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## Thought For the Month

### “How Are Shares Priced?”

The quick answer is by pricing each portfolio security, adding the value of all the various securities together, and then dividing their total by the number of shares outstanding. But, the longer answer of “how” prices of securities are determined may be of interest to you.

One important charge placed upon the Board of Trustees of a mutual fund is the development and oversight of procedures to create a “fair” share price every day. This charge applies to all mutual funds, but is particularly unique in the challenge it presents for funds such as the Aquila<sup>sm</sup> Group of Funds, whose investments are municipal securities.

Since municipal securities have always been regarded as long-term investments, only a very limited number of these securities are traded on any particular day. This being the case, how is a “fair” price determined each and every day? Commonly, a professional pricing service compares a municipal security that did not trade with like-type issues which did trade. As an example, a AAA rated Arizona municipal school bond issue with a 15-year maturity and 6% interest coupon that did not trade is compared with a Hawaii municipal issue of similar characteristics (AAA rating, school bond, 15-year maturity, 6% interest coupon) that did trade in order to determine the Arizona issue’s price.

The professional pricing services maintain very extensive files and current information on all the municipal issues outstanding throughout the country, as well as up-to-date information about each state and its various municipal issuers. This provides a reasonable and realistic framework for comparisons. Through highly sophisticated computer systems and hands-on analysis by experienced and highly trained pricing evaluators, a whole portfolio of securities can be accurately priced.

Additionally, the pricing services maintain close contact with investment brokerage firms which are key “market makers” of municipal securities in each state as verification points for their own comparative analysis work. Typically, also, the fund managers hire a second pricing service to price periodically the municipal securities in the fund’s portfolio – as a double-check for accuracy. By comparing the prices determined by both services, judgmental differences in price can be resolved through discussions between the two services.

Each fund in the Aquila<sup>sm</sup> Group of Funds has created very specific guidelines concerning the pricing of the securities in each fund’s investment portfolio. There are established tolerance marks that are in place concerning differences in prices between services in order to trigger further review of individual securities as to reasonableness of valuation.

In short, pricing municipal securities is a highly complex matter. However, the Aquila<sup>sm</sup> Group of Funds has established explicit procedures to determine as carefully as possible maximum accuracy in the pricing of each individual security in the portfolio.

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