World Energy Fund Commentary

Market Overview

As the globe recovers from COVID-19 lockdowns and economic activity accelerates, demand for fossil fuels has extended its rebound in the face of muted output growth. As a result, crude oil inventories persistently drew down throughout the quarter. Despite the rapid growth in demand and constrained supply increases from the Organization of Petroleum Exporting Countries plus Russia (OPEC+) group, North American oil producers continue to deliver meager production escalation, sticking with a strategy favoring shareholder returns over output growth.

Limited production increases and restrained investment have kept inventories low, allowing prices to recover. Furthermore, environmental concerns have resulted in a growing reluctance from governments and private institutions to sponsor carbon-intensive projects. These forces are translating to a state of undersupply and underinvestment in traditional energy resources. This has resulted in the price of crude oil reaching levels not seen since 2018. Although the specter of Iranian oil re-entering markets is somewhat of a wildcard in the near term, more significant is the rising tide of demand that is stripping inventories, which cannot be replaced without the return of idled capacity.

Morningstar Star Rating

★★★★★

Overall Morningstar Rating™ out of 75 Equity Energy funds (for the overall period, Institutional Shares)

Positioning the World Energy Fund

Portfolio composition is subject to change.

Throughout the quarter, we shifted the Fund's position aggressively towards oil and gas, with an emphasis on producers that have a strong oil mix. The oil and gas investments included increasing positions in the oilfield service (OFS), exploration and production (E&Ps), and refining companies. These investments were driven by our goal of increasing the portfolio's weighting in companies that generally benefit from strong oil and gas pricing dynamics. We added positions in the OFS group based on our belief that eventually higher prices will result in increased investment in new production capacity. Our investments in refining reflect what we view as company-specific catalysts. However, pricing differentials remain a headwind for the broader group, so we believe a nimble hand is key.

We began shifting our alternative energy holdings toward names within the solar, wind, and hydrogen industries as the quarter wore on, while keeping healthy exposure to the battery electric vehicle (BEV) supply chain. We believe that owning shares in suppliers of battery materials and vehicle components is the optimal way to play the BEV adoption narrative, based on more attractive risk/reward story than the untested pure-play BEV producers. Following a sell-down in the wind/solar/hydrogen groups in April, we took the opportunity to add back specific companies that we have visited previously at attractive prices.

CAVANAL HILL Funds

Our portfolio adjustments during the quarter reflect our confidence in the global economic recovery, as well as a desire to balance the reality of dissipating oil reserves/ inventories with the trend towards renewable energy investments.

Why should investors consider investing in this Fund?

As we move through the economic upcycle, we believe energy remains an attractive industry relative to the broader market. As demand collapsed and investors fled the space during the pandemic, companies in the sector responded by adjusting capital allocation priorities to favor shareholder returns, translating to attractive return potential at relatively cheap valuations. As investors have become increasingly aware of both the dislocation in the long-term supply/demand backdrop, as well as shifting capital strategies from producers, funds have flowed back into the space. As a result, the energy sector has substantially outperformed the market year to date. Despite the strong 2021 performance, we believe the bull run in energy is likely to continue as the sector remains relatively cheap on a valuation basis, and the fundamentals continue to support strong pricing.

While traditional oil and gas remains the industry's bellwether, we believe that the current landscape requires a flexible definition of what constitutes energy and energy-related holdings. This greater flexibility enables us to invest in all aspects of the broader industry, including renewable energy, while preserving the upside offered by a recovery in fossil fuels. In turn, we believe this could facilitate potentially superior returns than our peers, and offers investors a compelling set of exposures that capture a broader definition of energy.

CAVANAL HILL® Funds

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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Investment Risks

Equity securities (stocks) are more volatile and carry more risk than other forms of investments, including investments in below investment-grade fixed income securities. 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. The Fund invests in foreign and emerging market securities, which involves certain risks such as currency volatility, political and social instability, and reduced market liquidity. Mid- and small-cap companies may be more vulnerable to adverse business or economic developments. During periods of rising interest rates, the value of a bond investment is at greater risk than during periods of stable or falling rates. International investing involves increased risk and volatility. The Fund's concentration in energy-related industry securities may present more risks than would be the case with funds that diversify investments in numerous industries and sectors of the economy. A downturn in the energy sectors would have a larger impact on the Fund than on a fund that does not concentrate in these industries. Energy sector securities can be significantly affected by events related to political developments, energy conservation, commodity prices, and tax and government regulations. The performance of securities in the Fund may, at times, lag the performance of companies in other sectors or the broader market as a whole. Emerging market investing may be subject to additional economic, political, liquidity, and currency risks not associated with more developed countries. The Fund may engage in active and frequent trading. Diversification does not assure a profit nor protect against loss.

The Morningstar Rating for funds or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end ed funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. it is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a management product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star.

The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/50% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

Cavanal Hill World Energy Fund was rated against the following numbers of equity energy funds over the following time periods: 5 stars against 75 funds in the last three years, and 5 star against 71 funds in the last five years.