



**Firm Brochure  
(Form ADV, Part 2A)**

**Cavanal Hill Investment Management, Inc.**

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This brochure provides information about the qualifications and business practices of Cavanal Hill Investment Management, Inc. If you have questions about the contents of this brochure, please contact us at (800) 958-2942 or [www.cavanalhill.com](http://www.cavanalhill.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Cavanal Hill Investment Management, Inc. is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Note: While Cavanal Hill Investment Management, Inc. may refer to itself as a "registered investment adviser" or "RIA" client should be aware that registration itself does not imply any level of skill or training.

**July 2017**

## **Material Changes**

### **Annual Update**

The Material Changes section of this brochure is updated to report any material changes to the previous version of Form ADV, Part 2A (the Firm Brochure). The section below provides a summary of material changes since the last update.

### **Summary of Material Changes since the Last Update**

The U. S. Securities and Exchange Commission requires that each Investment Adviser provide its new clients with a copy of its Form ADV, Part 2A. The rule requires completion of specific mandatory sections and those sections are to be organized in the order specified by the rule.

Investment advisers must update the information in their Form ADV, Part 2A, when a material change has occurred. Cavanal Hill Investment Management, Inc. (“Cavanal Hill” or “Firm”) is updating its Form ADV, Part 2A, dated March 2017, to report the following:

- The Firm has revised the list of Separately Managed Account strategies to include the Opportunistic Strategy, Concentrated Equity Income Strategy, Focused Large Cap Value Equity Strategy and Focused Large Cap Growth Equity Strategy.
- The Firm’s Initial Public Offerings policy has been revised to provide more detail.

The revised Form ADV, Part 2A, for Cavanal Hill Investment Management, Inc., is dated July 2017.

### **Full Brochure Available**

A complete copy of Part 2A of our Form ADV is available upon request. Please contact us by telephone at (800) 958-2942 or email at [info@cavanalhill.com](mailto:info@cavanalhill.com). Alternatively, a current copy is available on our [website](#).

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## **Advisory Business**

### **Description of Advisory Firm and Principal Owners**

Caval Hill Investment Management, Inc. is an SEC registered investment adviser and a wholly-owned subsidiary of BOKF, NA, a wholly-owned subsidiary of BOK Financial Corporation, a financial holding company (BOKF). Caval Hill commenced operations in 1991.

### **Types of Advisory Services Offered**

Caval Hill provides professional investment management services to a broad and diverse client base, offering equity, fixed-income, and cash management strategies that are structured to meet the needs of both taxable and tax-exempt clients and investors. Caval Hill offers its strategies to clients through separately managed accounts and to clients of BOKF, NA (“Bank Clients”) pursuant to an investment advisory agreement with BOKF, NA. The Firm also serves as the investment adviser to the Caval Hill Funds, an open-end SEC-registered investment company in series form (collectively the “Funds” and each a “Fund”).

When establishing a new separately managed account relationship, a Caval Hill representative meets with the client to discuss their risk tolerance, financial condition, and investment restrictions, if any, and determines an appropriate investment strategy or strategies. Clients may impose investment policy restrictions on investing in certain securities or types of securities or other portfolio mandates. With respect to the Bank Clients, Caval Hill manages the accounts based on information provided by the clients’ relationship managers at BOKF, NA.

Caval Hill also provides portfolio management services to clients who participate in the Separately Managed Account Program (the “SMA Program”) offered by BOK Financial Securities, Inc., which does business as BOK Financial Advisors (“BOKFA.”), a wholly-owned subsidiary of BOK Financial Corporation. (Please refer to the Other Financial Industry Activities and Affiliates section below for additional information about BOKFA. The SMA Program is a wrap fee program through which BOKFA clients select an investment manager to provide customized investment solutions tailored to their unique needs. The Firm receives a portion of the wrap fee paid by BOKFA clients for the provisions of such services. Services provided to the BOKFA wrap fee accounts are similar to those provided to other client accounts.

### **Amount of Clients’ Assets Managed**

Caval Hill provides investment advice on a discretionary basis. As of December 31, 2016, the Firm managed \$7,212,891,314.

## **Fees and Compensation**

Cavanal Hill receives an investment management fee based on the client's assets under management. Cavanal Hill's standard fee schedules are set forth below, although fees are subject to negotiation based on the facts and circumstances of each client. Customized strategies are available upon request and fees for such accounts will be determined on a case by case basis. Cavanal Hill reserves the right to impose a minimum advisory fee.

### **Cash Management Strategies**

<b>Portfolio Market Value</b>	<b>Basis Points</b>
\$0 to \$25,000,000	15 bps
next \$25,000,000	12 bps
next \$50,000,000	10 bps
amount over \$100,000,000	8 bps

### **Equity Strategies**

<b>Portfolio Market Value</b>	<b>Basis Points</b>
\$0 to \$5,000,000	60-70 bps
next \$5,000,000	55-65 bps
next \$15,000,000	50-60 bps
next \$25,000,000	45-55 bps
next \$50,000,000	40-50 bps
amount over \$100,000,000	35-45 bps

### **Fixed Income Strategies**

<b>Portfolio Market Value</b>	<b>Basis Points</b>
\$0 to \$10,000,000	35 bps
next \$15,000,000	30 bps
next \$25,000,000	25 bps
next \$50,000,000	20 bps
amount over \$100,000,000	15 bps

### **Enhanced Yield Tax Free**

<b>Portfolio Market Value</b>	<b>Basis Points</b>
\$0 to \$10,000,000	50 bps
next \$15,000,000	45 bps
next \$25,000,000	40 bps
next \$50,000,000	35 bps
amount over \$100,000,000	30 bps

Strategic and alternative strategies are generally charged a fee of 75 and 150 basis points, respectively, for any account size.

Wrap fee account clients pay a single “wrap” fee for investment management and brokerage services to BOKFA. Cavanal Hill fees are included in the total fee charged by BOKFA. There is not a “separate or additional” fee paid directly to Cavanal Hill by the client.

The Cavanal Hill Funds are charged fees in accordance with Fund governing documents and are described in more detail below.

### **How Management Fees Are Charged**

The specific manner in which fees are charged is established in each client’s written investment management agreement (“IMA”). Cavanal Hill invoices separately managed account clients in arrears on a quarterly basis, or as otherwise agreed upon in the IMA. Accounts opened during a calendar quarter are charged a prorated fee. Cavanal Hill does not deduct its fees directly from client accounts.

Bank Clients do not pay a fee directly to Cavanal Hill. Rather, Cavanal Hill has an investment management agreement directly with BOKF, NA to provide investment advisory services to Bank Clients on behalf of BOKF, NA. The exception to this is that Cavanal Hill may charge an additional fee for the accounts invested in the Opportunistic Strategy. Cavanal Hill is reimbursed certain costs and expenses by BOKF, NA directly. Bank Clients are subject to various fees charged by BOKF, NA, which may include custodial, advisory, trust, and various other service fees, as agreed upon by the Bank Client and BOKF, NA.

### **Other Fees and Expenses**

All fees paid to Cavanal Hill for investment advisory services are separate and distinct from the commissions, fees, and expenses charged by brokerage firms, custodians, and mutual funds, including the Cavanal Hill Funds, as discussed in more detail below. Clients are solely responsible for all transaction fees, mutual fund fees, and any charges relating to the custody of client assets.

**Transaction Fees:** The investment management fee charged by the Firm does not cover commission charges, mark-up or mark-down charges resulting from securities transactions affected with or through broker-dealers on the client’s behalf. Cavanal Hill purchases securities for client accounts that a client could purchase on their own through a broker or another agent not affiliated with Cavanal Hill. Cavanal Hill itself does not charge transaction fees.

**Unaffiliated Mutual Fund Fees:** In addition to management fees charged by the Firm, clients will pay fees and expenses charged by third-party mutual funds held in their account. Cavanal Hill does not receive any compensation or consideration from third parties for recommending specific mutual funds. However, BOK Financial Securities, Inc. or BOKF, NA, both affiliates of Cavanal Hill, will receive shareholder servicing or distribution fees from certain mutual funds recommended to clients. In addition, client will incur additional sales charges if assets are allocated to a load-based fund.

Cavanal Hill does not receive distribution fees from the sale of mutual funds, nor does the Firm accept compensation for the sale of securities or other investment products. Cavanal Hill does not earn any asset-based sales charges or service fees derived directly from the sale of mutual funds, including the Cavanal Hill Funds.

**Cavanal Hill Fund Fees:** Clients in certain strategies will be invested in the Cavanal Hill Funds, and the Cavanal Hill Money Market Funds are the default sweep vehicles for client accounts. Cavanal Hill and certain affiliates receive fees for providing services to these Funds, as follows.

- Cavanal Hill receives fees from the Funds for providing investment advisory and administrative services. Separately managed account clients who invest in the Funds will pay their respective share of fees charged by the Funds as well as management fees directly to Cavanal Hill.
- Cavanal Hill's parent company, BOKF, NA, serves as the custodian to the Funds and earns fees for these services as set forth in each Fund's prospectus.
- Cavanal Hill Distributors, Inc. ("Cavanal Hill Distributors") serves as the primary underwriter and distributor for the Funds and earns fees for these services as set forth in each Fund's prospectus. Cavanal Hill Distributors, may use the fees for distribution assistance and to pay financial institutions and intermediaries for distribution and shareholder services.
- BOKF, NA and Cavanal Hill Distributors have entered into agreements that entitle them to receive shareholder servicing fees and distribution (12b-1) fees from certain of the Funds as set forth in each Fund's prospectus.

BOKF, NA and Cavanal Hill Distributors may voluntarily waive all or a portion of their fees with respect to any Fund. Cavanal Hill has entered into contractual fee waiver agreements with the Funds whereby a portion of the management and administration fees are waived. A full description of the Funds and their fees and expenses are available in each Fund's prospectus.

Where BOKF, NA serves as custodian for a client account (e.g., Bank Clients), any distribution or shareholder servicing fees for the mutual funds held in the account, except for shareholder servicing fees for the Cavanal Hill Funds, will be rebated or waived for Individual Retirement Accounts (IRAs) or accounts subject to the Employee Retirement Income Security Act (ERISA).

#### **Termination of Agreement**

Cavanal Hill does not impose termination or account closing fees. Clients have the right to terminate their advisory agreement without penalty at any time and for any reason. Upon termination of any account, fees in arrears will be due and payable.

### **Performance-based Fees and Side-By-Side Management**

Cavanal Hill does not charge performance-based fees.

## **Types of clients**

### **Description of Clients**

Cavanal Hill provides professional investment management services to a broad and diverse client base that includes trusts, retirement plans, and banking institutions. As previously indicated, Cavanal Hill also serves as the investment manager to the Cavanal Hill Funds. BOKF, NA (commonly known as The Bank of Oklahoma) is the Firm's largest client. Through an investment agreement with BOKF, NA, and Cavanal Hill provides advisory services to a number of BOKF, NA's customer accounts.

### **Account Minimums**

Separately managed account minimums vary by strategy and range from \$1,000,000 to \$15,000,000 in assets under management. The following account minimums apply to our strategies:

Strategy Name		Account Minimum
	Large Cap Core Equity	\$2,000,000
	Dividend Equity	\$2,000,000
	Large Cap Core Quantitative Equity	\$2,000,000
	Large Cap Value Equity	\$2,000,000
	Large Cap Growth Equity	\$2,000,000
	Mid Cap Core Quantitative Equity	\$2,000,000
	Durable Equity	\$2,000,000
	Concentrated Equity Income Strategy	\$2,000,000
	Opportunistic Strategy	\$2,000,000
	Large Cap Value Quantitative Equity	\$2,000,000
	Large Cap Growth Quantitative Equity	\$2,000,000
	Strategic Fixed Income	\$2,000,000
	Strategic Enhanced Fixed Income	\$2,000,000
	Enhanced Yield Tax Free Fixed Income	\$2,000,000
	Core A or Better Fixed Income	\$10,000,000
	Short Term A or Better Fixed Income	\$10,000,000
	Short Term Government Fixed Income	\$10,000,000
	Short-Intermediate A or Better Fixed Income	\$10,000,000
	Short-Intermediate Government Fixed Income	\$10,000,000
	Short Term Tax Free A or Better Fixed Income	\$10,000,000
	Intermediate Tax Free A or Better Fixed Income	\$10,000,000
	Oklahoma Municipal Fixed Income	\$10,000,000
	Tax Exempt Cash	\$15,000,000
	Government Securities	\$15,000,000
	Ultra-Short Tax Free Income	\$2,000,000
	Enhanced Yield Muni	\$2,000,000

Cavanal Hill reserves the right to lower or waive account minimums. In particular, these strategies will



generally be available for lower account minimums to BOKF, NA customers. Account minimums applicable to the Cavanal Hill Funds are disclosed in each Fund's prospectus.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods of Analysis**

Below is a description of each significant investment strategy offered by Cavanal Hill, including a discussion of the primary risks involved and the methods of analysis. In all strategies, Cavanal Hill may, from time to time, take temporary defensive positions that are inconsistent with the strategy's description in attempting to respond to adverse market, economic, political, or other conditions. In these and in other cases, the strategy may not achieve its investment objective and up to 100% of the assets may be invested in cash equivalents, cash, or money market funds, including the Cavanal Hill money market funds.

Fundamental analysis is a method of assessing the investment potential of each individual security based on factors that impact a company's financial results to derive a value for the security. In performing fundamental analysis, we consider the products or services a company provides, its competitive position, macro economic factors, quality of management, and other factors to create our view of the security's value. Then, by comparing the fundamental value of the security with the current market price of the security, we make our investment decision.

Quantitative analysis is a methodology where we analyze securities along a number of fundamental financial and price-driven metrics. Quantitative applications and tools are used to gather and analyze data and facilitate the formulation and testing of investment ideas. In addition, these applications aid in the day-to-day operational management of quantitative strategies.

### **Equity Investment Strategies**

#### **Large Cap Core Equity Strategy**

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- **Objective:** To generate total return, net of all fees, in excess of the Russell1000<sup>®</sup> benchmark over rolling three-to five year periods.
- **Strategy Description:** The strategy invests at least 80% of its assets in a universe of equity securities of large U.S. companies having an average market capitalization in excess of \$10 billion at the time of purchase. The portfolio management team of the strategy seeks to identify companies that possess the following fundamental characteristics: strong, sustainable earnings and revenue growth prospects, industry leadership with a competitive advantage, high levels of profitability and earnings quality, strong management teams, understandable business models and limited exposure to cyclical earnings.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Russell 1000<sup>®</sup> Index
- **Primary Risks:**
  - banking
  - issuer specific
  - limited number of holdings
  - management
  - market
  - regulatory

- tax

### Dividend Equity Strategy

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- **Objective:** To generate current dividend income in excess of the S&P 500's dividend yield, and capital appreciation.
- **Strategy Description:** The strategy invests at least 80% of its assets in a universe of equity securities traded on U.S. exchanges. The strategy invests in stocks of all market cap size (large cap, mid cap, and small cap) and may invest in American Depositary Receipts (ADRs). The management team seeks to invest in companies that exhibit above market dividend yields at attractive valuations. In addition, the portfolio management team of the strategy seeks to identify companies that possess the following fundamental characteristics: strong, sustainable earnings and revenue growth prospects, industry leadership with a competitive advantage, high levels of profitability and earnings quality, strong management teams, understandable business models and limited exposure to cyclical earnings. The portfolio management team also focuses on a company's ability to gain market share in the market place.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Russell 3000<sup>®</sup> Value Index (S&P 500 Index through 2/29/2012)
- **Primary Risks:**
  - banking
  - foreign investment
  - income
  - issuer specific
  - limited number of holdings
  - management
  - market
  - regulatory
  - small company

### Large Cap Core Quantitative Equity Strategy

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- **Objective:** To generate a total return, net of all fees, in excess of the Russell 1000<sup>®</sup> benchmark over rolling three-to five-year periods.
- **Strategy Description:** To pursue its objective, the strategy employs quantitative investing techniques and invests in large cap U.S. equities utilizing value, momentum, and quality stock selection factors.
- **Method of Analysis:** Security selection based on quantitative analysis.
- **Benchmark:** Russell 1000<sup>®</sup> Index
- **Primary Risks:**
  - banking
  - frequent trading
  - investment style
  - issuer specific
  - management
  - market
  - regulatory

- tax

### Large Cap Value Equity Strategy

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- **Objective:** To generate a total return, net of all fees, in excess of the Russell 1000<sup>®</sup> Value benchmark over rolling three-to five-year periods.
- **Strategy Description:** To pursue its objective, this strategy employs quantitative investing techniques and invests in large cap U.S. equities utilizing value, momentum, and quality stock selection factors.
- **Method of Analysis:** Security selection based on quantitative analysis.
- **Benchmark:** Russell 1000<sup>®</sup> Value Index
- **Primary Risks:**
  - banking
  - frequent trading
  - investment style
  - issuer specific
  - management
  - market
  - regulatory
  - tax

### Large Cap Growth Equity Strategy

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- **Objective:** To generate a total return, net of all fees, in excess of the Russell 1000<sup>®</sup> Growth benchmark over rolling three-to five-year periods.
- **Strategy Description:** To pursue its objective, this strategy employs quantitative investing techniques and invests in large cap U.S. equities utilizing value, momentum, and quality stock selection factors.
- **Method of Analysis:** Security selection based on quantitative analysis.
- **Benchmark:** Russell 1000<sup>®</sup> Growth Index (S&P 500/Barra Growth index through Dec. 31, 2005)
- **Primary Risks:**
  - banking
  - frequent trading
  - investment style
  - issuer specific
  - management
  - market
  - regulatory
  - tax

### Mid Cap Core Quantitative Equity Strategy

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- **Objective:** To generate a total return, net of all fees, in excess of the Russell MidCap<sup>®</sup> Index over rolling three-to five-year periods.
- **Strategy Description:** To pursue its objective, this strategy employs quantitative investing

techniques and invests in mid cap U.S. equities that utilize value, momentum, and quality stock selection factors.

- **Method of Analysis:** Security selection based on quantitative analysis.
- **Benchmark:** Russell MidCap<sup>®</sup> Index
- **Primary Risks:**
  - banking
  - frequent trading
  - investment style
  - issuer specific
  - management
  - market
  - regulatory
  - small company
  - tax

### **Durable Equity Strategy**

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- **Objective:** To provide exposure to a segment of the U.S. equity market that has historically exhibited less volatility, superior risk-adjusted returns and lower relative correlations than the broader equity market.
- **Strategy Description:** To pursue its objective, the strategy employs quantitative investing techniques and invests in large cap U.S. equities that we believe exhibit less price volatility, greater profitability, and less leverage.
- **Method of Analysis:** Security selection based on quantitative analysis.
- **Benchmark:** Blended 80% Russell 1000<sup>®</sup> Defensive Index/20% Russell Top 200<sup>®</sup> Index.  
(Russell 1000<sup>®</sup> Defensive Index through 12/31/13)
- **Primary Risks:**
  - banking
  - investment style
  - issuer specific
  - management
  - market
  - regulatory
  - tax

### **Concentrated Equity Income Strategy**

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- **Objective.** To seek current income 150 to 300 bps in excess of the S&P 500 Index's yield.
- **Strategy Description.** The strategy invests at least 80% of its assets in a universe of equity securities traded on U.S. exchanges. The strategy invests in stocks of all market cap size (large cap, mid cap, and small cap) and may invest in American Depositary Receipts (ADRs). The management team seeks to invest in companies that exhibit above market dividend yields at attractive valuations. In addition, the portfolio management team of the strategy seeks to identify companies that possess the following fundamental characteristics, consistency and suitability of dividend, quality and attractiveness of the underlying dividend and a track record supportive of future ability to pay and potentially raise the dividend.
- **Method of Analysis.** Security selection based on fundamental analysis.
- **Benchmark.** Dow Jones Dividend Select

- **Primary Risks.**
  - banking
  - credit,
  - foreign investment
  - income
  - issuer specific
  - limited number of holdings
  - management
  - market
  - regulatory
  - small company

### **Opportunistic Strategy**

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- **Objective.** To generate positive investment returns with exposure primarily to domestic equity markets.
- **Strategy Description.** Cavanal Hill will use a variety of methods to attempt to meet this objective. These methods may include, but are not limited to, investing portfolio assets in equities, real estate investment trusts (REITs), master limited partnerships (MLPs), preferred stocks, and exchange traded funds (ETFs), stock options, bonds, and money market funds. In managing this strategy, we will consider all asset classes and may invest in domestic as well as international securities that are listed on U.S. exchanges.
- **Method of Analysis.** Security selection based on fundamental analysis.
- **Benchmark.** HFRX Equity Hedge Index (No benchmark through 12/31/2012)
- **Primary Risks.**
  - banking
  - credit
  - foreign investment
  - frequent trading
  - hedging
  - interest rate
  - issuer specific
  - limited number of holdings
  - management
  - market
  - market timing
  - regulatory
  - small company risk

### **Focus Large Cap Value Equity Strategy**

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- **Objective:** To generate a total return, net of all fees, in excess of the S & P Value benchmark over rolling three-to five-year periods.
- **Strategy Description:** To pursue its objective, this strategy employs quantitative investing techniques and invests in large cap U.S. equities utilizing value, momentum, and quality stock

selection factors.

- **Method of Analysis:** Security selection based on quantitative analysis.
- **Benchmark:** S & P Value Index
- **Primary Risks:**
  - banking
  - frequent trading
  - investment style
  - issuer specific
  - management
  - market
  - regulatory
  - tax
  -

#### **Focus Large Cap Growth Equity Strategy**

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- **Objective:** To generate a total return, net of all fees, in excess of the S & P Growth benchmark over rolling three-to five-year periods.
- **Strategy Description:** To pursue its objective, this strategy employs quantitative investing techniques and invests in large cap U.S. equities utilizing value, momentum, and quality stock selection factors.
- **Method of Analysis:** Security selection based on quantitative analysis.
- **Benchmark:** S & P Growth Index
- **Primary Risks:**
  - banking
  - frequent trading
  - investment style
  - issuer specific
  - limited number of holdings
  - management
  - market
  - regulatory
  - tax

### **Fixed Income Strategies**

#### **Strategic Fixed Income Strategy**

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- **Objective:** To generate a total return, net of all fees, in excess of the Barclays Capital U.S. Aggregate Bond Index.
- **Strategy Description:** To pursue its objective, this strategy invests in fixed income securities that are rated A or better at the time of purchase, with a mandate to invest in less liquid securities in an effort to increase returns through market inefficiencies.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Barclays Capital U.S. Aggregate Bond Index
- **Risks:**
  - banking
  - credit

- credit enhancement
- interest rate
- issuer specific
- limited number of holdings
- liquidity
- management
- market
- mortgage market
- prepayment/call
- regulatory
- valuation

### **Strategic Enhanced Fixed Income Strategy**

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- **Objective:** To generate a total return, net of all fees, in excess of the Bloomberg Barclays Capital U.S. Aggregate Bond Index.
- **Strategy Description:** To pursue its objective, this strategy invests in fixed income securities in both investment grade and high-yield below-investment grade rated securities with a mandate to invest in less liquid securities in an effort to increase returns through market inefficiencies.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Bloomberg Barclays Capital U.S. Aggregate Bond Index
- **Risks:**
  - banking
  - credit
  - credit enhancement
  - interest rate
  - issuer specific
  - limited number of holdings
  - liquidity
  - management
  - market
  - mortgage market
  - prepayment/call
  - regulatory
  - valuation

### **Enhanced Yield Tax Free**

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- **Objective:** Capture incremental yield that is exempt from federal income taxes.
- **Strategy Description:** To pursue its objective, this strategy invests in municipal securities in the 5 – 10 year maturity range and with an underlying credit rating in the BBB range at the time of purchase.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Bloomberg Barclays Capital Intermediate Municipal Bond Index
- **Risks:**
  - Banking
  - Credit
  - Credit enhancement
  - Interest rate
  - Issuer specific
  - Limited number of holdings

- Liquidity
- Management
- Market
- Prepayment/call
- Regulatory
- Tax
- Valuation

### **Core A or Better Fixed Income Strategy**

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- **Objective:** Primarily to seek income and secondarily to seek capital appreciation.
- **Strategy Description:** To pursue its objective, the strategy invests primarily in debt obligations such as bonds, notes and debentures, and bills issued by U.S. corporations or by the U.S. government, its agencies or instrumentalities, municipal securities, and mortgage-related securities, asset-backed securities and collateralized mortgage obligations that are rated A or better at the time of purchase. The strategy also invests in money market instruments. The strategy will seek to increase the value of your investment through a combination of income and capital gains. Portfolios within the strategy will have a duration that is +/- 25% of the benchmark.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Barclays Capital U.S. Aggregate Bond Index
- **Primary Risks:**
  - banking
  - credit
  - interest rate
  - issuer specific
  - limited number of holdings
  - liquidity
  - management
  - market
  - mortgage market
  - prepayment/call
  - regulatory
  - valuation

### **Short-Term A or Better Fixed Income Strategy**

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- **Objective:** Primarily to seek income and secondarily to seek capital appreciation.
- **Strategy Description:** To pursue its objective, the strategy invests primarily in debt obligations such as bonds, notes and debentures, and bills issued by U.S. corporations or by the U.S. government, its agencies or instrumentalities, municipal securities, and mortgage-related securities, asset-backed securities and collateralized mortgage obligations that are rated A or better at the time of purchase. The strategy also invests in money market instruments. The strategy will seek to increase the value of your investment through a combination of income and capital gains. Portfolios within the strategy will have a duration that is no more than 125% of the benchmark.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Merrill Lynch 1-4.99 Year Government/Corporate Index
- **Risks:**
  - banking
  - credit
  - interest rate
  - issuer specific



- limited number of holdings
- liquidity
- management
- market
- mortgage market
- prepayment/call
- regulatory
- valuation

#### **Short-Intermediate A or Better Fixed Income Strategy**

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- **Objective:** Primarily to seek income and secondarily to seek capital appreciation.
- **Strategy Description:** To pursue its objective, the strategy invests, under normal market conditions, primarily in debt obligations such as bonds, notes and debentures, and bills issued by U.S. corporations or the U.S. government, its agencies, or instrumentalities, municipal securities, and mortgage-related securities, asset-backed securities and collateralized mortgage obligations that are rated A or better at the time of purchase. The strategy also invests in money market instruments. The strategy will seek to increase the value of your investment through a combination of income and capital gains. Portfolios within the strategy will have a duration that is +/- 25% of the benchmark.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Barclays Capital U.S. Intermediate Aggregate Bond Index
- **Risks:**
  - banking
  - credit
  - interest rate
  - issuer specific
  - limited number of holdings
  - liquidity
  - market
  - management
  - mortgage market
  - prepayment/call
  - regulatory
  - valuation

#### **Intermediate Tax Free A or Better Fixed Income Strategy**

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- **Objective:** To seek current income that is exempt from federal income taxes, by investing primarily in a diversified portfolio of municipal securities rated A or higher at the time of purchase.
- **Strategy Description:** To pursue its objective, the strategy invests in municipal bonds that are rated within the three highest rating categories assigned by an NRSRO, or of comparable quality, at the time of purchase.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Barclays Capital Municipal Bond Index
- **Risks:**
  - banking
  - credit
  - credit enhancement
  - interest rate
  - issuer specific
  - limited number of holdings

- liquidity
- management
- market
- prepayment/call
- regulatory
- tax

### **Short-Intermediate Government Fixed Income Strategy**

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- **Objective:** To generate a total return, net of all fees, in excess of the Barclays Capital U.S. Intermediate Government Bond Index.
- **Strategy Description:** To pursue its objective, this strategy invests in fixed income government and agency backed securities. Portfolios within the strategy will have a duration that is +/- 25% of the benchmark.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Barclays Capital U.S. Intermediate Government Bond Index
- **Risks:**
  - banking
  - credit
  - credit enhancements
  - interest rate
  - issuer specific
  - limited number of holdings
  - liquidity
  - management
  - market
  - prepayment/call
  - regulatory
  - tax

### **Short-Term Tax Free A or Better Fixed Income Strategy**

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- **Objective:** To generate current income that is exempt from federal income taxes by investing primarily in a diversified portfolio of municipal securities rated A or higher at the time of purchase.
- **Strategy Description:** To pursue its objective, this strategy invests in municipal securities with an average maturity of 2 to 5 years and a ratings mandate of A or better at time of purchase. Portfolios within the strategy will have a duration that is +/- 25% of the benchmark.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Barclays Capital 3-Year Municipal Bond Index
- **Risks:**
  - banking
  - credit
  - credit enhancement
  - interest rate
  - issuer specific
  - limited number of holdings
  - liquidity
  - management
  - market
  - prepayment/call

- regulatory
- tax

### Short-Term Government Fixed Income Strategy

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- **Objective:** To generate a total return, net of all fees, in excess of the BofA Merrill Lynch 1-Year U.S. Treasury Note Index.
- **Strategy Description:** To pursue its objective, this strategy invests in fixed income government and agency backed securities. Portfolios within the strategy will have a duration that is no more than 125% of the benchmark.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** BofA Merrill Lynch 1-Year U.S. Treasury Note Index
- **Risks:**
  - banking
  - credit
  - credit enhancement
  - interest rate
  - issuer specific
  - limited number of holdings
  - liquidity
  - management
  - market
  - prepayment/call
  - regulatory
  - tax

### Oklahoma Municipal Fixed Income Strategy

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- **Objective:** Primarily to seek current income that is exempt from federal and Oklahoma state income taxes by investing in a diversified portfolio of Oklahoma municipal securities rated A or higher at the time of purchase.
- **Strategy Description:** To pursue its objective, this strategy invests in high credit quality intermediate Oklahoma municipal securities that are exempt from federal income taxes, with an average maturity of up to 10 years.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** Barclays Capital Oklahoma Municipal Bond Index
- **Risks:**
  - banking
  - credit
  - credit enhancement
  - interest rate
  - issuer specific
  - limited number of holdings
  - liquidity
  - management
  - market
  - prepayment/call
  - regulatory
  - tax
  - valuation

### **Ultra Short Tax Free Fixed Income Strategy**

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- **Objective:** To generate current income that is exempt from federal income taxes by investing primarily in a diversified portfolio of municipal securities.
- **Strategy Description:** To pursue its objective, this strategy invests in securities exempt from federal taxes and consists of a mix of fixed rate paper with a maturity of one year or less as well as Variable Rate Demand Notes (VRDNs), which provide daily or weekly liquidity.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** 50% SIFMA Index/50% Barclay 1-year Municipal Bond Index
- **Risks:**
  - Banking
  - Credit
  - Credit enhancement
  - Interest rate
  - Issuer specific
  - Limited number of holdings
  - Liquidity
  - Management
  - Market
  - Prepayment/call
  - Regulatory
  - Tax
  - Valuation

### **Cash Management Strategies**

#### **Tax Exempt Cash Strategy**

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- **Objective:** To maintain stability of principal, preserve capital and generate income that is exempt from federal and state income taxes.
- **Strategy Description:** To pursue its objective, this strategy invests in high credit quality, short term municipal securities that are exempt from federal income taxes, have remaining maturities of 397 days or less, and are deemed to have minimal credit risk.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** SIFMA Municipal Swap Index
- **Risks:**
  - banking
  - credit
  - credit enhancement
  - income
  - interest rate
  - issuer specific
  - limited number of holdings
  - liquidity
  - management
  - market

- mortgage market
- prepayment call
- regulatory
- tax
- valuation

### **Government Securities Money Market**

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- **Objective:** To seek current income with liquidity and stability of principal.
- **Strategy Description:** To pursue its objective, the strategy invests primarily in short term U.S. Treasury obligations, including obligations guaranteed by the U.S. governments, as well as repurchase agreements that have remaining maturities of 397 days or less and are backed by U.S. Treasury obligations.
- **Method of Analysis:** Security selection based on fundamental analysis.
- **Benchmark:** 90-day Treasury Bill Index
- **Risks:**
  - banking
  - credit
  - foreign investment
  - income
  - interest rate
  - issuer specific
  - limited number of holdings
  - liquidity
  - management
  - market
  - mortgage market
  - regulatory

### **Risk of Loss and Material Risks**

All investments have certain risks. Investing in securities involves the risk of loss, including the principal amount invested, and clients should be prepared to bear this loss. Below is a more complete discussion of the types of risks inherent in the securities and investment techniques referenced above. The value of the securities held in portfolios may fluctuate because of these risks. Cavanal Hill's investment strategies may be subject to the following principal investment risks:

- **Banking Risk.** To the extent that the strategy invests in securities issued by U.S. banks, foreign banks and U.S. branches of foreign banks, the strategy's performance will be susceptible to the risks associated with the financial services sector. The financial services sector is highly dependent on the supply of short-term financing. The value of securities of issuers in the banking and financial services sector can be sensitive to changes in government regulation and interest rates and to economic downturns in the United States and abroad.
- **Credit Risk.** The risk that the issuer of a security, or the counterparty to a contract, will default or otherwise become unable to honor a financial obligation. Credit risk is generally higher for non-investment grade securities. The price of a security can be adversely affected prior to actual default as its credit status deteriorates and the probability of default rises. Credit risk includes the risk that performance may be affected by political and economic factors at the state, regional or national level,

including budgetary problems and declining tax bases. With respect to government sponsored entities such as FHLB, TVA, Fannie Mae, FFCB and Freddie Mac, although the issuer may be chartered or sponsored by Acts of Congress, their securities are neither insured nor guaranteed by the U.S. Treasury and therefore have more issuer default risk than any direct obligations of the U.S. Treasury. In the event that those government sponsored entities cannot meet their obligations, there can be no assurance that the U.S. government would provide support, and the strategy's performance could be adversely affected. Direct obligations of the U.S. Treasury generally present minimal credit risks. However, repurchase agreements with respect to such obligations involve the risks of a default or insolvency of the other party to the agreement, including possible delays or restrictions in our ability to dispose of the underlying securities.

- **Credit Enhancement Risk.** Credit enhancement risk involves the possibility that a "credit enhancer," such as a letter of credit, declines in quality and therefore leads to a decrease in the value of the strategy's investments.
- **Derivative Risk.** The risk of investing in derivative instruments, including liquidity, interest rate, market, credit and management risks, mispricing or improper valuation. Changes in the value of derivative may not correlate perfectly with the underlying asset, rate or index, and you could lose more than the principal amount invested.
- **Foreign Investment Risk.** The risk associated with higher transaction costs, delayed settlements, currency controls and adverse economic and political developments. This also includes the risk that fluctuations in the exchange rates between the U.S. dollar and foreign currencies may negatively affect an investment. Exchange rate volatility may affect the ability of an issuer to repay U.S. dollar denominated debt, thereby increasing credit risk. Foreign securities may also be affected by incomplete or inaccurate financial information on companies. There is a risk of loss attributable to social upheavals, unfavorable governmental or political actions, and seizure of foreign deposits, changes in tax or trade statutes, and governmental collapse and war. These risks are more significant in emerging markets.
- **Frequent Trading Risk.** The risk associated with the frequent trading of securities, which may negatively impact performance, particularly through increased brokerage and other transaction costs and taxes.
- **Hedging Risk.** The risk associated with utilizing hedging strategies. Hedging instruments such as options and certain ETFs are typically intended to limit or reduce investment risk, but can also be expected to limit or reduce the potential for profit or result in losses. No assurance can be given that any particular hedging strategy will be successful and achieve its desired objective, or will make any profit, or will be able to avoid incurring losses. Certain hedging transactions may involve the use of leverage, which could result in losses exceeding the amount committed in the transaction.
- **Income Risk.** Income risk involves the possibility that the strategy's yield will decrease due to a decline in interest rates.
- **Interest Rate Risk.** The risk that debt prices overall will decline over short or even long periods due to rising interest rates. A rise in rates typically causes a fall in bond values, while a fall in rates typically causes a rise in bond values. In general, bonds with longer maturities have more interest rate risk than shorter term bonds. In addition, certain securities such as mortgage-backed obligations are subject to optional and mandatory redemption and therefore subject to risk regarding the interest rates at which redemption proceeds may be reinvested.

- **Investment Style Risk.** The risk that returns from growth and/or value stocks will trail returns from the overall stock market.
- **Issuer Specific Risk.** The value of a security may decline for a number of reasons which directly relate to the issuer, such as management performance, earnings and sales trends, investor perceptions, financial leverage and reduced demand for the issuer's goods or services.
- **Leverage Risk.** The risk associated with securities or practices that multiply small index or market movements into large changes in value. Leverage is often associated with investments in derivatives, but also may be embedded directly in the characteristics of other securities.
- **Limited Number of Holdings Risk.** As a large percentage of a strategy's assets may be invested in a limited number of securities, each investment has a greater effect on a strategy's overall performance and any change in the value of those securities could significantly affect the value of your investment.
- **Liquidity Risk.** The risk that certain securities may be difficult or impossible to sell at the time and the price that would normally prevail in the market. The portfolio manager may have to lower the price, sell other securities instead or forego an investment opportunity, any of which could have a negative effect on management or performance. This includes the risk of missing out on an investment opportunity because the assets necessary to take advantage of it are tied up in less advantageous investments.
- **Management Risk.** There is no guarantee that the investment techniques and risk analyses used by the portfolio managers will produce the desired results.
- **Market Risk.** The risk that the market value of a security may move up and down, sometimes rapidly and unpredictably. These fluctuations may cause a security to be worth less than the price originally paid for it, or less than it was worth at an earlier time. Market risk may affect a single issuer, industrial sector of the economy or the market as a whole. Finally, key information about a security or market may be inaccurate or unavailable. This is particularly relevant to investments in foreign securities.
- **Market Timing Risk.** The risk that market price movements will differ from those predicted. Market timing is the strategy of making buy or sell decisions of securities by attempting to predict future market price movements. If these predictions are wrong, the portfolio may sustain substantial losses.
- **Prepayment/Call Risk.** The risk that the principal repayment of a security will occur at an unexpected time. Prepayment risk is the chance that the repayment of certain types of securities (e.g., asset-backed securities, mortgage-backed securities and collateralized mortgage obligations) will occur sooner than expected. Call risk is the possibility that during periods of falling interest rates, a bond issuer will "call," or repay, its high-yielding bond before the bond's maturity date. Changes in prepayment/call rates can result in greater price and yield volatility. Prepayments/calls generally accelerate when interest rates decline.

When mortgage and other obligations are pre-paid, a strategy may have to reinvest in securities with a lower yield. In this event, you would experience a decline in income — and the potential for taxable capital gains. Further, with early prepayment, you may fail to recover any premium paid, resulting in an unexpected capital loss. Prepayment/call risk is generally low for securities with a short-term maturity, moderate for securities with an intermediate-term maturity, and high for securities with a long-term maturity.

- **Portfolio Turnover Risk.** The risk that portfolio securities may be sold without regard to the length of time they have been held. A higher portfolio turnover rate may involve paying higher brokerage commissions, taxes, and other transaction costs.
- **Regulatory Risk.** The risk that a change in laws or regulations will materially impact a security, business, sector or market. A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape. Regulatory risk also includes the risk associated with federal and state laws which may restrict the remedies that a lender has when a borrower defaults on loans. These laws include restrictions on foreclosures, redemption rights after foreclosure, federal and state bankruptcy and debtor relief laws, restrictions on “due on sale” clauses, and state usury laws.
- **Small Company Risk.** Small and micro-cap companies may be more vulnerable to adverse business or economic developments than larger companies. They may also be less liquid and/or more volatile than securities of larger companies or the market averages in general. Small and micro-cap companies may be adversely affected during periods when investors prefer to hold securities of large capitalization companies.
- **Tax Risk.** The risk that the issuer of securities will fail to comply with certain requirements of the Internal Revenue Code, which could cause adverse tax consequences. There is also a risk that the use of investment practices that seek to minimize tax consequences will lead to investment decisions that do not maximize the returns on an after-tax basis. Economic developments or unforeseeable investor redemptions may also reduce returns without any corresponding increase in tax efficiency.
- **Valuation Risk.** The risk associated with the assessment of appropriate pricing in a changing market where trading information may not be readily available.

## **Disciplinary Information**

### **Disciplinary History**

Neither Cavanal Hill nor its employees have been involved in any legal or disciplinary events in the past ten years that would be material to a client’s evaluation of the Firm or its personnel.

## **Other Financial Industry Activities and Affiliations**

### **Financial Industry Activities**

Cavanal Hill is not a registered broker-dealer; however, certain of our employees are also employees, management persons, executive officers, directors or registered representatives of BOKF, NA, BOK Financial Securities, Inc. or both. Neither Cavanal Hill nor any of its employees are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading adviser, or are an associated person of the foregoing entities.

Following is a description of the relationships or arrangements that are important to Cavanal Hill’s advisory business or to our clients that we or our personnel have with any affiliate below.

### **Material Relationships and Affiliations**

#### **Broker-Dealer, Municipal Securities Dealer, or Government Securities Dealer**

BOK Financial Securities, Inc. is an affiliate of BOKF, NA and Cavanal Hill Investment Management, Inc., and is a wholly-owned subsidiary of BOK Financial Corporation. BOK Financial Securities, Inc., is a registered broker-dealer and member FINRA/SIPC, an SEC registered investment adviser, and an SEC registered municipal adviser. SEC registration does not imply a certain level of skill or training. The



principal business of BOK Financial Securities, Inc. is that of general securities broker-dealer, government securities sales and municipal securities underwriting. In some circumstances, Cavanal Hill may purchase securities from BOK Financial Securities, Inc. Purchasing securities from or through an affiliated broker-dealer may present a conflict of interest in that the organization as a whole is enriched by the sale of the security to a client. Cavanal Hill has established policies and procedures that overcome this conflict of interest and adheres to the SEC's requirements on principal and affiliated trading.

#### **Investment Company or Other Pooled Investment Vehicle**

As disclosed elsewhere in this Brochure, the Cavanal Hill Funds have arrangements in place with Cavanal Hill and its affiliates. Cavanal Hill Investment Management serves as investment adviser and administrator. BOKF, NA serves as custodian, Cavanal Hill Distributors, Inc. serves as the distributor and principal underwriter to each of the Cavanal Hill Funds. For its provision of distribution and shareholder services, Cavanal Hill Distributors, Inc. and BOKF, NA may receive 12b-1 and shareholder servicing fees from the Funds.

#### **Investment Adviser or Financial Planner**

BOK Financial Securities, Inc. is a dual registered broker/dealer and investment adviser (dba: BOK Financial Advisors – "BOK FA") an affiliate of Cavanal Hill. BOKF, NA is a national banking association affiliate that may also provide advisory and financial planning services to its clients. BOK Financial Securities, Inc. and BOKF, NA may receive compensation from Cavanal Hill where BOK Financial Securities, Inc. BOKF, NA or one of its representatives introduces a client to Cavanal Hill resulting in a client relationship. Such a fee will be paid in accordance with Rule 206(4)-3 of the Act. Affiliate employees are required to disclose the status of their relationship with Cavanal Hill at the time of the solicitation or referral. BOK Financial Asset Management, Inc., The Milestone Group, Inc. and StepStone LP are registered investment adviser affiliates of BOK Financial Securities, Inc. and are wholly-owned subsidiaries of BOK Financial Corporation.

#### **Banking or Thrift Institution**

Cavanal Hill is a wholly-owned subsidiary of BOKF, NA a national banking association wholly-owned by BOK Financial Corporation (symbol: BOKF). BOKF, NA does business as Bank of Oklahoma, Bank of Texas, Bank of Albuquerque, Bank of Arizona, Colorado State Bank and Trust, Missouri Bank and Trust, and Bank of Arkansas. Cavanal Hill provides investment management services to customers of BOKF, NA pursuant to an advisory agreement between Cavanal Hill and BOKF, NA. Bank Clients do not pay a management fee directly to the Firm. As a result, separately managed account clients of Cavanal Hill could receive similar services at a lower cost if they were customers of BOKF, NA. As previously discussed, BOKF, NA also serves as the custodian for the Funds.

#### **Insurance Company or Agency**

Some registered representatives of BOK Financial Securities, Inc., are also employees of BOSCA Agency, Inc., a subsidiary of BOKF, NA and an affiliated insurance agency of BOK Financial Securities, Inc.

#### **Sponsor or Syndicator of Limited Partnerships**

BOKF Equity LLC (BOKF Equity) is an affiliate of Cavanal Hill. BOKF Equity is the general partner and manager of private equity limited partnerships. BOKF Equity is a general partner in the Private Equity Limited Partnership I (PELP I) and Private Equity Limited Partnership II (PELP II). Clients of BOKF, NA were solicited by BOKF Equity to invest in PELP I and PELP II. Clients of Cavanal Hill were not solicited to invest in PELP I or PELP II. The PELP I and PELP II are closed to new investors.

#### **BOK Financial Securities, Inc.**

BOK Financial Securities, Inc. is affiliated with Cavanal Hill through common ownership. BOK Financial Securities, Inc., is a wholly-owned subsidiary of BOK Financial Corporation and is a registered broker-dealer, an SEC registered investment adviser, and an SEC registered municipal adviser. The principal business of

BOK Financial Securities, Inc. is that of general securities broker-dealer, government securities sales, and municipal securities underwriting. In some circumstances, such as when BOK Financial Securities, Inc., is underwriting a new issue of a municipal bond, Cavanal Hill may purchase such bonds from BOK Financial Securities, Inc. Purchasing securities from or through an affiliated broker-dealer may present a conflict of interest in that the organization as a whole is enriched by the sale of the security to a client. Cavanal Hill has established policies and procedures that overcome this conflict of interest and adheres to the SEC's requirements on principal and affiliated trading.

Employees of Cavanal Hill who are also registered representatives of BOK Financial Securities, Inc., do not receive any commissions or other transaction-based compensation with respect to any transactions effected on behalf of the Firm's clients.

As previously mentioned, Cavanal Hill Distributors, Inc., serves as the distributor and principal underwriter for each of the Cavanal Hill Funds. BOK Financial Securities, Inc. receives fees from the Funds for its provision of distribution and shareholder services. Cavanal Hill Distributors, Inc. also receives shareholder servicing and/or distribution fees from certain unaffiliated mutual funds recommended to clients.

BOK Financial Securities, Inc. is a wrap fee program sponsor, pursuant to which Cavanal Hill is an investment adviser. As a result, certain of Cavanal Hill's clients are also clients of BOK Financial Securities, Inc., a portion of the wrap fee paid to BOK Financial Securities, Inc. will be given to Cavanal Hill. Clients of the Firm who participate in the SMA Program should carefully review the BOK Financial Securities, Inc. Wrap Fee Program Brochure.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

Cavanal Hill is committed to the highest stands of ethical conduct, business practices and legal compliance. Pursuant to requirements of Rule 204A-1 of the Investment Advisers Act of 1940, Cavanal Hill has established a written Code of Ethics to meet those requirements and it maintains and enforces the Code of Ethics. The Code includes provisions relating to the prohibition on insider trading, restrictions on the acceptance and gifts and the reporting of certain gifts, and personal securities trading procedures, among other items. All supervised persons at Cavanal Hill must acknowledge the terms of the Code annually. A written copy of Cavanal Hill's Code of Ethics is available upon request by calling us at (800) 958-2942.

Cavanal Hill anticipates that it will cause client accounts for which it has management authority to affect the purchase or sale of securities in which Cavanal Hill, its employees and affiliates, and clients, directly or indirectly; also have a position of interest. Cavanal Hill's employees are required to follow Cavanal Hill's Code of Ethics in conducting their personal securities transactions. Subject to satisfying this policy and applicable laws, officers, directors and employees of Cavanal Hill may trade for their own accounts in securities which are recommended to and/or purchased for Cavanal Hill's clients.

The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of employees of Cavanal Hill will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions, while, at the same time allowing employees to invest for their own accounts.

In addition, the Code requires pre-clearance of certain transactions, and restricts trading in close proximity to client trading activity. Employee trading is monitored under the Code, in an effort to reasonably prevent conflicts of interest between Cavanal Hill and its clients. The Chief Compliance Officer or his designee will review all employee securities transactions at least quarterly as required by the Advisers Act.

## **Participating or Interest in Client Transactions**

### **Block Trading**

Certain affiliated accounts (e.g. employee accounts) may trade in the same securities with client accounts on an aggregated basis when consistent with Cavanal Hill's fiduciary duty to its clients. In such circumstances, the affiliated account(s) and client account(s) will share commission costs on a pro rata basis and securities will be allocated to the accounts at a total average price.

### **Affiliated Broker-Dealer**

With few exceptions, it is the general policy of the Firm not to engage in principal trades or agency cross transactions. Cavanal Hill does not affect trades on behalf of clients through BOK Financial Securities, Inc., the Firm's affiliated broker-dealer, except when purchasing new issue fixed income securities for which the broker-dealer serves as the underwriter or when executing trades on behalf of SMA Program client accounts. Any principal trades executed by BOK Financial Securities, Inc. must be pre-approved by the client in writing in accordance with Section 206(3) of the Advisers Act.

### **Mutual Fund Accounts**

Client accounts may be invested in one or more of the Cavanal Hill Funds and certain Funds may be used as a sweep vehicle for assets awaiting investment. In such case, Cavanal Hill will earn a management fee from the Fund in addition to the fees charged to the client for managing a separately managed account. A complete description Fund fees and expenses are available in each Fund's prospectus.

## **Brokerage Practices**

Cavanal Hill places all client trades in accordance with the Firm's obligation to seek to obtain best execution. The following criteria may be considered for the qualification of brokers used to execute securities transactions:

- Knowledge of the markets, specific industries, and securities,
- Access to sources of supply or markets, including third or fourth markets,
- Ability to handle block trades,
- Acceptable record of good and timely delivery and payment on trades
- Acceptable recordkeeping; e.g., timely and accurate confirmations, and
- The quality of research material and services

Under no circumstances will officers and employees of Cavanal Hill who are selecting or retaining brokers to execute customers' transactions: (1) take into account the brokers' promotion or sale of shares issued by a registered investment company that is affiliated with Cavanal Hill or any other registered investment company, or (2) enter into any agreement (whether oral or written) or other understanding under which Cavanal Hill directs, or is expected to direct, portfolio securities transactions to a broker or dealer in consideration for the promotion or sale of shares issued by the a registered investment company that is affiliated with us or any other registered investment company.

### **Best Execution**

#### **Fixed Income Best Execution**

To the extent possible and in light of its limited access to reliable market pricing data for the types of fixed income securities in which it primarily invests on behalf of clients, the Firm will conduct pre-trade evaluation of data and execution decisions, and/or post-trade analysis of transactions. Securities may also be purchased

from underwriters at prices that include underwriter fees.

In the event an order is partially filled, the Firm makes every effort to allocate in a fair and equitable manner, taking into account all relevant factors, including, but not limited to, the factors listed above as well as the size of each client's allocation, clients' liquidity needs, and previous allocations. As a general practice, Cavanal Hill shall seek to ensure that each account gets a pro-rata allocation based on its initial allocation. In some circumstances, when a pro-rata allocation may not be practicable (e.g., clients receiving odd lots and/or insufficient quantities), the Firm shall reallocate the securities in a manner that it deems fair and equitable taking into account all relevant factors, including, but not limited to, portfolio objectives, portfolio constraints, liquidity, tax considerations, and whether the amount allocated to the account is a sufficiently marketable quantity. In addition to these elements, par value, credit quality, and the client's state of domicile are also considered when allocating fixed income securities.

### **Equity Best Execution**

The determining factor of best execution is not the lowest commission per share but whether the transaction represents the best qualitative execution for the account. In accordance with Section 28(e) of the Securities Exchange Act of 1934 and the Firm's policy and procedure on soft dollars, eligible research may be received in the course of equity securities transactions.

### **Best Execution Monitoring**

On a weekly basis the Trade Risk Oversight Committee reviews transactions for best execution.

### **Benefits Received by Cavanal Hill**

Cavanal Hill receives research or other benefits provided by a broker-dealer as a result of commissions generated from financial transactions executed by such broker-dealer for client accounts managed by the Firm. In selecting broker-dealers, the Firm will consider the value of research and additional brokerage products and services a broker-dealer has provided or will provide to our clients and the Firm Receipt of these additional brokerage products and services are considered to have been paid for with "soft dollars." In other words, Cavanal Hill will select brokers on the basis of considerations that are not limited to commission rates, which may at times result in higher transaction costs than may otherwise be obtainable.

Products and services that the Firm receives from broker-dealers may consist of research data and analyses, financial publications, recommendations, or other information about particular companies and industries (through research reports and otherwise), and other products or services (e.g., software and data bases) that provide lawful and appropriate assistance to our firm in the performance of our investment decision-making responsibilities. Investment research and brokerage services received as a result of soft dollar payments may benefit clients whose brokerage commissions did not generate the soft dollars used to pay for such services.

Before placing orders with a particular broker-dealer, we determine that the commissions to be paid are reasonable in relation to the value of all the brokerage and research products and services provided by that broker-dealer. In some cases, the commissions charged by a particular broker for a particular transaction or set of transactions may be greater than the amounts charged by another broker-dealer that did not provide research services or products.

We do not exclude a broker-dealer from receiving business simply because the broker-dealer does not provide our firm with soft dollar research products and services. However, we may not be willing to pay the same commission to such broker-dealer as we would have paid had the broker-dealer provided such products and services.

The receipt of economic benefits may create a conflict of interest. Cavanal Hill has instituted certain procedures governing soft dollar relationships, including preparation of a brokerage allocation budget, annual

evaluation of soft dollar relationships, and an annual review of this Brochure to ensure adequate disclosures of conflicts of interest regarding our soft dollar relationships.

Cavanal Hill participates in commission sharing arrangements (“CSAs”) whereby the executing broker agrees that the soft dollar commissions accrued in a transaction will be redirected to one or more third-party brokers, per the Firm’s direction, as payment for research services provided to Cavanal Hill. CSAs allow Cavanal Hill to direct a broker-dealer to aggregate client commissions that may have been generated from orders executed at that broker-dealer, and periodically direct the broker-dealer to pay for research that we have determined is valuable in making investment decisions with respect to client accounts.

### **Brokerage for Client Referrals**

Brokerage commissions may never be used to attract or hold deposit balances or loans of brokerage firms with the banking department of any affiliate of Cavanal Hill. Brokerage commissions may never be used to compensate a third party for customer referrals unless customer-directed. Brokerage commissions may never be used to secure services for the benefit of any employee or affiliated entity (other than eligible research and services as discussed above).

### **Directed Brokerage**

Clients may direct Cavanal Hill to execute transactions through a specified broker-dealer. By directing brokerage to a specified broker-dealer, Cavanal Hill may be unable to achieve best execution for the client’s transactions, which may result in additional cost to the client and may impact client returns. In a directed brokerage arrangement, the client may pay higher brokerage commissions because Cavanal Hill may not be able to aggregate orders to reduce transaction costs, or the client may receive less favorable prices.

### **Order Aggregation**

Orders for the same security entered on behalf of more than one client may be aggregated (i.e., blocked or bunched). Subsequent orders for the same security entered during the same trading day may or may not be aggregated with any previously filled or unfilled orders. All clients participating in an aggregated order shall receive the average price and, subject to minimum ticket charges, pay a pro-rata portion of commissions. Clients with directed brokerage arrangements generally will not participate in aggregated trades.

Preliminary decisions for the allocation of securities across client accounts are made prior to purchase and are based on various factors, including: client guidelines, account size, diversification, cash availability, tax considerations, and, where appropriate, the value of having a round lot in the portfolio.

In the event an order is partially filled, the Firm makes every effort to allocate in a fair and equitable manner, taking into account all relevant factors, including, but not limited to, the factors listed above as well as the size of each client’s allocation, clients’ liquidity needs, and previous allocations. As a general practice, Cavanal Hill shall seek to ensure that each account gets a pro-rata allocation based on its initial allocation. In some circumstances, when a pro-rata allocation may not be practicable (e.g., clients receiving odd lots and/or insufficient quantities), the Firm shall reallocate the securities in a manner that it deems fair and equitable taking into account all relevant factors, including, but not limited to, portfolio objectives, portfolio constraints, liquidity, tax considerations, and whether the amount allocated to the account is a sufficiently marketable quantity. In addition to these elements, par value, credit quality, and the client’s state of domicile are also considered when allocating fixed income securities.

Cavanal Hill selects investments for each client based solely on investment considerations for that client; therefore, the timing of purchases and sales, and the price paid or received, will vary and may be more or less favorable among similarly situated clients. Because different clients have different investment strategies, Cavanal Hill may give advice to, and take action on behalf of any of its clients that differs from the advice that it gives, or the timing or nature of action that it takes on behalf of any other client due to a variety of

factors, including specific client considerations. Cavanal Hill may buy (or sell) a security for one client but not for another, or may buy (or sell) a security for one client while simultaneously selling (or buying) the same security for another client. Therefore, a client's ownership in, and execution price of, a particular security depends on the timing of the portfolio investment decision. Cavanal Hill believes this process to be random and that over time, investment opportunities are allocated on a fair and equitable basis relative to other clients.

Cavanal Hill is not obligated to acquire for any account any security that Cavanal Hill or its officers, managers, members, or employees may acquire for its or their own accounts or for any other client.

### **Initial Public Offerings**

From time to time, Cavanal Hill may have the opportunity to invest in an initial public offering ("IPO") and will determine in its sole discretion whether to make such investments. Cavanal Hill's policy is to allocate IPO investments based on asset value across accounts that are within a strategy for which the securities are deemed suitable. If an IPO is determined to be suitable for more than one strategy, the initial allocation among strategies is determined by Cavanal Hill's portfolio managers. Suitability and the appropriate allocation for each strategy will be determined by Cavanal Hill's portfolio managers based on a number of factors, including but not limited to, investment goals, existing securities in the portfolio, available cash and purchasing power, portfolio investment restrictions, and the subjective judgment of the portfolio managers.

Because Cavanal Hill's allocation is based on a number of factors, as mentioned above, rather than strict mathematical formulas, allocation of any specific IPO offering may not result in proportional allocation across investment strategies. Cavanal Hill's allocation methodology may result in a conflict of interest because some strategies may receive more IPO shares than other strategies. Cavanal Hill charges different management fees for each strategy, and some strategies, like the Opportunistic Strategy, charge higher fees than others. The tension between appropriate allocation and the financial incentive to allocate to the Opportunistic Strategy represents a conflict of interest. This is despite the fact that the Opportunistic Strategy tends to receive a larger portion of IPO shares because the strategy's investment mandate is more diverse, which provides more opportunities to allocate IPO shares.

Because of securities law restrictions or client-imposed restrictions, not all investment strategies or accounts can participate in IPOs. A small IPO offering may be allocated only to one investment strategy, if Cavanal Hill determines in its sole discretion that allocation among more than one strategy would be inefficient or does not fit the strategy. Cavanal Hill will treat all client portfolios in the respective strategy being allocated the IPO fairly and will not give preferences to any particular client or type of clients when allocating IPOs.

## **Review of Accounts**

### **Periodic Reviews**

Cavanal Hill conducts account reviews at least once every calendar year. The typical review consists of a performance review, as well as an administrative review of the account set-up. This evaluation may require necessary changes to the current portfolio and investment plan. Reviews that are more frequent may be triggered by changes in the client's goals or objectives, changes in market conditions, or other significant circumstances that warrant a broad review of the strategies employed to meet the goals and objectives, and the securities held in the accounts. Clients are responsible for keeping Cavanal Hill informed of any changes in their financial condition, investment objective or risk tolerance.

Cavanal Hill's Investment Policy Committee conducts an annual review of all accounts to which discretionary investment advisory services are provided to evaluate whether portfolio investment

management complies with the appropriate strategy as agreed upon with the client

### **Regular Reports**

At least quarterly, clients will receive a statement from their custodian, which may be an affiliate of Cavanal Hill. Such statements identify the amount of funds and of each security in the account at the end of the period and set forth all transactions in the account during that period.

## **Client Referrals and Other Compensation**

### **Referrals**

Cavanal Hill may pay a cash referral fee where either an affiliated or unaffiliated solicitor introduces a client to the Firm. Such a fee will be paid in accordance with Rule 206(4)-3 of the Advisers Act, and any applicable state or other regulatory requirements. Receiving a referral fee may provide an incentive for the referrer to act in his or her own best interest in order to earn a referral fee. In order to address this conflict of interest, unaffiliated solicitors are required to provide all prospective clients with a separate written disclosure document that fully informs the client of the nature of the relationship between the solicitor and Cavanal Hill and any fees to be paid. Additionally, affiliated solicitors must disclose the status of their relationship with Cavanal Hill at the time of the solicitation or referral.

Cavanal Hill has cash solicitation or referral agreements in place with BOKF, NA and BOK Financial Securities, Inc. These affiliates may provide a cash reward to their employees who refer or solicit clients to Cavanal Hill, in accordance with their own incentive programs. Typically, the affiliate receives referral fees that are a percentage of Cavanal Hill's revenue attributable to that account. In turn, the soliciting or referring affiliate representative will receive a percentage of the affiliate's fee. Additional sales incentives may include sales awards or other prizes. Cavanal Hill is solely responsible for paying such solicitation and/or referral fees. Client will not incur any additional charges for solicitation and/or referral fees.

### **Affiliate Referral Fees (Other Third-Party Compensation)**

BOKF, NA and BOK Financial Securities, Inc., may pay referral fees for the referral of new and additional business. Cavanal Hill is ineligible for such referral fees; however, our employees may refer business to BOKF, NA and BOK Financial Securities, Inc., and are eligible to receive a cash fee for the referral.

**Affiliated Solicitors:** Cavanal Hill has an affiliated solicitor agreement with BOKF, NA, which does business as Bank of Arkansas, Bank of Texas, Colorado State Bank & Trust, Missouri Bank and Trust, Bank of Arizona, and Bank of Oklahoma. Affiliated solicitors must disclose the status of their relationship with prospective Cavanal Hill clients at the time of the solicitation or referral. All affiliated solicitor fees are paid in accordance with compensation agreements with the affiliate and paid by BOKF NA (with respect to referrals by BOKF NA employees) in accordance with a written agreement between the solicitor and Cavanal Hill, and will not result in any additional charge to the client.

## **Custody**

Cavanal Hill does not provide custody services directly. However, such services are provided by its affiliate, BOKF, NA, or another qualified custodian of the client's choosing. Cavanal Hill does not provide account statements. At least quarterly, clients should receive statements from the qualified custodian that holds and maintains their assets.

## **Investment Discretion**

Cavanal Hill is authorized to make the following determinations in accordance with client objectives and restrictions without obtaining prior consent from the client: (1) which securities or instruments, including

mutual funds, to buy or sell; (2) the total amount of securities or instruments to buy or sell; (3) the executing broker or dealer for any transaction; and (4) the commission rates or commission equivalents charged for transactions. Such authorization is outlined in each client's Investment Management Agreement (IMA).

For registered investment companies, Cavanal Hill's authority to trade securities may also be limited by certain federal securities and tax laws, as well as governing documents, that require diversification of investments and favor the holding of investments once made. Client investment guidelines and restrictions, and any changes to these guidelines and restrictions, must be promptly provided to Cavanal Hill in writing by the client.

## **Voting Client Securities**

Unless otherwise agreed to by the client and Cavanal Hill, clients delegate through the advisory agreement sole discretion to vote client security proxies to Cavanal Hill at the commencement of the advisory relationship. The client will direct external custodians, if any, to coordinate with Cavanal Hill personnel in order to transmit proxy data for Cavanal Hill to vote. Additionally, clients may direct Cavanal Hill's vote in a particular voting situation, if this provision is included in the Investment Management Agreement or a written amendment to the advisory agreement. It is the policy of Cavanal Hill that, absent compelling reasons why a proxy should not be voted, all proxies relating to client securities should be voted. As a matter of policy and as a fiduciary to our clients, proxies are voted in the best economic interest of – the client accounts.

The determination of the interest of a client account in a proposal presented by proxy is the anticipated effect that the proposal could have on the current or future value of the investment, if any. Subject to the procedures or guidelines adopted by Cavanal Hill's Board of Directors or specific written direction from a client, proxy voting shall be the responsibility of the Company's President and the Investment Policy Committee, both of whom may delegate such aspects of this responsibility as it may consider appropriate to designated officers or employees of Cavanal Hill.

The Investment Policy Committee will determine the voting of proxies where material conflicts of interest exist. Cavanal Hill may vote proxies via physical, electronic, or telephonic ballot. Clients may request a copy of Cavanal Hill's proxy voting policies and procedures upon written request. Clients may also obtain information about how proxies were vote, in the aggregates, on securities held on in the client's account. A written copy of Cavanal Hill's Proxy Policy is available upon request by calling us at (800) 958-2942.

### **Investment Policy Committee**

The Investment Policy Committee is a cross-functional committee that performs an annual review of all accounts to evaluate whether the investment management complies with the account agreement and the corresponding strategy.

- President;
- Director, Investment Administration and Operations;
- Head Trader;
- Senior Equity Portfolio Manager;
- Senior Tax Free Fixed Income Portfolio Manager; and,
- Manager of Investment Performance Reporting.

### **Risk Oversight Committees**

The following risk committees have been created for mitigating risk to the firm:

- Trade Risk Oversight Committee;
- Price Risk Committee;
- Technology Risk Oversight Committee;



- Investment Strategy Risk Oversight Committee;
- Sales and Marketing Committee.

These committees periodically report to the Investment Policy Committee. The Investment Policy Committee in turn reports to the Board of Directors.

### **Financial Condition**

Cavanal Hill is unaware of any financial condition that is likely to impair its ability to meet its contractual commitments to its clients. Cavanal Hill has not been the subject of a bankruptcy petition.