

# **Citizens Investment Summary Report**



**April 2016**

## EXECUTIVE SUMMARY

- Citizens' total portfolio market value for April 2016 was \$13.48 billion with an average duration of 2.37 years and average credit ratings of "A+/A1/A+".
  - 65% of the total portfolio is taxable, with a market value of \$8.83 billion.
  - 35% of the total portfolio is tax-exempt, with a market value of \$4.65 billion.
  - 88%, or \$11.84 billion of the total portfolio is managed by 15 external investment managers, with an average duration of 2.69 years and 12% is internally managed, or \$1.64 billion.
- Citizens' gross total 1-year return for April 2016 was 114 basis points above the 1-year Treasury, and Citizens' gross total 3-year return was 22 basis points above the 3-year Treasury.

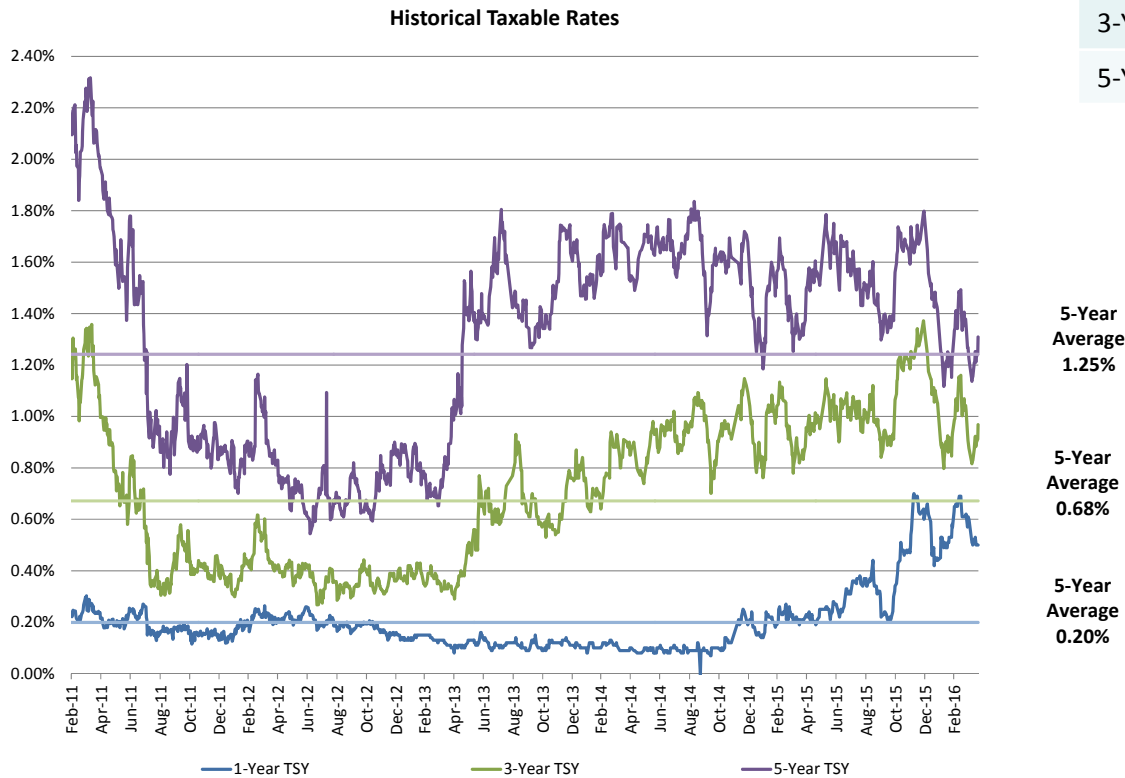
Portfolio	1-Month	1-Year	3-Year
Taxable	0.22%	1.97%	1.34%
Tax-Exempt	0.21%	1.27%	0.91%
<b>Total</b>	<b>0.22%</b>	<b>1.71%</b>	<b>1.19%</b>

- For April 2016, the average 1-year Treasury yield was 0.57%, 3-year Treasury yield was 0.97%, and 5-year Treasury yield was 1.29%.

## TAXABLE INTEREST RATES

- The 1 year US Treasury rate has decreased in the past month, while the 3 & 5 year rates have increased.
- The FED Funds rate has increased 25 basis points over the last year.

Taxable Rates	As of 5/18	3-Mos. Prior	1-Year Prior	5-Year Average
Fed Funds	0.37%	0.38%	0.12%	0.13%
1-M LIBOR	0.44%	0.43%	0.18%	0.22%
1-Yr TSY	0.62%	0.51%	0.20%	0.19%
2-Yr TSY	0.88%	0.74%	0.61%	0.42%
3-Yr TSY	1.05%	0.90%	1.01%	0.68%
5-Yr TSY	1.38%	1.23%	1.60%	1.23%



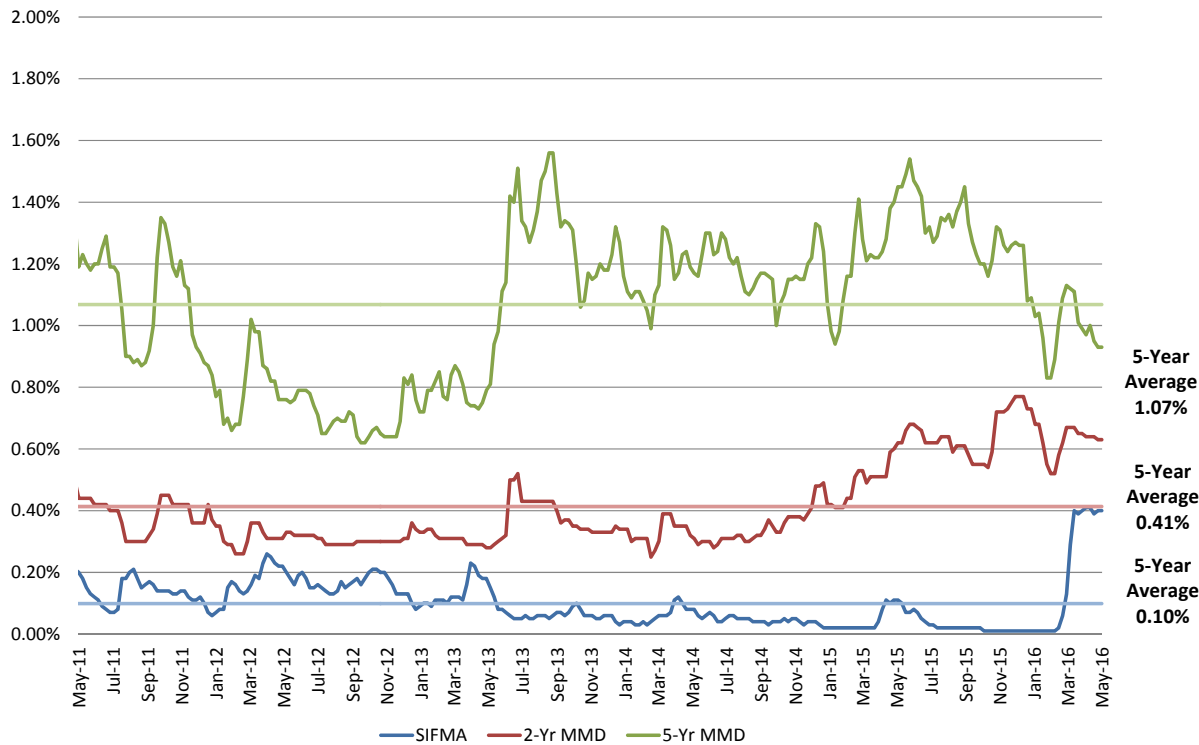
Source: Federal Reserve

## TAX-EXEMPT INTEREST RATES

- The SIFMA rate has increased in the past month.
- The 2-year MMD rate has increased 1 basis point over the last year.

Tax-Exempt Rates	As of 5/18	3-Mos. Prior	1-Year Prior	5-Year Average
SIFMA	0.40%	0.01%	0.11%	0.10%
2-Yr MMD	0.63%	0.52%	0.62%	0.41%
5-Yr MMD	0.93%	0.83%	1.45%	1.07%

Historical Tax-Exempt Rates



Source: Bloomberg and Thomson Reuters

## MARKET UPDATE

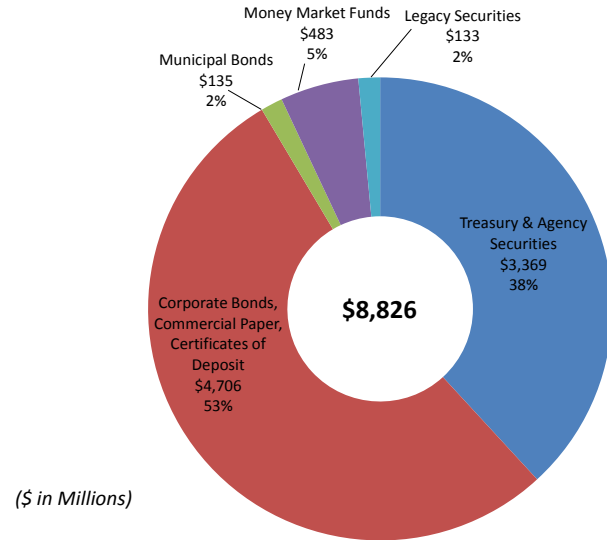
- 7.9 million people are unemployed and 158 million civilians are employed in the United States, which is 62.8% of the total civilian population of 252 million
- After the Fed's 0.25% December rate increase, the market now expects Fed to raise short-term interest rates one time. Despite having indicated in December that they would raise rates more than once or twice, the global economy is facing slow growth
- The equity markets have been hit hard by the concerns of global economy and declines in the energy sector and concerns over China – the S&P 500 has recovered slightly and is relatively flat for the year after being down by approximately 8% in the early part of the year
- Municipal issuance was up by 12% in 2015 versus 2014 with \$378 billion issued, and is marginally above the average issuance of \$360 billion over the past five years
  - Year-to-date 2016, municipal long-term issuance is \$120 billion, or 13% lower than 2015 year-to-date
- Corporate issuance had a record year in 2015 with over \$1.5 trillion issued – the sixth straight year that corporate issuance has surpassed \$1 trillion
  - Year-to-date 2016, corporate issuance totals \$398 billion, which is 11% lower than year-to-date 2015
- Global reinsurance capital currently totals approximately \$565 billion and reinsurance rates are 5%-10% lower in the U.S. market for 2016
- During 2015 the outstanding catastrophe bond market grew marginally, ending the year at approximately \$26 billion, the highest level ever recorded. 2016 is also projected to have only minimal to modest change from 2015 as we expect the collateralized reinsurance market to increase in 2016

# PORTFOLIO SUMMARY

Security Description	Current Month Market Value	Prior Month Market Value	Month-to-Month Change	Current Month % of Portfolio MV
<b>Taxable</b>				
Treasury & Agency Securities	\$3,369	\$3,375	(\$6)	25%
Corporate Bonds, Commercial Paper, Certificates of Deposit	\$4,706	\$4,635	\$71	35%
Municipal Bonds	\$135	\$144	(\$9)	1%
Money Market Funds	\$483	\$512	(\$29)	4%
Legacy Securities	\$133	\$146	(\$13)	1%
<b>Total Taxable Portfolio</b>	<b>\$8,826</b>	<b>\$8,811</b>	<b>\$14</b>	<b>65%</b>
<b>Tax-Exempt</b>				
Municipal Bonds	\$3,388	\$3,547	(\$159)	25%
Variable Rate Demand Notes (VRDN's)	\$41	\$49	(\$8)	0%
Money Market Funds	\$465	\$282	\$183	3%
Government & Agency Securities	\$755	\$755	\$16	6%
<b>Total Tax-Exempt Portfolio</b>	<b>\$4,649</b>	<b>\$4,633</b>	<b>\$32</b>	<b>35%</b>
<b>Total Citizens Portfolio</b>	<b>\$13,475</b>	<b>\$13,445</b>	<b>\$46</b>	<b>100%</b>

(\$ in Millions)

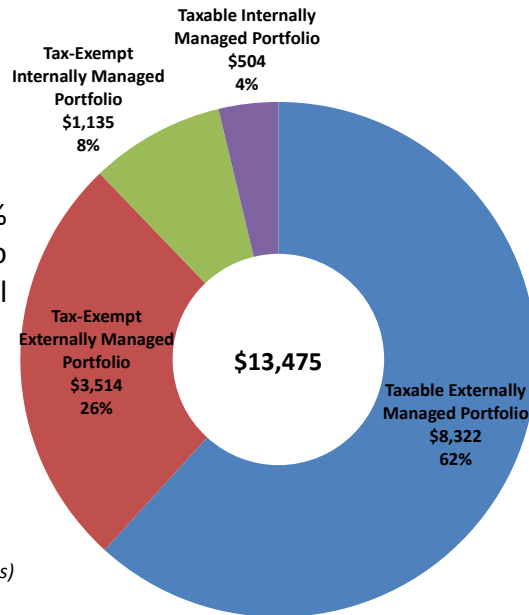
## Taxable Portfolio Composition



(\$ in Millions)

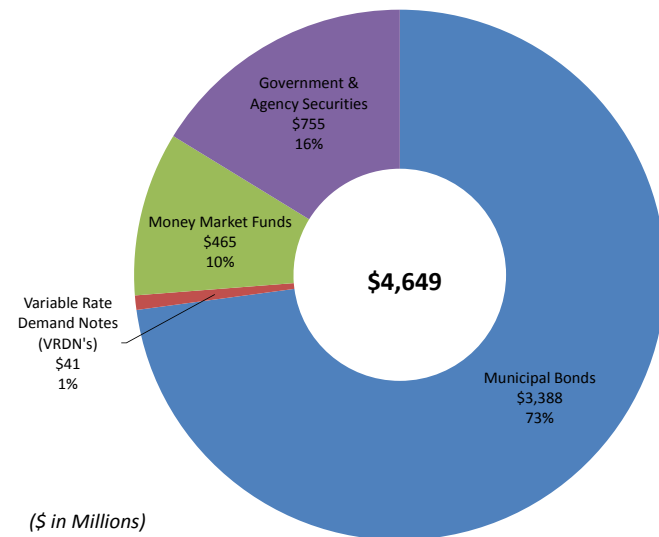
	Grand Total	% of Portfolio
Externally Managed	\$11,837	88%
Internally Managed	\$1,639	12%
<b>Total Citizens Portfolio</b>	<b>\$13,475</b>	<b>100%</b>

- Citizens has \$11.84 billion, or 88% of its \$13.48 billion portfolio managed by 15 external investment managers.



(\$ in Millions)

## Tax-Exempt Portfolio Composition

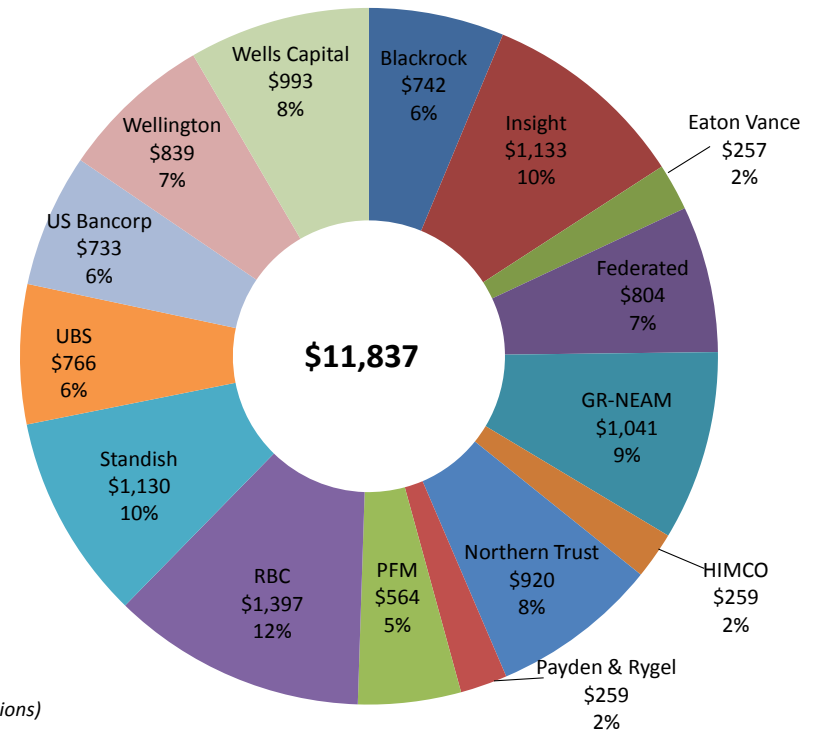


(\$ in Millions)

## INVESTMENT MANAGERS PORTFOLIO SUMMARY

Investment Manager	Taxable Liquidity Fund	Taxable Claims-Paying Fund	Tax-Exempt Claims-Paying Fund	Grand Total	% of Total Portfolio
Blackrock	\$271	\$0	\$471	\$742	6%
Eaton Vance	\$0	\$257	\$0	\$257	2%
Federated	\$275	\$0	\$529	\$804	7%
GR-NEAM	\$0	\$929	\$112	\$1,041	9%
HIMCO	\$0	\$259	\$0	\$259	2%
Insight	\$0	\$832	\$302	\$1,133	10%
Northern Trust	\$0	\$920	\$0	\$920	8%
Payden & Rygel	\$0	\$259	\$0	\$259	2%
PFM	\$564	\$0	\$0	\$564	5%
RBC	\$239	\$916	\$242	\$1,397	12%
Standish	\$0	\$0	\$1,130	\$1,130	10%
UBS	\$0	\$549	\$216	\$766	6%
US Bancorp	\$0	\$733	\$0	\$733	6%
Wellington	\$169	\$670	\$0	\$839	7%
Wells Capital	\$0	\$482	\$511	\$993	8%
<b>Grand Total</b>	<b>\$1,517</b>	<b>\$6,805</b>	<b>\$3,514</b>	<b>\$11,837</b>	<b>100%</b>

### Total Externally Managed Portfolio Composition



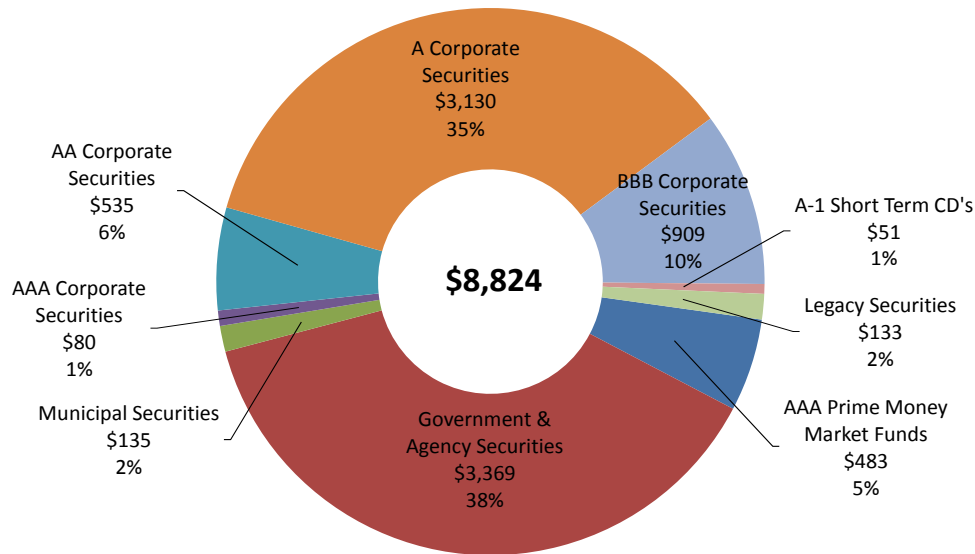
- 94% of the taxable portfolio, or \$8.32 billion, is managed by 14 external investment managers.
- 76% of the tax-exempt portfolio, or \$3.51 billion, is managed by 8 external investment managers.

# PORTFOLIO CREDIT SUMMARY

Taxable Credit Quality Distribution	Market Value (\$MM)	% of Portfolio MV
AAA Prime Money Market Funds	\$483	5%
Government & Agency Securities	\$3,369	38%
Municipal Securities	\$135	2%
AAA Corporate Securities	\$80	1%
AA Corporate Securities	\$535	6%
A Corporate Securities	\$3,130	35%
BBB Corporate Securities	\$909	10%
A-1 Short Term CD's	\$51	1%
Legacy Securities	\$133	2%
<b>Total Taxable Portfolio</b>	<b>\$8,824</b>	<b>100%</b>

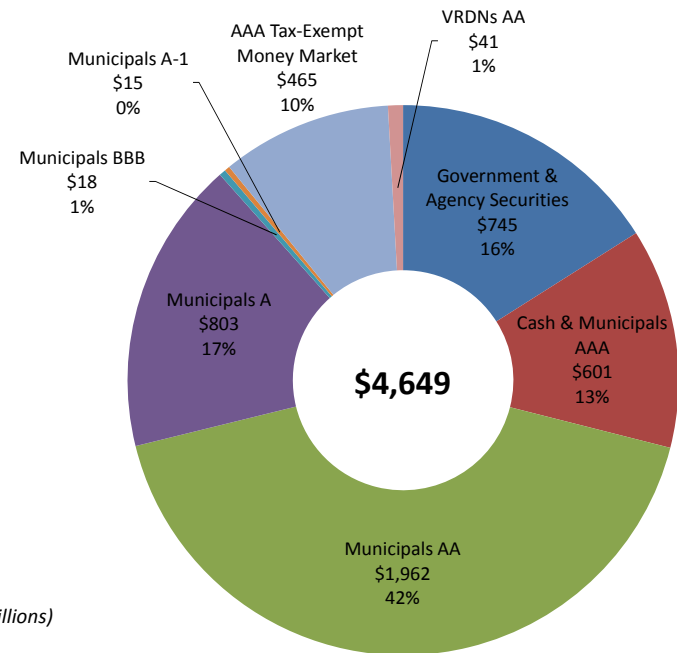
Tax-Exempt Credit Quality Distribution	Market Value (\$MM)	% of Portfolio MV
Government & Agency Securities	\$745	16%
Cash & Municipals AAA	\$601	13%
Municipals AA	\$1,962	42%
Municipals A	\$803	17%
Municipals BBB	\$18	0%
Municipals A-1	\$15	0%
AAA Tax-Exempt Money Market	\$465	10%
VRDNs AA	\$41	1%
<b>Total Tax-Exempt Portfolio</b>	<b>\$4,649</b>	<b>100%</b>

**Taxable Portfolio Credit Quality Distribution**



(\$ in Millions)

**Tax-Exempt Portfolio Credit Quality Distribution**



(\$ in Millions)





## PORTFOLIO RETURNS SUMMARY

- The total portfolio duration is 2.39 years.
- The 1-year total return is 1.71% and income return is 1.15%.

Citizens Portfolios	Duration (Years)	Credit Rating	Total Returns				Income Returns			
			1 Month	3 Month	1 Year	2 Year	1 Month	3 Month	1 Year	2 Year
Taxable Aggregate	2.73	A+/A1/A+	0.22%	1.02%	1.97%	1.69%	0.13%	0.37%	1.28%	1.14%
Taxable Internally Managed	0.00	AAA/Aaa/AAA	0.15%	0.43%	2.13%	1.97%	0.06%	0.18%	0.62%	0.65%
Tax-Exempt Aggregate	1.75	AA-/Aa3/AA-	0.21%	0.22%	1.27%	0.91%	0.08%	0.24%	0.93%	0.96%
Tax-Exempt Externally Managed Aggregate	2.30	AA-/Aa3/AA-	0.27%	0.27%	1.48%	1.05%	0.10%	0.29%	1.09%	1.09%
<b>Citizens Total Portfolio Average</b>	<b>2.39</b>	<b>A+/A1/A+</b>	<b>0.22%</b>	<b>0.73%</b>	<b>1.71%</b>	<b>1.41%</b>	<b>0.11%</b>	<b>0.32%</b>	<b>1.15%</b>	<b>1.07%</b>

Reference Rates-Annual Yield	1 Month	3 Month	6 Month	1 year	2 Year
SIFMA	0.40%	0.20%	0.10%	0.07%	0.06%
"A" 1-year MMD Tax-Exempt	0.73%	0.65%	0.61%	0.51%	0.40%
Bloomberg "A" Corporate 1-Year	0.92%	1.00%	0.98%	0.87%	0.74%
Bloomberg "A" Corporate 3-Year	1.58%	1.73%	1.82%	1.77%	1.59%
1-Year Treasury Yield	0.57%	0.61%	0.62%	0.47%	0.32%
3-Year Treasury Yield	0.97%	1.00%	1.14%	1.09%	1.04%
1-Month LIBOR	0.44%	0.44%	0.38%	0.29%	0.22%

**Notes:**

The 2 Year returns are annualized, and the remaining returns are actual for the period.

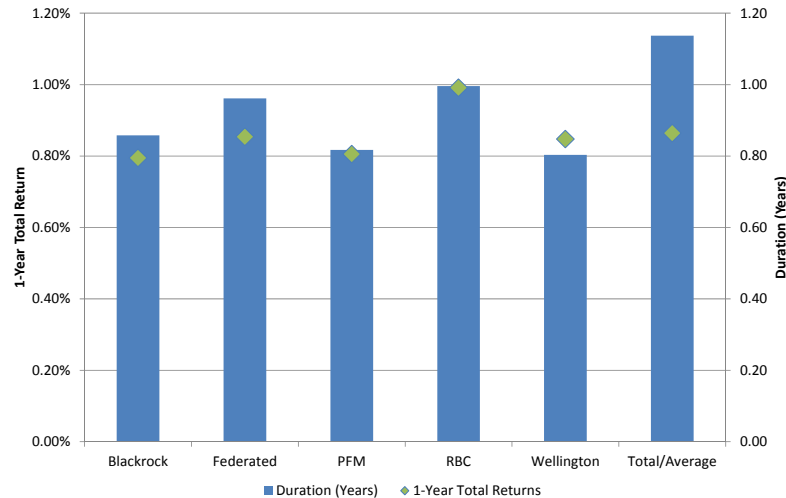
<sup>1</sup> Large differences in returns between taxable aggregates are caused by the Legacy securities. Due to the trading nature of these securities, principal repayments and market value fluctuations can cause large changes in the overall portfolio returns.

## TAXABLE LIQUIDITY PORTFOLIO INVESTMENT MANAGER RETURNS SUMMARY

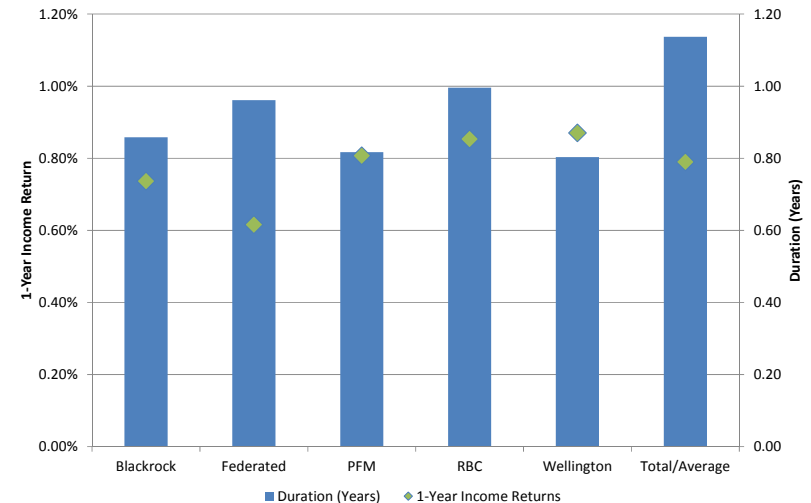
- The Taxable Liquidity portfolio duration is 1.14 years
- The Taxable Liquidity portfolio 1-year total return is 0.86% and income return is 0.79%

Investment Manager	Duration (Years)	Market Value (\$MM)	Total Returns				Income Returns			
			1 Month	3 Month	1 Year	2 Year	1 Month	3 Month	1 Year	2 Year
Blackrock	0.86	\$271	0.12%	0.38%	0.79%	0.63%	0.08%	0.23%	0.74%	0.66%
Federated	0.96	\$275	0.03%	0.29%	0.85%	0.56%	0.08%	0.23%	0.62%	0.53%
PFM	0.82	\$564	0.15%	0.36%	0.81%	0.72%	0.08%	0.24%	0.81%	0.69%
RBC	1.00	\$239	0.16%	0.51%	0.99%	0.85%	0.09%	0.25%	0.85%	0.75%
Wellington	0.80	\$169	0.14%	0.40%	0.85%	0.72%	0.08%	0.25%	0.87%	0.75%
<b>Total/Average</b>	<b>1.14</b>	<b>\$1,516</b>	<b>0.13%</b>	<b>0.41%</b>	<b>0.86%</b>	<b>0.71%</b>	<b>0.09%</b>	<b>0.24%</b>	<b>0.79%</b>	<b>0.68%</b>

Citizens Taxable Liquidity Fund -  
1-Year Total Returns and Duration



Citizens Taxable Liquidity Fund -  
1-Year Income Returns and Duration



**Notes:**

The Liquidity investment portfolio is managed to a 397 day maximum duration. This policy governs the investment of funds that will be the first moneys expected to be used to pay claims after an event, and is also used to pay operating expenses on an ongoing basis.

The 2 Year returns are annualized, and the remaining returns are actual for each reference period.

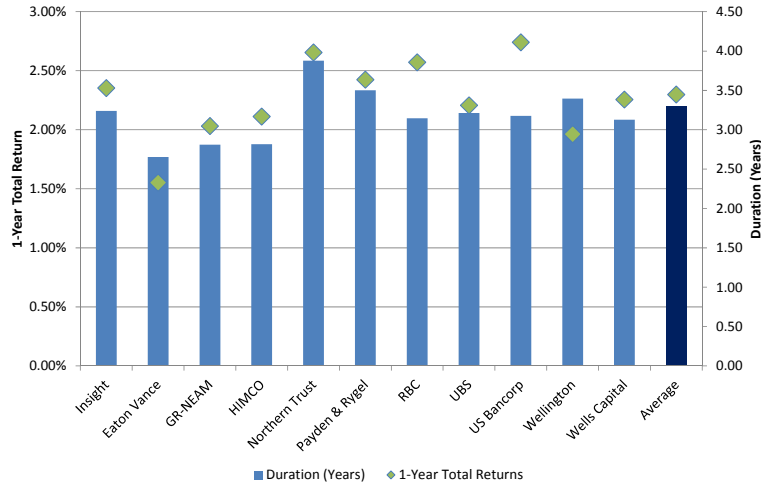
Returns in green font fall within +/-10% of the average return or higher. Returns in red font fall below -10% of the average return.

# TAXABLE CLAIMS-PAYING FUND PORTFOLIO INVESTMENT MANAGER RETURNS SUMMARY

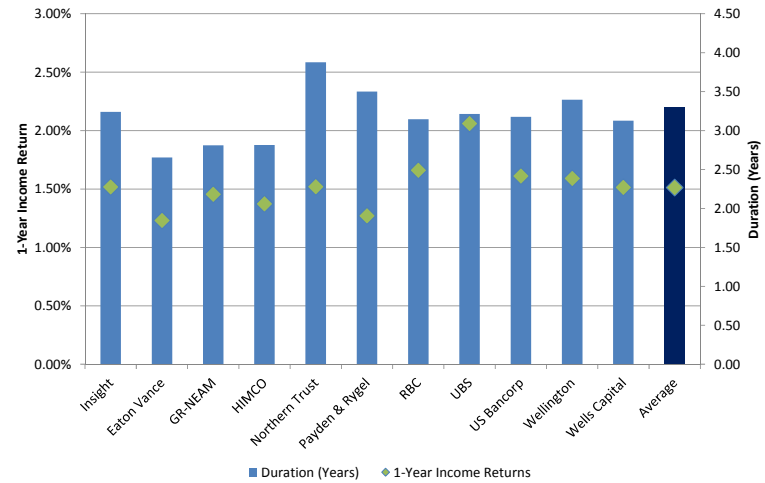
- The Taxable Claims-Paying Fund portfolio duration is 3.30 years
- The Taxable Claims-Paying Fund portfolio 1-year total return is 2.30% and income return is 1.51%

Investment Manager	Duration (Years)	Market Value (\$MM)	Total Returns				Income Returns			
			1 Month	3 Month	1 Year	2 Year	1 Month	3 Month	1 Year	2 Year
Insight	3.24	\$858	0.14%	1.19%	2.35%	2.05%	0.14%	0.43%	1.52%	1.37%
Eaton Vance *	2.66	\$257	0.17%	0.85%	1.55%	N/A	0.13%	0.38%	1.23%	N/A
GR-NEAM	2.81	\$1,040	0.25%	1.25%	2.03%	1.77%	0.13%	0.39%	1.46%	1.42%
HIMCO *	2.82	\$258	0.19%	1.06%	2.11%	N/A	0.14%	0.39%	1.37%	N/A
Northern Trust	3.88	\$918	0.38%	1.58%	2.65%	2.20%	0.15%	0.43%	1.52%	1.36%
Payden & Rygel *	3.50	\$258	0.24%	1.26%	2.42%	N/A	0.14%	0.42%	1.27%	N/A
RBC	3.15	\$914	0.25%	1.29%	2.57%	2.27%	0.15%	0.45%	1.66%	1.50%
UBS	3.21	\$548	0.22%	1.12%	2.21%	1.96%	0.14%	0.42%	2.06%	1.64%
US Bancorp	3.18	\$731	0.25%	1.55%	2.74%	2.28%	0.15%	0.46%	1.61%	1.41%
Wellington	3.40	\$669	0.26%	1.10%	1.96%	1.69%	0.15%	0.45%	1.59%	1.45%
Wells Capital	3.13	\$481	0.31%	1.36%	2.26%	1.87%	0.15%	0.44%	1.51%	1.35%
<b>Total/Average</b>	<b>3.30</b>	<b>\$6,930</b>	<b>0.25%</b>	<b>1.27%</b>	<b>2.30%</b>	<b>1.97%</b>	<b>0.14%</b>	<b>0.43%</b>	<b>1.51%</b>	<b>1.38%</b>

Citizens Taxable Claims-Paying Fund - 1-Year Total Returns and Duration



Citizens Taxable Claims-Paying Fund - 1-Year Income Returns and Duration



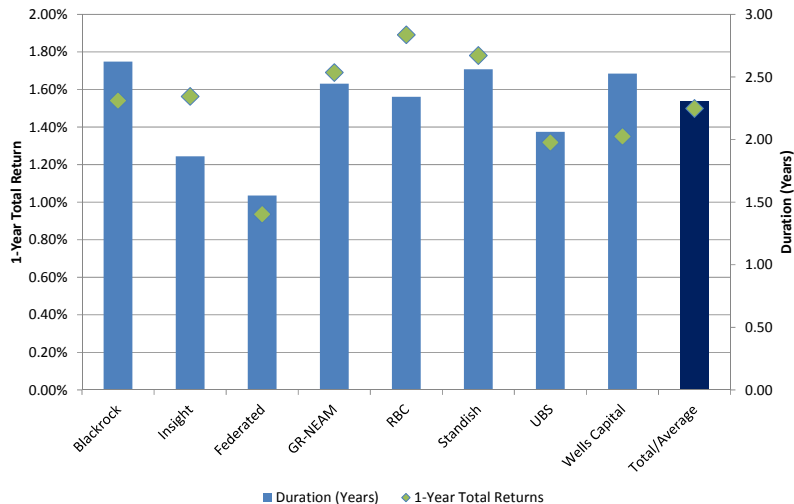
Notes:  
 The Taxable Claims portfolio is managed to a 4 year maximum duration. This policy governs the investment of funds that are expected to be used to pay claims post-event once Citizens has expended moneys in the Liquidity Fund. The 2 Year returns are annualized, and the remaining returns are actual for each reference period. Returns in green font fall within +/-10% of the average return or higher. Returns in red font fall below -10% of the average return.  
 \*Eaton Vance, HIMCO, and Payden & Rygel started managing funds for Citizens after the 2014 competitive solicitation. The accounts were each initially funded with \$250 million in June, July, and October 2014, respectively.

## TAX-EXEMPT CLAIMS-PAYING FUND PORTFOLIO INVESTMENT MANAGER RETURNS SUMMARY

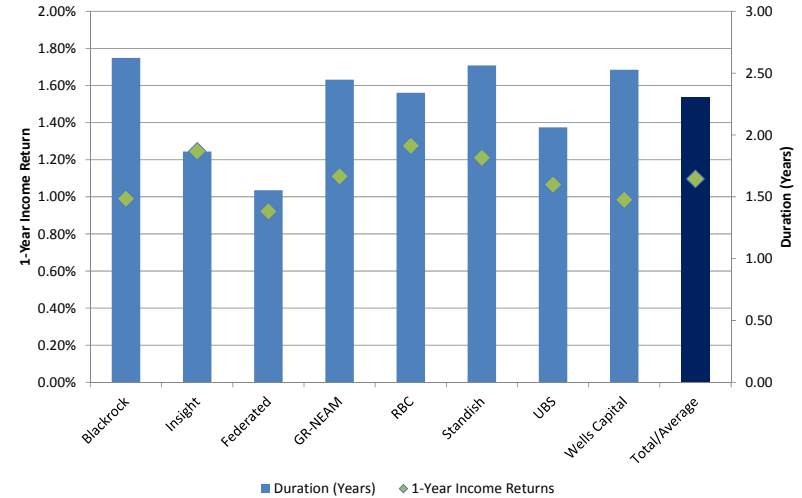
- The Tax-Exempt Claims-Paying Fund portfolio duration is 2.30 years
- The Tax-Exempt Claims-Paying Fund portfolio 1-year total return is 1.50% and income return is 1.10%

Investment Manager	Duration (Years)	Market Value (\$MM)	Total Returns				Income Returns			
			1 Month	3 Month	1 Year	2 Year	1 Month	3 Month	1 Year	2 Year
Blackrock	2.62	\$470	0.28%	0.28%	1.54%	1.01%	0.09%	0.27%	0.99%	0.97%
Insight	1.87	\$302	0.23%	0.31%	1.56%	1.03%	0.11%	0.32%	1.25%	1.24%
Federated	1.55	\$529	0.19%	0.23%	0.94%	0.84%	0.09%	0.26%	0.92%	1.00%
GR-NEAM	2.45	\$112	0.30%	0.40%	1.69%	1.11%	0.10%	0.30%	1.11%	0.98%
RBC	2.34	\$242	0.32%	0.33%	1.89%	1.27%	0.11%	0.32%	1.28%	1.28%
Standish	2.56	\$1,129	0.30%	0.25%	1.78%	1.28%	0.11%	0.32%	1.21%	1.17%
UBS	2.06	\$216	0.22%	0.25%	1.32%	0.92%	0.09%	0.27%	1.07%	1.06%
Wells Capital	2.53	\$511	0.26%	0.25%	1.35%	0.97%	0.09%	0.27%	0.98%	1.05%
<b>Total/Average</b>	<b>2.30</b>	<b>\$3,511</b>	<b>0.27%</b>	<b>0.27%</b>	<b>1.50%</b>	<b>1.06%</b>	<b>0.10%</b>	<b>0.29%</b>	<b>1.10%</b>	<b>1.09%</b>

Citizens Tax-Exempt Claims-Paying Fund - 1-Year Total Returns and Duration



Citizens Tax-Exempt Claims-Paying Fund - 1-Year Income Returns and Duration



**Notes:**

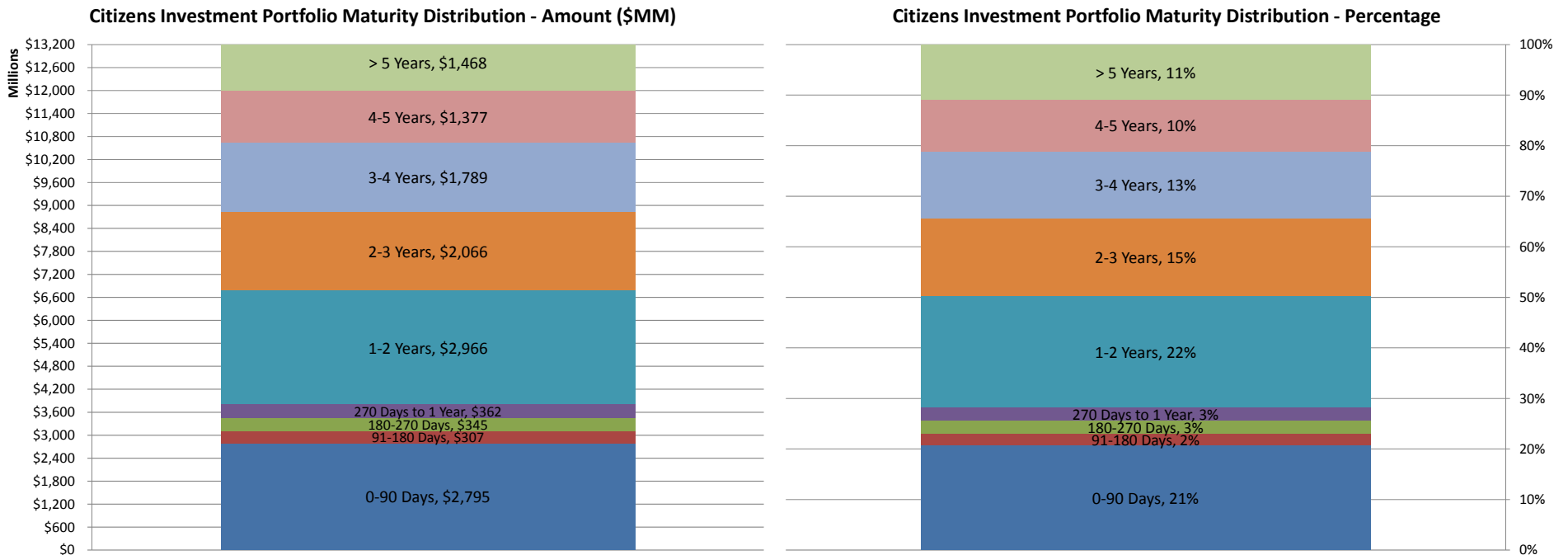
The Tax-Exempt Claims portfolio is managed to a 3 year maximum duration for Series 2009 through 2012 bonds and a 4 year maximum duration for Series 2015 bonds. This policy governs the investment of funds that are expected to be used to pay claims post-event once Citizens has expended moneys in the Liquidity Fund and/or Taxable Claims portfolio.

The 2 Year returns are annualized, and the remaining returns are actual for each reference period.

Returns in green font fall within +/-10% of the average return or higher. Returns in red font fall below -10% of the average return.

## PORTFOLIO MATURITY DISTRIBUTION

- 21% of the portfolio matures in less than 90 days.
- 37% of the portfolio matures between 1 and 3 years.



All Citizens investments over 5 years are Legacy assets

\*1.4% or \$40.9 million of the 0-90 day maturity bar consists of VRDN's with longer stated maturities, which are included in the 0-90 day bar because the inherent put feature allows almost instant liquidity at par within 7 days.

## DOWNGRADED SECURITIES AND LEGACY SECURITIES

Downgraded Securities										
Security	Maturity Date	Moody's		Fitch		S&P		Amortized Cost	Market Value	Unrealized Gain/Loss
		Rating	Downgrade Date	Rating	Downgrade Date	Rating	Downgrade Date			
Becton Dickinson & Co.	11/8/2016	Baa2	3/17/2015	NA	NA	BBB+	12/4/2014	1,950,504	1,954,625	\$4,121
Enbridge Inc.	6/2/2017	Baa2	6/22/2015	NA	NA	BBB+	6/19/2015	7,613,399	7,447,744	(\$165,655)
Ebay Inc.	7/5/2017	Baa1	7/20/2015	BBB	7/20/2015	BBB+	7/20/2015	10,208,533	10,194,076	(\$14,457)
Illinois State	2/1/2019	A3	6/6/2013	BBB+	10/19/2015	AA-	3/18/2014	20,294,165	20,358,160	\$63,995
Mattel Inc.	5/6/2019	Baa1	5/1/2014	BBB+	2/2/2016	BBB	1/26/2015	5,000,325	5,058,811	\$58,487
Celgene Corp.	5/15/2019	Baa2	8/3/2015	NA	NA	BBB+	5/6/2014	1,326,576	1,344,008	\$17,432
Barclays PLC	11/8/2019	Baa3	5/28/2015	A	11/12/2014	BBB	2/3/2015	1,247,439	1,255,123	\$7,684
Rio Tinto	12/14/2018	Baa1	2/24/2016	A-	2/26/2016	A-	2/12/2016	8,561,128	8,560,863	(\$265)
<b>Total</b>								<b>\$56,202,067</b>	<b>\$56,173,410</b>	<b>(\$28,657)</b>

- Citizens has the option of immediately reducing these positions to achieve compliance. After consulting with the investment managers, the decision was made to hold until maturity, as the bonds do not pose a default risk before maturity.

Legacy Securities										
Security	Maturity Date	Moody's		Fitch		S&P		Amortized Cost	Market Value	Unrealized Gain/Loss
		Rating	Downgrade Date	Rating	Downgrade Date	Rating	Downgrade Date			
Lehman Brothers Holdings	N/A	NP	9/16/2008	NR	9/16/2008	D	9/16/2008	\$0	\$1,961,000	\$1,961,000
Issuer Entity (Ottimo)	N/A	NP	11/9/2007	NR	11/9/2007	D	11/9/2007	\$8,348,656	\$17,785,168	\$9,436,512
Pacific West (Former KKR)	N/A	NP	4/1/2008	NR	4/1/2008	D	4/1/2008	\$18,075,039	\$25,925,716	\$7,850,677
Atlantic East (Former KKR)	N/A	NP	4/1/2008	NR	4/1/2008	D	4/1/2008	\$27,911,880	\$38,045,868	\$10,133,989
Axon Financial Funding LLC	N/A	NP	11/27/2007	NR	11/27/2007	D	11/27/2007	\$31,016,634	\$38,664,673	\$7,648,039
<b>Total</b>								<b>\$85,352,208</b>	<b>\$122,382,425</b>	<b>\$37,030,217</b>

- The total write-down amount of the legacy securities was \$290.7 million - the write-downs were taken on 12/31/07, 9/30/08, and 12/31/08 in the amount of \$88.5 million, \$117.8 million, and \$84.3 million, respectively. The legacy securities were purchased by the former investment manager.
- Axon Financial Funding LLC holdings were sold in May, 2016.
- As of April 30, 2016, \$153.1 million total principal has been recovered, as these securities continue to pay principal and interest. The total principal recovered directly offsets the original write-down amount of \$290.6 million, resulting in a net current write-down amount of \$137.5 million.