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November 21, 2014

Dear Shareholder:

We proudly present the operating results for Colorado BondShares for fiscal year 2014 which you will find attached. Generally, it has been a pretty good year. We ranked in the top 10% of peer funds, we are close to our all-time high in terms of size and Colorado is doing well compared to most other states. Our dividend was \$0.41/share (\$0.42 with capital gains) for the fiscal year and we eliminated some troubled credits.

A close examination of the holdings of the fund this year will show a new addition to the portfolio. This marks a slight departure from our historical profile because it is a new name a long way from Colorado but it clearly is in keeping with our consistent philosophy of attempting to bring value to our shareholders. For nearly thirty years I have studied with interest the bonds issued by Puerto Rico and many of our competitors have routinely invested in them. But I never felt that it represented a true value until now.

Unlike most nations in the world, Puerto Rico bonds are federally and state tax-exempt. This makes the income from this source very attractive to U.S. investors. Further, the island nation enjoys a positive geographical location and a special relationship with the United States since it is a U.S. territory and maybe a future state.

During the last several months the credit concerns which previously afflicted many of the world's other nations this time tarnished this tiny island nation. Analysts have voiced legitimate concerns that the debt burden is too high, that the government's policies have been ineffective and that the economy is not growing among others. Those criticisms lead to virtually an across the board down grade of Puerto Rico debt ratings which in turn lead to precipitous selling on the part of investors and substantial markdowns in price. This is when I became interested. While I wish I could say that I bought at the absolute bottom I didn't, but I was close enough so that some excellent yields were captured. We presently own face value of \$41,610,000. Keep in mind that our cost basis is only \$9.7 million since we bought the bonds at about \$0.23 on the dollar. In all, I risked just over 1% of shareholder's principal in order to lock in returns of 8%. Some of the bonds issued by Puerto Rico will not be paid in full and investors in those credits will take a haircut. This fact has been and will be in the news. However, all bonds are not created equal and I believe the ones we bought will pay back and the negatives presently facing them will gradually be reversed. As of September 30, 2014, our bonds are presently showing an unrealized gain of approximately \$800,000. So for the moment the purchase appears to be working.

In previous letters I have written about the litigation that involves us. Pages 31-33 give a full discussion of the particulars. I will say here only that we have made some significant progress and are working through the process as expeditiously as possible. We will keep you advised of this and other issues as appropriate.

Thank you so very much for your business this year.

Sincerely,

Fred R. Kelly, Jr.  
Portfolio Manager