CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Wednesday, March 12, 2025

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at The Westin Lake Mary, Lake Mary Wednesday, March 12, 2025.

The following members of the FIC were present:

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

The following members of the Borad were present:

Jamie Shelton
Robert Sporttswood

The following Citizens staff members were present:

Jennifer Montero
Tim Cerio
Joe Marins
Mark Kagy
Jay Adams
Jeremy Pope
Aditya Gavvala
Brian Newman
Micheal Peltier
Michael Wickersheim
Andrew Woodward
Barabar Walker

The following people were present:

Kapil Bhatia	Raymond James
Doug Draper	Bank of America Securities
Duane Draper	Bryant Miller
Dave Newell	FAIA
Mark Weinberg	JP Morgan

Call Meeting to Order

Barbara Walker: Good afternoon, and welcome to Citizens' March 12, 2025, 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, we have no speaker requests. May I proceed with roll call?

Chair Knight: Please.

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

Barbara Walker: Chair Knight, you have a quorum.

1. Approval of Prior Meeting's Minutes

Chair Knight: Thank you. Welcome to the March 12 FIC meeting. We'll open up with approval of December 3rd, 2024, meeting minutes.

Governor Cumber: Move to approve the minutes.

Chair Knight: Okay. Thank you. Any opposed?

Okay. Meeting minutes are adopted. Thank you. I'd like to welcome Kapil Bhatia from Raymond James to provide our market update.

2. Raymond James Financial Adviser

Market Update:

Kapil Bhatia: Good morning, Madam Chair, Mr. Chairman, and board members. For the record, Kapil Bhatia from Raymond James and Associates. We are your financial adviser and investment consultant. I'll briefly go through the market update, but please stop me at any point of time and I'll be happy to answer any questions. The job market remains strong. The current unemployment rate is 4.1% with 7.1 million people unemployed. And we expect the unemployment rate to slightly increase to 4.4 percent by the end of 2025. The labor force participation rate marginally decreased to 62.4% from 62.6%. That means more people are looking for jobs. And that also reflects in the U-6 unemployment report, which includes marginally employed or part-time workers who are looking for full-time jobs. That rate increased from 7.5% to 8%, reflecting a slowdown in the labor market. Prices remain above the Fed target PCE inflation rate, or Price Consumer Index, which is at 2.5%, the core PCE is at 2.6%. This morning's inflation numbers show that inflation has also softened the CPIis at 2.8%. So, inflation is coming down, but very slowly. However, there is a concern that the recent tariff conversations could increase prices, leading to slower economic growth. However, tariffs are usually a one-time shift in the price function, not a permanent increase in prices. So that reflects in the shift in the slope of the curve. So, inflation may go up for a year and then it may stabilize. Consumer spending has slowed. Consumer confidence has slowed among recent economic uncertainty. However, the economy has been resilient, but growth is slowing and inflation remains sticky, which could lead to stagflation. However, we believe the U.S. economy will slow down this year, but not to the stagflation level, while the GDP growth expected this year to be 1.8% after growing 2.8% in 2024. We do not believe that the slowdown is going to be enough to bring economic growth to a negative territory or, technically, for two consecutive quarters or the recession, even though there has been a lot of discussions about recession, looking at the recent equity market moves. However, that may change starting now based on the recent CPI numbers and once the clarity on the tariffs comes along. The current Fed funds rate is 4.25% to 4.50%. We expect Fed to further decrease rates by 75 to 100 basis points in 2025 as economic conditions are slowing before reaching to its terminal rate of approximately 3.5% in early 2026.

Recent Fed commentary has reinforced a more cautious, flexible approach to the policy recalibration as the Fed aims to return its policy rate to more normal levels after five years, or since COVID start in 2020, and we are five years beyond that. While the Fed has not conveyed what normal is, the market is assigning a Fed funds regarding the economic impacts of already enacted rates of 3.5% to 4%. There is uncertainty, as I mentioned earlier, and potential future policy changes of the new presidential administration; however, that is going to be slow. We don't believe it's going to be methodical, and there may be some volatility in the market, which we may continue to see over the next three months to a six-month period. We believe in a soft landing still due to resiliency in the housing market and continued non-residential investments. The increase in the supply of existing homes have been out there as the interest rates have come down, and the mortgage applications over the last month increased by 11 %. So, we expect more inventory of existing homes to be in the market as people start to move, and that will lead to further new constructions in the residential homes and that should stabilize the market. The yield curve is changing from inverted to flat as a result of the change in Fed policy with the spread between two-year and ten-year treasury at approximately 35 basis points as compared to a negative 40 basis point a year ago. That's a shift of 75 basis points between two and ten years. We expect the ten-year treasury to remain relatively range bound in the range of 4.0% to 4.5% compared to where we are today at 4.26%, and that is primarily due to large fiscal spending, while the two-year rates will come down to approximately 3.5% due to the Fed rate decreases, but we don't expect 10 years to come down significantly from where it is because we're going to continue to issue treasury debt at a higher pace to pay for the fiscal spending and the deficit. What we expect this year is to be approximately 1 and a half to $2 trillion this year also as compared to last year of $2 trillion.

Moving on to the reinsurance market, global economic losses from natural disasters were $368 billion in 2024. That is one of the very high numbers compared to the ten-year average. The insured losses were

$145 billion. The ten-year average has been closer to $100 billion. The five-year average has been closer to $110 billion. So that is an increase of 30% from where the five-year average has been, and almost 35% above where we were in 2023 because of Helene, Milton, and a number of other global events. Helene and Milton were the two largest insured losses events this year, Helene at $18 billion and Milton at approximately $15 billion. And we saw the impact all across the southeast, North Carolina, Georgia, Florida while Milton was predominantly in Florida, Helene was more in North Carolina and Georgia, and most of those losses are covered by FEMA, not by primary insurers -- because it was mostly flood losses -- not by the primary insurers.

Chair Beruff: Madam Chair, can I ask a question?

Chair Knight: Please do.

Chair Beruff: The losses that you estimated, how much are uninsured?

Kapil Bhatia: The uninsured losses are – when it comes to flood, they were approximately $15 billion, and those were –

Chair Beruff: Out of the total claim number of?

Kapil Bhatia: The total Helene losses at approximately $18 billion insured.

Chair Beruff: I just want to make sure that -- I want to get to the number of the claims are X and the insurance is Y, and the uninsured number is Z.

Kapil Bhatia: Okay. So, approximately, and these are not exact numbers –

Chair Beruff: I understand they're approximate.

Kapil Bhatia: -- insured losses are $18 to $20 billion. Most of those are covered by FEMA.

Chair Beruff: FEMA has a cap of $250,000 or some ridiculously low number, but the damage could well exceed six or seven hundred thousand in a home.

Kapil Bhatia: Correct.

Chair Beruff: So, the uninsured amount.

Kapil Bhatia: The uninsured losses are estimated to be at this time around $7 to $10 billion, for the total losses to be somewhere between $25 to $30 billion from Helene, and 30% of those were uninsured at this point of time. That's the estimate. However, if FEMA provides $250,000 of cover, as we all know, but some people do have those losses above the $250,000 covered as they can buy the excess layers. Not very large population buys the excess layer, that's one. But in Florida, there are people who do. However, in Georgia and North Carolina, there were many people who did not even have the FEMA cover, and those were uninsured losses too. So those numbers are very hard to calculate, and they are still projections and estimates.

Chair Beruff: Thank you. Thank you, Madam Chair.

Governor Spottswood: Chair, can I follow up on that question?

Chair Knight: Sure. Governor Spottswood.

Governor Spottswood: So, what actually happens with the uninsured portion of those losses? Are they covered at all, or they'll just evaporate?

Chair Beruff: You gotta go find the money.

Governor Spottswood: Does the federal government step in and cover those losses?

Kapil Bhatia: FEMA provides coverage or some kind of one-time assistance of $25,000. It's very minimal. There are some loan programs, but it's really not covered at all.

Governor Spottswood: So, the majority of the loss from that storm is not going to be covered?

Kapil Bhatia: I will not say "majority", because as I mentioned earlier, there are $25 to $30 billion of total losses. Of those, around $18 to $20 billion were insured. So around $7 to $10 billion were uninsured. And if you use some factor of FEMA grants of thirty-five -- twenty-five to thirty-five thousand, there is the possibility of around $7 to $8 billion losses not insured at all. That's not the majority, but that is a large number.

Governor Spottswood: Thank you.

Chair Knight: Governor Cumber, did you have your hand up on the Zoom? Do you have a question?

Governor Cumber: No, I apologize. That was a mistake.

Chair Knight: Okay.

Governor Cumber: Thank you.

Kapil Bhatia: Going back to Milton losses, Milton losses are estimated to be in Florida with the larger losses, but around $15 billion, and most of those were insured. But the economic losses were significantly larger; however, economic losses is a number -- as you rebuild, the economic growth compensates for the economic losses. So, in the long term, it's a zero-sum game; however, in the short term, we do take a look at the economic losses. But all of this is not such bad news when it comes to the reinsurance market. Losses from 2024 events, especially from Hurricane Milton and Helene, were not a capital event, but mostly an earning event. So that should not have any significant impact on reinsurance rates. January 2025 wildfires, the expected losses from Southern California wildfires are estimated to be approximately $30 to $35 billion dollars of insured losses and over $100 billion of economic losses. The impact of 2025, the rest of the hurricane season will determine how the reinsurance market behaves in 2026; however, we should not see any impact on the 2025 reinsurance pricing, especially as it comes to our peril or wind event peril. The reinsurance industry continues to benefit from increased investment income from continued above-average interest rates and a reduction in unrealized losses as they evaporated over the last few years and continue to evaporate as a function of time. At this point of time, rating agencies also have a very positive view of the reinsurance market because of the capital levels, operating profits, underwriting discipline and increasing reinsurance demand. 2024 was also a record year for issuance in the capital markets for reinsurance, or the CAT Bond market, with approximately $18 billion of issuance and almost $50 billion of outstanding amount at the end of 2024. Record issuance was driven by high investor demand due to record returns driven by high, risk-free rates in the treasury market. All of this is a reflection of legislative reforms, what we have seen. Legislative reforms in Florida have led to significantly improved financial conditions for the Florida insurers, increased capital investment in the state with new entrants, a healthy private marketplace that has helped to depopulate Citizens, which we all know, to the lowest policy count since 2021, and moderating rate increases for policyholders. Pricing is expected to soften by approximately 10% in the traditional reinsurance market and 15% in the capital market, and that is primarily because of the legislative reforms, and increased capital in the market, as well as some of the capital moving from wildfire to the hurricane peril because reinsurers are looking for a better return, and continued competitive return for investors as compared to some of the other asset classes as people are moving away from equity market and other asset classes into the reinsurance market, as there is better understanding of how reinsurance markets behave. And that is reflected in the capital markets more than in the traditional reinsurance market. I'll stop here and happy to answer any questions, if there are any.

Chair Knight: Mr. Bhatia, question regarding the yield curve and tariffs, items that you covered earlier in your report. Has anything that's happened recently changed the way that you are looking at managing the portfolio, our investment portfolio?

Kapil Bhatia: Our investment portfolio is very stable. Certainly, it has a much lower duration, and that is -- one of the reasons for that is we need to pay claims for Helene and Milton, even though Helene is a very small number, and Jennifer will talk about the Milton claims, so -- and we are still paying claims for Ian. So, all of that is basically is already reflected in our portfolio, our portfolio is very short to build that liquidity. And I'll just go through some of the data points, which may be helpful, and that also allows us to basically manage our reinvestment risk. So right now, we have approximately $2.8 billion maturing in the next 90 days because the yield curve is inverted and in the short term, still rates are higher, and that allows us to have the higher investment income. And you can see it in the 2024 financial statement where our investment income was $365 million. So, we have $2.77 billion. It gives us the liquidity to pay claims, as well as continue to yield higher income returns. We have around $4.5 billion maturing over the next 12 months, which will allow us to look at where the yield curve is, how the claims are coming to take advantage of the yield curve as it normalizes. Our current portfolio is approximately $9.6 billion. So, we have sufficient liquidity to pay any claims coming through or any potential events this year, considering the reinsurance market and our retention level. So, we feel very comfortable, and we expect our income returns to be closer to 3% and a half to 4% this year, which is higher than or closer to a five-year treasury rate, and we have some spreads. So, we are managing liquidity, as well as making sure we have no reinvestment risk and making sure our portfolio is stable, and our unrealized losses continues to evaporate.

Chair Beruff: Madam Chair? Kapil -- so I always ask the same question every time we meet. How is our portfolio? If we had to sell it all today, what would our losses be?

Kapil Bhatia: Right now, if I remember last -- at the end of December when we had the board meeting, we were closer to $700 million. A –

Chair Beruff: What?

Kapil Bhatia: It was $700 million in December. It has evaporated by a third. As of yesterday, it is closer to $450 million, and that is because we still have securities in four to seven-year space, which is amortizing each year, but we don't have to liquidate it today. That's the positive side. We expect that to evaporate completely over the next 18 months, even if the yield curve does not move and the interest rate remains the way it is.

Chair Beruff: Thank you.

Kapil Bhatia: Thank you.

Governor Shelton: Madam Chair a couple questions. Did I hear you say that you're expecting reinsurance, obviously, decreases coming in the double digit, somewhere thereabouts? Is that kind of what I picked up on in some way, shape, or form?

Kapil Bhatia: Yes.

Governor Shelton: Okay. And I'm not holding you to it. I just -- prediction, crystal ball, as it sits today.

Kapil Bhatia: Can I add a clarifying comment? So, when I say 10% is basically what we expect our reinsurance rates to be; however, if some of the layers which have been triggered below the CAT fund or where there's more risk, I don't believe we will have a significant rate reduction at those levels, especially if those layers have been triggered. So, I would see closer to 5%. So, it depends on risk layer. But when I talk about the rates, it's more specifically how we see our program to be placed. But the market is softer, you should see a rate reduction, there is enough capacity available. Capital markets are more efficient because there is more capital coming from pension funds. That's where I see -- we said 15%.

Governor Shelton: So as a follow-up to that, then, I would assume with the capacity that's out there with capital markets and other ideas, that we're going to be looking at the structure of how we traditionally have placed it and what level we're buying at as we go into this market. Is that a fair statement?

Kapil Bhatia: That is true, and Jennifer will talk more about it. We always look at the capital market because it gives us a multi-year aggregate capacity compared to the traditional, which is single year. So, it has been always our hedging strategy to use both markets to optimize our program, considering the amount of capacity we need, and we want to leave that capacity also for rest of the insurance market who don't use capital markets as often because it is a little bit more brain damaging than traditional market.

Governor Shelton: So now my next question on this, and I want to be careful on how I say this so as to not sound critical, but there's some bills that are in the legislature right now in Florida that could have some potential impact on some of the reform that was passed a couple of years ago. I know that you are plugged in with the reinsurance market and you're plugged in London and Bermuda and such, has there been any reaction to these potential bills from the market at this point, good, bad, indifferent?

Kapil Bhatia: There is a reaction. Everybody says if those legislative reforms are stepped back, basically we have lost all of the work we have done. So, they were -- first they were saying that we need to see the output or the results, and now they have seen the results. However, that is what's helping to stabilize the market, that is what's helping our depopulation and Florida's market. So, if we go back, basically we are going backwards on all of the good work the state has done and the results we are seeing. So, yes, they are very concerned about it, but I know. It's a hope, not a strategy, at least on the reinsurance, that people will realize what's good for the market and what it's taken to stabilize. So any backward step will be in the completely wrong direction. And they're concerned, but at this point of time, they're discounting it.

Governor Shelton: Okay. Good. Thank you.

Governor Lydecker: Madam Chair? Madam Chair, can I follow up on that?

Chair Knight: Yes.

Governor Lydecker: Yes, thank you. Can I just ask a clarifying point of capital for just a moment is -- did you say -- I understood the point you were making on the reinsurance with the layering. Some layers are going to be impacted more than other layers as respects to rates. But are you saying that the net-net is that reinsurance, when you add it all up, is going to be a plus 10? Is that what I heard?

Kapil Bhatia: I said minus 10, Governor Lydecker.

Governor Lydecker: Oh, good. All right. Yeah. I wanted to clarify that. So, I mean, the last meeting -- the last meeting we had -- you know, everybody -- I think people were hedging and was putting us in the plus 5, you know, the plus 10 category, and I think this board has expressed itself pretty strongly that that was just, you know, la-la land relative to what's happening in the marketplace right now. So plus -- minus 10% is what I'm seeing in the marketplace, and I just want to make sure that our reinsurance brokers are hard at work making sure the State of Florida gets rewarded for these tort reforms and that that eventually sees itself in a slowing of rate increases on Citizens. And I just want to amplify that. Minus 10% I think is very good, but I also think it's a -- you know, it's a bar. It's minus 10% or more, not less.

Kapil Bhatia: Governor Lydecker, if I may add something. What we said in December was really based on -- because the results of Helene and Milton were still unknown, there was still data being calculated, and those were estimated or expected because of where the market was. It was too early to really think about the June placement. So that was the data point on -- based on what reinsurance expectations were, considering we have not gone out and none of the Florida insurers have gone out to procure that. And as you see, the market expectations change based on how much capital comes in and better results.

Governor Lydecker: I appreciate the point you're making, and I get it and, you know -- but there's also a controlling of expectations because at the same time those comments are being made, I was seeing other reports in the marketplace that was at that time minus five. So now it's already – now we're already at minus 10. My point is, I am -- I am very, very concerned that we're not being presented in the marketplace in an aggressive enough fashion, and I hold the reinsurance brokers responsible for that. And so, all I'm simply -- my only point is -- and I don't mind catching the grief that I catch behind the scenes for this because so much has gone into tort reform, and it's -- and it's the most significant set of reforms that has occurred in Florida. And one only has to look at California to see what could go wrong if you -- if you don't rein in the craziness associated with the plaintiff bar. So, these reforms are important, and we are going to be subject to silly, nonsensical changes to the reforms that occurred last year in the legislature if there aren't significant reforms. So, I will be leading the charge to make a motion for new reinsurance brokers to represent Citizens so that we have the absolute most proactive and aggressive brokers in the marketplace because I think it should be at least minus 10 percent. So, I just want to go on record as, you know, laying that marker down.

Kapil Bhatia: Governor Lydecker- -- we are on top of it. We -- our brokers are basically doing a job. Obviously, what you heard from us in December was completely different. So, I have no doubt we are seeing the markets, the legislative reforms are working, and we are on top of it. When we give you our estimated based on what it is, it's not kind of trying to predict the future. I think we have a decent representation. The market knows us well, and basically, we are on top of it. We can certainly -- whatever the board's decision is. However, I don't think there is any doubt in terms of where the market is and how our brokers are placing us and what our rates are compared to the rest of the market. So, with that, I'll...

Governor Lydecker: Thank you.

Kapil Bhatia: Thank you.

Chair Knight: Thank you.

Chair Beruff: To Mr. Lydecker's comments, I've been a proponent of making sure also that the reinsurance -- the reinsurers are aware of, you know, our political heft in Florida. I, unfortunately, have some conflicts, but I'd like to invite the governor, if he'd like to travel around with our team to the reinsurance meetings, he can certainly make that happen. I was trying to get that. Unfortunately, by the time I got into the program, the dates didn't match up with dates that I needed to be in town, but I certainly hope to be at those meetings next year. But, Mr. Lydecker, I'd love to have you in my place.

Governor Lydecker: No, and thank you very much, Mr. Chairman, for the offer. I think that we are very, very well represented by the Citizens staff –

Chair Beruff: No, no, I'm not talking about the Citizens staff. I'm talking about the reinsurers is what I want you to be in the room with.

Governor Lydecker: No, and I -- honestly, I'm not sure that I can add credible value. And my point was simply to say I don't think I can add credible value in addition to the CEO and the CFO being there. So -- because I do think we're well-represented. I just -- but I will make all the time in the world to make sure we have a change in our broker relationship if this is not successful, because there's a lot -- from the governor to a bunch of senators to a bunch of house members who've made this world happen, and that Floridians ought to see the net effect of that.

Chair Beruff: Agreed.

Chair Knight: Thank you, Governor Lydecker, noted.

Kapil Bhatia: Madam Chair, can I just add one thing?

Chair Knight: Yes.

Kapil Bhatia: Mr. Chairman and Governor Lydecker, we are your fiduciary. We are in the meetings. We want to make sure that Citizens have the best execution and rates. So we can give you where the market is, what everybody else is doing. Our responsibility as your adviser is to get the best pricing, and certainly we'll walk you through where the markets -- and if we have any doubts about, we are not getting the best execution. The data points we give you where we see the market, it's not really until we are done. I think when we are done, you'll be able to see it, certainly with Tim and Jennifer and everybody else. I think we're in a position to get to the best execution. We are transparent.

Governor Lydecker: I get what you're saying, and I know that you're trying to lead and be thoughtful and be smart about it and we have a great team for that. But you have no clout in the marketplace. And our reinsurance broker places reinsurance on a worldwide basis, and they could literally pick and choose where they want to have their biggest effect. And oftentimes -- and this is my own personal experience. So, I -- you know, I'm not -- I don't even know who our broker is. I'm just telling you that they -- that more often than not, they can -- they cut deals with carriers and secure rates. And I'm saying that we have to be the -- that they need to be the most aggressive. They need to look at us like they do new business, because, otherwise, my vote's going to be to make a change. But I'm not impugning at all your analysis or your capabilities. This has nothing to do with you. But you don't have power in the marketplace. You're our adviser, but you don't have power in the marketplace. The reinsurance broker has real power, but they're not the only reinsurance broker. There are other reinsurance brokers who would kill to have Citizens as a client. And so that's all I'm saying.

Chair Knight: Thank you. And when was the last time that we evaluated and –

Jennifer Montero: We do it every five years.

Chair Knight: Right. So, it's -- so it'll be up in the next year or two, right. Okay.

Governor Lydecker: Yeah, but I don't even care about that. I care about tort reform and making sure citizens of Florida benefit from it.

Jennifer Montero: Understood.

Chair Knight: Okay. Well – from there, we can lead into the risk transfer program update.

3. **Chief Financial Report**

2025 Risk Transfer Program Update [Preliminary Layer Chart]:

Jennifer Montero: Thank you. So, on your next tab, you'll see the -- there's an executive summary for the risk transfer program, and there is actually the layer chart. So, Florida Statutes -- enabling statutes states that Florida -- or that Citizens is supposed to make its best effort to procure catastrophe reinsurance within the 1-in-100 year at reasonable costs. So, we do the analysis and decision of the purchase of the catastrophe reinsurance coverage is evaluated by staff each year and the recommendation is made to the board. So, we're aiming this year to secure private reinsurance coverage of approximately $4.54 billion. This coverage would be comprised of $1.6 billion of existing private reinsurance remaining from 2023 and 2024, and $2.94 billion of new private risk transfer with budgeted premiums of approximately $650 million. Under this scenario, Citizens would expose all of its surplus and have a potential Citizens policyholder surcharge of $559 million for a 1-in-100-year event. The proposed 2025 risk transfer layers are as follows: The sliver layer, which is the yellow layer alongside the CAT fund, which is the dark blue, that provides approximately $394 million in excess of $2.55 billion of annual per occurrence coverage, which covers personal residential and commercial residential losses.

This layer placed in the traditional market would work in tandem with the mandatory coverage provided by the CAT fund. Layer 1, which is the layer above those – the CAT fund and the sliver layer, would provide $4.15 billion of coverage for personal residential and commercial residential losses from the capital and traditional markets as follows: Approximately $2.55 billion of occurrence or annual aggregate coverage from the traditional and capital markets, a capital markets renewal risk transfer placement of $500 million through the Lightning Re -- this is the third and final year for Lightning Re, which was placed in 2023 -- and then the capital markets renewal risk transfer placement of $1.1 billion through Everglades Re II. This is the second year for those multi-year notes originally placed in 2024, which provide aggregate coverage. Staff will work with the traditional capital market teams, as well as the financial adviser, to evaluate available options into the structured terms, pricing, and other relevant matters with regards to the 2025 risk transfer program, and we will present the recommendations to the board at the April 30th special board meeting for final approval of the risk transfer program. And I will pause for any questions.

Chair Knight: Questions? Thank you.

Jennifer Montero: Thank you. I believe next on the agenda, I have the financial data services. May I move forward?

Chair Knight: Yes.

Financial Data Services [Action Item]:

Jennifer Montero: So, this is a continuation of a contract. So, the services provide analysis, data, and research tools for a broad range of information on the Florida property insurance market. It provides a valued tool for assessing the market in support of Citizens' products, rates, and rule filings with the Florida Office of Insurance Regulation. The action item seeks board approval to contract with S&P Global for financial data services. Approval is requested for a five-year term with no renewals options for an amount not to exceed $225,115. This will replace the current five-year contract with S&P Global expiring on May 8, 2025. On November 13, 2024, Citizens issued a request for Proposal No. 24-0014 for financial data services. Two vendors submitted replies: Bloomberg Financial, LLP, and S&P Global. The proposals were reviewed and scored by Citizens' evaluation committee, who recommended the award to S&P Global on February 11, 2025. And the contract amount, as I said, is not to exceed $225,115 for a five-year term of the contract. The contract does not include any renewals.

(Recommendation: Staff proposes that the Finance and Investments Committee review, and if approved recommend the Board of Governors: a) Approve the Financial Data Services contract with S&P Global for a five (5) year term not to exceed $225,115 as set forth in this Action Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.)

Chair Knight: Is there a second?

Governor Cumber: Second.

Chair Knight: Thank you. All in favor?

(Chorus of ayes.)

Chair Knight: Thank you. Motion passes.

Jennifer Montero: Thank you.

Chair Knight: Moving to the investment portfolio update.

Investment Portfolio Update:

Jennifer Montero: So, in Slide 1, the total portfolio is $9.73 billion, with approximately $8.25 billion, or 85%, externally managed by nine investment managers. The remaining $1.48 billion, or approximately 15%, is internally managed and primarily consists of liquidity for claims and operating funds. 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 all operating expenses, as well as all current or any potential future claims. The total portfolio average duration is stable and is currently just over 2.39 years. As of January 2025, the one-year net income and total income return are 3.51% and 4.41%, respectively. And as of year-to-date January 2025, for one month, the net income and total income return are .28% and 3.3%, respectively.

On Slide 2, the current Fed fund rate of 4.25% to 4.5%, we expect the Fed to further decrease rates 75 to 100 basis points in 2025, depending upon the economic conditions, before reaching its terminal rate of approximately 3.5% in early 2026. The yield curve is flat to upward with a two to ten-year spread of approximately 30 basis points. The yield curve is expected to be upward sloping 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. And Slide 3, the portfolios -- the portfolio has -- have very strong credit quality. Approximately 80% of the portfolio is in money market funds or Rated A or higher, and approximately 50% of the total portfolio is in treasury and agency securities or money market funds.

And Slide 4. The portfolio income return is stable and the 2025 net income and total income return are expected to be approximately 3.75% and 4.5%, respectively. We continue to receive the incremental interest income from higher interest rates with increased investments in shorter duration securities. And, lastly, the portfolio still has a negative mark-to-market value, but it has decreased over the last three months and is declining at a faster pace -- at a faster pace as interest rates come down and the portfolio matures. And that's the $450 million that Kapil mentioned earlier. And that concludes my report.

Chair Knight: Thank you. Any questions? Okay. We will adjourn.

(End of proceedings.)