Ultra Short Tax-Free Income Fund Commentary

Market Overview

Yields in the short-end of the municipal market had a bit of a roller coaster ride in the quarter, particularly on fixed rate bonds. The first half of the period saw rates rise by about 60 basis points (0.60%) on 1-year fixed-rate-paper, but the attractive levels garnered attention from investors and subsequent buying caused yields to fall in the last two weeks of May. Rates then rebounded at the beginning of June before dropping again slightly at the end of the quarter. Yields on variable rate demand notes (VRDNs) were less volatile, as the SIFMA Index trended upward throughout the period. The index hit 0.98% in late June, which was the highest level since April 2020.

Positioning the Ultra Short Tax-Free Income Fund

Portfolio composition is subject to change.

The Fund continues to look for opportunities in the 1-year fixed-rate maturity range to lock in attractive yields. And since VRDN rates change either daily or weekly, those yields should continue their upward climb as the Federal Reserve raises the overnight lending rate at the upcoming Federal Open Market Committee meetings.

Why should investors consider investing in this Fund?

The Ultra Short Tax-Free Income Fund aims to provide an attractive tax-equivalent yield, and in a rising rate environment, the short duration should help maintain a relatively stable net asset value as well as a strong performance relative to its peers.

CAVANAL HILL® Funds

Disclosures

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THE SIFMA Municipal Swap index is a 7-day6 high-grade market index comprised of tax-exempt VRDNs reset rates that are reported to the Municipal Securities Rule Making Board's (MSRBs) SHORT reporting system. The index is calculated on an actual/actual basis and is published every Wednesday by 4pm Eastern Time. The bonds going into the index are selected from all eligible bonds reporting data through the SHORT system that meet the index criteria as set forth by SIFMA. The index is calculated by Bloomberg as the calculation agent for SIFMA.

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. 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. The Fund's income may be subject to certain state and local taxes and, depending on one's tax status, to the federal alternative minimum tax.