CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Wednesday, June 25, 2025

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at The Westin Lake Mary, Lake Mary Wednesday, June 25, 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 Spottswood
Josh Becksmith

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
Brian Donovan

The following people were present:

Kapil Bhatia	Raymond James
Sasha Stipanovich	Raymond James
Bryan Friedshuh	Gallagher Re
Trevor Hillier	Gallagher Re
Dave Newell	FAIA
Mark Weinberg	JP Morgan
John Generalli	Wells Fargo

Call Meeting to Order

Barbara Walker: Good afternoon, and welcome to Citizens' June 25, 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 a 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. I'd like to call the June 2025 FIC meeting to order with the first item of business, approval of the March 2025 meeting minutes.

Board Chair Beurff: So moved.

Chair Knight: Second?

LeAnna Cumber: Second.

Chair Knight: Thank you. All in favor?

(Chorus of ayes.)

Chair Knight: Minutes are adopted. Welcome, Mr. Bhatia, Ms. Montero. Turning it over to you for the market update.

2. Raymond James Financial Adviser

Market Update:

Kapil Bhatia: Great. Thank you. Good morning, Madam Chair, Mr. Chairman, and Governors. For the record, Kapil Bhatia from Raymond James and Associate. We are your financial adviser and investment consultant. I'll be brief considering some of you have already seen my brief report, but if there are any questions, please stop me at any point of time. The job market remains relatively strong. The current unemployment rate is 4.2% and has remained within the range of 4% to 4.2% since May of 2024, or over the last 12 months. There are currently 7.2 million unemployed people, and we expect the unemployment rate to increase to 4.6% by the end of this year. In May of 2025, the labor force participation rate actually declined from 62.6% to 62.4%. Even though it's only .2%, if the labor force participation rate would have not declined, the unemployment rate would have increased to 4.5%. So, there is a significant skill set mismatch between the open jobs and the labor force available. And that's one of the reasons that we don't expect unemployment rate to actually go down anything lower but probably stay in the range bound between 4.2% to 4.6% and maybe increase to 4.6% end of this year.

The implementation of the tariffs has set up the shock waves throughout the global market; however, with most of the recent negotiated changes, it has stabilized. But there is still a lot of uncertainty and volatility attached to it because nobody really knows what's happening and how things are going to change. Stagflation remains a concern for the marketplace and the fed -- and as the prices remain above the fed's target with a price consumer or a price deflator at 2.5% and core price deflator or PCE at 2.8%, there is a concern that tariffs would increase the inflation, and that's why fed is not reducing the rates. However, lower prices and demand should help to reduce the inflation and reduce the probability of stagflation. The economy has been resilient, but growth is slowing. In the first quarter, real GDP actually contracted by .3% and inflation remains sticky, which could lead to stagflation. We do expect a slight bounce-back in the second quarter as more and more consumers are spending to head off any tariff increases, as well as a marginal increase in improvement in employment. We expect the second quarter growth to be somewhere around .6 to .8%, and we expect U.S. economy to grow somewhere in the range of 1 to 1.4% in 2025, which is half of 2024 growth when it was 2.8%.

One of the reasons for the significant growth in 2024 was higher federal government spending, lots of fiscal stimulus, and all of that has really gone away and that is going to keep the growth slower. However, we don't expect the economy to go into a technical recession or a negative growth. The fed cut fed funds rate by 100 basis points in 2024 to current rate of 4.25 to 4.5%. However, if you remember in 2024, as fed was cutting rates, the long-term rates were actually going up, and long-term rates are going up because of anticipation of high government spending, tax cuts, and everything else, and a lower demand for the 10-year treasury with all of the uncertainty. We expect 10-year treasury rates to remain range bound in 4.0% to 4.50% or where it is right now. Even though fed is planning to cut the rates at least two times this year in September and December, which may be a little late. We expect fed should cut its fed funds rate in July, but most likely they will not do because of the uncertainty with the tariffs.

Looking at the yield curve, the yield curve is changing from inverted to slightly upward sloping because of the change in fed's policy with the spread between two and ten-year is at approximately 48 basis points as compared to a negative 45 basis point a year ago. We expect the spread to continuously increase and reach to around 75 basis points by the end of this year as the fed will cut rate while we don't expect 10 years rates to change. At this point of time, we expect rates to become normalized with the fed funds rate somewhere in the range of 3.50%, and 10-year treasury to be 4.25%, and five-year to be closer to 4%. And all of that stuff is leading to where the economic conditions are in a marginally better shape.

Moving on to the reinsurance market, global economic losses from natural disasters were $368 billion in 2024, of which $145 billion were insured and were primarily driven by losses from Hurricane Helene and Milton. Hurricane Helene had economic losses of approximately $75 billion, of which $18 billion were insured; however, economic losses neutralized with economic gains after the rebuild, and we are seeing that especially in Carolinas and Tennessee. 2024 losses from Hurricane Helene and Milton and 2025 wildfire losses from Eaton and Palisades were not a capital event for reinsurers, and they were able to cover through their earnings. 2025 first quarter insured losses were $53 billion and were, again, primarily driven by the California wildfires, which accounted for approximately $38 billion of those losses. That's one of the highest losses in the first quarter; however, that did not move the reinsurance market. Reinsurance market was significantly better for us because of the legislative efforts. We saw reinsurance rates lower by approximately 5 to 15%, depending on where you are and where you're actually buying it, below the CAT fund, which is a significant portion where the primary insurers buy in the Florida market were only 3 to 5% lower. However, above the CAT fund, rates were approximately 10% lower. It also depends on the cedent and how strong the book is. And for the wildfire, even with the significant losses in early 2025, California Fair Plan was able to buy the reinsurance, almost a billion dollars more than what they bought last year, but they had to pay approximately 20% higher with a higher attachment point.

So, there is significant capital available in the reinsurance market for all perils, including wildfire, and that is a reflection of higher reinsurance rates over the prior few years, higher interest income, evaporation of unrealized losses. All of these macro factors are leading to the better global reinsurance market, and, suddenly, our market is getting much more benefit because of the legislative reforms and improved financial conditions for Florida insurance, increased capital investment in the state with the new entrants, and of course, a healthy private marketplace that has helped to depopulate Citizens to its lowest policy count since 2021, and lower prices for Florida reinsurance and moderating rates for Florida policyholders. All of these changes are reflected in our reinsurance pricing, and our investment portfolio is stable, our income is higher. I'll stop here and happy to answer any questions.

Chair Knight: Questions?

Board Chair Beruff: Ms. -- Madam Chair?

Chair Knight: Yes.

Board Chair Beruff: Where are we on losses today if we had to liquidate the portfolio?

Kapil Bhatia: Our losses are evaporating. As of yesterday, we were at $445 million, which we expect to evaporate over the next 24 months, but $100 million will evaporate over the next six to eight months, depends on -- even with no change in the interest rate. But if the interest rates come down by 50 basis points at the low end as expected, not at the high end, we'll see a third of our losses evaporate over the next six months.

Board Chair Beruff: So, by the end of the year, we'll be at about $300 million?

Kapil Bhatia: By the end of the year, if there is no change in interest rate, we'll be at around $375 million, and if the interest rate comes down by 50 basis point, it will be around closer to $325 to $350 million depending upon on how the yield curve moves.

Board Chair, Beruff: Thank you.

Kapil Bhatia: Thank you.

Board Chair Beruff: Thank you, Madam Chair.

Chair Knight: Thank you. Moving to the risk transfer program update.

3. <u>Chief Financial Report</u>

2025 Risk Transfer Program Update:

Jennifer Montero: Thank you, Madam Chair. Behind Tab 3, you have an executive summary along with updated layer charts. 2024 marked the turning point in the Florida Risk Transfer Marketplace as evidenced by the effects of the 2022 and 2023 litigation reforms, which took time to make their way through the marketplace and show meaningful and positive changes within the Florida insurance market. There was ample capacity from reinsurers due to healthy capital levels, and the catastrophe bond market saw significant capital inflows, outpacing the traditional reinsurance market. Depending on the placement and the cedent, overall rate reductions in Florida at the June 1 renewal rate are in the range of approximately 10% for layers above the FHCF. Citizens' staff worked extensively with its traditional reinsurance broker, Gallagher Re, and its capital markets co-underwriting team, Aon Securities and GC Securities, as well as its financial adviser, Raymond James, to market its traditional and capital market risk transfer program via road shows and one-on-one meetings with reinsurers and investors. As approved at the board meeting -- at its April 30th, 2025, board meeting, Citizens sought authorization for a total of $4.49 billion of coverage with the cost not to exceed $550 million.

Thanks to favorable market conditions, Citizens was able to place its target risk transfer program of $4.49 billion, which includes $2.89 billion of new placement and $1.6 billion of multi-year coverage from 2023 and '24 at a gross rate online of 11.89% and net rate online of 11.74% and total cost of approximately $530.6 million. The new risk transfer program for 2025 of $2.89 billion includes $1.369 billion in the traditional market and $1.525 billion in the capital market, and has a net rate online of 11.95%, which is 13.5% lower on a risk-adjusted basis than for similar coverage placed last year. The 2025 risk transfer program incorporates strategic elements for prior risk transfer programs, which include transferring risk alongside the CAT fund and transferring single occurrence and aggregate -- annual aggregate risk to protect a portion of surplus for most catastrophic events and thereby eliminating the probability of emergency assessments for a 1-in-100 year event to the citizens of Florida and reduce the probability of a Citizens policyholder surcharge to a 1-in-96 year return time.

The 2025 risk transfer layers are as follows: The sliver layer sits alongside the CAT fund. It 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 is placed in the traditional market, and it works in tandem with the mandatory coverage provided by the CAT fund. Layer 1 sits above the sliver layer and the CAT fund and provides $500 million of coverage for personal residential and commercial residential losses from both the traditional and capital markets as follows: $275 million of single year per occurrence coverage placed in the traditional market attaches after losses of $2.941 billion, and $225 million of new multi-year annual aggregate coverage placed through Everglades Re II attaches after losses of $6.489 billion. This is the first year of this three-year coverage. Layer 2 of the program sits above Layer 1 and provides $1.425 billion of coverage for personal residential and commercial residential losses from the traditional and capital markets as follows: $325 million of single year per occurrence coverage placed in the traditional market attaches after losses of $3.652 billion, $375 million of new multi-year aggregate coverage placed through Everglades Re II, which attaches after losses of $7.2 billion.

This is the first year of this three-year coverage. $225 million renewal of multi-year aggregate coverage placed through Everglades Re II attaches after losses of $7.2 billion. This is the second year of this three-year coverage. And $500 million renewal of multi-year aggregate coverage placed through Lightning Re. This is the third and final year for these multi-year notes originally placed in 2023 that utilize the industry index loss trigger based on property claims service published insured residential losses in the state of Florida for Florida's named storms. Layer 3 of the program sits above Layer 2, provides $1.025 billion of coverage for personal residential/commercial residential losses from the traditional and capital markets as follows: $125 million of single year per occurrence placed in the traditional market attaches after losses of $4.825 billion, $475 million of new multi-year aggregate coverage placed through Everglades Re II attaches after losses of $8.4 billion. This is the first time for this three-year coverage. And the $425 million renewal of multi-year aggregate coverage placed through Everglades Re II, which attaches after losses of $8.63 billion. This is the second year of the three-year coverage.

And the final layer, Layer 4 of the program, sits above Layer 3 and provides $1.15 billion of coverage for personal residential/commercial residential losses from both traditional and capital markets as follows: $250 million of single year per occurrence coverage placed in the traditional market. It attaches at losses of $6.052 billion. $450 million of new multi-year aggregate coverage placed through Everglades Re, which attaches at losses of $9.6 billion. This is the first year of that three-year coverage. And $450 million renewal of multi-year aggregate coverage placed through Everglades Re II, which attaches after losses of $9.847 billion. This is the second year of this three-year coverage. A Citizens policyholder surcharge of up to $300 million could be experienced between the 1-in-96 year event and the 1-in-100 year event. So, in summary, the 2025 Private Risk Transfer Program totals $4.49 billion of coverage with approximately $1.369 billion of the coverage in the global traditional reinsurance market and $3.125 billion of global capital market coverage with an overall weighted average gross rate online of 11.89% and a net rate online of 11.74%. The 2025 risk-adjusted price reflects substantial improvement in market conditions for coverage placed in 2025. The price is approximately 13.5% lower than it would be for cost for similar coverage in 2024. And I'll pause there for any questions.

Governor Becksmith: Madam Chair, can I ask a quick question?

Chair Knight: Yes.

Governor Becksmith: Jennifer, you and I briefly spoke about this, but I think -- help us understand -- again, actuarially, we're buying to a certain level, right? And I think you mentioned one in a hundred-year storm. I think last year -- correct me if I'm wrong -- we bought lower limits, not because we didn't want to buy higher limits, but because there was some movement in the marketplace that was adverse to what we were trying to accomplish, right?

Jennifer Montero: Correct.

Governor Becksmith: This year the board authorized, obviously, a spend of -- I think you said $550 million or somewhere thereabouts. And so, you and your team went out with Gallagher Re and Aon and tried to fill as much as you could. I guess my question is, is that -- as Citizens continues to shrink in valuations and we continue to have all of these depopulations that come out, is there a thought to why are we continuing to buy? We bought more limit this year, albeit at a lower rate, which is fantastic, but why are we buying more limit on a lower schedule of values? That's Question 1. And 2, are we looking at where, location-wise, a lot of this is domiciled? And so that if we have -- and I'm picking somewhere -- if we have more of the takeouts coming out of Miami-Dade County, which I would think inherently would probably be more risk, right, from a hurricane perspective; therefore, the exposure and the modeling might suggest that maybe we buy a lower limit. All that being said, I guess how are we arriving at what the number we're buying is? And while I'm certainly the board -- I can't speak for all the board, but I would think that obviously we're happy with the pricing reduction, right? Nobody likes to increase. Should we be buying more limit? Like why are we buying more limit when our exposure basis from an insured value perspective has actually gone down substantially? So, can you just kind of help us walk through that if you don't mind?

Jennifer Montero: So, this year our target was $4.49 billion. Last year, we placed $3.54 billion, but our target was $5 billion. We went out to the market, and we got about 3 and a half billion, and then capacity dried up at reasonable pricing. So we chose to not get gouged on the pricing and we settled. We made a trade. The trade was we had red at the top of the layer chart. Ideally, the statute says we should buy up to the 1-in-100, best efforts at reasonable costs because we'd like to protect surplus, and push surplus up above that to protect it with reinsurance and not have any purple or red in the diagram. So, the first question is, we did buy less than what we targeted. Our target was less than last year's because we did go down and we look at what the PML is –

Governor Lydecker: Hang on. Who sets the target? Where does the target come from?

Jennifer Montero: So, we look at the 1-in-100 year PML, and that goes down as we shrink. So depending on how big we are, that's what it is. So that's kind of where we look. And then we try to build a program within that and cover as much of that 1-in-100 event above the CAT Fund, as I mentioned earlier.

Governor Lydecker: But that's a modeling issue, right? So, you're modeling for a 1-in-100 PML and then taking into consideration where the risks are located in the state of Florida, and you get a model that tells you what the PML is.

Jennifer Montero: Yes, we have –

Governor Lydecker: Okay.

Board Chair Beruff: So last year, the 1-in-100, though, the 1- in -100 year PML was 12.85, that was a much larger number?

Jennifer Montero: Correct.

Board Chair Beruff: Yeah.

Jennifer Montero: No, that's this year. Hold on. Last year was 17 and a half. This year – I believe in this year –

Board Chair Beruff: It's a lot less this year because we've had a lot -- that's what I'm saying.

Jennifer Montero: This year we've dropped down to 12. So, it's not that we bought more -- or the intent was not to buy more. We were buying more than we bought last year because we didn't buy enough to what our target -- compared to what our target is. But we do look at that PML each year, and that's kind of what -- so as that goes down, our reinsurance buy should -- would also go down, the amount of coverage, so that we don't just keep buying it a ton. In addition to that, if we shrink like mid-year before the next one, all of the yellow, which is the traditional, that's all single year, so that will start over next year. The far blue, Lightning Re as I said in my comments, that goes away. And then you've got the other two that are -- the teal ones next year will be on their last year and the light blue will be on their second year. Both of them in the top layer have call provisions that if we shrink a certain amount, we can call those bonds at par. And if we want to, we do nothing, or we could just reissue them lower down. As we shrink, the program will kind of move up. So, we do build in those provisions knowing that we have the possibility that we could shrink or grow so that we can, you know, make them still work to where we need it to be.

Governor Becksmith: Is there also a provision -- thank you for that. Is there also a provision on the traditional reinsurance growing or shrinking by up to a certain percentage, we're not going to get dinged and/or we get money in return?

Jennifer Montero: Yes. So, with that, that is the premium adjustment. So, there's about a 10% collar for most of the contracts that says if our premium -- because, remember, the layer charts are projected to 9/30. In the beginning of the season, we give them the number that we think it's going to be, and then we adjust it, but that's still the number and -- that the reinsurers get on board with. So, we've got all these contracts. The reinsurers think that our exposure is going to be X, Y, Z. Well, when September comes, if that's changed and it's gone higher, that means that the reinsurers took on the risk for what they thought was X, Y, Z, which is really much higher than X, Y, Z, and if it's over that 10%, then there's a premium adjustment and we pay the reinsurers additional premium because of that additional growth. But it goes the other way as well. So, if we shrink, you know, lower than A, B, C, then we get a refund. And in 2023, we paid a premium adjustment because our commercial book went through the roof. We were 22% over what our projections were because the surplus line stopped writing commercial and we just got a slew of it. Well, this year, commercial went down, not quite that much. It went down about – actually went down 33.2%, and the personal residential went down 6.7%, for an average of 12.57%. So, this year we will get money back. So, we have an additional $29.5 million that we'll get back in premium from the 2024 reinsurers, not necessarily the ones we have now, but from last year.

Governor Becksmith: Gotcha.

Jennifer Montero: So that does get adjusted so that if we do shrink, we get a refund; if we grow, we pay more, but, overall, we can -- you know, we're kind of locked into that for this year, but if we see that we shrink a whole lot before next year, we can definitely call the CAT Bonds and the yellow will go away, so we can just place that lower or maybe not as much. Same thing happens when we grow super-fast. Then we have to add to our program.

Governor Becksmith: But just to be clear, back to my initial question, because, again, I'm using round numbers. Let's say we were at 17 and a half billion. Last year was our one in a hundred year. This year we're at 13, if I'm reading this correctly, roughly, billion. We're required best effort statutorily to procure reinsurance for up to a 1-in-100 year storm –

Jennifer Montero: At reasonable pricing.

Governor Becksmith: -- at reasonable pricing, right. And so, this year we bought -- obviously, we were able to get more limit. Again, I don't want to use the term "gambling," right, but it is kind of gambling on where do we think storms are going to fall, and if we all had that and if we all had the crystal ball, then we probably all wouldn't be sitting up here talking to you guys about insurance. I just -- as a consumer and as a taxpayer obviously in the state of Florida, you look at it, the board authorizes a certain amount. You guys did a great job, by the way, on the rates and everything, so kudos to you and your team and then our broker partners on it. It's just when we hear all this depopulation that is coming out, right, most normal citizens that maybe don't understand kind of the reinsurance marketplace is going to go, "Well, why are we spending X amount and buying more limit when our book is coming down," right? And the reality is you're doing your best to protect, I guess, the citizens of Florida, right, from a standpoint of assessments? Is that a fair statement?

Jennifer Montero: Yes, exactly what Governor Lydecker said earlier when he used another company as an example. If you have that gap, you don't have reinsurance. For us, we're not going to go insolvent. We're going to have assessments, and that's not going to make anybody happy.

Governor Becksmith: What are you seeing -- just since you just opened the door on that one, what are you seeing in relation to some of these other takeout companies? And maybe this is a Kapil question, maybe this is your question, or maybe somebody from Gallagher wants to answer this. What are we seeing them buy, right? And so, if ABC Insurance Carrier goes out and they've got $25 million of surplus and we decide we're going to hang a shingle, right, and there's some rules, I know stipulations that kind of run with it. What are they traditionally buying to, I mean, from a reinsurance perspective?

Jennifer Montero: They're required to keep their rating. They have to buy to the 1-in-135.

Kapil Bhatia: They have to buy 1-in-130 years, and then for the second event, one in 50 years. And that's why they buy a lot below the CAT Fund, and we expose our surplus. So suddenly they are buying much more reinsurance, and they rely on it because a $60 million gap or a $20 million gap can take them out of a business, so -- and that's where the OIR is really reviewing it and that's how Demotech or AM Best reviews ratings. If I can, just add two more things which may be helpful. Our CAT bonds include not just the call feature that Jennifer mentioned, but also the reset provision. So, we can move it up and down where our risk is. So, the pricing changes marginally based on how the risk is going up and down, but the document allows you to do that.

Jennifer Montero: Within the parameters.

Kapil Bhatia: Yes, within the constraint. And that's why if you see what we placed last year, even though it was $17 billion, this year is right next to it because we were able to bring it down to put it right next to it. So, all of that flexibility in the program allows us to move it as we move. That's one. And the PML is based on the assumption – if you see on the very top of the layer charts, we expect this much reduction in personal residential and commercial residential and a commercial non-residential. So, what we expect the numbers to be, that's what it's based on, not what it is today, what it's going to be in September. So, we adjust for that negative growth, or a positive growth depends on -- I mean, it's never going to be precise, but, historically, we have been very close to because the modeling has been really good with the policy count and the PMLs.

Chair Knight: And by taking advantage of multi-year cat bonds when the pricing is competitive for us, that allows even greater flexibility for the program. There's a baseline amount of insurance that we would assume we need going forward in addition to the call provision...

Jennifer Montero: And it helps with the capacity because you don't have to go out and get $4.5 billion of coverage, which typically we would have some outstanding cat bonds in multi-year. We wouldn't have to get as much. And when we combined the accounts, we had to take everything out and start over. So that's why we've been having to -- we only had $1.6 billion carryover.

Kapil Bhatia: Right. And it's aggregate, which helps us

(Inaudible cross talk)

Kapil Bhatia: -- four events, hopefully never, but '04 and '05, but that helps from the aggregate cover.

Governor Shelton: Madam Chair, just one quick question or –

Chair Knight: Correct. And I was going to say addressing our rate differential risk that was noted in Audit, doing the best that we can to address that, yes.

Governor Shelton: Thank you. And this is kind of following something Governor Lydecker said earlier, whether we buy up to 100 years is whatever or, you know, whatever the reasonable cost is and these things, but, you know, giving the obviously pricing changes in the insurance market on a year-to-year basis, but it sounded like it was very favorable this year, the capacity out there. I think (inaudible) the CAT bonds was pretty favorable as well. Is there any -- is there any logic or is there any thought, when you look at our surplus or what I call our first layer retention on us, is it -- in different markets, is there some requirement or is there any advantage to us that not being that $2.547 billion could be $1.5 billion? Is there any advantage to kind of protecting some of our surplus when pricing is good and everybody drops down a little more, or does it create a gap between us and the Florida hurricane fund, we have to be up to that surplus that we calculate, which I think is the surplus plus anticipated income for the next year?

Jennifer Montero: So, we can buy below, but it's expensive, and so it eats up a big portion of our budget, which would be protected below. But it also takes -- we get accused of stealing capacity from the market that's required to buy under there because the capacity down there is not always as much available –

Governor Shelton: Maybe I'm not – I understand what you're saying. You mentioned that with Governor Lydecker, but buying below, but if we dropped our surplus -- I'm just saying to $1.5 million, does the CAT fund come down on top of us, there's no gap there, it just all slides down? I mean, I'm not trying to create a gap. I'm just asking a question. Do we have to have that as our first self-retention?

Jennifer Montero: The CAT Fund kicks in where -- that's not -- we don't pick where it lands. That's based on our portion of the CAT Fund compared to everybody else in the state of Florida. The bigger we are, the more CAT Fund we get; the smaller we are, the less we get. And where it attaches and exhausts is a formula that the Florida Hurricane Catastrophe Fund, and Kapil can explain it, but they direct what -- that's done based off our size.

Kapil Bhatia: The total industry retention for the CAT fund is over $11 billion this year. So, our share of the residential exposure in Florida determines where the CAT fund attachment would be. And that's true for every insurance company based on their exposure in the state of Florida. So last year, CAT fund retention was $9.3 billion. So, it has significantly gone up, and the reason it has gone up is because of the way formula works, they look at how much exposure has changed over the last two years in the Florida residential market, and that's how the overall retention changes it. It's not based on -- so over the last two years in '22 and '23, property values and exposure increased significantly in Florida, and that is really showing up in the retention this year. Next year, we don't expect retention to change much. So, it is not something we control. What Jennifer is saying is if you want to buy, for example, a billion dollars of risk transfer to reduce our exposure to $1.5, which private market buys it, that rate online for the first layer is very expensive because the probability of attachment is significantly higher. As you can see it, it will attach in probably one in 10 years. So, the probability of reinsurance paying is 10%, simple math. So, the pricing is significantly higher. Basically, to get a billion dollars there, probably you'll have to spend $200 million. So economic analysis of how much we -- our surplus is going to be and what risk we want to do it, the better economic value is to be really prepared for a CAT event and exposing our surplus approximately half of it below the CAT Fund because that's the most cost-benefit analysis –

Governor Shelton: Right. I understand the lower you drop down on the chart, the more expensive it is, but I'll follow up after the meeting. I have one follow-up question, but I'm good, Madam Chair. Thank you.

Chair Knight: Okay. Any other questions? Okay. Moving on.

Financial Advisory and Investment Consulting Services [Action Item]:

Jennifer Montero: So, the next item I have is the Financial Advisory and Investment Consulting Services. So, this action item requests approval to contract with Raymond James and Associates for financial advisory and investment consulting services. It's a continuation of services. The service provides comprehensive analysis and assistance in financial and investment matters such as Citizens' capital structure and investment strategies. On January 13th, Citizens issued an invitation to negotiate No. 25-0006 for financial advisory and investment consulting services. Approval's requested for a five-year base term and two optional two-year renewals. Most services are included in a fixed fee not to exceed $7.38 million across the base and renewal terms. Additional transaction fees apply when Citizens issues any pre or post-event bonds or sponsors catastrophe bonds. And I'll pause there for any questions before I go into the recommendation.

Chair Knight: Questions? No?

Jennifer Montero: Okay. **Staff proposes that the Finance and Investment Committee review, and if approved, recommend to the Board of Governors approve the Financial Advisory and Investment Consulting Services contract with Raymond James and Associates for a five-year base term and**

two optional two-year renewals as set forth in this action item and authorize staff to take any appropriate or necessary action consistent with this action item.

Governor Lydecker: I'll make a motion for approval.

Board Chair Beruff: Second.

Chair Knight: All in favor?

(Chorus of ayes.)

Chair Knight: **Motion carries.** Thank you.

Investment Portfolio Update:

Jennifer Montero: Thank you. And my final item is the Investment Portfolio Update. So on Slide 1, the total portfolio is $9.61 billion with approximately $7.92 billion, or 82%, externally managed by nine investment managers. The remaining $1.6 million 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 and 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 2.33 years. As of April 30th, 2025, the one-year net income and total income return are 3.49% and 6.92%, respectively. As of year-to-date April 30th, the net income and total income return are 1.01% and 3.3%, respectively. On Slide 2, the current fed funds rate is 4.25% to 4.5%. The fed is expected to further cut rates by 50 basis points in 2025, depending upon the economic conditions, before reaching its terminal rate of approximately 3.75% in early 2026. The yield curve is slightly upwards sloping with a two to ten-year spread of approximately 50 basis points. The yield curve is expected to continue to increase its upward slope as the short-term rates come down and the long-term rates remain unchanged primarily due to the large fiscal deficit and increased treasury issuance.

On Slide 3, the portfolio has very strong credit quality. Approximately 80% of the portfolio is in money market funds or Rated A or higher. Approximately 48% of the total portfolio is in treasury and agency securities or in 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 4.75%, respectively. We continue to earn incremental interest income from higher interest rates with increased investment in shorter duration securities. And, lastly, the portfolio still has a negative mark-to-market value but has decreased over the last three months and it's declining at a faster pace as interest rates are coming down and the portfolio is maturing.

Governor Lydecker: Mark-to-market for us doesn't matter, right, if we're not – Yeah. But the 1.1% year-to-date total return feels low –

Kapil Bhatia: It has since April -- just -- sorry.

Board Chair Beruff: Just for the first four months.

Kapil Bhatia: Just for the four months.

Board Chair Beruff: It's not annualized.

Governor Lydecker: It's not annualized, thank you, and that may be the reason, but it still feels low.

Kapil Bhatia: We expect the –

Governor Lydecker: I mean, everything here, all of our holdings and treasuries are 4% and thereabouts. In other words, do we have money just parked somewhere that we're not earning any interest on?

Kapil Bhatia: No, there's some of those securities which were bought a couple of years ago when interest rates were 75 or 100 basis points, and that is maturing it. As they mature, we are investing at a higher rate, but the older legacy securities and that's where the mark-to-market is. So, if you look at our total return for the last 12 months, it's over 6% because as our mark-to-market is evaporating and we are investing at a higher rate. , if we annualized 1.1% then the annual return would be approximately 4 percent less than the current rate because of some of the legacy investments, and those are maturing as we move forward and that's the negative mark-to-market.

Governor Lydecker: Okay. And the legacy investments you're saying were half a percentage point, or you said 75 basis points?

Kapil Bhatia: One and a half to 2, 2 and a half, 3. So they are throughout the spectrum if they were bought in 2021 when the rates were like 1 ½% plus the spread of 50 basis point. So those have not matured yet if they were five years, but they are maturing as we speak each month.

Governor Lydecker: Okay. Just one last, make sure I understand it. But even that math still shakes out to better than 1.1% unless -- are we mark to marketing -- are we changing -- in other words, it seems to me mark to market doesn't matter if you're going to hold it and sell it at maturity.

Kapil Bhatia: Right. And that will show up in the total return. So, our total return –

Governor Lydecker: Are we doing anything short of selling at maturity which would therefore impact our return?

Jennifer Montero: In the financials, we did -- yeah, we did sell a little bit to get to reinvest it in a higher yield.

Kapil Bhatia: But that's a very small number, like $3.3 million of unrealized losses compared to what we have. So year-to-date, our total -- so there are two pieces in our return. Year-to-date, our total return has been 3.3%, total return, not the income return. Income return is what the coupon rate is. So, some investments you buy at a discount or a premium. It's the total returns that really reflects what you're making. So year-to-date total return -- and when I say, "year-to-date," it's as of April, not May –

Jennifer Montero: Six point (inaudible) –

Kapil Bhatia: -- it's 3.3%. Our last year, over the 12 months, our total return was 6.92%. So, income return does not really truly reflect as some of those are really bought at discounts or premiums. Income return is just a number. So, we have to really focus on the total return.

Governor Lydecker: Thank you.

Kapil Bhatia: And it's in the slides somewhere what our total return has been, 3.3 year-to-date April for the first four months, and for 2024 for the one-year total, 6.92%.

Jennifer Montero: That's all I have.

Chair Knight: Okay.

Governor Shelton: Madam Chair, quick question.

Chair Knight: Yes.

Governor Shelton: How do you choose the duration of portfolio?

Kapil Bhatia: Our duration is based on the investment policies as approved by the board and it also depends on where it sits in our capital structure.

Jennifer Montero: Can you put the layer charts back up, Barbara?

Kapil Bhatia: So if it's below the CAT Fund, that's -- if it's below the CAT Fund, the green, it is invested pursuant to the liquidity fund policy, which is the maximum maturity of three years by the weighted average maturity of 12 months because those funds are needed with a 12-month period as they will be the first line of defense. Includes the operating expenses, reinsurance payments. Anything above the CAT Fund is invested pursuant to the claims paying fund policy, which the board approved, which is relatively longer duration. However, because we are paying claims for the prior event, as Jennifer went through it, we have been shortening the duration, and the yield curve was inverted to get to the higher income. If we are exposing all of our funds, which we are, our duration will be shorter, but it's all pursuant to the policy which we go through with the board, and the board approves it.

Jennifer Montero: And if we have more surplus that goes up above and beyond the 1-in-100, there's another investment policy, the long duration, that's even longer because it's up above and we won't need that as soon. So...

Governor Spottswood: Madam Chair, could I ask a question?

Chair Knight: Yes, Governor Spottswood.

Governor Spottswood: So, what is the total average duration of our portfolio?

Kapil Bhatia: I think it's 2.31 years as we speak, as we are shortening the duration to take advantage of the inversion of the yield curve, as well as paying for the claims. Last month, it was 2.36, and now it's 2.33 years as of April.

Governor Spottswood: Okay. Thank you.

Chair Knight: Are there any other questions?

Kapil Bhatia: And as of yesterday, it was 2.27. So, it continues to shorten as we continue to pay the claims or as we build the liquidity and invest at higher rates as securities mature, which Jennifer mentioned earlier, Governor Spottswood.

Chair Knight: Any other questions? Thank you. Well, that concludes our FIC meeting for June 2025.

(End of proceedings.)