



Aquila Opportunity Growth Fund

PORTFOLIO MANAGER COMMENTARY

Q1 2022



A Shares: **ATGAX**

C Shares: **ATGCX**

I Shares: **ATRIX**

Y Shares: **ATGYX**

U.S. Equity Markets: Quarterly Review

U.S. equity markets produced negative returns across all capitalization ranges during the first quarter of 2022. These returns were unequally distributed, with large capitalization companies (as measured by the S&P 500® Index) delivering returns of -4.6%, while mid-cap stocks (as measured by the Russell Midcap® Index) returned -5.7%, followed by small-cap stocks (as measured by the Russell 2000® Index), which returned -7.5% in Q1.

Overall, it was a volatile quarter, with several negative developments impacting the financial markets and driving equity prices lower. The Federal Reserve (“the Fed”) initiated its first interest rate hike in over three years in March when it raised the Federal Funds rate 25 bps and gave guidance that it intended to reduce its balance sheet by \$95 billion per month. Additionally, year-over-year inflation approached 8% (as measured by the Consumer Price Index), and energy and commodity prices spiked as a result of Russia’s invasion of Ukraine. In addition to the humanitarian crisis created by the invasion, concern about how this event would impact Europe’s energy supply, and multiple rounds of U.S. and European sanctions on the Russian economy negatively impacted market sentiment. Furthermore, China continued their “zero COVID” policy and began lockdowns in Shenzhen and Shanghai, causing port congestion and raising concerns about the manufacturing supply chain.

Aquila Opportunity Growth Fund: Portfolio Attribution

From a sector point of view, stock selection in Information Technology, Financials, and Utilities contributed positively to the Fund’s performance in the first quarter of 2022. Conversely, stock selection in Materials, Communications Services, and Healthcare had a negative impact on performance.

At a stock level, the largest positive contributors to the Fund’s returns in the quarter were Hess Corporation, Pioneer Natural Resources and First Horizon Corporation, all of which we continued to hold as of quarter end. Below is a brief overview:

- **Hess Corporation (HES)** is a New York-based, independent energy company focused on the exploration, development, production and sale of oil, natural gas and liquids. The company benefitted from the higher oil and gas prices during the quarter.
- **Pioneer Natural Resources (PXD)** is an independent oil and gas exploration company that is also the largest acreage holder in the Permian Basin, with a huge acreage footprint in the Midland Basin. The company is a beneficiary of higher oil prices and has productive assets in one of the most productive basins in North America.
- **First Horizon Corporation (FHN)** offers traditional banking services, such as loans, deposit accounts and credit cards, as well as trust, asset management, financial advisory and investment services. First Horizon has the potential to become a Southeast regional banking powerhouse, with \$88 billion in assets and a footprint spanning from Texas, to Florida, to Virginia. The company’s share price benefitted from a major Canadian Bank offering to purchase the firm at a large premium.

The largest detractors to Fund returns were Xylem Inc., Qorvo Inc. and Roku Inc. Below is a brief summary:

- **Xylem Inc. (XYL)** designs, manufactures and services engineering equipment for water and wastewater applications. While the company continues to see strong order growth from utility and industrial customers, it underperformed as a result of higher raw material costs and supply chain constraints, which pressured both margins and volumes during the quarter.
- **Qorvo Inc. (QRVO)** designs, develops and manufactures integrated circuits for the communications market, where Qorvo is most exposed to the infrastructure side of the 5G build out. Despite being generally in line with expectations this quarter, Qorvo underperformed as a result of weakness in handset sales in China.
- **Roku Inc. (ROKU)** is the largest over-the-top (“OTT”) provider of digital video streaming products and services. As the shift from traditional linear TV to OTT consumption continues, we believe Roku’s independence in the space may result in increasing advertising dollars being directed to their platform. The company dominates the minutes watched via OTT modalities (2-3 times more than the competition), and is growing its user base and revenues. Roku is viewed to have underperformed as a result of reporting disappointing subscriber addition results during the quarter.

Fund Strategy and Outlook

While the future is always uncertain, many factors support cautious optimism for equities, including the reopening of the U.S. economy (related to COVID-19), continued strong demand for goods and services, and an acceleration in announced, cash-funded share buybacks—particularly in the Technology and Financial sectors. Mitigating these positive developments are higher energy prices, driven in part by the Russia-Ukraine conflict, American and Allied countries sanctions against Russia, inflation, and continuation of the Federal Reserve tightening cycle, which will likely include several more interest rate increases, along with expected reduction of the Federal Reserve's balance sheet. We anticipate that investors will continue to be intensely focused on both inflation data and the actions of the Federal Reserve.

During the first quarter, we added an additional bank to the Fund's portfolio ahead of the anticipated rate increase cycle by the Fed. Additionally, we added two more positions, which increased the portfolio's exposure to energy exploration and production. We continue to believe the upward move in oil prices is more durable than the market seems to expect because of recent under-investment in exploration and production, as well as the development of energy infrastructure. Finally, we continue to overweight semiconductors and software companies leveraged to artificial intelligence, vehicle electrification, Cloud infrastructure and cybersecurity. We think the systems and software that runs on increasingly diverse and complex silicon may result in stronger growth than the market is discounting. We are cautiously optimistic in our outlook for mid-cap U.S. equities, and the portfolio management team is continuing to search for attractive investment opportunities in companies benefiting from material positive change.

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 PEDRO MARCAL, DIRECTOR OF EQUITIES AND HIGH YIELD	Inception Date 7/22/1994	Total Investments \$178.8M	Number of Holdings 88
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This commentary is for informational purposes only and not intended to represent a solicitation to buy or sell any particular security. The opinions shared are those of the portfolio managers and do not necessarily reflect those of the Investment Adviser of the Fund.

Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio. Past performance does not guarantee future results.

The S&P 500® Index is a stock index representative of the 500 largest U.S. companies. The Russell Midcap® Index is representative of mid-cap stocks. The Russell 2000® Index measures the performance of the 2,000 smaller companies included in the Russell 3000® Index. The Russell 2000 is managed by FTSE Russell and is widely regarded as a bellwether of the U.S. economy because of its focus on smaller companies that focus on the U.S. market. An investment cannot be made directly in an index. Performance of an index does not reflect management fees and expenses, which are reflected in Fund performance.

Information contained herein has been obtained from sources we consider reliable, but its accuracy is not guaranteed. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security.

Please refer to the Fund's prospectus for a complete description of risks associated with an investment in the Fund. These include, but are not limited to, potential loss of value, market risk, financial risk, interest rate and credit risk, and investments in highly-leveraged companies, lower-quality debt securities, foreign markets and foreign currencies.

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 800-437-1020 or visit www.aquilafunds.com.