AQUILA®
GROUP OF FUNDS

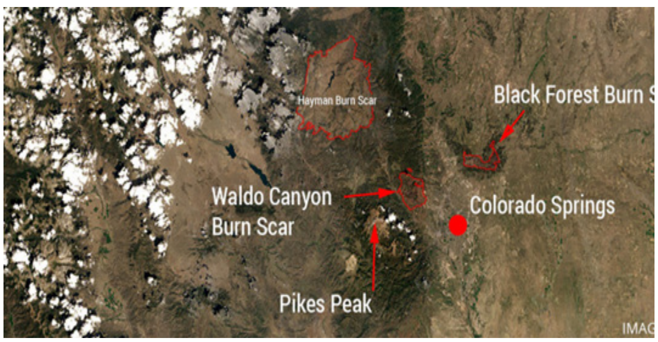
FACING CLIMATE RISKS AND NATURAL DISASTERS

September, 2020

AQUILA®
Tax-Free Fund of Colorado

With wildfires consuming significant portions of California, Colorado, Oregon and Washington, hurricanes impacting the gulf and the east coast, and droughts and floods in-between, it is evident that natural disasters have become an important consideration for investors. These events are occurring with increasing frequency, and on larger scales. As a result, urban areas, where large and typically higher rated municipal bond issuers are located, are becoming increasingly at risk to these climate related occurrences and the risk is anticipated to continue to grow. Individual investors have also become more aware, and as a result, climate change and socially responsible investing have gained traction. The California State Teachers' Retirement System, which is one of the largest U.S. public pension funds, divested U.S. thermal coal companies in 2016 and non-U.S. thermal coal companies in 2017.

As a municipal bond fund manager, knowing we can't change the unpredictable nature of these events, we focus our credit research on finding municipal bond issuers that we believe are better prepared to withstand the financial challenges these events may pose.



Hurricanes, fires, floods, and other disasters present municipal bond issuers with a variety of risks including population declines threatening property tax revenues, revenue loss and increased operation and maintenance costs to maintain infrastructure. According to a 2018 study by the Colorado Forest Service and Colorado State University, almost half of the state's population lives near or within a "red zone" or a place with high likelihood of fires. El Paso County is one of the top three counties for fire danger with 45% of its residents within a red zone. Two of the most harmful wildfires in Colorado history were near Colorado Springs. The Waldo Canyon Fire caused $493 million in damage, and the Black Forest Fire caused $450 million in damage. The Pine Gulch and Cameron Peak Fires currently burning in Colorado have become two of the largest wildfires in Colorado history. In addition to wildfires, Colorado residents also face droughts, floods and damaging hail. Colorado is one of the most hail-prone states in the country and hail is responsible for 7 out of the 10 most expensive insurance losses.

Management of the Aquila Tax-Free Fund of Colorado begins with the assessment of risk.

Although disclosure of natural disaster and climate related risks by municipalities remains minimal, we are able to focus our credit research efforts on examining the ability of local governments to respond to unforeseen incidents through a variety of criteria including: fund balance levels and policies, liquidity metrics, debt metrics and debt management policies, pension funding and other post-employment benefits exposure, and reviewing revenue concentrations.

Our credit reviews are performed for each portfolio holding with awareness of individual climate challenges faced by issuers and prior occurrence of natural disasters. We assign an internal credit rating which reflects our complete assessment and we monitor holdings regularly for developments. Our surveillance is one of the most critical components of our process and this includes a review of all credit reports by our credit committee, which meets on a quarterly basis, and has recently shifted to meet on an ad hoc basis to more rapidly respond to developments related to the COVID-19 pandemic. Although there are many differences between the global pandemic and the wildfires burning across Colorado, both events were unforeseen and both have the potential to have an acute impact on local government finances. In this era of pandemics, pension crisis and various climate related threats, we believe credit research is more important than ever.