

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Tuesday, December 3, 2024**

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at The Westin Lake Mary, Lake Mary Tuesday, December 3, 2024.

The following members of the FIC were present:

Chair Erin Knight (telephonically)
Carlos Beruff (Board Chair)
Charlie Lydecker
LeAnna Cumber

The following members of the Board were present:

Jamie Shelton

The following Citizens staff members were present:

Jennifer Montero
Barbara Walker
Tim Cerio
Michael Peltier
Jeremy Pope
Jay Adams
Joe Martins
Mark Kagy
Brian Newman
Andrew Woodward
Mike Sills
Aditya Gavvalla
Michael Wickersheim

The following people were present:

Kapil Bhatia	Raymond James
Adam Schwebach	Gallagher Re
Nathaniel Johnson	Bank of America
Dave Newell	FAIA

Call Meeting to Order

Barbara Walker: Good afternoon, and welcome to Citizens' December 3, 2024, 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. Chair Knight has encountered unusual traffic, so Board Chair Beruff has agreed to chair the FIC meeting today. Chair Knight is able to join us by Zoom. Chairman, we have no speaker requests. May I proceed with roll call?

Chair Beruff: Please.

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

Barbara Walker: Chairman, you have a quorum.

1. Approval of Prior Meeting's Minutes

Chair Beruff: Thank you. And it is Mr. Bhatia.

Kapil Bhatia: Good afternoon, Mr. Chairman, Madam Chair on the phone, and members of the board. I'll start with the market update, but please stop me at any point of time –

Chair Beruff: Do me a favor. Get that thing closer because I don't know if it's an echo in the room or the echo in the mic --

Kapil Bhatia: Is this any better?

Chair Beruff: Yes, it is better. Thank you.

Barbara Walker: Chairman, would you like to –

Chair Beruff: Go ahead, I'm sorry.

Barbara Walker: Chair Beruff, would you like to approve the minutes of the meeting?

Chair Beruff: Sure. **Motion to adopt the meeting minutes (September 24, 2025).**

Governor Cumber: **Second.**

Chair Beruff: **Approved. Adopted.** Which one would you like?

Barbara Walker: Thank you.

Chair Beruff: I'm playing two roles today. I make the motion and I'm the chair, so -- I'm a lousy chair. Go ahead.

2. Raymond James – Financial Adviser

a. Market Update

Kapil Bhatia: Thank you, Mr. Chairman. I'll start with the market update. For the record, Kapil Bhatia from Raymond James and Associates. We are your financial adviser and investment consultant. CPI rose by .2% in October on a seasonally adjusted basis, the same increase for the past three months. Over the last 12 months, the CPI has increased by 2.6%. CPI less food and energy, which is also called the core CPI, has increased by 3.3% over the last 12 months. So, inflation is slowing down, but not at a pace Fed is expecting or what the market is expecting. At the same time, total non-farm payroll employment was essentially unchanged in October with an increase of only 12,000, and the unemployment rate was unchanged at 4.1% with 7 million unemployed persons. These numbers are marginally higher than a year ago when the unemployment rate was 3.8% and the number of unemployed persons was 6.4 million. However, the labor force participation rates remain unchanged at 62.6% and has been fairly constant over the last 12 months. So, there is a significant slack in the labor force, which should help to keep the inflation in check at the current level, if not reducing it from the current 2.6%. At the onset of COVID-19 in March of 2020, the Fed undertook two historic rate cuts at unscheduled emergency meetings, 50 basis point cut on March 3rd of 2020, and 13 days later, 100 basis point cut to a target range of zero. Unemployment skyrocketed to 14.7% as 20.5 million jobs were lost in April of 2020. We have come a long way from that point of time four years later. The economy began to expand in May of 2020 to end the shortest recession in the history, primarily due to unprecedented federal stimulus measures, which also had an effect on inflation, and that led to Fed increasing the rates to 5.25% from March of 2022 to July of 2023 before taking a long pause for 14 months until very recently at a September 18th Fed meeting where they finally cut the interest rate by 50 basis point. And then, they again cut the interest rate in November by 25 basis points to the current range of 4.5% to 4.75%.

Recent Fed commentary has reinforced a more cautious but flexible approach to policy recalibration as the Fed aims to return interest rates to the normal level. While the Fed has not conveyed what the normal level is or where the interest rates changes will stop, we expect the rates to be somewhere in the range of 3.75% to 4% as a neutral rate, and that's kind of consistent with the market. We expect another Fed funds rate cut in December and then three rate cuts in 2025, and that will bring down the Fed funds rate to 3.5% to 4%, depending on how quickly they cut the rates. And that should be the neutral rate at this point of time, and we expect a two-year treasury to start trading at similar to the expected Fed funds rate by middle of 2025, compared to where it is today. A combination of well-anchored inflation expectations, moderating wage pressure, lower commodity prices, retailers and restaurants increasing promotional activity, and waning corporate pricing are all contributing to stable but lower inflation rate. We expect GDP to increase by 2.7% this year, but slowdown in 2025 even with further deregulation expectations to 2.1% as interest rates start to come down and markets start to behave normally. The yield curve

is also changing as the interest rates are becoming normal. It was inverted, if you remember, I've been saying it for the last two years, but now it is turning to a -- more like a flat yield curve, with the spread between two and ten-year treasury to be approximately 5 basis points as compared to negative 38 basis point at the beginning of 2024. And the typical two to ten-year spread for the last ten years, or from January 2010 to 2020, pre-COVID, averaged 144 basis points. We don't expect the spread to widen to historical average but we do expect spread to return to more of a lower, narrow range of around 50 to 75 basis point over the next 12 months, and we expect 10-year treasury to remain range bound somewhere between 4.25 +/- 25 basis point, or the range of 4% to 4.50%, due to the large fiscal spending, while 2-year treasury rates to come down to 3.50% to 3.75% and as I said earlier, because Fed is going to cut the interest rate and that will lead to the steepening of the yield curve to around 50 to 75 basis point.

This impacts our investment portfolio; however, our portfolio is very stable, and interest income is increasing as we have shortened the duration to pay for any claims for Helene and Milton as the Chairman asked during the Audit committee. We have around \$4 billion maturing over the next 12 months, and that should be sufficient to pay any associated claims with Helene, Milton, or any 2025 claims. And by shortening our portfolio, we get to take advantage of the higher interest rates; and allows us to make sure we have enough liquidity available to pay any potential claims. And, lastly, the reinsurance markets are stable but are capacity constrained. Even after the losses from Hurricane Helene and Milton, which are expected to be more of an earnings event and not a capital event, so we expect capital to be available in the reinsurance industry to be similar level in 2025, and, therefore, we do not expect rate increases in 2025 for reinsurance, and if there are any rate increases, that will be below the CAT fund layer in the range of 5% to 10%, but more specific. In general, we should expect reinsurance rates to be in the range of zero to 5% higher next year than this year, even after two or three events. With that, I'll stop and happy to answer any questions.

Chair Beruff: What's our current market losses if we had to liquidate the portfolio?

Kapil Bhatia: If we have to liquidate everything as of November 30th, as Jennifer mentioned earlier, it's \$510 million. But our duration is much shorter. So, each month, it declines by around \$25 to \$35 million. Our duration right now is two and a half years. So, over the next two and a half years on average, it will evaporate completely with no change in interest rates.

Chair Beruff: Got it. So, if the markets -- if the interest rates continue to go down, should we be able to get back to zero faster than that?

Kapil Bhatia: Yes. On an average basis, yes, because we'll have some positive returns where we have invested at a higher yield and some negative. So, on a net basis, it should be zero over the next 12 to 18 months.

Chair Beruff: What reason is the issue with the interest rates going up on the long-term bonds as opposed to down?

Kapil Bhatia: Because our portfolio is shorter duration, and we have to pay claims --

Chair Beruff: No, I'm talking about in the general economy.

Kapil Bhatia: General economy, considering the rates are lower than where they were, I'm going to say at one point of time, 10-year treasury was closer to 5% and now we expect to stabilize 4.25% +/- 25 basis point or in the range of 4% to 4.5%. So there shouldn't be anything, but we have locked in some of the higher rates, so it should be good for us, but I don't think it should have a bigger impact -- in general from a macro perspective because we eventually have to get to the neutral rate or the normal rate instead of artificially low rates, which we have been struggling with the last couple of years. So that should be good for the economy from an overall perspective, as long as we have a normal upward sloping curve so banks can actually make money and lend money at the long end, which will be helpful.

Chair Beruff: Thank you.

Kapil Bhatia: Thank you.

Chair Beruff: Questions? No?

Kapil Bhatia: Thank you.

3. Chief Financial Officer Report

a. 2024 and 2025 Layer Chart Update

Jennifer Montero: Hello. The next tab should be the layer charts, projected 2025. So, we started with the PML at 9/30/2024, and it has a growth adjustment of negative 29.5% for both the personal residential and the commercial residential, and there's a 14% negative growth adjustment for the commercial nonresidential. This brings us to a PML of 12.4%, which is about \$5 billion less than the 2023 layer charts -- or, sorry, the 2024-layer charts. The CAT fund coverage is also reduced by about \$1.14 billion to \$3.684 billion. And CAT fund -- I'm sorry. The private reinsurance has increased almost \$900 million compared to the \$3.56 billion that we purchased last year. The Citizens policyholder surcharge of \$560 million attaches at the 1-in-93-year event. As a reminder, last year it was 1-in-73. And the emergency assessment does not exist on this 1-in-100-year layer chart, where last year it was attaching around the 1-in-83. Any questions on this chart? Because we actually have a second one as well that we wanted to share, and that is on the screen right now, but this one -- the only difference here is that this one shows about a \$200 million sliver underneath the CAT fund. We'd like to explore that this year using the same budget, same dollars, as the first layer chart. This would just come down a little bit further and cover about half the bottom of the layer -- of the CAT fund layer. We will definitely come back to the board --

Governor Shelton: Help me out.

Jennifer Montero: Sure.

Governor Shelton: The sliver there, it goes like halfway across?

Jennifer Montero: Yes.

Governor Shelton: Help me understand what that is.

Jennifer Montero: That's \$200 million of coverage. The reason it's halfway versus the other halfway is it's only \$200, so we get a thicker layer there, and so it'd be a 50/50 on the loss going up. It's because our retention was so high last year. If you remember, it was almost \$3 billion. So, for each of those storms, Debbie, Helene, Milton, they each had to get through that \$2.9 billion retention before any reinsurance recoveries came in. We are shrinking. So that retention is smaller. You can see it's \$2.445 billion in this example, and on the last chart, it was -- yeah, it was \$2.645 billion. It was 200 more. It's still large in comparison. So, we wanted to look at whether there was the right pricing, the right capacity, if there was a market for us to purchase a small layer under the CAT fund so that we would get reinsurance recoveries before having to get all the way to the CAT fund.

Governor Shelton: Okay. I get it. I still don't get why it doesn't go all the way across that. I guess I'm not following that, but –

Jennifer Montero: Go ahead.

Chair Beruff: I don't understand it. So, I'd like to take another stab at working that out for me.

Kapil Bhatia: I'll try, Governor Shelton and Mr. Chair. The layer is \$400 million if we just do it all the way because the market is there -- usually that layer is very expensive, and we have never bought it in the past. So, it allows us to explore the market, but not to go into the market for a \$400 million layer. So, if there is an event, we will get 50 cents for every dollar if the attachment point is there. It's one way to explore the market, what it is, step into the market just to see where the markets is, and if we buy much more there, then we'll have to change the budget. So, because all of these scenarios are based on the same placeholder, just to explore the market if we can optimize it for the first time.

Governor Shelton: So, at the end -- so at the end of the day, if you are successful in buying whatever new layer between that and the CAT fund, it will go across whatever you secure?

Kapil Bhatia: It will go across, but not all the way. So, if there is a loss for a dollar, we are basically reinsuring 50 cents for a dollar. So, we –

Chair Beruff: You're like matching -- you're buying insurance matching funds?

Jennifer Montero: Yes.

Kapil Bhatia: Correct. So, it's basically –

Chair Beruff: So, you put 50 cents out, they put 50 cents out –

Jennifer Montero: Correct.

Chair Beruff: -- for that \$200 million layer –

Jennifer Montero: Correct.

Chair Beruff: -- that you bought?

Kapil Bhatia: The total layer is 400 –

Chair Beruff: Now I get it. Sorry.

Kapil Bhatia: The total layer is \$400 million, so it will attach lower. If we buy \$200 million, it will attach higher. So, it gives us more risk management and cheaper pricing.

Chair Beruff: Thank you.

Kapil Bhatia: And if I may just add one more point, I know Jennifer went through it, and all of these layer charts after paying for the 2024 hurricanes. So even though there is no emergency assessment, they're much better looking, and that's why the reinsurance is marginally higher than what was –

Chair Beruff: I think these charts are good anytime you don't see red in them.

Kapil Bhatia: Sorry. Thank you.

Jennifer Montero: That's okay. Any questions on the layer charts?

Chair Beruff: Nope.

Jennifer Montero: Great.

Chair Beruff: Done. Thank you.

b. FIC Chater 2025 – Annual Review

Jennifer Montero: The next item is the charter. We bring this -- Joe just brought the one for Audit. We bring this to the committee once a year. Staff has no recommendations for changes.

Chair Beruff: Move to approve no changes.

Governor Cumber: Second.

Chair Beruff: Okay. That's it?

Jennifer Montero: That's it.

Chair Beruff: All right.

Jennifer Montero: Thank you.

Chair Beruff: So, this meeting's adjourned. On to the next one. No?

Jennifer Montero: We do have the investment report.

Chair Beruff: Oh, the investment report. I don't see that on this thing. Go ahead, give it to us.

c. Investment Portfolio Update

Jennifer Montero: Okay. On Slide 1, the total portfolio is \$10.85 billion with approximately \$8.72 billion externally managed by nine investment managers. The remaining \$2.13 billion is internally managed and primarily consists of liquidity for claims and operating funds. The internally managed funds are invested in short-term U.S. Treasury securities or money market funds. The portfolio is very conservative and stable with sufficient liquidity to pay operating expenses, as well as current or any potential future claims. The total portfolio average duration is stable and currently just over 2.41 years. As of October 2024, the one-year net income and total income return is 3.47% and 8.39%, respectively. And as of October 2024, the year-to-date net income and total income return is 2.89% and 3.74%, respectively. Slide 2. The Fed fund rates increased from 5.25% to 5.5% from March 2022 to July 2023 and then remained unchanged until September 18th, 2024, at the Federal Reserve Board meeting where it reduced the rates by 50 basis points, and then they further reduced the rates by 25 basis points during its November 7th meeting to the current Fed funds rate of 4.5% to 4.75%. The Fed is expected to further decrease rates by 25 basis points during the December 2024 meeting and an additional 75 to 100 basis points in 2025 before reaching its terminal rate of approximately 3.5% in early 2026. The yield curve is flat and is expected to become normal with an upward sloping curve with two to ten-year spread of approximately 75 basis points by the end of 2025 as the short-term rates come down and the long-term rates remain unchanged primarily due to the large fiscal deficit. Slide 3. The portfolio has very strong credit quality. Over 80% of the taxable portfolio is in money market funds are rated A or higher. Approximately 50% of the total portfolio is in Treasury and agency securities or in the money market funds. And Slide 4. The portfolio income return is stable, and the 2024 net income and total income return are expected to be approximately 3.7% and 4.5%, respectively. We continue to get the incremental interest income from higher interest rates with increased investment in shorter duration securities. And, lastly, the portfolio still has negative mark-to-market values but has decreased significantly over the last three months and is declining at a faster pace as interest rates are coming down and the portfolio is maturing. And that concludes my report.

Chair Beruff: Perfect. Thank you.

Jennifer Montero: Thank you.

Chair Beruff: New business? Chairman Knight, I'm a terrible stand-in, but we're done, I think.

Chair Knight: Appreciate it very much.

Chair Beruff: All right.

Chair Knight: I'm almost there.

Chair Beruff: Entertain no new business. This meeting is adjourned, right?

(Whereupon, the proceedings were concluded.)

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