CALTRUST
Investment Trust of California
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# Monthly Market Update

August 2015 Volume 11 | Number 8

## President's Perspective

**CalTRUST Portfolios Are Positioned To Manage The Challenge Of Higher Rates**

Expectations of an imminent hike in rates by the Fed (see the commentary in the "*Financial Markets Update*" section) and rising rates in the economy present a challenge to fixed income investors, whether they be individuals, corporations or public agencies. The low yield environment of the past six-plus years has presented investors with near zero yields for short maturity securities and – comparatively – higher yields for longer maturity instruments. Given the persistence of this low rate environment, it is understandable that many investors have been tempted to look to longer maturity securities to boost the yield in their portfolios.

This "reaching for yield" however, exposes investors to interest rate risk. Since bond prices move in inverse relationship to yield and the general direction of interest rates, as rates rise the price of fixed income securities falls. In a rising rate environment, this inverse relationship can result in negative rates of total return on an individual security or a portfolio; even on 'safe-haven' instruments such as US Treasury bonds.

Investors, particularly public agency investors, that are tempted to "reach" for the additional yield offered by longer-term securities need to understand the additional interest rate risk they are assuming. At CalTRUST, we are very mindful of this risk, and have positioned the Short-Term and Medium-Term portfolios toward the lower-end of their target durations, so as to manage this interest rate risk, to ensure sufficient liquidity to meet participants' cash needs, and to provide the flexibility to take advantage of higher rates when they do arrive. The short- and medium-term funds are subject to interest rate risk reflected in net asset value (NAV). CalTRUST does offer the money market fund for investors who are more risk averse.

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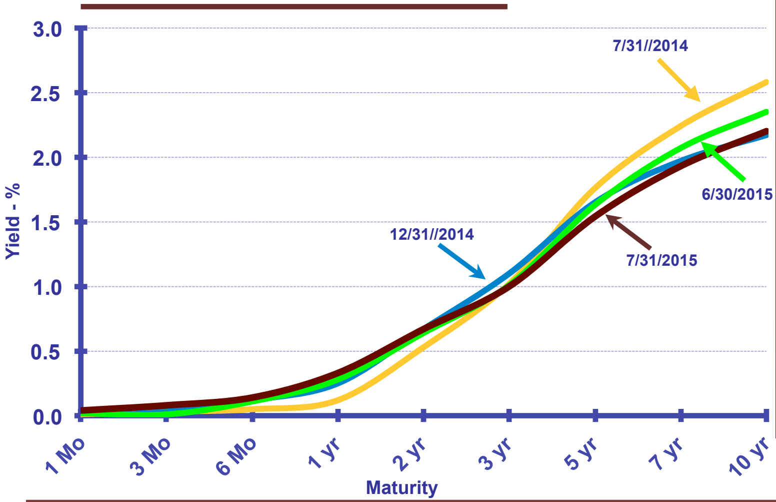
## Treasury Yield Curve




## CalTRUST Heritage Money Fund

| Avg Annual Total Return (July 31, 2015) | 1-year | 3-year | 5-year | 10-year | Since Inception |
|---|---|---|---|---|---|
| CalTRUST Heritage MMF | 0.09% | 0.09% | 0.11% | 1.57% | 2.81% |
| Lipper Instit MMF Average | 0.03% | 0.03% | 0.04% | 1.42% | -- |

## CalTRUST Portfolio Snapshot

(July 31, 2015)

| | 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] | 0.49% | | 0.32% | 0.82% | | N/A |
| Effective Duration | 0.62 | | N/A | 1.71 | | 1.88 |
| Avg Maturity (yrs) | 1.27 | | 0.65 | 2.05 | | 1.95 |
| **Returns:**[2] | | | | | | |
| One Month | 0.03% | 0.04% | 0.03% | 0.07% | 0.08% | 0.07% |
| One Year | 0.37% | 0.43% | 0.27% | 0.77% | 0.80% | 1.05% |
| Three Year[3] | 0.38% | 0.39% | 0.27% | 0.74% | 0.59% | 0.78% |
| Five Year[3] | 0.45% | 0.44% | 0.33% | 0.93% | 0.86% | 1.02% |
| Ten Year[3] | 1.86% | 1.83% | 1.77% | 2.30% | 2.40% | 2.74% |
| Since Inception[3, 4] | 1.90% | 1.87% | 1.82% | 2.24% | 2.34% | 2.70% |

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

**July Jobs Report & Fed Rate Hike Timing:** *Once & Wait*

In his latest ***Economic Analysis*** (***link***), Wells Fargo Funds Management LLC Chief Portfolio Strategist Brian Jacobsen, comments on the just released July 2015 Jobs Report, and what it means for the timing of Fed rate hikes. As Brian points out, the Fed has said repeatedly that it is "looking for some further improvement in the labor market" before it hikes its target for the federal funds rate. The July report "showed more than *some* improvement," in Brian's estimation; though certainly not so much that there isn't room for further improvement.

On the plus side nonfarm payrolls increased by 215,000 in July, and revisions to the May and June data added another 14,000; average hourly earnings increased 2.1% - slightly faster than inflation - on a year-over-year basis; and the length of the manufacturing workweek edged up slightly.

On the other hand, other metrics continue to be disappointing: labor force participation remains near historic lows, at 62.6%; and there has been little to no improvement in the numbers of long-term unemployed, discouraged workers, or those working part-time for economic reasons.

The bottom-line, as Brian sees it, from the data is that, "without a shock to the economy, the Fed is likely on track to hike its target for the federal funds rate in September. However, the gains aren't so great – and inflation hasn't been accelerating quickly enough – to justify more than a *once and wait* approach to hiking. The Fed will likely raise the federal funds rate in September and take October off."