World Energy Fund Commentary

Market Overview

For several quarters, oil inventories around the globe have been drawing down as demand has exceeded supply. In many cases, global inventories had fallen well below historical averages, even before the Russia-Ukraine war. OPEC+ continues to manage supply, and perhaps a bit of an under-the-radar fact is OPEC+ has been either unable or unwilling to meet its quotas for several months even as prices rose in an undersupplied market. Now, with world oil demand likely to approach an average of 100 million barrels a day for 2022, oil from a major source, Russia, is no longer finding a clear path to markets. For context, Russia produces about 11 million barrels of oil per day. Nearly 5 million of those barrels have been exported to the U.S. and Europe in the form of crude oil or refined products. With major oil companies unwilling to buy Russian oil and products, we're seeing a price spike. Prices are up 33% for the first quarter to $100 for West Texas Intermediate crude because there just isn't enough non-Russian oil available to satisfy global demand. U.S. producers, the only potential source of short-term additional supply outside of OPEC+, have not responded because of labor and equipment shortages, coupled with investor demands that excess cash be returned to shareholders.

Positioning the World Energy Fund

Portfolio composition is subject to change.

We remain overweight fossil fuel stocks, with a particular emphasis on oil field service companies along with exploration and production companies. We continue to see opportunities for companies to outperform in this environment of higher crude oil prices. Although oil futures prices for 2023-2025 have risen, stocks still reflect lower long-term oil prices than the oil prices futures curve is indicating. As a result, we continue to see value in oil stocks. We have also maintained our exposure to alternative energy despite the poor performance of this sector year to date. We believe the oil price spike we're currently experiencing will encourage a continued search for alternatives. We have also added to some marterials stocks that we believe will benefit from a potential nuclear renaissance along with some additional equities that should benefit from the expansion of electric vehicle utilization as part of our alternative energy allocation.

Morningstar Star Rating

★★★★★

Overall Morningstar Rating™ out of 69 Equity Energy funds (for the overall period, Institutional Shares) Morningstar star ratings are based on risk adjusted total returns.

Why should investors consider investing in this Fund?

Cheap energy remains the lifeblood of economic development. Emerging markets continue to seek the least expensive source of energy they can find to improve the standard of living in their countries. In addition, developed nations are now trying to balance suppling energy to their consumers while investing in technologies to reduce greenhouse gas emissions. After years of underinvestment in fossil fuel production, we believe prices are likely to remain elevated and we expect WTI crude to remain above $85 for a significant period, creating a boost for energy stocks. In addition, we believe higher oil prices are likely to lead more consumers to consider electric vehicles as well as other alternative energy sources. The transition to cleaner energy is fraught with risk as we've seen in Europe where an energy crisis was developing even before the Russia invasion of Ukraine. This should cause a reset among EU counties to secure fossil fuel and alternative resources. We believe this benefits our fund, where we invest in both fossil fuel and alternative technologies.

CAVANAL HILL® Funds

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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 69 funds in the last three years, and 5 star against 66 funds in the last five years.

Past performance is no guarantee of future results.