate-term maturities.

Average final maturity of the Fund declined slightly in the quarter from 9.42 years to 9.14 years, while effective duration extended from 4.78 years to 5.64 years. The narrowing difference between average maturity and duration reflects its positioning in the steepest part of the intermediate curve space. We believe this may prove beneficial, as Municipal/Treasury ratios have remained elevated in intermediate-term maturities beyond 10 years, but have declined from their peaks in the 3 to 10-year maturity range.

For specific information about fund characteristics, holdings and performance please see the [Fund Fact Sheet] on our website at [www.aquilafunds.com].

Fund Facts as of 6/30/2022

Lead Portfolio Manager	Inception Date	Total Investments	Number of Holdings
ANTHONY TANNER, CFA®	3/14/1986	$223.6M	193

Mutual fund investing involves risk; loss of principal is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived decline in credit quality of the issuer, borrower, counterparty, or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. Fund performance could be more volatile than that of funds with greater geographic diversification.

Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio. A complete list of the Fund's current holdings, including percentage allocation, is available on our website and by contacting Aquila Group of Funds.

A credit spread or a yield spread is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities.

Modified and effective duration both measure the value of a security in response to a change in interest rates. Effective duration also takes into account the effect of embedded options.

Independent rating services (such as Standard & Poor's, Moody's and Fitch) assign ratings, which generally range from AAA (highest) to D (lowest), to indicate the credit worthiness of the underlying bonds in the portfolio. Where the independent rating services differ in the rating they assign to an issue, or do not provide a rating for an issue, the highest available rating is used in calculating allocations by rating.

Municipal/Treasury Ratio compares the rates of municipal bonds with those of U.S. Treasury bonds in percentage terms.

The Bloomberg Municipal Bond Index (Total Return Index, Value Unhedged USD) is an unmanaged index that covers the U.S. dollar-denominated, long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. The Bloomberg 10-Year Municipal Bond Index is an unmanaged index composed of a broad range of investment-grade municipal bonds with maturity dates of approximately 10 years. Indices are unmanaged and are not available for direct investment.

Before investing in the 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 professional, and when you call 800-437-1020 or visit www.aquilafunds.com.