Aquila Tax-Free Fund For Utah

PORTFOLIO MANAGER COMMENTARY

Q1 2024

AQUILA® GROUP OF FUNDS

AQUILA® Tax-Free Fund For Utah

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

Municipal Bond Market Overview

At the end of December 2023, the Bloomberg 10-year AAA municipal yield was 2.28%. On that date, the relationship between the U.S. Treasury and AAA municipal curve for one-year was 55.80%, for 10 years 59.10%, and for 30 years was 85.80%. Over the course of the calendar quarter ending 3/31/24, the 10-year AAA municipal yield rose from 2.28% to 2.51%. The one-year U.S. Treasury/AAA municipal ratio increased from 55.80% to 64.50%, while the 10-year relationship moved up slightly from 59.10% to 59.80%, and the 30-year decreased from 85.80% to 84.80%. In general, from a historical perspective, and taking into consideration the "ladle" shape of the municipal yield curve, shorter bond maturities are currently considered to be expensive by the market, while the 30-year U.S. Treasury/AAA municipal relationship of 84.80% is closer to the five-year average of approximately 92%.

This municipal yield curve ladle shape expanded in the past quarter. Increased selling in one-year maturities, a common occurrence during first quarter tax season as investors raise cash for potential tax bills, led to a sharp rise in rates on the front-end of the municipal yield curve. Continued inflation worries led to greater selling in long maturities, which underperformed the intermediate portion of the curve. This "barbell" selling activity moved one-year and 17-year yields above 3% at the end of the first quarter, while yields on most intermediate maturities in-between 2 and 16 years remained below 3%.

Coinciding with the rise in market yields, municipal issuance increased nationally. Issuers seemed confident coming to market, as demand for municipal bonds continued to be strong. In the first three months of 2024, national issuance totaled $95 billion—a robust 19.5% year-over-year increase according to Bloomberg. Issuance in 2023 ultimately totaled $391.3 billion, a modest 1.1% increase from the $387.1 billion issued in 2022. Issuers have started to refund Build America Bonds ("BABs") through extraordinary redemption provisions, even in the face of investor challenges. Issuance is projected to eclipse $400 billion in 2024.

Despite the Federal Reserve's interest rate increases in 2022 and 2023, the labor market continues to charge forward. Although the labor market rebalanced last year, March payroll data from the Bureau of Labor Statistics indicate U.S. payrolls rose by the most in nearly a year, with employers adding 303,000 workers to their payrolls. Furthermore, the labor force participation rate rose from 62.5% to 62.7%, while the unemployment rate dropped from 3.9% to 3.8%. The March payroll report strengthens the argument being made that interest rates may remain higher for longer. Although the Federal Reserve previously indicated its plan to cut interest rates later this year, there doesn't appear to be a real hurry given recent economic strength. Furthermore, strong economic data in terms of consumer spending and real GDP growth raise the possibility of inflation rebounding in the quarters ahead.

Utah Municipal Bond Market and Economy

Municipal bond issuance in Utah increased 13.9% during the first quarter to $792 million. This included a favorable variety of negotiated revenue bond issues and several high-quality general obligations bond issues sold competitively. While the increase in issuance lagged the overall increase in issuance nationally (+23.9%), its breadth provided attractive situations consistent with our high-quality, intermediate focus.

The State's unemployment rate in February held steady at 2.8%, bucking the national rate, which rose from 3.7% to 3.9%. Job growth for the 12-month period ending February 2024 came in at 1.9%, outpacing the national growth in nonfarm employment of 1.8%. The Bureau of Economic Analysis (BEA) most recent report in March 2024 showed the Utah economy grew 5.4% in the fourth quarter of 2023, which was the third highest in the country.

Along with these robust economic growth trends, another factor that contributes to the AAA credit rating the State of Utah maintains is well thought out debt management. Reflecting this is the drop in per Capita Net General Obligation Debt at the State level to $561 at the end of 2023, less than half the $1,159 per capital amount reported at the end of 2014.

Fund Outlook and Strategy

Aquila Tax-Free Fund For Utah ended the fourth quarter of 2023 with average final maturity of 9.55 years, and an effective duration of 4.13 years, while maintaining the majority of its holdings (76%) in the AA-rated and higher credit quality categories. During the first quarter of 2024, those metrics were shortened slightly to 9.40 years and 3.95 years, respectively, as we pruned longer-dated holdings as the outlook grew for the Federal Reserve to delay reducing interest rate. Holdings of Utah-issued municipal bonds (82%) and out of state "reciprocity state" of 18% issues held steady during the quarter. The portfolio also retains a preference towards high-quality bonds, with those rated AA or better ending the quarter at 77%.

With inflation remaining solidly above the Federal Reserve's 2% target, and market expectations for the Fed to delay interest rate cuts, we will likely maintain the average final maturity around 9 years, and effective duration towards the lower end of the Fund's desired range of 4-6 years. The persistent ladle shape of the municipal yield curve continues to dictate a preference towards a barbell maturity structure in the portfolio. This has translated to maintaining broad diversification across both maturity and bond structure. The Fund's average bond "coupon" reflects broad diversification across premium bonds, with 5% coupons offset with our continued holding of discount bonds with 3% coupons.

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 3/31/2024

CO-PORTFOLIO MANAGERS	INCEPTION DATE	TOTAL INVESTMENTS	NUMBER OF HOLDINGS
ROYDEN DURHAM TONY TANNER TIMOTHY ILTZ	7/24/1992	$273.2M	268

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.