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## Thought For the Month

### “How Safe Are Investments in Municipal Bonds?”

We have always tried to make sure that investors in the municipal bond funds sponsored by the Aquila<sup>sm</sup> Group of Funds have their capital as stable as possible. One specific way we do this is to ensure that the quality of municipal bonds is high – within the top four credit grades available – AAA, AA, A, and BBB. However, we also feel you might be interested in knowing the level of default rates of municipal bonds in general.

The following statistics will be of interest to you\*\*:

- Out of more than 400,000 different securities issued from 1940 through year-end 1999, less than 2,500 - or approximately only 1/2 of 1% - have experienced a default.
- In actuality, the default rate may be even lower since the defaults recorded include both cash and technical defaults. This distinction is important since in the case of technical defaults, investors are not adversely affected and continue to receive timely payment of interest and principal.
- By contrast, during this same time frame, corporate bonds experienced a default rate that was substantially higher. It was in excess of 2%. Further, for year-end 2001, default rates for corporate bonds reached decade highs of 3.7%.
- And, for the period from 1986 – 2000, investment grade municipal securities (AAA to BBB-) – the only securities in which the funds in the Aquila Group are permitted to invest – had a default rate of less than 1/4 of 1%.

We just want to let you know a little more about municipal bonds. While no investment is completely risk-free, statistics indicate that municipal securities remain one of the safest investments regarding protection of capital for both individuals and institutional investors.

\* For certain investors, some dividends may be subject to Federal and state taxes, including the Alternative Minimum Tax.

\*\* Sources: bondmarket.com; thornburginvestments.com

Consideration should be given to the risks of investing including potential loss of value, market risk, interest rate risk, credit risk, and geographic concentration. Insurance on an obligation is intended to mitigate credit risk; it does not insure the market price of the obligation. There is no assurance that any investment will be successful or achieve its investment objectives. For certain investors, some dividends may be subject to Federal and State taxes, including the Alternative Minimum Tax. Consult your professional tax adviser.

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