

March 31, 2022

Market / Macro Summary

March was a historic month to wrap up a significant quarter to start 2022. While the Federal Reserve (the Fed) remained patient about the path of increasingly heated inflation for much of 2021, that narrative quickly swiveled and the Fed adopted an increasingly hawkish tone which culminated in a rate hike of 25bps in their March FOMC meeting to kick off what is poised to be an aggressive rate hiking cycle. To frame the quarter, the market had priced in 2-3 25bp hikes in 2022 at the start of the year, to closing the quarter pricing in 8 hikes for the year. Naturally, the US Treasury curve bear flattened with the prospect of an aggressive monetary policy path and tightening financial conditions. In the first quarter, the 2yr Treasury rate rose by 160 bps to 2.28%, the biggest quarterly jump since Q2, 1984.. 10yr rates sold off by a lesser extent of 82 bps to 2.33%. Catching headlines was a brief inversion of the 2s10s curve in the final days of the month, .

The Federal Open Market Committee (FOMC) finally started its tighter monetary policy campaign on March 16 by raising the Federal Funds rate to a target range of 0.25%-0.50% - the first time since 2018, as it aims to reign in the historic rise in inflation brought on by pandemic-related supply chain bottlenecks and disruptions, and, more recently, geopolitical tensions in Europe. In subsequent interviews, Chair Powell and other officials reiterated a hawkish stance, while keeping options open for a 0.50% rate hike in May. Regarding the Federal Reserve’s balance sheet, Chair Powell reiterated that the FOMC would begin the runoff process soon and that the process will take around three years, further underscoring tightening conditions.

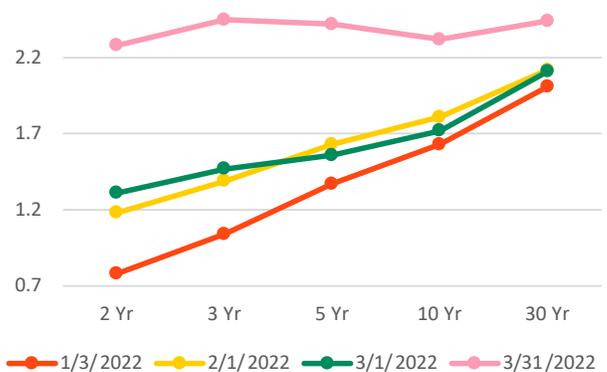
Influencing the FOMC’s decision was an incredibly tight labor market and ballooning inflation with both labor and inflation data continuing their heady paces in March. Headline CPI for February rose 0.8% month-over-month, bringing year-over-year inflation to 7.9%, marking it the fastest rise since 1982. A year prior CPI was at 1.7%. Notable increases have come from food and energy costs. Given Russia and Ukraine’s large contributions to the global supply of energy and crops, a continuation of the war introduces new uncertainties to the path of inflation. On the labor front, US non-farm payrolls increased by 431,000 in March and prior months were revised higher, with the three-month moving average now at 562,000. The unemployment rate also fell to a pre-pandemic level of 3.62%.

With increased rate volatility and the uncertainties surrounding the war in Ukraine, credit spreads more than doubled by mid-March with 1-3yr Corporate Credit spreads rising from 58 bps to 122 bps. Though the continued search for income led to a rally. Nonetheless, Q1 returns for this asset class were the worst since September, down 2.47%. Additionally, for Treasuries the first quarter was the worst in returns in at least 30 years, with 1-3yr rates posting a loss of 2.51% as March had a loss of 1.41%. Ultimately, a Federal Reserve determined to reign in inflation, coupled with added geopolitical uncertainties and stymied growth prospects translated to paltry returns across all asset classes, including those that have been historically regarded as safe-havens.

US Treasuries Yields

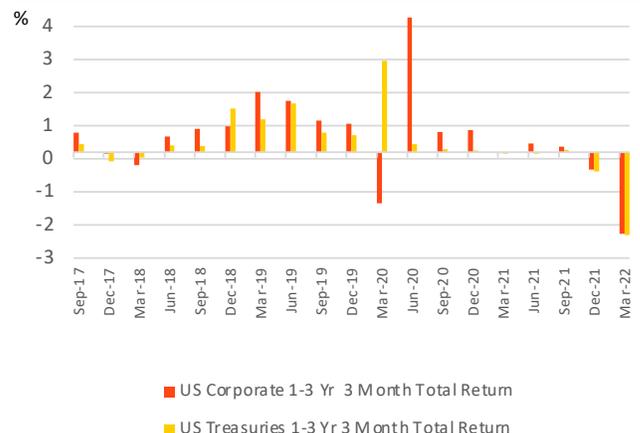
| Maturity | Yield (%) | MoM Change | YTD Change |
|----------|-----------|------------|------------|
| 3 Mos | 0.52 | 0.17 | 0.44 |
| 6 Mos | 1.06 | 0.37 | 0.84 |
| 1 Yr | 1.63 | 0.62 | 1.23 |
| 2 Yr | 2.28 | 0.84 | 1.50 |
| 5 Yr | 2.42 | 0.71 | 1.05 |
| 10 Yr | 2.32 | 0.49 | 0.69 |
| 30 Yr | 2.44 | 0.27 | 0.43 |

The US Treasury curve bear flattened in March on an increasingly hawkish stance by FOMC members



Source: The US Treasury. Data as of March 31, 2022.

Treasuries and Credit suffered some of the worst quarterly total returns on record during Q1, 2022



Source: Barclays Research.. Data as of March 31, 2022.

CalTRUST – Monthly Update

Key Statistics

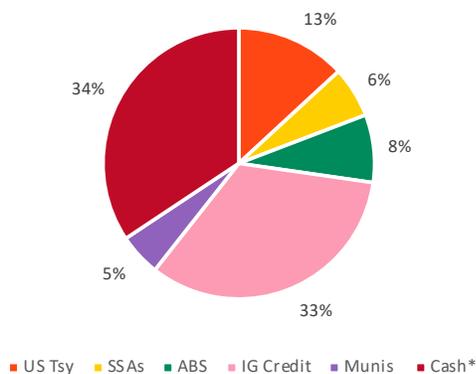
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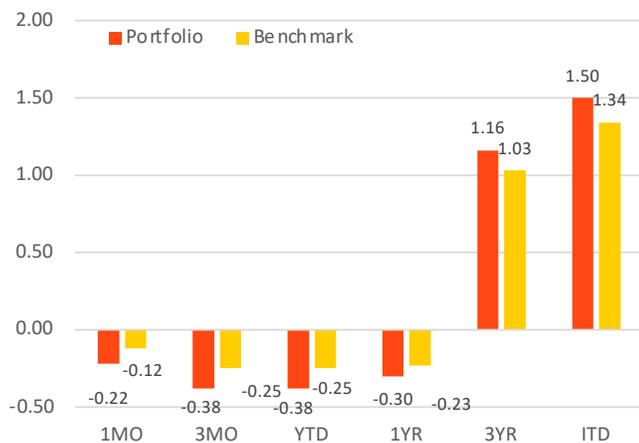
CalTRUST Short Term Fund

| | Portfolio | Benchmark** | Difference |
|---------------------------|-----------|-------------|------------|
| Duration (yrs.) | 0.47 | 0.56 | -0.09 |
| Nominal Yield (%) | 1.34 | 1.29 | 0.05 |
| Spread Duration | 0.47 | 0.56 | -0.09 |
| OAS (bps) | 33 | 18 | 25 |
| Wal to Worst (yrs.) | 0.83 | 0.60 | 0.23 |
| Avg Credit Qual (Mdy/S&P) | Aa2/AA- | Aa1/AA | - |
| Floating Rate Bonds (%) | 30 | 2 | 28 |

CalTRUST Short Term Fund – Sector Allocation



CalTRUST Short Term Fund – Historical Performance (Gross %)

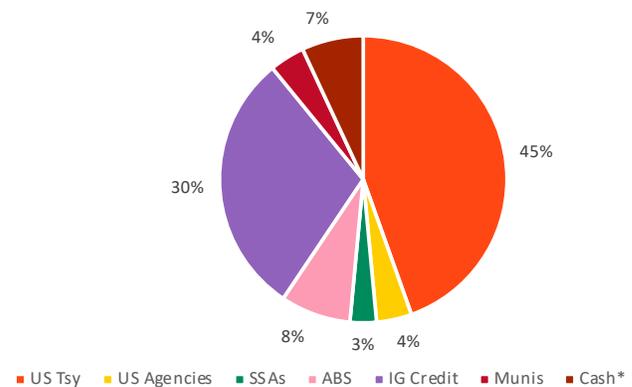


*Includes cash-equivalent securities, such as: CD/CPs and agency discount notes
 **Benchmark for the CalTRUST Short Term Fund is the BBG Barc Short Term Gov/Corp Index.
 Inception Date is 7/3/2017. Following 1Yr, returns are annualized.

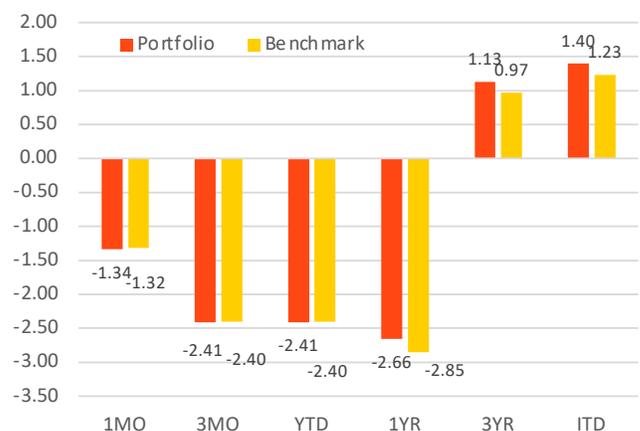
CalTRUST Medium Term Fund

| | Portfolio | Benchmark+ | Difference |
|---------------------------|-----------|------------|------------|
| Duration (yrs.) | 1.89 | 1.87 | -0.02 |
| Nominal Yield (%) | 2.37 | 2.32 | 0.05 |
| Spread Duration | 0.97 | 0.45 | 0.52 |
| OAS (bps) | 19 | 7 | 112 |
| Wal to Worst (yrs.) | 2.08 | 1.95 | 0.13 |
| Avg Credit Qual (Mdy/S&P) | Aa2/AA | Aa1/AA | - |
| Floating Rate Bonds (%) | 14 | 3 | 11 |

CalTRUST Medium Term Fund – Sector Allocation



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 Fund is the ICE BofA Gov/Corp 1-3 Yr Ex. BBB Index
 Inception Date is 7/3/2017. Following 1Yr, returns are annualized.

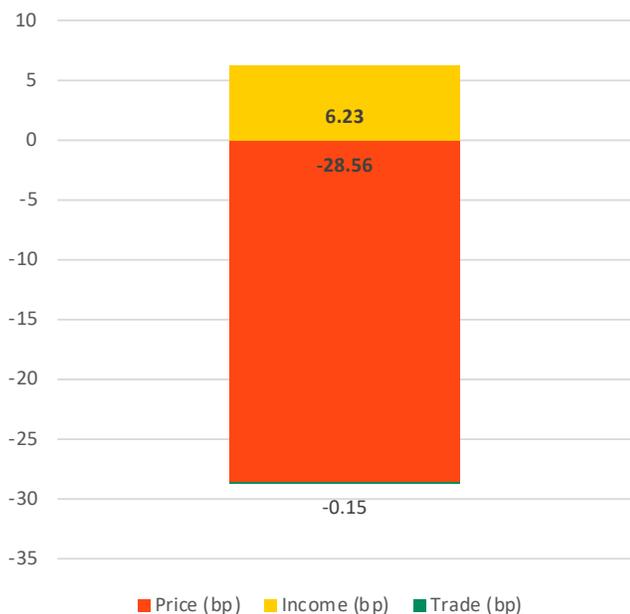
CalTRUST – Monthly Update

Performance Attribution & Commentary

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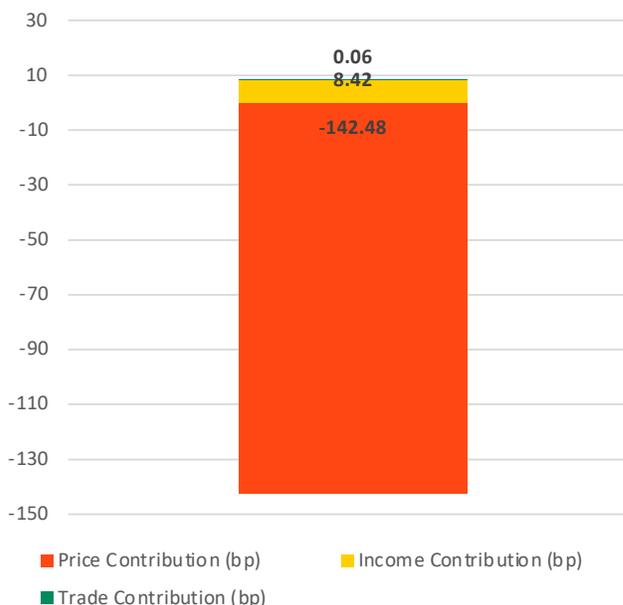
CalTRUST Short Term Fund – Monthly Total Return Contribution (Gross bps)



Performance Commentary

- The Short Term Fund posted in March 2022 a total return of -0.22% with income return contributing 0.06% and price return detracting -0.29%
- Around 21 bps of the negative price contribution can be attributed to IG Credit as IG credit cash securities suffered the effects of rates selling off, the potential of financial conditions tightening, and increased geopolitical tensions.
- Treasuries detracted around 4bps of price return, due to related factors of rates selling off across the curve as the Fed adopted a hawkish monetary policy stance and reiterated the possibility of an aggressive rate hiking cycle.

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



Performance Commentary

- The Medium Term Fund posted in March 2022 a total return to -1.34% with income return contributing 0.08% and price return detracting by -1.42%.
- Around -77 bps of negative price return contribution can be attributed to US Treasuries, and -42 bps to IG Credit.
- Similarly, this comes amidst a backdrop of continued heightened rates and market volatility on the back of a hawkish Federal reserve and subsequent market pricing of the path of monetary policy.
- With a longer duration profile than the Short Term Fund, the effects of Treasury bonds aggressively selling off over the course of the month was more acutely sustained in the Medium Term Fund.
- Securitized assets, namely ABS, detracted around -7bps of the price return. Asset-Backed Securities (ABS) have an income structure that help mitigate negative price returns, thereby sustaining less losses this month.

February 28, 2022

| Term | Definition |
|-------------------------------------|--|
| Credit Risk | 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). |
| Credit Spread | 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. |
| Duration | 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%. |
| Duration Risk | 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. |
| Final Maturity Date | The date on which the principal must be paid to investors, which is later than the expected maturity date. Also called legal maturity date. |
| Floating Rate Bond | 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. |
| Income Return | 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. |
| Investment Grade Bond | 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. |
| Non-Investment Grade | 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. |
| Nominal Yield | 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. |
| Option-Adjusted Spread (OAS) | 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. |
| Price Return | 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. |
| Spread Duration | 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. |
| Total Return | 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. |
| WAL | The Weighted Average Life, or WAL, of a security denotes the weighted average time to receipt of principal. |
| Yield Curve | A line tracing relative yields on a type of bond over a spectrum of maturities ranging from three months to 30 years. |
| Yield to Maturity | 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. |