AQUILA TAX-FREE FUND OF COLORADO

MUNICIPAL SECTOR PROGNOSIS

April, 2020

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Over the past several weeks the municipal bond market has experienced unprecedented volatility as global capital markets contend with a rapidly evolving pandemic and investor speculation about the economic impact. Although the extent of the impact remains unclear, the likelihood and potential severity of a recession increases as the pandemic continues to develop. Within the Aquila Tax-Free Fund of Colorado, the majority of portfolio holdings are in sectors such as property tax-backed general obligation bonds and water/sewer revenue bonds, which have a high degree of immunity to our adjustment to a more stay-at-home-economy. Property taxes that support general obligation bonds and water/sewer bills have historically been relatively stable during economic downturns. Our primary concerns relate to the transportation sector and sales tax sector, both of which can be susceptible to changes in consumer behavior.

Within the transportation sector, we are closely watching the aviation facilities. Although this sector accounts for less than 2% of the portfolio's market value, airports have experienced dramatic declines in passenger traffic counts. The efforts of state and local governments to implement stay-at-home orders to contain the virus are decreasing economic activity as fewer and fewer people are traveling by air. Standard & Poor's revised its rating outlook of the U.S. Transportation sector to negative on March 26, 2020 and cited the "dramatic contraction of the global and U.S. economies and virtual collapse of travel and mobility across the transportation subsectors is a demand shock without precedent, with no definitive indication at this time regarding its duration and severity as well as the follow-on effects of an economic recession." Moody's also lowered its rating outlook to negative on the airport sector on March 20, 2020, as expectations of enplanements decline.

Within the Fund, Denver International Airport's (DIA) Revenue Bonds are the only holding of airport bonds. DIA provided a strong 2.98x debt service coverage and 732 days cash on hand in 2018. Cash of this level could potentially fund airport operations for a period of two years. In addition, the bonds are secured by a reserve fund, which is funded to provide a year of debt service. Reserve funds are a relatively common feature of municipal securities and provide significant comfort to investors when faced with potential unexpected interruptions of revenues.

In addition, the Coronavirus Aid, Relief and Economic Stimulus Act (CARES) was passed by Congress on March 27, 2020 and includes $10 billion for US airports. Approximately 94% of the $10 billion aid is permitted for any legal purpose. Large hub airports will receive the greatest support from CARES. Moody's estimates that, on average, CARES will provide 22% of revenue relief to large hub airports in meeting ongoing needs. Over the past several years, publicly managed airports have benefited from strong debt service coverage, high liquidity and the ability to raise rates to recover operating expenses and debt service.

The efforts of state and local governments to implement stay-at-home orders to contain the virus have decreased economic activity, with consumers limiting outings to essential needs. Although consumer spending was strong for the first two months of the year, we expect to see spending drop substantially through March and beyond. Food services, travel, entertainment and retail will likely be most impacted. Online sales are also not expected to make up for the decline in foot traffic. We expect that supermarkets, pharmacies and discounters will benefit as consumers purchase groceries and other essentials. Online orders for groceries and from online companies will increase as consumers stay home.

At the end of the first quarter, the Fund's total exposure to sale tax revenue bonds was approximately 8.25%, 1.77% of which is guaranteed under a municipal bond insurance policy. On average, approximately 60% of local government general fund revenues are supported by sales taxes. The majority of the Fund's sales tax bonds are rated in the 'AA' range and secured by a reserve fund. Moody's is expecting municipalities to see at least a 10% reduction in general fund revenues.

According to the Colorado Legislative Council (CLC), a short-term contraction in consumer and business activity over the

next several months is expected, which will reduce revenues in fiscal years 2019-20 and 2020-21. The CLC's March 2020 revenue forecast, published March 16th, for general fund revenues is $13.9 billion, down 0.7% for the current fiscal year ending June 30, 2020. General fund revenues are forecast to be $13.6 billion in 2021, down 1.8% from fiscal year 2020. The general fund reserve is expected to be $880.6 million in fiscal year 2019-20, 0.04% higher than the 7.25% statutory reserve requirement. The top four sales tax revenue generating sectors in Colorado are food services and establishments that sell adult beverages, motor vehicle and parts dealers, general merchandise stores and food and beverage stores.

Credit research is critical during periods of market volatility, and for that reason, we continue to maintain close relationships with bond issuers. Although municipal bonds tend to be more resilient to economic downturns due to their revenue sources, we constantly monitor sector exposure and specific portfolio holdings to measure their ability to withstand the potential for economic slowdown. The Aquila Tax-Free Fund of Colorado is structured defensively to withstand periods of uncertainty with a focus on high quality holdings and limited duration risk. As of 3/31/20 portfolio had a 6.9-year average maturity, effective duration of 4.35 years and over 11% of the portfolio is allocated to pre-refunded bonds backed by U.S. Treasury securities. In addition, over 90% of the bonds in the portfolio are rated AA or higher, or are pre-refunded. We continue to see the municipal bond asset class as a viable consideration for investors seeking high quality, tax-exempt income.

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

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.

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