CALTRUST
Investment Trust of California

Service Center
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Monthly Market Update

April 2017 | Volume 13 | Number 4

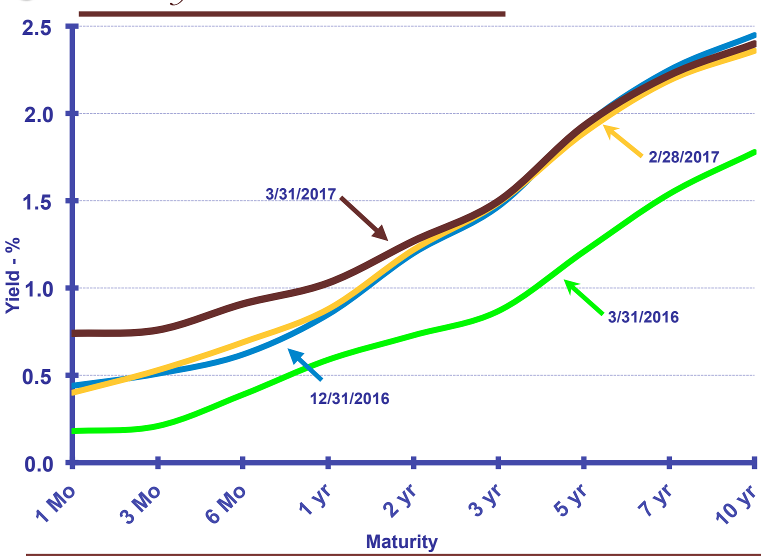
CalTRUST Update

The CalTRUST Board of Trustees held their Annual Meeting on April 19, 2017. At this meeting, the Board considered a number of important issues including the appointment of a new President of the Board. The Board elected Dan McAllister, San Diego County Treasurer-Tax Collector, as the new President of CalTRUST.

One of the major focuses of this year's CalTRUST Annual Meeting was the consideration of partners to provide custody, investment management, and fund accounting services. In February of this year, CalTRUST issued Requests for Proposals (RFPs) for their custody, investment management, and fund accounting Services. CalTRUST received multiple responses to each RFP and a thorough review process of all proposals was conducted by the CalTRUST Product Review Committee. During the Annual Meeting, the CalTRUST Board of Trustees took action to select providers for each of the services that were put to bid. The CalTRUST Board of Trustees voted to select U.S. Bank to provide custody services, BlackRock to provide investment management services, and NorthStar Financial Services Group, LLC to provide fund accounting services. These selections are all pending final contract review and approval. We understand that these are all critical functions of CalTRUST and want to ensure participants that they will all be transitioned in a thoughtful manner over the course of the summer.

More information will be provided shortly on these changes and the implementation timelines. In the meantime, if you have any questions, please do not hesitate to contact Laura Labanieh at 916.650.8186 or laura@caltrust.org.

Treasury Yield Curve



CalTRUST Money Market Funds

Avg Annual Total Return (February 28, 2017)	1-year	3-year	5-year	10-year	Since Inception
CalTRUST Government MMF	0.35%	0.14%	0.09%	0.65%	3.22%
Lipper Instl US Govt MMF Average	0.16%	0.07%	0.05%	0.63%	--
CalTRUST Heritage MMF	0.59%	0.29%	0.22%	0.87%	2.63%
Lipper Instl MMF Average	0.38%	0.17%	0.12%	0.75%	--

CalTRUST Portfolio Snapshot

(February 28, 2017)

	CalTRUST Short-Term		LAIF	CalTRUST Medium-Term		Merrill 1-3 Year
	Total Return	Yield Return	Yield Return	Yield Return	Total Return	Gov't & Corp "A" or Better
Distribution Yield[1]	1.03%		0.83%	1.24%		N/A
Effective Duration	0.49		N/A	1.72		1.90
Avg Maturity (yrs)	1.00		0.49	2.04		1.95
Returns:[2]						
One Month	0.04%	0.09%	0.07%	0.11%	0.05%	0.04%
One Year	0.83%	0.83%	0.66%	1.07%	0.53%	0.47%
Three Year[3]	0.55%	0.59%	0.43%	0.90%	0.80%	0.86%
Five Year[3]	0.51%	0.50%	0.37%	0.85%	0.75%	0.84%
Ten Year[3]	1.19%	1.16%	1.12%	1.75%	1.82%	2.20%
Since Inception[3, 4]	1.74%	1.72%	1.64%	2.07%	2.14%	2.43%

1. CalTRUST Short- and Medium-Term and LAIF yields are net of fees. The Merrill Index is unmanaged, and does not reflect any deduction for administrative fees or expenses.
2. CalTRUST and LAIF returns are net of all investment advisor, administrative and program fees.
3. Annualized.
4. CalTRUST Short- and Medium-Term portfolios commenced operations February 13, 2005.

Financial Markets Update

Convergence Of Private-Sector & Government Borrowing Could Push Rates Higher Later This Year And Into 2018

In his late-March ***Advantage Voice*** blogpost (***link***), Wells Fargo Investment Strategist James Kochan, looks at why interest rates have remained so low for so long, and whether conditions may be changing. As to why rates have remained so low, Jim points to the *lack of demand for credit* so far in this expansion, with growth of capital markets borrowing averaging only 4%, versus the double-digit rates seen in cyclical expansions of the 1970s and ‘80s.

The major culprit behind the lack of demand in this expansion - mortgage credit. Mortgage debt outstanding actually declined between 2009 and 2014, and is averaging only 2% since 2014. Borrowing by the corporate and the governmental (federal, state and local) sectors has been “less than robust” as well, and certainly insufficient to make up for the lack of mortgage credit demand.

Looking forward, even if mortgage credit demand picks up modestly and household and corporate borrowing continue to increase relatively slowly, inflation is likely to remain in check.

On the other hand, if a substantial increase federal fiscal stimulus - think defense and infrastructure spending, and revenue-negative tax cuts – is layered on top, rates could move up. Typically, federal government borrowing increases during recessions, not well into a cyclical expansion. If, instead, government borrowing accelerates while private-sector borrowing is increasing – a possibility for later this year and 2018 - pressures on rates could intensify significantly.