CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Tuesday, March 28, 2017

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North in Maitland, FL on Tuesday, March 28, 2017 at 3:30 pm (EDT).

The following members of the FIC were present:

Chris Gardner, Chairman
Jim Henderson
Bette Brown (Telephonically)

The following Citizens staff members were present:

Barry Gilway
Jennifer Montero
Barbara Walker
Andrew Woodward
Dan Sumner
Violet Bloom
Brian Donovan
Michael Peltier
Steve Bitar
Joe Martins
Jay Adams
Paul Kutter

The following people were present:

Kapil Bhatia	Raymond James
Dave Newell	FAIA
Matt Williams	BOA Merrill Lynch
Henry Reyes	JP Morgan
Coleman Cordell	BOA Merrill Lynch
Nathaniel Johnson	JP Morgan

Call Meeting to Order

Barbara Walker took roll.

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

Chairman Gardner made the motion to approve the December 6, 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 Bhatia, you are recognized.

2. **Market Update**

Kapil Bhatia: Good afternoon, Mr. Chairman and Governors. Governor Brown, can you hear me okay?

Governor Brown: Absolutely, thank you.

Kapil Bhatia: For the record, Kapil Bhatia from Raymond James & Associates. I will be very brief today, just talking about the market, where we are. There are currently 7.5 million people unemployed or the unemployment rate is 4.7%. Compared with this time last year there were 7.8 million people unemployed and the unemployment rate was 4.8%. So effectively we have generated 300,000 jobs in the last 12 months. In addition, the U-6 unemployment rate which includes persons marginally attached to the labor force and those employed part time looking for full time work for economic reasons is 9.2% compared to 9.7% last year at this time, and that effectively is down half a percent, or that translates to 1.2 million people of additional jobs. So in total, 1.5 million jobs were created over the last 12 months in this economic cycle. As compared to where the U-6 unemployment rate is and where the U-3 unemployment rate is, if we look at it there are still 15 million people unemployed or under employed who are looking for jobs. Effectively that reflects the structural change and permanent demographic shift in our economy, and that means we still have a lot of slack in the labor force and inflation is going to remain low. That means regardless of where the interest rates are going, they have gone up marginally over the last year and-a-half and are still expected to remain at less than or lower than historical levels.

The Fed has increased rates since December of 2015 three times. December of 2015, December of 2016 and March of 2017. However, if we look at the Treasury rates, five-year or ten-year, that is only up by 10 to 20 basis points. So in December of 2015, the five-year Treasury was 1.76% today it is 1.93%, and 10-year Treasury in December of 2015, was 2.27%, and today it is 2.83%. Effectively the Feds increases had no impact on the long term interest rate, and that reflects the permanent demographic shift in the global labor force as well as those closer to retiring or retiring are adding more money to their savings account creating more demand for the fixed income market in keeping the interest rates low. Just to put it in perspective, the top 22 countries in 2007, their pension funds were $23.7 trillion. At the end of 2016, or in the last 10 years they have grown to $36.4 trillion. There is so much capital available which is going to the fixed income market or to the investment I will talk about it in a couple of minutes and that fits into our reinsurance rates and why reinsurance rates are low. And finally the equity market, all of this money is on auto pilot going to the equity market. The growth of equity market is partially because of economic reasons, partially because of just the inflow of capital, and the inflow on the fixed income side results in the lower interest rates.

For larger economies and global economies central banks in the Euro zone, Japan, Sweden, Denmark and Switzerland are still have short targets rates at negative rates. For example, the Swiss yield for 10 years is still at negative rates. Regardless of where our rates are, the negative rates are Swiss, 10 years as I said, Spain for two years, Denmark for five years, Japan for eight years. Globally negative still rates are still ready prevalent and there are $8.6 trillion of fixed income securities still trading at negative rates. Rates are not going anywhere, even though we would like rates to move up so our investment portfolio would do better, but interest rates are not moving at a sudden pace where everybody is really expecting. So we don't expect Fed to increase rates at least more than once for the rest of this year. The bond market issuance which is good for us if we ever have to go to the market, but in general the corporate issuance have been very strong, 1.5 trillion for the seventh straight year and most of that issuance is really for financial insuring, mergers and acquisitions. We have seen productivity growth is still low globally and not a new capital investment. Muni issuance is also strong, up 12% in 2016 compared to 2015, and we are seeing more money issuance in the marketplace as sales tax and property tax revenues have gone up.

In summary our investment portfolio is doing well, rates are still low. The investment income which Jennifer mentioned in the Audit Committee Meeting was strong in 2016. We expect an incremental income of around $20 to $25 million more in 2017, but not above and beyond that. From a risk transfer market there is enough capital in the marketplace. Traditional markets are at $517 billion, which is almost at an all-time high, and non-traditional market which includes the CAT bonds and the collectivized market is $78 billion which is also almost at all-time high for a total of $595 billion. We expect capital to continue to grow which keeps the reinsurance rates lower and a strong demand and partially some of the non-traditional funds are coming from the pension fund which I talked about earlier and all of that money is coming into this. We expect pension funds to invest another $50 to $100 million in 2017, at least look for the opportunity, and that means the capital markets and non-traditional rates are going to remain low and traditional market is also going to remain low because they are trying to compete with the non-traditional market in keeping the market shares. So we believe the 2017 rates to be five to 10% lower than 2016, as well as a strong demand for our CAT bond issuance as we are working through the structure and exploring whether to do it for the 2017 or not. With that I will stop here to see if you have any questions.

Chairman Gardner: Members, any questions? Great, thank you Kapil, always very informative.

Kapil Bhatia: Thank you.

Chairman Gardner: Next on our agenda is the 2017 risk transfer program update. Jennifer.

3. **2017 Risk Transfer Program Update**

Jennifer Montero: Thank you. Over the last month we have had discussions with multiple traditional reinsurance markets, the feedback has been positive. There seems to be plenty of capacity as Kapil mentioned and pricing continues to be favorable. As you know, the Board approved the calling of the 2015 CAT bond on March 15th. The teleconference on March 21st, the optional termination notice was delivered to the issuer, Everglades Re II and its administrator Horseshoe and to the reinsurance trustee, Deutsche Bank. The reinsurance contract and reinsurance trust agreements are to terminate on the optional termination date of May 3rd, 2017. Over the next month we will continue risk transfer discussions with the capital markets and we will be back to the Board on April 27th, for approval of our entire risk transfer program.

Chairman Gardner: Great, thank you. Members, any questions or comments?

Governor Brown: No questions.

Governor Henderson: None here, thank you.

Chairman Gardner: Great, thank you. Our last item is the investment portfolio update.

4. **Investment Portfolio**

Jennifer Montero: Behind tab four is the investment summary. Citizens' total portfolio market value for January 2017, was $12.14 billion, 71% of the total portfolio is tax annual with 29% of the total portfolio tax exempt. Ninety percent of the total portfolio is managed by 15 external investment managers and 10% is internally managed. Citizens' gross total three-year return was 64 basis points below the three-year Treasury. For January 2017, the average one year Treasury yield was .84%. Three-year Treasury yield was 1.53%, and the five-year Treasury yield was 1.94%. Seven percent of the portfolio matures in less than 90 days and 29% of the portfolio matures between one and three years. The taxable interest rates, the one year U.S. Treasury rate has increased 29 basis points over the 12 month period ending February 17th, 2017. The five year U. S. Treasury rate has increased 70 basis points over the 12-month period ending February 17th. The tax exempt interest rates, the short term SIFMA rate has increased 66 basis points over the 12-month period ending February 17th, and the one year MMD rate has increased 48 basis points over the 12-month period ending February 17, 2017. On page 3 we have the portfolio summary. The total portfolio composition and the taxable portfolio credit quality distribution and tax exempt portfolio credit quality distribution. And on page 4, the total portfolio duration is 3.19 years. The one year total return is .51% and income return is 1.46%. The two-year annualized total return is .73% and income return is 1.26%. There is an appendix in the back of the book that has the detail of the total investment report. If there are any questions that concludes my report.

Chairman Gardner: Thank you, Jennifer. Members, any questions?

Governor Brown: I have a question. Jennifer, I should know this, but your annualized return for example for one and two years is .51 and .73 but the income return is higher. Why is that?

Jennifer Montero: Can you please repeat that?

Governor Brown: Your total return for one year portfolio and two year portfolio are lower than your income return. Why is that? What is the math there?

Kapil Bhatia: Yes. Can you hear me and I was going to go through the answer? I think --

Governor Brown: Yes, I am sorry.

Kapil Bhatia: Thank you. The total return reflects change in unrealized gains or losses, as interest rates go up we have unrealized losses which is reflected in the total return. With the market volatility as the rates go up or down our total return fluctuates much more than income return as most of our portfolio is held until maturity. We really look at income return which is really what is more important for us. Income return is to some extent a true measure and total return reflects volatility as the rates go up or down each day or each month as we come and present the quality report to the Board.

Governor Brown: thank you.

Kapil Bhatia: Thank you.

Chairman Gardner: Thank you. Any other questions? Great, well, thank you. I appreciate your time and we will see you tomorrow morning. This meeting is adjourned. Thank you.

(Whereupon, the proceeding were concluded.)