Aquila Three Peaks Opportunity Growth Fund in the Current Market

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AQUILA® GROUP OF FUNDS

AQUILA® Three Peaks Opportunity Growth Fund

Given recent volatility in the equity markets, we would like to share our thoughts on the positioning of the Aquila Three Peaks Opportunity Growth Fund ("ATPOGF") portfolio, and our expectations under several potential market scenarios. Obviously, our views on the markets are subject to change as events unfold, and those unfolding events could alter our current expectations. As of the date of this report, following are our thoughts on to the positioning of ATPOGF in several different market scenarios.

Potentially Favorable Scenario

Broadly speaking, we believe ATPOGF is overweight defensive and high-quality names relative to the Russell Midcap Index (the Fund is categorized by Lipper and Morningstar as Mid-Cap, while the Fund benchmark is the Russell 3000). We would expect a limited impact to the Fund in the event of a potential sell-off in Aggressive Growth names or in the deeply cyclical sectors, given our underweight in these areas of the market. Conversely, a market rally characterized by slow economic growth and lower interest rates could potentially be beneficial, as our yield-sensitive names would be expected to perform well in that environment, and our high yield issuers would be able to issue debt at lower rates.

Potentially Unfavorable Scenarios

We believe that during a robust "risk-on" market rally, ATPOGF could potentially underperform. A 'risk on' market would likely be characterized by a significant rally in names that have recently been beaten down, such as Cyclicals, which we typically don't hold, while Defensive stocks might underperform and perhaps even trade lower. ATPOGF could potentially underperform if Aggressive Growth names rally, as we do not hold Aggressive Growth names. Conversely, a sell-off, based on higher interest rates, could result in a decline in defensive, high-dividend equities, as well as levered equities due to concerns over higher borrowing costs. In this scenario, our defensive names and our Core names could be negatively impacted simultaneously.

Current Portfolio Positioning

We are currently overweight sectors such as Commercial Services (10% vs. Russell Midcap Index at 3%) and Software & Services (16% vs. Russell Midcap Index at 10%). We would characterize these holdings as having a sizeable recurring revenue component to them, which we view as defensive and high-quality. We are also currently overweight sectors such as Packaging (4% vs. Russell Midcap Index at 1%) and Aerospace & Defense (4% vs. Russell Midcap Index at 1.7%), and we view these sectors as also relatively more defensive.

We are currently underweight some of the most economically sensitive sectors such as Semiconductors (0% vs. Russell Midcap Index at 3%); Exploration & Production (0% vs. Russell Midcap Index at 2%), Machinery (0.7% vs. Russell Midcap Index at 4%), Materials Non-Packaging (1% vs. Russell Midcap Index at 4%), Transportations (0.5% vs. Russell Midcap at 2%), and Banks (0.5% vs. Russell Midcap Index at 4%).

With that said, and relative to the Russell Midcap Index, ATPOGF is underweight some of the most rate-sensitive sectors, which include REITs (5% vs. Russell Midcap Index at 9%) and Utilities (2% vs. Russell Midcap Index at 7%), both of which are often viewed as Defensive sectors. These sectors are currently trading at more elevated valuations, and we don't believe they are as widely owned among Midcap managers as the Index would imply. REITs and Utilities also make up only 6% of the S&P 500, so we are more closely aligned with that broad market index in these two sectors. As of 12/31/18, the weighted average beta of the portfolio relative to the S&P 500 was 0.90, which we think is notable considering that we still have some core names in the Fund that have a degree of leverage on them. The average credit rating of holdings is split BB+/BBB-, with 45% of the portfolio having a High Yield rating.

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

Investment Considerations: Mutual fund investing involves risk; loss of principal is possible. An investment involves certain risks including market risk, financial risk, interest rate risk, credit risk, and risks associated with investments in highly leveraged companies, lower-quality debt securities, foreign markets and foreign currencies, and potential loss of value.
Risk Return statistics provided by Morningstar for the five year period ending 12/31/18. Beta is a measure of a fund's sensitivity to market movements. 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.