Aquila Tax-Free Trust of Oregon

PORTFOLIO MANAGER COMMENTARY

Q1 2022

A Shares: **ORTFX**	C Shares: **ORTCX**	F Shares: **ORFFX**	Y Shares: **ORTYX**

Municipal Bond Market Overview

Municipal rates shifted higher over the first quarter of 2022, particularly in the 1- to 5-year range of the yield curve. This move in rates was spurred on by the Federal Reserve ("the Fed"), with the municipal market reflecting its anticipation of a series of interest rate hikes, as the Fed raised the Federal Funds rate for the first time since 2018. Overall, the yield curve is now flatter, with adjustments on the longer-end of the yield curve less severe, as the market continues to incorporate a transitory view of inflation.

Although yields have risen from their lows, rates remain well below current inflation levels. Last summer's consensus for the inflation outlook was for a peak around year-end to the first quarter of 2022. However, the consensus did not anticipate the economic impact of the events in Ukraine. Supply chains have recovered some, but the Russia-Ukraine conflict continues to pressure commodities and energy prices.

Bond yields, while higher, continue to be relatively low particularly when compared to recent inflation releases. The result is that real rates, incorporating the impact of inflation, are actually negative. Thus, the current outlook for additional rate hikes seems reasonable and likely. The Treasury yield curve may have recently inverted, but the municipal yield curve remains upwardly sloped. Recent movements between the two asset classes have resulted in favorable Muni/Treasury ratios, with 10-year munis yielding over 90% of Treasuries. We anticipate that municipal bond yields will continue to increase as the Fed pursues its path towards higher interest rates in an attempt to dampen inflation.

As interest rates ramp-up, existing positions of callable bonds may experience fewer calls going forward. Market participants believe this may result in greater demand for callable holdings. In addition, taxable muni yields have risen in parallel with Treasury yields, which has rendered many taxable muni refundings "uneconomical." As a result, year-to-date taxable muni issuance is approximately 40% of last year's issuance over the same period.

The municipal bond market experienced significant outflows during the first quarter. As investors have pulled back from the market, elevated secondary market trading activity has created the opportunity to capture higher yields at the portfolio level, which we are closely monitoring

Oregon Municipal Bond Market and Economy

The Oregon employment continues to be robust, adding a record number of jobs in 2021. However, the labor market is very tight and expected to remain so. The State's unemployment rate dropped to 3.8% in March, which is down from 4.0% in February. This is the lowest level of unemployment Oregon has seen since the onset of the pandemic. Oregon's unemployment rate finished 2021 at 4.1%, edging down from 4.2% in November. Furthermore, construction employment in the State reached a record high of 117,500 jobs. Over the past two years, the employment gyrations in Leisure & Hospitality have accounted for a large share of the swings in Oregon's total employment. Leisure & Hospitality includes restaurants, bars, coffee shops, hotels, golf courses and fitness centers. Employment peaked within the sector at 216,300 jobs in February 2020 and, within two months, over half its jobs were cut. Since then, the sector has since regained a significant portion of jobs lost, but remains 8.5% below its pre-pandemic peak.

The Oregon Office of Economic Analysis cited persistently high inflation as the biggest risk in the March 2022 Economic and Revenue Forecast. The inflationary boom has resulted in the State's primary revenue sources outperforming pre-pandemic expectations resulting in upward revisions to the revenue outlook. However, the State is concerned that the economy has the potential to run too hot, creating a boom/bust dynamic in the years ahead.

Oregon's reserve funds currently total a combined $1.45 billion. At the end of the current 2021-23 biennium, the State is forecasting these reserves will total $1.98 billion. Including the currently projected $3.02 billion fund balance in the State's General Fund, the total effective reserves at the end of the 2021-23 biennium are projected to be $5 billion, or 20% of current revenues. These levels of reserve balances are larger than Oregon has been able to accumulate in past cycles, and are estimated to help stabilize the budget when the next recession hits.

Although demand has weakened over the past quarter, sourcing bonds continues to be a challenge due to continued strong demand for municipal bonds, with new issues still multiple times oversubscribed. Although tax-exempt non-AMT municipal bond issuance for 2021 dropped by 15.6%, 2021 was a strong year for municipal issuance. Tax-exempt issuance for 2022 is off to a strong start, with year-to-date issuance year-over-year. Furthermore, the November 2021 election, which approves local property tax-backed general obligation bonds, is an important source of Oregon issuance. The election produced only $421 million in new bond measures versus $2.1 billion approved at the 2020 Oregon November special election. Over the past quarter, issuance has come from a broad variety of issuers, including city, county, mass transit, housing, higher education, healthcare, airport and school districts, with both new money and refunding issues.

With the increase in Treasury rates, taxable issuance has dropped significantly. Through mid-February, taxable issuance levels dropped from $379 million in 2021 to a mere $13.4 million in 2022. During 2021, Oregon saw almost $3 billion in taxable issuance versus $4.5 billion in 2020. However, the Port of Portland issued $527 million in bonds which, while tax-exempt, are subject to the alternative minimum tax. Much of the taxable activity over the last few years has been spurred by the elimination of tax-exempt advance refunding bonds as a result of the Tax Cuts and Jobs Act. Although refunding bonds are a positive development for local government balance sheet metrics, we remain concerned about the reduction in supply of tax-exempt bonds by transferring that issuance to the taxable market. The impact on the Oregon muni market has been more pronounced than in other states, with approximately half of municipal bonds sold in 2021 carrying taxable interest. Historically, this number has been closer to 10% or 15%.

Fund Outlook and Strategy

With a relatively flat yield curve and tight credit spreads, we remain cautious in our selection of municipal bonds. We have been taking advantage of the higher interest rate environment by initiating security swaps structured to reduce lower-yielding securities and replace them with higher-yielding securities in the 10- to 15-year maturity range. Given the current slope of the yield curve, we believe this can be accomplished without adding meaningful extension risk to our target portfolio duration of 4.5-4.75 years. With Fed policy pointing toward additional rate hikes and more aggressive tightening, we continue to resist the temptation to meaningfully extend duration. However, should the yield curve steepen, we would consider slightly lengthening duration to take advantage of higher rates.

Credit research remains the cornerstone of our investment approach, with vigilant monitoring of pandemic-affected issuers and sectors. Under our overall defensive portfolio strategy, the Fund holds approximately 97% AA or higher credit quality, due to currently narrow credit spreads in the municipal market. As the economy recovers, we have expanded our effort to evaluate currently under-represented sectors and bonds with attractive structures or relative spreads. These focuses present an opportunity to capture incremental yield while diversifying risk. Furthermore, these sectors present an opportunity to increase exposure to holdings with yields commensurate to, or exceeding, potential volatility.

As credit spreads tightened during 2021, investors seemed willing to assume greater credit risk to replace legacy yields on maturing high-grade bonds. Although we have recently experienced some spread-widening, we view credit risk as not being sufficiently rewarded, particularly for longer maturities. For this reason, we continue to maintain a heightened exposure to pre-refunded bonds as a source of liquidity and current yield. Our exposure to pre-refunded bonds remains elevated, due to municipalities refunding existing issues in this still relatively low-rate environment to achieve debt service savings.

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

CO-PORTFOLIO MANAGER	INCEPTION DATE	TOTAL INVESTMENTS	NUMBER OF HOLDINGS
CHRIS JOHNS CO-PORTFOLIO MANAGER **TIM ILTZ**	**6/16/1986**	**$586.1M**	**278**

Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio. Mutual fund investing involves risk; loss of principal is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived decline in credit quality of the issuer, borrower, counterparty, or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. Fund performance could be more volatile than that of funds with greater geographic diversification.

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. Where the independent rating services differ in the rating they assign to an issue, or do not provide a rating for an issue, the highest available rating is used in calculating allocations by rating.

A credit spread or a yield yield spread is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities.

Modified and effective duration both measure the value of a security in response to a change in interest rates. Effective duration also takes into account the effect of embedded options.

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