ATTACHMENT 1

City of Napa
Quarterly Investment Report
as of June 30, 2025

Introduction

This report represents the City's investment portfolio as of June 30, 2025. 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 May 2025 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 headline employment data that belied underlying weakening; inflation that remained rangebound but did not yet reflect the full impact of tariffs; and fiscal policy uncertainty and volatile tariff rollouts that weighed on consumer sentiment.

At the meeting held on June 18 the Federal Reserve (Fed) held the target range for the overnight rate unchanged at 4.25% to 4.50%. In its press release, the Fed noted uncertainty has diminished since April but remains elevated. During the press conference, Fed Chair Jerome Powell noted that the effect, size, and duration of tariffs are all highly uncertain and that warrants the Fed remaining on hold as it continues to observe the data.

The Fed's "dot plot" continued to show a median expectation of 50 basis points (bps) of rate cuts over the remainder of the year while its Summary of Economic Projections showed a weaker outlook for both gross domestic product (GDP) and PCE inflation. Fed Chair Powell emphasized the divergence of views across the committee noting eight members called for two cuts in 2025 while seven members project none.

The final read of first quarter GDP showed consumers spending at their slowest pace since the first quarter of 2022. The large pullback in spending amid strong income and wage growth likely represents consumer caution due to the uncertainty caused by tariffs. Future spending will remain a key area of focus for economic resilience.

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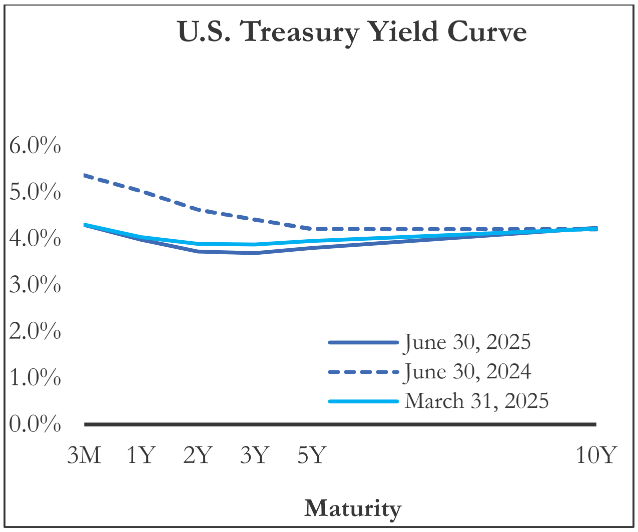
Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended June at 4.30%, 3.72%, and 4.23%, representing changes of +1 bps, -18 bps, and -17 bps, respectively, over the past quarter.

Yield Curve History



Source: Bloomberg Finance LP.

Maturity	6/30/25	3/31/25	Q over Q Change
3-Mo.	4.30%	4.29%	+0.01%
6-Mo.	4.25%	4.22%	+0.03%
1-Yr.	3.97%	4.02%	-0.05%
2-Yr.	3.72%	3.88%	-0.16%
3-Yr.	3.69%	3.87%	-0.18%
5-Yr.	3.80%	3.95%	-0.15%
10-Yr.	4.23%	4.21%	+0.02%

Portfolio Strategy and Performance

At quarter end, the portfolio's duration was 2.45 years, which was 99% of the benchmark duration. We continued to manage the portfolio's duration at this near neutral position relative to the benchmark duration. Excess returns were strong across investment grade sectors as the spread widening experienced in April reversed following trade news and resilient economic data, and the portfolio's diversification was beneficial to its performance, both on an absolute basis and relative to the benchmark, as corporates, asset-backed securities, and agency commercial mortgage-backed securities outperformed similar duration government securities. During the quarter, the portfolio's allocation to high quality corporate notes increased, and there were also new purchases in the U.S. Treasury, asset-backed security, and agency commercial mortgage-backed security sectors.

As a result of lower yields, short- and intermediate-duration U.S. Treasury indices generated positive total returns for the quarter. The ICE BofA 2-, 5-, and 10-year U.S. Treasury indices returned 1.11%, 1.66%, and 0.98% for the quarter. Both the City's portfolio and its benchmark also returned positive performance for the quarter, and the portfolio outperformed the benchmark due to 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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Total Return Comparison
Periods Ending June 30, 2025

	Past Quarter	Past Year	Past 3 Years	Past 5 Years
City of Napa	1.57%	6.51%	1.38%	2.01%
BofA Merrill Lynch 1-5 Year Government Index	1.36%	6.06%	0.92%	1.61%
LAIF Yield	1.08%	4.55%	3.66%	2.37%

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, 2025, invested funds totaled $327,387,295.84 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 June 30, 2025, 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.

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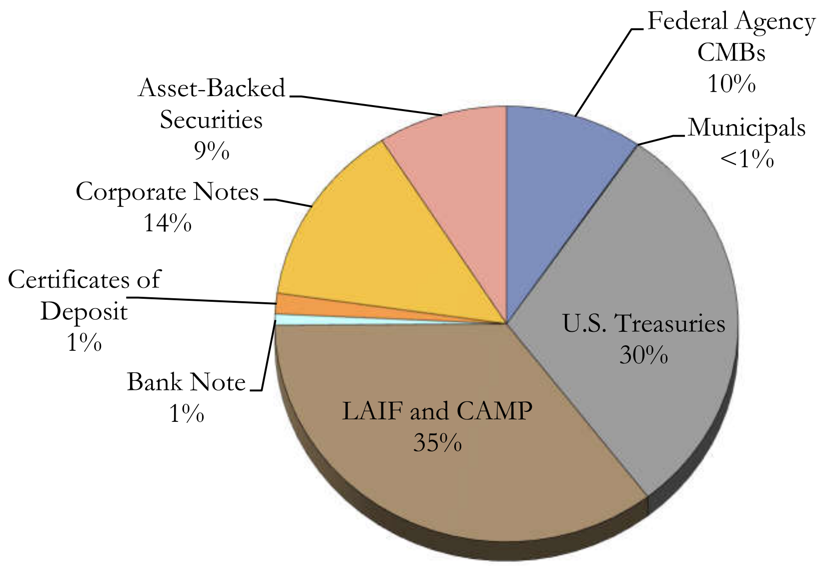
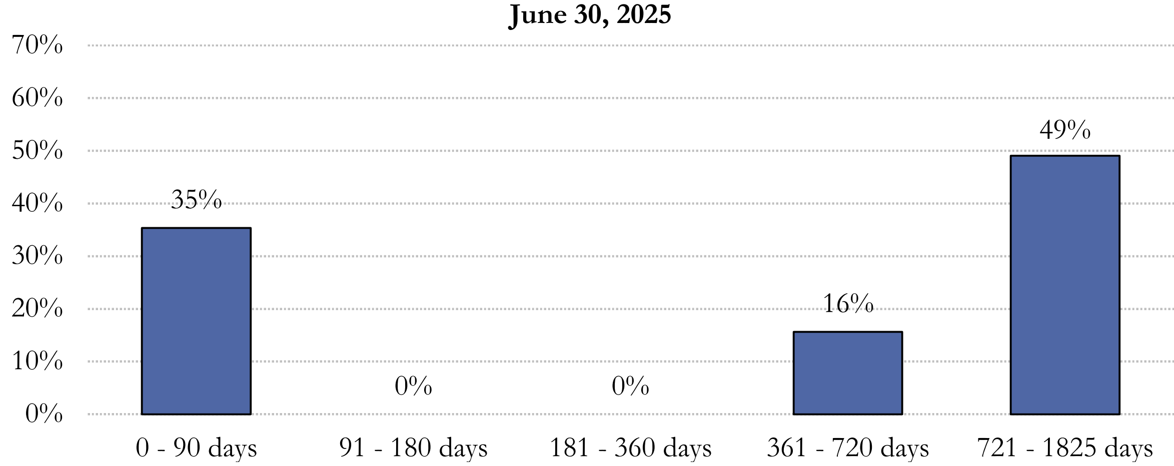
Investments by Type
June 30, 2025



The City's Investment Policy allows for a 5-year time horizon with an emphasis on liquidity. As of June 30, 2025, 35% 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 49% 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
June 30, 2025



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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.