CalTRUST – Monthly Update

Markets Summary

August 31, 2022

Market / Macro Summary

The month of August was defined against a backdrop of continually high inflation prints driving global sovereign yields higher, as markets moved to reprice the path of global monetary policy. In the United States, nominal yields on the UST 2-yr sold off by 55bps, to close the month at 3.45%, at one point touching 3.50% for the first time since 2007. Further out on the curve, the nominal yield on the UST 10-yr sold off to a lesser extent, but a still significant amount, of 48 bps to close the month at 3.15%. These were notable moves to be sure, though relatively benign when compared to moves in the UK and Europe where Gilts and Bunds cheapened by more than 95bps and 70bps, respectively, on the month. This comes on the back of a more acutely sustained energy price shock due to the war in Ukraine, which has caused inflation expectations to the upside, compared to opposite moves observed in the US. Equities fared poorly, with the S&P500 dropping by -4.2% in August as markets braced for continued monetary policy tightening.

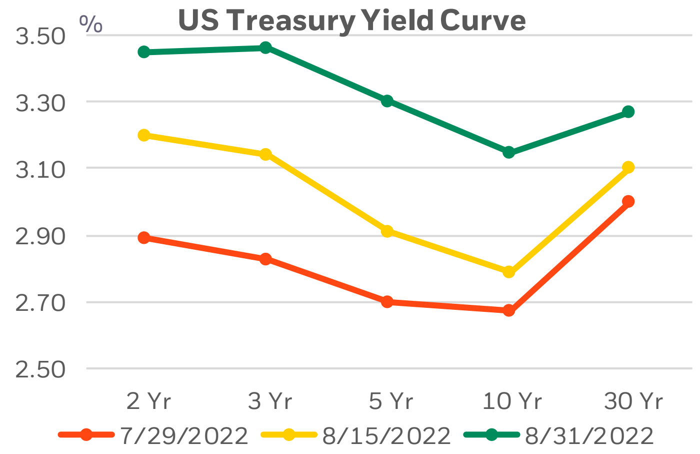
While there wasn't an FOMC meeting in August, the Federal Reserve was still able to communicate their thought process, and emphatically so, in the yearly Jackson Hole Symposium on August 26th. Fed Chair Powell's remarks to the Jackson Hole conference, while light on detail, offered a clear policy message: the Fed is determined to bring inflation back to target, and this calls for higher rates for longer, even though that will likely damage the economy. This follows Fed rhetoric throughout the month which placed more of an emphasis on holding rates higher for longer, as opposed to front-loading hikes and then pivoting, as was previously anticipated. Pricing on the front-end of the yield curve shifted to reflect the change in messaging, and subsequently pushed the terminal rate higher and priced out 35bps of cuts from 2023. This deviates from July's FOMC which was interpreted by markets as being gently dovish.

Data released throughout the month reflected a continuation to an already tight labor market, and robust inflation which has gripped markets this year. August's nonfarm payrolls print covering the month of July was universally strong. Nonfarm Payrolls came in at 528k against consensus estimates of 250k, a shocking beat that perhaps provided the Federal Reserve with evidence that they can continue to be aggressive with inflation. The unemployment rate shifted slightly lower to 3.5% from 3.6% with the labor force participation rate declining to 62.1% from 62.2%. Average hourly earnings surprised stronger with upward revisions. July average hourly earnings gained 0.5% MoM vs. 0.4% in June, leaving the yearly pace at 5.2%. Concerning inflation, US CPI YoY increased 8.5%, lower than consensus estimates that called for an 8.7% gain. The MoM CPI figure printed flat (0.0%) against estimates that called for a 0.2% advance. Excluding food and energy, the YoY figure was marked at 5.9%. This provided fodder for conversations that inflation may have peaked, but the headline figure was largely driven by a drop in energy prices.

US Treasuries Yields

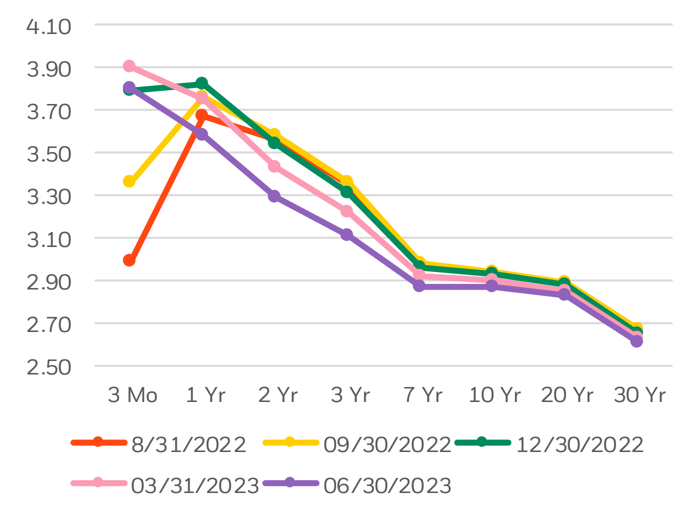
Maturity	Yield (%)	MoM Change	YTD Change
3 Mos	2.96	0.55	2.88
6 Mos	3.32	0.41	3.10
1 Yr	3.50	0.52	3.10
2 Yr	3.45	0.56	2.67
5 Yr	3.30	0.60	1.93
10 Yr	3.15	0.48	1.52
30 Yr	3.27	0.27	1.26

July saw reprieve to nominal bonds as the yield curve rallied and the broader curve steepened



Source. The US Treasury. Data as of August 31, 2022.

The US Rates forward curve suggests that rates are close to, or may have already peaked



Source: Bloomberg. Data as of August 31, 2022

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BlackRock

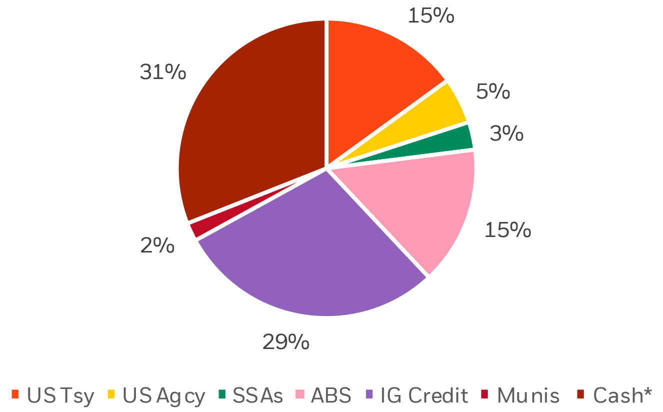
Key Statistics

August 31, 2022

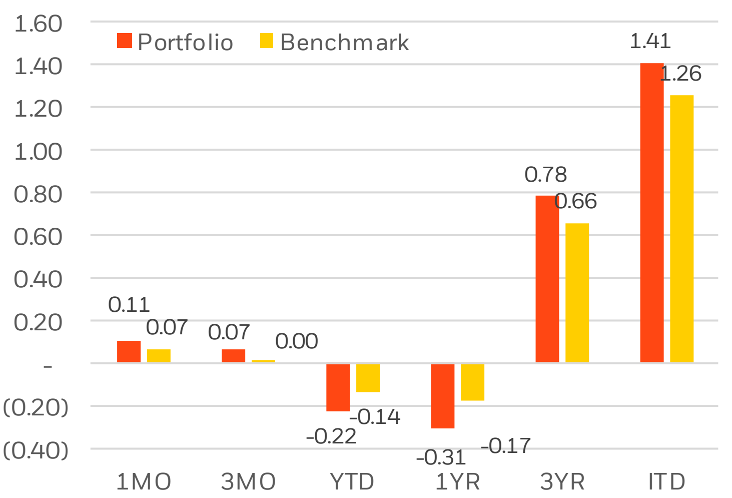
CalTRUST Short Term Fund

	Portfolio	Benchmark**	Difference
Duration (yrs.)	0.57	0.57	-0.00
Nominal Yield (%)	3.53	3.36	0.17
Spread Duration	0.70	0.16	0.54
OAS (bps)	47	13	34
Wal to Worst (yrs.)	0.86	0.62	0.25
Avg Credit Qual (Mdy/S&P)	Aa2/AA-	Aa1/AA	-
Floating Rate Bonds (%)	27	3	24

CalTRUST Short Term Fund – Sector Allocation



CalTRUST Short Term Fund – Historical Performance (Gross %)

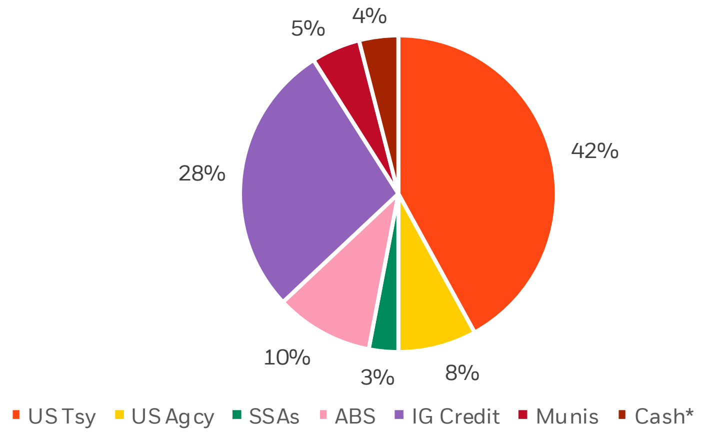


*Includes cash-equivalent securities, such as: CD/CPs and agency discount notes
**Benchmark for the CalTRUST Short Term Fund is the BBG Barc Short Term Gov/Corp Index.
Inception Date is 7/3/2017. Following 1Yr, returns are annualized.

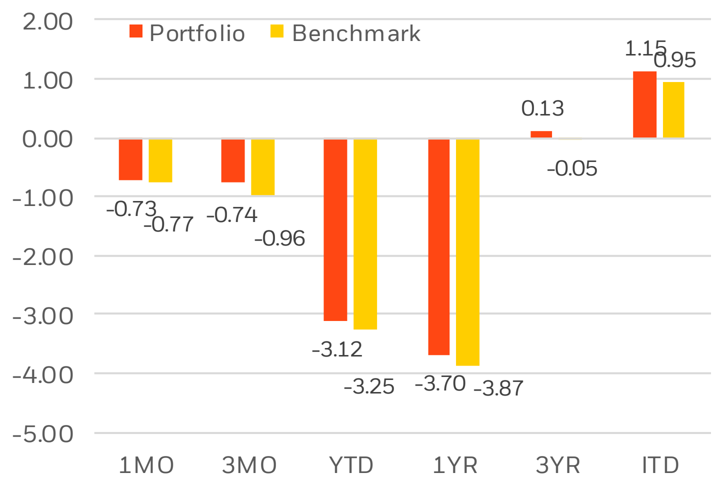
CalTRUST Medium Term Fund

	Portfolio	Benchmark+	Difference
Duration (yrs.)	1.93	1.87	0.06
Nominal Yield (%)	3.73	3.59	0.14
Spread Duration	1.03	0.50	0.54
OAS (bps)	30	10	20
Wal to Worst (yrs.)	2.16	1.97	0.19
Avg Credit Qual (Mdy/S&P)	Aa1/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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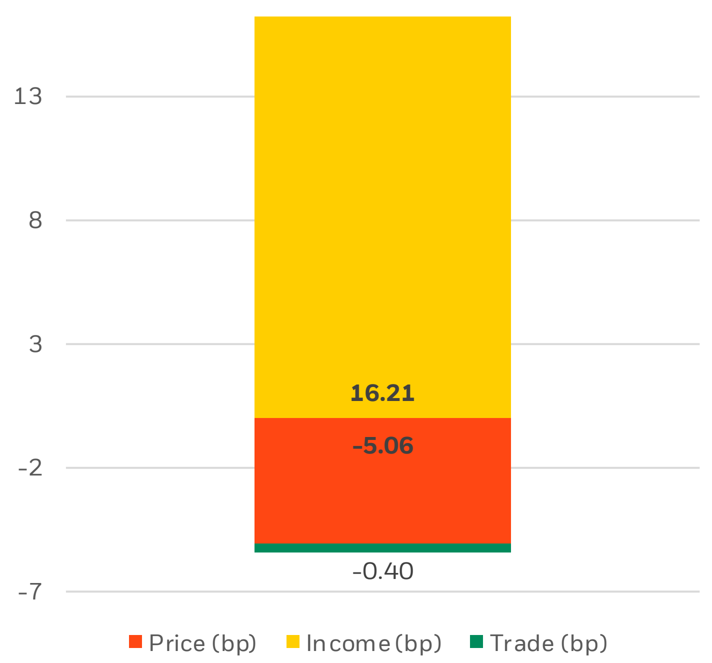
Performance Attribution & Commentary

August 31, 2022

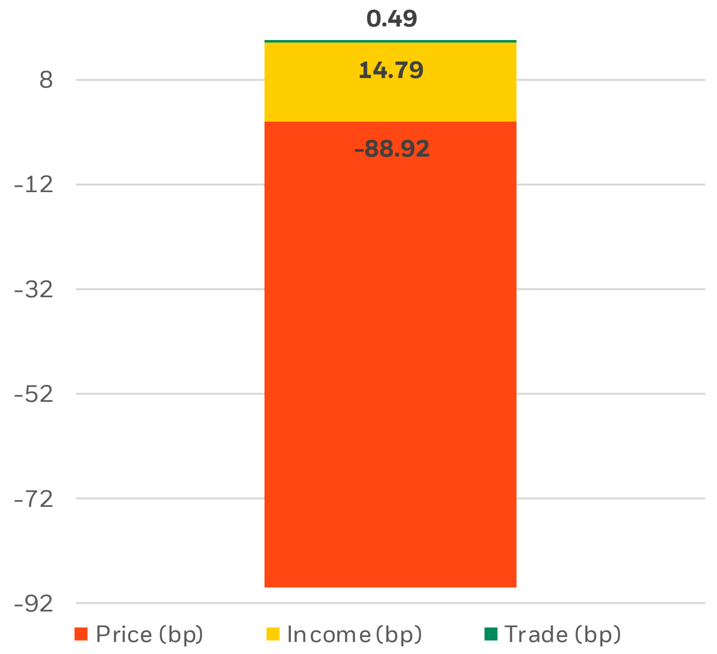
CalTRUST Short Term Fund – Monthly Total Return Contribution (Gross bps)



Performance Commentary

- The Short Term Fund posted in August 2022 a total return of 0.11% with income return contributing 0.16% and price return contributing -0.05%
- The majority, or around 12bps of positive total return can be attributed to IG Credit, and mostly coming from income return.
- Income return is both a function of accrued interest and interest payments on underlying bonds.
- Separately, ABS's -3bps of price return was offset by roughly +3bps of income return.

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



Performance Commentary

- The Medium Term Fund posted in August 2022 a total return of -0.73% with income return contributing 0.15% and price return detracting -0.89%.
- Price return was the largest factor explaining negative total return. Specifically, Treasuries detracted -0.46% in price return, IG Credit detracted-0.20%, SSAs & US Agencies detracted around -0.12%, and ABS detracted around -0.08% in price return.
- In August, the year-to-date selloff in rates continued as a spate of elevated inflation prints and hawkish central bank rhetoric helped push global yields higher.
- This selloff in rates caused bonds to underperform. More specifically, with a longer duration profile than the Short Term Fund and more duration risk, the effects of rates selling off over the course of the month is more detrimental in the Medium Term Fund.

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BlackRock

Glossary of Terms

August 31, 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.