A Careful Approach for Today's Markets

Podcast Transcript

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AQUILA® GROUP OF FUNDS

AQUILA® Three Peaks Opportunity Growth Fund

Rob Arnold:
This is Rob Arnold, Regional Sales Manager with Aquila Group of Funds. The title for today's podcast is a careful approach for today's market, free cashflow, improving balance sheets, and finding opportunities in 2021. In today's discussion, we'll highlight updates on the economy, the equity markets, and how free cashflow and balance sheet improvements are factored into the portfolio composition of Aquila Three Peaks Opportunity Growth Fund. Ticker, ATGYX. I'd like to introduce our guests, I am joined by Co-Portfolio Managers, Sandy Rufenacht, [and]Dave Battilega. Gentlemen, thank you for being here to share insight on what has been an already eventful year. Let's tackle today's economic and Fund update discussion.

Regarding the economy, we've seen the ten-year treasury move from 93 basis points at year-end to 1.74% as of March 31st with the recent FOMC meeting suggesting GDP is now expected to increase to 6.5% in 2021 up sharply from the 4.2% forecast made last December. Sandy, what are your takeaways on the overall strength of the economy and which weaknesses caught your attention last quarter?

Sandy Rufenacht:
Well, the strength I think is we've picked up right where we were prior to the pandemic, and obviously we've had a great deal of stimulus, had a very accommodative Fed. And so generally speaking, it's worked. The overall flooding the environment with money has certainly worked. We long thought that treasury yields were poised to rise and we positioned accordingly and a rising rate environment will eventually find its way to the equity market. But at this point, it's certainly not something that's affecting at least the equity market. As the risk-free rate rises, as I mentioned, it'll generally hit all asset classes. It initially hits the duration sensitive or interest rate sensitive asset classes. It'll later find its way perhaps into the high yield market at certainly in the higher-quality aspect of the high yield market. And then eventually, the risk is that it slows the economy or perhaps sends it into a recession and will eventually hit the equity market. We thought the prospects for rapidly improving economy were likely this given the strength prior to the pandemic, as I mentioned, the rapid deployment of the stimulus and the exceptionally accommodative Fed. And then lastly, kind of project warp speed has certainly worked. Vaccinations are rolling out across the country more rapidly now and we're certainly getting more and more people immunized, which is certainly a good thing. I think from a risk perspective we certainly have to be cognizant of supply shocks. Computer chips, for example, in autos are certainly an issue right now in terms of the auto sector. And then lastly, I think that we do have to be certainly aware of inflation and perhaps what that might mean later down the road for even a further rise in interest rates. We can see demand for, as I mentioned, computer chips, boats, guns, autos, housing, lumber, rising fuel costs. In general, it feels pretty robust and certainly something we want to be paying attention to from an inflationary perspective.

Rob Arnold:
Moving on to the topic of equity markets, 2021 in any other year could grab one's attention and check the box on high volatility. But as we compare year to date 2021 through the same time period last year, it seems a bit tame. All the while, the Dow Jones Industrial Average has eclipsed 33,000 and the S&P 500 surpassed 4,000. Sandy, is the market running smoothly or are we out over our ski tips a bit?

Sandy Rufenacht:
Well, as I mentioned in the previous question, it is running smoothly and it's improved, the economy's improved dramatically and the stock market's certainly taken notice. That said, we're pretty mindful of the rising treasury yields, rising fuel costs, and the possibility of potentially taxes rising at the corporate level and perhaps at the wealthy individual level. So certainly something we need to pay attention to. That said, I think that it's a long year and one must pay attention. And I don't think we're going to be the entire year without volatility. So we've tried to prepare for volatility that we think will eventually come at some point. And this will likely be brought on by the rising rate environment. So certainly something we're paying attention to. And while it's been smooth sailing so far, we're prepared for volatility down the road.

Rob Arnold:
As we navigate through 2021, as you mentioned, we'll surely encounter our fair share of rotations and themes. Dave, where does fundamental analysis, balance sheet improvement and credit research come into play given all of these different market trends we're seeing?

Dave Battilega:
Yeah, that's a great question. And we believe a particularly important one in the current environment which is experiencing elevated SPAC and non-profitable IPO activity in emerging industries or people are placing valuations on future revenues that are still years away, if even at all. So there's a great deal of elevated risk taking going on in the markets. From our perspective, companies that operate in established industries with management teams that are prudently utilizing their free cash flow and balance sheet to accelerate top-line growth, improve their margin profile and increase their free cash flow should produce attractive shareholder returns over time. And as I've mentioned, we think this is a good way to manage for the long haul here. And importantly, we are finding many established companies that actually can benefit from some of these emerging themes by reinvesting or investing in them, but yet not placing the company or equity holders at significant risk should the prospects end up being not as generous as investors are currently anticipating for those particular areas.

Rob Arnold:
As Q2 progresses, Dave, what economic and market developments are you most closely watching?

Dave Battilega:
Yeah, obviously I think the prospects for an infrastructure bill, what is ultimately in that bill and how it will be paid for with the potential for increased corporate tax rate and even taxes on the individual's rising potentially, that comes to top of mind. Also the potential for increased regulation and what we're starting to see is kind of an increasing potentially geopolitical tensions. Those are certainly key coming over the next few months. Any change in Fed commentary towards less accommodative stance, that could have significant implications for the bond market, which could filter into the equity market in a more meaningful way. And then maybe lastly, we're certainly beginning to hear more and more about supply chain issues, transportation, logistic issues, tightening labor and wage pressures and rising commodity and input costs. These all have implications for company earnings and economic activity, and those are things I always certainly want to monitor closely as we progress through this year.

Rob Arnold:
Once again, Sandy, Dave, thank you for today's interview and update. For the latest quarterly and monthly performance information and characteristics of the Aquila Three Peaks Opportunity Growth Fund, please visit our website at aquilafunds.com.

Disclosures:

Thank you for listening to this podcast. The opinions shared are those of the portfolio managers and do not necessarily reflect those of the Advisor or Subadvisor of the Fund.

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Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio.

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Aquila Three Peaks High Income Fund will typically include a high proportion, perhaps even 100%, of high-yield / high-risk securities rated below investment grade. High-yield corporate bonds generally have greater credit risk than other types of fixed-income securities and may be especially sensitive to economic and political changes or adverse developments specific to the company that issued the bond.

Risks associated with Aquila Three Peaks Opportunity Growth Fund 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. Please refer to the Fund prospectus for a complete description of risks associated with an investment in the Fund.

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 creditworthiness of underlying bonds in the portfolio. Where the independent rating services differ in the rating

assigned 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 or escrowed bonds are issued to retire or regain an outstanding bond issue at a specific call date. Until the call date, the proceeds of the bond issuance are typically placed in a trust and invested in US treasury bonds or state and local government securities.

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A credit spread is a difference in yield between two bonds of similar maturity, but different credit quality.
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CARES Act Stands for Coronavirus Aid, Relief, and Economic Security Act.
Yield refers to the earnings generated and realized on an investment over a specific period. Yield is expressed as a percentage based on the invested amount, current market value, or face value of the security, and includes the interest earned or dividends received from holding a particular security.

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