CAVANAL HILL Funds

Mid Cap Core Equity Fund Commentary

Equity Management Team

The Mid Cap Core Equity Fund is managed by the Quantitative Equity Management Team of Cavanal Hill Investment Management, Inc. The team is responsible for the overall management of the Mid Cap Equity Strategy. While all members of the team actively contribute their experience, expertise and unique insights to the investment process, the manager primarily responsible for the day-to-day management of the Mid Cap Core Equity Fund is:

Thomas W. Verdel, CFA®

Senior Quantitative Equity Portfolio Manager

Thomas Wesley Verdel is responsible for the research, development, and implementation of Cavanal Hill's quantitative equity offerings. Mr. Verdel joined Cavanal Hill in 2005 and has been a Portfolio Manager of the Fund since 2016.

Cavanal Hill Funds (Investor Shares) vs. Benchmark Returns[1]

as of June 30, 2019	Quarter*	1 Year	Since Inception	Expense Ratio (gross/net)
Mid Cap Core Equity Fund (12/30/16)	3.09%	4.28%	7.38%	5.32%/1.06%
Russell MidCap® Index	4.13%	7.83%	11.32%	
Lipper Mid-Cap Core Funds Average†	3.57%	3.42%	7.85%	

*Aggregate returns

The returns presented reflect fee waivers that have been in effect during the applicable periods. Without such waivers, the total returns would have been lower. Currently, contractual fee waivers are in effect from December 26, 2018 through December 31, 2019.

The Fund's Investor share class returned 3.09% in the second quarter, compared with the Russell MidCap® Index[1], the Fund's benchmark, which returned 4.13%.

How did stocks fare overall?

Positive economic growth continued in the first quarter of 2019 with gross domestic product[1] growth increasing to 3.1% from the fourth-quarter reading of 2.2%. However, forecasts for second-quarter U.S. GDP growth show that growth is expected to slow to around 2% or below through the end of 2020. The Institute for Supply Management indices[1] and Conference Board Leading Economic Indicators[1] continued to pull back during the quarter down to levels last seen in 2016. There are faint signs that wage pressures are starting to affect the job market and hiring plans. However, unemployment is still very low and hiring is robust.

Indications from the Federal Reserve Board (the Fed) seemed to suggest that it would be more accommodative going forward, and many market experts predicted that an interest rate cut is very likely in July. The Fed's dramatic shift over the past 12 months, from being expected to continue raising rates, to a rate cut anticipated now, helped drive the strong equity market returns of the year's first and second quarters. Progress on trade and tariff issues has moved in fits and starts, but the administration managed to satisfy markets by resuming trade talks with China following the G-20 summit in late June.

U.S. equities edged out developed markets by a slim margin while emerging market stocks trailed for the quarter. Within the U.S., growth stocks again led value stocks. The financial sector had the best performance, followed by materials and technology. Interest rate-sensitive sectors, including utilities and real estate, lagged, along with health care, but energy was the poorest-performing sector overall. Even though markets were up, lower beta[1] (less volatile), defensive stocks generally did better, with large- and mid-caps outperforming small caps while value themes lagged growth.

Investor anxiety spiked and then retreated in the second quarter. Strong returns in April were followed by a sharp pullback in May and positive returns again in June. This market volatility along with geopolitical events produced a number of market shifts. However, for the quarter as a whole, large-cap, technology, and lower-beta stocks did better. Higher-risk, value stocks, on the other hand, lagged the market significantly. The sector picture wasn't as transparent as many typically defensive areas—real estate, utilities, and healthcare—underperformed while materials and financials led the pack. The magnitude of the energy sector's underperformance, however, led to better returns for growth stocks than value stocks.

The size and frequency of the second-quarter's market shifts made it difficult to find consistent themes that worked throughout the quarter. President Trump's short-lived

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† Each Lipper Mutual Funds average is an equally weighted average of the mutual funds within their respective investment objectives, adjusted for reinvestment of capital gain distributions and income dividends.

[1] **Definitions**

Gross Domestic Product (GDP) measures the market value of the goods and services produced by labor and property within the respective country/economic region. **Beta** is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole, beta is used in the capital asset pricing model, which calculates the expected return of an asset based on its beta and expected market returns. **Conference Board Leading Economic Index** is an American economic leading indicator intended to forecast future economic activity. It is calculated by The Conference Board, a non-governmental organization, which determines the value of the index from the values of ten key variables. **ISM Manufacturing Index (ISM)** is based on surveys of more than 300 manufacturing firms by the Institute of Supply Management. The ISM monitors employment, production, inventories, new orders, and supplier deliveries. A composite diffusion index monitors conditions in national manufacturing and is based on the data from these surveys. **Purchasing Managers' Index (PMI)** is an indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders,inventory levels, production, supplier deliveries, and the employment environment. **Russell MidCap® Index** measures the performances of the 800 smallest companies in the Russell 1000® Index. The index is unmanaged and does not reflect the fees and expenses associated with a mutual fund. An investor cannot invest directly in an index.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, call 800-762-7085 or visit us at www.cavanalhillfunds.com.

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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. The value of the Fund's investments may decline due to an increase in interest rates. In general, the longer a security's maturity, the greater the interest rate risk. The Fund's yield may decrease due to a decline in interest rates. International investing involves increased risk and volatility. Mid- and Small-cap companies may be more vulnerable to adverse business or economic developments.

attempt to place tariffs on Mexico, for example, generated a great deal of short-term market movement with essentially no change in tariff policy in the interim. Public comments from various Fed officials also had an undue influence on markets as investors attempt to figure out the timing and size of potential rate cuts. In addition, the yield curve remained inverted during the quarter, but credit spreads remained fairly stable in the face of more negative economic surprises.

What factors influenced the Fund's performance?

From a market cap perspective, we remain in line with the Fund's benchmark. As to sectors, our approach this quarter leaned on overweights to technology, communications, and energy while we were underweight to financials, utilities, and industrials. Communications and technology had a good quarter, but energy severely lagged in the second quarter. This led the overweight to technology and communications to add to performance but the overweight to energy detracted severely. The underweight to financials also did not pan out well as that sector posted some of the best quarterly results. Overall, in the second quarter, our return was hurt modestly by sector allocations compared with the benchmark.**

From a style perspective, we held stocks that had some positive price momentum, higher profitability metrics, and lower leverage. These higher-quality characteristics had mixed results but added around 0.20% overall to relative returns. Other, smaller risk exposures also contributed, adding around 0.40% due to style allocation. Our stock picks within sectors were affected by negative sentiment in the health care sector resulting from 2020 election pressures and ongoing trade issues with China—and briefly, with Mexico. Cash flows in and out of the Fund and a cash holding of roughly 4% also were a drag on relative performance. All in all, we underperformed the benchmark by roughly 1.05% for the quarter.**

An underweight to financials and overweight to energy hurt the Fund's relative performance the most. Cloud networking hardware maker Arista Networks (1.5% of net assets) stock fell 17.4% in the quarter as it was pulled down by continued trade and tariff turbulence with China. Temporary-staffing company Robert Half International (1.8%) was down 12.5% for the quarter as it missed estimates on earnings and revenues, leading analysts to cut price targets and downgrade the stock. Pharmaceutical firm United Therapeutics (0.6%) stock dropped 33.5% during the quarter as the pharmaceutical space faced a general dark cloud as the 2020 elections approach, with health care looking like a target of politicians. The stock also had price targets cut and analyst downgrades.**

Among contributors to the Fund's relative results were overweights to communications and technology. Electronic payment processing firm Total System Services (1.3%) agreed to a merger with another payment company in late May, leading to a 35% stock jump for the period. Internet service and infrastructure company Verisign (2.5%) also did well, beating earnings estimates and expressing positive sentiment, rising 15% for the quarter. Hotel operator Hilton (2.1%) built on its strong first quarter by reporting good earnings and increasing its guidance, gaining 18% for the quarter.**

What is your outlook?

The macroeconomic backdrop in the U.S. and globally continued slowing in 2019. U.S. housing and autos remain lackluster and regional and national purchasing managers index (PMI)[1] have declined further. The Fed's willingness

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to potentially cut rates earlier than expected also indicates some weakness in the economy going forward. In addition, the ongoing U.S. trade dispute with China has found little in the way of a permanent resolution.

While market risk aversion and volatility remained fairly calm in the second quarter, many underlying problems remain. This does not create a furtive environment for equity returns, especially considering that markets are currently near all-time highs while the pace of economic growth is likely to continue slowing later in the year. We believe that themes surrounding growth, profitability, and quality will continue to outperform going forward. However, our outlook is also for higher equity market volatility and for more muted equity market returns, especially compared to the first half of 2019.

The rollover in macroeconomic indicators in conjunction with a market that is showing relatively low risk aversion leads us to continue to focus on companies that are growing and more profitable than their industry peers. In addition, we believe riskier, lower-quality stocks will have a difficult time outperforming in a slower-growth environment. Accordingly, our emphasis is on finding companies with better operating characteristics and solid balance sheets even if they are not necessarily the most undervalued companies in their industry. A safety premium is warranted for high-quality characteristics going forward and we believe these themes will benefit as markets evolve.

** Portfolio composition is subject to change.