

City of Naperville

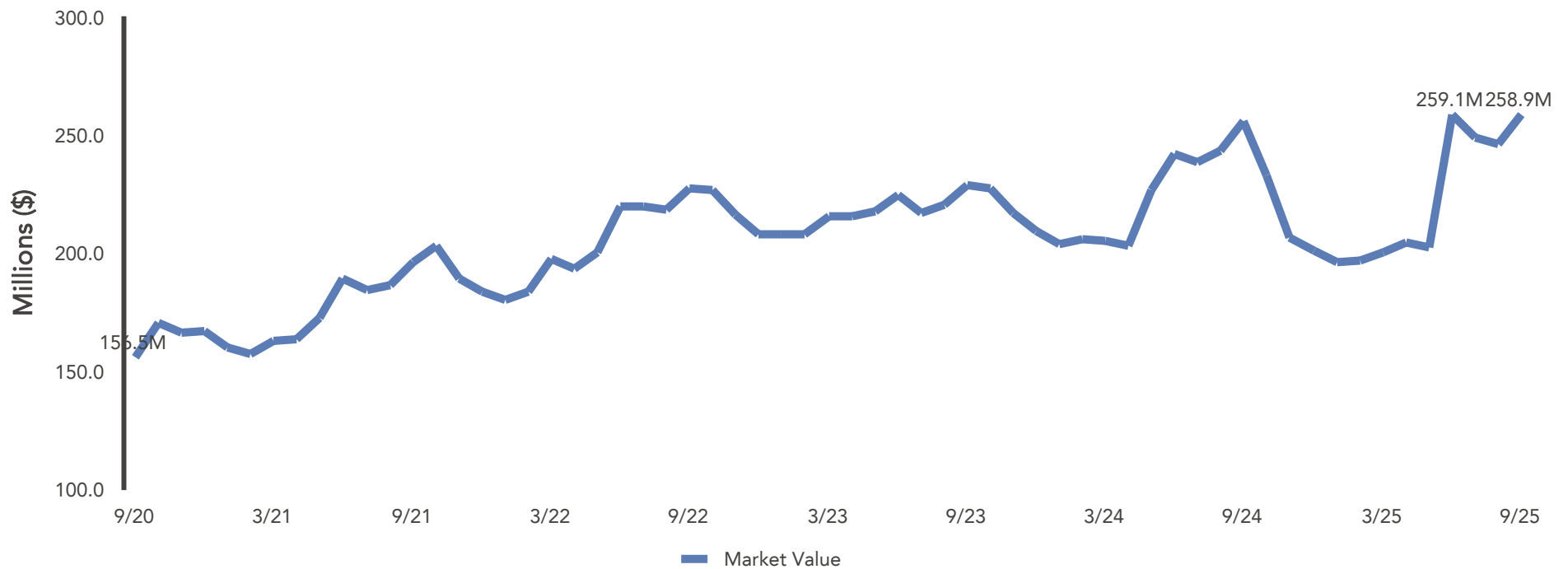
Quarterly Performance Report
September 30, 2025

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	259,115,796	201,562,577	256,580,046	227,646,284	156,500,666
Net Cash Flow	-3,797,292	45,966,232	-6,570,968	-2,001,404	87,834,103
Net Investment Change	3,604,298	11,393,993	8,913,724	33,277,922	14,588,033
Ending Market Value	258,922,802	258,922,802	258,922,802	258,922,802	258,922,802

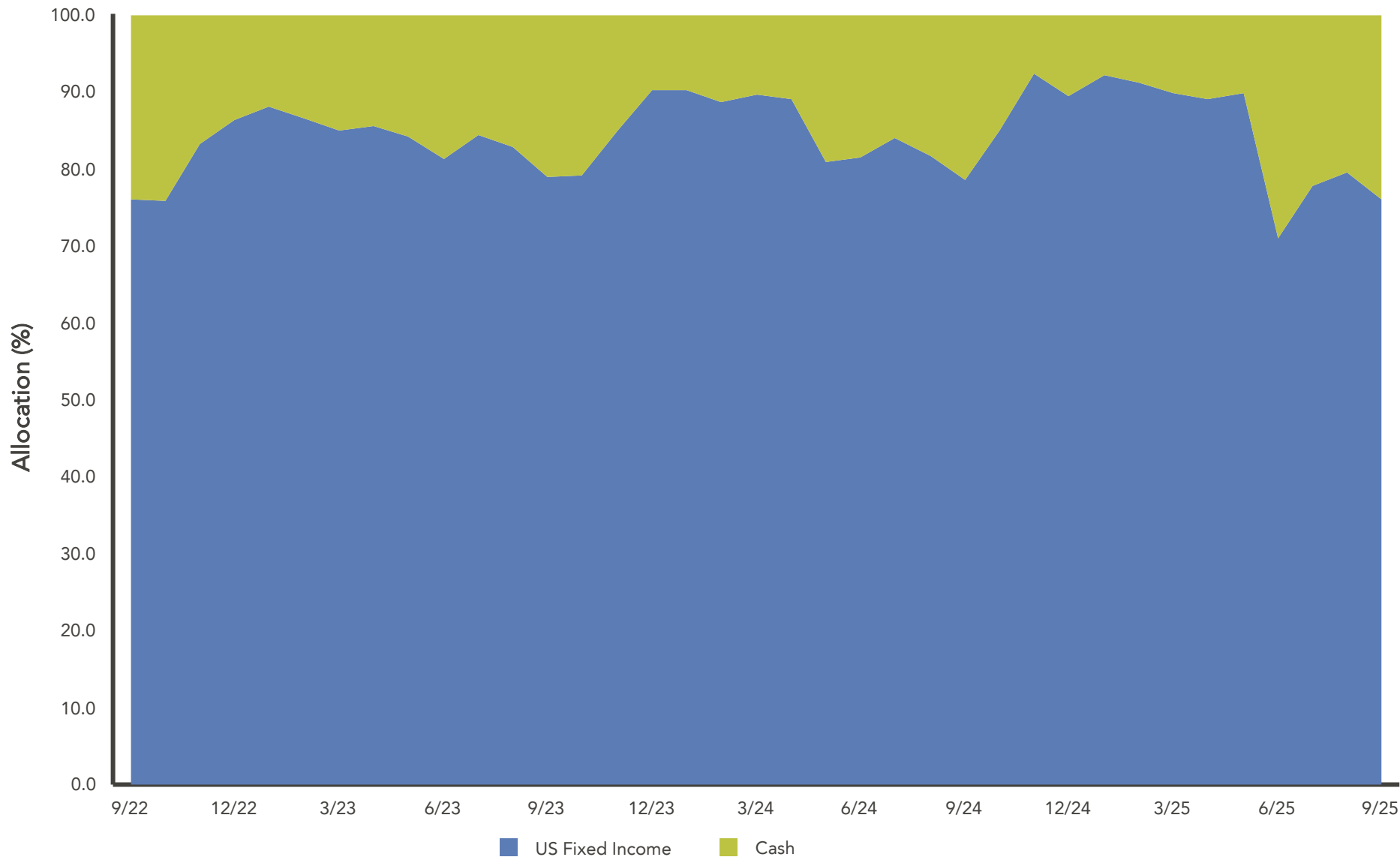
Total Fund Composite

Portfolio Allocation
As of September 30, 2025

	Asset Class	Current Balance	Current Allocation	Policy	Difference
Total Fund Composite		258,922,802	100.0	100.0	
Fixed Income Composite		196,881,008	76.0	85.0	-23,203,374
PFM	Int. Govt. Fixed Income	106,392,282	41.1	42.5	-3,649,908
MetLife	Int. Fixed Income	90,488,725	34.9	42.5	-19,553,466
Cash Equivalents Composite		62,041,794	24.0	15.0	23,203,374
Wintrust MFT Account - 6092	Cash & Equivalents	8,164,501	3.2		
Wintrust General Account - 3763	Cash & Equivalents	53,877,293	20.8		

Total Fund Composite

Historical Asset Allocation
3 Years Ending September 30, 2025



Total Fund Composite

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

	3 Mo (%)	YTD (%)	1 Yr (%)	2 Yrs (%)	3 Yrs (%)	4 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)
Total Fund Composite	1.5	5.5	4.4	6.4	5.1	1.5	1.1	2.4	1.7
Policy Benchmark	1.2	5.0	3.6	5.8	4.4	1.2	0.8	2.2	1.6
Fixed Income Composite	1.6	5.8	4.2	6.7	5.2	1.2	0.8	2.5	1.8
Custom Fixed Income Benchmark	1.4	5.5	3.8	6.3	4.8	1.0	0.6	2.4	1.8
Blmbg. U.S. Government: Intermediate Index	1.3	5.3	3.5	5.9	4.4	0.8	0.4	2.1	1.6
Blmbg. Intermed. U.S. Government/Credit	1.5	5.7	4.0	6.7	5.2	1.1	0.8	2.6	2.1
eV US Interm Duration Fixed Inc Rank	72	63	38	77	65	48	62	74	84
Cash Equivalents Composite	1.0	3.3	4.9	5.0	4.7	3.6	2.9	2.2	1.5
ICE BofA 3 Month U.S. T-Bill	1.1	3.2	4.4	4.9	4.8	3.7	3.0	2.6	2.1

Total Fund Composite

Calendar Performance (Net of Fees)
As of September 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	35	85	20	86	70	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 September 30, 2025

	3 Mo (%)	YTD (%)	1 Yr (%)	2 Yrs (%)	3 Yrs (%)	4 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)
Total Fund Composite	1.5	5.5	4.4	6.4	5.1	1.5	1.1	2.4	1.7
Policy Benchmark	1.2	5.0	3.6	5.8	4.4	1.2	0.8	2.2	1.6
Fixed Income Composite	1.6	5.8	4.2	6.7	5.2	1.2	0.8	2.5	1.8
Custom Fixed Income Benchmark	1.4	5.5	3.8	6.3	4.8	1.0	0.6	2.4	1.8
Blmbg. U.S. Government: Intermediate Index	1.3	5.3	3.5	5.9	4.4	0.8	0.4	2.1	1.6
Blmbg. Intermed. U.S. Government/Credit	1.5	5.7	4.0	6.7	5.2	1.1	0.8	2.6	2.1
eV US Interm Duration Fixed Inc Rank	72	63	38	77	65	48	62	74	84
PFM	1.5	5.7	4.2	6.8	5.3	1.3	0.9	2.6	-
Blmbg. U.S. Government: Intermediate Index	1.3	5.3	3.5	5.9	4.4	0.8	0.4	2.1	1.6
eV US Interm Duration Fixed Inc Rank	80	67	39	70	54	38	52	63	-
MetLife	1.6	5.8	4.2	-	-	-	-	-	-
Blmbg. Intermed. U.S. Government/Credit	1.5	5.7	4.0	6.7	5.2	1.1	0.8	2.6	2.1
eV US Interm Duration Fixed Inc Rank	62	55	36	-	-	-	-	-	-
Cash Equivalents Composite	1.0	3.3	4.9	5.0	4.7	3.6	2.9	2.2	1.5
ICE BofA 3 Month U.S. T-Bill	1.1	3.2	4.4	4.9	4.8	3.7	3.0	2.6	2.1
Wintrust MFT Account - 6092	1.2	3.6	4.8	5.3	-	-	-	-	-
ICE BofA 3 Month U.S. T-Bill	1.1	3.2	4.4	4.9	4.8	3.7	3.0	2.6	2.1
Wintrust General Account - 3763	0.9	3.4	5.4	5.1	4.7	-	-	-	-
ICE BofA 3 Month U.S. T-Bill	1.1	3.2	4.4	4.9	4.8	3.7	3.0	2.6	2.1

Total Fund Composite

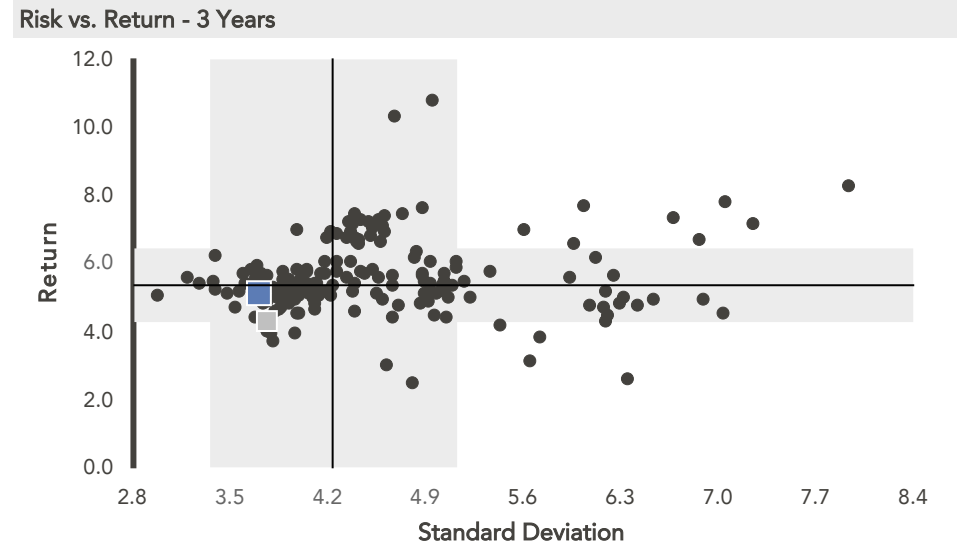
Calendar Performance (Net of Fees)
As of September 30, 2025

	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	35	85	20	86	70	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	34	70	17	79	76	80	10	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	39	-	-	-	-	-	-	-	-
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

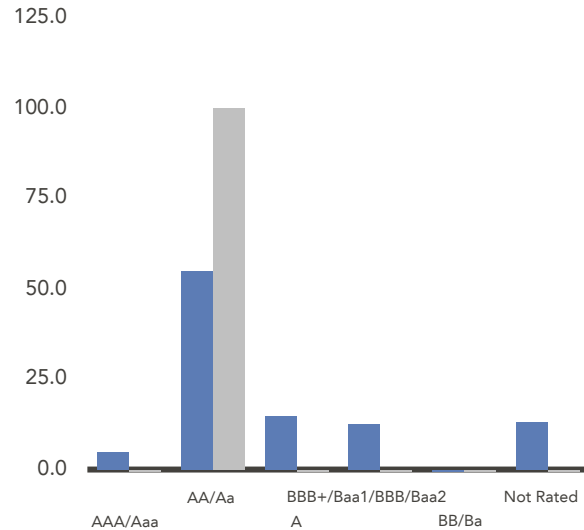
Fixed Income Composite

Portfolio Characteristics
As of September 30, 2025

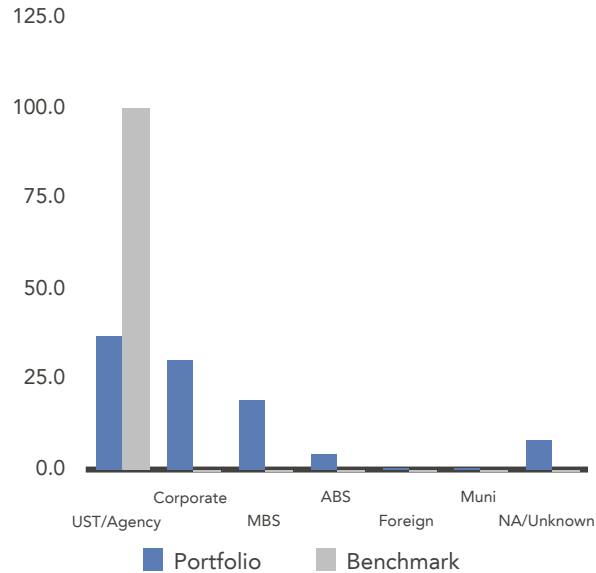
Portfolio Characteristics	Portfolio	Blmbg. U.S. Government: Intermediate Index
Avg. Maturity (yrs.)	4.1	4.0
Avg. Quality	AA	AA
Coupon Rate (%)	3.8	3.3
Modified Duration (yrs.)	3.4	3.6
Effective Duration (yrs.)	3.5	3.6
Yield To Maturity (%)	4.1	3.7
Yield To Worst (%)	4.1	3.7



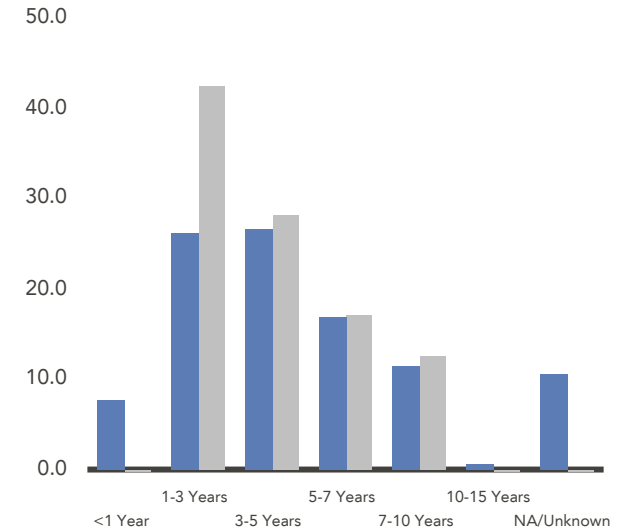
Credit Quality Distribution (%)



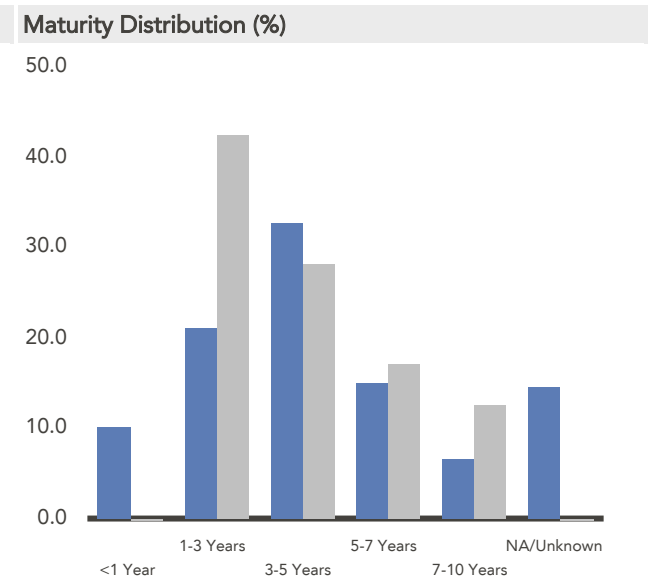
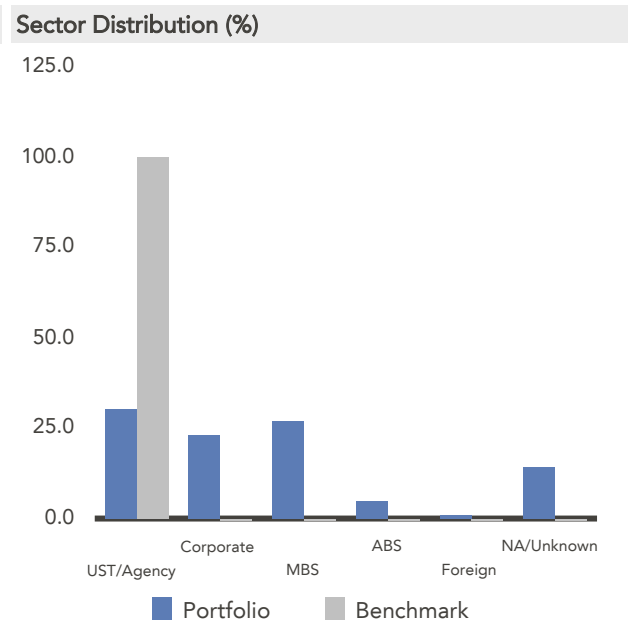
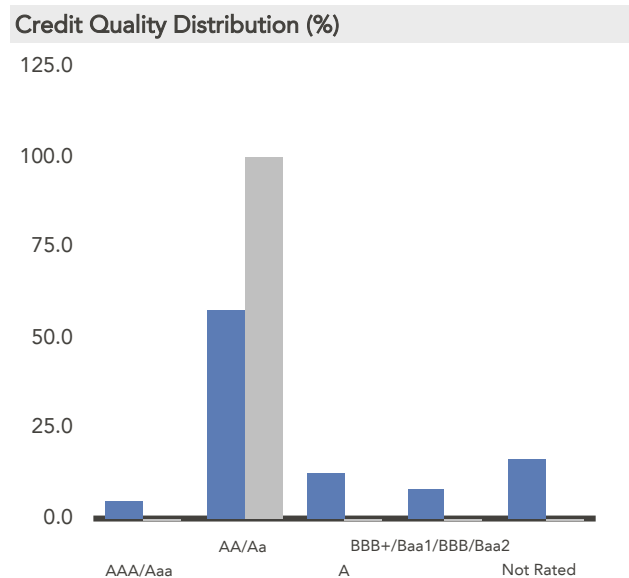
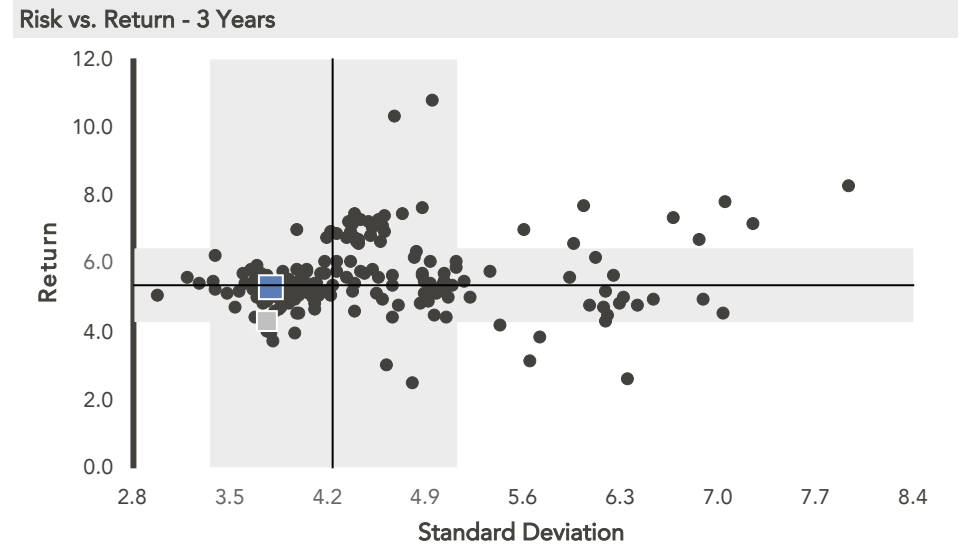
Sector Distribution (%)



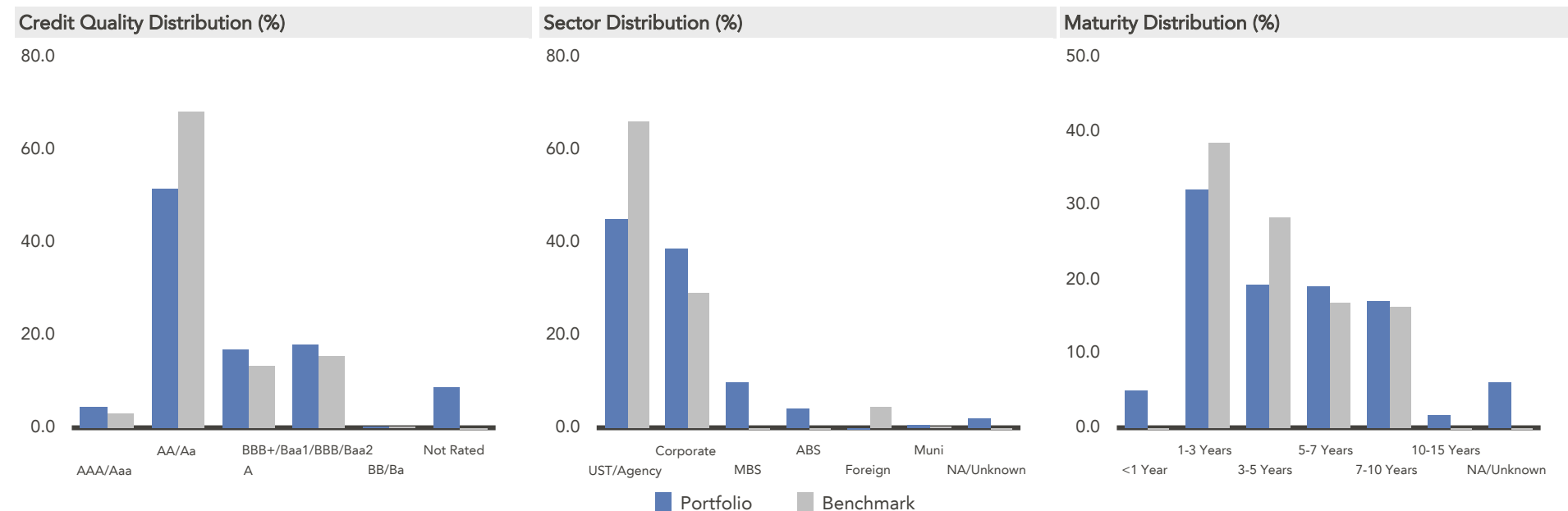
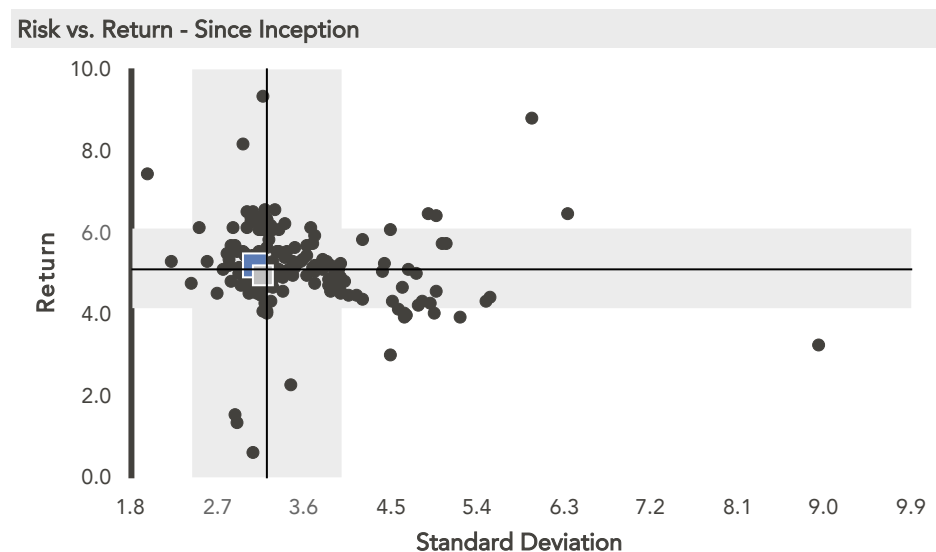
Maturity Distribution (%)



Portfolio Characteristics	Portfolio	Blmbg. U.S. Government: Intermediate Index
Avg. Maturity (yrs.)	3.7	4.0
Avg. Quality	AA	AA
Coupon Rate (%)	3.3	3.3
Modified Duration (yrs.)	3.1	3.6
Effective Duration (yrs.)	3.2	3.6
Yield To Maturity (%)	4.1	3.7
Yield To Worst (%)	4.1	3.7



Portfolio Characteristics	Portfolio	Blmbg. Intermed. U.S. Government/Credit
Avg. Maturity (yrs.)	4.6	4.3
Avg. Quality	A	AA
Coupon Rate (%)	4.3	3.7
Modified Duration (yrs.)	3.9	3.8
Effective Duration (yrs.)	3.8	3.8
Yield To Maturity (%)	4.2	4.0
Yield To Worst (%)	4.2	4.0



Total Fund Composite

Fee Schedule
As of September 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	\$83,835	0.08%	0.24%
Int. Fixed Income	MetLife	0.075% on the first \$50 million 0.05% on the balance	\$57,744	0.06%	0.25%
Total Investment Management Fees			\$141,580	0.05%	0.32%
Investment Consultant	Marquette Associates, Inc.	\$30,000 Annual Fee	\$30,000	0.01%	
Total Fund	Total Fund		\$171,580	0.07%	

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 September 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 September 30, 2025

Client Management Team

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

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Agenda

- Market Update
- Portfolio Review

Market Update

Current Market Themes



- ▶ U.S. economy has been resilient but a cooling labor market presents risk
 - ▶ Net new job creation neared zero as employers follow a “no hire, no fire” approach
 - ▶ Inflation accelerated but Fed expects further price pressures to be short-lived
 - ▶ Uncertainty eased as tariff and fiscal announcements were digested



- ▶ Fed cut rates for the first time in 2025
 - ▶ Fed Chair Powell acknowledged the difficulty in balancing the risks affecting labor markets and inflation, but noted risks to the labor market were the Fed's focus
 - ▶ The Fed's September “dot plot” signals 50 bps in additional cuts for 2025, though views remain split, with 7 members favoring no additional cuts in 2025



- ▶ Treasury yields moved lower across the curve in Q3
 - ▶ Front end Treasury yields moved lower on Fed rate cut expectations
 - ▶ Yields settled into a narrow trading range as market volatility eased
 - ▶ Credit spreads continued to tighten and neared historically narrow levels

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

Economic Growth Rebounds Amid Sticky Inflation

Fed Chair Powell: "While the unemployment rate remains low, it has edged up, job gains have slowed, and downside risks to employment have risen. At the same time, inflation has risen recently and remains somewhat elevated. Recent indicators suggest that growth of economic activity has moderated."

	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	2.7	2.7	2.9
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	4.1	4.2	4.3
U.S. Real GDP QoQ	2.9		2.5		4.7		3.4		0.8		3.6		3.3		1.9		-0.6		3.8		1.7% Est.*											
Consumption QoQ	4.5		1.5		3.1		3.0		1.7		3.9		4.0		3.9		0.6		2.5		1.5% Est*											

Worse	Neutral	Better
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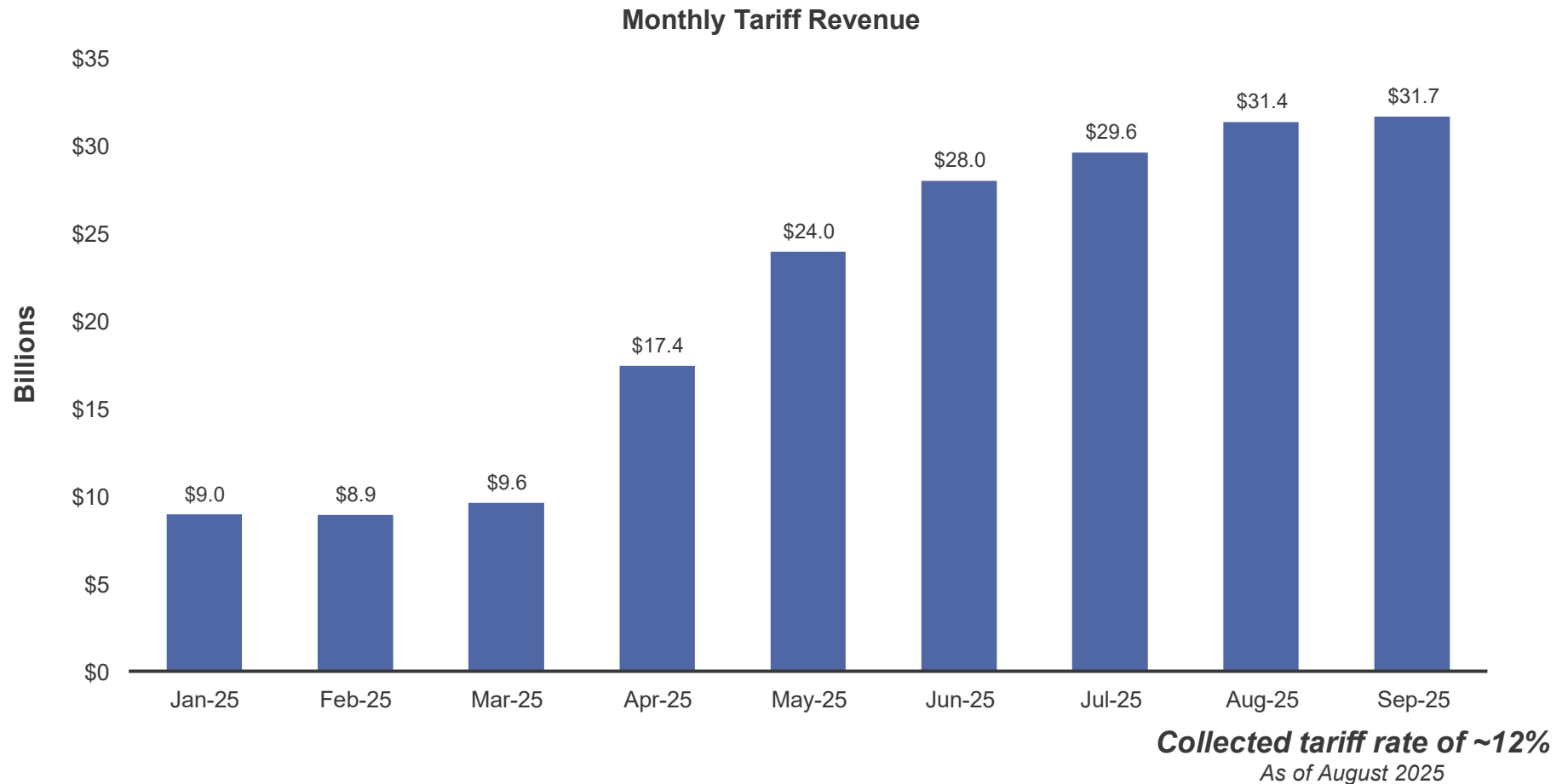
Source: FOMC Chair Jerome Powell Press Conference, September 17, 2025. Bloomberg Finance L.P., Bureau of Labor Statistics and Bureau of Economic Analysis as of August 2025.

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 October 2, 2025.

Tariff Revenue Nears \$200 Billion Year-to-Date

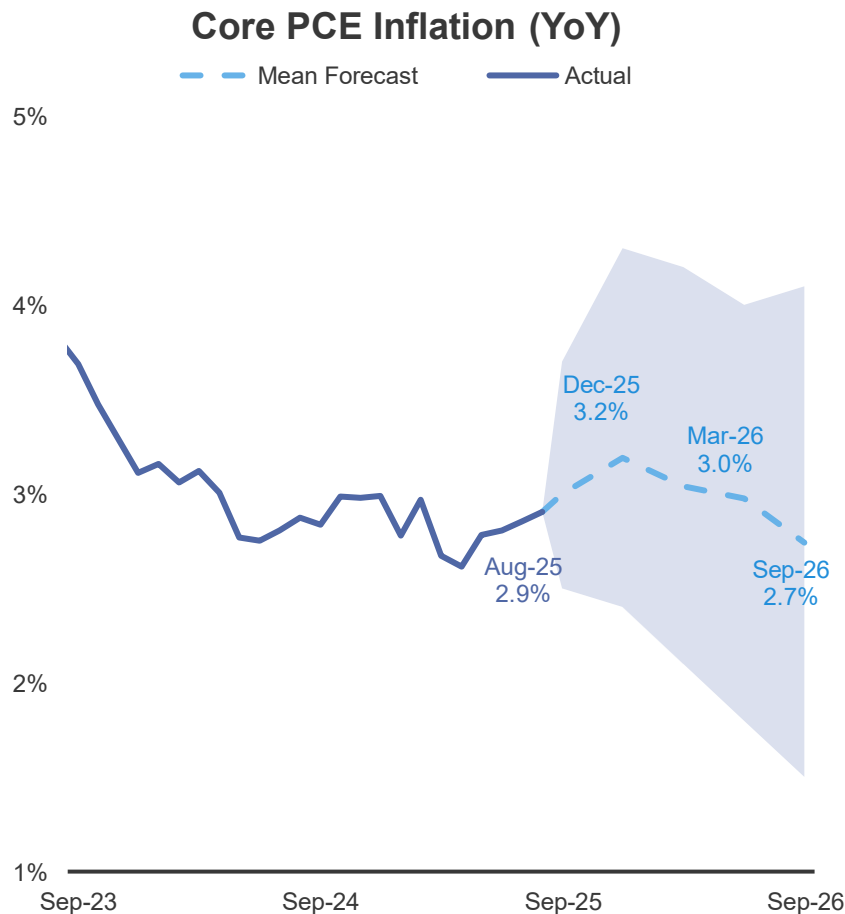
Fed Chair Powell: “Retailers and importers are not passing along the impact of the tariffs to consumers that much. So the actual effects on inflation have been quite modest ... It’s retailers and importers absorbing most of the cost.”



Source: Fed Chair Jerome Powell speech to Greater Providence Chamber of Commerce, September 23, 2025. Bloomberg Finance L.P. and U.S. Treasury as of September 30, 2025. U.S. Census Bureau as of August 2025.

The Fed's Dual Mandate Remains Complicated

Fed Chair Powell: "[T]he increase in goods prices accounts for most ... or perhaps all of the increase in inflation over the course of this year."



Factors Influencing Slower Than Expected Pass-Through of Goods Inflation



Inventory Drawdown



Margin Compression



Exceptions & Exclusions



Shifting Trade Patterns

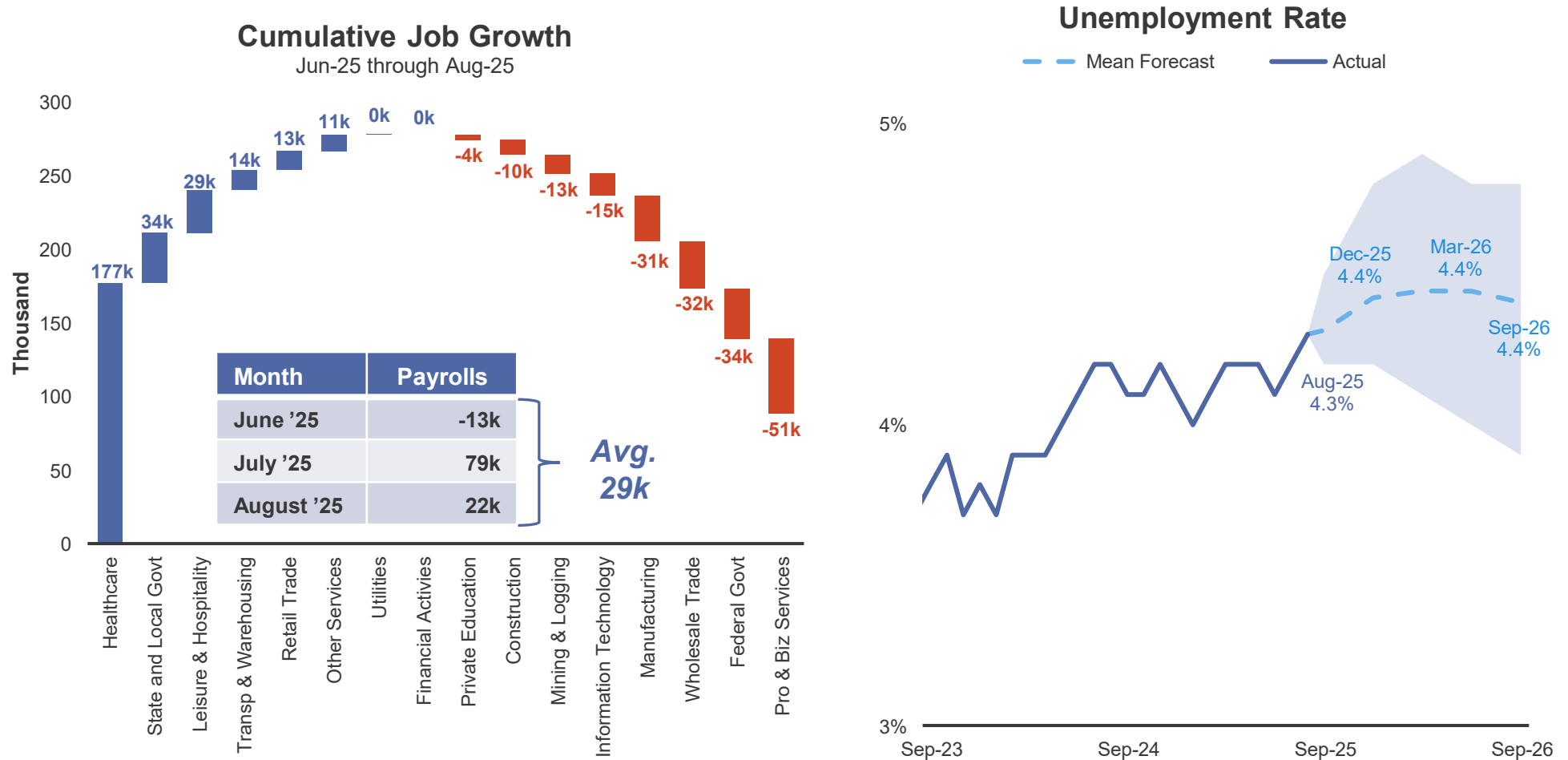


Contractual Pricing

Source: FOMC Chair Jerome Powell Press Conference, September 17, 2025. Bureau of Economic Analysis, and Bloomberg Finance L.P., as of August 2025 (left). Survey responses after September 26, 2025, included in mean and forecast range.

The Fed's Dual Mandate Remains Complicated

Fed Chair Powell: "Labor demand has softened, and the recent pace of job creation appears to be running below the break-even rate needed to hold the unemployment rate constant."



Source: FOMC Chair Jerome Powell Press Conference, September 17, 2025. Bureau of Labor Statistics, and Bloomberg Finance L.P., as of August 2025. Data is seasonally adjusted. Survey responses after September 26, 2025, included in mean and forecast range.

Economic Uncertainty Challenges Outlook

Negative

- ▶ Net new job creation nears zero
- ▶ Sticky services inflation
- ▶ Increasing retail credit card balances
- ▶ Rising student loan delinquencies
- ▶ Planned federal spending cuts

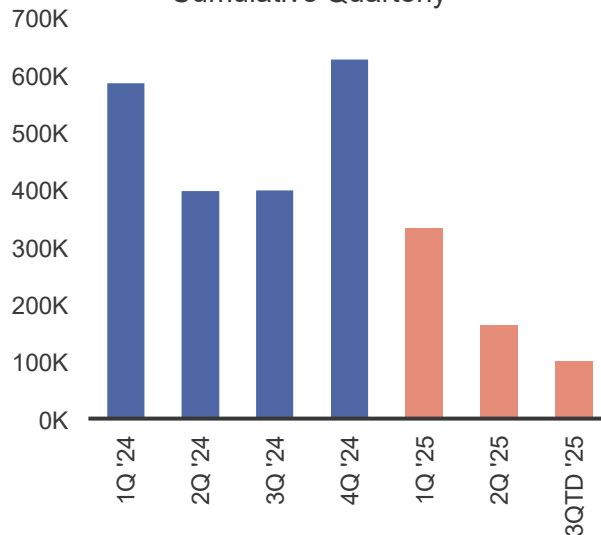
Neutral

- ▶ Slower tariff-based inflation passthrough
- ▶ Stabilizing credit card delinquencies
- ▶ Corporate fundamentals

Positive

- ▶ Easing Fed Policy
- ▶ Resilient consumer spending
- ▶ Positive real disposable personal income growth
- ▶ Fiscal tailwinds to business investment

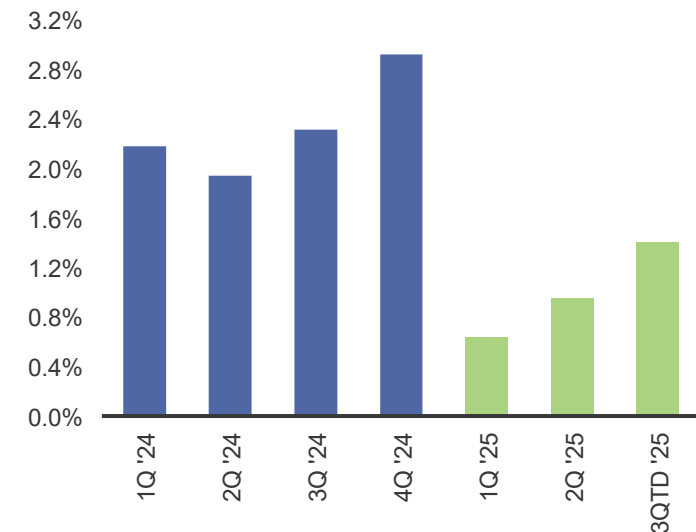
Nonfarm Payrolls
Cumulative Quarterly



Credit Card Delinquencies
90+ Days



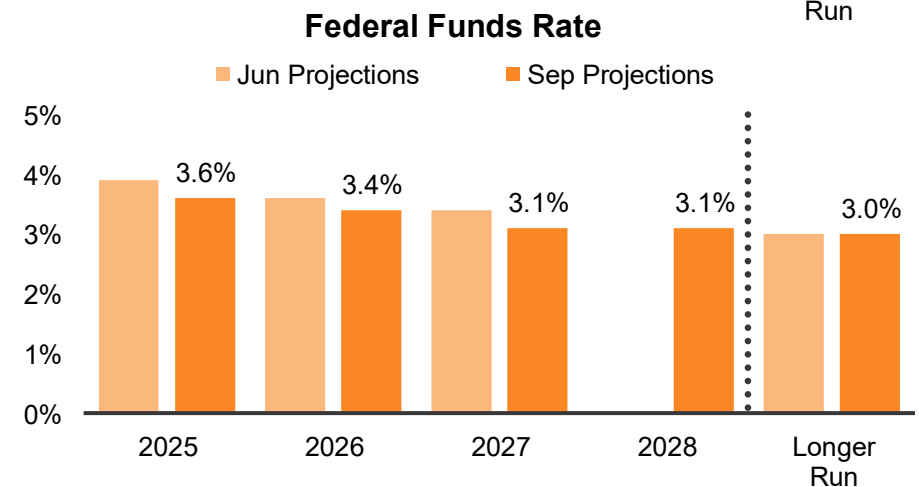
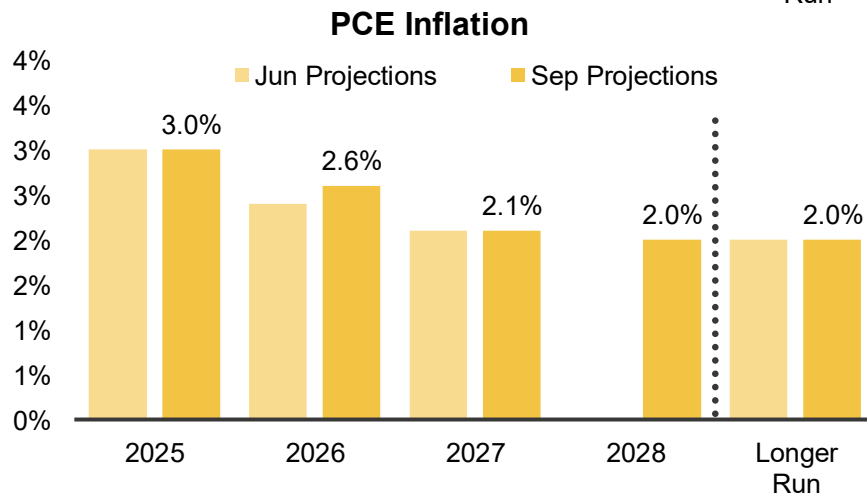
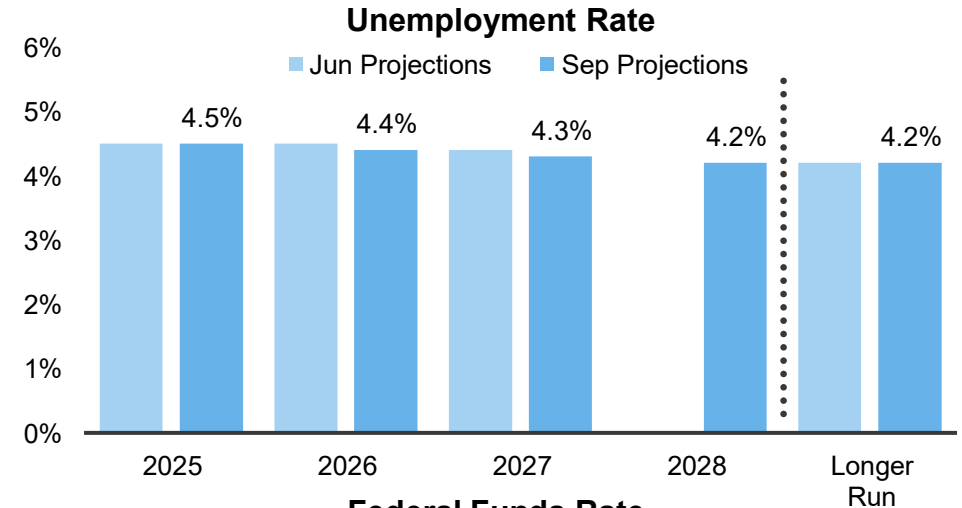
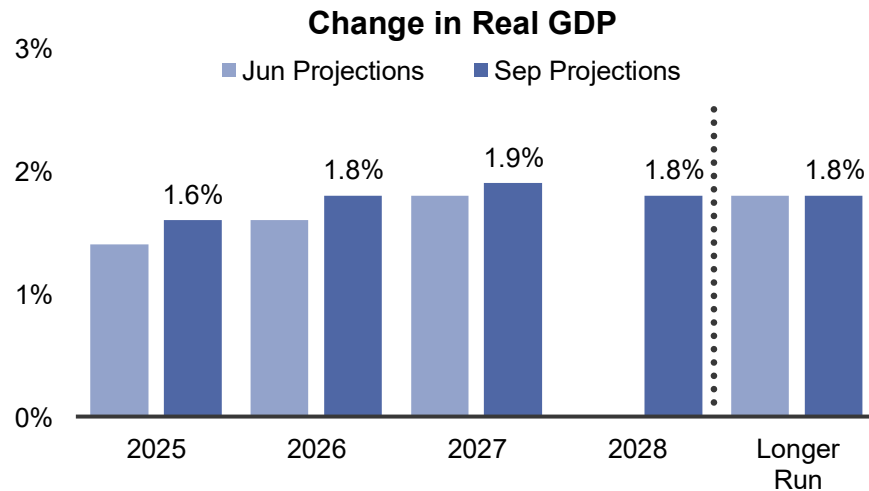
Personal Consumption
Quarter-Over-Quarter Change



Sources: Bloomberg Finance L.P., Bureau of Labor Statistics as of August 2025, Federal Reserve Bank of New York as of June 2025, and Bureau of Economic Analysis as of August 2025.

Fed's Updated Summary of Economic Projections

Fed Chair Powell: "[I]t's a difficult situation because we have risks that are both affecting the labor market and inflation, our two goals ... When they're both at risk, we have to balance them"

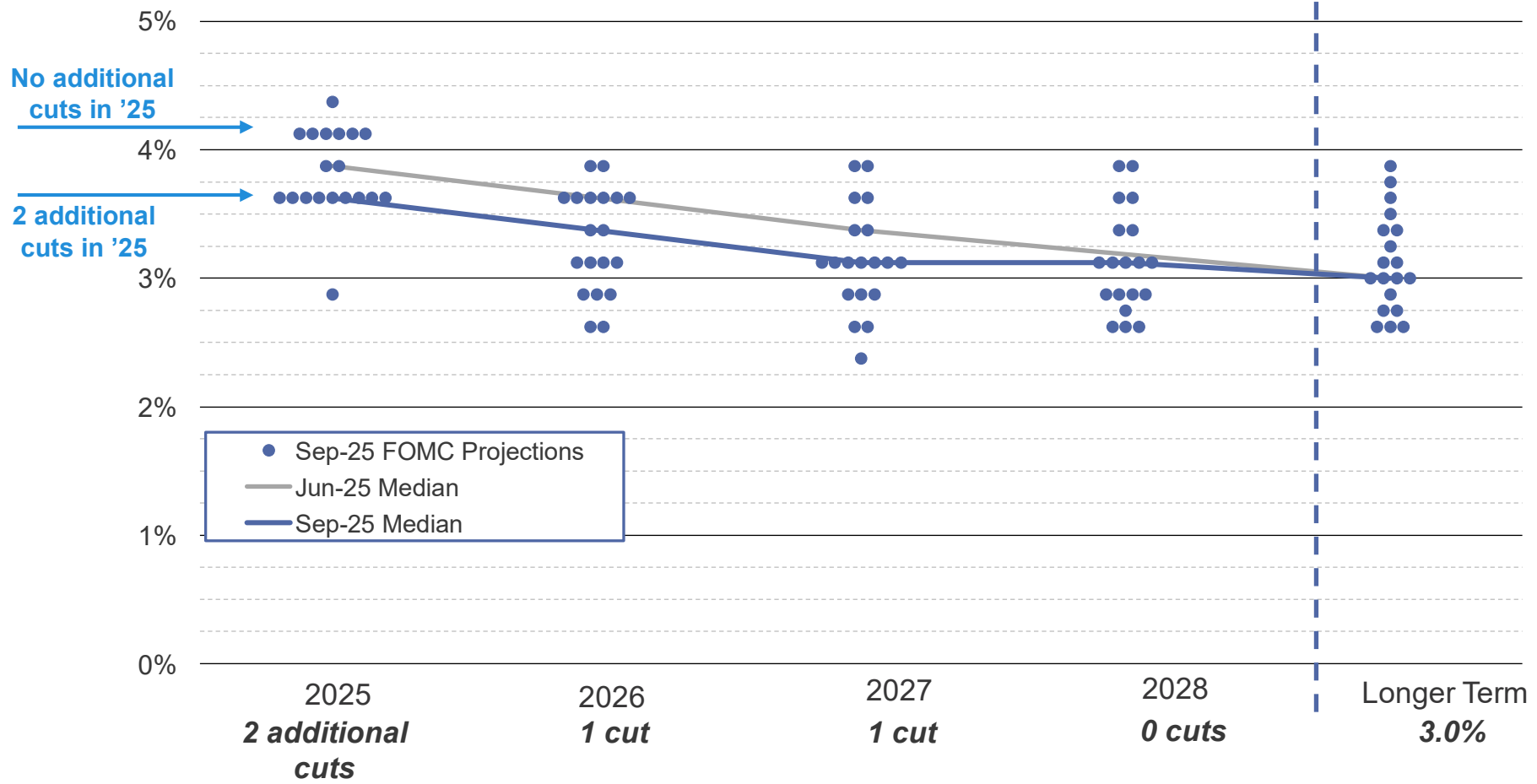


Source: FOMC Chair Jerome Powell Press Conference as of September 17, 2025. September 2025 was the first projection period for calendar year 2028.

The Latest Fed “Dot Plot”

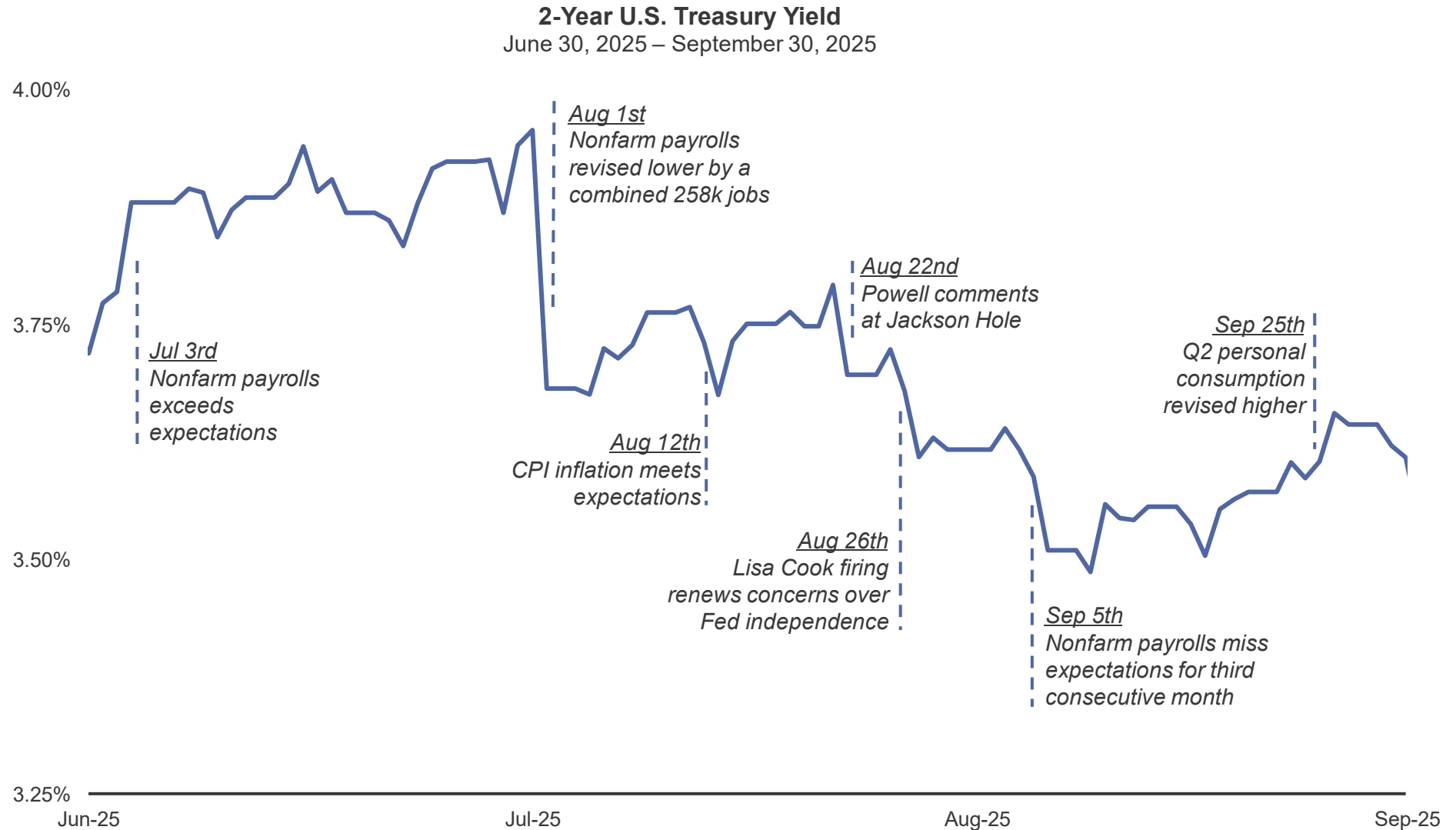
Fed Chair Powell: “[T]here are no risk-free paths now. It's not incredibly obvious what to do... [A]nd you'll see that there are just a range of views on what to do.”

Fed Participants' Assessments of ‘Appropriate’ Monetary Policy



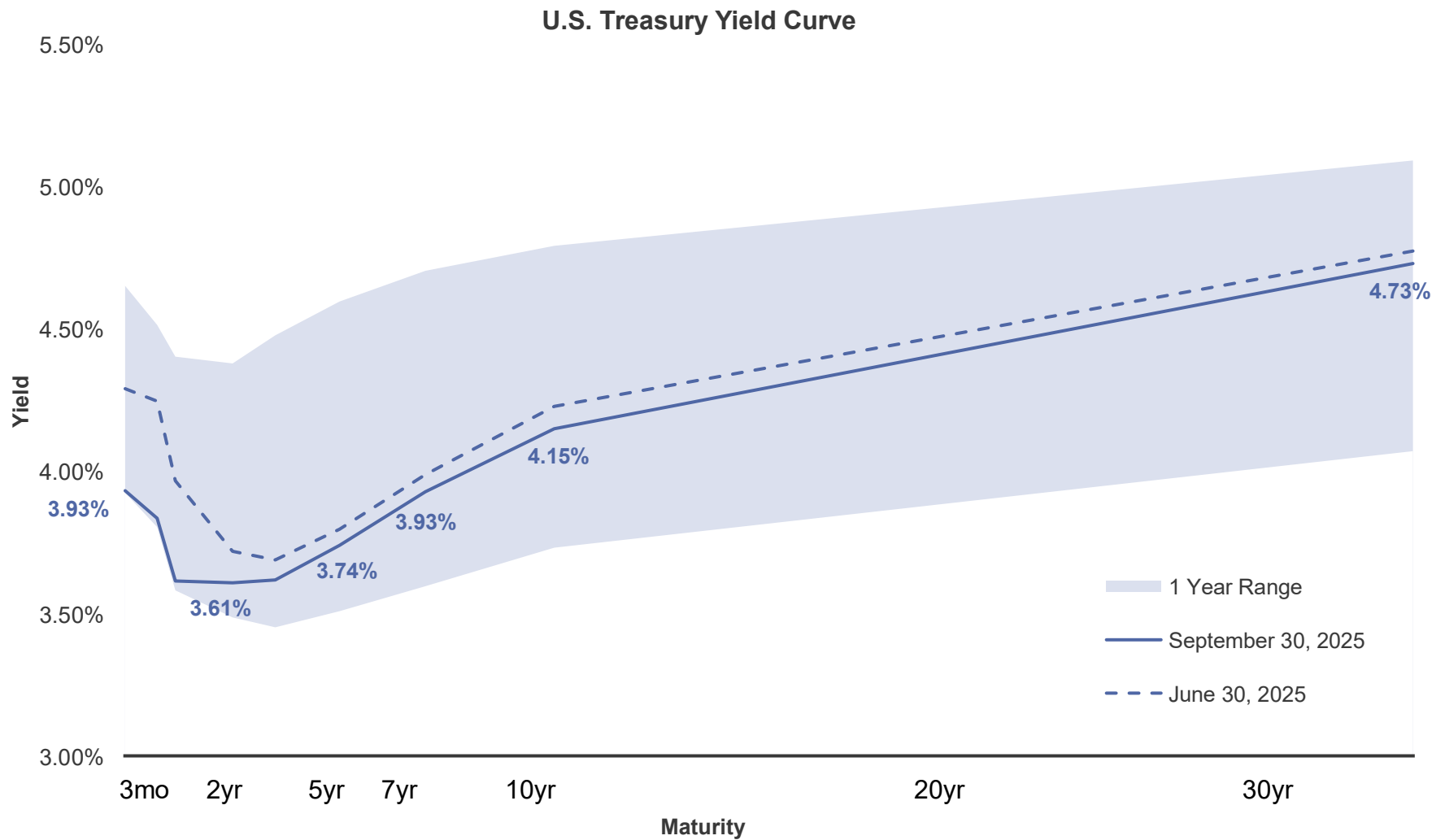
Source: Federal Reserve and FOMC Chair Jerome Powell Press Conference, as of September 17, 2025. Bloomberg Finance L.P.. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.

Treasury Yields Lower on Labor Market Risk



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

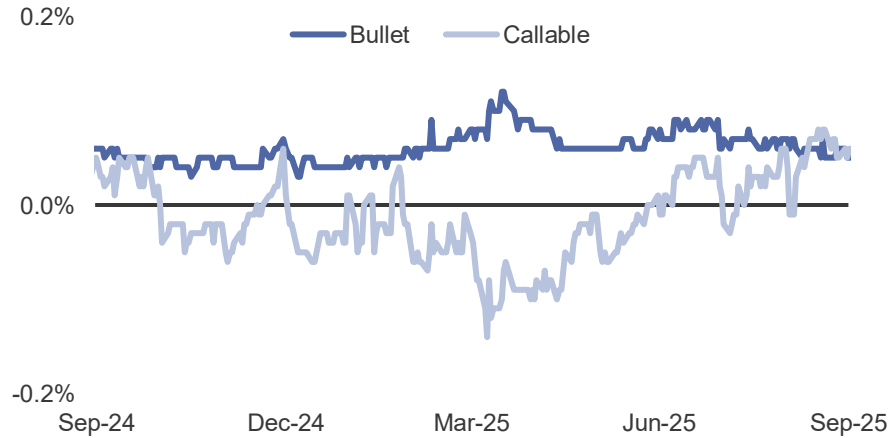
Front End Treasury Yields Move Lower



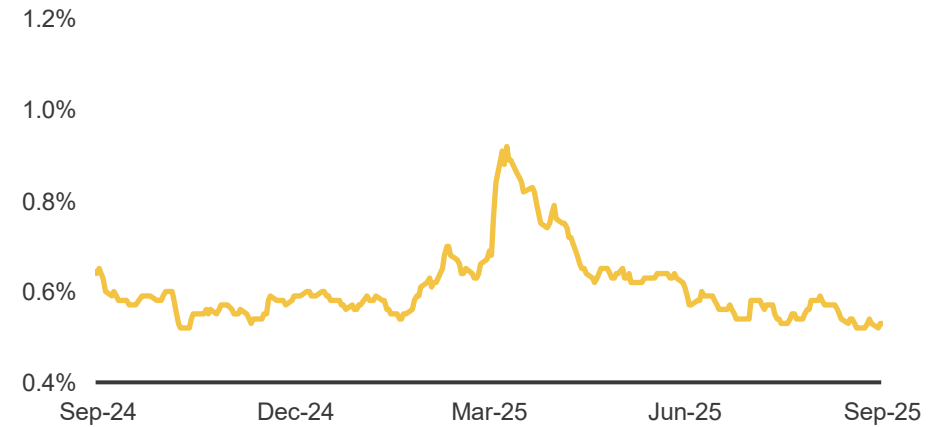
Source: Bloomberg Finance L.P., as of September 30, 2025.

Sector Yield Spreads

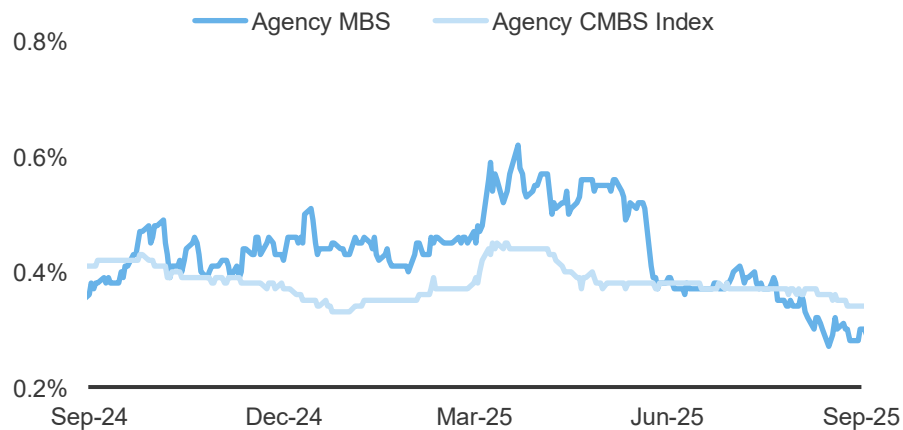
Federal Agency Yield Spreads



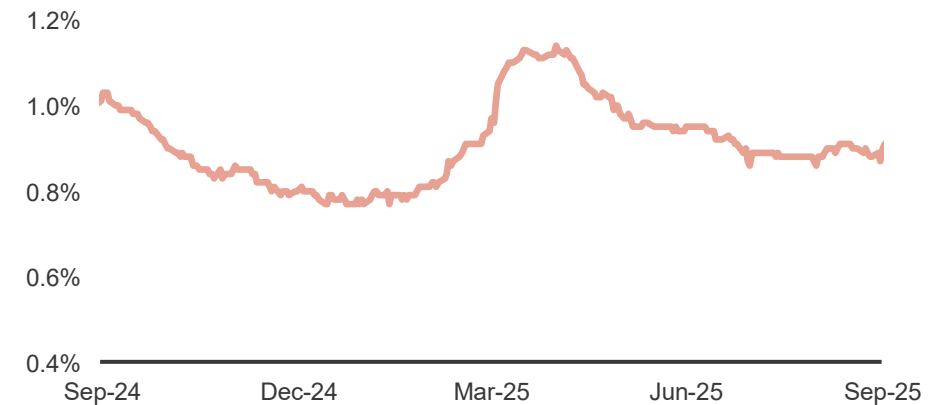
Corporate Notes A-AAA Yield Spreads



Mortgage-Backed Securities Yield Spreads

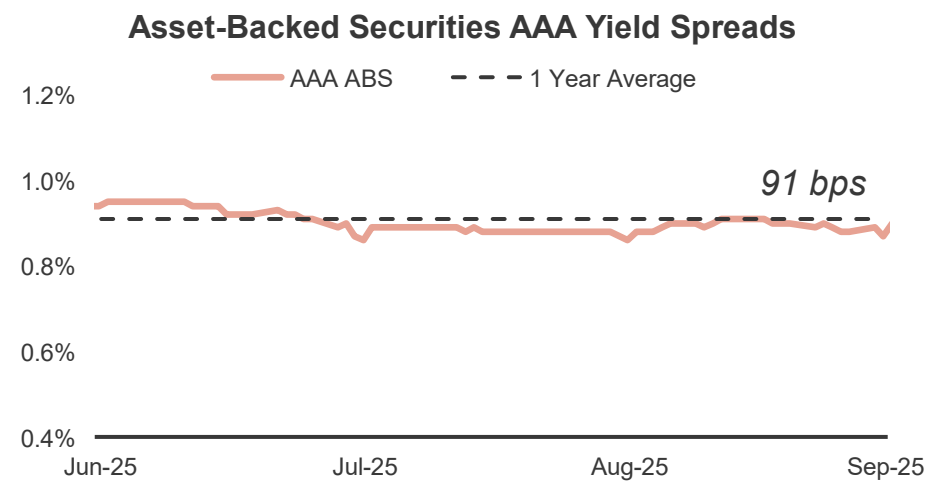
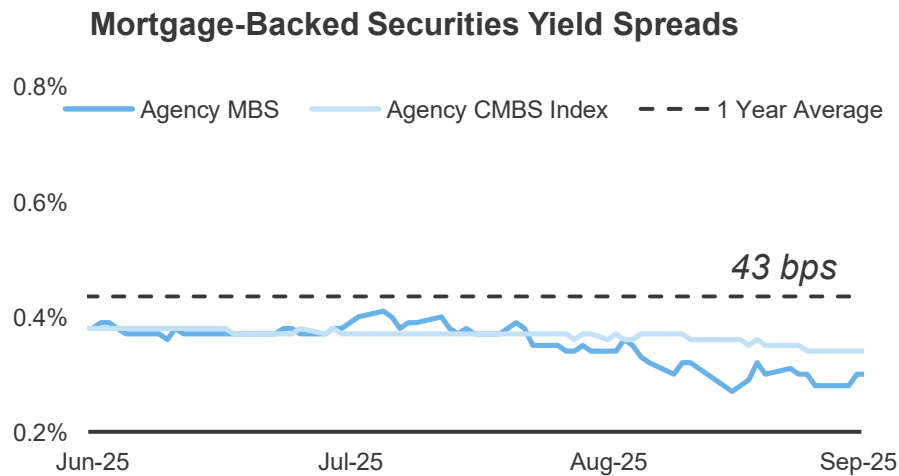
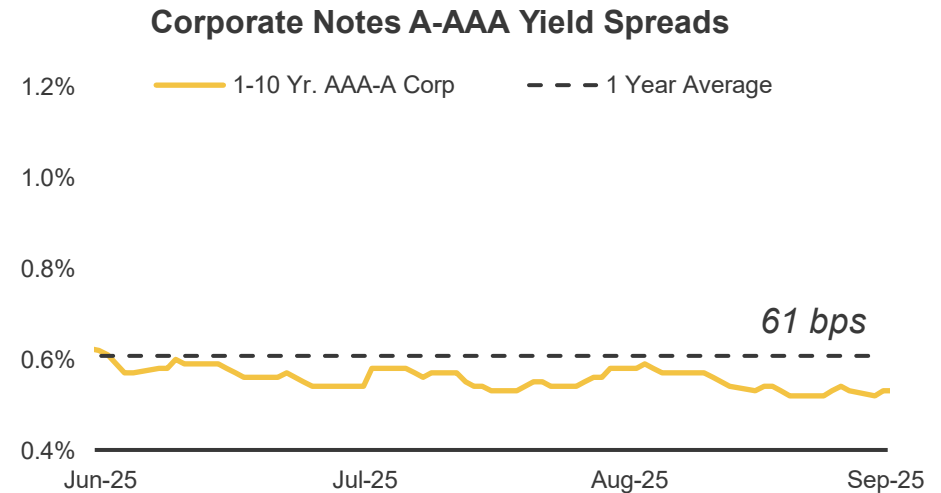
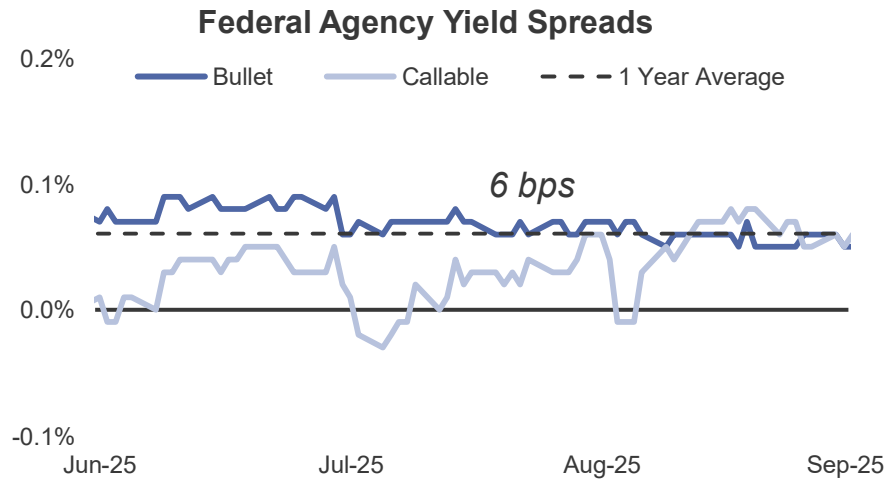


Asset-Backed Securities AAA Yield Spreads



Source: ICE BofA 1-10 year Indices via Bloomberg Finance L.P. and PFMAM as of September 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

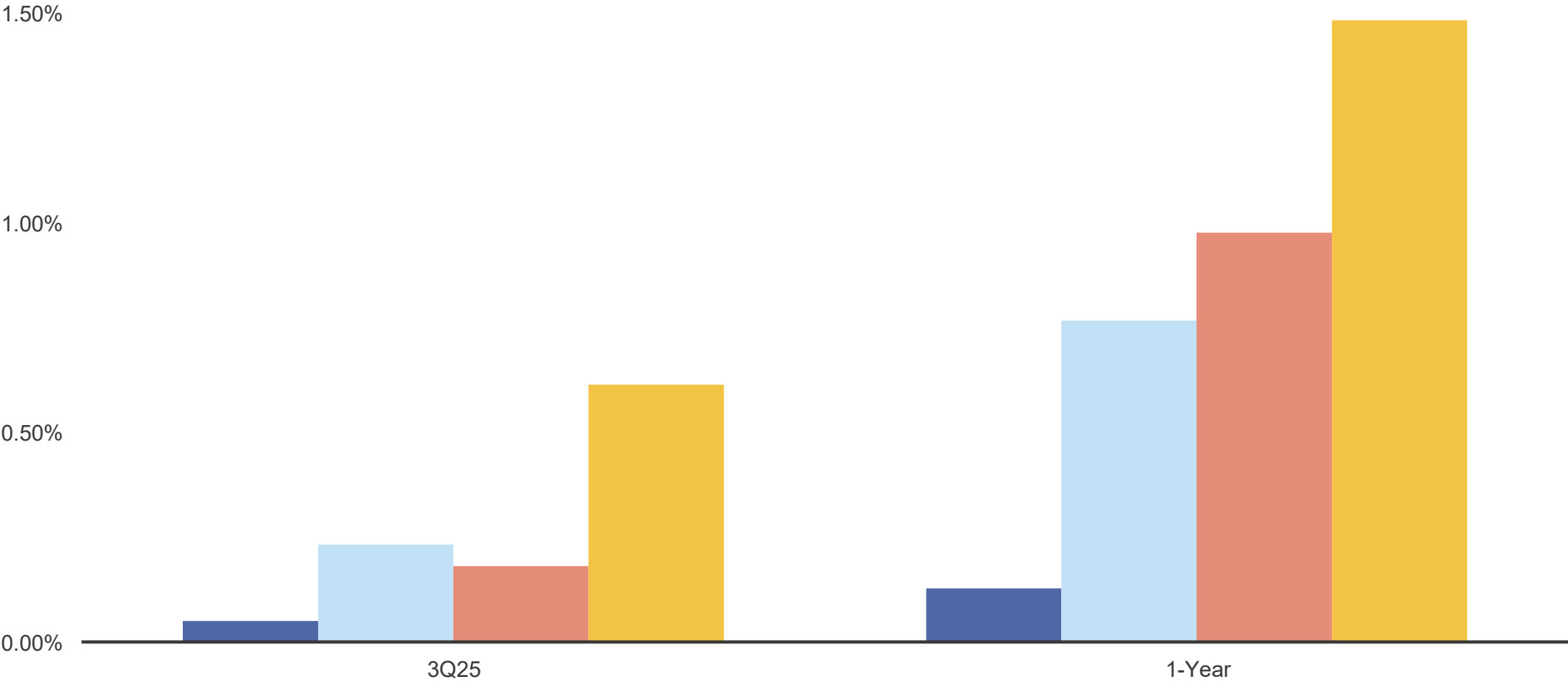


Source: ICE BofA 1-10 year Indices via Bloomberg Finance L.P. and PFMAM as of September 30, 2025. Spreads on ABS and MBS are option-adjusted spreads of 0-10 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed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

Fixed-Income Index Excess Returns

Excess Returns
1-10 Year Indices

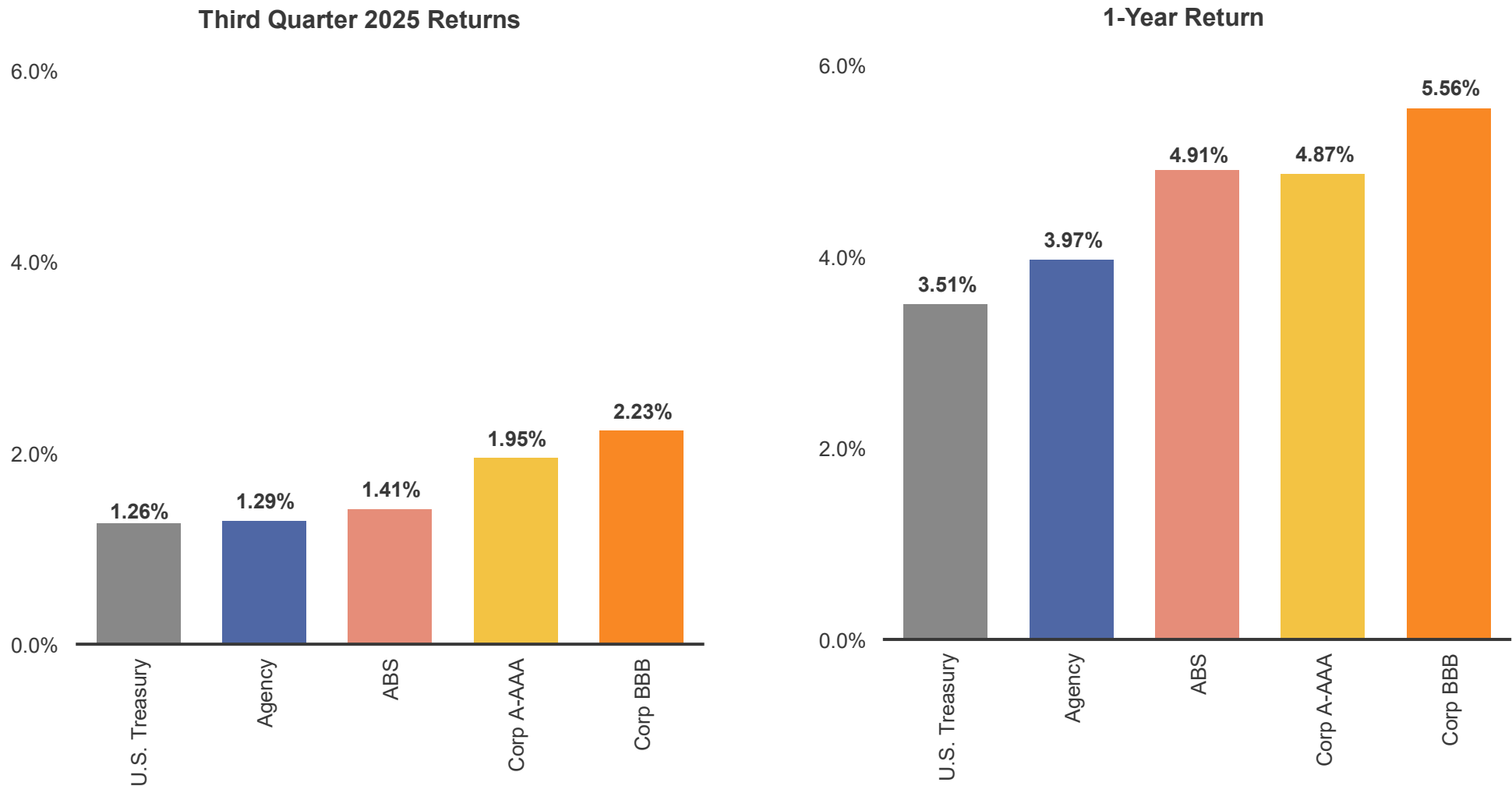
Federal Agency Agency CMBS ABS Corp A-AAA



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

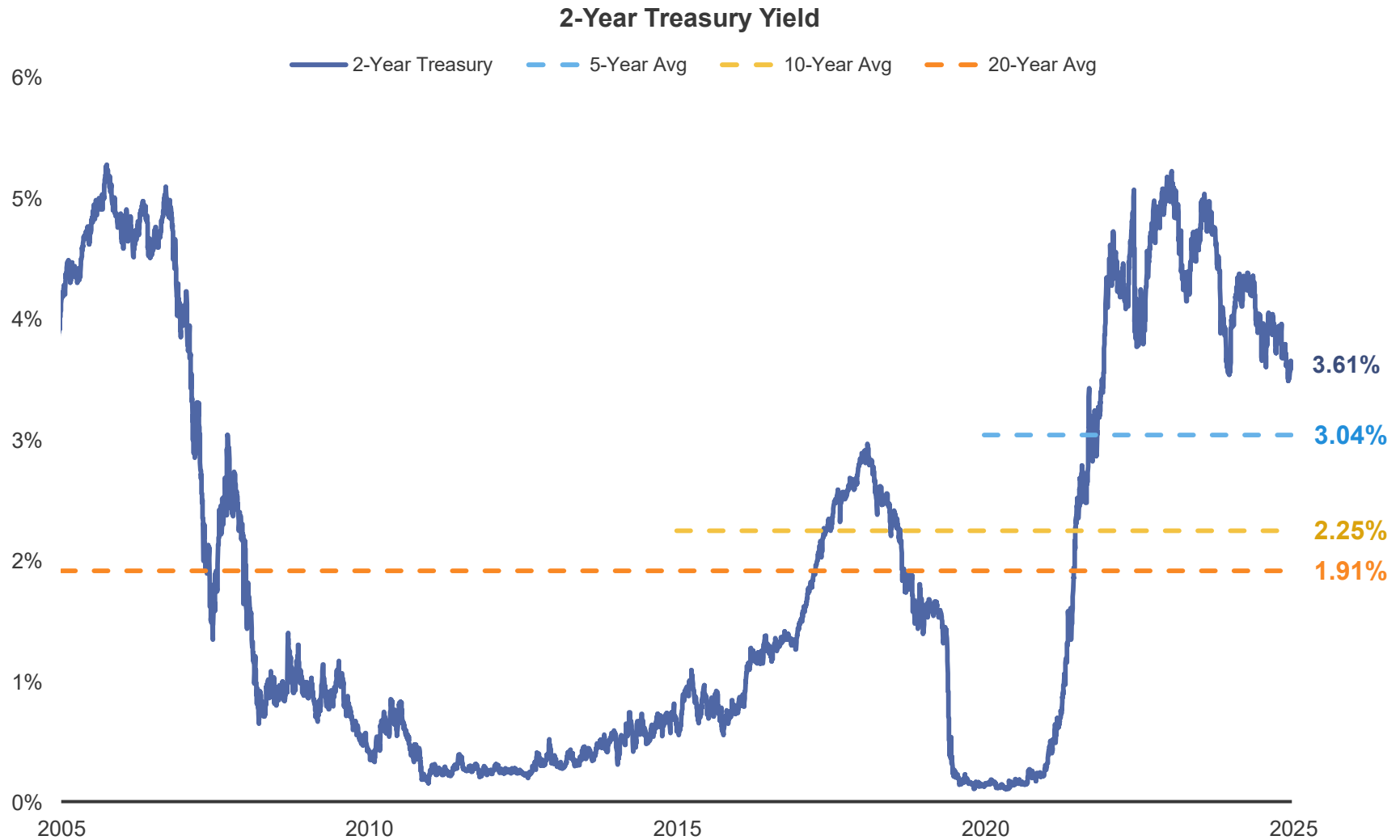
Fixed-Income Index Total Returns in 3Q 2025

1-10 Year Indices



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

Treasury Yields Remain Above Historical Averages



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

Government Sector Strategy

AGENCY BULLETS



Reduce Allocations

Summary:

- Spreads remain rich, especially in the 1–5y area, trading near or through Treasuries
- Limited issuance outside of 12 months continues to suppress spreads while demand remains strong

Outlook:

- Spreads expected to remain tight
- Maintain low allocations in favor of other sectors
- Continue to monitor ongoing privatization efforts of Fannie Mae and Freddie Mac

CALLABLE AGENCIES



Reduce Allocations

Summary:

- Front-end spreads remained stable amid low volatility
- Lower rates have driven a wave of redemptions and increased callable issuance
- Valuations remain rich across the front end

Outlook:

- Evaluate callables cautiously with a preference for longer lockouts

SUPRANATIONALS



Reduce Allocations

Summary:

- Spreads remain near historic lows offering 5-10 bps over federal agency bullets in 1-5y area
- Bonds continue to be well bid despite limited month-to-date supply

Outlook:

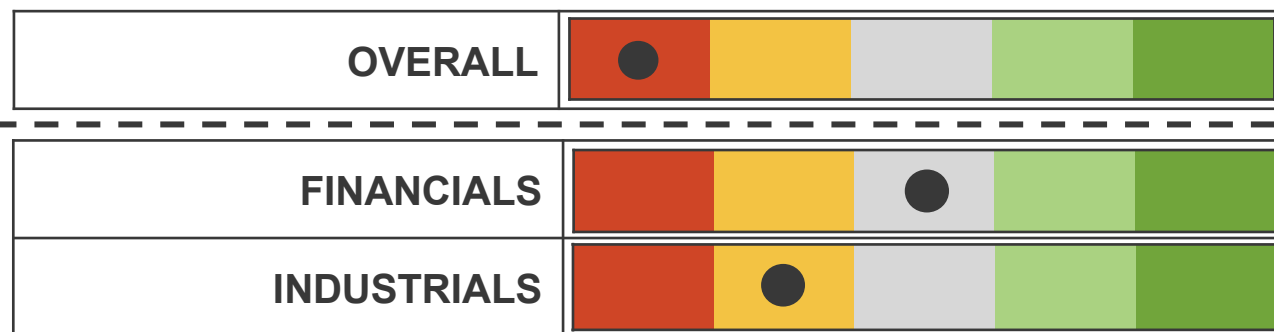
- Expect supply to increase through October before year-end slowdown
- Continue evaluating new issues, especially for constrained accounts
- Opportunistically sell for rebalancing or sector rotation

● Current outlook ○ Outlook last month



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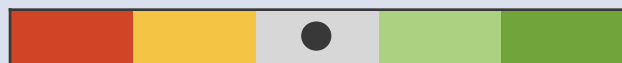
Corporate Sector Strategy



Short (<5 year) Corporates:
Opportunistically trim

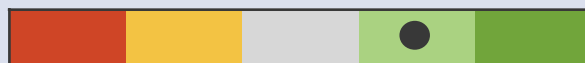
Longer Corporates:
Maintain underweight
(contribution to duration) vs.
benchmarks

Fundamentals:



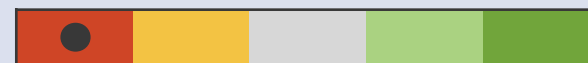
- Corporate balance sheets remain strong and default risk is low
- Increased M&A activity poses idiosyncratic risks but is not expected to pressure the broader market
- Economic backdrop remains supportive with recession risks appearing limited
- Risks include persistent inflation, slower growth, and less accommodative Fed policy
- Political uncertainty and potential punitive policies could weigh on sentiment
- Look to retain flexibility to add allocations if spreads widen

Technicals:



- Demand for short-term credit remains robust, even with modestly lower yields
- Supply has been well absorbed with new issuance expected to be the primary source of opportunity
- Falling yields may prompt buyers to lock in still-attractive front-end yields
- Short-term credit offers a favorable alternative to historically narrow longer-duration spreads
- Carry and curve rolldown are expected to drive excess returns
- Secondary market liquidity remains healthy, supporting tactical adjustments

Valuations:



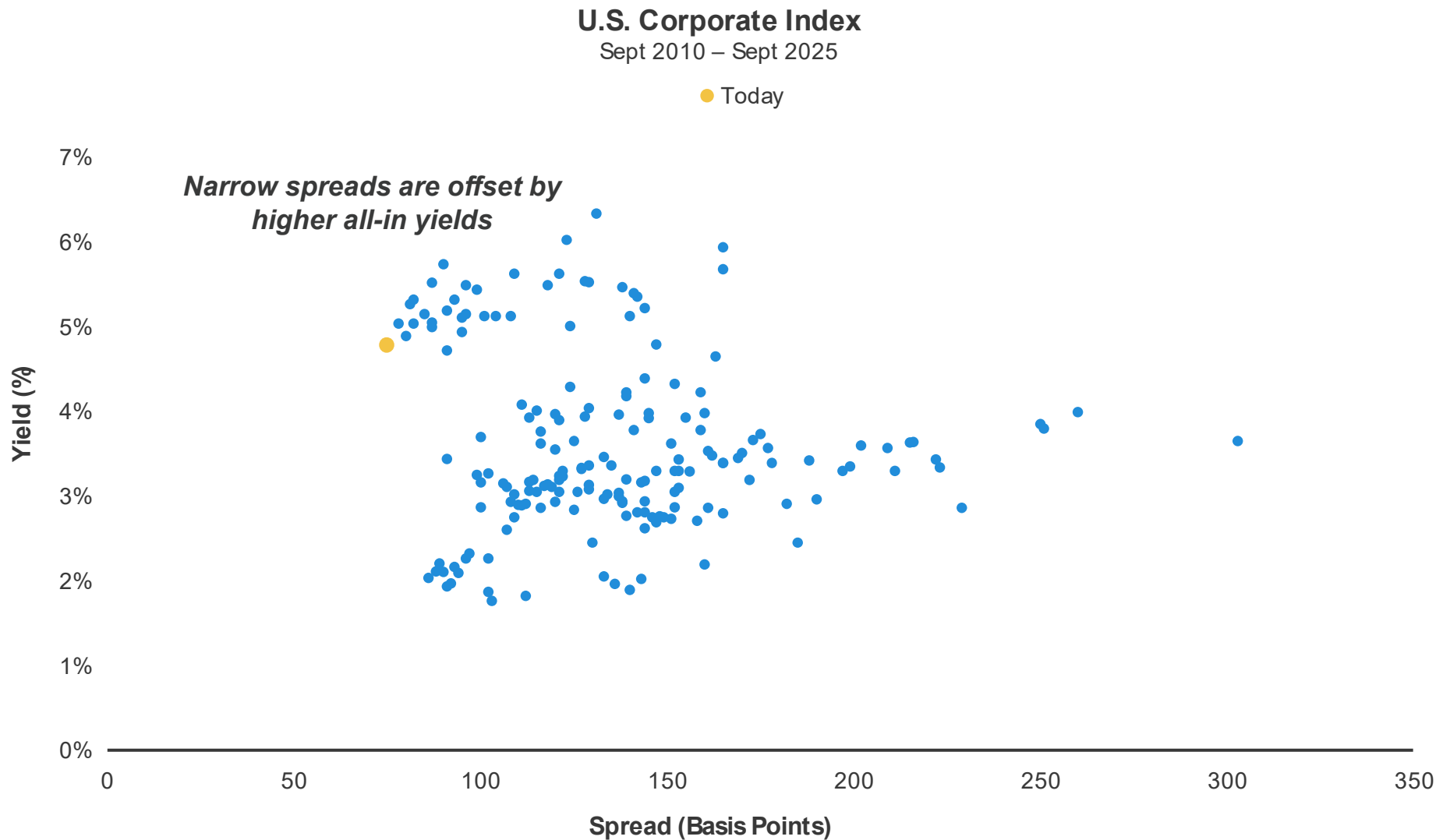
- Short-term credit spreads are narrow but not at historic tights
- Longer-duration credit is extremely rich with spreads at tightest levels since late '90s
- Lower-rated spreads at multi-decade tights; breakevens are snug on the long end
- IG credit remains rich relative to agency MBS and other sectors
- Taxable munis and certain industries (e.g., autos, pharma, tech) appear cheap
- Modestly lower yields not expected to have significant impact on demand

● **Current outlook** ○ **Outlook last month**



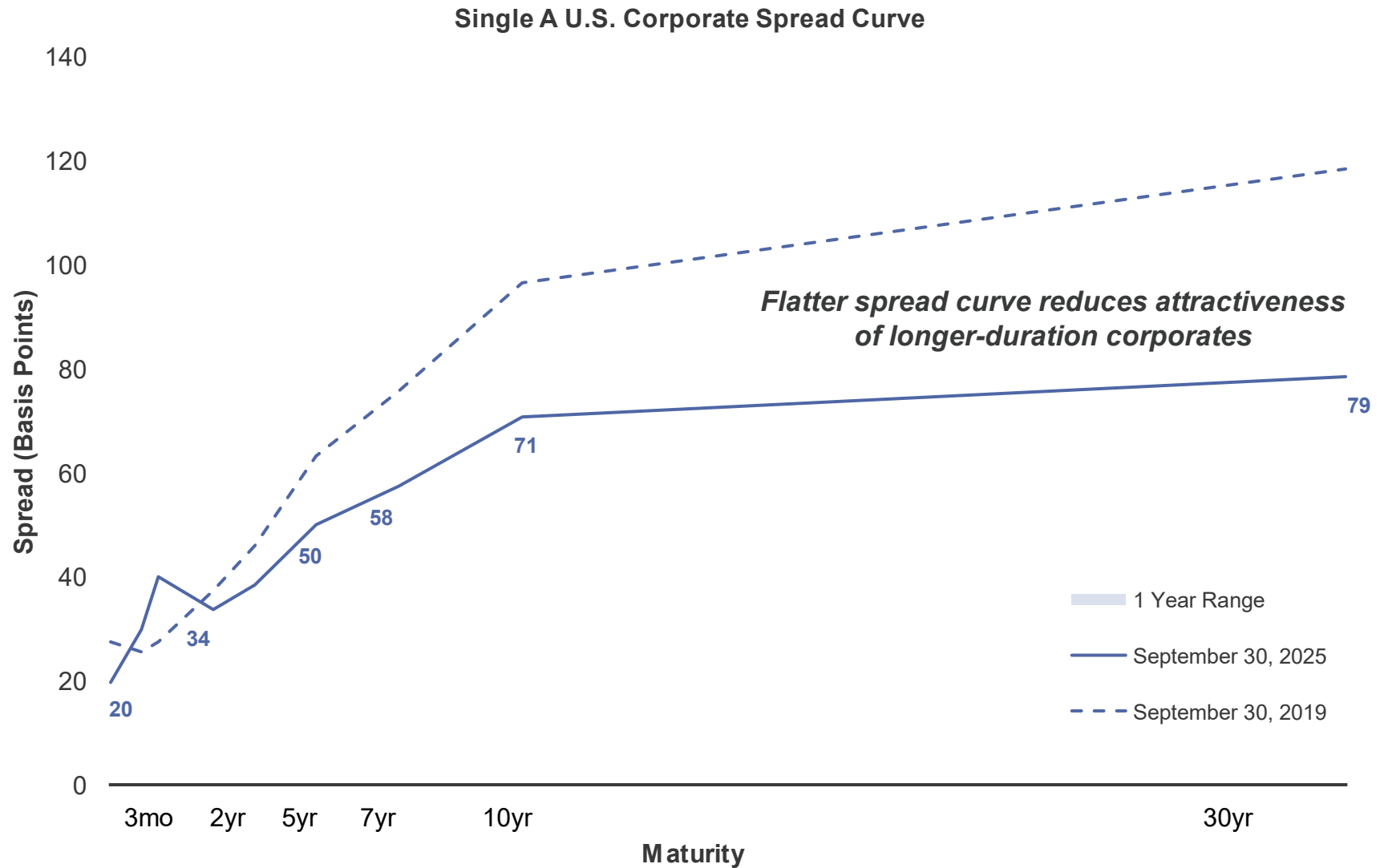
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Corporate Index Yield vs OAS (2010 – 2025)



Source: Bloomberg Finance L.P., ICE BofA Indices. Spread is option adjusted spread (OAS). Monthly data from September 2010 to September 2025.

U.S. Corporate Bond Spread Curve Flattens



Source: Bloomberg Finance L.P., as of September 30, 2025. Spreads shown are G-spread, or corporate yield in excess of match maturity U.S. Treasury.

Securitized Sector Strategy

AGENCY MBS



Reduce allocations in longer-duration strategies

Summary:

- Decline in mortgage rates is boosting prepayments in 6%+ coupons
- 2025 net supply projected to modestly decline
- Valuations have richened; OASs now at narrowest levels since 22Q3

Outlook:

- Reduce allocations to 15-yrs and lower-coupon 30-yrs in longer-duration accounts
- Volatility expected to increase due to economic and political uncertainty
- Sector likely to underperform over near term

AGENCY CMBS



Maintain allocations

Summary:

- Spreads little changed; strong returns YTD
- Fundamentals are weak but stabilizing with soft rent growth and rising vacancies
- Secondary market activity remains light with low dealer inventory

Outlook:

- Increased new issuance expected in October
- Valuations are below historical averages and look cheap to other sectors
- Sector expected to perform well if/when volatility increases

ASSET-BACKED



Maintain allocations

Summary:

- Prime ABS fundamentals remain stable; credit metrics have normalized and structures remain resilient to recession scenarios
- Decline in all-in yields may lead to spread widening and softer demand

Outlook:

- New issuance expected to taper after October, potentially offering technical support
- Carry expected to be driver of excess returns
- Spread widening possible on heightened economic and political risks

● **Current outlook** ○ **Outlook last month**



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Fixed – Income Sector Outlook – 4Q 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

Negative

Slightly
Negative

Neutral

Slightly
Positive

Positive

Fixed-Income Sector Commentary – 3Q 2025

- ▶ The **Federal Open Market Committee (FOMC)** lowered the target range for the federal funds rate to 4.00-4.25% during the September 17th meeting, citing weakening in the labor market.
- ▶ **U.S. Treasury** yields across all maturities moved lower over the quarter. The change in yields reflected ongoing market sensitivity to the Fed, with concerns regarding the labor market taking center stage amid ongoing weakness. As a result of the Treasury rally, total returns were positive for the quarter.
- ▶ **Federal Agency & supranational** spreads remained low and traded in a narrow range throughout Q3. Excess returns remained muted in part due to limited issuance, which is a trend we expect to continue.
- ▶ **Investment-Grade (IG) corporate** bonds generated strong excess returns as spreads narrowed to multi-year lows across most maturities. Lower-quality and longer-duration bonds led performance, supported by strong investor demand.
- ▶ **Asset-Backed Securities** spreads tightened but remain modestly elevated versus 12-month lows. While excess returns were positive, they lagged those of IG corporates. Auto loan collateral modestly outperformed credit card-backed securities.
- ▶ **Agency-backed mortgage-backed securities (MBS)** delivered solid performance with positive excess returns across the board. Longer-duration MBS stood out as a top-performing IG sector in Q3. **Agency-backed commercial MBS (CMBS)** also posted positive excess returns for the quarter.
- ▶ **Short-term credit** (commercial paper and negotiable bank CDs) yields declined as Treasury issuance surged and the Fed cut rates. Short-end yield spreads widened over the quarter and demand remained strong as investors viewed the sector as a hedge against future rate cuts.

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Fixed-Income Sector Outlook – 4Q 2025

- ▶ **U.S. Treasury** volatility is expected to increase from multi-year lows given both fiscal and monetary policy uncertainty. The potential collective 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 (IG) Corporate** bond fundamentals and valuations weakened while technicals have improved modestly. We will evaluate opportunities with a focus on industry fundamentals and issuer credit quality while identifying rich holdings to tactically reduce allocations.
- ▶ **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 continue to exhibit volatility with a bias towards widening, while low issuance in Q4 will support technicals in the sector.
- ▶ **Mortgage-Backed Securities** are expected to underperform over the short term with spreads at their narrowest levels in 3-years. We may use any meaningful spread widening to add at more attractive levels.
- ▶ **Short-term credit** (commercial paper and negotiable bank CDs) spreads in Q4 will continue to be primarily driven by expectations about monetary policy decisions by the FOMC. Given the positively sloped shape of the money market yield curve, we favor a mix of floating rate securities in the front end and fixed rate securities in longer maturities.

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Factors to Consider for 6-12 Months

Monetary Policy (Global):



- The Fed cut rates by 25 bps in September citing rising downside risks to employment despite inflation remaining above its 2% target. This was the Fed's first rate cut since December 2024.
- The "dot plot" signals 50 bps in additional cuts for 2025, though views remain split, with 7 members favoring no additional cuts in 2025.
- Major central banks have already eased (ECB and BOE) or are in the process of further easing (U.S. and Canada) except for the BOJ slowly tightening policy after decades of easy monetary policy.

Economic Growth (Global):



- U.S. growth continues to be resilient driven by an unwind of the trade and inventory dynamics earlier in the year as well as robust consumer spending and elevated business investment
- Consumer spending and business investment remain strong despite growing softness in the labor market.
- Trade tensions, elevated tariffs and a prolonged U.S. government shutdown remain key downside risks to growth, while AI driven investment and fiscal support in some regions provide partial offsets.

Inflation (U.S.):



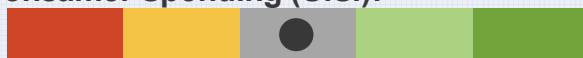
- Inflation accelerated in Q3 led by rising goods prices and sticky services costs, keeping core inflation closer to 3% well above the Fed's 2% target.
- Fed projections show a longer timeline for inflation to reach its 2% target.
 - Fed Chair Powell noted tariffs have begun to push up goods prices in some categories, but the base case is for these effects to be short-lived.

Financial Conditions (U.S.):



- Financial conditions eased as tariff announcements were digested. This sparked renewed market confidence which resulted in equities reaching new all-time highs and credit spreads tightening to historically narrow levels.
- Fiscal uncertainty and geopolitical risks could reintroduce tighter financial conditions over the next 6-12 months.

Consumer Spending (U.S.):



- Slower nominal wage growth combined with higher inflation has eroded real purchasing power.
- However, consumer activity remained resilient, driven by spending from higher income households.
- Consumer confidence improved slightly but remains below historical averages, reflecting concerns over slower hiring and inflation persistence.
- Further labor market softness, a significant correction in the equity market or more complete pass-through of tariffs into consumer prices remain the largest threats to consumer spending.

Labor Markets (U.S.):



- Labor market conditions continued to cool with net new job creation nearing zero while being concentrated in just a few service sectors.
- Despite some signs of cooling, the layoff rate remains low and points towards employers adopting what has been characterized as a "no hire, no fire" approach.
- The unemployment rate ticked up modestly, job openings declined further, and the quits rate remain subdued, signaling reduced worker leverage.
- Initial jobless claims remain low, but longer job search durations suggest labor market conditions continue to loosen.

● **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 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 (9/30/2025) 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

Q3 2025 Commentary

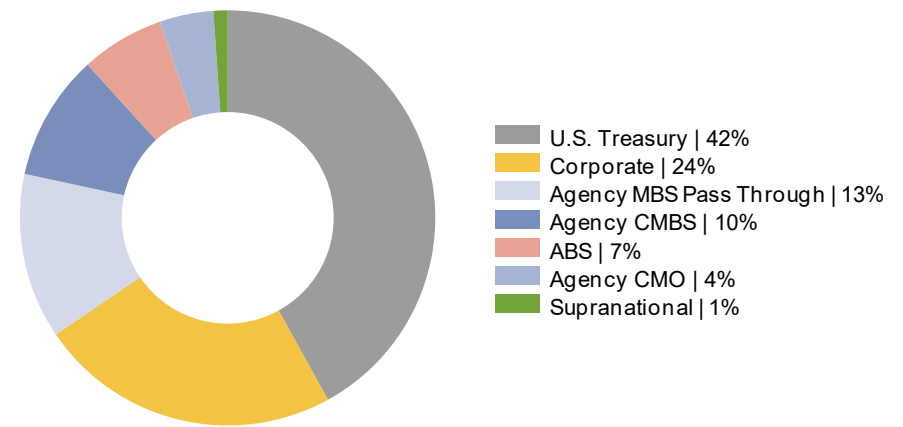
Following five consecutive meetings with a steady rate policy, the Federal Reserve lowered the federal funds rate 25 basis points to the 4% - 4.25% range at their September 17th meeting. The Fed also signaled that more cuts are likely this year. Correspondingly, the yield on the 10-yr. Treasury fell 8 basis points in the third quarter after decreasing 34 basis points during the first half of the year. Our underweighting of longer maturity securities modestly detracted from third quarter performance, given that the 5-yr. to 10-yr. Treasury yield spread narrowed by 2 basis points. However, the portfolio benefitted from our allocations to the MBS, corporate, ABS, and agency CMBS sectors, as those areas outperformed Treasuries on a duration-neutral basis by 83, 66, 39, and 35 basis points, respectively.

Portfolio Snapshot - CITY OF NAPERVILLE¹

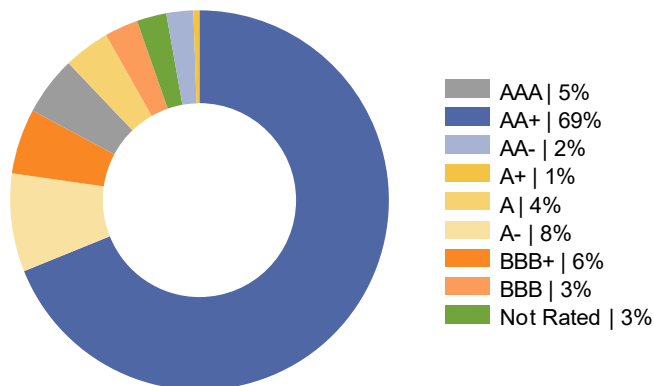
Portfolio Statistics

Total Market Value	\$106,383,175.26
Securities Sub-Total	\$105,638,711.53
Accrued Interest	\$661,603.68
Cash	\$82,860.05
Portfolio Effective Duration	3.40 years
Benchmark Effective Duration	3.60 years
Yield At Cost	3.65%
Yield At Market	4.11%
Portfolio Credit Quality	AA

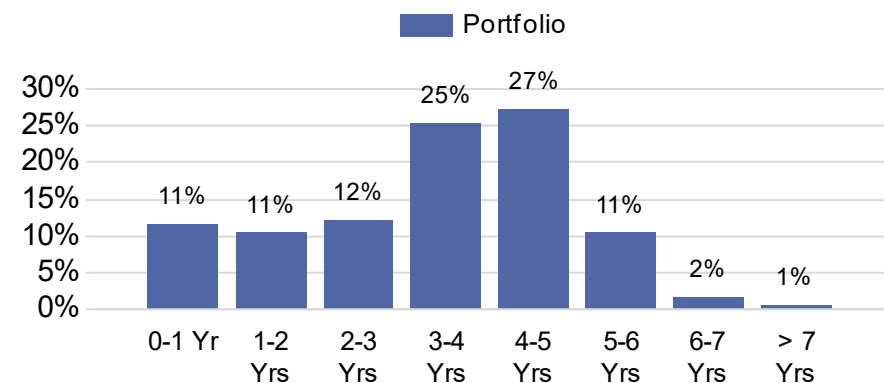
Sector Allocation



Credit Quality - S&P

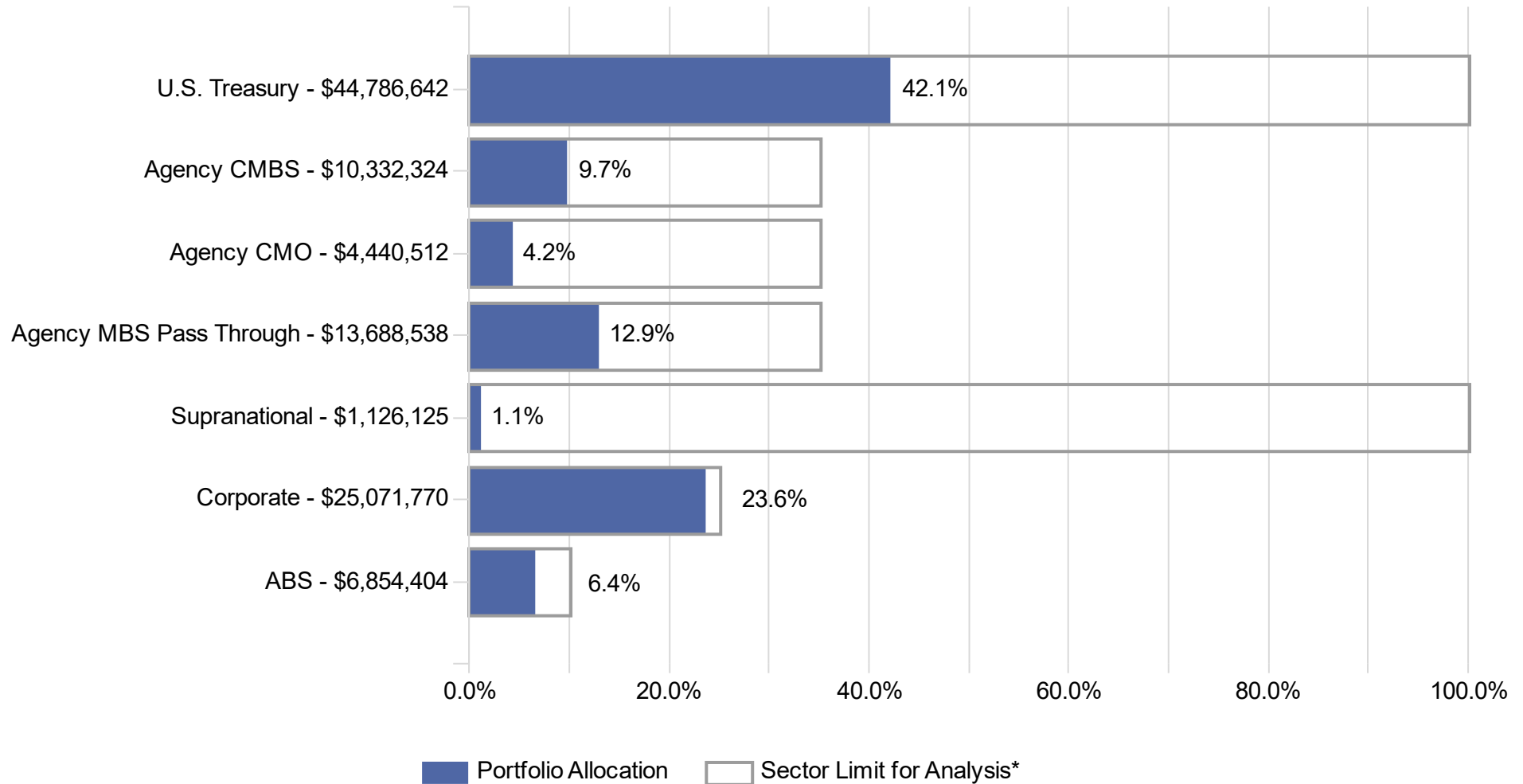


Duration Distribution



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.

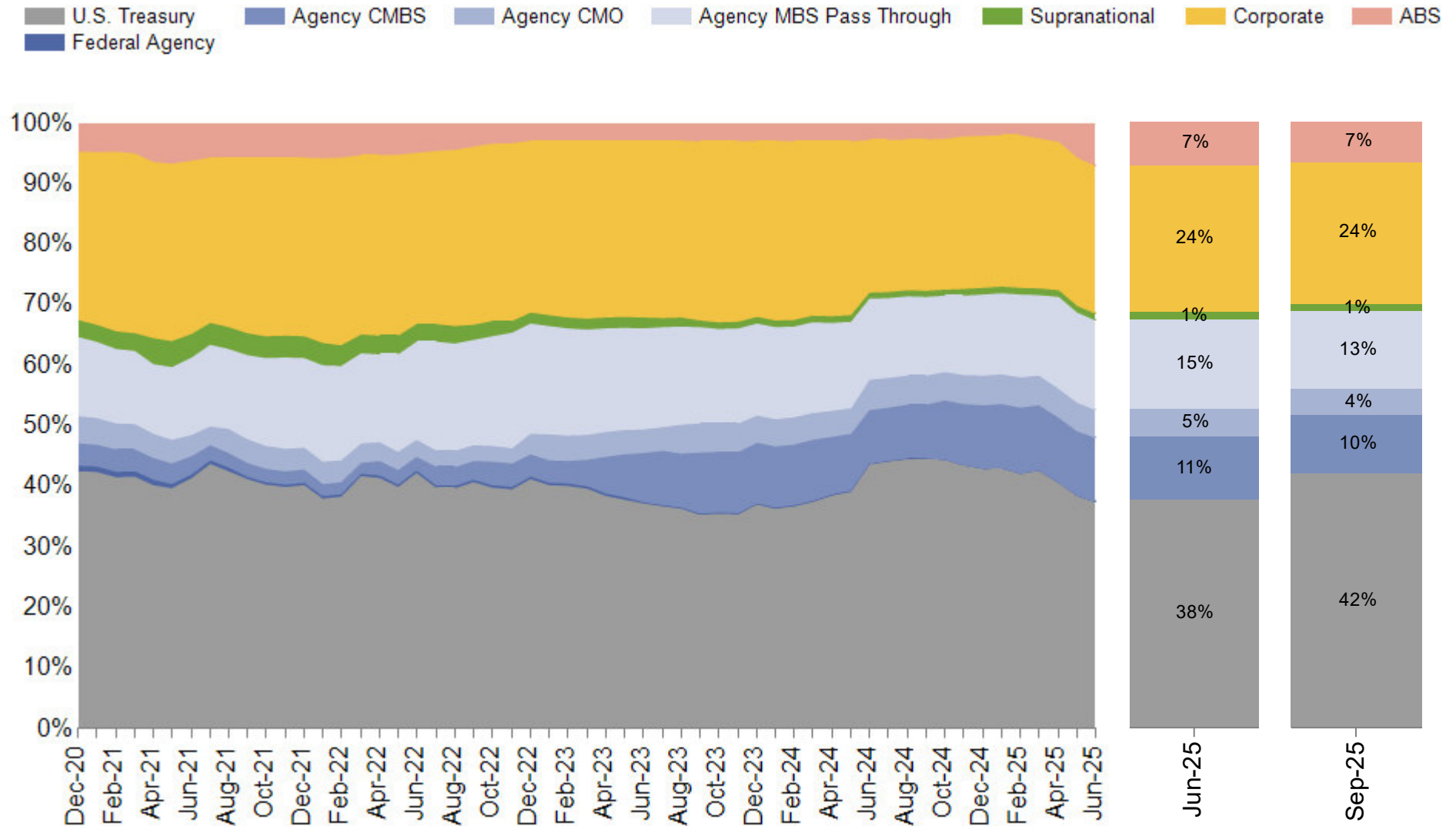
Sector Allocation Analytics



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.

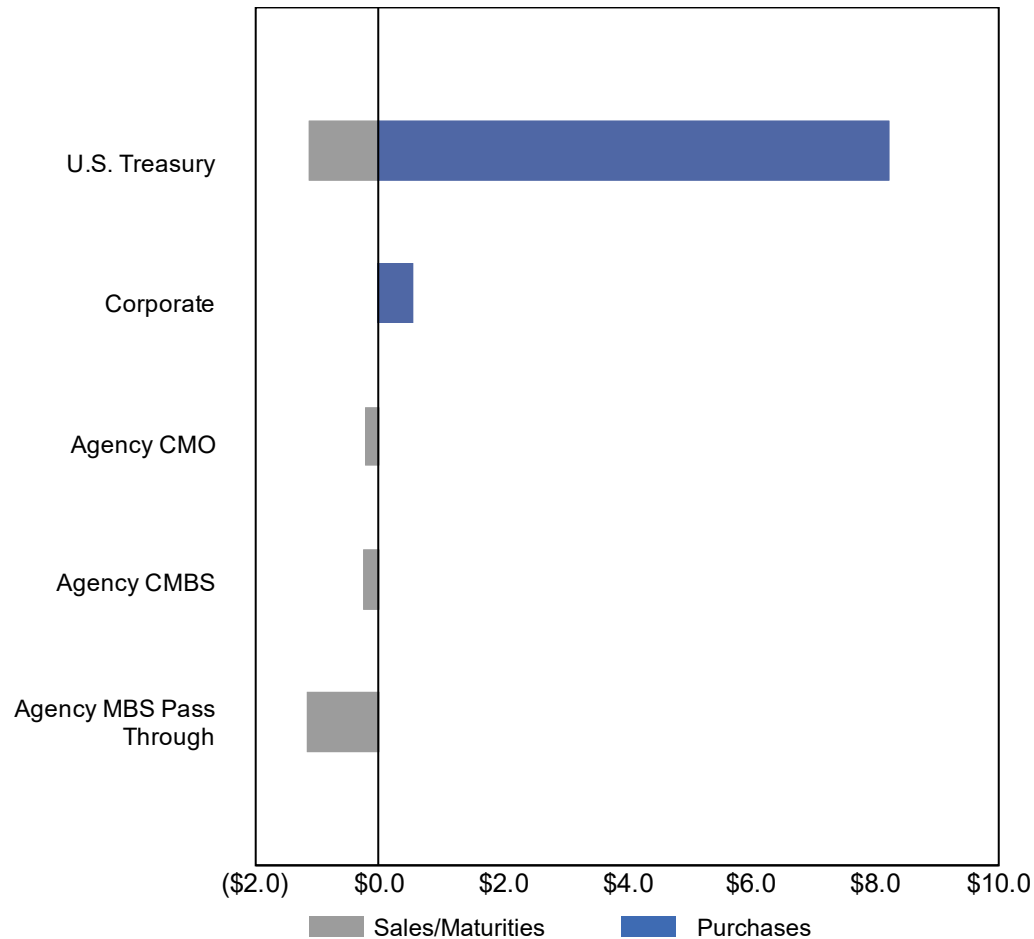
Historical Sector Allocation - CITY OF NAPERVILLE



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

Portfolio Activity - CITY OF NAPERVILLE

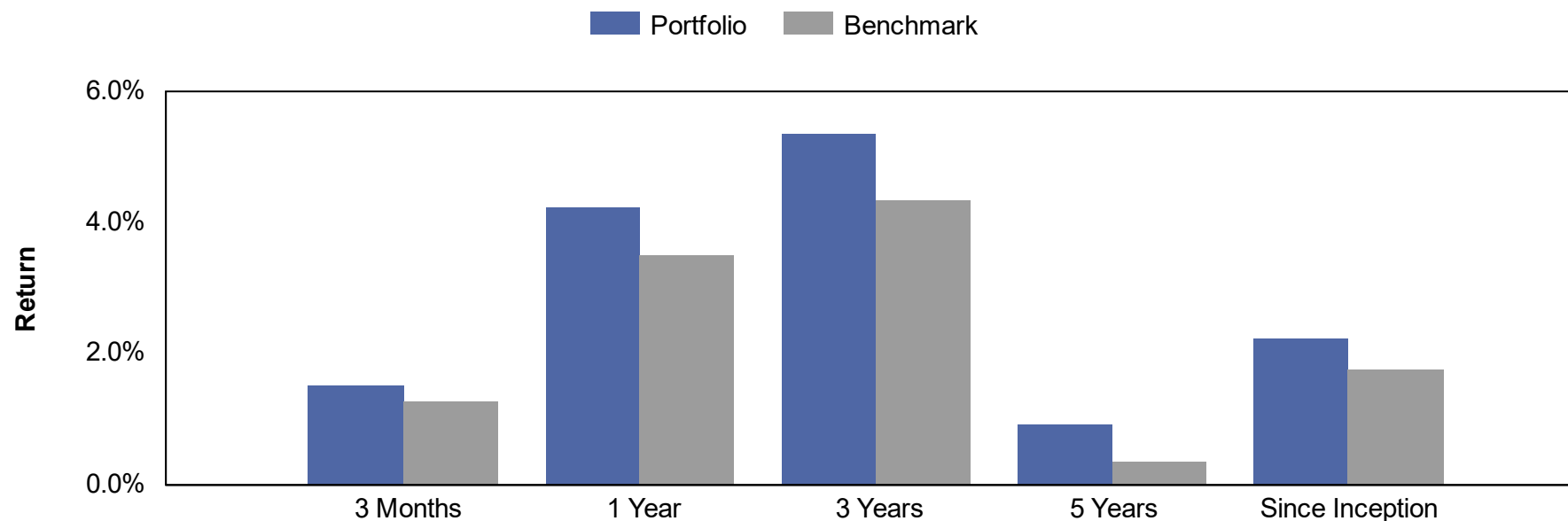
Net Activity by Sector
(\$ millions)



Sector	Net Activity
U.S. Treasury	\$7,091,169
Corporate	\$524,816
Agency CMO	(\$198,556)
Agency CMBS	(\$256,631)
Agency MBS Pass Through	(\$1,135,282)
Total Net Activity	\$6,025,517

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



Market Value Basis Earnings	3 Months	1 Year	3 Years	5 Years	Since Inception ¹
Interest Earned ²	\$907,308	\$3,384,796	\$8,546,119	\$11,836,655	\$15,310,772
Change in Market Value	\$684,563	\$689,773	\$7,363,896	(\$6,000,917)	(\$2,354,408)
Total Dollar Return	\$1,591,871	\$4,074,569	\$15,910,015	\$5,835,738	\$12,956,364
Total Return³					
Portfolio	1.51%	4.25%	5.35%	0.92%	2.23%
Benchmark ⁴	1.26%	3.51%	4.35%	0.36%	1.75%
Difference	0.25%	0.73%	1.00%	0.56%	0.48%

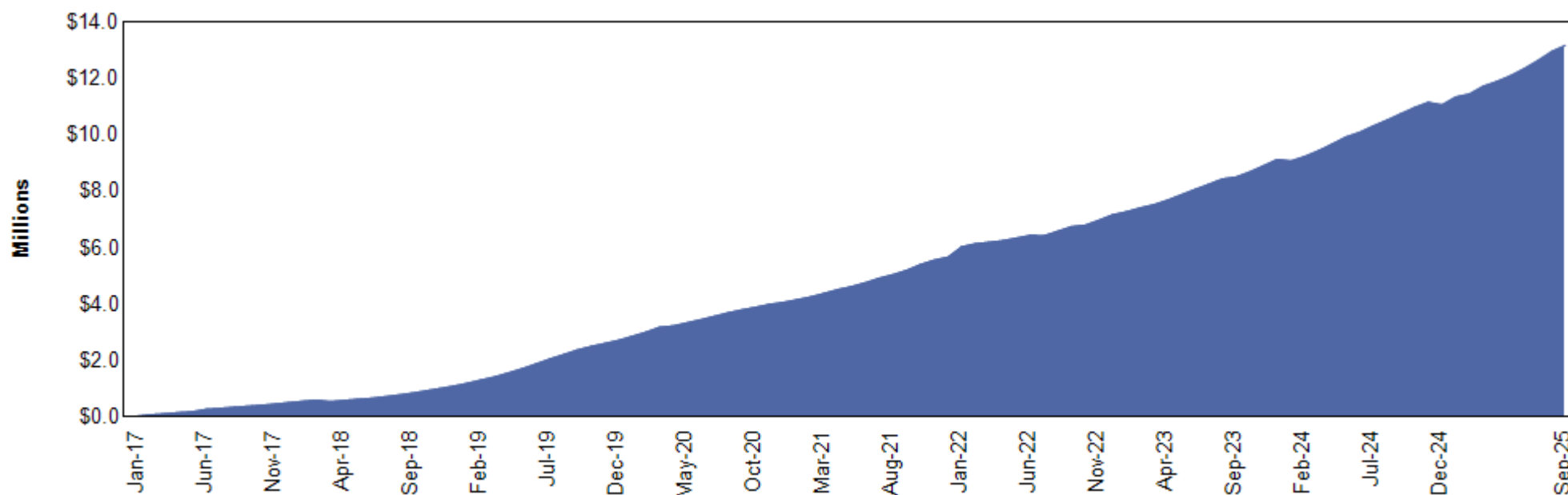
1. The lesser of 10 years or since inception is shown. Since inception returns for periods one year or less are not shown. Performance inception date is December 31, 2016.

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.

Accrual Basis Earnings - CITY OF NAPERVILLE



Accrual Basis Earnings	3 Months	1 Year	3 Years	5 Year	Since Inception ¹
Interest Earned ²	\$907,308	\$3,384,796	\$8,546,119	\$11,836,655	\$15,310,772
Realized Gains / (Losses) ³	(\$114,161)	(\$1,063,473)	(\$2,405,370)	(\$2,315,163)	(\$2,151,657)
Change in Amortized Cost	\$29,045	\$100,715	\$283,532	(\$148,655)	\$11,947
Total Earnings	\$822,192	\$2,422,039	\$6,424,281	\$9,372,837	\$13,171,061

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	42.1%	
United States Treasury	42.1%	AA / Aa / AA
Agency CMBS	9.7%	
Federal Home Loan Mortgage Corp	9.7%	AA / Aa / AA
Agency CMO	4.2%	
Federal Home Loan Mortgage Corp	1.4%	AA / Aa / AA
Federal National Mortgage Association	2.0%	AA / Aa / AA
Government National Mortgage Associatio	0.7%	AA / Aa / AA
Agency MBS Pass Through	12.9%	
Federal Home Loan Mortgage Corp	4.2%	AA / Aa / AA
Federal National Mortgage Association	8.7%	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	23.6%	
Allstate Corp	0.3%	BBB / A / BBB
American Express Co	0.6%	A / A / A
Amgen Inc	0.5%	BBB / Baa / BBB
ANZ Group Holdings Ltd	0.7%	AA / A / A
AstraZeneca PLC	0.5%	A / A / NR
Bank of America Corp	1.4%	A / A / AA
Bank of Montreal	0.6%	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	23.6%	
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	0.5%	BBB / Baa / BBB
Commonwealth Bank of Australia	0.6%	AA / Aa / NR
CVS Health Corp	0.5%	BBB / Baa / BBB
DNB Bank ASA	0.5%	A / A / NR
Fifth Third Bancorp	0.5%	BBB / Baa / A
General Motors Co	0.3%	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 / A
Lloyds Banking Group PLC	0.3%	A / 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	0.6%	A / A / A
Morgan Stanley	0.7%	A / A / A
National Australia Bank Ltd	0.7%	AA / A / NR
National Rural Utilities Cooperative Fi	0.2%	A / A / A
Nordea Bank Abp	0.6%	A / A / AA
Oracle Corp	0.5%	BBB / Baa / BBB
Principal Financial Group Inc	0.3%	A / 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	23.6%	
Societe Generale SA	0.4%	BBB / Baa / A
Sumitomo Mitsui Financial Group Inc	0.6%	A / A / NR
Truist Financial Corp	0.7%	A / Baa / A
US Bancorp	0.5%	A / A / A
Verizon Communications Inc	0.3%	BBB / Baa / A
Volkswagen AG	0.4%	BBB / Baa / A
Wells Fargo & Co	0.7%	BBB / A / A
ABS	6.4%	
American Express Co	0.6%	AAA / NR / AAA
Bank of America Corp	0.5%	NR / Aaa / AAA
Capital One Financial Corp	0.9%	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
Hyundai Auto Receivables Trust	0.3%	AAA / NR / 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	0.6%	NR / Aaa / AAA
Verizon Master Trust	0.6%	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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- 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

Intermediate Gov/Credit

Third Quarter Review
As of September 30, 2025

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MetLife
Investment
Management



3Q 2025 Market Review

Index		OAS TSY	QTD OAS Δ	YTD OAS Δ	QTD Total Return	YTD Total Return	QTD Excess Return	YTD Excess Return
US Aggregate Index		28	-5	-6	2.03%	6.13%	0.48%	0.60%
Bloomberg MBS Index		31	-6	-12	2.43%	6.76%	0.83%	0.97%
Bloomberg CMBS Index		75	-9	-5	1.75%	6.32%	0.48%	0.84%
Bloomberg ABS Index		49	-8	5	1.64%	4.62%	0.39%	0.38%
US Credit Index		70	-7	-7	2.57%	6.90%	0.97%	1.27%
US Corporate Index		74	-6	-7	2.60%	6.88%	0.98%	1.23%
Industrials		72	-11	-6	2.62%	6.81%	0.94%	1.10%
Financials		73	-11	-9	2.41%	6.98%	0.94%	1.50%
Utilities		81	-11	-1	3.08%	6.89%	1.31%	1.02%
Non-Corporate Credit		39	-6	-9	2.23%	6.71%	0.76%	1.34%
Quality	A	61	-9	-7	2.52%	6.85%	0.90%	1.23%
	Baa	91	-14	-6	2.71%	7.03%	1.11%	1.33%
Maturity	Intermediate	65	-10	-6	2.04%	6.58%	0.72%	1.16%
	Long	90	-12	-8	3.79%	7.56%	1.55%	1.46%
Plus Sectors	ICE BofA Merrill High Yield Constrained Index	276	-16	-12	2.40%	7.06%		
	JP Morgan Emerging Market Debt Global Index	227	-32	-28	4.39%	10.1%		

Source: MIM, Bloomberg

There was no shortage of events over the third quarter that would challenge investors' posture towards risk. However, risk assets continued to perform reasonably well despite the subtle bumps along the way. The Federal Open Market Committee (FOMC) opened the door to a cut the federal funds rate at the Jackson Hole Economic Symposium and then weeks later followed through with a twenty-five (0.25%) basis points reduction at their September meeting citing a shift in risks tilted towards a weakening labor force. A large revision to the published payrolls data by Bureau Labor Statistics (BLS) amongst other influential data variables such as an uptick in jobless claims and lay-off headlines rising were areas believed to be supporting the Fed's shift. As the quarter progressed, economic data teetered through the summer but more recently suggested it may be stronger than some had expected with an upward revision to second quarter GDP (3.8% from 3.3% Y-o-Y) driven by growth in business investment and consumer spending. In our view, the excitement should be tempered as the impact of tariffs on inflation and broader policies of the US administration remain unknown. A seemingly positive catalyst to markets over the third quarter was spending around AI and all of the subcomponents that go with it from data center infrastructure builds to chip builds and the touted efficiency outputs of AI on the workforce announced by the largest Technology companies within the U.S. What remains yet to be determined will be this spendings influence feeding into debt capital markets as it relates to issuance.ⁱ

During the third quarter of 2025, fixed income excess returns were notably strong with the Bloomberg Aggregate Index generating 80% of its year-to-date excess return in the period. In particular, Mortgage-backed-securities (MBS) were an area of brightness and firmly outpaced Corporates over August generating 0.48% excess return versus Corporates posting 0.06% excess return. Over the quarter, MBS offered compelling excess returns at 0.83%, just fifteen basis points shy of Corporates (0.98% excess return). While there was dispersion across asset sectors, all 'Agg' sectors posted positive excess returns which reflected a clear risk-on environment regardless of a market backdrop that would suggest caution as valuations continued to richen. Utilities (1.31% excess return) led Industrials (1.03% excess return) and the shorter-dated Financials (1.07% excess return) segments with the highest excess return, benefiting from sector-specific demand given defensive characteristics as well as longer duration profiles. Long maturity bonds (1.55% excess return) also posted the strongest excess returns among duration buckets, outperforming intermediate maturities (0.72% excess return) as the yield curve flattened and longer-term yields declined. This duration effect, coupled with spread compression, particularly favored longer-dated and lower-quality credits or really any fixed income asset that still had implicitly wider spreads than the bulk of the index as investors reached for risk. Within credit quality tiers, BBB rated bonds outperformed their higher-quality A-rated counterparts, underscoring investors' increased appetite for spreads regardless of the skew in risk that may be potentially associated. While securitized sectors such as agency MBS, ABS, and CMBS lagged Corporates on an excess return basis, they still posted positive excess returns. Agency MBS even with less pronounced spread tightening than structured credit peers, generated nearly 40 basis points more than CMBS or ABS. ABS and CMBS faced sector-specific headwinds such as heavy supply or underlying fundamental challenges, yet still spreads tightened as investors sought risk assets. Overall, the quarter's excess performance was driven by a grind tighter in spreads.ⁱ

Thematically, not much changed across fixed income credit markets in the third quarter as the positive influence remained strongly intact with solid demand chasing the historically attractive all-in yields supported by yield-oriented buying as well as retail fund flows in to mutual funds and ETFs.ⁱ

ⁱ Bloomberg

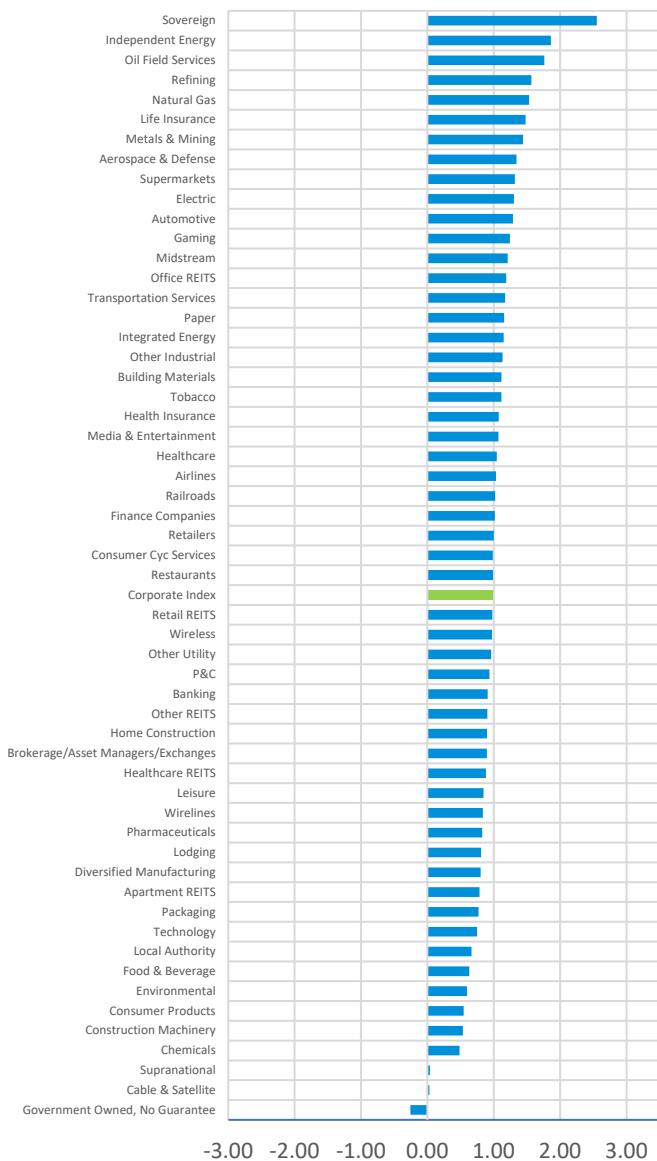
The views presented above are MIM LLC's and are subject to change over time. There can be no assurance that the views expressed above will prove accurate and should not be relied upon as a reliable indicator of future events.

¹ Excess Returns are measured against similar duration treasuries.

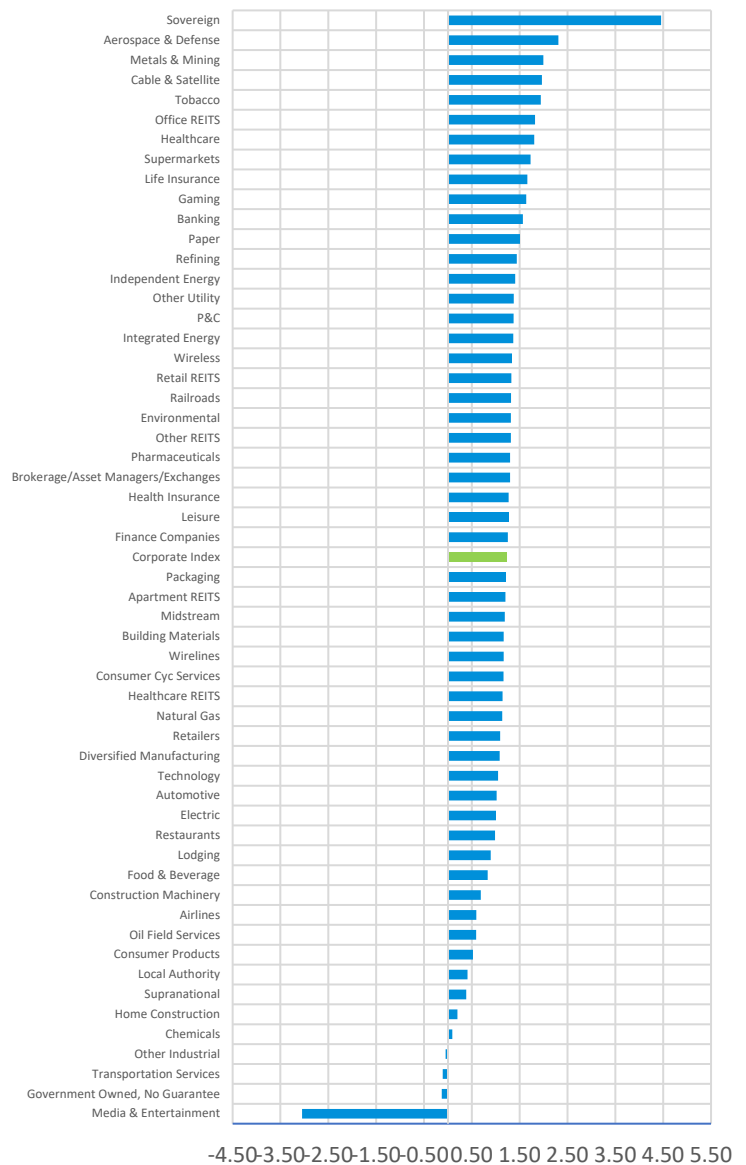
Market Review (Continued)

Across corporates, 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 a 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 only to rebound strongly by quarter end. Conversely, sectors less affected by global tariffs, such as Wirelines, which predominantly comprise domestic issuers, performed better. The weakest sector over the quarter was Media & Entertainment (-2.75% excess) due to an idiosyncratic corporate event which weighed on the sector. 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 the sector 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.^{i,ii}

3Q25 Credit Excess Return (%)



YTD 25 Credit Excess Return (%)



Source: MIM, Bloomberg

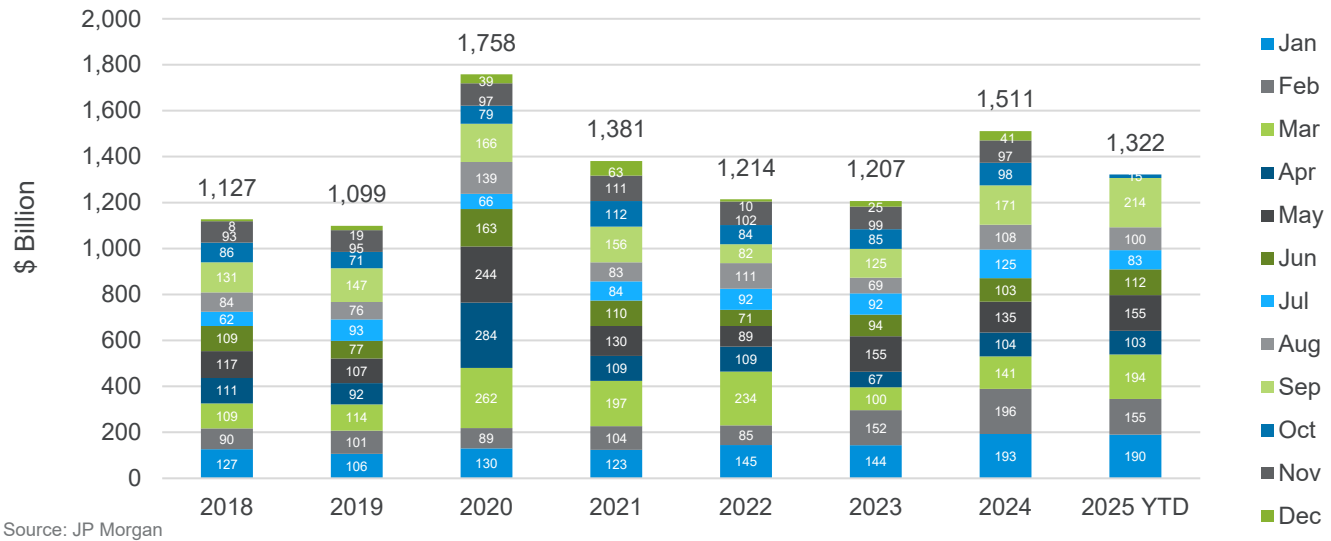
Source: MIM, Bloomberg

ⁱ Bloomberg

ⁱⁱ Bank of America Merrill Lynch

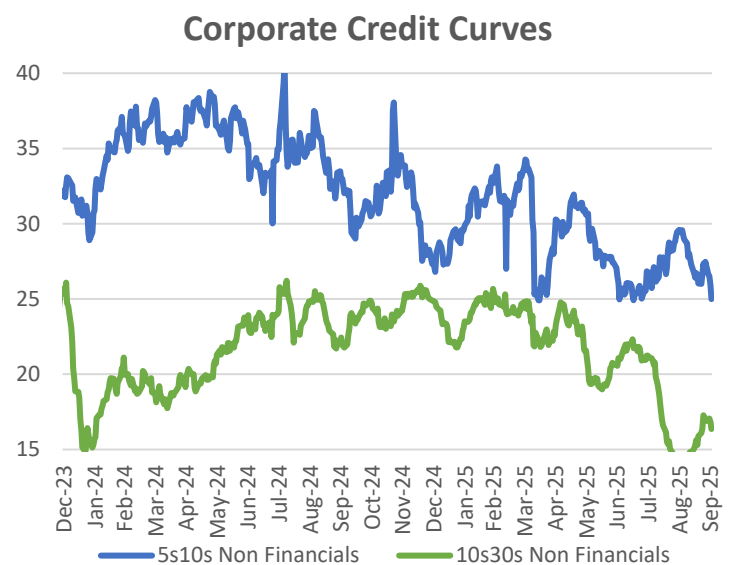
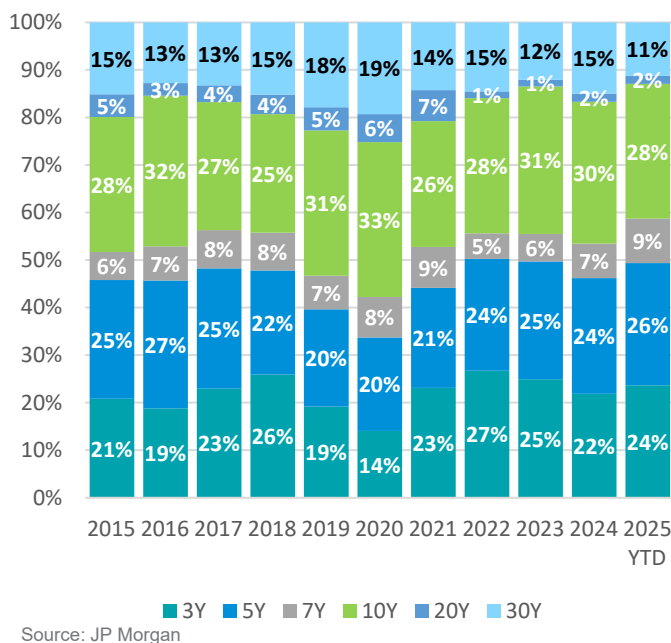
Market Review (Continued)

2025 Issuance Outpacing 2024



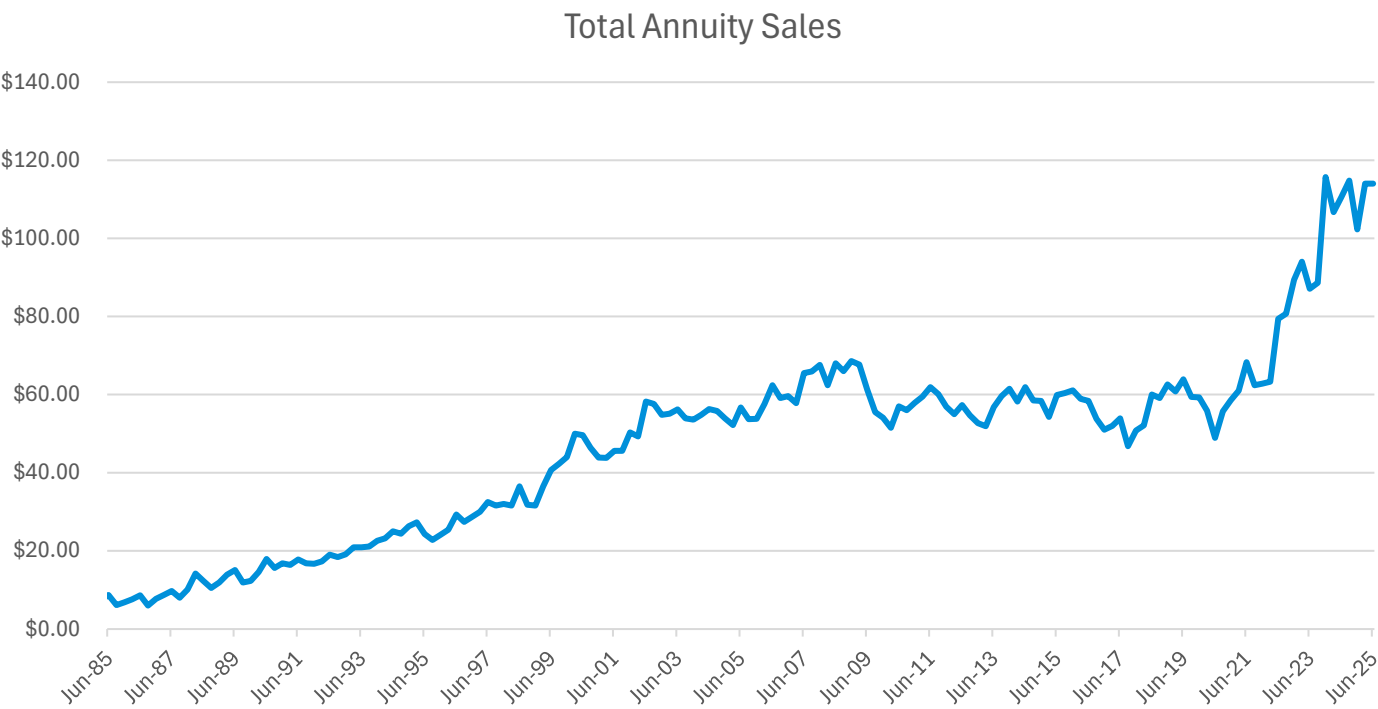
U.S. Investment Grade corporates recorded \$397bn in new issuance, which is ~23% higher than the prior 4-year 3Q average. The surge was particularly pronounced in September, which emerged not only as the most active month of the quarter, but also the fifth largest in recorded history, delivering \$214 billion in new supply. A particularly notable development this quarter was the marked increase in long-end issuance as it rose to 15.5% of all issuances versus YTD of 11.2%. This brought the average maturity of Investment Grade new issuance in 3Q25 slightly higher at 10.1 years, although still lower than 3Q24. The year-to-date average tenor for Investment Grade issuance remains at its most compressed level since 2011, suggesting that while appetites for duration are returning, caution and flexibility continue to influence issuer behavior amid evolving macroeconomic expectations. In a year in which M&A funding was expected to be large, issuance picked up from the lull in 2Q25 to \$37.4bn. In terms of sector contributions, issuance was broadly led by names in the Technology and Utilities sectors, as well as by Yankee issuers and U.S. Banks.

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



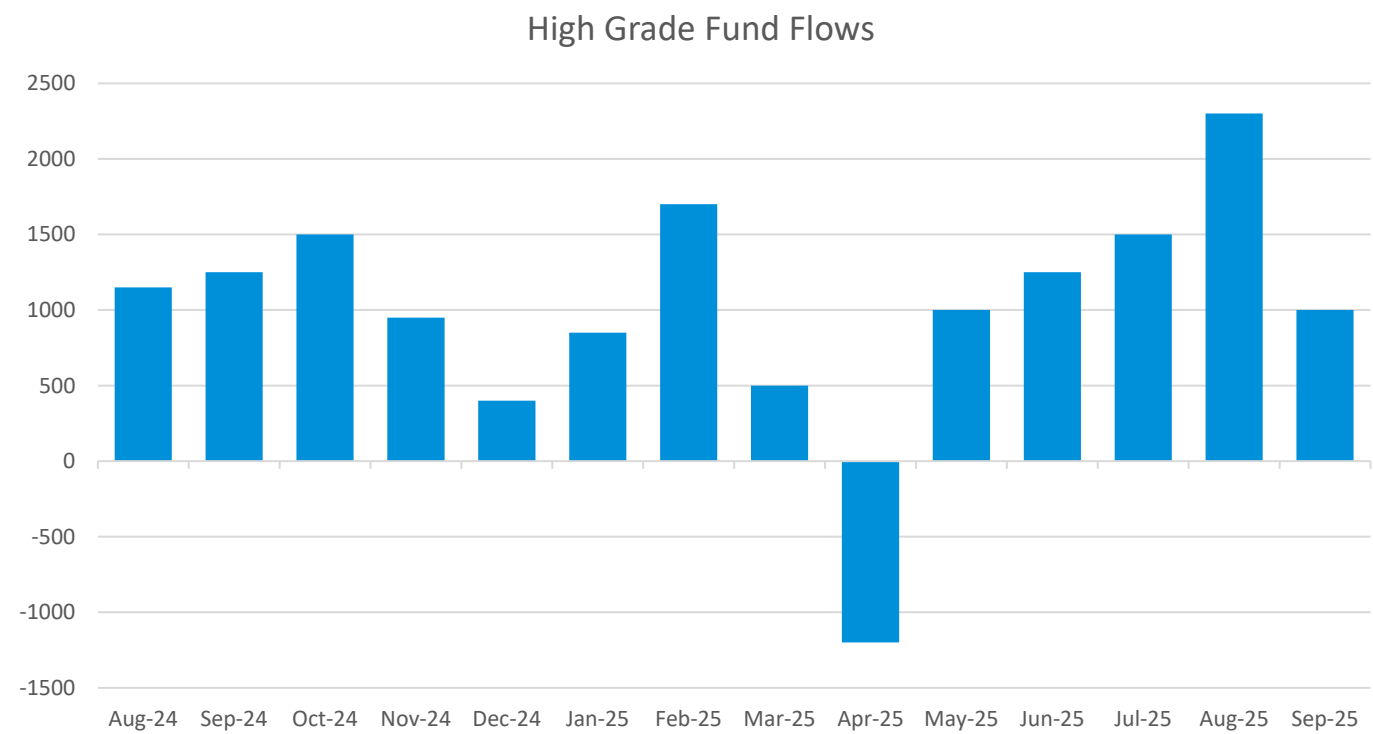
Market Review (Continued)

Yield oriented buying has been a consistent source of demand



Source: MIM, LIMRA

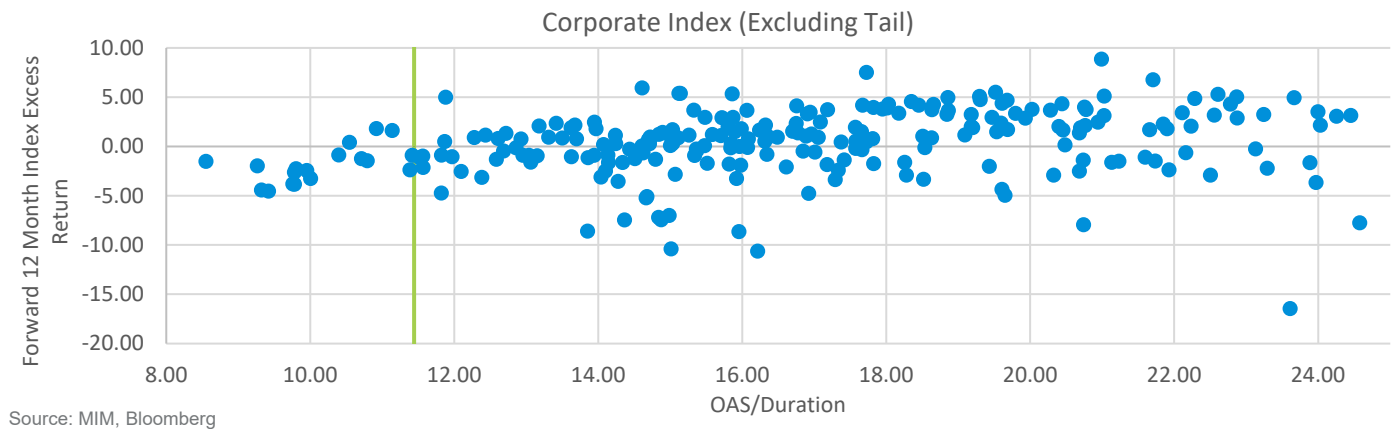
Demand has also been persistent from IG Mutual Funds and ETFs



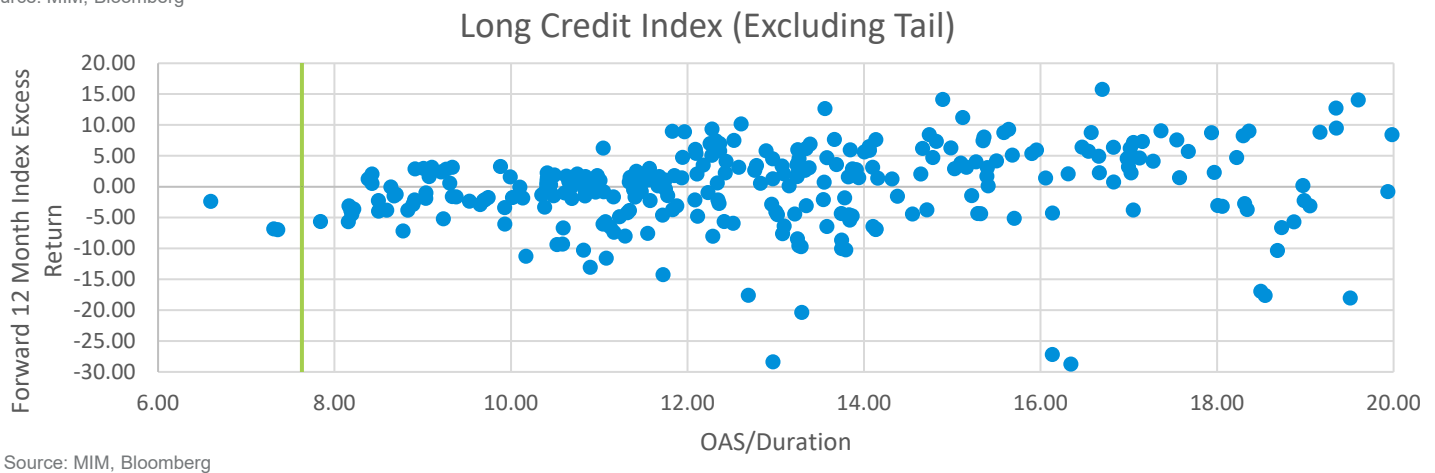
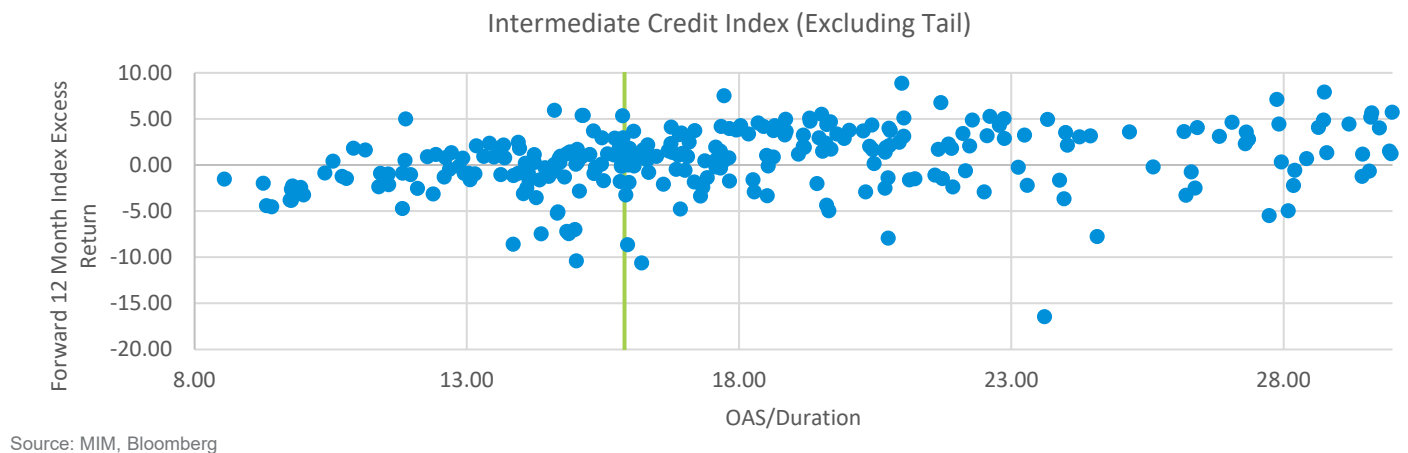
Source: MIM, Bank of America Global Research, EPFR. Data may include estimated figures.

Market Review (Continued)

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

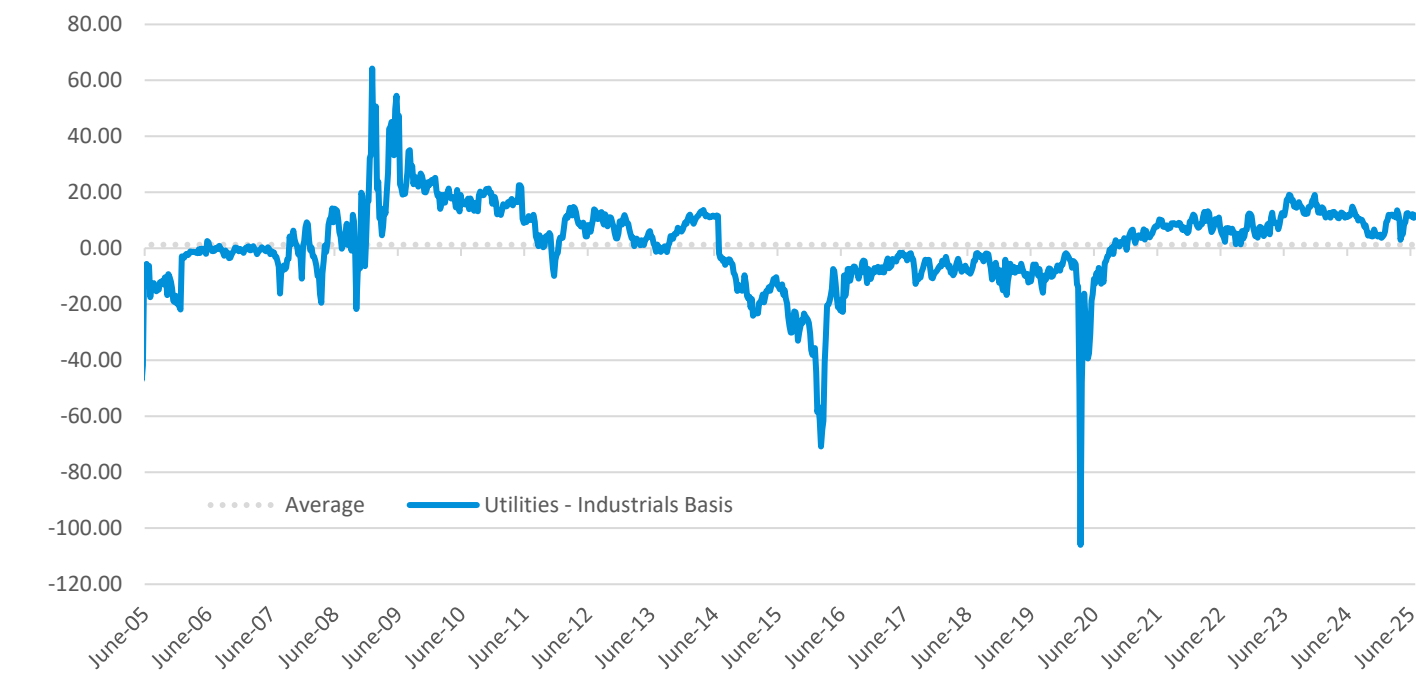


However, when looking across the curve, we still find a better opportunity set in the intermediate segment of the market.



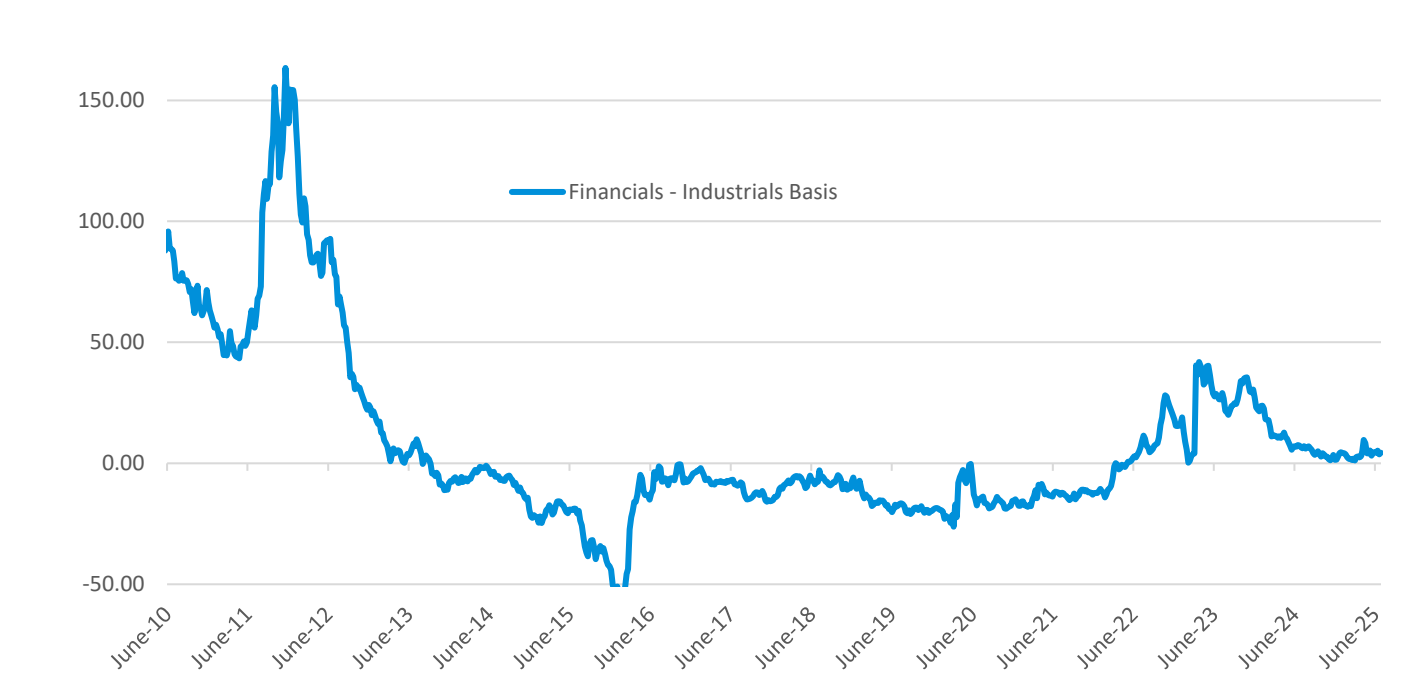
Market Review (Continued)

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 Review (Continued)

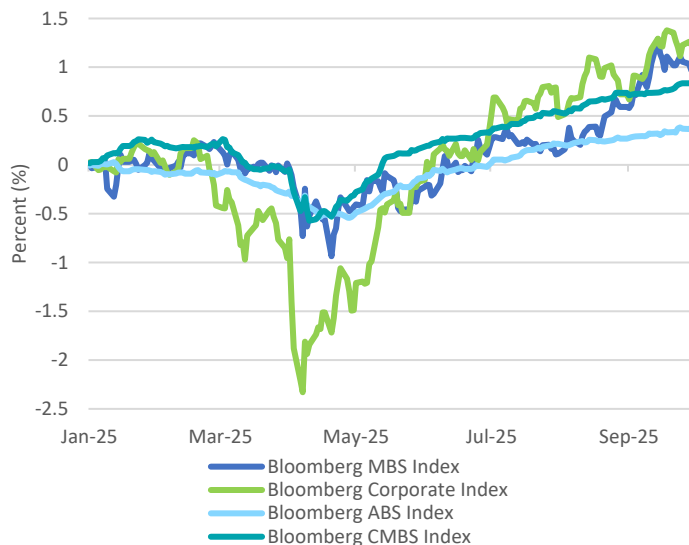
Agency RMBS Snapshot

	QTD Excess Return ¹	QTD Total Return		QTD Excess Return ¹	QTD Total Return		QTD Excess Return ¹	QTD Total Return
FNMA 30 Year	0.99%	2.63%	GNMA 30 Year	0.57%	2.19%	FNMA 15 Year	0.20%	1.51%
Coupon 2.0%	1.31%	3.14%	Coupon 2.0%	0.92%	2.72%	Coupon 2.0%	0.26%	1.58%
Coupon 2.5%	1.11%	2.90%	Coupon 2.5%	0.64%	2.45%	Coupon 2.5%	0.23%	1.49%
Coupon 3.0%	1.02%	2.71%	Coupon 3.0%	0.42%	2.15%	Coupon 3.0%	0.14%	1.37%
Coupon 3.5%	0.96%	2.59%	Coupon 3.5%	-0.16%	1.52%	Coupon 3.5%	0.12%	1.39%
Coupon 4.0%	0.89%	2.51%	Coupon 4.0%	0.54%	2.19%	Coupon 4.0%	0.18%	1.50%
Coupon 4.5%	1.08%	2.66%	Coupon 4.5%	0.74%	2.33%	Coupon 4.5%	0.36%	1.71%
Coupon 5.0%	0.97%	2.50%	Coupon 5.0%	1.08%	2.60%	Coupon 5.0%	0.19%	1.51%
Coupon 5.5%	0.79%	2.23%	Coupon 5.5%	0.60%	2.02%	Coupon 5.5%	0.28%	1.56%
Coupon 6.0%	0.66%	1.99%	Coupon 6.0%	0.34%	1.66%	Coupon 6.0%	0.39%	1.67%
Coupon 6.5%	0.32%	1.59%	Coupon 6.5%	0.29%	1.57%			

Source: MIM, Bloomberg L.P.

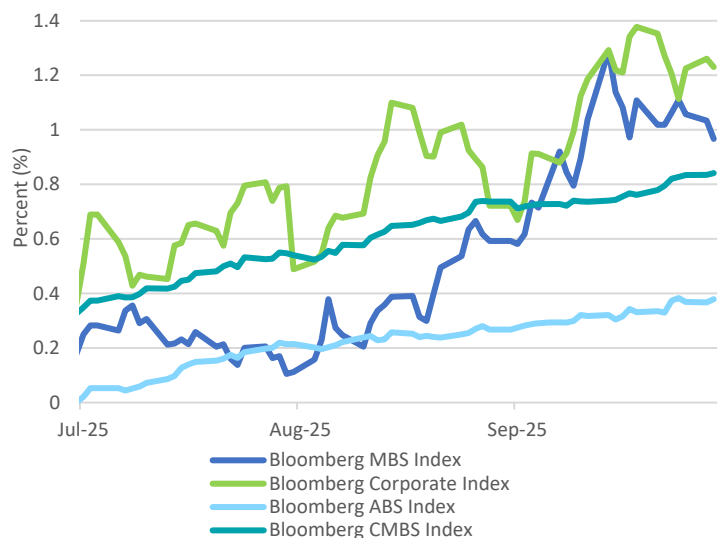
The toxic brew that has plagued the mortgage market finally loosened its grip during the third quarter. Mortgages were buoyed by multiple factors. As the path to lower short-term interest rates was paved by the FOMC, interest rate volatility fell dramatically throughout the quarter, a positive for the mortgage basis as hedging costs fell. Another contributing factor was strong fund flows supporting the demand for mortgages. And while bank demand remained muted, mortgage REITs increased their purchases of MBS as the curve remained steep and forward-levered returns look much more appealing. Excess returns were strongly positive at 83 bps at the index level, keeping pace with corporate excess for most of the quarter. However, strong directionality towards rates was present in the coupon stack, with higher coupons performing well early in the quarter as interest rates rose 25 basis points through mid-July. However, as the balance of the quarter unfolded, 10 years fell from a high of 4.48% down to a low of 4.03% before closing at 4.15% to end the quarter. The performance of the stack flipped, with higher coupons lagging into the rally whilst lower coupons saw strong demand, as convexity hedging kicked into high gear. For the quarter, the 2% coupon was the best performer at 111 bps, while the 5% coupon posted 98 basis points of excess. The belly of the coupon stack underperformed the wings. GNMA underperformed FNMA by 42 bps whilst 15-year MBS dramatically underperformed 30 years.

YTD Excess returns by asset class



Source: MIM, Bloomberg L.P.

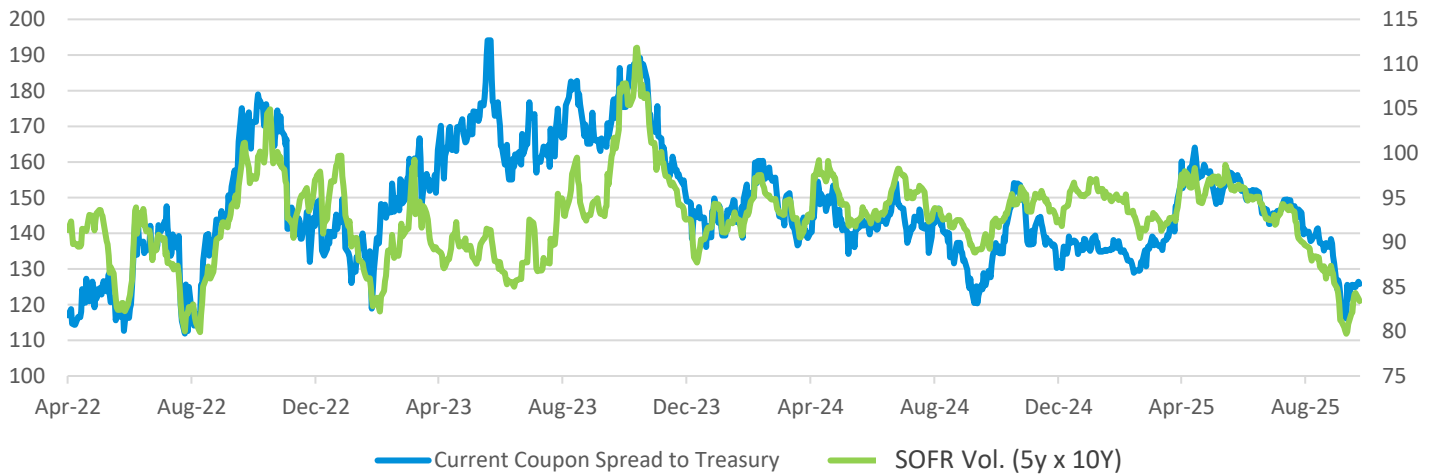
3Q25 Excess returns by asset class



Source: MIM, Bloomberg L.P.

Market Review (Continued)

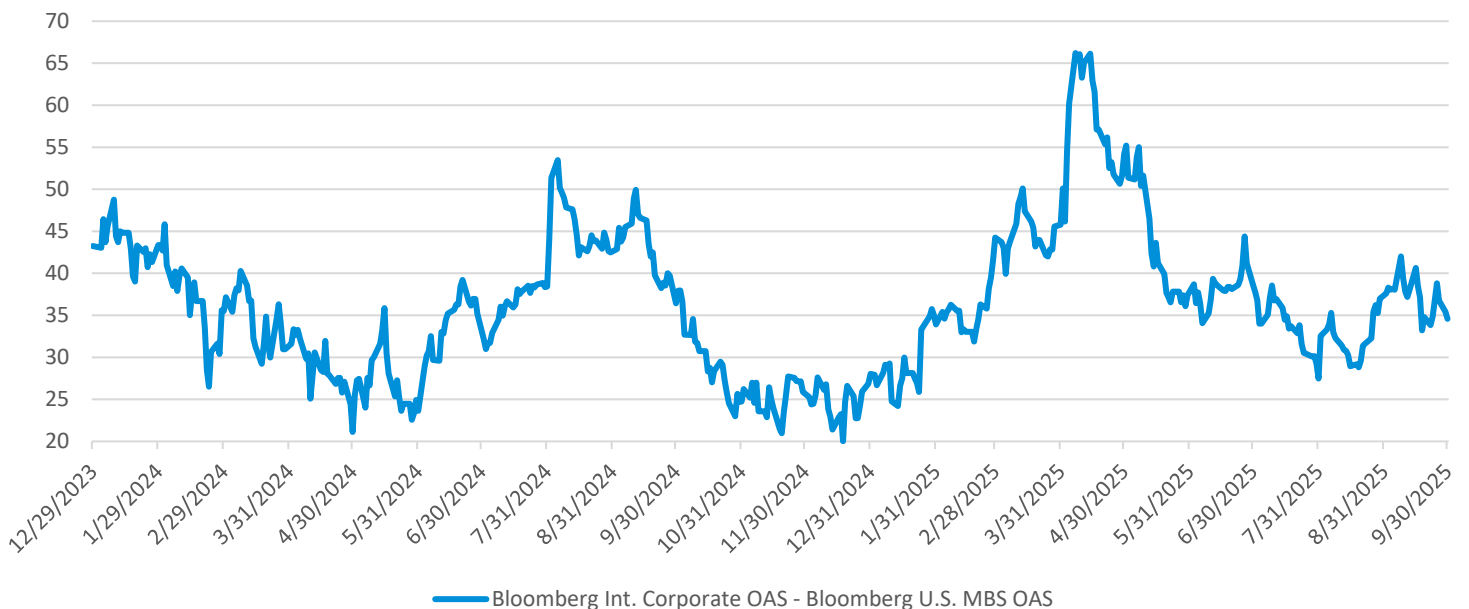
We mentioned many times over the past several quarters, interest rate volatility has been very high and is the enemy of all callable securities. The chart below denotes the current coupon spread versus the volatility in the Secured Overnight Financing(SOFR), a proxy for interest rate volatility. This high volatility has been a significant headwind to MBS performance. As volatility fell in both short and long term SOFR contracts, MBS performance eventually improved both on a spread basis and on an excess return basis to UST.



Source: MIM, Bloomberg L.P.

From a relative value perspective, the MBS index OAS compressed through its 10-year average, ending the quarter at 31 basis points. Although the relative attractiveness of MBS versus corporates has moderated, MBS valuations remain compelling in a longer-term historical context. Convexity risk continues to trade at a discount to credit risk, but that differential narrowed over the course of the quarter.

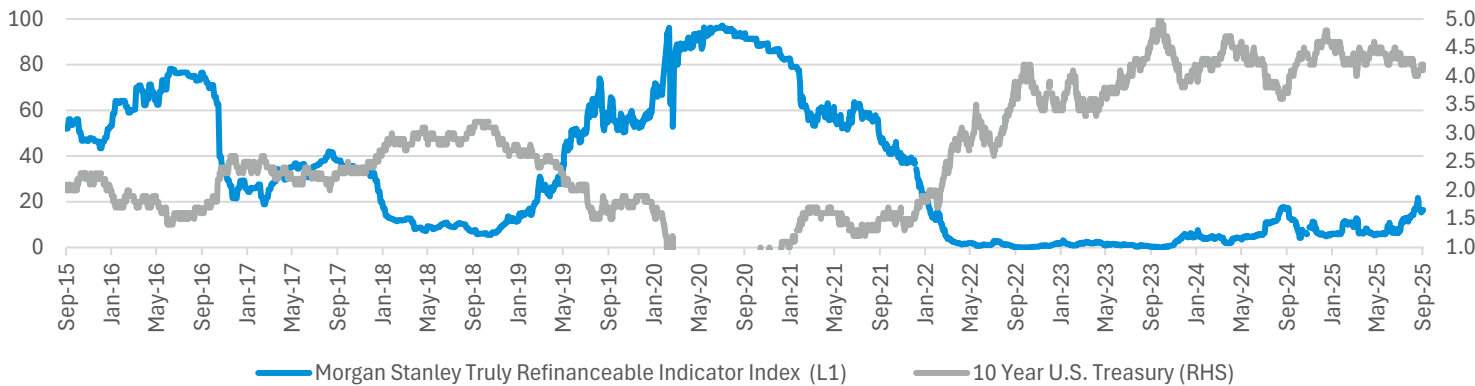
Agency MBS spread pickup versus intermediate corporates has moderated



Source: MIM, Bloomberg L.P.

Market Review (Continued)

Finally, a topic we have not had to discuss recently is prepayment risk in the mortgage universe, with mortgage rates touching near-term lows and the Fed expected to continue to ease, newly originated mortgages with high rates are likely to refinance at a rapid pace. Below we highlight the how closely the Morgan Stanley Truly Refinanceable Indicator of 30 year mortgages tracks movements in the 10-year U.S. Treasury rate. Over the third quarter, we saw an uptick in “in-the-money” pools as the 10-year yield rallied towards 4.0%.



Source: MIM, Bloomberg L.P.

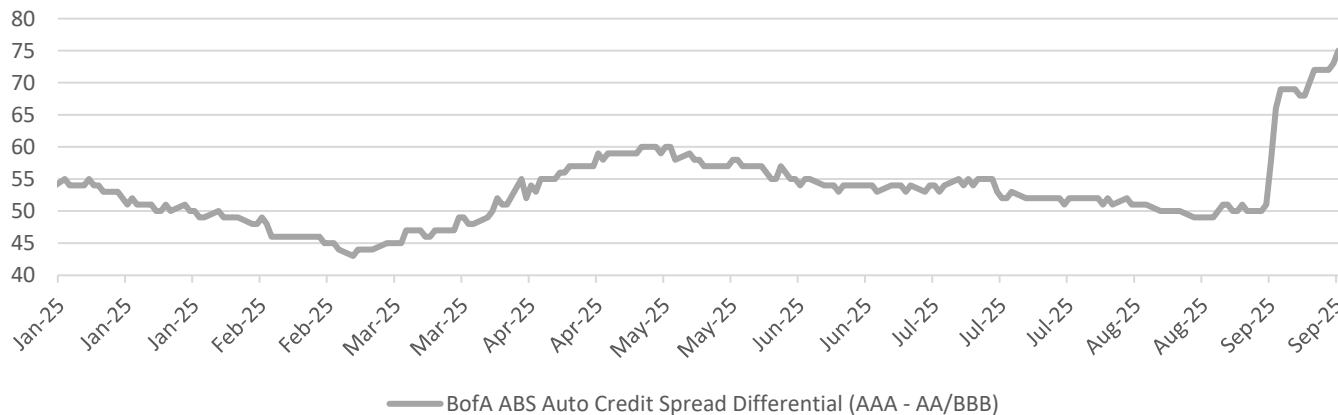
Asset-Backed Security (ABS)

In the ABS sector, Bloomberg index spreads tightened by 8 bps to 49 bps, while the BofA Other ABS index narrowed by 11 bps to 136 bps. Despite the tightening, record supply—particularly in July—constrained excess returns, resulting in underperformance versus shorter investment-grade corporates. Nevertheless, ABS remain attractive on a relative value basis, with spreads as much as 45 bps above the two- and ten-year averages. Fundamental performance generally tracked credit profiles: prime collateral remained resilient, while subprime and lower-income segments saw continued deterioration. The quarter’s major event was the Tricolor bankruptcy-turned-fraud, which pressured September spreads and accentuated credit curve steepening in subprime auto ABS, amplifying spread differentials by issuer quality. Year-to-date ABS supply reached \$284.5 billion, with \$108 billion issued in Q3—of which a record \$40.5 billion came in July, up 30% both quarter-over-quarter and year-over-year.

Excess Returns	Q3 2025	YTD 2025
Bloomberg ABS Index	0.39%	0.38%
BofA Other ABS Index	0.32%	0.24%
<i>BofA Other ABS: AAA</i>	<i>0.24%</i>	<i>0.36%</i>
<i>BofA Other ABS: AA-BBB</i>	<i>0.39%</i>	<i>0.13%</i>

Source: MIM, Bank of America

Lower Quality ABS credit curves steepened late in the third quarter



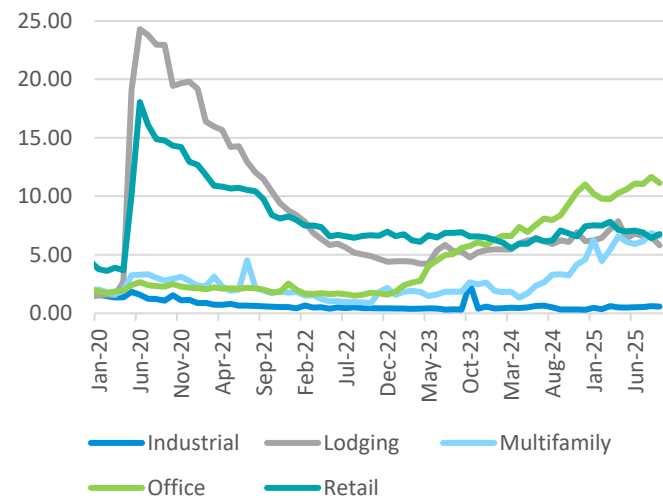
Source: MIM, Bank of America

Market Review (Continued)

Commercial Mortgage-Backed Security (CMBS)

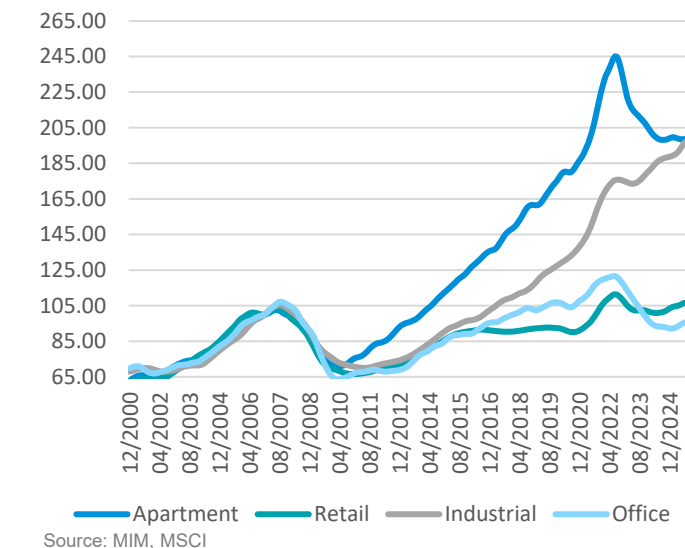
Spreads at the index level were 9 basis points tighter by the end of the quarter with a bid for risk assets supporting CMBS securities. The CRE market continued to present a mix of risks and emerging positives. Robust debt markets, declining lending rates, and expectations of future Fed cuts continued to underpin property transactions and price stabilization. Going forward, incrementally looser bank regulation may also support additional CRE lending and liquidity. However, the ongoing distress in the office sector remains central to the CMBS credit narrative. Delinquencies rose, as expected, as loan workouts were protracted and maturing office debt faced refinancing challenges. While not the prevailing expectation, any renewed rise in rates would further delay the sector’s recovery by suppressing lending activity.

Office loans remain challenged



Source: MIM, TREPP

Industrial property values continue to rise



Source: MIM, MSCI

Collateralized Loan Obligations (CLO)

CLO issuance was again strong in Q3 with spreads approaching post-GFC tightness. Primary issuance reached \$56B, up from \$53B in Q1 and on track to match 2024’s record volume. Refinancings came at a blistering pace, hitting \$104B and rebounding from the Liberation Day induced slowdown in Q2. Gross issuance remains on pace for a new record. The CLO credit curve (AAA-BBB) compressed to 163 bps in Q3, down from 180 bps in Q2, but steeper than the 145 bps at year-end. The steepening can in part be attributed to the \$260B in refinancings YTD which has extended the duration of the index. CLO fundamentals remain stable, though CCC and default levels saw a modest uptick in September. Default activity, namely in the form of distressed exchanges, remains elevated at 4.3%, but saw modest improvement over the quarter. Elevated interest rates, the ongoing impact of tariffs, and idiosyncratic default risks remain in focus moving forward.

CLO Snapshot

	DM (Spread) 9/30/25	DM (Spread) 6/30/25	QoQ Change in Spread
CLOIE Index	154	154	-23
AAA	106	106	-17
AA	137	137	-37
A	159	159	-33
BBB	285	285	-11

Source: MIM, Bloomberg L.P.

3Q 2025 Portfolio Review - Attribution

Portfolio Value

\$90,477,786

	Jul	Aug	Sep	3Q 2025	YTD	1 Year	Since Inception (1/2/2024)
City of Naperville (Gross of Fees)	-0.09	1.20	0.50	1.62	5.83	4.22	5.24
Bloomberg Intermediate Gov/Credit Index	-0.14	1.22	0.42	1.51	5.70	4.01	4.98

3Q Attribution	Market Value Weight (%)			Total Return (bp)			Attribution ¹ (bp)		
	Portfolio	Index	Active	Portfolio	Index	Active	Sector Allocation	Security Selection	Total
Investment-Grade Corporates	35.5	29.1	6.4	200	204	-4	7	0	7
Financials	15.2	12.0	3.2	190	211	-21	3	-2	1
Industrials	14.1	14.8	-0.7	210	196	14	0	3	3
Utilities	6.2	2.3	3.9	203	221	-18	4	-1	3
Structured	13.7	0.0	13.7	170	0	170	5	0	5
Agency MBS	7.2	0.0	7.2	192	0	192	4	0	4
Non-Agency MBS	0.0	0.0	0.0	0	0	0	0	0	0
CMBS	1.5	0.0	1.5	161	0	161	0	0	0
Asset Backed	5.0	0.0	5.0	142	0	142	1	0	1
Government-Related	0.4	4.3	-3.9	567	225	342	0	1	1
Sovereign / Quasi	0.2	3.8	-3.6	799	218	581	0	1	1
Taxable Municipal	0.2	0.5	-0.3	335	275	60	0	0	0
US Treasuries/Cash & Equivalents	49.6	64.9	-15.3	131	126	5	0	1	1
Duration / Curve									-1
Total							12	1	12

Past performance is not indicative of future returns; future results may vary.
¹Index Methodology is applied in performance attribution calculations.

3Q 2025 Portfolio Review - Attribution

- Relative outperformance came from both security and sector allocation. Selection decisions in corporates were helpful. The active decision to be invested in Agency Mortgage-backed-securities (MBS), an off-benchmark decision, aided sector allocation. The decision to be underweight U.S. Treasuries in favor of spread assets was beneficial as spreads outperformed rates.
- Positive relative performance in Corporates mostly came from the Technology and Non-Cyclicals. Across Financials, Banking was the primary contributor while REITs underperformed. The overweight to Utilities was also favorable.
- Given relatively compressed levels of spread in corporates, we've continued to favor the off-benchmark Agency MBS. Within the mortgage exposure, holdings are concentrated in high-coupons, aiding the portfolio's yield carry.
- In ABS, spreads were tighter quarter over quarter, but heavy supply weighed on excess returns causing ABS to underperform versus short IG corporates. Our bias being up in quality in Autos and Credit Cards as well as avoiding subprime was beneficial relative to the weakness in subprime space. However, our assets only performed in-line with the market given the new supply overhang on the asset class.
- In CMBS, spreads continued to grind tighter and helped to support a modest excess returns. As new issues have come to market, we've been selective in our activity. Newly underwritten deals with strong cash flow and the ability to weather the higher for longer macro environment saw strong performance.

Past performance is not indicative of future returns; future results may vary.

3Q 2025 Portfolio Review - Risk Summary

	6/30/2025		9/30/2025	
Broad Risk	Portfolio	Index ¹	Portfolio	Index ¹
Average Price (\$)	100.24	98.20	100.39	98.87
Yield (%)	4.2	4.1	4.1	4.0
Duration (yrs)	3.8	3.8	3.8	3.8
OAS (bps)	31	23	30	20
Average Quality (S&P)	AA-	AA-	AA-	AA-

	6/30/2025				9/30/2025			
Sector Exposure	Portfolio		Index ¹		Portfolio		Index ¹	
	MV ²	CTD ³	MV ²	CTD ³	MV ²	CTD ³	MV ²	CTD ³
Investment-Grade Corporates	36.9	1.48	29.3	1.20	37.9	1.56	29.1	1.19
Financials	16.3	0.51	12.2	0.47	15.2	0.51	11.9	0.47
Industrials	14.5	0.68	14.8	0.62	15.2	0.68	14.9	0.62
Utilities	6.1	0.29	2.3	0.10	7.5	0.36	2.3	0.10
Structured	10.8	0.27	0.0	0.00	14.7	0.43	0.0	0.00
Agency MBS	3.8	0.12	0.0	0.00	8.4	0.31	0.0	0.00
Non-Agency MBS	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
CMBS	1.7	0.02	0.0	0.00	1.4	0.02	0.0	0.00
ABS	5.3	0.13	0.0	0.00	4.8	0.11	0.0	0.00
Government-Related	1.3	0.05	6.1	0.22	0.9	0.03	6.0	0.22
Sovereign/Quasi	0.2	0.02	5.9	0.21	0.2	0.02	5.8	0.21
Taxable Municipal	1.0	0.03	0.2	0.01	0.7	0.02	0.2	0.01
US Treasuries/Cash & Equivalents	51.0	1.98	64.6	2.35	46.6	1.73	64.9	2.34

	6/30/2025		9/30/2025	
Quality Breakdown ⁴	Portfolio	Index ¹	Portfolio	Index ¹
AAA/Cash and Equivalents	8	3	8	3
AA	56	69	56	69
A	21	14	20	14
BBB	15	15	16	14

Past performance is not indicative of future returns; future results may vary.

¹ The Index for the City of Naperville portfolio is Bloomberg Intermediate Gov/Credit Index.

² Market Value (MV) - Expressed in percentage of portfolio value.

³ Contribution to Duration (CTD) - Expressed in years.

⁴ Quality breakdown represents the Index methodology.

Market Outlook

Is there any value left in the investment grade fixed income markets? That is the daily question we ask ourselves on the desk, and with increasing frequency as the Bloomberg Aggregate Index touched a 28-year low of 26 basis points during the quarter. How we got here is a well-worn narrative at this point. Across the aggregate opportunity set, healthy demand from yield-sensitive investors continues to chase attractive yields. Rather than lament our defensive posture in portfolios, our focus is how to best position in a market with an asymmetric risk profile, while acknowledging that supportive technicals could prolong this period of generationally tight spreads. For core-based portfolios - “conservative carry” remains a key theme. We are still positioning for decompression, maintaining an overweight to mortgage-backed securities, although given the recent rally in mortgages, we have been more thoughtful around this allocation. On a relative value basis, the decision to hold the overweight is still supported but to a lesser degree. On a strategic front, we remain focused rotating into credits and asset-backed collateral types that we believed would be more durable if we were to see a downshift in the macro picture. Tactically though, we remain active, yet selective in new issuance of CMBS and ABS.

Thinking ahead, and with the Fed embarking on another rate cutting cycle, we have a difficult time envisioning a return to the sub-3.5% corporate yield environment that persisted for much of the prior decade, which should allow investment grade credit to continue to garner some level of interest amongst insurance companies, pensions, foreign investors, and retail investors. Our overriding concern is that current spread levels fail to provide adequate compensation for a number of potential negative catalysts. High on the list of potential catalysts is a deterioration in the macro backdrop. The economy has proved quite resilient, largely shrugging off tariffs, geopolitical risk, and a US government shutdown. Of greater concern may be the cracks forming in the labor market. Firing rates have remained steady but new hires are trending lower, which potentially augers for a more challenging employment picture.

While macro headwinds persist, a more immediate risk is the resurgence of “animal spirits.” Equity strength—concentrated in large technology names—may spur transformational deals in slower sectors as tariff clarity improves. Recent splits, acquisitions, and LBOs highlight rising leverage, with recent large financings already pressuring credit markets. This environment demands heightened diligence to avoid credits increasing balance sheet risk.

The recent defaults of First Brands and Tricolor underscore how idiosyncratic events can reverberate across markets, reinforcing the critical importance of security selection—especially as value becomes harder to find. Tricolor specifically, was another example in the ABS Market, of how the landscape is increasingly bifurcated: high-income, asset-owning households are resilient, while younger and lower-income borrowers are more exposed to inflation and high rates.

Whether in corporate credit or structured credit, our focus remains on demanding appropriate compensation for risk, favoring trades that allow us to upgrade portfolio quality without sacrificing yield. This includes rotating out of cyclical sectors into more resilient areas like Utilities and Banking, favoring the intermediate part of the curve for its yield and lower spread duration, and selectively adding lower dollar price securities at depressed spread premiums. While the new issue market offers tactical opportunities, we remain disciplined given the lack of concession. Given our current low ABS weighting, we would look to increase exposure if spreads widen materially, focusing on issuers and structures with whom we have high conviction. Until then, we remain highly selective, prioritizing quality and structure.

ⁱ Bloomberg

Market Outlook (Continued)

In CMBS, we remain neutral, but with a slight lean toward adding select new issue paper. Relative value persists, particularly in new issue fixed-rate and floating-rate SASB, which appear attractive to conduit CMBS, and conduit CMBS screening attractive to corporates. On valuations, spreads for higher-quality CMBS have narrowed, while those for BBB- rated multifamily and mixed-use CMBS have widened, highlighting the importance of property-level analysis. We are focused on select opportunities in new issue SASB and conduit CMBS, maintaining a disciplined approach to credit and structure selection

We still maintain a meaningful overweight to Agency MBS and believe that tighter valuations elsewhere warrant keeping this overweight in place, despite a very strong third quarter. While the OAS of the MBS index has fallen to a level not seen since 2022, its relationship to other spread assets still remains attractive. However, given the tighter starting levels, carry will be the driver of performance going forward. What has changed quarter over quarter is the fall in mortgage rates and its affect on prepayments. The index still has a significant holding in lower coupon MBS as a result of the COVID era refi-wave. However, time has passed and more higher coupons have entered the index. These bonds are now in-the-money to refinance for the first time. Our positioning has been to be underweight those coupons (6.5% and above) in favor of a barbell of lower coupons (3.0% and below) for their convexity, combined with an overweight to 5% through 6% coupons for the carry. In the higher coupons, we have favored specified pools that have some appealing characteristic (Low Fico or High LTV) which should provide prepayment protection if rates continue to rally. Prepayment risk is something that the market has largely ignored as rates remained stubbornly high. However, as we seek the better carry of higher coupon MBS, we have chosen to avoid the TBA (worst to deliver) market in order to improve the convexity profile of the portfolio's holdings. Lastly, as the market evolves we continue to upgrade the convexity of the portfolio either via coupon swaps or specified pool selection.

We recognize this conservative bias may not draw us a crowd at a dinner party, but we believe these pockets of value can help protect against portfolio drawdown while allowing for the ability to redeploy capital to riskier areas of the market when valuations become more commensurate with the level of risk. In sum, we continue to emphasize portfolio resilience, liquidity, and flexibility, seeking to preserve capital and maintain the ability to redeploy risk as valuations and fundamentals evolve. Our focus remains on high-quality carry, disciplined security selection, and tactical positioning across credit, ABS, CMBS, and Agency MBS.

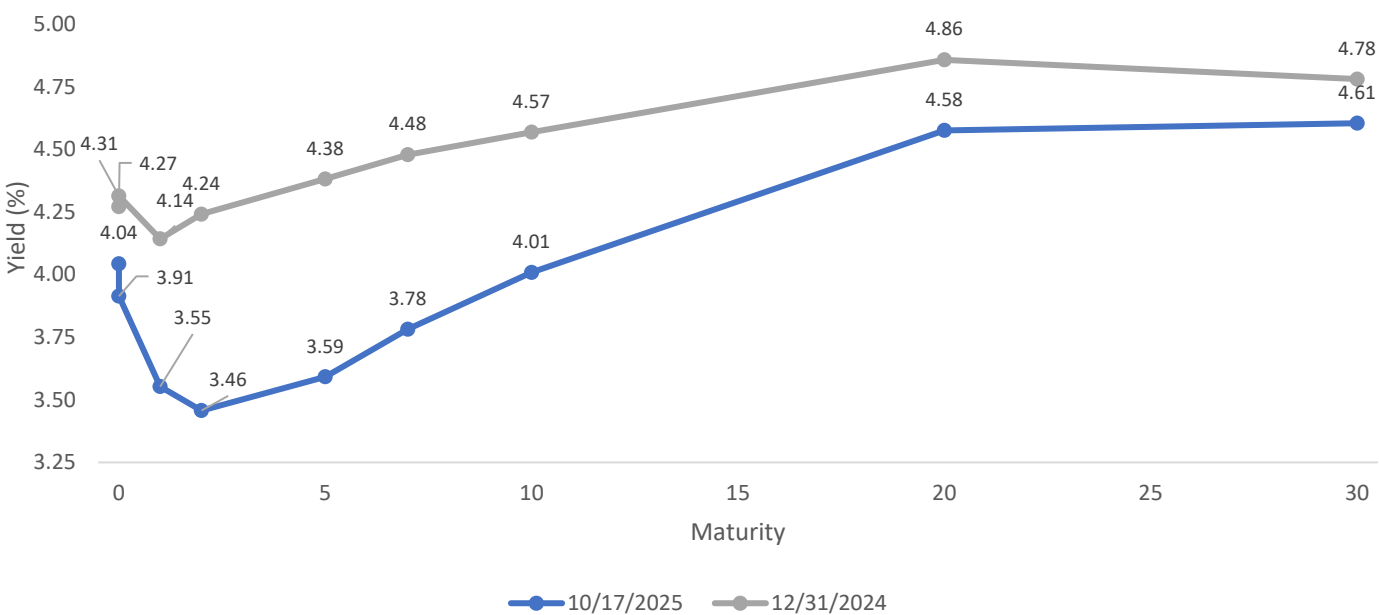
ⁱ Bloomberg

Federal Reserve Projections

	2025	2026	2027
Real GDP			
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%
June-25 Projection	1.4%	1.6%	1.8%
September-25 Projection	1.6%	1.8%	1.9%
Unemployment Rate			
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%
June-25 Projection	4.5%	4.5%	4.4%
September-25 Projection	4.5%	4.4%	4.3%
Core PCE Inflation			
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%
June-25 Projection	3.1%	2.4%	2.1%
September-25 Projection	3.1%	2.6%	2.1%

Source: Federal Reserve as of September 17, 2025

U.S. Treasury Yield Curve



Source: Bloomberg L.P. As of October 17, 2025

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