CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Monday, June 19, 2017

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North in Maitland, FL on Monday, June 19, 2017 at 2:00 pm (EDT).

The following members of the FIC were present:

Chris Gardner, Chairman
Jim Henderson
Bette Brown

The following Citizens staff members were present:

Barry Gilway
Jennifer Montero
Barbara Walker
Andrew Woodward
Dan Sumner
Violet Bloom
Brian Donovan
Kelly Booten
Steve Bitar
Joe Martins
Jay Adams
Paul Kutter
Christine Ashburn
Mona Markell
Karen Holt

The following people were present:

Kapil Bhatia	Raymond James
Dave Newell	FAIA
Henry Reyes	JP Morgan
Nathaniel Johnson	JP Morgan
Mark Weinberg	Citi Group

Call Meeting to Order

Barbara Walker took roll.

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

Chairman Gardner made the motion to approve the March 28, 2017 Finance and Investment Committee (FIC) Minutes. Jim Henderson seconded the motion. All were in favor. Motion approved.

Chairman Gardner: Item two is our market update. Kapil Bhatia, you are recognized.

2. **Market Update**

Kapil Bhatia: Good afternoon, Mr. Chairman, Governor Henderson and Governor Brown. There are currently 6.9 million people unemployed, while the unemployment rate is 4.3%. There are 159 million employed in the labor force or the labor force participation 62.7%, which is still only 0.3% above the lowest rate over the last 40 years. The broader unemployment rate or U-6 is 8.6 % which includes under employed and part time employed due to economic reasons who are looking for full time work. All of this reflects there is a slack in our economy and more of a mismatch between available jobs and available labor force. This is more of a permanent skill set mismatch between the labor force and job openings. And therefore that is keeping the productivity low and low economic growth. The GDP is expected to grow at approximately 2% in 2017, and we don't expect much change in 2018, closer to 2%. And you can see the Fed has increased rates four times since December of 2015. December 2015, December 2016, and then March 2017, and last week. We don't expect any more rate increase this year. The Fed will start to trim its balance sheet marginally as expected by almost $100 to $125 billion this year, but their total balance sheet is four and a half trillion. So it is going to be a very slow, methodical and more or less a meaningless number from the long term perspective.

Even though the Fed has increased rates four times the productivity is low and the GDP is low, in a perspective 10-year rate actually went down, prior to the first Fed increase late in December of 2015, the 10-year Treasury was at 2.23% and today it is trading at 2.18%. It's actually down by five basis points, and the short term rates are up by 100 basis points. The difference between the two and 10-year is at an all-time low which reflects permanent slow productivity and slow growth. The tax plan and fiscal infrastructure plan seems to be at least far away and pushed to 2018, if not to 2019. Our global Pension assets have increased significantly as demographic changes, more people are getting older and with a lower birth rate, that is keeping further pressure on the rates, 10-year Treasury and five-year Treasury rates. Global economies are also struggling. Inflation in Japan, Euros still low, and Brexit still a problem. Rates on nine and a half trillion dollars of sovereign debt globally is still negative. Interest rates are negative to 10 years, Japan until eight, Netherlands until six, Sweden and Denmark until five. And therefore we expect rates to remain low in the U.S. regardless of what happens to the productivity. Corporate bond issuance remains strong with low rates, over $1.5 trillion is expected to be issued again this year. That would be the fifth year in a row. Year to date corporate issuance is $748 billion. Muni issuance is low because of low tax rates, this year it's expected to be around $380 billion. With all of these results and with a low rate, at least from our perspective, reinsurance markets are strong. We have healthy retained earnings, below average CAT losses and total reinsurance capital closer to $600 billion. And our reinsurance placement for 2017, was very strong and well placed. And lastly, the increase in short term rate is good for our investment policy. We expect our investment income to increase by around $15 to $20 million this year as compared to where we were in 2016. With that I will stop and ask if there are any questions.

Chairman Gardner: Are there any questions?

Governor Henderson: None.

Kapil Bhatia: Thank you.

Chairman Gardner: Okay, so we will go to the third item, the 2017 risk transfer program update. Jennifer Montero, you are recognized.

3. <u>2017 Risk Transfer Program Update</u>

Jennifer Montero: Thank you, Mr. Chairman. Good afternoon, Governors. Behind tab three of the FIC section of the committee book, you will find the updated layer charts which represent the 2017 risk transfer program. As I presented at the last FIC meeting the PLA/CLA, exposes 32% of its surplus in a 1-in-100 year event with only CAT fund coverage and no private reinsurance, whereas the coastal account exposes 88% of its surplus in a 1-in-100 year event with only CAT fund coverage. Therefore, the 2017 risk transfer program focused on the coastal accounts only. With its coastal account risk transfer placement, 50% of surplus is protected, which is a 25% increase in protected surplus from last year. During the April 27th Board of Governors teleconference approval was provided for the recommended coastal account reinsurance placement not to exceed $94 million. The final risk transfer program resulted in a combined 2017 traditional reinsurance and capital market's risk transfer placement of approximately $1.3 billion of coverage in the coastal account. That is $1.1 billion less than the $2.4 billion of risk transfer that was purchased last year at a cost of $93 million, which is 48% less than the $181 million costs in 2016.

The 2017 coastal account placement is made up of the following layers. The first layer referred to as the wrap layer works in tandem with the mandatory coverage provided by the Florida Hurricane Catastrophe Fund. The placement provides approximately $350 million of traditional coverage, an excess of $504 million and wraps alongside and above the CAT fund. This layer is a single shot per occurrence which inures to the benefit of the CAT fund and has a rate online of 9%. The 2016 wrap layer had a rate online of 10.25%. The second layer consist of $880 million of coverage. This annual aggregate loss layer is divided between the traditional and the capital market. The traditional placement provides $580 million of annual aggregate in excess of $504 million and consist of both single year and multi-year, $180 million of multi-year and $400 million of single year. The multi-year provides for two limits over three years, both single year and multi-year inures to the benefit of the CAT fund and the wrap layer and both have a rate online of 7%. As you recall in 2016, we reallocated the multi-year annual aggregate to the wrap layer so there were no annual aggregate layers placed in 2016. However, in 2015 the annual aggregate layer was priced at 7.75% for single year and 8.25% for multi-year, and the layer was similar expected loss. The capital market placement provides for a $300 million CAT bonds in excess of $2.151 billion in the same layer. The CAT bond is a three-year annual aggregate bond and does not inures to the benefit of any other layers. The rate online is 5%. Additionally, we placed $100 million of commercial non-residential coverage in excess of $406 million. This layer is a single shot per occurrence with a rate online of 5%. The CNR layer had a rate online of 6% in 2016. The risk transfer program accomplishes all of the goals set forth in our reinsurance strategy. It eliminates the potential of an assessment in a 1-in-100 year event which was accomplished in 2015. It protects surplus, uses aggregate coverage to address the impact of multiple storms, and protects the commercial non-residential exposure which does not have CAT fund coverage, uses multi-year coverage when available and optimizes the use of both traditional and capital market. I will pause for any questions.

Chairman Gardner: Are there any questions? Great, thank you, Jennifer.

Jennifer Montero: Great. Moving on to the investment portfolio update?

Chairman Gardner: Please.

4. **<u>Investment Portfolio Update</u>**

Jennifer Montero: The Executive Summary is on slide one. Citizens' total portfolio market values as of April was $12.26 billion with an average duration of 3.35 years. Seventy one percent of the portfolio is taxable, 29% of the total portfolio is tax exempt and 88% of the total portfolio is managed by 15 external managers, which is about $10.76 billion of the total $12.26 billion and 12% is managed internally. The average one year Treasury yield was 1.05%. The three-year Treasury yield was 1.48%, and the five-year was 1.85%. Fifteen percent of the portfolio matures in less than 90 days and 23% of the portfolio matures between one and three years. The next slide, slide two is the interest rates. On the taxable side the one year U.S. Treasury rate has increased 48 basis points over the 12 months ending May 2017, and the five year U. S. Treasury rate has increased 38 basis points over the same period. On the tax exempt the short term SIFMA rate has increased 36 basis points over those 12 months, and the one year MMD rate has increased 23 basis points. On slide three, the portfolio summary the total portfolio composition, as I mentioned earlier, 88% is externally managed and 12% internally. On the bottom we have the taxable portfolio. We have about 43% in AA, 31% in A and 18% in BBB. On the tax exempt we have 23% in AAA, 60% in AA and 15% in A. Slide four is the portfolio return summary. The total portfolio duration is 3.35 years. The one year total return is .79% and the income return is 1.56%, and the two-year annualized total rate of return is 1.19% and income return is 1.36%. I will take any questions.

Chairman Gardner: Members, any questions?

Governor Henderson: I don't think so, excellent report.

Jennifer Montero: That concludes my report.

Chairman Gardner: Thank you, Jennifer. Is there any new business for the good of the order? Great, we are adjourned, thank you.

(Whereupon, the proceeding were concluded.)