AQUILA®
Three Peaks
High Income Fund

AQUILA®
GROUP OF FUNDS

AQUILA®
Three Peaks
Opportunity Growth Fund

Investment Commentary

Period ending November 30, 2018

- Risk asset prices continued to be volatile throughout November as the market remained concerned about many of the same issues that negatively impacted October. The main concerns on investors' minds in November were the trade war with China, excess oil supplies, corporate margin pressures, and concerns about rate hikes from the Fed. While equity indices managed to generate positive returns during November, this all occurred in the last few days of the month, and the high yield market still ended the month negative. The Bloomberg Barclays High Yield Corporate Bond Index was down -0.86% in November after declining -1.60% in October, while high yield spreads widened by nearly 50bps during the month to 436bps. The riskiest bonds in the Index were again the worst performers, as CCC-rated bonds declined -2.84% in November compared to -2.46% in October. Leveraged loans also remained under pressure, as leveraged loan prices in November had their largest month-over-month decline (-$1.29) since December 2014. Despite the disruptions in the credit markets, the S&P 500 managed to return +2.04% in November, as a +4.91% rally in the last week of the month pushed the equity markets into positive territory. The late-month rally was fueled by dovish comments from the Federal Reserve, as well as expectations for a trade war truce with China. The sensitivity of the markets to the Federal Reserve and the China trade war highlight how investors have become increasingly jittery about how far along we are in the economic cycle. We continue to take our cues from the high yield market and remain vigilant with regards to the risks to the capital markets. This has led us to maintain a high quality and short duration bond portfolio, as well as focusing on high quality stocks for our equity portfolio.

- The Bloomberg Barclays High Yield Corporate Bond Index produced a total return of -0.86% in November. Higher-quality bonds well outperformed lower-rated bonds in November, with BB-rated bonds returning -0.25%, B-rated bonds returning -0.75%, and CCC-rated bonds returning -2.84%. For the year-to-date period through November, the Bloomberg Barclays High Yield Corporate Bond Index returned +0.06%, as weak performance in October and November offset the strong third quarter performance. During the year-to-date period, CCC-rated bonds were no longer the top performing segment of the Index, as B-rated bonds are now the best YTD performer with a +0.90% YTD return compared to +0.45% for CCCs. BB-rated bonds remained the weakest segment on a YTD basis with a negative return of -1.12% due to the higher rate-sensitivity of some of the longer-duration bonds in this segment. The Aquila Three Peaks High Income Fund performed well during November driven by our focus on short-duration, high-quality bonds within the high-yield market, as we remain underweight lower credit-quality names (the CCC-rated weighting of the Barclays Index was 13.2% of the Index at 11/30/18) and across the more-cyclical industries. We believe that this approach will allow us to take advantage of attractive high yield investment opportunities at discounts to par value as the markets become more volatile, while protecting on the downside in the meantime.

- The equity markets generated positive returns during November, with the S&P 500 up +2.04% and the Russell Midcap Index returning +2.46% in November. Within the Midcap Index, growth and value performed in-line with each other in November. The strongest sectors in November for the Russell Midcap were Real Estate, Industrials and Health Care, while the weakest sectors were Energy and Communication Services. Oil prices declined by roughly -20% during November, which resulted in very weak performance from many companies in the Energy industry. The Aquila Three Peaks Opportunity Growth Fund, during November, experienced strong performance across its Consumer Discretionary and Health Care sectors, which was offset by weakness in Technology and Real Estate relative to the Russell Midcap Index. We remain focused on finding companies that can utilize their balance sheets and cash flow to create value for shareholders throughout the economic cycle, but we are also focusing on higher-quality companies given indications of credit widening from the high yield market.

- The 10-year U.S. Treasury yield declined -15bps sequentially to 2.99% after briefly touching 3.25% in early November. This decline in yields returned the 10-year back to the high-end of its previous trading range of 2.80%-3.00% where it has spent most of 2018. The rally in the price of the 10-year during November was driven by a general risk-off/flight-to-quality tone throughout the month, as well as the somewhat dovish commentary from the Fed Chairman late in the month. The yield curve flattened throughout November, as the spread between the 10-year and the 2-year Treasury decreased to 20bps compared to 27bps at the end of October, and 52bps at the beginning of 2018. At the end of November, the spread between the 2-year and 5-year Treasury yield was only 2bps compared to 10bps at the end of October. This was the lowest spread between the 2-year and 5-year Treasury since 2007. Investors are closely watching the yield curve due

to what it might be saying regarding future economic conditions. In the last week of November, Federal Reserve Chairman Powell said that he believes that the Fed Funds Rate is "just below" the neutral level, which indicates that the Fed might be close to finishing its rate-hike cycle.

- The average yield spread of the Barclays U.S. High Yield Index widened by 47bps during November to end the month at 436bps. Year-to-date, the average spread of the Index has increased 72bps from 364bps at the end of 2017. The average yield-to-worst of the Index increased 36bps sequentially to 7.22% at the end of November compared to 6.86% at the end of October, and 5.72% at the end of 2017. The average bond price of the Index decreased to $95.18 at the end of November from $96.61 at the end of October, and $100.91 at the end of 2017. New issuance activity in the high yield primary market remained largely "shut down" during November due to the increased market volatility and widening yields. A total of $6.1 billion of new issuance priced during the month compared to $11.0 billion in October, and typical November average issuance of $27 billion. This was the lightest November issuance since 2008. Year-to-date, new issuance totals $187.4 billion, which is down 39% versus the same time period last year. Refinancing activity has been down significantly year-over-year with issuance of $114 billion, compared to $193 billion YTD in 2017. There were three defaults (which we did not own) in November impacting $1.6 billion of high yield bonds and leveraged loans. According to JPMorgan Credit Research, the U.S. high yield default rate in November declined -17bps sequentially to 1.89%. We are monitoring credit trends closely, as we believe they are important indicators not only for the direction of the high yield market but also for the equity market and our equity strategy.

- 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 maintaining a reasonably strong balance sheet, or 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. We continue to believe our relatively higher-quality and lower-duration positioning is prudent within our high yield strategy. We also believe our approach to selecting companies who are using leverage prudently to support free cash flow generation will continue to benefit the performance of our equity strategy over time.

Thank you for your continued support and investment.