AQUILA TAX-FREE TRUST OF OREGON

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 the longer the pandemic continues to develop. Within the Aquila Tax-Free Trust of Oregon, the majority of portfolio holdings are in sectors such as property tax-backed general obligation bonds and water/sewer revenue bonds, which inherently provide a high degree of immunity to our adjustment to a more stay-at-home-economy. Property taxes supporting general obligation bonds and water/sewer bonds have historically been relatively stable during economic downturns. Our primary concerns relate to the transportation sector, which include both mass transit and aviation facilities, both of which have experienced significant revenue challenges during this time of social distancing.

Within the transportation sector, we are closely watching aviation facilities. Although this sector accounts for just over 1% of the portfolio's market value, airports have experienced dramatic declines in passenger traffic counts as States encourage travelers to stay at home. On March 30, the Port of Portland updated its preliminary official statement to reflect that for each day of the period from March 23 to March 27, 2020, enplanements at the Portland Airport declined by approximately 90%. Furthermore, parking revenues and concessions within the airport have significantly declined. Portland International Airport's bonds were recently rated 'AA-' by Standard & Poor's, which later revised its rating outlook of the U.S. Transportation sector to negative, on March 26, 2020, citing 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.

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 Port of Portland estimates the Portland Airport is eligible to receive $55 million of federal aid under the CARES act. Furthermore, the Port of Portland reported 1,078 days of cash on hand for the Portland Airport, in the 2019 fiscal year. Cash of this level is sufficient to cover operations for almost 3-years. The portfolios airport revenue bonds are also secured by a reserve fund, which is funded to provide a year of debt service in the event of non-payment.

Our other transportation sector concern is mass transit and the impact of diminished use as a result of social distancing and the stay-at-home-economy. On April 5, Tri-Met announced it would be reducing bus and light rail service after experiencing a 60% decrease in ridership from its February average. Furthermore, Tri-Met is limiting buses to carrying no more than 15 passengers, in an effort to improve rider safety. Tri-Met also has crews disinfecting trains, buses and other vehicles nightly. These crews are also wiping down all major "touchpoints" at transit centers and has recently received a shipment of 600 gallons of hand sanitizer. Tri-Met's General Manager recently commented the Agency is not considering fare increases as a method of raising revenue and that a fare increase is not in the upcoming proposed financial year budget.

The portfolio holds both Tri-Met's payroll tax revenue bonds (1.86% of the portfolio) and its Grant Anticipation Revenue Vehicles (GARVEE) bonds (0.64% of the portfolio). The payroll tax bonds are supported by a pledge of Tri-Met's employer payroll and self-employment taxes. These bonds have received the highest rating (Aaa/AAA) by both Standard

& Poor's and Moody's. Although there is potential for a downgrade as a result of recent layoffs in the regional economy, Tri-Met has historically maintained debt service coverage 10x to over 18x. This means that typically payroll taxes are sufficient to cover debt service payments by a minimum of ten times the annual payments. Coverage of this levels is strong and can decline substantially without challenging bond payments. Tri-Met's GARVEE bonds are secured by certain federal grant funds, which are dependent upon federal transportation spending reauthorizations. These bonds are lower rated, currently, 'A3' by Moody's and 'A' by Standard & Poor's, due to the potential unpredictability of revenues and the structural imbalance in the federal highway trust fund.

The CARES Act designated $25 billion to support public transit agencies nationwide, of which, Tri-Met estimates receiving $196 million in government support from the stimulus package. However, it is still too early to estimate the long-term financial impact of the pandemic on Tri-Met. As a result, Tri-Met plans to reduce service and costs now and is in the process of revising is fiscal year 2020-21 operating budget to more accurately reflect this uncertainty. Tri-Met has already reduced service, with most bus routes and light rail seeing decreased frequency.

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 Trust of Oregon is structured defensively to withstand periods of uncertainty with a focus on high quality holdings and limited duration risk. As of 3/31/20, the portfolio has a 7.7 year average maturity, effective duration of 4.55 years, and 8.21% of the portfolio is allocated to pre-refunded bonds backed by U.S. Treasury securities. Including pre-refunded bonds, over 96% of the portfolio is rated AA or higher. 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.

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.

The Fund seeks to provide as high a level of income exempt from state and federal income tax as is consistent with capital preservation. For certain investors, some dividends may be subject to federal and state income taxes, including the Alternative Minimum Tax (AMT). Please consult your professional tax advisor.

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.

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 professional, when you call 800-437-1020, or visit www.aquilafunds.com.