Agenda Item #7
Attachment K
Page 1 of 4

CALTRUST
Investment Trust of California

About | How to Join | Resources | Portfolio | C

Home > Portfolio > Frequently Asked Questions

Frequently Asked Questions

What is CalTRUST and how is it structured?

CalTRUST is a Joint Powers Authority created by public agencies to provide a convenient method for public agencies to pool their assets for investment purposes. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents.

What entities are permitted to participate in CalTRUST?

As a practical matter, any public agency that is authorized to join a Joint Powers Authority can participate in CalTRUST. The specific sections of the California Government Code that govern participation in CalTRUST (Sections 6500 and 6509.7), provide that the following types of agencies may participate:

“"the federal government or any federal department or agency, this state, another state or any state department or agency, a county, county board of education, county superintendent of schools, city, public corporation, public district, or regional transportation commission of the State of California or another state, or any joint powers authority formed pursuant to this article [Article 1 of the Joint Exercise of Powers Act] by any of these agencies," (Section 6500), and "a nonprofit corporation whose membership is confined to public agencies or public officialsr" (Section 6509.7).”

If you have any questions about participation, please contact CalTRUST at:

by phone: 888-422-8778 by e-mail: caltrust@wellscap.com on the web:

www.caltrust.org

How does an agency initiate participation in

CalTRUST?

Legislation enacted in 2004 (AB 969 - Chapter 470, Statutes of 2004) simplified participation in CalTRUST. AB 969 authorizes local agencies to directly invest in shares issued by JPA pooled investment programs. As a result, agencies interested in investing through the CalTRUST Program no longer need to adopt a resolution to formally become a member of the CalTRUST Joint Powers Authority.

Opening an account in the CalTRUST program is quite simple; just carefully read the Information Statement, the Joint Powers Agreement, the CalTRUST Investment Policy, and complete the Account Registration Form and Participation Agreement.

What account options does CalTRUST offer?

CalTRUST offers four account options – Money Market, Short-Term and Medium-Term Accounts, and a soon-to-be-opened Long-Term Account. Agencies can select account options that match their investment time horizon and cash flow needs; and easily reallocate among accounts as circumstances warrant

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All CalTRUST accounts comply with the limits and restrictions placed on agency investments by the California Government Code; no leverage is permitted in any of the CalTRUST accounts.

What is the minimum amount that an agency can invest in the CalTRUST program?

The CalTRUST Board of Trustees has established $250,000 as the minimum investment in one or more of the CalTRUST accounts. The Board also has authorized the CalTRUST Program Administrator to waive this minimum investment requirement in its discretion.

What is the maximum amount that an agency can invest in the CalTRUST program?

There is no maximum investment amount for any of the CalTRUST accounts.

Is there a limit on the number of accounts that an agency can maintain?

There is no limit on the number of accounts that an agency can maintain. This provides additional flexibility to agencies, allowing them to tailor the number and types of accounts to best suit their local needs and priorities. For example, an agency may want or need to segregate its enterprise-type assets from its general operating reserves. CalTRUST provides the flexibility to meet this local preference.

What are the principal risks of investing in CalTRUST?

Investments in CalTRUST, like investments in other types of bond funds, are subject primarily to interest rate risk and credit risk.

Interest rate risk is the potential for a decline in bond prices -- and hence the market value of bonds in the portfolio -- due to rising market interest rates. In general, bond prices vary inversely with interest rates. The change in a bond's price depends on several factors, including its maturity date. In general, bonds with longer maturities are more sensitive to changes in interest rates than bonds with shorter maturities. Similarly, bond funds with longer average portfolio maturities, such as the CalTRUST Medium-Term and Long-Term Accounts, will be more sensitive to interest rate changes than those with shorter average portfolio maturities, such as the CalTRUST Short-Term account.

Credit risk is the possibility that a deterioration in the underlying creditworthiness of an issuer will adversely affect the value of its outstanding bonds or that a bond issuer will fail to make timely payments of interest or principal on its outstanding bonds (default). A decline in a bond issuer's credit rating, or creditworthiness, may cause prices for its outstanding bonds to decline.

Similar to shares in a bond mutual fund, the value of CalTRUST shares will change with market conditions, as will the value of an agency's investment account. An agency could lose money on an investment in a CalTRUST account or an investment in a CalTRUST account could underperform other investments.

What is the cost of transferring funds between the Short-Term Account and the Medium-Term Account or vice-versa?

There is no cost to transfer funds from any CalTRUST account to another CalTRUST account. In addition, there is no cost for wiring funds into or out of any of the CalTRUST accounts (although a local agency's bank may charge a nominal fee for sending and receiving wires).

How does an agency monitor its investments in CalTRUST?

All participating agencies have 24-hour, password-protected online access to

their individual account information at www.caltrust.org . The CalTRUST website shows the current value of CalTRUST shares, as well as additional relevant information regarding the underlying pools of securities in the CalTRUST accounts. Month-end statements can be downloaded directly from the CalTRUST website, or an agency can opt to receive printed monthly statements.

What are the costs of participating in CalTRUST?

There are no out-of-pocket costs for an agency to invest funds in CalTRUST. As with other programs, such as the Local Agency Investment Fund, managed by the State Treasurer's Office, all expenses associated with participation in CalTRUST are deducted from the yield.

The current total annual operating expense of the CalTRUST Heritage Money Market Account is 13 basis points (0.13%) of the average daily net assets of the account.

For the Short-Term Account, current total operating expenses are 14 basis points (0.14%) of the average daily net assets of the Account. These expenses drop as the total size of the Account increases; to 13 basis points for assets between $500 million and $1 billion and to 12 basis points for assets over $1 billion.

Total annual operating expenses for the Medium-Term and Long-Term Accounts are 24 basis points (0.24%). Again, as the size of the Accounts increase these expenses drop; to 22 basis points for assets between $500 million and $1 billion, and to 20 basis points for assets over $1 billion.

Expenses for each of the CalTRUST Funds are deducted from the net assets of the Funds on a monthly basis.

How does recently enacted legislation affect the CalTRUST Program?

Legislation signed by Governor Schwarzenegger in September 2004 clarified the authority for local agencies to participate in Joint Powers Authority investment pools, and makes it easier to participate in CalTRUST.

Chapter 470, Statutes of 2004 (Assembly Bill 969 – Correa) revised the provisions of California Government Code Section 53601 to provide an explicit grant of authority for local agencies to invest in shares of beneficial interest issued by a Joint Powers Authority, provided the JPA:

1. Invests only in securities and obligations eligible for local agency investment directly; and
2. Retains an investment adviser that

a. Is registered with the Securities and Exchange Commission or is exempt from registration;
b. Has not less than five years experience investing in securities and obligations eligible for local agency investment; and
c. Has at least $500 million in assets under management.

Top Print this Page