

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

Introduction

This report represents the City's investment portfolio as of September 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 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).

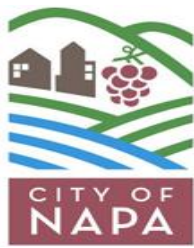
Current Market Conditions

In the third calendar quarter, U.S. economic conditions were characterized by a labor market that reached better balance and supports consumer activity, inflation that made meaningful progress towards the Federal Reserve's (Fed) 2% target, although shelter costs remain a headwind, and resilient economic growth and consumer spending that support the 'soft landing' scenario.

The Federal Open Market Committee (FOMC) lowered the target range for the federal funds rate by 50 basis points (bps) to 4.75% - 5.00% at its September meeting. The half percentage point (0.50%) cut was well-digested by markets despite expectations being split between 25 and 50 bps. Federal Reserve Chair Powell described the risks to achieving the Fed's employment and inflation goals as now being "roughly in balance."

The FOMC released an updated Summary of Economic Projections, which showed a higher median expectation for the unemployment rate at 4.4% for the remainder of 2024 and through 2025. The updated projections for the Core Personal Consumption Expenditure Price Index (PCE) and gross domestic product (GDP) were both modestly lowered, with real growth prospects near 2% for the next several quarters. The August PCE reading of 2.2% year-over-year hit its lowest level since February 2021, continuing the trajectory towards the Fed's 2% inflation target.

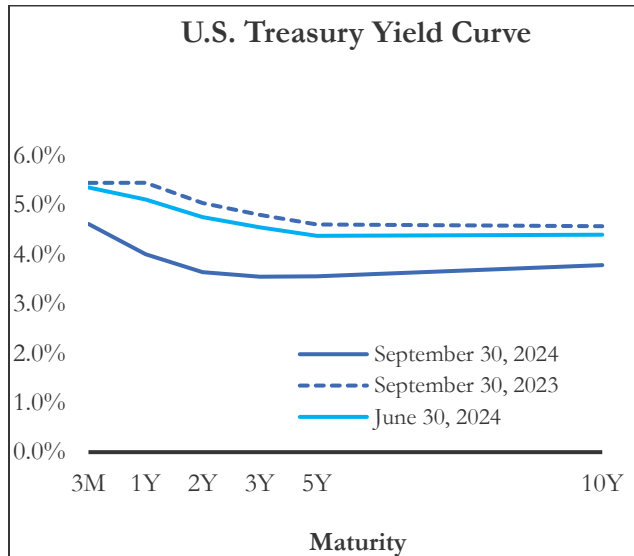
U.S. Treasury yields fell sharply throughout the quarter, reflecting the imminent outset of the Fed's cutting cycle. The yield on the 2-, 5-, and 10-year U.S. Treasuries ended the quarter at 3.64%, 3.56%, and 3.78%, respectively. This represented decreases of 111 bps, 82 bps, and 62 bps, respectively. As a result of lower yields, U.S. Treasury indices generated strong total returns for the quarter. The ICE



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

BofA 2-Year and 5-Year U.S. Treasury indices returned 2.85% and 4.41% respectively, while the 10-Year U.S. Treasury index returned 5.73% for the quarter.

Yield Curve History



Maturity	9/30/24	6/30/24	Q over Q Change
3-Mo.	4.62%	5.35%	-0.73%
6-Mo.	4.40%	5.32%	-0.92%
1-Yr.	4.00%	5.11%	-1.11%
2-Yr.	3.64%	4.75%	-1.11%
3-Yr.	3.55%	4.55%	-1.00%
5-Yr.	3.56%	4.38%	-0.82%
10-Yr.	3.78%	4.40%	-0.62%

Source: Bloomberg Finance LP.

Portfolio Strategy and Performance

With the expectation that interest rates reached their peak earlier in the year, we continued to manage the portfolio's duration at a 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. We did, however, selectively purchase additional corporate notes and agency commercial mortgage backed securities for the portfolio. Most new purchases had maturities of 4.5- to 5-years, allowing the portfolio to lock in the elevated yields.

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, relative to the benchmark. Over the long term, the portfolio continues to return strong performance and to outperform the benchmark.



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

Total Return Comparison
Periods Ending September 30, 2024

	Past Quarter	Past Year	Past 3 Years	Past 5 Years
City of Napa	3.40%	7.85%	1.15%	1.68%
BofA Merrill Lynch 1-5 Year Government Index	3.37%	7.43%	0.76%	1.28%
LAIF Yield	1.17%	4.40%	2.63%	1.99%

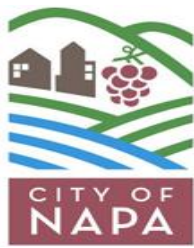
Returns for periods under one year are periodic; all other returns are annualized.

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

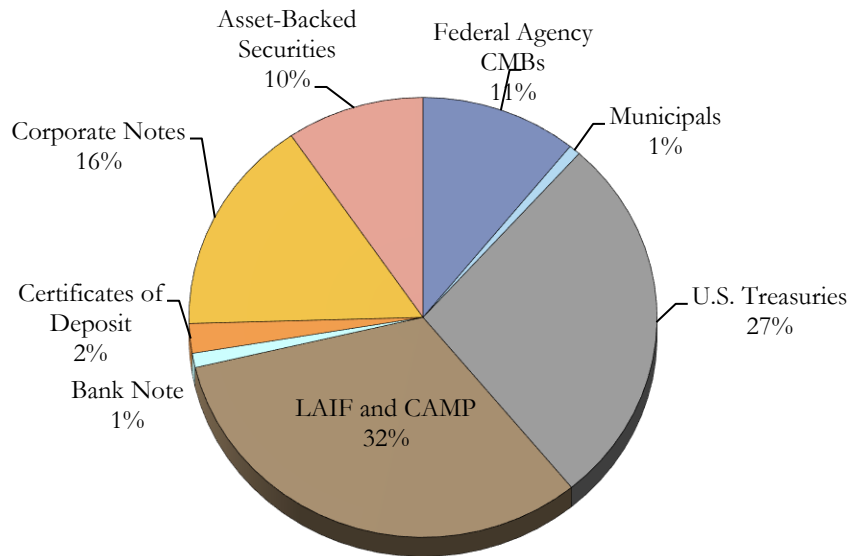
The City's cash, excluding bond proceeds, is pooled for investment purposes. As of September 30, 2024, invested funds totaled \$307,438,801.58 on a market value basis. These investments belong to the General Fund and restricted funds such as the Developer, Special District, Water, Solid Waste, and Recycling 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 September 30, 2024, approximately 71% 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.



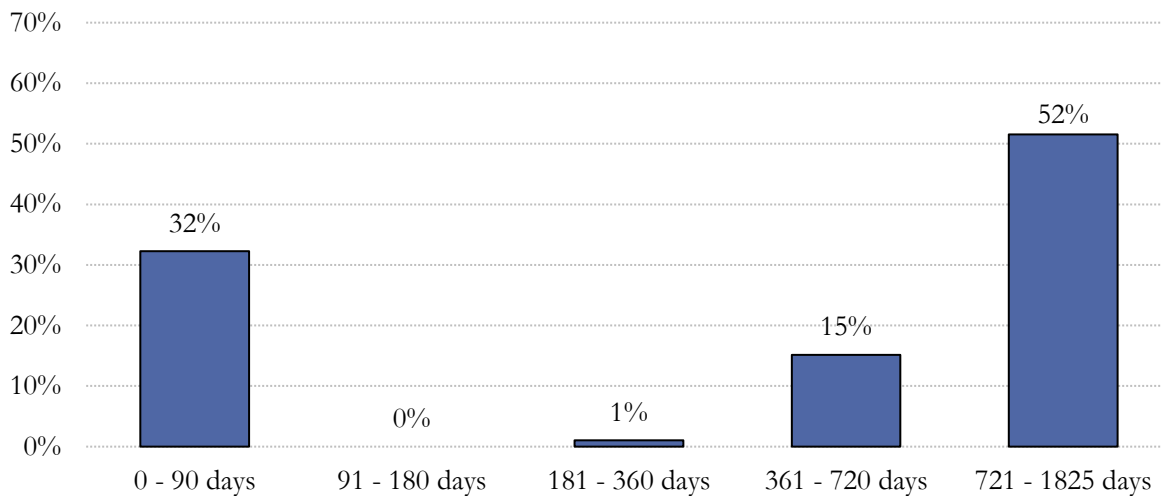
City of Napa
Quarterly Investment Report
as of September 30, 2024

Investments by Type
September 30, 2024



The City's Investment Policy allows for a 5-year time horizon with an emphasis on liquidity. As of September 30, 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
September 30, 2024





City of Napa
Quarterly Investment Report
as of September 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.