CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE FINANCE AND INVESTMENT COMMITTEE MEETING
Tuesday, December 12, 2017

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North in Maitland, FL on Tuesday, December 12, 2017 at 3:00 pm (EDT).

The following members of the FIC were present:

Chris Gardner, Chairman
Gary Aubuchon
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
Karen Holt
Robert Sellers
Nancy Staff
Michael Peltier
Mark Kagy
Bruce Meeks
Matt Gerrell

The following people were present:

Kapil Bhatia	Raymond James
Dave Newell	FAIA
Nathaniel Johnson	JP Morgan
Mark Weinberg	Citi Group
Doug Draper	Bank of America
Sha'Ron James	Insurance Consumer Advocate

Call Meeting to Order

Barbara Walker took roll.

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

Chairman Gardner made the motion to approve the June 19, 2017 Finance and Investment Committee (FIC) Minutes. Gary Aubuchon seconded the motion. All were in favor. Motion approved.

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

2. **Market Update**

Kapil Bhatia: Good afternoon, Mr. Chairman and Governors. There are currently 6.5 million people unemployed in the U.S. The unemployment rate is 4.1%. The U-6 unemployment rate is 8% which is also known as the broader Unemployment rate and it includes persons marginally attached to the labor force or working part time but looking for full time jobs. Both of these rates are actually lower than prior to 2007 great recession, so we are heading in the right direction. However, labor participation rate is at 62.7%, unchanged from 2014 and down from 66% in 2007. And this translates into eight million people who are not participating in the labor force and that means there is still a slack in the labor force. Since 2007 a number of retired persons have also increased by 12 million and all of this is keeping the wage growth low. In addition, labor has less negotiating power simply because both labor and capital are more global than ever before. Economic growth is also low and expected to remain low in the range of 2.2% and we expect tax reform to add around .3 to .4 % in the economic growth, but still expected to remain below 3%.

The capital investment infrastructure spending is almost at an all-time low and most of the capital raised in the capital markets has been used for financial engineering and not for new investments. In addition there has been no new innovation or discovery in the last 15 years which usually leads to productivity or higher economic growth. All of new technologies which we see every day are leading to low inflation but not high productivity and almost all of the new technologies have shifted economic output from one sector to another sector. For example, Amazon is shifting the resources from retail to Amazon, Uber from transportation, Facebook and Instagram from media. There is no actual increase in productivity, and therefore, the economic growth is relatively low. The same low growth also continues globally. All central banks, starting from ECB, Bank of England, Japanese Central Bank, Bank of Canada, Bank of China and Fed still have very large balance sheets, which is keeping the interest rates low even with the multiple Fed rate increases since December of 2015 and they have done four since then and one more is expected tomorrow.

Ten-year treasuries is only up by 15 basis points from December of 2015, from 2.23% to 2.38%. The Fed has a control over short term rates, but no control over long term rates which reflects where the future inflation expectations of productivity growth are and we expect rates to remain low because of the local activity growth. However, bond market issuance is strong, both in the corporate markets as well as municipal markets and we expect 2018 issuance to be marginally less than 2017, as some of 2018 issuances have been shifted into 2017, especially in the last month due to the corporate side repatriation, or expected repatriation of global profits which are sitting in other country and elimination of advance refunding's and private activity bonds on the municipal side. So we expect 2018 corporate issuance to be less than 2017. However, with all of this said our investment portfolio is doing great. It is strong and stable. We expect 2017 investment earnings to be strong and close to our budget of around $220 million even with the lower portfolio primarily due to redemption of $350 million of tax exempt pre-event debt. Overall our portfolio is stable producing significantly higher returns than 2016. The risk transfer market still has significant capital available even after $200 billion of total losses, including over $100 billion of insured losses after three large hurricane or the wind event as well as a couple of earthquake events and wildfires in California. 2017 losses have cost approximately 10% to reinsurance capital and therefore we expect rates to increase at the lower attachment point specifically for ceding issuers who had some losses. We don't expect our rates to significantly change considering our attachment point, maybe alongside the CAT fund, but we expect overall our rates to remain where they were for the 2017 season. I will stop here to see if there are any questions or any additional details.

Chairman Gardner: Are there any questions?

Governor Aubuchon: 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. 2017 Risk Transfer Program Update

Jennifer Montero: Thank you. Behind tab three are the updated 2017 layer charts. This is the coastal account. The PMLs or the probable maximum loss shown on this layer charts are as of August 31st, to show our risk level preceding Hurricane Irma. The layer charts presented at the June Board meeting showed PMLs projected to be end of June in order to show risk exposure at the beginning of hurricane season. The 1-in-100 year PML decreased from $4.29 billion at June 30th, to $3.96 billion at August 31st, a decrease of $325 million or 7.6%. The coastal account contracted more than originally projected due to both depopulation and organic movement of commercial business to the private admitted and E&S markets. This decrease in PMLs caused our percentage of pre-hurricane loss surplus exposed in a 1-in-100 year event to fall from 50% projected in June to 42% as of August 31st. In other words, at August 31st, 58% of the coastal accounts surplus was protected in a 1- in-100 year event. The actual Florida Hurricane Catastrophe Fund or CAT fund retention and coverage are based on our in force data as of June 30th. Therefore any layer charts produced prior to that time are projections.

The August 31st layer chart shows a slight lower CAT fund coverage amount, $1.25 billion versus the estimated $1.3 billion of coverage at June 30th, which is a $50 million decrease. A company's

CAT fund coverage is based on its CAT fund exposure share of the $17 billion statewide CAT fund coverage. Citizens' final coverage amount has not been determined until the CAT fund finalizes the review of all covered companies data. The CAT fund generally releases the information necessary to make that final coverage determination in early January. Based on preliminary information released by the CAT fund at the end of November the $1.25 billion coverage could possibly creep back up to the original estimate of $1.3 billion, but that remains unknown until January of 2018. There was also a minor reduction of the CAT fund retention level or attachment point. The reduction of $38 million or $429 million at August 31st, compared to the $467 million estimate at June 30th.

Moving to the PLA/CLA layer chart. As with the coastal account, the PMLs shown on the PLA/CLA layer chart are as of August 31st. The 1-in-100 year PML decreased from $2.33 billion at June 30th to $2.15 billion at August 31st. The personal lines account experienced less growth than initially projected, while the commercial lines account experienced similar reductions in exposure as the commercial business in the coastal account did. Projected CAT fund coverage also decreased slightly from $1.04 billion to $989 million, a decrease of $52 million, or 5%, as with the coastal account. The final PLA/CLA CAT fund coverage amount will not be determined until January 2018. The PLA/CLA percentage of pre-hurricane surplus exposed in a 1-in-100 year event decreased from 32% to 28% at August 31st, primarily due to the reduction in PML which outweighed the smaller decrease in CAT fund coverage. That completes my update on the layer charts.

Chairman Gardner: Thank you, Jennifer. Any questions for Jennifer? Great, thank you. We are to item four, the FIC charter annual review.

4. **2017 FIC Charter Annual Review**

Jennifer Montero: Yes, behind tab four is the Finance and Investment committee charter. Each year we bring the charter to the committee, the FIC committee with any recommended changes. We do not have any changes for this year.

Chairman Gardner: Great. Do we need to ratify that and approve it again?

Jennifer Montero: Yes, please.

Chairman Gardner: Okay, is there a motion to approve the FIC charter with no changes?

Governor Brown: So moved.

Governor Aubuchon: Second.

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

Jennifer Montero: Thank you.
Chairman Gardner: We are to item five, the 2017 investment policy changes.

5. **<u>2017 Investment Policy changes</u>**

Jennifer Montero: Yes, this has an action item with it. I will go over the changes. For the global taxable policy changes, we had changes in the rating requirements from a minimum rating of Baa2/BBB, to an average rating of Baa2/BBB with no ratings below Baa3/BBB-. This change increases diversification with minimal additional credit risk. We want to include equipment loans and asset-backed securities. This will expand the available security universe and increase diversification without additional credit risk. Include a single issuer exposure limit of .75% of the portfolio for the asset-backed securities. This will minimize credit risk of a single issuer. Increase asset-backed security composition percentage from five to 7.5% with a taxable claims paying fund and taxable claims paying long duration fund. This increase will allow Citizens to diversify its asset-backed securities portfolio. Increase duration for the taxable claims paying fund and the taxable claims paying long duration fund in order to allow Citizens to take advantage of the incremental yield from duration. Increase percentage of taxable claims paying fund portfolio from 20 to 25% for securities with final maturities between 85 and 121 months, and increase the percentage of taxable claims paying long duration portfolio from 20 to 25% for securities with final matures between 12 years and 15 years and one month.

For the taxable liquidity fund we want to increase corporate floating rate note composition percentage from 35 to 50%, to allow Citizens to take advantage of rising short term interest rates and provides a natural hedge for any interest rate increases. And finally, the taxable claims paying long duration fund we want to increase the corporate composition from 70 to 75%, and reduce Treasury/Agency composition from 30 to 25%. This increase will generate incremental yield. Any questions about any of these proposed changes? And there is a red lined version and a clean version in your FIC book.

Chairman Gardner: Thank you.

Governor Brown: Yes, I have a question. Including the single issuer exposure limit, is that a new thing or is that an increase in the limit or a decrease in the limit? Is that a new line item or is it a change to existing?

Kapil Bhatia: Governor Brown, we actually have this right now at half a percent.

Governor Brown: 100 percent, or half a percent?

Kapil Bhatia: One half of one percent, right now and we are increasing that to 75 basis points to get the incremental yield. As we are increasing the total exposure from 5% to 7½%.

Governor Brown: Okay. Understood. Thank you.

Chairman Gardner: Do you have anything further? Great, thank you.

Jennifer Montero: Can I read the formal recommendation for the action item?

Chairman Gardner: Please.

Jennifer Montero: **Staff requests that Citizens Finance and Investment Committee recommend to the Board of Governors approval of the changes to Citizens investment policy duration, credit quality and composition for the taxable liquidity fund, taxable claims paying fund and taxable claims paying long duration funds specified in the action item effective January 2nd, 2018.**

Chairman Gardner: **Is there a motion?**

Governor Brown: **So moved.**

Governor Aubuchon: **Second.**

Chairman Gardner: **No objection. That motion carries, thank you.**

Jennifer Montero: Thank you.

6. **Investment Portfolio Update**

Jennifer Montero: Thank you, behind tab six, on slide one, the total portfolio is $11.11 billion, the taxable portfolio is $8.75 billion which is approximately 79%, the tax exempt is approximately $2.36 billion, which is 21%. However, $350 million of the tax exempt securities were called and redeemed on December 1, 2017. So the current tax exempt portfolio is approximately $2 billion. This report is as of October. The total portfolio average duration is 3.96 years with 4% maturing in less than 90 days and 19% maturing between one and three years. The total portfolio return for one year is 1.45%. The taxable portfolio return for one year is 1.43%, and the tax exempt return for one year is 1.03%. Lastly, we sold $1 billion of taxable securities prior to Hurricane Irma to fund and pay for potential claims. The sales of the securities generated $17 million in realized gains.

On slide two, rates for the one, three and five-year treasuries have been increasing over the last year and are .84%, .5% and .32% higher respectively. The tax exempt rates are marginally higher over the last year. On slide three, 85.51% or $9.4 billion of the portfolio is externally managed by 15 money managers. Fifteen percent or $1.7 billion of the portfolio is internally managed, consisting of operating funds, debt service funds and debt service reserve funds. Taxable and tax exempt portfolios both have very strong credit quality. Eighty-six percent of the tax exempt portfolio is rated AA or higher, and approximately 58% of the taxable portfolio is rated AA or higher. Twenty-nine percent of the taxable portfolio are in Treasury and agency securities. And slide four is the total portfolio return summary, 1.45% of the total and 2% of income return over the last 12 months, duration of 3.96 years. And there is a full report in the appendix and that completes the investment report executive summary.

Chairman Gardner: Thank you, Jennifer. Members, any questions for Jennifer or Kapil? Great, thank you. I see item seven for information for the Depopulation and Clearinghouse update. Barry and I spoke I think about moving depopulation to FIC because right now we are light in activity and we will make adjustments to that as activity arises. So I don't think we have anything today, do we?

Jennifer Montero: I know there is a Depopulation Clearinghouse update behind tab seven, but it is just for informational purposes only. I would be happy to answer questions or have Mr. Bitar help answer questions if you have any.

Chairman Gardner: Okay. Members, any questions? Okay. Great, I will take a motion to adjourn.

Governor Aubuchon: So move.

Governor Brown: Second.

Chairman Gardner: Thank you. Motion to adjourn.

(Whereupon, the proceeding were concluded.)