Investing in Muni Bond Funds While Interest Rates Rise

May, 2018

AQUILA® GROUP OF FUNDS

AQUILA® Tax-Free Trust of Arizona

After almost a decade of extremely accommodative monetary policy with a zero-bound Fed Funds target rate, the Fed began increasing rates in late 2015. Since then, rates have increased six times, and are expected to rise several more this calendar year depending on inflationary pressure that may result from the fiscal stimulus created by the Tax Cuts and Jobs Act.

How will these increases affect municipal bonds? A misconception of investing in the bond market is that when interest rates rise, bonds fall out of favor. While the inverse relationship between interest rates and bond prices does exist, there are many factors to consider when making a decision about current and future bond holdings – and whether to hold individual bonds or invest in a bond mutual fund.

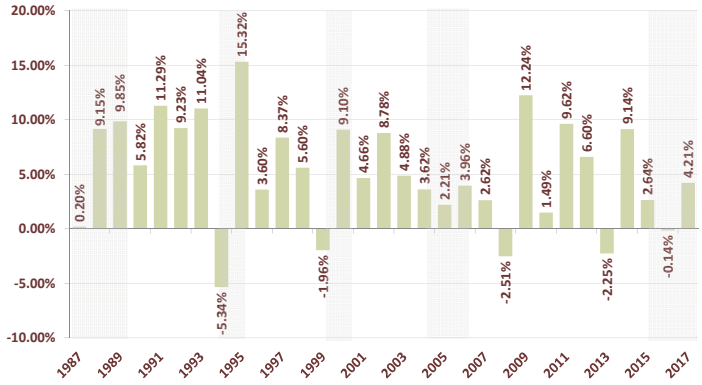
Aquila Group of Funds has been managing municipal bond fund portfolios for over 30 years, through a variety of economic and interest rate cycles, and we believe that we are well positioned to capitalize on opportunities that may exist in a rising interest rate environment.

The Historical Impact of Rising Rates

Since 1985, the Bloomberg Barclays Municipal Bond Index has generated positive returns in all but four calendar years, and each of the four negative years was followed by a strong recovery. Only two of the negative years, 1994 and 1999, correlated with periods of rising interest rates.

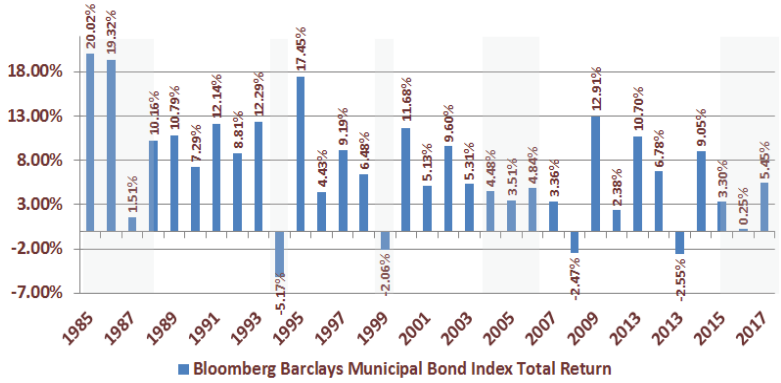
Aquila Tax-Free Trust of Arizona Total Return 1987-2017

Class A Shares (NAV), Gray bars represent periods of rising interest rates



Bloomberg Barclays Municipal Bond Index Total Return 1985 - 2017

Gray bars represent periods of rising interest rates



In both periods, the Fed was increasing rates to temper inflation, but in 1994, the overnight target rate increased by 300 basis points in 12 months with very little transparency, which caused a fair amount of volatility in the fixed income markets.

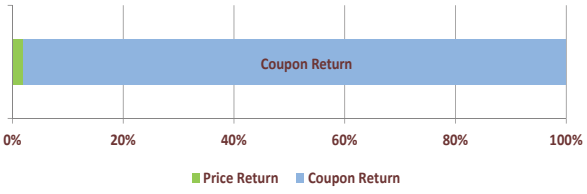
Prior to the current cycle, the most recent period of extended rate increases was between 2004 and 2006, and during that time period the municipal bond market, as well as the Aquila Tax-Free Trust of Arizona, generated positive annual returns.

Price Returns vs. Total Returns

The performance of bond funds is not solely tied to the incremental changes in interest rates. Bond fund total returns are generated from two sources; interest payments on bonds (paid as fund distributions) and changes in bond prices. As rates rise, active portfolio managers have opportunities purchase bonds at higher yields, and over time, a portfolio's income may offset a decline in the value of individual bonds, mitigating impact on total return.

Since its inception in 1980, approximately 98% of the Bloomberg Barclays Municipal Bond Index total return has been generated by income.

Bloomberg Barclays Municipal Bond Index Total Return Breakdown 01/31/80 - 12/31/2017



The Bloomberg Barclays Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. Performance of an index does not reflect management fees and expenses. An investment cannot be made directly in an index.

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The Benefits of Active Bond Fund Management in Periods of Rising Rates

Periods of rising rates can be challenging for investors who purchase individual bonds or funds aligned with a bond index. Active bond fund managers have the ability to take steps in an effort to mitigate, to some degree, the impact of market volatility. With the ability to actively manage fund holdings over time, these managers may implement a number of strategies in order to adjust fund holdings based on market expectations. Fund holdings may be altered by quality rating in an effort to manage credit risk – a risk which may increase along with rising rates. Holdings may also be altered by maturity date and coupon, thereby adjusting portfolio duration, or the sensitivity of the portfolio to movements in rates. Reducing portfolio duration would reduce sensitivity to a change in rates.

Illustration 1: Hypothetical investment of $10,000 in Aquila Tax-Free Trust of Arizona, March 1994 - June 1997 with effective Fed Funds Target Rates.

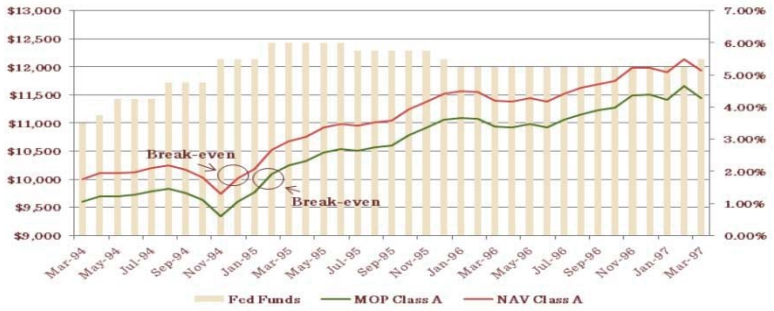


Illustration 2: Hypothetical investment of $10,000 in Aquila Tax-Free Trust of Arizona, February 1999 - February 2002 with effective Fed Funds Target Rates.

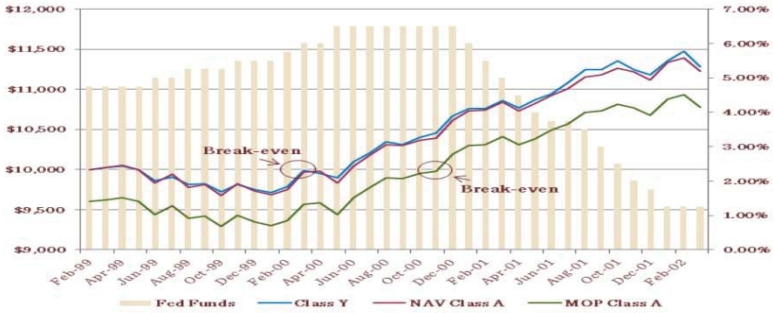
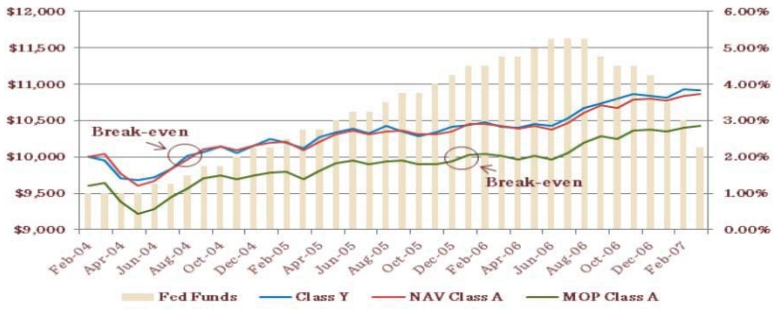


Illustration 3: Hypothetical investment of $10,000 in Aquila Tax-Free Trust of Arizona, February 2004 - February 2007 with effective Fed Funds Target Rates.



To better understand how the Aquila Tax-Free Trust of Arizona strategy has historically performed in periods of rising interest rates, look at the hypothetical illustrations to the left, assuming a $10,000 initial investment in the Fund, made shortly before three different periods in which the Fed Funds rate increased markedly. In all three periods, the Fed Funds rate increased at a relatively steady pace, until monetary policy was adjusted.

Each illustration assumes at least a three-year investment in the Fund, and shows the total return of the Class A share based on maximum offering price (MOP) and net asset value (NAV). The Fund's Y share is shown after its inception date of 4/1/1996. The break-even indicators show the point at which the investments return, for the first time, to the initial invested value.

PERFORMANCE STATISTICS AS OF 03/31/18

	CUMULATIVE RETURN		AVERAGE ANNUAL RETURN			
Share Class	1st quarter	1 year	5 year	10 year	Since Inception	Total Fund Operating Expense
A (NAV)	- 1.11%	1.93%	2.39%	3.90%	5.35%	0.70%
A (MOP)	- 5.03%	-2.14%	1.56%	3.47%	5.21%	0.70%
Y	-0.98%	2.08%	2.55%	4.05%	4.58%	0.55%

Performance data represents past performance, but does not guarantee future results. Investment return and principal value will fluctuate; shares, when redeemed, may be worth more or less than their original cost; current performance may be lower or higher than the data presented. Performance current to the most recent month-end is available at 800-437-1020, or www.aquilafunds.com. Class A shares have a maximum sales charge of 4.00%. Class Y shares have no initial or contingent deferred sales charge and must be purchased through an investment professional. Different classes of shares are offered and their performance will vary due to differences in sales charges and fees. Class A performance at maximum offering price (MOP) illustrates effect of the full sales charge. 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.

This material must be preceded or accompanied by a copy of the Fund's current prospectus. Before investing in the Fund, carefully read about and consider the objectives, risks, charges, expenses, and other information found in the Fund prospectus.