



# AQUILA THREE PEAKS OPPORTUNITY GROWTH FUND

## INVESTMENT COMMENTARY

September, 2020



A SHARES:  
**ATGAX**

C SHARES:  
**ATGCX**

I SHARES:  
**ATRIX**

Y SHARES:  
**ATGYX**

LIPPER CATEGORY:  
**Mid Cap Core**

MORNINGSTAR CATEGORY:  
**Mid Cap Blend**

### MARKET OVERVIEW

The strong market performance seen during the back half of the second quarter of 2020 continued well into the third quarter, as the S&P 500 climbed to a new all-time high of 3,581 in early September. This rapid V-shaped recovery in the S&P 500, up 60% from its late March 2020 lows, was supported by improving economic data from the economy reopening, further positive developments in COVID-19 therapies and vaccines, coupled with declining infection and hospitalization rates, and the continued initial monetary and fiscal stimulus measures from the Federal Reserve and the U.S. Treasury. However, the record high for the S&P 500 was short-lived with the index down nearly 4% for the month of September, as concerns and uncertainty increased about the upcoming election in November, the potential for a second COVID-19 wave this fall and winter, and the prolonged stalemate in Washington over additional economic stimulus measures. Despite this sell-off in September, the S&P 500 was still able to post its best back-to-back quarters since 2009 with the index up 8.5% for the third quarter of 2020.

#### *The U.S Economy and the Pandemic*

As the U.S. economy continued to reopen and adjust to the ongoing COVID-19 pandemic, both employment and economic data showed very encouraging signs of improvement throughout the third quarter. The unemployment rate declined to 8.4% in August versus 11.2% in June, and declined further in September to 7.9%, as businesses re-opened and furloughed employees returned to work. In addition, consumer spending increased for the fourth consecutive month in August, rising 1.0%, despite the additional \$600 a week in federal unemployment that expired on August 1. Third quarter GDP is expected to show a sharp snapback following a 31% decline last quarter.

On the therapeutics and vaccine front, encouraging results continued to be announced throughout the quarter, including positive developments toward a possible COVID-19 treatment and promising later stage vaccine trial results. Also, further adoption of social distancing practices, increased mask mandates, and improved testing capabilities helped drive COVID-19 infection and hospital rates lower during the third quarter, although October has brought a slight increase in cases and hospitalizations in certain states. Recent positive developments on the COVID-19 front have the markets more optimistic that a second shutdown is less likely to occur this fall and winter and that a vaccine could be announced by later this year or early 2021.

During the quarter, the Federal Reserve and the U.S. Treasury continued with their monetary programs to provide liquidity to the markets and financial support for businesses and individuals. In addition, the Federal Reserve signaled that it expected to hold rates near zero for at least three more years to further help support the ongoing economic recovery. These unprecedented actions by the Federal Reserve and the U.S. Treasury have provided stability to the U.S. credit and equity markets, while also providing businesses and individuals with much needed stimulus capital to deal with COVID-19 related economic challenges. The initial rounds of Payroll Protection Program (PPP) loans, increased unemployment benefits, and stimulus checks have been helpful in limiting any prolonged damage to the U.S. economy at this point; however, a second round of stimulus is likely needed to continue counteracting the overall negative economic impacts from the lingering COVID-19 pandemic.

#### *Market Risks we are Watching*

While the third quarter of 2020 saw a new record high for the S&P 500 and further tightening credit spreads, several near-term risks began weighing on the markets in early September; including uncertainties surrounding the upcoming

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election in November, the increasing potential for a second spike in COVID-19 infections this fall and winter, and the on-going standoff between elected officials in Washington to pass further economic stimulus measures. Also, while the unemployment rate has been steadily improving from its all-time high in April of 14.7%, the nation has only regained about half of the overall jobs lost since the COVID-19 pandemic began, with increasing fears that some of these jobs may never come back if we have a shallower recovery than expected. In addition, there is the potential for an upcoming wave of layoffs for certain industries and across state and local governments if they are unable to secure some form of federal relief, which could dampen the recent trajectory of positive and improving economic data. Furthermore, any additional federal stimulus actions will only exacerbate the already ballooning national debt and deficit problems and stoke increasing fears that higher corporate and personal income taxes will be needed to address these issues. Despite the market's sharp turnaround, many near-term economic, pandemic, and political risks remain. Overall, understanding, assessing, and monitoring all these risks will be critical to making investment decisions going forward.

### **AQUILA THREE PEAKS OPPORTUNITY GROWTH FUND**

The Aquila Three Peaks Opportunity Growth Fund Class Y Share (ATGYX) generated a total return of +7.11% in the third quarter of 2020, which slightly underperformed the Fund's benchmark of the Russell Midcap Index, which returned +7.46%. During the third quarter, the top sectors in the Russell Midcap Index were Communications (+14.9%), Consumer Discretionary (+14.7%), Materials (+12.9%) and Industrials (+11.9%), while the worst performing sectors were Energy (-15.6%), Real Estate (+0.3%), and Financials (+2.4%). The Fund generated outperformance in the Financials and Real Estate sectors in the third quarter, which mostly offset underperformance in the Consumer Discretionary and Consumer Staples sectors during the quarter.

The Fund was able to successfully navigate increasing sector rotation during the quarter relating to the potential outcome of the November elections, which began to carry greater significance during the third quarter. Goldman Sachs' two long/short indices of stocks that would either be positively or negatively impacted by Democrat or Republican policies showed that the Democrat basket outperformed the Republican basket by roughly 20% in the third quarter, as stocks linked to Democrat themes like renewables and infrastructure outperformed Republican themes like Oil & Gas and Financials. We believe that we have created a balanced portfolio that can perform well relative to our benchmark and peers regardless of the outcome of the election, as demonstrated by our stable relative performance during the third quarter.

### **THE THREE PEAKS CAPITAL MANAGEMENT APPROACH**

We remain committed to our time-tested and disciplined research process that not only includes detailed analysis of companies held in the Fund, but also seeks to uncover new opportunities within the equity market. The construction of the equity strategy continues to highlight companies focused on prudently growing free cash flow in an attempt to propel future equity value. We will continue to use our knowledge and understanding of the fixed income markets to decipher the equity investment landscape and the prospects for an individual company's stock. We believe that our focus on understanding 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 that have management teams who 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 with accelerating free cash flow generation has the potential to benefit the Fund over time. In these uncertain times, we are focused on finding companies that have the strength to withstand the economic hardships caused by the ongoing COVID-19 pandemic, while also being able to grow their free cash flow over the long-term. We will continue to monitor business and consumer activity closely for insights into the investment landscape as we attempt to navigate this uncertain environment.

For specific information about fund characteristics, holdings and performance please see the [Fund Fact Sheet](#) on our website at [www.aquilafunds.com](http://www.aquilafunds.com).

**AVERAGE ANNUAL TOTAL RETURNS AS OF SEPTEMBER 30, 2020**

	CUMULATIVE RETURN			AVERAGE ANNUAL RETURN							MAX SALES CHARGE	MAX CDSC	TOTAL OPERATING EXPENSE
	3RD QTR 2020	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION	INCEPTION DATE					
A Shares NAV	7.04%	-7.76%	-1.18%	4.64%	6.99%	11.74%	8.10%	7/22/94	--	--	1.50%		
A Shares MOP	2.48%	-11.69%	-5.38%	3.13%	6.07%	11.26%	7.92%	7/22/94	4.25%	--	1.50%		
C Shares w/o CDSC	6.84%	-8.23%	-1.85%	3.91%	6.24%	10.94%	6.83%	5/1/96	--	--	2.21%		
C Shares w/ CDSC	5.84%	-9.15%	-2.73%	--	--	--	--	5/1/96	--	1.00%	2.21%		
I Shares	7.04%	-7.71%	-1.12%	4.70%	7.08%	11.96%	6.83%	12/01/05	--	--	1.48%		
Y Shares	7.11%	-7.57%	-0.88%	4.95%	7.31%	12.08%	7.87%	5/01/96	--	--	1.21%		
Russell Mid Cap® Index	7.46%	-2.35%	4.55%	7.13%	10.13%	11.76%	--						
Russell 3000® Index	9.21%	5.41%	15.00%	11.65%	13.69%	13.48%	--						
S&P 500® TR Index	8.93%	5.57%	15.15%	12.28%	14.15%	13.74%	--						
Lipper Ranking - Y share Mid Cap Core Funds <sup>3</sup>			127 of 338	56 of 304	91 of 253	5 of 177							
Lipper Percentile <sup>3</sup>			38th	18th	36th	3rd							

Performance current to the most recent month-end and a full list of holdings is available at: 800-437-1020 or [www.aquilafunds.com](http://www.aquilafunds.com).

Performance data represents past performance, but does not guarantee future results. Investment return and principal value will fluctuate; shares, when redeemed, may be worth more or less than their original cost; current performance may be lower or higher than the data presented. Current month-end performance is available at: 800-437-1020 or [www.aquilafunds.com](http://www.aquilafunds.com). Class A shares have a maximum sales charge of 4.25%; Y shares have no initial or contingent deferred sales charge. Class Y shares may only be purchased through an investment professional or financial institution. Class A MOP returns reflect deduction of the maximum 4.25% sales charge; Class A NAV returns do not reflect deduction of the sales charge and would be lower if that charge were reflected. An explanation of the share classes appears in the Fund prospectus.

<sup>1</sup> Lipper category is as of 09/30/20 for the Class Y share and may not accurately represent the current composition of the portfolio. Lipper rankings are based on total return without sales charge relative to all share classes of funds with similar objectives as determined by Lipper, and each share class is ranked individually. Lipper ratings are not intended to predict future results, and Lipper does not guarantee the accuracy of this information.

Russell 3000® Index is representative of the largest 3000 US Companies. The Russell Midcap® Index is representative of mid-cap stocks. The S&P 500® Index is a stock index representative of the 500 largest US companies. 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. 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. 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.

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](http://www.aquilafunds.com).