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Three Peaks
High Income Fund

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Three Peaks
Opportunity Growth Fund

Investment Commentary

Quarter ending March 31, 2017

- Financial markets experienced heightened volatility during the month of March. First, a sharp decline in the price of oil during the second week of March led to a sell-off in the high yield and equity markets. The sell-off in the high yield market was exacerbated by a flood of new issuance, as $20 billion priced during the second week of March, which was the second highest week on record. Next, the Federal Reserve raised the Fed Funds rate by 25 basis points as expected, but they were less hawkish than market participants were expecting which resulted in a rally in Treasury securities. After the Fed move, the market started to become more skeptical about a quick implementation of a pro-growth agenda from the new Republican administration, as House Republicans were unable to pass their version of "repeal and replace" of the Affordable Care Act. This failure called into question their ability to quickly push through a large tax reform plan in 2017, even though they can now focus more of their attention on tax reform, as long as "repeal and replace" doesn't come back on the docket for the House. The high yield and equity markets recovered towards the end of March, as oil prices stabilized and investors looked forward to more conversation in Washington regarding tax reform. The volatility of March ended a first quarter that was still quite positive for the broad risk markets, as the Barclays High Yield Bond Index returned 2.70% and the S&P 500 returned 6.06% for the quarter. The high yield market was driven primarily by a risk-on trade, as CCCs outperformed BBs during the quarter, despite underperforming in March. While the equity market was broadly positive during the first quarter, there continued to be much rotation beneath the surface, as growth outperformed value, and large-caps outperformed small-caps. Many of the "Trump trades" that rallied after the election in 2016 experienced some reversal during the first quarter, as highlighted by declines in regional bank stocks and metals & mining stocks, while two of the fourth quarter's underperformers, Technology and Healthcare, were the top performers in the first quarter. Lastly, the 10-year Treasury ended the first quarter relatively flat; however, it sold off during the first half of March as rate hike expectations increased, before reversing course and rallying into quarter-end based on the less hawkish Fed commentary and lower "reflation prospects."

- 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. In our conversations with many companies across a wide-range of industries, there continues to be a bit of optimism as it relates to business prospects and economic activity. However, corporate managers appear a bit handcuffed for the time being due to a lack of clarity from the administration on many fiscal policy initiatives, which could delay economic growth or impact corporate earnings. We continue to hear commentary from companies 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 through the year than many market participants expect. Commentary from Federal Reserve officials continues to suggest an expectation for gradual Fed Funds rate hikes over the coming years, with the potential for one or possibly two more rate hikes occurring in 2017. With equity market valuations above historical averages and many corporate bonds yields nearing historically low levels, we continue to believe any failure to promote more meaningful 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 yield movements were fairly volatile during March, although absolute yield levels ended the month relatively flat compared to the end of February and the beginning of the year. The 5-year and 10-year Treasury yields increased to multi-year highs of 2.14% and 2.63%, respectively, in mid-March before ending the month at 1.92% and 2.39%, respectively. As we mentioned in our year-end commentary, we believe there is the potential for Treasury yields to move higher throughout 2017. This thought continues to factor in to how we position individual security and industry weightings across both our high yield and equity strategy.

- The average spread of the JPM High Yield Index increased 19bps during the month to finish March at 456bps. Year-to-date, the average spread of the Index is down 20bps from 476bps at the end of 2016. The average yield-to-worst of the Index increased to 6.24% at the end of March from 6.03% at the end of February. Year-to-date, the average yield of the Index is down 23bps from 6.47% at the end of 2016. Activity in the high yield primary market remained strong and continues to build on the momentum experienced since the election. A total of $48.1 billion of new issuance priced during the month which represents the most active month since September 2013. Year-to-date, $98.7 billion of new issuance priced compared to $51.2 billion over the same time last year. Refinancing proceeds account for 67% of

the YTD issuance compared to 40% over the same time last year and 58% for all of 2016. Acquisition proceeds accounted for 16% of the YTD issuance compared to 29% over the same time last year and 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 and to start the year. In general, we believe these measures will continue to strengthen over the foreseeable future, which we believe is a positive indicator not only for 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. 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 that 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. The prospectus is available from your financial advisor, and when you call 800-437-1020 or visit www.aquilafunds.com.

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