



AQUILA GROUP OF FUNDS®

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Dear Fellow Shareholder:

The recent significant turmoil in the financial markets and the resulting spotlight by the media can certainly make it seem as if "the sky is falling."

We want you to know that whatever the markets are (or aren't) doing, we remain resolved to sticking to our tried and true investment philosophies with respect to the tax-free municipal bond funds in the Aquila Group of Funds.

■ INVESTMENT IN MUNICIPAL BONDS

As you are aware, the tax-free municipal bond funds in the Aquila Group of Funds invest in securities which are backed by the revenue-raising ability of their respective municipalities and/or states. The securities in which the funds invest support vital infrastructure needs— such as water supply systems, roads, schools, airports, etc. — for the municipalities. In considering the continuing viability of these funds, ask yourself, "Are the vital needs for municipal infrastructure going to decrease?" Prospects favor a "no" answer.

■ PROFESSIONAL PORTFOLIO MANAGEMENT

It should come as no surprise that over the years, we have witnessed a multitude and variety of fluctuations in the financial markets — many of which never make the mainstream newspapers. So, while market uncertainty is never pleasant, our local portfolio managers expect it and have had experience dealing with it in the past.

■ QUALITY

We strongly believe that when things get tough in the securities markets, that's when a portfolio of high-quality investments can pay off. And, as highlighted in a recent shareholder letter, we specifically look to the underlying credit quality of the securities in which the funds invest even though a portion (or all) of each of the portfolios is insured or otherwise credit enhanced.

■ DIVERSIFICATION

To the degree possible and practicable, we choose securities with diversification in mind — diversification with respect to varying maturities and geographic location. Not putting "all our eggs in one basket" can help during a seemingly Chicken Little scenario of the "sky is falling."

We specifically wish to remind you that there is a measure of risk with everything in life. This is the case with market volatility which can definitely be unsettling. And, while it might not feel so, several months of volatility is really a short period of time when dealing with a long-term investment.

If you have any questions or concerns, please take the time to call your local financial professional. Or, you may wish to call the Aquila Group of Funds directly at 800-437-1020.

Diana P. Herrmann
Trustee and President
Aquila Group of Funds

Sincerely,

Lacy B. Herrmann
Founder and Chairman Emeritus
Aquila Group of Funds

Shares in each of the funds are not deposits or obligations of, or guaranteed or endorsed by, any bank, are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other agency, and are subject to investment risks, including possible loss of invested principal. Some income may be subject to Federal and State taxes, including the Alternative Minimum Tax, for certain investors. Due to market fluctuations, share net asset value and dividend rate will vary; redemption proceeds may, of course, be more or less than the original amount invested.

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