

## Happy New Year to All From CalTRUST

### President's Perspective

**CalTRUST Funds Enter 2015 With Over \$2 Billion in Assets; Portfolios Well-Positioned For A Challenging Rate Environment**

The CalTRUST funds enter 2015 on a high note, with assets in excess of \$2 billion; an increase of more than \$450 million from January 1, 2014. Moreover, the funds are well-positioned for further growth in the new year. The three fund options provided by CalTRUST give investors the ability to allocate their funds across the 0-5 year maturity range permitted under the California Government Code; and maximum flexibility in the management of local funds.

Rates at the front end of the yield curve have been trending higher as the Federal Reserve edges closer to its first rate hike since the onset of the 2008-09 financial crisis, with the yield on the two-year treasury increasing from 0.47% to 0.67% over the course of December. On the other hand, rates at the longer end of the curve have been wrestling with conflicting signals:

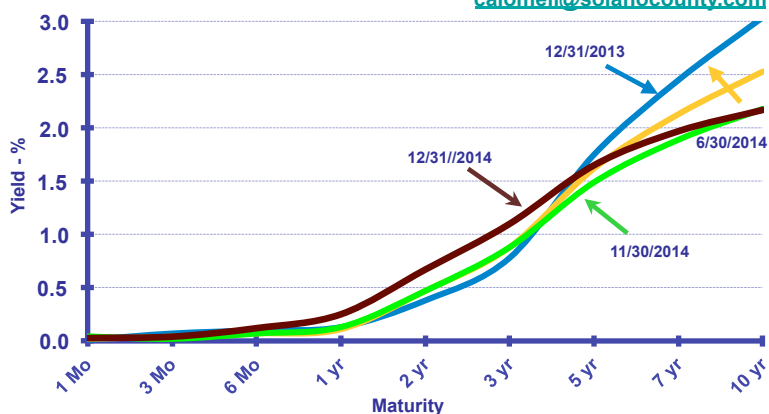
- A strengthening US economy, putting upward pressure on rates; and
- Renewed Eurozone concerns and deflation fears stoked by the steep decline in energy prices, prompting a flight to quality and downward pressure on rates.

The CalTRUST Short- and Medium-Term funds are positioned to adapt to a changing, and potentially volatile, rate environment. The funds are highly liquid to allow portfolio managers to quickly reposition the portfolios in response to changing market conditions. Moreover, the duration of the funds is at the shorter end of its target, at 0.76 for the Short-Term Fund and 1.61 for the Medium-Term Fund.

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### Treasury Yield Curve



### CalTRUST Heritage Money Fund

| Avg Annual Total Return (December 31, 2014) | 1-year | 3-year | 5-year | 10-year | Since Inception |
|---|--------|--------|--------|---------|-----------------|
| CalTRUST Heritage MMF                       | 0.07%  | 0.09%  | 0.12%  | 1.72%   | 2.90%           |
| Lipper Instit MMF Average                   | 0.02%  | 0.04%  | 0.05%  | 1.57%   | --              |

### CalTRUST Portfolio Snapshot (December 31, 2014)

|                                 | CalTRUST Short-Term |              | LAIF         | CalTRUST Medium-Term |              | Merrill 1-3 Year Gov't & Corp "A" or Better |
|---------------------------------|---------------------|--------------|--------------|----------------------|--------------|---|
|                                 | Total Return        | Yield Return | Yield Return | Yield Return         | Total Return |   |
| Distribution Yield <sup>1</sup> | 0.39%               |              | 0.27%        |                      | 0.74%        | N/A   |
| Effective Duration              | 0.76                |              | N/A          |                      | 1.61         | 1.83  |
| Avg Maturity (yrs)              | 1.37                |              | 0.56         |                      | 2.00         | 1.88  |
| <b>Returns:<sup>2</sup></b>     |                     |              |              |                      |              |   |
| One Month                       | -0.09%              | 0.03%        | 0.02%        | 0.06%                | -0.21%       | -0.25%                                      |
| One Year                        | 0.29%               | 0.39%        | 0.24%        | 0.72%                | 0.60%        | 0.72%                                       |
| Three Year <sup>3</sup>         | 0.44%               | 0.38%        | 0.29%        | 0.79%                | 0.68%        | 0.82%                                       |
| Five Year <sup>3</sup>          | 0.51%               | 0.46%        | 0.36%        | 1.01%                | 1.14%        | 1.32%                                       |
| Since Inception <sup>3,4</sup>  | 1.99%               | 1.96%        | 1.91%        | 2.32%                | 2.46%        | 2.78%                                       |

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

#### 2015 Forecast for Solid Economic and Earnings Growth Could Be Derailed by Unanticipated, Low-Probability "Unlikelysts"

As 2015 gets underway the outlook is for reasonably good economic and earnings growth, a gradual, back-loaded increase in inflation and interest rates, and a smooth transition by investors to the Fed's interest-rate "normalization."

As always, however, there are uncertainties and potential "shocks" which could upend this forecast. In his first **Market Comment** of 2015, Gary Schlossberg, WellsCap Senior Economist, takes a look at what he considers the "most likely of the unlikelysts", such as:

- A long-awaited burst of economic growth, triggered by an energy-related boost to consumer spending;
- Below target (2%) inflation through most of 2015, prompts a more "dovish" to postpone the first Fed funds increase until 2016;
- Oil prices rebound from their current sub-\$50 per barrel level to the \$80-\$90 per barrel range, triggered by OPEC production cuts or disruptions from politically vulnerable suppliers such as Iraq;
- Euro-zone financial pressures re-surface, as anti-austerity parties make political gains, setting off confrontations with creditors in Greece, and perhaps even in Italy and/or Spain;
- Russia turns to increased capital controls, inward-looking economic policies and more "adventurism" abroad, re-igniting "risk-off" trades into US and German treasuries.

The full text of Gary's **Market Comment** can be read [here](#).

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