CALTRUST
Investment Trust of California

Service Center
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Monthly Market Update

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President's Perspective

CalTRUST Funds Offer A Great Solution For Agencies Faced With Charges On Deposits

Perhaps you've seen the headlines; or perhaps its happened to your local agency: a number of large US banks are responding to ever-tighter regulations in the aftermath of the financial crisis by requiring large depositors to pay a fee for the bank to hold their funds. Some are even "inviting" depositors to find another bank. One large money-center bank recently announced its intention to reduce institutional deposits by at least $100 billion by the end of 2015.

Developments of this sort only serve to highlight the value which the CalTRUST funds provide to California local agencies Over the past ten years, an increasing number of agencies have turned to the CalTRUST funds for:

- **Liquidity** - Same-day liquidity in the CalTRUST MMF, next-day in the Short-Term Fund, and monthly in the Medium-Term Fund;
- **Solid Credit Ratings** - "AAAm" and "Aaa" by S&P and Moody's, respectively, in the MMF, and "AAf" in the Short-Term Fund;
- **Cost Efficiency** - The cost efficiency of diversified pools, with no wire or other transaction charges, no account maintenance fees or minimum balance requirements; and
- **Flexibility** - Multiple account options available, with no account minimums or maximums, and the ability to reallocate between funds at no cost.

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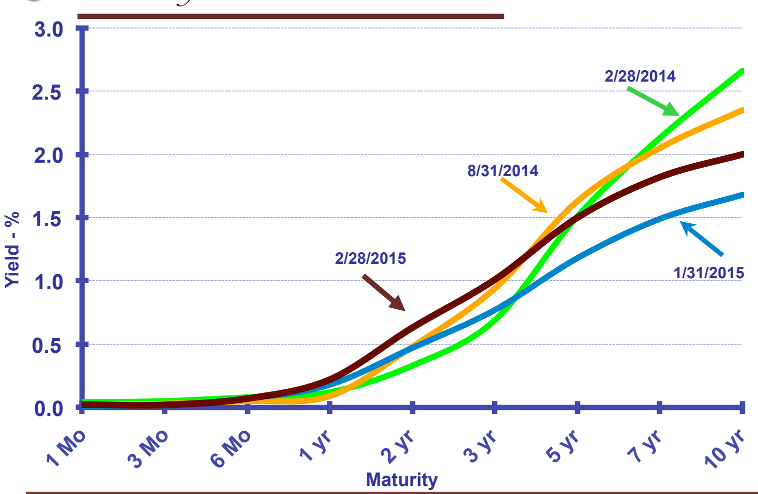
Treasury Yield Curve



CalTRUST Heritage Money Fund

Avg Annual Total Return (February 28, 2015)	1-year	3-year	5-year	10-year	Since Inception
CalTRUST Heritage MMF	0.07%	0.09%	0.12%	1.69%	2.87%
Lipper Instit MMF Average	0.02%	0.04%	0.05%	1.54%	--

CalTRUST Portfolio Snapshot (February 28, 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]	0.51%		0.27%	0.84%		N/A
Effective Duration	0.64		N/A	1.61		1.88
Avg Maturity (yrs)	1.46		0.57	1.98		1.94
Returns:[2]						
One Month	0.02%	0.04%	0.02%	0.06%	-0.10%	-0.17%
One Year	0.33%	0.40%	0.25%	0.73%	0.57%	0.76%
Three Year[3]	0.41%	0.38%	0.29%	0.77%	0.65%	0.83%
Five Year[3]	0.47%	0.45%	0.35%	0.99%	1.03%	1.19%
Since Inception[3, 4]	1.97%	1.93%	1.88%	2.30%	2.41%	2.77%

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

June Rate Hike Definitely 'On The Table' -- Provided Declining Inflation Expectations Stabilize or Turn Higher

Prevailing wisdom holds that, if the Fed drops the word '*patient*' from its mid-March policy statement, a rate hike in June is certain to follow, given current measures of economic growth, continued labor market improvement, and stabilization of inflation. In their ***March 2015 Outlook*** (link), John Manley, James Kochan and Brian Jacobsen, of Wells Fargo Advantage Funds, look at the Fed's 'data-dependent' approach to monetary policy, the likelihood of a June rate hike by the Fed.

They point out that, in addition to the conditions above, the Fed also wants stabilization – or an increase – in ***inflation expectations***. On this point, they note the University of Michigan survey shows inflation expectations dropping from well above 3% in June 2014, to under 2.5% most recently. In addition, the '*five-year, five-year forward inflation expectation*' and the five-year breakeven inflation rate on 5-year TIPS has dropped from about 2% last summer, to 1.37% today.

Manley, Kochan and Jacobsen point out that, if these measures continue to decline, it would be hard to justify a June rate hike. On the other hand, their expectation is that these measures will stabilize or turn higher, keeping a June hike 'on the table', although the data may well dictate taking a pause following the initial hike.

They conclude by noting that this Fed flexibility and data-dependency could keep fixed-income market volatility mildly elevated.