CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Tuesday, July 11, 2023

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at the JW Marriott Orlando Bonnet Creek on Tuesday, July 11, 2023.

The following members of the FIC were present:

Chair Erin Knight
Carlos Beruff (Board Chair)
Charlie Lydecker

The following Citizens staff members were present:

Jennifer Montero
Barbara Walker
Tim Cerio
Kelly Booten
Michael Peltier
Jeremy Pope
Jay Adams
Joe Martins
Mark Kagy
Violet Bloom
Ken Tinkham

The following people were present:

Kapil Bhatia	Raymond James
Sasha Stipanovich	Raymond James
Duane Draper	Bryant Miller Olive
Doug Draper	Bank of America
Nathaniel Johnson	Bank of America
Mark Weinberg	Citi Bank
Colman Cordell	Bank of America
Jim Perry	Wells Fargo

Call Meeting to Order

Barbara Walker: Good afternoon, and welcome to Citizens' July 11, 2023, Finance and Investment Committee Meeting that is publicly noticed in the Florida Administrative Register to convene immediately following the Audit Committee Meeting and will be recorded with transcribed Minutes available on our website. For those attending today's session through the public link, you are automatically in listen-only mode. Panelists, thank you for identifying yourself prior to addressing the Committee. May I proceed with the official roll call?

Chair Knight: Yes.

Roll was called and quorum established with Chair Knight, Board Chair Beruff.

Barbara Walker: Chair Knight, Governor Lydecker is in traffic and rain. He is coming and will be here soon, but you do have a quorum to continue.

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

Chair Knight: Okay, thank you very much. I would like to call the FIC meeting for July 11th to order, beginning with the first agenda item, approval of the Minutes from March 28th.

BOARD CHAIR BERUFF: So moved.

Chair Knight: Okay. Minutes are approved. And I would like to welcome Mr. Bhatia to share the market update with us.

2. **Raymond James - Financial Advisor**

    a. Market Update

Kapil Bhatia: Good afternoon, Madam Chair, Mr. Chairman. For the record, Kapil Bhatia from Raymond James & Associates, and we are your financial adviser. Inflation rose .1% in May, after increasing by .4% in April. Over the last 12 months, all item inflation index increased by 4% before any seasonal adjustments. This was the smallest 12-month increase since the period ended March of 2021. The index for all items less food and energy rose by .4% in May as it did in March and April and rose 5.3% over the last 12 months. The energy index has actually decreased over the last 12 months as the oil prices have come down significantly, but the food index has increased significantly over the last 12 months. So that portion of the inflation is still persistent. The new inflation numbers for June are supposed to be released tomorrow morning at 8:30. We expect this will be the first time that inflation will see a three handle in a long time, because the June 2022 number will drop off from the index, and now we will have July through June data and that was during a significant inflationary period. So, we expect CPI to increase by 3.1 to 3.3%. That will be a drop of approximately .7 to .9% for CPI, and excluding food and energy, that number will drop by probably .3 to .5%. So, we will see inflation for the first time to be close to 4.9 to 5.1%, but the CPI to be in the three to 3.3 range is really the turning point for the inflation, and we should start to see somewhere in the range of three to 3.3 going forward. However, getting to the

Feds target rate of two percent is going to be hard with all of the stimulus still in the economy floating around. Moving along to payroll, employment increased by 209,000 in June and the unemployment rate changed little at 3.6%, which was below market estimate. Both the unemployment rate at 3.6% and the number of unemployed persons at 6 million, hardly changed in June. The unemployment rate is kind of range bound from 3.4 to 3.7% over the last 15 months. In June, the labor force participation rate was 62.6% for the fourth consecutive month, and the employment to population ratio is closer to 60%. So, nothing really is changing. The unemployment number is more or less static over the last 12 months, and not much is expected. However, we will see the number of job openings coming down as the economy has slowed down and unemployment rates to marginally increase as if and when the recession comes, and I will talk more about it briefly. The strong labor market along with high inflation rates makes it almost certain that the Feds will hike rates again this month. The market is showing a 90% probability of a quarter point hike on July 26, and the fed has indicated they will probably do one more rate increase, whether in September or November, depending on what happens with the economic numbers. I know we have been talking about a long time for the recession to be coming up somewhere in near horizon and that continues to move forward, but there is still a strong likelihood of recession in the second half of this year, but the most accepted or widely accepted definition of recession is two consecutive quarters of declining GDP, and quarterly GDP remains positive, having increased by two percent for the first quarter and the expected increase for second quarter to be also in the range of two to 2.1%. However, all other typical signs of recession are present, with an inverted yield curve, rising interest rates and high inflation, except for the unemployment numbers and the consumer spending. One of the reasons we have been able to avoid recession so far or it has been delayed is the continuous large fiscal spending through various programs, even beyond 2020 COVID crisis, which was not needed.

For example, the 2021 American Rescue Plan, the 2021 Infrastructure Job Act, and the very inaptly named Inflation Reductions Act, because it actually is helping to increase inflation, but it is called Inflation Reduction Act, and the 2022 Chips Act. However, on the other hand all of the government stimulus are adding to the inflation. So, the fed is doing its best to manage the inflation by increasing the interest rate while fiscal policy is increasing the inflation, and they're neutralizing each other and creating a circular loop. However, not leading to the recession. Now the fiscal stimulus is almost over with the debt ceiling agreement and the student loan repayments are going to start in October, we will see if the economy slows down. Whether it be recessionary or just a slowdown, we will just have to wait and see how much stimulus is still setting there. Global markets are in a similar position as global central banks followed the fed's economic policy and the monitor policy and the U.S. fiscal policy during the COVID lock down, and the world is now trying to play catch up by increasing interest rates. However, as we move forward, we have seen the diversion in Asia. China is slowing down and have cut the interest rates. Next will be Korea and then Japan. Their economies are slowing down. So, the Asian economies are going in a different direction than rest of the world so far, at least on the economic growth part. We will see slowdown in Asia first before coming to U.S. and certainly Europe. Germany was officially in recession, U. K. still struggling with inflation. So, Euro zone is in a weird position right now because of the Ukraine war.

Interest rates have increased significantly to reflect fed's rate increases, particularly of the long-end and of the curve, but the yield curve remains significantly inverted with the spread between three-month and 10-year treasury at negative 1.37% and the spread between two-year and 10-

year treasury to be at negative 90 basis points. Since the beginning of the year, one year treasury has increased from 4.87% to 5.44%. Two-year from 4.32% to 4.89%. That is a significant increase. However, if you look at the 10-year treasury it has only increased from 3.63% to 3.99%. That is an increase of 36 basis points. That means the market is expecting a recession even though the probability of recession is coming down. , The pressure on global banking sector continues with significant mark to market losses , and we expect smaller banks to continue to struggle because of their exposure to commercial real estate, as well as higher interest rate expenses with fixed rate loans at a lower rate which were given a couple of years ago when monetary stimulus was large and the rare were low. So, we may see some more Silicone valley or First Republic like conditions continuing in the smaller banking sector, or there will be some increase in mergers. Eventually all of this reduced landing will lead to higher unemployment and economic slowdown and most likely again will lead to recession over the next six to nine months. Even though some of the factors have already slowed down, but not to the recessionary levels. While the recent increase in interest rates, as Jennifer mentioned earlier, has increased our negative mark to market, but that is just a reflection of volatility. We are not in a significantly different position than where we were in March. We are closer to $800 million. Again, these values are non-economic and non-cash as the negative values will pull to par as our securities mature. However, our portfolio duration is much shorter today than where we were a year ago because we are using maturing securities to pay Ian claims as well as investing at a higher rate. So, our income is going up, but our negative mark to market is volatile because the short-term interest rates have increased more than the long-term interest rate. So shorter duration helps us to get to accelerate that par to pull value, however, at the same time it is increasing our mark to market. Lastly, our income return is stable. We expect our total interest income this year to be around $250 to $275 million, taking advantage of the high interest rates, even though we are paying Ian claims from maturing securities, but the incremental investment income is largely coming from additional premiums and the reinvestments of some of the maturing securities, which we are not using to pay Ian claims. I will stop here and be happy to answer any questions.

Board Chair Beruff: May I ask a question?

Chair Knight: Yes.

Board Chair Beruff: Thank you. Kapil, so obviously we are upside down further, because interest rates are going against our portfolio.

Kapil Bhatia: Yes, sir.

Board Chair Beruff: At the moment.

Kapil Bhatia: Yes, sir.

Board Chair Beruff: But where are we to get all of our investments to full maturity? What is the timeframe?

Kapil Bhatia: Our duration of the portfolio is 3.13 years. Total duration of the portfolio.

Board Chair Beruff: Yes, but that includes new investments that you made at higher interest rates.

Kapil Bhatia: Correct.

Board Chair Beruff: What is the portfolio that is upside down, the maturity of those assets?

Kapil Bhatia: Actually, there are very few securities which are not upside down, and the reason for that is even though what we have –

Board Chair Beruff: The ones you reinvested in are upside down because the interest rates have kept going up.

Kapil Bhatia: Correct.

Board Chair Beruff: I get it, but where is our biggest exposure?

Kapil Bhatia: The biggest exposure is in three to five years. We have $2 billion of total investments in that bucket, three to five years. That is the longest part of –

Board Chair Beruff: But that is old already because we have been –

Kapil Bhatia: Yes, but it used to be seven years. It has shortened down to five years.

Board Chair Beruff: Do we still have things that we have to hold to maturity for as much as five years.

Kapil Bhatia: Right, but it's going down each –

Board Chair Beruff: Right.

Kapil Bhatia: Quarter.

Board Chair Beruff: Yes, it was going down until the interest rates went against us the last 90 days.

Kapil Bhatia: Right.

Board Chair Beruff: And then it went up.

Kapil Bhatia: It went up, but we expect interest rates to stabilize over the next 90 days, but you are absolutely right.

Board Chair Beruff: But at the end of the day if we got our clock cleaned, tomorrow we had to pay claims we would be taking -- we would have to liquidate those investments in order to pay the claims.

Kapil Bhatia: We will not –

Board Chair Beruff: It all depends on where we are on the reinsurance and on the lines of credit that we have negotiated. So, there is, there is a bucket of liquidity that we have to think about, and in the worst-case scenario we could have to liquidate the portfolio and take a $790 million hit.

Kapil Bhatia: That is correct, if we have to sell every security that we have in our portfolio.

Board Chair Beruff: That is if the stars end up on the wrong side of the world.

Kapil Bhatia: Even if it completely goes upside down, like for example, Ian did happen and the interest rates have been going as you know since Ian happened. We have not sold a single security for loss. We have sold a couple of securities to manage the credit –

Board Chair Beruff: We haven't taken any losses.

Kapil Bhatia: Correct.

Board Chair Beruff: So far, I understand that.

Kapil Bhatia: And we have approximately four billion maturing in the first three years. The claim process works the timing of the claims that we pay.

Board Chair Beruff: Right.

Kapil Bhatia: And the reinsurance recoveries –

Board Chair Beruff: Right.

Kapil Bhatia: -- so we will not sell any of that.

Board Chair Beruff: Right.

Kapil Bhatia: So, it is possible in the worst-case scenario, however, with the risk transfer program and what we have, we have a significant surplus in the CLA account, and those we don't really have much exposure in there because we have surplus, which is beyond the 1-in-100 years. So, PLA is where we have the most exposure, and our PLA total portfolio surplus is like one point -- $420,000,000 or something like that. $420,000,000 of surplus projected and some unearned premium. That is the projected. So relatively most of the surplus which is exposed to the mark to market is in the CLA where we have much less exposure.

Board Chair Beruff: Thank you. Thank you, madam, chair.

Governor Lydecker:(INAUDIBLE/mic off).

Kapil Bhatia: We are not, and it’s just the credit, and from a credit perspective, we are very comfortable, Governor Lydecker.

Board Chair Beruff: I just liked it when it was, excuse me, Madam Chair. I just liked it when it was coming down and then all of a sudden, boom, we go back up.

Kapil Bhatia: It has gone up by $50 million, but it is probably because we are looking at the June 30th number. Every basis point moves it by $5 million. Just to put it in perspective.

Chair Knight: And as a follow up to that on the PLA where we do have the greatest risk of 1-in-four year. What would that look like from a timing perspective of using lines of credit, using -- how would we manage through those things if that were to happen in PLA? Since PLA is the smallest.

Kapil Bhatia: As the board approved in the last board meeting, we were able to close the LLC. So, we have $1.25 billion of line of credit which gives us the one-year flexibility so we can borrow against that to hedge that risk also. We will have to look at the cost if and when we need it. In addition, we have a quite robust… Jennifer will go through the reinsurance program, and as you will see it where the reinsurance attaches. So, our exposure to mark to market is there, however, we will have time to manage that.

Chair Knight: Thank you.

Kapil Bhatia: Thank you.

Chair Knight: Any other questions? We are moving to the Chief Financial Officer report, Ms. Montero. You have the Risk Transfer Program update that I think we can start with the summary and then go back into details if anyone feels those are needed. Are you ready?

3. **Chief Financial Officer Report**

   a. 2023 Risk Transfer Program Update

Jennifer Montero: So, the risk transfer pricing is up for the year with most Florida carriers are experiencing rate increases of approximately 30 to 50%, while pricing indications for non-Florida risk is up 10 to 20%. The capital markets' transactions have been able to be upsized and priced at levels slightly below the initial price guidance. However, overall spread levels are above what has been seen in prior years due to increased scrutiny on credit risks, increase in cost of capital, macro level stress in the financial markets and alternative investments opportunities. Citizens' staff worked extensively with its traditional reinsurance brokers, Gallagher Re and its capital markets co-underwriting team of Aon Security and GC Securities as well as its financial adviser, Raymond James. To market its traditional and capital markets' risk transfer program via road shows and one-on-one meetings with reinsurers and investors. As approved by the Board of Governors at its May 16th, 2023, Board meeting, Citizens sought authorization for a total of $5.64 billion of coverage, with a cost not to exceed $675 million. This includes $500 million of coverage across all three of Citizens' accounts through, through a new special purpose vehicle, Lighting Re, as approved by the Board at the March '17 Board meeting. Citizens was able to place a cost-efficient risk transfer program of approximately $5.38 billion, which includes $423 billion of new placement and $1.5 billion of existing multi-year coverage from 2021 and 2022, at a cost of approximately $650 million. Overall, 95.3% of the 2023 risk transfer program target was placed. The coastal account was undersubscribed even though certain layers within the coastal tower were oversubscribed. Approximately 90.3% of the original coastal account target was placed. The personal lines account was also oversubscribed on certain layers with 100% of the original personal lines account target placed. Both the Lighting Re and Everglades Re Cat bonds were up sized, while obtaining pricing at the lower end of the pricing guidance. Lighting Re was up sized by $300 million and the Everglades Re Cat bonds were up sized by $550 million. $200 million in the coastal account and $350 million in the personal lines account. I can skip if you would like, I can go through the different layer charts, the individual layers, or I can just get to the summary of, of the rates on the overall price increases that we saw, etcetera. Whatever your pleasure.

Board Chair Beruff: Madam Chair, my only comment is if it is in line with what you presented to us in the past, then I would skip it.

Jennifer Montero: It is. Okay. So I will say Citizens placed risk transfer program of $2.461 billion for to the coastal account with a weighted average rate on line of 11.16% gross or 10.63% net, and the premium was $261.6 million. Just to break that out between the two. And so the personal lines account it was $2.9919 billion was transferred to the personal lines account. With a weighted average gross rate online of 13.99% or net rate online of 13.21% with a net premium, of $385.6 million. The 2023 risk transfer program cost was significantly higher compared to the 2022 program based on gross rated online. The 2023 gross rate online overall was 12.69%, compared to the gross rate online of 8.96% for 2022. And the net rate online for 2023 was 12.03% compared to the rate online of net rate online of 8.45% for the 2022. Citizens experienced moderate growth in the coastal account during 2023, which led to a price increase of approximately 20.65% on a risk adjusted basis for coverage placed in 2023. The total amount of surplus exposed in a 1-in-100 year event for 2023 is 100% compared to 89% in 2022. Citizens experienced significant growth in the personal lines account during 2023, along with surplus erosion associated with the recent storms and increased litigation. The growth along with the market conditions led to a price increase of approximately 28.59% on risk adjusted basis for coverage placed in another 2023. The total amount of surplus exposed in a 1-in-100 year event for 2023 is 100 percent which was the same in 2022. In 2022, the PLA surplus could have been depleted in a 1-in-67 year event. However, in 2023, surplus could be depleted in a 1-in-four year event. The combined coastal account and personal lines account risk transfer adjusted price increase experienced for coverage placed in 2023, is approximately 25.14%. And that completes my report.

Chair Knight: Thank you. Questions?

Governor Lydecker: I have a question. Thank you, Madam Chair. Well, I have two questions. But one is on the personal lines side, is it the rate online that made the demand for the placement more attractive? You mentioned earlier in your presentation, I thought I heard you say that the coastal account had a 90% demand if I am using the terminology correctly, versus 100%. Is that how we should understand that, or do you have a perspective you can share?

Jennifer Montero: I would look at it two ways one, yes, I just went over the personal lines increase was, was closer to 30 and -- I am sorry. The PLA overall adjusted, risk adjusted increase was almost, almost 29%, where in the coastal it was 20.6%. So, there was more. So, the price did help fill that, but the other thing that we heard from reinsurers was they didn't look at it so much like the residual market as much, because it has grown so much, and it is not just everybody's old junkie policies that they're getting rid of. Companies are just starting to get rid of exposure in general so that they can afford their reinsurance. So, it is –

Governor Lydecker: So, they saw it as an attractive marketplace.

Jennifer Montero: It is more attractive.

Governor Lydecker: With pricing.

Jennifer Montero: The pricing in addition to it not being such a residual market, but the balance of the book is more like any other company's book in Florida.

Governor Lydecker: And then did we – there is the concept I keep hearing about not having direct relationships with on the reinsurance side of the world, that when Citizens is in the marketplace, we are in effect adversely impacting the placement of the voluntary marketplace. Did you sense that was the case this year, and do you have a perspective as to whether that notion is real or not real?

Jennifer Montero: Okay. That is the reason we don't buy, one of the reasons we do not buy typically below the cat fund. Typically, we use that as our retention. One, it is very expensive below the cat fund for the coverage, and two, is that is where we compete with the private market. So, we didn't buy any there. The higher levels, most of the higher levels that we have are not the levels that necessarily they're buying. And thirdly, reinsurers were very specific about their capacity. They had specific capacity that they were willing to share with specific companies. So just because one company got that coverage even if they didn't, that reinsurer might not have given it to somebody that they considered a credit risk or another –

Governor Lydecker: I am hearing you say though then, it is your perspective at least, and thank you for just educating us on that. It is your perspective this season that we were not in competition with the private sector.

Jennifer Montero: I do not believe we were, but I would like Kapil to give his viewpoint as well.

Kapil Bhatia: Thank you, Jennifer. Thank you, Governor Lydecker. I think that is what the markets want you to believe. That has become kind of the story line, because if you keep repeating it, eventually it looks like it is true. The strength of the management is one reason. The strength of us continuously in the market being an open book what we do everybody knows, whether it is good or bad. And the governance is really all useful. When we go to the market there is no credit risk. They know we are going to pay them. We are good for it. That is why our ratings are A+ and AA from a credit side. We can go to the market and borrow money. All of that reflects the strength of it. There are reinsurers who would not write some of the -- some of the insurers in Florida simply they just will not write because the risk doesn't pay for the cost. So that is why our pricing is better. That is why we get a better demand. It is not a competition. If State Farm comes in or Allstate comes in or some of those larger companies with the strength of the management, they will get the same kind of market reception what we get, but some of the smaller companies are never going to get because they are in the business for two years. Management comes and goes, credit is iffy. They carry all of those various risks. But you will never hear that.

Governor Lydecker: And thank you for sharing. Look, from our perspective, right, working in tandem with the reforms that were made during the last legislative session, you know, we -- our goal is to attract a marketplace and create a place of stability in the insurance marketplace for the state of Florida. So you know, we don't want to do anything to detract from the private sector being able to get their placements, and it sounds like that is, that is a non-issue, which is I just wanted to confirm from you all that that was in fact not the case. That we shouldn't be concerned about that. Can I ask, Madam Chair, may I ask another question?

Chair Knight: Yes, Governor Lydecker.

Governor Lydecker: And this is a question regarding how Citizens, not as an insurance company, but citizens of the state of Florida should view their -- the policies that they have at home for their homeowner's insurance, whether it is with Citizens Insurance Company or with the private market. So that is where I am heading with this question. So, I will ask my question. Taking now stepping back and taking into consideration this placement which I would say hats off to a job well done. Best I can tell, it feels to me like you all did a very good job and were really thoughtful about it. Taking into consideration the placement, taking into consideration some of the earlier comments regarding our surplus position, which is down as a result of the storms of last year. So, taking that into consideration, high level, a global view that you both may have regarding what taxpayers of Florida should be thinking about from regular assessments and emergency assessments. How should they, how should we be thinking about, it feels like, I am feeling like we are just a little less reinsurance, you know, a good chunk less surplus and, you know, the emergency assessments are sitting out there right now potentially, particularly if we have another set of weather events, notwithstanding the fact that the liability issues have been very aggressively addressed in the state of Florida. Do you have a perspective, maybe high-level macro view of how we should be thinking about that? At least as one Board member am I catching the gist of that correctly?

Jennifer Montero: I will say the regular assessment is only in the coastal account, and you can see it is at the very, very top of that tower. So, I would say I wouldn't be worried about that at all. The PLA account, the Citizens' policyholder surcharge and emergency assessment. If the wind does blow or if we have a bunch of small storms that chunks, eat away at it, there will be assessments early, early on.

Governor Lydecker: So that is for homeowners in the state of Florida who possess a Citizens Insurance Company. Citizens insurance, have the Citizens insurance?

Jennifer Montero: Up to the 1-in-nine year event, which is losses of $1.191 billion in the personal lines account. If we get to that. First, we have to go through the $420 million. Once that is on, then it hits the Citizens' policyholder surcharge. Then if we have anymore, anymore losses up to from $420 million up to $1.19 billion, the $770 million Citizens' policyholders surcharge kicks in. That is policyholders only that are with Citizens. In all three of our accounts, it doesn't matter what account they live in, they will get up to a maximum of 15% increase on their, with the premium, a surcharge.

Governor Lydecker: And it sounds to me that that likelihood has increased year over year. And my question then is, when else has it been like this in your tenure, which I know has been north of 20 years?

Jennifer Montero: You would have to go back to after the '04,'05 storms where we, and after '05, all three accounts were, were wiped out. So, we started with zeros.

Governor Lydecker: Okay.

Jennifer Montero: In all of them and had to build up. So, we had no money in 2006 for reinsurance at all, and we didn't get it in '07. We got a tiny bit in '08, like a tiny little sliver.

Governor Lydecker: Yes.

Jennifer Montero: And then we didn't get it again until 2011, because we couldn't afford it. And I think you have seen the red bar chart. We had assessments on the lays within the one in 100-year P&L, all the way until 2015. That was the first year that we actually had that chart with no red in it. So all the way up until then we still had a possibility of an assessment. It was on the chart, but down low that, that hasn't been since probably '06, '07, '08.

Kapil Bhatia: And exactly since '07 and '08, and one of the reasons was the financial crisis in '07 and '08 when the assessment base was going down, the economic conditions were different. And '04 and '05 events, like eight events. That is no different than really where we are today.

Governor Lydecker: Except we didn't have the financial crisis.

Kapil Bhatia: Yes, but we had COVID crisis with all the inflation and everything else, the cost of replacement, but we had something else. All the legal crisis kind of replaced the financial crisis. And our assessment ability has increased in PLA, it is 15 years later in the sense of our assessment base at that time was $9 billion. Ours was smaller, but the same assessment base. Now we are at 72 billion dollars with inclusion of all lines and the growth in the state, the probability of assessment has increased, the amount of assessment or expected value, which is what the probability of assessment times what amount we would need is significantly lower. So, yes, we would need hopefully one year with the legal reforms, hopefully litigation will go down and we will see the results soon, and if there are no event, we just need one year of risk free because of Irma, legal crises, Michael, and then Ian didn't really help. We just need one event free year and that is all the help as mark to market will evaporate or come down and we will be able to build up the surplus.

Governor Lydecker: Yes. I mean, it is potentially good news or, you know, this is – and my, I just was curious. I appreciate your thoughts on it, you know. This feels like an important year for us. This was an important placement for Citizens. And my final question is going to be this. Is what, what should, what are your expectations relative to next year's placement based on the intel that you are receiving, what you have just gone through and how you see it. Because I keep hearing now that the reforms were great and needed and appreciated, but there is also legal testing and there is, you know, there is a little bit of like a one-year skittishness in the reinsurance market is how I hear it. But I wonder if you have a perspective on that.

Jennifer Montero: Yes. So, they were very optimistic about the reforms. I think we got the capacity coming back. I think part of that has to do with the reforms. It is the pricing. They want to see the money. As soon as they see the savings, they think that is going to take before they start reducing. I think next year the pricing will come down. If the wind does not blow and if we get the results that we are expecting from the tort reform and specific to, you know, the one-way attorney fees, the savings there, I think you will start to see the reinsurance pricing to, to go down with everything else.

Kapil Bhatia: And I will say that is from the micro level. From a macro perspective, it is just not our end. If there is a wildfire in California, a flood somewhere or some winter storm in Europe, that will also reflect the pricing, assuming there are no large macro events, an on a global insured losses basis which is around $100 billion a year and we have been over that number for a number of years. If you are closer to $60 to $70 billion of global insured losses which is below average last year globally would help, and by that time interest rates will stabilize hopefully we are at the tail end now with 10 rate increases by fed and globally inflation is coming down s as I mentioned earlier, all of those macro things will be helpful. So, from my conceptual level, our legal reforms will suddenly help, but from a macro perspective we need help, too, because globally, also, there have been a large number of losses which we don't realize.

Governor Lydecker: I know you are intellectually right about that, but that is just asking too much of us here in the state of Florida. Let's just worry about, let's just worry about asking for the power above to help us with weather.

Kapil Bhatia: Those are the reasons. All of these things we have done is really going to help.

Governor Lydecker: Yes.

Kapil Bhatia: -- a game changer.

Governor Lydecker: You have hedged your bets sufficiently.

Kapil Bhatia: Macro factors.

Governor Lydecker: Thank you.

Kapil Bhatia: Other factors.

Governor Lydecker: Yes, thank you. Thank you.

Board Chair Beruff: Governor Lydecker, if we are going to pray, let's pray big.

Governor Lydecker: Yes.

Chair Knight: Yes, let’s ask for everything.

Tim Cerio: Madam Chair, really quickly, and I want to get, I don't want to get us too far behind, but just Governor Lydecker, your second question. It is definitely a critical year. I think that, you know, you have talked about assessments and surcharges in the sense of we don't want to surprise the public and we don't want to surprise our policymakers. There are really, really good reforms that were passed by the Legislature that our surplus took a hit. We couldn't get as much reinsurance as we wanted last year. Our surplus took a huge hit because of the Ian. And so that is why we are in the situation we are in with the potential for surcharges and assessments, and it has been the company's priority and it has been the legislators' priority. We do want to minimize the risk of assessments on the public, and just don't forget that if we can get through this year and we can combine accounts that will also help less, you know, lessen the chance of assessments. Again, you all have already said it. We need to pray for a great year, right, from the weather perspective, but there are things in place that some things are going to take a little time. Litigation reform and I will talk more about it tomorrow in my report. There is really, really good signs, but there are some mechanical things, like combining of accounts that will help. We are trying to be, that is a priority very, very sensitive to minimizing the risk of assessments on the people of Florida.

Governor Lydecker: But you all have, I think from my perspective, the amount of work that Citizens Insurance Company has handled over the last year and the job that has been done from my perspective at least has been masterful. And I do think that combining of accounts is going to be really, really important, but I know I speak for our Board members when I say, our goal is not to allow our citizens to be -- our taxpayers to be assessed. Whatever it takes to prevent assessment feels to me like that ought to be a priority, A, and B, that policyholders of Citizens need to make, we need to make sure they are aware what that assessment potential is to the extent we can. I know we have had the conversation before, but anyway, I think you all have done a remarkable job.

Chair Knight: Thank you, Governor Lydecker. Ms. Montero, would you like to give the portfolio update? You can do that as well in a summary format, and if there are areas that we want to drill down, we will.

b. Investment Portfolio Update

Jennifer Montero: Sounds good. That is behind your next tab. There are only four slides in this summary. So the total portfolio is $9.27 billion with approximately $8.34 billion or 90% externally managed by 10 money managers. The remaining $930 million or 10% is internally managed and consists primarily of liquidity for claims, operating funds, debt service funds and debt service reserve funds. The taxable portfolio is $9 billion dollars or approximately 97% of the portfolio. the tax-exempt portfolio makes the remaining three percent or $270 million dollars. The portfolio is very conservative and stable with sufficient liquidity to pay current claims or potential future claims. The total portfolio average duration is just over 3.36 years. The annualized net income return for the last five years from 2018 to 2022, has earned and reported was approximately 2.555% annually, and the 2022 net income return was 2.21%. Moving on to slide two. Treasury rates have exponentially increased over the last 18 months. The increase in the rates reflect the fed's 10 rate increases to the current fed fund rate of 5% to 5.25%, as well as anticipated rate increases over the next three months. They continue to try to manage the inflation with monetary policy. The yield curve is significantly inverted. The current two to 10-year spread is negative 90 basis points and the three-month to 10-year spread is negative 145 basis points. Both spreads are at historical negative levels as the financial markets are still expecting a significant slowdown or a recession. Likewise, tax exempt rates have also increased. On slide three, both the taxable and tax-exempt portfolios have very strong credit quality. Over 74% of the taxable portfolio is in money markets or rated A or higher. 100% of the tax-exempt portfolio is in money markets are rated A or higher, and approximately 33% of the total portfolio is in treasury and agency securities and or money market funds. Slide four, the portfolio income return is stable and is expected to be in the range of 2.75% to three percent in 2023, as the incremental interest income comes in from rising interest rates, and the portfolio total return in 2022 was negative due to significant increases in interest rates. However, as the portfolio matures over time, the negative mark to market values will decrease and the total return will increase. And that concludes my report.

Chair Knight: Thank you. Any questions? New business from the committee? No? Okay, there being none, we will adjourn. Thank you all.

Board Chair Beruff: Move to adjourn.

Chair Knight: Thank you.

(Whereupon, the meeting was concluded.)