

Citizens Taxable Investment Policies						
	Liquidity		Claims-Paying		Long Duration	
<b>Fund Purpose</b>	Funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis		Funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund		Funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund	
<b>Investment Objective</b>	Since Liquidity Fund moneys will be among the first used by Citizens to pay claims after a storm, liquidity and principal stability in the Liquidity Fund must be paramount		While moneys invested pursuant to this policy will not be the first funds Citizens uses after a storm to pay claims, the uncertainty of when they will be needed still demands a fixed income portfolio with relatively short to intermediate duration and high credit quality		As the moneys invested pursuant to this policy will be Citizens' last source of available funds, the duration limits of this policy will be longer than the duration of the Claims-Paying Fund	
<b>Portfolio Type</b>	Invested only in high quality fixed income securities		Invested only in high quality fixed income securities		Invested only in high quality fixed income securities	
	<b>Existing</b>	<b>Proposed Changes</b>	<b>Existing</b>	<b>Proposed Changes</b>	<b>Existing</b>	<b>Proposed Changes</b>
<b>Ratings</b>	Long-term investment ratings from at least two of Moody's, S&P, and/or Fitch with minimum ratings of BBB-/Baa3		Long-term investment ratings from at least two of Moody's, S&P, and/or Fitch with minimum ratings of BBB-/Baa3		Long-term investment ratings from at least two of Moody's, S&P, and/or Fitch with minimum ratings of BBB-/Baa3	
	Short-term investment ratings from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch		Short-term investment ratings from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch		Short-term investment ratings from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch	
	Money Market Funds must be rated Aaa by Moody's, AAAM by S&P and/or AAAMmf by Fitch		Money Market Funds must be rated Aaa by Moody's, AAAM by S&P and/or AAAMmf by Fitch		Money Market Funds must be rated Aaa by Moody's, AAAM by S&P and/or AAAMmf by Fitch	
	Banker's Acceptances (BAs) and Certificates of Deposit (CDs) must have minimum ratings of P-1 by Moody's or A-1 by S&P		Banker's Acceptances (BAs) and Certificates of Deposit (CDs) must have minimum ratings of P-1 by Moody's or A-1 by S&P		Banker's Acceptances (BAs) and Certificates of Deposit (CDs) must have minimum ratings of P-1 by Moody's or A-1 by S&P	
	Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, and credit card receivables must be rated from at least two of Moody's, S&P, and/or Fitch and must have ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$75 million for each security	<b>Include floor plans, handset devices, Reduced tranche size minimum from \$75 million to \$50 million for each security. Security must be rated by at least one rating agency and must have long-term ratings of Aaa by Moody's, AAA by S&amp;P, or AAA by Fitch</b>	Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, and credit card receivables must be rated from at least two of Moody's, S&P, and/or Fitch and must have ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$75 million for each security	<b>Include floor plans, handset devices, Reduced tranche size minimum from \$75 million to \$50 million for each security. Security must be rated by at least one rating agency and must have long-term ratings of Aaa by Moody's, AAA by S&amp;P, or AAA by Fitch</b>	Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, and credit card receivables must be rated from at least two of Moody's, S&P, and/or Fitch and must have ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$75 million for each security	<b>Include floor plans, handset devices, Reduced tranche size minimum from \$75 million to \$50 million for each security. Security must be rated by at least one rating agency and must have long-term ratings of Aaa by Moody's, AAA by S&amp;P, or AAA by Fitch</b>
		<b>Include non-agency Residential Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS), including Single Asset or Single Borrower (SASB); Collateralized loan obligations (CLO) from broadly syndicated markets, and single asset or single borrower (SASB). Security must be rated by at least one rating agency and must have long-term ratings of Aaa by Moody's, AAA by S&amp;P, or AAA by Fitch</b>		<b>Include non-agency Residential Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS), including Single Asset or Single Borrower (SASB); Collateralized loan obligations (CLO) from broadly syndicated markets, and single asset or single borrower (SASB). Security must be rated by at least one rating agency and must have long-term ratings of Aaa by Moody's, AAA by S&amp;P, or AAA by Fitch</b>		<b>Include non-agency Residential Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS), including Single Asset or Single Borrower (SASB); Collateralized loan obligations (CLO) from broadly syndicated markets, and single asset or single borrower (SASB). Security must be rated by at least one rating agency and must have long-term ratings of Aaa by Moody's, AAA by S&amp;P, or AAA by Fitch</b>

Citizens Taxable Investment Policies						
	Liquidity		Claims-Paying		Long Duration	
Fund Purpose	Funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis		Funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund		Funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund	
Investment Objective	Since Liquidity Fund moneys will be among the first used by Citizens to pay claims after a storm, liquidity and principal stability in the Liquidity Fund must be paramount		While moneys invested pursuant to this policy will not be the first funds Citizens uses after a storm to pay claims, the uncertainty of when they will be needed still demands a fixed income portfolio with relatively short to intermediate duration and high credit quality		As the moneys invested pursuant to this policy will be Citizens' last source of available funds, the duration limits of this policy will be longer than the duration of the Claims-Paying Fund	
Portfolio Type	Invested only in high quality fixed income securities		Invested only in high quality fixed income securities		Invested only in high quality fixed income securities	
	Existing	Proposed Changes	Existing	Proposed Changes	Existing	Proposed Changes
Diversification Limit						
<i>Treasury &amp; Agency securities and Money Market Funds, Agency MBS, Agency CMO, Agency CMBS</i>	At least 40%	At least 35%	At least 30%	At least 25%	At least 25%	At least 20%
<i>Corporate securities, Commercial Paper, BAs and CDs, Municipal Securities, and corporate Money Market Funds</i>	No more than 60%	No more than 65%	No more than 70%	No more than 75%	No more than 75%	No more than 80%
<i>Single industry sector</i>	No more than 30%		No more than 30%		No more than 30%	
<i>Agency MBS, CMBS or CMO</i>	No more than 15%		No more than 15%		No more than 15%	
<i>Non-Agency MBS</i>	Not permitted		Not permitted		Not permitted	
<i>Single issuer limit</i>	No more than 3%		No more than 3%		No more than 3%	
<i>Rating(s) of either BBB- or Baa3</i>	No more than 7.5% of the portfolio with the securities of a single issuer representing no more than 1.0% of the portfolio	No more than 10% of the portfolio with the securities of a single issuer representing no more than 1.5% of the portfolio	No more than 7.5% of the portfolio with the securities of a single issuer representing no more than 1.0% of the portfolio	No more than 10% of the portfolio with the securities of a single issuer representing no more than 1.5% of the portfolio	No more than 7.5% of the portfolio with the securities of a single issuer representing no more than 1.0% of the portfolio	No more than 10% of the portfolio with the securities of a single issuer representing no more than 1.5% of the portfolio
<i>Individual Agency, including MBS, CMBS or CMO</i>	No more than 20%		No more than 20%		No more than 20%	
<i>Municipal Securities</i>	No more than 25%		No more than 25%	No more than 30%	No more than 25%	No more than 30%
<i>Repurchase Agreements</i>	No more than 15%		No more than 15%		No more than 15%	
<i>BAs and CDs</i>	No more than 15%		No more than 10%		No more than 10%	
<i>Structured products</i>	No more than 7.5% of the portfolio, with the securities of a single issuer representing no more than 0.75% of the portfolio	No more than 15% of the portfolio, with the securities of a single issuer representing no more than 1.5% of the portfolio	No more than 10% of the portfolio, with the securities of a single issuer representing no more than 1.0% of the portfolio	No more than 15% of the portfolio, with the securities of a single issuer representing no more than 1.5% of the portfolio	No more than 10% of the portfolio, with the securities of a single issuer representing no more than 0.75% of the portfolio	No more than 15% of the portfolio, with the securities of a single issuer representing no more than 1.5% of the portfolio
<i>144A securities</i>	Not permitted	No more than 15%	Not permitted	No more than 15%	Not permitted	No more than 15%
<i>Commercial Paper</i>	No more than 20%		N/A		N/A	
<b>Max. Final Maturity</b>	3 years and six months		10 years and one month		20 years and one month	
<b>Duration Composition Limit</b>	No more than 25% with remaining weighted average life of 30 to 42 months		No more than 25% with a final maturity between 85 and 121 months	No more than 30% with a final maturity between 97 and 121 months	No more than 25% with a final maturity between 12 and 15 years  No more than 10% with a final maturity between 15 and 20 years	No more than 30% with a final maturity between 12 and 15 years  No more than 15% with a final maturity between 15 and 20 years
<b>Asset-Backed Securities WAL Limit</b>	3 years and six months		6 years		10 years	

## INVESTMENT POLICY CHANGES

**ACTION ITEM**

**New Contract**

**Contract Amendment**

**Other** \_\_\_\_\_

**CONSENT ITEM**

**Contract Amendment**

**Existing Contract Extension**

**Existing Contract Additional Spend**

**Previous Board Approval** \_\_\_\_\_

**Other** \_\_\_\_\_

**Action Items:** Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

**Move forward as Consent:** This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

**Consent Items:** Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

Item Description	
	<p>Staff recommends an update to Citizens' taxable Investment Policies.</p> <p>Changes to all taxable policies:</p> <ul style="list-style-type: none"> <li>• Decrease the minimum Treasury and U.S. Agency composition and increase the maximum allowed corporate securities                             <ul style="list-style-type: none"> <li>○ Taxable Liquidity Fund - reduce minimum Treasury and U.S. Agency composition from 40% to 35% and increase maximum allow corporate securities from 60% to 65%</li> <li>○ Taxable Claims-Paying Fund - reduce minimum Treasury and U.S. Agency composition from 30% to 25% and increase maximum allow corporate securities from 70% to 75%</li> <li>○ Taxable Claims-Paying Long Duration Fund - reduce minimum Treasury and U.S. Agency composition from 25% to 20% and increase maximum allow corporate securities from 75% to 80%</li> </ul> </li> <li>• Increase the maximum limit for corporate securities with ratings of either "BBB-" from S&amp;P or Fitch or Baa3 from Moody's from 7.5% of the portfolio to 10%, with the securities of a single issuer representing no more than 1.5% of the portfolio</li> <li>• Expand the asset-backed security universe to include floorplans and handset devices which must be rated by at least one rating agency and must have long-term ratings of Aaa" by Moody's, "AAA" by S&amp;P or Fitch while reducing minimum tranche size from \$75 million to \$50 million</li> </ul>

## INVESTMENT POLICY CHANGES

	<ul style="list-style-type: none"> <li>• Allow 144A securities including collateralized loan obligations (“CLOs”) from broadly syndicated markets, non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), including single asset or single borrower (SASB). The security must be rated by at least one rating agency and must have long-term ratings of Aaa by Moody’s, AAA by S&amp;P, or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million.</li> <li>• For structured products including agency and non-agency mortgage backed securities, CLOs, and asset-backed securities for prime automobile, floorplans, handset devices, or equipment loan and lease receivables, and credit card receivables, increase maximum allowable allocation from 7.5% to 15% for the Taxable Liquidity Fund and from 10% to 15% for the Taxable Claims-Paying Fund and Taxable Claims-Paying Long Duration Fund with the securities of a single issuer representing no more than 1.5% of the portfolio</li> </ul> <p>Changes to the Taxable Claims-Paying Fund and Claims-Paying Long Duration Fund:</p> <ul style="list-style-type: none"> <li>• Increase the maximum allocation of municipal securities from 25% to 30%</li> <li>• Increase the duration composition limit for the Taxable Claims-Paying Fund for securities with a final maturity of 85 to 121 months from 25% to 30%</li> <li>• Increase the duration composition limit for the Taxable Claims-Paying Long Duration Fund for securities with a final maturity of 12 to 15 years from 25% to 30% and for securities with a final maturity of 15 to 20 years from 10% to 15%</li> </ul>
<b>Purpose/Scope</b>	N/A
<b>Contract ID</b>	N/A
<b>Budgeted Item</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No N/A
<b>Procurement Method</b>	N/A
<b>Contract Amount</b>	N/A

## INVESTMENT POLICY CHANGES

<b>Contract Terms</b>	N/A
<b>Committee Recommendation</b>	<p>Staff proposes that the Finance and Investment Committee review, and if approved recommend the Board of Governors:</p> <ul style="list-style-type: none"><li>a) Approve the changes to Citizens' Investment Policy duration, credit quality and composition to the Taxable Liquidity Fund, Taxable Claims-Paying Fund, and Taxable Claims-Paying Long Duration Fund. These changes will allow Citizens to take advantage of market conditions and provide additional diversification and incremental yield to Citizens' Investment Portfolio.</li><li>b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.</li></ul>
<b>Board Recommendation from Committee</b>	<p>If approved at its March 18<sup>th</sup> meeting, the Finance and Investment Committee recommends that the Board of Governors:</p> <ul style="list-style-type: none"><li>a) Approve the changes to Citizens' Investment Policy duration, credit quality and composition to the Taxable Liquidity Fund, Taxable Claims-Paying Fund, and Taxable Claims-Paying Long Duration Fund. These changes will allow Citizens to take advantage of market conditions and provide additional diversification and incremental yield to Citizens' Investment Portfolio.</li><li>b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.</li></ul>
<b>CONTACTS</b>	Jennifer Montero, Chief Financial Officer

# CITIZENS PROPERTY INSURANCE CORPORATION

## INVESTMENT POLICY for

### Liquidity Fund (Taxable)

#### INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to five separate policies:

- (1) Liquidity Fund (Taxable): generally this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- (2) Liquidity Fund (Tax-Exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on as needed basis.
- (3) Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (4) Claims-Paying Long Duration Fund (Taxable): generally this policy will govern the investment of funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (5) Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Tax-Exempt Liquidity Fund and all taxable funds. The funds will also be used to pay principal and / or interest debt service payments.

In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to use its own investment personnel and the investment procedures approved by the Board of Governors in

# Citizens Property Insurance Corporation Liquidity Fund (Taxable) Investment Policy

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October 2007 (Citizens' "Operating Funds Portfolio"). The Operating Funds Portfolio will consist of the approximate amount funds needed to pay the day-to-day operating expenses of Citizens, as determined by Citizens' Chief Financial Officer. Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, ~~and~~ Treasury or Agency securities, and certain Asset-Backed securities (see Appendix A, "Types of Permitted Securities"). For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that operating expenses and claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

## INVESTMENT OBJECTIVES

The primary investment objectives of the Liquidity Fund are to provide stability of principal and liquidity while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses quickly. Since paying such losses fully and in a timely manner is the highest priority for Citizens, and since Liquidity Fund moneys will be among the first used by Citizens to pay claims after a storm, liquidity and principal stability in the Liquidity Fund must be paramount. The achievement of these goals is of prime importance and should not be jeopardized in the quest for additional return.

## INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens' Liquidity Fund portfolio ("the Portfolio") will be invested only in short-term high quality fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its Investment Managers will invest in include corporate debt securities, bank instruments, US Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), Non-Agency Mortgage Backed securities, certain Asset-Backed securities, Municipal securities, and shares of Money Market Mutual Funds. However, Citizens and its Investment Managers are ~~not~~ permitted to buy ~~such fixed income 144A securities. to the~~

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~~extent that they require Citizens to be a Qualified Institutional Buyer, as defined by the United States Securities and Exchange Commission in Rule 144A under the Securities Act of 1933.~~

~~For a more detailed description of the Portfolio securities, please see “Types of Permitted Securities” at Appendix A.~~

It is the responsibility of the investment manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all investment managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens’ compliance checks do not relieve the investment managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio’s performance will be analyzed for return performance by comparing the various Investment Managers’ Liquidity Funds (Taxable) performance to each other on a regular basis; (iii) the Portfolio’s performance, and each Investment Manager’s share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers’ professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio’s overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

## INVESTMENT GUIDELINES

### *Credit Quality*

At the time of purchase, all securities must be rated in accordance with the following.

- (1) Securities with long-term investment ratings must be rated from at least two of Moody’s, S&P, and/or Fitch with minimum ratings of BBB-/Baa3;
- (2) Securities with short-term investment ratings must be rated from at least two of Moody’s, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody’s; A-1 by S&P; and/or F1 by Fitch;
- (3) Money Market Funds must be rated Aaa by Moody’s, AAA<sub>m</sub> by S&P and/or AAA<sub>mmf</sub> by Fitch;



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**Liquidity Fund (Taxable) Investment Policy**

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- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, [floorplans](#), [handset devices](#), and credit card receivables, must be rated from at least two of Moody's, S&P, and/or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch or short-term ratings of P-1 by Moody's, A-1 by S&P, and/or F1 by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$750 million for each security.
- ~~(5)~~(6) [Collateralized Loan Obligations \(CLOs\) from Broadly Syndicated Markets, Non-Agency Residential Mortgage Backed Securities \(RMBS\) and Commercial Mortgage Backed Securities \(CMBS\), including Single Asset Single Borrower \(SASB\), must be rated from at least one of Moody's, S&P, and/or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \\$250 million, and tranche size must be at least \\$50 million for each security.](#)
- ~~(6)~~(7) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

If anything occurs which causes an investment in the Portfolio to fall outside the standards described above, the applicable Investment Manager must notify Citizens' investment personnel and CFO in writing via e-mail within one day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to Citizens' CFO within five business days of the event. In general, any such affected security should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to Citizens' CFO; however, immediate sale in a temporarily depressed market is not mandated by this policy.

***Diversification***

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage Backed Securities (MBS), Agency Collateralized Mortgage Obligations (CMO), Agency Commercial Mortgage Backed Securities (CMBS) and notes whose principal and

# Citizens Property Insurance Corporation

## Liquidity Fund (Taxable) Investment Policy

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interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least ~~35~~40% of the Portfolio.

- Corporate securities, Commercial Paper, Banker's Acceptances (BAs), and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than ~~65~~0% of the Portfolio.
- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities are not considered to be part of an industry for these purposes. The ~~Bloomberg BCLASS Indices Global Sector Classification Barclays Industry Sector~~ will be used to verify the sector limit.
- No more than 15% of the Portfolio shall be invested in Agency MBS, CMBS or CMO.
- No more than 15% of the Portfolio shall be invested in 144A securities.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that have a rating(s) from Moody's, S&P, and/or Fitch of either BBB- or Baa3 shall not represent more than ~~107.5~~0% of the Portfolio, with the securities of a single issuer representing no more than ~~1.50~~0% of the Portfolio.
- Securities of any individual Agency, including MBS, CMBS or CMO, should not represent more than 20% of the Portfolio.
- Investments in an individual Money Market Fund (including Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.
- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD Program will be considered Corporate Floating Rate Notes.
- Municipal Securities shall not represent more than 25% of the overall Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 15% of the Portfolio.
- Structured products including agency and non-agency mortgage backed securities, CLOs, and asset-backed securities for prime automobile, ~~floorplans, handset devices,~~ equipment loan, ~~and~~ lease receivables, shall not represent more than ~~15.07.5~~0% of the Portfolio with the securities of a single issuer representing no more than ~~1.500.75~~0% of the Portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Citizens' portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the total Portfolio.
- Commercial Paper shall not represent more than 20% of the Portfolio.

### *Duration*



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- If a variable rate security has mandatory put option then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of A2 from Moody's, A from S&P and/or A from Fitch.

**STRESS TESTING**

Upon request by Citizens, ~~t~~The Investment Managers will ~~quarterly~~ stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions with its request ~~two weeks~~ prior to the stress test date.

**OTHER RESTRICTIONS**

- Auction Rate Securities are not permitted.
- Commercial Paper Notes issued under Section 4(2) of Securities act of 1933 are not permitted
- Qualified Public Depositories are not permitted
- Derivatives are not permitted.
- Subordinate obligations, regardless of ratings, are not permitted.
- Middle Market CLOs are not permitted
- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.
- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO of Citizens.

**This policy was approved by Citizens Property Insurance Corporation's Board of Governors on December 11, 2019**

**Appendix A-Definitions of Types of Permitted Securities**

**CORPORATE DEBT SECURITIES**

Corporate Debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Citizens may also purchase interests in bank loans to companies.

**COMMERCIAL PAPER**

Commercial Paper is an issuer's obligation with a maturity of less than 9 or 12 months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

**DEMAND INSTRUMENTS**

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Citizens' treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

**BANK INSTRUMENTS**

Bank instruments are unsecured interest bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, Time Deposits, Certificates of Deposit and Banker's Acceptances. Yankee instruments are denominated in US dollars and issued by non-US branches or foreign banks.

Neither Citizens nor its Investment Managers will invest in instruments of domestic or foreign banks and savings and loans unless they have capital, surplus and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund of the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation either directly or as part of CDARS (Certificate of Deposit Account Registry Service) program.

These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Eurodollar Time Deposits.

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**Liquidity Fund (Taxable) Investment Policy**

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**FLOATING RATE NOTES**

Floating rate Notes are Variable rate bonds with an interest rate that is periodically reset, usually every three months, and that carry a fixed spread, usually over the three-month London Interbank Offered Rate (LIBOR).

**U.S. TREASURY SECURITIES**

US Treasury securities are direct obligations of the federal government of the United States.

**AGENCY SECURITIES**

Agency securities are issued or guaranteed by a federal agency or other Government-Sponsored Entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans, or other benefits. For example, the US Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Notes issued through the US Government Temporary Liquidity Guarantee Program, whose interest and principal payments are fully and unconditionally guaranteed by the FDIC will be considered Agency Notes.

**AGENCY MORTGAGE BACKED SECURITIES**

Mortgage pass-through securities are issued by Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHMLC) and Federal National Mortgage Association (FNMA). The pass-through securities represent a direct ownership interest in a pool of mortgage loans.

# Citizens Property Insurance Corporation

## Liquidity Fund (Taxable) Investment Policy

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An issuer of a pass-through or participation certificate (PC) collects monthly payments from the borrowers whose loans are in a given pool and “passes through” the cash flow to investors in monthly payments, less any servicing and/or guarantee fees. Most pass-throughs are backed by fixed-rate mortgage loans; however, *adjustable-rate mortgage loans (ARMs)* are also pooled to create the securities.

### NON-AGENCY MORTGAGE BACKED SECURITIES

Non-Agency mortgage backed securities are for real estate and mortgage-backed securities. They are not issued by an Agency but are issued by private lenders and are issued in tranches with a structure similar to Agency backed securities.

### COLLATERALIZED LOAN OBLIGATIONS

A collateralized loan obligation (CLO) is a security backed by a pool of debt. They are backed by corporate loans or loans taken out by private equity firms to conduct leveraged buyouts.

### ASSET-BACKED SECURITIES

An asset-backed security is a financial security backed by a loan, lease, credit card, or receivables against assets other than real estate and mortgage-backed securities.

### MUNICIPAL SECURITIES

Municipal securities are issued by states, counties, cities, and other political subdivisions and authorities. Both taxable and tax-exempt municipal securities are allowable investments.

### FOREIGN SECURITIES

Foreign securities are US dollar-denominated securities of issuers based outside the United States. Citizens considers the issuer to be based outside the United States if: it is organized under the laws of, or has a principal office located in, another country; or it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue, or profit from goods produced, services performed or sales made in another country.

### MONEY MARKET MUTUAL FUNDS

Money Market mutual funds are registered investment companies that comply with rule 2a7 of the Investment Company Act of 1940.

### REPURCHASE AGREEMENTS (REPOs)

**Citizens Property Insurance Corporation**  
**Liquidity Fund (Taxable) Investment Policy**

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Repurchase Agreements are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back at an agreed upon price the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo.

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least "A2" by Moody's and "A" by S & P without regard to gradation . In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

Any Repurchase Agreement must be collateralized at least 102% with U.S. Government or Agency securities, excluding Mortgage Backed Securities. All Repurchase Agreements must be marked-to-market daily.



# CITIZENS PROPERTY INSURANCE CORPORATION

## INVESTMENT POLICY for Claims-Paying Fund (Taxable)

### INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to five separate policies:

- (1) Liquidity Fund (Taxable): generally this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- (2) Liquidity Fund (Tax-Exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on as needed basis.
- (3) Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (4) Claims-Paying Long Duration Fund (Taxable): generally this policy will govern the investment of funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (5) Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Tax-Exempt Liquidity Fund and all taxable funds. The funds will also be used to pay principal and / or interest debt service payments.

In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to use its own investment personnel and the investment procedures approved by the Board of Governors in

# Citizens Property Insurance Corporation Claims-Paying Fund (Taxable) Investment Policy

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October 2007 (Citizens' "Operating Funds Portfolio"). The Operating Funds Portfolio will consist of the approximate amount funds needed to pay the day-to-day operating expenses of Citizens, as determined by Citizens' Chief Financial Officer. Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, ~~and~~ Treasury or Agency securities, and certain Asset-Backed securities (see Appendix A, "Types of Permitted Securities"). For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that operating expenses and claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

## INVESTMENT OBJECTIVES

The primary investment objectives of the Claims-Paying Fund are to provide safety of principal and liquidity while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses. Since paying such losses fully and in a timely manner is a priority for Citizens, liquidity in all portfolios must be paramount. While the moneys invested pursuant to this policy will not be the first funds Citizens uses after a storm to pay claims, the uncertainty of when they will be needed still demands a fixed income portfolio with relatively short to intermediate duration and high credit quality.

## INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens' Claims-Paying Fund portfolio ("the Portfolio") will be invested only in high quality fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its Investment Managers will invest in include corporate debt securities, bank instruments, US Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), Non-Agency Mortgage Backed Securities, certain Asset-Backed securities, Municipal securities, and shares of Money Market Mutual Funds. ~~However, Citizens and its Investment Managers are not permitted to buy 144A such fixed income securities, to the extent that they~~

# Citizens Property Insurance Corporation Claims-Paying Fund (Taxable) Investment Policy

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~~require Citizens to be a Qualified Institutional Buyer, as defined by the United States Securities and Exchange Commission in Rule 144A under the Securities Act of 1933.~~

~~For a more detailed description of the Portfolio securities, please see “Types of Permitted Securities” at Appendix A.~~

It is the responsibility of the Investment Manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all Investment Managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens’ compliance checks do not relieve the Investment Managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio’s performance will be analyzed for return performance by comparing the various Investment Managers’ Claims-Paying Funds (Taxable) performance to each other on a regular basis; (iii) the Portfolio’s performance, and each Investment Manager’s share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers’ professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio’s overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

## INVESTMENT GUIDELINES

### *Credit Quality*

At the time of purchase, all securities must be rated in accordance with the following.

- (1) Securities with long-term investment ratings must be rated from at least two of Moody’s, S&P, and/or Fitch with minimum ratings of BBB-/Baa3;
- (2) Securities with short-term investment ratings must be rated from at least two of Moody’s, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody’s; A-1 by S&P; and/or F1 by Fitch;
- (3) Money Market Funds must be rated Aaa by Moody’s, AAA<sub>m</sub> by S&P **and/or** AAA<sub>mmf</sub> by Fitch;

**Citizens Property Insurance Corporation**  
**Claims-Paying Fund (Taxable) Investment Policy**

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- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, ~~floor-plans, handset devices,~~ and credit card receivables must be rated from at least two of Moody's, S&P, and/or Fitch and must have ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$750 million for each security.
- (6) Collateralized Loan Obligations (CLOs) from Broadly Syndicated Markets, Non-Agency Residential Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS), including Single Asset Single Borrower (SASB), must be rated from at least one of Moody's, S&P, and/or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- ~~(5)~~
- ~~(6)~~(7) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

If anything occurs which causes an investment in the Portfolio to fall outside the standards described above, the applicable Investment Manager must notify Citizens' investment personnel and CFO in writing via e-mail within one day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to Citizens' CFO within five business days of the event. In general, any such affected security should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to Citizens' CFO; however, immediate sale in a temporarily depressed market is not mandated by this policy.

***Diversification***

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage Backed Securities (MBS), Agency Commercial Mortgage Backed Securities (CMBS), Agency Collateralized Mortgage Obligations (CMO) and Notes whose principal

# Citizens Property Insurance Corporation

## Claims-Paying Fund (Taxable) Investment Policy

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and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least ~~2530~~2530% of the Portfolio.

- Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than ~~705~~705% of the Portfolio.
- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities are not considered to be part of an industry for these purposes. The ~~Bloomberg BCLASS Indices Global Sector Classification Barclays Industry Sector~~ will be used to verify the sector limit.
- No more than 15% of the Portfolio shall be invested in Agency MBS, CMBS or CMO.
- No more than 15% of the Portfolio shall be invested in 144A securities.
- ~~—~~
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that have a rating(s) from Moody's, S&P, and/or Fitch of either BBB- or Baa3 shall not represent more than ~~107.5~~107.5% of the Portfolio, with the securities of a single issuer representing no more than ~~1.50~~1.50% of the Portfolio.
- Securities of any individual Agency, including MBS, CMBS or CMO, should not represent more than 20% of the Portfolio.
- Investments in an individual Money Market Fund (including Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.
- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD program will be considered Corporate Floating Rate Notes.
- Municipal Securities shall not represent more than ~~3025~~3025% of the Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 10% of the Portfolio.
- Structured products including ~~agency and non-agency~~ agency and non-agency mortgage backed securities, ~~CLOs~~ CLOs, and asset-backed securities for prime automobile, ~~floorplans, handset devices~~ floorplans, handset devices, or equipment loan and lease receivables and credit card receivables shall not represent more than ~~150~~150% of the Portfolio, with the securities of a single issuer representing no more than ~~1.50~~1.50% of the Portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the Portfolio.
- No more than ~~2530~~2530% of the Portfolio shall consist of securities, excluding securities where weighted average life is used, with a final maturity between 85 and 121 months.

### *Duration*

# Citizens Property Insurance Corporation

## Claims-Paying Fund (Taxable) Investment Policy

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It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security, except for securities where the weighted average life is used, in the Portfolio is 121 months or ten years and one month.
  - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 3 years at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
- The dollar weighted average maturity of the Portfolio shall not exceed 72 months, or six years, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
- Repurchase Agreements must have a maximum maturity of 30 days or less.
- If a fixed rate security has mandatory put option then the mandatory put date will be used as a final maturity date.
- If a variable rate security has mandatory put option then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of A2 from Moody's, A from S&P and/or A from Fitch.
- ~~Asset-backed, agency and non-agency mortgage backed securities, CMBS and CLOs for prime automobile, equipment loan and lease, and credit card receivables~~ shall use the weighted average life as the final maturity date with a maximum weighted average life of 6 years.
- 

### STRESS TESTING

Upon request by Citizens, The Investment Managers will ~~quarterly~~ stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit

**Citizens Property Insurance Corporation  
Claims-Paying Fund (Taxable) Investment Policy**

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shocks, and other market changes. Citizens' will provide the stress test conditions ~~two weeks~~ with its request prior to the stress test date.

**OTHER RESTRICTIONS**

- Auction Rate Securities are not permitted.
- Commercial Paper Notes issued under Section 4(2) of Securities act of 1933 are not permitted
- Qualified Public Depositories are not permitted
- Derivatives are not permitted.
- Subordinate obligations, regardless of ratings, are not permitted.
- Middle Market CLOs are not permitted
- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.

All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO of Citizens.

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**This policy was approved by Citizens Property Insurance Corporation's Board of Governors on December 11, 2019**

**Appendix A-Definitions of Types of Permitted Securities**

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Commercial Paper is an issuer's obligation with a maturity of less than 9 or 12 months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

**DEMAND INSTRUMENTS**

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Citizens' treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

**BANK INSTRUMENTS**

Bank instruments are unsecured interest bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, Time Deposits, Certificates of Deposit and Banker's Acceptances. Yankee instruments are denominated in US dollars and issued by non-US branches or foreign banks.

Neither Citizens nor its Investment Managers will invest in instruments of domestic or foreign banks and savings and loans unless they have capital, surplus and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund of the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation either directly or as part of CDARS (Certificate of Deposit Account Registry Service) program.

These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Eurodollar Time Deposits.



**Citizens Property Insurance Corporation  
Claims-Paying Fund (Taxable) Investment Policy**

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**FLOATING RATE NOTES**

Floating rate Notes are Variable rate bonds with an interest rate that is periodically reset, usually every three months, and that carry a fixed spread, usually over the three-month London Interbank Offered Rate (LIBOR).

**U.S. TREASURY SECURITIES**

US Treasury securities are direct obligations of the federal government of the United States.

**AGENCY SECURITIES**

Agency securities are issued or guaranteed by a federal agency or other Government-Sponsored Entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans, or other benefits. For example, the US Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Notes issued through the US Government Temporary Liquidity Guarantee Program, whose interest and principal payments are fully and unconditionally guaranteed by the FDIC will be considered Agency Notes.

**AGENCY MORTGAGE BACKED SECURITIES**

Mortgage pass-through securities are issued by Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHMLC) and Federal National Mortgage Association (FNMA). The pass-through securities represent a direct ownership interest in a pool of mortgage loans.

# Citizens Property Insurance Corporation Claims-Paying Fund (Taxable) Investment Policy

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An issuer of a pass-through or participation certificate (PC) collects monthly payments from the borrowers whose loans are in a given pool and “passes through” the cash flow to investors in monthly payments, less any servicing and/or guarantee fees. Most pass-throughs are backed by fixed-rate mortgage loans; however, *adjustable-rate mortgage loans (ARMs)* are also pooled to create the securities.

## NON-AGENCY MORTGAGE BACKED SECURITIES

Non-Agency mortgage backed securities are secured by real estate mortgage loans. They are not issued by an Agency but are issued by private lenders and are issued in tranches with a structure similar to Agency backed securities.

## COLLATERALIZED LOAN OBLIGATIONS

A collateralized loan obligation (CLO) is a security backed by a pool of debt. They are backed by corporate loans or loans taken out by private equity firms to conduct leveraged buyouts.

## ASSET-BACKED SECURITIES

An asset-backed security is a financial security backed by a loan, lease, credit card, or receivables against assets other than real estate and mortgage-backed securities.

## MUNICIPAL SECURITIES

Municipal securities are issued by states, counties, cities, and other political subdivisions and authorities. Both taxable and tax-exempt municipal securities are allowable investments.

## FOREIGN SECURITIES

Foreign securities are US dollar-denominated securities of issuers based outside the United States. Citizens considers the issuer to be based outside the United States if: it is organized under the laws of, or has a principal office located in, another country; or it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue, or profit from goods produced, services performed or sales made in another country.

## MONEY MARKET MUTUAL FUNDS

Money Market mutual funds are registered investment companies that comply with rule 2a7 of the Investment Company Act of 1940.

## REPURCHASE AGREEMENTS (REPOs)

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**Claims-Paying Fund (Taxable) Investment Policy**

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Repurchase Agreements are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back at an agreed upon price the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo.

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least "A2" by Moody's and "A" by S &P without regard to gradation . In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

Any Repurchase Agreement must be collateralized at least 102% with U.S. Government or Agency securities, excluding Mortgage Backed Securities. All Repurchase Agreements must be marked-to-market daily.

# CITIZENS PROPERTY INSURANCE CORPORATION

## INVESTMENT POLICY for

### Claims-Paying Long Duration Fund (Taxable)

#### INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to five separate policies:

- (1) Liquidity Fund (Taxable): generally this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- (2) Liquidity Fund (Tax-Exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on as needed basis.
- (3) Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (4) Claims-Paying Long Duration Fund (Taxable): generally this policy will govern the investment of funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (5) Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Tax-Exempt Liquidity Fund and all taxable funds. The funds will also be used to pay principal and / or interest debt service payments.

In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to use its own investment personnel and the investment procedures approved by the Board of Governors in

# Citizens Property Insurance Corporation

## Claims-Paying Long Duration Fund (Taxable) Investment Policy

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October 2007 (Citizens' "Operating Funds Portfolio"). The Operating Funds Portfolio will consist of the approximate amount funds needed to pay the day-to-day operating expenses of Citizens, as determined by Citizens' Chief Financial Officer. Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, ~~and~~ Treasury or Agency securities ~~(see Appendix A, "Types of Permitted Securities"), and certain Asset-Backed securities~~. For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that operating expenses and claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

### INVESTMENT OBJECTIVES

The primary investment objectives of the Claims-Paying Long Duration Fund are to provide safety of principal while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed to pay covered losses. Since paying such losses fully and in a timely manner is a priority for Citizens, liquidity in all portfolios must be paramount. However, the moneys invested pursuant to this policy will be used only after Citizens uses the moneys in its Liquidity Funds and Claims-Paying Funds for losses that exhaust approximately a 1-100 year probable maximum loss. As the moneys invested pursuant to this policy will be Citizens' last source of available funds, the duration limits of this policy will be longer than the duration of the Claims-Paying Fund (Taxable).

### INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens' Claims-Paying Long Duration Fund portfolio ("the Portfolio") will be invested only in high quality fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its Investment Managers will invest in include corporate debt securities, bank instruments, US Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), Non-Agency Mortgage backed Securities, certain Asset-Backed

# Citizens Property Insurance Corporation

## Claims-Paying Long Duration Fund (Taxable) Investment Policy

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~~securities, Municipal securities, and shares of Money Market Mutual Funds. However, Citizens and its Investment Managers are not permitted to buy 144A such fixed income securities to the extent that they require Citizens to be a Qualified Institutional Buyer, as defined by the United States Securities and Exchange Commission in Rule 144A under the Securities Act of 1933.~~

~~For a more detailed description of the Portfolio securities, please see “Types of Permitted Securities” at Appendix A.~~

It is the responsibility of the Investment Manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all Investment Managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens’ compliance checks do not relieve the Investment Managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio’s performance will be analyzed for return performance by comparing the various Investment Managers’ Claims-Paying Long Duration Funds (Taxable) performance to each other on a regular basis; (iii) the Portfolio’s performance, and each Investment Manager’s share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers’ professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio’s overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

### INVESTMENT GUIDELINES

#### *Credit Quality*

At the time of purchase, all securities must be rated in accordance with the following.

- (1) Securities with long-term investment ratings must be rated from at least two of Moody’s, S&P, and/or Fitch with minimum ratings of BBB-/Baa3;
- (2) Securities with short-term investment ratings must be rated from at least two of Moody’s, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody’s; A-1 by S&P; and/or F1 by Fitch;

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**Claims-Paying Long Duration Fund (Taxable) Investment Policy**

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- (3) Money Market Funds must be rated Aaa by Moody's, AAA<sub>m</sub> by S&P **and/or** AAA<sub>mmf</sub> by Fitch;
- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, floorplans, handset devices, and credit card receivables must be rated from at least two of Moody's, S&P, and/or Fitch and must have ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$75 million for each security.
- ~~(5)~~(6) Collateralized Loan Obligations (CLOs) from Broadly Syndicated Markets, Non-Agency Residential Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS), including Single Asset Single Borrower (SASB), must be rated from at least one of Moody's, S&P, and/or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- ~~(6)~~(7) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

If anything occurs which causes an investment in the Portfolio to fall outside the standards described above, the applicable Investment Manager must notify Citizens' investment personnel and CFO in writing via e-mail within one day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to Citizens' CFO within five business days of the event. In general, any such affected security should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to Citizens' CFO; however, immediate sale in a temporarily depressed market is not mandated by this policy.

***Diversification***

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage Backed Securities (MBS), Agency Commercial Mortgage Backed Securities

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(CMBS), Agency Collateralized Mortgage Obligations (CMO) and Notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least 205% of the Portfolio.

- Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 8075% of the Portfolio.
- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities are not considered to be part of an industry for these purposes. The Bloomberg BCLASS Indices Global Sector Classification ~~Barclays Industry Sector~~ will be used to verify the sector limit.
- No more than 15% of the Portfolio shall be invested in Agency MBS, CMBS or CMO.
- No more than 15% of the Portfolio shall be invested in 144A securities.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that have a rating(s) from Moody's, S&P, and/or Fitch of either BBB- or Baa3 shall not represent more than 7.5% of the Portfolio with the securities of a single issuer representing no more than 1.0% of the Portfolio.
- Securities of any individual Agency, including MBS, CMBS or CMO, should not represent more than 20% of the Portfolio.
- Investments in an individual Money Market Fund (including Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.
- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD program will be considered Corporate Floating Rate Notes.
- Municipal Securities shall not represent more than 3025% of the Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 10% of the Portfolio.
- Structured products including agency and non-agency mortgage backed securities, CLOs, and asset-backed securities for prime automobile, floorplans, handset devices, equipment loan and lease receivables, and credit card receivables shall not represent more than 105% of the Portfolio with the securities of a single issuer representing no more than 1.50.75% of the Portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the Portfolio.
- No more than 2530% of the Portfolio shall consist of securities, excluding securities where weighted average life is used, with a final maturity between 12 and 15 years.



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- No more than 105% of the Portfolio shall consist of securities, excluding securities where weighted average life is used, with a final maturity between 15 and 20 years and one month.

*Duration*

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security, except for securities where the weighted average life is used, in the Portfolio is 20 years and one month.
  - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 3 years at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
- The dollar weighted average maturity of the Portfolio shall not exceed 120 months, or ten years, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
- Repurchase Agreements must have a maximum maturity of 30 days or less.
- If a fixed rate security has mandatory put option then the mandatory put date will be used as a final maturity date.
- If a variable rate security has mandatory put option then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of A2 from Moody's, A from S&P and/or A from Fitch.
- Asset-backed, agency and non-agency mortgage-backed securities, CMBS, and CLOs ~~for prime automobile, equipment loan and lease, and credit card receivables~~ shall use the weighted average life as the final maturity date with a maximum weighted average life of 10 years.

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Claims-Paying Long Duration Fund (Taxable) Investment Policy**

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**STRESS TESTING**

Upon request by Citizens, The Investment Managers will ~~quarterly~~ stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions ~~two weeks~~ with its request prior to the stress test date.

**OTHER RESTRICTIONS**

- Auction Rate Securities are not permitted.
- Commercial Paper Notes issued under Section 4(2) of Securities act of 1933 are not permitted
- Qualified Public Depositories are not permitted
- Derivatives are not permitted.
- Subordinate obligations, regardless of ratings, are not permitted.
- Middle market CLOs are not permitted.
- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.
- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO of Citizens.

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**This policy was approved by Citizens Property Insurance Corporation's Board of Governors on December 11, 2019**

Appendix A-Definitions of Types of Permitted Securities

**CORPORATE DEBT SECURITIES**

Corporate Debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Citizens may also purchase interests in bank loans to companies.

**COMMERCIAL PAPER**

Commercial Paper is an issuer's obligation with a maturity of less than 9 or 12 months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

**DEMAND INSTRUMENTS**

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Citizens' treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

**BANK INSTRUMENTS**

Bank instruments are unsecured interest bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, Time Deposits, Certificates of Deposit and Banker's Acceptances. Yankee instruments are denominated in US dollars and issued by non-US branches or foreign banks.

Neither Citizens nor its Investment Managers will invest in instruments of domestic or foreign banks and savings and loans unless they have capital, surplus and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund of the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation either directly or as part of CDARS (Certificate of Deposit Account Registry Service) program.

These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Eurodollar Time Deposits.

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**FLOATING RATE NOTES**

Floating rate Notes are Variable rate bonds with an interest rate that is periodically reset, usually every three months, and that carry a fixed spread, usually over the three-month London Interbank Offered Rate (LIBOR).

**U.S. TREASURY SECURITIES**

US Treasury securities are direct obligations of the federal government of the United States.

**AGENCY SECURITIES**

Agency securities are issued or guaranteed by a federal agency or other Government-Sponsored Entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans, or other benefits. For example, the US Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Notes issued through the US Government Temporary Liquidity Guarantee Program, whose interest and principal payments are fully and unconditionally guaranteed by the FDIC will be considered Agency Notes.

**AGENCY MORTGAGE BACKED SECURITIES**

Mortgage pass-through securities are issued by Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHMLC) and Federal National Mortgage Association (FNMA). The pass-through securities represent a direct ownership interest in a pool of mortgage loans.

# Citizens Property Insurance Corporation

## Claims-Paying Long Duration Fund (Taxable) Investment Policy

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An issuer of a pass-through or participation certificate (PC) collects monthly payments from the borrowers whose loans are in a given pool and “passes through” the cash flow to investors in monthly payments, less any servicing and/or guarantee fees. Most pass-throughs are backed by fixed-rate mortgage loans; however, *adjustable-rate mortgage loans (ARMs)* are also pooled to create the securities.

### NON-AGENCY MORTGAGE BACKED SECURITIES

Non-Agency mortgage backed securities are secured by real estate mortgage loans. They are not issued by an Agency but are issued by private lenders and are issued in tranches with a structure similar to Agency backed securities.

### COLLATERALIZED LOAN OBLIGATIONS

A collateralized loan obligation (CLO) is a security backed by a pool of debt. They are backed by corporate loans or loans taken out by private equity firms to conduct leveraged buyouts.

### ASSET-BACKED SECURITIES

An asset-backed security is a financial security backed by a loan, lease, credit card, or receivables against assets other than real estate and mortgage-backed securities.

### MUNICIPAL SECURITIES

Municipal securities are issued by states, counties, cities, and other political subdivisions and authorities. Both taxable and tax-exempt municipal securities are allowable investments.

### FOREIGN SECURITIES

Foreign securities are US dollar-denominated securities of issuers based outside the United States. Citizens considers the issuer to be based outside the United States if: it is organized under the laws of, or has a principal office located in, another country; or it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue, or profit from goods produced, services performed or sales made in another country.

### MONEY MARKET MUTUAL FUNDS

Money Market mutual funds are registered investment companies that comply with rule 2a7 of the Investment Company Act of 1940.

### REPURCHASE AGREEMENTS (REPOs)

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**Claims-Paying Long Duration Fund (Taxable) Investment Policy**  
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Repurchase Agreements are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back at an agreed upon price the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo.

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least "A2" by Moody's and "A" by S & P without regard to gradation . In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

Any Repurchase Agreement must be collateralized at least 102% with U.S. Government or Agency securities, excluding Mortgage Backed Securities. All Repurchase Agreements must be marked-to-market daily.

# **CITIZENS PROPERTY INSURANCE CORPORATION**

## **INVESTMENT POLICY for**

### **Liquidity Fund (Tax-Exempt)**

#### **INTRODUCTION**

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to five separate policies:

- (1) Liquidity Fund: generally this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- (2) Liquidity Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt funds that will be used to pay claims after an event or to pay principal and/or interest payments on as needed basis.
- (3) Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (4) Claims-Paying Long Duration Fund (Taxable): generally this policy will govern the investment of funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (5) Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Tax-Exempt Liquidity Fund and all taxable funds. The funds will also be used to pay principal and / or interest debt service payments.

In addition, Citizens may choose to invest a portion of its portfolio using its own investment personnel and the investment procedures approved by the Board of Governors in October 2007 (Citizens' "Internally Managed Funds"). Internally Managed Funds will consist of the approximate amount funds needed to pay the day-to-day operating expenses of Citizens, as

# Citizens Property Insurance Corporation

## Liquidity Fund (Tax-Exempt) Investment Policy

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determined by Citizens' Chief Financial Officer. Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, and Treasury or Agency securities (see Appendix A, "Types of Permitted Securities"). For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' procurement policies.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

### **INVESTMENT OBJECTIVES**

The primary investment objectives of the Liquidity Fund (Tax-exempt) are to provide stability of principal and liquidity while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses timely. Since paying such losses fully and in a timely manner is the highest priority of Citizens, and since Liquidity Fund (Tax-exempt) moneys will be among the first used by Citizens to pay claims after a storm, liquidity and principal stability in the Liquidity Fund (Tax-exempt) must be paramount. The achievement of these goals is of prime importance and should not be jeopardized in the quest for additional return.

### **INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT**

Citizens Liquidity Fund (tax-exempt) portfolio (the "Portfolio") will be invested only in non-AMT tax-exempt fixed income securities or in money market funds which invest exclusively in non-AMT tax-exempt fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. More detailed restrictions are contained below.

It is the responsibility of the Investment Manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically; however, Citizens' compliance checks do not relieve the Investment Manager(s) of their responsibility to perform such checks on a daily basis.



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**Liquidity Fund (Tax-Exempt) Investment Policy**

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Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return performance by comparing the various Investment Managers' Liquidity Funds performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks– on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers' professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio's overall performance and as one measure of the relative performance of the Investment Manager(s). The Investment Manager(s) must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

**INVESTMENT GUIDELINES**

*Credit Quality*

At the time of purchase, all investments must be rated in accordance with the following (in the event of split ratings, the lower ratings will be used for compliance purposes):

- (1) Securities with short-term investment ratings (other than Variable Rate Demand Obligations ("VRDOs")), must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of MIG 1 by Moody's, SP-1 by S&P, and /or F1 by Fitch.
- (2) Securities with long-term investment ratings, must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of A3 by Moody's, A- by S&P, and/or A- by Fitch.
- (3) VRDOs must be rated from at least Moody's, S&P, and/or Fitch and be at least rated VMIG 1 by Moody's, A-1 by S&P, and/or F1 by Fitch; in addition, one of the following is required:
  - i. A direct pay Letter of Credit ("LOC") from a bank with long-term underlying ratings from at least two of Moody's, S&P, and / or Fitch (Minimum ratings - Moody's: A3; S&P: A-; Fitch: A-).
  - ii. A combination of a liquidity facility with a bank liquidity provider meeting the same ratings requirements as for bank LOC's and credit enhancement from a credit enhancement provider rated by at least two of Moody's S&P and/or Fitch, with minimum ratings of A1 from Moody's and A+ from S&P and/or A+ from Fitch.

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**Liquidity Fund (Tax-Exempt) Investment Policy**

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- iii. Self liquidity by the issuer with a minimum underlying ratings by at least two of Moody's S&P and/or Fitch, with minimum ratings of A1 from Moody's and A+ from S&P and/or A+ from Fitch.
- (4) Tax-Exempt Commercial Paper ("TECP"), must be rated from at least two of Moody's, S&P and/or Fitch and must be at least rated P-1 by Moody's, A-1 by S & P, and/or F1 by Fitch.
- (5) Tax-exempt money market funds must be rated Aaa by Moody's, or AAA<sub>m</sub> by S&P and/or AAA<sub>mmf</sub> by Fitch.
- (6) For pre-refunded bonds, the ratings for the underlying collateral will be used for compliance purposes.
- (7) Subordinate obligations must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of A3 by Moody's, A- by S&P, and/or A- by Fitch.

If anything occurs which causes an investment in the Portfolio to fall outside the standards described above, the applicable Investment Manager must notify Citizens' investment personnel and CFO in writing via e-mail within one day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to Citizens' CFO within five business days of the event. In general, any such affected security should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to Citizens' CFO; however, immediate sale in a temporarily depressed market is not mandated by this policy.

***Diversification***

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Securities of a single local municipality or issuer, e.g. State, County, City, or Authority, shall not represent more than 5% of the portfolio. This issuer limit includes VRDOs regardless of the LOC or liquidity support provider. The Bloomberg Bond Ticker or an Issuer name for conduit issuer only will be used to verify the issuer limit.
- Investment in an individual money market fund shall be the lesser of 5% of the total individual fund assets or \$200 million. Each Investment Manager must check the compliance of this provision with Citizens' CFO prior to investing in any money market fund.

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- Tax-exempt commercial paper (“TECP”) shall not represent more than 20% of the total portfolio.
- Floating Rate Notes (securities the terms of which provide for the automatic adjustment of their interest rates whenever a specified interest rate changes until the final maturity of the instrument or the period remaining until the principal amount can be recovered through demand) with no external liquidity support from a bank meeting the ratings requirements described above for bank LOC’s shall not represent more than 25% of the total portfolio.
- No more than 25% percent of the Portfolio may be invested in fixed rate securities with remaining time to maturities of 24 to 42 months.
- Exposure to banks providing LOC or liquidity support for the underlying securities in the Portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 15% of the Portfolio.
- Calculations of a bank or issuer’s share of the Portfolio should be done without regard to the underlying securities in any money market funds owned by Citizens in the Portfolio.

***Duration***

It is Citizens’ intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security in the portfolio is 42 months or three years and six months.
  - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, “VROs”) with a Demand Feature (a feature permitting the holder of a security to sell such security within 397 days at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a LOC or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
  - For pre-refunded municipal obligations with an irrevocable escrow funded by Government or Agency securities, the final maturity shall be deemed to

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- be the date on which the escrow will be used to call the underlying bonds. Pre-refunded obligations have no minimum ratings requirements.
- If a fixed rate security has a mandatory put option then the mandatory put date may be used as a final maturity date.
  - If a variable rate security has a mandatory put option then the mandatory put date may be used as a final maturity date but the issuer must have underlying ratings by at least two of Moody's S&P and/or Fitch, with minimum ratings of Aa3 from Moody's and AA- from S&P and/or AA- from Fitch.
- The dollar weighted average maturity of the portfolio shall be calculated and restricted in two separate ways:
    - The dollar weighted average maturity of the portfolio shall not exceed 397 days, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
    - The dollar weighted average life maturity of the portfolio shall not exceed 730 days, calculated using the stated legal maturity for any VROs without a Demand Feature and for VROs with a Demand Feature using the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs.

### **STRESS TESTING**

The Investment Managers will quarterly stress-test the portfolio, in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens will provide the stress test conditions two weeks prior to the stress test date.

### **OTHER RESTRICTIONS**

- Auction Rate Securities are not permitted.
- Asset Backed Securities (including Asset-backed Commercial Paper Notes), Mortgage Backed Securities (including Agency MBS), and Collateralized Debt Obligations, are not permitted.
- Commercial Paper Notes issued under Section 4(2) of Securities act of 1933 are not permitted
- Qualified Public Depositories are not permitted
- Derivatives are not permitted.
- Repurchase Agreements, Reverse Repurchase Agreements and Securities Lending are not permitted.

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- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO of Citizens.

**This policy was approved by Citizens Property Insurance Corporation's Board of Governors on December 13, 2017.**

**Appendix A-Types of Permitted Securities**

**VARIABLE RATE DEMAND OBLIGATION (VRDO)**

A bond which bears interest at a variable, or floating, rate established at specified intervals (e.g., flexible, daily, weekly, monthly or annually). It contains a put option permitting the bondholder to tender the bond for purchase when a new interest rate is established. VRDOs are also referred to as VRDNs (N=Notes), VRDBs (B=Bonds) or low floaters.

**MUNICIPAL SECURITIES (Tax-Exempt)**

A Security issued by a state or local governmental units where the interest on the security is excluded from the gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1954, as amended.

**TAX-EXEMPT MONEY MARKET FUND**

A Money Market Fund that invests in short-term tax-exempt municipal securities.

# CITIZENS PROPERTY INSURANCE CORPORATION

## INVESTMENT POLICY for Claims-Paying Fund (Tax-Exempt)

### INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to five separate policies:

- (1) Liquidity Fund (Taxable): generally this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- (2) Liquidity Fund (Tax-Exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on as needed basis.
- (3) Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (4) Claims-Paying Long Duration Fund (Taxable): generally this policy will govern the investment of funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (5) Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Tax-Exempt Liquidity Fund and all taxable funds. The funds will also be used to pay principal and / or interest debt service payments.

# Citizens Property Insurance Corporation Claims-Paying Fund (Tax-Exempt) Investment Policy

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In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to use its own investment personnel and the investment procedures approved by the Board of Governors in October 2007 (Citizens' "Operating Funds Portfolio"). The Operating Funds Portfolio will consist of the approximate amount funds needed to pay the day-to-day operating expenses of Citizens, as determined by Citizens' Chief Financial Officer. Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, and Treasury or Agency securities (see Appendix A, "Types of Permitted Securities"). For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

## **INVESTMENT OBJECTIVES**

The primary investment objectives of the tax-exempt Claims-Paying Fund are to provide safety of principal and liquidity while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses. Since paying such losses fully and in a timely manner is a priority for Citizens, liquidity in all portfolios must be paramount. While the moneys invested pursuant to this policy will not be the first funds Citizens uses after a storm to pay claims, the uncertainty of when they will be needed still demands a fixed income portfolio with relatively short to intermediate duration and high credit quality.

## **INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT**

Citizens Claims-Paying Fund (tax-exempt) portfolio (the "Portfolio") will be invested only in non-AMT tax-exempt fixed income securities or in money market funds which invest exclusively in non-AMT tax-exempt fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. More detailed restrictions are contained below.



# Citizens Property Insurance Corporation Claims-Paying Fund (Tax-Exempt) Investment Policy

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It is the responsibility of the Investment Manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all Investment Managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens' compliance checks do not relieve the Investment Managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return performance by comparing the various Investment Managers' Claims-Paying Funds (Tax-Exempt) performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks– on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers' professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio's overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

## INVESTMENT GUIDELINES

### *Credit Quality*

At the time of purchase, all investments of proceeds from pre-event bond issuances starting in 2010 and thereafter must be rated in accordance with the following (in the event of split ratings, the lower ratings will be used for compliance purposes):

- (1) Securities with short-term investment ratings (other than Variable Rate Demand Obligations (“VRDOs”)), must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of MIG 1 by Moody's, SP-1 by S&P, and /or F1 by Fitch.
- (2) Securities with long-term investment ratings, must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of A3 by Moody's, A- by S&P, and/or A- by Fitch.
- (3) VRDOs must be rated from at least Moody's, S&P, and/or Fitch and be at least rated VMIG 1 by Moody's, A-1 by S&P, and/or F1 by Fitch; in addition, one of the following is required:

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**Claims-Paying Fund (Tax-Exempt) Investment Policy**  
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- i. A direct pay Letter of Credit (“LOC”) from a bank with long-term underlying ratings from at least two of Moody’s, S&P, and / or Fitch (Minimum ratings - Moody’s: A3; S&P: A-; Fitch: A-).
  - ii. A combination of a liquidity facility with a bank liquidity provider meeting the same ratings requirements as for bank LOC’s and credit enhancement from a credit enhancement provider rated by at least two of Moody’s S&P and/or Fitch, with minimum ratings of A1 from Moody’s and A+ from S&P and/or A+ from Fitch.
  - iii. Self liquidity by the issuer with a minimum underlying ratings by at least two of Moody’s S&P and/or Fitch, with minimum ratings of A1 from Moody’s and A+ from S&P and/or A+ from Fitch.
- (4) Tax-Exempt Commercial Paper (“TECP”), must be rated from at least two of Moody’s, S&P and/or Fitch and must be at least rated P-1 by Moody’s, A-1 by S & P, and/or F1 by Fitch.
  - (5) Tax-exempt money market funds must be rated Aaa by Moody’s, or AAA<sub>m</sub> by S&P and/or AAA<sub>mmf</sub> by Fitch.
  - (6) For pre-refunded bonds, the ratings for the underlying collateral will be used for compliance purposes.
  - (7) Subordinate obligations must be rated from at least two of Moody’s, S&P, and/or Fitch and must have minimum ratings of A3 by Moody’s, A- by S&P, and/or A- by Fitch.

If anything occurs which causes an investment in the Portfolio to fall outside the standards described above, the applicable Investment Manager must notify Citizens’ investment personnel and CFO in writing via e-mail within one day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to Citizens’ CFO within five business days of the event. In general, any such affected security should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to Citizens’ CFO; however, immediate sale in a temporarily depressed market is not mandated by this policy.

***Diversification***

It is Citizens’ intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

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**Claims-Paying Fund (Tax-Exempt) Investment Policy**

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- Securities of a single local municipality or issuer, e.g. State, County, City, or Authority, shall not represent more than 5% of the portfolio. This issuer limit includes VRDOs regardless of the LOC or Liquidity Support provider. The Bloomberg Bond Ticker or an Issuer name for conduit issuer only will be used to verify the issuer limit.
- Investment in an individual money market fund shall be the lesser of 5% of the total individual fund assets or \$200 million. Each Investment Manager must check the compliance of this provision with Citizens' CFO prior to investing in any money market fund.
- Tax-exempt commercial paper ("TECP") shall not represent more than 20% of the total portfolio.
- Floating Rate Notes (securities the terms of which provide for the automatic adjustment of their interest rates whenever a specified interest rate changes until the final maturity of the instrument or the period remaining until the principal amount can be recovered through demand) with no external liquidity support from a bank meeting the ratings requirements described above for bank LOCs shall not represent more than 25% of the total portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Citizens' portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 15% of the total portfolio.
- Calculations of a bank or issuer's share of Citizens' overall portfolio should be done without regard to the underlying securities in any money market funds owned by Citizens in this portfolio.

***Duration***

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security in the Series 2011 and Series 2012 portfolio is 61 months or five years and one month and for any subsequent Series starting in 2015 is 73 months or six years and one month.
  - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 42 months, or three years and six months at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date

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of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.

- For pre-refunded municipal obligations with an irrevocable escrow funded by Government or Agency securities, the final maturity shall be deemed to be the date on which the escrow will be used to call the underlying bonds. Pre-refunded obligations have no minimum ratings requirements.
  - If a fixed rate security has mandatory put option then the mandatory put date will be used as a final maturity date.
  - If a variable rate security has mandatory put option then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of Aa3 from Moody's, AA- from S&P and/or AA- from Fitch.
- The dollar weighted average maturity of the Series 2011 and Series 2012 Portfolio shall not exceed 3 years and 6 months and for any subsequent Series starting Series 2015 Portfolio shall not exceed 4 years, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.

**STRESS TESTING**

The Investment Managers will quarterly stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions two weeks prior to the stress test date.

**OTHER RESTRICTIONS**

- Auction Rate Securities are not permitted.
- Asset Backed Securities (including Asset-backed Commercial Paper Notes), Mortgage Backed Securities (including Agency MBS), and Collateralized Debt Obligations, are not permitted.
- Commercial Paper Notes issued under Section 4(2) of Securities act of 1933 are not permitted
- Qualified Public Depositories are not permitted
- Derivatives are not permitted.
- Repurchase Agreements, Reverse Repurchase Agreements and Securities Lending are not permitted.

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- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO of Citizens.

**This policy was approved by Citizens Property Insurance Corporation's Board of Governors on December 13, 2017.**

**Appendix A-Types of Permitted Securities**

**VARIABLE RATE DEMAND OBLIGATION (VRDO)**

A bond which bears interest at a variable, or floating, rate established at specified intervals (e.g., flexible, daily, weekly, monthly or annually). It contains a put option permitting the bondholder to tender the bond for purchase when a new interest rate is established. VRDOs are also referred to as VRDNs (N=Notes), VRDBs (B=Bonds) or low floaters.

**MUNICIPAL SECURITIES (Tax-Exempt)**

A Security issued by a state or local governmental units where the interest on the security is excluded from the gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1954, as amended.

**TAX-EXEMPT MONEY MARKET FUND**

A Money Market Fund that invests in short-term tax-exempt municipal securities.