Aquila Narragansett Tax-Free Income Fund

PORTFOLIO MANAGER COMMENTARY

Q3 2021

A Shares: **NITFX**	C Shares: **NITCX**	F Shares: **NIFFX**	Y Shares: **NITYX**

Municipal Bond Market Overview

The municipal bond market closed out the third quarter of 2021 at wider levels, as weary investors backed off the unsustainably tight spreads that occurred over the summer. Despite expectations of higher income tax rates in 2022 and beyond, yield spreads moved in sympathy with U.S. Treasury rates. As concerns over the status of the Infrastructure bill, Federal Stimulus package, debt ceiling, and Federal Reserve tapering weighed heavily across the fixed income markets. Municipal notes and bonds as a percentage of U.S. Treasuries also saw those ratios move to the higher end of their quarterly ranges. However, they remain below their long-term averages. The most recent view is that Fed tapering may allow longer term rates to rise, while continuing to anchor short-term rates at or near 0%. This in and of itself could cause the yield curve to steepen, as investors generally expect to get paid a higher yield for extending maturity. While this may well play out as planned over time, the road to that is paved with many twists and turns along the way. Many market participants believe that tax-free municipal bonds, in particular, could remain in vogue, and expect spreads to recover from their quarter-end wide levels, driven by demand and a result of expected tax policy being finalized in Congress.

Rhode Island Municipal Bond Market and Economy

Issuance within the State of Rhode Island was just under $450 million for the third quarter, consisting of eight issues. Of this, about $155 million (35%) were taxable municipal bonds. Approximately half of the tax-exempt issues were school bonds representing three different communities that were not previously owned, adding to further diversification. The visible supply over the next quarter appears to be relatively light at the time of this writing. There is some expectation that both new and refunding issuance may come to market during the fourth quarter.

Rhode Island saw a 0.1% uptick in unemployment to 5.8% in the month of August, as more residents looked for work. This rate is down from 12.6% year-over-year, and the State has recovered nearly 73% of the jobs lost during the pandemic shutdown. Jobs within the State rose 800 from July 2021, keeping the streak of eight consecutive months of job gains alive. The largest job gains over the month were in the Accommodation & Food Services sector, as full-service restaurants ramped up to meet customer demand. Two sectors—Professional & Business Services, and Construction and Retail Trade—also saw meaningful gains over the most recent month.

Rhode Island also saw the groundbreaking of the $100 million expansion of Bally's Twin River Casino Resort in Lincoln. Over the next year, the project is expected to add over 10,000 square feet to the gambling floor, a 14,000 square foot Korean-style spa,and an enhanced food hall. Additional enhancements being planned include better air circulation and lighting, and greater separation between smoking and non-smoking sections.

Fund Outlook and Strategy

Recent portfolio purchases have continued to diversify the portfolio by revenue source and extended duration to take advantage of higher yields due to a steeper yield curve. Since new issuance has been limited, we believe extending duration and maturity makes sense, as the portfolio tends to shorten naturally over time. Turnover in the portfolio has and is expected to be limited during the next quarter, unless we see rates move higher or newer issuance increases. Secondary market bonds are even scarcer to come by at this time, and any issues we have seen are those we already own and do not wish to increase exposure. As concerns over the Fed's tapering plan and eventual increasing of short-term rates takes hold, we will seek to take advantage of some of the recent spread-widening opportunities in the market. However, given the expectation of higher tax rates to pay for anticipated federal borrowing, this spread-widening may very well be short-lived.

For specific information about the Fund's characteristics, holdings and performance please see the Fact Sheet on our website at www.aquilafunds.com.

Fund Facts as of 9/30/2021

Portfolio Manager	Inception Date	Total Investments	Number Of Holdings
JEFF HANNA, CFA®	9/10/1992	$266.3M	178

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.

A credit spread is the difference in yield between a U.S. Treasury bond and another debt security of the same maturity but different credit quality.

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.

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. Pre-refunded/Escrowed bonds are issued for the purpose of retiring or redeeming an outstanding bond issue at a specified call date. Until the call date, the proceeds from the bond issuance are typically placed in a trust and invested in U.S. Treasury bonds or state and local government securities. Non-rated bonds are holdings that have not been rated by a nationally recognized statistical rating organization.

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