

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Tuesday, June 19, 2018**

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at the Sheraton Orlando North in Maitland, FL on Tuesday, June 19, 2018 at 2:00 pm (EDT).

The following members of the FIC were present:

Chris Gardner, Chairman
Gary Aubuchon
Bette Brown
Marc Dunbar (Telephonically)

The following members of the Board were present:

Blake Capps
John Wortman

The following Citizens staff members were present:

Barry Gilway
Jennifer Montero
Andrew Woodward
Dan Sumner
Kelly Booten
Steve Bitar
Joe Martins
Jay Adams
Christine Ashburn
Mark Kagy
Stephen Guth
Violet Bloom
Karen Holt
Nancy Staff
Bonnie Gilliland

The following people were present:

Kapil Bhatia	Raymond James
Dave Newell	FAIA
Fred Straus	Holborn Corp.
Eugenio Alarcon	J.P. Morgan
Nathaniel Johnson	J.P. Morgan

Jeremy Ginter	Willis Re
George Smith	Bryant Miller Olive
Mark Weinberg	Citigroup
Matt Williams	Bank of America
Margaret Lezcano	Stifel Nicolaus

Call Meeting to Order

Bonnie Gilliland took roll.

1. Approval of Prior Meeting's Minutes

Chairman Gardner made the motion to approve the April 10, 2018 Finance and Investment Committee (FIC) Minutes. Gary Aubuchon seconded the motion. All were in favor. Motion approved.

Chairman Gardner: We are to item two, market update. I would like to recognize Kapil Bhatia from Raymond James.

2. Market Update

Kapil Bhatia: Thank you, good afternoon, Mr. Chairman and Governors. I will be very brief to give you where we are in terms of the market and economic conditions. Hopefully you can hear me clearly. There are currently 6.1 million people unemployed, or the unemployment rate is 3.8%. In addition, there are 162 million civilians employed in the U.S from a total civilian population of 257 million and the labor participation rate is 62.7%. As compared to the labor participation rate of 67% 20 years ago in July of 1997, which was the highest. The U-6 unemployment rate which includes persons marginally attached to the labor force and those employed part time due to economic reasons is 7.6%. If we adjust for all of the numbers, the lower participation rate as relates to the difference between U-6 unemployment rate of 7.6% and the most commonly used unemployment rate of 3.8%, there are effectively 12 to 15 million people still on the sidelines looking for a job. That is one of the reasons there is no wage pressure in the economy. I also want to compare the labor statistics going back to 2007, right after the financial crisis. Since that point in time the unemployment rate is down by 1.2% for both U-3 and U-6. The labor force participation is down by 3%. The number of retired workers currently on Social security has increased by 10 million. So even though the unemployment rate is low, there are more younger workers in the labor force and that is also keeping the wage pressure low and the wages low, and certainly that means there is no inflation as we see and hear in the numbers.

Even though the Fed has increased the rates once in 2015, once in 2016, three times in 2017 and then again so far twice in 2018, that adds up to seven rate increase since December of 2015. The Fed fund rate is still at the low level of 1.75 to 2% and that increased two year rates significantly higher. However, the 10-year rates have not increased. So Fed effectively has no control over the long term rates and that reflects a slow global economic growth as well as the U.S.

economic growth is still struggling to go over or approach the three percent level. Looking at the economic growth over the last five years on average, the economic growth in U.S. has been 2.3%, compared to the global economic growth of around half a percent and Japanese growth at negative and that is putting that pressure on interest rates and that is one of the reasons global interest rates are still very low and not expected to change much. Even though the second quarter the GDP growth number is expected to be around 4%, however, that is a temporary effect because of the tax cuts and the reappropriation. We don't expect the U. S. growth to be higher than 2.7% in 2019 after the onetime adjustments have been done. Talking about interest rates, globally still there is a nine trillion worth of sovereign debt trading at negative yields, and almost all in Europe the five year rates are still negative and the only reason the Treasury rates are where they are is because where the dollar is and what the hedging cost is. Once the dollar gets stronger we expect rates to come down and we don't expect 10-year treasury rates to go over 3% regardless of what Fed does over the next six months.

And lastly, the bond market issuance, the 2017 corporate issuance was almost \$1.67 trillion, which was far greater than 2016 and we have been issuing over \$1 trillion since 2011. The 2018 corporate debt rate issuance is expected to be closer to \$1.2 billion because corporate entities are issuing less debt because of the reappropriation of the foreign cash which they are bringing home and they don't need to issue as much debt as they have historically for mergers and acquisitions and for stock buy backs. And on the municipal side, 2017 and 2016 were strong with over \$400 billion of issuance. 2018 is relatively much smaller just because of the tax law changes as well as the interest rates have gone up, so there is not much savings refunding's. We expect this year the issuance to be closer to \$250 to \$275 billion. Risk transfer markets on the other hand are very strong, even after the 2017 hurricane losses which evaporated approximately 10% of global reinsurance capital, but it was not really a surprise. The Irma, Harvey and Maria losses were of large size, but because it was not a surprise, everybody was expecting a couple of those large events and the reinsurance market was prepared to absorb that. So it was more of an earnings event than actually a capital event and we have not seen any rate increases regardless of the wishful thinking by the reinsurers, rates are still where we were in 2017. The Florida market has seen a rate increase of 1% all adjusted from 2017, and Jennifer will talk more about it where the reinsurance rates are for our placement in 2018. And lastly, the CAT bond markets are very strong. Last year we ended at \$31 billion in total outstanding CAT bonds. This year we expect that number to be closer to \$37 billion. So the alternative capital from other sources are coming into the risk transfer market and that is one more reason the reinsurance rates are where they are. With that I will stop to see if there are any questions.

Chairman Gardner: Thank you, Kapil. Members any questions? Great, thank you.

Kapil Bhatia: Thank you.

Chairman Gardner: Moving to the next item is the risk transfer update. Jennifer Montero, you are recognized. Good afternoon.

3. Risk Transfer Updates

Jennifer Montero: Good afternoon, thank you. Behind tab three are the layer charts, the 2018 layer charts. Following the May 8th Board of Governors teleconference approving our risk transfer program we priced the 2018 CAT bonds and closed the bonds on May 15th, 2018. We initially went to market seeking \$200 million in coverage. However, strong demand led to us being oversubscribed which allowed us to increase the CAT bond to \$250 million at a rate online of 4.75%. This 2018 CAT bond sits in the same \$880 million layer as the \$300 million layer in 2017 CAT bond which reset at 4.92% rate online. After evaluating the pricing quotes for the traditional layers we sent out the firm order terms following the May 8th teleconference and signed the final lines on May 23rd. As with the CAT bond, due to strong demand we were oversubscribed on traditional layers as well. The first layer provides \$183 million of traditional coverage alongside the mandatory layer of the CAT fund, and has a rate online of 10.75%. The aggregate multi-year layer which sits right above the first layer and is in the same \$880 million layer as the CAT bonds in the 2017 traditional aggregate multi-year placement provides \$150 million of traditional coverage at a rate online of 6.6%. This single year aggregate layer which is right above the multi-year aggregate layer provides \$300 million of coverage with a rate online of 5.25%. The final layer which you will find on the second page of the coastal account layer charts provides \$60 million of commercial non-residential coverage with a rate online of 5%. For the 2018 hurricane season our private reinsurance program totals \$1.423 billion in coverage with an overall rate online of 6.02% compared to 6.92% rate online for the \$1.3 billion in coverage in place for the 2017 hurricane season. Additionally, we are protecting 66% of our surplus in a 1-in-100 year event as compared to 50% in 2017. And that completes my update.

Chairman Gardner: Any questions for Jennifer? Great job that is 12 or 13% reduction in cost, very creative and great job Kapil, in leading and advising and our reinsurance brokers and banker partners. So another fantastic job. Thank you, Jennifer. Okay, the next item looks like an action item, custodian banking services.

4. Custodian Banking Services Renewal

Jennifer Montero: Yes, it is a contract, it is a result of Invitation to Negotiate 12-003 which was originally issued in February of 2012, for services relating to custodian banker services. The resulting contract was issued in November of 2012, and has two, one year renewals. This will be the second one year renewal. The purpose of the consent item is to obtain authorization for a second one year renewal of contract number 12-11-003-00 for custodian banking services. Are there any questions?

Chairman Gardner: Any questions for Jennifer?

Governor Aubuchon: I do have a question. What exactly is custodian banking services?

Jennifer Montero: The custodian bank is actually where all the securities are kept. They are the custodian bank. So when our investment managers are investing our funds this is where all of the securities are.

Governor Aubuchon: Thank you.

Chairman Gardner: Go ahead, Jennifer.

Jennifer Montero: Okay, **it is recommended that Citizens Board approve the second contract renewal for one year to the Bank of New York Mellon for custody banking services based on .275 basis points, market value of active portfolios and estimated amount of \$300,000 for this renewal and authorize staff to take any appropriate or necessary actions consistent with the consent item.**

Chairman Gardner: Thank you. Any discussion?

Governor Dunbar: Mr. Chairman, this is Mark Dunbar. Can I put something on the record before we move forward with the vote?

Chairman Gardner: Absolutely.

Governor Dunbar: Yes, I will be filling out a Form 8-A¹. I was just informed this morning by my law firm that we do some work for Bank of New York Mellon. So I just wanted to go ahead and state that on the record and my Form 8-A will be coming soon behind it. So I will be abstaining from this vote.

Chairman Gardner: Great, thank you very much. Any other questions or comments? **Is there a motion?**

Governor Brown: **Move to approve.**

Governor Aubuchon: **Second.**

Chairman Gardner: **No objection, that motion carries.** We are to item five, the investment portfolio update.

5. Investment Portfolio Update

Jennifer Montero: The total portfolio is \$9.91 billion with approximately \$8.7 billion externally managed and \$1.2 billion internally managed. The taxable portfolio is \$7.96 billion or approximately 80%. The tax exempt portfolio is about \$1.95 billion, which is about 20%. The total portfolio average duration is slightly over four years with 4% maturing in less than 90 days, at 27% maturing between 90 days and three years. The total portfolio income return for one year is 2.42%. On slide two, interest rates, the rates for one, three and five year treasuries have been increasing over the last year and currently are 2.32%, 2.67% and 2.8% respectively while the yield curve is getting flatter. Tax exempt rates have also increased similarly over the last year. On slide three, 88% of the portfolio is externally managed by 15 taxable and/or tax exempt portfolio managers. Twelve percent of the portfolio is managed internally consisting of operating funds,

¹ Form 8-A *attached*

debt service funds and debt service reserve funds. Taxable and tax exempt portfolios have very strong credit quality, 87% of tax exempt portfolios are either in the money market funds or are invested in securities rated AA or higher and approximately 82% of the taxable portfolio is either in money market funds or are invested in securities rated A or higher. Over 27% of the taxable portfolio is in Treasury and agency securities. And on slide four, the total portfolio return summary, 2.24% of income return over the last 12 months and 2.03% over the last two years. And there is an appendix with a full report following that tab.

Chairman Gardner: Thank you, Jennifer. Members, any questions? Okay, thank you. We are to, for information, depopulation and Clearinghouse update is not part of the agenda, per se, unless anyone has any questions or comments or would like clarification. I see Steve back there with a smile on his face, ready, willing and able. Okay, hearing none, I will accept the motion to adjourn.

Governor Aubuchon: So moved.

Governor Brown: Second.

Chairman Gardner: Thank you. Motion to adjourn.

(Whereupon, the proceeding were concluded.)

FORM 8A MEMORANDUM OF VOTING CONFLICT FOR STATE OFFICERS

LAST NAME—FIRST NAME—MIDDLE NAME <p style="text-align: center;">Dunbar, Marc Wesley</p>	NAME OF BOARD, COUNCIL, COMMISSION, AUTHORITY, OR COMMITTEE <p style="text-align: center;">Citizens Property Insurance Company</p>
MAILING ADDRESS <p style="text-align: center;">7335 Ox Bow Circle</p>	NAME OF STATE AGENCY
CITY Tallahassee COUNTY Leon	MY POSITION IS: <input type="checkbox"/> ELECTIVE <input checked="" type="checkbox"/> APPOINTIVE
DATE ON WHICH VOTE OCCURRED <p style="text-align: center;">June 19 and 20, 2018</p>	

WHO MUST FILE FORM 8A

This form is for use by any person serving at the State level of government on an appointed or elected board, council, commission, authority, committee, or as a member of the Legislature. It applies to members of advisory and non-advisory bodies who are presented with a voting conflict of interest under Section 112.3143, Florida Statutes.

Your responsibilities under the law when faced with voting on a measure in which you have a conflict of interest will vary greatly depending on whether you hold an elective or appointive position. For this reason, please pay close attention to the instructions on this form before completing and filing the form.

INSTRUCTIONS FOR COMPLIANCE WITH SECTION 112.3143, FLORIDA STATUTES

ELECTED OFFICERS:

As a person holding elective state office, you may not vote on a matter that you know would inure to your special private gain or loss. However, you may vote on other matters, including measures that would inure to the special private gain or loss of a principal by whom you are retained (including the parent or subsidiary or sibling organization of a principal by which you are retained); to the special private gain or loss of a relative; or to the special private gain or loss of a business associate. If you vote on such a measure or if you abstain from voting on a measure that would affect you, you must make every reasonable effort to disclose the nature of your interest as a public record in a memorandum filed with the person responsible for recording the minutes of the meeting, who shall incorporate the memorandum in the minutes. If it is not possible for you to file a memorandum before the vote, the memorandum must be filed with the person responsible for recording the minutes of the meeting no later than 15 days after the vote.

For purposes of this law, a "relative" includes only your father, mother, son, daughter, husband, wife, brother, sister, father-in-law, mother-in-law, son-in-law, and daughter-in-law. A "business associate" means any person or entity engaged in or carrying on a business enterprise with you as a partner, joint venturer, coowner of property, or corporate shareholder (where the shares of the corporation are not listed on any national or regional stock exchange).

A member of the Legislature may satisfy the disclosure requirements of this section by filing a disclosure form created pursuant to the rules of the member's respective house if the member discloses the information required by this subsection, or by use of Form 8A.

* * * * *

APPOINTED OFFICERS:

As a person holding appointive state office, you are subject to the abstention and disclosure requirements stated above for Elected Officers. You also must disclose the nature of the conflict before voting or before making any attempt to influence the decision by oral or written communication, whether made by you or at your direction.

For purposes of this law, a "relative" includes only your father, mother, son, daughter, husband, wife, brother, sister, father-in-law, mother-in-law, son-in-law, and daughter-in-law. A "business associate" means any person or entity engaged in or carrying on a business enterprise with you as a partner, joint venturer, coowner of property, or corporate shareholder (where the shares of the corporation are not listed on any national or regional stock exchange).

IF YOU INTEND TO MAKE ANY ATTEMPT TO INFLUENCE THE DECISION PRIOR TO THE MEETING AT WHICH THE VOTE WILL BE TAKEN:

- You must complete and file this form (before making any attempt to influence the decision) with the person responsible for recording the minutes of the meeting, who will incorporate the form in the minutes.
- A copy of the form must be provided immediately to the other members of the agency.
- The form must be read publicly at the next meeting after the form is filed.

IF YOU MAKE NO ATTEMPT TO INFLUENCE THE DECISION EXCEPT BY DISCUSSION OR VOTE AT THE MEETING:

- You must disclose orally the nature of your conflict in the measure before participating.
- You must complete the form and file it within 15 days after the vote occurs with the person responsible for recording the minutes of the meeting, who must incorporate the form in the minutes. A copy of the form must be provided immediately to the other members of the agency, and the form must be read publicly at the next meeting after the form is filed.

DISCLOSURE OF STATE OFFICER'S INTEREST

Marc Dunbar

I, _____, hereby disclose that on June 19 and 20, 20 18 :

(a) A measure came or will come before my agency which (check one or more)

- inured to my special private gain or loss;
- inured to the special gain or loss of my business associate, _____ ;
- inured to the special gain or loss of my relative, _____ ;
- inured to the special gain or loss of a client of my law firm, by whom I am retained; or
- inured to the special gain or loss of _____, which is the parent, subsidiary, or sibling organization of a principal which has retained me.

(b) The measure before my agency and the nature of my conflicting interest in the measure is as follows:

The following item came before the Finance and Investment Committee for Citizens Property Insurance Company on which I serve as member:

Custodian Banking Services – Contract Renewal Contract Number: 12-11-0003-00
Vendor: The Bank of New York Mellon

The matter was a consent item to renew and extend the contract for the Bank of New York Mellon.

The Bank of New York Mellon is a client of my law firm, Jones Walker, LLP.

If disclosure of specific information would violate confidentiality or privilege pursuant to law or rules governing attorneys, a public officer, who is also an attorney, may comply with the disclosure requirements of this section by disclosing the nature of the interest in such a way as to provide the public with notice of the conflict.

June 19, 2018

Date Filed



Signature

NOTICE: UNDER PROVISIONS OF FLORIDA STATUTES §112.317, A FAILURE TO MAKE ANY REQUIRED DISCLOSURE CONSTITUTES GROUNDS FOR AND MAY BE PUNISHED BY ONE OR MORE OF THE FOLLOWING: IMPEACHMENT, REMOVAL OR SUSPENSION FROM OFFICE OR EMPLOYMENT, DEMOTION, REDUCTION IN SALARY, REPRIMAND, OR A CIVIL PENALTY NOT TO EXCEED \$10,000.