ATTACHMENT 1

City of Napa
Quarterly Investment Report
as of September 30, 2023

Introduction

This report represents the City's investment portfolio as of September 30, 2023. The report includes all invested City funds with the exception of bond proceeds. All investments are in compliance with the City's adopted Statement of Investment Policy.

Investment Approach

The City's investments are guided by an Investment Policy, which is reviewed and approved by the Council annually. The Investment Policy was last approved by the City Council in June 2023 and is provided as an appendix to this report for reference. The policy directs that investment goals—in order by priority—are safety, liquidity, and yield. This conservative approach ensures assets are available for use while also allowing the City to earn additional resources on idle funds. The City relies on an investment advisor and the state investment pool known as the Local Agency Investment Fund (LAIF).

Current Market Conditions

The third calendar quarter was characterized by the consumer continuing to spend, supported by rising wages and a strong labor market. The potential for additional monetary policy tightening by the Federal Reserve (Fed) remains possible in light of the Fed's projections for stronger gross domestic product (GDP) growth, higher inflation, and slightly lower unemployment for the balance of the year. As interest rates climbed to recent highs, equity markets declined from calendar year highs and modest de-risking swept markets near quarter-end.

The Fed met twice during the quarter, increasing the target rate 25 basis points (bps) (0.25%) in July to a new range of 5.25% to 5.50% while holding that range steady following the September meeting. Despite the pause in September, the post-meeting dot plot projections dominated headlines as calendar year end 2024 and 2025 median rate expectations were adjusted higher by 50 bps (0.50%) each, highlighting the reality of a potentially "higher for much longer" interest rate environment.

A strong U.S. labor market remains a tailwind to economic growth and consumer outlooks. Over the quarter, the U.S. economy added 799,000 new jobs, besting the prior quarter rate of 603,000 while remaining well above the pre-COVID pace. The unemployment rate (3.8%) remains near all-time lows and the labor force participation rate also trended upward and is now at the highest level since the pandemic.

Real GDP increased at an annual rate of 2.1% in the second calendar quarter of 2023. Although slightly slower than the first quarter 2023 final release of 2.2%, second quarter growth was much higher than originally expected in July and as a result caused the Fed to double their growth projections for calendar year 2023 to 2.1% from 1.0% three months ago.

ATTACHMENT 1

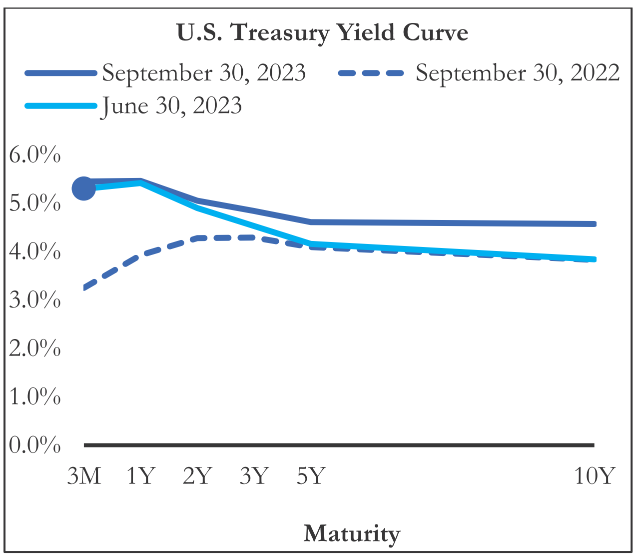
City of Napa
Quarterly Investment Report
as of September 30, 2023

U.S. Treasury yields increased across the entire curve during the quarter, with most maturities closing the quarter at multi-decade highs. While the yield curve remains deeply inverted due to yields on the front end reacting to several quarters of Fed rate increases, more recent yield increases have been led by longer maturities.

Over the quarter, the yield on a 2-, 10-, and 30-year U.S. Treasury security increased 15 bps, 73 bps, and 84 bps, respectively, while the yield on a 3-month U.S. Treasury Bill increased by 15 bps. The increase in the 30-year yield marked the largest quarterly increase in more than 14 years. Along with the steepening of the curve, the inversion of the yield curve became less severe by quarter-end.

As a result of higher absolute yields on longer-maturity tenors, U.S. Treasury indexes with durations greater than three years posted negative total returns in the quarter. The ICE BofA 5-, 10-, and 30-year U.S. Treasury indices returned -1.26%, -5.15%, and -12.75% respectively. On the flipside, along with relatively muted rate increases over the quarter, short-duration indices posted positive total returns, as higher income more than offset negative price impacts. The ICE BofA 3-month, 1-, and 2-year U.S. Treasury indexes returned +1.31, +1.21%, and +0.54% respectively.

Yield Curve History



Source: Bloomberg.

Maturity	9/30/23	6/30/23	Q over Q Change
3-Mo.	5.45%	5.30%	+0.15%
6-Mo.	5.47%	5.43%	+0.04%
1-Yr.	5.46%	5.42%	+0.04%
2-Yr.	5.05%	4.90%	+0.15%
3-Yr.	4.84%	4.53%	+0.31%
5-Yr.	4.61%	4.16%	+0.45%
10-Yr.	4.57%	3.84%	+0.73%

City of Napa
Quarterly Investment Report
as of September 30, 2023

Portfolio Strategy and Performance

As markets continued to adjust expectations around higher rates for longer and recognizing that we are nearing the end of the Fed's rate hike cycle, longer maturity, 3- to 5-year, securities were purchased for the portfolio, in order to maintain its duration position and to lock in high interest rates for the next several years. New purchases were diversified by sector and issuer, with allocations to agency commercial mortgage-backed securities, asset-backed securities, corporate notes, and negotiable CDs increasing over the quarter.

Though rates moved higher, total returns for the City's portfolio and its benchmark were positive, as increased interest earnings offset any unrealized losses. The portfolio outperformed the benchmark for the quarter, due to its diversification, as non-Treasury sectors provided higher returns than Treasuries. Over the long term, the portfolio continues to return strong performance and to outperform the benchmark.

Total Return Comparison
Periods Ending September 30, 2023

	Past Quarter	Past Year	Past 3 Years	Past 5 Years
City of Napa	**0.36%**	**2.70%**	**-1.33%**	**1.29%**
BofA Merrill Lynch 1-5 Year Government Index	0.24%	2.14%	-1.74%	0.93%
LAIF Yield	0.89%	2.89%	1.31%	1.62%

Returns for periods under one year are periodic; all other returns are annualized.
Source of LAIF yield is State Treasurer's website. Reflects quarterly apportionment rate of LAIF de-annualized and linked over the specified time periods.

Portfolio Information

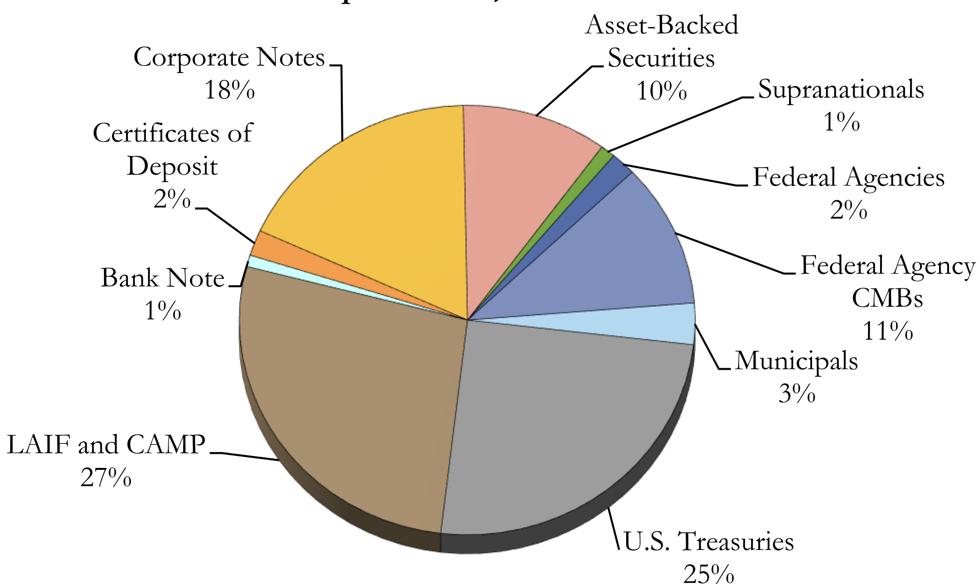
The City's cash, excluding bond proceeds, is pooled for investment purposes. As of September 30, 2023, invested funds totaled $263,360,105 on a market value basis. These investments belong to the General Fund and restricted funds such as the Developer, Special District, Water, Solid Waste, and Recycling Funds.

The City's portfolio is well diversified by investment type and consists of U.S. Treasuries, federal agencies, federal agency commercial mortgage-backed securities (CMBS), municipals, supranationals, corporate notes, negotiable certificates of deposit, asset-backed securities, and cash instruments such as CAMP and LAIF. As noted in the following chart and on the attached investment detail report, as

City of Napa
Quarterly Investment Report
as of September 30, 2023

of September 30, 2023, approximately 65% of the City's investment portfolio was invested in the State Local Agency Investment Fund (LAIF), the California Asset Management Program (CAMP), and high-quality U.S. Treasury and federal agency securities to maintain the focus on safety and liquidity. Approximately 31% of the portfolio is allocated to high quality credit instruments including negotiable certificates of deposit, corporate notes (including bank notes), and asset-backed securities, and 4% is in municipal obligations and supranationals combined.

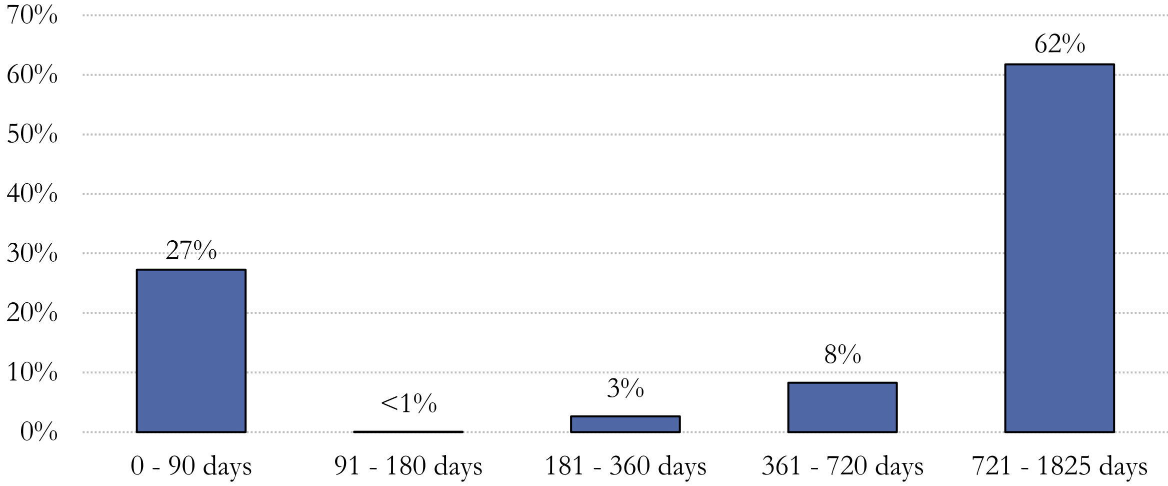
Investments by Type
September 30, 2023



The City's Investment Policy allows for a 5-year time horizon with an emphasis on liquidity. As of September 30, 2023, 27% of the City's funds were invested in very short-term or overnight investments, 11% of the funds were invested with maturities between 91 days and 2 years, and 62% of the investment portfolio had a maturity ranging from 2 to 5 years. This distribution allows the City the necessary liquidity to meet operational and emergency cash needs while maximizing returns on funds not needed in the immediate future.

City of Napa
Quarterly Investment Report
as of September 30, 2023

Maturities in Days
September 30, 2023



Conclusion

All City funds are invested in accordance with the approved Investment Policy with an emphasis on safety, liquidity, and yield (in that order). The City's investment strategy of balancing the investment portfolio between short-term investments (to meet cash flow needs) and longer-term maturities (to realize a higher rate of return) is appropriate given the current market conditions.