Aquila Churchill Tax-Free Fund of Kentucky

PORTFOLIO MANAGER COMMENTARY
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AQUILA® GROUP OF FUNDS

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A Shares: **CHTFX**	C Shares: **CHKCX**	Y Shares: **CHKYX**

Municipal Bond Market Overview

Tax-exempt municipal bond yields rose in the first quarter of 2022 in anticipation of and reaction to the arrival of concrete tightening actions by the Federal Reserve ("the Fed"). The 10-year AAA municipal bond yield (as measured by Bloomberg) increased to 2.46% as of 3/31/22, up 139 basis points (bps) from where they ended 2021, at 1.05%. As a result, municipal bond quarterly returns were their lowest since 1994, with the Bloomberg Municipal Bond Index posting a return of -6.23%.

Municipal bonds experienced a dramatic shift to higher interest rates, particularly relative to U.S. Treasury bonds. As a result, municipal bonds—most notably, intermediate-term bonds—are now trading closer to historical norms and represents a more attractive ratio when compared to that at year-end (see table below).

Municipal/Treasury Ratios

	January 3, 2022	April 12, 2022
5-year	44.10%	82.30%
10-year	63.80%	88.80%
30-year	74.30%	97.90%

The spike in municipal bond yields helped temper issuance during the quarter, as borrowers paused to assess the newly-elevated interest rate landscape. Nationally, tax-exempt issuance totaled $74.123 billion, down 6.38% from the $79.570 billion issued in the first quarter of 2021. Taxable issuances plummeted 47.6% last quarter, declining to $16.304 billion for the period ending 3/31/22.

There were several fiscal policy announcements, as the Fed delivered on the market's expectation of a sharp change in monetary policy. The Fed increased the Federal Funds rate for the first time since 2018, raising it 25 bps at its March meeting, and began paring back its balance sheet.

Kentucky Municipal Bond Market and Economy

Supply in Kentucky during the first quarter was larger than usual at $ 2.004 billion, and well above the contraction in issuance seen nationally. Kentucky issuance was skewed by one main issue: a $509 million Kentucky Public Energy put bond.

Other local bond issuance of note:

- January 2022 – $225 million Louisville Jefferson Metropolitan Sewer Distric
- February 2022 – $85 million Kentucky State Property #126
- March 2022 – $319 million Henderson, Non-Rated Recyclable Paper Pratt Industries
- March 2022 – $204 million University of Louisville (Louisville & Jefferson) Health
- March 2022 – $206 Louisville General Obligation ("G.O."); approximately $27 million of the Louisville G.O.s remains in the syndicate, comprised of maturity dates from 2035-2042

Economic and political areas of interest in the State is a myriad of legislative laws being passed in Frankfort. Of particular interest is the House Bill 8, a bill that seeks to abolish the State's income tax. The proposed bill would replace income tax with a higher sales tax. If passed, the current income tax would be phased out starting in 2023, lowered to 4% from 5%, and subsequent increments of 0.5% per year until it is eliminated. Sales taxes would need to reach pre-determined revenue goals in order for the income tax to be phased out. According to a congressman quoted in the Lexington Herald, it would take 8 to 9 years before the State's income tax was totally abolished. One of the purposes of eliminating the income tax is to put Kentucky on parity with the quickly growing State of Tennessee. When all the veto and override periods in Frankfort, Kentucky end in late-April, we will be reviewing the new laws in greater detail.

Two issues of major importance occurred during the first quarter as well:

1. On the revenue side, for the nine-month period ending 3/31/22, Kentucky's General Revenue increased 13.6%. The State's Director of Budget said it is attributable to increases in employment and wage growth, which is great news for the state. In addition, Kentucky's Road Revenue increased 3.8% for the nine-month fiscal year period ending 3/31/22. This is indicative of the increased economic activity in the State, and a pleasant surprise, since it was a budget item that was not expected to experience positive growth.

2. On 1/29/22, S&P Global Ratings raised its rating outlook for Kentucky to Positive, from Stable. At the same time, the rating agency affirmed its A issuer credit rating for Kentucky. This is a result of the increased revenues cited above, a huge potential Rainy Day Fund surplus of $1.5billion to $2 billion at the end of the fiscal year (6/30/22), and Federal infrastructure funding from 2021 Federal legislation. We believe this also pushed the funding for the Brent Spence Bridge project in Covington/Cincinnati over the finish line.

We are anticipating a further increase in the Federal Funds rate in both May and June 2022. Potential interest rate hikes are accompanied by the Federal Reserve's goal to reduce its balance sheet by $95 billion per month, to help trim the roughly $9 trillion currently on the books. The current high inflation rate, possibly accompanied by a slowing in growth later this year, seems to be already "baked into" current market yields.

Fund Outlook and Strategy

Shorter duration in Aquila Churchill Tax-Free Fund of Kentucky (currently less than 4.25 years) is intended to help mitigate interest rate risk in a rising rate environment. Portfolio management priorities have shifted slightly as a result of today's rising interest rate environment. The Fund is currently comprised of about 47% single-A ratings. We envision increasing the percentage of AA-rated bonds in the portfolio closer to 55%, from approximately 48% currently. This will be no easy task, as the majority of issuance for the state lies in the single A category. The rationale behind this move is that higher-rated bonds have historically provided greater results in rising interest rate environments. The municipal bond yield curve also appears to have "flattened," particularly among 7- to 11-year maturities. We are also targeting higher coupon bonds as a defensive measure. Of course, past performance does not guarantee future results. The Fund's locally-based portfolio management team will closely monitor market and economic conditions and actively manage the portfolio accordingly.

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

Fund Facts as of 3/31/2022

Lead Portfolio Manager	Inception Date	Total Investments	Number of Holdings
ROYDEN DURHAM	5/21/1987	$178.4M	139

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. Fund performance could be more volatile than that of funds with greater geographic diversification.

Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio.

A credit spread or a yield spread is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities.

Independent rating services (such as Standard & Poor's, Moody's and Fitch) assign ratings, which generally range from AAA (highest) to D (lowest), to indicate the credit worthiness of the underlying bonds in the portfolio. 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. Pre-refunded/Escrowed bonds are issued for the purpose of retiring or redeeming an outstanding bond issue at a specified call date. Until the call date, the proceeds from the bond issuance are typically placed in a trust and invested in U.S. Treasury bonds or state and local government securities. Non-rated bonds are holdings that have not been rated by a nationally recognized statistical rating organization.

Municipal/Treasury Ratio compares the rates of municipal bonds with those of U.S. Treasury bonds in percentage terms

The Bloomberg Municipal Bond Index (Total Return Index, Value Unhedged USD) is an unmanaged index that covers the U.S. dollar-denominated, long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. The Bloomberg Quality Intermediate Municipal Bond Index tracks the performance of municipal bonds issued after December 31, 1990 with remaining maturities between 2 and 12 years, and at least $5 million in principal outstanding. The AA Municipal Bond Index measures performance of municipal bonds rated AA in credit quality, and the A Municipal Bond Index measures performance of A-rated municipal bonds. Indices are unmanaged and are not available for direct investment.

Before investing in the 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 professional, and when you call 800-437-1020 or visit www.aquilafunds.com.