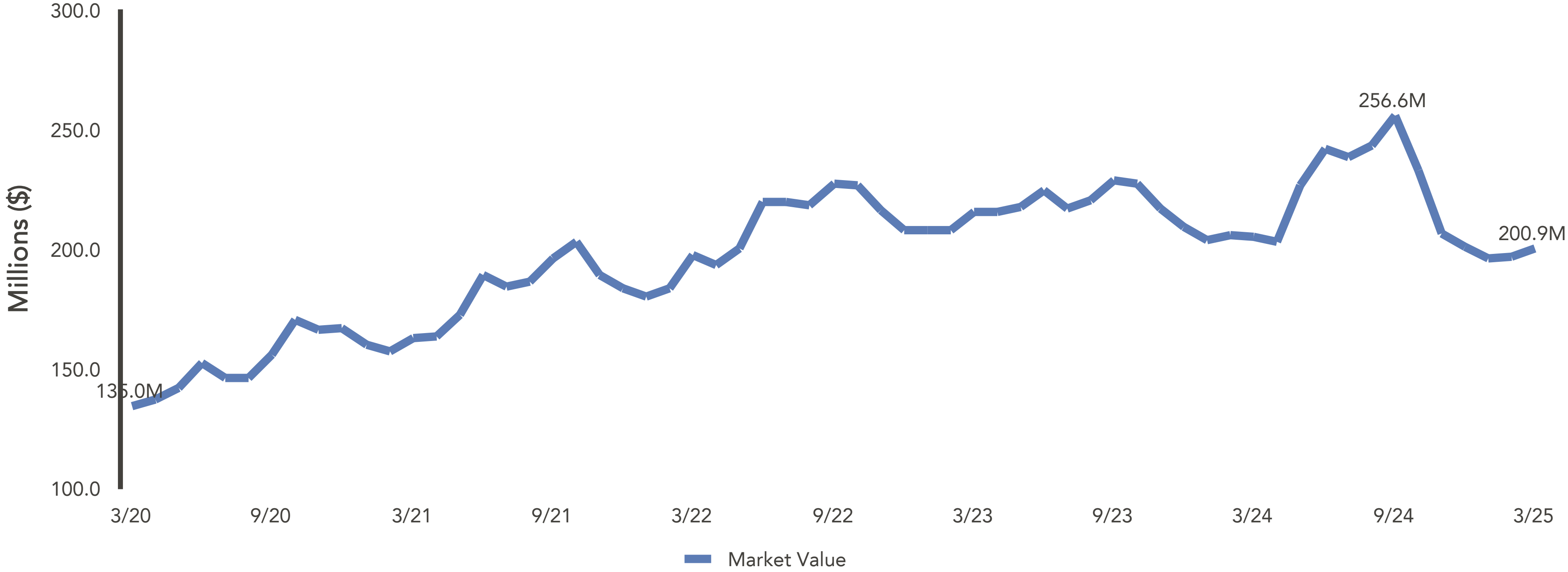
City of Naperville

Quarterly Performance Report
March 31, 2025

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 ($)	1 Year ($)	3 Years ($)	5 Years ($)
Beginning Market Value	201,562,577	205,271,724	197,739,084	134,991,936
Net Cash Flow	-5,147,439	-16,687,689	-14,247,165	54,422,123
Net Investment Change	4,527,651	12,358,754	17,450,870	11,528,729
Ending Market Value	200,942,789	200,942,789	200,942,789	200,942,789

Total Fund Composite

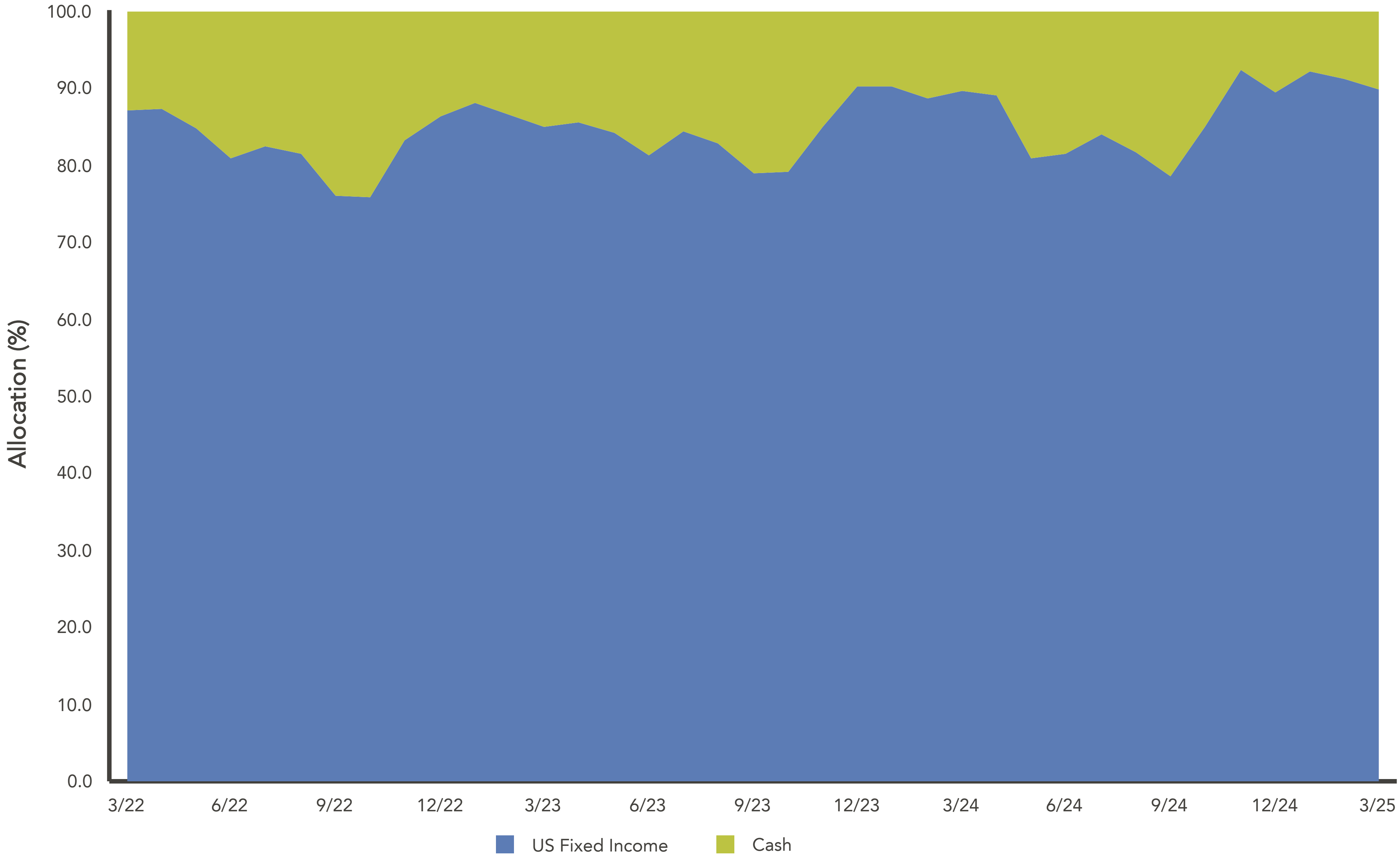
Portfolio Allocation
As of March 31, 2025

	Asset Class	Current Balance	Current Allocation	Policy	Difference
Total Fund Composite		**200,942,789**	**100.0**	**100.0**	
Fixed Income Composite		**180,800,327**	**90.0**	**85.0**	**9,998,956**
PFM	Int. Govt. Fixed Income	98,176,503	48.9	42.5	12,775,817
MetLife	Int. Fixed Income	82,623,824	41.1	42.5	-2,776,861
Cash Equivalents Composite		**20,142,462**	**10.0**	**15.0**	**-9,998,956**
Wintrust MFT Account - 6092	Cash & Equivalents	10,813,239	5.4		
Wintrust General Account - 3763	Cash & Equivalents	9,329,223	4.6		

Total Fund Composite

Historical Asset Allocation

3 Years Ending March 31, 2025



Total Fund Composite

Annualized Performance (Net of Fees)
As of March 31, 2025

	3 Mo (%)	1 Yr (%)	2 Yrs (%)	3 Yrs (%)	4 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)
Total Fund Composite	**2.3**	**5.6**	**4.4**	**2.6**	**1.0**	**1.0**	**1.9**	**1.5**
Policy Benchmark	2.3	5.3	3.7	2.2	0.7	0.4	1.9	1.4
Fixed Income Composite	**2.4**	**5.8**	**4.3**	**2.3**	**0.6**	**0.8**	**2.0**	**1.6**
Custom Fixed Income Benchmark	2.5	5.5	3.9	2.0	0.4	0.4	2.0	1.6
Blmbg. U.S. Government: Intermediate Index	2.5	5.3	3.5	1.8	0.3	0.0	1.7	1.4
Blmbg. Intermed. U.S. Government/Credit	2.4	5.7	4.2	2.2	0.6	0.9	2.2	1.8
Cash Equivalents Composite	**1.3**	**5.2**	**5.2**	**4.1**	**3.1**	**2.4**	**1.9**	**1.3**
ICE BofA 3 Month U.S. T-Bill	1.0	5.0	5.1	4.2	3.2	2.6	2.5	1.9

Total Fund Composite

Calendar Performance (Net of Fees)

As of March 31, 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	34	85	20	87	71	81	33	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 March 31, 2025

	3 Mo (%)	1 Yr (%)	2 Yrs (%)	3 Yrs (%)	4 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)
Total Fund Composite	**2.3**	**5.6**	**4.4**	**2.6**	**1.0**	**1.0**	**1.9**	**1.5**
Policy Benchmark	2.3	5.3	3.7	2.2	0.7	0.4	1.9	1.4
Fixed Income Composite	**2.4**	**5.8**	**4.3**	**2.3**	**0.6**	**0.8**	**2.0**	**1.6**
Custom Fixed Income Benchmark	2.5	5.5	3.9	2.0	0.4	0.4	2.0	1.6
Blmbg. U.S. Government: Intermediate Index	2.5	5.3	3.5	1.8	0.3	0.0	1.7	1.4
Blmbg. Intermed. U.S. Government/Credit	2.4	5.7	4.2	2.2	0.6	0.9	2.2	1.8
PFM	2.4	5.8	4.5	2.5	0.6	0.9	2.1	-
Blmbg. U.S. Government: Intermediate Index	2.5	5.3	3.5	1.8	0.3	0.0	1.7	1.4
MetLife	2.4	5.7	-	-	-	-	-	-
Blmbg. Intermed. U.S. Government/Credit	2.4	5.7	4.2	2.2	0.6	0.9	2.2	1.8
Cash Equivalents Composite	**1.3**	**5.2**	**5.2**	**4.1**	**3.1**	**2.4**	**1.9**	**1.3**
ICE BofA 3 Month U.S. T-Bill	1.0	5.0	5.1	4.2	3.2	2.6	2.5	1.9
Wintrust MFT Account - 6092	1.2	5.3	5.4	-	-	-	-	-
ICE BofA 3 Month U.S. T-Bill	1.0	5.0	5.1	4.2	3.2	2.6	2.5	1.9
Wintrust General Account - 3763	1.6	5.4	5.4	4.2	-	-	-	-
ICE BofA 3 Month U.S. T-Bill	1.0	5.0	5.1	4.2	3.2	2.6	2.5	1.9

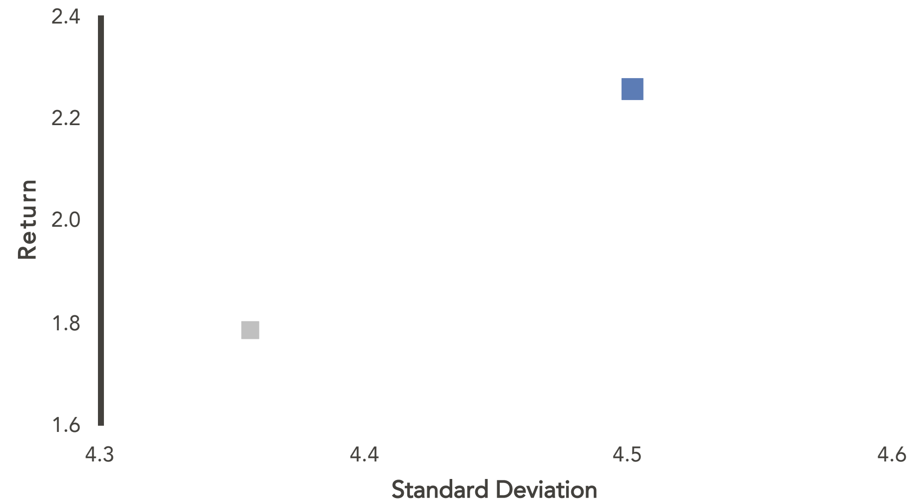
Total Fund Composite

Calendar Performance (Net of Fees)
As of March 31, 2025

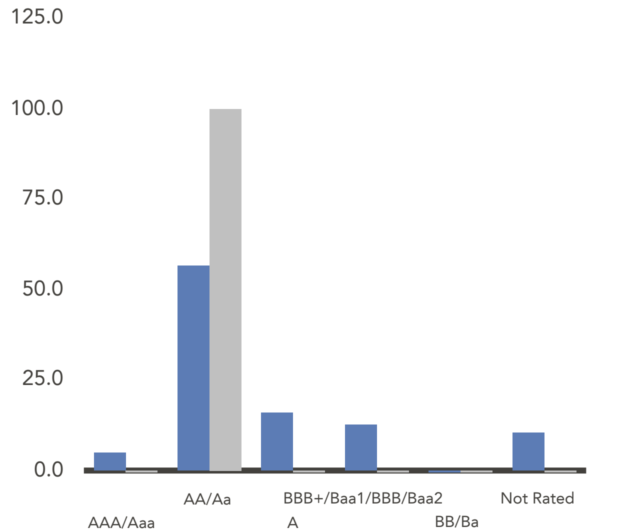
	2024 (%)	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Total Fund Composite	**3.5**	**5.0**	**-6.7**	**-1.7**	**5.4**	**5.1**	**0.7**	**1.1**	**0.6**
Policy Benchmark	2.9	4.4	-6.4	-1.4	5.0	4.8	1.5	1.1	0.9
Fixed Income Composite	**3.4**	**4.9**	**-8.0**	**-1.8**	**6.1**	**6.1**	**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	34	85	20	87	71	81	33	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	68	17	80	77	81	9	94	-
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	38	-	-	-	-	-	-	-	-
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

Portfolio Characteristics	Portfolio	Blmbg. U.S. Government: Intermediate Index
Avg. Maturity (yrs.)	4.1	4.0
Avg. Quality	AA	AA
Coupon Rate (%)	3.7	3.2
Modified Duration (yrs.)	3.4	3.6
Effective Duration (yrs.)	3.5	3.6
Yield To Maturity (%)	4.4	4.0
Yield To Worst (%)	4.4	4.0

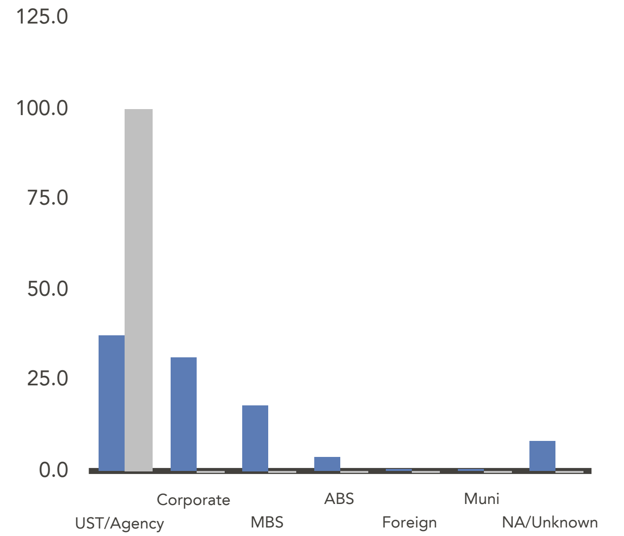
Risk vs. Return - 3 Years



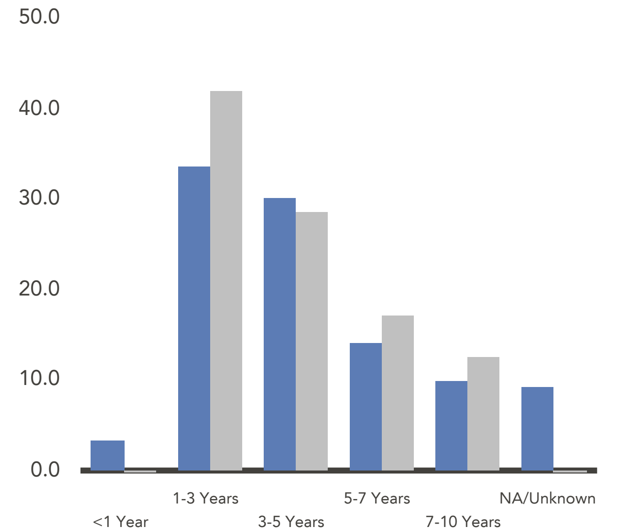
Credit Quality Distribution (%)



Sector Distribution (%)



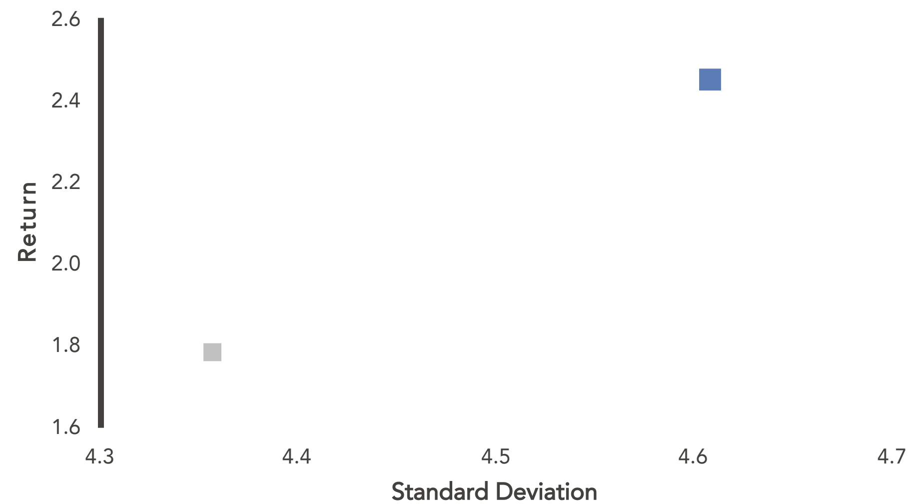
Maturity Distribution (%)



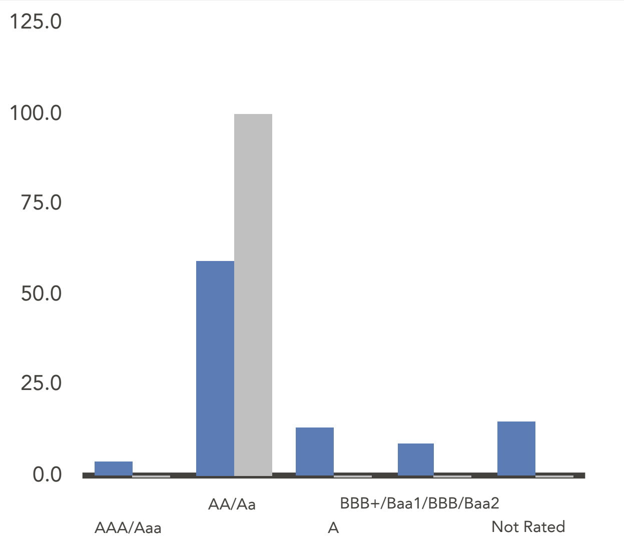
Portfolio Benchmark

Portfolio Characteristics	Portfolio	Blmbg. U.S. Government: Intermediate Index
Avg. Maturity (yrs.)	3.9	4.0
Avg. Quality	AA	AA
Coupon Rate (%)	3.2	3.2
Modified Duration (yrs.)	3.1	3.6
Effective Duration (yrs.)	3.2	3.6
Yield To Maturity (%)	4.4	4.0
Yield To Worst (%)	4.4	4.0

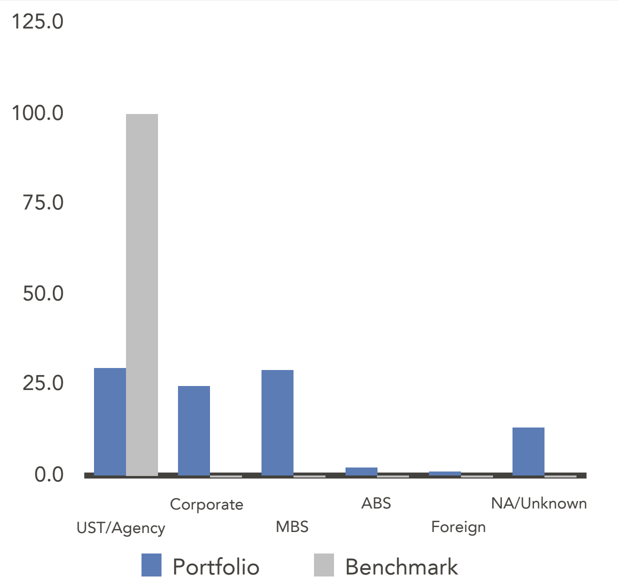
Risk vs. Return - 3 Years



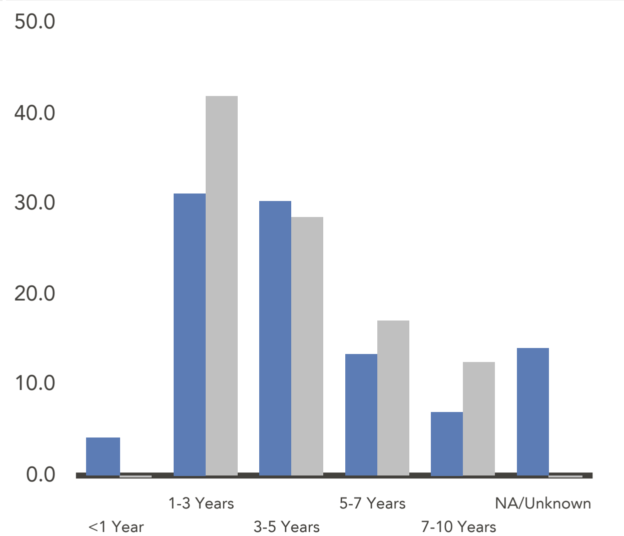
Credit Quality Distribution (%)



Sector Distribution (%)

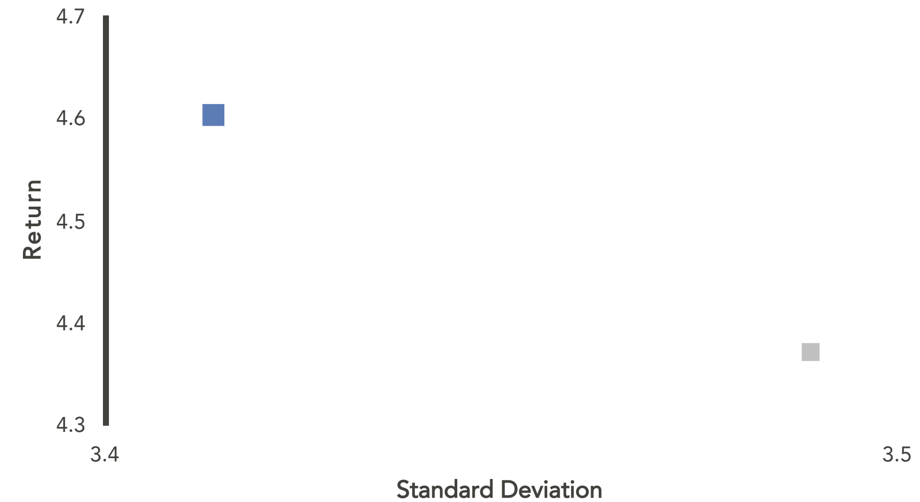


Maturity Distribution (%)

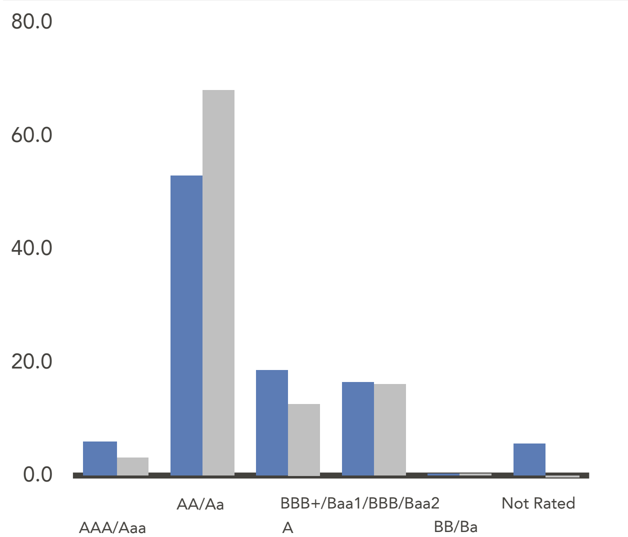


Portfolio Characteristics	Portfolio	Blmbg. Intermed. U.S. Government/Credit
Avg. Maturity (yrs.)	4.4	4.3
Avg. Quality	AA	AA
Coupon Rate (%)	4.2	3.5
Modified Duration (yrs.)	3.7	3.8
Effective Duration (yrs.)	3.7	3.8
Yield To Maturity (%)	4.4	4.2
Yield To Worst (%)	4.4	4.3

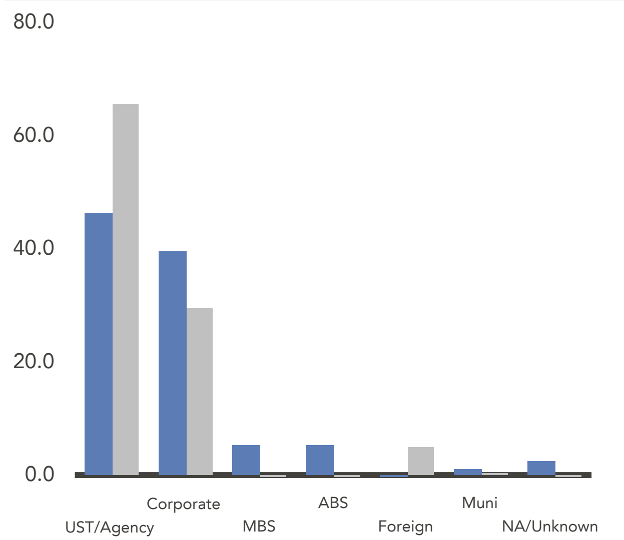
Risk vs. Return - Since Inception



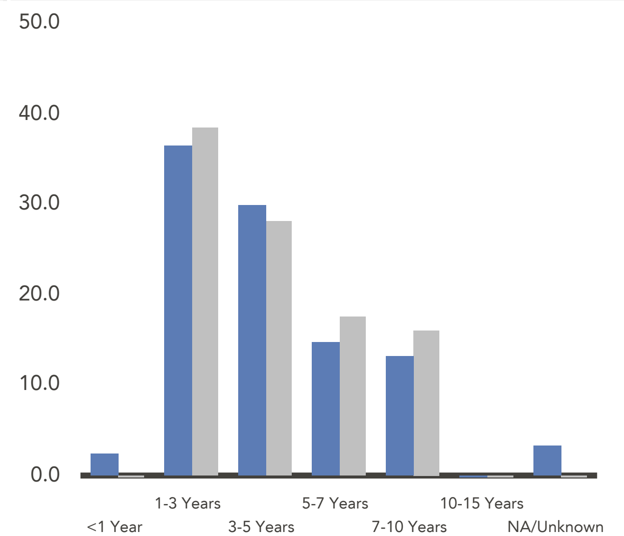
Credit Quality Distribution (%)



Sector Distribution (%)



Maturity Distribution (%)



Portfolio Benchmark

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	$78,724	0.08%	0.24%
Int. Fixed Income	MetLife	0.075% on the first $50 million 0.05% on the balance	$53,812	0.07%	0.25%
Total Investment Management Fees			**$132,535**	**0.07%**	**0.43%**
Investment Consultant	Marquette Associates, Inc.	$30,000 Annual Fee	$30,000	0.01%	
Total Fund	**Total Fund**		**$162,535**	**0.08%**	

[1] Expense Ratio & Estimated Annual Fee are Based on Market Value at Quarter End.
[2] Source: Marquette Associates Investment Management Fee Study.

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

	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 March 31, 2025

Client Management Team

PFM Asset Management
A division of U.S. Bancorp Asset Management, Inc

Michelle Binns, Director
Jeffrey K. Schroeder, Managing Director
Michael P. Downs, Portfolio Manager
Chris Harris, Director

190 South LaSalle Street
MK-IL-L11D
Chicago, IL 60603
872.240.6962

213 Market Street
Harrisburg, PA 17101-2141
717-232-2723

Agenda

- Market Update
- Portfolio Review

Market Update

Current Market Themes

- U.S. economy is clouded by tariff and policy uncertainty
  - Labor market continues to serve as backbone
  - Goods inflation weighs on progress towards Fed's 2% inflation target
  - Fiscal policy uncertainty and volatile tariff rollouts weigh on consumer sentiment

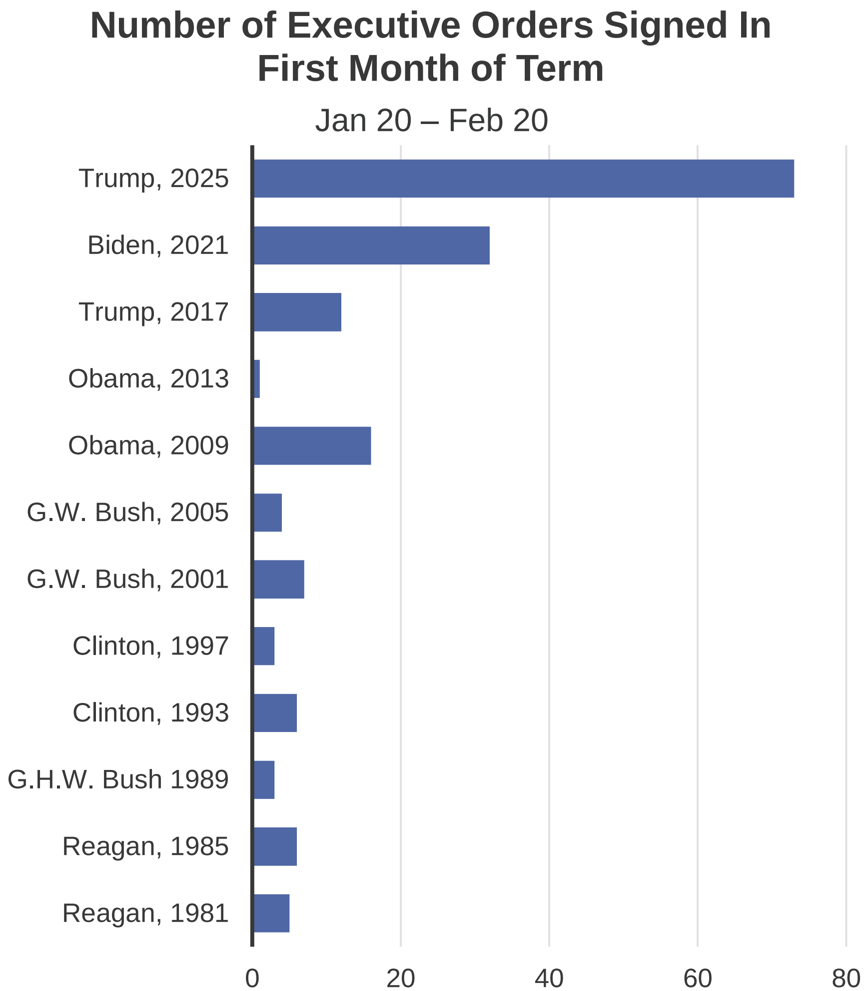
- Fed takes a pause from easing but looks to continue cutting later this year
  - The Fed kept the federal funds target rate unchanged at 4.25% - 4.50%
  - The Fed's March "dot plot" implies another 50 bps of cuts in 2025
  - Fed Chair Powell stated the administration's "significant policy changes" relating to trade, immigration, fiscal policy, and regulation is creating "considerable uncertainty"

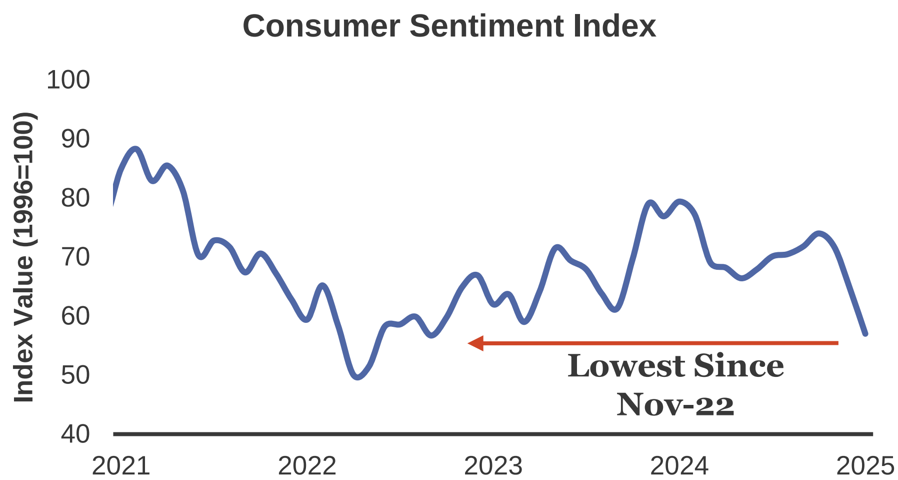
- Treasury yields fall on growing uncertainty
  - Yields on maturities between 2 years and 10 years fell 35-43 bps during the 1st quarter
  - The yield curve reinverted on the front end while the steepness of the curve between 2 years and 10 years was unchanged
  - Yield spreads widened off their historically low levels given growing economic concerns but still remain tight

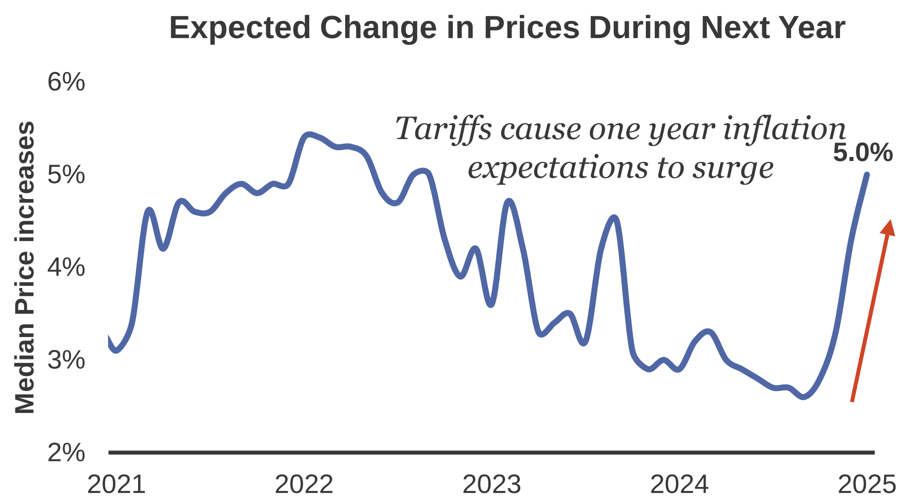
Source: Details on market themes and economic indicators provided throughout the body of the presentation. Bloomberg Finance L.P., as of March 31, 2025.

Policy Changes Increase Consumer Uncertainty

Fed Chair Powell: "We understand that sentiment is quite negative at this time, and that probably has to do with … turmoil at the beginning of an administration…"







Source: FOMC Chair Jerome Powell Press Conference, March 19, 2025. Bloomberg Finance L.P. and Federal Register :: Executive Orders, as of March 2025 (left). University of Michigan Consumer, as of March 2025 (right).

Tariffs Have Broad Economic Implications

Tariff Implications

Inflation

Fed staff research[1] suggests each 10% increase in the effective tariff rate leads to a 0.8% increase in inflation

Economic Impact

Fed staff research[1] suggests each 10% increase in the effective tariff rate leads to a 1.4% decrease in GDP

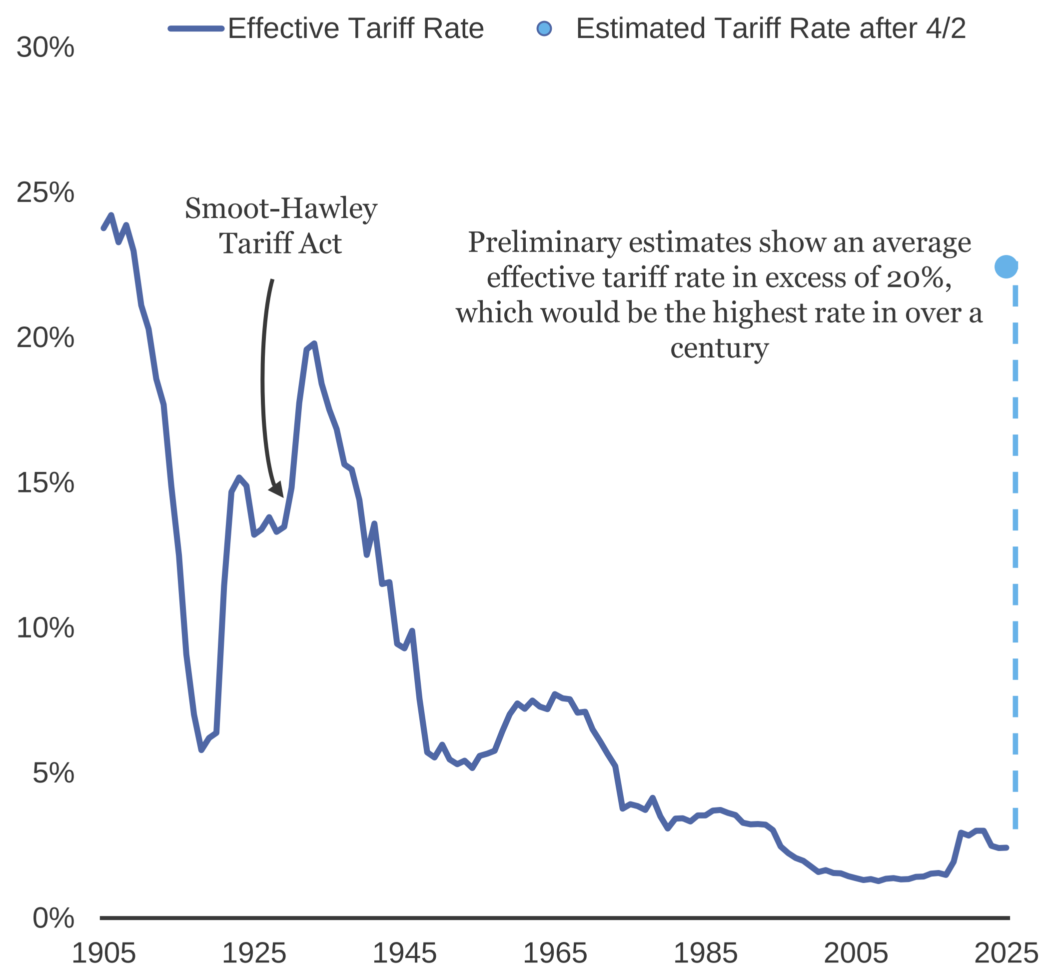
Tariff Revenues

Each $100 billion of tariffs paid by the consumer is approximately equal to a 0.4% increase in income taxes

Consumer Spending

Price increases and uncertainty could directly impact consumer confidence and spending habits

Effective Tariff Rate

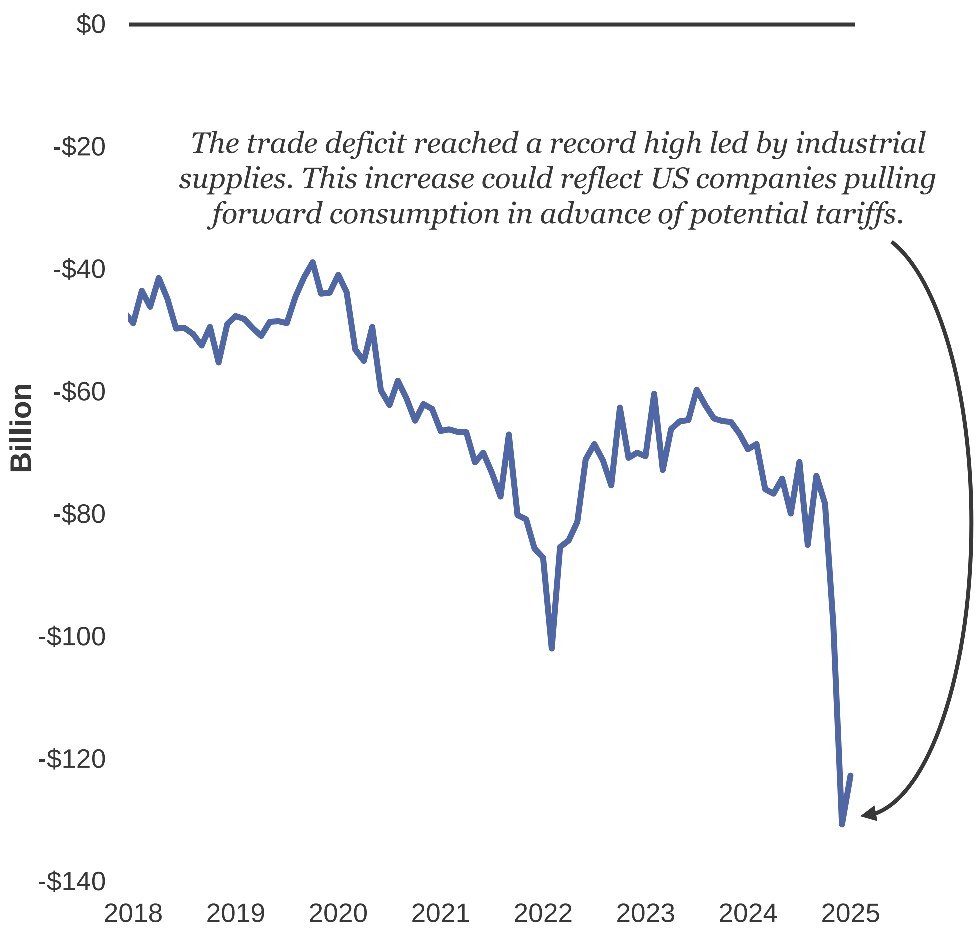


Source: PFMAM calculations, Bloomberg Finance L.P., Bureau of Economic Analysis. As of April 2025.
[1]Federal Reserve: Tealbook A, September 2018.

Tariffs Drive Growth Expectations Lower

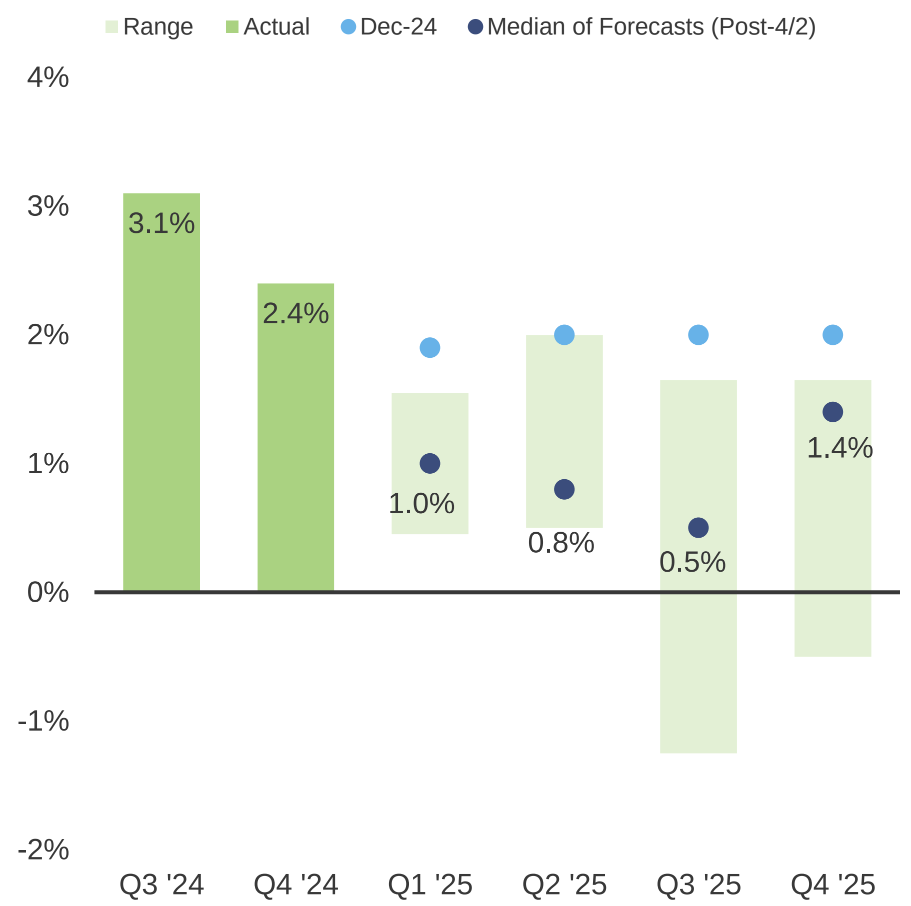
Fed Chair Powell: "But we kind of know there are going to be tariffs and they tend to bring growth down."

U.S. Trade Balance



U.S. GDP Forecasts

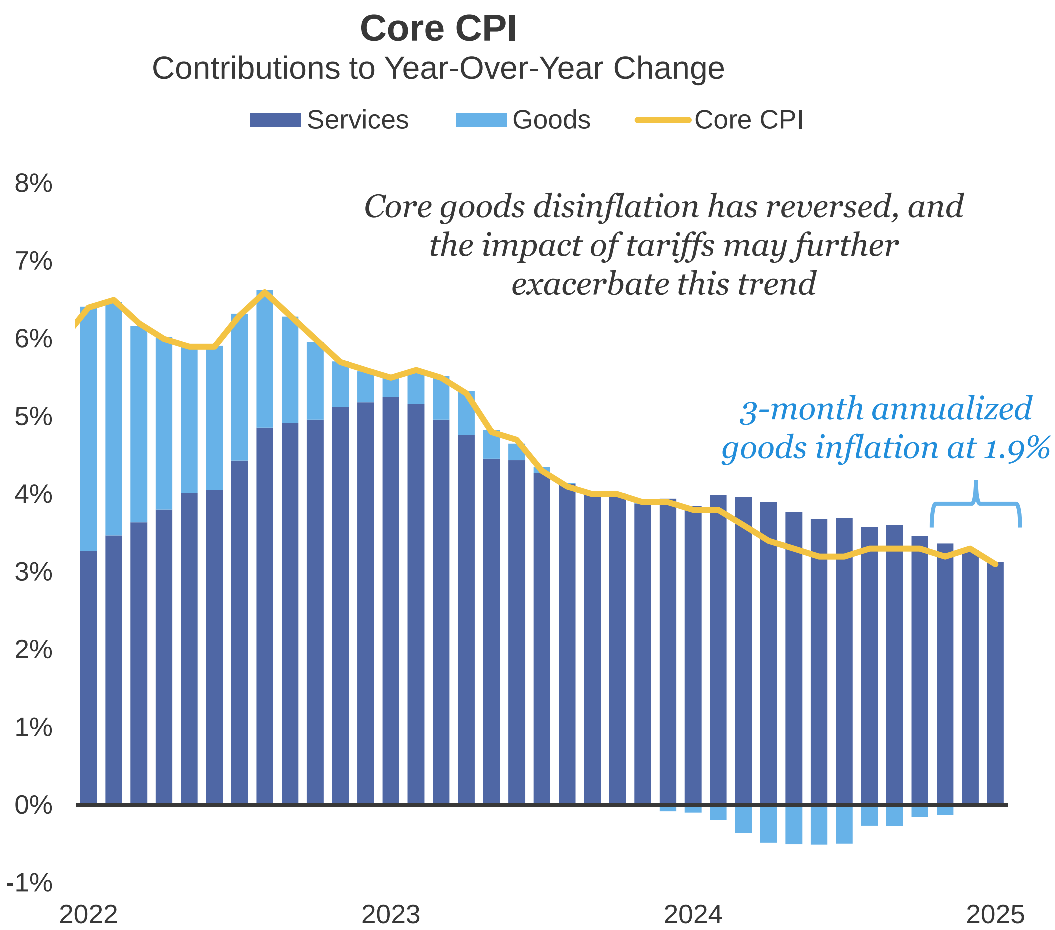
Annualized Rate

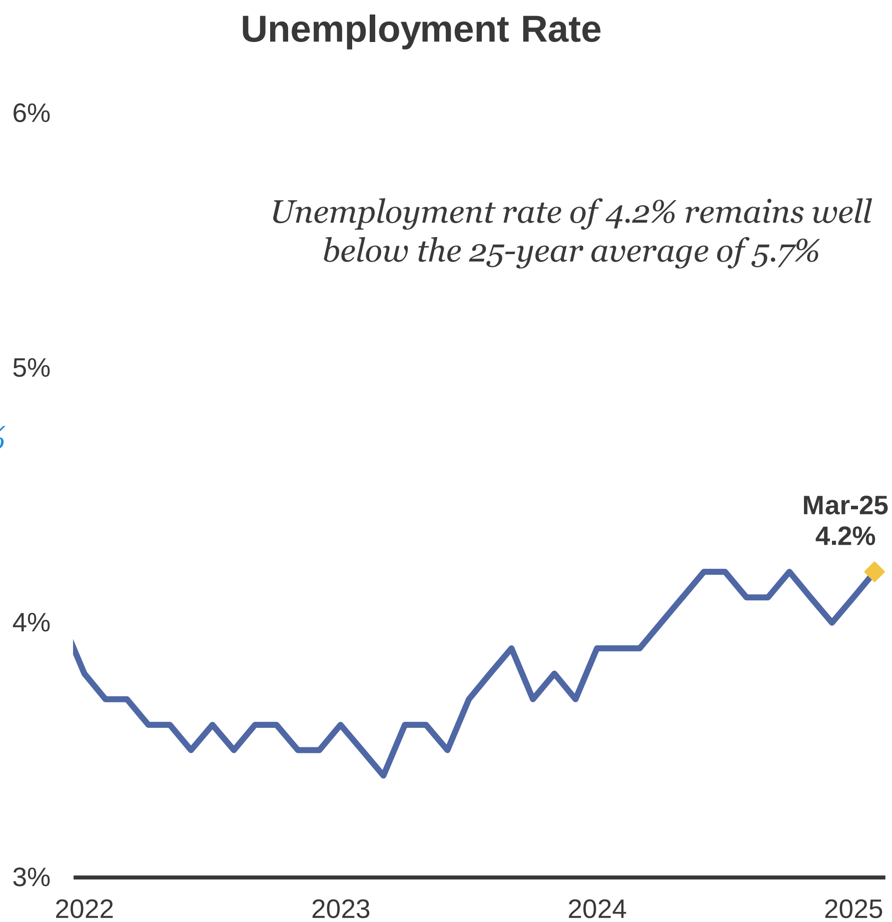


Source: FOMC Chair Jerome Powell Press Conference, March 19, 2025; Bloomberg Finance L.P. and the U.S. Census Bureau as of February 2025 (left). Bureau of Economic Analysis and Bloomberg Finance L.P., as of April 2025. Survey responses after April 2, 2025 included in median and forecast range (right).

The Fed's Dual Mandate Gets More Complicated

Fed Chair Powell : "…ultimately, though, it's too soon to be seeing significant effects [from tariffs] in economic data…"



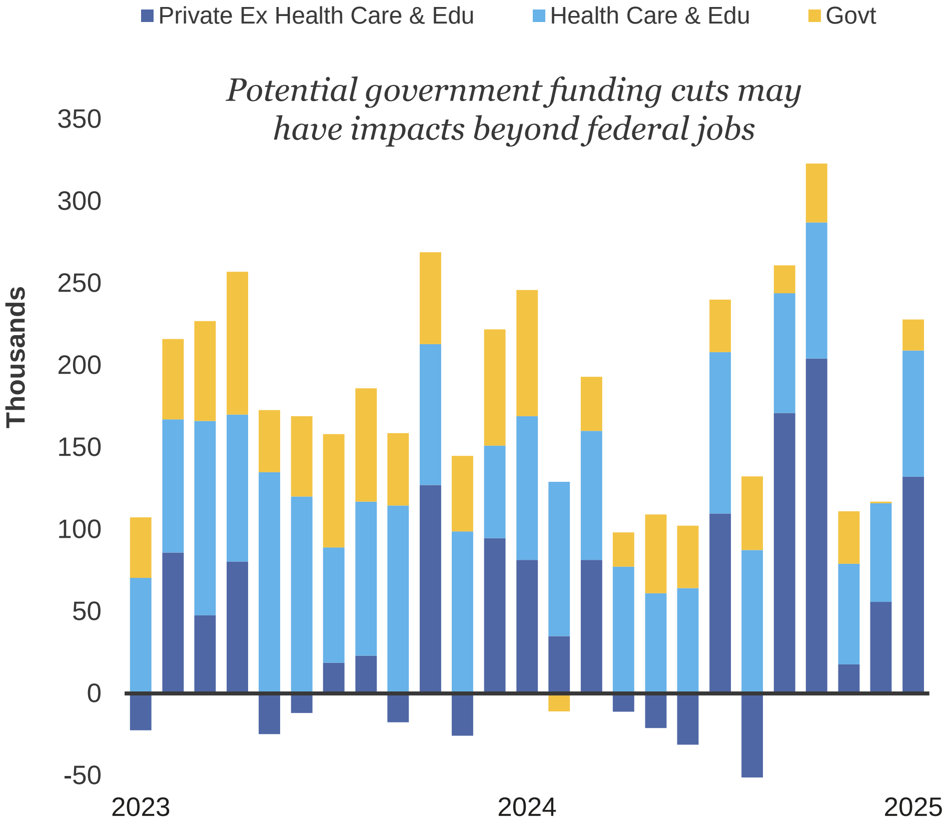


Source: FOMC Chair Jerome Powell Press Conference, March 19, 2025. Bureau of Labor Statistics, and Bloomberg Finance L.P., as of February 2025 (left). Bureau of Labor Statistics, and Bloomberg Finance L.P., as of March 2025 (right). Data is seasonally adjusted. Historical average unemployment rate calculated from March 2000 – March 2025.

Federal Employment Remains a Focus

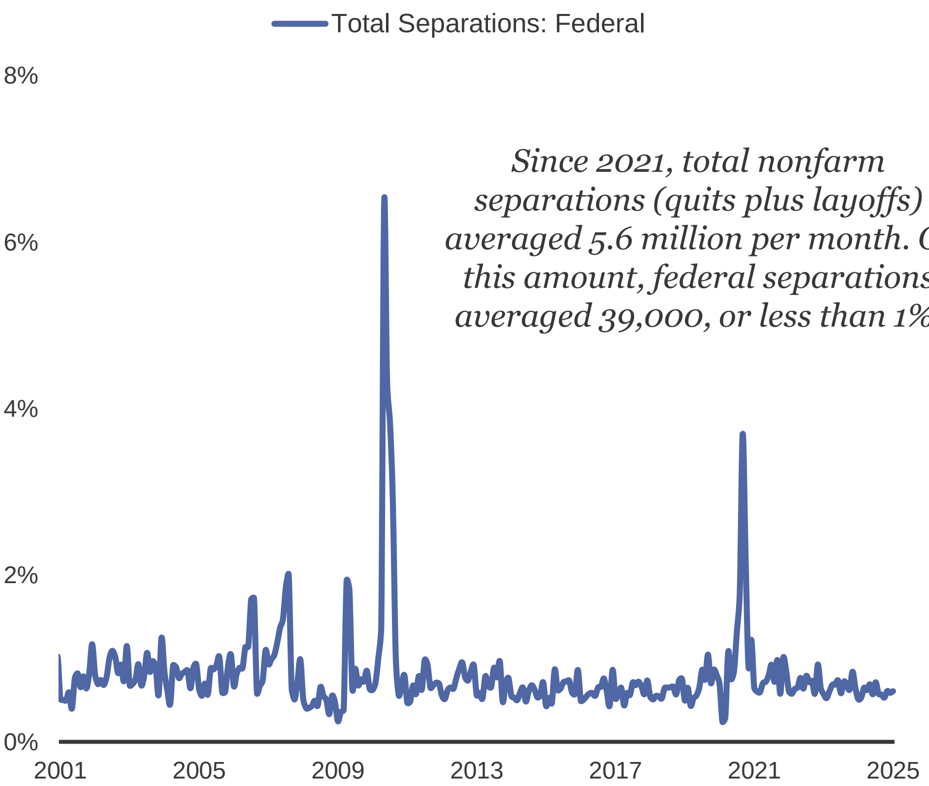
Fed Chair Powell: "The [federal] layoffs … at the national level … they're not significant yet. … There were… a good number of months … when a lot of the job creation was concentrated in … educational institutions, health care, state governments."

Monthly Change In Nonfarm Payrolls



Proportion of Monthly Separations

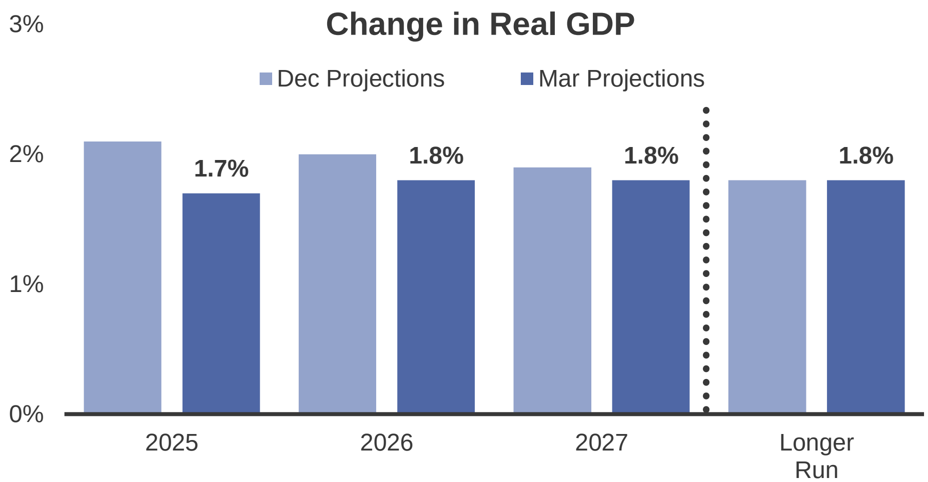
Job Openings and Labor Turnover Survey

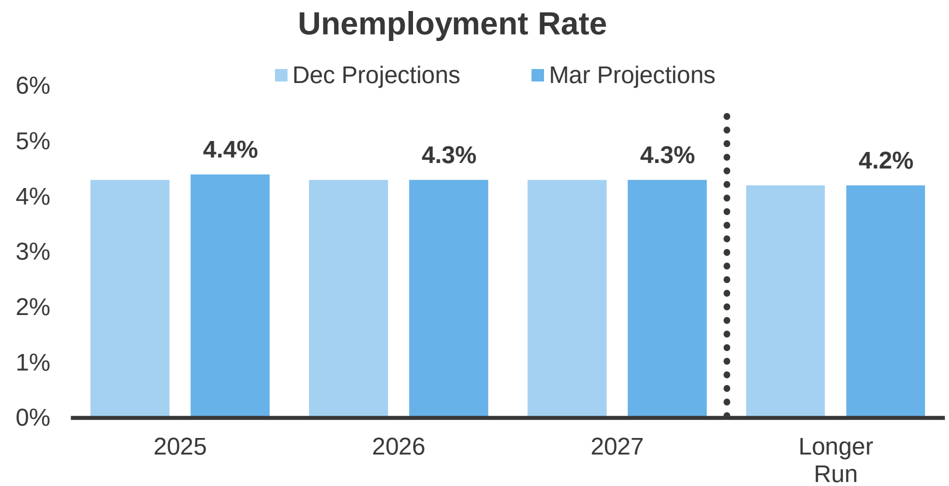


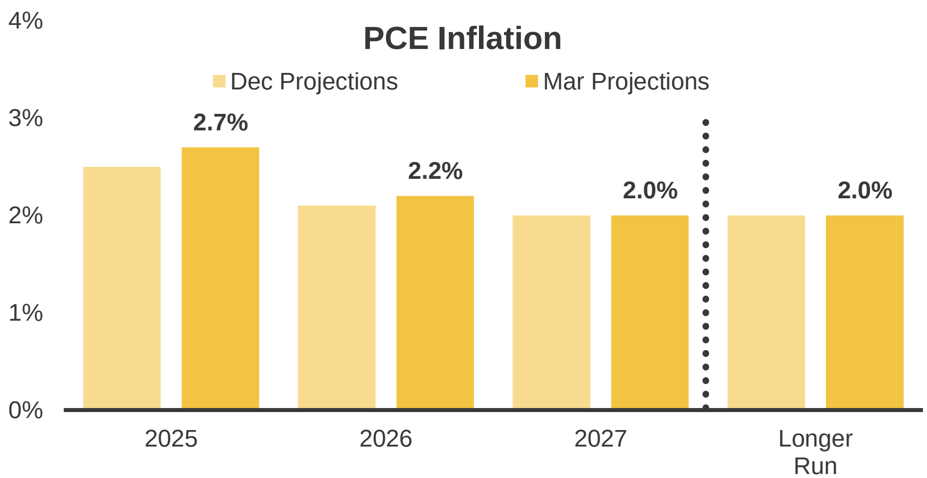
Source: FOMC Chair Jerome Powell Press Conference, March 19, 2025. Bloomberg Finance L.P., Bureau of Labor Statistics as of March 2025 (left). FRED and Bureau of Labor Statistics, as of February 2025 (right).

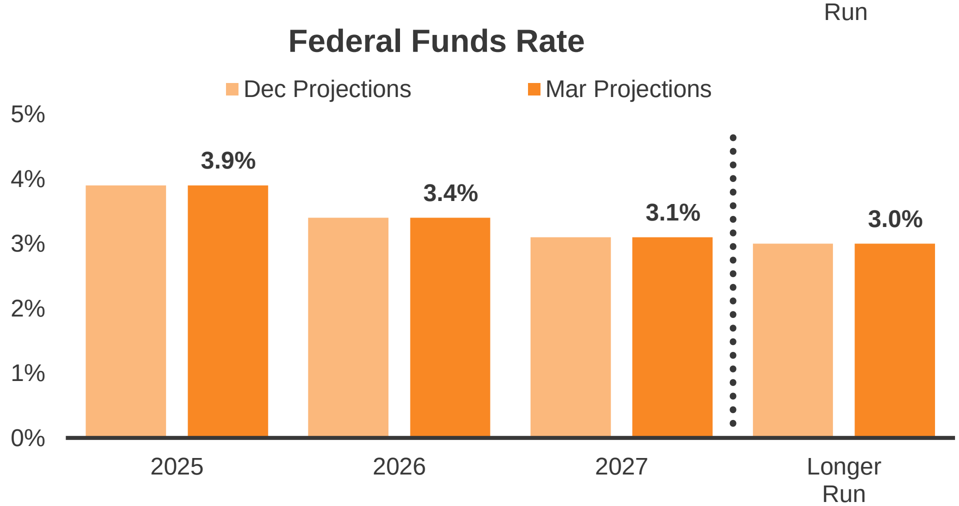
Fed's Updated Summary of Economic Projections

Fed Chair Powell: "… you see weaker growth but higher inflation—they kind of offset—and also, frankly, a little bit of inertia. When it comes to changing something in this highly uncertain environment, you know, I think there is a level of inertia where you just say, maybe I'll stay where I am.







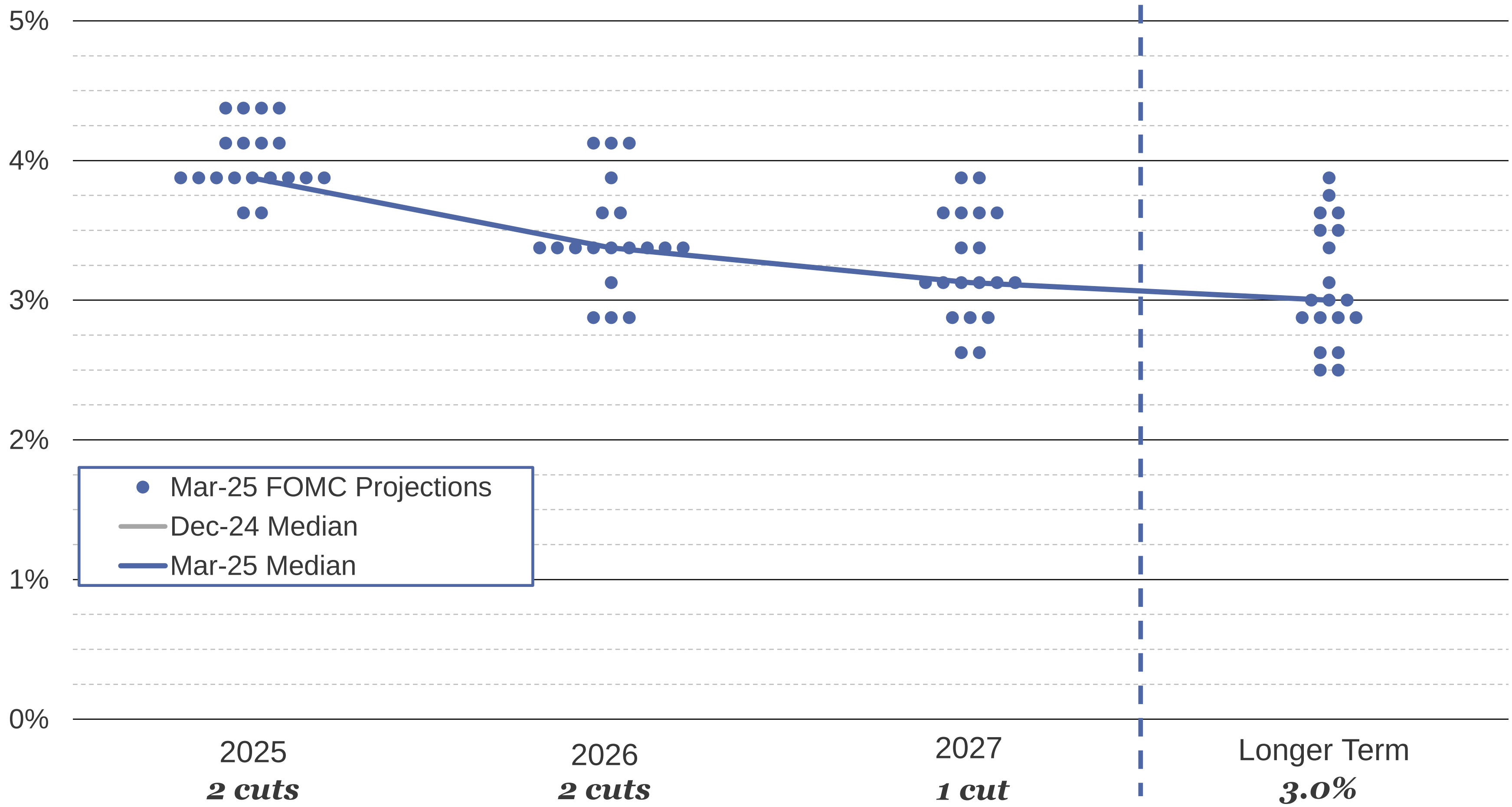


Source: FOMC Chair Jerome Powell Press Conference, March 19, 2025. Federal Reserve, latest economic projections as of March 2025.

Fed's Latest "Dot Plot" Shows No Change to Median Projection

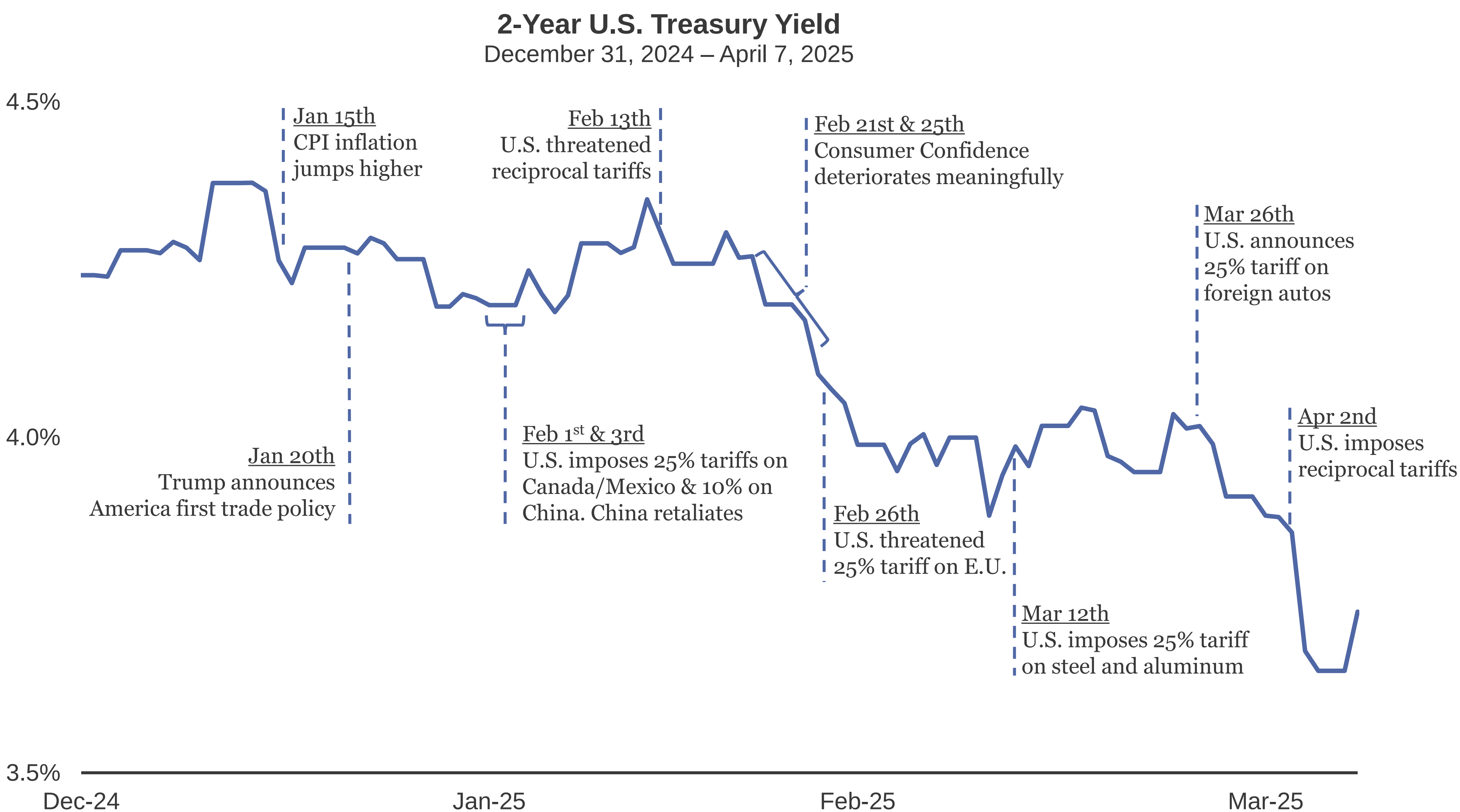
Fed Chair Powell: "What would you write down? It's really hard to know how this is going to work out. And, again, we think our policy is in a good place … where we can move in the direction where we need to."

Fed Participants' Assessments of 'Appropriate' Monetary Policy



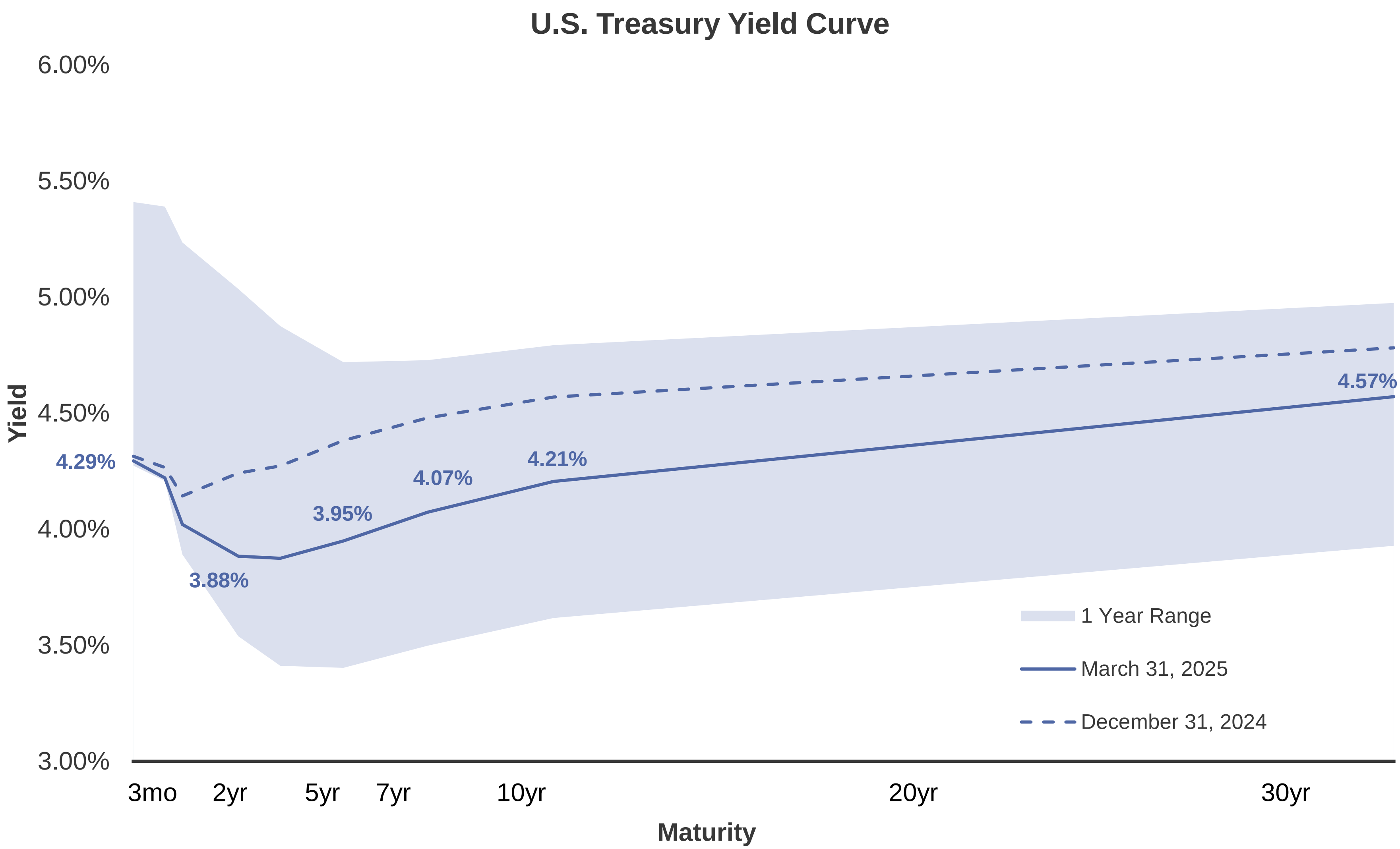
Source: *FOMC Chair Jerome Powell Press Conference, March 19, 2025. Federal Reserve; Bloomberg Finance L.P.. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. As of March 2025.*

Treasury Yields Lower On Tariff Concerns



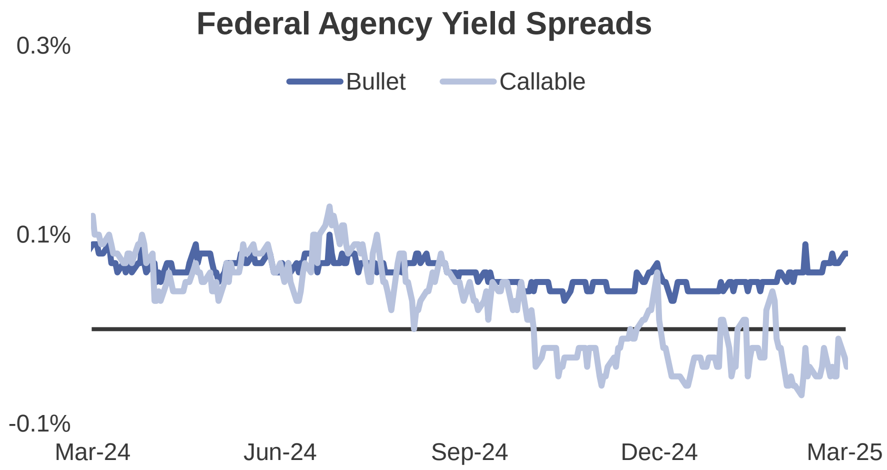
Source: Bloomberg Finance L.P., as of April 7, 2025.

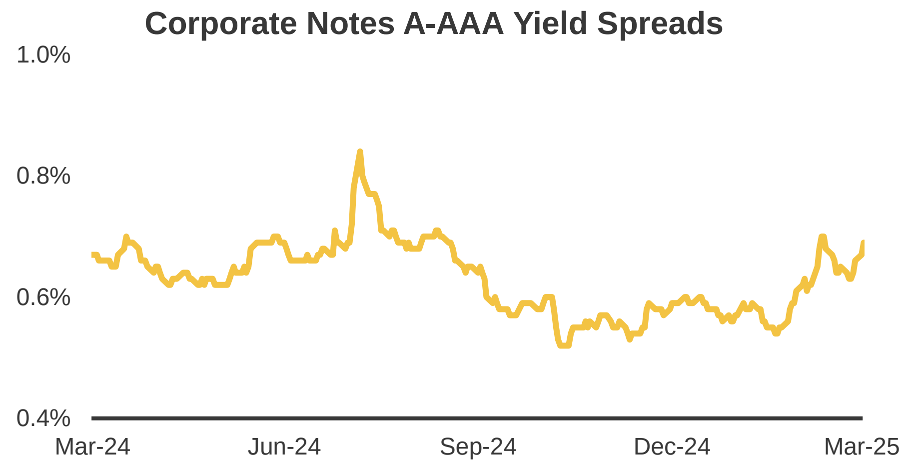
Treasury Yields Lower Across the Curve

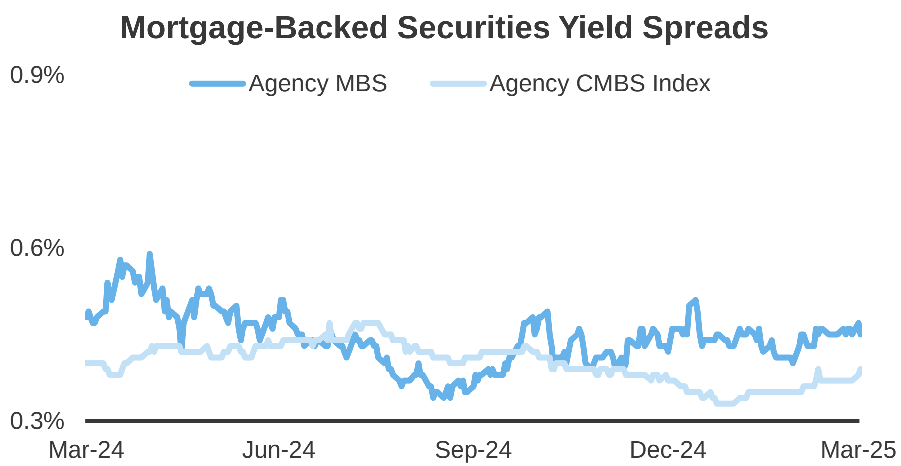


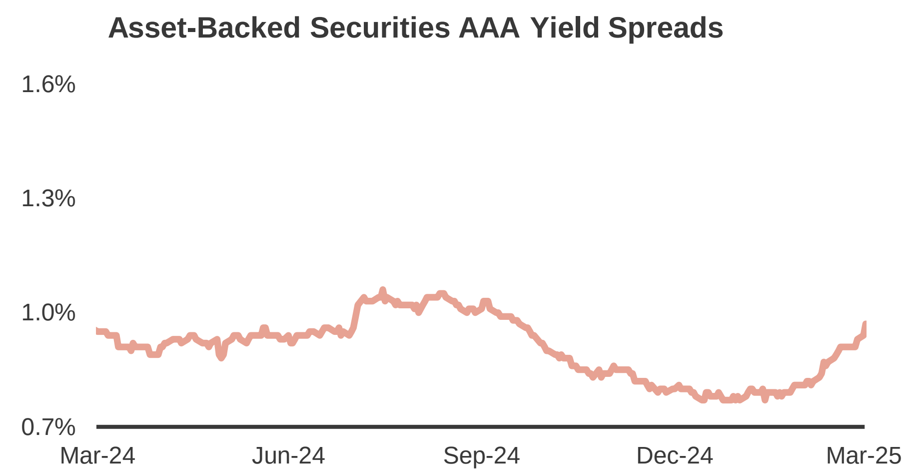
Source: Bloomberg Finance L.P., as of March 31, 2025.

Sector Yield Spreads



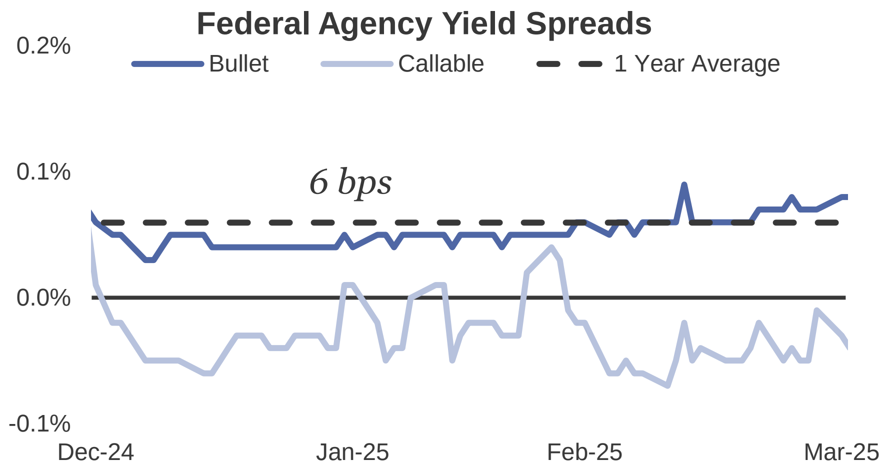


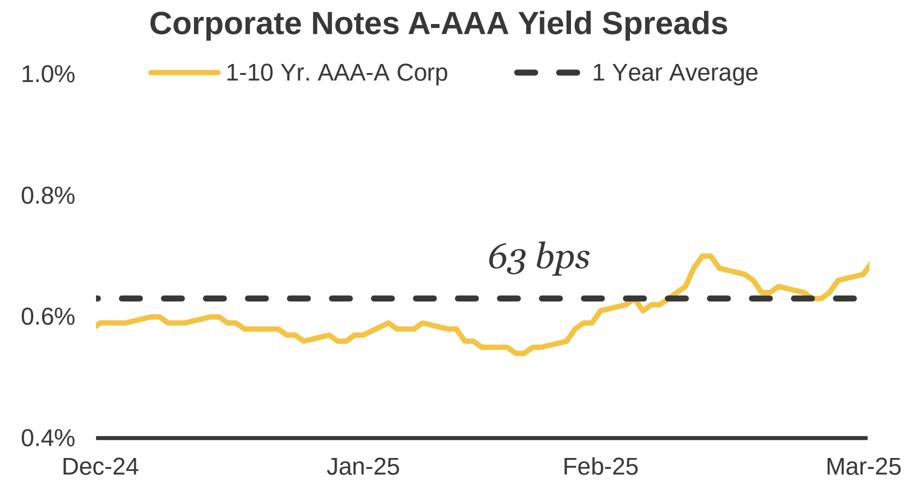


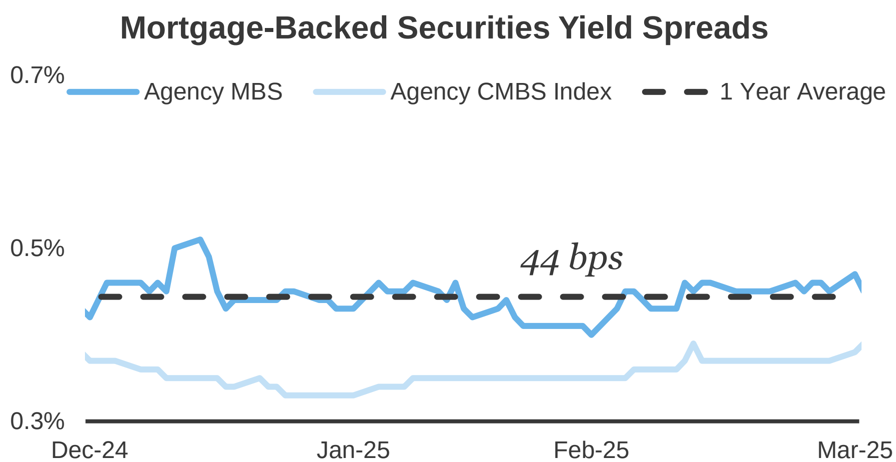


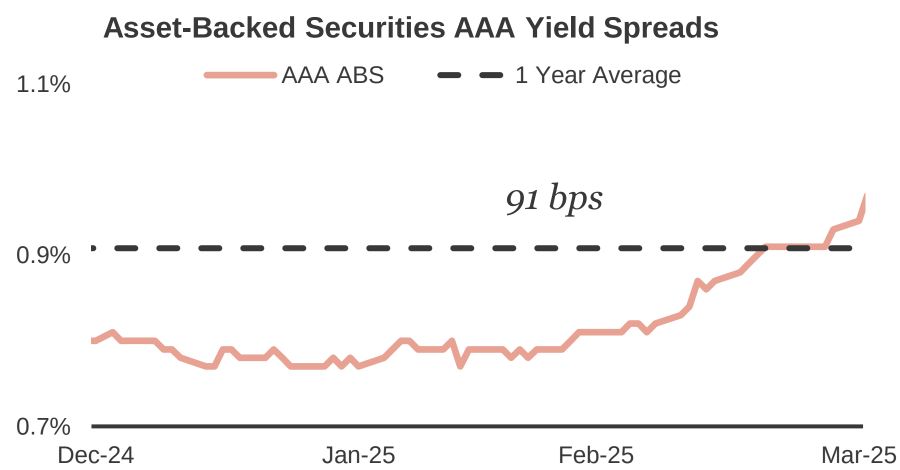
Source: ICE BofA 1-10 year Indices via Bloomberg, MarketAxess and PFMAM as of March 31, 2025. Spreads on ABS and MBS are option-adjusted spreads of 0-10 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries.
CMBS is Commercial Mortgage-Backed Securities and represented by the ICE BofA Agency CMBS Index.

Sector Yield Spreads



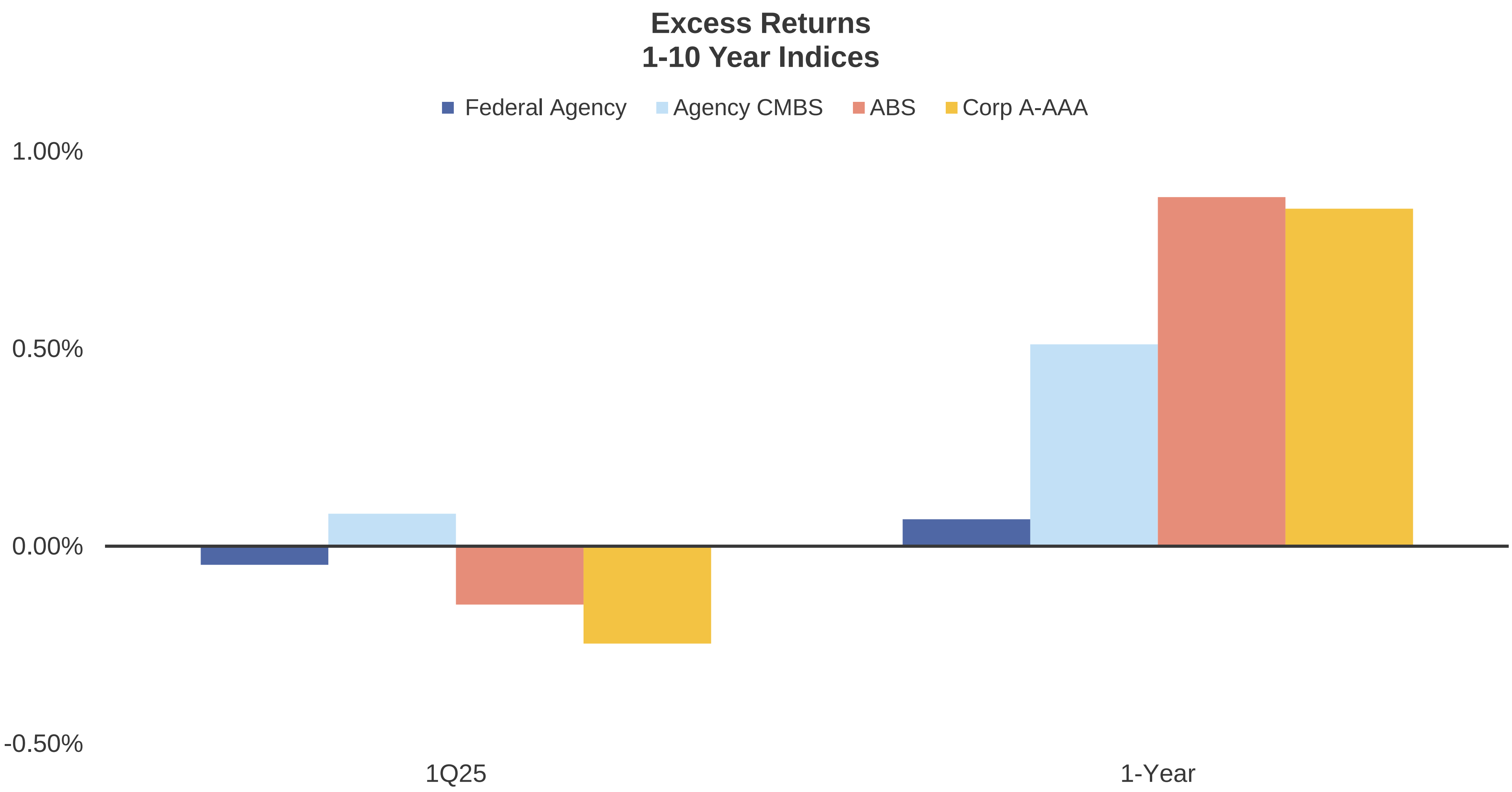






Source: ICE BofA 1-10 year Indices via Bloomberg, MarketAxess and PFMAM as of March 31, 2025. Spreads on ABS and MBS are option-adjusted spreads of 0-10 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries.
CMBS is Commercial Mortgage-Backed Securities and represented by the ICE BofA Agency CMBS Index.

Fixed-Income Index Excess Returns

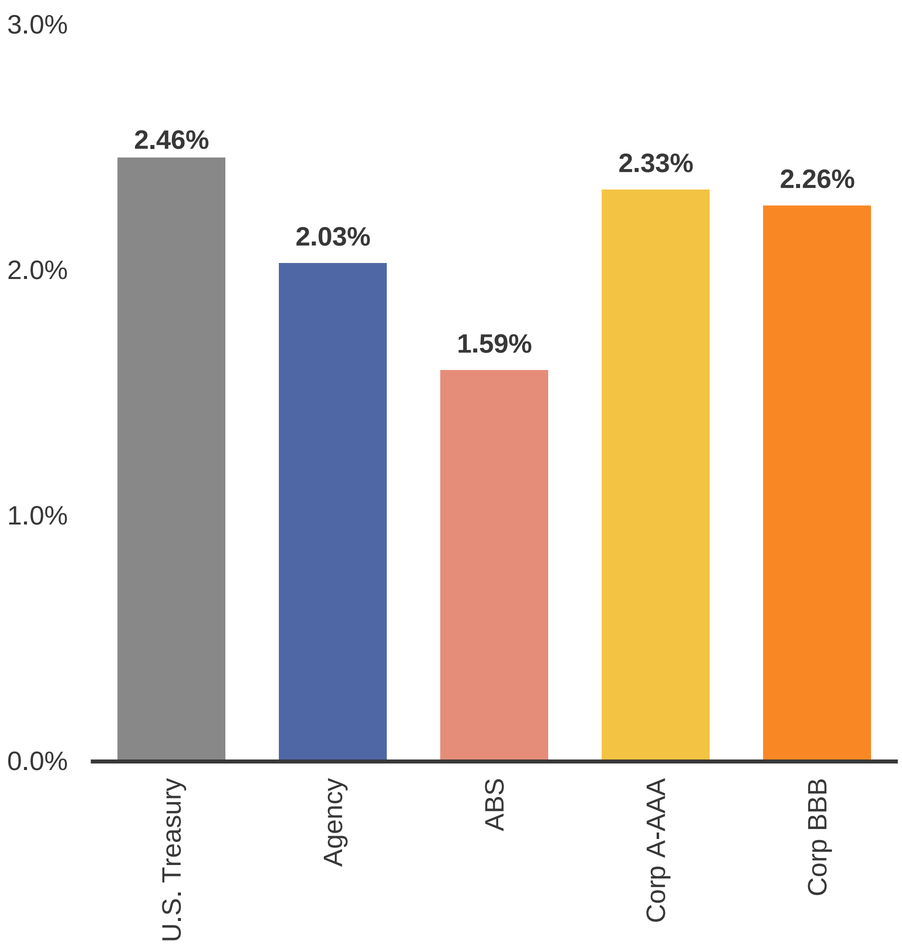


Source: ICE BofA Indices. ABS indices are 0-10 year, based on weighted average life. Agency CMBS represented by ICE BofA CMBY Index. As of March 31, 2025.

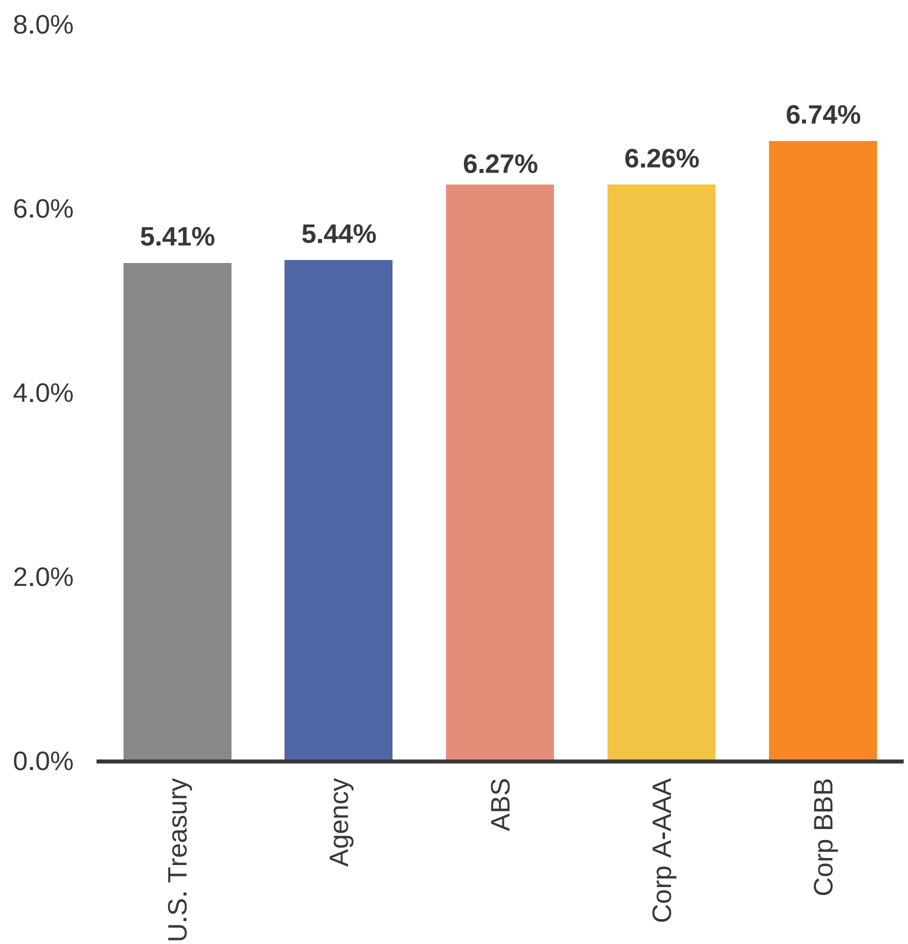
Fixed-Income Index Total Returns in 1Q 2025

1-10 Year Indices

First Quarter 2025 Returns



1-Year Return



Source: ICE BofA Indices. ABS indices are 0-10 year, based on weighted average life. As of March 31, 2025.

Fixed-Income Sector Commentary – 1Q 2025

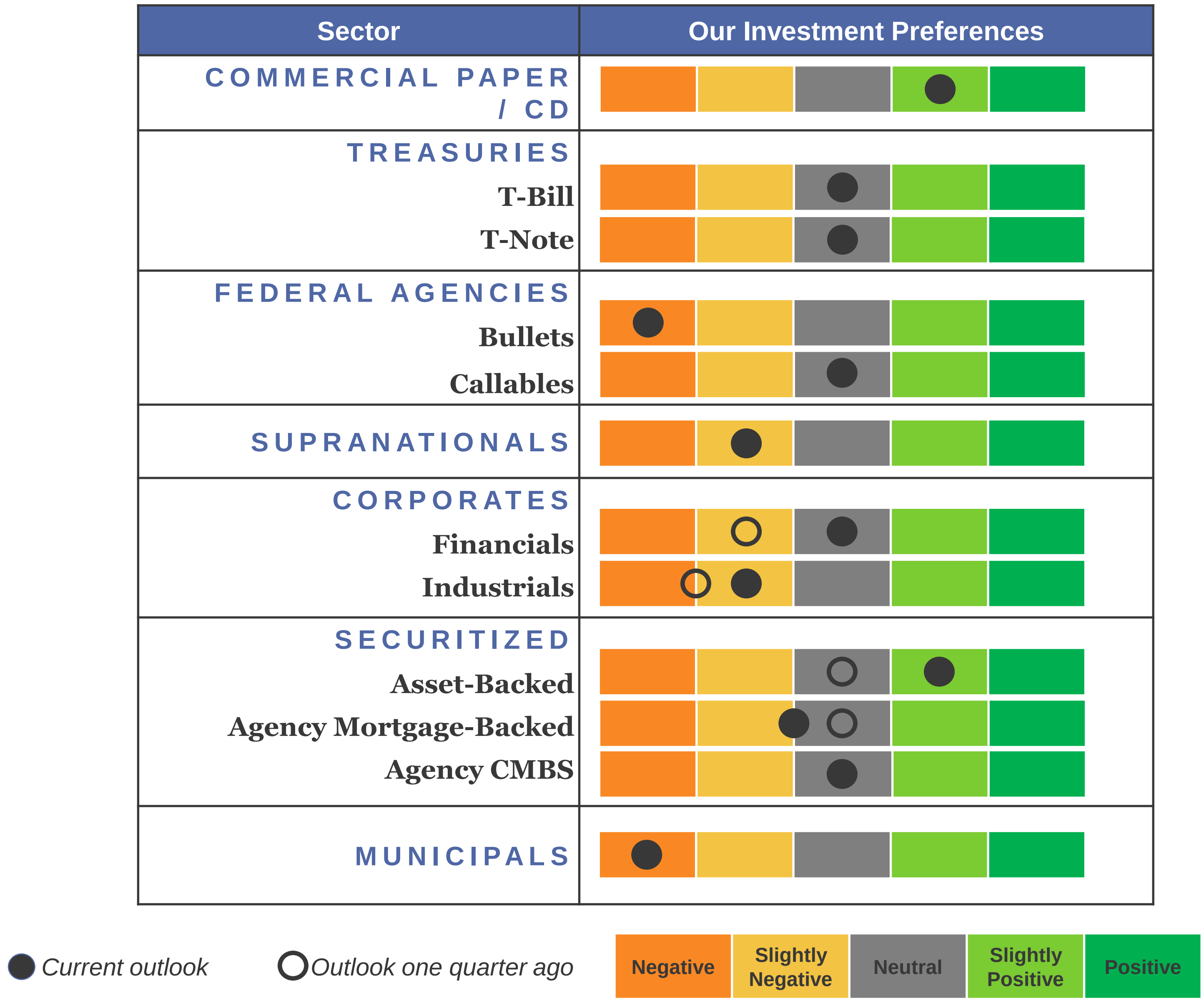
- The **Federal Open Market Committee (FOMC)** opted to maintain the target range for the federal funds rate at 4.25-4.5% during both meetings in Q1, citing sticky inflation, a stable unemployment rate, and 'solid' labor market conditions.
- **U.S. Treasury** yields moved lower over the quarter as the 2-year Treasury yield fell 34 bps and 10-year Treasuries fell 37 bps. 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. As a result of the Treasury rally, total returns were strong for the period.
- **Federal Agency & supranational** spreads remained low and rangebound throughout Q1. Federal agencies produced modestly negative excess returns while supranationals were slightly positive. Issuance remained quite light and the incremental income from the sectors is near zero.
- **Investment-Grade (IG) corporate bonds** posted strong relative returns yet again as increased issuance levels were met with robust investor demand. Much of the spread widening seen during the second half of the quarter was offset by higher incremental income. From an excess return perspective, higher-quality and shorter-duration issuers outperformed in general in Q1. Financials and banking issuers continued to lead most other industries across the yield curve during the quarter.
- **Asset-Backed Securities** spreads widened modestly from the impact of heavy new issuance levels and a modest deterioration of credit fundamentals. ABS spreads widened more than corporate spreads, resulting in worse performance over the quarter but better relative value going forward.
- **Mortgage-Backed Securities** performance was mixed across structure and coupon during Q1 as heightened rate volatility persisted. In contrast, **Agency-backed commercial MBS (CMBS)** performed better for the quarter and saw positive excess returns across collateral and coupon structures.
- **Short-term credit** (commercial paper and negotiable bank CDs) yields on the front end fell in response to downward pressure from a paydown in the supply of U.S. Treasury Bills. 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 (03/31/2025) 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 – 2Q 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 the labor market 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, particularly in supranationals as issuance increases in early Q2.
- **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 remain favorable while technicals have weakened on the margins. A protracted trade war and resulting hit to growth could weaken credit fundamentals and technicals. Valuations have repriced from narrow levels to reflect this uncertainty. We will selectively evaluate opportunities with a focus on industry and credit quality with an eye towards tactically reducing allocations in the sector to make room for future opportunities.
- **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 remain choppy heading into Q2 despite the stability in underlying technicals and view this as an opportunity to add allocations at more attractive levels.
- **Mortgage-Backed Securities** are expected to produce muted excess returns in Q2 as policy uncertainty may increase volatility. We may use any meaningful spread widening to add at more attractive levels.
- **Short-term credit** (commercial paper and negotiable bank CDs) spreads in Q2 will likely depend on changes to 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.

Fixed-Income Sector Outlook – 2Q 2025



Factors to Consider for 6-12 Months

Monetary Policy (Global):

- The Fed paused its easing cycle in the first quarter given sticky inflation and the solid labor market. While the FOMC's "dot plot" continues to suggest 50 bps in rate cuts by the end of 2025, Fed Chair Powell indicated there is heightened risk and uncertainty due to the new administration's policies.
- Other major central banks (excluding the Bank of Japan) continued to cut rates. However, inflation remains a risk to this trend continuing, particularly in light of tariff uncertainty.

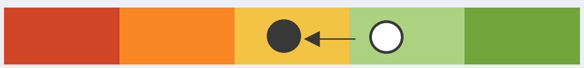
Economic Growth (Global):

- U.S. economic growth remained steady in 2024, but worsening consumer sentiment may weigh on spending going forward.
- Pro-growth fiscal policies proposed on the campaign trail have yet to be realized, leaving rapidly changing tariff policy to weigh on growth prospects.
- Escalating trade tensions create the potential for slowing global growth.

Inflation (U.S.):

- Progress towards the Fed's 2% target remains stalled with goods inflation moving higher even before tariff policies were enacted.
- Consumer expectations for inflation over the next 12 months have now reached their highest levels since early 2023 on tariff concerns.
- Fed Chair Powell said the data are not yet reflecting tariffs and reiterated it will be difficult to directly measure the impact of these policies on prices.

Financial Conditions (U.S.):



- Financial conditions remained supportive in the first half of the quarter but tightened as ongoing tariff risks weighed on equity prices and credit spreads. While credit spreads widened modestly during the first quarter they remain below historic averages.
- The evolving fiscal landscape and growing uncertainty may lead to tightening financial conditions over the next 6-12 months.

Consumer Spending (U.S.):

- Sentiment has meaningfully deteriorated as consumers expect higher prices and weaker labor market conditions as tariffs weigh on the pace of economic growth.
- A material deterioration of labor market conditions remains the biggest risk factor to consumer spending. Other headwinds may include slower real wage growth and reduced willingness to spend as prices move higher due to tariffs.

Labor Markets:

- The labor market remains surprisingly resilient with both initial jobless claims and the unemployment rate at historically low levels. Monthly job gains continue to keep pace with labor force growth.
- With hiring and quits rates low, any acceleration in layoffs may result in job seekers remaining unemployed for longer.
- Federal job cuts and funding freezes could impact the hiring plans of sectors such as healthcare and higher education which rely on government funding. The impact of immigration policy remains unknown.

● **Current outlook** ○ **Outlook one quarter ago**

Stance Unfavorable to Risk Assets | **Negative** | **Slightly Negative** | **Neutral** | **Slightly Positive** | **Positive** | **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 and FactSet. The views expressed within this material constitute the perspective and judgment of PFM Asset Management at the time of distribution (3/31/2025) 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

Q1 2025 Commentary

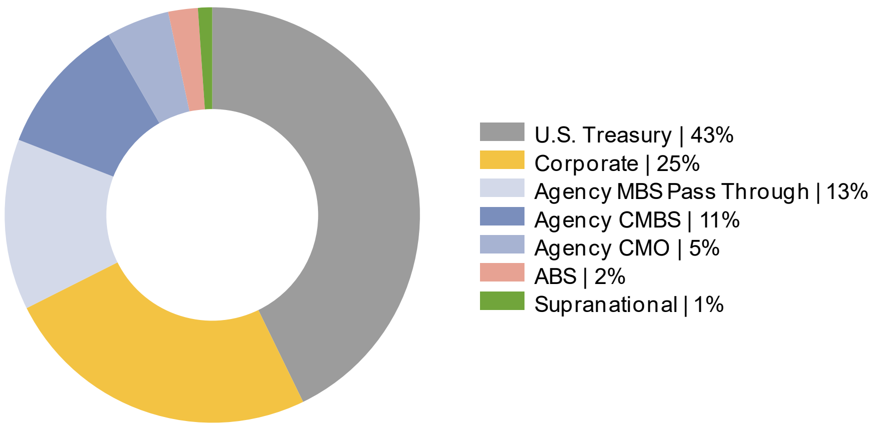
Following a 50 basis point decrease in the fourth quarter of 2024, the Federal Reserve maintained the federal funds rate at the 4.25% - 4.50% range during the first quarter of 2025. Correspondingly, the Fed signaled they are unlikely to change the rate at their next meeting in May. Nonetheless, the yield on the 10-yr. Treasury fell 36 basis points in the first quarter after increasing 79 basis points during the fourth quarter. Our underweighting of longer maturity securities provided a positive contribution to first quarter performance, given that the 5-yr. to 10-yr. Treasury yield spread widened by 7 basis points. In addition, the portfolio benefitted from our allocation to the agency CMBS sector, as that sector outperformed Treasuries on a duration-neutral basis by 8 basis points. However, our allocations to the corporate and MBS sectors detracted from the portfolio's performance, as those areas underperformed Treasuries on a duration-neutral basis by 23 and 7 basis points, respectively. As a result, the portfolio trailed the benchmark by 9 basis points. Since December 31, 2016, the portfolio has outperformed the benchmark by an annualized 44 basis points.

Portfolio Snapshot - CITY OF NAPERVILLE[1]

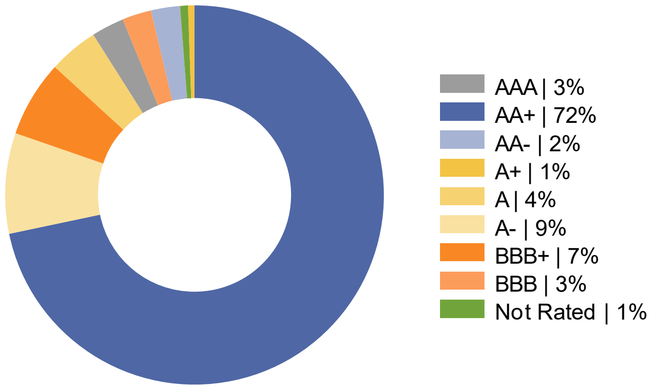
Portfolio Statistics

Total Market Value	$98,079,738.31
Securities Sub-Total	*$97,340,208.17*
Accrued Interest	*$612,602.86*
Cash	*$126,927.28*
Portfolio Effective Duration	3.49 years
Benchmark Effective Duration	3.61 years
Yield At Cost	3.39%
Yield At Market	4.38%
Portfolio Credit Quality	AA

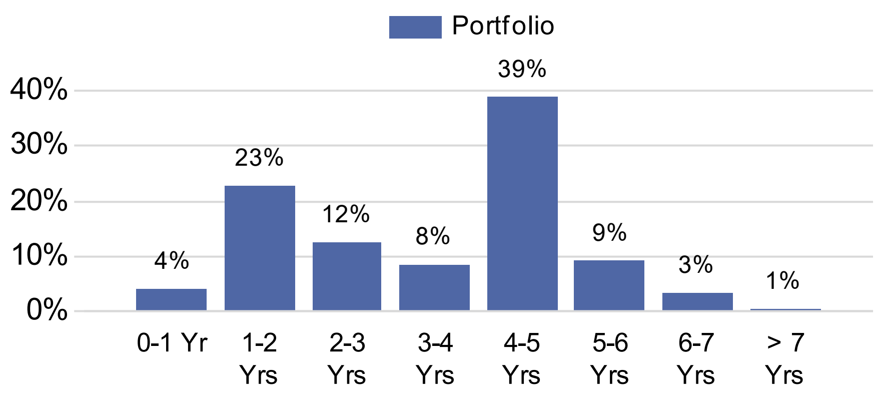
Sector Allocation



Credit Quality - S&P

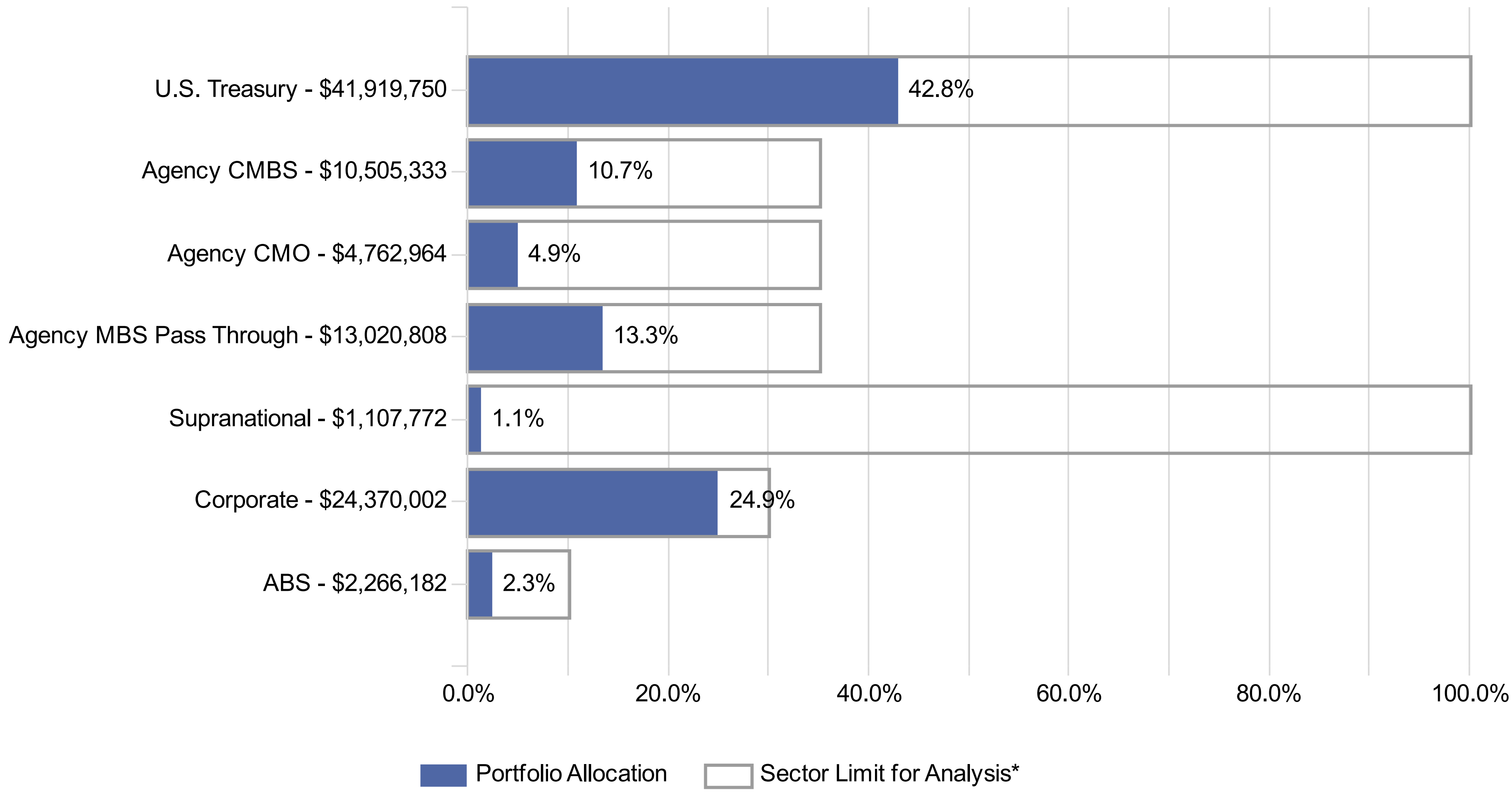


Duration Distribution



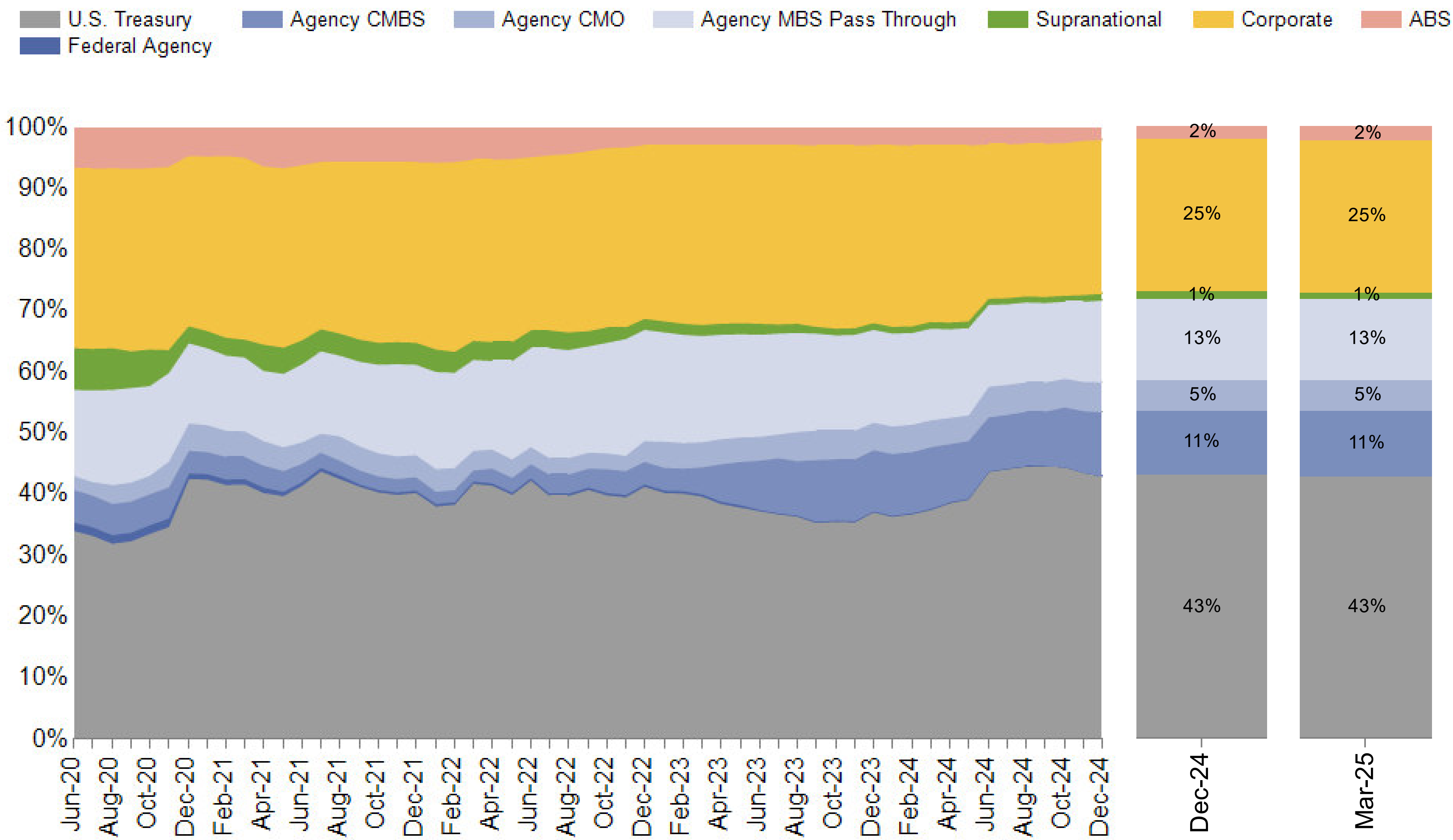
1. *Yield and duration calculations exclude cash and cash equivalents. Sector allocation includes market values and accrued interest. The portfolio's benchmark is Bloomberg Barclays Intermediate U.S. Government Index. Source: Bloomberg Financial LP. An average of each security's credit rating was assigned 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.*

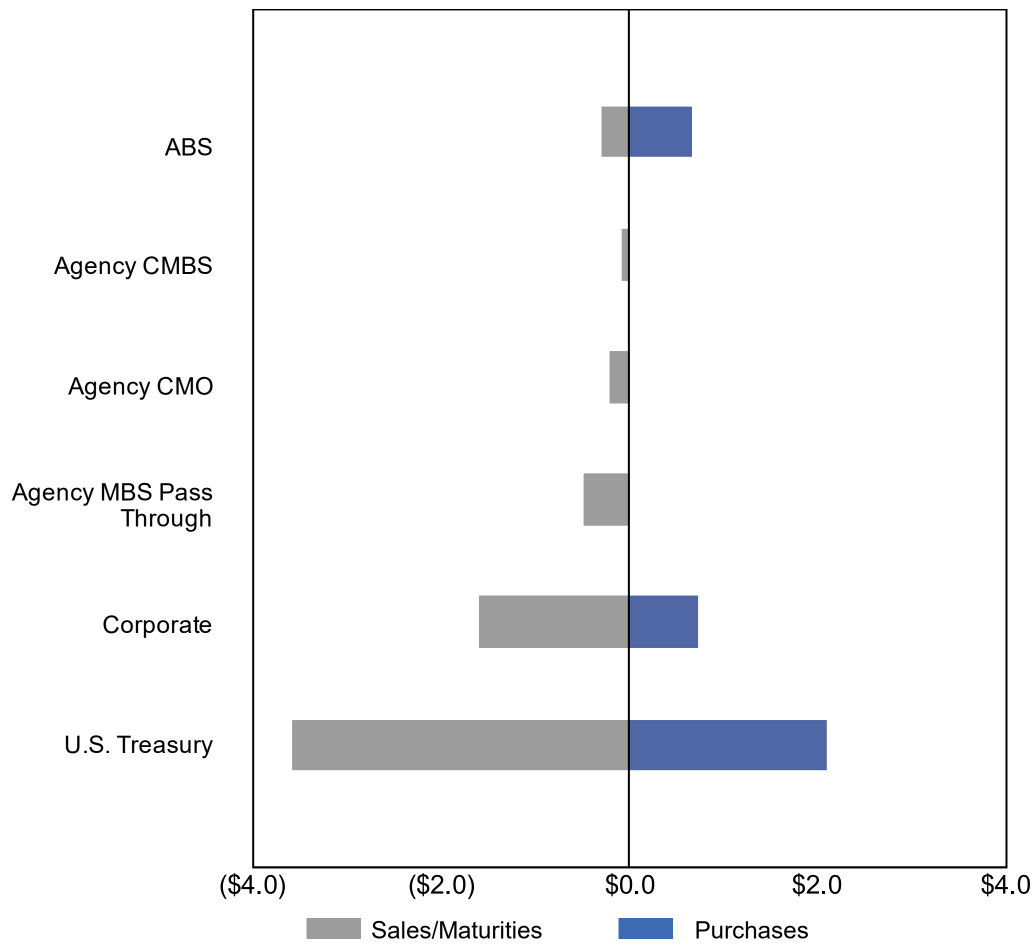
Historical Sector Allocation - CITY OF NAPERVILLE



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

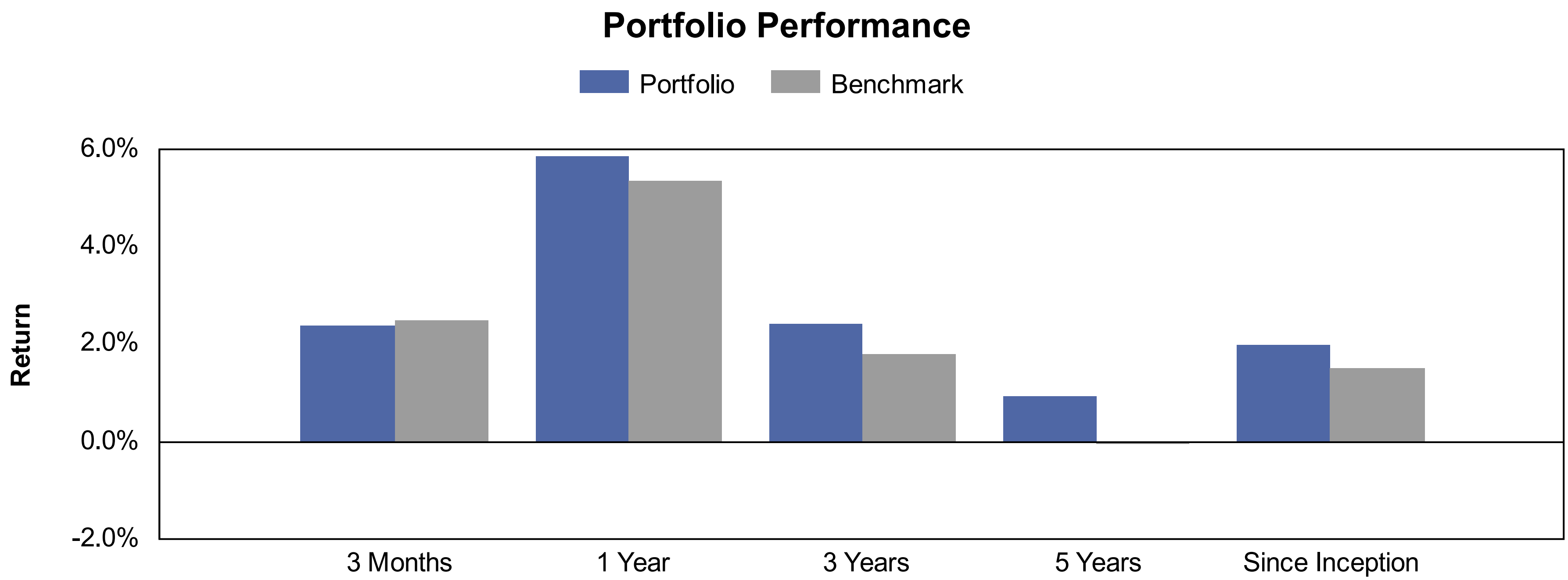
Portfolio Activity - CITY OF NAPERVILLE

Net Activity by Sector
($ millions)



Sector	Net Activity
ABS	$377,419
Agency CMBS	($59,028)
Agency CMO	($197,594)
Agency MBS Pass Through	($475,503)
Corporate	($849,279)
U.S. Treasury	($1,491,297)
Total Net Activity	**($2,695,282)**

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

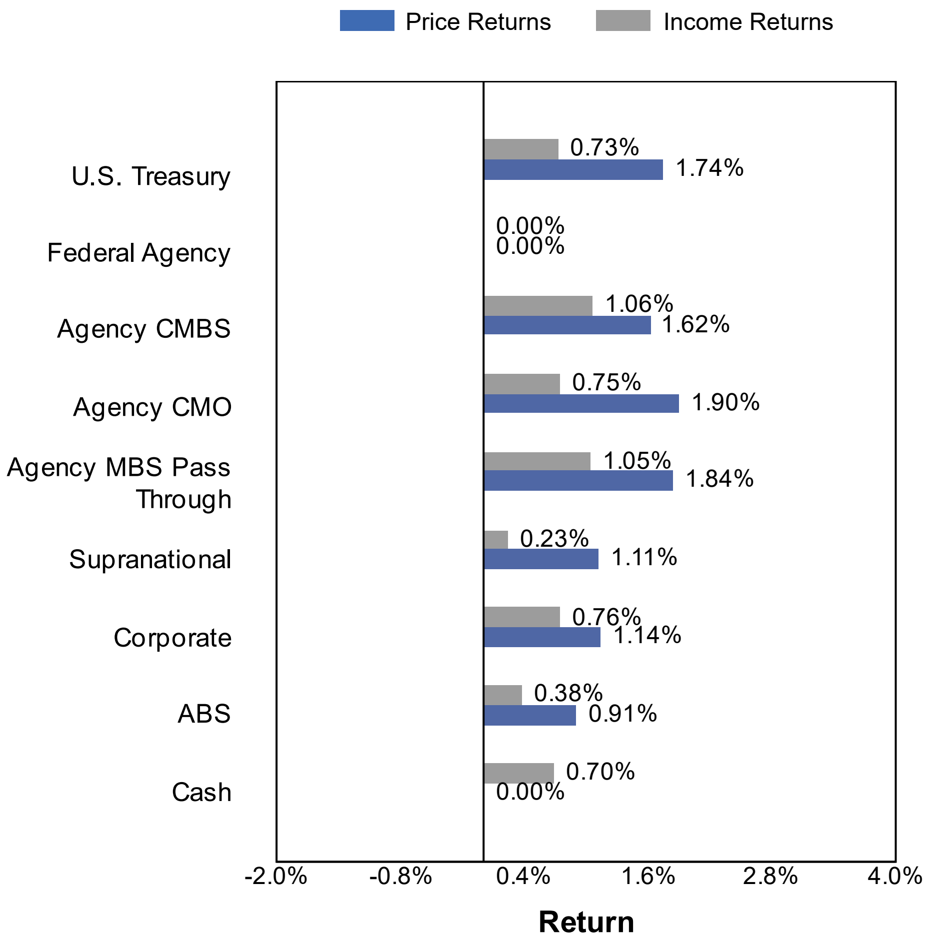


Market Value Basis Earnings	3 Months	1 Year	3 Years	5 Years	Since Inception[1]
Interest Earned[2]	$805,139	$3,176,581	$7,702,159	$10,776,074	$13,552,456
Change in Market Value	$1,512,350	$2,779,269	$77,677	($6,279,721)	($3,905,951)
Total Dollar Return	**$2,317,489**	**$5,955,850**	**$7,779,836**	**$4,496,353**	**$9,646,505**
Total Return[3]					
Portfolio	2.39%	5.85%	2.44%	0.95%	1.97%
Benchmark[4]	2.48%	5.35%	1.79%	-0.03%	1.53%
Difference	-0.09%	0.50%	0.65%	0.98%	0.44%

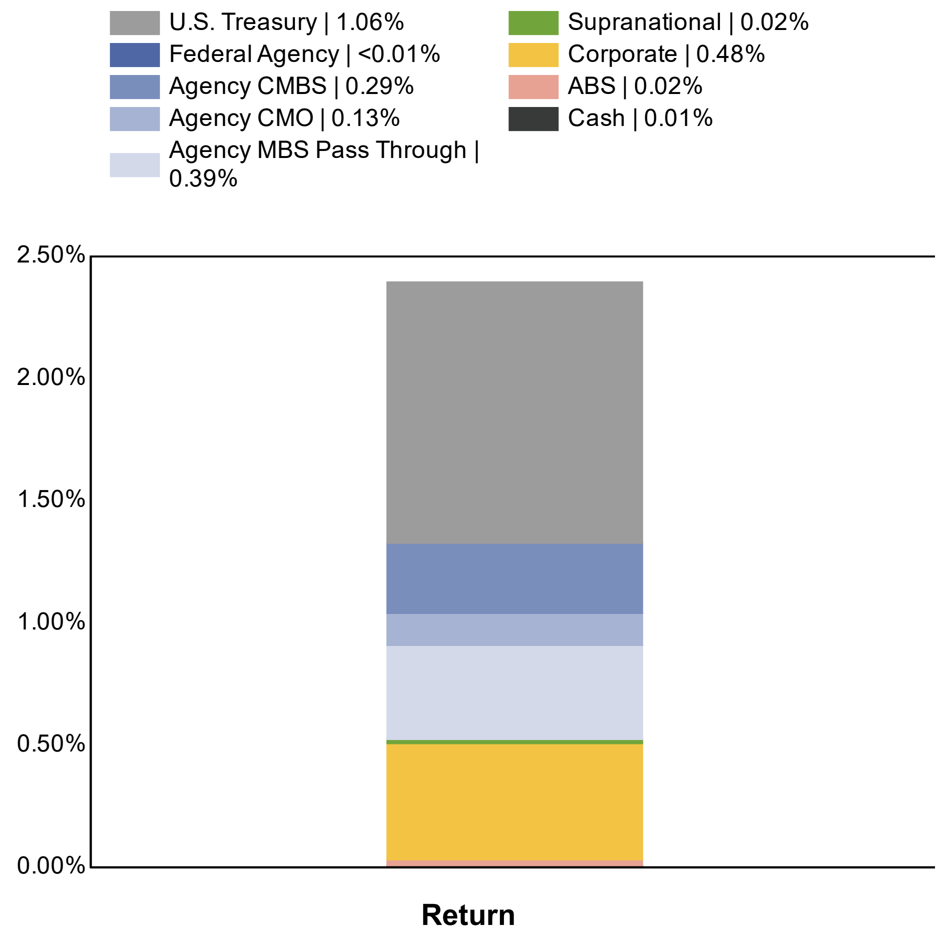
1. *The lesser of 10 years or since inception is shown. Since inception returns for periods one year or less are not shown. Performance inception date is December 31, 2016.*
2. *Interest earned calculated as the ending accrued interest less beginning accrued interest, plus net interest activity.*
3. *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

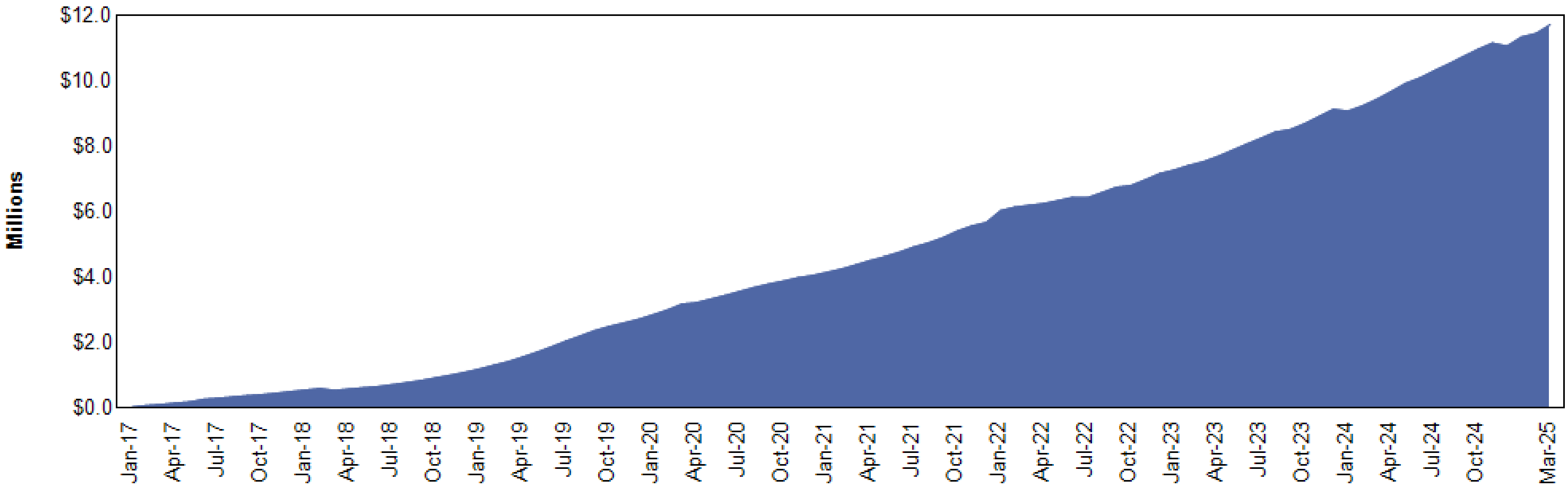


Contribution to Total Return



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]	$805,139	$3,176,581	$7,702,159	$10,776,074	$13,552,456
Realized Gains / (Losses)[3]	($168,778)	($994,990)	($2,385,519)	($2,022,568)	($1,797,914)
Change in Amortized Cost	$21,502	$102,932	$210,930	($216,435)	($31,650)
Total Earnings	**$657,863**	**$2,284,523**	**$5,527,571**	**$8,537,072**	**$11,722,892**

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	**42.8%**	
United States Treasury	42.8%	AA / Aaa / AA
Agency CMBS	**10.7%**	
Federal Home Loan Mortgage Corp	10.7%	AA / Aaa / AA
Agency CMO	**4.9%**	
Federal Home Loan Mortgage Corp	1.7%	AA / Aaa / AA
Federal National Mortgage Association	2.3%	AA / Aaa / AA
Government National Mortgage Associatio	0.8%	AA / Aaa / AA
Agency MBS Pass Through	**13.3%**	
Federal Home Loan Mortgage Corp	3.7%	AA / Aaa / AA
Federal National Mortgage Association	9.6%	AA / Aaa / AA
Government National Mortgage Associatio	0.0%	AA / Aaa / AA
Supranational	**1.1%**	
Asian Development Bank	0.4%	AAA / Aaa / AAA
Inter-American Development Bank	0.7%	AAA / Aaa / AAA
Corporate	**24.9%**	
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	0.7%	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	**24.9%**	
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	0.6%	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	0.7%	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	**24.9%**	
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	0.5%	BBB / Baa / A
Wells Fargo & Co	0.8%	BBB / A / A
ABS	**2.3%**	
Capital One Financial Corp	1.0%	AAA / NR / AAA
CarMax Inc	0.4%	AAA / NR / AAA
Verizon Master Trust	0.7%	NR / Aaa / AAA
World Omni Auto Trust	0.2%	AAA / NR / 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.

Important Disclosures

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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 or 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

MARCH 31, 2025

David D. Nirtaut
Managing Director
david.nirtaut@metlife.com

MetLife Investment Management

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Portfolio Performance

MetLife Investment Management

Portfolio Review

As of December 31, 2024

Change in portfolio ($)	
Portfolio value on 9.30.24	90,506,780.59
Accrued interest	582,768.78
Net additions/withdrawals	-9,002,788.65
Gains/losses	-1,840,797.16
Income received	404,151.12
Change in accrued interest	36,809.93
Portfolio value on 12.31.24	80,067,345.90
Accrued interest	619,578.71
Total	**80,686,924.61**

Portfolio composition	Market value ($)	Assets (%)
Fixed Income	78,703,736.16	97.5
Cash & Equivalents	1,983,188.45	2.5
Total	**80,686,924.61**	**100.0**

Performance

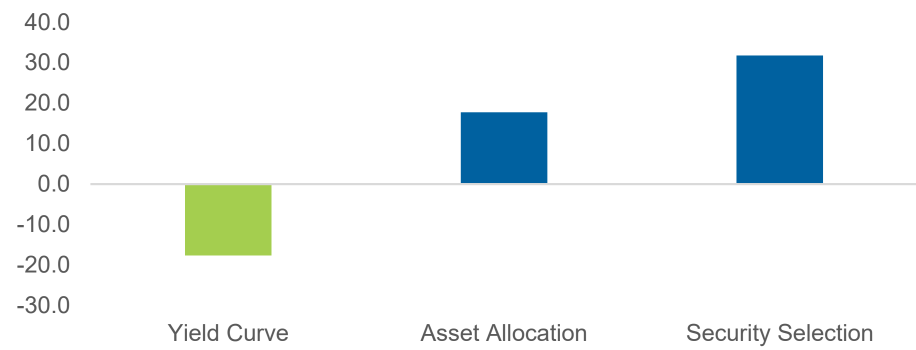
Total Return (%)	MTD	QTD	ITD 01/02/24
Portfolio Gross	**-0.61**	**-1.53**	**3.32**
Bloomberg Inter U.S. Govt/Credit TR	-0.62	-1.60	3.00
Difference (basis points)	+1	+7	+32

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: 12/31/2023 to 12/31/2024

Outperformance (Total)	
Portfolio Return (bps)	332.1
Benchmark Return (bps)	300.0
Outperformance (bps)	**32.1**



Outperformance Details	
Yield Curve	**-17.5**
Duration	5.9
Curve	-23.0
Carry	-0.5
Asset Allocation	**17.8**
Security Selection	**31.8**

Best/Worst Instrument by Security Selection Contribution

Instrument	Bucket	% MV	Outperf
HOWMET AEROSPACE INC 3 01/15/29	Industrial	0.55	1.27
KANSAS ST DEPT OF TRANS 4.596 09/01/35	Local Authority	0.28	1.24
US TREASURY 3 ½ 02/15/33	Treasury	1.01	1.20
BANK OF AMERICA CORP 5.288 04/25/34	Financial Institutions	0.52	1.13
GENUINE PARTS CO 1 ⅞ 11/01/30	Industrial	0.36	1.12
US TREASURY 4 ⅛ 11/30/31	Treasury	0.58	-0.65
WELLS FARGO BANK Float 08/07/26	Financial Institutions	0.88	-0.99
MORGAN STANLEY BANK Float 07/16/25	Financial Institutions	0.50	-1.02
AMERICAN EXPRESS CO 3.95 08/01/25	Financial Institutions	0.69	-1.56
CAMDEN PROPERTY TRUST 4.9 01/15/34	Financial Institutions	0.34	-1.64

Portfolio Review

As of March 31, 2025

Change in portfolio ($)	
Portfolio value on 12.31.24	80,067,345.90
Accrued interest	619,578.71
Net additions/withdrawals	-2,567.84
Gains/losses	1,148,254.77
Income received	578,931.40
Change in accrued interest	188,781.16
Portfolio value on 3.31.25	81,791,964.23
Accrued interest	808,359.87
Total	**82,600,324.10**

Portfolio composition	Market value ($)	Assets (%)
Fixed Income	81,898,392.84	99.1
Cash & Equivalents	701,931.26	0.9
Total	**82,600,324.10**	**100.0**

Performance

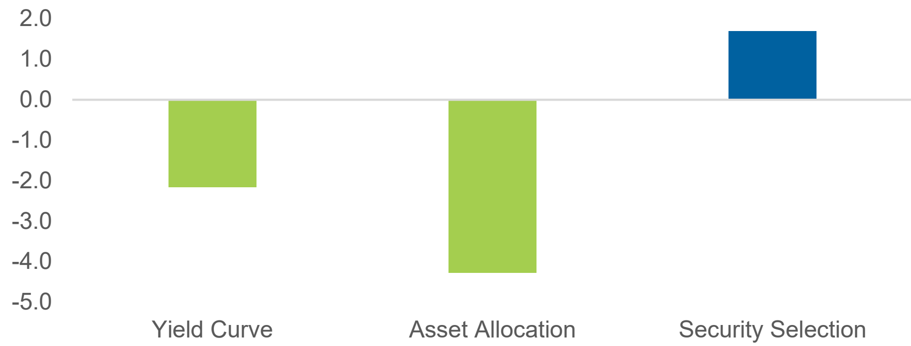
Total Return (%)	MTD	QTD	ONE YEAR	ITD 01/02/24
Portfolio Gross	**0.39**	**2.37**	**5.72**	**4.61**
Bloomberg Inter U.S. Govt/Credit TR	0.44	2.42	5.65	4.38
Difference (basis points)	-5	-5	+7	+23

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 03/31/2025

Outperformance (Total)	
Portfolio Return (bps)	237.5
Benchmark Return (bps)	242.2
Outperformance (bps)	**-4.7**



Outperformance Details	
Yield Curve	**-2.2**
Duration	0.9
Curve	-0.9
Carry	-2.2
Asset Allocation	**-4.3**
Security Selection	**1.7**

Best/Worst Instrument by Security Selection Contribution

Instrument	Bucket	% MV	Outperf
US TREASURY 4 ⅛ 11/30/31	Treasury	7.57	0.50
BANK OF AMERICA CORP 5.819 09/15/29	Financial Institutions	0.86	0.42
AMERICAN ELECTRIC POWER CO 1 11/01/25	Utility	0.48	0.39
WELLS FARGO & CO 5.707 04/22/28	Financial Institutions	0.79	0.37
WELLS FARGO & CO Float 08/07/26	Financial Institutions	0.94	0.35
DIAMONBACK ENERGY INC 5.4 04/18/34	Industrial	0.62	-0.37
DEVON ENERGY CORP 5.2 09/15/34	Industrial	0.62	-0.37
ERP OPERATING LP 4.65 09/15/34	Financial Institutions	0.44	-0.52
ESTEE LAUDER CO INC 5 02/14/34	Industrial	0.54	-0.65
US TREASURY 4 ¼ 11/30/26	Treasury	9.25	-0.66

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

MetLife Investment Management

Characteristics[1]

As of March 31, 2025

Bloomberg Inter U.S. Govt/Credit Index

	Contribution to Duration		Market Value	
Issuance Sector	Portfolio [%]	Benchmark [%]	Portfolio [%]	Benchmark [%]
Treasury	45.1	62.4	47.1	64.6
Government-Related	1.4	5.9	1.3	6.2
Corporate	43.6	31.7	38.2	29.3
MBS Passthrough	3.7	0.0	4.6	0.0
ABS	5.9	0.0	7.4	0.0
CMBS	0.2	0.0	0.6	0.0
Tax Exempt Municipal	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.9	0.0

Quality Distribution	Portfolio [%]	Benchmark [%]
Cash	0.9	0.0
AAA	8.5	3.0
AA	55.3	68.5
A	20.5	13.7
BBB	14.8	14.7
BB	0.0	0.0
B	0.0	0.0
Below B	0.0	0.0

	Portfolio	Benchmark
Yield to Maturity (%)	4.42	4.27
Average Quality	AA	AA
Duration (years)	3.70	3.67
Maturity (years)	4.46	4.34

Maturity Distribution	Portfolio [%]	Benchmark [%]
Less than 1 year	3.7	0.2
1-5 years	62.9	65.9
5-10 years	33.2	33.0
Greater than 10 years	0.2	0.9

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.

Market Review & Outlook

MetLife Investment Management

Market Review

		OAS TSY	QTD OAS Δ	QTD Total Return	QTD Excess Return[1]
	US Intermediate Government/Credit Index	25	2	2.42%	-0.08%
	US Aggregate Index	35	1	2.78%	-0.23%
	US Credit Index	89	12	2.36%	-0.76%
	US Corporate Index	94	14	2.31%	-0.85%
	Industrials	91	13	2.36%	-0.94%
	Financials	94	11	2.31%	-0.52%
	Utilities	102	20	1.97%	-1.54%
	Non-Corporate Credit	51	3	2.63%	-0.13%
Quality	**A**	79	11	2.38%	-0.76%
	Baa	114	17	2.21%	-0.94%
Maturity	**Intermediate**	82	11	2.27%	-0.29%
	Long	116	18	2.38%	-1.99%

2025 kicked off with many questions around what the new administrations policies could mean for markets and risk assets. January opened the new year with elevated volatility before retracing following the US Presidential inauguration which continued through much of February before a sharp pick-up into March. Closely correlated with the moves in volatility, were credit spreads – widening with the uptick into March and receding following the Federal Open Market Committee (FOMC)press conference. Aside from the policy focus in the first quarter, the market also navigated through a handful of events such as digesting corporate earnings, a robust issuance calendar, Los Angeles wildfires, and a technology scare stemming from China's AI DeepSeek engine.

Fixed income performance in the first quarter was mixed as lower interest rates boosted total returns yet wider spreads eroded excess returns at the index level. The Bloomberg US Credit Index spreads were mostly range bound before widening 17 basis points from recent tights of 74 basis points on February 14, 2025 to 92 basis points on March 13, 2025. Spreads recouped some of the move wider before closing the quarter 12 basis points wider to where they entered. Longer duration and higher beta segments of Utilities (–1.54% excess return) and Industrials (–0.94% excess return) respectively, underperformed shorter-dated Financials (–0.52% excess return). Across quality segments A or better (-0.76% excess return) fared better than BBBs (-0.94% excess return) as concerns around weaker growth and tariff impacts influenced a flight to quality amongst investors. Throughout this quarter, performance across subsectors exhibited significant variance due to the multitude of events impacting various industries. The Health Care sector (-0.52% excess return) demonstrated resilience. Conversely, the Property & Casualty (-1.14% excess return) insurance segment faced challenges, primarily due to liabilities associated with the catastrophic wildfires in the Los Angeles area. Utilities, particularly those servicing California, also experienced pressure. In contrast, the banking sector showed greater resilience despite longer-dated new issuances, as it appeared less affected by tariff pressures. However, cyclical segments with global operations and materials needs such as Automotives (-1.35% excess return) and Building Materials (-1.13% excess return) bore the brunt of tariff-induced widening and subsequently lagged in performance over the period.

[i] Bloomberg
[ii] Bank of America Merrill Lynch

Market Review (Continued)

The 10-year Treasury yield pushed higher to start the year reaching levels not seen since the back half of 2023 mostly driven by economic data that highlighted a resilient labor market in the face of persistently elevated inflation. Those moves faded in February as rates rallied on apprehensions regarding the broader economic repercussions of tariffs, DOGE implementation, and policy instability affecting consumer and business confidence more than sector-specific or company credit fundamentals. The two- and 30-year followed a similar pattern with the 30-year Treasury yield topping out at 4.98% in mid-January. As the market backdrop evolved through the quarter, interest rates across the curve moved lower as curves steepened. The 2-year Treasury finished the year at 4.24%. The 2s/10s Treasury curve touched as high as 42 basis points and closed the quarter in the mid 30 basis point range. On the longer end, the 10s/30s curve marched higher through the period closing the quarter just shy of 40 bps – a level not seen since early 2022. [i]

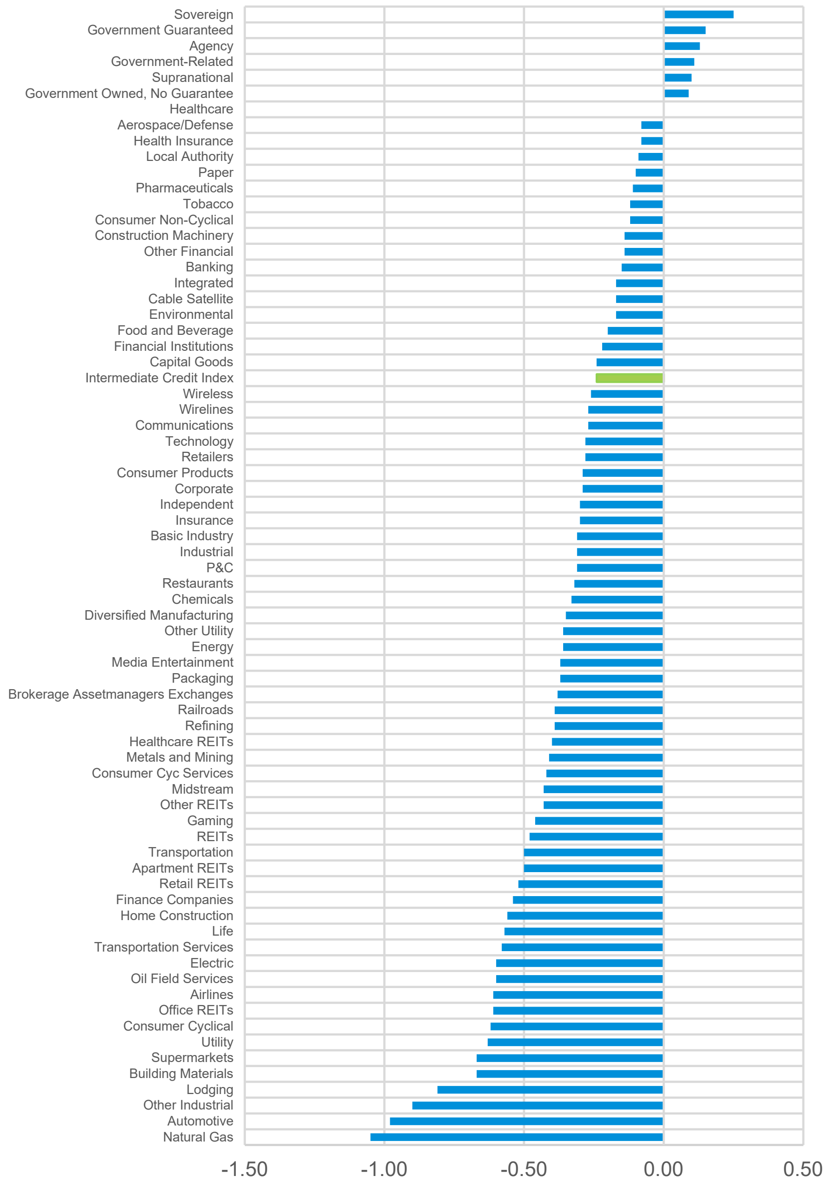
On the macroeconomic front, recent data has indicated diminishing levels of consumer expenditure and confidence, thereby injecting a degree of short-term uncertainty into investor pricing of monetary policy, economic growth forecasts, and investment strategies. Despite the prevailing sentiment, the rate of change in the Nonfarm Payrolls figures (+160k in February, +175k in January) remains relatively robust, with the unemployment rate stabilizing around 4.0%. The impacts of tariffs and their intermittent enforcement have been a significant driver of market unease, attributable to the unpredictability of their effects. While their implementation now appears confirmed, albeit with fluctuating timelines, the resultant margin compression and inflation pressures are less predictable. Certain market segments, notably automotive, energy, materials, industrial, and consumer sectors, have exhibited heightened sensitivity to these developments. The Federal Reserve is expected to persist with its cautious stance, potentially instituting two further rate reductions by year-end, aiming to converge towards a long-term neutral rate despite persistent inflation metrics (Core PCE at 2.8% in February) which continue to deviate from the 2% target.

In the corporate credit sector, fundamentals have remained relatively stable, although we will be closely monitoring the impact of expected tariffs as they work their way through industries. 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] Bloomberg
[ii] Bank of America Merrill Lynch

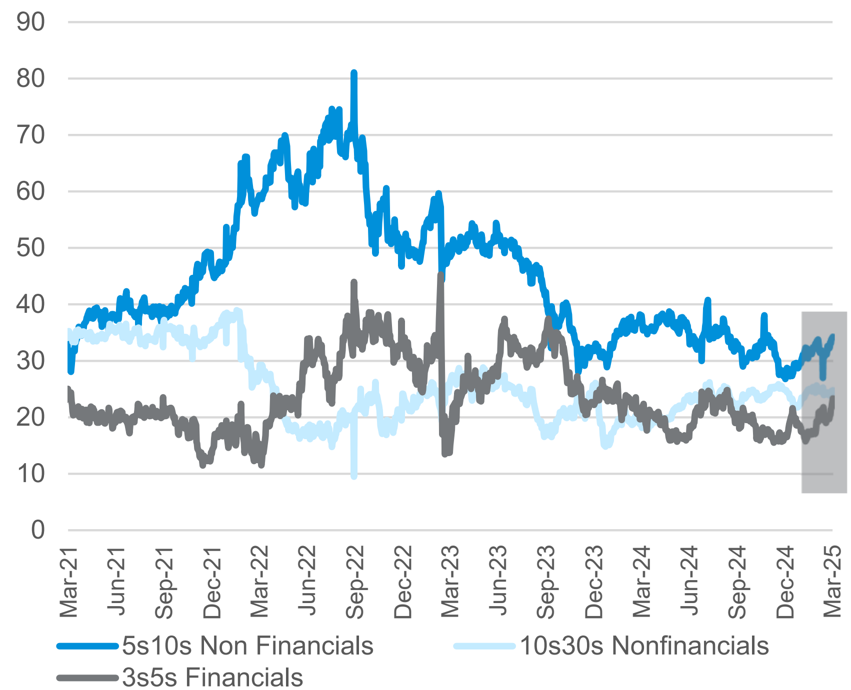
Market Review (Continued)

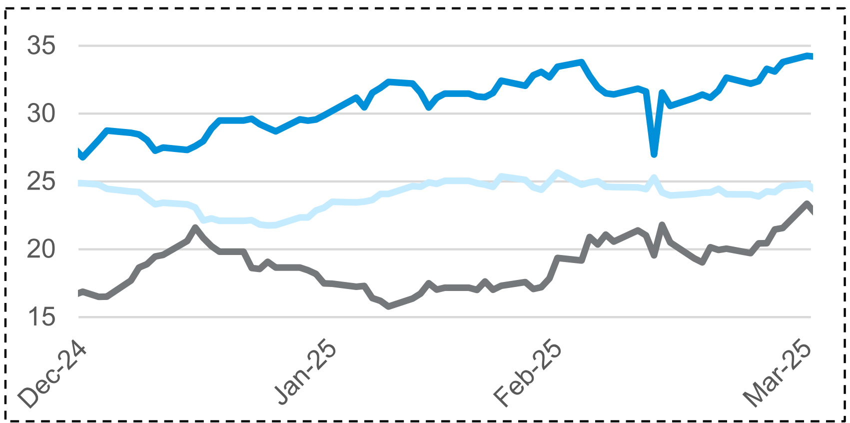
1Q25 Intermediate Credit Excess Return (%)



Source: MIM, Bloomberg

Short & intermediate credit curves steepened more dramatically relative to the long end.

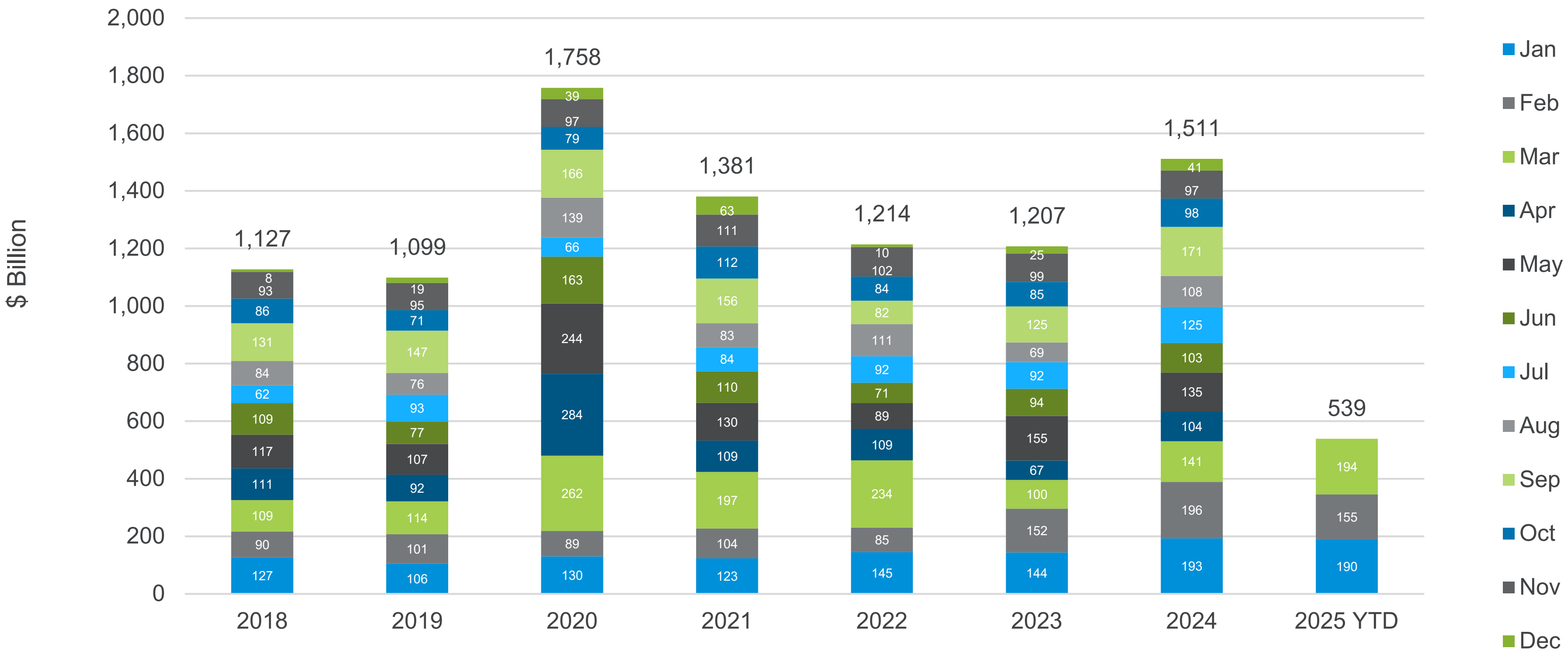




Source: MIM, Bank of America Global Research

Market Review (Continued)

1Q25 HG bond issuance was larger than prior year avg. first quarter issuance

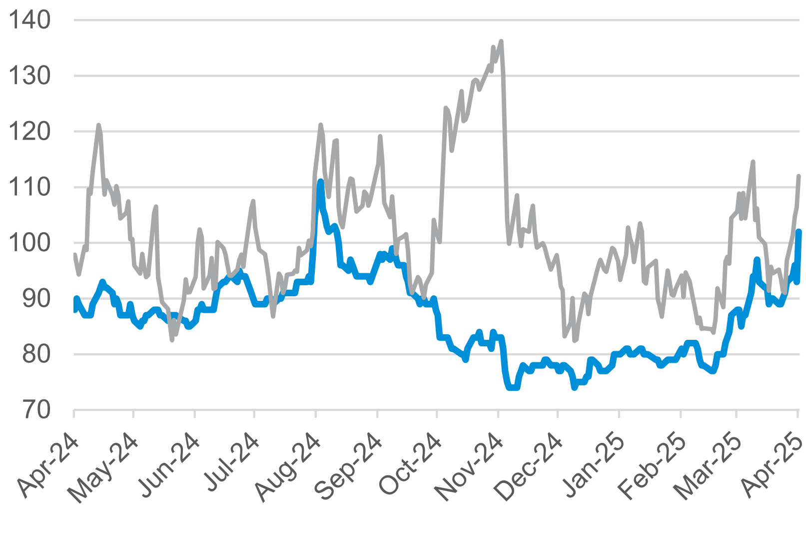


Source: JP Morgan

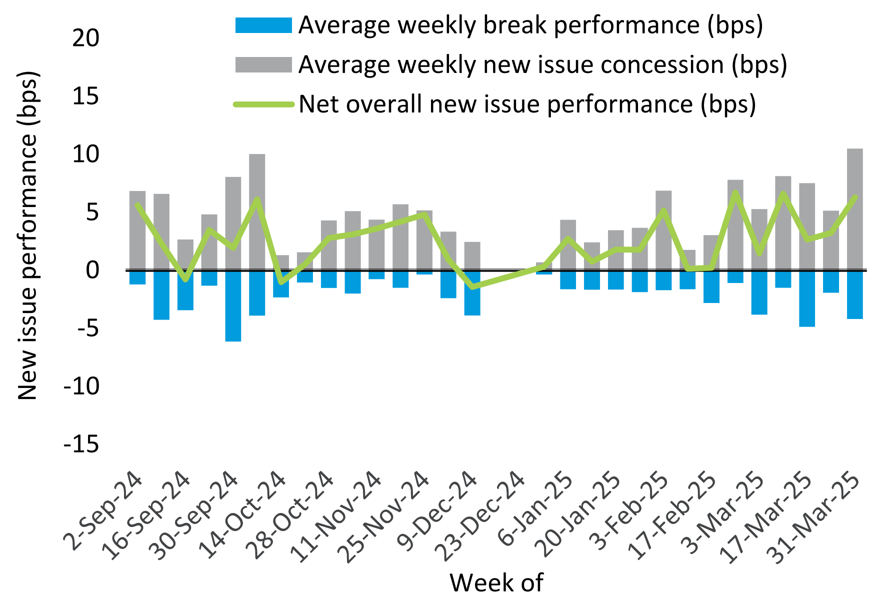
U.S. corporate issuance in the first quarter recorded $539 billion, which also happens to be a new record for first quarter issuance and a figure that represents growth of 2% year-over-year. In terms of the sector breakdown, Financials accounted for $241bn while Non-Financials were $324bn, 39.7% and 60.1%, respectively. Within Financials, the largest issuing sector was Yankee Banks bringing $91bn. Across Non-Financials segments issuance was lead by the Technology and Utilities sectors. Within Technology M&A drove the majority of the funding while the largest deal of the quarter was Mars Inc. raising $26bn for its acquisition of Kellanova. Other larger deals were Synopsis tapping funding markets for its acquisition of Ansys Inc. within Technology and Rio Tinto for its acquisition of Arcadium Lithium PLC within the Metals & Mining sectors.

Market Review (Continued)

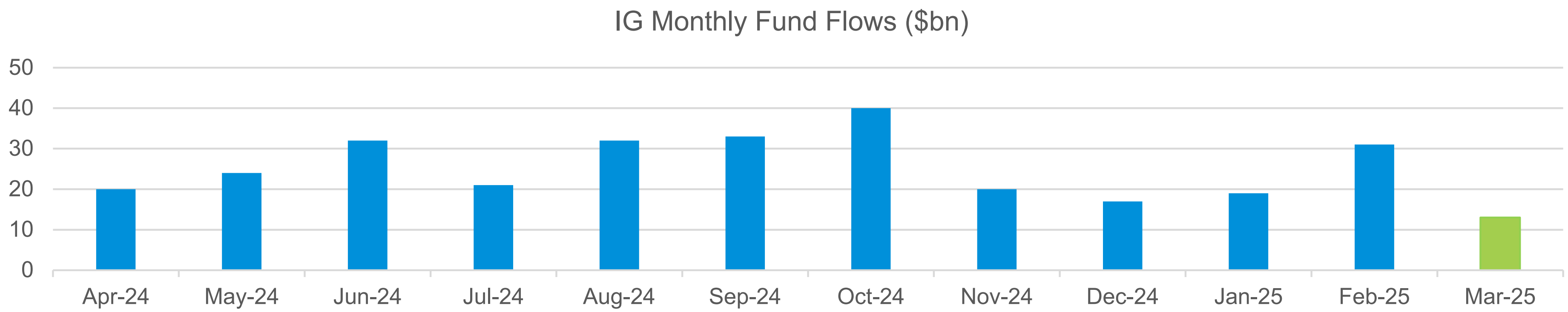
Attractive concessions on new issues resurfaced as bouts of volatility emerged



Source: MIM, Bloomberg, Bank of America Global Research



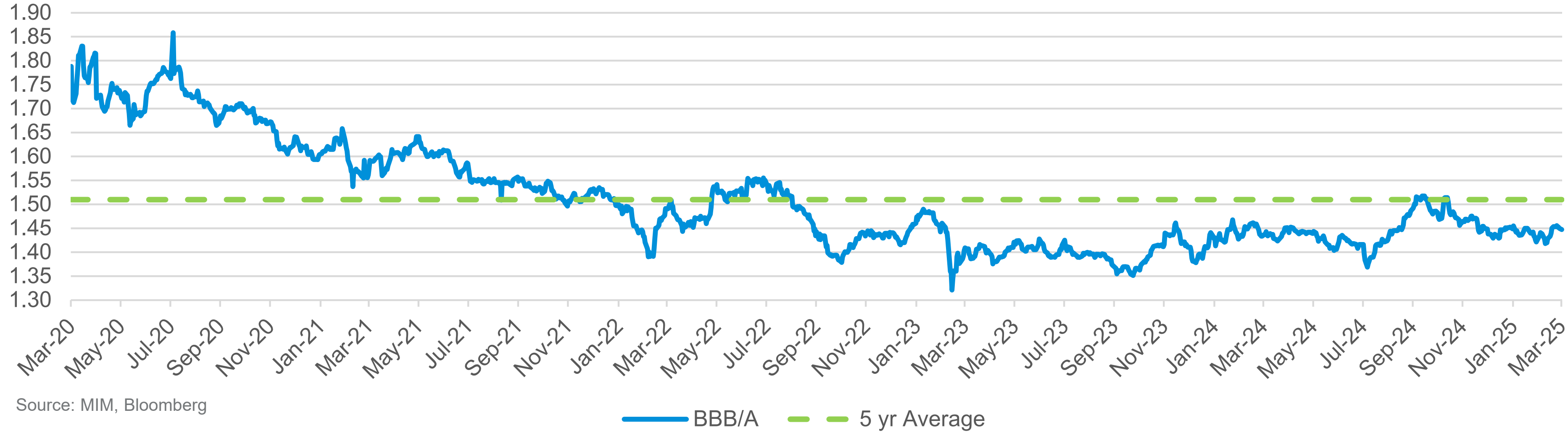
Meeting supply was positive fund flows, although demand has softened



Source: MIM, EPFR

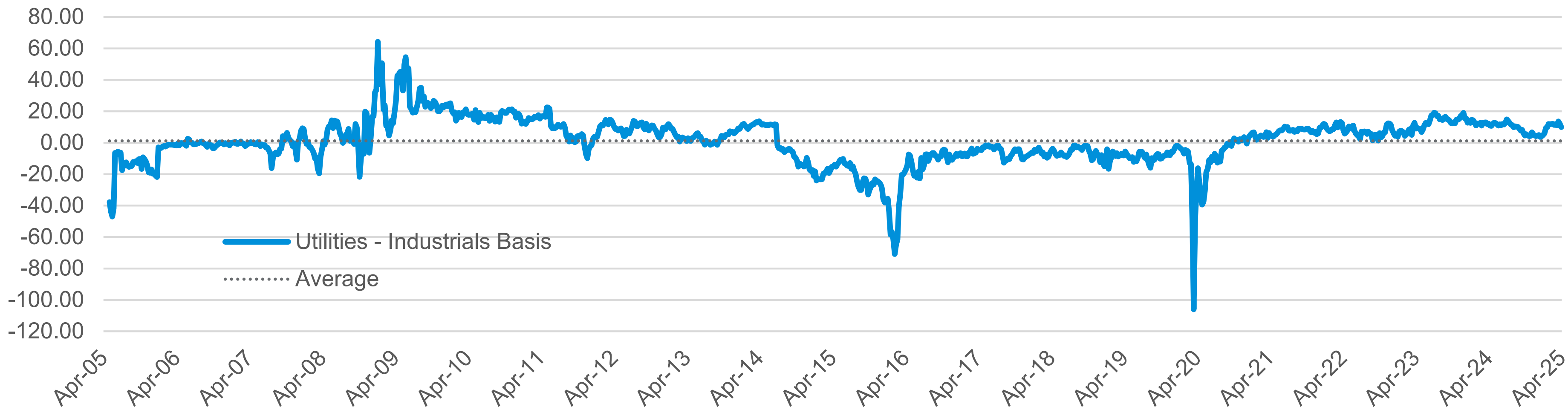
Market Review (Continued)

Lower-quality BBB bonds underperformed. Despite this, BBB bond spreads remain historically compressed relative to single-As, in conflict with the complex economic backdrop.



Source: MIM, Bloomberg

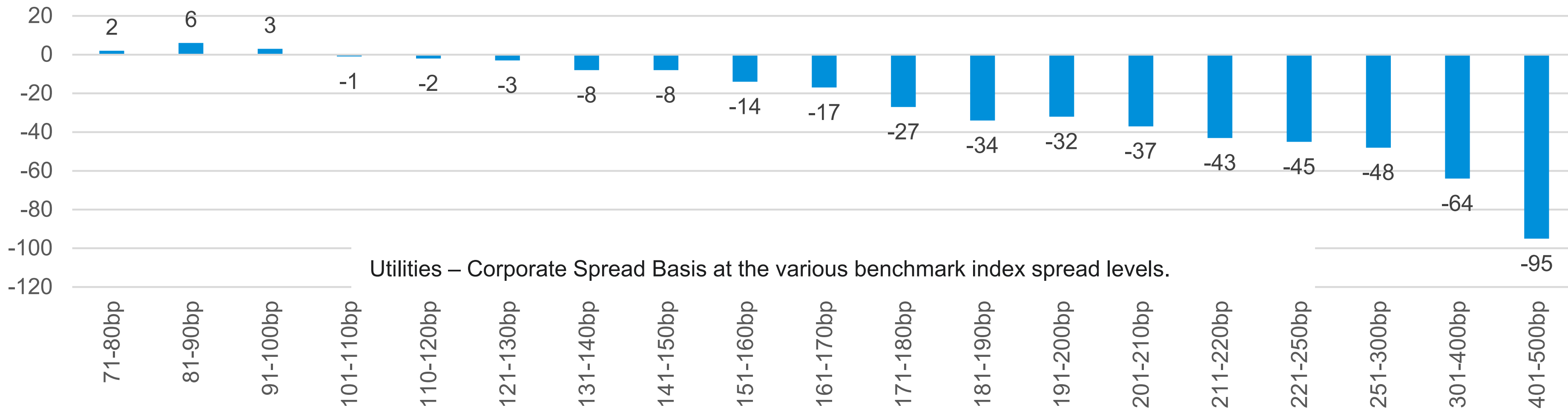
Utilities historically traded flat or through Industrials



Source: MIM, Bloomberg

Market Review (Continued)

Today Utilities offer defensive opportunities relative to Corporates at wider spreads



Source: Barclays

IG Industrials are still compressed to Financials

Source: MIM, Bloomberg

Market Outlook

Well that escalated quickly. While we have spilled much ink in previous commentaries lamenting valuations and suggesting potential catalysts for gradual spread widening, we certainly underestimated just how aggressive the administration's opening salvo would be on "Liberation Day". It panacea and however, reiterate just how vulnerable valuations were to anything that would knock the market off its pollyannaish course. We cannot recall a time when the whims of US government policy were this entrenched in the driver's seat of global risk sentiment. That certainly creates some challenges when trying to manage risk, but we believe it also is likely to produce an opportunity set that we have not seen in quite some time.

The playbook has changed. In previous quarters we offered that "conservative carry" was a key theme in portfolios. We were positioning for decompression, and rotating into credits and sectors that we believed would be more durable if we were to see a downshift in the growth picture. We also discussed augmenting this more up-in-quality approach with investing in select lower quality situations that either offered attractive carry in a rangebound spread environment or significant spread compression potential via improving credit fundamentals. Clearly these types of credits tend to perform poorly in an environment of broad-based spread widening and elevated volatility, but we believe our higher quality holdings (coupled with an elevated allocation to Treasuries) are providing an important ballast to the portfolio and allow us to be well positioned to add back risk at more attractive valuations. Clearly the big question is when?

Economists are rapidly adjusting upwards the risk of recession – with most suggesting odds akin to a coin flip. As of today's writing, the Bloomberg Corporate Index sits at a 114 OAS. Sharply wider (+34bp) on the year, but still below the 10-year average of 121 OAS – and well below the typical levels seen in a recession. Below average spreads which seemingly are not pricing in enough risk of recession against a level of policy uncertainty that is nothing short of massive is a difficult environment in which to suggest valuations have cheapened enough. A 90 day pause on reciprocal tariffs just prolongs the uncertainty – and keeps investors on edge awaiting the next "It's a Great Time to Buy!" tweet. It also may be throwing sand in what were previously well-oiled cogs of the economy. The unintended consequences could be far-reaching. It is hard to envision capital expenditure plans moving ahead unfettered. M&A activity (flagged by us as almost the surest impact of the election) is likely to come to a standstill. Inflation arguments are once again front and center, potentially disrupting an economic variable that seemed to have been previously tamed. Classic counters to our call for further downside are generally framed around a Trump and/or Fed Put.

We are not convinced either is the panacea and believe the Treasury market is corroborating our view. We continue to reposition the portfolio, reducing overall credit exposure but taking advantage of market dislocations to scale in select credits at progressively wider levels. We believe the primary market will likely offer the most attractive opportunity to rotate into risk as borrowers will still need to access the market, and for the first time in a long time, they will have to offer concessions to do so.

Credit is often deemed the Canary in the Coal Mine during periods of macro unease, although this time feels different. Balance sheets are generally cleaner and this sell-off driven is not being driven by credit issues in a particular sector. This should likely establish a lower ceiling for spreads than in previous recessions, though our initial forays are likely to be in those names and sectors less directly impacted by tariffs and commodity risk, with additions further down the risk spectrum likely to occur at even cheaper valuations.

Market Outlook (Continued)

We think there are still pressure points in that market that have yet to be triggered. Rich valuations have been underpinned by very solid demand technicals, which are at risk of shifting. Retail investors have been a powerful demand technical that could abruptly reverse course. Steady foreign demand may have to contend with a rapidly shifting global yield environment. A reversal in the sharp rise in Treasury yields would provide an added headwind for spreads. We frankly have a tougher time identifying the positive catalysts. Clearly a tariff reversal would be welcomed by the market – but we wonder if there has been irreparable harm already done. We do believe there are positives to come in the form of deregulation and tax reform, but this administration is clearly prioritizing the rebalance of global trade, which trumps (pardon the pun) the perceived positive tailwinds most often flagged post-election. Despite the volatility and the discomfort in risk sentiment being driven by tweets, we do welcome an environment of more attractive valuations where fundamental credit analysis takes on added importance in its ability to contribute to alpha generation for client portfolios.

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