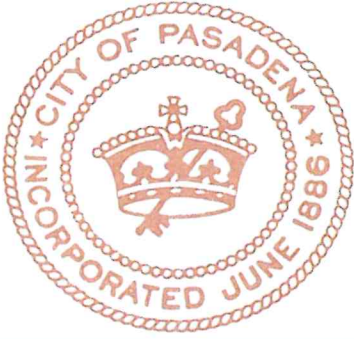




Agenda Report

November 24, 2025

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
SEPTEMBER 30, 2025**

RECOMMENDATION:

This report is for information. There is no staff recommendation for this item. The City Council may; however, take action relating to this item as it deems appropriate following consideration and discussion of the matter.

BACKGROUND:

Government Code Section 53646 (2)(b)(1) states that in the case of a local agency, the Treasurer or Chief Fiscal Officer (CFO) may render a quarterly report to the legislative body of the local agency containing detailed information on: 1) all securities, investments, and moneys of the local agency; 2) a statement of compliance of the portfolio with the statement of investment policy; and 3) a statement of the local agency's ability to meet its pool's expenditure requirements for the next six-months. By making these reports optional, this bill does not impose a state-mandated local program; however, encourages local agencies to continue to report. The bill also states that the Treasurer or CFO may report whatever additional information or data may be required by the legislative body of the local agency.

The quarterly report shall include the following:

1. The type of investment, name of the issuer, date of maturity, par, and dollar amount invested in each security, investment, and money within the treasury;
2. The weighted average maturity of the investments within the treasury;
3. Any funds, investments, or programs, including loans, that are under the management of contracted parties;

4. The market value as of the date of the report and the source of this valuation for any security within the treasury; and
5. A description of the compliance with the *Statement of Investment Policy*.

Economic Summary

In the third quarter (Q3) of 2025, the US economy showed resilience amid challenges. Private forecasters project 2.7% annualized Gross Domestic Product (GDP) growth, fueled by strong consumer spending (up 2.8% in the early quarter), and AI investment, though official data is delayed by the government shutdown. Inflation held at 3.0% (above target), the labor market cooled slightly with steady private hiring and low unemployment, and housing warmed modestly on lower rates and rising inventory. Equity markets rallied; the S&P 500 index increased 8.1% on AI enthusiasm. The Fed cut rates 25 bps and bonds gained modestly, underscoring the value of diversified portfolios.

Growth (GDP):

Private-sector forecasters projected a solid 2.7% annualized GDP growth for Q3 2025, up sharply from July's 1.0% median forecast. Consumer spending rose 2.8% annually in July-August, core business shipments grew 3.3%, and AI research fueled intellectual property investment.

Consumer Spending:

Early Q3 2025 retail sales signal ongoing strength while confidence remains low. The Michigan Confidence Index measured at 55.4 in September amid limited tariff pass-through and elevated inflation expectations.

Housing Market:

The housing market warmed slightly in Q3 2025, 30-year mortgage rates hit an 11-month low of 6.3%, home prices rose just 1.8% (below inflation), and inventory topped 1 million listings, boosting existing-home sales by 4.2% and new-home sales by 1.7%. New home starts stayed flat amid overbuilding in the South/West and buyer caution over jobs and rates. Affordability improved as incomes rose 3.2% annually and builders offered smaller, simpler homes; the Mortgage Bankers Association Purchase Index signals growing buyer power ahead.

Labor Market:

During the first two months of Q3 2025, payroll growth eased to 51,000/month (from 55,000 in Q2) due to federal job cuts, while private hiring held at 58,000. Unemployment averaged 4.29% (below Congressional Budget Office's 4.4% benchmark), overall labor force participation rate dipped to 62.3%, but prime age rose

to 83.6%. Job openings fell to 7.2 million yet kept a 1:1 ratio with unemployed; layoffs remained low at 1.3%.

Inflation:

In Q3 2025, headline Consumer Price Index inflation held at 3.0% year-over-year through September, above the 2% target, driven by earlier price surges from late 2024 into early 2025. Energy prices accelerated due to higher gasoline costs, while food prices rose moderately. Core inflation also stood at 3.0% annually, with steady housing rent increases at 3.7% (the slowest since 2021) and non-housing services at 3.8%. The Personal Consumption Expenditures Index, which weights items differently, showed slightly lower rates of 2.7% headline inflation and 2.9% core inflation through August and remains above the Fed's 2% target rate.

Financial Markets:

US equities surged in Q3 2025, with the S&P 500 up 8.1% (YTD 14.8%), driven by AI infrastructure spending from tech giants now 40% of the index, though doubts linger on commercial viability. The Fed cut rates 25 bps to 4.00–4.25% range, shifting focus to labor amid sticky inflation; gold rallied on Fed independence concerns. Fixed income gained, with the Bloomberg U.S. Aggregate Bond Index returning 2.0% on lower yields and coupons, while high yield rose 2.5% amid tight spreads.

Total Funds Under Management

The table below represents total City funds under management based on their market values as of September 30, 2025:

	09/30/2025	06/30/2025	Change
Pooled Investment Portfolio	\$811,275,519	\$815,652,671	(4,377,152)
Capital Endowment	1,545,663	1,528,677	16,986
Stranded Investment Reserve Portfolio	45,439,180	44,807,154	632,026
Special Funds	17,888,559	17,728,918	159,641
Investments Held with Fiscal Agents	239,213,701	239,549,432	(335,731)
PARS Section 115 Trust	17,576,534	16,979,488	597,046
Total Funds Under Management	\$1,132,939,156	\$1,136,246,340	\$(3,307,184)

The Pooled Investment Portfolio value increased by a net \$(4,377,152) due to the following cash transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ 9,216,156
Deposits and Credit Card Receipts	167,838,451
Property Tax Revenues	4,482,838
Sales Tax and Other State Apportionments	23,315,588
HUD Receipts Net of Payments and Loans	6,720,019
Payroll and Payroll-related Expenses	(94,744,437)
Vendor Payments and Accounts Payable Checks	(87,086,202)
Debt Service Payments Net of Reimbursements and Subsidies	(8,153,386)
Water and Power Payments Net of Receipts	(30,994,988)
Net Transfer from Other Funds	(756,282)
National Fire & Insurance payment (Eaton Fire Losses) 2nd partial payment	5,785,091
Total	\$ (4,377,152)

The Capital Endowment Fund increase by \$16,986, representing investment earnings for the period.

The Stranded Investment Reserve portfolio increased by \$632,026, representing investment earnings for the period adjusted by the change in the market value of investments.

Special Funds increased by \$159,641, representing investment earnings for the period adjusted by the change in market value of investments.

Investments held with fiscal agents decrease by a net \$335,731 due to the following:

- A decrease of \$2,473,063 in trustee accounts related to debt service payments on the 2008 Paseo Bonds, 2016A Rose Bowl Bonds, and 2025 GO Bonds.
- An increase of \$2,137,332 due to investment earnings, adjusted for changes in the market value of investments.

The PARS Section 115 Trust account increased by \$597,046. The change was comprised of a \$617,167 increase in market value of investments adjusted by \$20,121 of investment expenses.

The City pools all internal funds to gain economies of scale and to simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of September 30, 2025, the General Fund's investment balance was estimated at \$89.6 million representing 11.05% of the September 30, 2025, Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of revenues, receipts, and payment of expenditures. Investments in the Capital Endowment Fund, the Stranded Investment Reserve Fund, the Special Funds, the PARS Section 115 Trust account, and funds held with fiscal agents are restricted funds or bond proceeds reserved in accordance with the City Charter, City ordinances, bond indentures, and Trust Agreements. The City targets an average duration of two-years in managing the pooled portfolio with an effective historic duration range of 1.5 to 2.5 years based on market conditions and the portfolio's risk and return evaluation, the Treasury Yield

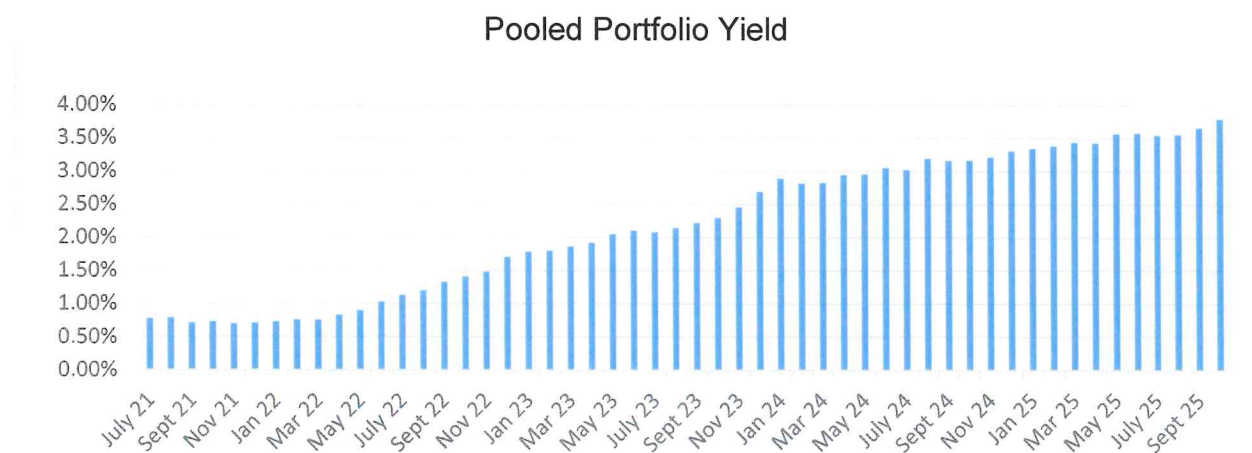
Curve, and industry best practices as it pertains to public funds management. As of September 30, 2025, the portfolio's effective duration was 1.88 years.

Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of September 30, 2025. On a monthly basis, the City Treasurer prices the pooled portfolio and all other funds and investments under management. The market values are obtained from Interactive Data Corporation (IDC) and from Bloomberg Financial System. IDC is an independent third-party whose sole service is to provide market prices for all types of securities.

The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's Fiscal Year 2026 Investment Policy, which was adopted by the City Council on June 9, 2025, and Section 53600 of the State Government Code. The City Treasurer targets to maintain in excess of \$70 million short-term, liquid investments (1-to-90-day maturities), which represents approximately 1/12th of the City's total aggregate annual Operating Budget. As of September 30, 2025, the portfolio had \$171.6 million in overnight short-term investments. This balance, along with anticipated cash flows into the City's account, represents a strong liquidity position to meet budgeted expenditures for the next three-months.

The yield to maturity on the pooled portfolio began gradually increasing beginning April 2023 as a result of the Fed tightening the monetary policy by raising the Fed Funds rate. However, interest rates across the Treasury Yield Curve decreased during the quarter with the most declines occurring on the two to five-year maturities. The yield on the pooled portfolio tripled in the last twenty-four months and is expected to continue to increase over the next twelve-month period. The earnings rate on the pooled portfolio as of October 2025 was 3.79%.

The graph below represents the historic yield of the Pooled Portfolio from July 2021 to period ending October 31, 2025:



COUNCIL POLICY CONSIDERATION:

This quarterly report supports the City Council's strategic planning goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

There is no fiscal impact as a result of this report, nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

Respectfully submitted,



VICKEN (VIC) ERGANIAN
Acting Director of Finance

Approved by:



MIGUEL MÁRQUEZ
City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending September 30, 2025