

**CITIZENS PROPERTY INSURANCE CORPORATION**

**MINUTES OF THE  
FINANCE AND INVESTMENT COMMITTEE MEETING  
Tuesday, September 21, 2021**

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at the Hyatt Regency Coral Gables on Tuesday, September 21, 2021.

**The following members of the FIC were present:**

Chairman Lazaro Fields  
Governor Carlos Beruff  
Governor Erin Knight

**The following Citizens staff members were present:**

Jennifer Montero  
Barbara Walker  
Barry Gilway  
Kelly Booten  
Tim Cerio  
Christine Ashburn  
Jay Adams  
Joe Martins  
Violet Bloom  
Jeremy Pope  
Michael Peltier  
Andrew Woodward

**The following people were present:**

Kapil Bhatia	Raymond James
Nathaniel Johnson	Bank of America
Doug Draper	Bank of America
George Smith	Bryant Miller Olive
Adam Schwebach	Willis Re
Albert del Castillo	Greenburg Traurig, P.A

**Call Meeting to Order**

Barbara Walker: Good afternoon, and welcome to September 21, 2021, Finance and Investment Committee that is publicly noticed in the Florida Administrative Register to convene immediately

following the Audit Committee. Those in attendance through the public link are automatically in listen only mode. Video today will also be in presentation viewing only. Citizens Board and Committee Meetings are recorded with transcribed minutes available on our website. Thank you for identifying yourself prior to addressing the committee. I will proceed with roll call. Chairman Lazaro Fields?

Chairman Fields: Here.

Barbara Walker: Board Chair, Carlos Beruff?

Governor Beruff: Here.

Barbara Walker: Governor Dunbar will not be joining us today, Governor Knight?

Governor Knight: Here.

Barbara Walker: Chairman, you have a quorum.

1. **Approval of Prior Meeting's Minutes**

Chairman Fields: Thank you. Good afternoon and welcome to the September FIC meeting. **I will entertain a motion to approve the meeting minutes from July 13.**

Governor Knight: **So, moved**

Governor Beruff: **Second**

Chairman Fields: All right, the **motion carries the meeting minutes are approved**, the next item on the agenda is our Market Update by Kapil Bhatia, nice to see you.

2. **Raymond James Financial Advisor**

a. Market Update

Kapil Bhatia: Good afternoon, Mr. Chairman and Governors can you hear me okay.

Chairman Fields: Yes.

Kapil Bhatia: Thank you, for the record, my name is Kapil Bhatia and I work for Raymond James & Associates, and we are your financial advisor. I will briefly go through the market update, but please stop me at any time if there are any questions. I will start with the economic and financial market update. The unemployment rate declined by 0.2% to 5.2% in August of 2021 and we have 8.4 million unemployed persons as we speak now. These unemployment measures are significantly down from where we were in April 2020 but remain very well above where we were prior to COVID19, when the unemployment rate was 3.5% and the number of unemployment

persons were 5.7 million. The unemployment rate has really gone up by 1.7% and the unemployment persons are up by 2.7 million in the last 18 months. The labor force participation rate this month is unchanged at 61.7%. However, this is again significantly less than where we were in February 2020 when it was 63.2%. And the U6 rate, which is really the true unemployment rate, because it includes marginally unemployed persons and part timers who are looking for full time job. That rate is close to 8.8%. If we combine the low labor force participation rate, the U6 unemployment rate, as well as all of the other regular U3 unemployed people we have significant slack in the labor market of approximately 15 million people. So, even though there is significant wage pressure due to Covid-19 related factors, however, we also have 15 million people looking for work, and that should subsidize the wage pressure and as the unemployment benefits are also going away, which should bring people back to work. In the US, multiple federal stimulus packages in the total amount of approximately \$5.8 trillion have been passed in an attempt to shore up the economic conditions and financial markets and to mitigate impact on businesses and individual businesses, as well as individuals, and that is really pushing our economic growth from where we were right after COVID.

The US Federal Reserve funds target rate is between zero to 25 basis points and we don't expect that to change until the end of 2022. So, we still have more than 15 months before we should start seeing any increase in rates, however, we will start to see tapering in early 2022 and not tightening but tapering by the Federal Reserve. And we will probably know more about it tomorrow, most likely, they will not do anything tomorrow, but most likely Fed will act in November, and we should start seeing tapering to bring in December or early part of 2022 and that's going to take a year by the time from start to the finish.

The real GDP decreased by 3.5% in 2020 however, we have seen significant growth in 2021, as I briefly mentioned a few seconds ago with all of the stimulus packages. We expect GDP growth to be around 6% in 2021 but that will really bring us back to where we were in absolute dollar amount right before COVID started or at the end of 2019. So, 2020 and 2021 has been the lost year from economic growth perspective, even with all of the economic and federal stimulus. We expect GDP number to be almost \$22 trillion, which is more or less were we were at the end of 2019. Lastly, again, we expect GDP growth this year to be closer to 6% but we also expect that number to decrease significantly in 2022 to 3.2% just because all of the economic stimulus is going to go away. In 2023 we'll be back to normal or 1.9% to 2% where we were before this whole thing started so nothing really has changed over the last few years, except the noise, but in a real sense, we have not gained anything from monetary and fiscal stimuluses from an economic perspective. The Equity market are at a record high, as we all have seen it, and that is because of all of the monetary and economic stimulus and economic growth. The S&P 500 and Dow Jones were up by 14% and approximately 5.5% in 2020 and further increase of 19% and 13.6% this year. However, we don't see a significant change in small businesses until the end of this year or early next year. The economic market or the financial markets don't really reflect the small businesses, it reflects the efficiency of large businesses The Federal balance sheet as at this point of time is approximately \$8.4 trillion. Putting that in perspective, it was \$4.2 trillion in December of 2019. So that is a 100% increase in federal balance sheet that has provided all the liquidity to large corporations, which have access to capital markets and that is keeping the interest rates low and equity markets higher.

Interest rates: fixed income market have seen the interest rates recover significantly in 2021, but we are still at historical low levels. And we don't expect that to change significantly primarily because of structural and demographic constraints globally, such as the aging of the population, specifically globally. We expect 5-year treasury to remain within the range of 60 basis point to 1% currently we are at the midpoint of 80 basis point and 10-year treasury to remain range bond between 140 and 165 and we are at 131 as we speak today. Corporate credit markets are strong with investment grade spreads back to the pre COVID level and actually marginally better or closer to 90 basis point - we were at 93 basis point at the end of 2019. And, at one point of time they were 200 basis point so corporate investment grade sector is doing very well because of what I just said a few seconds ago. The large corporations have access to a strong liquidity and that is keeping the interest rates low. Fixed income market corporate issuance was very strong in 2020 at \$2.3 trillion per year compared to 2019 1.2 trillion, we expect this year's number to be closer to \$1.8 trillion. And so far we have done \$1.3 trillion, which is 23% less than where we were last year. Same thing goes for the municipal insurance, in 2020 we did \$484 billion, so far, we have \$309 billion, which is more or less flat to 2020. There has been a strong demand in the tax exempt taxable markets because the interest rates are low and there is a strong liquidity available, that's one of the reasons for the strong demand.

Lastly, to the Risk Transfer market or reinsurance market. Risk transfer pricing conditions really soften from 2015 through 2017 but the insurance industry significantly changed in 2017. When they incurred approximately \$275 billion of insured losses between 2017 and 2019. In 2020 the year was marginally better, there were only \$88 billion of insured losses which are mostly driven by smaller event. No single event occurred with more than \$3 billion in losses. 2020 was much better and that reflected in the 2021 reinsurance pricing. However, so far, 2021 is not really that good from insured losses perspective. As of June 30, we have incurred approximately \$42 billion of insured losses globally, however, that does not include approximately \$40-45 billion of loss expected from Hurricane Ida, which will be the second largest hurricane event after Katrina and before Sandy. So, we expect insurance industry to lose probably somewhere in the range of \$100 billion by the third quarter and that number may increase depends on where and how many events happen over the next three months, but based on the wildfires on the west coast and everything else we expect this year's insured losses to be somewhere between \$125 to \$150 billion, and that is similar to what happened between 2015 and 2017. And that should put pressure on the risk transfer markets in 2022. Next year pricing will depend on what happens in the last quarter of this year. The global reinsurance markets are marginally improving, but Florida markets remain under stress because of adverse loss development and significant litigation issues. There is additional capacity available in the risk transfer market because of the low interest rate, however, that will depend on what really is available in 2022 and what happens for the rest of this year. And lastly, the Cat bond segment of the reinsurance market and insurance-linked securities are in very strong position. With approximately \$14.5 billion issued so far in 2021 and \$52 billion outstanding. We believe capital markets will stay stronger, because there is additional alternative capital coming to the market, but the traditional market may become a little bit tighter in 2022. But, overall, we still have about three months to go and depends on if we're lucky enough 2022 maybe better from the risk transfer pricing perspective with that I'll stop and happy to answer any questions.

Governor Beruff: In your predictions for 2022 are you factoring anything in based on the additional stimulus that currently is moving through Congress?

Kapil Bhatia: No, we are not because, even if we get the additional stimulus it's going to take a little bit longer time it may affect some growth, but not significantly, because the way it's structured it's going to take a little bit longer to have any impact in the short-run. The three and a half trillion bill is not yet in any of our calculation. However, the infrastructure spending of \$1 trillion is going to take approximately five to 10 years and that will have an impact on GDP growth of 0.1% to 0.2% because the slow spending nature of the infrastructure projects.

Governor Beruff: And it's too early to say about three and a half trillion or even two and a half trillion, as it relates to unemployment and so forth. At the end of the day, if the two and a half trillion continues to subsidize unemployment benefits that affects the whole working model and the people who want to go to work.

Kapil Bhatia: And because we have 15 and a half million people available – it all depends on how it is structured. The marginal propensity to consume of those dollars is significantly higher but it does not impact anything significantly, so you're right about the unemployment picture, but it may not have a significant impact on the growth.

Governor Beruff: You said in your in your analysis that you didn't find pressure in the Labor markets for increased salaries, but that's contradictory to what we're hearing in the real world.

Kapil Bhatia: I said increase in the wage growth should subside now as the unemployment benefits are going away, and there are 15 million people who are looking for work so that slack should help compared to what we are seeing currently because that 15 million people are not looking for jobs.

Governor Beruff: So, we're still thinking inflationary pressures are temporary.

Kapil Bhatia: That is correct, we agree with that, unless there is additional stimulus and that will put a little more delay to it. But transient or temporary is now becoming a little bit longer than what we expected, because the benefits are running longer so we expect it's not going to it's going to change the baseline, however, we are not going to continue to see the spiraling inflation.

Governor Beruff: So, you don't think the inflation rate will be sustained, but what we get this far is going to stick.

Kapil Bhatia: It has shifted the baseline, and that is exactly what, if you look at what happened with inflation in 2020. The inflation was really absent so now in 2021 it has become significantly larger primarily due to base effects. So, if you average those two numbers or 2020 and 2021 inflation, it becomes a normal inflation rate of around 2% or what we saw over the last 10 years, so we don't expect inflation to remain significantly higher unless there is another three and a half trillion and then another three and a half trillion, and that money never goes away.

Governor Beruff: I hope you're right.

Kapil Bhatia: We'll just wait and see. Thank you, any other questions.

Chairman Fields: I've been following the markets, a little bit recently and some of the pundits are saying that we're potentially looking at a correction in the market, soon, and I know that September and October are never a good time to be getting out of the market, probably a better time to be getting in it but is there any, and I know you don't have a crystal ball, but is there any inclination or suggestion that this may be more than what is a normal correction for any other year.

Kapil Bhatia: I don't really have any crystal ball, but what I can say is that is what pundits says each year in September and October. However, this is may be because of seasonal affect, the debt ceiling, the budget constraints, and with the Federal Government actions as well as what is happening globally. But what I would call it from a long run perspective we don't see anything different, and it is just a seasonal effect and that's really what it is, and they also need something to talk on CNBC.

Chairman Fields: All right, if there's no further questions, then we'll move next to Miss Montero with the CFO report.

### **3. Chief Financial Officer Report**

#### **a. Risk Transfer Update, 2021 Layer Charts**

Jennifer Montero: Hello, thank you, behind tab 3 you'll find the layer charts as of June 30<sup>th</sup>, 2021. The Layer charts presented during the July board meeting were as of December 31<sup>st</sup>, 2020, that were projected to September 2021. They indicated where traditional reinsurance and catastrophe bonds were set for the season, however, the Cat fund was an estimate. On June 30<sup>th</sup> we have a better indication of where the Cat fund coverage will sit and the amount of coverage, we will have. While they're still estimates, they are pretty good estimates. The actual Cat fund attachment and coverage will not be finalized until January of 2022, post the industry audit. Since we're looking at the actual June data, the Probable Maximum Loss PML's are lower than expected for the finalized program projected to September 30<sup>th</sup>. We anticipate continued growth through the end of the year as policy counts increase and the PML's will also increase, this will shift the coverage layers to the lower return times and expose more surplus to the top layer of the tower where only the most severe storm scenarios exist. The coastal account surplus exposed has remained at 40%, the personal lines account chart shows the surplus exposed dropped from 65% to 58%. However, with the continued growth, we expect the PLA surplus exposed to shift back towards the projected 65% value. And if you turn to slide three for pricing, we anticipate 15% growth in the PML between December 31<sup>st</sup> and September 30<sup>th</sup>, 2021. As of June 30<sup>th</sup>, 2021, 11.3% of that growth has been realized this is why the PML in the chart is less than the July version. And we did a good job of projecting the attachment point and the amount of coverage, that we would get from the Cat fund there's only a little shift down and a slight reduction in coverage.

Most of the private reinsurance coverage is still within the 1-in-100 year PML a small amount extends up above the 1-in-100 to 1-in-105. Less surplus is exposed in the 1-in-100 year event, primarily because the 1-in-100 PML's is lower than the September estimates. This difference is small, and it does not change the percentage of surplus exposed between the two charts. Moving on to the personal lines account; for pricing we anticipated 27% growth in the PML between December and September 30<sup>th</sup>, 2021. As of June 30<sup>th</sup>, 22.9%, of that growth had been realized, which is why the PML in the new chart is less than that in the July version. For the personal lines account, we didn't do a very good job of forecasting growth, so the Cat fund estimates were off. Coverage shifted up a little in the tower \$40 million and the coverage increased by \$80 million. Most of the private reinsurance coverage is still within the 1-in-100 year PML a small amount extends up above the 1-in-100 to the 1-in-106 with less surplus exposed in the 1-in-100 year event, primarily because the 1-in-100 year PML went down. As PML is lower than what it was in September, the estimates combined with the increase in the Cat fund coverage this change is not significant but with continued growth in the personal lines account we do anticipate that the surplus exposed will increase back towards that 65%. And then the following pages are the appendix that just breaks out the layer charts in a non-comparison way. And there is no action item, this is just an update, so I will pause there for any questions.

**b. Optional Redemption of the Coastal Account 2015A-1 Bond**

Jennifer Montero: The next on the agenda is the Optional Redemption of the coastal account Series 2015A-1 bonds. In 2015, Citizens issued \$1 billion of pre-event municipal bonds in the coastal account \$700 million were fixed rate bonds and \$300 million were floating rate. The bonds issued as a liquidity mechanism to provide a cash bridge and for the Cat fund reimbursements and traditional reinsurance reimbursements. The 2015 issuance was the first time that Citizens included an optional redemption feature for the pre-event financing. Today, two maturities remains outstanding, \$225 million that mature June 1<sup>st</sup>, 2022, and \$275 million that mature June 1<sup>st</sup>, 2025. By utilizing the optional redemption feature for the \$225 million tranche maturing on June 1<sup>st</sup>, 2022, the bonds will be called at par on December 1<sup>st</sup>, 2021. Citizens will save approximately \$5.6 million in gross interest costs over the six month period. Citizens previously did exercise its optional redemption feature in December of 2017 for the 2018 maturity and in December 2019 for the June 1<sup>st</sup>, 2020, maturity. I'll pause for any questions before we read the action item.

**Staff proposes that the Finance & Investments Committee review, and if approved recommend the Board of Governors: a (Approve the redemption documents and authorize staff to utilize the optional redemption feature on December 1, 2021 for the \$225 million Coastal Account Series 2015A-1 Bonds maturing on June 1, 2022; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.**

Governor Beruff: **So, moved.**

Governor Knight: **Agree.**

Chairman Fields: **Motion carries seeing no objection,** thank you.

c. Investment Analytic Software

Jennifer Montero: The next item is the Investment Analytics Software. Citizens is seeking approval to contract with Clearwater Analytics LLC. for Investment Analytics Software through a cloud based software as a service solution. Approval request requested for a three year base term with three one year renewal options for an amount, not to exceed \$3.3 million for the life of the contract. The contract price is variable based on the size of the portfolio, therefore, the cost provided is the highest possible amount, however, the cost could be lower as outlined in the executive summary on page three. An investment analytics software provides three fundamental capabilities, compliance, risk analytics and reporting. These capabilities are especially important as Citizens 10 investment management firms operate independently and must execute investment transactions that comply with Citizens four distinct investment policies. Compliance is the ability to quickly and accurately identify any compliance violation, to ensure that liquidity and preservation of principle are upheld, risk and analytics the ability to run "what if" scenarios, to make better investment decisions and reinforcing cash flow planning. Reporting the ability to produce instant accurate reports detailing Citizens' investment positions by investment policy and/ or by investment manager it relies heavily on the investment analytics software. Clearwater was selected as the vendor that provided the best value to Citizens the negotiation team reached that decision based on the following process and or services that are offered only by Clearwater.

Data reconciliation: Clearwater automatically validates all transactions on a daily basis by matching these transactions to data provided by the custodian banks and the portfolio managers. Integrated transaction accounting data: Clearwaters reporting incorporates both transactional data which are purchases, sales, interest payments, etc., and accounting data month and balances and activities that are reported on the basis Citizens is required to use. This allows Citizens to streamline its reporting functions without relying on multiple systems or reports and provides for instant reporting of various types of information, such as market value cost basis, unrealized gains and losses, income across single portfolios, groups of portfolios and portfolio managers. Clearwater is focused on the insurance industry and portfolios like Citizens providing investment data aggregation, reconciliation and validation analytics and reporting to over 500 North American insurers and reports on \$5.2 trillion in global assets. Over half of the U.S. insurers with investment portfolio value between \$1 billion and \$10 billion use Clearwater. As mentioned earlier, Clearwater's pricing is variable offering a two tiered pricing model based on the value of Citizens' portfolio .425 basis points on the first \$10 billion and .40 basis points for over \$10 billion. The bottom page three of the executive summary provides multiple scenarios of Citizens portfolio. It gives a scenario for \$10 billion, \$12 billion and \$8 billion for six years, and then it also has a scenario, starting with \$10 billion and increasing by \$1 billion each year and the scenario of \$10 billion decreasing by \$1 billion each year. The \$3.3 million is actually \$3.259 million, which is the amount of the \$10 billion portfolio increasing \$1 billion each year, which is the largest amount. I will pause for any questions before I read the action item.

Governor Beruff: This is the item that came before us once before in July.

Jennifer Montero: That's correct.



Governor Beruff: We have a better understanding of the item now. But this is also the item that has some confidential privilege requirements, is that this the procurement item we discussed?

Jennifer Montero: Trade secret.

Governor Beruff: Trade secret, yes.

Jennifer Montero: I believe, almost all of my items have trade secret in them.

Governor Beruff: So, one of the things we discussed, Mr. Cerio is in the room, Ms. Montero is that when we go out to the public for proposals, they need to be aware that they can't be declaring everything trade secret, we are in the sunshine agency, we cannot be processing things that are constantly trade secret and the public doesn't know about that. So, I am going to make the motion to approve your action item with the caveat that moving into the future that we, as a policy consider not allowing these. Every time I turn around there's another trade secret that we can't share. I don't understand the lack of transparency and as an agency for the public, I don't understand why we should live with that condition. I understand and Mr. Cerio, if you'd like to speak to that I invite you to come up to the table. Before you know it everything we do is going to be a trade secret we won't have to have a meeting.

Tim Cerio: Chair Governor Beruff, I just wanted to point out, there are elements and CEO Gilway can speak to the specifics, there are elements in these proposals that probably legitimately could be deemed trade secret when you and I have spoken about this in the past. I think you express the frustration that there's just a blanket trade secret protection stamped on everything and it makes it very, very difficult to discuss items that perhaps some would argue, really, really are not truly trade secret it's just easier to protect everything. And what I committed to do was to go back and take a look at that, a lot of times again as we've discussed state agencies will often say listen, this is you're claiming the trade secret protection, we have a public records request. We're not going to decide, because we could face liability for disclosing a legitimate trade secret, so you all go to court and get a court order otherwise we're releasing this info in 10 days 20 days, whatever. One thing that I think CEO Gilway, can speak to is the legitimate use of true trade secret information in these instances.

Barry Gilway: Mr. Chairman, I think the issue here is, while we, wholly support your position relative to the trade secret issues. Trade secret filings are becoming more and more prevalent all the time you're seeing trade secret. The vast majority, now of all the major insurance companies are declaring their filings trade secret which really restricts the ability, you know of Citizens, for example, to aggregate the information and understand what's happening across the entire market. So, it's a very, very limiting you know proposition in terms of these items, the position that a lot of these companies are taking. Frankly AIR, RMS, and all of the of the models, for example, they all declare trade secret. I'm part of the hurricane Commission and we literally have to have two sessions, we have to have an open public session, and then we have a separate session that is closed session, where they discuss all of the details associated with their promulgation of the wind model. So, this is becoming far, far more prevalent and we can fight it legally, but I do want to make the point that it's not really within our control, you know, we have no ability to control, whether you know we do business with vendors that are declaring you know, a trade secret as part of their submissions.

Governor Beruff: I appreciate the explanation, the control comes in how we procure if we put in the procurement that hey, by the way. Whatever you give us there's no trade secret, thank you so much. I understand you're going to give me a rebuttal to that argument okay. But we're a public agency and the insurance market is filled with a bunch of private insurance companies, and they can do whatever they want. But as a public agency, we should try to push back and insist, as you admittedly said in your opening comments that more and more you're seeing trade secrets on every time you turn around there's a new requirement. Either that, or I'm going to advocate that this board as a policy challenge all of it, the trade secrets Mr. Cerio file a motion, with the Court we're going to release the information in 20 days and we're going to keep these people constantly going to court to tell us what is so secret about this. Because, as a public servant it's my responsibility, I think, to make sure that the policyholders of Florida, and the taxpayers of Florida are aware of why we're choosing these people to do business with them and what we're paying them for and if everything's a big secret. How do I defend that? I don't. Except for private sessions, of course, but that doesn't matter when you've got 100,000 or 200,000 or 20 million constituents that you should be advocating for.

Barry Gilway: Mr. Chairman, this is not a rebuttal. It's a statement basically that in certain areas, for example, catastrophe modeling. If we did not do business with those vendors that insisted upon trade secret, you know, when doing a filing we wouldn't have any vendors participate, we simply wouldn't have any...

Governor Beruff: We don't know that because we're a pretty large account. So, you want to give up, you know I don't understand you've pushed back. You have explained to me that you see more and more of this coming up. Is that much changed in the last five years in the insurance business that more and more of these things are being deemed trade secrets? We'll live with it, we'll get their trade secrets, but Mr. Cerio, his part of the business will be challenging more of them at some point. Because we're going to have to decipher what is a trade secret and say, well, we don't agree that's a trade secret we're going to say we're going to release the information two weeks or 20 days and more of them are going to come out unless you're constantly in court, defending it as a trade secret.

Barry Gilway: The only point I would make Mr. Chairman is that the trade secret information is utilized in the procurement. So, we have access to comprehensive information from these vendors that we utilize when we're evaluating the vendors. That is the issue, fundamentally, is what we can discuss within our evaluation committees and what we can discuss with them our negotiation committees, which contains all of these elements and then versus what we can discuss in a public forum, as we are today. So, in this case it's not really inhibiting our ability to get the best deal to do, the most effective evaluation and get the best deal for Citizens. It's not inhibiting that but what is inhibiting is the ability basically to openly discuss the detailed level information that they're saying basically are the fundamental determinants of the differential between one vendor and another.

Governor Beruff: Then we're going to have to have board meetings that are close to the public. If I as a governing board member and my other colleagues want to discuss this trade secrets, we

have to have closed board meetings, because we cannot talk to each other, outside of the sunshine about these matters correct.

Tim Cerio: If there are items that are in the procurement and I again I've only been here a short time, but a lot of the elements that go into the evaluation help evaluate but they're not necessary things that this board would discuss publicly but yes Mr. Chairman if you wanted to discuss an item that had been properly marked trade secret, it would make it a type of shade meeting or something like that, not that we want to I mean we don't like going down that path.

Governor Beruff: Right, in the ability for us to discuss these items and whether or not they're truly valuable information for us to jointly hash out we have to have that in a published meeting, and it has to be in the shade. Because we can't talk about it outside of the meeting because we're violating sunshine.

Tim Cerio: If it is something that you feel merits discussion, but again I will echo what CEO Gilway said in state public procurements Florida law does recognize that sometimes, in order to get the best deal for Floridians, we need to allow for the submission and protection of trade secret information. Which is why this elaborate process is set out in statute. What might help is if we could sort of come back to you with some examples of this is information that really legitimately should be protected, it will help us get better bids, maybe here's some examples, for you of items that have been labeled maybe a little sloppily as trade secret that aren't. And, and we can probably figure out a strategy and come back with a recommendation.

Governor Beruff: I'm just reacting to their comments in conference call about the fact that you're seeing more and more of this and in a state that's opposite that direction. In a state that's trying to be more and more transparent and then all of a sudden, the people that we're doing business with don't want us to be more and more transparent. So, that rubs against the grain and back to the point where, if I wanted to have a free forum discussion with my board members, we can't have it in the current situation on any policy that has trade secret marked on it, correct.

Barry Gilway: I think if the issue is, can we discuss it publicly? No, we can't discuss the trade secret. The component of public, you are absolutely correct Mr. Chairman, and that the direction the state is going. It's allowing more and more trade secret most of the companies starting five years ago with State Farm, for example, all of the detailed information they submit in terms of risk characteristics for the state they declared trade secret. Within two years, the major companies in Florida had all gone down that route. And State Farmer's position and I think a valid one right State Farmer's position is, by providing detailed risk characteristic information on my company I'm giving away my competitive position, you know, in the marketplace and it's the same really with AIR and RMS when we get into catastrophe modeling. The reason they have distinctions is because the trade secret information really is the difference between RMS coming up with X dollars for a wind estimate and AIR coming up with an estimate. So, we agree with your position, but we are we're dealing with a situation where we're trying to come up today with the absolute best deal in the marketplace and we don't want to restrict the vendors that we work with if, in fact, we can utilize the trade secret information during the evaluation process and the negotiation process.

Governor Beruff: It will be simple to set a policy when there's a trade secret consideration, whoever on that board has to listen to that decide whether or not the one take it up with the rest of the board. But you're going to start getting busy.

Chairman Fields: Governor Knight.

Governor Knight: Yes, I was going to make a suggestion, along the lines of what Mr. Cerio suggested, could we bring back to the board education on the buckets of trade secrets possibly where people are being generous with the label. Where these are items that would often fall under true trade secrets that help a company remain competitive and what is lacking in terms of being discussed that may be helpful in sunshine, etc., as a separate report or summary to come back to us.

Governor Beruff: Thank you, excellent suggestion.

Chairman Fields: Thank you so much, my only comment is, I think that there are legitimate reasons to for companies to want to protect some of their intellectual property and that kind of stuff I totally get. My concern is that perhaps the statute is worded in a way where it allows them to claim the whole thing is trade secret when only a small sliver of it is and they're taking advantage of that if that's the case then I think, Governor Beruff is right. We need to revisit how we deal with these people on the other side. I don't see how us tightening our house here, and the way we play is going to drive away a ton of business. I've never met companies that don't want public contracts, just because they may have to disclose some information that should be legitimately disclosed. Anyway, I'm not saying that it all needs to be disclosed, but certainly you can't just put everything into one big bucket and call it a trade secret. I think the truth is somewhere in the middle would be my only comment. I'm not proficient statutory you know public record and trade secret law, so I defer to Mr. Cerio on that.

Barry Gilway: Governor Chairman Fields I think Governor Knight's recommendation is excellent because, at least we can present to the board in a procurement, for example, what information is this, not the information detail, but what information is trade secret, what information is public. So, that at least the board can get a good understanding of the impact of trade secret information in some of these categories. I do happen to agree with Chairman Fields that there are circumstances where intellectual property is the determinant for a company as respects their overall marketing, strategy and plan and there are cases where they want to retain the privacy of that information. So, it I think it's going to be a balancing act to improve.

Governor Beruff: I think this is a valid discussion and I guess what we'll have to do is depending on the volume that starts coming up, whether or not we have a closed meeting or not, because again, part of my point is being able to discuss it openly with all the board members we are just three here and we cannot have those discussions on these issues in the public specifically on a particular procurement contract. I agree with and thank you for the direction you have given Mr. Cerio. Because I think it's the right direction, but at some point, we might find that the volume is such that we'll just have to have a closed meeting amongst the whole board members and us start to determine how to push back to the, as you mentioned, I don't think we're going to lose all of these people providing services because we asked them to be able to disclose more information

because they've taken a blanket, this is a trade secret attitude over large parts of the document that in truth aren't really trade secrets to me. And this is probably a terrible comparison, but you can go on the Internet and find out how to build an atomic bomb. So, I can't think there's a lot that you can't find if you know what you're looking for that is really a trade secret in these particular circles, because almost anybody can find anything if you know what you're looking for. But we'll see. Thank you so much, I made a motion early on, with the additional comments so to adopt the action item.

Governor Knight: I do believe your motion was two part to adopt the action item.

Governor Beruff: And expanded by however, we want to finish the motion or just separate it by approving the motion right now. **We've had the discussion; the staff has some direction from us as committed so I'm fine with just approving the motion as is with no addition.**

Governor Knight: **Second.**

Governor Beruff: Thank you for correcting the motion.

Chairman Fields: Motion is approved without objection did you want to make some further comments?

Governor Knight: Would we like to make a motion from the floor, that this process come back or...

Governor Beruff: I think I've gotten to know, everybody here a little over...

Governor Knight: Honor system?

Governor Beruff: Yeah, there's an honor system so they know that we're serious and Mr. Cerio will figure out how to make it in his next presentation will bring this up as a subject for discussion. Right? So, thank you.

Governor Knight: And the way I envisioned it is two parts, some education for the non-lawyers and people that have been thinking about it a lot so part of education on trade secret and is it just blanket every time or are we receiving proposals that have bits and pieces flagged as trade secrets. So, an education and then further detail.

Governor Beruff: To your comment, what we want to try to go away from is, Mr. Cerio, where everybody starts using it as a blanket. Well, it's a trade secret everything's a trade secret we can't disclose anything. We do not want to fall into that trap as a public agency which we are independent, but we do answer to the public.

Chairman Fields: One last comment on that, Tim would be that are we the only... obviously, other state agencies procure right, and the question is in this space that we operate in does OIR and other similar organizations see this type of activity happening as well? I'm not asking now I'm just saying for some education down the road, it would be helpful to know that we're the only agency that's being saddled with these trade secret proposals or if everybody else has seen them because maybe there's something that needs to be done on a different level.

Tim Cerio: We are certainly not the only agency.

Chairman Fields: I figured.

Jennifer Montero: Mr. Chairman, I can add that a lot of the insurance companies are filing their financials with the Office of Insurance Regulation as trade secret, because when we do all the corporate analytics, we can't get company data when they file trade secret, we can only get it on an aggregate level so it's happening everywhere.

Chairman Fields: Alright well. Next thing on the agenda is the reinsurance advisory and brokerage services.

Jennifer Montero: Oh, there is a formal action item I should have read for the investment committee meeting I don't know that it matters. Barbara Walker, do I need to, they made the motion to approved it do I need to read the actual recommendation?

Barbara Walker: Yes, you probably should read it into the record, or I can.

Jennifer Montero: Okay, thank you. **Staff proposes that the Finance Investment Committee review and approve recommend to the Board of Governors authorized Citizens a(to contract with Clearwater Analytics LLC for an initial term of three years and for three one year renewal options for an amount, not to exceed \$3.3 million for the life of the contract as set forth in this action item and b(authorized staff to take any appropriate or necessary action consistent with this action item.**

Governor Beruff: **So, moved.**

Chairman Fields: **Approved without objection.**

**d. Reinsurance Advisory and Brokerage Services**

Jennifer Montero: Thank you, the next item is the Reinsurance Advisory and Brokerage Services. Citizens is requesting approval to contract with Willis Re Inc. for Reinsurance Advisor and Brokerage Services, the services include comprehensive advisory and brokerage services consisting of access to all traditional risk transfer markets brokerage administrative services, program analytics and an annual risk transfer plan. Citizens enabling statute requires it to make its best effort to procure catastrophe reinsurance in the private market at reasonable rates to cover as 1-in-100 year probable maximum loss. The analysis and decision to purchase catastrophe insurance coverage is evaluated by staff each year and recommended to the board for approval. Through the competitive procurement process Citizens has consistently retained qualified reinsurance brokers to advise and assist Citizens on all matters in the traditional reinsurance market related to risk transfer of loss from catastrophic events. The brokers have assisted Citizens to plan its annual risk transfer program that spreads the insurance losses from catastrophe events globally and reduces the probability and amount of assessments on Florida policyholders by limiting the amount of Citizens surplus that that is exposed for those losses. Additional services provided by the reinsurance broker include brokerage administrative services, which include

contract and coverslip drafting and administration, marketing and syndication of catastrophe reinsurance programs, administering escrow of ceded premiums, ceded commissions and ceded loss payments associated with traditional reinsurance. Program analytics which include catastrophe modeling, meteorology stochastic reserve estimating, catastrophic risk exposure and evaluation of risk transfer.

On July 15, 2021, Citizens released Invitation to Negotiate number 21-0015 for Reinsurance Advisor Brokerage Services three vendor responses were received. The responses were reviewed and scored by an evaluation team who recommended all three vendors advance to negotiations. On September 8th the negotiation team recommended an award to Willis Re, while all three respondents have the capability to act as Citizens' reinsurance broker through the evaluation negotiation phase Willis Re demonstrated outstanding communication skills and a fundamental understanding of Citizens' unique challenges and operating characteristics. And in the ITN process, the price of services is not the only selection criteria, but it is taken into consideration to determine the best overall value. While the price for Willis Re is somewhat higher than the other two vendors, the negotiation team found that quality and strength of the brokerage team prior relevant experience in placing reinsurance programs and providing program analytics and ability to provide quality and timely services based on the company culture and the key personnel offset any difference in price between the vendors. In addition to having a business segment dedicated solely to the Florida market the brokerage team has considerable experience with placing reinsurance in Florida for Florida carriers and further the key personnel on the brokerage team all reside in Florida. The contract will have three year term with two one year renewals. Renewals are optional and at the sole discretion of Citizens, the contract amount is for \$16.7 million for the life of the contract, including both renewals. I will pause for any questions.

Governor Beruff: Mr. Chair

Chairman Fields: Governor Beruff

Governor Beruff: Who were the other two vendors and what was the price?

Jennifer Montero: Aon and Guy Carpenter and their trade secret... I can tell you, the percentage, I can tell you that...

Governor Beruff: How quickly it comes up.

Governor Knight: So, the trade secret is the price?

Jennifer Montero: The whole thing is a trade secret.

Governor Beruff: So, we can't discuss what the others price is?

Jennifer Montero: They're 15% higher than the lowest and they're 9% higher than the middle one.

Governor Beruff: What was that 15% higher than the lowest?

Jennifer Montero: And 9% higher than the one in the middle.

Governor Beruff: So, in either case it's a minimum of 9%.

Jennifer Montero: Yes

Governor Beruff: We're paying Willis Re 9% more than the next lower, than the median?

Jennifer Montero: That is correct.

Governor Beruff: 9% of \$16 million is \$1.4 million a little bit less than \$1.3 close enough, right? So, we're going to pay somebody \$1.3 million more than another qualified contract.

Jennifer Montero: Yes

Governor Beruff: And why because we like them, and they live in Florida?

Jennifer Montero: No because of all of reasons I mentioned.

Governor Beruff: But you know it's a lot of money, it's not insignificant money, Mr. Gilway.

Barry Gilway: Mr. Chairman, we place last year \$2.36 billion worth of reinsurance the result Willis obtained for us last year was, we were oversubscribed in virtually every layer in all of the major layers.

Governor Beruff: What was the difference, the discrepancy in prices...

Jennifer Montero: We did the same solicitation last year, at the Financial Investment Committee approved the awarded vendor, which was Willis for five years, but at the board meeting Governor Dunbar who was part of the FIC came back and said, there is a pending merger with Aon and Willis. Why don't we hold off one year, give them an extended contract for one year and resolicit it, but when they did respond last year, the price for the five years was \$17 million.

Governor Beruff: Ok, I need to break it down into pieces so I can digest.

Jennifer Montero: \$3.4 million for one year.

Governor Beruff: And what was the other vendors 9% higher lower...

Jennifer Montero: No, actually, they were in the middle, so they weren't the low and they weren't the high in the last one.

Governor Beruff: In this case, they are the high.

Jennifer Montero: They are which is lower than what they bid last time

Governor Beruff: Which is lower than what they did last time when we gave them the contract?

Jennifer Montero: Yes

Governor Beruff: So, they're getting less from us this year than they did last year. Mr. Gilway was advocating because we did so well, and they did so well in the reinsurance market. That we were able to save a lot of money on that \$2.0 billion that we placed.

Barry Gilway: Right, my position, Mr. Chairman, is placing reinsurance both in the traditional marketplace and in the insurance linked security marketplace is extremely difficult extremely complicated, but it really comes down to...



Governor Beruff: Is it really though, wasn't it just we were oversubscribed.

Barry Gilway: It comes down to the relationship that the brokering team has with the hundreds of reinsurers that we interact with and the differential here although we don't talk openly, the difference, all of these vendors will qualify the differential is the relationship historically that Willis has shown regarding their relationship with the reinsurers compared with the other vendors and it has been substantial. The percentage of the placement on a co-brokerage placed previously I won't get into the percentages it's not trade secret, but I'd rather not get into the percentages. But Willis was able to place a significantly higher percentage of our overall placement than the other brokers. It comes down to the overall relationship of the team and the relationship with the team with our modeling people and our staff, and that is the differentiator here.

Governor Beruff: But last year wasn't that partially driven by the capital markets in general?

Barry Gilway: Absolutely the capital markets, and I think, you know, Kapil has commented on that there's substantial capital available in the capital market not so in the traditional marketplace. The brokers do not work with us on the capital markets, the brokers work with us on the traditional market we work with Horseshoe, and we work with their book runners on the placement of the insurance link securities product. And we work with our brokers on the placement of our traditional reinsurance products typically standard reinsurance.

Governor Beruff: Then why the three year contract, just curious. Why not give them just give a one year contract? They were ok with that last year.

Barry Gilway: I personally do not believe, going through the procurement process every year is extensive and, and the relationships that, for example, the Willis people establish with the various reinsurers on behalf of Citizens is substantial so making that move frankly is extremely difficult. My recommendation last year was not to enter into a one year relationship with Willis but to maintain the original three year with two year extension, that we had with Willis. I don't believe it was necessary, frankly, because we always have the ability, as CFO Montero comment we always have the ability to cancel the relationship at will regardless of the possible acquisition. In this case the acquisition of Willis by Gallagher, potentially, but I would say, this is a very unique area and it's a relationship business in the traditional areas, it's a relationship between the Willis team and our team and the hundreds of reinsurers that we interface with in order to put the program together. In my opinion, the differential in cost, frankly, is minor relative to the value that the Willis team has historically brought to the table.

Governor Beruff: I have to make a comment because I just can't let it go when \$1.3 million becomes minor to me then I've got a problem. Because the services are the same the differences that you're talking about the relationship and whether or not, if they're all qualified. I don't understand the argument why \$1.3 million and more money.

Jennifer Montero: Well, they can all do it, but some do it better than others.

Governor Beruff: So, some do it better than others, have we use Willis Re exclusively and for how long?

Jennifer Montero: One year, before that we had them for 10 years, but they were co-brokers with Guy Carpenter and before that we were with Benfield who is Aon, so we've worked with all three.

Governor Beruff: Willis now has the Guy Carpenter team?

Jennifer Montero: No, we left co-brokering and went with sole brokering.

Barry Gilway: Co-brokering was incredibly inefficient it just didn't work well at all, but I will give you one example why this is so important. We came down to the wire on the last year co-brokerage and with one of reinsurer, who is the major reinsurer on our program today. And the one broker literally could not get that reinsurer to move in terms of coming up with the full amount of the placement, that we were looking for. Willis got involved with the other broker took over, basically, and was able to obtain the capacity that was required to fulfill our placement. So, the differential impact that a team and the relationship of that team with the traditional reinsurance market can have is substantial and when I say minor, no \$1.4 million is absolutely not minor, but there are areas where the relationship issues and the additional advantages of doing business with a group that has fantastic relationships, in our opinion, better relationships in those market conditions with the reinsurance marketplace has been hugely advantageous.

Governor Beruff: What do you see the fall out of Willis really does go with Gallagher?

Barry Gilway: I'm sorry Mr. Chairman.

Governor Beruff: What happens if Gallagher absorbs Willis?

Barry Gilway: Nothing. I mean the reality is, and I think Jennifer Montero has covered this, the reality is the advantage of Gallagher versus the old Aon Willis issue that we were facing last year is Gallagher has no brokerage operation. So, if Willis Re is sold to Gallagher, Willis Re will move its entire operation over to Gallagher and it won't be integrated with another operation. The issue that we faced last year was Aon, as you can see, both Aon and Willis Re are two of the competing vendors and the concern that we had was if the merger went through who would have the surviving control of Willis Re. We don't have that issue, this year, so we fully expect no change, but, as I mentioned, if there is a change, and if for any reason, that Jennifer Montero and her team are not at all comfortable with the Willis relationship, they have the ability to cancel the contract at any time.

Jennifer Montero: And I will add in the fee there, there is \$600,000 each year, that is targeted for Cat modeling. So, in past years, the reinsurers would run some models for us when we do our pricing because we get it from multiple sources different modeling results, and they were I guess at a courteous where now the modeling companies are insistent that the insurers if the brokers run stuff for us, it's not for the placement of the reinsurance but more like the pricing. We have to pay licensing fees so of that price of \$16.7 per year \$600,000 per year is for Cat modeling.

Governor Beruff: But the other vendors also included that for less money.

Jennifer Montero: Yes, one of the vendors has their own modeling so they can use their own. They all gave different amounts of what they were willing to put aside for that. Where the price

was last time when Willis responded, it was only \$400,000 so they're taking another \$200,000 adding it to that coming off their brokerage fee.

Governor Knight: My question was along the lines of what you mentioned the team their relationships and so if they decide to break off from Willis and formed Gilway enterprises we can move with them. Meaning, we can cancel the contract at any time if it is about relationships. I guess, the question is, if they have a non- compete etc. comes to mind, because the word team and relationship is repeated.

Barry Gilway: If I understand your statement Governor Knight, yes, I mean the reality is if the Willis team were to break off and say I don't want to be part of Gallagher and, by the way, that is happening more and more or part of Willis leave then Jennifer Montero would have a decision to make, and that is basically would the team remaining with Willis be an appropriate team that she could support. If not, then we would cancel the relationship with Willis, and we'd have to reprocur the services.

Governor Knight: And the second part, to the question is, you mentioned, they were able to deliver oversubscribed what we needed did that result in a savings is there a savings differential in that aspect that makes up for the contract price differential?

Barry Gilway: We don't, we really don't account for that in the overall pricing. This is a flat fee, so we don't account for their success in their pricing. The pricing in the traditional marketplace comes down to June 1<sup>st</sup>. I mean it literally comes down to the wire. So, there's no differential built in relative to the overall price. We have an original expectation relative to overall price, and we have a range, Kapil did you want to comment on that?

Kapil Bhatia: Yes, thank you. Governor Knight we actually before we go into the market, we calculate what the markets will give us, or what the rate would be - we do all the projections, and we develop the budget. So, we do not know exactly how much savings will be, but the brokers objective is to deliver better, and they usually don't know the pricing it's discussed internally where we develop the program and work with them. So, we have certain guidelines where the pricing will be, and the pricing this year was much more efficient, which we presented to you when Jennifer Montero presents her actual budget and where the program was placed and at what rate. It was 27 basis point to 30 basis points cheaper than what we originally projected and if you look at our total cost or rate online it's around 6.5% with all of the programs combined so there was a significant savings, not to say that somebody else would have not done it but historically tells us the program was not effectively and efficiently placed so we know there is a target objective and a benchmark to beat and that's how we determine. \$1.4 million and if we divide by 5 it's \$280,000 per year that translate into what we will pay in additional brokerage for reinsurance. We spend around \$200 million give or take, for the last year \$2.8 billion of a program average rate online of 7% we're talking about 2 basis point of the total reinsurance program placements. So, it's a very large in absolute number, but not in relative terms when we talk about how integral it is for our program from a risk management perspective and how it's placed and how each layer is filled. It's important for the team to develop the program what's needed so certainly somebody can say we can place it because it's easier to say. When the time comes, the resources put in by an individual entity reflects that successful execution of the program. So,

somebody can say we can do it for \$2 million, however, we have seen that they fail, again and again and we just don't work for Citizens, we have a large number of national client and we've placed the largest earthquake program and the large wildfire program, so we have seen that again and again, perfect execution is what's needed. So yes, it costs more, but you need more people to place globally.

Chairman Fields: Do the terms of the contract allow us to back out if there's some sort of a change in who's representing us and the people that were working with?

Jennifer Montero: So, for any reason, at any time, we can,

Chairman Fields: And what happens, do we just owe them a prorated amount of the contract?

Jennifer Montero: If they've already done the placement, we would pay them their fee for that year, they also get a fee of not placing anything because we use a lot of analytics, modeling that kind of stuff. So, there's a smaller fee that was included in case we don't place something. So, I would assume that if we terminate the contract before we did the placement, we would probably pro-rate that fee for non-placement.

Governor Beruff: Mr. Chair

Chairman Fields: Mr. Governor Beruff

Governor Beruff: I wanted to ask the question, wasn't it the year before last you decided not to place reinsurance?

Jennifer Montero: No, we pulled the Cat Bond out.

Governor Beruff: But you got very little reinsurance because it was very expensive.

Barry Gilway: Hundred million - \$200 million of Coastal Cat bond in the insurance link security marketplace that we went to market to place that \$200 million Cat bond. The reality is the pricing, which was just completely outside so we withdrew it.

Governor Beruff: I'm just I started the conversation, knowing the answer. I wanted the board to understand there are cases where the reinsurance market is so prohibitively expensive that correctly, the staff recommends to us it's too expensive we're not it was 22% or some ridiculous amount that particular year the availability of it, so the capital markets are the driver when there's a lot of capital chasing return. Like there was last year we were oversubscribed the year before that there was not the supply a capital in the market for our particular niche business right.

Barry Gilway: If I may just expand?

Governor Beruff: Please expand if my thought is completely offline but that's my understanding.

Barry Gilway: Mr. Chairman you're absolutely correct. Last year there was sufficient capital in the insurance linked securities market, so we got we literally placed at the low end of our target range relative to the traditional market and we were oversubscribed you're exactly right. The year before that we could not even make the placement at a realistic cost. The cost for the traditional placement and by the way the capital markets placement was just way above what we felt was

realistic to pay so fundamentally we made a decision to reinsure and not place the entire line in several layers and that's the decision that we have to go through every year. The pricing, two years ago was so...

Governor Beruff: Unaffordable.

Jennifer Montero: We did place \$1.2 billion in 2020. We didn't go with nothing we didn't put as much as we wanted.

Governor Beruff: Not as much as you had allocated in your budget, because it made no sense.

Barry Gilway: But the point is, though, every year we really have to look at the overall pricing, and we don't know, fundamentally, the final pricing until the end game. We establish pricing in terms of what we are looking for, and then we have to literally establish pricing go back out to the market say at this pricing what kind of capacity, would you allow us, will you give us and that's done over a whole select group of reinsurers that are willing to place the dollars.

Governor Beruff: You're going to make a comment.

Kapil Bhatia: Nothing more to add except for that, as I mentioned in my market update, spread for the corporate bonds in March of 2020 and COVID was just starting widened significantly, there was no liquidity in the marketplace, and that was the time we were trying to place our program, because usually we run all the numbers in January, February and place the program from March through May so the timing was just bad, and markets were completely frozen. Mr. Gilway said we pulled from the market because we had a benchmark where we want to price it if the market or not...

Governor Beruff: But besides COVID this has happened in the past too. Where the cost of the reinsurance was not reasonable enough for us to place it, in spite of COVID correct.

Barry Gilway: Absolutely.

Governor Beruff: That's what I thought. I just wanted to make sure it wasn't just COVID that drove the markets bad in 2020. In other years because the insurance market has been so underpriced in Florida there wasn't capital in the market that we could even buy at a premium that made any sense.

Kapil Bhatia: That's totally correct 2019 was really an exception, when we completely pulled the Cat bond away, otherwise you can still adjust the size, but 2019 was really an exception.

Barry Gilway: Just to prove your point, Mr. Chairman, in 2012 my first year here, we were paying 21% rate online for placement 21%. Last year we paid 7% rate online, so what is not fully tracked right is the literally the overall reinsurance trend in the marketplace. The pricing of reinsurance from 2012 through 2018 dropped dramatically and it's really just in the last two years, when the curve has changed, and market conditions has changed capacities are drying up in the traditional market and in the capital markets until last year and now it's moving back upwards. Given what has happened in the last decade the insurance market is two thirds below what it was nine years ago.

Chairman Fields: Just to be clear that our obligations under this contract with Willis Re do not change, irrespective of the amount replacing their insurance market right.

Jennifer Montero: Correct.

Chairman Fields: If there are no further questions, I think the next thing is for you to read the action item.

Jennifer Montero: Yes, thank you: **Staff proposes that the Finance Investment Committee review and approve recommend to the Board of Governors a( authorized Citizens to contract with Willis Re Inc. for an initial term of three years and for two one year renewal options for an amount, not to exceed \$16.7 million for the life of the contract as set forth in this action item and b(authorized staff to take any appropriate or necessary action consistent with this action item.**

Chairman Fields: Any discussion?

Governor Beruff: No, I've had enough. I'm sure everybody else has too.

Chairman Fields: Right, **is there a motion to approve the action item.**

Governor Knight: **So, moved.**

Governor Beruff: **Second.**

Chairman Fields: Okay, without objection, **the action item is approved and motion carries.**

#### e. Investment Portfolio Update

Jennifer Montero: Thank you very much. The next item is the Citizens investment summary. So, looking at slide one, the total portfolio is \$9.6 billion, with approximately \$8.8 billion externally managed by 10 investment managers. The remaining \$800 million or approximately 8% is i managed and primarily consists of operating funds, debt service and debt service reserve funds. The taxable portfolio is \$8.97 billion or 93% and the tax exempt portfolio is \$630 billion or 7%. The portfolio is very conservative and stable with sufficient liquidity in pay claims.

The total portfolio average duration is stable and is just over 4.56 years. The income return and total return for one year are approximately 1.03% and .37% respectively. The income and total return reflect a stable portfolio as interest rates and corporate spreads have stabilized. On slide two treasury rates have significantly decreased in 2020 but have stabilized in 2021 and we expect interest rates to remain at current historical low levels, until the end of 2022 or over the next 15 months. The yield curve steepened earlier in the year, but since then has again become relatively less steep.

The current 2 to 10 years spread is 108 basis points as compared to 57 basis points, a year ago. Tax exempt rates have also increased, but at a lesser pace than the Treasury rate increases. On slide three, both the taxable and tax exempt portfolios have a very strong credit quality approximately 74% of the taxable portfolio is in money market funds or rated "A" or higher. And

100% of the tax exempt portfolio is in money market funds rated “A” or higher and approximately 38% of the total portfolio is in Treasury and Agency securities or in money market funds. And slide four, the portfolio income return is stable or 1.03% over the last 12 months and 1.35% over the last two years. And the portfolio total return was 37 basis points over the last 12 months reflecting an increase in interest rates but it’s very robust at 4.17% over the last two years and that concludes my report.

Chairman Fields: Any questions see none, thank you very much. Is there any new business seeing none we're adjourned.

(Whereupon the meeting was concluded.)