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Investment Commentary

Period ending May 31, 2019

Economy and Interest Rates

After four months of strong gains in the equity market, volatility showed up in May with negative returns across most risk asset classes. Trade tensions dominated the news flow throughout May. The US announced an increase in tariffs on Chinese goods due to a breakdown in trade talks, with plans to implement these in June. Then later in the month, President Trump announced on social media that he was planning to implement tariffs on Mexican goods due to concerns about illegal immigration. While these trade tensions dominated the headlines, global economic data was also disappointing, including weak Chinese PMIs and lower than expected US consumer confidence. All of these issues contributed to weakness in global risk assets, with the S&P 500 declining -6.35% in May, while investors sought safety in US Treasuries, as the 10-year yield declined to the lowest levels since 2017 at 2.13%. The yield curve was also impacted by these issues, with the spread between the 3-month to 10-year Treasury turning meaningfully negative at the end of May. Many major banks now expect that the Federal Reserve will cut interest rates later this year due to the negative impact to the economy from the trade wars, as well as low inflation expectations. While the exact economic impact from the trade wars and other policy concerns is unknown, we believe that the uncertainty from these issues will continue to create volatility in the overall markets.

Aquila Three Peaks Opportunity Growth Fund and the Equity Market

Although the Aquila Three Peaks Opportunity Growth Fund Class Y share (ATGYX) had a negative return for the month of May, the Fund outperformed the Russell 3000 Index, and outperformed the Russell Mid Cap Index. On a year-to-date (“YTD”) basis, the Fund is significantly outperforming most major equity indexes. What is also notable is that throughout the month of May, the Fund consistently outperformed the Russell Midcap Index and the S&P 500 on the most volatile days, which we believe validates the Fund’s defensive positioning during this period of heightened uncertainty. In May, we believe that performance of the Fund was driven by favorable individual stock selection, particularly in the Consumer Discretionary, Industrials, and Information Technology sectors where we own more companies in services industries that are less cyclical than their overall sectors. The portfolio also benefited from acquisition activity in the Technology sector, as well as debt reduction from a new public equity issuer in the Healthcare sector. We believe that the portfolio maintains a fairly defensive posture based on the types of companies that we are invested in across various sectors.

Debt Markets as a Leading Indicator

We regularly look at the debt markets as an indicator of the health of the overall markets. The credit markets were also weak in May, with the Bloomberg Barclays U.S. High Yield Corporate Bond Index (“Index”) returning negative 1.19% in May. The yield to worst of the Index increased by 45bps to 6.57%, while the average yield spread on the Index increased by 78bps in May to end the month at 458bps. While the spread is still tighter than the spread at the end of 2018 of 541bps, the recent rise reflects an increase in caution within the high yield market. New debt issuance was strong during the first several weeks of May, but ground to a halt in the last week of the month due to the increase in yields. Total high yield bond issuance was \$28.1 billion, of which half of this issuance was during the first week of the month. Leverage loan issuance was also relatively healthy at \$30.4 billion in May compared to a YTD monthly average of \$22.8 billion, according to J.P. Morgan.

Treasury yields ended the month sharply lower with the 5-year and 10-year U.S. Treasury yields declining 37bps and 38bps, respectively. The 5-year Treasury yield ended May at 1.91% (down 60bps since 12/31/18), while the 10-year Treasury yield ended May at 2.13% (down 56bps since 12/31/18). By the end of May, several global banks, including Barclays and J.P. Morgan, came out with predictions that the Federal Reserve would cut the Fed Funds rate by 50bps to 75bps later this year. These rate cut expectations are being driven by the escalation in global trade tensions, as well as deteriorating economic and financial conditions. Inflation has also remained stubbornly low, with the core PCE deflator, which is the Fed’s preferred inflation gauge, rising only +1.6% in April compared to the Fed’s inflation target of 2.0%. While expectations of rate cuts may initially be applauded by the stock market, we would be concerned about what the Federal

Reserve is really saying about the economy if they cut rates. For this reason, we believe that it is prudent to maintain a somewhat defensive posture in our equity strategy, which has benefited the Fund so far this year.

We remain committed to our time-tested and disciplined research process that not only includes detailed analysis of companies owned in our equity strategy, but also uncovers new opportunities within the equity markets. The construction of the equity strategy continues to focus on companies using debt/leverage prudently to grow free cash flow in an attempt to propel future equity value. We will continue to use our knowledge and understanding of the high yield market to decipher the equity investment landscape and the prospects for individual company stock. We believe that our focus on understanding bond covenants and credit metrics provides a very distinct advantage to our research and stock selection. We continue to focus our research efforts on finding companies that operate in relatively stable industries and with management teams that are exceptionally communicative and focused on maintaining a reasonably strong balance sheet or strengthening the balance sheet while growing operations. We believe our approach to selecting companies who are using leverage prudently to support free cash flow generation will continue to benefit the performance of our equity strategy over time.

Thank you for your continued support and investment.

Before investing in one of the Aquila Group of Funds, carefully read about and consider the investment objectives, risks, charges, expenses, and other information found in the Fund prospectus. The prospectus is available on this site, from your financial advisor, or by calling 800-437-1020.

Information contained herein has been obtained from sources we consider reliable, but its accuracy is not guaranteed. Any opinions expressed are based on the interpretation of data available to Three Peaks Capital Management, LLC, investment sub-adviser of Aquila Three Peaks High Income Fund and Aquila Three Peaks Opportunity Growth Fund, and are subject to change at any time without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security.

The Russell Midcap Index is representative of mid-cap stocks. The Russell 3000 Index is a broad market stock index. Performance of an index does not reflect management fees and expenses which are reflected in Fund performance. The Bloomberg Barclays High Yield Corporate Bond is an unmanaged index designed to mirror the investable universe of the U.S. dollar domestic high yield corporate debt market, therefore, its performance does not reflect management fees and expenses like those associated with the Fund. One cannot invest directly in an index. Independent rating services (such as Standard & Poor's, Moody's and Fitch) assign bond ratings, which generally range from AAA (highest) to D (lowest), to indicate the credit worthiness of the underlying bonds in the portfolio. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

Please refer to the Fund 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.

The Members, Officers and Employees of Three Peaks Capital Management, as a policy of the firm, are required to disclose and report investments in reportable securities as defined in Rule 204A-1(e)(10) of the Investment Advisers Act of 1940. Three Peaks Capital Management, LLC may from time to time buy or sell securities of companies mentioned in this report for its advisory clients. Aquila Investment Management LLC, as well as certain of its Investment Companies or Investment Advisory accounts, may own the Securities being reviewed or recommended in this report. Aquila Investment Management LLC and others associated with it may from time to time have long or short positions and effect transactions in the securities of companies mentioned in this report.

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