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AQUILA®
Three Peaks
Opportunity Growth Fund

Investment Commentary

Period ending December 31, 2018

Risk asset prices were under pressure throughout the fourth quarter of 2018, as investor concerns around a global growth slowdown were compounded by continued monetary tightening by the Fed, ongoing declines in oil prices, and significant widening in credit spreads. Despite the S&P 500 hitting a record high in late September, the stock market had its worst fourth quarter performance since the fall of 2008. Yields and spreads for the Bloomberg Barclays High Yield Bond Index ended the year at the highest levels since 2016, with an average yield of 7.95% and spread of 541bps. The leveraged loan market also ended 2018 poorly, as December retail outflows from the asset class were the largest on record. Given the concerns in the market, investors were looking for some reassurances from the Federal Reserve in December that the Fed would slow their pace of monetary tightening; however, when Fed Chairman Powell noted at the December 19th FOMC press conference that the Fed's balance sheet normalization would continue "on auto pilot", investors feared that the Fed was not actually going to be flexible with their tightening policy. While the actual economic statistics were not deteriorating to the degree that markets were selling off, investor concerns were growing throughout December and the fourth quarter. As a result of the increased uncertainty and growing concerns, the stock market had its worst Christmas Eve performance on record. It wasn't until the last week of the year that there was a meaningful spike in risk asset prices, on data suggesting a better-than-expected holiday shopping season. Interestingly, and representative of the significant volatility throughout December, the Dow Jones Industrial Average had its largest one-day point gain on record on December 26th, rising 1,110 points that day, for a +4.98% gain. While the increased volatility may be creating some opportunities in the investment landscape, we are also cognizant of the negative impact that it may have on consumer confidence. Going forward, we remain committed to finding strong companies who are utilizing their balance sheets and cash flow to create sustainable value for shareholders.

Equity Performance Overview – December 2018

The Aquila Three Peaks Opportunity Growth Fund Class Y share (ATGYX) generated a negative 15.90% total return during the fourth quarter of 2018. By comparison, the Russell 3000 Index generated a negative 14.30% return during the quarter, and the Russell Midcap Index generated a negative 15.37% return during the quarter. Relative to the Russell 3000 Index, the Fund underperformed due to weaker performance in the Consumer Discretionary, Healthcare, and Consumer Staples sectors.

For the year ended December 31, 2018, the Aquila Three Peaks Opportunity Growth Fund Class Y share (ATGYX) generated a negative 11.07% total return. By comparison, the Russell 3000 Index generated a negative 5.24% return for the year, and the Russell Midcap Index generated a negative 9.06% return for the year. Performance throughout the year was quite bifurcated, as January performance of +5.7% for the S&P 500 was the strongest January since 1997, while December returns of -9.0% for the S&P 500 was the worst December since the Great Depression.

Relative to the Russell 3000 Index, the Fund underperformed due to weaker performance in the Consumer Discretionary, Information Technology, and Healthcare sector, partially offset by better performance in the Industrials sector. The Russell 3000 Index is a market cap weighted index, and its performance benefited during 2018 relative to the Fund, as Large Caps outperformed Midcaps and Small Caps. The Fund is primarily invested in Midcap equities.

As we head into 2019, we believe that the significant volatility that came back into the markets in 2018 will remain through the year ahead. Meaningful debate is likely to continue regarding where we are in the economic cycle, as there have been increasing signs that the global economy is slowing, and yet, there are also areas in the U.S. economy which appear robust. It will also be critical to pay attention to the trajectory of credit spreads and the high yield market, as we believe that the high yield market can be a leading indicator for the economy and the stock market based on its ability to quickly adjust to new risks. In light of this greater volatility, we believe that it is prudent to maintain a defensive posture to start this year; therefore, we will continue to focus on companies who are generating strong free cash flow and utilizing their balance sheets to create value for shareholders.

Equity Markets and Credit Spreads

The Aquila Three Peaks Opportunity Growth Fund strategy seeks to marry a top-down macro approach with a bottom-up approach to individual security selection by using our expertise in the high yield market. This is why we believe it is so important to watch credit spreads for the overall high yield market (as a macro indicator), as well as for the individual companies in which we might invest (as a micro indicator). If credit spreads are widening for the overall high yield market, we believe that this suggests a reduction in risk appetites and expectations for deterioration in credit metrics across the market, potentially from a slowing in the overall economy. On a company specific basis, when we see credit spreads widening on an individual basis, this raises a red flag regarding the risk for that specific company. It could indicate company-specific or industry-specific struggles that the high yield market is anticipating. This is especially notable when the spread of an individual company's bonds is widening before the stock has reacted to a change in the risk profile of the company, which is often a key sell signal for the stock.

During periods of heightened volatility like the markets experienced in 2018, we believe that this approach to equity investing can help protect on the downside, as well as reveal opportunities that might be overlooked by the equity market. From the early 2018 stock market low for the S&P 500 on February 8th until the end of June, we noticed that the spread for the Barclays Investment Grade Index widened by a total of 36bps to 124bps, despite a +5.2% rally in the S&P 500 during this period. We took this opportunity to reduce risk by reducing the position sizes in our equity portfolios and increase the credit quality of the companies in which we were investing. As we saw investment grade and high yield spreads widen again in September and October, we further reduced risk in the equity portfolio to become even more defensive in nature. This reduction in the risk of the portfolio contributed to downside protection throughout much of the sell-off in the fourth quarter. We believe that our approach to investing by utilizing signs from the credit markets is a key element that contributed to this downside protection and outperformance.

Our Approach

We remain committed to our time-tested and disciplined research process that not only includes detailed analysis of companies owned in our high yield and equity strategies, but also uncovers new opportunities within the high yield and equity markets. We continue to look for fiscally responsible management teams that are committed to growing operations prudently, and who recognize they can potentially improve their credit profile and equity valuations by focusing on credit-specific measures. Our efforts remain focused on stability and predictability in the investment selection process, so as to provide a less volatile high yield strategy that can generate a reasonably consistent total return, while also attempting to find attractive equity investments that could experience further capital appreciation.

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 will continue to use our knowledge and understanding of the high yield market to decipher the equity investment landscape and the prospects for individual company stock. We believe that our focus on understanding bond covenants and credit metrics provides a very distinct advantage to our research and stock selection. Frequently, high yield companies may have a maximum leverage ratio, minimum interest coverage ratio and/or restrictions on the amount of stock the company can repurchase or dividends they can pay out. These covenants generally influence corporate decisions and can change as the credit worthiness and financial strength of a company improves, which could potentially lead to perceived equity-friendly actions occurring. We continue to emphasize important debt covenants and key credit metrics in our research when considering stock selection. In our opinion, the understanding of these issues is not always the primary focus of many equity analysts. As a result, we believe our credit-oriented research process for finding improving high yield bond stories leads us to these types of improving equity stories and sets our strategy apart from other equity strategies.

In conclusion, we will continue to balance potential risks to the economy and the capital markets with the opportunities presented within high yield bonds and equities, to construct strategies that we believe will have a very compelling risk/return profile throughout various economic cycles and periods of elevated market volatility. With the potential for fiscal policies to bolster economic growth, and for monetary policy to create volatility across fixed-income asset classes, we will continue to utilize a top-down and bottom-up approach when constructing our strategies.

Thank you for your continued support and investment.

PERFORMANCE STATISTICS AS OF 12/31/18

	Cumulative Return			Average Annual Return							
	4th Qtr 2018	YTD	1 year	3 year	5 year	10 year	Since Inception	Inception Date	Max Sales Charge	Max CDSC	Total Operating Expense
A Shares NAV	-15.96%	-11.35%	-11.35%	2.97%	5.67%	12.56%	7.72%	7/22/94	--	--	1.39%
A Shares MOP	-19.53%	-15.10%	-15.10%	1.49%	4.75%	12.08%	7.52%	7/22/94	4.25%	--	1.39%
C Shares w/o CDSC	-16.11%	-11.96%	-11.96%	2.25%	4.91%	11.75%	6.39%	5/1/96	--	--	2.09%
C Shares w/ CDSC	-16.83%	-12.71%	-12.71%	--	--	--	--	5/1/96	--	1.00%	2.09%
I Shares	-15.98%	-11.33%	-11.33%	3.05%	5.81%	12.84%	5.95%	12/01/05	--	--	1.36%
Y Shares	-15.92%	-11.09%	-11.09%	3.28%	5.98%	12.89%	7.42%	5/01/96	--	--	1.09%
Russell 3000	-14.30%	-5.24%	-5.24%	8.97%	7.91%	13.18%	--				
Russell MidCap	-15.37%	-9.06%	-9.06%	7.04%	6.26%	14.03%	--				

On October 8, 2010, Fund shareholders approved changes in the name, investment sub-advisor and investment strategy of the Fund. On October 15, 2010, the Fund began operations under the name Aquila Three Peaks Opportunity Growth Fund, with Three Peaks Capital Management, LLC as sub-advisor, and an investment strategy that differs meaningfully from the strategy pursued by the previous Fund. Performance prior to that date reflects the previous investment strategy of the Fund.

Performance data represents past performance, but does not guarantee future results. Investment return and principal value will fluctuate; shares, when redeemed, may be worth more or less than their original cost; current performance may be lower or higher than the data presented. Current month-end performance is available at: 800-437-1020 or www.aquilafunds.com.

Class A shares have a maximum sales charge of 4.25%; Class C shares have no initial sales charge, but a 1.00% contingent deferred sales charge applies to Class C shares redeemed within 12 months of their purchase date. Class I and Y shares have no initial or contingent deferred sales charge. Class I and Y shares may only be purchased through an investment professional or financial institution. Class A MOP returns reflect deduction of the maximum 4.25% sales charge; Class A NAV returns do not reflect deduction of the sales charge and would be lower if that charge were reflected. Class C returns without CDSC do not reflect deduction of the 1% CDSC applicable in the first 12 months; if applied, the CDSC would reduce the performance quoted. An explanation of the share classes appears in the Fund prospectus.

Russell 3000 is an index representative of the largest 3000 US Companies. The Russell Midcap Index is representative of mid-cap stocks. Performance of an index does not reflect management fees and expenses which are reflected in Fund performance. An investment cannot be made directly in an index.