Aquila Tax-Free Fund For Utah

PORTFOLIO MANAGER COMMENTARY

Q4 2023

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

Municipal Bond Market Overview

After continued weakness in the month of October, the municipal bond market staged a powerful rally in November and December during the quarter ending 12/31/23. The 10-year AAA yield, as measured by Bloomberg, declined 119 basis points, from 3.45% on September 30 to 2.26% at the end of the quarter. This resulted in an overall decline in this benchmark yield of 19 basis points for the 1-year period ending 12/31/23, when yields began the year at 2.45%. The market demonstrated a sharp turnaround during the fourth quarter. Following a jump in the 10-year AAA yield, to 3.65% at the end of October 2023, the market began a recovery in November, which picked up steam in December. This delivered the strongest quarterly performance for the municipal bond market since 1986, according to Bloomberg. The Bloomberg Municipal Bond: Quality Intermediate Index posted a positive return of 5.86% for the quarter, which enabled it to record a positive total return for the year of 4.64%.

The municipal bond market also outpaced the U.S. Treasury bond market by a wide margin, as the yield on the 10-year U.S. Treasury bond declined only 70 basis points. This outperformance was largely mirrored across the entire 1-30-year yield curve, reducing the ratio of municipal bond yields to U.S. Treasury bond yields. During the fourth quarter, this 10-year ratio declined from 74% to 58%, while the 30-year ratio declined from 93% to 83%. Although this outperformance has diminished some of the "cheapness" which had surfaced in municipal bond values last fall, the taxable equivalent yields of municipal bonds at the end of the quarter remained attractive relative to recent inflation readings that have remained below 4%. This still leaves municipal bonds in what appears to be a position to offer better risk-adjusted return prospects than other corners of the taxable investment-grade fixed income markets.

While investors have remained focused primarily on interest rate increases in 2023, and intentions in 2024 of the Federal Reserve and Chairman Jerome Powell, the continuation of the trend of inflation below 4% since last June has begun to provide a supportive tone to the municipal bond market. Coinciding with the drop in market yields was a surge in new municipal issuance during the past quarter. Nationally, issuance totaled $105.5 billion, a robust 39% increase over the $75.5 billion issued in the fourth quarter of 2022. For the year, issuance in 2023 totaled $379.9 billion, a modest 2.9% decline from the $391.3 billion issued in 2022, according to data from *The Bond Buyer.*

The credit quality of municipalities has demonstrated resilience in the face of recession concerns and the wake of the latest U.S. government downgrade last August by Fitch Ratings (from AAA to AA+). A barometer of this was the upgrade of the Metropolitan Transportation Authority ("MTA"), one of the most economically-sensitive New York issuers in the national municipal bond market. The upgrade of the MTA in October by S&P Global Ratings (from BBB+ to A-) reflects how the essential nature of important municipal services (in this case, mass transit in the nation's largest city) is important to credit quality. The upgrade is also a result of the impact municipalities derived from the significant intergovernmental transfers made by the U.S. government to power the COVID-related economic recovery. This included the $6 trillion in CARES Act packages passed in 2020, and the $1.9 trillion American Rescue Plan passed in February 2021.

Utah Municipal Bond Market and Economy

New municipal bond issuance in Utah surged in the fourth quarter of 2023. Issuance for the three-month period of 9/30/23-12/31/23 totaled $592.6 million, a 30% increase compared to the $455.6 million in new Utah municipal bonds issued in Q4 2022. Although a sizeable $232 Utah Housing Corporation issue accounted for half of this increase, there were several mid-size issues below $100 million that came to market during the quarter, including revenue bond issues from the City of Lehi, Tooele County, and the Ogden Municipal Building Authority. Total issuance in Utah for 2023 was $3.65 billion, a modest 17% decline compared to the $3.98 billion in new issues sold in 2022. The volume of Utah issuance in 2023 ranked 31st among all 50 states, according to data from *The Bond Buyer.*

The Utah economy has begun to demonstrate some moderating shifts in both demographic growth and the pace of economic activity. Utah general revenue trends have been mixed through the first five months of the 2024 fiscal year, which began 7/1/23. Of note, Utah State Tax Commission figures reported in December showed a modest total revenue growth of 0.9%, increasing to $6.241 billion compared to $6.186 billion in the first five months of fiscal year 2023. Of note, a modest 2.3% decline in Individual Income Tax revenues of $51.5 million was largely offset by a $43.1 million increase (27.8%) in Corporate Tax revenues.

The State's unemployment rate inched up in November to 2.8% from 2.7% in October, the fourth monthly increase, and above the low for 2023 of 2.3%. However, it continues to be well below the national rate, reported to be 3.7% in November 2023. In fact, excluding the period of COVID pandemic-influenced employment disruptions in 2020 and 2021, unemployment in the State has remained at or below 3% since February 2018.

The recent uptick in the unemployment rate trend reflects the impact of population growth and a welcome expansion of the labor force in the State. The labor force in Utah as of November 2023 has grown year-over-year by 4.9%. This is a positive development, as economic growth has showed signs of accelerating. Recently released figures by the U.S. Bureau of Economic Analysis showed the State's GDP growth in the third quarter of 2023 accelerated to 6.1%, up sharply from 2.4% in the second quarter and 1.9% in the first quarter 2023. Overall, Utah ranked seventh for GDP growth in the third quarter. This was one of the driving factors in the reported growth in Corporate Tax Revenues.

Fund Outlook and Strategy

We continue to keep a strategic focus on the high-quality and intermediate corners of the Utah municipal bond market. This focus has enabled the Fund to deliver an attractive level of income from a portfolio exhibiting both high average credit quality, and an overall intermediate average maturity and duration focus. Of note this past quarter, the attractive slate of new issues in Utah and increased secondary market activity enabled the Fund to increase its Utah state-specific holdings from to 79.1% to 81.9%. This occurred as our holdings of Texas and Florida issues were each reduced to below 5%.

Early in the fourth quarter, we took advantage of: 1) "cheapening" valuations, 2) a steeper yield curve, and 3) moderating inflation to buy longer-dated 5.00%-5.25% premium coupon bonds at valuations we found to be compelling. We also found what we believe to good values in shorter maturities under five years whose yields remained elevated alongside the broader short-term fixed income market. These purchases were part of active bond swaps out of some of the Fund's lower-yielding "reciprocity" state holdings in Texas and Florida. As a result of the Fund's swap activity and bond structure diversification efforts, the average final maturity of the portfolio increased slightly from 9.39 to 9.55 years, while effective duration was significantly reduced from 4.93 to 4.13 years. The portfolio maintained its high-quality emphasis, as holdings in the AA-rated and higher credit quality categories (76%) remained unchanged.

We believe this high-quality and broadly diversified portfolio structure may keep the Fund better insulated from municipal bond market fluctuations that may arise as Fed policy actions and inflation trends unfold in 2024. This is an important consideration for fixed income investors given the influence stubbornly high U.S. deficits may have on the path of long-term rates and potential market volatility. We intend to proceed with heightened caution in evaluating the municipal bond yield curve and the opportunities it presents to enhance the Fund's risk-adjusted income and return prospects.

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

Fund Facts as of 12/31/2023

CO-PORTFOLIO MANAGERS	INCEPTION DATE	TOTAL INVESTMENTS	NUMBER OF HOLDINGS
ROYDEN DURHAM TONY TANNER TIMOTHY ILTZ	7/24/1992	$284.3M	277

This information is general in nature and is not intended to provide investment, accounting, tax or legal advice, nor is it intended to represent a recommendation or solicitation related to any particular investment, security or industry sector. The opinions shared are those of the portfolio manager and do not necessarily reflect those of the Investment Adviser of the Fund.

Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio. A complete list of the Fund's current holdings, including percentage allocation, is available on our website and by contacting Aquila Group of Funds.

Independent rating services (such as S&P Global Ratings, Moody's Investors Service and Fitch Ratings) 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.

Municipal-to-Treasury Ratio compares the rates of municipal bonds with those of U.S. Treasury bonds in percentage terms.

A credit spread or a yield spread is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities.

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.

The Bloomberg Municipal Bond: Quality Intermediate Index tracks the performance of municipal bonds with remaining maturities between 2 and 12 years and a minimum credit rating of A3. Indices are unmanaged and are not available for direct investment.

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. State-specific fund performance could be more volatile than that of funds with greater geographic diversification.

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