Fixed Income Funds
December 31, 2019  Fourth Quarter 2019

Strategic Enhanced Yield Fund Commentary

Fixed Income Management Team
The Fixed Income Funds are managed by the Fixed Income Management Team of Cavanal Hill Investment Management, Inc. While all members of the Team actively contribute their experience, expertise and unique insights to the investment process, the managers primarily responsible for the day-to-day management of the Fixed Income Funds are:

Michael P. Maurer, CFA®
Senior Fixed Income Portfolio Manager
Michael Maurer is responsible for the day-to-day management of the Fixed Income Funds.

Russell Knox, CFA®
Fixed Income Portfolio Manager, Cavanal Hill Investment Management, Inc.
Russell Knox supports the execution of the taxable fixed income process which includes conducting research and analysis on the mortgage and asset-backed markets.

Cavanal Hill Funds (Institutional Shares) vs. Benchmark Returns

| Fund                                | Quarter* | YTD* | 1 Year | Since Inception | Expense Ratio
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<tbody>
<tr>
<td>Strategic Enhanced Yield Fund (12/26/17)</td>
<td>-0.37%</td>
<td>6.98%</td>
<td>6.98%</td>
<td>4.82%</td>
<td>3.24%/0.77%</td>
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<tr>
<td>Bloomberg Barclays U.S. Aggregate Bond Index</td>
<td>0.18%</td>
<td>8.72%</td>
<td>8.72%</td>
<td>4.44%</td>
<td></td>
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<tr>
<td>Lipper Multi-Sector Income†</td>
<td>1.28%</td>
<td>9.76%</td>
<td>9.76%</td>
<td>4.00%†</td>
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† Aggregate returns
The Fund 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, 2019 through December 31, 2020.

How did the market’s fixed income sectors perform?
Third-quarter gross domestic product grew at a 2.1% annual pace, and a similar number is forecast for the fourth quarter. U.S. employment growth has remained resilient despite a historically low unemployment rate. The U.S. dollar weakened in the fourth quarter, wiping out most of its year-to-date gains. This weakness helped support commodity prices. Oil prices in particular were strong during the quarter and elevated tensions in the Middle East seem to have, at least temporarily, raised the floor for oil prices. The weaker dollar and higher commodity prices led to rising inflation expectations, as the 10-year Treasury inflation-protected securities breakeven inflation rate rose 27 basis points (0.27%) during the quarter. The year-over-year core consumer price index rose 2.3% in December, remaining near the top end of its 10-year range.

The Federal Reserve Board (the Fed) monetary policy seemed to have had the largest influence over capital markets in the fourth quarter. The Fed cut the federal funds rate 25 basis points (0.25%) in October, bringing the target range to 1.50% - 1.75%. More importantly, the central bank signaled its desire to remain on the sidelines absent a significant rise in inflation and has started to expand its balance sheet. This expansionary monetary policy was largely responsible for the sharp fourth-quarter rally in risk assets.

Opportunities in fixed income remain very limited. Treasury yields are still near their all-time lowest levels and credit spreads are close to their all-time tightest levels. This combination makes it challenging for fixed income investors to find risk-adjusted yield. However, callable agencies, taxable municipals, and the top tranches of some non-agency securitized products all offer attractive relative yields.

The corporate sector’s strong performance continued in the fourth quarter. Although the Bloomberg Barclays U.S. Aggregate Bond Index returned only 0.18% in the fourth quarter, corporate bonds fared better, returning 1.18%, capping off an outstanding year up 14.54%. Bonds at the bottom end of the investment-grade spectrum were the biggest winners, as the Baa-rated portion of the index returned 1.69%, finishing the year up 16.46%.

The Treasury portion of the index lagged, returning -0.79%. On the long end of the curve, the Treasury 20+ year portion of the index fell 4.24% in the quarter, though it still gained 15.11% for the year. However, after underperforming all year, the MBS portion of the index rallied in the final quarter, up 0.71%. High-yield corporates also had a strong quarter, with the Bloomberg Barclays U.S. Corporate High Yield Index up 2.61%, gaining 14.32% for the year.

What were your primary investment strategies during the quarter and how did they influence Fund performance?
We had two primary strategies during the quarter: a high quality bias and a slightly long duration.** The high-quality bias was the wrong call for the fourth quarter. We have been focusing on bonds that can weather slower economic growth. This bias is prudent—Treasury yields remain very close to their lowest levels and credit

(Continued on page 2)
Investment Risks

Short-term investment-grade bonds offer less risk and generally a lower rate of return than longer-term high-yield bonds. Bond funds tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in price, especially for longer-term issues and in environments of changing interest rates. High-yield bonds, “commonly referred to as junk bonds,” have a higher risk of default or other adverse credit events, but have the potential to pay higher earnings over investment-holding periods.

Spreads are at or near historic lows. The risk/reward balance in credit is extremely tilted towards risk, as potential excess return is as low as it has ever been.**

However, this positioning did not work during the fourth quarter as nearly all risk assets were strongly bid. Both investment-grade and high-yield bonds had strong fourth quarters. Our lack of exposure to corporates was a big drag on relative performance.**

The slightly long duration was also a hindrance during the quarter. After a strong rally through the first three quarters of the year, longer-dated Treasuries sold off in the fourth quarter. So, any exposure to the long end of the Treasury curve was detrimental.

The Fund underperformed the benchmark by 55 basis points (0.55%) in the quarter. Though the long duration position did detract from relative performance in the fourth quarter, what hurt the most was the lack of exposure to the corporate market, particularly the Baa-rated portion.**

How do you expect to position your funds in the coming months?

With expected returns in fixed income at or near their lowest levels in history, we believe it makes a lot of sense to maintain our conservative stance. Absent some significant spread widening, we will not get more aggressive in this market.

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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. Bloomberg Barclays U.S. Aggregate Bond Index covers the USD-denominated, investment-grade, fixed rate, taxable bond market of SEC-registered securities. Bloomberg Barclays U.S. Corporate Baa-and Ba-Rated Bond Indexes are sub-indexes of the broad corporate investment-grade bond index, broken down by credit rating. Bloomberg Barclays U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Baa1/BBB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded. Bloomberg Barclays U.S. Corporate Investment-Grade Index covers all publicly issued U.S. corporate, non-corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements, to qualify, bonds must be SEC-registered. Bloomberg Barclays U.S. Treasury 20+ Year Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with 20+ years to maturity. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. Bloomberg Barclays U.S. Treasury Index measures the performance of the public obligations of the U.S. Treasury with a remaining maturity of one year or more are non-convertible and are denominated in U.S. dollars. Securities must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody’s, S&P, and Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. These indexes are unmanaged and does not reflect the fees and expenses associated with a mutual fund. An investor cannot invest directly in an index.

Strategic Enhanced Yield Fund Commentary

An investor should consider a fund’s investment objectives, risk 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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Short-term investment-grade bonds offer less risk and generally a lower rate of return than longer-term higher yielding bonds. Bond funds will tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in price, especially for longer-term issues and in environments of changing interest rates. High-yield bonds, “commonly referred to as junk bonds,” have a higher risk of default or other adverse credit events, but have the potential to pay higher earnings over investment-grade bonds. The higher risk of default, or the inability of the creditor to repay its debt, is the primary reason for the higher interest rates on high-yield bonds. International investing involves increased risk and volatility.