

Fourth Quarter 2023

# Caval Hill World Energy Fund Quarterly Commentary

AAWEX, ACWEX, APWEX, AIWEX

## Market Overview

Oil prices, as measured by Brent crude, fell about 16% during the quarter. Prices also fell about 10% for the full year as 2023 was marked by crude oil price volatility. Oil demand slightly lagged our expectations while supply, particularly from North America, exceeded expectations, resulting in a well-supplied market. Despite significant overall geopolitical risk, including the Russia-Ukraine war and the Israel-Hamas conflict, this volatile backdrop had minimal impact on oil prices beyond short-term price spikes. We foresee global oil markets remaining nearly in balance for much of 2024, with a potential for small excess supplies in the first half and small shortfalls in the second half of the year.

Natural gas markets also fell in the fourth quarter, with the U.S. Henry Hub next-month futures contract down 14% during the quarter. The market remains well supplied as market participants wait for an anticipated demand surge in 2025-2028 as new liquefied natural gas (LNG) facilities are built and commissioned. For now, we expect U.S. consumers will potentially benefit from relatively lower natural gas prices.

## 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.

## Positioning the Fund

*Portfolio composition is subject to change*

We remain heavily invested in fossil fuels as we believe the global economy is likely to remain stable in 2024, providing

adequate demand growth to soak up the near-term excess supply. We continue to see the greatest opportunity in both exploration and production and service companies that are focused on offshore assets. We believe North American services have excess equipment, but we see the international equipment markets as tighter. Accordingly, we favor international services over domestic ones, as we believe they have more pricing power.

Finally, regarding clean energy, we believe the most attractive opportunities are found in nuclear energy. We own shares in uranium production companies and in a company that manufactures nuclear reactors for small applications. We are also looking across several areas of alternatives including electric vehicles, solar, wind, and hydrogen, as those stocks significantly underperformed in 2023 and may provide future opportunities.

## Why should investors consider investing in this fund?

Access to 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 supply energy to their consumers while investing in technologies to reduce greenhouse gas emissions.

We expect oil demand to remain above supply as the Oil Producing Exporting Countries Plus (OPEC+) continues to manage available oil supply to keep the market tight in the face of uncertain demand. 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.

If you'd like additional information about this or any of the Caval Hill Funds, please contact Craig McQueen at 303.355.2799, [CraigMcQueen@cavalhill.com](mailto:CraigMcQueen@cavalhill.com), or [cavalhillfunds.com](http://cavalhillfunds.com).

**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: 2 stars against 69 funds in the last three years, and 5 star against 68 funds in the last five years.

### **Past performance is no guarantee of future results.**

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