

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

Introduction

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

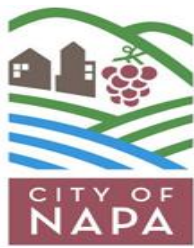
Current Market Conditions

The third quarter of 2025 saw a gradual easing of uncertainty as markets digested the lingering effects of a complex tariff rollout. While the effective tariff rate remains elevated, the avoidance of worst-case trade outcomes helped stabilize investor sentiment. Equity and bond markets rebounded, supported by steady consumer spending and business investment.

In September, the Fed delivered its first rate cut of 2025, lowering the federal funds target range to 4.00% to 4.25%. Fed Chair Jerome Powell described it as a "risk management cut" reflecting growing concerns over the labor market. The median forecast from the Fed's September "dot plot" showed an additional 50 basis points (bps) of rate cuts this year, 25 bps more than its June projections.

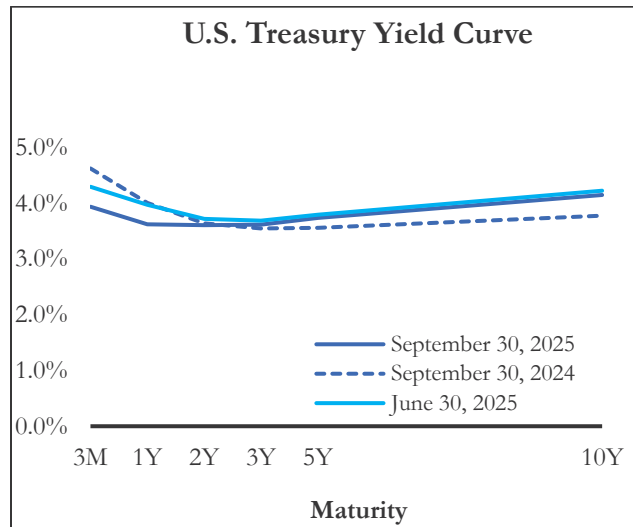
Rising goods prices and sticky services costs continued to keep core inflation well above the Federal Reserve's (Fed) 2% target. Certain import-reliant goods showed signs of modest tariff passthroughs.

Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended September at 3.94%, 3.61%, and 4.15%, representing changes of -36 bps, -11 bps, and -8 bps, respectively, over the past quarter.



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Yield Curve History



Source: Bloomberg Finance LP.

Maturity	9/30/25	6/30/25	Q over Q Change
3-Mo.	3.94%	4.30%	-0.36%
6-Mo.	3.84%	4.25%	-0.41%
1-Yr.	3.62%	3.97%	-0.35%
2-Yr.	3.61%	3.72%	-0.11%
3-Yr.	3.62%	3.69%	-0.07%
5-Yr.	3.74%	3.80%	-0.06%
10-Yr.	4.15%	4.23%	-0.08%

Portfolio Strategy and Performance

At quarter end, the portfolio's duration was 2.50 years, which was 101% 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 April's spread widening fully reversed on positive trade news and resilient economic data 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 a result of lower yields over the quarter, bond indexes generated positive total returns for the quarter. The ICE BofA 3-month, 2-, 5-, and 10-year U.S. Treasury indices returned 1.08%, 1.01%, 1.17%, and 1.81% for the quarter, respectively. 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 September 30, 2025

	Past Quarter	Past Year	Past 3 Years	Past 5 Years
City of Napa	1.29%	4.34%	4.94%	1.57%
ICE BofA 1-5 Year Government Index	1.14%	3.77%	4.43%	1.13%
LAIF Yield	1.09%	4.57%	3.76%	2.65%

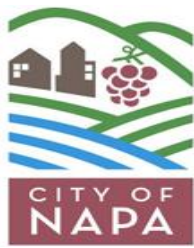
Returns for periods under one year are periodic; all other returns are annualized.

Source of LAIF yield is State Treasurer's website. Reflects quarterly apportionment rate of LAIF averaged over respective time periods

Portfolio Information

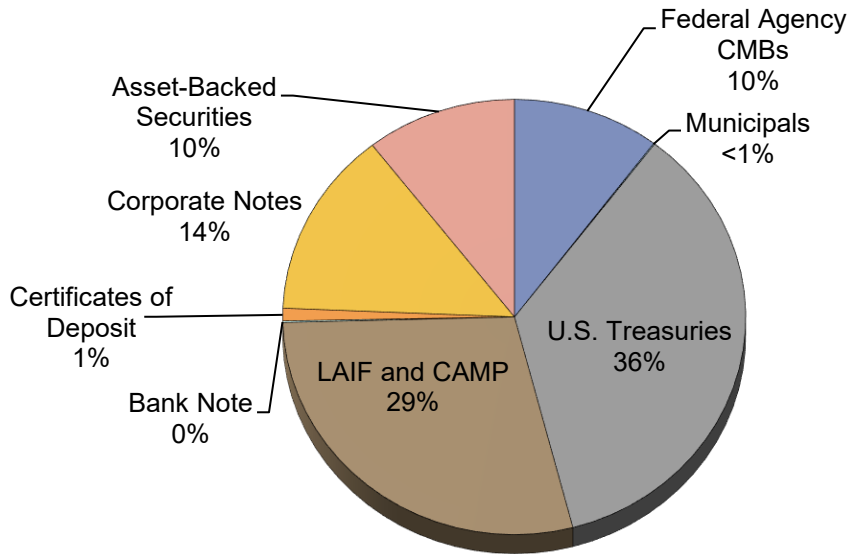
The City's cash, excluding bond proceeds, is pooled for investment purposes. As of September 30, 2025, invested funds totaled \$303,410,635 on a market value basis. These investments belong to the General Fund and restricted funds such as the Developer, Special District, Water, Solid Waste, and Recycling 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 and bank notes. As noted in the following chart and on the attached investment detail report, as of September 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.



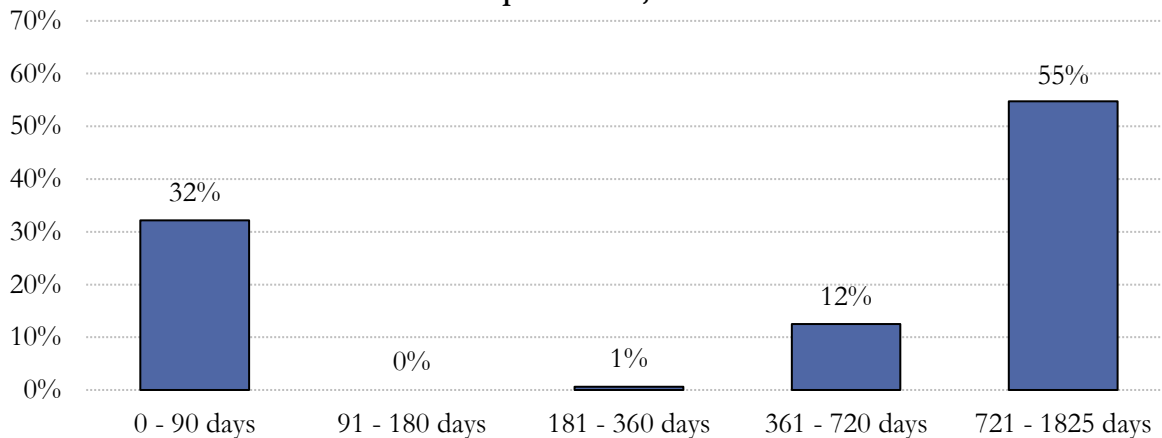
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Investments by Type
September 30, 2025



The City's Investment Policy allows for a 5-year time horizon with an emphasis on liquidity. As of September 30, 2025, 29% of the City's funds were invested in very short-term or overnight investments, 13% of the funds were invested with maturities between 91 days and 2 years, and 55% 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, 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.