ATTACHMENT 1

City of Napa
Quarterly Investment Report
as of March 31, 2025

Introduction

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

In the first calendar quarter, U.S. economic conditions were characterized by a labor market that continued to serve as a backbone; goods inflation that weighed on progress towards the Fed's 2% inflation target; and fiscal policy uncertainty and volatile tariff rollouts that weighed on consumer sentiment.

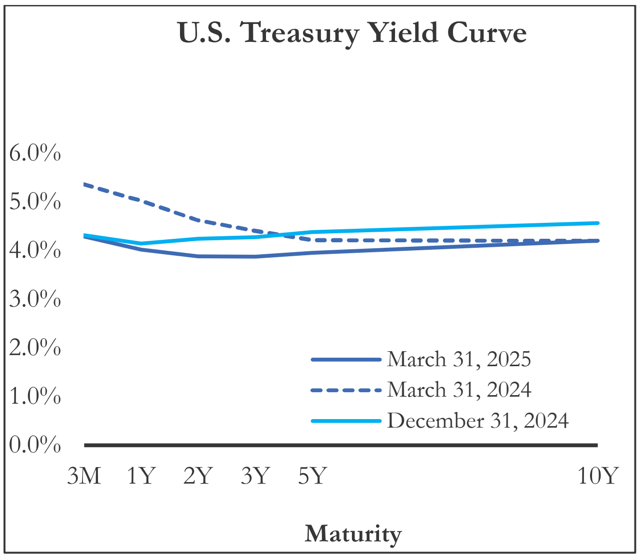
The second quarter of 2025 got off to a turbulent start as markets reacted to the April 2nd announcement of tariffs on so called "Liberation Day." The levies, which were significantly more punitive than originally anticipated, include a flat 10% tariff on all imports as well as more focused tariffs on specific countries with which the U.S. runs large trade deficits.

Several major Wall Street firms reacted to the tariffs by lowering growth forecasts and increasing inflation expectations for 2025. Equity prices declined nearly 10% and the yield on the 5-year U.S. Treasury fell over 25 basis points (bps) over the two-day period following the announcement.

At the Federal Open Market Committee (FOMC) meeting several weeks earlier, the Federal Reserve (Fed) held the target range for the federal funds rate steady at 4.25% to 4.50%. The Fed's "dot plot" continued to show a total of 50 bps of rate cuts over the balance of 2025 while its Summary of Economic Projections showed worse outlooks for GDP and PCE Inflation.

The U.S. Treasury yields between six months and seven years declined during March and were led lower by deteriorating growth expectations over the intermediate term. Meanwhile, the yield on the 10-year U.S. Treasury was essentially unchanged. In early April yields fell significantly across the curve in response to tariff news. The yield on the 2-, 5-, and 10-year Treasuries ended the quarter at 3.88%, 3.95%, and 4.21%. This represents decreases of 36, 43, and 36 bps, respectively.

Yield Curve History



Source: Bloomberg Finance LP.

Maturity	3/31/25	12/31/24	Q over Q Change
3-Mo.	4.29%	4.32%	-0.02%
6-Mo.	4.22%	4.27%	-0.04%
1-Yr.	4.02%	4.15%	-0.12%
2-Yr.	3.88%	4.24%	-0.36%
3-Yr.	3.87%	4.27%	-0.40%
5-Yr.	3.95%	4.38%	-0.43%
10-Yr.	4.21%	4.57%	-0.36%

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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Total Return Comparison
Periods Ending March 31, 2025

	Past Quarter	Past Year	Past 3 Years	Past 5 Years
City of Napa	1.95%	5.79%	2.95%	1.40%
BofA Merrill Lynch 1-5 Year Government Index	2.00%	5.50%	2.49%	0.71%
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 March 31, 2025, invested funds totaled $319,294,109.82 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. As noted in the following chart and on the attached investment detail report, as of March 31, 2025, approximately 74% 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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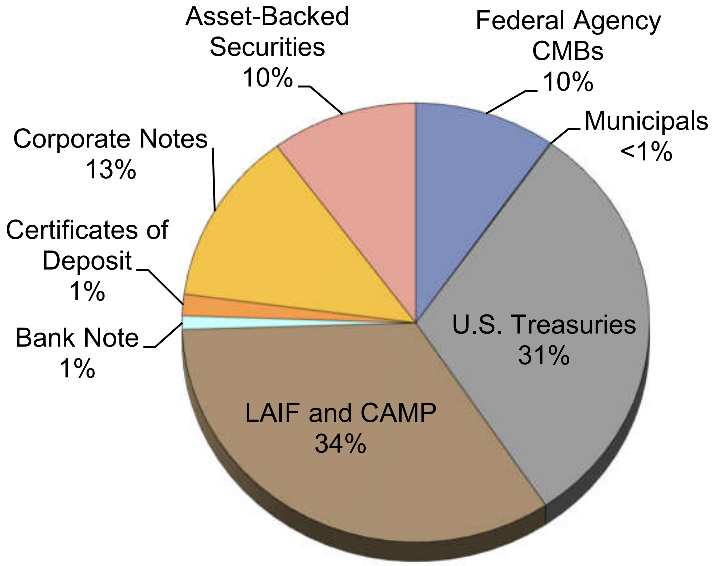
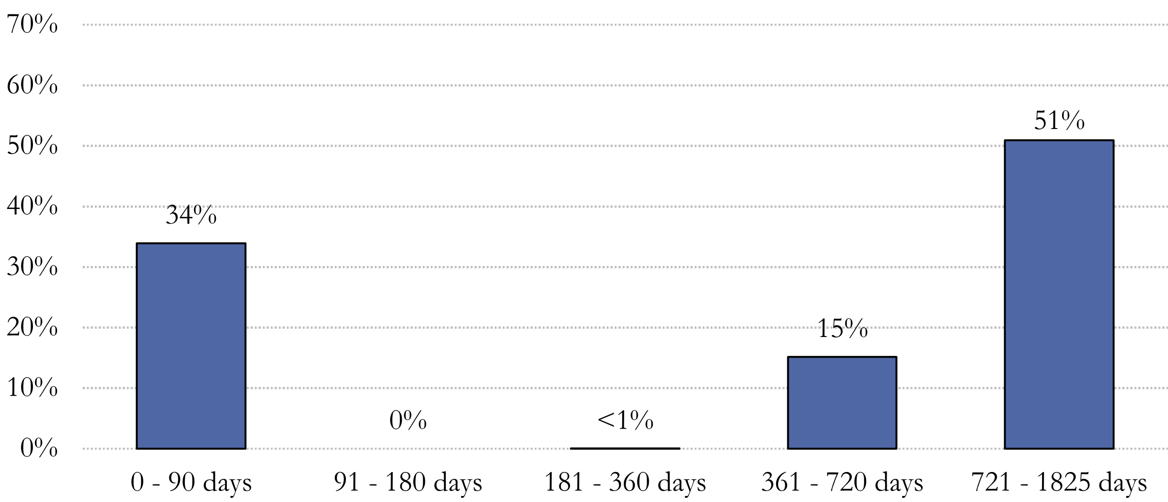
Investments by Type
March 31, 2025



The City's Investment Policy allows for a 5-year time horizon with an emphasis on liquidity. As of March 31, 2025, 34% 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 51% 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
March 31, 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.