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Three Peaks
High Income Fund

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Three Peaks
Opportunity Growth Fund

Investment Commentary

January 31, 2017

- The capital markets experienced continued strength in January, similar to what was seen at the end of 2016 after the conclusion of the election. While performance across the high yield market was reasonably broad-based, there continues to be a risk-taking feel with lower-quality names, and names across commodity-related industries and the more-cyclical industries outperforming during the month. Equity indices also remained strong in January, with performance being led by the more-cyclical materials sector, as well as rebound in two of the sectors that underperformed after the election: technology and healthcare. In general, commentary out of the new administration continues to be geared toward economic growth via fewer regulatory restrictions, fiscal stimulus through infrastructure spending, and lower corporate tax rates. The capital markets continue to give this commentary credence; although, details surrounding many of these policy actions are still vague and may be met with opposition.

- Consumer and business confidence will continue to be important to monitor, as any potential strength or weakness could impact GDP growth, employment measures, and corporate earnings. As we moved past the Presidential Inauguration, the initial reaction to the new administration continues to point to optimism on many of these key areas. We continue to hear more commentary from companies that operate across various industries regarding tighter labor market conditions and increased wage pressure. This may become a larger issue should fiscal policy actions or improved consumer/business confidence begin to promote accelerated economic growth. This may lead to more significant increases in inflation measures, thereby forcing the Fed to act more quickly than many market participants expect next year. With equity market valuations above historical averages and many corporate bonds yields nearing historically low levels, any failure to promote economic growth by the new administration or increased monetary policy tightening due to inflation could cause volatility to increase across the capital markets throughout 2017.

- Treasury yields were relatively muted during January following a fairly sharp rise to end the year. The 5-year and 10-year Treasury yields ended the month nearly unchanged at 1.91% and 2.45%, respectively. As we mentioned in our year-end commentary, we believe there is the potential for Treasury yields to continue to move higher throughout 2017. This thought factors in to how we position individual security and industry weightings across both our high yield and equity strategies.

- The average spread of the JPM High Yield Index declined 8bps during the month to finish January at a 27-month low of 468bps. The average yield-to-worst of the Index declined to 6.32% at the end of January from 6.47% at the end of December. The average yield of the Index ended the month at the lowest level since October 2014. Activity in the high yield primary market was reasonably strong and continued to build on the momentum experienced since the election. A total of $26.5 billion of new issuance priced during the month compared to $19.2 billion in December and a mere $8.9 billion in January 2016. Refinancing proceeds accounted for 51% of the issuance compared to 58% for all of 2016. Acquisition proceeds accounted for 26% of the issuance compared to 16% for all of 2016. We expect the new issue market to remain reasonably active over the coming months. Credit trends, distressed debt, and the default rate all moved favorably throughout the month. In general, we expect these measures will continue to strengthen over the foreseeable future.

- We continue to focus our research efforts on finding companies that operate in relatively 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 market volatility increase. Having said that, we are mindful that the new administration's policies may promote accelerated economic growth, which may benefit many of the more cyclical-related industries and financial companies. We continue to believe our relatively higher-quality and lower-duration strategy is prudent within our high yield strategy, as we do believe the potential for higher Treasury yields over the foreseeable future is elevated. We also believe our approach to selecting companies who are using leverage prudently will continue to benefit the performance of our equity strategy over time.

- 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, which is available from your financial advisor, and when you call 800-437-1020 or visit www.aquilafunds.com.

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