

Bond Fund Commentary



Market Overview

Longer-duration fixed income yields drifted lower throughout the quarter, while short-duration yields moved higher as the Federal Reserve (the Fed) pulled a potential rate hike slightly forward. Lower yields were a result of not only a concerted effort by the Federal Reserve to tamp down inflation expectations, but also a market which was likely oversold at the end of the first quarter of 2021 and naturally corrected some during the second quarter. This resulted in a flatter yield curve and strong performance in the fixed income markets overall. Low quality assets once again outperformed high-quality issues, and securities with liquidity risk generally had better returns than highly liquid securities.

Positioning the Bond Fund

Portfolio composition is subject to change.

We expect yields to move higher in the second half of the year, responding to inflationary pressures and strong economic growth. While we are not calling for runaway inflation, we would not be surprised to see it a bit higher and stickier than the Fed is projecting. We have positioned the Cavanal Hill Bond Fund with a lower duration than its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, and we are alert for a spike in yields, which would cause us to add duration. We believe that overweights to both

credit and liquidity risks should benefit the fund in this environment. We believe that both credit and liquidity risks should benefit in this environment.

Notable Portfolio Changes During the Quarter

Duration was relatively stable during the quarter. We added some further credit risk and liquidity risk to the portfolio during the quarter, though these additions were marginal.

Why Should Investors Consider Investing in This Fund?

Investors in this Fund should be able to reduce their exposure to rising interest rates, while retaining exposure to credit and liquidity risks. We believe credit is likely to outperform as earnings grow, corporate/municipal balance sheets are repaired, and creditworthiness improves. The yield premium for liquidity risk appears very attractive given the relatively high liquid nature of financial markets today, and this premium can be a significant boost to the yield of the portfolio, given the low level of overall rates.



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.

Cavanal Hill Investment Management, Inc. is an SEC registered investment adviser and a wholly-owned subsidiary of BOK Financial Corporation, a financial holding company ("BOKF"). BOKF, NA serves as the custodian for the Cavanal Hill Funds. Cavanal Hill Investment Management, Inc. provides investment advice, administration and other services for the Funds and receives a fee for providing such services as fully described in the prospectus. The Funds are distributed by Cavanal Hill Distributors, Inc. a registered Broker/Dealer, member FINRA and wholly-owned subsidiary of BOKF.

Commentary provided is for the indicated period and is designed to provide a frame of reference. It does not constitute investment advice. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. The opinions expressed herein reflect the judgment of the authors at this date and are subject to change without notice and are not a complete analysis of any sector, industry or security. This document contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the Cavanal Hill Funds, the securities and credit markets and the economy in general. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "plans," "projects," variations of such words and similar expressions are intended to identify such forward-looking statements. Management judgments relating to and discussion of the value and potential future value or performance of any security, group of securities, type of security or market segment involve judgments as to expected events are inherently forward-looking statements. Management judgments relating to and discussion of the value and potential future value or performance of any security, group of securities, type of security, group of securities, type of security or market segment involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what is expressed, implied, or forecasted in such forward-looking statements. The potential realization of these forward-looking statements is subject to a number of limitations and risks, which are described in the Fund's prospectuses, and investors or potential investors, are cautioned to review the Funds' prospectuses and the description of such risks. Neither the Funds nor the Funds' investment adviser, Cavanal Hill, undertake any obligation to update, amend, or clarify forward-looking statement, whether as a result of new information, future events or otherwise.

Investment Risks

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 periods of rising interest rates, the value of a bond investment is at greater risk than during periods of stable or falling rates. Bond funds will tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in prices, especially for longer-term issues and in environments of changing interest rates.