

# CALTRUST – Monthly Update

BlackRock

## Markets Summary

February 28, 2022

### Market / Macro Summary

Fixed income markets continued to remain volatile throughout February, initially driven by continued elevated inflation readings that led to the Federal Reserve's (Fed) hawkishness and escalating geopolitical tensions with the Russian invasion into Ukraine on February 24. Initially, US rates sold off at the start of the month due to a higher-than-expected CPI report combined with a hawkish backdrop, which prompted markets to price in as many as seven rate hikes in 2022. After the largest single day selloff since 2009 on February 10, the market was pricing in roughly a ~70% chance of a 50bps hike at the March FOMC meeting. 2-yr and 10-yr rates reached highs of 1.61% and 2.05%, which was last seen in February 2020 and July 2019, respectively.

The January US jobs report showed 467k jobs gained, along with cumulative revisions of 709,000 jobs for November and December last year. This solid report suggests continued tightness in the US labor force, particularly given wages that continue to increase. January average hourly earnings rose at 0.73% month-over-month and 5.7% year-over-year, the highest since the job recovery started in May 2020. The unemployment rate barely changed at just under 4%. Headline US CPI data printed at a strong 0.6% month-over-month and came in at 7.5% year-over-year, the greatest increase over a 12-month period since February 1982.

The minutes to the January FOMC meeting released on February 16 provided little to no forward guidance about the policy rate path, including whether the Fed would deliver a 50 bp rate hike in March, and their approach regarding the reduction of the balance sheet, which grew to \$8.4trn by mid-February.

The month of February ended with an escalation on the geo-political front with President Putin announcing a “special military operation” in Ukraine. In the front end, the market largely priced out the possibility of a 50 bps March hike and the 5s30s yield curve steepened ~15bp off the intramonth flats. The rally was further accentuated by a significant month end benchmark extension and deteriorating liquidity conditions across the curve. By month end, markets returned to pricing in roughly six rate hikes in 2022, and the level of rates was roughly unchanged from the start of the month, as the selloff in rates was offset by the rally late in the month.

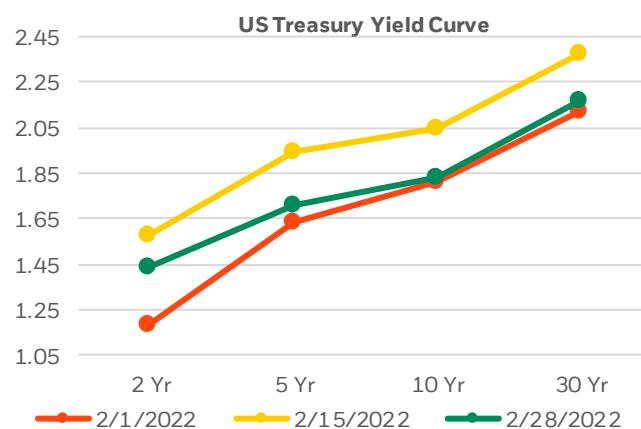
Spread assets continued to show signs of stress throughout the month of February with poor secondary market liquidity led by geopolitical turmoil and material spread widening. For example, spreads for 3-year IG Credit securities widened to as high as 98 bps by month end, that is a widening of 30 bps, the biggest monthly jump in spreads for front-end credit since March 2020. The credit curve slightly flattened with longer duration seeing spreads widening 24 bps for each, respectively. With Securitized Assets, the top of the capital stack in Prime Auto and Credit Card ABS has seen weaker performance as well with spreads widening by 18 bps and 14 bps, respectively.

With the diplomatic route regarding Russia and Ukraine hitting a roadblock, we expect to see an uptick in violence on the ground in Eastern Ukraine and continued threat of movements further West. The West will try to block the more aggressive moves and enact harsher sanctions that will be extremely costly economically, politically, and socially to Russia. The best-case scenario is that these sanctions incentivize compromise and an eventual US-Russia-Ukraine-EU diplomatic pact. The path of uncertainty and tension is likely to be long.

### US Treasuries Yields

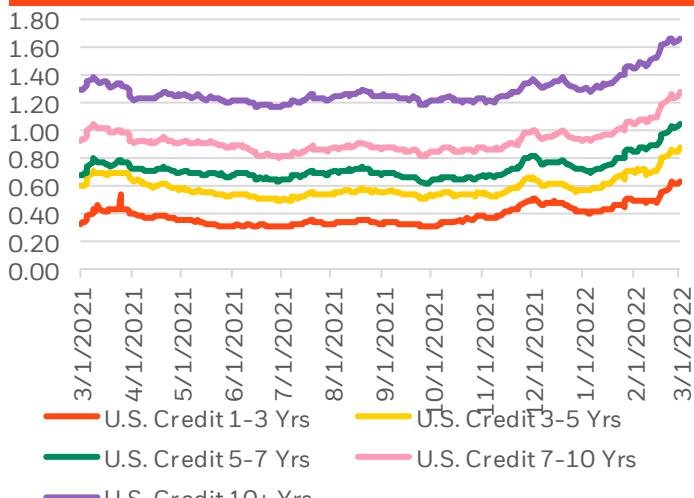
Maturity	Yield (%)	MoM Change	YTD Change
<b>3 Mos</b>	0.35	<b>0.13</b>	<b>0.27</b>
<b>6 Mos</b>	0.69	<b>0.20</b>	<b>0.47</b>
<b>1 Yr</b>	1.01	<b>0.23</b>	<b>0.61</b>
<b>2 Yr</b>	1.44	<b>0.26</b>	<b>0.66</b>
<b>5 Yr</b>	1.71	<b>0.09</b>	<b>0.34</b>
<b>10 Yr</b>	1.83	<b>0.04</b>	<b>0.2</b>
<b>30 Yr</b>	2.17	<b>0.06</b>	<b>0.16</b>

Strong data drove an aggressive selloff as the market priced tighter monetary policy



Source: The US Treasury. Data as of February 28, 2022.

Credit spreads materially widened across the credit curve amidst the geopolitical turmoil



Source: Barclays. Data as of March 1, 2022.

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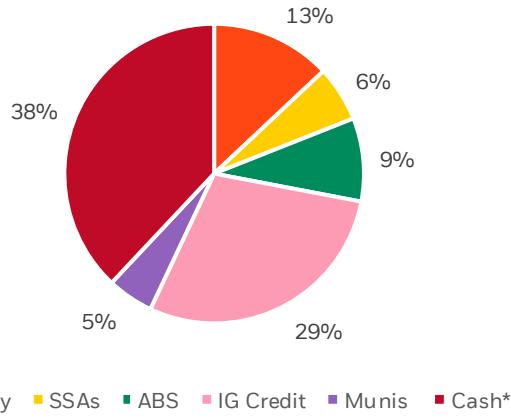
## Key Statistics

February 28, 2022

### CalTRUST Short Term Fund

	Portfolio	Benchmark**	Difference
Duration (yrs.)	0.48	0.55	-0.07
Nominal Yield (%)	0.81	0.83	-0.02
Spread Duration	0.68	0.14	0.54
OAS(bps)	19	15	4
Wal to Worst (yrs.)	0.80	0.58	0.22
Avg Credit Qual (Mdy/S&P)	Aa2/AA-	Aa1/AA	-
Floating Rate Bonds (%)	27	2	25

### CalTRUST Short Term Fund – Sector Allocation

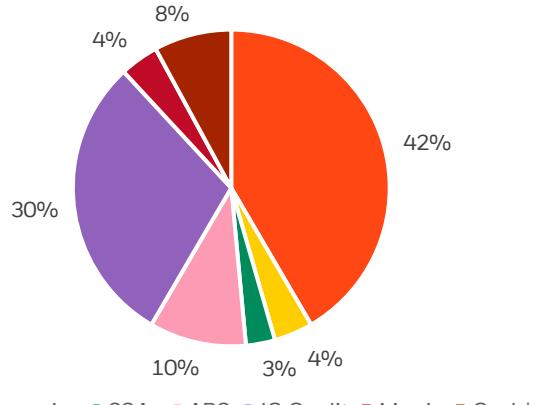


\*US Tsy □ SSAs □ ABS □ IG Credit □ Munis □ Cash\*

### CalTRUST Medium Term Fund

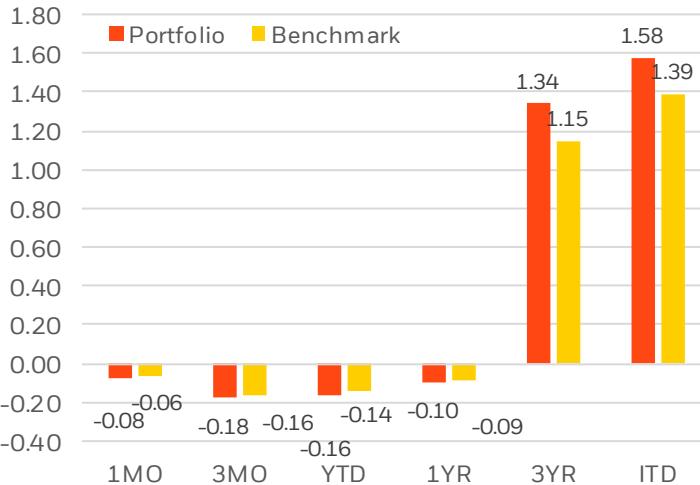
	Portfolio	Benchmark <sup>+</sup>	Difference
Duration (yrs.)	1.84	1.89	-0.05
Nominal Yield (%)	1.54	1.50	0.04
Spread Duration	0.97	0.45	0.52
OAS(bps)	18	8	10
Wal to Worst (yrs.)	2.02	1.96	0.06
Avg Credit Qual (Mdy/S&P)	Aa2/AA	Aa1/AA	-
Floating Rate Bonds (%)	14	3	11

### CalTRUST Medium Term Fund – Sector Allocation



\*US Tsy □ US Agencies □ SSAs □ ABS □ IG Credit □ Munis □ Cash\*

### CalTRUST Short Term Fund – Historical Performance (Gross %)

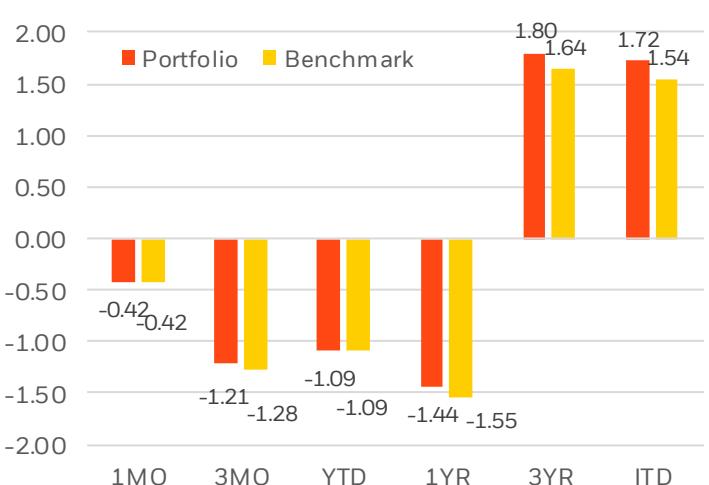


\*Includes cash-equivalent securities, such as: CD/CPs and agency discount notes

\*\*Benchmark for the CalTRUST Short Term bBond Fund is the BBG Barc Short Term Gov/Corp Index.

Inception Date is 7/3/2017. Following 1Yr, returns are annualized.

### CalTRUST Medium Term Fund – Historical Performance (Gross %)



\*Includes cash-equivalent securities, such as: CD/CPs and agency discount notes

+Benchmark for the CalTRUST Medium Term bond Fund is the ICE BofA Gov/Corp 1-3 Yr Ex. BBB Index

Inception Date is 7/3/2017. Following 1Yr, returns are annualized.

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## Performance Attribution & Commentary

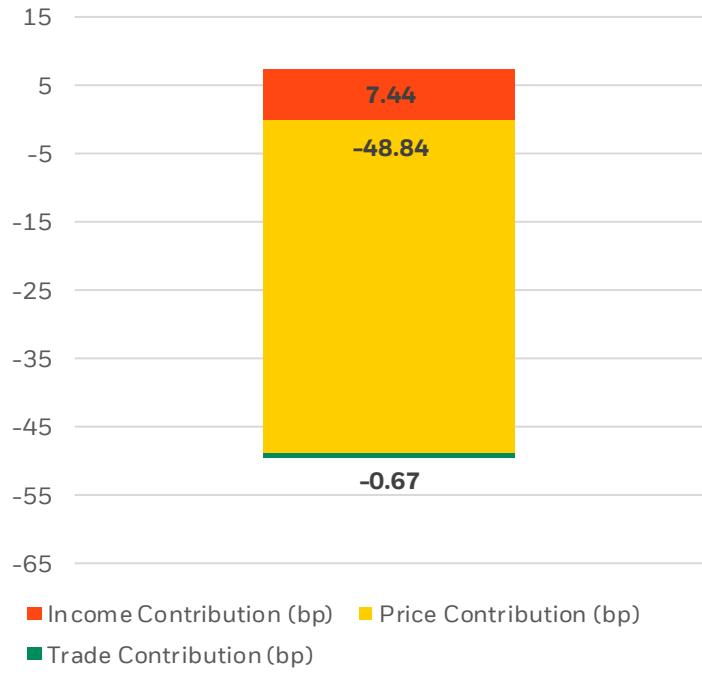
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### CalTRUST Short Term Fund – Monthly Total Return Contribution (Gross bps)



### CalTRUST Medium Term Fund – Monthly Total Return Contribution (Gross bps)



### Performance Commentary

- The Short Term Bond posted in February 2022 a total return of -0.08% with income return contributing 0.06% and price return detracting - 0.11%
- Around 7 bps of the negative price contribution can be attributed to IG Credit as IG credit cash securities continued to widen, particularly in the latter end of the month amidst broader geopolitical turmoil.
- Additionally, this was exacerbated by deteriorating liquidity.

### Performance Commentary

- The Medium Term Bond Fund posted in February 2022 a total return to -0.42% with income return contributing 0.07% and price return detracting by - 0.49%.
- Around 24 bps of negative price return contribution can be attributed to US Treasuries, and 17 bps to IG Credit.
- Similarly, this comes amidst a backdrop of continued heightened market volatility from the month prior in both the Treasury and IG Credit markets which heightened with geopolitical tensions.
- With a longer duration profile than the Short Term Bond Fund, the effects of Treasury bonds aggressively selling off in the beginning of the month was more acutely sustained in the Medium Term Bond Fund.

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## Glossary of Terms

February 28, 2022

Term	Definition
<b>Credit Risk</b>	The risk for bond investors that the issuer will default on its obligation (default risk) or that the bond value will decline and/or that the bond price performance will compare unfavorably to other bonds against which the investment is compared due either to perceived increase in the risk that an issuer will default (credit spread risk) or that a company's credit rating will be lowered (downgrade risk).
<b>Credit Spread</b>	A yield difference, typically in relation to a comparable US Treasury security, that reflects the issuer's credit quality. Credit spread also refers to the difference between the value of two securities with similar interest rates and maturities when one is sold at a higher price than the other is purchased.
<b>Duration</b>	The effect that each 1% change in interest rates has on a bond's market value. Duration takes into account a bond's interest payments in measuring bond price volatility and is stated in years. As an example, a 5-year duration means that a bond will decrease in value by 5% if interest rates rise 1% and increase in value by 5% if interest rates fall 1%.
<b>Duration Risk</b>	Bond duration measurements help quantify and measure exposure to interest rate risks. Bond portfolio managers increase average duration when they expect rates to decline, to get the most benefit, and decrease average duration when they expect rates to rise, to minimize the negative impact. The most commonly used measure of interest rate risk is duration.
<b>Final Maturity Date</b>	The date on which the principal must be paid to investors, which is later than the expected maturity date. Also called legal maturity date.
<b>Floating Rate Bond</b>	A bond whose interest rate is adjusted periodically according to a predetermined formula; it is usually linked to an interest rate index such as LIBOR or SOFR.
<b>Income Return</b>	Income return is that portion of a fund's total returns that was derived from income distributions, such as coupon payments. Income return can be higher than price return for bond funds during less volatile market condition. Adding the income return and the price return together will produce the fund's total return.
<b>Investment Grade Bond</b>	Bonds rated Baa (by Moody's) or BBB (by S&P and Fitch) or above, whose higher credit ratings indicate a lower risk of default. These bonds tend to issue at lower yields than less creditworthy bonds.
<b>Non-Investment Grade</b>	Bonds not considered suitable for preservation of invested capital; ordinarily, those rated Baa3 or below by Moody's Investors Service, or BBB- or below by Standard & Poor's Corporation. Bonds that are non-investment grade are also called high-yield bonds.
<b>Nominal Yield</b>	The Nominal Yield is the internal rate of return of the security based on the given market price. It is the single discount rate that equates a security price (inclusive of accrued interest) with its projected cash flows. For callable bonds, the yield represents the "yield to worst". For a mortgage product, it represents the yield given base prepayments for a given yield curve environment.
<b>Option-Adjusted Spread (OAS)</b>	The average spread over the AAA spot curve, based on potential paths that can be realized in the future for interest rates. The potential paths of the cash flows are adjusted to reflect the options (puts/calls) embedded in the bond.
<b>Price Return</b>	The price return is the rate of return on an investment portfolio, where the return measure takes into account only the capital appreciation of the portfolio, while the income generated by the assets in the portfolio, in the form of interest and dividends, is ignored.
<b>Spread Duration</b>	The Spread Duration measures the sensitivity of a security's price to a 100-basis point movement in its Option Adjusted Spread (OAS) relative to the portfolio's discount curve. To calculate Spread Duration shift the OAS up and down 5 bps and reprice the security accordingly. Similar to duration, positive spread duration means that as spreads tighten prices increase, and vice versa. The formula for spread duration is also the same as duration, where we take the shifted full prices and use those to calculate spread duration.
<b>Total Return</b>	Total return take into account the income generated from the securities invested in the portfolio and the price return achieved from the changes in the securities market pricing.
<b>WAL</b>	The Weighted Average Life, or WAL, of a security denotes the weighted average time to receipt of principal.
<b>Yield Curve</b>	A line tracing relative yields on a type of bond over a spectrum of maturities ranging from three months to 30 years.
<b>Yield to Maturity</b>	The yield on a bond calculated by dividing the value of all the interest payments that will be paid until the maturity date, plus interest on interest, by the principal amount received at the maturity date, taking in to consideration whatever gain or loss is realized from the bond at the maturity date. Example: You pay \$900 for a five year bond at a face value of \$1000. The bond pays an annual coupon of ten percent. Here the yield to maturity is 12.8 percent. This reflects the coupon payments and the difference between the price and the face value of the bond.