

City of Napa
Quarterly Investment Report
as of March 31, 2026

Introduction

This report represents the City's investment portfolio as of March 31, 2026. 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).

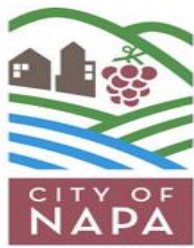
Current Market Conditions

Labor market data remained steady with unemployment at 4.3% in March. Monthly payroll employment remained subdued and averaged 68,000 new jobs per month over the quarter. Initial jobless claims held near historically low levels and continuing claims declined, reinforcing the persistence of a “low-hire, low-fire” environment.

The primary source of market disruption was the effective halt of traffic through the Strait of Hormuz, a critical artery for global oil shipments. As a result, crude oil prices increased by over 60% in March alone. Market volatility indices jumped to 12-month highs, equity markets sold off sharply, and interest rates increased as the implications of rising energy prices pushed up near term inflation expectations.

Seemingly overshadowed by geopolitical headlines, the Federal Open Market Committee (FOMC) met in March and held its target range unchanged at 3.50% to 3.75%, as expected. The FOMC maintained its “dot plot” projection for one 25 basis point rate cut in 2026. Fed Chair Jerome Powell also acknowledged the path forward is complicated by the Middle Eastern conflict, making it more challenging for the Fed to balance its dual mandate of price stability and maximum employment.

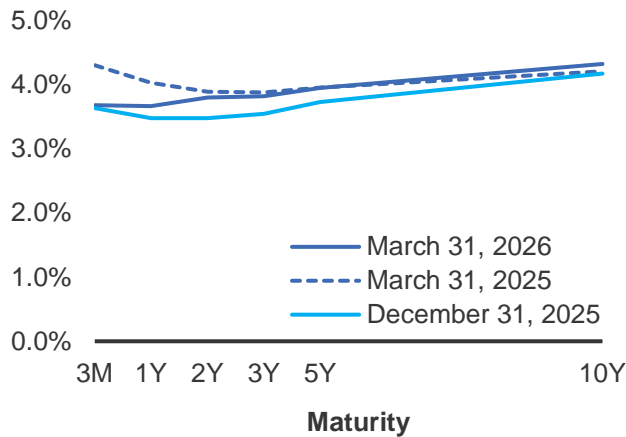
Yields on 3-month, 2-year, and 10-year U.S. Treasuries ended March at 3.67%, 3.79%, and 4.32%, representing changes of +4 bps, +21 bps, and +15 bps, respectively, over the past quarter.



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Yield Curve History

U.S. Treasury Yield Curve



Maturity	3/31/2026	12/31/25	Q over Q Change
3-Mo.	3.67%	3.63%	0.04%
6-Mo.	3.70%	3.61%	0.09%
1-Yr.	3.66%	3.48%	0.19%
2-Yr.	3.79%	3.47%	0.32%
3-Yr.	3.82%	3.54%	0.28%
5-Yr.	3.94%	3.73%	0.22%
10-Yr.	4.32%	4.17%	0.15%

Source: Bloomberg Finance LP.

Portfolio Strategy and Performance

At quarter end, the portfolio’s duration was 2.59 years, which was 105% of the benchmark duration. We continued to manage the portfolio’s duration at this near neutral position relative to the benchmark duration. Investment-Grade (IG) corporate bond yield spreads were stable in the first two months of the quarter. However, in response to geopolitical tensions, heightened issuance, and concerns over private debt capital in the last month of the quarter, spreads widened noticeably. Excess returns for the sector were generally negative, but strong carry is expected to provide support.

Longer duration bond indices experienced the greatest pressure from rising yields, with higher rates adversely impacting valuations. As bond yields remain firmly above multi-year averages, income remains a key component of total returns. The ICE BofA 3-month and 2-year U.S. Treasury indices returned 0.85% and 0.23% while the 5- and 10-year U.S. Treasury indices fell -0.01% and -0.11% for the quarter, respectively. Both the City’s portfolio and its benchmark also returned positive performance for the quarter,



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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.

Total Return Comparison
Periods Ending March 31, 2026

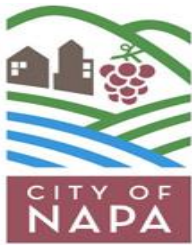
	Past Quarter	Past Year	Past 3 Years	Past 5 Years
City of Napa	0.24%	4.33%	1.88%	2.10%
ICE BofA 1-5 Year Government Index	0.20%	3.86%	1.49%	1.70%
LAIF Yield	1.32%	4.34%	4.10%	2.97%

*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 \$299,021,119.82 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.

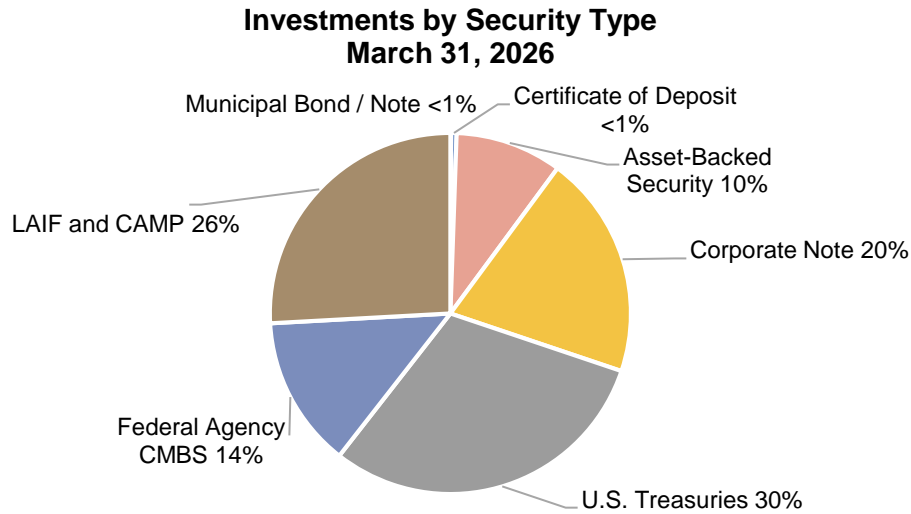
The City's portfolio is well diversified by investment type and consists of U.S. Treasuries, federal agency commercial mortgage-backed securities (CMBS), municipals, corporate notes (including bank notes), negotiable certificates of deposit, asset-backed securities, and cash instruments such as CAMP and LAIF and bank notes. As noted in the following chart and on the attached investment detail report, as of March 31, 2026, 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 28% of the portfolio is allocated to high quality credit instruments including



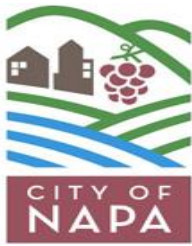
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negotiable certificates of deposit, corporate notes (including bank notes), and asset-backed securities, and less than 1% is in municipal obligations.

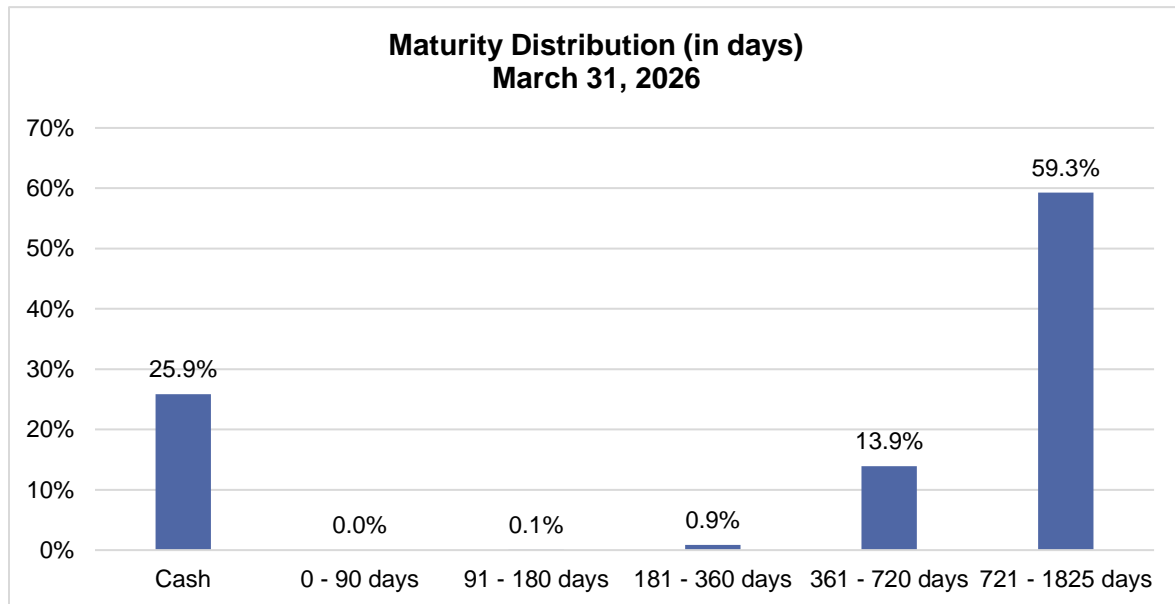
The City's Investment Policy allows for a 5-year time horizon with an emphasis on liquidity. As of March 31, 2026, 26% of the City's funds were invested in very short-term or overnight investments, 15% of the funds were invested with maturities between 91 days and 2 years, and 59% of the investment portfolio 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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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.