This commentary addresses the Cavanal Hill U.S. Treasury Fund and Government Securities Money Market Fund:

How did you position your portfolios during the quarter?

The odds of a Federal Open Market Committee (FOMC) easing grew as the quarter progressed. This was a major change from last year, when the debate about FOMC action in 2019 was more focused on how many rate increases would be announced. Escalating tensions with Mexico and China contributed to uncertainty regarding near-term growth prospects.

Reflecting the darker economic picture, the 3-month-Treasury Bill to 10-year Treasury curve inverted significantly, from a high of 100 basis points (1.00%) late last year to as low as −23 basis points (−0.23%) in late May. This is typically viewed as a harbinger of recession. The Overnight Index Swap market carved a similar path, predicting as many as three rate cuts this year.

In light of a possible easing later in the year, we selected slightly longer-term Treasury notes, adding incremental yield to the Funds while locking those yields in place for a period after the first widely anticipated FOMC move in July.

Also adding value were Secure Overnight Financing Rate (SOFR) floating-rate notes, which outperformed overnight repurchase agreements (repos) during the quarter. The SOFR rate created as an alternative to LIBOR, which is being phased out, and has gained a great deal of market acceptance over the past year.**

Our Fixed Income Clearing Corp1 (FICC) sponsored repurchase agreements (repos) continued to add value, and nationwide, the FICC-sponsored repo market reached a size of roughly $160 billion as of the end of May. Meanwhile, worldwide money market assets continued to grow: Globally, money fund assets rose by $83.7 billion, or 1.4%, to break the $6.1 trillion level during the first quarter, according to the Investment Company Institute. The gain was propelled primarily in large part by gains in Chinese and U.S. money funds.**

What is your outlook, and how are you positioning the funds?

The markets now anticipate one or more cuts to the federal funds target rate over the rest of the year. Our longer-term Treasury holdings—in both funds—and our SOFR floating rate notes in the Government Securities Money Market Fund should help soften the blow of declining yields.**

** Portfolio composition is subject to change.
Past performance is no guarantee of future results.

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1 Definitions

The London Interbank Offered Rate (LIBOR) is the average rate charged by large banks in London for loans to each other. LIBOR is a relatively volatile rate and is typically quoted in maturities of one month, three months, six months and one year.

**Overnight Index Swap**

An overnight index swap uses an overnight rate index, such as the federal funds rate as the underlying rate for the floating leg, while the fixed leg would be set at a rate agreed on by both parties. **Secured Overnight Financing Rate (SOFR)** was originally known as the broad Treasuries financing rate, the secured overnight financing rate is a measure of the cost of borrowing cash on an overnight basis in the U.S. Treasury repo markets. It is the U.S. successor to Libor. Fixed Income Clearing Corporation (FICC) is an agency that deals with the confirmation, settlement, and delivery of fixed-income assets in the U.S. The agency ensures the systematic and efficient settlement of U.S. government securities and mortgage-backed security (MBS) transactions in the market.

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 800-762-7083 or visit us at www.cavanalhillfunds.com. Please read it carefully before investing.

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