☒ **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 July 12, 2022
Purpose/Scope	Review of the July 12, 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 July 12, 2022 Finance and Investment Committee minutes.
CONTACTS	Jennifer Montero, CFO

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Tuesday, July 12, 2022

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at the Alfond Inn in Winter Park on Tuesday, July 12, 2022.

The following members of the FIC were present:

Carlos Beruff (Chair)
Erin Knight
Marc Dunbar (electronically)
Jason Butts

The following Citizens staff members were present:

Jennifer Montero
Barbara Walker
Barry Gilway
Tim Cerio
Kelly Booten

The following people were present:

Kapil Bhatia	Raymond James
Mark Weinberg	Citi Bank
Bryan Friendshuh	Gallagher Re
Trent Smyers	Gallagher Re
George Smith	Bryant Miller Olive
Duane Draper	Bryant Miller Olive
John Generalli	Wells Fargo
Tamaa Patterson	Jefferies
Coleman Cordell	Bank of America
Nathaniel Johnson	Bank of America

Call Meeting to Order

Barbara Walker: Good afternoon. You are dialed in to Citizens' Finance and Investment committee meeting scheduled to convene immediately following the Audit committee meeting. We are going to convene with roll call. Welcome to our July 12th Finance and Investment committee meeting. This is a publicly noticed meeting in the Florida Administrative Register. This meeting is recorded and transcribed Minutes available on our website. For those attending today's meeting through the public link, you are automatically in listen only mode. Panelists, thank you for identifying yourself prior to addressing the committee. Due to Governor Lazaro Fields' resignation from Citizens' Board, Board Chair Beruff has stepped in to chair this committee. Chairman Beruff, we have no speaker request for today's meeting. May I proceed with roll call?

Chairman Beruff: Please do. Thank you.

Barbara Walker: Chairman Beruff.

Chairman Beruff: Here.

Barbara Walker: Governor Butts.

Governor Butts: Here.

Barbara Walker: Governor Dunbar. Governor Dunbar. Chairman, Governor Dunbar is on the line. We will work on getting his line open. Governor Knight.

Governor Knight: Present.

Barbara Walker: Chairman, you have a quorum.

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

Chairman Beruff: Thank you. And who is up first? **Approval of prior meeting's Minutes (March 18, 2022)**. Will somebody make me a motion?

Governor Knight: **So moved.**

Governor Butts: **Second.**

Chairman Beruff: **The Minutes are adopted, thank you.** And you are on.

2. **Raymond James Financial Advisor**

   a. Market Update

Kapil Bhatia: Good afternoon, Mr. Chairman and Governors. For the record, my name is Kapil Bhatia, I work for Raymond James & Associates, and we are your financial adviser. I will briefly start with the market update and finish with where the risk transfer markets are and how bad they are. As we are all seeing increase in prices that inflation has increased significantly over the last six months, and is expected to continue until the end of 2022, even though employment picture is still stable. The inflation initially started because of demand surge in goods with global supply constraints due to COVID lockdowns, and with significant fiscal stimulus measures in the total amount of $5.7 trillion or approximately 24% of our GDP resulting in unprecedented demand surge. Since 2020, February of 2022, inflation have gotten worse with Russia's invasion of Ukraine which has significantly increased, as we can all see, the energy and food prices, as well as commodity prices. And now inflation is shifting from goods to services as labor shortage continues with demand surge moving from goods to services. To manage or control inflation, so far in 2022, the Fed has increased its Fed fund target's rate three times by a total of 1.5%, to the current target range of 1.5% to 1.75% because we started at zero to 25 basis points. This includes the most recent 75 basis point increase on June 15th, which was the largest since 1994. The Fed has also communicated that it plans to raise rates expeditiously to control inflation. We expect Fed to increase rate at least three more times by 1.25% this year over the next three meetings before taking its foot off the pedal and Fed funds rate reaching to 2.75% to 3.00% by end of 2022. We also expect inflation to come down by the first quarter of 2023, and therefore, the interest rate may not increase at the current projected pace, however, continuation of war and energy crisis, as well as additional COVID lockdowns may further exacerbate the supply chain problems and that may continue the inflation to next year.

The global markets are similar to where we are, because global central banks were following the U.S. Federal Reserve and cutting their rates even beyond what was needed, as well as following the U.S. fiscal policy, and now the whole world is trying to play catch up to manage inflation. Again, part of this inflation is unanticipated Russian invasion, which was not on anybody's radar, at least until February of this year. Interest rates have responded to Fed fund's rate increases. As I talked about briefly earlier, over the last one year, one year U.S. Treasury rate has increased from seven basis point to almost 3%. That is an increase of almost 293 basis points. Two years has increased from 40 basis point to 3.05%, and 10 years has increased from 1.3% to 3%. So effectively yield curve is flat because everybody is expecting some kind of recession. The result of higher interest rate and lower equity prices will lead to higher unemployment rate and economic slowdown and maybe even a mild recession over the next 12 months. Not just a technical recession, which is the definition of recession, or two negative quarters of GDP. However, more of an economic recession which means a little increase in unemployment as well as inflation will continue. And we have seen the spread between 2 and 10 years is negative four basis points. That means the yield curve is inverted and everybody is expecting inflation and a recession, and if everybody is expecting a recession, that usually leads to a recession. However, at the same time we believe the pendulum of the interest rates has swung too far, and as always, the markets have overreacted and overcorrected. We expect U.S. Treasury rates to come down as the economy slows down for some of the following reasons. Almost all of the fiscal stimuli in the total amount of $5.7 trillion which I mentioned earlier is spent and is mostly already reflected in the growth numbers. Economy is going to slow down with increased interest rates and equity market decline. Housing sector is slowing down with increase in mortgage rates, especially the new construction. Global macro conditions will improve as the world adjust to the Geopolitical crisis. Increase in energy prices will eventually lead to lower demand. Saving rates is down significantly and that should reduce consumer demand, and of course, increases in prices due to inflation, and this effect as higher prices becomes part of the base prices, the rate of change will slow down, and inflation will come down.

And lastly, we have already seen the first quarter GDP was negative, and we expect 2022 GDP to be neutral to marginally. All of this has also impacted our investment portfolio as interest rates have significantly increased, and that has resulted in negative mark-to-market value in our portfolio, but mark-to-market negative values are non-economic and non-cash as these negative values pull to par as the securities mature. However, our income return is stable and rising interest rates are economically beneficial as they lead to higher interest income and we will get the benefit of increasing rates by investing our maturities at a higher rate as the additional premiums which we are generating this year will be invested at a higher interest rate. We have approximately $2 billion maturing over the next 12 months and an additional $900 million maturing over the next 12 to 24 months. I will stop here and happy to answer any questions if there are any before moving on to the risk transfer markets.

Chairman Beruff: Questions. I have a question.

Kapil Bhatia: Yes, sir.

Chairman Beruff: You said that you saw unemployment going up. Do you calculate that even with the reduction in the workforce?

Kapil Bhatia: The reduction in the workforce, actually the participation in the workforce went down significantly in March of 2020. We have seen the participation coming back up. As the savings are depleting and more and more people are thinking of coming back. So, we think that the participation rate is going to increase. So that means unemployment rate will go up even with the participation rates going up.

Chairman Beruff: The number that they disclosed in May where the participation rate was going down again, was an anomaly?

Kapil Bhatia: It was up by one-tenth of a basis point. We expect to be up by another one percent over the next six months as the savings run out and all of the fiscal stimulus and free money which the U.S. government gave runs out. Those people will have to come back to the job. So, we expect participation rate to come down by one to one and-a-half percent over the next six to 12 months.

Chairman Beruff: We have already started default on car payments.

Kapil Bhatia: Yes.

Chairman Beruff: When do you see defaults in other debt related instruments?

Kapil Bhatia: It is probably going to start with credit cards after the used cars, and the savings rates are going down. We expect credit card receivables to start to increase as you can see in some of those numbers and there was a downgrade of American Express this morning. So, we expect that, but probably not in the mortgage loans because interest rates are still low relatively speaking, and the home equities have built up over the last couple of years. So, it is not going to be as severe as historically has been because there is still plenty of jobs available, but just people have to come back and look for work.

Chairman Beruff: Do you think the recession is already priced into the market?

Kapil Bhatia: Yes, recession is priced in the market. The equity markets, usually in the recession goes down by 30% and we have already seen a drawdown of 25%. Yield curve being flat. So, the question is whether it is going to be a mild or moderate or severe. Severe recession is not priced in, but the mild recession is already priced in.

Chairman Beruff: Thank you.

Kapil Bhatia: Moving on to the risk transfer market. Reinsurance markets are in flux and have significantly reduced capacity and also increased prices. So far this year the risk transfer rates are approximately up to 10% to 15% globally, however, in Florida they are up to 30% to 50%. Some of the factors for this increase in reinsurance rates globally are similar to what we are talking about from a global macro perspective. As the world is in semi-permanent volatile stage and looking for further direction with multiple unknown variables from inflation the global monitory policies and tightening and interest rates going up, and some of the major factors for the dislocation are five-year global insured losses over the last five years have been over half a trillion, and that is now reflecting in the market as the capital from the markets have evaporated. The continuation of COVID crisis and associated business interruption losses. Russia's invasion of Ukraine and necessary aviation and other significant losses totaling almost $2 to $3 billion still to be known the exact number. Significant mart to market losses in reinsurer's investment portfolio as a result of high interest rates and lower equity prices resulting in mark-to-market unrealized losses and that has reduced the capacity what reinsurers can write for the risk. And lastly, trapped capital from prior events, especially from recent hurricanes and large number of COVID related claims. And of course, we know all about Florida market has its own problems stemming from litigation, continued adverse loss development and credit quality concern of primary insurers as some insurers have gone into receivership. While the legislation has passed in the special session, it is a step in the right direction, however, the long-term results remain to be seen and it is not just flipping a switch, it usually takes time. And more importantly it will depend on the amount of event losses this season. If there are losses, we expect the reinsurance market will take longer to recover. With that, I will stop here, and Jennifer will go through our reinsurance program. I will be happy to answer any questions.

Chairman Beruff: Yes, sir? None. Thank you.

Kapil Bhatia: Thank you.

3. **Chief Financial Officer Report**

   a. Risk Transfer Program Update

Jennifer Montero: Are you ready for the update, reinsurance?

Chairman Beruff: Why don't we get to the short version. How much did we budget, how much did we spend and how, how exposed are we?

Jennifer Montero: Okay, we budgeted $400 million, we were trying to place $4.7 billion. We ended up with $2.5 million costing us about $215 million. The overall rate online was 8 point –

Chairman Beruff: 45.

Jennifer Montero: 8.45% is the net. The gross was 8.96%.

Chairman Beruff: Right.

Jennifer Montero: We did come in –

Chairman Beruff: We just care about what it cost us net.

Jennifer Montero: Yes.

Chairman Beruff: I don't know how we get there.

Jennifer Montero: We came in lower than we discussed. So –

Chairman Beruff: Ms. Montero, do you have for this Board to look at, how exposed are we based on –

Jennifer Montero: Yes.

Chairman Beruff: -- net.

Jennifer Montero: Can we put the layer charts up please, there, thank you. So, this is the coastal account, and for the coastal account we transferred approximately $1.565 billion to the global market. We did average for that was 8.54% on gross, net it was 7.93%. And the premium for that was $124.2 million, and we are exposing 89% of the surplus or is being exposed in the coastal account, which comes out to about $2.788 billion.

Chairman Beruff: So, we don't go underneath our reserves in that scenario.

Jennifer Montero: Correct. We have $338 million in surplus that would be above that line.

Chairman Beruff: So, does everybody get that? Okay, let's go to the next piece.

Jennifer Montero: The next slide. Okay, on the next slide on the personal lines account we transferred $942 million to the global market in the personal lines account, with a weighted average gross rate online of 9.65%, net is 9.31% for a total of net premium of $87.7 million, and we are exposing 100% of our surplus in the personal lines account, which comes out to $1.718 billion with zero surplus above the line. So, we have a Citizens' policyholder surcharge of $450 million which is the 15% per account, and then we have the $390 million emergency assessment after that, and the first one kicks in at the 1-in-62. So, the Citizens' policyholder surcharge goes from the 1-in-62 year to the 1-in-68. And then once that is exhausted the emergency assessment will kick in from the 1-in-68 to a 1-in-82. That is the $390 million which is a 10% assessment, and then above that was the layer that we actually had tried to place reinsurance there. We had both a per occurrence and an aggregate layer. There was no interest in the market for that layer. So, it is being subject to assessment–

Chairman Beruff: So, we are upside down $1.2 billion.

Jennifer Montero: $1.728 billion in total.

Chairman Beruff: In total.

Jennifer Montero: The emergency assessment is $1.278 billion and the Citizens' policyholders is $450 million.

Chairman Beruff: So, in the worst-case -- well, not the worst, but a high-level worst-case scenario we are $1.78 billion upside down.

Jennifer Montero: Correct. Now, now, it does not kick in –

Chairman Beruff: We have run through our surplus, we have run through our reinsurance and we are now doing to the public for $1.78 billion.

Jennifer Montero: If there is an event that gets us to the 1-in-62.

Chairman Beruff: Right.

Jennifer Montero: And for the record, and Brian is here to keep me on about Hurricane Andrew. It was like a 1-in-45-ish?

Brian Donovan: Yes.

Jennifer Montero: About a 1-in-45 hurricane Andrews was.

Chairman Beruff: Right.

Jennifer Montero: So, it has to be a pretty big event, but the exposure is there.

Chairman Beruff: All right. Does anybody have any questions? That was easy.

Jennifer Montero: Okay. If that is all you want to know.

Chairman Beruff: That is all I want to know. We saved $185 million that goes into reserves, but that is calculated in your equation in a hurricane event, correct?

Jennifer Montero: Correct.

Chairman Beruff: So, we need that, too. So, everybody cross your fingers for about 90 days and we will be okay.

Jennifer Montero: More than 90 days.

Chairman Beruff: 110 days, okay, by November 1st we are out of the woods. Next.

b. Investment Portfolio Update

Jennifer Montero: Okay, next is the investment portfolio update, and if we could put that on the screen, that would be great, too.

Chairman Beruff: What tab is that?

Jennifer Montero: It is, it is behind tab three and then it is the tab that says "investment portfolio".

Chairman Beruff: Where is where we make that extra $50 million that we have been talking about?

Jennifer Montero: That's the deal you made with Kapil.

Chairman Beruff: That is right. Where is the money?

Kapil Bhatia: We still have 175 days. That is truly more than six months left, five months.

Chairman Beruff: Okay.

Kapil Bhatia: With the increasing interest rate we expect our interest income to increase. So, we are counting on the last five and-a-half months to get to that point.

Chairman Beruff: All right.

Jennifer Montero: Okay, so on slide one, the total portfolio is $9.29 billion with approximately $8.3 billion or 89% externally managed by our 10 investments managers.

Chairman Beruff: That page, where is that?

Jennifer Montero: It is page one behind the tab that is called Citizens' investments summary.

Chairman Beruff: I have got it.

Jennifer Montero: So, the remaining $993 million or 11% is internally imagined and primarily consist of the operating funds, debt service funds and debt service reserve funds. The taxable portfolio is $8.84 billion and the tax-exempt portfolio is $450 million. The portfolio is very conservative and stable with sufficient liquidity to pay any current claims or potential future claims. The total portfolio average duration is just over 4.08 years. The annualized income return based on our compliance system for the three-year and one year is approximately 1.5% and 1.58% respectively. However, these returns reflect market yields only and exclude any realized gains or losses, accretion of discount and amortization of premium bonds and investment manager fees. The 2019 through 2021 portfolio's annualized net income return as earned and reported in our financial statements is over 2.7% annually. The annual net income return was 2.7% for 2019, 2.96% for 2020 and 2.84% for 2021. These net income returns are after investment manager fees and include net realized gains or losses, as well as accretion and amortization of discount or premium bonds. The 2022-year end June net income return is .98%. Turning to slide two, the treasury rates have significantly increased over the last 12 months as markets are trying to adjust for expected Fed rate increases over the next 12 months.

Chairman Beruff: Just to let you know, your slides aren't showing on the screen.

Jennifer Montero: Yes, I noticed that. Sorry. Does everyone have them in the book?

Chairman Beruff: I think so.

Jennifer Montero: So, the Treasury rates have significantly increased over the last 12 months as the markets are trying to adjust to the expected Fed rate increase over the next 12 months, and to account for recent inflationary and macro-economic factors. The yield curve is flat or marginally inverted. Current Two to 10-year spread is negative two basis points as markets are expecting a recession due to global macro-economic factors, and the tax-exempt rates have also similarly increased. And turning to slide three. Both the taxable and tax-exempt portfolios have very strong credit quality. Over 73% of the taxable portfolio is in money market funds or rated A or higher, and 100% of the tax-exempt portfolio is in money market funds or A or higher. And approximately 37% of the total portfolio is in treasury and agency securities or in money market funds. And the last slide, slide four, the portfolio income return is stable, and this slide again reflects returns from -- one through three years based on the market yields. And we expect income return to be approximately 2.5% in 2022, as we get the incremental interest income from rising interest rates. The portfolio total return is negative due significant increase in interest rates in 2022, but as the portfolio matures over time the negative mark-to-market value will evaporate. And I will pause there for any questions.

Chairman Beruff: No. I think that is it.

Jennifer Montero: That completes everything we had to present.

Chairman Beruff: Next.

Jennifer Montero: So now we go to the A&U.

Chairman Beruff: Do we have to call that meeting, Barbara?

Barbara Walker: Yes, chairman, thank you.

(Whereupon, the meeting was concluded.)