

City of Napa
Quarterly Investment Report
as of December 31, 2024

Introduction

This report represents the City’s investment portfolio as of December 31, 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 2024 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).

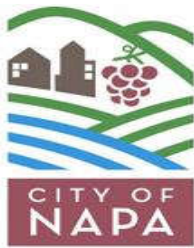
Current Market Conditions

In the fourth calendar quarter, U.S. economic conditions were characterized by inflation and labor markets that were in line with Fed expectations despite slower recent progress; strong economic growth prospects that remained intact, aided by a resilient consumer; and changes to the fiscal policy that may impact growth and inflation trajectory.

At the final Federal Open Market Committee (FOMC) meeting of 2024, the Federal Reserve (Fed) lowered the target range for the federal funds rate by 25 basis points (bps) to a new range of 4.25% to 4.50%. In his post-meeting press conference, Fed Chair Jerome Powell said it was a “closer call” than in previous meetings and noted the Fed is now “in a new phase” of the easing cycle. The market now expects the Fed to pause rate cuts for several months.

The FOMC’s updated Summary of Economic Projections (SEP) showed a higher median expectation for inflation in calendar years 2025 and 2026, in line with recent upticks in various inflation metrics. Projections for gross domestic product (GDP) were also revised higher while the unemployment rate projection was lowered. Chair Powell noted that some FOMC members began to consider the implications of the new administration’s proposed policies when formulating their individual projections.

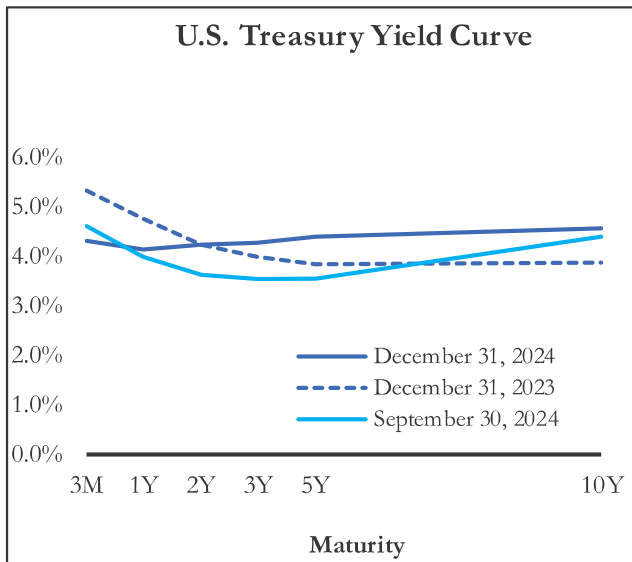
The U.S. Treasury yield curve twisted and steepened throughout December as short-term yields declined while longer-term yields drifted higher. Policy uncertainty combined with the “higher for longer” rate sentiment sent yields 2 years and longer higher while the December Fed rate cut sent shorter term yields lower. The yield on the 2-, 5-, and 10-year Treasuries ending the quarter at 4.24%,



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4.38%, and 4.57%. This represents increases of 60, 82, and 79 bps, respectively. The 3-month Treasury, heavily influenced by the Fed, moved 30 bps lower, ending the quarter at 4.31%. The 10-year Treasury is now outyielding the 3-month security for the first time in over two years.

Yield Curve History



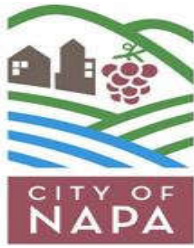
Maturity	12/31/24	9/30/24	Q over Q Change
3-Mo.	4.32%	4.63%	-0.31%
6-Mo.	4.27%	4.40%	-0.13%
1-Yr.	4.15%	4.01%	+0.14%
2-Yr.	4.24%	3.64%	+0.60%
3-Yr.	4.27%	3.55%	+0.72%
5-Yr.	4.38%	3.56%	+0.82%
10-Yr.	4.57%	3.78%	+0.79%

Source: Bloomberg Finance LP.

Portfolio Strategy and Performance

We continued to manage the portfolio’s duration at a near neutral position relative to the benchmark duration. New purchases were focused in U.S. Treasury securities, as narrow yield spreads between Treasuries and other sectors limited relative value. Strong investor demand pushed spreads tighter across most investment grade sectors throughout the quarter.

As a result of higher yields, most high-quality, fixed income indexes generated negative total returns for the quarter, as unrealized market value losses were greater than realized earnings. Both the City’s portfolio and its benchmark returned negative performance for the quarter, however, the portfolio outperformed the benchmark due to its slightly shorter duration position and its sector diversification. The portfolio generated strong performance for the past year, and, over the long term, the portfolio continues to return good performance and to outperform the benchmark.



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Quarterly Investment Report
 as of December 31, 2024

Total Return Comparison
Periods Ending December 31, 2024

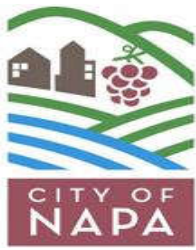
	Past Quarter	Past Year	Past 3 Years	Past 5 Years
City of Napa	-0.53%	3.97%	1.21%	1.48%
BofA Merrill Lynch 1-5 Year Government Index	-0.76%	3.42%	0.74%	1.05%
LAIF Yield	1.14%	4.55%	3.01%	2.11%

*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

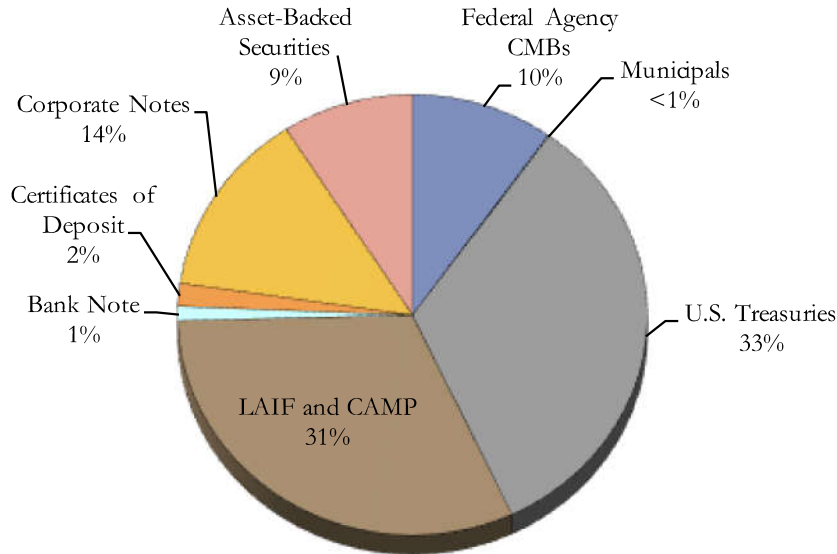
The City's cash, excluding bond proceeds, is pooled for investment purposes. As of December 31, 2024, invested funds totaled \$302,294,135.29 on a market value basis. These investments belong to the General Fund and restricted funds such as the Developer, Special District, Water, Solid Waste, and Recycling Funds.

The City's portfolio is well diversified by investment type and consists of U.S. Treasuries, federal agency commercial mortgage-backed securities (CMBS), municipals, 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 December 31, 2024, approximately 75% 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 25% 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 less than 1% is in municipal obligations.



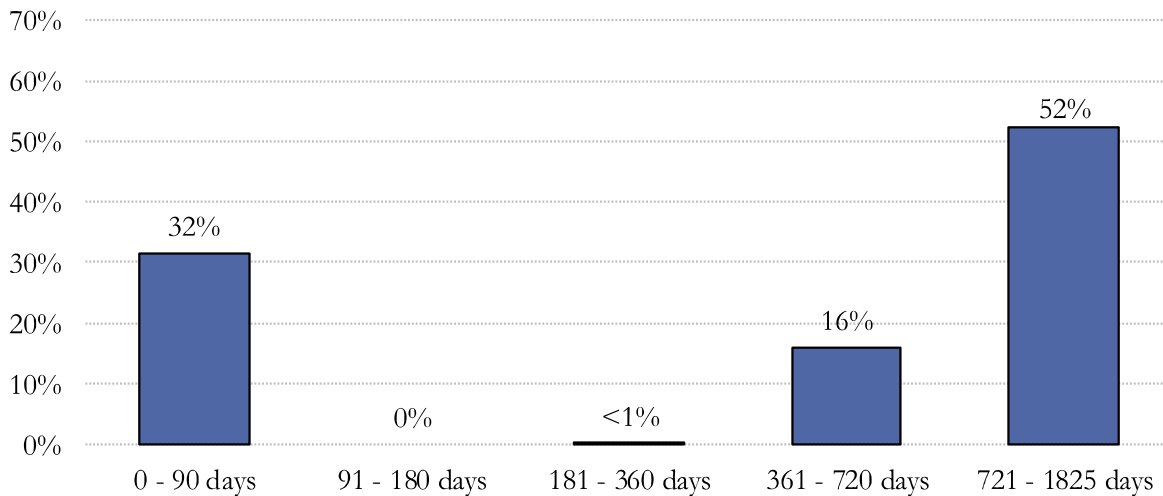
**City of Napa
Quarterly Investment Report
as of December 31, 2024**

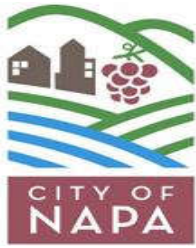
**Investments by Type
December 31, 2024**



The City’s Investment Policy allows for a 5-year time horizon with an emphasis on liquidity. As of December 31, 2024, 32% of the City’s funds were invested in very short-term or overnight investments, 16% of the funds were invested with maturities between 91 days and 2 years, and 52% 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.

**Maturities in Days
December 31, 2024**





City of Napa
Quarterly Investment Report
as of December 31, 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.