☒ **ACTION ITEM**	☐ **CONSENT ITEM**
☐ **New Contract**	☐ **Contract Amendment**
☐ **Contract Amendment**	☐ **Existing Contract Extension**
☒ **Other Committee Minutes**	☐ **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	The Finance and Investment Committee meeting Minutes March 18, 2022
Purpose/Scope	Review of the March 18, 2022 Finance and Investment Committee to provide opportunity for corrections and historical accuracy.
Contract ID	N/A
Budgeted Item	☐Yes ☒No
Procurement Method	N/A
Contract Amount	N/A
Contract Terms	N/A
Committee Recommendation	Staff recommends the review and approval of the March 18, 2022 Finance and Investment Committee minutes.
CONTACTS	Jennifer Montero, CFO

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Tuesday, March 18, 2022

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened by Zoom Webinar on Tuesday, March 18, 2022.

The following members of the FIC were present electronically:

Lazaro Fields
Erin Knight
Marc Dunbar

The following Citizens staff members were present electronically:

Jennifer Montero
Barbara Walker
Barry Gilway
Tim Cerio

The following people were present electronically:

Kapil Bhatia Raymond James

Call Meeting to Order

Barbara Walker: Good afternoon and welcome to Citizens Finance and Investment committee meeting that is publicly noticed in the Florida Administrative Register to convene at 1:00 p.m. Those in attendance through the public link are automatically in listen only mode. Citizens' Board and committee meetings are recorded with transcribed Minutes available on our website. Thank you for addressing or for identifying yourself prior to addressing the committee. Chairman, may I proceed with roll call?

Chairman Fields: Please.

Barbara Walker: Chairman Fields.

Chairman Fields: Here.

Barbara Walker: Chairman Beruff

Barbara Walker: Governor Dunbar.

Governor Dunbar: Here.

Barbara Walker: Governor Knight.

Governor Knight: Present.

Barbara Walker: Chairman Fields, you have a quorum.

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

Chairman Fields: Thank you, Barbara, and good afternoon, everybody, and nice to see you all. Governor Knight, the palm trees behind you are a nice touch, it looks nice back there.

Governor Knight: I was going to say, your virtual background is a nice touch.

Chairman Fields: Thanks. The first item on the agenda is the **approval of the December 14th, 2021 meeting Minutes. Is there a motion?**

Governor Dunbar: **Move approval.**

Chairman Fields: Is there a second?

Governor Knight: **Second.**

Chairman Fields: All right. All those in favor signify by saying yea. **Yea.**

Governor Dunbar: **Yea.**

Chairman Fields: All those opposed. All right, the meeting **Minutes are approved** without objection. The next item on the agenda is our market update by Mr. Bhatia. Good afternoon.

2. **Raymond James Financial Advisor**

   a. Market Update

Kapil Bhatia: Good afternoon, Mr. Chairman, and good afternoon, Governors. Can you hear me, okay?

Governor Knight: Pretty well.

Kapil Bhatia: Thank you. I will briefly go with the market update, but please stop me at any time for any questions or clarification and comments or additional thoughts. I will start with economic and financial market. Total nonfarm payroll employment rose by 678,000 in February, and the unemployment rate declined to 3.8% with 6.3 million unemployed persons. The growth was widespread led by leisure and hospitality sector, professional and business services as well as health care and construction. These unemployment rates are at the same level where we were prior to the COVID-19 pandemic for February of 2020. The labor force participation rate is currently at 62.3% in February, no change from January 2022, however, the unemployment to population ratio inched up marginally to 59.9%. Both of these ratios remain below the February 2020 levels when they were 63.4% and 61.2% respectfully, and this is what we are all hearing about the labor shortages. This difference of one and-a-half or two percent translates into four to four and-a-half million people in the labor force. In the U.S. as we all know multiple federal stimulus packages in the total of approximately $5.8 trillion were passed to shore up economic conditions, financial market and to mitigate the impact on businesses and individuals from COVID-19. However, these stimulus also added significantly to inflation, especially the last package, which was in March 2021 of 1.9 trillion, America rescue plan.

The U.S. federal reserve increased the fed funds target rate on March 16th for the first time since December of 2018 by 25 basis points. The current fed funds rate is between 25 to 50 basis points. It is the market consensus the fed will increase the rate at least six more times in 2022to get to the pre COVID levels by the end of this year or to around 1.75 % to 2%, in that range. Additionally, the consensus projects that there will be four additional rate increases in 2023. So, the fed fund rate by the end of 2023 will be 2.75%-, which we believe is very optimistic. Most of the monetary policies really is backwards looking. They look at the data and they try to forecast what it is, which is very uncertain. The December forecast for rate increase was 25 basis points in 2022, and we can see the difference. Now they're talking about six to seven increases in 2022. This increase in federal reserve fed fund target rate has been expected due to higher than expected inflation or February CPI 7.9% which is highest since 1982 or over the last 40 years. And most of the inflation is really coming from energy and car prices, both used and new which accounts for almost more than half of the inflation. Our inflation has also been impacted by 2020 and 2021 stimuli, which totaled to about $5.8 trillion or 25% of the 2021 GDP. And of course, all of these stimulus monies were used for goods instead of services due to COVID closures. Supply chain issues have created further increased demand and continuation of lockdown in China and other Asian countries which supplies a large portion of the goods we consume here are all adding to inflation. In addition, most recent increase in energy prices due to the war in Ukraine has also spiked inflation. A lot of uncertainty remains regarding when and where inflation will end. These are unpredictable issues. The fed is projecting that inflation will be 4.3 percent by the end of the year. Our projections are similar, but it is higher than where we were in December or September and that is because of energy prices. We believe the inflation will come down because of fiscal stimulus has ended and as the receding of COVID lockdowns, especially in Europe, North America and in Europe nonetheless war and its impact on energy prices adds more uncertainty to the trajectory of inflation. The 2021 GDP increased by 5.7%, but the fed decreased its projection for 2022 growth from 4% to 2.8%. That is a reduction of 1.2% from where we were in December, and this reduction is simply the reflection of economic slowdown expected because of increase in interest rates.

Equity market. The equity market has been lower and volatile in 2022. The markets are usually more of a leading indicator of the economy, but it is having a real hard time or a difficult time predicting what the future holds because of multiple uncorrelated factors, such as continuation of COVID-19, especially in Asia. Higher than expected inflation, the war in Ukraine, and the continuing de-globalization of global economy, and of course the direction of the federal reserve. All of these leads to the higher interest rates, and U.S. treasury rates have increased significantly over the last 12 months, and the market has adjusted for expected fed fund's rate increase. The 2-year treasury rate is 1.95%, or approximately 50% above its 5-year average of 1.31%, and over 100% above its 10-year average of 93 basis points. The 10-year treasury rate is marginally above its 10-year average rate of 2.03%, and the difference between two and 10-year treasury rate, which basically reflects the future economic growth has decreased from 150 basis points to 20 to 24 basis points over the last 12 months. And this flatness in yield curve reflects slow projected growth or maybe even a recession. It will depend on how fed balances increase in interest rates and tackles the tight rope. All of this is leading to increase in corporate investment grade spread which have widened from 100 to 120 basis points to adjust for uncertainty and projected slow economic growth. Fixed Income markets are stable. In 2021 corporate bond issuance was over $2 trillion, which was 14% less than 2020. We expect 2022 issuances to be around $1.3 trillion. The municipal issuance was $476 billion in 2021. We expect this year's number to be significantly less or somewhere in the range of $350 to $375 million however, there is still a strong investment demand for both tax exempt and taxable market because of the marginal increase in interest rates.

And lastly, to the risk transfer market. In 2017 Hurricane Harvey, Ivan and Maria contributed to record global economic losses of over $500 billion of which approximately 32% or $170 billion were insured. In 2021, losses were marginally above the 10-year average of $343 billion of economic losses of which 38% of $130 billion was insured. And this is before all the COVID-19 losses as these numbers don't reflect that. Global reinsurance capital increased through the first half of 2021 to $660 billion, however, we expect that capital to remain at similar levels. While the global markets are improving, the Florida market is continuing to experience a significant dislocation due to all the factors we know, litigation, continued adverse loss development, and this is a new one, credit quality concern of the primary insurance because significant losses that have incurred over the last couple of years. In 2022, the reinsurance markets will be constrained. We expect rate increases of around 10% - 15% depending on the insurer. However, we expect our rates to only increase by approximately 5%. I will stop here, and happy to answer any questions that you have.

Chairman Fields: Does anybody have any questions for Mr. Bhatia? Okay.

Kapil Bhatia: Thank you.

Chairman Fields: Thank you very much. Next, we will move to item number three, the CFO report. Ms. Montero, good afternoon.

3. <u>Chief Financial Officer Report</u>

a. 2022 Risk Transfer Program

Jennifer Montero: Good afternoon, thank you. At the December 2020 Board of Governors meeting, staff presented a proposed 2020 risk transfer program as part of the 2022 budget presentation. These layer charts are on slides two and three of the presentation behind tab three in your FIC book or 3A on the hyperlink, and it is titled 2022 Risk Transfer Program. The proposed program incorporated all strategic elements from our prior risk transfer programs which included participation in the Cat Fund reimbursement program, transferring risk alongside the Cat Fund in the traditional reinsurance market and transferring risks above the Cat Fund in both the traditional reinsurance market and the capital market in order to protect a portion of surplus for most catastrophic events to reduce the amount and likelihood of assessment for a 1-in-100-year event to the citizens of Florida. The proposed risk transfer program provided approximately $1.89 billion of coverage with budgeted premiums of $190 million for the Personal Lines Account and $2.5 billion of coverage we budgeted for $210 billion for the Coastal Account as you can see on slide three. The total of $4.3 billion of coverage was budgeted for $400 million. That proposed program reflected exposure data as of September 30, 2021, with projections to September 30th, 2022. Utilizing a projected growth rate of approximately 50% for the Personal Lines Account and 44% for the coastal account. Since that time Citizens has updated its exposure data as of December 31st, 2021, and its projections for September 30th, 2022. Based on the update, there has been a significant increase of projected growth in the personal lines account where the coastal account projections have remained consistent with the prior forecast. Therefore, we are proposing a program based on the updated projections, utilizing the growth rate of approximately 80% in the personal lines account and 43% in the personal lines account from September 30th, 2021 to September 30th, 2022.

As a result, we revised proposed risk transfer programs to include four scenarios in addition to the 2022 budget scenario presented on the December Board meeting. The first scenario incorporates the updated forecast utilizing the budget risk transfer spend. The second scenario incorporates the updated forecast with no projected combined underwriting loss. The third scenario incorporates the updated forecast with no projected underwriting loss in the personal lines account, and the fourth scenario incorporates the updated forecast with no new risk transfer purchase. Turning to slide four you will find scenario one for the personal lines account titled 2022 Updated Forecast Budget Reinsurance Spend, 12/31/2021 PMLs. This scenario provides approximately $1.9 billion of coverage in the personal lines account comprised of $435 million of existing coverage and $1.5 billion of new private risk transfer with budgeted premiums of $190 million. Under this scenario the personal lines would expose all its surplus, $1.6 billion for a 1-in-100-year event and would have a potential assessment burden of approximately $666 million, comprised of $450 million of a policyholder surcharge and $206 million of emergency assessment.

On slide five the scenario the coastal account with the same title. This scenario provides approximately $2.5 billion of coverage in the coastal account, comprised of $625 million of existing coverage and $1.9 billion of new private risk transfer with a budgeted premium of $210 million. Under this scenario the coastal account would expose 57% of its surplus for a 1-in-100-year event and would not have any potential assessment burden for a 1-in-100-year event. Slide six provides the risk and assessment trend. As you can see to the far right, the pro forma 2022 probable maximum loss for PML is almost $13 billion, and the assessment risk in the 1-in-100-year event is $656 billion shown in red in the bar graph. Turning to slide seven you will find scenario two for the personal lines account titled 2022 Updated Forecast. No projected combined underwriting loss. This scenario provides approximately $1.7 billion of coverage in the personal lines account comprised of $435 million of existing coverage and $1.27 billion of new private risk transfer, with a budgeted premium of $155 billion. Under this scenario the personal lines account would again expose all of its surplus for a 1-in-100-year event and would have a potential assessment burden of approximately $881 million comprised of the $450 million policyholder surcharge and $431 million of emergency assessments, which reflects an increase in potential emergency assessments of $225 million versus scenario one.

On slide eight you will find scenario two for the coastal account. This scenario provides approximately $2.2 billion of coverage in the coastal account comprised of $625 million of existing coverage, and $1.6 billion of new private risk transfer with budgeted premium of $182 million. Under this scenario the coastal account would expose 66% of its surplus for a 1-in-100-year event or $300 million in addition to the surplus exposed versus scenario one and would not have any potential assessments for a 1-in-100-year event. Slide nine provides the risk and assessment trend, and as you can see to the far right, the pro forma PML remains just shy of $13 billion and the assessment risk in the 1-in-100-year event increases by $225 million to $881 million shown in the red bar graph. Turning to slide 10, you will find scenario three for the personal lines account titled 2022 Updated Forecast, No Projected PLA Underwriting Loss. This scenario provides approximately $1.18 billion of coverage in the personal lines account, comprised of $435 million of existing coverage and $748 million of new private risk transfer with a budgeted premium of $115 million. Under this scenario the personal lines account would again expose all its surplus for a 1-in-100-year event and would have a potential assessment burden of approximately $1.356 billion comprised of the $450 million policyholder surcharge and $906 million of emergency assessment, which reflects an increase of potential emergency assessment of $700 million versus scenario one.

On slide 11 you will find scenario three for the coastal account. The coastal account would not be affected under this scenario, it would be the same as scenario number one. Slide 12 provides the risk and assessment trend, and as you can see to the far right, the PML remains just shy of $13 billion and the assessment risk increases by $700 million to $1.356 billion as compared to scenario one and is shown in the red bar graph. Turning to slide 13 you will find scenario four for the personal lines account titled 2002 Updated Forecast, No New Risk Transfer Purchase. This scenario provides only $435 million of existing coverage in the personal lines account with a budgeted premium of $28 million. Under this scenario the personal lines account would again expose all the surplus for a 1-in-100-year event and would have a potential assessment burden of approximately $2.016 billion. Comprised of the $450 million policyholder surcharge and $1.566 billion of emergency assessment which reflects an increase in potential emergency assessments of $1.36 billion versus scenario one.

On slide 14 you will find scenario four for the coastal account. And in this scenario, it provides $625 million of existing coverage for the coastal account with budgeted premium $40 million. Under this scenario the coastal account would expose all of its surplus for a 1-in-100-year event. It would have a potential assessment burden of approximately $422 million of policyholder surcharges which reflects an increase in the potential assessment of $422 million versus scenario one. The total combined assessment under this scenario is $2.438 billion comprised of $872 million of policyholder surcharges and $1.566 billion of emergency assessment. Slide 15 provides the risk and assessment trends, and as you can see to the far right, the pro forma 2022 PML remains at $12.99 billion and the assessment risk in a 1-in-100-year event increases by $1.082

billion to $2.438 billion as compared to scenario one and shown in the red bar graph. The final slide, slide 16 provides a summary of the different scenarios for your convenience. I will pause for questions before moving on to the additional scenarios of the personal lines account, and the potential of policyholder impact from surcharges and assessments.

Chairman Fields: Are there any questions regarding scenarios one through four? All right, seeing none.

Jennifer Montero: I will continue. In addition to these four scenarios, we were asked to prepare an additional scenario for the personal lines account that removes the potential assessment burden in a 1-in-100-year event. We refer to this scenario as 1-B for the personal lines account titled 2022 Updated Forecast, Cover up to 1-in-100 with an additional $46 million spend on slide two. This scenario provides approximately $2.66 billion of coverage in the personal lines account comprised of $435 million of existing coverage and $2.225 billion of new private risk transfer, with a budgeted premium of $236 million. Under this scenario the personal lines account would expose all of its surplus for a 1-in-100-year event but would not have any potential assessment burden for a 1-in-100-year event. Turning to slide three, you will find the risk and assessment trend, and as you can see to the far right, the PML remains the same, just shy of $13 billion just like the other four scenarios, however, the assessment risk in the 1-in-100-year decreases to zero, showing no red in the bar chart. Any questions on the additional scenario? All right, if not, I will go to the final document in the risk transfer program which was, Governor Dunbar had requested that we prepare a slide on the potential policyholder impact from surcharges and assessments relating to scenarios one through four. The initial assumptions include the average annual homeowner's policy for Citizens Property Insurance which was $2,950. For all other insurers we found that to be $2,442. Annual auto premium policy premium was 2,364. So, if we took those assumptions and we put them through the scenarios, scenario one Citizens policy would be affected by the 15% policyholder surcharge and the .4% emergency assessment, where other policyholders outside of Citizens would only be affected by the .4% assessment. And that translates to an increase in premium for the Citizens policyholder surcharge of $462 per year and the other insurer $18 per year.

Then we go onto scenario two, you will see that Citizens' policyholders have the 15% surcharge and the .8% emergency assessment with other insureds, only incurring a .8% emergency assessment. Citizens' policyholders will have an increase of $483 per year and other insureds will have an increase of $37. In scenario three, Citizens' policyholder will have the 15% surcharge and a 1.6% emergency assessment, where the other insureds will only have the 1.6% emergency assessment for an impact of $529 for a Citizens' policyholder and a $78 increase for other insureds. In scenario four we have a 15% on Citizens' policyholder surcharge in the personal lines, and a 14.1% for the coastal account, and then again it is 2.8% assessment for the emergency assessment. Other insureds will only receive the emergency assessment surcharge of 2.8%. Which comes out to $1,006 additional premium for Citizens' policyholder and $135 additional for other insureds. And I will pause there before moving on for any questions on the surcharge. And one thing I will point out is that is a first storm and no surplus so the next storm would be a lot larger and those assessments would be a lot larger as well.

Chairman Fields: Any questions?

Governor Dunbar: Chairman, this is Marc Dunbar. Could I ask a couple of questions?

Chairman Fields: Yes sir, please do.

Governor Dunbar: Jennifer, first of all, thanks a lot for pulling all this together. I mean, I really appreciate the time that, you know, we spent on the phone with you, me and Barry and others and all the work that staff has done since the last meeting to try and, you know, put this in a place where we can balance the fiscal condition of the annual budget with the potential risk and risk transfer. So, I really appreciate all the work you have done on this, so thank you. One of the things that I wondered about after looking at the slide that you put together that is up on the screen right now for us, is it possible to add in the information as it relates to what a Citizens' policy would be if we were not rate capped, so that we could see what the subsidy is. So, when you drop down to the resulting difference, when you add back the potential policyholder surcharge, we are able to see it and as reflected against what actuarially sound rates would be. So, we would kind of be able to get to an apples to apples if the Citizens policyholders were in the private insurance market. Is that possible for Brian to add that in for the Board meeting?

Jennifer Montero: Yes, if I understand what you are asking, you would like us to use the actuarily sound rate as far as the Citizens' policyholder annual premium is to and what that 15% surcharge would be, is that correct?

Governor Dunbar: Well, yes. Let me say it differently. So up at the top where it says, initial assumption Citizens policy premium is $2,950. What would the Citizens' policy number be if it was an actuarially sound rate up at that point, right? So, we are able to begin by understanding, okay, the average annual homeowner policy premium is actually should be $3,300 as opposed to $2,950. So then when then you flow down to the policyholder surcharge, we are able to balance it out to see if frankly whether the surcharge balances out the subsidy from the artificially low rates. Does that make sense?

Jennifer Montero: Yes, that makes sense. We can -- I will talk to Brian and we will try to get that definitely updated with those numbers for the Board meeting.

Governor Dunbar: Okay, thanks. And then I guess the next question really is for you, Chair. Were you intending for us to vote on a recommendation of these scenarios to go to the full Board today, or were you thinking that this would be an information item and then we would just, this would be forwarded on for the full Board to discuss and ultimately make a decision, because personally, I prefer the latter for all of the Board members to benefit from an in-depth discussion as opposed to us playing one out for the three of us, because I don't think Chairman Beruff is on and then have the same discussion with the other nine at the full Board meeting next week. I was not sure your pleasure, Chair.

Chairman Fields: Definitely the latter, Governor Dunbar. I am 100 percent on board with you regarding that.

Governor Dunbar: Okay. Do I, do we need to make a motion to that effect or is that just going to happen?

Chairman Fields: I don't think so. I am looking at Tim Cerio and Jennifer.

Jennifer Montero: Well, Governor Dunbar, this is Jennifer. I was just going to say, we brought this back at the Board's request to look at different scenarios and I also have this information for you on the parametric triggers that we discussed. And the idea was to show you what's there we still need to, we have not gone out to the market yet. We still need to go and see what the capacity is, etcetera, and the idea was to come back to you with the special Board meeting like we normally do in the May time frame for the Board to vote. We have come back with the biggest, you know, with the, I guess with more like a scenario 1B type program that covers everything that is available at these prices and then to vote. The Board would then vote in May of which kind of scenario, where do you want to cut and trim or however you would like to address it at that time. I don't know, we did not prepare an action item for today. It was more to give you all the information of the different things that are out there and the affects that will happen using those different scenarios, and a lot of the pricing, etcetera, is all based off of our estimates. We still have not gone out for the June 1 renewals.

Governor Dunbar: So, I guess, yes, the follow up would then be, are you going to price five scenarios essentially? Are we going to go out there to the market between the March meeting and the May special meeting and say, okay, you know, we are interested in these five scenarios and then you are going to be bringing to the Board, you know, the pricing of the different scenarios and then we elect one at that point, or are you going to ask, are you going to want the Board next week to recommend okay, we would like to go with scenario three or one or whatever and that is what you are going to take into the market. And then the other scenarios are going to be left behind so that you are not pricing the other scenarios practically.

Jennifer Montero: Well, Governor Dunbar what we do, they would be priced by layer, and all of the scenarios with the exception of the fourth one which is nothing new have the exact same layers. It's they are just in different sizes. Some are smaller than the others. So, the idea was that we would go to market and come back with a full program with the pricing that we see out there, and then get direction from the Board of how much we would want to actually go out with firm order terms and we could cut that program back to whatever size you wanted it to be.

Governor Dunbar: Understood. Okay.

Jennifer Montero: So really, does that make sense?

Governor Dunbar: Yes, thank you. That is all I had, Chair, thank you.

Barry Gilway: Yes, Barry Gilway for the record. Yes, the only clarification that I would like to make is that our intent for both FIC and for the Board is to make it clear that Jennifer and her team are being given the direction by the Board in order to go out and -- and attempt to get the best program that they can deliver from the market, you know, that meets our statutory requirement. So, we are really looking for nothing more than direction at this point and clarity that, you know, you need Jennifer and her team to go out and develop proposals. We were not looking for a decision in terms of any of these alternatives. Frankly, I don't think the Board would have sufficient, they wouldn't have sufficient information to make a decision at this Board meeting simply because we don't know the capacity that is available, we don't know the pricing that is available. So, the Board is really not in a position to make a recommendation in order to what alternatives they might want to consider at this point.

Chairman Fields: Can I ask the question regarding this slide two at the top. So obviously our rates are not actuarially sound and you'll have to indulge me because I'm not as proficient as you are, but if our annual homeowner policy premium for our policyholders is $2,950, then why and presumably, we were actuarially sound then why aren't the average of the other insureds approximately $500 less a year than what we are right now?

Jennifer Montero: Two reasons. The first is because geographically we are mostly in the tri-county, and second, we have mostly older homes.

Chairman Fields: Makes sense. So, if we were to, scenario 1B as we have called it, it does not change the coastal at all?

Jennifer Montero: No, because it doesn't – the purpose was to get rid of the assessment and there was no potential assessment in the coastal account until we got to scenario four.

Chairman Fields: So, in scenario 1B we would be placing, we would be covering $2.6 billion in coverage at a cost of approximately $236 million.

Jennifer Montero: That is correct.

Chairman Fields: Is that fair? And that would zero us out of an assessment. How does that compare to what we placed last year?

Jennifer Montero: Last year we placed in total, $2.7 billion for approximately $250 million, and I do not -- I do not have last year's in front of me, but Kapil might have it. He is ruffling through papers right there. I can always –

Chairman Fields: All I am getting at –

Jennifer Montero: I can always get it for the Board meeting.

Chairman Fields: All I was getting at is that it seems that the figures that we placed last year are comparable to the figures that we are looking at potentially this year.

Jennifer Montero: The rate online is the same. It is approximately nine percent of what we paid last year and that is approximately what this is as well.

Barry Gilway: The exposure is increasing dramatically. You are going from, you know, a little over $115 billion of exposure up to $350 billion. It is increasing proportionately.

Jennifer Montero: Yes, $2.7 billion in total rate online of 9% and for the PLA specifically it was $1.001 billion and the rate online, the rate online was 10.08%.

Kapil Bhatia: Governor, may I. Last year we did not expose 100 percent of our surplus. We can tell you what those numbers were, but there was significantly less surplus exposure because we were much smaller.

Chairman Fields: We have grown considerably. I appreciate that. Are there any other questions?

Jennifer Montero: I do have a little bit more to go based on the request of the Board. It is nothing to look at, it is more about just some research that we did for Governor Dunbar asked about parametric and some other things.

Chairman Fields: Sure.

Jennifer Montero: Okay, great. So additionally in December, the Board asked staff to consider parametric triggers as an alternative trigger option for the capital market's risk transfer. Parametric triggers have recovery based on objective measurements, such as maximum wind speed and land fall location. Utilizing a trigger other than indemnity introduces basis risk for Citizens' risk transfer program. Where there is a mismatch between the severity of event as measured by either wind speed, hurricane category or industry losses and the actual potential indemnity loss for each event. Parametric insurance doesn't relate to Citizens' loss exposure concentration based on the path of the event. As most of Citizens' exposure is concentrated in south Florida. Parametric insurance is typically used by national insurers who have large old risks and operate within multiple states and with multiple risk types. Parametric triggers are also used by reinsurers in retrocession market as they cover multiple risk types and multiple geography. In addition, parametric triggers are also used for un-modeled or hard to model risks. Indemnity triggers are the most common triggers used for insurers like Citizens to manage single perils, single states risk. Like most of the insurers in Florida, Citizens has utilized indemnity triggers for all of its capital market risk transfer placements and recommends continuing to use the indemnity trigger for any capital market risk transfer placement this year to eliminate any mismatch between actual losses and recovery. Staff will work with Citizens' traditional capital market teams as well as its financial adviser to evaluate the risk transfer program including the structure, term, pricing and other relevant matters. The team will convene with several global traditional reinsurers and investors to market the transfer programs. Staff will present recommendations to the Board at the special Board meeting in May for final approval of the program. Lastly, there are some actual costs incurred not to exceed $500,000 for the capital markets risk transfer program to be paid to the service providers, such as legal counsel and the risk model firm if the bonds are not placed. Also, there is a flat fee of $400,000 to be paid to Citizens traditional reinsurance broker Gallagher Re if no additional reinsurance is placed. And that concludes my report on the risk transfer program.

Chairman Fields: Any questions for Ms. Montero on the risk transfer program? Generally, or anything at all? All right. Hearing none, we will move then to the 2022 financing plan.

b. 2022 Financing Plan

Jennifer Montero: Great, thank you. A pre-event liquidity provides a bridge to the Florida Hurricane Catastrophe Fund mandatory layer as well as to some of Citizens' other claims-paying resources that are not readily available in cash after a storm. This allows for timely payment of claims after an event while providing flexibility for the issuance of post-event bonds, if needed. This -- excuse me. Citizens currently has outstanding pre-event debt totaling $435 million. The PLA/CLA series of $160 million will mature on June 1st, 2022, and the coastal account series of $275 million will mature on June 1st, 2025 with a six-month optional redemption on December 1st, 2024. While pre-event bonds are outstanding in any respective account, the three Citizens' accounts cannot be consolidated into one combined account. However, once the Legislature updates Citizens' statutory account definitions to allow for the consolidation of the three accounts, and Citizens defease or calls its outstanding coastal account bonds prior to maturity, the accounts could be combined and pre-event bonds could be issued through a consolidated account. Currently Citizens has the opportunity to either lock into relatively low interest rates through a fixed rate issuance or take advantage of the increasing interest rate environment through a variable rate issuance. A pre-event financing could increase liquidity resources and potentially earn additional investment income above the interest rate cost with a taxable pre-event financing with a final maturity in December of 2024. Based on the strong liquidity position of the coastal account, our analysis only contemplates a pre-event financing for the personal lines account. Based on current market conditions, a taxable financing is more beneficial for Citizens to take advantage of incremental yield opportunities in a diverse and large taxable fixed income marketplace for the investment of proceeds as compared to the tax-exempt fixed income marketplace, which is more restrictive and lower yielding. A $1 billion financing for the personal lines accounts with a final maturity on December 1st, 2024, would have a net liquidity cost benefit that is neutral to approximately plus or minus .5% or $5 million depending on interest rate movements at the time of the financing and the investment portfolio over the life of the bond. If the Board desires, staff will continue to monitor pre-event financing opportunities through the use of fixed rate and/or variable rate issuances and will come back to the Board with an update of the analysis and a recommendation at the next special Board meeting, the next Board of Governors meeting which will be the special meeting in May.

Chairman Fields: Any questions on that? All right, hearing none, we will move then to the investment policy changes and I believe we have an action item here.

c. Investment Policy Changes

Jennifer Montero: Yes. So, there is a matrix in your, in your materials that we are going to go ahead and put on the screen. I think it is pretty small. It might be better to see it from your materials, but it goes through the individual changes. But Citizens has five separate investment policies to meet its objectives within its capital structure. The assets are only invested in high quality fixed income securities with an overall investment strategy that has the following prioritized goals. (1) the safety of principal, and (2) liquidity, so that operating expenses and claims are paid in a timely manner, and (3) competitive return. However, each of the investment policies provide for different portfolio durations, credit quality and other parameters consistent with these broad goals and the specific purpose of the underlying fund. Taxable liquidity funds generally governs the investment of funds and surplus that will be the first monies used to pay claims after an event and that can be used to pay operating expenses on an ongoing basis. The amount of the fund is reset each year to be equal to the Cat Fund retention. The taxable claims paying fund generally governs the investments of funds that are up to the 1-in-100-year probable maximum loss and will be used to pay claims post event after Citizens has expended all monies in the liquidity account.

The taxable claims paying long duration fund generally governs the investment of funds that are above the 1-in-100-year probable maximum loss will be used to pay claims post event after Citizens has expended all monies in the taxable claims paying fund. The monies invested pursuant to this policy will be Citizens last source of taxable available funds. The duration limits of this policy are longer than the duration of the taxable claims paying fund which allows for maximum return as this fund is where reserved surplus is retained. The tax-exempt liquidity fund generally governs the investment of the tax-exempt pre-event proceeds and other monies required to be invested in tax exempt instruments. This fund will be used to pay claims after an event or to pay principal and interest payments as needed. Currently this fund is not funded. The tax-exempt claims paying fund generally governs the investment of tax-exempt pre-event bonds and other monies required to be invested in tax exempt instruments. This fund is used to pay claims after an event, typically after all the funds in the tax-exempt liquidity fund and the three taxable funds have been expended. This fund will also be used to pay principal and interest debt service payments. As part of the annual review of the investment policy Citizens' staff works with its financial adviser and investment managers to make proposed changes to the taxable investment policies only. As a tax-exempt claims paying fund has one remaining maturity for the coastal series 2015 A bonds with a final maturity of June 1st, 2025, and a current value of only $275 million. These proceeds will most likely fund the payment of principal on the call date or at maturity. The debt service payments for the PLA/CLA series 2012 A bonds of $160 million will be pre-funded this month as the final maturity date is June 1st, 2022. For all three taxable investment policies, a decrease in minimum treasury and agency composition and an increase in maximum allowed for corporate securities is being recommended.

For the taxable liquidity fund, reduce the minimum treasury and agency composition from 40% to 35% and increase the maximum allowed for corporate securities from 60% to 65%. For the taxable claims paying fund, reduce the minimum treasury agent, treasury and agency composition from 30% to 25% and increase the maximum allowed for corporate securities from 70% to 75%. And for the taxable claims paying long duration funds, reduce the minimum treasury and agency composition from 25% to 20%, and increase the maximum allowed for corporate securities from 75% to 80%. The recommendation for all three taxable accounts to increase the maximum limit for corporate securities with ratings of either 'BBB- 'from S&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. Expand the asset-backed security universe to include floor plans and handheld devices, which must be rated by at least one rating agency and must have long-term ratings of either 'Aaa' by Moody's or 'AAA' by S&P and/or Fitch while reducing the minimum tranche size from $75 million to $50 million. Allow 144A securities, including collateralized loan obligations from broadly syndicated markets, non-agency residential mortgage-backed securities and commercial mortgage-backed securities, including single asset or single borrow. The securities must be rated by at least one rating agency and must have long-term ratings of 'Aaa' by Moody's or 'AAA' by S&P and/or Fitch. At original issuance the deal size must be at least $250 million, and the tranche size must be at least $50 million. For structured products, including agency and non-agency mortgage-backed securities, CLOs and asset-backed securities, including automobile, floor plans, handset devices or equipment loan and lease receivables and credit card receivables, increase the maximum allowable allocation from 7.5% to 15% for the taxable liquidity fund and from 10% to 15% for both the taxable claims paying fund and the taxable claims paying long duration fund. With the securities of single issuer representing no more than 1.5% of the portfolio. For both the taxable claims fund and the claims paying long duration fund, increase the maximum allocation of municipal securities from 25% to 30%, increases duration composition limits through the taxable claims paying fund for securities with a final maturity of 85 to 121 months from 25% to 30%, and 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%. These changes will allow Citizens to take advantage of market conditions and provide additional diversifications and implemental yields in its investment portfolio. The proposed changes impact approximately 15% of the $8.9 billion taxable portfolio or approximately $1.3 billion to provide additional income in approximately 1% to 4.25% for approximately $10 to $15 million of annual incremental income. I will pause here for any questions before reading the recommendation.

Chairman Fields: Any questions?

Governor Dunbar: Yes, chairman, this is Marc Dunbar. I will be happy to move staff's recommendations for the purposes of getting this to the Board meeting, but and I apologize, I also have a hard stop at 1:00. So, I will be brief. But I am going to be, I am not going to be supporting these changes for a couple of reasons. One, this is increasing the amount of junk that we hold and I know we are chasing return, but we are increasing the volatility. The other thing is, I need a greater explanation on the 144A securities, because if memory serves 144A is, it includes foreign issuers and foreign government debt and I really in light of a lot of the things that are going on globally, would like to understand a little bit more what securities could come in via 144A purchases before I would be comfortable supporting this. So, I don't know if that helps you, Chair. I will make the motion, but I am going to vote no so that you can get it out of here and let the Board have a full discussion on it if that is okay.

Chairman Fields: Absolutely, Governor Dunbar, I appreciate that. And Jennifer, could you perhaps address some of these things, A, now and then B, at the Board meeting as well if possible.

Jennifer Montero: Absolutely. I am actually going to turn it over to Kapil Bhatia to comment on the SEC 144A situation, because it has changed.

Kapil Bhatia: Thank you, Governor Dunbar. 144A until August of 2020 was not approved by the SEC for public entity. Since that point of time there have been changes in the SEC regulations, which now allows us to invest in it and we are happy to share that. That is one point about the 144A. Second about the foreign entities, our investment policy limits the cash to U.S. security, has to be issued by U.S. entities, but as a U.S. entity, we could get any foreign bank which is listed in U.S. will be eligible or is eligible and they have to meet our credit quality and follow the SEC rules. So, none of those changes are for foreign securities. those changes. I can go through any of the details. I know you have a hard stop, but I just want to give you that color that we are not talking about completely foreign entities, we understand that.

Governor Dunbar: Thanks, Kapil. But isn't it possible for 144A security to contain, be issued by a U.S. entity, but contain a foreign exposure?

Kapil Bhatia: That could be true, Governor Dunbar, that could be true for any entity. For example, and I am just going to pick up what we have been reading in the news, whether it is Exxon, Chevron, McDonalds, Starbucks, Boeing they all have exposure to foreign entities through their subsidiaries. So, I am not sure if that really is going to be specific to 144A or if it is the corporate structure. Everybody is building their business in Russia, and we have exposure to that, very minimal because of our issuance limits, but I am not sure if that is part of 144A. That is just part of the how the corporate structures are.

Governor Dunbar: Yes, but it also can, that is on the commercial side, corporate side, but isn't it also, can't there be sovereign issuance, sovereign, foreign sovereign products in a domestically issued 144A product? So, buried inside a 144A product could be, for example, a Russian bank product, but it is bundled in a larger product issued by a U.S. entity, isn't that possible?

Kapil Bhatia: It is entirely possible because all of the investment managers go through loan by loan. We can add that restriction, but you are absolutely right, it is always possible, because we don't go through each loan, but that is what the investment manager's responsibility is and we can limit that within the structure that any entity where the U.S. doesn't have any business relationship or have specific restrictions, I know SBA have those rules. Some of those countries where US has sanctions, like Afghanistan or Iran, we are not allowed to buy those securities and investment managers understand it, we can highlight and bold it, but that is kind of hard to say it is not possible, but it could be investment manager's responsibility to track it.

Governor Dunbar: Okay, thank you.

Mr. Bhatia: Thank you.

Governor Dunbar: Chair, do you -- sorry.

Chairman Fields: I see a hand raised on Governor Knight's screen, I am not sure if that was intentional.

Governor Knight: Yes.

Chairman Fields: Please go ahead.

Governor Knight: Thank you. I would like to ask how this potentially revised investment policy compares to other organizations, other insurance companies that you work with.

Kapil Bhatia: Sure, Governor Knight. This is Kapil Bhatia here again. All of our clients, follows similar methodology, I will go through the Citizens policy history, always kind of a baby steps looking at the market each year and coming back to the Board talking about the pros and cons and the benefit of investment and what it needs to be. Apparently, we did not do anything last year because the markets were in a very volatile condition due to COVID and there were too many variables to account for. So as the markets have improved, things have changed 144A for example, and also more and more entities are going to the 144A market because of the -- process, structure of the loan and structure of the financing. So those are the reasons what we do. So, most of the public entities limit to fixed income securities with minimum credit quality risk and the underlying to maximizing returns. So, all of those broad constraints are in Citizens investment policy and that is consistent with all of our clients. However, private insurance companies have different rules and objective and they invest in equity, real estate, and other risk based assets. We don't usually compare to them because they usually have larger risk, I hope this answers your question. I am happy to expand it.

Governor Knight: I think that answers it, thank you.

Chairman Fields: Okay, Jennifer, if you don't mind reading the staff recommendation, please.

Jennifer Montero: Sure. Thank you. **Staff proposes that the Finance and Investment committee review and if approved, recommend to the Board of Governors, approve the changes to Citizens' investment policy duration, credit quality and composition to the taxable liquidity fund, the taxable claims paying fund and the 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 and authorize staff to take any appropriate or necessary action consistent with this item.**

Chairman Fields: All right. Before, I know Governor Dunbar was going to make a motion. I will just make a note that I don't know enough about this, but I am going to vote in favor of it to obviously move it forward, but between now and the Board meeting I will become much more learned about this issue. So, I will vote in favor of it. I think Governor Dunbar has made a motion. Is there a second to the motion?

Governor Knight: I will **second**.

Chairman Fields: Governor Knight has seconded. All those in favor signify by saying yea. Yea. All those opposed.

Governor Dunbar: **No.**

Chairman Fields: **Okay, let the record reflect that Governor Dunbar voted nay and Governor Knight voted in the affirmative.** So that will, that will move on to the board meeting next week. All right. The next thing on the agenda is the investment portfolio update.

d. Investment Portfolio Update

Jennifer Montero: Thank you. On slide one –

Governor Dunbar: Hold on, Jennifer, hold on just one second. I am sorry. Chair, if it is okay, is there any other item that needs to be voted on?

Chairman Fields: No, Governor Dunbar.

Governor Dunbar: I apologize, but I have to go, I am sorry. Take care everyone.

Chairman Fields: Thank you for being here.

Governor Knight: Have a good day.

Governor Dunbar: You, too.

Jennifer Montero: On slide one of the investment report the total portfolio is $9.37 billion with approximately $8.78 billion or 95% externally managed by 10 investment managers. The remaining $490 million is internally managed and primarily consist of operating funds, debt service funds and debt service reserve funds. The taxable portfolio is $8.86 billion or approximately 96%, and the tax-exempt portfolio is $410 million, 4%. The portfolio is very conservative and stable and sufficient with liquidity to pay current claims or potential future claims. The total portfolio average duration is stable and just over 4.81 years. The annualized income return based on our compliance system for the 3-year and 1-year is approximately 1.53 % and 1.2%, respectfully. These returns reflect market yields, but exclude net realized gains, accretion of discount and amortization of premium bonds and investment manager fees. However, for the 2018 to 2021 our portfolios annualized net income return was over 2%. The 2018 annual net income return was 2.07%, 2019 was 2.7%, 2020 was 2.96% and 2021 was 2.84%. These net income returns are after investment managers' fees and includes net realized gains as well as accretion and amortization of discount or premium bond.

On slide two, treasury rates have significantly increased over the last three months as markets are trying to adjust for prospective fed rate increases over the next 12 months and to account for the recent macro-economic factors. The yield curve has flattened. The current two to 10-year spread is 31 basis points. This again is due to the expected rate increases and because markets are struggling to figure out the future global economic conditions, tax exempt rates have also increased. On slide three, both the taxable and the tax-exempt portfolios have very strong credit quality, approximately 69% of the taxable portfolio is in money market funds and rated ‘A’ or higher. 100% of the tax-exempt portfolio is in money market funds are rated ‘A’ or higher, and approximately 38% of the total portfolio is treasury and agency securities or in money market funds. On slide four, the portfolio income and total return is stable, and this slide again reflects returns based on the market yields as well as the market reference yields and that concludes my investment report.

Chairman Fields: Governor Knight, any questions?

Governor Knight: No.

Chairman Fields: All right. I think that is the end of the agenda, is that right?

Jennifer Montero: That is correct.

Chairman Fields: All right, well, before we adjourn I want to thank you for. I am echoing what Governor Dunbar said, thank you for your hard work, the teams hard work for putting together these scenarios for the Board to look at, and our risk transfer program is important, and I look forward to voting on one of these items next week.

Jennifer Montero: Thank you.

Chairman Fields: If there is no further business before the committee, then Governor Knight moves to adjourn and we are adjourned without objection.

Governor Knight: Thank you.

Chairman Fields: Thank you.

(Whereupon the meeting was concluded.)