Aquila Rocky Mountain Equity Fund

Manager Commentary

Fourth Quarter, 2009

AQUILA GROUP OF FUNDS®

AQUILA ROCKY MOUNTAIN EQUITY FUND

Aquila Rocky Mountain Equity Fund Class A shares had a total return of 30.62% without provision for sales charges but reflecting contractually waived fund expenses, for the twelve months ended December 31, 2009. This compares to the S&P 500 with a return of 26.47%, the S&P Midcap Index with a total return of 37.38%, the Russell 2000 with a total return of 27.17% and the Russell Microcap Index with a total return of 29.22%.

Geographically at year-end, 38% of the Fund was invested in companies headquartered in Arizona, 34% invested in Colorado, 16% in Utah, 4% in Montana, 2% in Nevada and 1% in Idaho. At year-end, 13.0% of the equity investments in the Fund were in companies with a market capitalization over $10 billion (large-cap companies), 39.5% were in companies with a market capitalization between $2 billion and $10 billion (mid-cap) and 38.3% were in companies with market capitalizations between $300 million and $2 billion (small-cap). In addition, 9.2% of the equity investments in the Fund were in companies with market capitalizations below $300 million (micro-cap).

During 2009 we experienced the takeover of only one company in the Fund. The acquisition of Semitool, Inc. was completed in December by Applied Materials. Semitool of Kalispell, Montana was acquired because of proprietary technology that it had developed for the production process of semiconductor and solar cells. The number of takeovers slowed considerably from 2007 when seven companies were acquired and 2008 when two companies were acquired. During the year, Myriad Genetics spun off its pharmaceutical drug development company, Myriad Pharmaceuticals. Myriad Pharmaceuticals is working on a number of small molecule drugs for cancer and HIV treatment.

We continue to invest the Fund strategically and at year-end had holdings in 41 companies across a number of industries. We added several new companies to the Fund during 2009 including Chipotle Mexican Grill, Micron Technologies and Ramtron International. Micron is likely to benefit from the corporate spending cycle in technology over the next several years, while Ramtron has proprietary ferroelectric technology. This allows the company to provide certain read / write memory applications that are useful for inventory and energy management, such as the smart grid. We continue to look for the best businesses and management teams in the Rocky Mountain region, and attempt to invest in them at a reasonable price.

During 2009, the best performing stocks came from three states and five industries. Providence Service Corp. headquartered in Tucson, Arizona, was the best performing name, rising 989.7% for the year. Providence provides outsourced social services for government agencies, delivering them in a home-based setting. It also uses best practices that it has developed over time. The second best performing stock was Liberty Media Interactive, which owns QVC along with a number of Internet sites that market products related to outdoor and backcountry sports gear and clothing, as well as nutrition, body building and fitness.

The third best performing stock was Freeport McMoran Copper and Gold which rose 228.5% due to strong copper and gold prices. Freeport McMoran is headquartered in Phoenix, Arizona. Spectranetics, headquartered in Colorado Springs, Colorado rose 166.7% for the year, benefitting from news about its new products and growth in its laser treatments for opening blood vessels and removing old cardiac pacemaker leads. RightNow Technologies, headquartered in Bozeman, Montana rose 124.7% for the year due to their success with their cloud computing (available over the Internet) customer service products. RightNow has recently added a group of products to help companies monitor what is being said about them on the Internet (via social networking). This has helped companies with early identification of product problems or customer dissatisfaction.

Three of the worst performing stocks in 2009 came from the health care industry due to new product disappointments or concern about health care reform. Aspen BioPharma, headquartered in Castle Rock, Colorado, declined 71.8% for the year after disappointing clinical trials of its blood test for appendicitis. However, the company has repositioned the product and is doing a supplemental trial which it hopes will be successful. Array BioPharma Inc., headquartered in Boulder, Colorado, declined 30.6% in 2009 after its rheumatoid arthritis pill failed its clinical trial. However, the company has a number of other small molecule drugs in its pipeline including cancer, leukemia and multiple myeloma drugs and is engaged in collaborations with Genentech, Amgen and AstraZeneca.

CIBER, Inc. headquartered in Greenwood Village, Colorado, declined 28.3% for the year after a stock offering diluted earnings significantly. However, the company recently announced a $26 million contract to provide information technology services for the NASA Marshal Flight Center. In addition, the company was also recently named the #1 provider of Enterprise Resource Planning (ERP) for the U.S. and the U.K by the 2009 Black Book of Outsourcing.

The past ten years have been a difficult decade for U.S. equity investors. The return for the S&P 500 was -9.1% over the ten year period, well below historical returns. While the Aquila Rocky Mountain Equity Fund Class A did better with a 2.46% return before sales charges but reflecting contractually waived expenses, returns were also below historical averages for equities. Strategists point to Federal Reserve policy that held interest rates too low for too long and created a boom and bust scenario. Due to increased public debate about Federal Reserve policy, we are hopeful that we will see a more steady policy over the next ten years that will create a more positive environment for equity investments. The Federal Reserve has already begun to withdraw many of the stimulative policies of the past eighteen months. We are hopeful that the Federal Reserve will appropriately time an increase in interest rates over the next six months. The U.S. Congress also needs to bring spending under control. The recent Senatorial race in Massachusetts has hopefully caused Congress to focus more attention on spending.

Growth vs. Value

Over the past fifteen years in the U.S stock market, small growth stocks may not have received the attention they deserve. Small emerging companies that build a successful business model and execute it well over a period of time can grow significantly faster than the overall economy. In looking at the sixteen year period from 1995 through 2009, small growth companies as measured by Russell indices led the U.S. stock market in only one year, 2003. In addition, small growth companies were the worst performers in five of the past sixteen years. Market leadership tends to rotate among large, mid-sized and small growth and value stocks based on economic conditions and factors at work in the overall economy. In seven out of the past ten years, value stocks such as financial and cyclical companies outperformed as the economy leveraged up and grew rapidly. Over the next ten years as consumers and businesses deleverage, growth stocks such as technology and health care are more likely to outperform. In a slow growth economy, small companies that can grow because of unique products and services may receive more investor attention.

Each year Forbes Magazine identifies their 200 Best Small Companies that have annual revenue between $5 million and $750 million, have been publicly traded for at least one year and have a stock price no lower than $5. Rankings are based on earnings growth, sales growth and return on equity over the past year and five years. Four companies in Aquila Rocky Mountain Equity Fund made the list in 2009. The companies include:

Dynamic Materials Headquartered in Boulder, Colorado, the company produces clad metal using explosives and shock synthesis for pressure vessels and heat exchangers, and provides welding for the aerospace and defense industries. The company has also recently made several small acquisitions in the oil service industry. With revenues of $233 million, the company had a return on assets of 10.24% for its year ended December 2008. The company generates an above average return on assets due to its proprietary metalworking expertise.

Knight Transportation Knight Transportation is the only U.S. company to have been named to the Forbes Best Small Company List for 15 years in a row. With 2009 revenues of $652 million, Knight is headquartered in Phoenix. Arizona. The company is a short to medium haul dry van truckload carrier. In recent years the company has added a refrigerated van business, a broker and a port drayage business. The company is known for its careful use of assets and logistics to drive returns.

Rocky Mountain Chocolate Factory Rocky Mountain Chocolate Factory had revenues of $29 million in its fiscal year ended, February, 2009. Headquartered in Durango, Colorado, the company owns and franchises its stores, for which it manufactures a line of chocolates. The company had a return on assets of 22.54% last year. Most recently, the company has been co-branding its stores with Cold Stone Creamery, a gourmet ice cream.

JDA Software JDA was first named to the Forbes List of the 200 Best Small Companies in 2009. The company had revenues of $386 million in 2009. The company had its IPO in 1996 and is headquartered in Scottsdale, Arizona. Over the past 14 years the company has made a series of acquisitions to build software solutions for supply chain management. Nearby Arizona State University is ranked #4 in supply chain management. The company just completed the acquisition of i2 Technologies.

Medium sized growth stocks have received more attention but have still led the U.S. stock market in only two years out of the past 16, in 1999 and 2009. One stock which we think may be underappreciated in the mid-cap space is Microchip Technologies. With a yield of over 5%, the company had a return on assets of 10.1% for their fiscal year ending March 2009. During the downturn, the company reduced pay levels, shared unpaid time off, cross-trained and was fully prepared for the upturn without any loss of productivity. During the upturn, as other companies have had to hire and retrain workers, Microchip has been gaining market share. Last year Microchip acquired a company with touch screen technology and is likely to participate in growth of the smart grid with its microcontrollers and memory products.

If we do begin to see more leadership of growth stocks in the U.S stock market, investors would likely participate in earnings growth as well as an expansion of the multiple on earnings which investors are willing to pay for the stocks. In a slower growth economy, investors may be willing to pay more for those companies that produce above-average earnings growth.

U.S. Economic Outlook

The U.S. economy appears to be recovering at a rate somewhere between the very rapid and very slow recoveries of the past. The 5.7% growth of GDP in the fourth quarter was due in large part to inventory rebuilding, but there is still more of that to be done. The consumer also had a respectable showing in the fourth quarter with real disposable income increasing at a 2.1% annual rate and real consumer spending increasing 2.0%. Retail sales appear to have accelerated from December to January. ISI is now looking for 3.5% Real GDP growth in the 1Q of 2010, increasing to 4.5% in the second quarter. They are then looking for 4% growth in 2H 2010 and 3.5% growth in 1H 2011. They expect the 10 year Treasury yield to rise about 120 basis points over the next twelve months.

Case Schiller home prices through December rose at a 10.7% annual rate. Corporate profits appear on track to rise about 30% in 4Q 2009 year-over-year. ISI's work is suggesting that corporate profits will rise about 35% in the first half of this year. Employment may lag in this recovery since business is facing so much uncertainty from proposed public policy changes such as health care reform, new corporate taxes, and cap-and-trade. However, this could increase productivity and earnings over the near-term.

The Fed has been withdrawing monetary stimulus to the economy and M2 is currently growing at only 2% year-over-year. Congress needs to control spending. Investors will keep a close eye on the dollar and interest rates for signs that financing government spending has become a problem.

The Rocky Mountain Region

Along with the rest of the U.S., the Rocky Mountain Region has been hit hard by the economic downturn. Unemployment is still rising in the region, as it is at the national level. Unemployment usually lags a recovery by six months to a year. Forty-three states and the District of Columbia reported unemployment rate increases in December. Unemployment rates in December compared to the national average were as follows:

Arizona	9.1
Colorado	7.5
Idaho	9.1
Montana	6.7
Nevada	13.0
New Mexico	8.3
Utah	6.7
Wyoming	7.5
National rate	10.0

Seven of the eight Rocky Mountain States continue to have unemployment levels below the national average, with Nevada experiencing unemployment above the national average. Utah and Montana have the lowest unemployment rates in the region at 6.7%.

The region is still working through an excess supply of homes, although the market appears to be in the process of bottoming in some areas. Commercial real estate is still a problem and vacancies are high. Commercial real estate tends to lag during recoveries by about a year. Uncertainties about health care, energy and tax requirements for small business may be slowing new business formation and the absorption of commercial real estate. Spending at the state level also tends to lag a downturn and we are still seeing cutbacks in spending by states across the Rocky Mountain Region.

Nevada has been hit hard by too much leverage in the gaming industry. Consumers are also going through a period of reducing debt and saving more. That has resulted in cut-backs in gaming. However, we are seeing signs of very gradual improvement in gaming. In January, Nevada reported a 4.4% increase in November gaming revenues for the state, its first increase in almost two years.

Energy exploration has been quite depressed in the region due to high levels of natural gas inventories but inventory levels have recently declined due to cold weather. Through the week of January 28, natural gas inventories were only 4% above the five-year average. This is down significantly from last June when natural gas inventories were 32% above the five-year average storage level. Producers in the Rocky Mountain region are also seeing prices that are much closer to the national average because of adequate pipeline capacity out of the region. With rising industrial production and fuel conversions from coal to natural gas prompted by pollution concerns, we could begin to see rising energy employment in the Rocky Mountain region.

With increasing corporate adoption of Windows 7 with its heavy memory requirements and new touch screen technology, semiconductor and technology companies in the region are likely to benefit. A number of technology companies are rehiring or calling back workers. The region also has heavy exposure to alternative energy research and production including solar and geothermal.

The region's heavy exposure to media is likely to be a positive in 2010. The mid-term election this year, in addition to the the Winter and Summer Olympics, are likely to produce heavy ad spending.

The region continues to possess strategic advantages in terms of outdoor lifestyle, access to nearby sporting and hiking as well as beautiful scenery. While the economic slowdown has been painful for the region, it has allowed the region's infrastructure to catch up with growth. The slowdown is also giving planners an opportunity to plan for quality growth in the future. Over the intermediate to longer term, we believe the region can continue to grow faster than the country as a whole. Over the short-term, the region will go through a period of adjustment as consumers and businesses deleverage and adjust to slower economic growth.

Barbara Walchli
Portfolio Manager
January 31, 2010

Please see additional information on the following page.

Top Five Holdings

Company	Percentage	Sector	State
Microchip Technology	7.1%	Technology	AZ
Knight Transportation	6.3%	Basic Industry	AZ
Merit Medical	5.9%	Health Care	UT
Avnet	5.5%	Technology	AZ
Western Union	3.9%	Financial	CO

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

Please refer to the Fund prospectus for a complete description of risks associated with an investment in the Fund. These include, but are not limited to, market risk, financial risk, risks associated with investments in smaller companies, the risks associated with the Fund's focus on companies within a single geographic region and the risks associated with investing in convertible fixed-income securities.

Performance Statistics as of Jan. 31, 2010

	Cumulative Return		Average Annual Return									
	4th Qtr 2009	YTD	1 year	3 year	5 year	10 year	Since Inception	Inception Date	Max Sales Charge	Max CDSC	Total Operating Expense	Net Expense Ratio
A Shares NAV	5.71%	-10.35%	32.74%	-11.23%	-3.06%	1.86%	5.52%	7/25/94	--	--	3.54%	1.50%
A Shares MOP	1.24%	-6.36%	27.08%	-12.50%	-3.89%	1.42%	5.19%	7/25/94	4.00%	--	3.54%	1.50%
C Shares w/o CDSC	5.48%	-6.43%	31.65%	-11.89%	-3.79%	1.12%	3.59%	5/1/96	--	--	4.29%	2.25%
C Shares w/ CDSC	4.48%	-7.37%	30.65%	--	--	--	--	5/1/96	--	1.00%	4.29%	2.25%
Y Shares	5.75%	-6.36%	33.03%	-10.98%	-2.81%	2.14%	4.56%	4/30/96	--	--	3.29%	1.25%
Russell 2000	3.87%	-3.68%	37.82%	-7.74%	0.61%	3.29%	7.45%					

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 4.25%; Class C shares have no initial sales charge, but a 1.00% contingent deferred sales charge applies to Class C shares redeemed within 12 months of their purchase date. Class Y shares have no initial or contingent deferred sales charge. Class A MOP returns reflect deduction of the maximum 4.25% sales charge; Class A NAV returns do not reflect deduction of the sales charge and would be lower if that charge were reflected. Class C returns without CDSC do not reflect deduction of the 1% CDSC applicable in the first 12 months; if applied, the CDSC would reduce the performance quoted. An explanation of the share classes appears in the Fund prospectus. Management has contractually undertaken to waive fees and/or reimburse Fund expenses through December 31, 2010. Returns would have been less if full management fees and expenses were applied.

The Russell 2000 Index is an unmanaged index comprised of the smallest 2000 securities in the Russell 3000 (which represents approximately 98% of the broad U.S. equity market). Performance of an index does not reflect management fees and expenses which are reflected in Fund performance. An investment cannot be made directly in an index.