Investment Commentary

September, 2018

AQUILA® GROUP OF FUNDS

AQUILA® Tax-Free Fund For Utah

A Shares: UTAHX **C Shares: UTACX** **Y Shares: UTAYX**

National and Utah 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 nationally as expected. Total issuance through the third quarter was $249.4 billion, down 15% year-over-year.

Total bond issuance in Utah during the third quarter was approximately $135 million, compared to $459 million issued in the third quarter of 2017. Issuance was down over 40% year-over-year through September. However, for the fourth quarter, an $875 million Salt Lake International Airport bond issuance is expected. The rebuilding of the SLC International airport has a large impact on the Utah economy. A study by GSBS consulting indicated that the economic benefit to the local economy, over the life of the construction, will be approximately $5.5 Billion. The annual impact is $262 million in GPD and $165 million in wages and profits. The first phase is expected to be completed by 2020, with the later phase completed in 2024.

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 moderate growth, to keep prices and inflation expectations in check, without stifling consumer demand and economic development.

Utah Economy

Economic conditions in Utah remained favorable through the end of the third quarter. In a recent labor market and economic health analysis conducted by Business Insider, Utah ranked sixth overall, out of all 50 states and the District of Columbia. Utah's first quarter GDP growth rate was 3.2% and was the second highest in the nation. The State's job growth rate was 3.5% year-over-year in August, ranking Utah first in that category. Utah's unemployment rate of 3.2% in September remains below the national average. With the third fastest growth population in the nation, at 1.9%, a few things to keep an eye on economically include housing affordability, increasing costs, supply of skilled workers and increasing interest rates.

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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.

We maintain our objective of managing interest rate risk and credit risk, which at this time entails modestly broadening credit diversification to improve monthly income while keeping our AA rated anchor exposure near 50%. The shape of the yield curve, and where we find value, will dictate our average maturity, which was at 10.49 years at the end of the third quarter.

The Fund currently benefits from legacy holdings purchased in higher interest rate environments that have been pre-refunded. These high-quality liquid securities provide an attractive current yield and low price volatility for our shareholders and provide the flexibility to reinvest in higher yielding bonds as interest rates rise. We will continue to perform in-depth credit research on portfolio holdings, as we believe it is crtical 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

Lead Portfolio Manager	Inception Date	Total Investments	Number of Holdings
James Thompson	7/24/1992	$384.4M (as of 09/30/18)	308 (as of 96/30/18)

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.

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