

Ultra Short Tax-Free Income Fund Commentary



Positioning the Ultra Short Tax-Free Income Fund

Portfolio composition is subject to change.

The Fund will continue to look for opportunities to lock in attractive fixed rate yields while maintaining a position in VRDNs.

Why should investors consider investing in this Fund?

The Fund offers an attractive tax-free yield and the investment mix of fixed rate bonds and VRDNs helps maintain a relatively stable net asset value.

Market Overview

The short end of the municipal market had a fair amount of volatility during the quarter. Yields on fixed rate paper steadily declined in January, but then rose sharply in February. That trend reversed itself again in March as the banking crisis unfolded and yields ended the period about 0.30% lower than where they began. The variable rate demand note (VRDN) yields had even more exaggerated movement as the SIFMA index started the year at 3.66% but fell steadily in January, ultimately reaching 1.66% at the end of the month. The index moved up to 3.98% in February before falling to 2.21% in early March. The roller coaster headed back up from there as SIFMA hit 4.35% later in the month. It's important to note this volatility isn't due to credit concerns from the banking crisis; the rates on variable rate demand notes (VRDNs) are largely driven by the supply-demand dynamic.



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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The SIFMA Municipal Swap index is a 7-day 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.