AQUILA®
GROUP OF FUNDS

Investment Commentary

September, 2018

AQUILA®
Narragansett
Tax-Free Income Fund

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

National and Rhode Island Municipal Market

The quarter finished with interest rates on a modest upswing in response to continued reports of stronger economic growth coupled with the anticipation of further rate increases. Benchmark 10-year AAA municipal yields spent July and August between 2.41% – 2.50% before climbing steadily throughout September. Yields rose in September from 2.45%-2.60%, the largest monthly increase since last January when yields jumped from 1.99% to 2.36%.

New municipal bond issue forecasts for the summer called for up $140 billion in net-negative issuance, and the slow-down occurred as expected. This scarcity factor was evident in the Rhode Island municipal market as well. While total issuance nationally in the third quarter only slipped modestly to $88 billion from $92 billion in the third quarter of 2017, Rhode Island issuance contracted by over 40% for the same time period. New issues declined from over $1 billion through the third quarter of 2017, to $628 million through September of this year.

National Economy

The national unemployment rate dipped to 3.7% in September as the economy added jobs for a record 96th straight month. This occurred as 2nd quarter GDP growth was upwardly revised to 4.2% as the benefits of the 2017 tax reform law began to materialize. Growth over the third quarter is expected to fall modestly in the 2.6%-2.9% range. Overall GDP expectations in 2018 remain at 2.9% and only 2.6% in 2019.

The Federal Reserve raised its target rate 25 basis point on September 26th, its 8th such increase since 2015 which left the Fed Funds Target Rate at 2.00%. The Fed's main concern has been to prevent inflation from accelerating beyond its preferred target of 2%. Most signs indicate inflation remains contained in this range. CPI and GDP price index forecasts from the Blue Chip Economic Survey call for inflation in 2018 to peak slightly above 2% and potentially recede somewhat in 2019.

These forecasts point towards the Fed's current campaign of preemptive moves having success in containing inflation amidst the backdrop of both economic growth and employment gains. The gradual increase in interest rates by the Fed, to date, appears to be accomplishing its goal of maintaining moderating growth, to keep prices and inflation expectations in check, without stifling consumer demand and economic growth.

Rhode Island Economy

Rhode Island's economy continued to improve through the third quarter, as more Rhode Islanders went back to work, and the unemployment rate dropped to a post-recession record low of 3.9% for September. According to data from the U.S. Commerce Department, our state's economy grew faster than any other northeastern state at the close of 2017 with a GDP of 2.7%, and the momentum has continued this year. According to the Providence Journal's new Economic Scorecard, which evaluates 11 key economic indicators, Rhode Island's score was up thirty percent from the second quarter to the third quarter. The state's GDP was at a ten-year high of $52 billion in September. Personal income, labor force participation, and job growth all continued to trend positive in the latest survey.

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Fund Outlook and Strategy

Municipal bond yields in the intermediate range ended the quarter offering more value than the past several years, with yields approaching almost 100% of comparable maturity US Treasuries. Conditions in the municipal market have been favorable of our Fund's intermediate, high-quality mandate. The municipal bond curve retained much greater steepness than that of Treasuries after the September rate hike, providing both very high relative yields and added principal stability from rolling down the curve.

The portfolio characteristics of Aquila Narragansett Tax-Free Income Fund remained defensive during the third quarter. The weighted average maturity remained steady at 9.1 years and the modified duration remained around 4.7 years. Credit quality remains very high with over 81% of the portfolio either pre-refunded or rated AA or higher. We believe that our defensive strategy will weather the changing interest rate environment well. We do not plan to extend duration until relative yields on longer maturities provide greater value. We intend to maintain an intermediate average portfolio maturity, emphasizing investment-grade credit quality, and a balanced exposure to callable bonds. Furthermore, we will continue to perform in-depth credit research on portfolio holdings, as we believe it is critical during the current rapidly changing economic environment.

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

Fund Facts

Portfolio Manager	Inception Date	Total Investments	Number of Holdings
Jeff Hanna, CFA®	9/10/1992	$222.9M (as of 09/30/18)	149 (as of 09/30/18)

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.