

Moderate Duration Fund Commentary



Market Overview

Third-quarter economic growth was notably slower than the rapid pace experienced during the first two quarters of 2021 and much lower than consensus forecasted at the beginning of the period. While 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 very close to zero.

Morningstar Star Rating (if applicable)



Overall Morningstar Rating™ out of 550 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.

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 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 portfolios. This is the reason we continue to hold a large underweight to government sectors versus the benchmark.

Corporate spreads remain tight, especially on the short end of the yield curve. Though we don't expect corporate spreads to widen materially, we continue to like the taxable municipal sector as a corporate substitute.

In summary:

- Short duration
- Underweight government sectors
- Overweight taxable municipals

Why should investors consider investing in this Fund?

For investors looking to move further out on the curve than the typical short-duration strategy, this Fund could be attractive. The yield curve on the short end is relatively steep, so extending duration even a little can add significant yield.

With benchmarks so heavily weighted to lower-yielding government sectors, we continue to believe that actively managed fixed income is preferable to passive strategies.

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 Moderate Duration Fund was rated against the following numbers of short-term bond funds over the following time period: 4 star against 550 funds in the last three years, 3 star against 485 funds in the last five years, and 5 stars against 318 funds in the last ten years.

Past performance is no guarantee of future results.

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