Active Core Fund Commentary

Market Overview

The stock market marched higher during the second quarter, gaining more than 8%. Under the hood, though, sector leadership differed from what was seen during the first quarter of 2021. Investors have become increasingly convinced that near-term inflation data represent transitory shocks rather than a rising structural tide of higher prices. As a result, the longer-duration yields declined during the quarter. This had an impact on technology and communication services stocks, which outperformed the S&P 500 index during the quarter after a rough start to the year. Cyclical stocks, except energy, took a breather during the quarter after several quarters of strong outperformance relative to the broader market indexes.

While long-duration yields drifted lower through the quarter, short-term yields rose slightly as the Federal Reserve (the Fed) pulled a potential rate hike forward. Lower long-term yields were a result of a concerted effort by the Fed to characterize rising inflation as transitory, resulting in a flatter yield curve, and strong performance in the fixed income markets overall. Riskier credit once again outperformed high-quality, and securities with liquidity risk generally had better returns than highly liquid securities.

Positioning the Active Core Fund

Portfolio composition subject to change.

We believe the current early-to-mid cycle state of the economy argues for continuing to own cyclical stocks over defensive ones. Although the rate of positive change for economic data has likely peaked with the anniversary of the U.S. COVID-19 recovery — aiding year-to-year comparisons until now — we believe data can remain highly positive for the near future. As such, we continue to maintain significant exposure to cyclicals.

We expect rates to move higher in the second half of the year, responding to inflationary pressures and strong economic growth. We would not be surprised to see inflation a bit higher and stickier than the Fed is projecting. We have positioned the fixed income portion of the Fund with a lower duration than the benchmark. Any significant increase in yields would likely cause us to add duration. We also have an overweight to credit and liquidity risk, as we believe the market is still relatively early in the credit cycle. We believe that both credit and liquidity risks should benefit the Fund in this environment.

Why should investors consider investing in this Fund?

Investors in this Fund can diversify risk across both fixed income and equities. With interest rates low, this Fund provides an opportunity to participate in potentially higher-return asset classes, while reducing volatility and protection from declining markets.

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Disclosures

An investor should consider a fund's investment objectives, risks and charges and expenses carefully before investing or sending money This and other important information about an investment company can be found in the fund's prospectus. To obtain a Cavanal Hill Funds prospectus or summary prospectus, please call 800-762-7085 or visit us at www.cavanalhillfunds.com. Please read it carefully before investing.

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Investment Risks

Equity securities (stocks) are more volatile and carry more risk than other forms of investments, including investments in high-grade fixed income securities. Fixed income securities are subject to interest rate risks. the principal value of a bond falls when interest rates rise and rise when interest rates fall. During the periods of rising interest rates, the value of a bond investment is at greater risk than during periods of stable or falling rates. the Fund invests in foreign and emerging market securities, which involves certain risks such as currency volatility, political and social instability, and reduced market liquidity. Mid- and small-cap companies may be more vulnerable to adverse business or economic developments.