

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

	<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> <ol style="list-style-type: none">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.Approve the creation of the Taxable Claims-Paying Long Duration Fund as described above.
CONTACTS	Jennifer Montero, Chief Financial Officer

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RECOMMENDATION	<p>It is recommended that Citizens' Board:</p> <ol 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

RED LINED VERSION

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Liquidity Fund (Taxable)

INTRODUCTION

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

Citizens will invest its funds according to ~~four~~ five separate policies:

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

~~(4)~~

In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to using-use its own investment personnel and the investment procedures approved by the Board of Governors in October 2007 (Citizens' "~~Internally Managed Operating Funds Portfolio~~"). The Operating

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

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

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

INVESTMENT OBJECTIVES

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

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

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

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Buyer, as defined by the United States Securities and Exchange Commission in Rule 144A under the Securities Act of 1933.

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

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

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

INVESTMENT GUIDELINES

Credit Quality

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

- (1) Securities with long-term investment ratings must be rated from at least two of Moody’s, S&P, and/or Fitch and must have minimum ratings of ~~Baa1-Baa2~~ by Moody’s; ~~BBB+~~ by S&P; and/or ~~BBB+~~ by Fitch;

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- (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch;
- (3) Money Market Funds must be rated Aaa by Moody's, AAA_m by S&P and/or AAA_{mmf} by Fitch;
- ~~(4) Commercial Paper Notes must have 100% liquidity support from a bank with at least two ratings—a minimum of A3 from Moody's, A from S & P, and/or A from Fitch;~~
- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities for prime automobile loan and lease receivables must be rated from at least two of Moody's, S&P, and/or Fitch and must have ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$500 million, and tranche size must be at least \$75 million for each security.
- ~~(5)~~
- (6) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

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

Diversification

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

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage Backed Securities (MBS), Agency Collateralized Mortgage Obligations (CMO) and notes whose principal and interest payments are fully insured by the FDIC and

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Treasury and Agency Collateralized Repurchase Agreements must in total be at least ~~50~~40% of the Portfolio.

- Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than ~~50~~60% of the Portfolio.
- No more than 25% of the Portfolio shall be in a single industry sector. Treasury and Agency securities are not considered to be part of an industry for these purposes. The Bloomberg Industry Sector will be used to verify the sector limit.
- No more than 10% of the Portfolio shall be invested in Agency MBS or CMO.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- ~~Securities that are have minimum ratings from two of Moody's, S&P, and/or Fitch rated of Baa~~2~~1 by Moody's; BBB+ by S&P; and/or BBB+ by Fitch shall not represent more than 20% of the Portfolio, with the securities of a single issuer representing no more than 1.5% of the Portfolio.~~
- ~~Securities of any individual Agency, including MBS, should not represent more than 20% of the Portfolio.~~
- ~~Securities of a single issuer of FDIC insured notes sold through the Temporary Liquidity Guarantee Program ("TLGP") (issuer means the financial institution which issued such securities through the TLGP and not the FDIC itself) shall not represent more than 5% of the Portfolio. Also, FDIC insured notes issued through the TLGP are considered Agency securities and therefore are limited to the single Agency maximum of 20% of the Portfolio.~~
- Investments in an individual Money Market Fund (including Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets..
- Corporate Floating-Rate Notes (FRN's) shall not represent more than ~~35~~40% of the overall portfolio.
- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD Program will be considered Corporate Floating Rate Notes.
- Fixed-Rate Corporate Notes shall not represent more than 35% of the overall Portfolio.
- Municipal Securities shall not represent more than 20% of the overall Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 15% of the Portfolio.
- Asset-backed securities for prime automobile loan and lease receivables shall not represent more than 5% of the Portfolio.

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- Exposure to banks providing LOC or liquidity support for the underlying securities in Citizens' portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the total Portfolio.
- Commercial Paper shall not represent more than ~~25~~20% of the Portfolio.

Duration

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

- The maximum permitted final maturity for any security in the portfolio is 42 months or three years and six months.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 397 days at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
 - No more than twenty-five percent (25%) of the portfolio may be invested in fixed rate securities with remaining time to maturities of ~~24~~30 to 42 months.
- The dollar weighted average maturity of the portfolio shall not exceed ~~397~~548 days, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
 - The dollar weighted average life maturity of the portfolio shall not exceed ~~730~~36 ~~months~~days, calculated using the stated legal maturity for any VROs without a Demand Feature and for VROs with a Demand Feature using the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.

- Repurchase Agreements must have a maximum maturity of 30 days or less.
- If a fixed rate security has mandatory put option then the mandatory put date will be used as a final maturity date.
- ~~If a variable rate security has mandatory put option then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of A~~2~~~~a~~~~3~~ from Moody's, A~~A~~ from S&P and/or A~~A~~ from Fitch.~~
- Asset-backed securities for prime automobile loan and lease receivables must have a maximum maturity of less than 548 days.
- ~~_____~~

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STRESS TESTING

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

OTHER RESTRICTIONS

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

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on ~~December~~ September, ~~2015~~ 2016

Appendix A-Types of Permitted Securities

CORPORATE DEBT SECURITIES

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

COMMERCIAL PAPER

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

DEMAND INSTRUMENTS

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

BANK INSTRUMENTS

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

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

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

FLOATING RATE NOTES

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

U.S. TREASURY SECURITIES

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

AGENCY SECURITIES

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

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

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

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

AGENCY MORTGAGE BACKED SECURITIES

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

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

ASSET-BACKED SECURITIES

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

MUNICIPAL SECURITIES

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

FOREIGN SECURITIES

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

MONEY MARKET MUTUAL FUNDS

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

REPURCHASE AGREEMENTS (REPOs)

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

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least “A2” by Moody’s and “A” by S &P without regard to gradation . In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal

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Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

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

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

~~Claims-Paying~~ Fund (Taxable)

INTRODUCTION

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

Citizens will invest its funds according to ~~four~~ five separate policies:

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

~~(4)~~

In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to using-use its own investment personnel and the investment procedures approved by the Board of Governors in October 2007 (Citizens' "Internally Managed Operating Funds Portfolio"). Internally

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

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

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

INVESTMENT OBJECTIVES

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

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

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

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defined by the United States Securities and Exchange Commission in Rule 144A under the Securities Act of 1933.

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

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

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

INVESTMENT GUIDELINES

Credit Quality

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

- (1) Securities with long-term investment ratings must be rated from at least two of Moody’s, S&P, and/or Fitch of ~~Baa1-Baa2~~ by Moody’s; ~~BBB+~~ by S&P; and/or ~~BBB+~~ by Fitch;
- (2) Securities with short-term investment ratings must be rated from at least two of Moody’s, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody’s; A-1 by S&P; and/or F1 by Fitch;

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- (3) Money Market Funds must be rated Aaa by Moody's, AAA_m by S&P and/or AAA_{mmf} by Fitch;
- ~~(4) Commercial Paper Notes must have 100% liquidity support from a bank with at least two ratings—a minimum of A3 from Moody's, A- from S&P, and/or A- from Fitch;~~
- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities for prime automobile loan and lease receivables must be rated from at least two of Moody's, S&P, and/or Fitch and must have ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$500 million, and tranche size must be at least \$75 million for each security.
- (6) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

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

Diversification

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

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage Backed Securities (MBS), Agency Collateralized Mortgage Obligations (CMO) and Notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least ~~35%~~30% of the Portfolio.
- Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than ~~65%~~70% of the Portfolio.

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Claims-Paying Fund (Taxable) Investment Policy**

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- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities are not considered to be part of an industry for these purposes. The Bloomberg Industry Sector will be used to verify the sector limit.
- No more than 10% of the Portfolio shall be invested in Agency MBS or CMO.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that ~~are have minimum ratings from two of Moody's, S&P, and/or Fitch rated of Baa1-Baa2~~ by Moody's; BBB+ by S&P; and/or BBB+ by Fitch shall not represent more than 20% of the Portfolio, with the securities of a single non-financial sector issuer representing no more than 1.5% of the Portfolio.
- Securities of any individual Agency, including MBS, should not represent more than 20% of the Portfolio.
- ~~Securities of a single issuer of FDIC insured notes sold through the Temporary Liquidity Guarantee Program ("TLGP") (issuer means the financial institution which issued such securities through the TLGP and not the FDIC itself) shall not represent more than 5% of the Portfolio. Also, FDIC insured notes issued through the TLGP are considered Agency securities and therefore are limited to the single Agency maximum of 20% of the Portfolio.~~
- Investments in an individual Money Market Fund (including Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.
- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD program will be considered Corporate Floating Rate Notes.
- Municipal Securities shall not represent more than 20% of the Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 10% of the Portfolio.
- Asset-backed securities for prime automobile loan and lease receivables shall not represent more than 5% of the Portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the Portfolio.
- No more than 20% of the Portfolio shall consist of securities with a final maturity between 85 and ~~120-121~~ months.

Duration

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its

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Claims-Paying Fund (Taxable) Investment Policy

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portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security in the Portfolio is ~~120-121~~ months or ten years and one month.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 3 years at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
- The dollar weighted average maturity of the Portfolio shall not exceed ~~60-72~~ months, or ~~five-six~~ years, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
- Repurchase Agreements must have a maximum maturity of 30 days or less.
- If a fixed rate security has mandatory put option then the mandatory put date will be used as a final maturity date.
- If a variable rate security has mandatory put option then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of ~~A1-A2~~ from Moody's, A+ from S&P and/or A+ from Fitch.
- Asset-backed securities for fixed rate prime automobile loan and lease receivables must have a maximum maturity of 7 years 1 month.
- —

STRESS TESTING

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

OTHER RESTRICTIONS

- Auction Rate Securities are not permitted.
- ~~Asset Backed Securities (including Asset Backed Commercial Paper Notes), non Agency Collateralized Mortgage Obligations, non Agency Mortgage Backed Securities and Collateralized Debt Obligations, are not permitted.~~
- Commercial Paper Notes issued under Section 4(2) of Securities act of 1933 are not permitted
- Qualified Public Depositories are not permitted
- Derivatives are not permitted.
- Subordinate obligations, regardless of ratings, are not permitted.
- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on ~~December~~ September, ~~2015~~ 2016

Appendix A-Types of Permitted Securities

CORPORATE DEBT SECURITIES

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

COMMERCIAL PAPER

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

DEMAND INSTRUMENTS

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

BANK INSTRUMENTS

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

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

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

FLOATING RATE NOTES

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

U.S. TREASURY SECURITIES

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

AGENCY SECURITIES

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

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

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

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

AGENCY MORTGAGE BACKED SECURITIES

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

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

ASSET-BACKED SECURITIES

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

MUNICIPAL SECURITIES

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

FOREIGN SECURITIES

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

MONEY MARKET MUTUAL FUNDS

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

REPURCHASE AGREEMENTS (REPOs)

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

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least “A2” by Moody’s and “A” by S & P without regard to gradation . In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal

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Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

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

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Claims-Paying Long Duration Fund (Taxable)

INTRODUCTION

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

Citizens will invest its funds according to five separate policies:

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

In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to use its own investment personnel and the investment procedures approved by the Board of Governors in October 2007 (Citizens' "Operating Funds Portfolio"). The Operating Funds Portfolio will consist of the approximate amount funds needed to pay the day-to-day operating expenses of

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

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

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

INVESTMENT OBJECTIVES

The primary investment objectives of the Claims-Paying Long Duration Fund are to provide safety of principal ~~and liquidity~~ while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed ~~quickly~~ to pay covered losses. Since paying such losses fully and in a timely manner is a priority for Citizens, liquidity in all portfolios must be paramount. ~~While the moneys invested pursuant to this policy will not be the first funds Citizens uses after Citizens uses the moneys in its Liquidity Funds and Claims-Paying Funds, a storm to pay claims, the uncertainty of when they will be needed still demands a fixed income portfolio with relatively short duration and high credit quality or after losses that exhaust approximately a 1-100 year probable maximum loss. As the moneys invested pursuant to this policy will be Citizens' last source of available funds, the duration limits of this policy will be longer than the duration of the Claims-Paying Fund (Taxable).~~

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

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

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

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

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

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

INVESTMENT GUIDELINES

Credit Quality

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

- (1) Securities with long-term investment ratings must be rated from at least two of Moody’s, S&P, and/or Fitch of Baa2 by Moody’s; BBB by S&P; and/or BBB by Fitch;

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- (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch;
- (3) Money Market Funds must be rated Aaa by Moody's, AAA_m by S&P **and/or** AAA_{mmf} by Fitch;
- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities for prime automobile loan and lease receivables must be rated from at least two of Moody's, S&P, and/or Fitch and must have ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$500 million, and tranche size must be at least \$100 million for each security.
- (6) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

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

Diversification

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

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage Backed Securities (MBS), Agency Collateralized Mortgage Obligations (CMO) and Notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least 30% of the Portfolio.

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- Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 70% of the Portfolio.
- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities are not considered to be part of an industry for these purposes. The Bloomberg Industry Sector will be used to verify the sector limit.
- No more than 10% of the Portfolio shall be invested in Agency MBS or CMO.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that have minimum ratings from two of Moody's, S&P, and/or Fitch of Baa2 by Moody's; BBB by S&P; and/or BBB by Fitch shall not represent more than 20% of the Portfolio with the securities of a single non-financial sector issuer representing no more than 1.5% of the Portfolio.
- Securities of any individual Agency, including MBS, should not represent more than 20% of the Portfolio.
- ~~Securities of a single issuer of FDIC insured notes sold through the Temporary Liquidity Guarantee Program ("TLGP") (issuer means the financial institution which issued such securities through the TLGP and not the FDIC itself) shall not represent more than 5% of the Portfolio. Also, FDIC insured notes issued through the TLGP are considered Agency securities and therefore are limited to the single Agency maximum of 20% of the Portfolio.~~
- Investments in an individual Money Market Fund (including Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.
- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD program will be considered Corporate Floating Rate Notes.
- Municipal Securities shall not represent more than 20% of the Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 10% of the Portfolio.
- Asset-backed securities for prime automobile loan and lease receivables shall not represent more than 5% of the Portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the Portfolio.
- No more than 20% of the Portfolio shall consist of securities with a final maturity between ~~85-12~~ and ~~121-15 months~~ years and one month.

Duration

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

- The maximum permitted final maturity for any security in the Portfolio is ~~121-181~~ months or ~~ten-fifteen~~ years and one month.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 3 years at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
- The dollar weighted average maturity of the Portfolio shall not exceed ~~72-120~~ months, or ~~six-ten~~ years, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
- Repurchase Agreements must have a maximum maturity of 30 days or less.
- If a fixed rate security has mandatory put option then the mandatory put date will be used as a final maturity date.
- ~~•~~ If a variable rate security has mandatory put option then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of A2 from Moody's, A from S&P and/or A from Fitch.
- Asset-backed securities for prime automobile loan receivables must have a maximum maturity of ~~7-10~~ years and one month.

STRESS TESTING

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

OTHER RESTRICTIONS

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

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on September __, 2016

Appendix A-Types of Permitted Securities

CORPORATE DEBT SECURITIES

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

COMMERCIAL PAPER

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

DEMAND INSTRUMENTS

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

BANK INSTRUMENTS

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

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

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

FLOATING RATE NOTES

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

U.S. TREASURY SECURITIES

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

AGENCY SECURITIES

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

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

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

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

AGENCY MORTGAGE BACKED SECURITIES

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

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

ASSET-BACKED SECURITIES

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

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MUNICIPAL SECURITIES

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

FOREIGN SECURITIES

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

MONEY MARKET MUTUAL FUNDS

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

REPURCHASE AGREEMENTS (REPOs)

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

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least “A2” by Moody’s and “A” by S &P without regard to gradation . In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal

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Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

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

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Liquidity Fund (Tax-Exempt)

INTRODUCTION

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

Citizens will invest its funds according to ~~four~~five separate policies:

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

In addition, Citizens may choose to invest a portion of its portfolio using its own investment personnel and the investment procedures approved by the Board of Governors in October 2007 (Citizens' "Internally Managed Funds"). Internally Managed Funds will consist of the approximate amount funds needed to pay the day-to-day operating expenses of Citizens, as determined by Citizens' Chief Financial Officer. Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, and Treasury or Agency securities (see Appendix A, "Types of Permitted Securities"). For all other funds, (the "Externally Managed

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Liquidity Fund (Tax-Exempt) Investment Policy

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Funds”) Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens’ procurement policies.

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

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

INVESTMENT OBJECTIVES

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

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

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

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

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and

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Liquidity Fund (Tax-Exempt) Investment Policy

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

INVESTMENT GUIDELINES

Credit Quality

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

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

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Liquidity Fund (Tax-Exempt) Investment Policy

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- iii. Self liquidity by the issuer with a minimum underlying ratings by at least two of Moody's S&P and/or Fitch, with minimum ratings of A1 from Moody's and A+ from S&P and/or A+ from Fitch.
- (4) Tax-Exempt Commercial Paper ("TECP"), must be rated from at least two of Moody's, S&P and/or Fitch and must be at least rated P-1 by Moody's, A-1 by S & P, and/or F1 by Fitch.
- (5) Tax-exempt money market funds must be rated Aaa by Moody's, or AAA_m by S&P and/or AAA_{mmf} by Fitch.
- (6) For pre-refunded bonds, the ratings for the underlying collateral will be used for compliance purposes.
- (7) Subordinate obligations must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of A~~32~~ by Moody's, A₋ by S&P, and/or A₋ by Fitch.

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

Diversification

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

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

Citizens Property Insurance Corporation
Liquidity Fund (Tax-Exempt) Investment Policy

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

Duration

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

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

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Liquidity Fund (Tax-Exempt) Investment Policy

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

STRESS TESTING

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

OTHER RESTRICTIONS

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

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Liquidity Fund (Tax-Exempt) Investment Policy**

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

This policy was approved by Citizens Property Insurance Corporation's Board of
Governors on ~~December-September~~, ~~2014~~2016.

Appendix A-Types of Permitted Securities

VARIABLE RATE DEMAND OBLIGATION (VRDO)

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

MUNICIPAL SECURITIES (Tax-Exempt)

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

TAX-EXEMPT MONEY MARKET FUND

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

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Claims-Paying Fund (Tax-Exempt)

INTRODUCTION

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

Citizens will invest its funds according to ~~four~~ five separate policies:

- (1) Liquidity Fund (Taxable): generally this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- (2) Liquidity Fund (Tax-Exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on as needed basis.
- (3) Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.

(4) Claims-Paying Long Duration Fund (Taxable): generally this policy will govern the investment of funds that are above the 1-100 year probable maximum loss that will be used to pay claims post-event after Citizens has expended all moneys in the Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.

(5) Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Liquidity Fund.

~~(4)~~

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

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Claims-Paying Fund (Tax-Exempt) Investment Policy

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

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

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

INVESTMENT OBJECTIVES

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

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

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

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

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

INVESTMENT GUIDELINES

Credit Quality

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

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

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- i. A direct pay Letter of Credit (“LOC”) from a bank with long-term underlying ratings from at least two of Moody’s, S&P, and / or Fitch (Minimum ratings - Moody’s: A3; S&P: A-; Fitch: A-).
 - ii. A combination of a liquidity facility with a bank liquidity provider meeting the same ratings requirements as for bank LOC’s and credit enhancement from a credit enhancement provider rated by at least two of Moody’s S&P and/or Fitch, with minimum ratings of A1 from Moody’s and A+ from S&P and/or A+ from Fitch.
 - iii. Self liquidity by the issuer with a minimum underlying ratings by at least two of Moody’s S&P and/or Fitch, with minimum ratings of A1 from Moody’s and A+ from S&P and/or A+ from Fitch.
- (4) Tax-Exempt Commercial Paper (“TECP”), must be rated from at least two of Moody’s, S&P and/or Fitch and must be at least rated P-1 by Moody’s, A-1 by S & P, and/or F1 by Fitch.
- (5) Tax-exempt money market funds must be rated Aaa by Moody’s, or AAA_m by S&P and/or AAA_{mmf} by Fitch.
- (6) For pre-refunded bonds, the ratings for the underlying collateral will be used for compliance purposes.
- (7) Subordinate obligations must be rated from at least two of Moody’s, S&P, and/or Fitch and must have minimum ratings of A~~3~~ by Moody’s, A~~-~~ by S&P, and/or A~~-~~ by Fitch.

At the time of purchase, all investments for Series 2009A pre-event bond proceeds must be rated in accordance with the following (in the event of split ratings, the lower ratings will be used for compliance purposes):

- (1) Securities with short-term investment ratings (other than Variable Rate Demand Obligations (“VRDOs”), must be rated by Moody’s and S&P, and must have minimum ratings of MIG 1 by Moody’s and SP-1 by S&P.
- (2) Securities with long-term investment ratings, must be rated by Moody’s and S&P, and must have minimum ratings of A3 by Moody’s and A- by S&P.
- (3) VRDOs must be rated by Moody’s and S&P, be at least rated VMIG 1 by Moody’s and A-1 by S&P; in addition, one of the following is required:
 - i. A direct pay Letter of Credit (“LOC”) from a bank with long-term underlying ratings from at least two of Moody’s, S&P, and / or Fitch (Minimum ratings - Moody’s: A3; S&P: A-; Fitch: A-)
 - ii. A combination of a liquidity facility with a bank liquidity provider meeting the same ratings requirements as for bank LOC’s and credit enhancement from a credit enhancement provider rated by at least two of Moody’s S&P and/or Fitch, with minimum ratings of Aa3 from Moody’s and AA- from S&P and/or AA- from Fitch.

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- iii. Self liquidity by the issuer with a minimum underlying ratings by at least two of Moody's S&P and/or Fitch, with minimum ratings of A1 from Moody's, A+ from S&P and/or A+ from Fitch.
- (4) Tax-Exempt Commercial Paper ("TECP") must be rated by Moody's and S&P and must be at least rated P-1 from Moody's, A-1 from S & P.
- (5) Tax-exempt money market funds must be rated Aaa by Moody's, AAA_m by S&P or AAA_{mmf} by Fitch.
- (6) For pre-refunded bonds, the ratings for the underlying collateral will be used for compliance purposes.
- (7) Subordinate obligations must be rated from by Moody's and S&P and must have minimum ratings of ~~A2~~ A3 by Moody's, A₋ by S&P, and/or A₋ by Fitch.

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

Diversification

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

- Securities of a single local municipality or issuer, e.g. State, County, City, or Authority, shall not represent more than 5% of the portfolio. This issuer limit includes VRDOs regardless of the LOC or Liquidity Support provider. The Bloomberg Bond Ticker or an Issuer name for conduit issuer only will be used to verify the issuer limit.
- Investment in an individual money market fund shall be the lesser of 5% of the total individual fund assets or \$200 million. Each Investment Manager must check the compliance of this provision with Citizens' CFO prior to investing in any money market fund.
- Tax-exempt commercial paper ("TECP") shall not represent more than 20% of the total portfolio.

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- Floating Rate Notes (securities the terms of which provide for the automatic adjustment of their interest rates whenever a specified interest rate changes until the final maturity of the instrument or the period remaining until the principal amount can be recovered through demand) with no external liquidity support from a bank meeting the ratings requirements described above for bank LOCs shall not represent more than 25% of the total portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Citizens' portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 15% of the total portfolio.
- Calculations of a bank or issuer's share of Citizens' overall portfolio should be done without regard to the underlying securities in any money market funds owned by Citizens in this portfolio.

Duration

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

- The maximum permitted final maturity for any security in the Series 2009 to Series 2012 portfolio is 61 months or five years and one month and for any subsequent Series starting in 2015 is 73 months or six years and one month.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 42 months, or three years and six months at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
 - For pre-refunded municipal obligations with an irrevocable escrow funded by Government or Agency securities, the final maturity shall be deemed to be the date on which the escrow will be used to call the underlying bonds. Pre-refunded obligations have no minimum ratings requirements.

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- If a fixed rate security has mandatory put option then the mandatory put date will be used as a final maturity date.
 - If a variable rate security has mandatory put option then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of Aa3 from Moody's, AA- from S&P and/or AA- from Fitch.
- The dollar weighted average maturity of the Series 2009 to Series 2012 Portfolio shall not exceed 3 years and for any subsequent Series starting Series 2015 Portfolio shall not exceed 4 years, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.

STRESS TESTING

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

OTHER RESTRICTIONS

- Auction Rate Securities are not permitted.
- Asset Backed Securities (including Asset-backed Commercial Paper Notes), Mortgage Backed Securities (including Agency MBS), and Collateralized Debt Obligations, are not permitted.
- Commercial Paper Notes issued under Section 4(2) of Securities act of 1933 are not permitted
- Qualified Public Depositories are not permitted
- Derivatives are not permitted.
- Repurchase Agreements, Reverse Repurchase Agreements and Securities Lending are not permitted.
- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO of Citizens.

This policy was approved by Citizens Property Insurance Corporation's Board of
| **Governors on ~~December~~ September, ~~2015~~ 2016.**

Appendix A-Types of Permitted Securities

VARIABLE RATE DEMAND OBLIGATION (VRDO)

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

MUNICIPAL SECURITIES (Tax-Exempt)

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

TAX-EXEMPT MONEY MARKET FUND

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