ATTACHMENT 1

City of Napa
Quarterly Investment Report
as of June 30, 2024

Introduction

This report represents the City's investment portfolio as of June 30, 2024. 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

In the second calendar quarter, U.S. economic conditions were characterized by moderating economic growth following two quarters of exceptional strength, inflation prints resuming the path towards the Federal Reserve (Fed)'s 2% target, labor markets continuing to show strength while unemployment ticked up modestly, and resilient consumer spending supported by wage growth that is outpacing inflation.

The Federal Reserve (Fed) left the target range for the federal funds rate unchanged at 5.25% to 5.50% at the June Federal Open Market Committee (FOMC) meeting. The Fed's much-anticipated update to its Summary of Economic Projections showed just one quarter-point rate cut through the balance of 2024, two fewer than previously forecast. Chair Jerome Powell noted the revision reflected the slow progress on moving inflation towards the Fed's 2% target. The labor market was also a focus, as recent economic releases showed it softening as it comes into better balance.

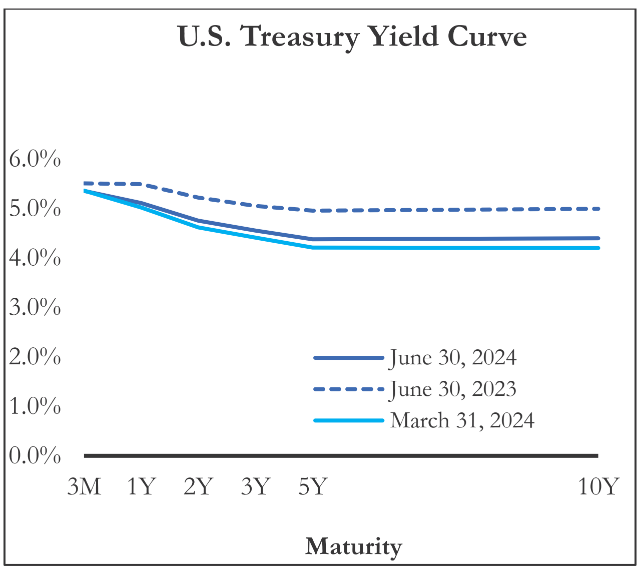
The final reading of first quarter gross domestic product (GDP) came in at 1.4%, down notably from the last two quarters of 2023. Personal spending declined to an annualized rate of 1.5%, below its 20-year average of 2.4%. Meanwhile, net exports and private inventories detracted from the headline figure by more than 1%.

U.S. inflation, as measured by the consumer price index (CPI) improved after several months of disappointingly high readings earlier in the year. The year-over-year (YoY) change in the Consumer Price Index (CPI) came in at 3.3%. Core CPI (which removes volatile food and energy components) came in at 3.4%, which is the smallest increase in over three years. The Personal Consumption

Expenditures Index (PCE), the Fed's preferred inflation gauge, showed a similar downward trend as Core PCE hit a three-year low of 2.6%.

U.S. Treasury yields between 2- and 10-years finished the month down approximately 15 to 20 basis points (bps) on the mixed economic data. The yield curve remains inverted as the difference between the 2- and 10-year U.S. Treasury yield has remained in a relatively tight range near 40 bps for the past four months. Short-term maturities have remained relatively unchanged for most of 2024 reflecting Fed overnight rate policy. Yields on benchmark 2-, 5-, and 10-year U.S. Treasuries ended the month at 4.87%, 4.51%, and 4.50%, respectively, representing changes of -16, -21, and -18 bps for the month, respectively. Although the yield curve remains deeply inverted, 5-year yields remain at the higher end of their 20+ year range. The ability to lock-in yields at 4% or greater remains an attractive value proposition.

Yield Curve History



Source: Bloomberg.

Maturity	6/30/24	3/31/24	Q over Q Change
3-Mo.	5.35%	5.36%	-0.01%
6-Mo.	5.32%	5.32%	0.00%
1-Yr.	5.11%	5.02%	0.09%
2-Yr.	4.75%	4.62%	0.13%
3-Yr.	4.55%	4.41%	0.14%
5-Yr.	4.38%	4.21%	0.17%
10-Yr.	4.40%	4.20%	0.20%

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Portfolio Strategy and Performance

As it continued to become clearer that the end of the Fed's historic hiking cycle was at or coming to an imminent end, we maintained the portfolio's duration at a neutral position relative to the benchmark duration. New purchases were focused in securities with maturities of 3- to 5- years, locking in current high interest rates for the next several years. Given the positive economic outlook, strong labor market, and continued strength of the consumer, our general view on non-government sectors remained constructive. As a result, additional investment grade corporates, AAA-rated asset-backed securities, and agency-backed mortgage securities were purchased for the portfolio.

The decline in interest rates during the quarter, coupled with higher yielding securities, resulted in strong total return performance for both the City's portfolio and its benchmark, for the past quarter and past year. The portfolio outperformed the benchmark due to its diversification and duration position, relative to the benchmark. Over the long term, the portfolio continues to return strong performance and to outperform the benchmark.

Total Return Comparison
Periods Ending June 30, 2024

	Past Quarter	Past Year	Past 3 Years	Past 5 Years
City of Napa	0.88%	4.68%	0.04%	1.19%
BofA Merrill Lynch 1-5 Year Government Index	0.82%	4.18%	-0.35%	0.76%
LAIF Yield	0.99%	3.37%	1.59%	1.70%

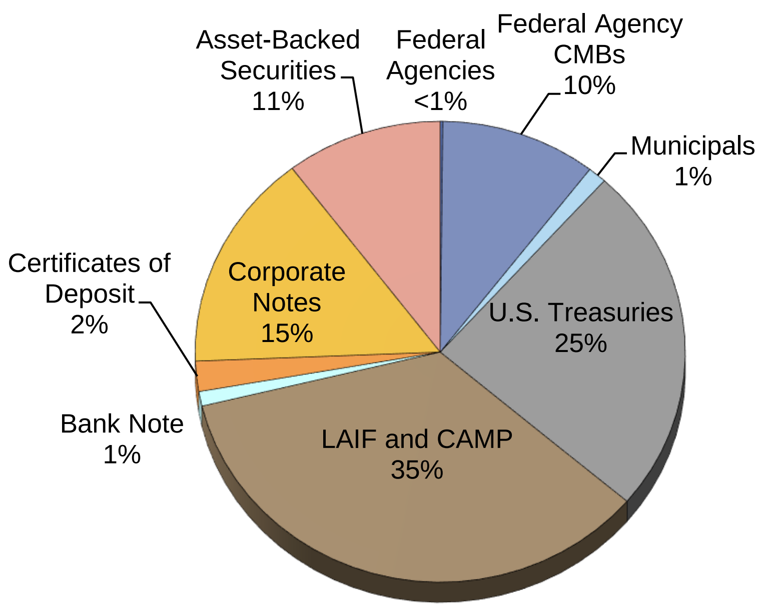
Returns for periods under one year are periodic; all other returns are annualized.
Source of LAIF yield is State Treasurer's website. Reflects quarterly apportionment rate of LAIF de-annualized and linked over the specified time periods.

Portfolio Information

The City's cash, excluding bond proceeds, is pooled for investment purposes. As of June 30, 2024, invested funds totaled $309,868,039.49 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 (including bank 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 of June 30, 2024, approximately 70% 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 29% 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 1% is in municipal obligations.

Investments by Type
June 30, 2024



The City's Investment Policy allows for a 5-year time horizon with an emphasis on liquidity. As of June 30, 2024, 35% of the City's funds were invested in very short-term or overnight investments, 14% of the funds were invested with maturities between 91 days and 2 years, and 51% 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.

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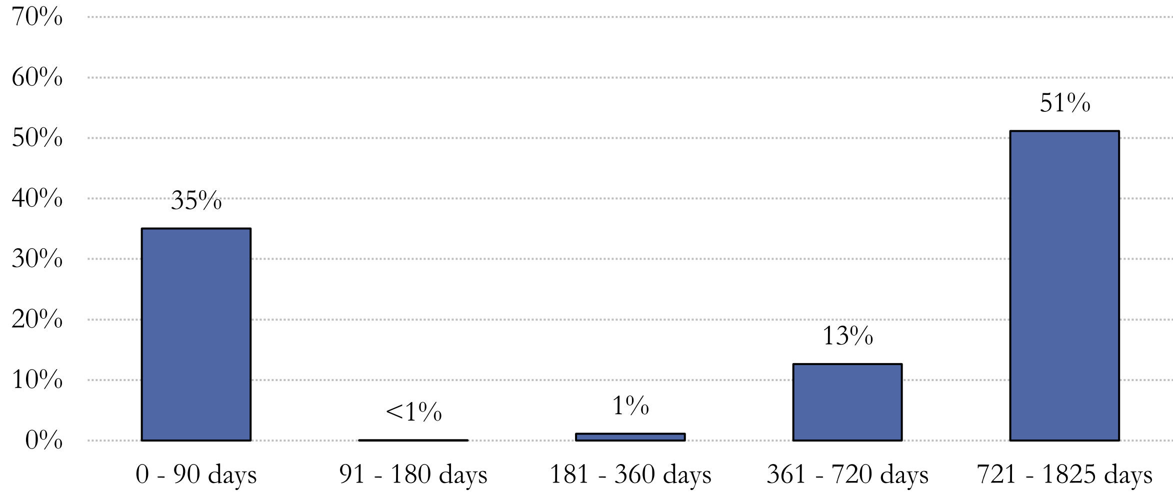
Maturities in Days
June 30, 2024



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.