



AQUILA
GROUP OF FUNDS®

Narragansett Insured Tax-Free Income Fund

Investment Commentary

January, 2012



Fund Facts

Portfolio Management Team

Sal Di Santo
Jeff Hanna, CFA®

Inception Date

9/10/1992

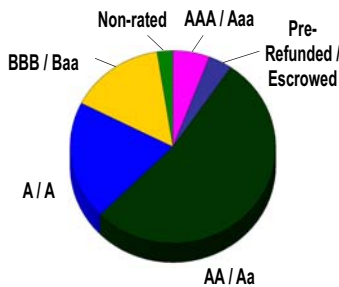
Assets Under Management

\$248.9M (as of 12/31/11)

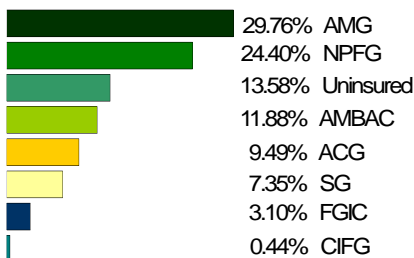
Number of Holdings

188 (as of 12/31/11)

Credit Ratings ¹ (as of 12/31/11)



Insurance Profile (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.

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," took a toll on the municipal marketplace early in the 2011. 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 Rhode Island 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.



AQUILA
GROUP OF FUNDS®

Narragansett Insured Tax-Free Income Fund

Investment Commentary

January, 2012



Municipal Overview

While most of the country is on a path toward slow post-recession recovery, Rhode Island's economy continues to struggle with under-funded pension liabilities and declining tax revenue resulting from a high unemployment rate and sinking property values. FY 2011 closed in June with a positive year-end balance for the state's general fund with revenues exceeding expenditures by 1.2%. However, the balance is expected to tip in the other direction for FY 2012 with appropriations expected to exceed revenues by 2%. The decline in property values has had a significant impact on Rhode Island's municipal revenue collections. As the real estate market across the country has declined approximately 15% since mid-2007, Rhode Island has seen close to a 25% decline in most areas. The unemployment rate has held steady for the past several months, but continues to remain above the national average. In November, Rhode Island's unemployment rate was 10.5%, while the national rate fell below 9% for the first time in seven months to 8.7%.

The state has taken steps toward pension reform by introducing a hybrid approach that combines conventional defined-benefit plans with 401k style plans. Rhode Island is not the first state to introduce a hybrid plan, but will be the first to change the benefits available to current vested employees and current retired employees. These actions have been commended by Fitch Ratings who called the legislation "the most comprehensive measure undertaken by any of the states in recent years". Future projected state budget gaps are tied to pension funding assumptions and are expected to be adjusted based on the new pension legislation.

The next step for Rhode Island will be to address the issues at the local level. The state pension reform may provide some relief to municipalities, but locally-run pension funds, many of which are in dire shape, will not be affected by the changes. Local governments need to address their own pension issues before their liabilities, combined with tax revenue declines and unemployment, drive the state back into a recession. Rhode Island saw a number of its municipalities receive bond downgrades in 2011, and according to Moody's Investors Service, the trend will likely continue into 2012.

One positive note for bondholders, the state recently passed a law that places bondholders first in line among all creditors of municipalities in the state. Additionally, the city of Central Falls has made a unique arrangement with retired firefighters and police officers who have agreed to cut their pensions to support a plan that will likely make the struggling city's bondholders whole. This agreement is being watched closely by government officials to see if the measure avoids increased borrowing costs for the municipality.

Bond issuance in the state has been low in 2011, as it has been in the remainder of the country. Issuance is expected to rise in 2012, particularly for refunding purposes, as borrowers take advantage of the low interest rate environment.

Portfolio Review

Narragansett Insured Tax-Free Income Fund has had a number of bonds that were called or matured over the past several months, leaving the portfolio with a higher than normal cash position in a low issuance environment. We expect this cash to be redeployed as issuance picks up in 2012. The Fund's duration may be extended as longer bonds are purchased to take advantage of slightly higher yields in the low rate environment. The Fund continues to invest in high-quality insured issues and has begun to increase the weighting in uninsured bond holdings due to the volume of uninsured issuance in the investment grade category. From a credit standpoint, the portfolio is well diversified. We remain comfortable with many Rhode Island issuers and strive to maintain a relatively high level of tax-exempt income, together with reasonable principal preservation.

Symbols and CUSIPs

Class A	NITFX	631013109	Class C	NITCX	631013208	Class Y	NITYX	631013307
---------	-------	-----------	---------	-------	-----------	---------	-------	-----------

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
Aquila Distributors, Inc., 380 Madison Avenue, Suite 2300, New York, NY, 10017 800-437-1020 www.aquilafunds.com RICO-0112