Active Core Fund Commentary

Market Overview

The U.S. stock market was volatile but flat during the thrid quarter, as the S&P 500 Index rallied 6% during July and August but declined almost as much during September. Slowing economic growth concerns, especially on the heels of tightening regulation in China, joined U.S. policy risks (fiscal cliff, potential tax legislation, and a debt ceiling showdown) at the top of investors' minds. Additionally, the 10-year U.S. Treasury note's yield increased more than 20 basis points (0.20%) during the final week of September as markets continue to try to understand how transitory existing inflationary data are.

While third-quarter growth slowed, inflation continued its trend higher during the quarter as commodity prices, led by energy, rose sharply. These two trends (slower growth and higher inflation) seemed to offset each other during the quarter as fixed income markets exhibited very little volatility. Interest rates across the curve ended the quarter barely changed from their starting levels and returns in many fixed income sectors were close to zero.

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, we believe data can remain highly positive for the near future. At the same time, we have become more constructive on health care stocks. We believe investors may turn to health care companies as a source of stable growth in an environment where uncertainties abound in the technology sector.

With inflation at elevated levels and economic growth expected to rebound in the fourth quarter, we believe the most likely path for interest rates should be higher. Given our expectation of higher rates, we are maintaining a short duration position within fixed-income holdings versus our benchmark.

Markets are currently quite liquid and seem likely to stay that way for the foreseeable future. In this type of environment, we believe it makes sense to take liquidity risk in the portfolios. This is the reason we continue to hold a large underweight to government sectors versus the benchmark.

Corporate spreads remain tight and opportunities in the space have become more difficult to find. We continue to like the taxable municipal sector as a corporate proxy.

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.

CAVANAL HILL® Funds

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.