



AQUILA
GROUP OF FUNDS®

Tax-Free Fund For Utah

Investment Commentary

January, 2012



Fund Facts

Co-Portfolio Managers (PM)

JT Thompson (since 11/2009)
Todd Curtis (since 5/2009)

Inception Date

7/24/1992

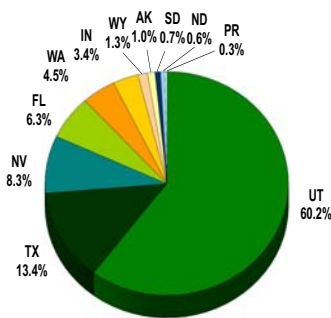
Assets Under Management

\$388.9M (as of 12/31/11)

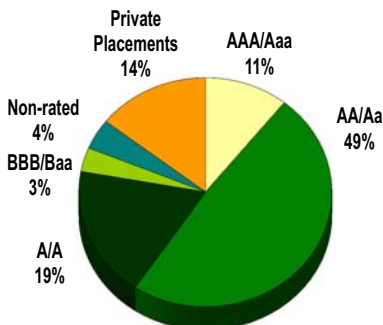
Number of Holdings

324 (as of 12/31/11)

Geographic Allocation (as of 12/31/11)



Credit Ratings ¹ (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," 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 Utah 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.



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Municipal Overview

Due to its fiscally conservative nature, Utah fared better than most states during the recession and is leading the nation in recovery. The state ended FY 2011 with a positive year-end balance. Most municipalities were slightly up in tax revenue, yet still below 2008 levels. The tax revenue categories that lagged the most were sales tax and capital gains tax. For FY 2011 the state revised personal income tax revenue expectations higher at mid-year, corporate income tax revenue fell slightly below target and no areas of the state government spent significantly over budget. For FY 2012, the state expects revenue to grow by 2.2% and general fund spending by 1.4%. Medicaid will continue to see reductions during the current fiscal year as planned. In the event that the state needs to resort to alternative measures to adjust revenue projections in the future, the absence of strong organized unions in Utah leaves opportunities for the state government to modify pension and health care benefits.

A 2011 survey of Utah municipalities showed cut-backs in most capital development and delays in maintenance projects. Government staffing levels were also adjusted and rainy day funds were tapped. Some cities and counties chose to raise property taxes, which, in many cases, had not been done in over a decade. While housing sales appear to be up, housing prices are dropping, particularly in the \$300k range and above, and new construction slowed with credit becoming harder to obtain. Unemployment in the state dropped to 6.4% in November, below the national rate of 8.7%.

Tax-free municipal bond issuance for 2011 was down 30% from 2010. Issues that came to market did well and most were rated AA or better. There were very few private placement opportunities. Issuance is expected to remain low in 2012. As Utah municipalities go through the exercise of balancing their budgets, we expect capital projects to continue to be delayed to meet necessary spending cuts.

Portfolio Review

The Tax-Free Fund For Utah performed relatively well in last year's municipal bond environment. Assets under management continued to grow steadily through the fourth quarter. Utah had several charter school bond issues called last year. Over the next two years, approximately a hundred million in par value of the portfolio has the potential to be called. In the event that those issues are called, we plan to redeploy assets with the objective of obtaining more attractive coupon rates. The duration of the portfolio was extended in the early part of 2011 to find yield but has steadily decreased over the past several months. In the current market, we remain comfortable with Utah issuers. The investment strategy of Tax-Free Fund For Utah is focused on high-quality issues and an intermediate portfolio maturity. In our view, this strategy facilitates our pursuit of the objectives of providing as high a level of current income exempt from state and Federal income taxes, as is consistent with capital preservation.

Symbols and CUSIPs

Class A	UTAHX	87675C104	Class C	UTACX	87675C203	Class Y	UTAYX	87675C302
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Before investing in the Fund, carefully read about and consider the investment objectives, risks, charges, expenses and other information found in the Fund 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 UTCO-0112