

# CalTRUST – Monthly Update

## Markets Summary

April 30, 2022

### Market / Macro Summary

Volatility continued into April, driven early by solid payroll gains and ISM Manufacturing data, both of which served to confirm a hawkish path for the Fed and helped to drive rates higher with 2-year yields closing the month at 2.70%, +42bps for the period and +192bps YTD. The hawkish lean helped to briefly invert the US yield curve (2s10s) early in the month before longer end rates pushed higher, driven by elevated inflation figures and investors demand for a higher term premium for holding long-term government bonds. Further uncertainties surrounding the war in Ukraine and the COVID induced lockdown across major cities in China, kept intraday volatility elevated and helped to pressure risk assets broadly.

Specific to monetary policy, the Federal Open Market Committee (FOMC) meeting minutes released in the first week of April signaled that the Fed is ready to entertain 50bps rate hikes going forward, and that it intends to start reducing its bond holdings with peak caps of \$60bn/month for Treasury securities and \$35bn/month for mortgage-backed securities (MBS) as early as May. Along with the minutes, a number of remarks from FOMC members doubled down on the message of tighter monetary policy on the horizon and even active sales of MBS as the focus for policy makers clearly shifted to a focus on addressing elevated and sticky levels of inflation.

Inflation showed continued resiliency. Supply shocks have created shortages of goods, energy and food that are driving up prices. It's also spurring central banks to normalize policies faster. Global equities are sliding on worries about the Federal Reserve generating a recession, while Chinese markets suffered their sharpest tumble since the start of the pandemic with fears that lockdowns will spread to all of Beijing and across the country.

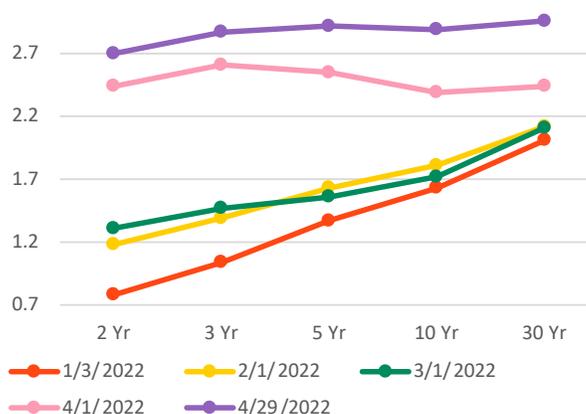
Looking ahead, we anticipate a choppy environment given the number of uncertainties and macro risks at play. As of month end, the market's focus was on the upcoming FOMC meeting in the first week of May to see how the Fed would respond to the higher-than-expected inflation with current market pricing in a 50bps hike and just under 200bps of additional hikes through 2022. As noted, it was anticipated that the Fed would announce the start of its balance sheet runoff with implementation currently expected in early June.

In terms of risk asset movements, 1-3 year investment grade corporate credit widened out close to year-to-date wides of around 90-100bps, reversing late-month March tightening. The 1-3 year IG Credit category posted a total return loss of -0.74%. This was a better result than the prior month's total return loss of -1.18%, but nonetheless the category suffered. Meantime, 1-3 year US Treasuries posted a total return loss of -0.48%.

### US Treasuries Yields

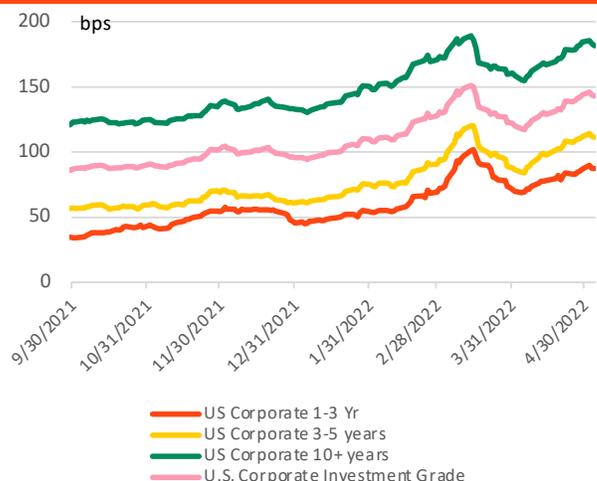
Maturity	Yield (%)	MoM Change	YTD Change
3 Mos	0.85	0.33	0.77
6 Mos	1.41	0.35	1.19
1 Yr	2.10	0.47	1.7
2 Yr	2.70	0.42	1.92
5 Yr	2.92	0.5	1.55
10 Yr	2.89	0.57	1.26
30 Yr	2.96	0.52	0.95

Following months of flattening, April saw a reversal with the UST Curve bear steepening



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

### IG Credit spreads retraced back to YTD wides as US rates sold off and volatility increased



Source: Barclays Research. Data as of April 30, 2022.

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## Key Statistics

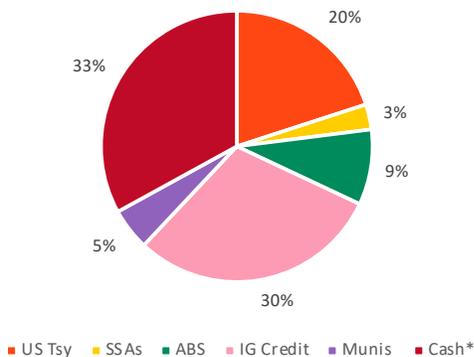
**BlackRock**

April 30, 2022

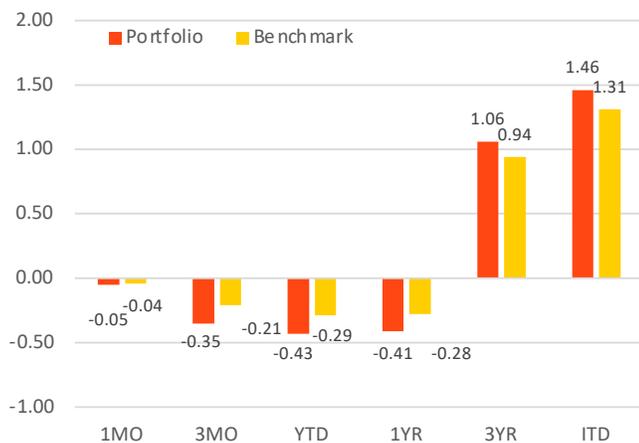
### CalTRUST Short Term Fund

	Portfolio	Benchmark**	Difference
Duration (yrs.)	0.47	0.55	-0.07
Nominal Yield (%)	1.62	1.65	-0.03
Spread Duration	0.64	0.15	0.49
OAS (bps)	39	22	17
Wal to Worst (yrs.)	0.79	0.59	0.20
Avg Credit Qual (Mdy/S&P)	Aa2/AA-	Aa1/AA	-
Floating Rate Bonds (%)	28	2	26

### CalTRUST Short Term Fund – Sector Allocation



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

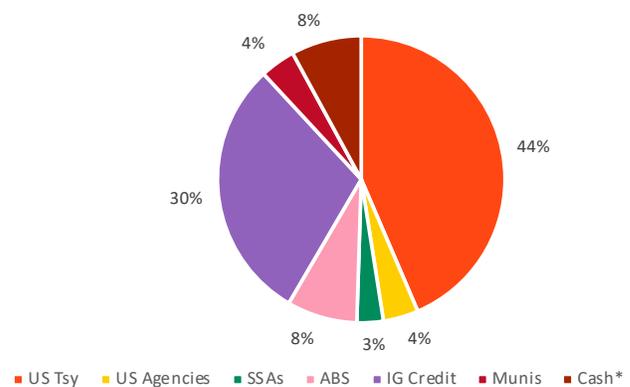


\*Includes cash-equivalent securities, such as: CD/CPs and agency discount notes  
 \*\*Benchmark for the CalTRUST Short Term Fund is the BBG Barc Short Term Gov/Corp Index.  
 Inception Date is 7/3/2017. Following 1Yr, returns are annualized.

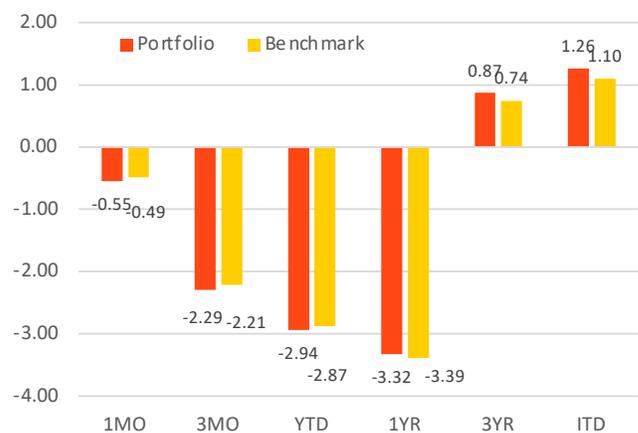
### CalTRUST Medium Term Fund

	Portfolio	Benchmark+	Difference
Duration (yrs.)	1.91	1.87	0.04
Nominal Yield (%)	2.77	2.73	0.04
Spread Duration	0.98	0.48	0.50
OAS (bps)	30	10	20
Wal to Worst (yrs.)	2.10	1.96	0.14
Avg Credit Qual (Mdy/S&P)	Aa2/AA	Aa1/AA	-
Floating Rate Bonds (%)	13	3	10

### 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.

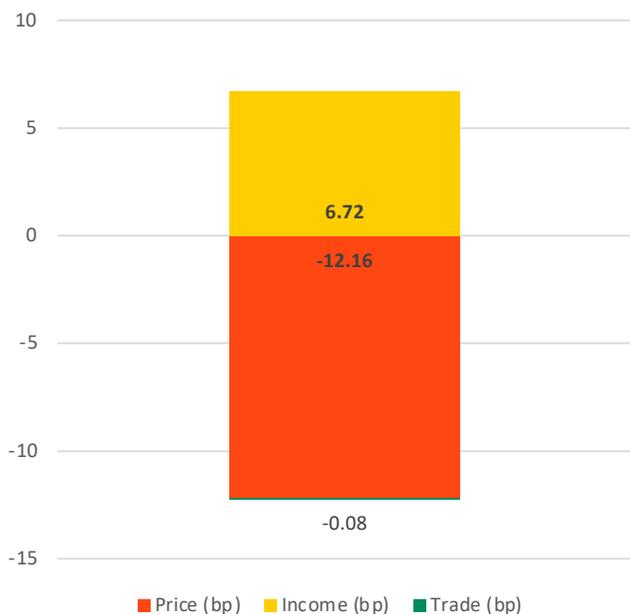
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## Performance Attribution & Commentary

BlackRock®

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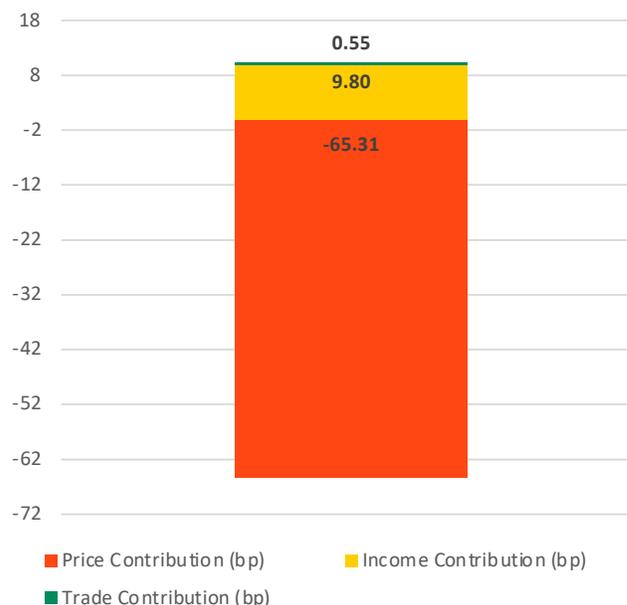
### CalTRUST Short Term Fund – Monthly Total Return Contribution (Gross bps)



#### Performance Commentary

- The Short Term Fund posted in April 2022 a total return of -0.05% with income return contributing 0.07% and price return detracting -0.12%
- Around 10 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 the risks of the global economy slowing down.
- Treasuries detracted around 1bp of price return, due to related factors of rates selling off across the curve as the Fed maintained its 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 -0.55% with income return contributing 0.10% and price return detracting by -0.65%.
- Around -30 bps of negative price return contribution can be attributed to US Treasuries, and -24 bps to IG Credit. SSAs detracted around -8bps of price return.
- 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 which saw IG Credit Spreads widen out to their YTD wides.
- 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 -3bps of the price return. Asset-Backed Securities (ABS) have an income structure that help mitigate negative price returns, thereby sustaining less losses this month.

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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.