AQUILA THREE PEAKS HIGH INCOME FUND

INVESTMENT COMMENTARY

September, 2020

A SHARE: **ATPAX**	C SHARE: **ATPCX**	I SHARE: **ATIPX**	Y SHARE: **ATPYX**	Lipper Category: High Yield Bond Morningstar Category: High Yield Bond

MARKET OVERVIEW

The strong market performance seen during the back half of the second quarter of 2020 continued well into the third quarter, as the S&P 500 climbed to a new all-time high of 3,581 in early September. This rapid V-shaped recovery in the S&P 500, up 60% from its late March 2020 lows, was supported by improving economic data from the economy reopening, further positive developments in COVID-19 therapies and vaccines, coupled with declining infection and hospitalization rates, and the continued initial monetary and fiscal stimulus measures from the Federal Reserve and the U.S. Treasury. However, the record high for the S&P 500 was short-lived with the index down nearly 4% for the month of September, as concerns and uncertainty increased about the upcoming election in November, the potential for a second COVID-19 wave this fall and winter, and the prolonged stalemate in Washington over additional economic stimulus measures. Despite this sell-off in September, the S&P 500 was still able to post its best back-to-back quarters since 2009 with the index up 8.5% for the third quarter of 2020.

The U.S. Economy and the Pandemic

As the U.S. economy continued to reopen and adjust to the ongoing COVID-19 pandemic, both employment and economic data showed very encouraging signs of improvement throughout the third quarter. The unemployment rate declined to 8.4% in August versus 11.2% in June, and declined further in September to 7.9%, as businesses re-opened and furloughed employees returned to work. In addition, consumer spending increased for the fourth consecutive month in August, rising 1.0%, despite the additional $600 a week in federal unemployment that expired on August 1. Third quarter GDP is expected to show a sharp snap-back following a 31% decline last quarter.

On the therapeutics and vaccine front, encouraging results continued to be announced throughout the quarter, including positive developments toward a possible COVID-19 treatment and promising later stage vaccine trial results. Also, further adoption of social distancing practices, increased mask mandates, and improved testing capabilities helped drive COVID-19 infection and hospital rates lower during the third quarter, although October has brought a slight increase in cases and hospitalizations in certain states. Recent positive developments on the COVID-19 front have the markets more optimistic that a second shutdown is less likely to occur this fall and winter and that a vaccine could be announced by later this year or early 2021.

During the quarter, the Federal Reserve and the U.S. Treasury continued with their monetary programs to provide liquidity to the markets and financial support for businesses and individuals. In addition, the Federal Reserve signaled that it expected to hold rates near zero for at least three more years to further help support the ongoing economic recovery. These unprecedented actions by the Federal Reserve and the U.S. Treasury have provided stability to the U.S. credit and equity markets, while also providing businesses and individuals with much needed stimulus capital to deal with COVID-19 related economic challenges. The initial rounds of Payroll Protection Program (PPP) loans, increased unemployment benefits, and stimulus checks have been helpful in limiting any prolonged damage to the U.S. economy at this point; however, a second round of stimulus is likely needed to continue counteracting the overall negative economic impacts from the lingering COVID-19 pandemic.

Market Risks we are Watching

While the third quarter of 2020 saw a new record high for the S&P 500 and further tightening credit spreads, several near-term risks began weighing on the markets in early September; including uncertainties surrounding the upcoming election in November, the increasing potential for a second spike in COVID-19 infections this fall and winter, and the on-going stand-off between elected officials in Washington to pass further economic stimulus measures. Also, while the unemployment rate has been steadily improving from its all-time high in April of 14.7%, the nation has only regained about half of the overall jobs lost since the COVID-19 pandemic began, with increasing fears that some of these jobs may never come back if we have a shallower recovery than expected. In addition, there is the potential for an upcoming wave of layoffs for certain industries and across state and local governments if they are unable to secure some form of federal relief, which could dampen the recent trajectory of positive and improving economic data.

Furthermore, any additional federal stimulus actions will only exacerbate the already ballooning national debt and deficit problems and stoke increasing fears that higher corporate and personal income taxes will be needed to address these issues. Despite the market's sharp turnaround, many near-term economic, pandemic, and political risks remain. Overall, understanding, assessing, and monitoring all these risks will be critical to making investment decisions going forward.

AQUILA THREE PEAKS HIGH INCOME FUND

The Aquila Three Peaks High Income Fund Class Y Share (ATPYX) generated a 4.30% total return during the third quarter of 2020. By comparison, the Bloomberg Barclays U.S. Corporate High Yield Index ("Index") generated a positive 4.60% return. On a monthly basis, the Index generated a +4.69% return during July, a +0.95% return during August, and a -1.03% return during September. For the same time periods, ATPYX generated monthly returns of 3.79%, 0.93%, and -0.46%, respectively.

For the quarter, lower-quality bonds outperformed higher-quality bonds. On a total return basis, the BB-rated segment of the Index was up 4.02%, the B-rated segment was up 4.53%, and the CCC-segment was up 7.35%. With Treasury yields relatively stable and credit spreads and yields declining throughout the quarter, longer duration bonds outperformed shorter duration bonds.

All of the sectors within the Index posted positive returns for the quarter except Oil Field Services (-10.9%) and Refining (-3.1%). The best performing sectors for the third quarter of 2020 were Aerospace and Defense (+10.4%), Life Insurance (+10.2%), Airlines (+8.1%), Leisure (+8.0%), and Retailers (+7.2%). These top performing sectors during the quarter benefited from the continued reopening of the economy coupled with declining infection and hospitalization rates, sharply improving economic data, and further positive developments on the COVID-19 therapeutics and vaccine fronts leading to increased hopes that the pandemic may be improving. The worst performing sectors were those tied to Energy, which is continuing to face a challenging demand environment.

For the quarter, the slight under-performance of ATPYX to the Index was due to having limited to no exposure to stressed and lower-quality names, and also to some of the top performing industries which have been most impacted by the ongoing COVID-19 pandemic. Overall, we continue to remain cautious of lower quality names and industries experiencing the most disruption from the pandemic due to ongoing balance sheet stress and liquidity concerns, the potential for softening economic data from a second wave of COVID-19 and the lack of additional fiscal stimulus, market volatility due to the upcoming election, and uncertainty when a vaccine will be readily available. Thus, we remain committed to our strategy of investing in higher quality industries and companies with solid balance sheets and sufficient liquidity that we believe are positioned well to withstand any sustained economic uncertainties and challenges. For the year-to-date period ended 9/30/2020, the ATPYX generated a 4.07% total return. By comparison, the Bloomberg Barclays U.S. Corporate High Yield Index generated a positive 0.62% total return over the same time period.

THE HIGH YIELD MARKET

According to Barclays Credit Research, the average option-adjusted yield spread ("OAS") of the Bloomberg Barclays U.S. High Yield Corporate Bond Index decreased 109 basis points (bps) during the quarter to end September at 517 bps. For comparison, the spread of the Index was 626 bps at the end of June 2020 and 336 bps at the end of 2019. The average yield-to-worst of the Index decreased 110 bps during the quarter to end September at 5.80%. For comparison, the average yield-to-worst of the Index was 6.90% at the end of June 2020 and 5.19% at the end of 2019. The average bond price of the Index increased to $99.6 at the end of September from $95.9 at the end of June.

According to J.P. Morgan Credit Research, $131.9 billion of new issuance priced during the third quarter was the second highest total on record and followed last quarter's record high of $145.5 billion. Companies looked to lock-in historically low interest rates during the quarter to primarily refinance debt or to enhance liquidity to help manage through the ongoing economic uncertainties from the COVID-19 pandemic. New issuance for the quarter was comprised of 80% refinancing, 17% general corporate and liquidity bolstering, 2% acquisitions, and dividend financing purposes which were less than 1%.

Fund Flows

High yield bond mutual funds saw $10.7 billion of inflows during the quarter which was the 6th highest quarterly inflow on record. The second quarter of 2020 saw the largest quarterly inflow on record of $44.0 billion with inflows for the first nine months of 2020 at $39.3 billion vs. $18.8 billion of inflows for all of 2019. High yield bond mutual funds did see $4.3 billion of outflows during the month of September, following five consecutive months of inflows totaling $59.1 billion, as concerns and uncertainty mounted over the upcoming election, the potential for a next round of stimulus, and a second virus wave. Monitoring the direction and magnitude of fund flows will continue to be a key indicator we will watch, as this can influence future new issuance demand and the overall performance of the high yield asset class.

Defaults and Credit Trends

There were 12 high yield bond defaults during the third quarter compared to 24 defaults in the second quarter and four during the first quarter of 2020. Year-to-date, there have been 40 high yield bond defaults, none of which we owned, compared to a total of 27 for all of 2019. The U.S. high yield default rate improved to 5.80% at the end of September 2020 vs. 6.19%, a 10-year high, at the end of June 2020. The default rate was 3.35% at the end of March 2020, and 2.63% at the end of 2019.

Credit trends continued to deteriorate during the quarter, as rating agencies have been more apt to downgrade companies in response to uncertain and weakened economic conditions brought on by the ongoing COVID-19 pandemic. During the quarter, 95 companies were downgraded and 71 companies were upgraded, while year-to-date there have been 631 downgrades compared to 180 upgrades, with 2020 on pace to see the most downgrades over the last 20 years. The last-twelve-month credit rating upgrade/downgrade ratio at the end of September 2020 was 0.3 vs. 0.7 at the start of the year. Due to the current economic challenges and uncertainties, it seems likely that additional high yield defaults and weakening credit trends may persist over the foreseeable future, albeit at a slower pace than what was witnessed earlier this year. Nevertheless, we will continue to closely monitor and evaluate all key high yield credit metrics to help assist with our ongoing investment decision making.

THE THREE PEAKS CAPITAL MANAGEMENT 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 strategy, but also seeks to uncover new opportunities within the high yield market. The construction of the high yield strategy continues to be highlighted by securities that we believe can weather negative headlines and heightened market volatility. 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 by focusing on company-specific measures. We will maintain our discipline of minimizing volatility, to the extent possible, by generally avoiding security structures that appear to have equity-like characteristics, as well as by focusing on sectors we consider to be relatively stable and higher-quality in nature due to greater predictability of revenues and stability in cash flow generation in this uncertain environment.

We will continue to utilize a top-down and bottom-up approach when constructing our high yield strategy as we assess the strength of the economic landscape. Our efforts remain focused on stability and predictability in the investment selection process, to provide a less volatile high yield strategy with an objective of generating a reasonably consistent total return throughout various rate and economic cycles.

While we continuously search for attractive investment options, we believe a strict adherence to our rigid investment philosophy, extensive research process, and discipline in choosing investments for our high yield strategy will remain essential as we progress through 2020 and into 2021. Considering various uncertainties, the economy and the fixed income markets will have to contend with over the foreseeable future, we believe it is important to not become complacent in the current investing environment. As such, we constantly monitor economic data and commentary from companies across various industries, as well as commentary from the Federal Reserve and out of Capitol Hill that may shed light on future investment opportunities or potential investment pitfalls.

In conclusion, we will continue to balance potential risks to the economy and the capital markets with the opportunities presented within high yield bonds to construct a strategy that we believe will have a compelling risk/return profile.

For specific information about fund characteristics, holdings and performance please see the Fund Fact Sheet on our website at www.aquilafunds.com.

AVERAGE ANNUAL TOTAL RETURNS AS OF SEPTEMBER 30, 2020

	SEC YIELD[1]	DISTRIBUTION RATE[2]	CUMULATIVE RETURN 3RD QTR 2020	YTD	1 YEAR	AVERAGE ANNUAL RETURN 3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION	INCEPTION DATE	EXPENSE RATIO	MONTHLY DIV FACTORS AS OF 09/30/20
A Shares NAV	---	4.23%	4.12%	4.04%	4.86%	3.30%	4.31%	4.49%	4.66%	6/01/06	1.21%	0.029461372
A Shares MOP	3.76%	4.06%	-0.01%	-0.13%	0.67%	1.90%	3.45%	4.06%	4.36%	6/01/06	1.21%	0.029461372
C Shares w/o CDSC	3.11%	3.43%	3.91%	3.42%	4.02%	2.48%	3.48%	3.66%	3.83%	6/08/06	2.00%	0.023883355
C Shares w/ CDSC	----	----	2.91%	2.42%	3.02%	----	----	----	----	6/08/06	2.00%	0.023883355
I Shares	3.83%	4.14%	4.10%	3.98%	4.79%	3.22%	4.22%	4.43%	4.69%	6/29/06	1.31%	0.028835212
Y Shares	4.12%	4.43%	4.30%	4.07%	5.07%	3.46%	4.49%	4.70%	4.87%	6/01/06	1.01%	0.030841772
Bloomberg Barclays US Corp HY			4.60%	0.62%	3.25%	4.21%	6.79%	6.47%	7.13%			
Bloomberg Barclays US Aggregate Bond			0.62%	6.79%	6.98%	5.24%	4.18%	3.64%	4.71%			
S&P 500® TR Index			8.93%	5.57%	15.15%	12.28%	14.15%	13.74%	—			
Lipper Ranking-HY Funds[3]					30/503	173/454	339/387	242/280				
Lipper Percentile[3]					6th	38th	88th	86th				

Performance current to the most recent month-end and a full list of holdings is available at: 800-437-1020 or www.aquilafunds.com.

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. Class A shares have a maximum sales charge of 4.00%; Class Y shares have no initial or contingent deferred sales charge. Class Y shares may only be purchased through an investment professional or financial institution. Class A MOP returns reflect deduction of the maximum 4.00% 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. Class A shares have a maximum sales charge of 4.00%; Class Y shares have no initial or contingent deferred sales charge. Class Y shares may only be purchased through an investment professional or financial institution. Class A MOP returns reflect deduction of the maximum 4.00% sales charge; Class A NAV returns do not reflect deduction of the sales charge and would be lower if that charge were reflected. An explanation of the share classes appears in the Fund prospectus.

The Bloomberg Barclays US Corporate High Yield Index is an unmanaged index considered representative of the universe of fixed-rate, non-investment grade debt. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged index considered representative of the universe of fixed-rate, investment grade taxable debt. The Bloomberg Barclays Investment Grade Index is representative of the investment grade, fixed-rate, taxable corporate bond market. The S&P 500® Index is a stock index representative of the 500 largest US companies. 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.

[1] *Lipper category is as of 09/30/20 for the Class Y share and may not accurately represent the current composition of the portfolio. Lipper rankings are based on total return without sales charge relative to all share classes of funds with similar objectives as determined by Lipper, and each share class is ranked individually. Lipper ratings are not intended to predict future results, and Lipper does not guarantee the accuracy of this information.*

***Yield-to-worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting.*
*A **basis point** is .01 or one hundredth of one percent.*
***The option-adjusted spread** (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return (typically Treasury yields), which is then adjusted to take into account an embedded option. An embedded option is a feature of a financial security that lets issuers or holders take specified actions against the other party at some future time.*

Independent rating services (such as Standard & Poor's, Moody's and Fitch) assign bond ratings, which generally range from AAA (highest) to D (lowest), to indicate the credit worthiness of the underlying bonds in the portfolio. Securities are classifi ed as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Where the independent rating services differ in the rating they assign to an issue, or do not provide a rating for an issue, the highest available rating is used in calculating allocations by rating. Non-rated bonds are holdings that have not been rated by a nationally recognized statistical rating organization.

Information contained herein has been obtained from sources we consider reliable, but its accuracy is not guaranteed. Any opinions expressed are based on the interpretation of data available to Three Peaks Capital Management, LLC, investment sub-adviser of Aquila Three Peaks High Income Fund and Aquila Three Peaks Opportunity Growth Fund, and are subject to change at any time without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security.

The Members, Officers and Employees of Three Peaks Capital Management, as a policy of the firm, are required to disclose and report investments in reportable securities as defi ned in Rule 204A-1(e)(10) of the Investment Advisers Act of 1940. Three Peaks Capital Management, LLC may from time to time buy or sell securities of companies mentioned in this report for its advisory clients. Aquila Investment Management LLC, as well as certain of its Investment Companies or Investment Advisory accounts, may own the Securities being reviewed or recommended in this report. Aquila Investment Management LLC and others associated with it may from time to time have long or short positions and effect transactions in the securities of companies mentioned in this report.

Investment Considerations: Mutual fund investing involves risk; loss of principal is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived decline in credit quality of the issuer, borrower, counterparty, or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. The Fund's portfolio will typically include a high proportion, perhaps even 100%, of high-yield / high-risk securities rated below investment grade. High-yield corporate bonds generally have greater credit risk than other types of fi xed-income securities and may be especially sensitive to economic and political changes or adverse developments specifi c to the company that issued the bond.

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