



AQUILA
GROUP OF FUNDS®

Tax-Free Trust of Oregon

Investment Commentary

January, 2012



TAX-FREE TRUST
OF OREGON

Fund Facts

Portfolio Manager
Chris Johns

Credit Analyst
Tim Iltz

Inception Date
6/16/1986

Assets Under Management
\$490.1M (as of 12/31/11)

Number of Holdings
209 (as of 12/31/11)

2011 Market Review

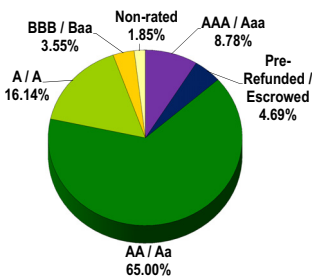
Last year brought many financial stories that were fodder for a media circus. The United States government came within hours of defaulting, certain municipal governments now have higher credit ratings than the Federal government and the Federal Open Market Committee reintroduced monetary policy from the 1960's in an attempt to spark economic growth. However, the most exaggerated story was a statement made by a banking analyst in 2010 claiming "hundreds of billions" of municipal bonds may default in 2011. Investors were unduly frightened by the unusual market volatility of a normally staid asset class, but the municipal credit based defaults proved significantly milder than suggested by the financial media's initial headlines. This "Headline Risk," has taken a toll on the municipal marketplace. Although distinct from credit risk, Headline Risk increased investor concerns, causing investors to exit the municipal market at an inopportune time as bond prices decreased and yields rose. Rising state revenues, meaningful expenditure reductions and attractive relative yields have overcome most fears and investors have returned to the municipal bond market.

Ironically, the impending default risk of the Federal government proved less troublesome to the municipal market than the aforementioned Headline Risk. A last minute deal avoided a default, but the spectacle raised the eyebrows of citizens and investors questioning the ability of our Federal government to make decisions about national debt and budgeting issues. The resulting effect on the municipal bond market is difficult to quantify since the event was spread over a long period of time and largely priced into the market by the time it ultimately unfolded. The resulting damage inflicted on the credit side was felt primarily by certain state and local governments dependent upon Federal appropriations.

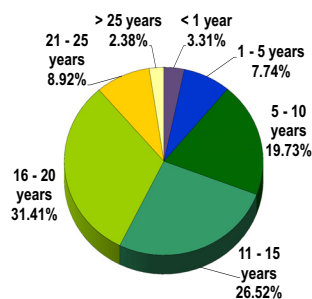
On August 5, 2011 Standard & Poor's downgraded the long-term sovereign credit rating of the United States for the first time. The rating was lowered one notch from AAA to AA+ and was largely attributed to the instability of American policymaking, specifically the partisan fight over raising the nation's debt ceiling. The market, in general, still views the nation in a triple-A light with Moody's Investors Service affirming its Aaa rating and Fitch Ratings maintained the Nation's sovereign debt at AAA. S&P analyzes state and local government credit quality independent of the Federal government, placing certain state and local governments in higher ratings categories than the Nation for the first time in history. The negligible reaction of the municipal bond market to S&P's downgrade demonstrates the resiliency of the municipal bond asset class. Furthermore, the effect on Oregon municipal bonds has been minor; the primary result being increased scrutiny of credits relying upon Federal appropriations. Nevertheless, the downgrade of our Nation's credit rating reinforces the value of deep credit research and a disciplined approach to portfolio management.

The Federal Open Market Committee continues its efforts to reinvigorate the economy, this time with Operation Twist designed to lower yields on long-term bonds through the purchase of \$400 billion of longer-term Treasuries, and sale of \$400 billion of Treasuries that mature in three months to three years. The "twist" term refers to early 1960s-era operations wherein the central bank sold shorter-dated securities and bought longer-dated securities in an effort to drive down long-term rates and stimulate economic growth. The policy goal is to make home and business loans more attractive to encourage home purchases and business expansion. At the very least, we believe this policy will keep long-term rates on Treasuries low and have a corresponding effect on highly rated municipal bonds forcing investors who are seeking higher yields to look further out on the yield curve.

Credit Ratings ¹ (as of 12/31/11)



Maturity Allocation (as of 12/31/11)



¹ Independent rating services (such as Standard & Poor's, Moody's and Fitch) 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. Pre-refunded/Escrowed bonds are issued for the purpose of retiring or redeeming an outstanding bond issue at a specified call date. Until the call date, the proceeds from the bond issuance are typically placed in a trust and invested in US Treasury bonds or state and local government securities. Non-rated bonds are holdings that have not been rated by a nationally recognized statistical rating organization.



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Municipal Overview

Oregon's economy continues to recover, albeit at a disconcertingly slow pace. The housing market continues to be an obstacle to recovery, and while recent news has been mostly positive, improvement has been merely incremental. Housing price data from the fourth quarter indicates prices were down over the past year but saw improvements in the last few months indicating there may be some stabilization in value.

Employment gains have not been strong enough to decrease the unemployment rate quickly and initial unemployment claims remain at high levels consistent with a weak labor market. Over the past year, the employment picture within Oregon has marginally improved with statewide unemployment decreasing from 10.6% in November 2010 to 9.1% in November 2011. However, on a national standing, Oregon has shown significant improvement over the past year, dropping from the 7th highest unemployment rate to the 26th highest. Regionally, 21 of Oregon's 36 counties have double-digit unemployment rates. The Counties with the lowest unemployment rates happen to be the areas in which Tax-Free Trust of Oregon's (TFTO) portfolio holdings are most highly concentrated in the fourth quarter. Since declines in state and local government revenues lag the private sector, government had the highest rate of job decline losing 6,100 jobs over the year (-2.2%), which has been largely accounted for by statewide reductions in teachers as school districts wrangle with balancing budgets in the face of reduced state funding and increasing pension and healthcare costs.

The most significant Oregon news over the past year was the March 9 upgrade of the State's general obligation creditworthiness by Standard & Poor's from "AA" to "AA+." The upgrade was based, among other things, on the State's strong financial policies and practices and confidence in its ability to cover pension obligations. The State Treasurer's office has estimated savings from the upgrade at \$4.3 million per \$100 million over the life of a bond issue. Additionally, Moody's and Fitch have reaffirmed the State's stable Aa1 and AA+ ratings.

The State's revenue forecast estimates an approximate \$200 million shortfall over the course of the current biennium due, primarily, to reduced capital gains tax collections. Reasons for the projected loss were attributed to economic headwinds, which the report cites as the European debt crisis, volatility on Wall Street and concerns about Congress' ability to manage debt. All of these national and international concerns indicate the slow pace of the national recovery is taking a toll on Oregon.

While the projected shortfall may seem to be concerning news on the surface, from a credit perspective it demonstrates that the State was prepared to accommodate a revenue decrease and that the State's budgeting process is flexible enough to provide significant relief when called upon. Since it is still early in the current biennium, there remains significant time for recovery and the outlook is unlikely to require any immediate cuts in government spending. More importantly, lawmakers have budgeted substantial reserves into the budget in case income falls flat.

As the recovery continues, Oregon local governments have become increasingly wary of the effectiveness of the capital markets. Over the past year there has been increased focus on local governments looking for funding alternatives and foregoing issuance of new debt since local governments in Oregon do not have the ability to raise taxes beyond their permanent rate. Unfavorable voter sentiment towards debt measures has discouraged many local governments from attempting to pass general obligation bonds. As a result, new issuance of municipal securities has declined significantly. New issuance for 2011 was down 18% for the year. We expect new issuance to remain low through 2012.

Portfolio Review

Tax-Free Trust of Oregon has maintained an investment strategy that emphasizes intermediate maturities and investment grade credit quality securities for the past quarter century. Our goal has always been, and continues to be, providing an above average double tax-exempt dividend and a relatively stable share price. Our strategy to accomplish this goal is to limit our interest rate sensitivity over the course of the year by reducing exposure to zero coupon bonds and longer duration positions. Although it is difficult to see a meaningful increase in interest rates in the short run, we think now is a good time to prepare the portfolio for this eventuality. Bond prices have rebounded sharply from their lows in early 2011 and now offer an opportunity to reduce the holdings that may be more volatile in a rising interest rate environment. Record low interest rates have tempted many investors to add more risk to their portfolios by extending maturities to capture more yield. We believe, however, that it is prudent to resist that temptation and maintain our more defensive position until more attractive yields are available.



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Portfolio Review Cont.

Furthermore, we have reduced the portfolio's exposure to sectors that are underperforming and we have added to holdings where our credit research uncovers securities offering an incremental yield advantage from wider credit spreads. Areas we have been targeting are those sectors that provide the additional yield yet still exhibit significant safety characteristics such as unlimited tax-backed general obligation bonds and revenue bonds with strong legal covenants issued by local utilities and transportation districts. In addition, we will seek to continue adding to some of the high quality positions from the State of Oregon and its agencies that the Trust currently owns. We will additionally seek to maintain or shorten our average maturity from the current 13 years, while maintaining what we believe to be a very high credit quality profile. We believe this investment strategy will generate a double tax-exempt income stream and a relatively stable share price experience.

Symbols and CUSIPs

Class A	ORTFX	876932104	Class C	ORTCX	876932203	Class Y	ORTYX	876932302
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Before investing in the Trust, carefully read about and consider the investment objectives, risks, charges, expenses and other information found in the Trust prospectus. The prospectus is available from your financial advisor, and when you call 800-437-1020 or visit www.aquilafunds.com.

- NOT FDIC INSURED - NO BANK GUARANTEE - MAY LOSE VALUE -

- NOT NCUA INSURED -

For more information on this fund and the entire Aquila Group of Funds, please visit www.aquilafunds.com

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