

# World Energy Fund Commentary

## Market Overview

Oil prices fell 6% during the quarter as a weaker-than-expected reopening of China's economy coupled with concerns around global growth pressured commodity prices. Meanwhile, despite Western sanctions, Russian oil production continued to reach global oil markets. All of these factors contributed to weakening oil prices. However, in response to lower prices, the U.S. rig count has dropped significantly and Saudi Arabia has aggressively reduced exports to support prices.

The latest actions by Saudi Arabia and Organization of Petroleum Exporting Countries Plus (OPEC+) should result in global oil demand continuing to exceed supply for much of 2023. As global inventories drain from near-normal levels, we believe the backdrop is positive for oil prices and for oil-related equities. The historic drawdown of the U.S. Strategic Petroleum Reserve should eventually be positive for demand.

In the second quarter, energy stocks lagged the overall market, following two years of exceptionally strong performance. Despite weakness in the first half of this year, we continue to see an overall positive trend for the sector.

Natural gas has also been weak, with a major U.S. liquefied natural gas (LNG) facility, Freeport LNG, offline for nearly eight months. As a result, more than 400 billion cubic feet of natural gas that would have been exported has bloated U.S. inventories and helped keep prices low. As the natural gas rig count falls, we are becoming more interested in adding natural gas stocks to the portfolio to potentially benefit from the inevitable globalization of natural gas prices as LNG becomes more prevalent.

## Morningstar Star Rating



Overall Morningstar Rating™ out of 68 Equity Energy Funds (for the overall period, Institutional Shares).

Morningstar star ratings are based on risk adjusted total returns.

## Positioning the World Energy Fund

*Portfolio composition is subject to change.*

We remain heavily invested in fossil fuel stocks. During the quarter, we increased our exposure to offshore drilling companies and internationally focused oil field service companies.

We believe long-term opportunities are being created in the U.S. natural gas industry as it is beginning to globalize. We expect Europe to be a consistent buyer of low-cost natural gas from the U.S. Though U.S. gas prices may remain low for the next several quarters, we see opportunity for a re-rating of the industry as the commodity globalizes and prices rise.

We have reduced our investment in alternative energy, focusing primarily on nuclear energy and uranium along with small positions in solar and wind. We view alternatives as potential incremental solutions to the European power crisis. We expect the solutions from the U.S. LNG business, as well as alternative energies, will eventually reduce global energy insecurity.

## Why should investors consider investing in this Fund?

Cheap energy remains the lifeblood of economic development. Emerging markets continue to seek the most economical sources of energy so as to improve their standard of living. In addition, developed nations are now trying to balance supplying energy to their consumers while investing in technologies to reduce greenhouse gas emissions.

We expect oil demand likely will be at or above supply as China emerges from nearly three years of COVID lockdown. Additionally, OPEC, and Saudi Arabia in particular, has been more active in balancing global markets than in the past. Over time, we believe U.S. natural gas presents a growing global opportunity. Higher oil and natural gas prices are likely to lead consumers and countries to invest further in alternative energy sources. We believe this trend benefits our fund, as we invest in both fossil fuel and alternative technologies.

**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](http://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-ended 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: 3 stars against 68 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.**

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