



City of Naperville

Quarterly Performance Report
June 30, 2025

Total Fund Composite

Manager Status

Investment Manager	Asset Class	Status	Reason
PFM	Int. Govt. Fixed Income	In Compliance	--
MetLife	Int. Fixed Income	On Notice	Organization Issues
Wintrust MFT Account - 6092	Cash & Equivalents	In Compliance	--
Wintrust General Account - 3763	Cash & Equivalents	In Compliance	--

Market Value History



Summary of Cash Flows

	1 Quarter (\$)	Year To Date (\$)	1 Year (\$)	3 Years (\$)	5 Years (\$)
Beginning Market Value	200,942,789	201,562,577	242,033,662	220,447,714	153,086,075
Net Cash Flow	54,910,963	49,763,524	3,124,888	14,298,724	94,323,798
Net Investment Change	3,262,045	7,789,695	13,957,246	24,369,359	11,705,923
Ending Market Value	259,115,796	259,115,796	259,115,796	259,115,796	259,115,796

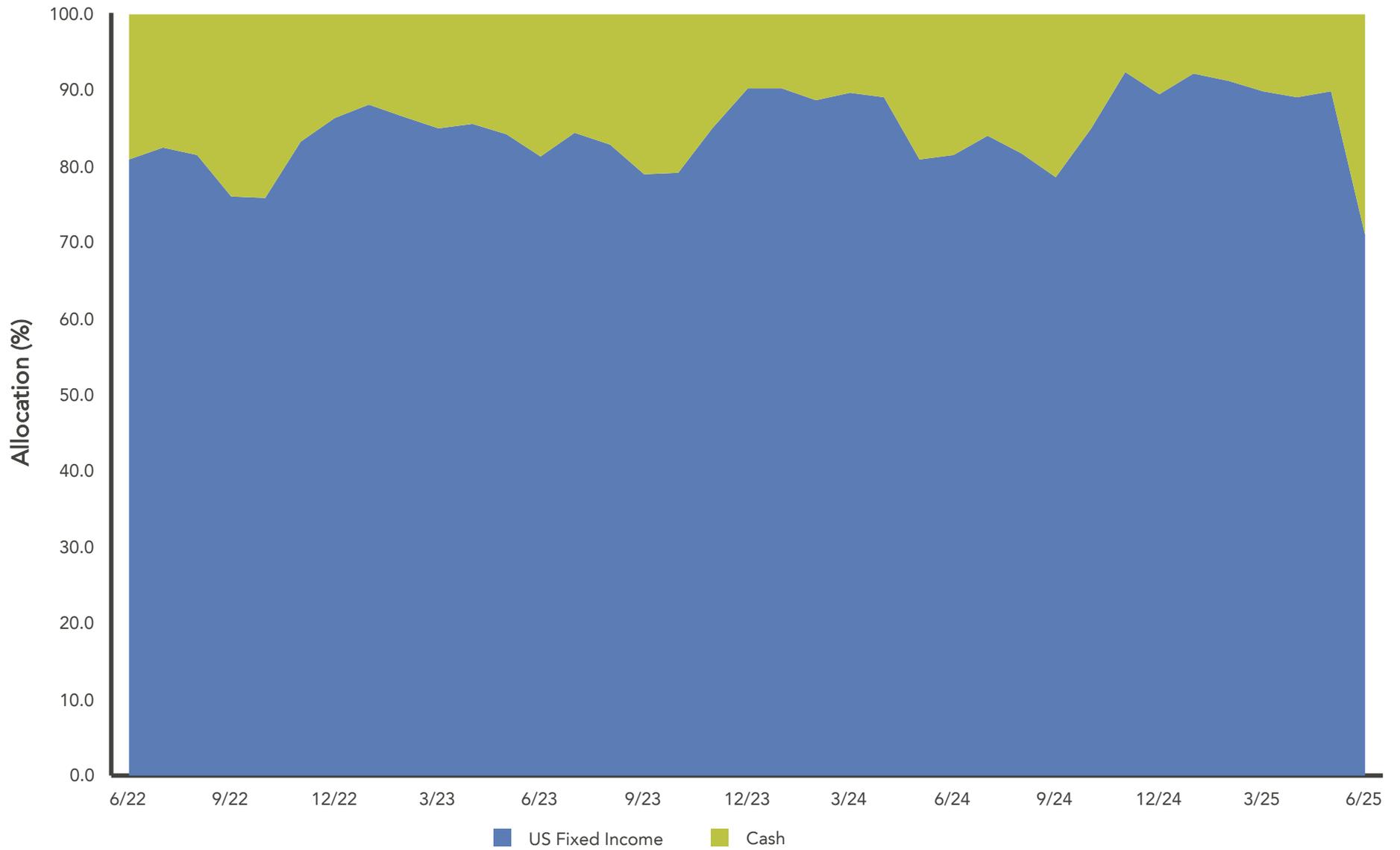
Total Fund Composite

Portfolio Allocation
As of June 30, 2025

	Asset Class	Current Balance	Current Allocation	Policy	Difference
Total Fund Composite		259,115,796	100.0	100.0	
Fixed Income Composite		183,845,576	71.0	85.0	-36,402,851
PFM	Int. Govt. Fixed Income	99,811,639	38.5	42.5	-10,312,575
MetLife	Int. Fixed Income	84,033,938	32.4	42.5	-26,090,276
Cash Equivalents Composite		75,270,220	29.0	15.0	36,402,851
Wintrust MFT Account - 6092	Cash & Equivalents	11,988,636	4.6		
Wintrust General Account - 3763	Cash & Equivalents	63,281,584	24.4		

Total Fund Composite

Historical Asset Allocation
3 Years Ending June 30, 2025



Total Fund Composite

Annualized Performance (Net of Fees)
As of June 30, 2025

	3 Mo (%)	YTD (%)	1 Yr (%)	2 Yrs (%)	3 Yrs (%)	4 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)
Total Fund Composite	1.6	4.0	6.7	5.5	3.8	1.2	0.9	2.2	1.7
Policy Benchmark	1.4	3.7	6.0	4.9	3.1	0.9	0.5	2.0	1.6
Fixed Income Composite	1.7	4.1	6.8	5.5	3.6	0.8	0.6	2.2	1.8
Custom Fixed Income Benchmark	1.6	4.1	6.5	5.2	3.2	0.6	0.4	2.2	1.8
Blmbg. U.S. Government: Intermediate Index	1.5	4.0	6.3	4.8	2.8	0.5	0.2	1.9	1.5
Blmbg. Intermed. U.S. Government/Credit	1.7	4.1	6.7	5.5	3.6	0.7	0.6	2.4	2.0
Cash Equivalents Composite	1.0	2.3	5.2	5.2	4.5	3.3	2.7	2.0	1.4
ICE BofA 3 Month U.S. T-Bill	1.0	2.1	4.7	5.0	4.6	3.4	2.8	2.5	2.0

Total Fund Composite

Calendar Performance (Net of Fees)
As of June 30, 2025

	2024 (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Total Fund Composite	3.5	5.0	-6.7	-1.7	5.4	5.1	0.7	1.1	0.6
Policy Benchmark	2.9	4.4	-6.4	-1.4	5.0	4.8	1.5	1.1	0.9
Fixed Income Composite	3.4	4.9	-8.0	-1.8	6.1	6.1	0.8	1.4	1.1
Custom Fixed Income Benchmark	2.7	4.8	-8.0	-1.6	6.1	6.1	1.1	1.6	1.6
Blmbg. U.S. Government: Intermediate Index	2.4	4.3	-7.7	-1.7	5.7	5.2	1.4	1.1	1.1
Blmbg. Intermed. U.S. Government/Credit	3.0	5.2	-8.2	-1.4	6.4	6.8	0.9	2.1	2.1
eV US Interm Duration Fixed Inc Rank	33	85	19	86	71	82	32	92	94
Cash Equivalents Composite	5.3	4.9	0.9	0.0	0.1	0.6	0.3	0.0	0.0
ICE BofA 3 Month U.S. T-Bill	5.3	5.0	1.5	0.0	0.7	2.3	1.9	0.9	0.3

Total Fund Composite

Annualized Performance (Net of Fees)

As of June 30, 2025

	3 Mo (%)	YTD (%)	1 Yr (%)	2 Yrs (%)	3 Yrs (%)	4 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)
Total Fund Composite	1.6	4.0	6.7	5.5	3.8	1.2	0.9	2.2	1.7
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Fixed Income Composite	1.7	4.1	6.8	5.5	3.6	0.8	0.6	2.2	1.8
Custom Fixed Income Benchmark	1.6	4.1	6.5	5.2	3.2	0.6	0.4	2.2	1.8
Blmbg. U.S. Government: Intermediate Index	1.5	4.0	6.3	4.8	2.8	0.5	0.2	1.9	1.5
Blmbg. Intermed. U.S. Government/Credit	1.7	4.1	6.7	5.5	3.6	0.7	0.6	2.4	2.0
PFM	1.7	4.1	6.9	5.7	3.7	0.9	0.7	2.4	-
Blmbg. U.S. Government: Intermediate Index	1.5	4.0	6.3	4.8	2.8	0.5	0.2	1.9	1.5
MetLife	1.7	4.1	6.7	-	-	-	-	-	-
Blmbg. Intermed. U.S. Government/Credit	1.7	4.1	6.7	5.5	3.6	0.7	0.6	2.4	2.0
Cash Equivalents Composite	1.0	2.3	5.2	5.2	4.5	3.3	2.7	2.0	1.4
ICE BofA 3 Month U.S. T-Bill	1.0	2.1	4.7	5.0	4.6	3.4	2.8	2.5	2.0
Wintrust MFT Account - 6092	1.2	2.4	5.1	5.3	-	-	-	-	-
ICE BofA 3 Month U.S. T-Bill	1.0	2.1	4.7	5.0	4.6	3.4	2.8	2.5	2.0
Wintrust General Account - 3763	0.8	2.4	5.5	5.3	4.4	-	-	-	-
ICE BofA 3 Month U.S. T-Bill	1.0	2.1	4.7	5.0	4.6	3.4	2.8	2.5	2.0

Total Fund Composite

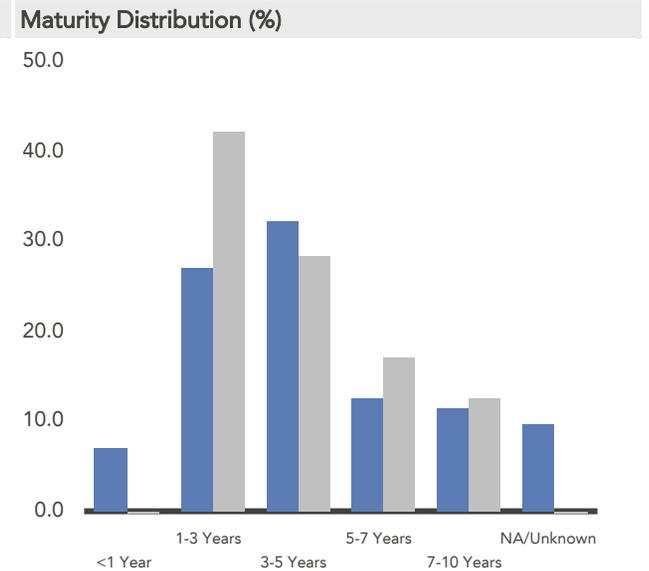
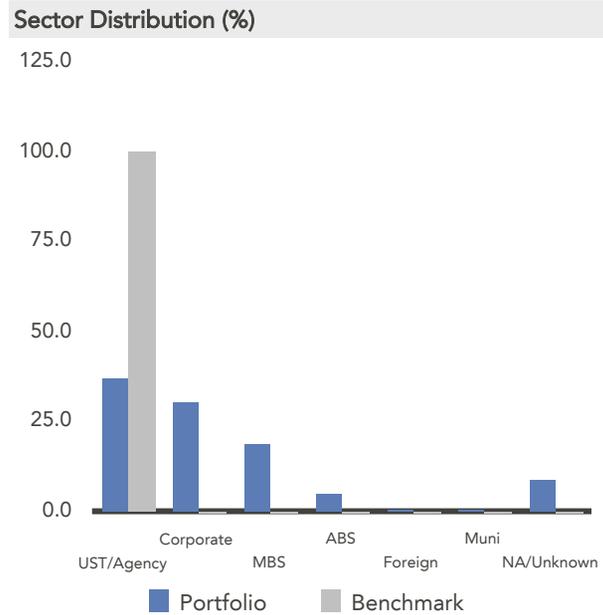
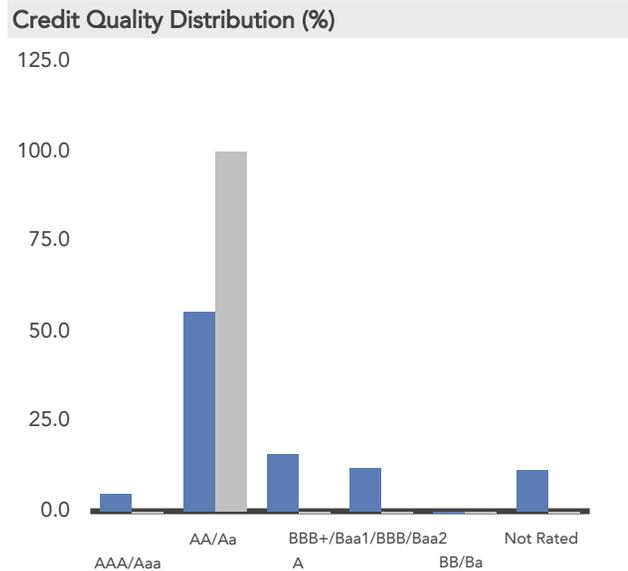
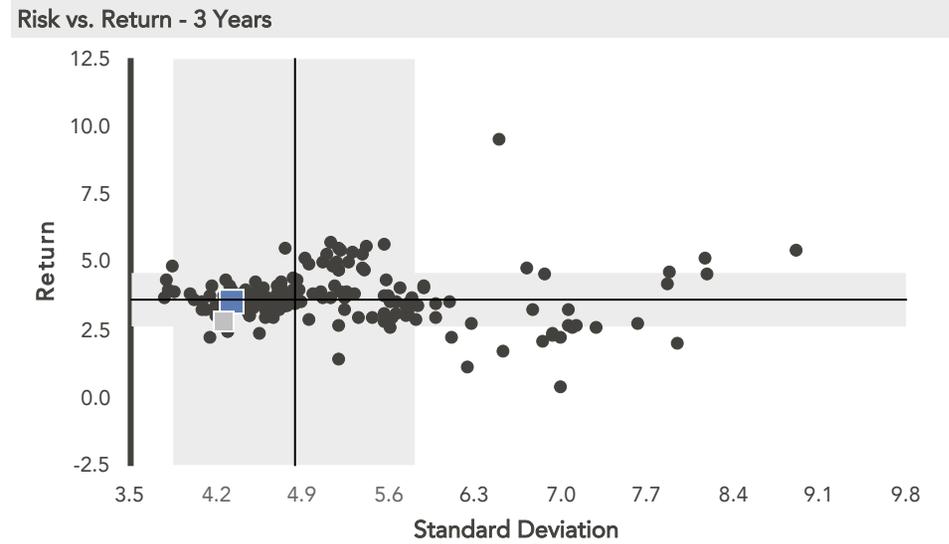
Calendar Performance (Net of Fees)
As of June 30, 2025

	2024 (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Total Fund Composite	3.5	5.0	-6.7	-1.7	5.4	5.1	0.7	1.1	0.6
Policy Benchmark	2.9	4.4	-6.4	-1.4	5.0	4.8	1.5	1.1	0.9
Fixed Income Composite	3.4	4.9	-8.0	-1.8	6.1	6.1	0.8	1.4	1.1
Custom Fixed Income Benchmark	2.7	4.8	-8.0	-1.6	6.1	6.1	1.1	1.6	1.6
Blmbg. U.S. Government: Intermediate Index	2.4	4.3	-7.7	-1.7	5.7	5.2	1.4	1.1	1.1
Blmbg. Intermed. U.S. Government/Credit	3.0	5.2	-8.2	-1.4	6.4	6.8	0.9	2.1	2.1
eV US Interm Duration Fixed Inc Rank	33	85	19	86	71	82	32	92	94
PFM	3.4	5.3	-7.8	-1.7	5.9	6.2	1.2	1.3	-
Blmbg. U.S. Government: Intermediate Index	2.4	4.3	-7.7	-1.7	5.7	5.2	1.4	1.1	1.1
eV US Interm Duration Fixed Inc Rank	32	69	16	79	76	81	9	95	-
MetLife	3.3	-							
Blmbg. Intermed. U.S. Government/Credit	3.0	5.2	-8.2	-1.4	6.4	6.8	0.9	2.1	2.1
eV US Interm Duration Fixed Inc Rank	37	-	-	-	-	-	-	-	-
Cash Equivalents Composite	5.3	4.9	0.9	0.0	0.1	0.6	0.3	0.0	0.0
ICE BofA 3 Month U.S. T-Bill	5.3	5.0	1.5	0.0	0.7	2.3	1.9	0.9	0.3
Wintrust MFT Account - 6092	5.5	5.2	-						
ICE BofA 3 Month U.S. T-Bill	5.3	5.0	1.5	0.0	0.7	2.3	1.9	0.9	0.3
Wintrust General Account - 3763	5.4	4.7	-						
ICE BofA 3 Month U.S. T-Bill	5.3	5.0	1.5	0.0	0.7	2.3	1.9	0.9	0.3

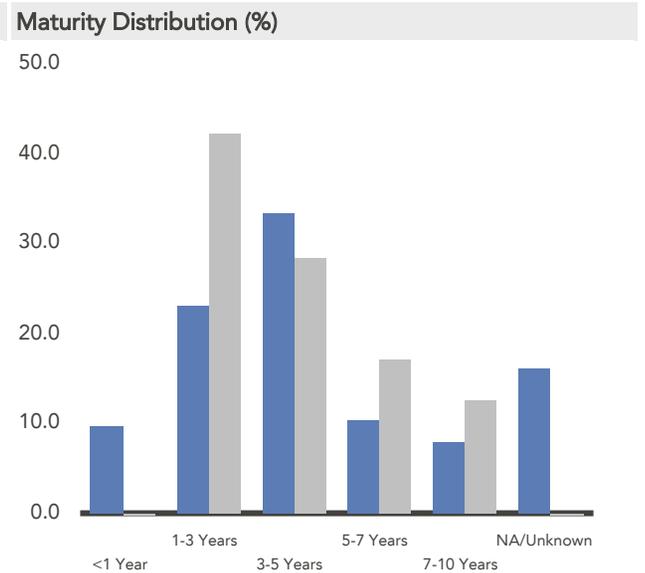
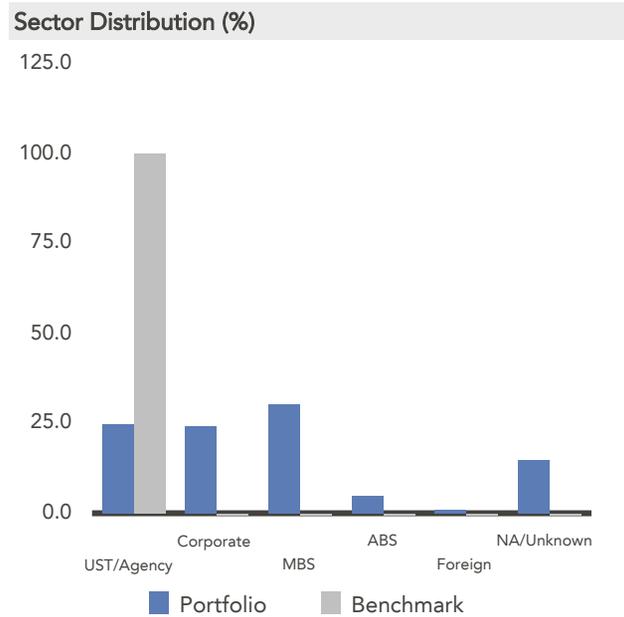
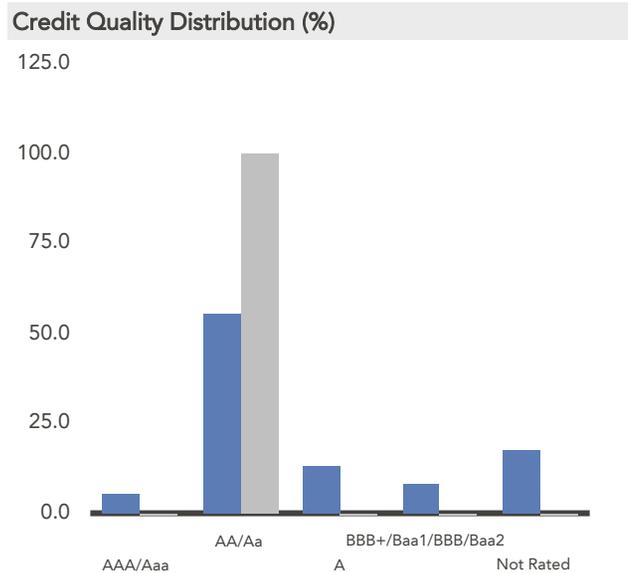
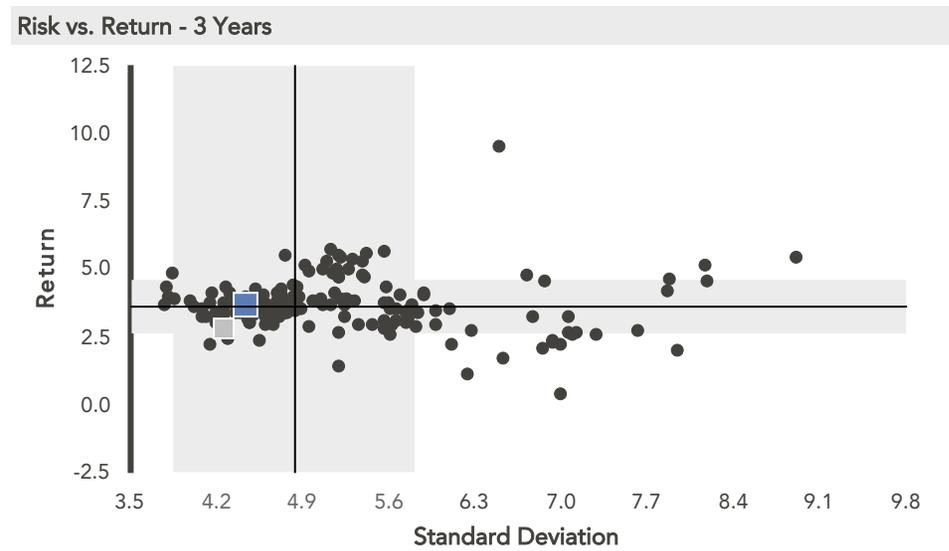
Fixed Income Composite

Portfolio Characteristics
As of June 30, 2025

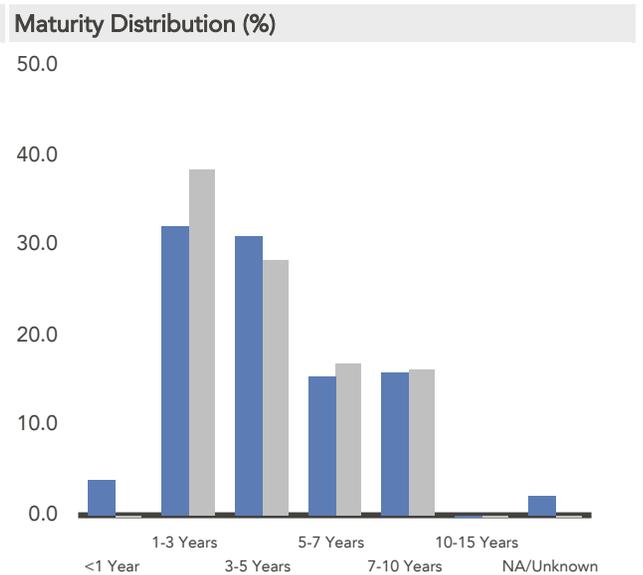
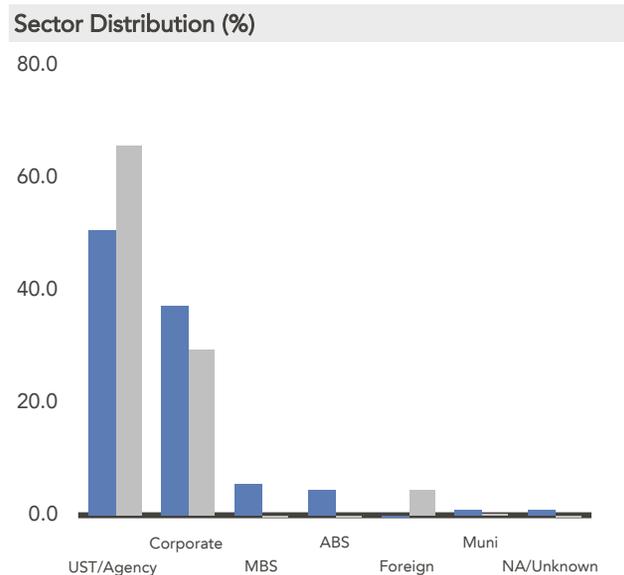
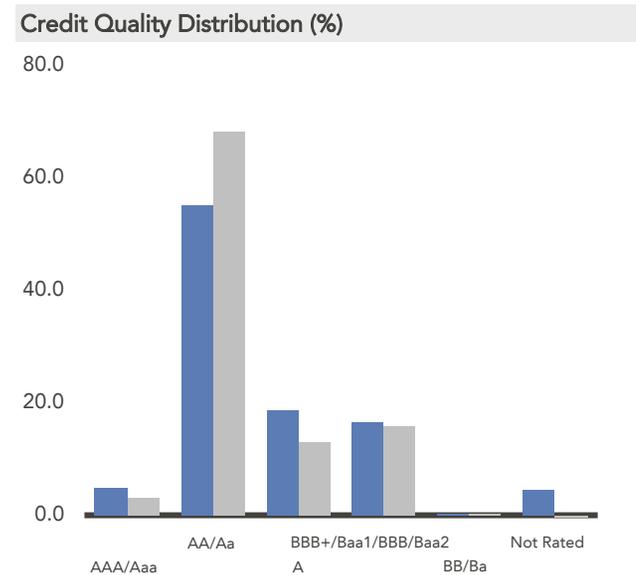
Portfolio Characteristics	Portfolio	Blmbg. U.S. Government: Intermediate Index
Avg. Maturity (yrs.)	4.1	4.0
Avg. Quality	AA	AA
Coupon Rate (%)	3.8	3.2
Modified Duration (yrs.)	3.4	3.6
Effective Duration (yrs.)	3.5	3.6
Yield To Maturity (%)	4.2	3.8
Yield To Worst (%)	4.2	3.8



Portfolio Characteristics	Portfolio	Blmbg. U.S. Government: Intermediate Index
Avg. Maturity (yrs.)	3.8	4.0
Avg. Quality	AA	AA
Coupon Rate (%)	3.4	3.2
Modified Duration (yrs.)	3.1	3.6
Effective Duration (yrs.)	3.2	3.6
Yield To Maturity (%)	4.3	3.8
Yield To Worst (%)	4.3	3.8



Portfolio Characteristics	Portfolio	Blmbg. Intermed. U.S. Government/Credit
Avg. Maturity (yrs.)	4.4	4.3
Avg. Quality	A	AA
Coupon Rate (%)	4.3	3.6
Modified Duration (yrs.)	3.8	3.8
Effective Duration (yrs.)	3.8	3.8
Yield To Maturity (%)	4.2	4.1
Yield To Worst (%)	4.2	4.1



Total Fund Composite

Fee Schedule
As of June 30, 2025

Asset Class	Investment Manager	Fee Schedule	Est. Annual Fee ¹	Expense Ratio	Industry Median ²
Int. Govt. Fixed Income	PFM	0.10% on the first \$25 million 0.08% on the next \$25 million 0.07% on the next \$50 million 0.06% on the balance	\$79,868	0.08%	0.24%
Int. Fixed Income	MetLife	0.075% on the first \$50 million 0.05% on the balance	\$54,517	0.06%	0.25%
Total Investment Management Fees			\$134,385	0.05%	0.28%
Investment Consultant	Marquette Associates, Inc.	\$30,000 Annual Fee	\$30,000	0.01%	
Total Fund	Total Fund		\$164,385	0.06%	

¹ Expense Ratio & Estimated Annual Fee are Based on Market Value at Quarter End.

² Source: Marquette Associates Investment Management Fee Study.

Total Fund Composite

	Weight (%)
Custom Fixed Income Benchmark : Jul-2024	
Blmbg. Intermed. U.S. Government/Credit	50.00
Blmbg. U.S. Government: Intermediate Index	50.00

Benchmark Composition As of June 30, 2025

	Weight (%)
Policy Benchmark : Jan-1978	
Blmbg. U.S. Government: Intermediate Index	85.00
ICE BofA 3 Month U.S. T-Bill	15.00

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CITY OF NAPERVILLE

Investment Performance Review For the Quarter Ended June 30, 2025

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Chris Harris, Director

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Agenda

- Market Update
- Portfolio Review

Market Update

Current Market Themes



- ▶ U.S. economy is resilient but showing signs of cooling
 - ▶ Headline employment data belies underlying weakening
 - ▶ Inflation remained rangebound but does not yet reflect the full impact of tariffs
 - ▶ Fiscal policy uncertainty and volatile tariff rollouts weigh on consumer sentiment



- ▶ Fed remains on hold but may cut rates later this year
 - ▶ The Fed's June "dot plot" implies 50 bps of cuts in the back half of 2025 but members are split between 0 and 2 cuts this year
 - ▶ Fed Chair Powell stated the effect, size, and duration of tariffs are all highly uncertain making staying on hold the appropriate thing to do as they wait to learn more

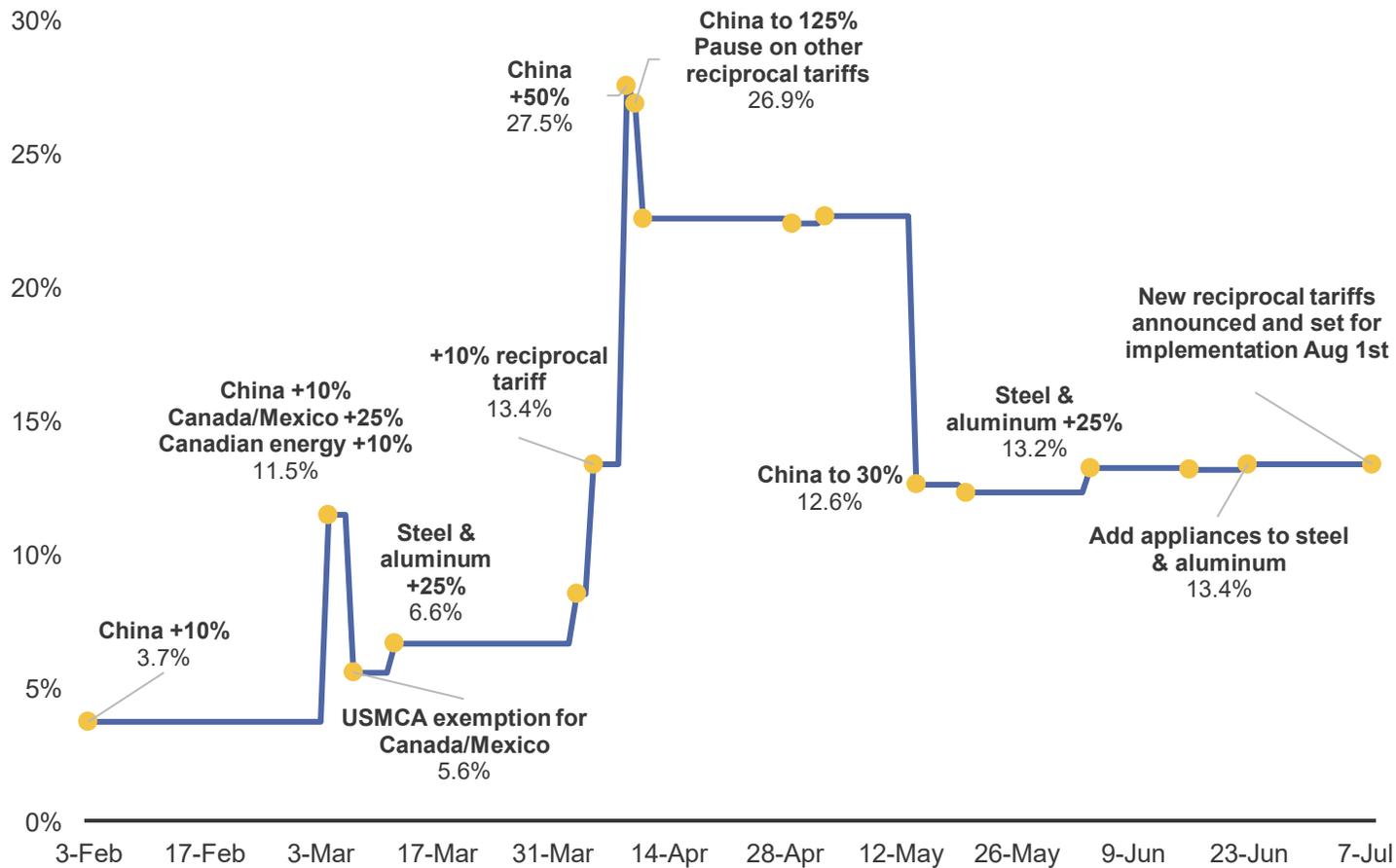


- ▶ Treasury yields whipsawed by tariff announcements in Q2
 - ▶ Concerns over the budget bill, debt ceiling, and monetary policy added to volatility
 - ▶ The yield curve continued to steepen between 2 years and 10 years
 - ▶ Credit spreads widened sharply following tariff fears but tightened to levels near historic tights by quarter end

Source: Details on market themes and economic indicators provided throughout the body of the presentation. Bloomberg Finance L.P., as of June 30, 2025.

Uncertainty Remains Exceptionally High

Effective Tariff Rate
 Select Activity from February 3, 2025 to July 8, 2025



Fiscal Policy Adds to Uncertainty



Budget/Spending



Tax Reform



Funding Freezes



Debt Ceiling

Source: Bloomberg Finance L.P. as of July 8, 2025. Yellow dots represent activity impacting effective tariff rate.

Impacts of Reconciliation Bill

Congressional Budget Office (CBO)

Select Sectors FY 2025 - FY 2034



TCJA & Tax Cuts

Increase deficit by **\$4.6 trillion**



Armed Services

Increase deficit by **\$149 billion**



Homeland Security

Increase deficit by **\$129 billion**



Medicare & Medicaid

Decrease deficit by **\$1.1 trillion**



Agriculture, Nutrition, and Forestry

Decrease deficit by **\$120 billion**

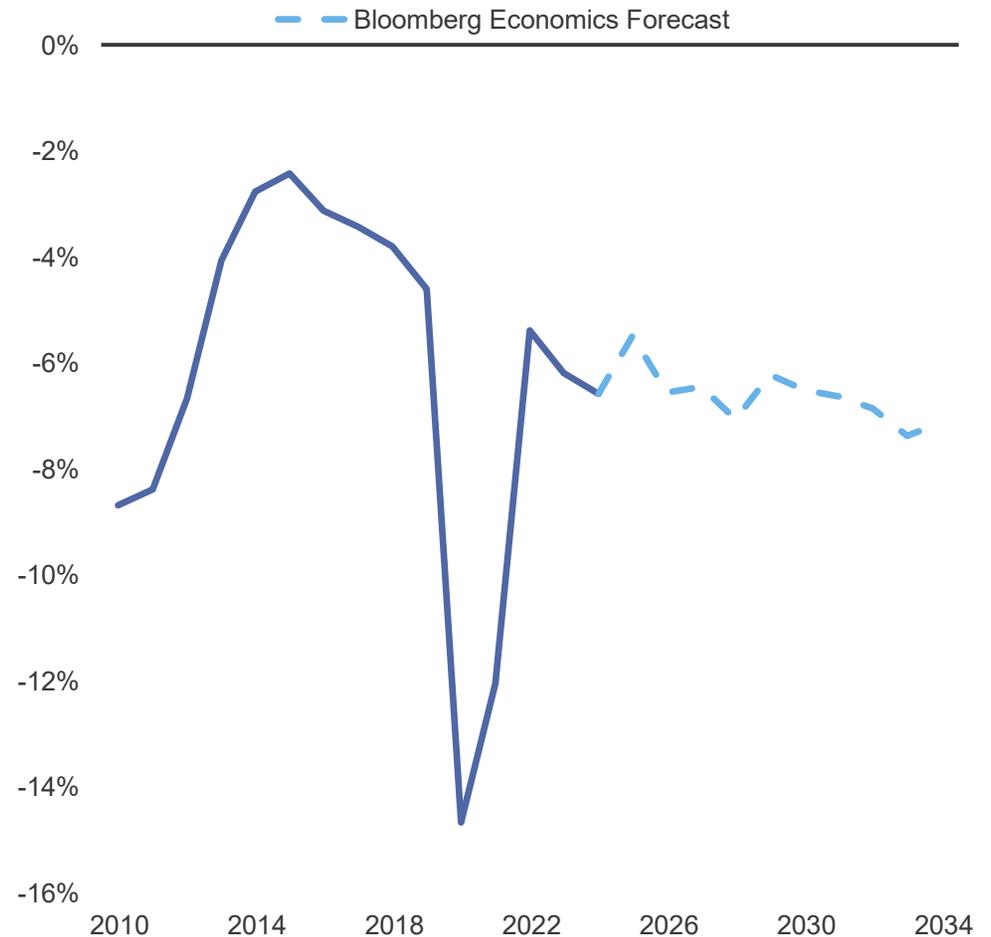


Other Spending Cuts

Decrease deficit by **\$371 billion**

Total Deficit Impact: -\$3.3 trillion

U.S. Deficit to GDP



Source: CBO: [Estimated Budgetary Effects of an Amendment in the Nature of a Substitute to H.R. 1, the One Big Beautiful Bill Act, Relative to CBO's January 2025 Baseline](#) | Congressional Budget Office. and Bloomberg Finance L.P., as of July 1, 2025.

Moody's Downgrades United States to Aa1

▶ Rationale for downgrade

- ▶ Large fiscal deficits which have led to increases in government debt and interest payment ratios to levels significantly above those of Aaa-rated peers
- ▶ High deficit-to-GDP and debt-to-GDP ratios that are expected to rise further due to increased interest payments on debt, rising entitlement spending, and relatively low new revenue generation

▶ Rationale for stable outlook

- ▶ Exceptional credit strengths such as the size, resilience and dynamism of its economy and the role of the US dollar as the global reserve currency

▶ The downgrade is generally expected to have a minimal impact on markets

- ▶ S&P and Fitch previously downgraded the United States in 2011 and 2023, respectively
- ▶ United States has been on credit watch negative by Moody's since November of 2023
- ▶ The dollar remains the world's reserve currency and Treasuries remain highly liquid
- ▶ Moody's also downgraded the U.S. government sponsored enterprises, and several banks and insurance companies whose rating was tied to the US government

United States



Aaa → Aa1

Economic Momentum Slows Amid Uncertainty

Fed Chair Powell : “Despite elevated uncertainty, the economy is in a solid position. The unemployment rate remains low, and the labor market is at or near maximum employment. Inflation has come down a great deal but has been running somewhat above our 2 percent longer-run objective.”

	2023												2024										2025						
CPI YoY	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.2	3.1	3.4	3.1	3.2	3.5	3.4	3.3	3.0	2.9	2.5	2.4	2.6	2.7	2.9	3.0	2.8	2.4	2.3	2.4
Unemployment Rate	3.5	3.6	3.5	3.4	3.6	3.6	3.5	3.7	3.8	3.9	3.7	3.8	3.7	3.9	3.9	3.9	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2	4.2	4.2
U.S. Real GDP QoQ	2.8		2.4		4.4			3.2		1.6		3.0		3.1		2.4		-0.5		2.1% Est.*									
Consumption QoQ	4.9		1.0		2.5			3.5		1.9		2.8		3.7		4.0		0.5		1.9% Est.*									

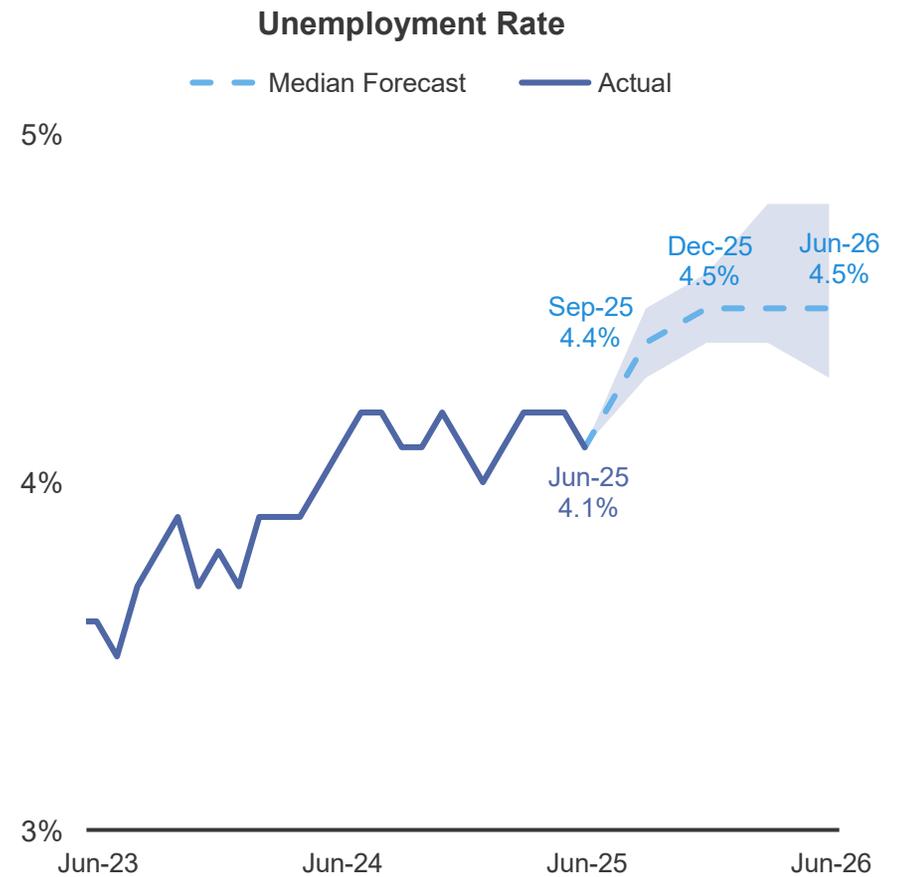
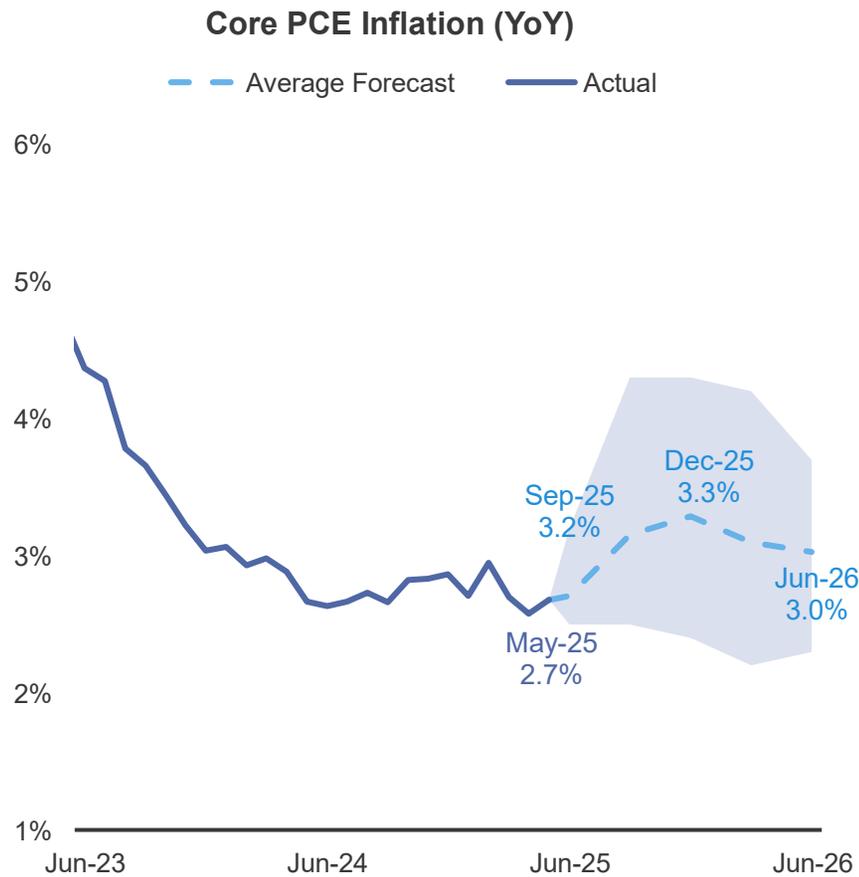


Source: FOMC Chair Jerome Powell Press Conference, June 18, 2025. Bloomberg Finance L.P., Bureau of Labor Statistics and Bureau of Economic Analysis. The shading represents the deciles of each data point using 30 years of historical data.

*Median forecasts sourced from Bloomberg Finance L.P. as of July 9, 2025.

The Fed's Dual Mandate Gets More Complicated

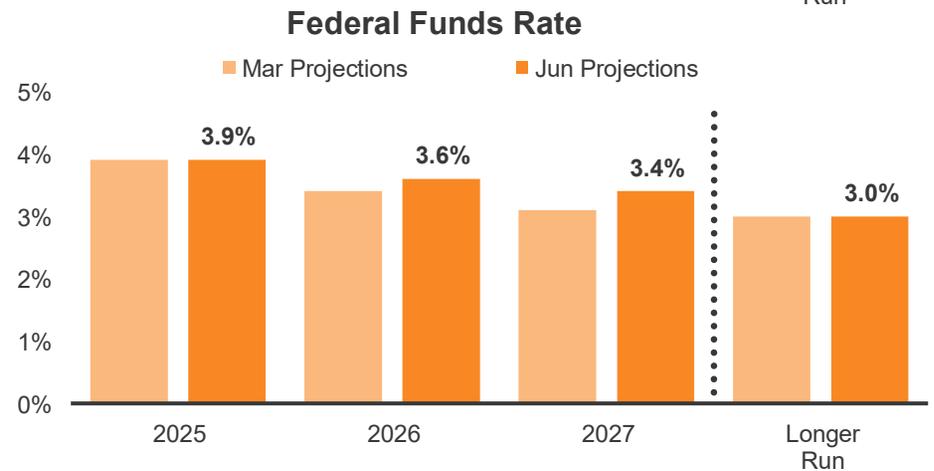
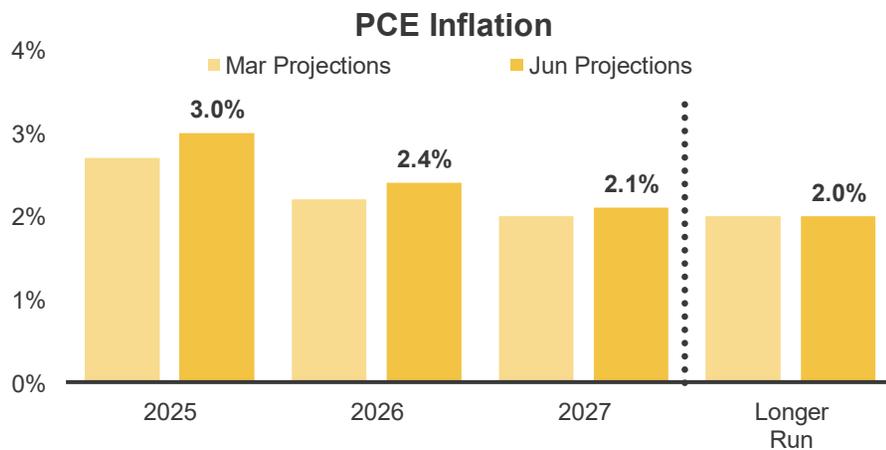
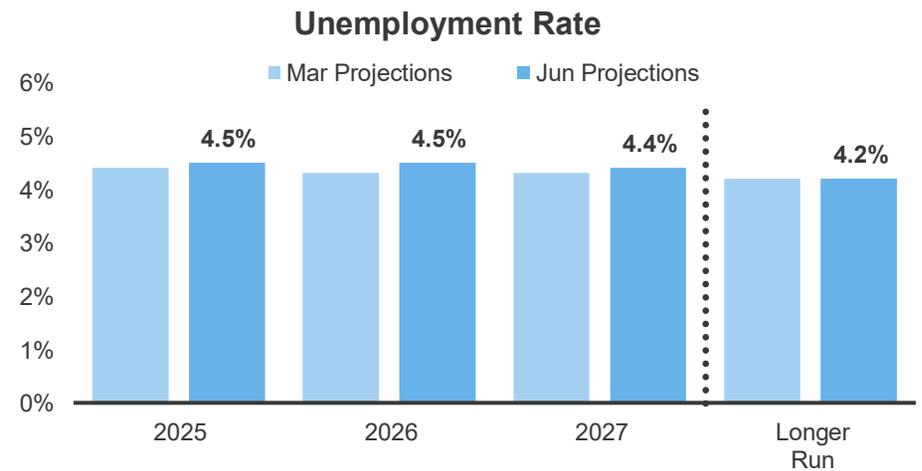
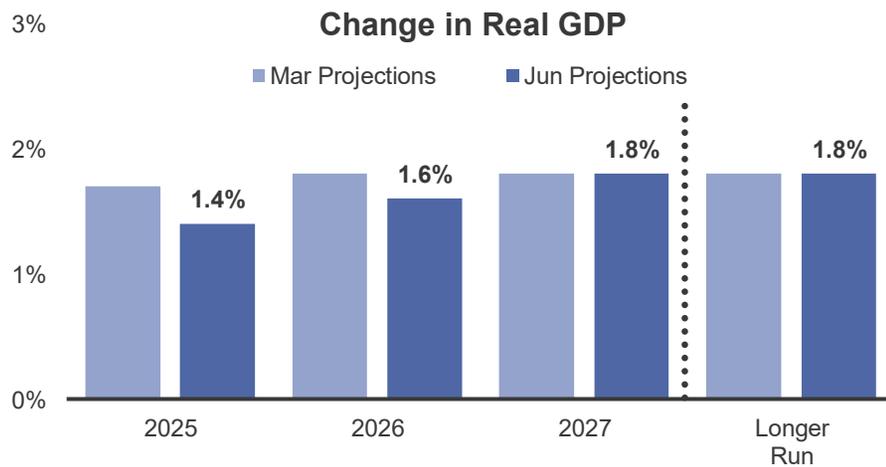
Fed Chair Powell : "We may find ourselves in the challenging scenario in which our dual mandate goals are in tension. If that were to occur, we would consider how far the economy is from each goal and the potentially different time horizons over which those respective gaps would be anticipated to close."



Source: FOMC Chair Jerome Powell Press Conference, June 18, 2025. Bureau of Economic Analysis, and Bloomberg Finance L.P., as of May 2025 (left). Bureau of Labor Statistics, and Bloomberg Finance L.P., as of June 2025 (right). Data is seasonally adjusted. Survey responses after June 27, 2025, included in median and forecast range. Forecast range shown is the 75th and 25th percentile of responses.

Fed's Updated Summary of Economic Projections

Fed Chair Powell : “[T]hink of it as the least unlikely path in a situation like this where uncertainty is very high.”

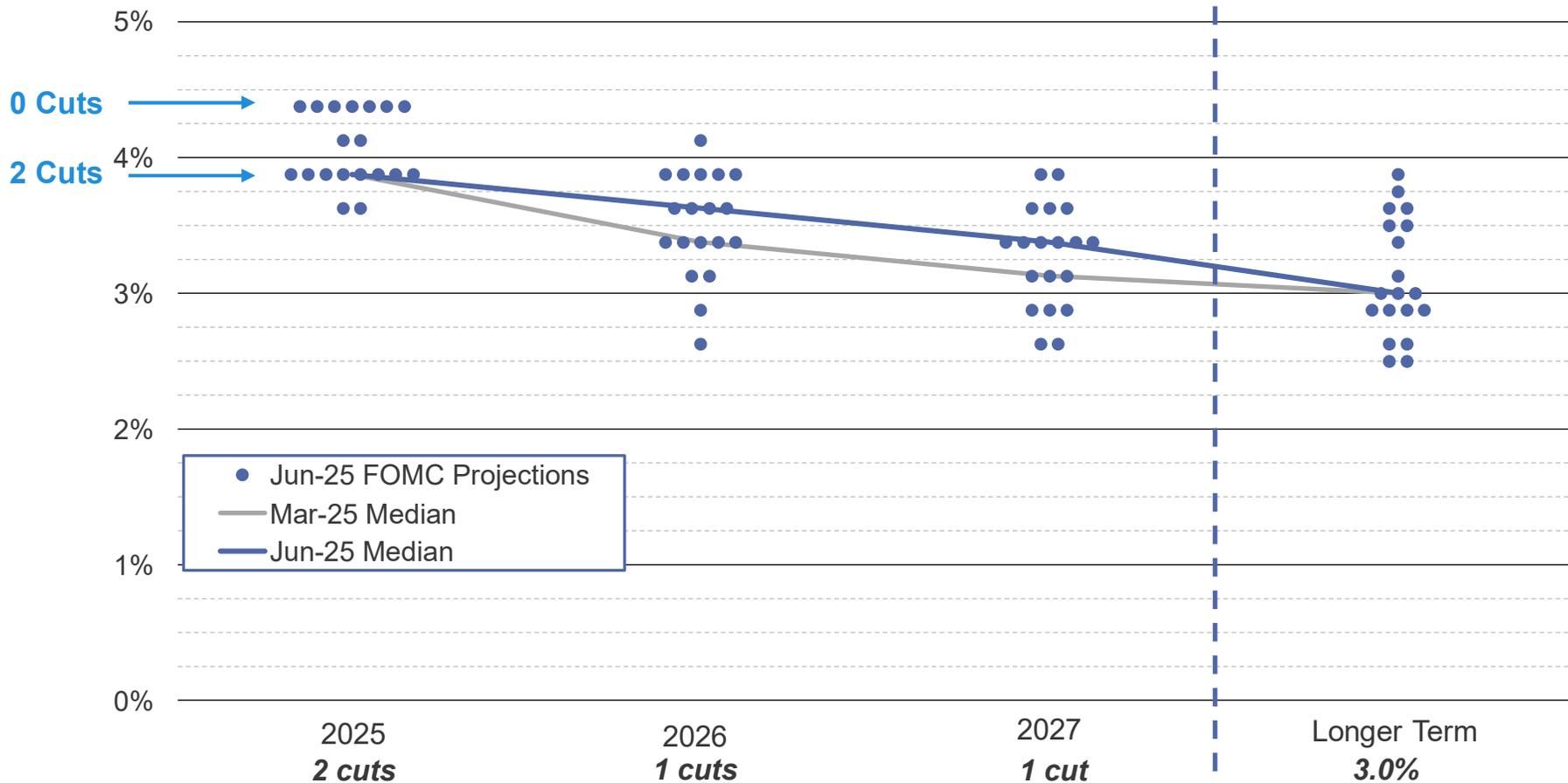


Source: FOMC Chair Jerome Powell Press Conference, June 18, 2025. Federal Reserve, latest median economic projections as of June 2025.

Fed's Latest "Dot Plot" Shows Divergent Views

Fed Chair Powell : "[W]ith uncertainty as elevated as it is, no one holds these rate paths with a lot of conviction."

Fed Participants' Assessments of 'Appropriate' Monetary Policy

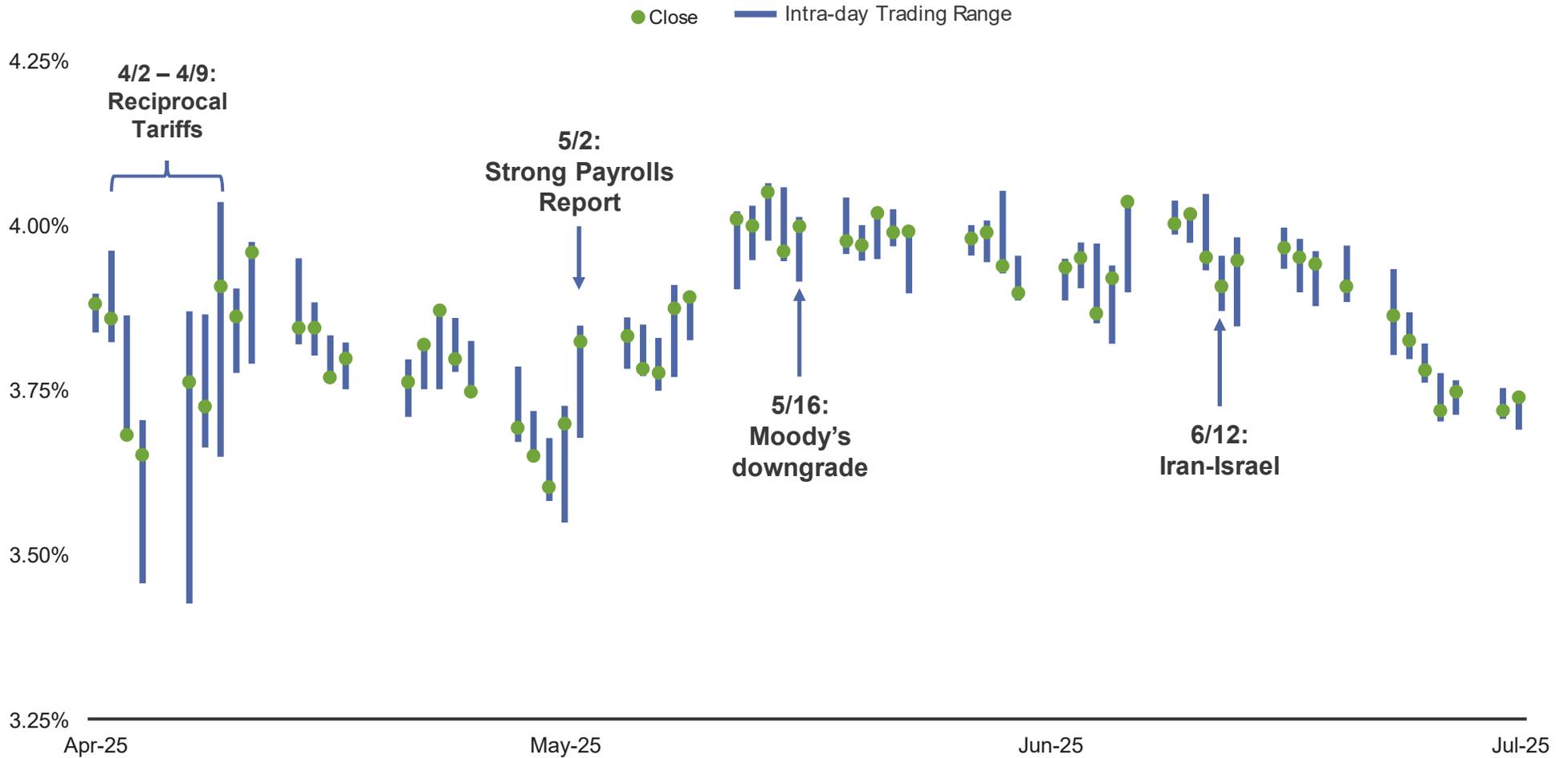


Source: FOMC Chair Jerome Powell Press Conference, June 18, 2025. Federal Reserve; Bloomberg Finance L.P. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. As of June 2025.

Treasury Volatility Wanes

2-Year Treasury Yield

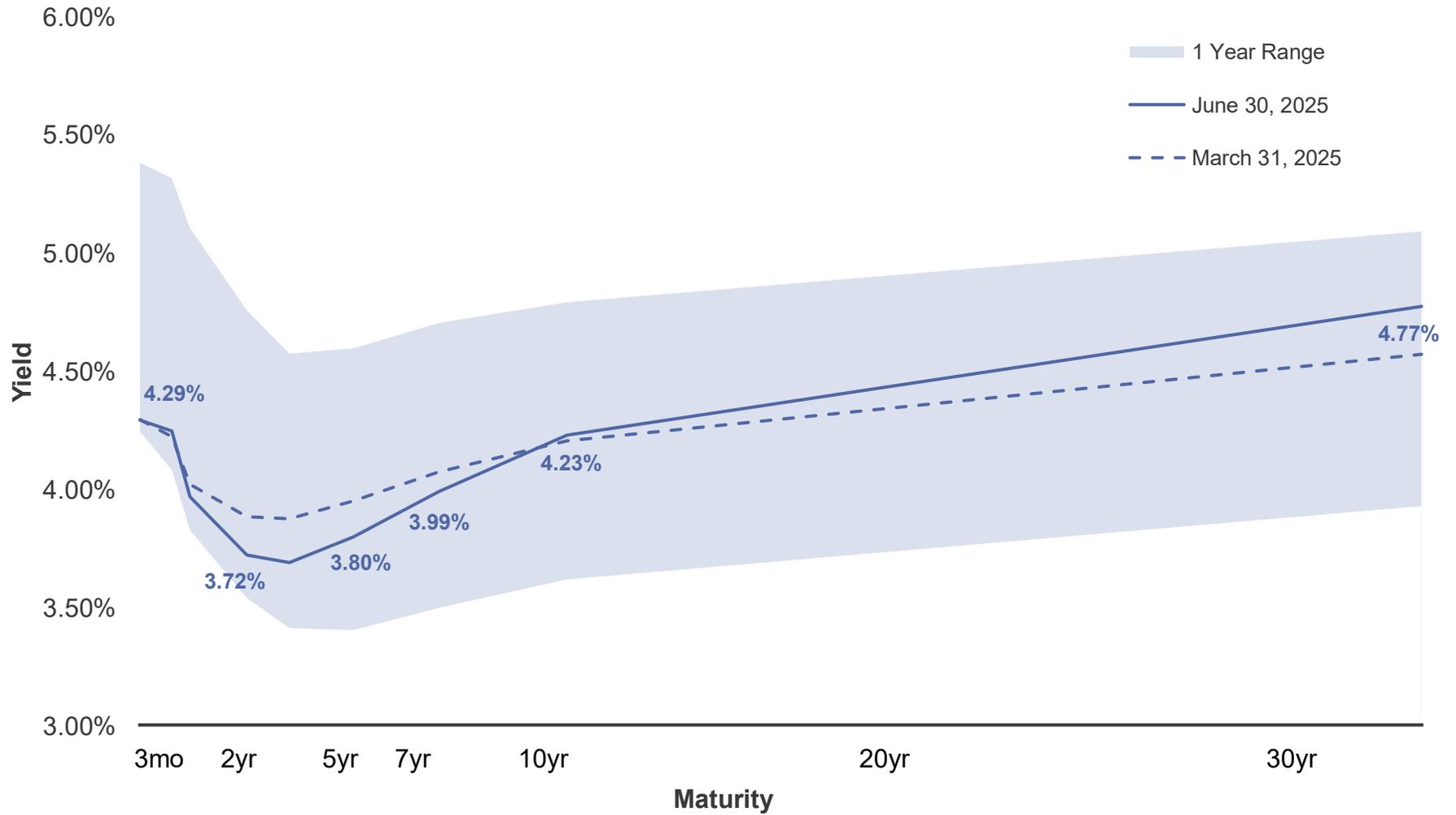
April 1, 2025 through July 1, 2025



Source: Bloomberg Finance L.P., as of July 1, 2025.

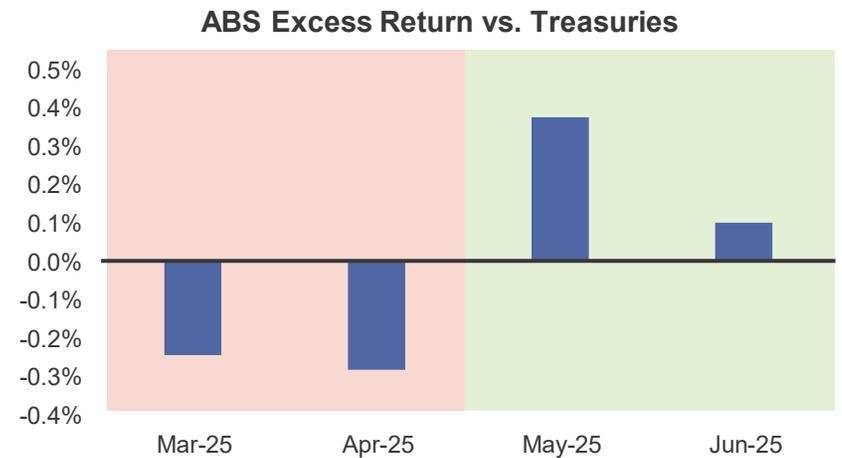
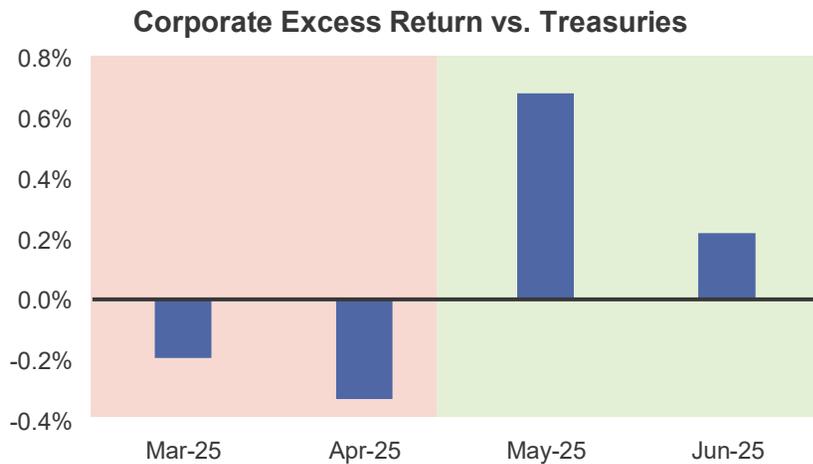
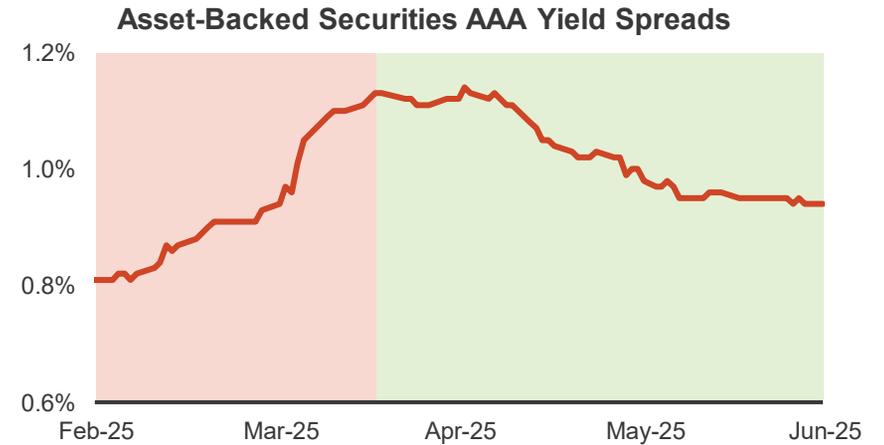
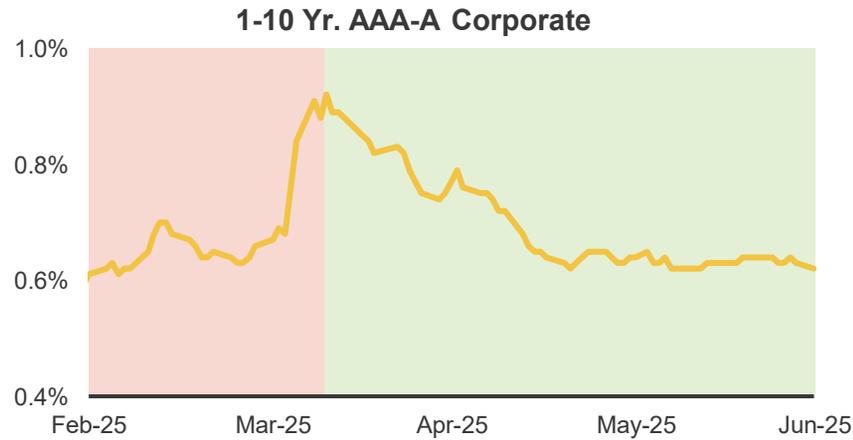
U.S. Treasury Yield Curve Steepens

U.S. Treasury Yield Curve



Source: Bloomberg Finance L.P., as of June 30, 2025.

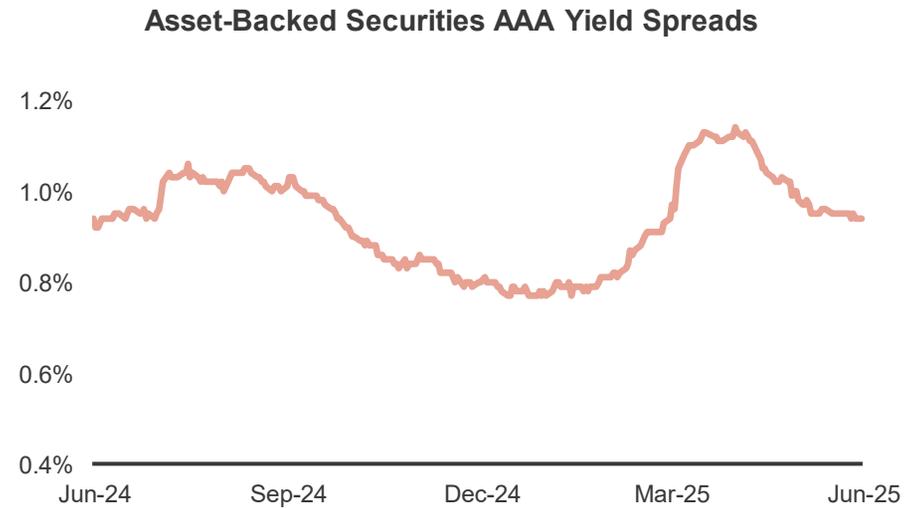
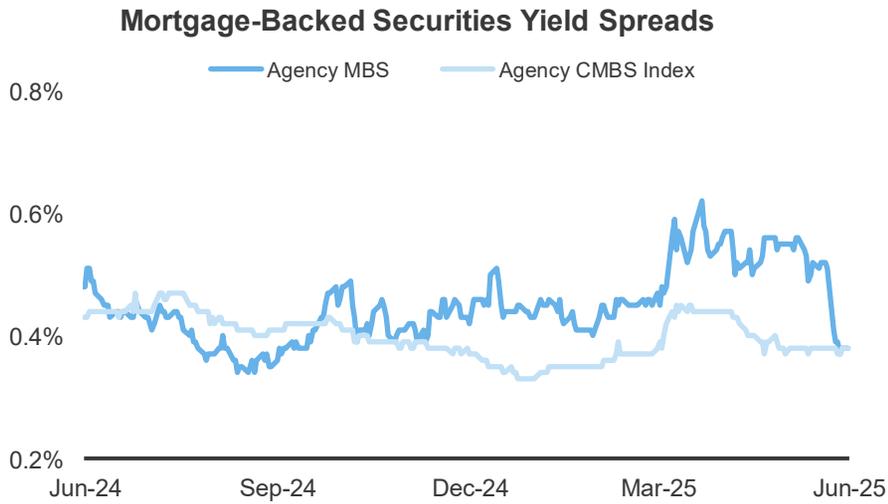
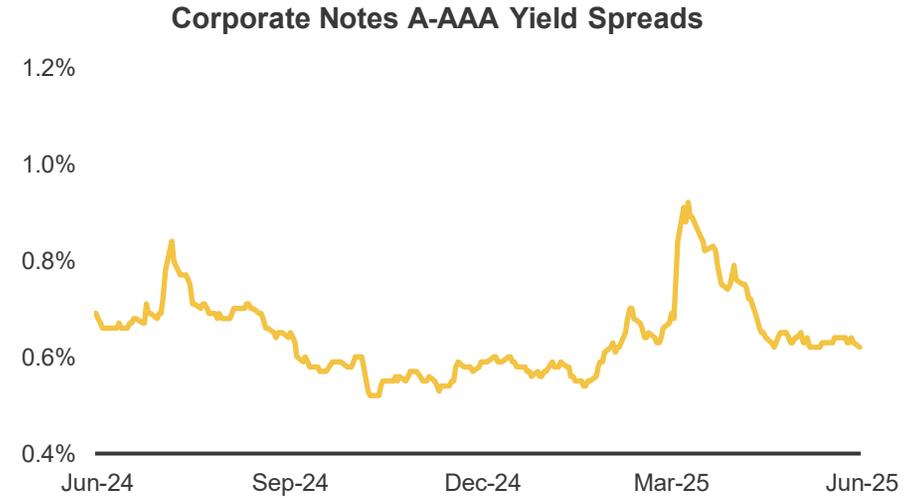
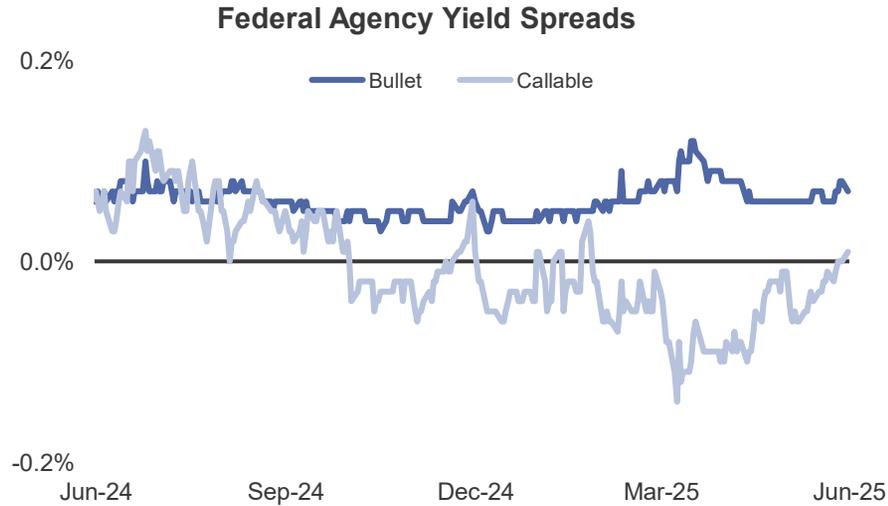
Spread Narrowing Has Helped Performance



Underperformance Outperformance

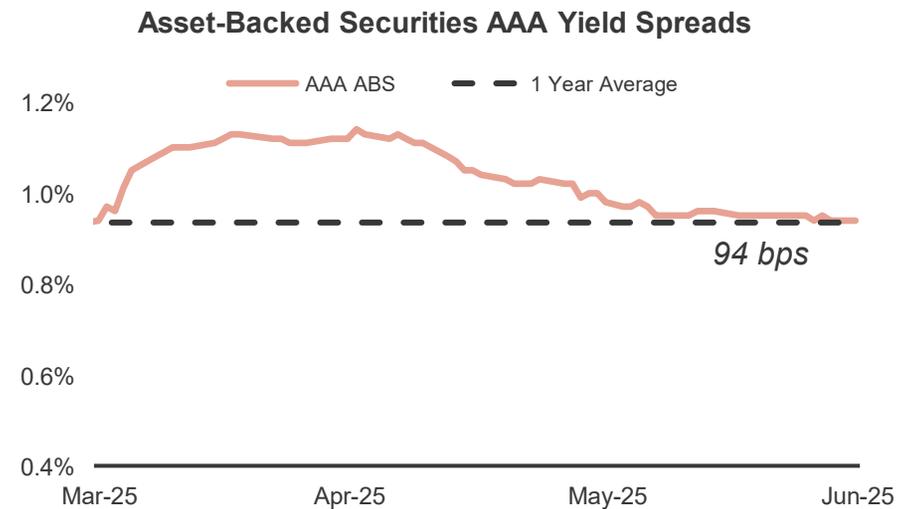
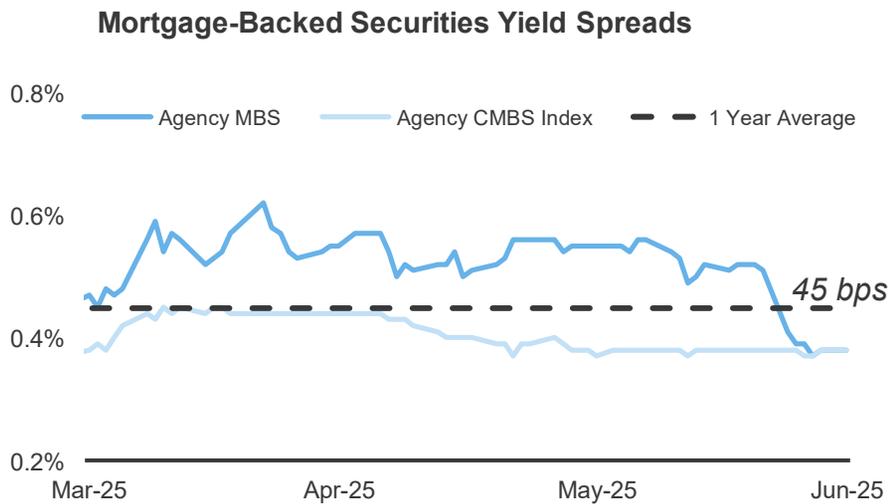
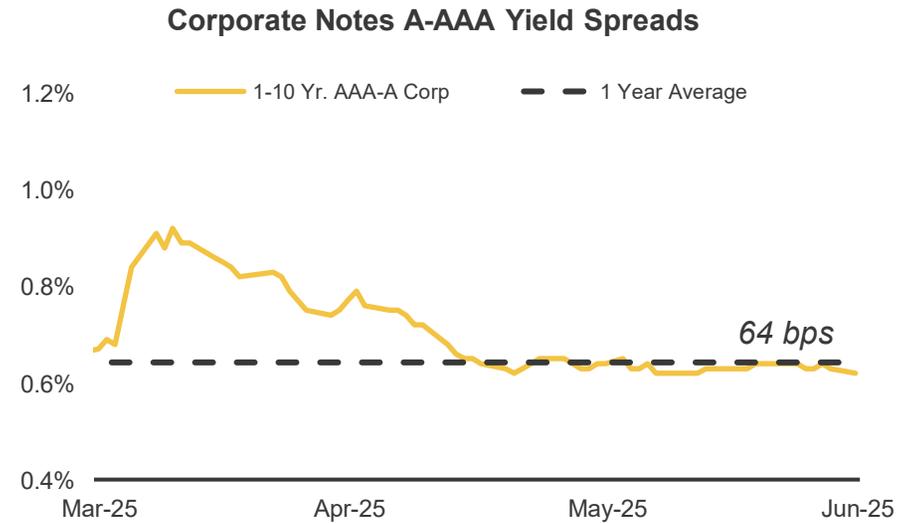
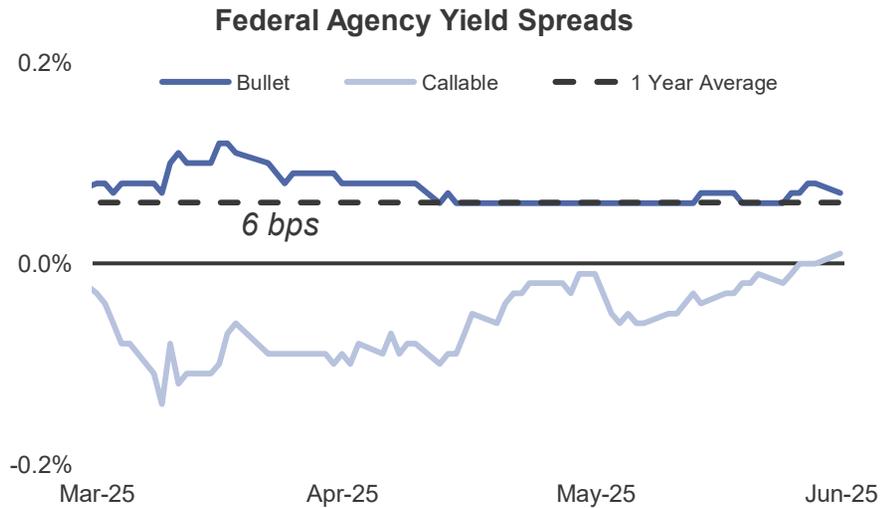
Source: ICE BofA Indices via Bloomberg Finance L.P., as of June 30, 2025. Spreads on ABS are option-adjusted spreads of 0-10 year indices based on weighted average life.

Sector Yield Spreads



Source: ICE BofA 1-10 year Indices via Bloomberg Finance L.P. and PFMAM as of June 30, 2025. Spreads on ABS and MBS are option-adjusted spreads of 0-10 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities and represented by the ICE BofA Agency CMBS Index.

Sector Yield Spreads

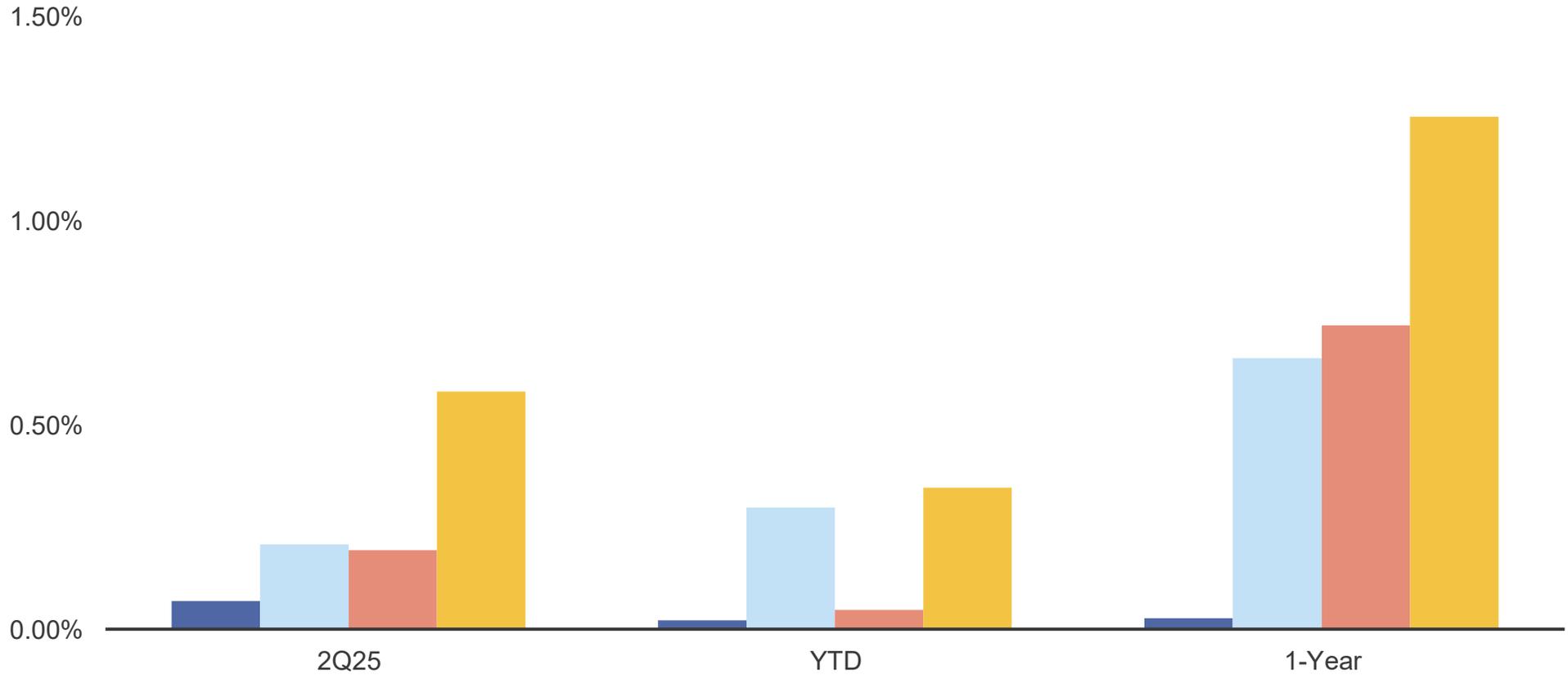


Source: ICE BofA 1-10 year Indices via Bloomberg Finance L.P. and PFMAM as of June 30, 2025. Spreads on ABS and MBS are option-adjusted spreads of 0-10 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities and represented by the ICE BofA Agency CMBS Index.

Fixed-Income Index Excess Returns

Excess Returns 1-10 Year Indices

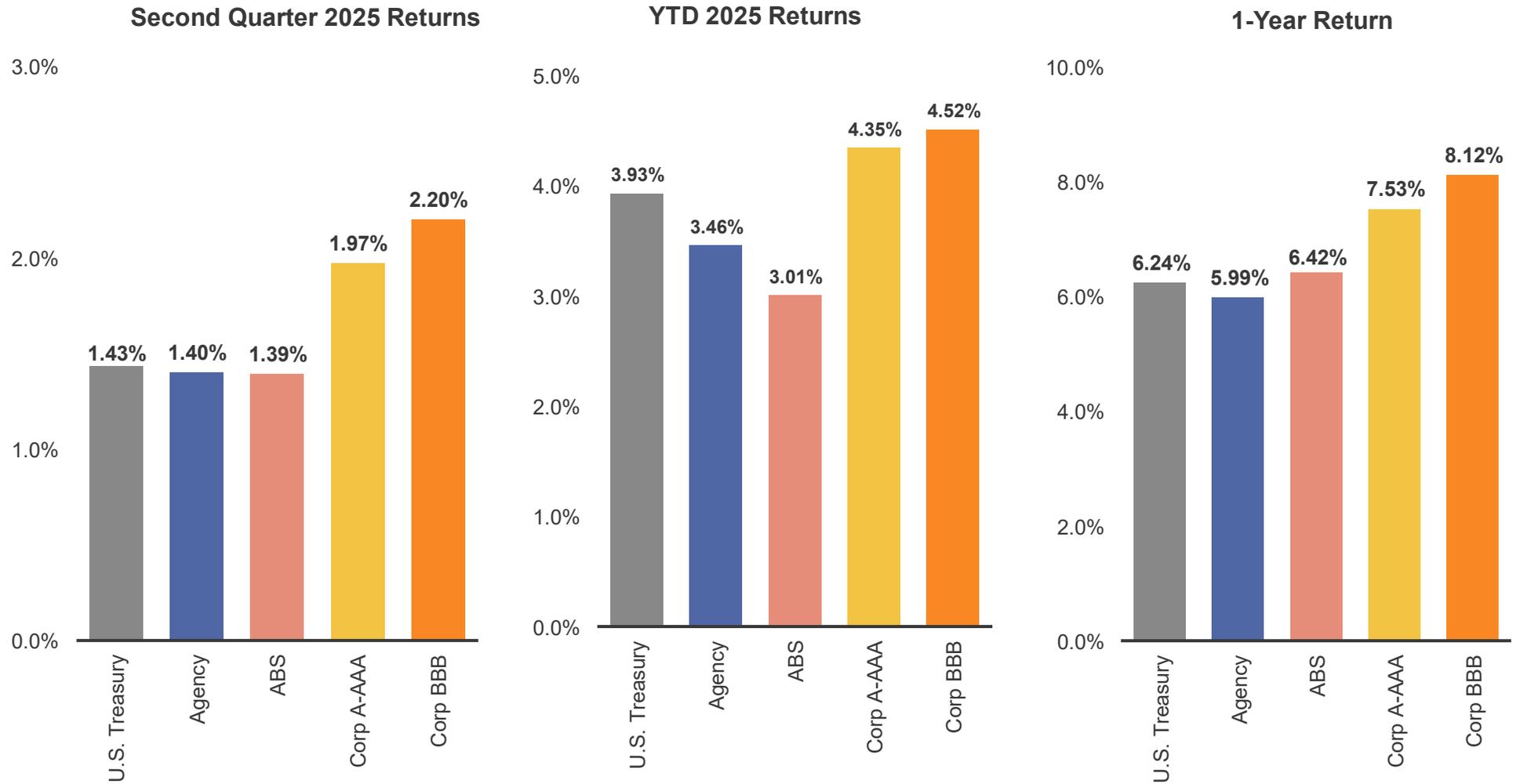
■ Federal Agency ■ Agency CMBS ■ ABS ■ Corp A-AAA



Source: ICE BofA Indices. ABS indices are 0-10 year, based on weighted average life. Agency CMBS represented by ICE BofA CMBY Index. As of June 30, 2025.

Fixed-Income Index Total Returns in 2Q 2025

1-10 Year Indices



Source: ICE BofA Indices. ABS indices are 0-10 year, based on weighted average life. As of June 30, 2025.

Fixed-Income Sector Commentary – 2Q 2025

- ▶ The **Federal Open Market Committee (FOMC)** maintained the target range for the federal funds rate at 4.25-4.5% during both meetings in Q2, citing resilience in the labor market and marginal improvements in an otherwise sticky inflation picture.
- ▶ **U.S. Treasury** yields in the intermediate-term (2-7 years) moved lower over the quarter. The change in yields reflected ongoing market sensitivity to domestic policy uncertainty, with a continued focus on the potential impacts of taxes, tariffs, immigration, and deregulation. However, progress on trade negotiations and lower recession probabilities kept the declines in check. As a result of the Treasury rally, total returns were strong for the quarter.
- ▶ **Federal Agency & supranational** spreads remained low throughout Q2. Both sectors produced slightly positive excess returns for the quarter. Issuance remained light and the incremental income from the sectors is near zero.
- ▶ **Investment-Grade (IG) corporate bond** spreads spiked early in the quarter on tariff announcements, but as external stressors eased much of the widening retraced. Demand for new issuance remains strong while net issuance is predicted to decrease over the balance of the year. Lower-quality issuers outperformed as did banks and other financials.
- ▶ **Asset-Backed Securities** spreads retraced over quarter, but to a lesser degree than most other sectors. ABS showed the impact of the slower decrease in spreads by posting more modest excess returns over the quarter. We expect the sector to continue generating value from carry going forward.
- ▶ **Mortgage-Backed Securities** performance was strong across all structures and coupons as rate volatility moderated over the quarter. Likewise, **Agency-backed commercial MBS (CMBS)** also posted strong performance for the quarter and saw positive excess returns.
- ▶ **Short-term credit** (commercial paper and negotiable bank CDs) yields on the front end of the yield curve rose slightly in response to the approaching Treasury “X-Date” (estimated date for Treasury to exhaust funds under the debt ceiling) while yields fell modestly on the long end as demand shifted into longer-term Treasury notes. Yield spreads tightened over the quarter in response to moderated issuance and strong demand.

The views expressed within this material constitute the perspective and judgment of PFM Asset Management at the time of distribution (06/30/2025) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management cannot guarantee its accuracy, completeness, or suitability.

Fixed-Income Sector Outlook – 3Q 2025

- ▶ **U.S. Treasury** volatility is expected to continue given both fiscal and monetary policy uncertainty. The potential impact of further policy changes on economic growth, inflation, and labor markets are unknown. We expect to see an ongoing steepening of the yield curve given the expectation for future Fed rate cuts.
- ▶ **Federal Agency & Supranational** spreads are likely to remain at tight levels. Government-heavy accounts may find occasional value on an issue-by-issue basis.
- ▶ **Taxable Municipals** continue to see little activity due to an ongoing lack of supply and strong demand which continues to suppress yields in both the new issue and secondary markets. We expect few opportunities in the near term.
- ▶ **Investment-Grade Corporate** bond fundamentals and valuations weakened while technicals have moved to modestly favorable. Progress on trade negotiations and lower recession odds should provide upward pressure on fundamentals moving forward. We will selectively evaluate opportunities with a focus on industry and credit quality while analyzing rich holdings to tactically reduce allocations in the sector for accounts where it makes sense.
- ▶ **Asset-Backed Securities** fundamentals remain intact and credit metrics have normalized. Consumer credit trends will depend on the labor market and the consumer's response to monetary policy easing, which tends to work on a lag. We expect spreads to stabilize heading into Q3 as issuance quiets over the summer, but overall heightened volatility presents an opportunity to add allocations at more attractive levels.
- ▶ **Mortgage-Backed Securities** are expected to underperform over the short term, while rich current valuations will keep returns over the year positive. We may use any meaningful spread widening to add at more attractive levels.
- ▶ **Short-term credit** (commercial paper and negotiable bank CDs) spreads in Q3 will continue to be subject to ongoing debt ceiling dynamics or the Fed's decision to slow the pace of quantitative tightening. Given the positively sloped shape of the money market yield curve, we favor a mix of floating rate in the front end with fixed rate in longer maturities.

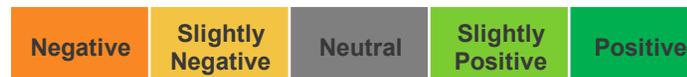
The views expressed within this material constitute the perspective and judgment of PFM Asset Management at the time of distribution (06/30/2025) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management cannot guarantee its accuracy, completeness, or suitability.

Fixed – Income Sector Outlook – 3Q 2025

Sector	Our Investment Preferences
COMMERCIAL PAPER / CD	
TREASURIES	
T-Bill	
T-Note	
FEDERAL AGENCIES	
Bullets	
Callables	
SUPRANATIONALS	
CORPORATES	
Financials	
Industrials	
SECURITIZED	
Asset-Backed	
Agency Mortgage-Backed	
Agency CMBS	
MUNICIPALS	

● Current outlook

○ Outlook one quarter ago



Factors to Consider for 6-12 Months

<p>Monetary Policy (Global):</p>  <ul style="list-style-type: none"> The Fed held rates steady in Q2 amid healthy labor markets and tariff-driven inflation concerns. The “dot plot” still signals 50 bps in cuts for 2025 but views have diverged as seven members are calling for no cuts in 2025. Other major central banks (except Japan) continued cutting rates as global inflation cools, though tariffs pose inflation risks and cloud the outlook. 	<p>Economic Growth (Global):</p>  <ul style="list-style-type: none"> U.S. growth turned negative in early 2025, driven by a historically high trade deficit and weaker consumer spending. Strong inventory build and fixed investment helped offset this weakness. The drag to GDP from net exports is expected to reverse, but declining consumer confidence may dampen spending and investment. Escalating trade and geopolitical tensions create the potential for slower global growth. 	<p>Inflation (U.S.):</p>  <ul style="list-style-type: none"> Inflation has moved closer to the Fed's 2% target, but tariff-driven price pressures may emerge as businesses deplete pre-tariff inventories. Fed Chair Powell said that he does expect tariffs to impact inflation but that the size, duration, and time of tariff effects are highly uncertain.
<p>Financial Conditions (U.S.):</p>  <ul style="list-style-type: none"> Financial conditions swung sharply during the quarter as the tariff rollout caused equities to sell off, credit spreads to widen, and heightened Treasury volatility. The announcement of tariff pauses sparked a risk-on trade resulting in equities near record highs and credit spreads tightening beyond long-run averages. The evolving fiscal landscape and persistent uncertainty may lead to tightening financial conditions over the next 6-12 months. 	<p>Consumer Spending (U.S.):</p>  <ul style="list-style-type: none"> Consumer sentiment remains subdued due to expectations of higher prices, weaker labor markets, and tepid growth. Sentiment has improved slightly since April amid tariff negotiation progress but remains low. A sharp labor market downturn remains the biggest threat to consumer spending. Tariff-driven inflation increases present additional risks such as slower real wage growth and reduced spending. 	<p>Labor Markets (U.S.):</p>  <ul style="list-style-type: none"> The labor market remains healthy, though early signs of cooling are emerging, particularly in rising jobless claims. Monthly job gains have slowed but still match labor force growth. Slower population growth may lower the job creation rate needed to maintain stable unemployment. With hiring and quits rates low, any acceleration in layoffs may result in job seekers remaining unemployed for longer.

● Current outlook

○ Outlook one quarter ago

Stance Unfavorable to Risk Assets



Stance Favorable to Risk Assets

Statements and opinions expressed about the next 6-12 months were developed based on our independent research with information obtained from Bloomberg Finance L.P. and FactSet. The views expressed within this material constitute the perspective and judgment of PFM Asset Management at the time of distribution (6/30/2025) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management cannot guarantee its accuracy, completeness, or suitability.

Portfolio Review: CITY OF NAPERVILLE

Q2 2025 Commentary

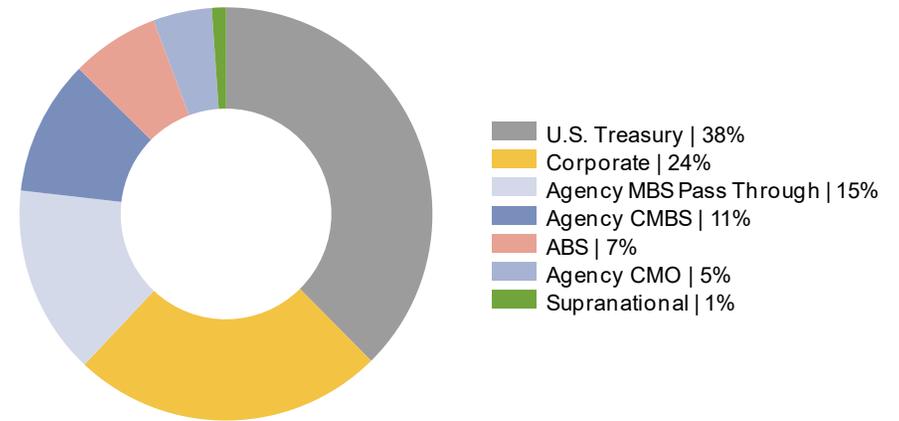
For the second consecutive quarter, the Federal Reserve maintained the federal funds rate at the 4.25% - 4.50% range. Correspondingly, the Fed signaled they are unlikely to change the rate at their next meeting in July. The yield on the 10-yr. Treasury rose a modest 2 basis points during the second quarter after decreasing 36 basis points in the first quarter. Our underweighting of longer maturity securities provided a positive contribution to second quarter performance, given that the 5-yr. to 10-yr. Treasury yield spread widened by 17 basis points. In addition, the portfolio benefitted from our allocations to the corporate, ABS, agency CMBS, and MBS sectors, as those areas outperformed Treasuries on a duration-neutral basis by 65, 27, 24, and 17 basis points, respectively. As a result, the portfolio exceeded the benchmark by 30 basis points in the second quarter. Over the past five years, the portfolio has outperformed the benchmark by an annualized 58 basis points.

Portfolio Snapshot - CITY OF NAPERVILLE¹

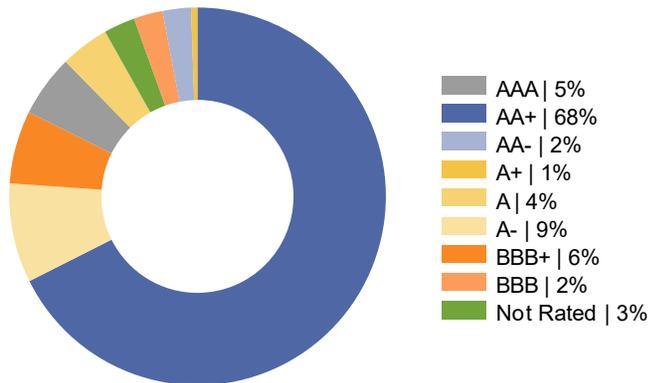
Portfolio Statistics

Total Market Value	\$99,794,578.87
<i>Securities Sub-Total</i>	\$98,956,614.16
<i>Accrued Interest</i>	\$642,344.02
<i>Cash</i>	\$195,620.69
Portfolio Effective Duration	3.45 years
Benchmark Effective Duration	3.68 years
Yield At Cost	3.60%
Yield At Market	4.30%
Portfolio Credit Quality	AA

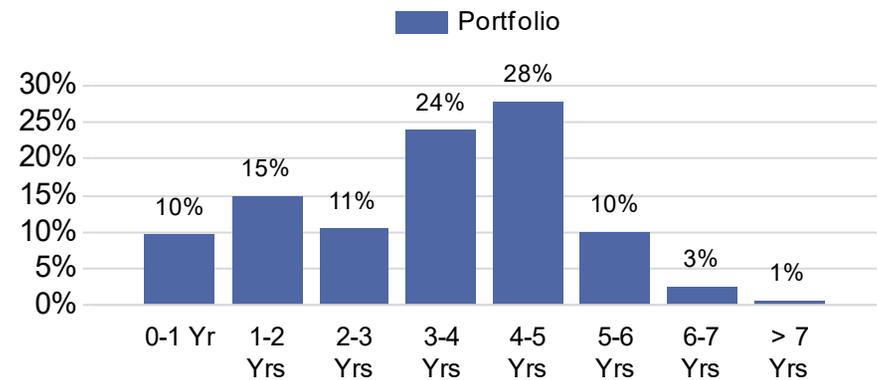
Sector Allocation



Credit Quality - S&P

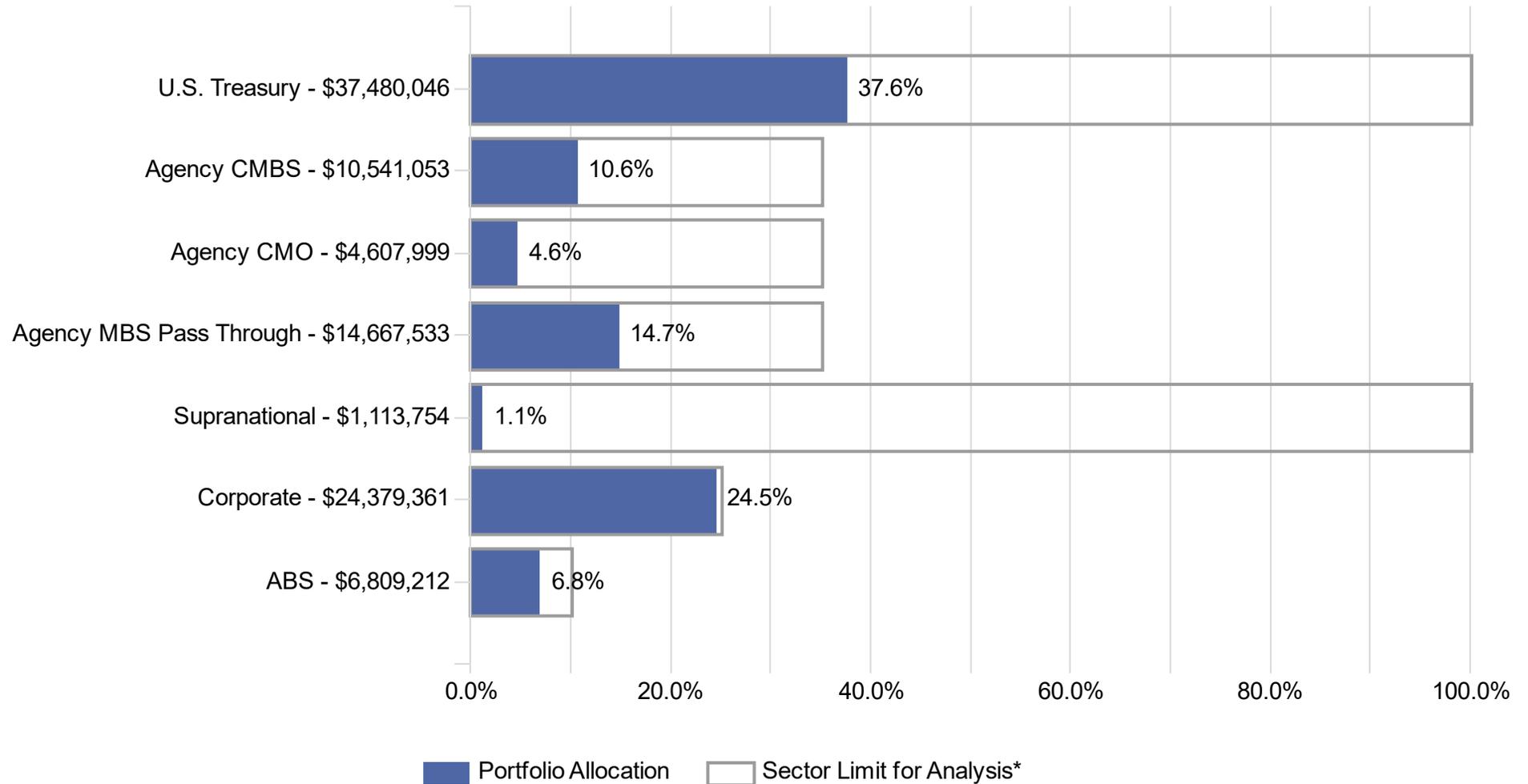


Duration Distribution



1. Yield and duration calculations exclude cash and cash equivalents. Sector allocation includes market values and accrued interest. The portfolio's benchmark is Bloomberg Barclays Intermediate U.S. Government Index. Source: Bloomberg Financial LP. An average of each security's credit rating was assigned a numeric value and adjusted for its relative weighting in the portfolio.

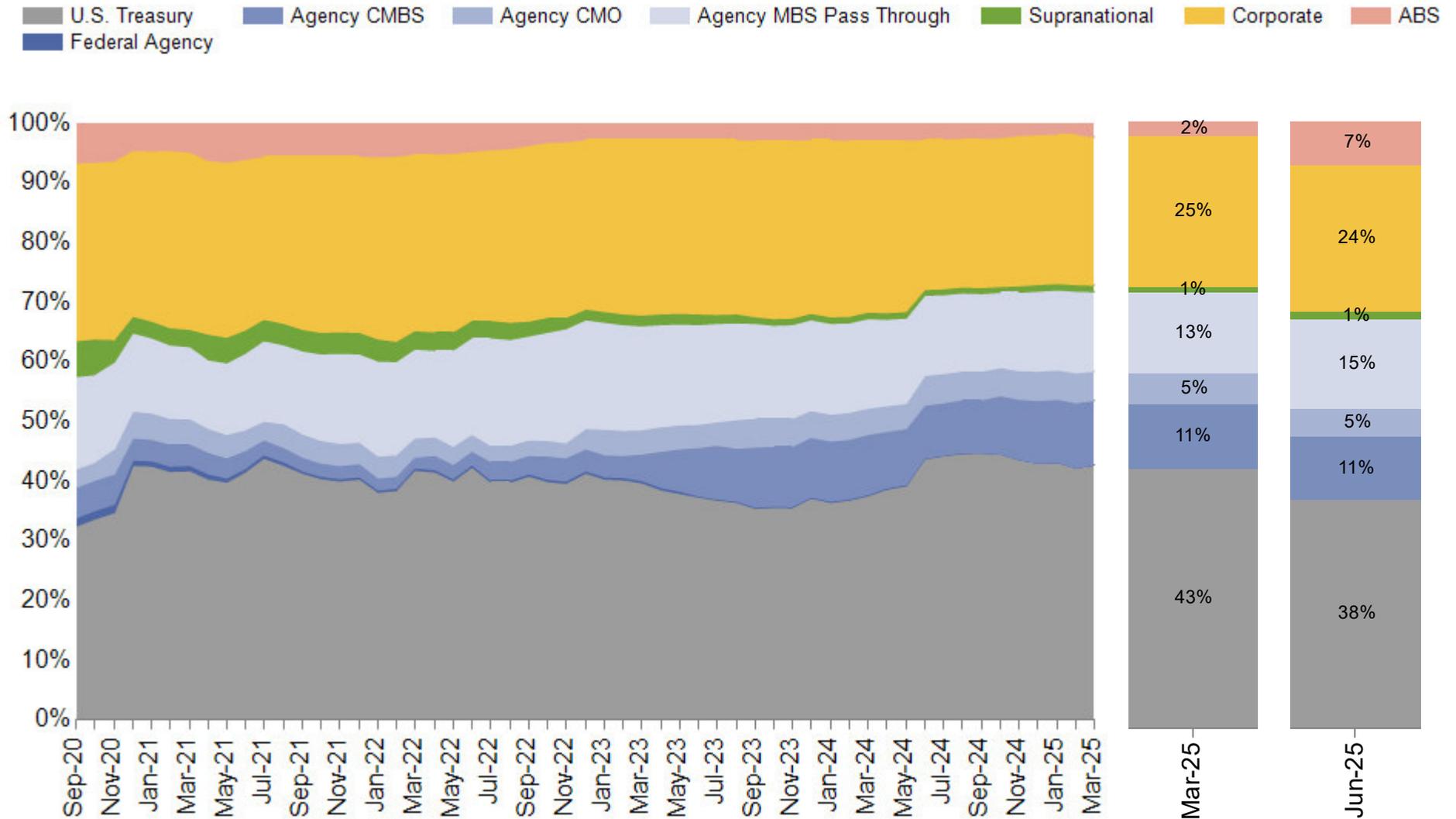
Sector Allocation Analytics



For informational/analytical purposes only and is not provided for compliance assurance. Includes accrued interest.

**Sector Limit for Analysis is as derived from our interpretation of your most recent Investment Policy as provided.*

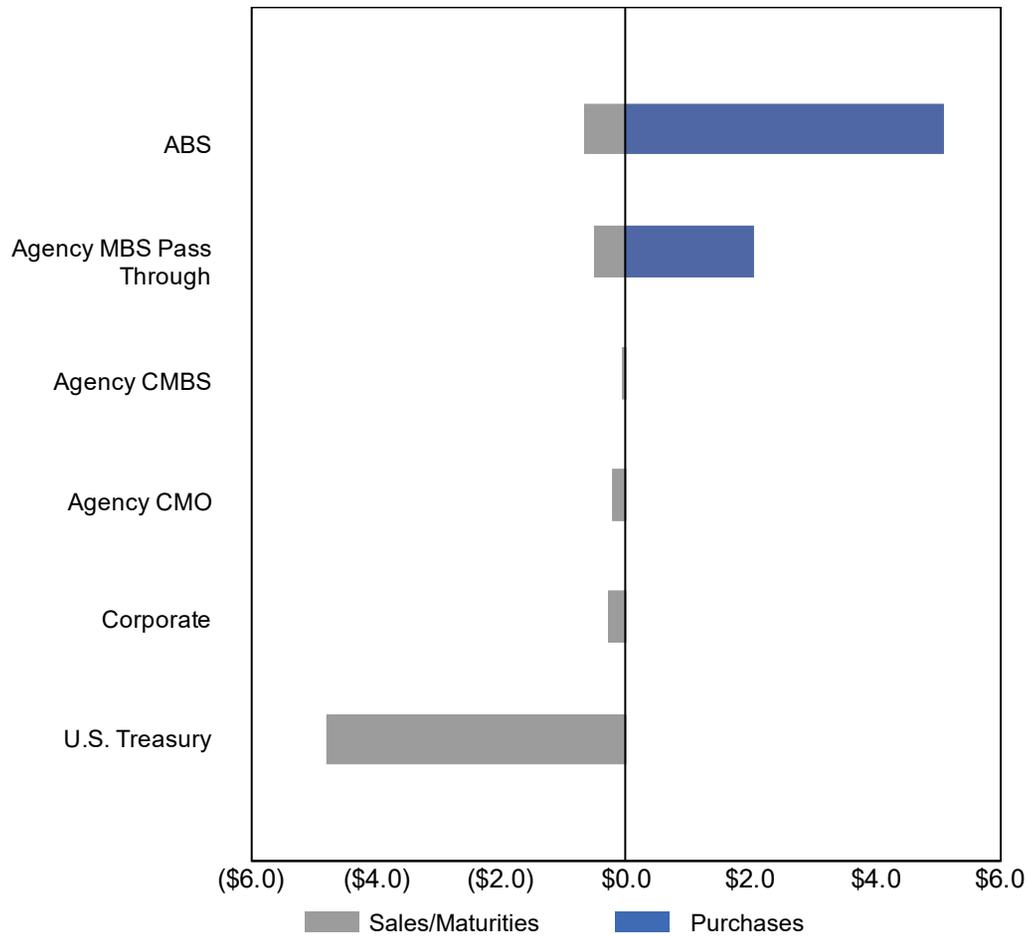
Historical Sector Allocation - CITY OF NAPERVILLE



Only includes fixed-income securities held within the separately managed account(s) and LGIPs managed by PFMAM.

Portfolio Activity - CITY OF NAPERVILLE

Net Activity by Sector
(\$ millions)

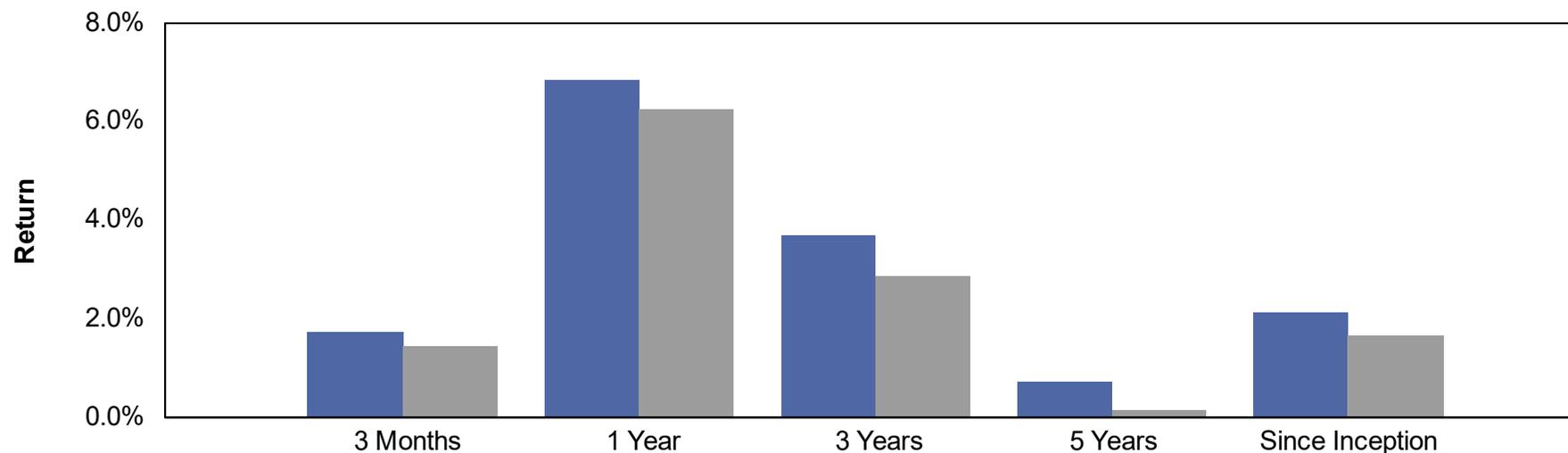


Sector	Net Activity
ABS	\$4,460,290
Agency MBS Pass Through	\$1,551,374
Agency CMBS	(\$48,650)
Agency CMO	(\$199,994)
Corporate	(\$250,000)
U.S. Treasury	(\$4,774,496)
Total Net Activity	\$738,522

Based on total proceeds (principal and accrued interest) of buys, sells, maturities, and principal paydowns. Detail may not add to total due to rounding.

Portfolio Performance

■ Portfolio ■ Benchmark



Market Value Basis Earnings	3 Months	1 Year	3 Years	5 Years	Since Inception ¹
Interest Earned ²	\$851,007	\$3,291,410	\$8,123,599	\$11,274,865	\$14,403,463
Change in Market Value	\$866,980	\$3,550,455	\$3,186,295	(\$6,707,375)	(\$3,038,971)
Total Dollar Return	\$1,717,987	\$6,841,865	\$11,309,894	\$4,567,490	\$11,364,492
Total Return³					
Portfolio	1.75%	6.86%	3.71%	0.73%	2.12%
Benchmark ⁴	1.45%	6.26%	2.85%	0.15%	1.66%
Difference	0.30%	0.60%	0.86%	0.58%	0.46%

1. The lesser of 10 years or since inception is shown. Since inception returns for periods one year or less are not shown. Performance inception date is December 31, 2016.

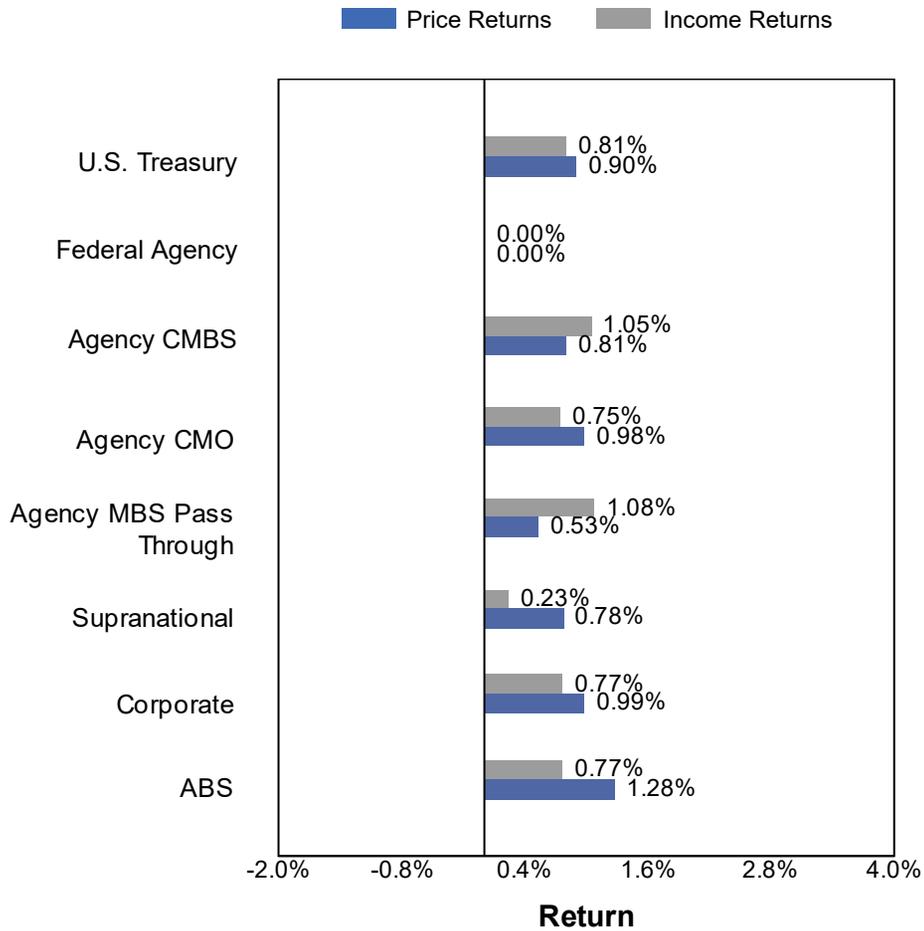
2. Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.

3. Returns for periods one year or less are presented on a periodic basis. Returns for periods greater than one year are presented on an annualized basis.

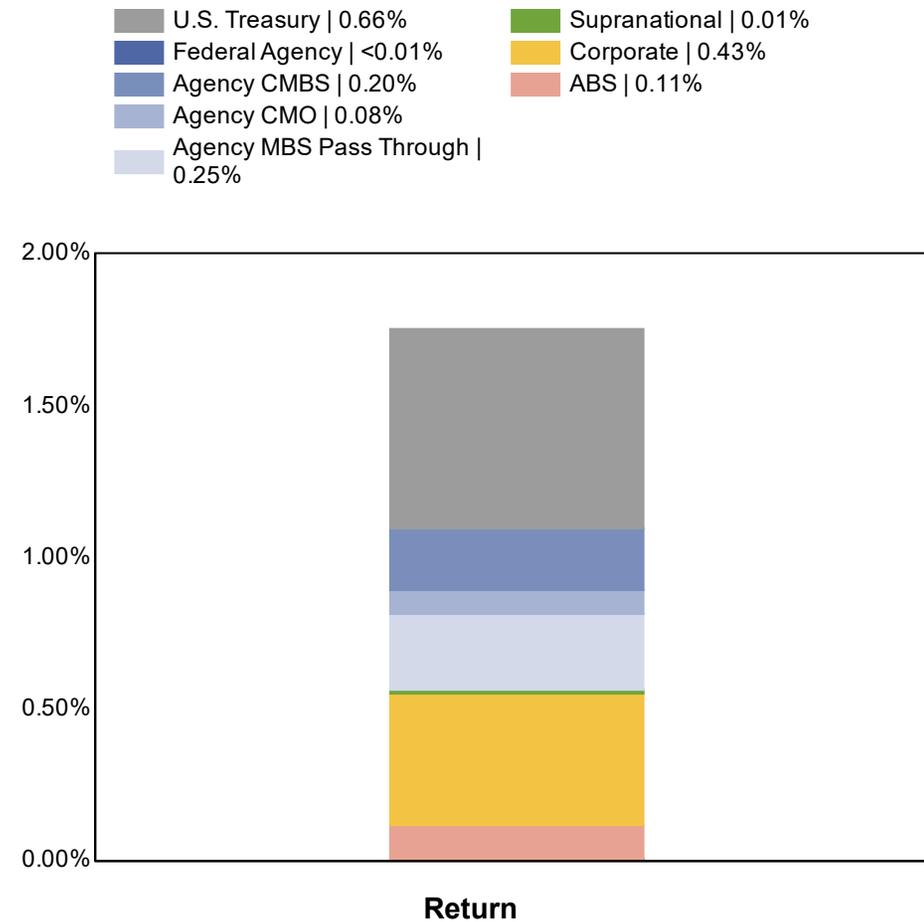
4. The portfolio's benchmark is Bloomberg Barclays Intermediate U.S. Government Index. Source: Bloomberg Financial LP.

Quarterly Sector Performance

Total Return by Sector

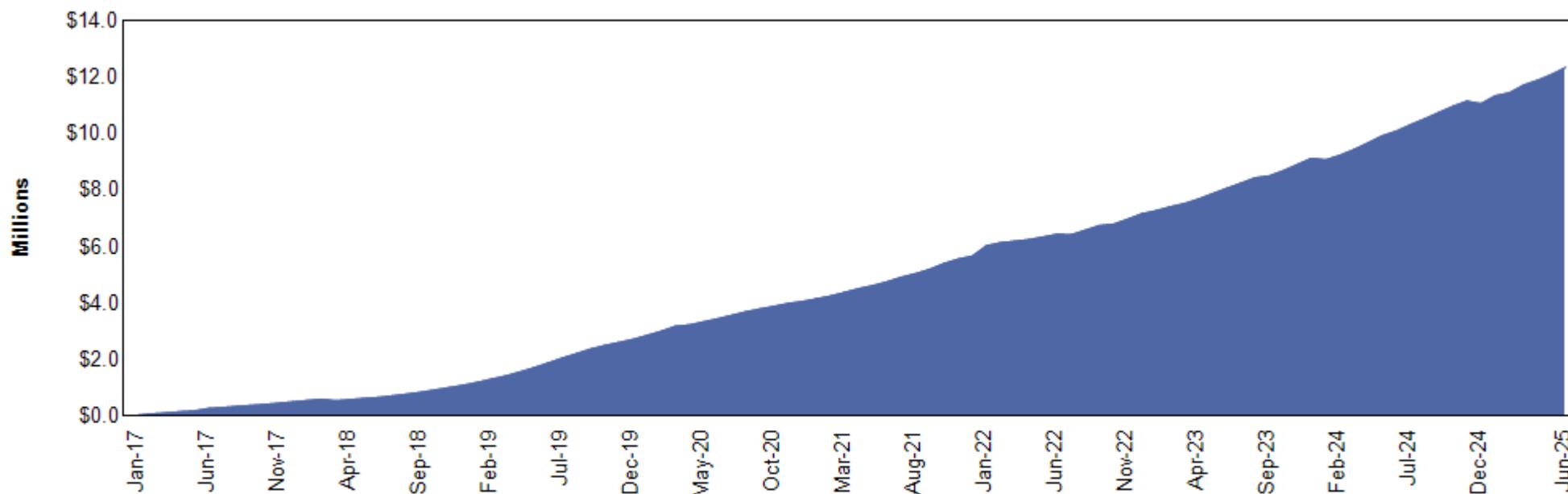


Contribution to Total Return



1. Performance on trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
2. Income returns calculated as interest earned on investments during the period.
3. Price returns calculated as the change in market value of each security for the period.
4. Returns are presented on a periodic basis.

Accrual Basis Earnings - CITY OF NAPERVILLE



Accrual Basis Earnings	3 Months	1 Year	3 Years	5 Year	Since Inception ¹
Interest Earned ²	\$851,007	\$3,291,410	\$8,123,599	\$11,274,865	\$14,403,463
Realized Gains / (Losses) ³	(\$239,582)	(\$1,137,858)	(\$2,471,790)	(\$2,180,192)	(\$2,037,496)
Change in Amortized Cost	\$14,552	\$103,199	\$258,929	(\$198,144)	(\$17,098)
Total Earnings	\$625,977	\$2,256,751	\$5,910,738	\$8,896,529	\$12,348,869

1. The lesser of 10 years or since inception is shown. Performance inception date is December 31, 2016.

2. Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.

3. Realized gains / (losses) are shown on an amortized cost basis.

Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
U.S. Treasury	37.8%	
United States Treasury	37.8%	AA / Aa / AA
Agency CMBS	10.6%	
Federal Home Loan Mortgage Corp	10.6%	AA / Aa / AA
Agency CMO	4.6%	
Federal Home Loan Mortgage Corp	1.6%	AA / Aa / AA
Federal National Mortgage Association	2.2%	AA / Aa / AA
Government National Mortgage Associatio	0.8%	AA / Aa / AA
Agency MBS Pass Through	14.8%	
Federal Home Loan Mortgage Corp	4.6%	AA / Aa / AA
Federal National Mortgage Association	10.2%	AA / Aa / AA
Government National Mortgage Associatio	0.0%	AA / Aa / AA
Supranational	1.1%	
Asian Development Bank	0.4%	AAA / Aaa / AAA
Inter-American Development Bank	0.7%	AAA / Aaa / AAA
Corporate	24.6%	
Allstate Corp	0.3%	BBB / A / BBB
American Express Co	0.7%	A / A / A
Amgen Inc	0.5%	BBB / Baa / BBB
ANZ Group Holdings Ltd	0.8%	AA / A / A
AstraZeneca PLC	0.5%	A / A / A
Bank of America Corp	1.5%	A / A / AA
Bank of Montreal	0.7%	A / A / AA
Bank of Nova Scotia	0.8%	A / A / AA
Barclays PLC	0.4%	BBB / Baa / A
Bayerische Motoren Werke AG	0.7%	A / A / NR
BlackRock Inc	0.2%	AA / Aa / NR

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Corporate	24.6%	
Bristol-Myers Squibb Co	0.6%	A / A / NR
Capital One Financial Corp	0.4%	BBB / Baa / A
Charles Schwab Corp	0.6%	A / A / A
Citigroup Inc	0.3%	BBB / A / A
Citizens Financial Group Inc	0.6%	BBB / Baa / BBB
Commonwealth Bank of Australia	0.7%	AA / Aa / NR
CVS Health Corp	0.5%	BBB / Baa / BBB
DNB Bank ASA	0.6%	A / A / NR
Fifth Third Bancorp	0.5%	BBB / Baa / A
General Motors Co	0.4%	BBB / Baa / BBB
Goldman Sachs Group Inc	0.8%	BBB / A / A
Huntington Bancshares Inc/OH	0.5%	BBB / Baa / A
Hyundai Motor Co	0.5%	A / A / A
JPMorgan Chase & Co	0.9%	A / A / AA
KeyCorp	0.4%	BBB / Baa / BBB
Lloyds Banking Group PLC	0.3%	BBB / A / A
Macquarie Group Ltd	0.4%	BBB / A / A
Mars Inc	0.8%	A / A / NR
McCormick & Co Inc/MD	0.4%	BBB / Baa / NR
Mitsubishi UFJ Financial Group Inc	0.7%	A / A / A
Morgan Stanley	0.8%	A / A / A
National Australia Bank Ltd	0.8%	AA / A / NR
National Rural Utilities Cooperative Fi	0.2%	A / A / A
Nordea Bank Abp	0.7%	A / A / AA
Principal Financial Group Inc	0.3%	A / Baa / A
Societe Generale SA	0.4%	BBB / Baa / A

Ratings shown are calculated by assigning a numeral value to each security rating, then calculating a weighted average rating for each security type / issuer category using all available security ratings, excluding Not-Rated (NR) ratings. For security type / issuer categories where a rating from the applicable NRSRO is not available, a rating of NR is assigned. Includes accrued interest and excludes balances invested in overnight funds.

Issuer Diversification

Security Type / Issuer	Market Value (%)	S&P / Moody's / Fitch
Corporate	24.6%	
Sumitomo Mitsui Financial Group Inc	0.7%	A / A / NR
Truist Financial Corp	0.7%	A / Baa / A
US Bancorp	0.5%	A / A / A
Verizon Communications Inc	0.4%	BBB / Baa / A
Volkswagen AG	0.4%	BBB / Baa / A
Wells Fargo & Co	0.8%	BBB / A / A
ABS	6.5%	
American Express Co	0.7%	AAA / NR / AAA
Bank of America Corp	0.5%	NR / Aaa / AAA
Capital One Financial Corp	1.0%	AAA / NR / AAA
Citigroup Inc	0.5%	AAA / Aaa / NR
GM Financial Consumer Automobile Receiv	0.2%	AAA / Aaa / NR
Honda Auto Receivables Owner Trust	0.3%	NR / Aaa / AAA
Nissan Auto Receivables Owner Trust	0.5%	NR / Aaa / AAA
Porsche Innovative Lease Owner	1.0%	AAA / NR / AAA
Toyota Auto Receivables Owner Trust	0.4%	AAA / NR / AAA
Toyota Motor Corp	0.7%	NR / Aaa / AAA
Verizon Master Trust	0.7%	NR / Aaa / AAA
Total	100.0%	

Ratings shown are calculated by assigning a numeral value to each security rating, then calculating a weighted average rating for each security type / issuer category using all available security ratings, excluding Not-Rated (NR) ratings. For security type / issuer categories where a rating from the applicable NRSRO is not available, a rating of NR is assigned. Includes accrued interest and excludes balances invested in overnight funds.

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It is not possible to invest directly in an index. The index returns shown throughout this material do not represent the results of actual trading of investor assets. Third-party providers maintain the indices shown and calculate the index levels and performance shown or discussed. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause investment performance to be lower than the performance shown.

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- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. **Past performance is not indicative of future returns.**
- ICE Bank of America Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

Glossary

- **Accrued Interest:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **Agencies:** Federal agency securities and/or Government-sponsored enterprises.
- **Amortized Cost:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **Asset-Backed Security:** A financial instrument collateralized by an underlying pool of assets – usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, and receivables.
- **Bankers' Acceptance:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **Commercial Paper:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **Contribution to Total Return:** The weight of each individual security multiplied by its return, then summed for each sector to determine how much each sector added or subtracted from the overall portfolio performance.
- **Effective Duration:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **Effective Yield:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **Interest Rate:** Interest per year divided by principal amount and expressed as a percentage.
- **Market Value:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
- **Negotiable Certificates of Deposit:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **Par Value:** The nominal dollar face amount of a security.
- **Pass-through Security:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.

Glossary

- **Repurchase Agreements:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **Settle Date:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- **Supranational:** A multinational union or association in which member countries cede authority and sovereignty on at least some internal matters to the group, whose decisions are binding on its members.
- **Trade Date:** The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- **Unsettled Trade:** A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- **U.S. Treasury:** The department of the U.S. government that issues Treasury securities.
- **Yield:** The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- **YTM at Cost:** The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- **YTM at Market:** The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.

City of Naperville

JULY 28, 2025

David D. Nirtaut
Managing Director
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Table of Contents

01 Portfolio Performance

02 Portfolio Characteristics

03 Macro Landscape

04 Market Review & Outlook

Portfolio Performance

Portfolio Review

As of June 30, 2025

Change in Portfolio

Portfolio Value on 12-31-24	80,067,345.90
Accrued Interest	619,578.71
Net Additions/Withdrawals	-5,198.05
Gains/Losses	1,755,588.23
Income Received	1,499,692.04
Change in Accrued Interest	86,103.83
Portfolio Value on 06-30-25	83,317,428.12
Accrued Interest	705,682.54
Total	84,023,110.66

Portfolio Composition

	Market Value	% of Assets
Fixed Income	83,824,454.02	99.8
Cash & Equivalents	198,656.64	0.2
Total	84,023,110.66	100.0

Performance

Total Return (%)	MTD	QTD	YTD	ONE YEAR	ITD 1/2/2024
Portfolio Gross	1.10	1.73	4.14	6.76	5.02
Bloomberg Inter U.S. Govt/Credit TR	1.07	1.67	4.13	6.74	4.80
Difference (basis points)	+3	+6	+1	+2	+22

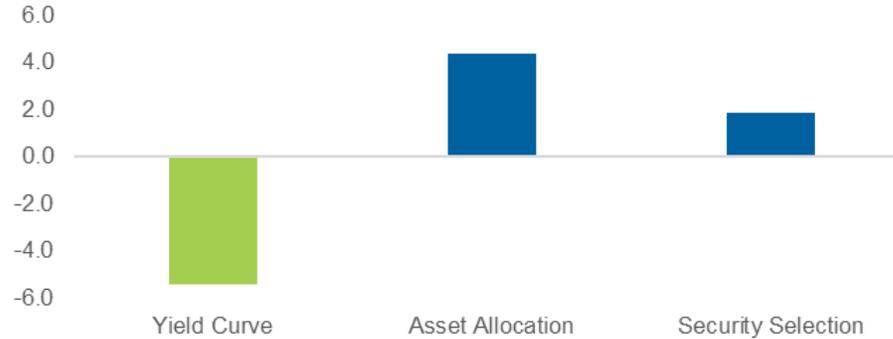
Past performance is not necessarily indicative of future results. Account performance returns are gross of fees. All returns over 1-year periods are annualized.

Portfolio Attribution

Period: 12/31/2024 to 06/30/2025

Outperformance (Total)

Portfolio Return (bps)	414.1
Benchmark Return (bps)	413.4
Outperformance (bps)	0.8



Outperformance Details

Yield Curve	-5.4
Duration	0.6
Curve	-4.1
Carry	-2.0
Asset Allocation	4.4
Security Selection	1.8

Best/Worst Instrument by Security Selection Contribution

Instrument	Bucket	% MV	Outperf
CITIGROUP INC 3.106 04/08/26	Financial Institutions	0.10	0.30
META PLATFORMS INC 4.8 05/15/30	Industrial	0.61	0.30
DTE ELECTRIC CO 4.85 12/01/26	Utility	0.22	0.27
PUBLIC SERVICE ENTERP 5.4 03/15/35	Utility	0.38	0.26
MARS INC 5 03/01/32	Industrial	0.08	0.25
DEVON ENERGY CORP 5.2 09/15/34	Industrial	0.32	-0.41
ESTEE LAUDER CO INC 5 02/14/34	Industrial	0.40	-0.45
TEXAS TRANSP COMM 5.178 04/01/30	Local Authority	0.71	-0.52
MONDELEZ INTERNATIONAL 5 1/8 05/06/35	Industrial	0.09	-0.55
US TREASURY 4 1/4 11/30/26	Treasury	9.05	-1.01

Past performance is not necessarily indicative of future results. Account performance returns are gross of fees. All returns over 1-year periods are annualized.

Portfolio Characteristics

Characteristics¹

As of June 30, 2025

Bloomberg Inter U.S. Govt/Credit Index

Issuance Sector	Contribution to Duration		Market Value		Quality Distribution	Portfolio [%]	Benchmark [%]
	Portfolio [%]	Benchmark [%]	Portfolio [%]	Benchmark [%]			
Treasury	52.8	62.1	50.8	64.6	Cash	0.2	0.0
Government-Related	1.3	5.8	1.3	6.0	AAA	8.0	3.0
Corporate	37.6	32.1	35.9	29.4	AA	56.4	68.5
MBS Passthrough	3.3	0.0	4.4	0.0	A	20.8	14.0
ABS	4.7	0.0	6.2	0.0	BBB	14.5	14.5
CMBS	0.2	0.0	1.1	0.0	BB	0.0	0.0
Tax Exempt Municipal	0.0	0.0	0.0	0.0	B	0.0	0.0
Other	0.0	0.0	0.2	0.0	Below B	0.0	0.0

	Portfolio	Benchmark
Yield to Maturity (%)	4.22	4.11
Average Quality	AA	AA
Duration (years)	3.75	3.70
Maturity (years)	4.51	4.38

Maturity Distribution	Portfolio [%]	Benchmark [%]
Less than 1 year	2.9	0.1
1-5 years	62.8	66.2
5-10 years	34.3	32.7
Greater than 10 years	0.0	1.0

1. Other consists of Cash and Money Market. Government-Related consist of Agencies, Taxable Municipals, Sovereigns, Foreign Agency, Supranational & Other Govt. 2. Split rated securities may be categorized differently in the portfolio versus the benchmark due to client specific guidelines. Cash includes Money Market. Past performance is not necessarily indicative of future results.

Macro Landscape

GDP Growth

Year	Quarter	Real GDP QoQ (%)	Consumer Spending	Fixed Investment	Government Spending	Net Exports	Inventories
2020	1Q	-5.30	-4.34	-0.57	0.78	0.09	-1.30
	2Q	-28.00	-21.51	-5.28	1.78	1.00	-4.01
	3Q	34.80	24.93	5.04	-1.03	-2.58	8.48
	4Q	4.20	3.63	2.55	-0.35	-1.44	-0.18
2021	1Q	5.20	5.70	1.63	1.04	-1.04	-2.08
	2Q	6.20	8.73	1.05	-0.80	-0.87	-1.89
	3Q	3.30	1.89	-0.28	-0.26	-1.03	2.99
	4Q	7.00	2.71	0.35	-0.04	-0.34	4.28
2022	1Q	-1.00	0.64	1.44	-0.60	-2.40	-0.10
	2Q	0.30	1.71	0.35	-0.27	0.50	-2.01
	3Q	2.70	1.02	-0.33	0.26	2.50	-0.72
	4Q	3.40	0.81	-0.36	0.90	0.56	1.44
2023	1Q	2.80	3.27	0.53	0.84	0.33	-2.16
	2Q	2.40	0.65	1.48	0.48	-0.11	-0.06
	3Q	4.40	1.72	0.45	0.94	-0.10	1.34
	4Q	3.20	2.33	0.62	0.61	0.09	-0.47
2024	1Q	1.60	1.30	1.14	0.30	-0.61	-0.49
	2Q	3.00	1.90	0.42	0.52	-0.90	1.05
	3Q	2.80	2.46	0.24	0.85	-0.56	-0.17
	4Q	2.30	2.82	-0.10	0.42	0.04	-0.93
2025	1Q	-0.30	1.21	1.34	-0.25	-4.83	2.25
Average (2020-2025)		2.64	2.07	0.56	0.30	-0.54	0.25

Source: U.S. Bureau of Economic Analysis as of April 30, 2025

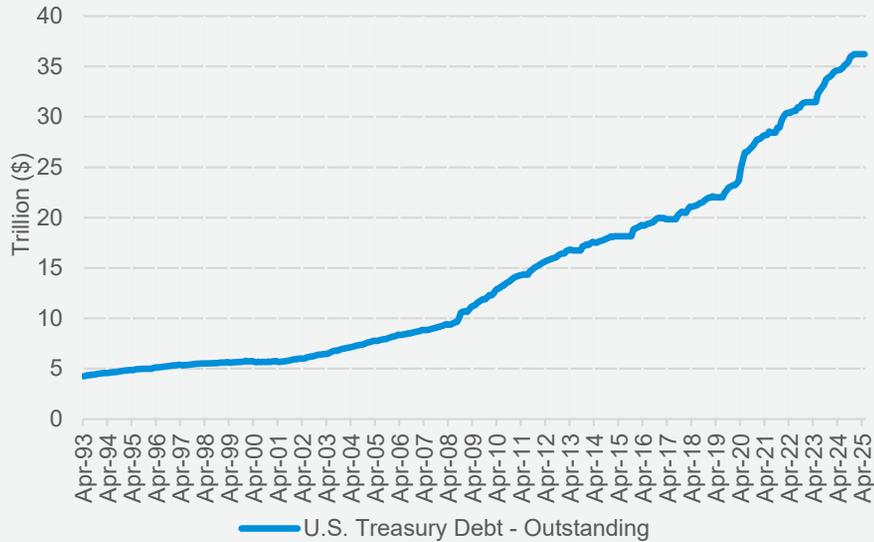
Federal Reserve Projections

	2025	2026	2027
Real GDP			
March-24 Projection	2.0%	2.0%	N/A
June-24 Projection	2.0%	2.0%	N/A
September-24 Projection	2.0%	2.0%	2.0%
December-24 Projection	2.1%	2.0%	1.9%
March-25 Projection	1.7%	1.8%	1.8%
Unemployment Rate			
March-24 Projection	4.1%	4.0%	N/A
June-24 Projection	4.2%	4.1%	N/A
September-24 Projection	4.4%	4.3%	4.2%
December-24 Projection	4.3%	4.3%	4.3%
March-25 Projection	4.4%	4.3%	4.3%
Core PCE Inflation			
March-24 Projection	2.2%	2.0%	N/A
June-24 Projection	2.3%	2.0%	N/A
September-24 Projection	2.2%	2.0%	2.0%
December-24 Projection	2.5%	2.2%	2.0%
March-25 Projection	2.8%	2.2%	2.0%

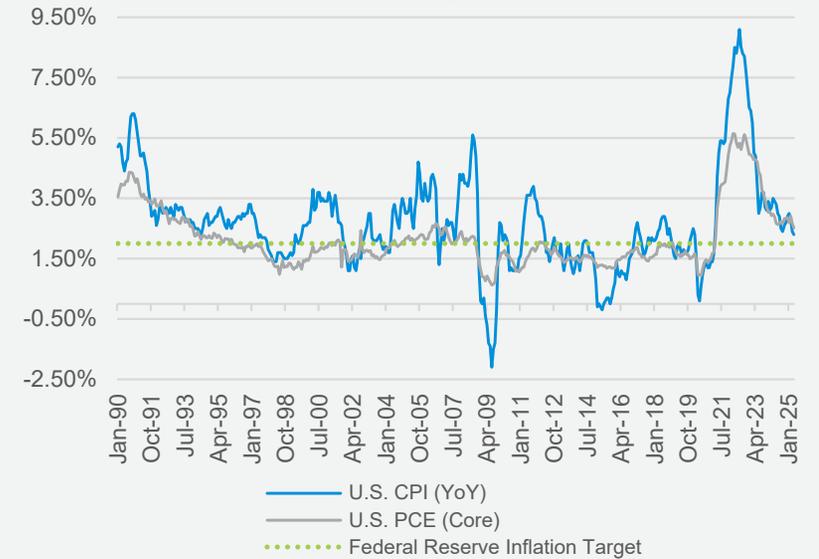
Source: Federal Reserve as of March 19, 2025

U.S. Fiscal and Monetary Policy

U.S. Treasury Debt Outstanding



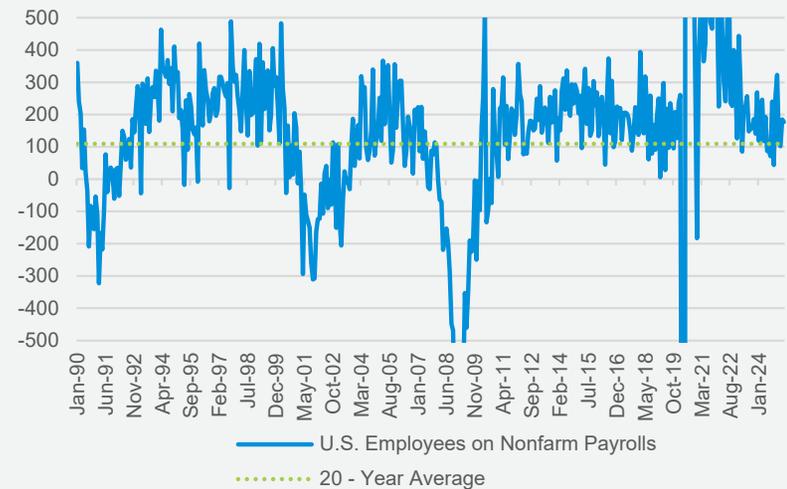
Inflation measured by CPI & Core PCE



Deficit (-) or Surplus as % of GDP



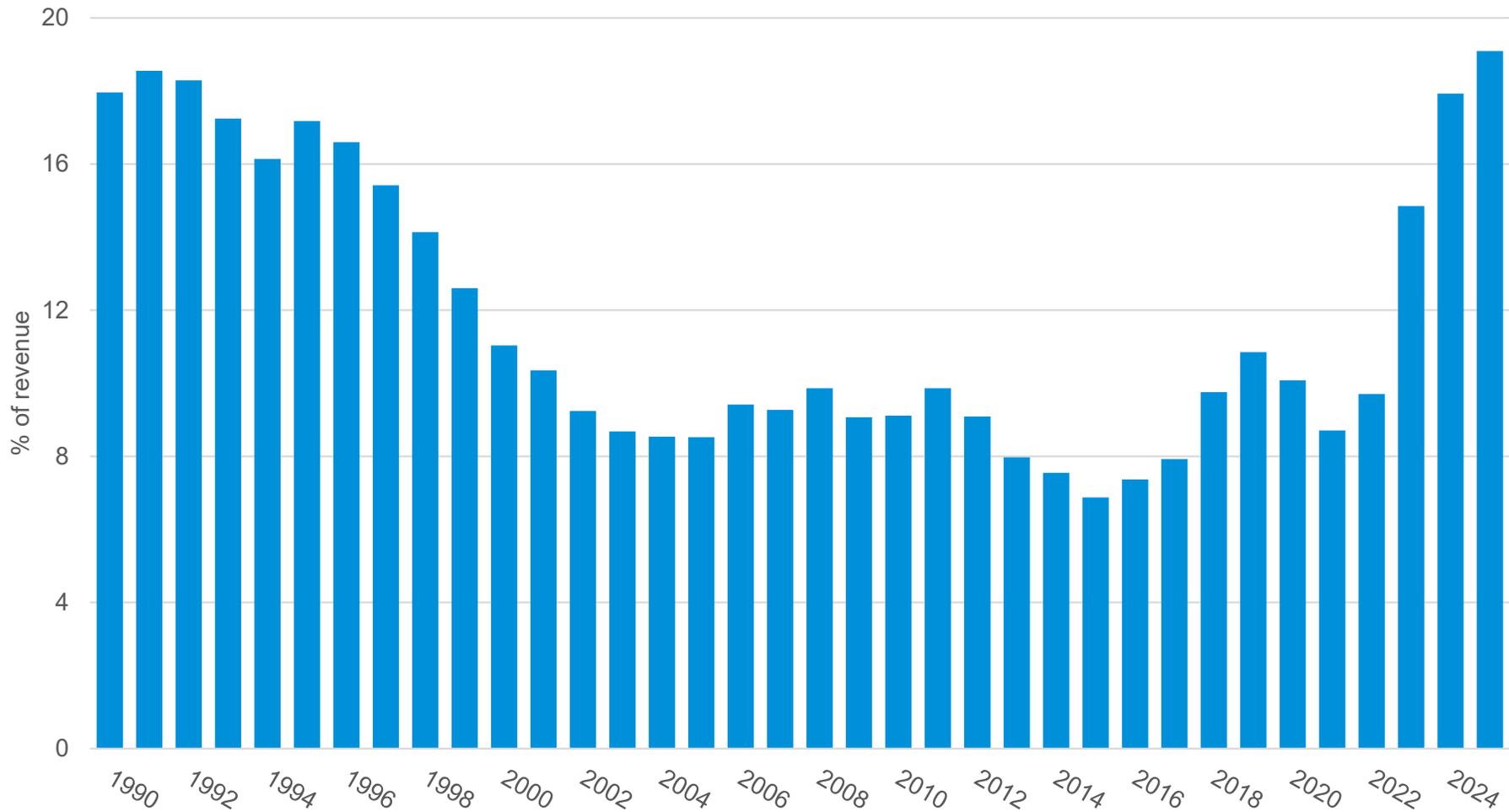
Non-Farm Payrolls



¹ Data as of June 5, 2025.

Source: Congressional Budget Office, Bloomberg, Bureau of Economic Analysis

US deficit pressure has increased with rates



Note: Fiscal years. Fiscal year-to-date for 2025. Data through May 2025.

Sources: US Treasury and MetLife.

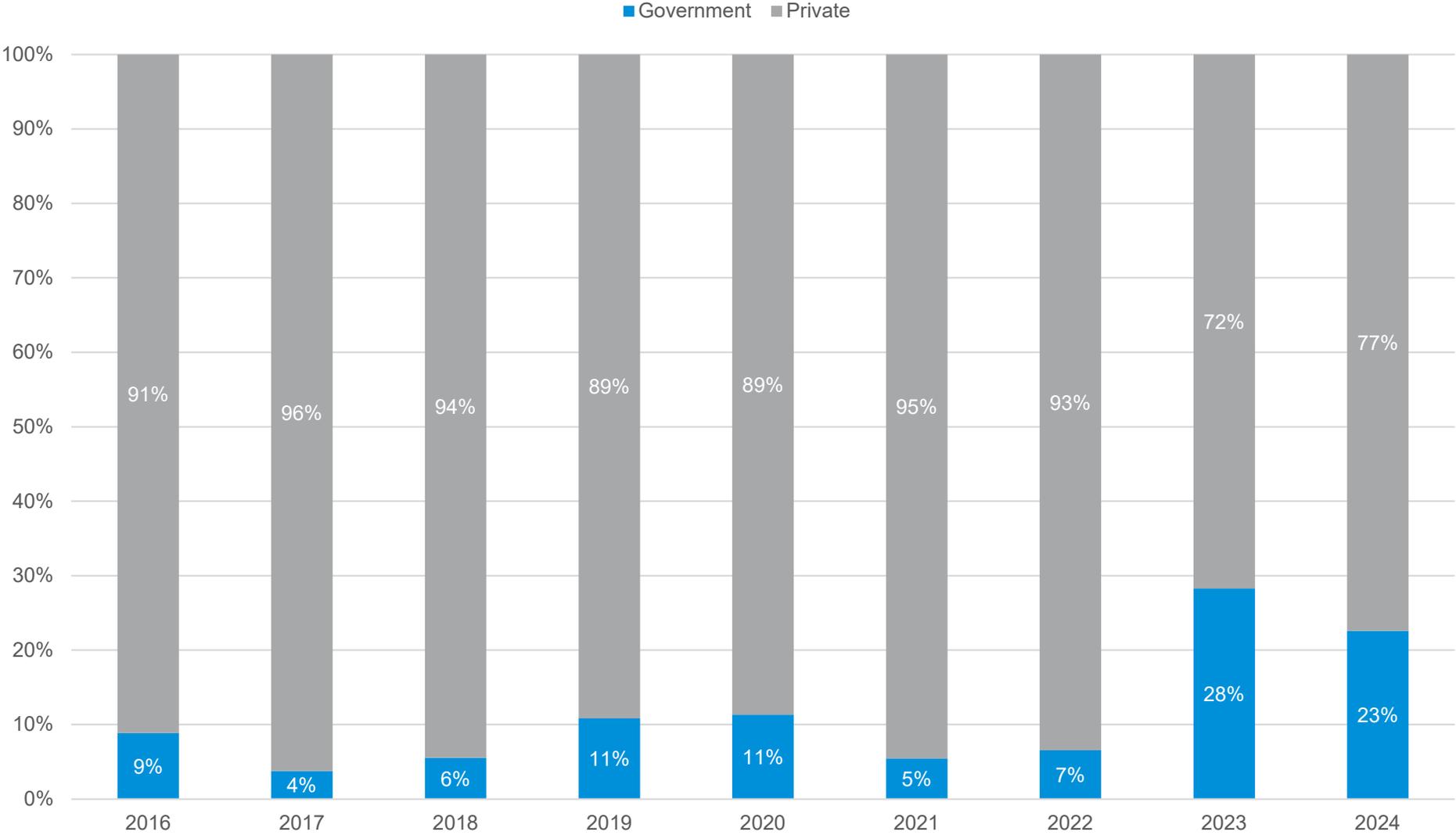
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Congressional Budget Office¹

(\$ Billions)	2003	2013	2015	2017	2019	2023	2024	2025 ²	2029 ²
Revenues	1,782	2,775	3,250	3,316	3,463	4,439	4,918	5,163	6,290
Outlays	2,160	3,455	3,692	3,982	4,447	6,135	6,750	7,028	8,228
Social Security	470	808	882	939	1,038	1,348	1,454	1,572	1,968
Medicare	274	585	634	702	775	1,009	1,089	1,145	1,460
Medicaid	161	265	350	375	409	616	618	656	803
Income Security	196	340	301	294	303	448	375	410	392
Retirement & Disability	125	226	246	263	282	365	412	442	539
Defense	405	626	583	590	676	805	855	859	925
Other	376	384	472	556	588	884	1,142	992	1,010
Net Interest	153	221	223	263	375	659	881	952	1,247
Deficit (-) or Surplus Total	-378	-680	-442	-665	-984	-1,695	-1,832	-1,865	-1,938
Debt Held by the Public	3,913	11,983	13,117	14,665	16,801	26,240	28,199	30,103	35,047
U.S. Treasury 5-Year Yield (%)	3.25	1.74	1.76	2.21	1.69	3.85	4.38	4.04 ³	-

¹ As of January 17, 2025. ² Indicates estimates. ³ As of May 27, 2025.
Source: Congressional Budget Office

Non-Farm Payrolls Job Composition



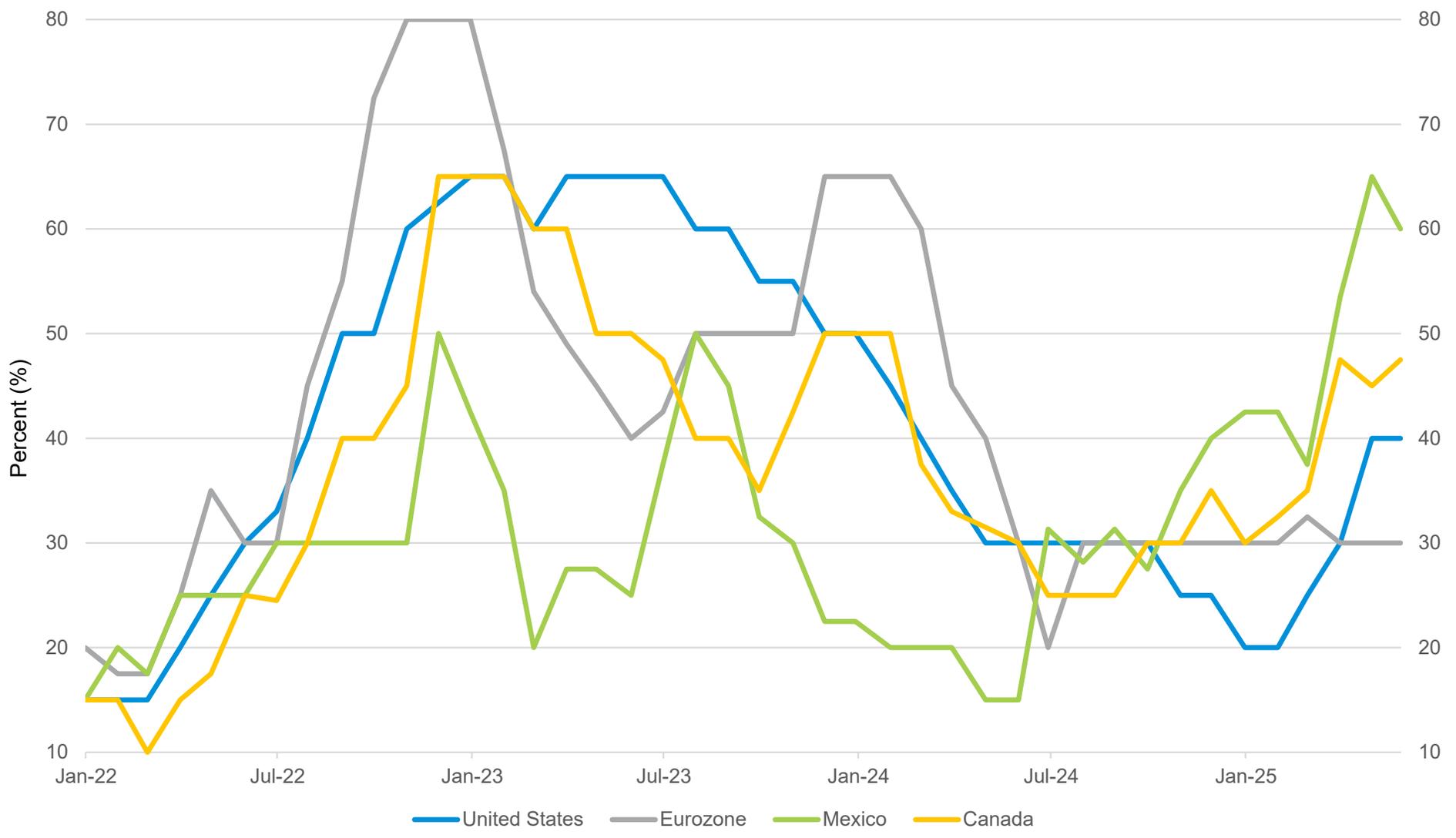
Source: Bloomberg L.P. As of March 31, 2025

Expectations for Federal Reserve Rate Cuts



Source: Bloomberg L.P. As of May 27, 2025

Recession Probability



Source: Bloomberg L.P. As of May 27, 2025

Market Review & Outlook

Market Review

	Sector	OAS TSY	QTD OAS Δ	YTD OAS Δ	QTD Total Return	YTD Total Return	QTD Excess Return ¹	YTD Excess Return ¹
	US Aggregate Index	33	-2	-1	1.21%	4.02%	0.33%	0.10%
	US Credit Index	79	-10	2	1.82%	4.22%	1.00%	0.26%
	US Corporate Index	83	-11	3	1.82%	4.17%	1.04%	0.21%
	Industrials	83	-9	5	1.68%	4.08%	1.04%	0.12%
	Financials	84	-10	2	2.11%	4.46%	1.00%	0.50%
	Utilities	92	-10	10	1.69%	3.70%	1.19%	-0.34%
	Non-Corporate Credit	44	0	-4	1.70%	4.38%	0.65%	0.53%
Quality	A	70	-9	2	1.80%	4.22%	1.03%	0.28%
	Baa	105	-9	7	1.95%	4.21%	1.09%	0.17%
Maturity	Intermediate	76	-7	4	2.12%	4.45%	0.69%	0.41%
	Long	102	-14	2	1.23%	3.64%	1.79%	-0.14%

In April, the second quarter commenced with the much-anticipated announcement of tariffs from President Trump's "Liberation Day" declaration. The market reaction was significant, with substantial sell-offs in risk assets, spreads wider, and surging interest rate volatility. However, as the quarter progressed, market conditions stabilized, and spreads retracted to pre-announcement levels. The Bloomberg U.S. Credit Index, which started the quarter at 89 basis points, widened to 111 basis points on April 8th before closing the quarter at 79 basis points.ⁱ Policy instability from President Trump's administration remained a consistent theme throughout the quarter, causing periodic market jitters that were often followed by rallies in response to bold declarations. Aside from the policy focus, the market navigated through various events, including earnings reports, corporate M&A/restructuring activities, a robust issuance calendar, and commodity price volatility as a result of either instability abroad or U.S. economic growth fears.

Fixed income returns in the second quarter were solid, both in total return and on an excess basis, effectively recovering from the first quarter's weaknesses. Long-end rates remained elevated; however, the decline in rates in the belly of the curve supported total returns. Excess returns rebounded strongly in May following the April tariff-related downturn, while stable spreads throughout June were supported by technical factors and U.S. economic data that highlighted lower inflation despite a cooling job market and heightened geopolitical risks amidst the ongoing conflict between Iran and Israel.

ⁱ Bloomberg

ⁱⁱ Bank of America Merrill Lynch

Market Review (Continued)

Utilities narrowly outperformed with an excess return of +1.19%, followed by Industrials and Financials, each with +1.04% and 1.00% excess returns, respectively. Sectors with longer duration and higher beta were the primary beneficiaries on an excess basis. Quality segments rated A or higher (+1.03% excess return) slightly underperformed BBB-rated segments (+1.09% excess return). As concerns about weaker growth and tariff impacts led investors to seek higher quality assets earlier in the quarter, an overall reach for risk assets and rally in spreads was the theme into quarter's close. Early on corporate sectors most exposed to tariffs, such as Automotives and Home Building, or growth fears, like the Energy sector, underperformed. Conversely, sectors less affected by global tariffs, such as Wirelines, which predominantly comprise domestic issuers, performed better. The Property & Casualty insurance segment rebounded from challenges due to liabilities associated with the catastrophic wildfires in the Los Angeles area. Utilities also bounced back as investors sought the stability of Utilities in the face of growth slowdown fears. Across credit curves, the 5s/10s Non-Financials segment flattened by nearly 8 basis points, while the 10s/30s segment continued to flatten by approximately 9 basis points, coinciding with the rise of the 30-year treasury yield during the period.ⁱⁱ

The 10-year Treasury yield was rather volatile, trading within a 50 basis point range in the first 15 days of the quarter on the back of tariff announcements. The yield reached a high of 4.60% in late May but closed the quarter near its starting point at 4.23%. The 30-year Treasury yield followed a similar pattern, peaking at 5.09% in late May and closing the quarter at 4.77%, 20 basis points higher than at the beginning of the quarter. The 2-year Treasury yield ended the year at 3.73%, and the 2s/10s Treasury curve steepened to 64 basis points before closing at 51 basis points. The 10s/30s curve continued to steepen, closing just shy of 55 basis points.ⁱ

On the macroeconomic front, investors continued to digest the impact of the Trump administration's evolving trade policy, while the US' fiscal outlook was spotlighted after another US downgrade just as the proposed "One Big Beautiful Bill" adds on to the heavily debated fiscal spending. Recessionary fears waned as ongoing trade negotiations with both China and the European Union improved. However, on the consumer side of the equation, surveys of data continued to shed light on diminishing levels of consumer confidence. Furthermore, on the data surveys, Citi's U.S. Economic Surprise Index again highlighted a negative print for the bulk of second quarter, yet these negative prints were not accompanied by what would typically be - appropriate pricing in the rates market.

The prevailing sentiment is only further supported as the change in the Nonfarm Payrolls figures (+120k in March, +147k in April, +139k in May) has slowed below a 10-year average of +150k monthly gains in jobs coupled with continuing claims running at the highest levels since 2021. The negative impact of tariffs or lack thereof continued to be a significant driver of market unease, attributable to the unpredictability of their effects. While their implementation is underway and generated solid revenue for the U.S. Government, many economists remain concerned of their inflationary pressures. Certain market segments, notably automotive, energy, materials, industrial, and consumer sectors, evidenced in their credit spreads have exhibited heightened sensitivity to these developments. The Federal Reserve reiterated their cautious stance yet still remained committed to two further rate reductions by year-end, aiming to converge towards a long-term neutral rate despite persistent inflation metrics (Core PCE at 2.67% in May) which continue to deviate from the 2% target.ⁱ

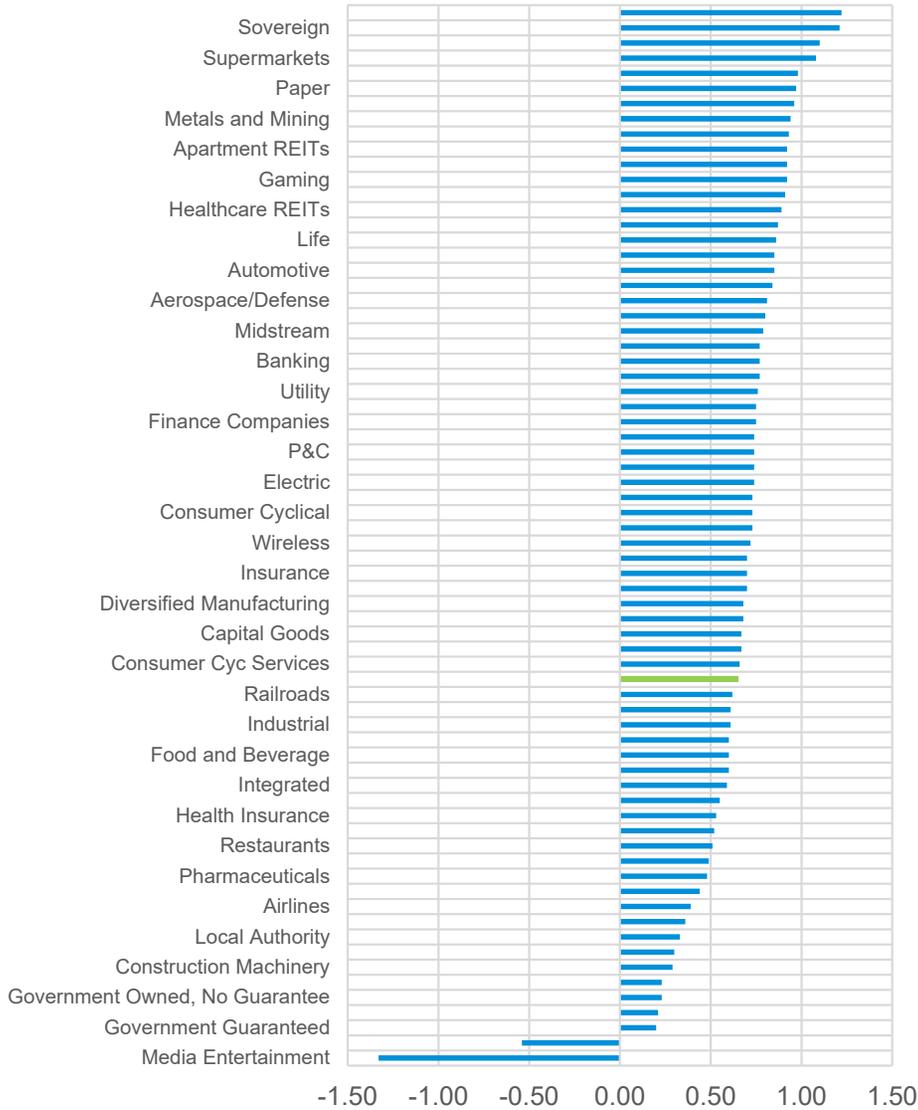
Credit fundamentals for 1Q 2025 were healthy, with the EBITDA Margin and FCF/Total Debt ratio slightly worse than in 4Q 2024, but still above the historical average level. However, due to the data delay, the impact of the April tariff announcement on credit fundamentals hasn't yet been apparent. While front-end rates are now lower, longer-dated rates are still elevated relative to recent history keeping the housing market and other rate sensitive markets less active. Additionally, data that highlighted a rise in auto-loan delinquencies among lower credit cohorts and increased credit card utilization would typically signal a weakening consumer base. However, this deterioration has not yet materialized in pricing concessions of consumer exposed credits.ⁱ

ⁱ Bloomberg

ⁱⁱ Bank of America Merrill Lynch

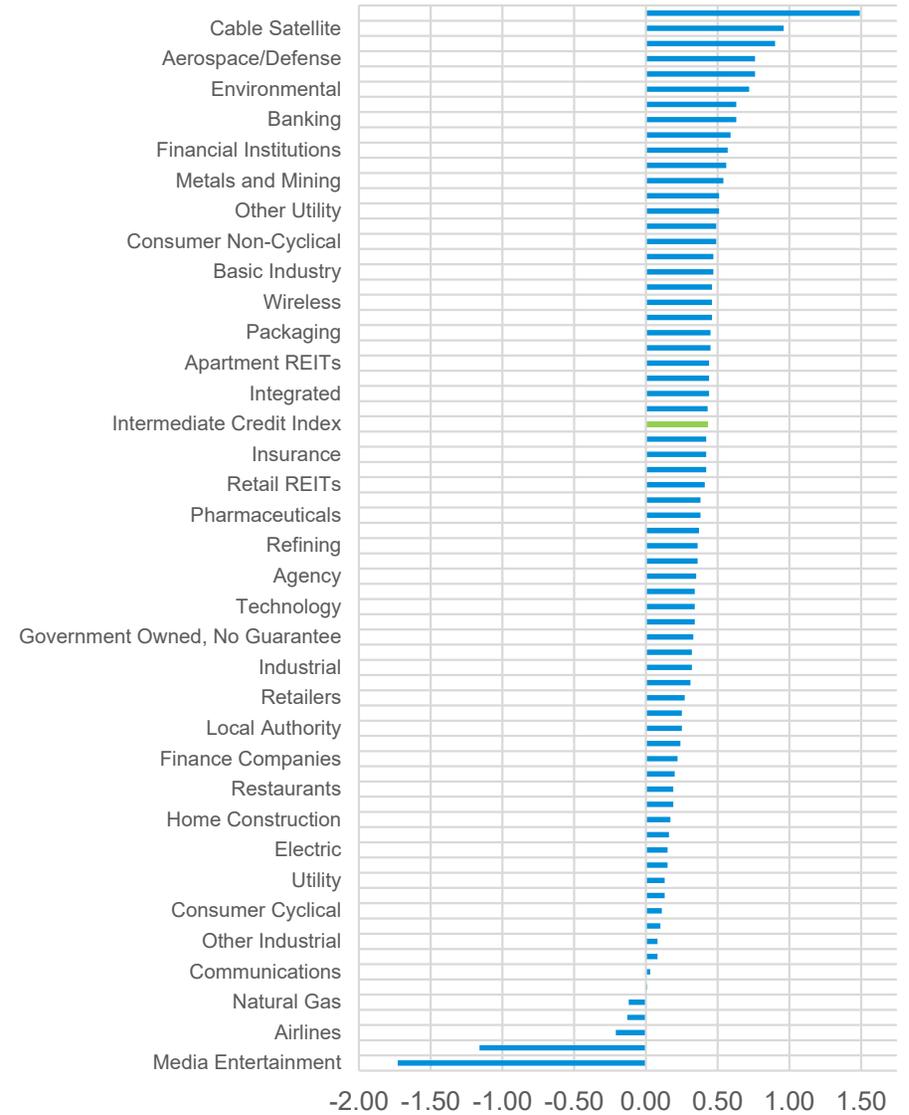
Market Review (Continued)

2Q25 Intermediate Credit Excess Return (%)



Source: MIM, Bloomberg

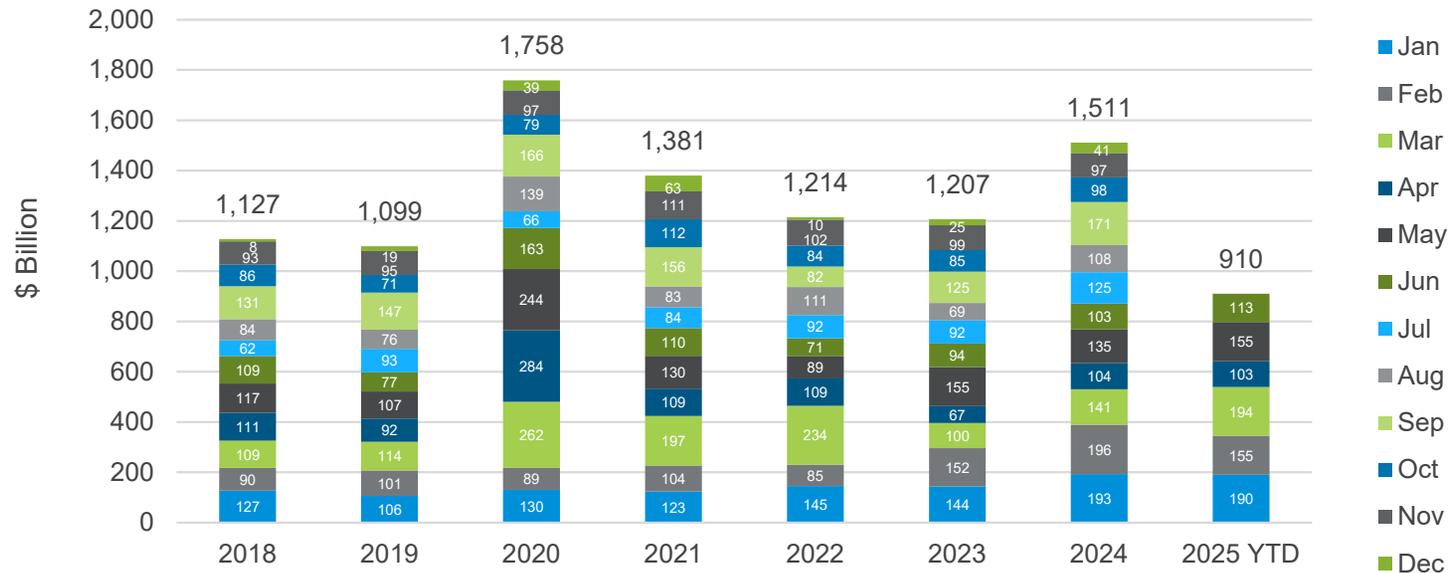
1H25 Intermediate Credit Excess Return (%)



Source: MIM, Bloomberg

Market Review (Continued)

2025 Issuance Outpacing 2024



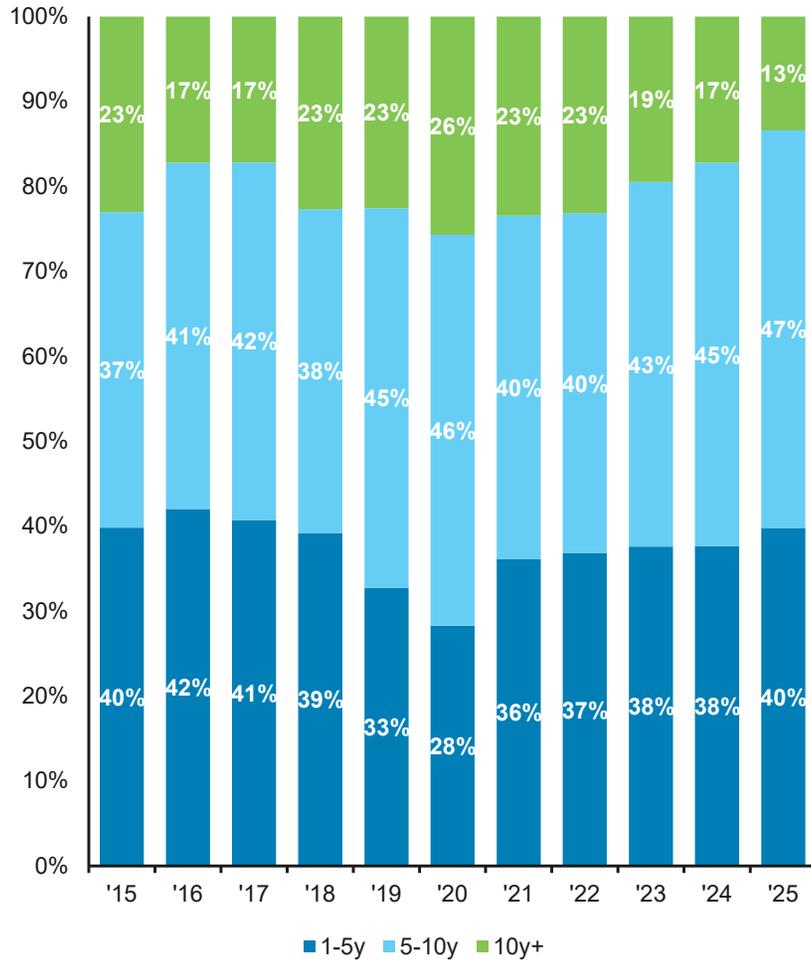
Source: JP Morgan

U.S. corporate issuance in the second quarter recorded \$371 billion, a figure that is up 16% versus the prior 4-year 2Q average. In terms of the sector breakdown, Financials accounted for \$173bn while Non-Financials were \$198bn, 46.6% and 53.3%, respectively. Within Financials, Yankee Banks were still active, but GSIBs and Insurance led the bulk of issuance. Across Non-Financials segments issuance was led by the Technology, Consumer and Utilities sectors. When looking at the maturity composition of issuance, long dated bond (30Y) issuance continued to lag and represented only 11% of total supply year-to-date, down from 15% a year prior. M&A issuance was still active from the Technology sector as well as the Healthcare/Pharmaceutical space, but to a much lesser degree than the first quarter, in particular, March 2025. The largest M&A deal of the quarter was issuance from Brown & Brown in the Insurance sector bringing \$4.2 billion as they moved to acquire Accession Risk Management. EOG Resources was also a larger M&A Issuer bringing \$3.5 billion for their acquisition of Encinco Acquisition Partners. Other larger issuances over the quarter included Apple, Siemens, UnitedHealth Group, JBS Foods as well as Citi Bank and Bank of America to name a few.ⁱ

Market Review (Continued)

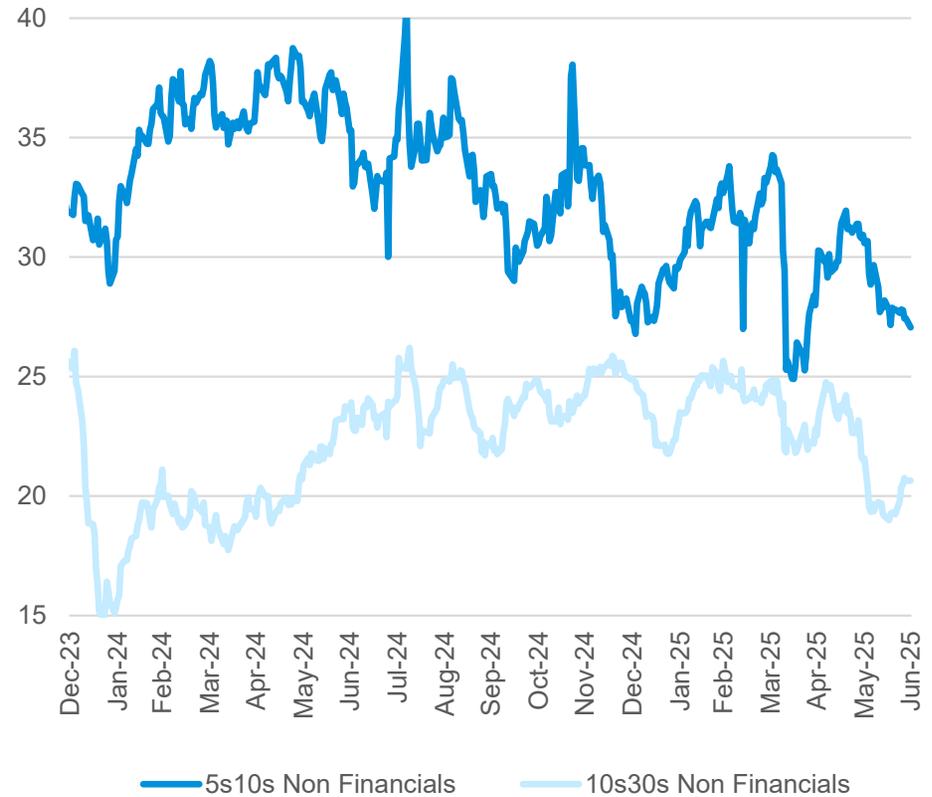
The lack of long dated supply has contributed to the flatness in the credit curve.

Investment Grade Supply



Source: Barclays
JP Morgan

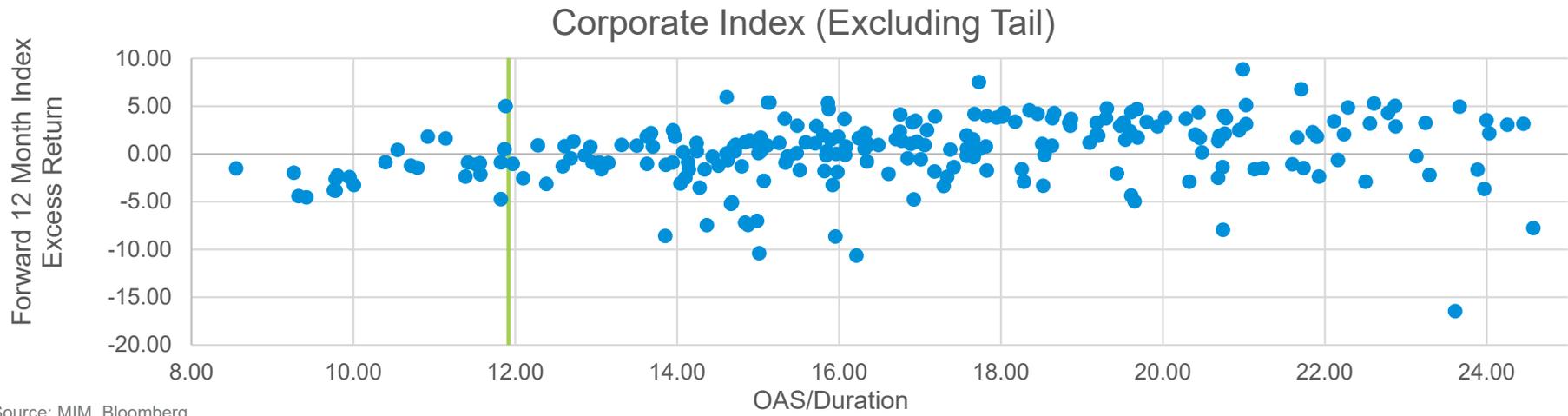
Corporate Credit Curves



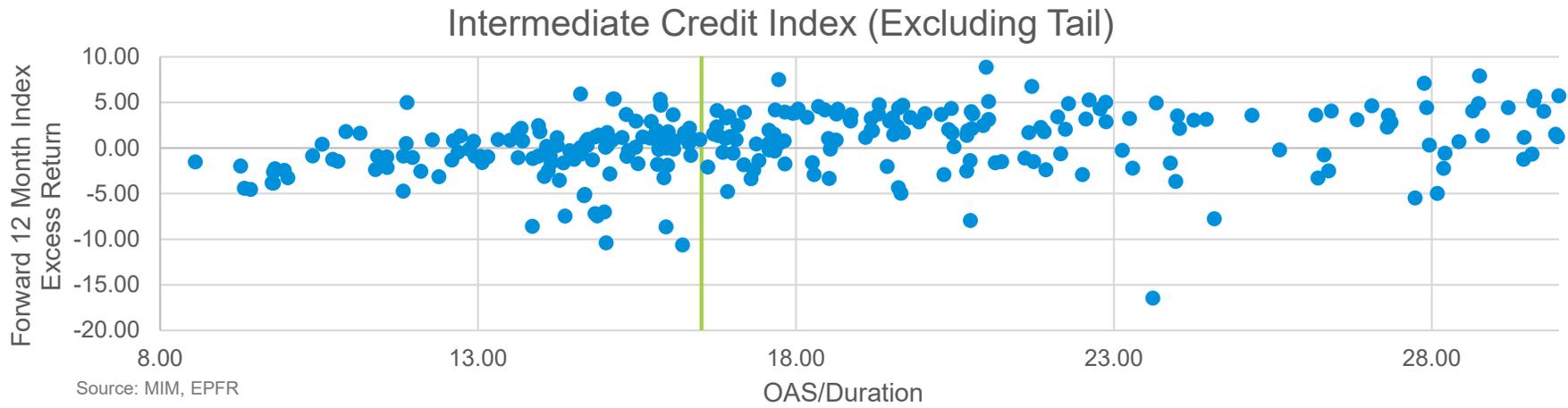
Source: ICE Bank of America Merrill Lynch

Market Review (Continued)

From a historical perspective, the likelihood of forward excess returns is limited from these starting levels of spread (OAS).

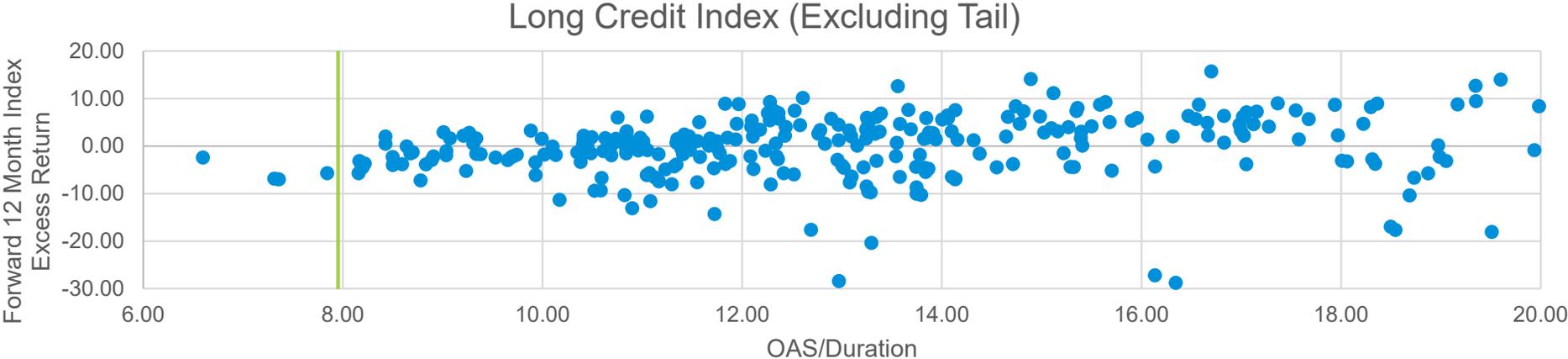


However, when looking across the curve, we still find a better opportunity set in the intermediate segment of the market.



Source: MIM, Bloomberg

Market Review (Continued)

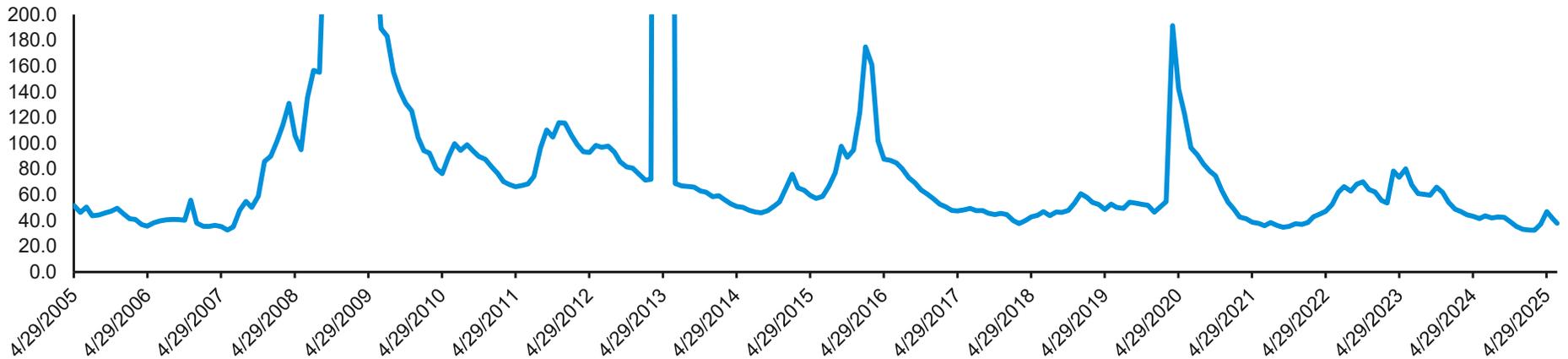


Source: MIM, Bloomberg

Market Review (Continued)

Dispersion across tickers in the index has decreased meaningfully

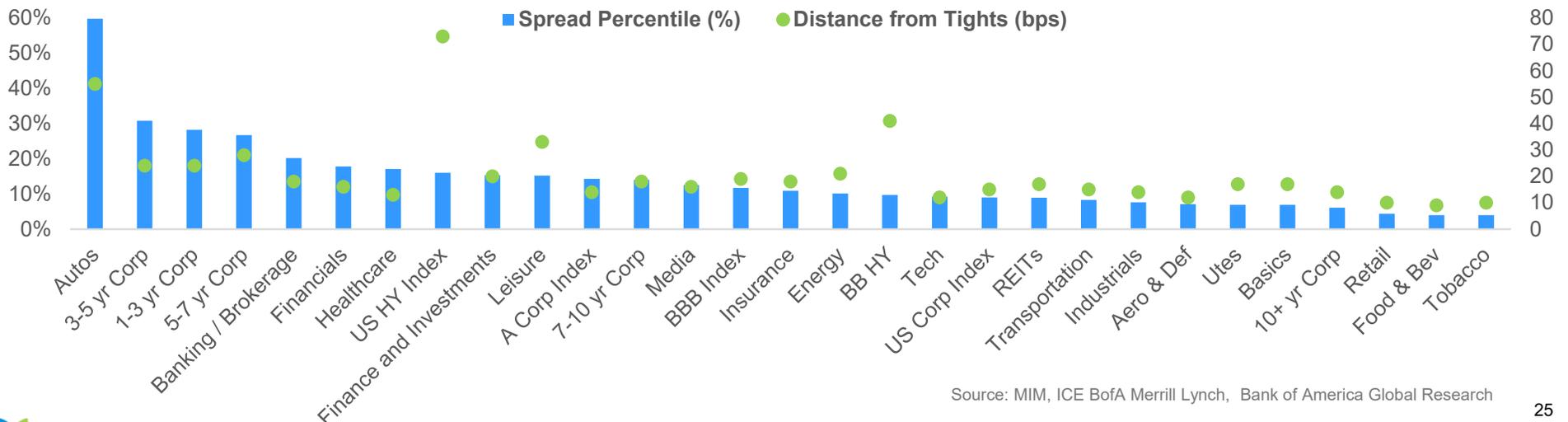
St Dev of Ticker OAS – Bloomberg U.S. Credit Index



Source: MIM, Bloomberg L.P., Barclays Research

With compressed spreads and flat curves, opportunities still exist in select sectors

Broad sector spread percentiles over the past 10 years



Source: MIM, ICE BofA Merrill Lynch, Bank of America Global Research

Market Review (Continued)

Utilities still offer defensive opportunities relative to Industrials



Source: MIM, Bloomberg

Despite off their recent tight, IG Industrials are still compressed to Financials



Source: MIM, Bloomberg

Market Outlook

Equities jumped over 10% to reach new all-time highs. Corporate spreads rallied 11 basis points – pushing spreads within spitting distance again of the tights of the decade (74). Surely this enthusiasm for risk was buoyed by a supportive macro backdrop? Quite the contrary. The second quarter featured Liberation Day tariff announcements that were much higher than anticipated, escalating geopolitical tensions which culminated in a US attack on Iran, a softening of economic data, and increasing consternation about what tax reform may mean for the budget deficit. Any one of those factors could have been a plausible excuse to drive spreads wider, yet over the course of the quarter these headwinds were overwhelmed by robust technicals.

We suggested in our previous outlook that we were on the cusp of finally getting an attractive entry point to take risk higher in portfolios. We did increase our allocation to credit as spreads widening in April, particularly in those situations less likely to be impacted by the everchanging winds of tariffs, but the opportunity set was frankly less robust than we had hoped. The first two weeks of April saw just \$15 billion of new issuance come to market, while \$85 billion priced in the second half of the month as spreads were rebounding. Demand for credit at only modestly cheaper spreads was evident in the lack of concession that it took to price \$100 billion of primary issuance in the most volatile month that credit investors have seen since the brief selloff in August of last year. This demand continued to be driven by yield-sensitive buyers, as corporate yields remained solidly above 5%. Yield buyer participation was particularly evident on the long end of the curve, where deficit concerns kept 30-year yields elevated, and long corporate yields propped up above 6% for much of the quarter. This resulted in a flattening of credit curves, pushing long-end spreads to levels that we largely find to be uneconomic.

Looking ahead to the back half of the year, valuations are largely similar to where they began the year, yet the macro backdrop is quite different. Simply put, we believe credit investors today are faced with below average spread compensation for above average risk. The Bloomberg Economic Surprise Index is sitting at 9-month lows, leading to further concern that weakening soft data may ultimately translate into the hard data. Despite the challenging macro, we do not want to conflate our lack of enthusiasm for valuations with the opportunity set available to generate alpha. When relative value relationships are stretched, we often find decompression trades to be fertile ground for idea generation. Even though the selloff was rather brief in April, it provided a glimpse into the price action of how certain credits and sectors are likely to perform in a more sustained sell-off. We want to position client portfolios to be in those credits and sectors that we believe will be more durable in a spread widening event- particularly when that repositioning can be done without sacrificing yield. Utilities, Banks, and Health Insurers are a few such examples.

Another area that we believe will be a source of alpha is our exposure along the credit curve. Despite the outperformance this past quarter, we do not find the long end of the curve attractive. Long corporate valuations are once again at levels that have never preceded positive excess returns on a 12-month forward basis. We recognize the supportive technicals in the long end, but at a mere 6 basis points shy of 25+ year tights, we choose not to challenge history and will instead favor intermediate maturities - which at least have the benefit of roll-down and far more attractive break-evens.

Market Outlook (Continued)

Dollar price takeout trades are another (likely) temporary inefficiency in the market we want to take advantage of. We continue to find situations where we can rotate into lower dollar price bonds while sacrificing minimal yield to do so. Investors tend to ascribe greater value to that price differential in spread widening environments, so we believe these types of swaps help create a more attractive convexity profile in portfolios.

Dispersion in the market continues to decline. This admittedly tends to make it harder to find those undervalued situations that often drive alpha from our investment process via security selection. We will remain vigilant, however, in exercising patience and waiting for the right opportunity to increase our risk posture. Supportive technicals can certainly result in a sustained rangebound spread environment, but we do not believe there is a high risk of materially tighter spreads from these levels and so are comfortable with our historically conservative risk bias. This is the type of environment which breeds complacency amongst investors – a trap we certainly endeavor to avoid. We will continue to emphasize creating “conservative carry” in the portfolio rather than lowering our lending standards to capture an incremental handful of basis points. Treasuries will remain an important source of liquidity – particularly on the long end where we believe the spread compensation to be inadequate. Some select opportunities in emerging markets and high yield screen as more compelling than some of the similarly higher beta opportunities in the investment grade index. Despite an unknown path forward for the economy, we trust that our unwavering focus on security selection will leave us well positioned to capitalize when the opportunity set ultimately shifts to one that is more attractive for credit investors.

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