World Energy Fund Commentary

Market Overview

Energy demand continues to increase toward pre-COVID-19 recession levels. Though it may be a few quarters before we return to new highs for fossil fuel demand, a complete demand recovery is expected in the next few quarters. OPEC+ (Organization of the Petroleum Exporting Countries Plus) has held the line from a production standpoint, and U.S. producers, after years of reckless spending have also shown restraint. As demand is rising, and with supply being restrained, prices for oil rose slightly during the quarter despite the general economic slowdown resulting from the Delta variant.

Globally, natural gas appears to be in severe shortage. U.S. natural gas prices were up more than 61% during the quarter, and substantial price increases for gas were seen globally. Europe's transition from fossil fuel to clean energy has not been without its challenges. The UK, having closed most of its natural gas storage facilities, has been hit with exceptionally high electricity prices due to the global scarcity of natural gas and its inadequate storage.

Positioning the World Energy Fund

Portfolio composition is subject to change.

We continue to be quite bullish on the price of fossil fuel equities relative to alternatives. We see valuation discounts in both traditional E&P companies as well as oil field service companies. As a result, we continue to add to these two energy sub-sectors. E&Ps and oil field service stocks now make up more than 59% of the Fund's total assets. Our alternative energy exposure continues to fall, and now represents only 10% of the holdings, with continued focus on electric vehicles, wind, solar, and hydrogen. Sustained high natural gas prices may lead us to look again for opportunities in wind, solar and hydrogen.

With OPEC+ showing incredible discipline despite rising oil prices, we remain confident that investors will return to traditional fossil fuel stocks. We also believe equity markets are likely to continue to perform reasonably well as we enter the fourth quarter, the Delta variant recedes and global economies arise from their lockdown-induced 18-month slumber.

Morningstar Star Rating

★★★★★

Overall Morningstar Rating™ out of 71 Equity Energy funds (for the overall period, Institutional Shares) Morningstar star ratings are based on risk adjusted total returns.

Notable Changes to the Portfolio

We have become even more aggressive in our fossil fuel positioning. Again, E&Ps and oil field services make up nearly 60% of the portfolio. We continue to believe that prices could potentially move above $80, and though that would be incrementally positive, even if oil prices were to hold where they are, we see a valuation discount in the stocks of E&Ps and fossil fuels.

CAVANAL HILL® Funds

Yes, we believe in the transition to clean energy, but we acknowledge this transition will take years. With domestic E&Ps showing more investment discipline and with integrated oil companies increasing investments in alternative energy, in our opinion the investment in new fossil fuel production has been inadequate. To stimulate higher oil production in the future, prices need to remain higher than our previous range. We now expect oil prices to range between $70 and $90 per barrel for Brent ($65 to $85 for WTI). This creates an favorable backdrop for fossil fuel equities as stock prices reflect equilibrium oil prices that are well below that range. We believe energy remains an attractive sector relative to the broader market.

While traditional oil and gas remains the energy sector's bellwether, we believe there will be a transition away from fossil fuel in favor of alternative, clean energy. As a result, an investor in the energy space must remain nimble and should consider both fossil fuel and alternative investments. We are able to invest in either side of the energy transition, and that flexibility is an extremely positive attribute of this fund in our view.

Why should investors consider investing in this Fund?

The global economic recovery is just beginning, and we believe it could last several years. With years of poor returns leading to investor disinterest, coupled with environmental, social, and governance concerns, fossil fuel companies have been an area of relative investment neglect. Many investors remain underweight oil and gas, despite this being the lubrication that runs the global economy.

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 71 funds in the last three years, and 5 star against 70 funds in the last five years.

Past performance is no guarantee of future results.