CALTRUST
Investment Trust of California

Service Center
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Monthly Market Update

November 2016 | Volume 12 | Number 11

President's Perspective

CalTRUST Funds Offer Convenience, Diversification, Liquidity: A Great Option For Investment Of Property Tax Proceeds

For more than ten years, the CalTRUST funds have offered a safe and convenient means for local agencies to maintain a high degree of liquidity and diversification in their investments. The two CalTRUST money market fund options – the CalTRUST Government MMF and CalTRUST Heritage MMF – are each rated "AAAm" and "Aaa-mf" by S&P and Moody's, respectively, and offer same-day liquidity. Similarly, the CalTRUST Short-Term Fund, rated "AAf/S1+" by S&P, provides next-day liquidity. And the CalTRUST Medium-Term Fund provides weekly liquidity.

Taken together, the CalTRUST funds give local agencies a highly-efficient means of allocating funds across the 0-5 year fixed-income spectrum accessible to local agencies; and a cost-free ability to reallocate among those options as local circumstances change.

Given the breadth of the fixed-income spectrum covered by funds, CalTRUST is an ideal option for local agencies when it comes to the investment of property tax proceeds.

To take maximum advantage of all the benefits of the CalTRUST program, local agencies should ensure that their local investment policy authorizes the use of CalTRUST. We at CalTRUST have assisted numerous agencies with the investment policy update process; we'd be happy to assist any interested party.

For more information on the CalTRUST funds, please contact me by email at the address below, or contact:

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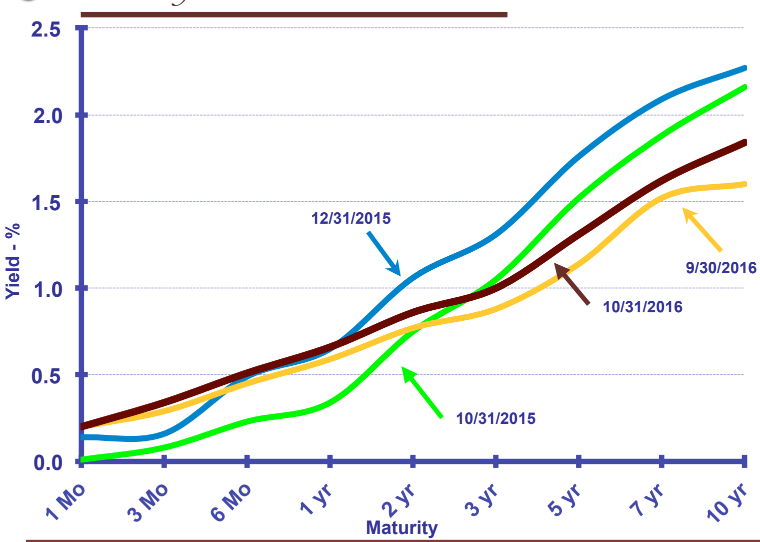
Treasury Yield Curve



CalTRUST Money Market Funds

Avg Annual Total Return (October 31, 2016)	1-year	3-year	5-year	10-year	Since Inception
CalTRUST Government MMF	0.23%	0.09%	0.06%	0.85%	3.26%
Lipper Instl Govt MMF Average	0.11%	0.04%	0.03%	0.82%	--
CalTRUST Heritage MMF	0.42%	0.20%	0.16%	1.06%	2.67%
Lipper Instl MMF Average	0.24%	0.10%	0.08%	0.93%	--

CalTRUST Portfolio Snapshot

(October 31, 2016) 2016)

	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]	0.87%		0.66%	1.03%		N/A
Effective Duration	0.55		N/A	1.78		1.89
Avg Maturity (yrs)	1.06		0.47	2.01		1.95
Returns:[2]						
One Month	0.06%	0.07%	0.06%	0.09%	-0.03%	-0.05%
One Year	0.74%	0.69%	0.53%	0.99%	1.16%	1.12%
Three Year[3]	0.52%	0.52%	0.36%	0.83%	0.88%	0.93%
Five Year[3]	0.49%	0.47%	0.34%	0.85%	0.81%	0.91%
Ten Year[3]	1.37%	1.34%	1.30%	1.91%	2.03%	2.40%
Since Inception[3, 4]	1.77%	1.74%	1.66%	2.10%	2.21%	2.52%

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

Deflation Worries? That's So 2016 (And 2015)
For 2017 The Worry Is The Long-Awaited Return Of Inflation

In his most recent post to ***Advantage Voice*** (link), Wells Fargo Funds Management's Chief Portfolio Strategist, Brian Jacobsen, looks at the inflation outlook heading into 2017. Unlike 2015 and 2016, when wary investors were on the lookout for the return of ***deflation***, 2017 will likely see headline inflation pushing higher, according to Brian.

Year-over-year changes in the personal consumption expenditure (PCE) index - the Fed's preferred inflation index - have jumped to 1.6% to 1.7%. While not very high, it is significantly higher that the 0.6% rate at the end of 2015, Brian notes.

For the past couple years, at least, Brian notes that there has been a divide between *service price inflation* and *goods price deflation*, especially durable goods. During 2016, however, goods price deflation has been slowly dissipating and turning towards inflation. In 2017, this likely will result in goods price inflation, helping to push the PCE index closer to or even above the Fed's 2% target. Adding to this will be this year's upward movement in energy prices.

Investors appear already to be anticipating this shift, which could be a contributing factor to the recent rise in intermediate and long-term Treasury yields. And, with revolving consumer credit increasing at a 7% pace, commercial/industrial lending expanding at 9.3%, it looks like inflation is more likely to rise than fall.

Absent a big shock, it looks like the low for yields is behind us.