CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Maria Öberg

SUBJECT: Fourth Quarter Investment Report For the Quarter Ended June 30, 2026

DATE: July 30, 2026

Approved Bchemtri

Date: July 30, 2026

Transmitted herewith is the City Investment Report for the quarter ended June 30, 2026. To meet the reporting requirements set forth in the City of San José Investment Policy, an electronic version of this report will be posted on the City's website at: https://www.sanjoseca.gov/your-government/departments-offices/finance/reports/-folder-7054#docfold_14_4866_6255_7054 and a hard copy will be on file at the City Clerk's Office located at 200 East Santa Clara Street, San José.

This report will be distributed to the Public Safety, Finance and Strategic Support Committee (PSFSS) for discussion during its meeting on August 20, 2026, and will be agendized through the PSFSS Committee for review by the full City Council on September 15, 2026.

Summary of portfolio performance and compliance for quarter ended June 30, 2026:

- **Size of total portfolio**: $3,020,573,765
- **Earned interest yield**: 4.127%
- **Weighted average days to maturity:** 661 days
- **Fiscal year-to-date net interest earnings**: $109,160,369
- No exceptions to the City's Investment Policy during this quarter

If you have questions on this investment report, please do not hesitate to call me at (408) 535-7011, or via email at maria.oberg@sanjoseca.gov.

Maria Öberg
MARIA ÖBERG
Director of Finance

cc: Jennifer A. Maguire, City Manager
Joe Rois, City Auditor
Susana Alcala Wood, City Attorney

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City of San José

California

INVESTMENT REPORT FOR THE QUARTER ENDED

JUNE 30, 2026

Prepared by

Finance Department
Debt and Treasury Management Division

Maria Öberg
Director of Finance

Investment Report for The Quarter Ended June 30, 2026

City of San José
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CITY OF SAN JOSE

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Finance Department

July 30, 2026

HONORABLE MAYOR and CITY COUNCIL

INVESTMENT REPORT FOR THE QUARTER ENDED JUNE 30, 2026

I am pleased to present this report of investment activity for the quarter ended June 30, 2026, in compliance with the reporting requirements set forth in the City of San José Investment Policy. The report presents information in the following major categories: Portfolio Statistics, Portfolio Performance, Compliance Reporting Requirements, Investment Trading Activity, and Investment Strategy.

The information presented in the table below highlights the investment activity for the quarter ended June 30, 2026, and provides a comparison to the quarters ended March 31, 2025, and June 30, 2025.

INVESTMENT SUMMARY

For the Quarter Ended	June 30, 2026	March 31, 2026	June 30, 2025
Total Portfolio			
Portfolio Value (1) (2)	$3,020,573,765	$2,721,537,480	$2,980,651,143
Earned Interest Yield	4.127%	4.197%	3.805%
Dollar-weighted average yield			
Purchases	3.919%	3.791%	4.257%
Maturities	3.562%	1.991%	2.117%
Called Securities	5.058%	4.328%	5.120%
Weighted avg. yield at end of period	4.061%	4.093%	4.046%
Weighted avg. days to maturity	661	749	560

[1] Reflects book value (principal plus any purchased interest) of investments.
[2] Total excludes bond proceeds held by trustees for the City of San José ($304,643,591).

PORTFOLIO STATISTICS

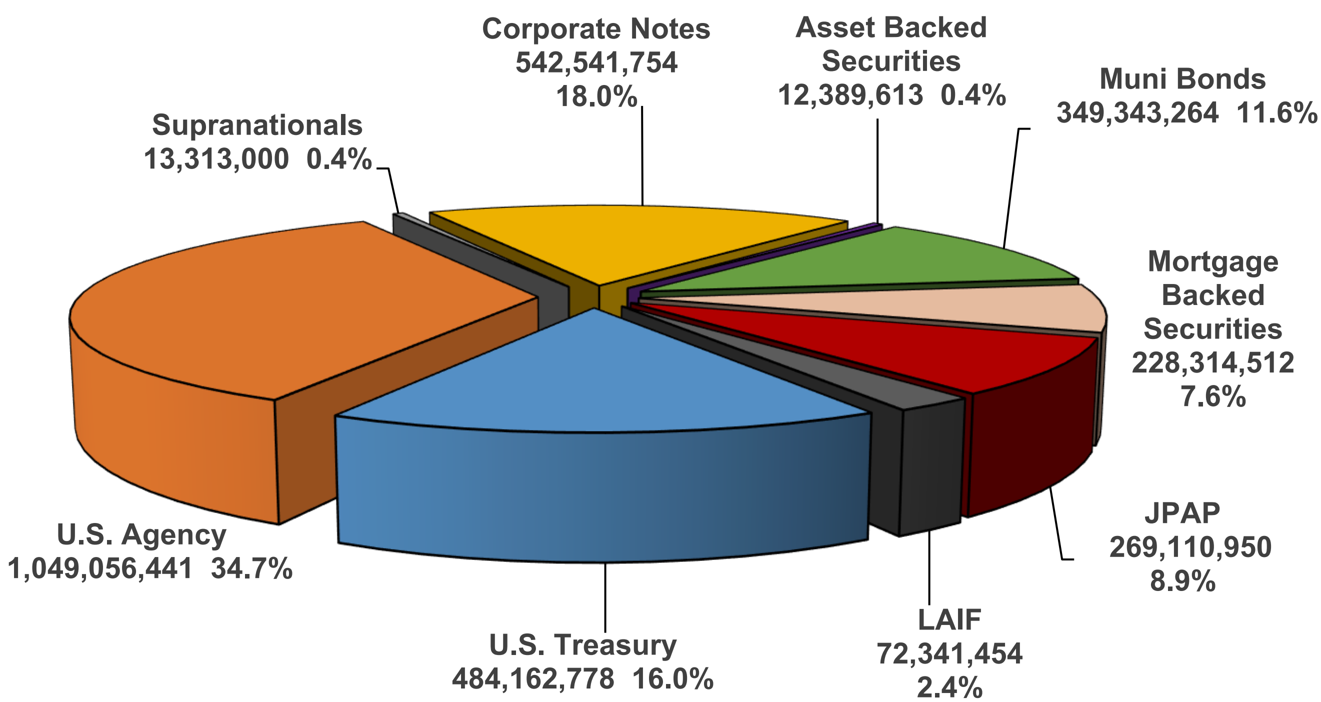
Detailed information can be found in the attachments while summaries are provided below.

Portfolio Composition

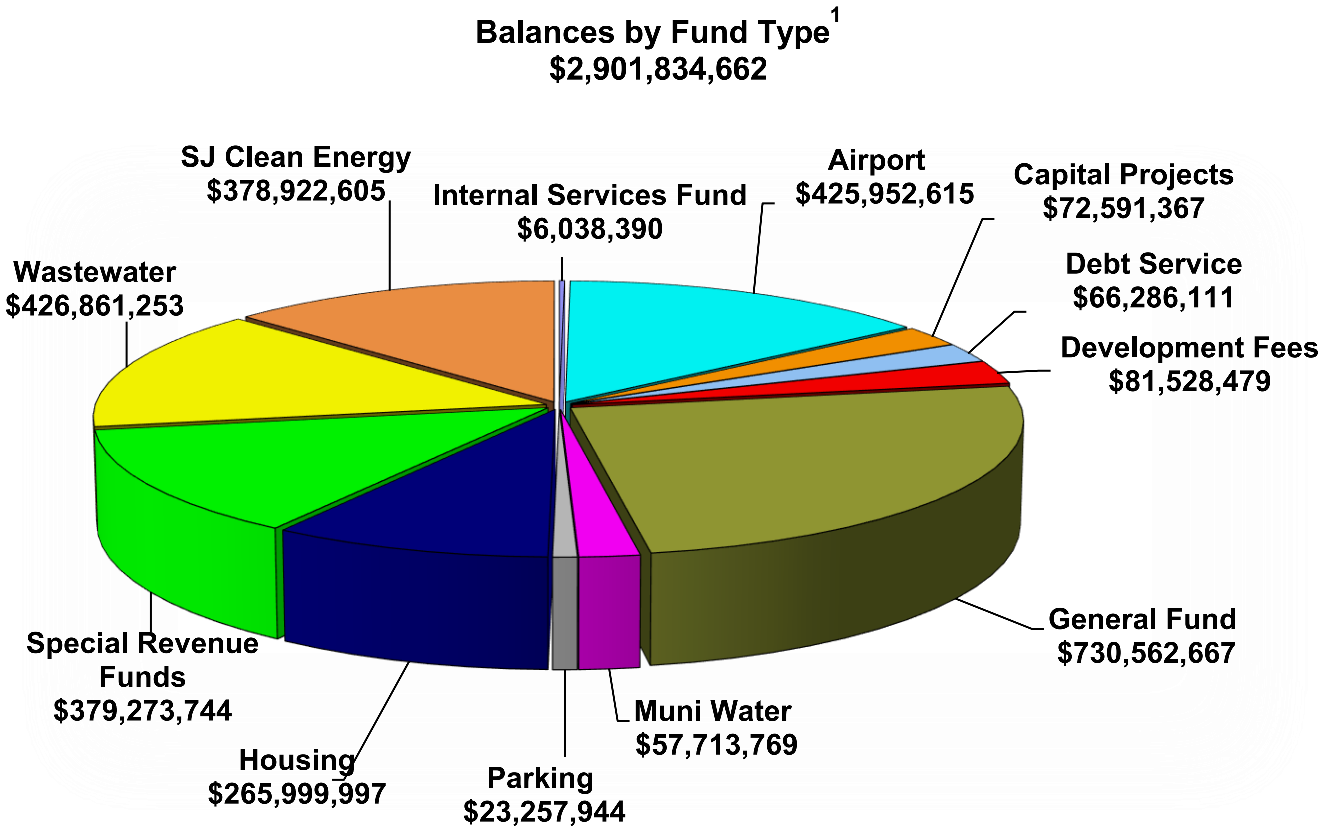
Within this section are snapshots of the City's total investment portfolio as of June 30, 2026.

The first graph shows the portfolio composition by investment type.

Portfolio Composition
$3,020,573,765



The graph below reflects the reconciliation of total balances reported by the investment program's record-keeping system to the City's Financial Management System (FMS).



Portfolio Balance	$3,020,573,765
General Banking Balance	3,026,378
Trust & Agency Fund Balance	(13,154,284)
Deposit-in-Transit, Outstanding Checks[2]	(108,611,197)
Total Balances per FMS	$2,901,834,662

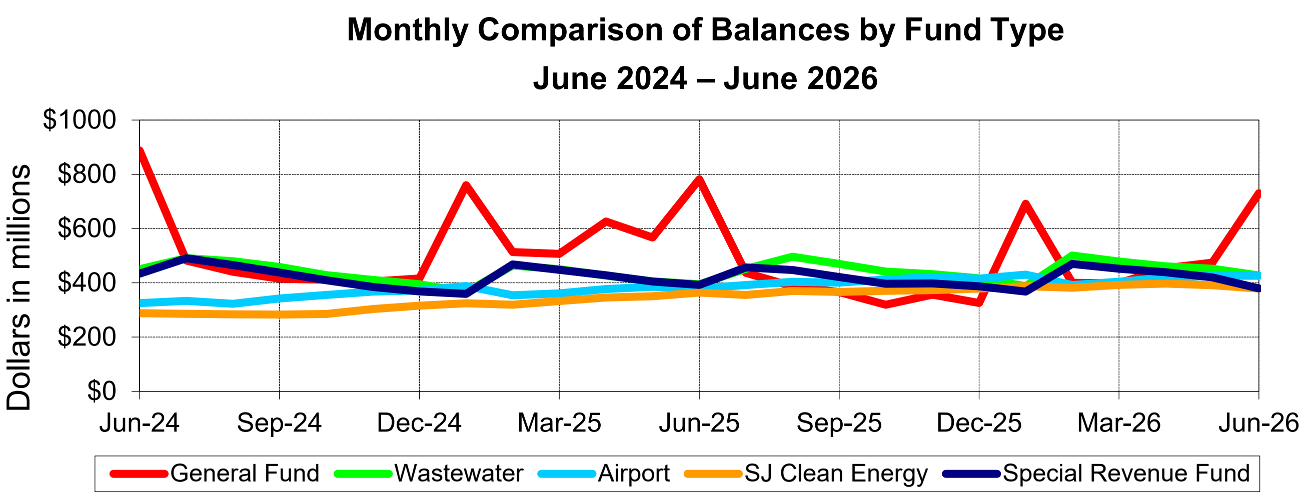
[1] General Fund includes $306,131,649 of General Fund (Fund 001) as well as $424,431,018 of other General Fund funds which are separately tracked including the Depositor Fund, Developer Fees, Real Property Transfer and other smaller funds and reserves.

[2] Reflects timing difference between when deposits are made and accounted for in FMS or when checks are written and not yet cashed by the receiving party.

General Fund Balances

The General Fund balances increased by $332 million with the receipt of property taxes in June and ended with a balance of $731 million as of June 30, 2026. General Fund cash balances usually peak during the months of January and June, when the bulk of property taxes are received, and decline in the summer months due to retirement prefunding, debt service payments and operational expenditures.

The following graph compares monthly balances of five largest City funds as reported by FMS.



Prefunding of Annual Retirement Contributions

The City opted to prefund Police and Fire Retirement Plan Tier 1 annual employer retirement contributions along with Other Post-Employment Benefit (OPEB) contributions for Fiscal Year 2025-26 with cash and matured investments on July 1, 2025. The total prefunding amount was $227 million.

Successor Agency to the Redevelopment Agency of the City of San José

Historically, the Redevelopment Agency participated in the City investment pool with both restricted bond proceeds and operating cash balances. As of February 1, 2012, redevelopment agencies in California were dissolved by legislative action and the City, as the Successor Agency to the Redevelopment Agency (SARA), transferred the Redevelopment Agency funds from the investment pool to SARA bank accounts. In July 2018, the City entered the final stage of dissolution and absorbed the remaining SARA operations into City operations. City staff will continue to manage SARA's accounts until all assets are liquidated and bonds are redeemed.

As of June 30, 2026, SARA reported cash balances as outlined in the table below:

SARA CASH SUMMARY		
	Pledged for Bond/Enforceable Obligations	
LAIF	$5,123,161	
Wells Fargo General Account:	$70,109	
Wilmington Trust Funds	$128,804,875	(A)
TOTAL	$133,998,145	

(A) Funds restricted for tax allocation bond debt service payments

PORTFOLIO PERFORMANCE

The following table illustrates the total portfolio income recognized for the last quarter as compared to the prior quarter and the same quarter one year ago.

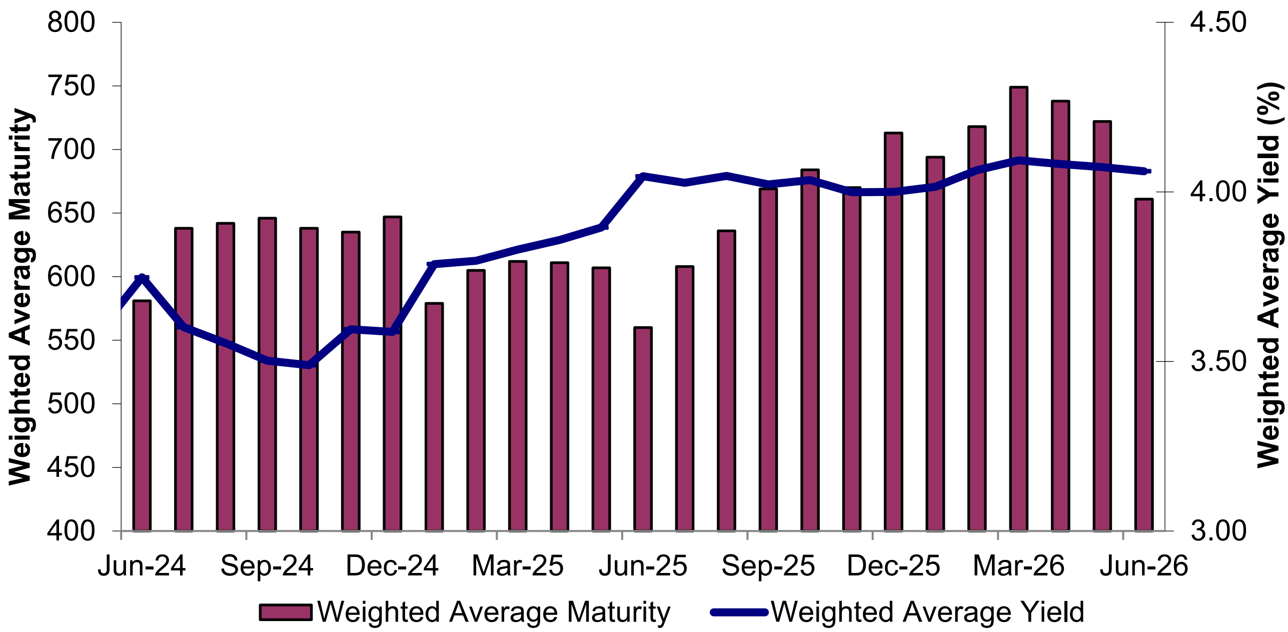
TOTAL PORTFOLIO INCOME RECOGNIZED
Accrual Basis

Total Portfolio	**June 30, 2026**	**March 31, 2026**	**June 30, 2025**
Quarter-End			
Total interest earnings	$28,208,480	$27,539,061	$25,674,119
Realized gains (losses)	$59,021	$580,815	$11,577
Total income recognized	$28,267,501	$28,119,876	$25,685,696
Fiscal Year-to-Date			
Total interest earnings	$108,520,155	$80,311,675	$95,630,775
Realized gains (losses)	$640,214	$581,193	$188,390
Total income recognized	$109,160,369	$80,892,868	$95,819,165

Yield and Maturity Trend

The following graph illustrates the monthly dollar-weighted average maturity (WAM) of the Portfolio (bar graph) along with the weighted average yield (line graph) for the past two years.

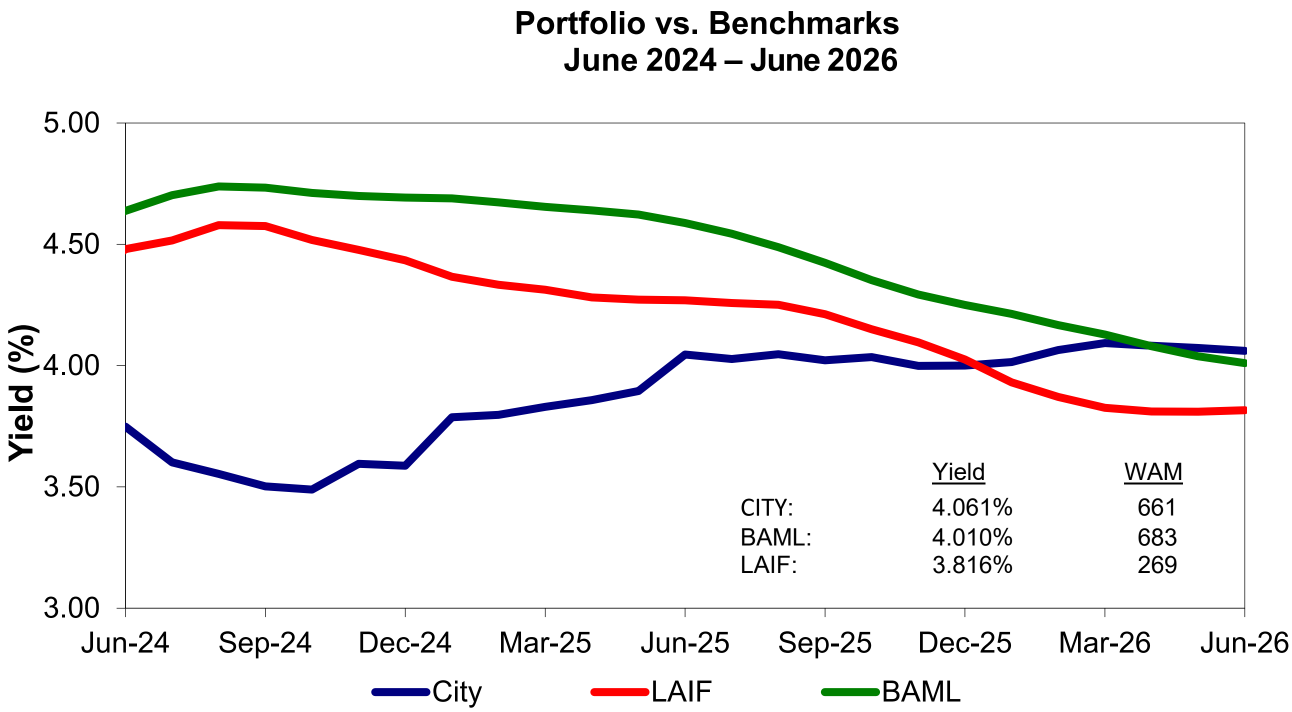
Portfolio Yield and Maturity Trends
June 2024 – June 2026



The Portfolio's WAM decreased from 749 days on March 31, 2026, to 661 days on June 30, 2026. The weighted average yield decreased from 4.093% on March 31, 2026, to 4.061% on June 30, 2026. The decrease in WAM is due to the large infusion of cash from property tax receipts and vehicle licensing taxes. This increased the overall size of the portfolio and lowered the average maturity because most of these receipts are invested to a shorter term in expectation that they will be used to pay for operating expenses over the next year. When the yield curve is upward sloping, and money is invested over a shorter horizon, it lowers the overall yield of the portfolio, as shorter-term investments offer less return than longer-term investments.

Comparison with Benchmarks

The City's Portfolio is compared against benchmarks for performance purposes. The following graph demonstrates a yield comparison by month of the City's Portfolio, the California LAIF, and the BAML Index for the period from June 2024 to June 2026.



Notes:

1. **City** refers to the City's Portfolio, and the yield data are month-end weighted average yields.
2. **LAIF** refers to the State of California Local Agency Investment Fund and yield data are average monthly effective yields.
3. **BAML** refers to the Bank of America Merrill Lynch 1-3 Year AAA-A US Corporate & Government Index, and yield data are rolling 2-year effective yields.

LAIF is a short-term investment option available to local agencies in California. LAIF's WAM was 269 days as of June 30, 2026, much shorter than the City's portfolio WAM of 661 days. Since LAIF has a much shorter average maturity, it is more sensitive to the Fed Funds Rate, which has declined in recent years, as the Federal Reserve has eased economic conditions. The City's portfolio of longer dated bonds means the portfolio's overall yield reacts at a slower pace than overnight rates. As shorter-term rates decline and longer-term rates increase, staff expect that the difference in average maturity should reflect a larger spread between LAIF and the City's portfolio.

The BAML Index is a broad market index that tracks dollar-denominated, investment-grade, bonds with a remaining maturity of up to three (3) years. To simulate an index portfolio for comparison purposes, Treasury staff calculates a 2-year rolling average of daily BAML Index effective yields. The City's Investment Policy allows investments, in several sectors, up to a 5-year final maturity. Staff expect to see the BAML yield continue to decline, but on a slower basis than LAIF.

Unrealized Losses and Gains

As shown in the Investment Summary Table on page one of this report, the total portfolio size as of June 30, 2026, was approximately $3.02 billion. The following table illustrates the net unrealized gains or losses on the portfolio when comparing the portfolio's market value to both its original cost and amortized cost for the quarter ending June 30, 2026.

UNREALIZED GAINS & LOSSES Cash Basis			
	Original Cost	**Amortized Cost**	
Market Value	$3,036,896,196	**Market Value**	$3,036,896,196
Original Cost	(3,020,573,765)	**Amortized Cost**	(3,045,288,058)
Net Unrealized Gain	$ 16,322,431	**Net Unrealized Loss**	($ 8,391,862)

An inverse relationship exists between changes in interest rates (Yield) and the value (Price) of fixed income investment securities. As interest rates decrease, the value of fixed income investments increases. Conversely, as interest rates increase, the value of fixed income investments decreases. The City's investment practice, per the Investment Policy, is generally to hold securities to maturity, with exceptions as noted in the Investment Policy. The net unrealized gains and losses noted above are "paper gains and losses" and would only be realized if securities were sold prior to maturity.

The inverse relationship between interest rates and value has led to an unrealized gain in FY Q4 2026 of $16 million (as compared with original cost) and an unrealized loss of $8.4 million (as compared with amortized cost) as of June 30, 2026, respectively, as shown in the table above.

Earned Interest Yield

The earned interest yield of the total investment portfolio for the quarter ended June 30, 2026, was 4.127%, 0.070% lower than the previous quarter and 0.322% higher than a year ago.

Cash Management Projection

Based on the Finance Department's pooled cash flow projection as of June 30, 2026, total revenues, investment maturities and cash for the next six months are anticipated to be approximately $2.1 billion. This is sufficient to cover projected expenditures of approximately $2.0 billion.

Statement of Compliance with the Policy

There were no exceptions or violations outstanding for the quarter ended June 30, 2026. The investment portfolio meets the requirements of the City's Investment Policy and California Government Code Section 53601.

In May 2026, the City's Investment Policy received national certification by the Association of Public Treasurers of the United States & Canada (APT US&C). The City was awarded a 2026 Investment Policy Certificate of Excellence Award. The City's Investment Policy is reviewed on a periodic basis by the APT US&C.

Comparison of Portfolio Investment Earnings to FY 2025-26 Budget

The following is a comparison of actual General Fund investment earnings, on an accrual basis, to the Fiscal Year 2025-26 budget. The Fiscal Year 2025-26 Budget included $16 million for interest earnings for the General Fund, based on an assumed net interest yield of 3.90%. The schedule below compares the unaudited actual net investment earnings to the General Fund budget for the quarter ended June 30, 2026. The actual interest earning rates are greater than the forecast for the quarter and for the fiscal year.

BUDGET COMPARISON

Net Investment Earnings	Yield
Quarter Ended	
Budget[(a)]	3.90%
Actual[(b)]	3.98%
Variance	0.08%
Fiscal Year to Date	
Budget[(a)]	3.90%
Actual[(b)]	3.94%
Variance	0.04%

(a) Reflects the 2026-2030 General Fund Forecast Information submitted by Finance on January 31, 2025.
(b) Reflects the earned interest yield less costs to administer the investment program, adjusted for funds with negative cash balances at month end.

INVESTMENT TRADING ACTIVITY

Section E provides details of the City's investment activities, including purchases, maturities, amortization, interest received, and realized gains or losses from trading activities.

In general, the City holds all securities to maturity. On rare occasions, the City may liquidate holdings to raise cash or as allowed under the Investment Policy.

INVESTMENT STRATEGY AND MARKET UPDATE

The Investment Program continues to focus on its core mandates of safety, liquidity, and yield. Staff continue their efforts to match known cash flow outlays in the next 24-month horizon with investment maturities. Beyond the 24-month horizon, staff selectively invests in various asset classes and maturity buckets to diversify the portfolio structure and maximize the portfolio's earnings potential, as allowed by the Investment Policy.

Major themes for the quarter ended June 30, 2026 included the continued military conflict in the Middle East, the installation of new Federal Reserve Chair Kevin Warsh, and the expansion of the Artificial Intelligence (AI) buildout. The military conflict with Iran has simmered on-and-off throughout the quarter with investors unsure if oil is flowing through the Strait of Hormuz, and interest rates generally moving in tandem with oil prices. The confirmation of Kevin Warsh has caused a modest rise in rates, as investors assess his willingness and ability to rein in inflation. Finally, companies such as SpaceX, Alphabet, Amazon, Meta, Nvidia and other "hyperscalers" have continued to raise money through the capital markets via debt and equity offerings in order to continue building data centers. These three themes have driven longer-term interest rates modestly higher throughout the quarter.

Investment staff will closely monitor market developments, continue to focus on the overall quality of the portfolio and invest with care, prudence and diligence.

Future Commitments – As of June 30, 2026, the City had no obligations to sell securities and no commitments to participate in securities trading.

Executed Reverse Repurchase Agreements – No reverse repurchase agreements were executed this quarter.

Restructuring – No restructuring activities took place during this quarter.

CONCLUSION

The total investment portfolio as of June 30, 2026, was $3,020,573,765 an increase of approximately $299 million from the previous quarter. For the quarter ended June 30, 2026, the earned interest yield decreased from 4.197% to 4.127% as compared to the quarter ended March 31, 2026, and the weighted average days to maturity decreased from 749 days to 661 days over the same period. As of June 30, 2026, approximately 51% of the total portfolio was invested in U.S. Treasuries and Agency securities.

Maria Öberg

MARIA ÖBERG
Director of Finance