Aquila Opportunity Growth Fund

PORTFOLIO MANAGER COMMENTARY

Q1 2024

A Shares: **ATGAX**	C Shares: **ATGCX**	I Shares: **ATRIX**	Y Shares: **ATGYX**

U.S. Equity Markets: Quarterly Review

Equity markets produced strong and positive returns across all capitalization ranges during the first quarter of 2024. The markets generally saw strength for equities and other risk assets, driven in part by investors' expectations that the Federal Reserve (the "Fed") would begin to reduce interest rates and slow the rate at which it is shrinking its balance sheet in the coming quarters.

Although market participants have built in a substantial amount of easing by the Fed in 2024, inflation remains more stubborn than most anticipated, and the labor market continues its remarkable resilience. Hence, we still expect the Fed to remain vigilant in its mandate for stable prices and full employment, resulting in rates remaining at current levels for a bit longer than most investors are currently forecasting. This will likely continue to impact the interest rate-sensitive portion of the economy, and may possibly lead to an economic slowdown and increased unemployment during 2024. As a result, we think future corporate profits may be lower than investors are currently anticipating. We believe investors will continue to be intensely focused on both inflation data and the actions of the Federal Reserve in the coming year. And we expect the Fed to continue to significantly reduce the absolute size of its balance sheet.

As we enter the second quarter of 2024, the Federal Reserve and the Treasury are continuing to exert influence on markets. While the Fed's official stated policy continues to be one of Quantitative Tightening ("QT"), the reality is more complex, with QT only impacting its balance sheet. Overall, the Fed, in conjunction with the Treasury, is pursuing a policy of what we have been calling Quantitative Neutrality ("QN"), as measured by Domestic Liquidity that is equal to Bank Reserve Credit less the U.S. Treasury General Account and the Fed Reverse Repo Program. Examining the data, we find Domestic Liquidity in the U.S. financial system increased by $268 billion, from $5.89 trillion since the Fed began reducing its overall balance sheet in the middle of 2022 to $6.16 trillion as of 3/31/24. Impressively, the Fed was able to achieve this increase in liquidity while shrinking its balance sheet of securities held by over $1.46 trillion. That said, during Q1 2024, the Treasury and the Fed have increased Domestic Liquidity in the system by $14 billion, from $6.14 trillion on 12/31/23 to $6.16 trillion at the end of the first quarter. It may be that the Treasury and Fed will finally begin to implement the Fed's stated policy of Quantitative Tightening. While we continue to take the view that the Fed will pursue a more QN-oriented policy in the near-term, we will watch the data and monitor the situation closely.

While there is always uncertainty about the future, our cautious optimism for mid-cap equities is driven by several factors including valuation, government monetary and fiscal policy stimulus, current high employment rates, and continued strong demand for goods and services in the United States. Mitigating these positive developments are volatile energy prices (driven by years of underinvestment in energy infrastructure, a reduction of the supply of crude oil by the Organization of the Petroleum Exporting Countries, rising tensions in the Middle East, the energy shock caused by the Russia/Ukraine conflict (and American and Allied countries' sanctions against Russia), inflation, and an elevated interest rate environment.

Aquila Opportunity Growth Fund: Portfolio Attribution

For the first quarter of 2024, the Fund's performance was driven by stock selection. Stock selection in the Information Technology, Energy and Consumer Discretionary sectors contributed positively, while stock selection in Health Care, Communications Services and Financials had a negative impact on the Fund. Additionally, the portfolio was helped by an overweight position in Energy, and hurt by an overweight position in Communications Services. Conversely, the portfolio was aided by underweight positions in the Utilities, Real Estate and Consumer Staples sectors, but underweighted positions in the Financials, Industrials and Consumer Discretionary sectors were detractors.

At the stock level, the largest positive contributors in the quarter were Arm Holdings PLC (ARM), Micron Technology, Inc. (MU) and Impinj, Inc. (PI).

- Arm Holdings is the dominant provider of central processing unit chip design Intellectual property for mobile and internet of things, with a burgeoning market for mobile, cloud, and artificial intelligence ("AI") computation. After an IPO in September 2023 at $51, the shares treaded water until they released strong CQ4/FQ3 earnings results and guidance in February 2024, which drove Arm's stock price from the $70s to over $120. Strong demand for Arm-based processors for AI, which are more complex and contain more cores per chip, helped drive the share price. After this appreciation, we sold the stock from the Fund.
- Micron is the third largest provider of memory chips and the only U.S.-based memory company. We think Micron has the leading technology for both traditional DRAM and NAND flash memory, and also the burgeoning market for AI-specific DRAM called high bandwidth memory ("HBM"). Post a COVID-induced boom in memory consumption, the industry saw one of the deepest downturns in its history. As investors began to realize that the eight-fold increase in DRAM consumption per AI server vs. traditional applications, and the two-times increase in wafer consumption for HBM per bit was real, Micron's shares rose sharply after their F2Q (ended February 2024) results and guidance. Higher unit demand and pricing increases may help drive continued strong revenue growth and operating leverage should the market for AI continues to ramp up.

- Impinj provides Radio Frequency Identification ("RFID") solutions for identifying, locating and authenticating items. The RFID market has evolved to a near-duopoly for Impinj and one major competitor, and Impinj is the largest company dedicated solely to RFID. Impinj's integrated reader and endpoint solutions offer what is believed to be the highest degree of functionality in the market. The duopoly tilted sharply in Impinj's favor in mid-March, when the company prevailed in an intellectual property lawsuit against this competitor that requires payment of damages and an ongoing royalty to Impinj. Additional support for the stock price had already arrived in February, when Impinj released solid results and reiterated guidance. We continue to hold Impinj in the Fund.

The largest detractors of the Fund's returns in the fourth quarter were Zoominfo Technologies Inc. (ZI), Ambarella, Inc. (AMBA), and Wesco International, Inc. (WCC).

- ZoomInfo is the premier provider of high-quality sales leads and their associated software, APIs, and integrations. We believe the company is a cornerstone of the SaaS software front-office ecosystem, and we continue to own the shares. Despite an in-line set of Q3 2023 results, and channel checks suggesting that demand for the company's solutions has bottomed, investors are taking a wait-and-see approach ahead of the company's next results release in May.
- Ambarella is the dominant provider of intelligent computer vision and imaging silicon and software. Although Ambarella has what we consider to be the best third-party solution for advanced driver assistance systems ("ADAS"), they have been grouped with a temporarily out-of-favor set of electric vehicle and automotive semiconductor companies whose shares underperformed. After seeing negative revisions to forecasts in Q4 2023 due to inventory clearance, the outlook for Ambarella's earnings has stabilized. We continue to believe that Ambarella will be the ADAS solution of choice for the burgeoning non-Tesla segment of the market moving forward.
- Wesco is a U.S.-based distributor that offers over one million different electrical components, and provides procurement services to utilities, manufacturers and commercial customers. Shares underperformed during the first quarter after management provided a weak 2024 outlook that disappointed the Street. Management noted that sales are under pressure due to customer destocking and transitory cyclical headwinds. Given management's limited visibility as to when demand may recover, shares underperformed in Q1. Furthermore, the company continues to prioritize debt reduction over shareholder return in the middle-to-long term. We have sold Wesco from Fund.

Fund Strategy and Outlook

During the first quarter of 2024, the Fund's investment management team increased positions in the Healthcare, Financials and Consumer Discretionary sectors, while reducing our weightings in Utilities, Materials, and Energy. At present, we remain overweight the Energy sector, as we believe there will be an upward move in oil prices related to the factors mentioned above. We are currently underweight the Financials sector in anticipation of continued elevated interest rates and an ongoing tightening cycle by the Federal Reserve.

We reduced our overweight position in the Healthcare sector due to valuation improvement. We continue to favor companies with new product cycles and those that are taking cost actions to adjust to lower demand, thus improving long-term earnings profiles. Separately, we remain underweight the Industrials sector and prefer companies that benefit from manufacturing moving onshore and electrical grid network upgrades. For the Materials sector, we moved to overweight and favor companies that received administrative support in critical materials supply chain necessary for domestic manufacturing.

Finally, we remain overweight Information Technology and Communication Services. We continue to overweight semiconductors, software and communications equipment companies leveraged to artificial intelligence, vehicle electrification, cloud infrastructure, cybersecurity and quantum computing. We think the systems and software that run on increasingly diverse and complex silicon may result in more sustainable growth than the market seems to be discounting.

We believe the tectonic shift from traditional computation, to machine learning and AI, and eventually to quantum, may be some of the most significant disruptions to the technology landscape since the advent of the Internet almost 30 years ago. We feel that we are well-positioned for this change. In further support of our investment strategy and philosophy, we continue to seek attractive investment opportunities in the shares of companies that we believe are benefiting from material positive changes in this key sector of the economy.

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 3/31/2024

Lead Portfolio Manager	Inception Date	Total Investments	Number of Holdings
PEDRO MARCAL, DIRECTOR OF EQUITIES AND HIGH YIELD	7/22/1994	$119.5M	67

Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio. A complete list of the Fund's current holdings, including percentage allocation, is available on our website and by contacting Aquila Group of Funds. Securities of the companies referenced were portfolio holdings of Aquila Opportunity Growth Fund during the first quarter of 2024. Following is a listing of the companies, represented as a percentage of the Fund's total portfolio as of 3/31/24: Micron Technology, Inc.: 3.95%; Impinj, Inc.: 4.51%; ZoomInfo Technologies Inc.: 3.26%; and Ambarella, Inc.: 1.70%.