

# Citizens Investment Report



July 2016

## EXECUTIVE SUMMARY

- Citizens' total portfolio market value for July 2016 was \$12.59 billion with an average duration of 2.79 years and average credit ratings of "A+/A1/A+".
  - 71% of the total portfolio is taxable, with a market value of \$8.94 billion.
  - 29% of the total portfolio is tax-exempt, with a market value of \$3.65 billion.
  - 93%, or \$11.65 billion of the total portfolio is managed by 15 external investment managers, with an average duration of 2.99 years and 7% is internally managed, or \$0.94 billion.
- Citizens' gross total 3-year return was 83 basis points above the 3-year Treasury.

Portfolio	1-Month	1-Year	3-Year
Taxable	0.27%	3.11%	1.89%
Tax-Exempt	0.21%	1.59%	1.23%
<b>Total</b>	<b>0.25%</b>	<b>2.62%</b>	<b>1.66%</b>

- For July 2016, the average 1-year Treasury yield was 0.49%, 3-year Treasury yield was 0.79%, and 5-year Treasury yield was 1.06%.
- 14% of the portfolio matures in less than 90 days and 35% of the portfolio matures between 1 and 3 years.

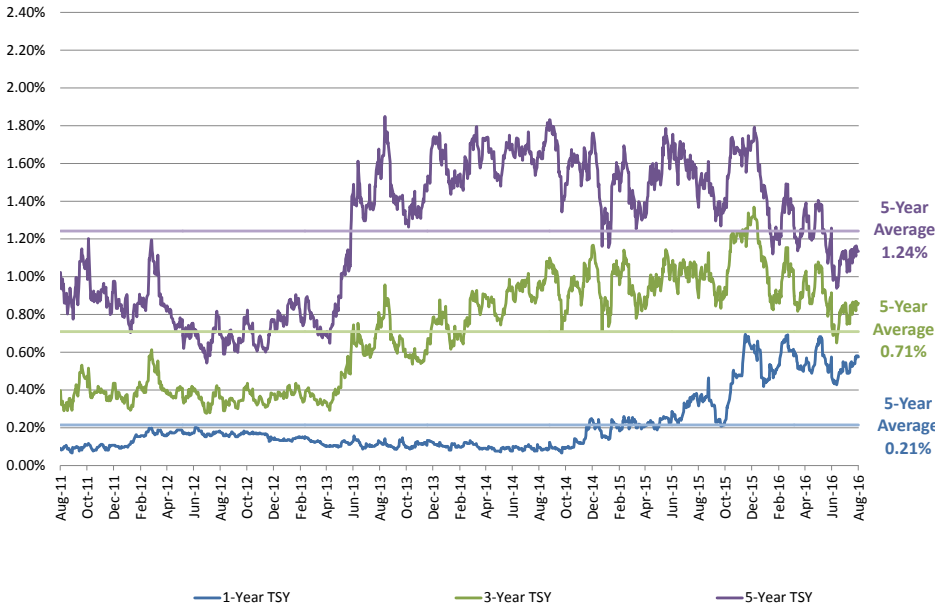
# INTEREST RATES

## Taxable

- The 1 year US Treasury rate has increased 26 basis points over the year ending Aug 24, 2016.
- The 5 year US Treasury rate has decreased 24 basis points over the year ending Aug 24, 2016.

Taxable Rates	As of 8/24	3-Mos. Prior	1-Year Prior	5-Year Average
1-Yr TSY	0.58%	0.64%	0.32%	0.21%
3-Yr TSY	0.86%	1.08%	0.89%	0.71%
5-Yr TSY	1.13%	1.24%	1.37%	1.24%

Historical Taxable Rates

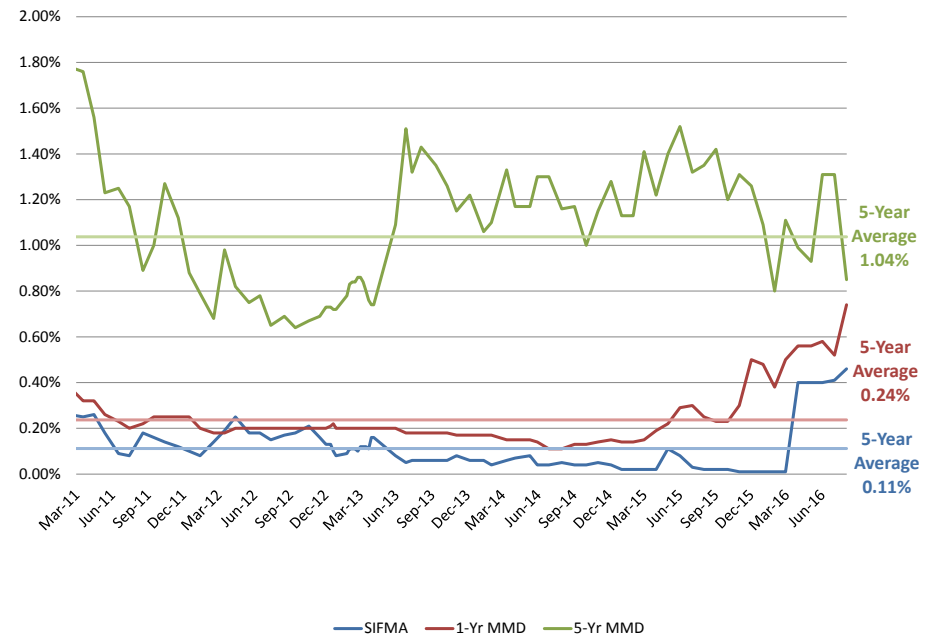


## Tax-Exempt

- The 1-year MMD rate has increased 49 basis points over the year ending Aug 15, 2016.
- The short-term (SIFMA) rate has increased 43 basis points over the year ending Aug 15, 2016

Tax-Exempt Rates	As of 8/15	3-Mos. Prior	1-Year Prior	5-Year Average
SIFMA	0.46%	0.40%	0.03%	0.11%
1-Yr MMD	0.74%	0.56%	0.25%	0.24%
5-Yr MMD	0.85%	0.93%	1.35%	1.04%

Historical Tax-Exempt Rates

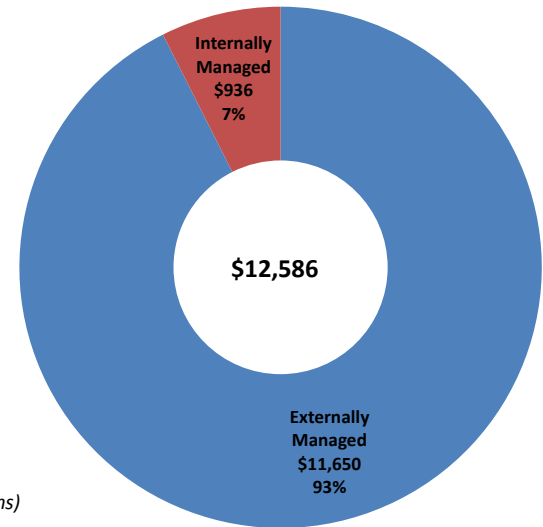


# PORTFOLIO SUMMARY (\$ IN MILLIONS)

Security Description	Current Month Market Value	Prior Month Market Value	Month-to-Month Change	Current Month % of Portfolio MV
<b>Taxable</b>				
Treasury & Agency Securities	\$3,406	\$3,377	\$29	27%
Corporate Bonds, Commercial Paper, Certificates of Deposit	\$4,837	\$4,792	\$45	38%
Municipal Bonds	\$142	\$145	(\$3)	1%
Money Market Funds	\$499	\$544	(\$45)	4%
Legacy Securities	\$56	\$56	(\$0)	0%
<b>Total Taxable Portfolio</b>	<b>\$8,940</b>	<b>\$8,914</b>	<b>\$26</b>	<b>71%</b>
<b>Tax-Exempt</b>				
Municipal Bonds	\$3,193	\$3,309	(\$116)	25%
Variable Rate Demand Notes (VRDN's)	\$35	\$36	(\$1)	0%
Money Market Funds	\$234	\$294	(\$60)	2%
Government & Agency Securities	\$185	\$0	\$185	1%
<b>Total Tax-Exempt Portfolio</b>	<b>\$3,647</b>	<b>\$3,639</b>	<b>\$7</b>	<b>29%</b>
<b>Total Citizens Portfolio</b>	<b>\$12,586</b>	<b>\$12,553</b>	<b>\$33</b>	<b>100%</b>

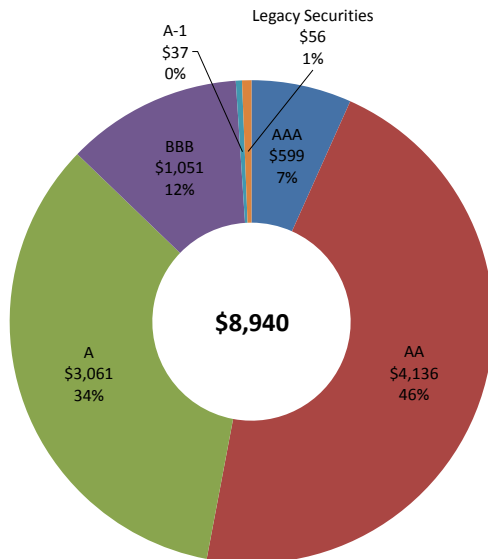
(\$ in Millions)

## Total Portfolio Composition



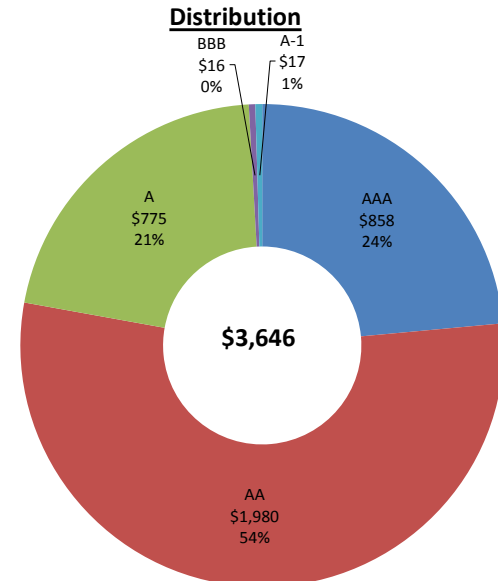
(\$ in Millions)

## Taxable Portfolio Credit Quality Distribution



(\$ in Millions)

## Tax-Exempt Portfolio Credit Quality Distribution

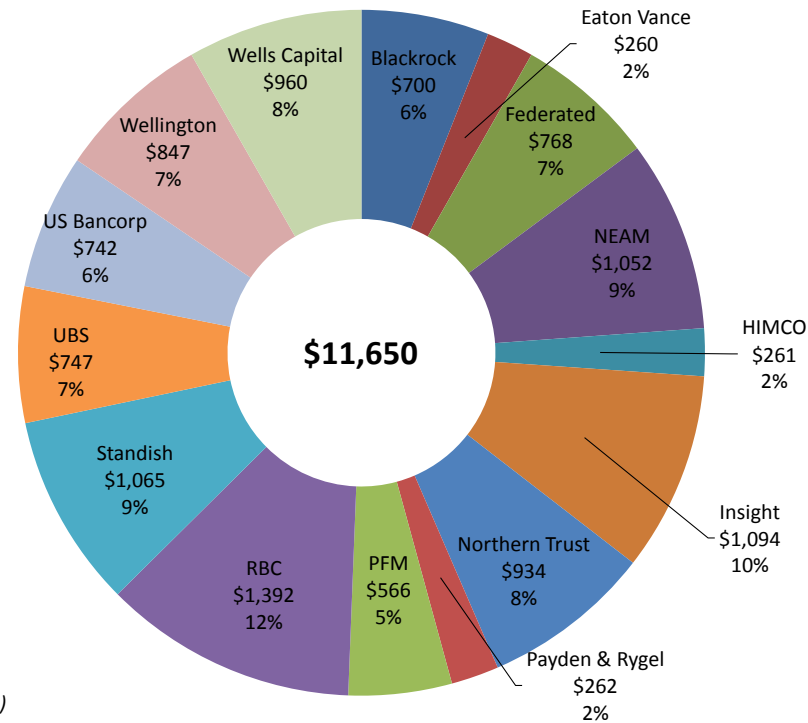


(\$ in Millions)

# INVESTMENT MANAGERS PORTFOLIO SUMMARY

Investment Manager	Taxable Liquidity Fund	Taxable Claims-Paying Fund	Tax-Exempt Claims-Paying Fund	Grand Total	% of Total Portfolio
Blackrock	\$272	\$0	\$429	\$700	6%
Eaton Vance	\$0	\$260	\$0	\$260	2%
Federated	\$276	\$0	\$492	\$768	7%
NEAM	\$0	\$939	\$113	\$1,052	9%
HIMCO	\$0	\$261	\$0	\$261	2%
Insight	\$0	\$842	\$252	\$1,094	9%
Northern Trust	\$0	\$934	\$0	\$934	8%
Payden & Rygel	\$0	\$262	\$0	\$262	2%
PFM	\$490	\$76	\$0	\$566	5%
RBC	\$112	\$1,056	\$224	\$1,392	12%
Standish	\$0	\$0	\$1,065	\$1,065	9%
UBS	\$0	\$555	\$192	\$747	6%
US Bancorp	\$0	\$742	\$0	\$742	6%
Wellington	\$169	\$678	\$0	\$847	7%
Wells Capital	\$0	\$487	\$473	\$960	8%
<b>Grand Total</b>	<b>\$1,319</b>	<b>\$7,092</b>	<b>\$3,240</b>	<b>\$11,650</b>	<b>100%</b>

## Total Externally Managed Portfolio Composition



(\$ in Millions)

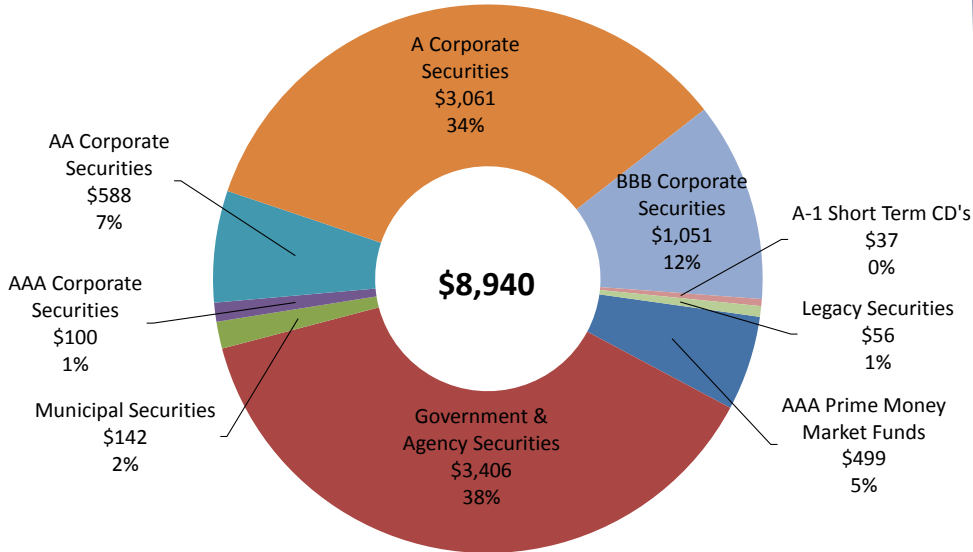
- 94% of the taxable portfolio, or \$8.41 billion, is managed by 14 external investment managers.
- 89% of the tax-exempt portfolio, or \$3.24 billion, is managed by 8 external investment managers.

# PORTFOLIO CREDIT SUMMARY

Taxable Credit Quality Distribution	Market Value (\$MM)	% of Portfolio MV
AAA Prime Money Market Funds	\$499	6%
Government & Agency Securities	\$3,406	38%
Municipal Securities	\$142	2%
AAA Corporate Securities	\$100	1%
AA Corporate Securities	\$588	7%
A Corporate Securities	\$3,061	34%
BBB Corporate Securities	\$1,051	12%
A-1 Short Term CD's	\$37	0%
Legacy Securities	\$56	1%
<b>Total Taxable Portfolio</b>	<b>\$8,940</b>	<b>100%</b>

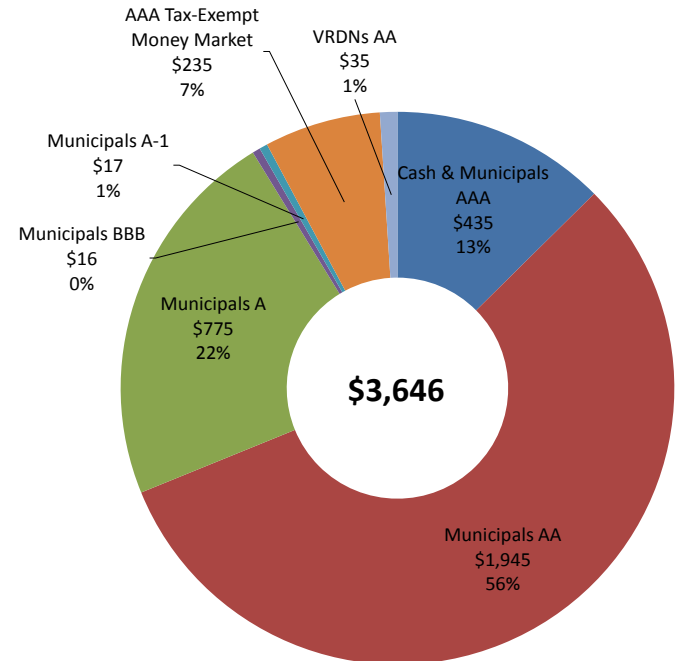
Tax-Exempt Credit Quality Distribution	Market Value (\$MM)	% of Portfolio MV
Government & Agency Securities	\$188	5%
Cash & Municipals AAA	\$435	12%
Municipals AA	\$1,945	53%
Municipals A	\$775	21%
Municipals BBB	\$16	0%
Municipals A-1	\$17	0%
AAA Tax-Exempt Money Market	\$235	6%
VRDNs AA	\$35	1%
<b>Total Tax-Exempt Portfolio</b>	<b>\$3,646</b>	<b>100%</b>

**Taxable Portfolio Credit Quality Distribution**



(\$ in Millions)

**Tax-Exempt Portfolio Credit Quality Distribution**



(\$ in Millions)

## PORTFOLIO RETURNS SUMMARY

- The total portfolio duration is 2.79 years.
- The 1-year total return is 2.62% and income return is 1.25%.

Citizens Portfolios	Duration (Years)	Credit Rating	Total Returns					Income Returns				
			1 Month	3 Month	1 Year	2 Year	3 Year	1 Month	3 Month	1 Year	2 Year	3 Year
Taxable Aggregate	3.08	A+/A1/A+	0.27%	1.19%	3.11%	2.21%	1.89%	0.13%	0.40%	1.41%	1.23%	1.13%
Taxable Internally Managed	0.00	AAA/Aaa/AAA	0.04%	0.15%	2.17%	1.73%	1.63%	0.03%	0.12%	0.68%	0.69%	0.59%
Tax-Exempt Aggregate	2.10	AA-/Aa3/AA-	0.21%	0.60%	1.59%	1.08%	1.23%	0.09%	0.25%	0.96%	0.96%	0.97%
Tax-Exempt Externally Managed Aggregate	2.32	AA-/Aa3/AA-	0.24%	0.61%	1.80%	1.21%	1.34%	0.09%	0.28%	1.12%	1.10%	1.08%
<b>Citizens Total Portfolio Average</b>	<b>2.79</b>	<b>A+/A1/A+</b>	<b>0.25%</b>	<b>1.02%</b>	<b>2.62%</b>	<b>1.83%</b>	<b>1.66%</b>	<b>0.12%</b>	<b>0.35%</b>	<b>1.25%</b>	<b>1.13%</b>	<b>1.07%</b>

Reference Rates	1 Month	3 Month	6 Month	1 year	2 Year
<b>3-Year Treasury Yield</b>	0.78%	0.87%	0.91%	1.00%	0.98%
<b>Bloomberg "A" Corporate 3-Year</b>	1.42%	1.51%	1.62%	1.73%	1.62%
<b>SIFMA</b>	0.41%	0.40%	0.30%	0.16%	0.10%
<b>"A" 3-year MMD Tax-Exempt</b>	1.00%	1.00%	1.01%	1.09%	0.99%
<b>Bloomberg "A" Corporate 1-Year</b>	0.94%	0.95%	0.97%	0.93%	0.80%
<b>1-Year Treasury Yield</b>	0.49%	0.53%	0.55%	0.49%	0.33%
<b>1-Month LIBOR</b>	0.48%	0.46%	0.45%	0.35%	0.26%

**Notes:**

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

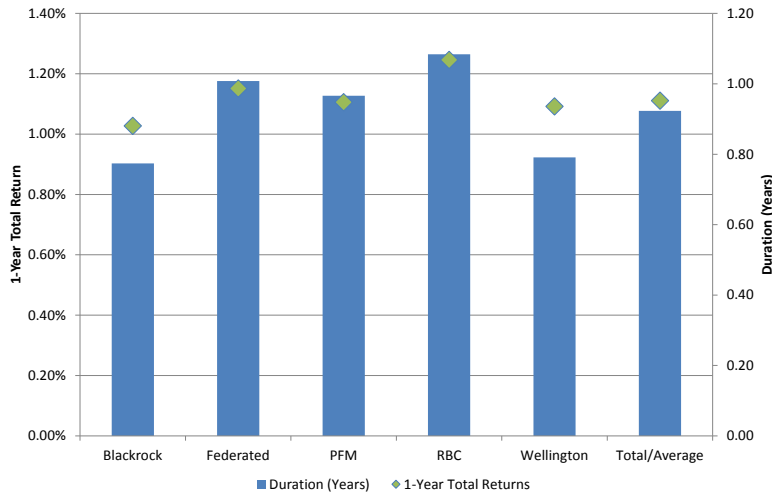
<sup>1</sup> Large differences in returns between taxable aggregates are caused by the Legacy securities. Due to the trading nature of these securities, principal repayments and market value fluctuations can cause large changes in the overall portfolio returns.

# TAXABLE LIQUIDITY PORTFOLIO INVESTMENT MANAGER RETURNS SUMMARY

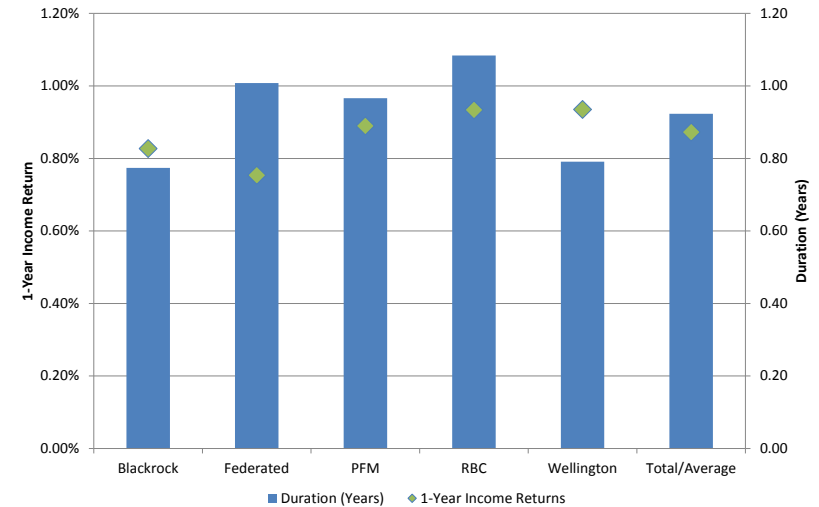
- The Taxable Liquidity portfolio duration is 0.92 years
- The Taxable Liquidity portfolio 1-year total return is 1.11% and income return is 0.87%

Investment Manager	Duration (Years)	Market Value (\$MM)	Total Returns				Income Returns			
			1 Month	3 Month	1 Year	2 Year	1 Month	3 Month	1 Year	2 Year
Blackrock	0.77	\$272	0.05%	0.35%	1.03%	0.79%	0.08%	0.24%	0.83%	0.71%
Federated	1.01	\$276	0.02%	0.37%	1.15%	0.75%	0.08%	0.25%	0.75%	0.60%
PFM	0.97	\$490	0.07%	0.41%	1.11%	0.90%	0.09%	0.26%	0.89%	0.75%
RBC	1.08	\$112	0.09%	0.42%	1.25%	1.00%	0.09%	0.27%	0.93%	0.81%
Wellington	0.79	\$169	0.11%	0.33%	1.09%	0.86%	0.09%	0.25%	0.93%	0.80%
<b>Total/Average</b>	<b>0.92</b>	<b>\$1,319</b>	<b>0.06%</b>	<b>0.38%</b>	<b>1.11%</b>	<b>0.86%</b>	<b>0.09%</b>	<b>0.25%</b>	<b>0.87%</b>	<b>0.74%</b>

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



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



**Notes:**  
 The Liquidity investment portfolio is managed to a 397 day maximum duration. This policy governs the investment of funds that will be the first moneys expected to be used to pay claims after an event, and is also used to pay operating expenses on an ongoing basis.  
 The 2 Year returns are annualized, and the remaining returns are actual for each reference period.  
 Returns in green font fall within +/-10% of the average return or higher. Returns in red font fall below -10% of the average return.

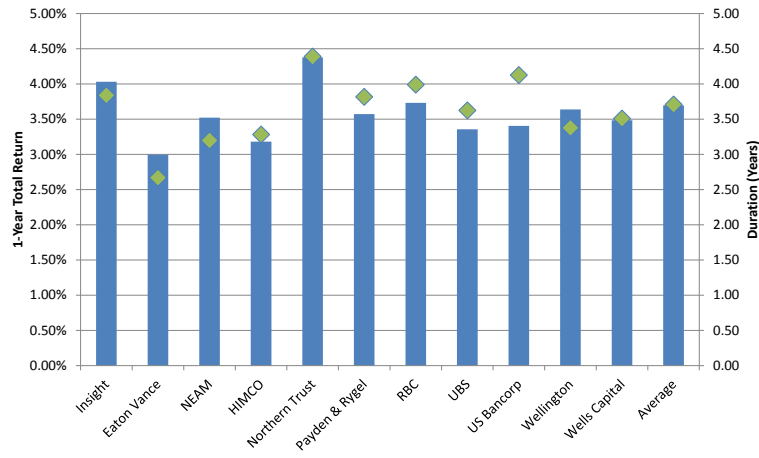


# TAXABLE CLAIMS-PAYING FUND PORTFOLIO INVESTMENT MANAGER RETURNS SUMMARY

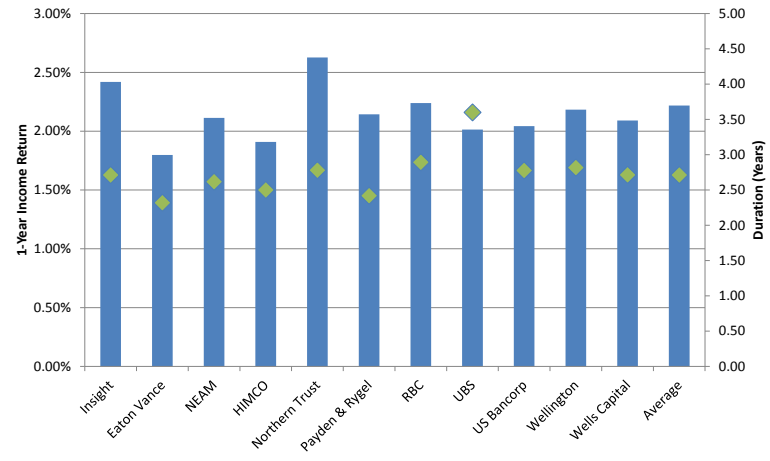
- The Taxable Claims-Paying Fund portfolio duration is 3.70 years
- The Taxable Claims-Paying Fund portfolio 1-year total return is 3.71% and income return is 1.63%

Investment Manager	Duration (Years)	Market Value (\$MM)	Total Returns				Income Returns			
			1 Month	3 Month	1 Year	2 Year	1 Month	3 Month	1 Year	2 Year
Insight	4.03	\$842	0.29%	1.54%	3.84%	2.76%	0.15%	0.46%	1.63%	1.46%
Eaton Vance *	3.00	\$260	0.30%	1.12%	2.67%	N/A	0.14%	0.42%	1.39%	N/A
NEAM	3.52	\$939	0.36%	1.22%	3.20%	2.33%	0.14%	0.42%	1.57%	1.48%
HIMCO *	3.18	\$261	0.25%	1.27%	3.28%	N/A	0.14%	0.43%	1.50%	N/A
Northern Trust	4.38	\$934	0.42%	1.76%	4.39%	2.99%	0.16%	0.49%	1.67%	1.46%
Payden & Rygel *	3.57	\$262	0.31%	1.49%	3.82%	N/A	0.15%	0.44%	1.45%	N/A
PFM	3.39	\$76	0.22%	N/A	N/A	N/A	0.11%	N/A	N/A	N/A
RBC	3.73	\$1,056	0.34%	1.41%	3.99%	2.89%	0.15%	0.45%	1.74%	1.57%
UBS	3.36	\$555	0.26%	1.32%	3.63%	2.56%	0.15%	0.45%	2.16%	1.73%
US Bancorp	3.41	\$742	0.29%	1.43%	4.13%	2.90%	0.15%	0.43%	1.67%	1.47%
Wellington	3.64	\$678	0.32%	1.41%	3.38%	2.34%	0.15%	0.46%	1.69%	1.53%
Wells Capital	3.48	\$487	0.33%	1.32%	3.51%	2.47%	0.15%	0.45%	1.63%	1.45%
<b>Total/Average</b>	<b>3.70</b>	<b>\$7,092</b>	<b>0.33%</b>	<b>1.43%</b>	<b>3.71%</b>	<b>2.62%</b>	<b>0.15%</b>	<b>0.45%</b>	<b>1.63%</b>	<b>1.46%</b>

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



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



**Notes:**

The Taxable Claims portfolio is managed to a 4 year maximum duration. This policy governs the investment of funds that are expected to be used to pay claims post-event once Citizens has expended moneys in the Liquidity Fund. The 2 Year returns are annualized, and the remaining returns are actual for each reference period.

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

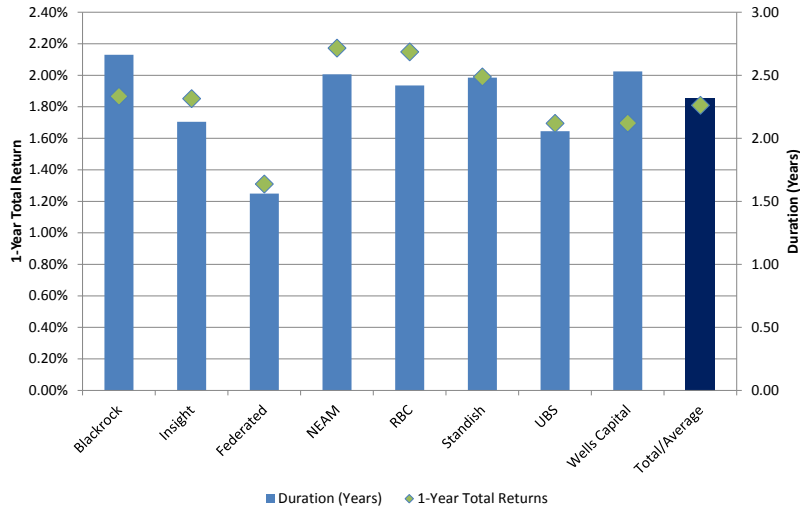
\*Eaton Vance, HIMCO, and Payden & Rygel started managing funds for Citizens after the 2014 competitive solicitation. The accounts were each initially funded with \$250 million in June, July, and October 2014, respectively.

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

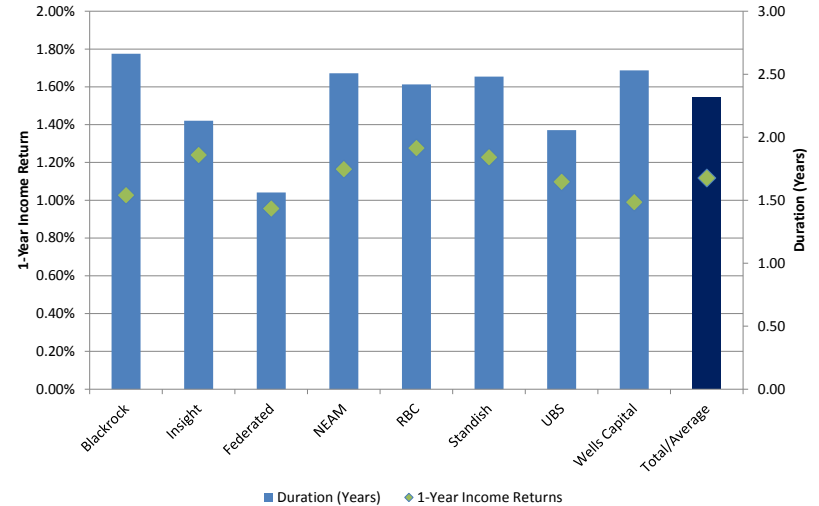
- The Tax-Exempt Claims-Paying Fund portfolio duration is 2.32 years
- The Tax-Exempt Claims-Paying Fund portfolio 1-year total return is 1.81% and income return is 1.12%

Investment Manager	Duration (Years)	Market Value (\$MM)	Total Returns				Income Returns			
			1 Month	3 Month	1 Year	2 Year	1 Month	3 Month	1 Year	2 Year
Blackrock	2.66	\$429	0.25%	0.64%	1.87%	1.22%	0.09%	0.26%	1.03%	0.99%
Insight	2.13	\$252	0.26%	0.58%	1.85%	1.21%	0.10%	0.30%	1.24%	1.23%
Federated	1.56	\$492	0.18%	0.47%	1.31%	0.92%	0.09%	0.26%	0.96%	1.01%
NEAM	2.51	\$113	0.26%	0.73%	2.17%	1.35%	0.10%	0.29%	1.16%	1.04%
RBC	2.42	\$224	0.24%	0.66%	2.15%	1.45%	0.11%	0.32%	1.28%	1.29%
Standish	2.48	\$1,065	0.24%	0.63%	1.99%	1.40%	0.10%	0.30%	1.23%	1.18%
UBS	2.06	\$192	0.24%	0.61%	1.70%	1.12%	0.09%	0.27%	1.10%	1.06%
Wells Capital	2.53	\$473	0.25%	0.63%	1.70%	1.13%	0.09%	0.26%	0.99%	1.05%
<b>Total/Average</b>	<b>2.32</b>	<b>\$3,240</b>	<b>0.24%</b>	<b>0.61%</b>	<b>1.81%</b>	<b>1.22%</b>	<b>0.09%</b>	<b>0.28%</b>	<b>1.12%</b>	<b>1.11%</b>

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



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



**Notes:**

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

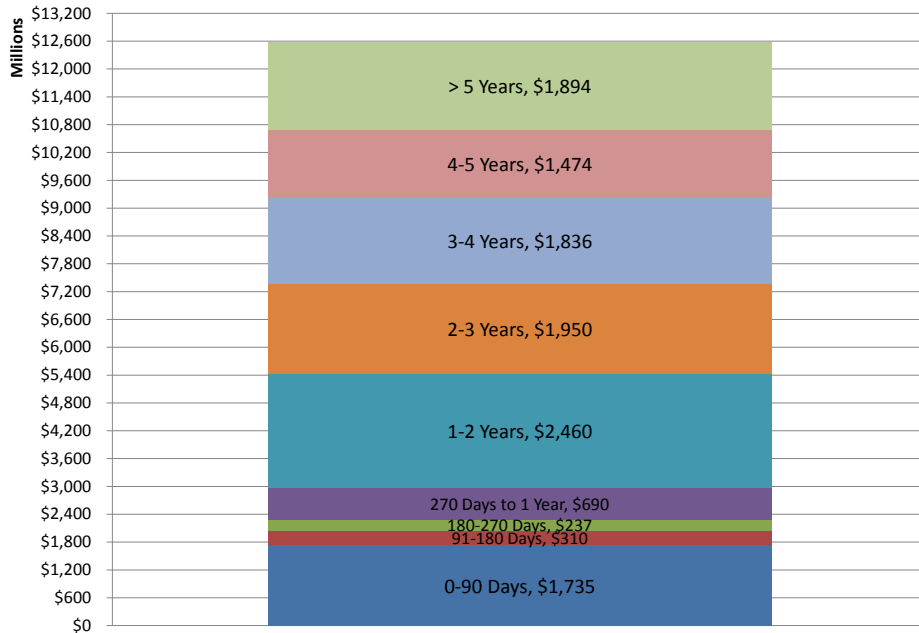
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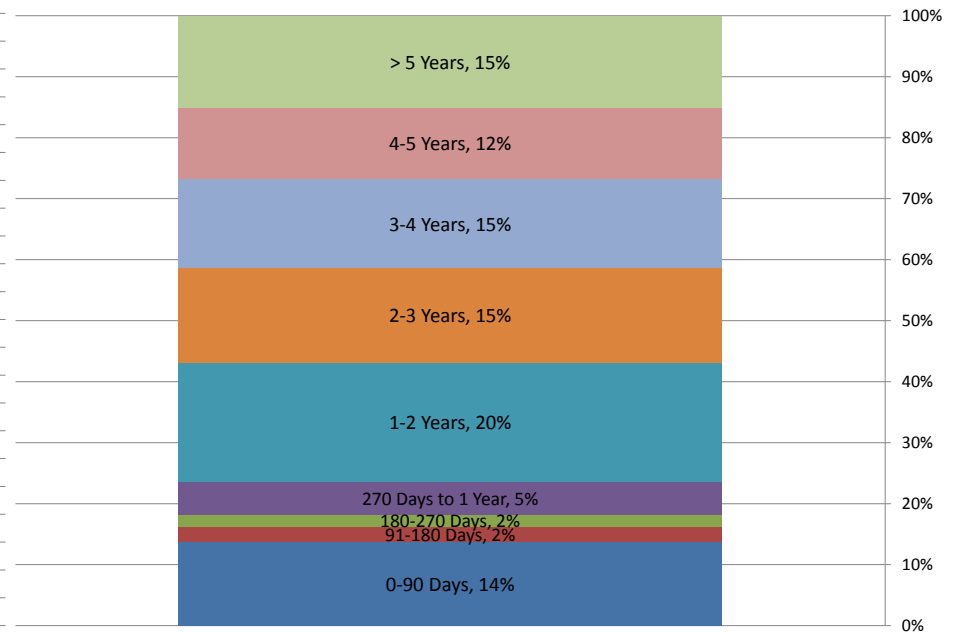
# PORTFOLIO MATURITY DISTRIBUTION

- 14% of the portfolio matures in less than 90 days.
- 9% of the portfolio matures between 91 days and 1 year.
- 35% of the portfolio matures between 1 and 3 years.

Citizens Investment Portfolio Maturity Distribution - Amount (\$MM)



Citizens Investment Portfolio Maturity Distribution - Percentage



\*1.4% or \$40.0 million of the 0-90 day maturity bar consists of VRDN's with longer stated maturities, which are included in the 0-90 day bar because the inherent put feature allows almost instant liquidity at par within 7 days.

## DOWNGRADED SECURITIES AND LEGACY SECURITIES

Downgraded Securities										
Security	Maturity Date	Moody's		Fitch		S&P		Amortized Cost	Market Value	Unrealized Gain/Loss
		Rating	Downgrade Date	Rating	Downgrade Date	Rating	Downgrade Date			
Becton Dickinson & Co.	11/8/2016	Baa2	3/17/2015	NA	NA	BBB+	12/4/2014	\$1.95	\$1.96	\$0.00
Enbridge Inc.	6/2/2017	Baa2	6/22/2015	NA	NA	BBB+	6/19/2015	\$1.00	\$0.98	(\$0.02)
Illinois State	2/1/2019	A3	6/6/2013	BBB+	10/19/2015	AA-	3/18/2014	\$18.38	\$18.45	\$0.06
Mattel Inc.	5/6/2019	Baa1	5/1/2014	BBB+	2/2/2016	BBB	1/26/2015	\$5.02	\$5.12	\$0.11
Celgene Corp.	5/15/2019	Baa2	8/3/2015	NA	NA	BBB+	5/6/2014	\$1.32	\$1.34	\$0.02
Barclays PLC	11/8/2019	Baa3	5/28/2015	A	11/12/2014	BBB	2/3/2015	\$1.25	\$1.25	(\$0.00)
<b>Total</b>								<b>\$28.92</b>	<b>\$29.10</b>	<b>\$0.18</b>

\$ in millions

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

Legacy Securities										
Security	Maturity Date	Moody's		Fitch		S&P		Amortized Cost	Market Value	Unrealized Gain/Loss
		Rating	Downgrade Date	Rating	Downgrade Date	Rating	Downgrade Date			
Lehman Brothers Holdings	N/A	NP	9/16/2008	NR	9/16/2008	D	9/16/2008	\$3.31	\$1.79	(\$1.52)
Issuer Entity (Ottimo)	N/A	NP	11/9/2007	NR	11/9/2007	D	11/9/2007	\$8.27	\$16.00	\$7.74
Axon Financial Funding LLC	N/A	NP	11/27/2007	NR	11/27/2007	D	11/27/2007	\$32.22	\$38.17	\$5.96
<b>Total</b>								<b>\$44</b>	<b>\$56</b>	<b>\$12</b>

\$ in millions

- The total write-down amount of the legacy securities was \$290.7 million - the write-downs were taken on 12/31/07, 9/30/08, and 12/31/08 in the amount of \$88.5 million, \$117.8 million, and \$84.3 million, respectively. The legacy securities were purchased by the former investment manager.
- Atlantic East holdings were sold in May, 2016. Pacific West were sold in June, 2016.
- As of July 31, 2016, \$183.9 million total principal has been recovered, as these securities continue to pay principal and interest. The total principal recovered directly offsets the original write-down amount of \$290.6 million, resulting in a net current write-down amount of \$106.7 million.