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Thought For the Month

“Contingency Planning”

It is no great revelation that we live in a much different world today. Threats of terrorist attacks and companies' faulty financial statements are daily headline news. It definitely gives us all “cause to pause” wondering just how safe our investments are.

While no system is foolproof, we are taking deliberate steps at the AquilaSM Group of Funds to make certain that there are appropriate safeguards and checks and balances in place to dampen the influence of any threat – whether external or internal.

In many senses, we were lucky to have gone through the Y2K scare of a few years ago. This forced organizations to develop a contingency plan to be used if “business as usual” wasn't. The framework of these already developed plans – rerouting telephone calls, developing alternate worksites, keeping duplicate information at various locations, etc. – have been used and modified to deal with the threat of possible terrorist action or, for that matter, any adversity that disrupts business.

As far as potential internal threats are concerned, you should know that mutual funds are vastly more straight forward entities than most corporations. Unlike complex public companies, there are very limited activities that take place in a mutual fund. Therefore, disclosures are more straight forward and the underlying business activities of mutual funds are more easily portrayed in the financial statements. You should be aware that there are very few judgments or interpretations of accounting standards needed to prepare financial statements of mutual funds. Thus, there is little room for differing treatment of transactions and little opportunity for exploiting the “gray areas” or judgmental interpretations of the accounting literature.

Furthermore, mutual fund assets are held in safekeeping by a third party custodian. Each of these securities is priced daily, as long as security markets are available. Additionally, we periodically employ the services of a duplicate pricing service that checks and verifies the prices of the securities.

We feel that one of the most important safeguards we currently employ is “not keeping all our eggs in one basket.” Duplicate information is kept in alternate locations throughout the United States. In this way, we lessen the impact of potential problems that could develop if service at any one site was disrupted.

You should be aware that we are continuously revising our contingency plans, adding procedures to follow in additional “what if” scenarios. While it is near impossible to prepare for each and every conceivable threat, we have done our best to implement procedures that would be useful and could be employed in any adverse situation.

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