CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Tuesday, December 6, 2016

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North in Maitland, FL on Tuesday, December 6, 2016 at 3:00 pm (EDT).

The following members of the FIC were present:

Chris Gardner, Chairman
Jim Henderson
Bette Brown

The following members of the Board were present:

Juan Cocuy
Gary Aubuchon
Don Glisson

The following Citizens staff members were present:

Barry Gilway
Jennifer Montero
Barbara Walker
Andrew Woodward
John Rollins
Christine Ashburn
Dan Sumner
Violet Bloom
Brian Donovan
Michael Peltier
Bruce Meeks
Kelly Booten
Steve Bitar
Joe Martins
Jay Adams
Paul Kutter

The following people were present:

Kapil Bhatia	Raymond James
Dave Newell	FAIA
Duane Draper	Bryant Miller Olive
Matt Williams	BOA Merrill Lynch

Nadine Mentor	Ramirez
Henry Reyes	JP Morgan
Mark Weinberg	Citi Group
Coleman Cordell	BOA Merrill Lynch
Rawn Williams	Jefferies
Tamaa Patterson	Jefferies
John Generalli	Wells Fargo

Call Meeting to Order

Barbara Walker took roll.

1. Approval of Prior Meeting's Minutes

Chairman Gardner made the motion to approve the September 27, 2016 Finance and Investment Committee (FIC) Minutes. Jim Henderson seconded the motion. All were in favor. Motion approved.

Chairman Gardner: Item two on the agenda is the market update. Kapil and Jennifer, good afternoon, you are recognized.

2. Market Update

Kapil Bhatia: Good afternoon, Mr. Chairman and Governors. For the record, Kapil Bhatia from Raymond James & Associates. I will just briefly go over the market update, and please stop me at any point in time with any questions. There are currently 7.4 million people unemployed, 4.6 % is the unemployment rate. There are currently 158 million civilians employed in the United States, which is 62.7% of the civilian population of 252 million. The participation rate is the lowest since 1978. A reflection of demographic changes and structure deficiency in our labor force. The participation rate from a comparison perspective, today is 62.7%, while in 1999 it was 67%. The U6 unemployment rate which includes persons marginally attached to the labor force and those employed part time due to economic reasons is 9.3%. The difference between U6 and the actual unemployment rate of 4.6% really reflects permanent changes in our economy, demographic as well as structural changes. If we adjust our unemployment rate to the participate rate from 1999, the actual unemployment rate will be over 11%, and that number reflects that we have a lot of slack in our economy from an inflation perspective and because of that reasons we don't expect inflation to increase significantly. I know probably you have seen lots of media and news that inflation is going up. We don't expect inflation to increase significantly as there is still a significant labor slack in the economy.

The Feds raised rates by 25 basis points in December of 2015. The December 2016 increase is almost a foregone conclusion, Fed is going to increase the rates by 25 basis points. However, we still do not expect interest rate to increase quickly and significantly in the long run, and Fed does not have really much of a control over five-year or a 10-year or the long term rate at this point in time. We expect Fed will only increase rates marginally with gradual hikes. That may be translated into two rate increases in 2017. The next one probably will be either March or June, and one in September of next year. With all of the rate increase discussions happening in the marketplace how much really the rates have gone up, to put it in perspective from the long run perspective, on January 1 of 2016, or December 31, 2015, the three-year Treasury was at 1.31% and today it is at 1.39%. That is a net change of eight basis points during the whole year. Five-year was at 176% and today it is at 184%, and 10-year was at 227% and today it is at 239%. So it is really a change of nine to 12 basis points in 2016 so far, and that is not really any significant change when everybody was talking about rates going up significantly. The rate increase is actually good for us from an investment policy perspective, as the Board and the Finance and Investment Committee approved changes to the investment policy, and we will be able to take advantage of the long duration fund effective December 1, which will increase our investment earnings in 2017. We expect that number to be somewhere around $30 to $40 million of additional investment earnings. So a marginal increase in interest rates is actually good for us. In terms of the GDP, GDP is projected to increase by 1.8 to two percent this year. We expect next year's GDP growth to be closer to two and a half to 2.6%, and that really reflects the expected or projected changes in the tax rate both at the individual and the corporate level. It doesn't account for any repatriation of corporate profits coming back in 2017, as well as any fiscal policy charges which is also being discussed by the President elect. So we don't expect significant change, except 50 to 60 basis points of additional growth in 2017. Moving on to the global economy.

The negative yield in sovereign debt overseas is marginally going down. However, there is still 9.3 trillion of global debt trading at a negative yield. For the first time since March, the Japanese 10-year is trading at a positive rate, although only at five basis points. So globally the rates are still low and most of the global investors are looking at U.S. to invest and we have seen increase in the currency hedging and that means further pressure on the 10-year and five-year Treasury rates which is one of the reasons it is going to keep the interest rates low. Europe is struggling with political and economic uncertainty. With the recent election in Italy and what is going in Austria, Netherlands, we expect large uncertainty in the Euro zone. From the bond market issuance, municipal issuance is up by 11% this year, year-to-date to $393 billion this year as compared to $353 billion last year. We expect this number to be closer to $420 billion and a large share of refunding because of the low interest rates. However, we expect that number to be closer to $400 billion in 2017. Corporate issuance again we expect the number to be $1.5 trillion. That will be the fifth year in a row where the corporate issuance is over $1.5 trillion, but that doesn't reflect economic growth or productive use of the corporate debt. It reflects more of the financial engineering, stock buy-back, merger and acquisition. Productivity is low and infrastructure spending is still low.

Lastly, to the reinsurance market. The reinsurance markets currently have a capital at peak levels at $585 billion, $75 billion in non-traditional capital and over $500 billion in the traditional market. Lower rates continue in the reinsurance market due to benign global losses, low interest rate as less stiff competition and abundance of capital. The outstanding Cat bond market is $26 billion and we expect that number to remain at this level, not much of an issuance is expected for the remaining two months of this year. And lastly, we are projecting that the 2017 risk transfer rates will be approximately 10% lower than 2016, again, due to the competitive pricing pressure in the traditional reinsurance market with surplus capital. I will stop here unless there are any questions.

Chairman Gardner: Any questions? Thanks, Kapil.

Kapil Bhatia: Thank you.

Chairman Gardner: Jennifer.

Jennifer Montero: Yes, hello.

Chairman Gardner: We are on to item three I believe is the risk transfer program strategy.

3. 2017 Risk Transfer Program Strategy

Jennifer Montero: Each year Citizens is required to make its best efforts to procure catastrophic reinsurance at reasonable rates to cover its projected 1-in-100 probable maximum lost as determined by the Board of Governors. So as you can see on the included coastal account layer chart behind tab three, the only coverage carrying over from the prior year is the $300 million 2015 Everglades Re II Cat bond as well as the projected purchase of the mandatory Cat Fund coverage. All other coverage is either expiring or maturing. Without any additional coverage the projected surplus exposed in a 1-in-100 year event would be 82.5%. The PLA/CLA only exposes 32.5% of surplus in a 1–in-100 year event and includes the provision for the purchase of the mandatory layer of the Cat Fund. Citizens considers the transfer of catastrophic risks to the global private reinsurance markets instrumental in reducing risks and reducing the amount of or probability of assessment after an event. Citizens has transferred risks in the private market for the last five years. A key objective has been to consistently transfer risks in both the traditional and the capital markets to ensure adequate capacity, lower the overall cost of risk transfer and to structure the most efficient programs to minimize or eliminate any potential assessment while limiting the amount of surplus exposed. The proposed 2017 risk transfer program incorporates strategic elements from the continuation of existing risk transfer program, which includes coverage for the mandatory layer of the Cat Fund, single year or multi-year traditional aggregate reinsurance, coverage for commercial non-residential risks and a multi-year capital market's risk transfer program. Citizens will work with its reinsurance co-brokers in planning for the traditional reinsurance placement. We also anticipate placing a portion of the 2017 risk transfer program in the capital markets. Like the traditional reinsurance placement, staff will bring the program to the Board of Governors during the second quarter of 2017, for formal consideration of all material parameters prior to Citizens making any commitments. There is an action item for the Board's consideration. May I read the formal recommendation?

Chairman Gardner: Please do.

Jennifer Montero: **Staff recommends that the Board approve moving forward on the development of the 2017 risk transfer program strategy for the coastal account by using both traditional and capital markets at the most efficient cost, with the understanding that the risk**

transfer program must be brought back to the Board of Governors for financial approval prior to the execution of any financial transaction.

Chairman Gardner: Thank you, Jennifer. **Is there a motion?**

Governor Brown: **So moved.**

Governor Henderson: **Second.**

Chairman Gardner: **Seeing no objection to the motion, that motion carries.** Thank you, Jennifer.

Jennifer Montero: Thank you.

Chairman Gardner: We are to item four, the investment analytic software.

4. **Investment Analytics Software**

Jennifer Montero: Thank you. On August 10th, 2016, Citizens released Invitation to Negotiate number 16-0015 for investment analytics software. Responses were due September 16, 2016, for respondents who met Citizens' mandatory requirements and were evaluated by the evaluation committee. Two responses were recommended at the public meeting to move forward to demonstrations and negotiations. After demonstrations and negotiations with both vendors the evaluation committee recommended the award of the investment analytic software contract to FactSet Research Systems Limited. They will provide software as a solution to assist Citizens in carrying out its fiduciary responsibility to oversee and report on the invested assets, including monitoring the portfolio with regard to performance and risk, ensuring that portfolios adhere to Citizens' investment policies and providing tools necessary to efficiently, accurately and comprehensively evaluate portfolio performance risks and compliance. The contract amount is not to exceed $2.2 million. The amount includes base contract and two, one year renewals and projected implementation. The contract term is anticipated to be three years, and at Citizens' discretion have two optional one year renewal terms. May I read the formal recommendation?

Chairman Gardner: Please.

Jennifer Montero: **Approve the recommendation award and resulting contract including renewal periods for investment analytic software ITN 16-0015 to FactSet Research Systems Limited, authorize staff to take the appropriate necessary action consistent with the action item, and finally, approve the action item not to exceed $2.2 million.**

Chairman Gardner: Any questions for Jennifer? Go ahead, Bette.

Governor Brown: I have a question, Jennifer. I assume this contract is just for investments that we manage internally?

Jennifer Montero: No, this is the compliance for all of our portfolio.

Governor Brown: Okay, thank you.

Governor Henderson: Jennifer, I guess one question, did we look at outsourcing this? So, we would staff this software and execute this function?

Jennifer Montero: Well, we currently have this software. This is a different vendor. The current vendor's contract was up. So this is a continuation of a service that we already have. It is just with a different vendor. It's not the accounting side, it is the compliance side of tracking the portfolio.

Kapil Bhatia: I can expand Governor Henderson. This is just a web based software where all of the securities are uploaded automatically from the custodian. So that allows us to run the reports which is a very user friendly system. There are no staff involved effectively. It just runs through the compliance overnight. It is just automatic software, which we run different reports, compliance to make sure that it meets all of the criteria in monthly returns so we can validate effectively. There is no human capital, except for running those reports.

Governor Henderson: Very good, thank you.

Chairman Gardner: Any other questions? **Is there a motion?**

Governor Henderson: **Motion to approve.**

Governor Brown: **Second.**

Chairman Gardner: **Seeing no objection the motion carries.** Thank you. We are to item five, the ratification of the 2016 FIC Charter.

5. **2016 FIC Charter – Annual Review**

Jennifer Montero: Thank you. Behind tab five you will find the Finance Investment Committee Charter for your review. There are two versions included, a red line version and a clean version. Each year the Charter is brought to the committee to update. The changes we are proposing are not material. We worked with our financial adviser, Kapil Bhatia, to clarify, basically clean up some of the language. Are there any questions or any additional edits that you have? If not, we will incorporate the proposed changes into the Charter.

Governor Henderson: Does it require a motion, Mr. Chairman?

Chairman Gardner: **Yes, it does.**

Governor Henderson: **So moved.**

Governor Brown: **Second.**

Chairman Gardner: **Seeing no objection the motion carries.** Thank you, Jennifer.
And then finally the investment portfolio update, item six.

6. **Investment Portfolio Update**

Jennifer Montero: Behind tab six you will see the Executive Summary. Citizens' total portfolio market value for October 2016, was $12.42 billion with an average duration of 2.88 years. 71% of the total portfolio is taxable, 29% of the total portfolio is tax exempt, and 91% or $11.35 billion of the total portfolio is managed by 15 external investment managers with an average duration of 3.2 years and 9% is internally managed or $1.07 billion. Citizens' gross total three-year return was 33 basis points above the three-year Treasury. For October 2016, the average one year Treasury yield was .65%, the three-year Treasury yield was 1.04%, and the five-year treasury was 1.31%. Eight percent of the portfolio matures in less than 90 days and 33% of the portfolio matures between one and three years.

Slide two is the interest rates. The taxable one year U.S. Treasury rate has increased 25 basis points over the year ending November 11th, 2016, and the five-year U.S. Treasury rate has decreased three basis points. Tax exempt one year MMD rate has increased 41 basis points and the short term Sifma rate has increased 54 basis points. The third slide is the portfolio summary. It is basically the credit quality distribution between the taxable and the tax exempt. And on the final slide the total portfolio as I mentioned earlier the duration is 2.88, the one year return is 1.86, the income return is 1.34% and the two-year annualized total return is 1.49% and income is 1.19%. And there is an appendix in the back that is the full report if you want to go into any more detail.

Chairman Gardner: Any questions?

Governor Henderson: None here, thank you.

Chairman Gardner: Thank you.

Jennifer Montero: Thank you.

Chairman Gardner: Okay, so is there any new business for the good of the order? Everybody set? All right, this meeting is adjourned, thank you everyone.

(Whereupon, the meeting was concluded.)