

Moderate Duration 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 Fed 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. Lower quality credit once again outperformed high-quality issues, and securities with liquidity risk generally had better returns than highly liquid securities.

Morningstar Star Rating (if applicable)



Overall Morningstar Rating™ out of 524 short-term bond funds (for the overall period, Institutional Shares)
Morningstar star ratings are based on risk adjusted total returns.

Positioning the Moderate Duration 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 Moderate Duration Fund with a lower duration than the Bloomberg Barclays U.S. Intermediate Aggregate Bond Index, and we are on alert for a spike in yields, which would 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 overweights to both credit and liquidity risks should benefit the fund in this environment.

Notable Changes to the Portfolio

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 highly 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.

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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.

The Morningstar Rating for funds or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-ended funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a management product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 25% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star.

The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/50% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

Cavanal Hill Limited Duration Fund was rated against the following numbers of short-term bond funds over the following time period: 3 star against 524 funds in the last three years, 3 star against 462 funds in the last five years, and 4 stars against 303 funds in the last ten years.

Past performance is no guarantee of future results.

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