

ACTION ITEM

Finance and Investment Committee Meeting, September 27, 2016
Board of Governors Meeting, September 28, 2016

CONTRACT ID:	INVESTMENT POLICY CHANGES Citizens Board of Governors approved all proposed changes to the Investment Policy at Citizens' June 24, 2015 board meeting.
BUDGETED ITEM	N/A
CONTRACT AMOUNT	N/A
PURPOSE / SCOPE	<p>Staff recommends an update to Citizens Investment Policies and a creation of a new investment policy (Taxable Claims-Paying Long Duration Fund) for Citizens' surplus funds above the 1-100 year Probable Maximum Loss. The following changes would not be implemented until after the 2016 hurricane season or December 1, 2016.</p> <p><i>Changes to the Taxable Liquidity Fund:</i></p> <ul style="list-style-type: none">• Increase Corporate composition percentage from 50% to 60% and reduce Treasury / Agency composition from 50% to 40%• Increase floating rate note composition percentage from 35% to 40%• Reduce minimum credit ratings for 20% of the total portfolio from Baa1/BBB+/BBB+ (Moody's/S&P/Fitch) to Baa2/BBB/BBB (Moody's/S&P/Fitch)• Increase dollar weighted average maturity from 397 days to 548 days• Add publicly issued asset-backed securities for prime automobile loan and lease receivables with ratings of Aaa/AAA/AAA (Moody's/S&P/Fitch) with a maximum maturity of a maximum of 548 days. At original issuance, deal size must be at least \$500 million, and tranche size must be at least \$75 million. Maximum limit of 5% <p><i>Changes to the Taxable Claims-Paying Fund:</i></p> <ul style="list-style-type: none">• Increase Corporate composition percentage from 65% to 70% and reduce Treasury / Agency composition from 35% to 30%• Increase dollar weighted average maturity from 5 years to 6 years• Increase maximum permitted final maturity from 10 years to 10 years 1 month• Reduce minimum credit ratings for 20% of the total portfolio from Baa1/BBB+/BBB+ (Moody's/S&P/Fitch) to Baa2/BBB/BBB (Moody's/S&P/Fitch)• Add publicly issued asset-backed securities for prime automobile loan and lease receivables with ratings of Aaa/AAA/AAA (Moody's/S&P/Fitch) with a maximum maturity of 7 years 1 month. At original issuance, deal size must be at least \$500 million, and tranche size must be at least \$75 million. Maximum limit of 5% <p><i>Changes to the Tax-Exempt Claims-Paying Fund:</i></p> <ul style="list-style-type: none">• Reduce the minimum underlying ratings of subordinate obligations from A2/A/A (Moody's/S&P/Fitch) to A3/A-/A- (Moody's/S&P/Fitch) <p>These changes will allow Citizens to take advantage of market conditions and provide additional diversification and incremental yield to Citizens' Investment Portfolio</p>

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	<p><i>Creation of Taxable Claims-Paying Long Duration Fund:</i></p> <p>As Citizens has built its surplus and increased its risk transfer program, Citizens currently has surplus above a 1-100 year probable maximum loss - the current exhaustion point of Citizens' surplus is approximately 1-162 years for the Coastal Account and 1-239 years for PLA/CLA.</p> <p>As such, Citizens can invest its surplus above the 1-100 year probable maximum loss (or after the funds have been exhausted from the Liquidity and Claims-Paying Funds) in a separate externally managed investment portfolio – the Taxable Claims-Paying Long Duration Fund. 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 Taxable Claims-Paying Fund. The parameters for this investment policy are the same as the Taxable Claims-Paying Fund policy with the following additional changes in duration:</p> <ul style="list-style-type: none">• Maximum Permitted Final Maturity: 15 years 1 month• Dollar Weighted Average Maturity: 10 years <p>Add publicly issued asset-backed securities for prime automobile loan and lease receivables with ratings of Aaa/AAA/AAA (Moody's/S&P/Fitch) with a maximum maturity of <u>10 years 1 month</u>. Maximum limit of 5%</p> <p>The creation of this new policy will allow Citizens to extend the duration limit of the monies that serve as the last source of available fund and earn additional income</p>
CONTRACT TERM(S)	N/A
PROCUREMENT METHOD	N/A
RECOMMENDATION	<p>It is recommended that Citizens' Board:</p> <ul style="list-style-type: none">a) Approve the changes to Citizens' Investment Policy duration, credit quality and composition for the Taxable Liquidity Fund and Taxable Claims-Paying Fund and a marginal change to the Tax-Exempt Claims-Paying Fund as described above.b) Approve the creation of the Taxable Claims-Paying Long Duration Fund as described above.
CONTACTS	Jennifer Montero, Chief Financial Officer