☒ **ACTION ITEM**	☐ **CONSENT ITEM**
☐ **New Contract**	☐ **Contract Amendment**
☐ **Contract Amendment**	☐ **Existing Contract Extension**
☒ **Other Committee Minutes**	☐ **Existing Contract Additional Spend**
	☐ **Previous Board Approval**______________
	☐ **Other**________________________________

Action Items: Items requiring detailed explanation to the Board. When a requested action item is a day-to-day operational item or unanimously passed through committee it may be moved forward to the board on the Consent Index.

☐ **Move forward as Consent**: This Action item is a day-to-day operational item, unanimously passed through committee or qualifies to be moved forward on the Consent Index.

Consent Items: Items not requiring detailed explanation to the Board of Governors. Consent items are contract extensions, amendments or additional spending authorities for items previously approved by the Board.

Item Description	The Finance and Investment Committee meeting Minutes July 13, 2021
Purpose/Scope	Review of the July 13, 2021 Finance and Investment Committee to provide opportunity for corrections and historical accuracy.
Contract ID	N/A
Budgeted Item	☐Yes ☒No
Procurement Method	N/A
Contract Amount	N/A
Contract Terms	N/A
Committee Recommendation	Staff recommends the review and approval of the July 13, 2021 Finance and Investment Committee minutes.
CONTACTS	Jennifer Montero, CFO

CITIZENS PROPERTY INSURANCE CORPORATION

MINUTES OF THE
FINANCE AND INVESTMENT COMMITTEE MEETING
Tuesday, July 13, 2021

The Finance and Investment Committee (FIC) of Citizens Property Insurance Corporation (Citizens) convened at the Orlando Marriott Lake Mary Hotel on Tuesday, July 13, 2021.

The following members of the FIC were present:

Lazaro Fields
Carlos Beruff
Marc Dunbar
Erin Knight

The following members of the Board were present:

Jillian Hasner
Nelson Telemaco
Scott Thomas

The following Citizens staff members were present:

Jennifer Montero
Barbara Walker
Barry Gilway
Kelly Booten
Tim Cerio
Christine Ashburn
Jay Adams
Joe Martins
Violet Bloom
Jeremy Pope
Michael Peltier
Andrew Woodward

The following people were present:

Kapil Bhatia	Raymond James
Coleman Cordell	Bank of America
Nathaniel Johnson	Bank of America
Doug Draper	Bank of America

Call Meeting to Order

Barbara Walker: Good afternoon, and welcome to Citizens July 13, 2021, Finance and Investment Committee that is publicly noticed in the Florida Administrative Register to convene immediately following the Audit Committee. Those in attendance through the public link are automatically in listen only mode. Video today will be presentation viewing only. Citizens Board and Committee Meetings are recorded with transcribed minutes available on our website. Thank you for identifying yourself prior to addressing the committee. I will proceed with roll call. Chairman Lazaro Fields?

Chairman Fields: Here.

Barbara Walker: Board Chair, Carlos Beruff?

Governor Beruff: Here.

Barbara Walker: Governor Mark Dunbar?

Governor Dunbar: Here.

Barbara Walker: Governor Erin Knight?

Governor Knight: Here.

Barbara Walker: Chairman, you have a quorum.

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

Chairman Fields: Thank you very much, good afternoon everybody, and first I would like to take a moment to welcome our new member, Governor Erin Knight to our Finance and Investment committee. Now, I would like to take up the first item which is the approval of the prior meetings **Minutes from the March 12th of this year. Is there a motion?**

Governor Dunbar: **So, moved.**

Governor Knight: **Second.**

Chairman Fields: All those in favor signify by saying aye.

(Chorus of ayes.)

Chairman Fields: **Motion carries**. All right, we will move next to agenda item the Raymond James market update. Mr. Bhatia, good afternoon.

2. <u>Raymond James Financial Advisor</u>

a. Market Update

Kapil Bhatia: Good afternoon, Mr. Chairman and members, Board members. For the record, my name is Kapil Bhatia, I work for Raymond James & Associates, and we are your financial adviser. I will briefly go over the market update, but please stop me at any point of time for any questions or any additional clarification or comments. The unemployment rate was relatively stable in June at 5.9% with 9.5 million unemployed persons. While the nonfarm payroll employment rose by approximately 850,000. These unemployment measures are considerably down from their recent highs in April of 2020 but remain well above their levels prior to the COVID crisis, however, in February of 2020, the unemployment rate was 3.5% and unemployed people or persons were 5.7 million. So, we are still looking at approximately four million additional unemployed people. The labor force participation rate was relatively unchanged from the prior month at 61.6% which is 1.7% below where we were in February of 2020, and the U6 unemployment rate, which is really the true unemployment rate and includes people who are underemployed, marginally employed or have stopped looking for work which reflects the true unemployment record in our mind, is close to 9.8%. So, there is a significant population available to join the labor force as we go through the next couple of months. The total persons claiming unemployment insurance benefit in the middle of June was approximately 14.7 million. In the U.S. multiple federal stimulus packages in the total amount of approximately $5.8 trillion have been passed to shore up the economic conditions and financial markets and to bring back businesses and individuals from the COVID crisis. The U.S. federal reserve funds target rate is still between zero and 25 basis points, and we don't expect that to change until the end of this year and the fed is in full quantitative easing mode and above and beyond, and the current balance sheet is $8 trillion as compared to $4.2 trillion when 2020 started or right before the COVID crisis, so the fed has increased its balance sheet by 90% and we are all wondering where is that money going. But at the same time if you look at the equity market when it hit bottom right before the COVID crisis or the middle of March, since then the equity market is up by 90%. So, Fed's balance sheet is up by 90 percent and equity market is up by 90%. So, most of this additional liquidity and capital is going to the asset market and that may lead to some asset inflation and asset bubble as we see it unless the GDP were to increase. The real GDP increased by 3.5% in 2020, from the 2019 level. We expect GDP to increase by around 6.5% to 7% in 2021, and that is all because of federal stimulus packages. Next year we expect it to slow down to around four and-a-half percent and then back to normal growth rate of somewhere in the range of 1.9% to 2.1% what we have seen over the last 10 to 12 years.

Again, going back to the equity markets, in 2020 the equity market increased by approximately 10%, -14% for S&P 500 and 5% for Dow Jones - and so far, that growth has continued in 2021 and actually have escalated. The markets are up by 15% in the first half of this year, and we expect that to continue as the growth continues, but probably the growth rate will slow down in 2022. Interest rates, fixed income markets have seen interest rates recover to some extent in 2021 as the economy is coming back, and we expect that to continue as the vaccine roll out continues. As of this moment, 48% of the U.S. population is fully vaccinated and around 70% at least have one shot. We expect both numbers to increase and that will reflect in the continued opening up the economy, however, we continue to expect that at the same time interest rates to remain range bound at least for 2021. The five-year treasury somewhere between 65 basis points to 1%. Currently it is trading around 79 basis points, and 10-year treasury between 1.30% to 1.65%, and currently it is trading at 1.35%. Corporate credit spreads have compressed as the economic conditions have continued to improve, and are currently at 80 basis or even less than where we were before the COVID crisis. We expect spreads to widen, go back to the 95 to 100 basis points for the investment grade credit where we were in the early 2020. Currently the one to 10-year yield curve is approximately 22% to 94% lower than the five-year average, and approximately 30% to 89% lower as compared to the 10-year average. So, we are looking at historically low rates and that shows up in the corporate and municipal issuances. Looking at the corporate issuance, in 2020, $2.3 trillion of corporate debt was issued which was significantly larger than what was done in 2019 or $1.4 trillion. So far in 2021 or for the past six months $1.1 trillion has been issued and we expect to end 2021 approximately $1.9 trillion of total corporate issuance, which is 20% less than 2020 as the corporate balance sheets are stronger and as the economic growth continues, in addition, with all of the corporate issuances in 2020 and corporations have enough liquidity on the balance sheets. Municipal issuance in 2020 was $484 billion compared to $400 billion in 2019, and we expect 2021 to be back somewhere in the range of 400 to $425 million. Overall, fixed income markets are strong, both tax exempt and taxable, as evidenced by the large issuances.

And lastly looking at the risk transfer markets which Jennifer will go into more details about our 2021 placement of the risk transfer program, but risk transfer pricing is better in 2021 as compared to the 2020. The reinsurers paid approximately $275 billion of losses between 2017 and 2019. And in addition, the global reinsurance industry has been impacted by COVID losses, social inflation, current and previous years Cat events and we expect those numbers to slow down unless there is any new event. And lastly, Florida market is the still experiencing slow down or dislocation due to litigation and social inflation in Florida, but the national reinsurance market is much better. 2021 pricing is better than 2020, especially in the capital markets as alternative capital has flowed into the market because of the low interest rates and investors are looking for high returns and capital markets on the reinsurance side provides that higher return. While the traditional markets are stable but marginally higher than 2020. So overall reinsurance markets are stable, however, collectively, marginally higher than where we were in 2020. And lastly on the investment side, our portfolio is very stable generating strong return and Jennifer will go through more details. I will stop and happy to answer any questions.

Governor Beruff: Mr. Chair. Where does Raymond James think with the world awash in capital, why are 10-year treasury bills going down on yield? And inflationary pressures are everywhere we turn anyway.

Kapil Bhatia: We believe the inflationary pressures are transitory. You can look at the lumber prices were up 25% in the first three months and they're back and actually less than where the year started. All of this inflation is basically lack of resources from supply chain dislocations, not just in U.S., globally. As for last, the unemployment insurance which is available till September. So, it is a supply disruption, we don't believe this inflation to the permanent, what fed has been saying all along, and you can see 10-year treasury reflecting that. That is one reason. And second reason, the global markets are still struggling. So, there is negative yields, approximately $10 trillion of sovereign issues are trading at a negative rate, especially in Europe and Japan, and investors are buying it in U.S. considering treasuries are very stable, even with the currency hedging, the returns are positive and they're making 50 to 60 basis points. So, it is the global investors, and you can see in the treasury rates that inflation is transitory. We don't expect 10-year treasury to go up regardless of where we end up. And as the economic growth is going to slow down, two years from now and what we are seeing is really the federal infusion or the $5.8 trillion of stimulus is helping the growth for 2021 and 2022. But, we don't expect this growth rate to continue in 2022 and beyond.

Governor Beruff: So, because of the kinks in the supply chains when they worked themselves out in the next six to 12 months you think that will flatten out the inflation issue?

Kapil Bhatia: That is correct, that is what we believe and that is reflected in the 10-year treasury.

Governor Beruff: Thank you.

Kapil Bhatia: Thank you.

Chairman Fields: Governor Dunbar.

Governor Dunbar: Thanks, Kapil. So, you are saying that a lot of the stimulus has gone in the market and has led to the market go up, and you also said that there is a potential that there is going to be some sort of market correction when stimulus is cut off, so that would assume that the market is going to potentially go down, right. So, we will have some sort of correction, right, not necessarily an economic recession. Did I hear you right in those two things?

Kapil Bhatia: There is some correlation, but that doesn't translate into the equity markets coming down. There is still that cash, eight trillion of federal balance sheet even if they slowly increased the interest rate, it is going to take a couple of years. So, there is some bubble, over inflation and you can see some of that in the meme stock as additional capital flowing, but overall earnings power is there. So, if you look at the basis from 2019 to 2021 and what we expect in 2022, the growth is going to slow down. So, we don't necessarily have to see equity markets coming down, but probably the trajectory of growth will come down and it will take a couple of years to balance it out.

Governor Dunbar: The reason why I was asking was so if we know we are repopulating. Our risk factors is going up this way. If there is some sort of market correction where we actually could lose surplus by function of a market, I didn't know if there was sort of a risk overlay, a worst-case scenario that we should keep in the back of our mind, well, our portfolio can contract by $900 million or something like that so that we, you know, keep that in the back of our mind in terms of when we look at our surplus, what our surplus could look like if we had some sort of significant economic downturn that does impact the markets that we are exposed to from an investment standpoint. Does that make sense?

Kapil Bhatia: Our portfolio is very stable. We kind of have it for all economic environments, because we plan for not the economic recession, but a Cat event. So effectively our duration of the portfolio which Jennifer will go through, is four and-a-half years. So, it is very stable, and we manage the credit risk well. Right now, for example our portfolio has a positive mark to market value of $300 million which reflects the stability of our portfolio. So, under all stress scenarios we are good with the fixed income markets. The markets that I am talking about, and if there is an economic slowdown, the 10-year treasury will further come down. That is, we will get a positive up stream in a mark to market.

Governor Dunbar: So, we don't have to worry about any real potential impact to our portfolio because of the limited duration of our holdings, so we will be fine. That is not something that we need to worry about.

Kapil Bhatia: Correct. We may see some volatility $100 million plus, minus considering we have a large portfolio, but we call that a volatility, but we do have a good return and it is very stable.

Governor Dunbar: Thank you, Chair.

Chairman Fields: Any further questions? Seeing none, thank you very much, Mr. Bhatia for being here and taking our questions.

Kapil Bhatia: Thank you, I appreciate it.

Chairman Fields: We will turn now to our CFO's report, Ms. Montero

3. Chief Financial Officer Report

a. Risk Transfer Update, 2021 Layer Charts

Jennifer Montero: Thank you. Behind tab three you will find the executive summary and the layer charts. As approved by the Board at the May 11th Board meeting, Citizens sought authorization for $2.63 billion of reinsurance coverage at a not to exceed a cost of $240 million. Due to the current market conditions Citizens was able to place a cost efficient risk transfer program of $2.709 billion which includes $2.6 billion of a new placement and $110 million of a multi-year coverage from 2020 at a cost of approximately $235.19 million. Citizens was able to capitalize on improved risk transfer market conditions in 2021, with increased capacity and pricing that was even flat or marginally higher versus 2020 on a risk adjusted basis. Citizens' staff worked extensively with our traditional reinsurance broker, Willis Re, and our capital market's co-underwriting team, Aon Security and GC Securities as well as our financial adviser, Raymond James. To market, our traditional and capital market risk transfer program via virtual road shows and one-on-one virtual meetings with reinsurers and investors. Demand was very strong for Citizens' risks and the traditional reinsurance and capital markets teams were able to achieve an optimal risk transfer program considering current risk transfer market conditions. Citizens transferred exposure in the amount of approximately $1.708 billion to the global traditional reinsurance markets and capital markets for 2021, for the coastal account with a weighted average gross rate online of 8.37% and net premium of $138.8 million. And I am going to walk you through the layer charts. I have a pointer, but I can only point to the one over there, not the one that you guys see, so I apologize. The sliver level sits alongside the FHCF, it provides $133 million of coverage, in excess of $601 million of annual per occurrence coverage which covers personal residential and commercial residential losses, and it works in tandem with the mandatory coverage provided by the FHCF to include the copayment of the 10% of losses not covered by the FHCF. This layer was placed in the traditional market at a gross rate online of 15%. Layer one sits right after the sliver layer in the FHCF. This annual per occurrence layer provides $100 million of coverage of personal residential and commercial residential losses and attaches after $734 million of losses. This layer is placed in the traditional market at a gross rate online of 10.5%.

Layer two sits above layer one. It is a single year aggregate layer provides $250 million of personal residential and commercial residential losses and attaches after $834 million of losses. The layer was placed in the traditional market at a gross rate online of 10.75%. Layer three of the program sits above layer two. It is a single year aggregate layer, provides $275,000,000 of personal residential and commercial residential losses and attaches after $601 million of losses. This layer is placed in the traditional market at a gross rate online of 10%. Layer four of the program sits above layer three, it is a single year aggregate layer. It provides $325 million of personal residential and commercial residential losses and attaches after $834 million of losses. The layer was placed in the traditional market at a gross rate online of 6%. Then the two capital market layers which sit above layer one and next to layers two, three and four. The combined layer was up sized from $600 million to $625 million. The capital market risk transfer placements were split into two tranches class A and class B covering multi-year annual aggregate personal residential, commercial residential losses. Class A, which is the top layer, provides $350 million of coverage through Everglades Re II and attaches after $2.906 billion of losses at a gross rate online of 5.75%. And class B, which sits right below class A provides $275 million of coverage through Everglades Re and attaches after $2.035 billion of losses at a gross rate online of 6.75%. So, moving on to the personal lines account. Citizens transferred exposure in the amount of $1.001 billion to the global traditional reinsurance and capital markets in 2021 for the personal lines account with a weighted average gross rate online of 10.1% and net premium of $97.1 million. The 2021 risk transfer layers on the PLA are as follows. The sliver layer right there, the program sits alongside the FHCF, it provides $166 million in excess of $749 million of annual per occurrence coverage which covers personal residential losses and works in tandem with the mandatory coverage provided by the FHCF to include the copayment of the 10% of losses not covered by the FHCF. The layer was placed in the traditional market at a gross rate online at 19.5%. Layer two sits above layer one and the FHCF. This layer provides $835 million of coverage from the capital markets and the traditional markets. The capital market renewal risk transfer placement of $110 million of coverage was placed in 2020 through Everglades Re II. This multi-year aggregate layer provides coverage for personal residential losses and attaches after $2 billion in losses at a gross rate online of 6.45%. A capital risks transfer market placement of $325 million of coverage placed in 2021 through Everglades Re II. This multi-year aggregate layer provides coverage for personal residential losses and attaches after $2.412 billion of losses at a gross rate online of 5.75%. And this layer was up sized from $250 million. And then the single year per occurrence placement provides $250 million of coverage for personal residential losses and attaches at $749 million of losses. The layer was placed in the traditional market at a gross rate online of 9%. And then the single year aggregate placement provides $150 million of coverage for personal residential losses and attaches after $749 million of losses. This layer was placed in the traditional market at a gross rate online of 13.5%. On a risk adjusted basis the 2021 risk transfer program cost approximately 5% higher than the 2020 program based on the gross rate online. The 2021 gross rate online is 9% compared to a risk adjusted gross rate online of 8.6% for 2020. Citizens experienced moderate growth in the coastal account during 2021, which led to a price increase of approximately 4% on a risk adjusted basis. The total amount of surplus exposed in a 1-in-100 year event for 2021 is approximately 40% compared to 48% in 2020. Citizens experienced significant growth in the personal lines account during 2021 which led to a price increase of approximately 6% on a risk adjusted basis. The total amount of surplus exposed in a 1-in-100 year event for 2021 is approximately 65% compared to

61% in 2020, and the increase in surplus exposure is due to the overall growth in the personal lines account. So, in summary, the total 2021 risk transfer program including coverage provided by the FHCF total $5.453 billion of coverage with a rate online of 7.9% which is a 5% increase versus the 2020 risk adjusted pricing. And I will stop there for any questions.

Governor Beruff: Mr. Chair.

Chairman Fields: Chairman Beruff.

Governor Beruff: Ms. Montero, we have placed the insurance for this year, so we have nothing to worry about. What do you think the impact of the Department of Justice objecting to the merger Aon and Willis will have on your next year, if any?

Jennifer Montero: I don't think it will have any since they have carved Willis Re out of that merger and they're looking at being bought by Gallagher.

Governor Beruff: So, nothing happened?

Jennifer Montero: I think it is just a delay until November.

Governor Beruff: Thank you.

Chairman Fields: Governor Dunbar.

Governor Dunbar: Yes, just as a follow up because I was going to ask a similar question. So, when we -- because we are about to go back in the marketplace, right?

Jennifer Montero: We are, we are releasing the ITN Thursday.

Governor Dunbar: So that would be Gallagher and Willis essentially potentially bidding as a common company next time around?

Jennifer Montero: I believe Willis Re if they respond, will respond as Willis Re until, because until November nothing changes.

Governor Dunbar: Right, I understand, but it is where we could be potentially in a similar situation where we have two bidders that might get married during the time period that we have them as our broker, right?

Jennifer Montero: Yes, but I don't believe that Willis and Aon will marry.

Governor Dunbar: No, I just, the last time it was Willis and Aon, this time it will be Willis and Gallagher. So just, got it, thank you.

Chairman Fields: Ms. Montero, so we placed $2.7 billion in reinsurance, I know in 2020 I think it was like $100 million, it was nothing, right.

Jennifer Montero: It was $1.021 billion.

Chairman Fields: Anyway, it was nothing. How does the $2.7 billion compare to let's say 2019 or 2018? Perhaps the easier way to ask this is, what percentage of our surplus is protected based on our reinsurance this year versus several of the last couple of years taking 2020 out of it?

Jennifer Montero: Sure. So, in, let's see, in 2019 for the coastal account we exposed 28% of our surplus and for the personal lines account we exposed 58% percent. In 2020, the coastal account was 48% and the PLA 61%, and then of course this year it is 40% and 65%. And it has a lot to do with the growth of those accounts.

Chairman Fields: Thank you. Any further questions for Ms. Montero?

Kapil Bhatia: Mr. Chairman, may I just add one more thing that would be helpful from the data point.

Chairman Fields: Please do.

Kapil Bhatia: In 2015 when our risk transfer program was relatively larger and our exposure was larger, we exposed 57% in coastal and 61% in PLA. So, we have come a long way considering if you look at the coastal. As our exposure was going down, we were buying still a smaller amount of reinsurance, and as exposure is going up, we are going back to '15 levels, but not in the coastal, but more in the PLA.

Chairman Fields: Thank you very much. Governor Dunbar.

Governor Dunbar: I am just following up on that, but we are going in another direction now right, I mean, we did a real good job of going this way, but now we are probably going back to it, right?

Kapil Bhatia: Our exposure is expected to be similar to where we were in 2015, so what we are exposing in the PLA is somewhat similar, like 61% in 2015 and where we are this year as Jennifer mentioned. The coastal account is significantly still less.

Governor Dunbar: And just to follow up. The commercial side of our exposure that 10 years ago was pretty significant, have we started to look at all in terms of what that could look like in light of the condo collapse and things like that. Is it early? If that is something we are going to talk about in the next committee or whatever, if you want me to hold, I will hold. I was just curious from a trend standpoint.

Barry Gilway: So, Governor Dunbar, we are looking very, very closely obviously at the collapse of the implications on the condo, you know, market. In a separate report under A&U, will show that historically we have gone from 12,800 commercial residential risks to today we are down to 1,900. So there has been a huge drop in our overall commercial exposure. As you know, at one point in time we were at about at 43% of the entire commercial residential market going back to 2011. So, to date we have really not seen the impact, it is way early, but we have not seen the impact of the condo market. What we will be discussing, at your suggestion by the way is a good one, within A&U committee, what are the implications basically of what is happening in the condo market following the Champlain Towers collapse, and I think common sense would tell you that the market is going to get far more restrictive and prices for the companies that are writing condo business, particularly in Dade and Broward, prices are going to go up in the commercial lines market place and the balancing act which frankly we are bringing to the Board, that Kelly will bring to the Board, is just how restrictive Citizens should be. On one hand our requirement is that we are there, you know, for the population and that we provide coverage for those individuals who can't get it. On the other hand, obviously the growth in commercial exposure, at our peak, it was $76 billion in exposure. So, as you grow in commercial your exposure grows exponentially compared with PLA. So I think while we will discuss that within A&U committee in a little more detail, there is absolutely no question what is going to happen, particularly starting in the southeast Florida market, but not isolated to the southeast Florida market is we are going to have a pretty significant market upheaval relative to residential condominium business and we have to be prepared in terms of what our position is going to be and how rigid our position is going to be and what our underwriting requirements are going to be relative to new business coming in the door, and we will discuss that in a little more detail at the A&U meeting.

Chairman Fields: Seeing no further questions from the members of the committee, thank you, Ms. Montero, and I think we will move next to the investment analytics software.

b. Investment Analytics Software

Jennifer Montero: Thank you. Behind the next tab there is an action item. It seeks Board approval to contract with Clearwater Analytics for investment analytic software. The service will be provided through a cloud based software as a service solution. Citizens uses the software to monitor its investment portfolio with regard to performance and risks. We have approximately $9.5 billion of operating and tax exempt assets invested. 91% of Citizens assets are managed by external investment managers in 22 separate managed accounts. The requested software provides a valuable tool to Citizens' staff to evaluate portfolio performance, risk, and compliance for internally and externally managed assets. It assists staff with measuring and reporting on portfolio performance across all accounts and against common industry benchmarks. It also assists with risk and compliance monitoring, including automated monitoring for compliance of Citizens investment policies. The procurement method is a contract secured pursuant to invitation to negotiate, ITN 21-0001. The ITN was issued on January 12, 2021. On April 7, 2021, three vendors were advanced to the negotiation phase. Citizens negotiating team recommended Clearwater Analytics, LLC for award on May 28, 2021, after conducting negotiations with all three vendors. The contract amount is not to exceed $3.3 million for the life of the contract, including the renewal terms. The vendors' fees for the service is an analyzed asset based fee that is based on the market value of Citizens assets, and the contract term is a three-year base term with three one year renewals options. And before I read the recommendation I will pause for any questions.

Governor Beruff: Mr. Chair.

Chairman Fields: Beruff.

Governor Beruff: So exactly how much money will this be tracking?

Jennifer Montero: $9.5 billion.

Governor Beruff: The whole thing. I thought 91% of our assets were being managed outside.

Jennifer Montero: It is used internal, for the internally managed and the externally managed money.

Governor Beruff: But the 91% of our assets are managed externally?

Jennifer Montero: Yes.

Governor Beruff: Which is by these folks over here, right?

Jennifer Montero: No, no, we have 10 separate money managers.

Governor Beruff: 10 money managers and the amount is 91%. So, in reality we are buying this for nine percent of our assets.

Jennifer Montero: No, it is all of our assets go through there. It is for us to use it as compliance to make sure that the money managers are in compliance and if we have a security that is –

Governor Beruff: And who was providing the service before now?

Jennifer Montero: It was Clearwater in the prior, then it was FactSet who is our current vendor, and then now we are going back to Clearwater.

Governor Beruff: What were we paying them?

Jennifer Montero: FactSet?

Governor Beruff: No, Clearwater Analytics the last time we had them.

Jennifer Montero: The last time we had them, I might have this in front of me, hold on. I might have to get that and get back to you. I don't know that I have that price.

Governor Beruff: How about the previous provider?

Jennifer Montero: The previous provider, FactSet that we have today, $2.116 million.

Governor Beruff: $2.116 for three years?

Jennifer Montero: For five years.

Governor Beruff: So, we are jumping up considerable amount.

Jennifer Montero: However, FactSet's response to this solicitation was a much higher amount, it was $2.8 million compared to the $3.3 million.

Governor Beruff: And what is so different that they're managing now that gives them the right to charge us so much more money?

Jennifer Montero: I have that, just one second.

Governor Knight: Is it five years versus six also?

Jennifer Montero: Not the $2.8 million compared to the $3.3 million, but the $2.1 million was for you five years versus six. The difference, the reason Clearwater was chosen, some of the reasons were the data reconciliation process was more robust than the others and Clearwater system proactively predicts what should occur each day in the client portfolio based on the security terms, the conditions, it reconciles those predictions to custodian and manager data. That is important. Their performance module is built off of reconciled and validated accounting data. Clearwater is also able to calculate the daily, weekly, monthly, annual return types and performance options for Citizens.

Governor Beruff: Ms. Montero, just a question. Weren't they providing all those services before?

Jennifer Montero: They did, and the reason that we didn't stay with them is that they didn't respond to the ITN last time. They missed the date.

Governor Beruff: They missed the date. So, my question is there is $2.1 million for five years, right?

Jennifer Montero: The other firm was.

Governor Beruff: The other firm, just before this one which was $3.3 million for three years.

Jennifer Montero: Six years. It is three years plus three one year renewal options. That is six years.

Governor Beruff: Paying them $3.3 million as opposed to $2.1 million for five.

Jennifer Montero: Correct.

Governor Beruff: And how much money are they involved with compared to what they were the last time we hired. How much money has our reserves grown that they're now tracking?

Jennifer Montero: It is probably close to the same.

Kapil Bhatia: If I may, I have a few data elements. In terms of Clearwater is the -- is the industry standard. It is much robust system and it comes to compliance and monitoring it and it allows us to manage the portfolio and securities more efficiently. That was one of the early questions from Governor Dunbar. It's more of an industry standard. You can spit out the reports and actually see where each paper or each security, we have $10 billion worth of securities, how each security is trading.

Governor Beruff: No, I don't question what they do or how good they do it. I question the cost.

Kapil Bhatia: Our portfolio was average around $8 billion and right now it is closer to $9.9 billion. So, it is grown about $1.9 billion, plus I think the fee is scaled based on the fee assets go up the fees comes down.

Governor Beruff: So, if the assets have gone up the fees should come down. But in this case the assets have gone up and the fees have gone up.

Jennifer Montero: It is still on a tiered scale.

Governor Beruff: I am missing something. I am missing something.

Kapil Bhatia: I just want to clarify. So, it was $8 billion, FactSet is a constant dollar amount. So, what they provide for the services is a flat fee, but Clearwater has the declining scale. As the assets goes up the fees comes down, but this is based on –

Governor Beruff: So, we might pay them less than $3.3 million.

Jennifer Montero: That is correct.

Governor Beruff: If we have that potential carrot.

Jennifer Montero: Right.

Kapil Bhatia: And if assets do go back to $8 billion the fees will come down if assets go up more than $10 billion.

Governor Beruff: Right.

Kapil Bhatia: The fees go up marginally, but this is the maximum number. So, there are many factors in that question.

Chairman Fields: Governor Dunbar.

Governor Dunbar: Does the SBA use Clearwater?

Kapil Bhatia: I am not sure what they use. They may have their own internal system.

Governor Dunbar: And this may be something, Chair, that the committee may want to look at that we have talked about over the years, and there was a time when we didn't do this, the SBA managed this money. And it has been broken out and now we do a lot of things that I would say is to a small fund that would be over in the SBA side. So, one of the things that we could look at to both Chairs if you wanted to was to go through an exercise that has been done before on whether it makes sense for all of this to reside here or to take advantage of the economies of scale of the SBA and the contracts and the relationship and the talent that they have in-house over there and potentially save us money by allowing us just to be a small sub account over there. It is something to think about.

Chairman Fields: When you say the SBA, I assume you mean the small business administration, right?

Jennifer Montero: State Board Administration.

Chairman Fields: And Governor Dunbar, just out of curiosity, do you know what it was costing us when we were using them? I mean, obviously, that is not apples to apples.

Governor Dunbar: I am the old one on the Board and that was before my time.

Chairman Fields: Ms. Montero or Kapil.

Kapil Bhatia: Our portfolio, the comfort level that we have with the compliance system and everything else, is economies of scale and we learned the hard way in 2007 when the assets were managed. We had a net loss because of the compliance system was missing, something which was not allowed in the investment policy was with purchased and in 2007 financial market crisis, those assets and if you remember a couple of years ago we came back to the Board with a recommendation that we should hold on to the asset back commercial paper. So, in terms of the compliance system, the reason we have the comfort with the portfolio that we have is the resources available when the wind hits and how stable the portfolio is, the way funds are being managed in the investment policies and this compliance system allows us to do that. If there is no compliance system, I am not sure that we can say with the confidence that the money is good, that is one. Second, their funds are mostly pension funds, what SBA manages, it is real estate to equities to the whole portfolio where the compliance is completely different. I am not exactly sure which systems they use for compliance, but it is completely different portfolio, not exactly the way we have it.

Governor Dunbar: I mean, I remember my father was on the 2005 Citizens study committee and I remember the political dynamics that were going on back then, particularly around the management of the money as well as the fact that we were a different animal, we were much bigger back then. I think a lot of those things are radically different today, and as it relates to compliance issues and things like that. I mean, I understand if they are managing pension funds, but essentially at the end of the day they could break out a small subset to manage these funds if we wanted to, and I just thought from an exercise standpoint it would be worth looking at if we are looking. If not, we do need the software. I acknowledge that we need, and I will be happy to make the motion whenever it is appropriate, but at the same time it was one of the things that I started wondering about on whether or not we should reevaluate that, recognizing it's a different time and also the political motivations for breaking us out back then aren't the same as they are today.

Kapil Bhatia: As you think. I just wanted to bring it up, just to give a little color to the Board, what happened with compliance systems and their investments policies are different because the objectives are a little different than ours.

Governor Beruff: We certainly don't want to repeat history and make a mistake again, right, for sure? Ms. Montero, I just want to get the numbers right. Did you say that the previous contractor provided five years of service for $2.1 million?

Jennifer Montero: That is correct.

Governor Beruff: And that translates into $420,000 a year. Multiply that times six, it is $2.52 million. So, the delta between the current contract and taking the previous contract is $781,000. So, it is about 30%.

Jennifer Montero: The incumbent did respond to this ITN as well at a different rate.

Governor Beruff: I'm sorry.

Jennifer Montero: The incumbent did respond to this ITN with a different rate, 2.8 for the six years.

Governor Beruff: So that would be closer. So, you decided, the staff has decided not to go with the low bid, to go with the Clearwater Analytics at an increase to us of about 30%. And I still don't quite understand it. The previous contractor met all your compliance and all of the things that you have to have to make sure we stay on the right side of not making the 2007 mistake. Why we are jumping from $2.52 which is what it previously cost for a one annual times six and we are going up $800,000. It is 30%, that is a lot of money. I don't get it. Inflation, he just convinced me I don't have to worry about inflation a minute ago, but man I'm looking at 30% inflation right here. And I have got a previous contractor that you were obviously pleased with that was providing the service and willing to provide it at $2.8 million, right?

Jennifer Montero: Right.

Governor Beruff: So that is a $500,000 delta I am giving up. I mean, we run a business, I might go with somebody for a couple $100,000, but $500,000 is a big number. I don't know if the Audit committee has looked into this and your committee has looked into it in-depth as to the ITN and why the staff chose to go with a provider that is essentially $500,000 higher than the previous provider that did it for five years. I want to get some really good meat to why you want to do this.

Jennifer Montero: With the ITN it is based on the best overall value, not just price. Price is only one thing.

Governor Beruff: Understand.

Jennifer Montero: I did get the number that you asked earlier for Clearwater, what we paid when they were here last time and it was .0055 basis points compared to point .00425 now. So, the price from them has gone down.

Governor Beruff: I am not smart enough to make that conversion in dollars. Give me the dollars annually I can do that, and I don't need to know that. We can work with this last contractor who was providing this service prior to this new contractor, and they have put in a proposal at $2.8 million for six years.

Jennifer Montero: That is correct.

Governor Beruff: And we are entertaining moving forward with an action item to forget them and use the new provider at $500,000 higher.

Jennifer Montero: That is correct.

Governor Beruff: Maybe the others don't, but I would like to know why we are willing to pay somebody 500,000 more dollars to do the services that have been provided to our satisfaction for last, I don't know how many years was the previous?

Jennifer Montero: Five.

Governor Beruff: And for five years did we have any significant errors? Did the compliance not meet your standards at Raymond James, why would we do that?

Kapil Bhatia: I can just give my perspective.

Governor Beruff: I have no perspective. I just want to hear yours.

Kapil Bhatia: The difference between the two contracts is $2.8 million to $3.3 million, that is $500,000 which is approximately 17% or $81,000 a year on a six-year contract. That is just one. So, it is 17%, not 30% difference between the two. Second, Clearwater as I was saying earlier is a much more robust system. Yes, FactSet meets the basic compliance, so we don't have to worry about losing any of our investment. It meets the basic compliance system. If Clearwater would have responded knowing their system, they would have been probably selected. Last year, last time –

Governor Beruff: Five years ago they did not respond.

Kapil Bhatia: Right, they did not respond to the RFP. They were the vendor earlier than that. Their system provides us to make better decisions from a reporting perspective, not just reporting like how the portfolio is doing, because we can tell you exactly what our income return is, total return it, but how each security is behaving and if there is a value, which one we should sell if the markets, whether it is positive or negative or if there is an event, how to maximize the value when the decision time comes.

Governor Beruff: So, did someone do a cost benefit analysis?

Kapil Bhatia: The benefit analysis can be done if there is an event, we would be selling the right securities. It gives us a better robust instant value to make faster decision than one basis point in our portfolio effectively means $1 million.

Governor Beruff: But you as a group has done a tremendous job managing this money for the last five years by any standard.

Kapil Bhatia: We have been managing the portfolio within the constraints - because that was our only choice available.

Governor Beruff: So, you are telling me you could have done a better job if you we had Clearwater Analytics? Do you think we could have made more money in our investments? Could you tell me that you are going to make more than a half a million bucks?

Kapil Bhatia: There is no way to compare it because we would not have a benchmark analysis, but it is half of $1 million, it is a lot of money in absolute sense. It is $100,000 which is .001 basis point on a $10 billion portfolio.

Governor Beruff: I run a small business. If I start thinking about $500,000 as small money, then I have lost my way.

Kapil Bhatia: In absolute amount it's a very large money.

Chairman Fields: Governor Knight, go ahead.

Governor Knight: Let me try to see if we can boil this down a bit. So, they did not reply five years ago. Correct. Is that the one you said missed the deadline?

Jennifer Montero: Yes, they didn't respond.

Governor Knight: So why do you think that is? Is this a business that is not favorable? What do you think the reason was to miss in years past?

Jennifer Montero: It was an error because they called us up afterwards and asked if they could and our procurement guidelines said you missed it, you are out.

Governor Knight: So, it was a human error. And do we have references for Clearwater? Are there companies that use them?

Jennifer Montero: We used them for five years.

Governor Knight: But it's been five years.

Jennifer Montero: I think they had references. I think they are required to. I didn't rate them.

Governor Knight: And then maybe you have answered this, but in addition to notifying and alerting if we are out of compliance of investments policy or if a bond has changed in rating, is there an overall, is there an overlay between the 22 managed accounts if there is an overlap in investment selections? Who is coordinating that piece?

Kapil Bhatia: That is how we track it. The system does it, so we look at the security tells us the risk profile for each security whether it is held by one manager or six managers, what portion of our portfolio is in one security with one maturity level. So, we can run at any level of details we need to run which FactSet doesn't provides. We have been doing some manual stuff to get to that point. Right now, the Clearwater system basically allows you to run it by security name, by maturity date. So, it gives us a more robust platform to make decisions.

Governor Knight: And does the incumbent platform provide that?

Kapil Bhatia: Not as detailed.

Governor Knight: So, being that they missed this opportunity five years ago, was there an ability to negotiate at all? To have the opportunity to win the business back and could you help break down the overall, I know you don't like to talk in basis points. I think it would be helpful to also understand, what are the tiers, help us compare a little better. The sense that I am getting is that I don't know want to speak on behalf of my colleagues, but we don't feel like we have enough information. There is some key data points that possibly haven't been articulated that are there and maybe have been reviewed, but we are not understanding. So, I think understanding the tiers, have you put them side by side in terms of pricing, is it a cap of two, is it a cap of 28 on the other or was it a minimum of 28? Are we in fact comparing these in the right way?

Jennifer Montero: Sure. The others did not provide a tiered scale, they provide a flat fee. Clearwater did negotiate down from their .0055 basis points to .00425. At our current asset level Clearwater is $399 million a year which is $2.4 million. The $3.3, it is 2.4 for six years. The 3.3 is a not to exceed, because if we grow that fee could -- I guess it wouldn't go up, it would go down, the basis points would go down from .00425 is up to a billion and then -- I am sorry, 10 billion. Once we hit 10 billion that fee goes up to .0004 basis points.

Kapil Bhatia: We can probably put some basics together to make the comparison easier and you can make the right decision.

Jennifer Montero: I was not on the evaluation committee and neither was Kapil. So, I am sure this information is available. I just –

Governor Beruff: Governor Knight has my proxy to talk because she said everything right. We don't have enough information.

Chairman Fields: Governor Dunbar.

Governor Dunbar: How much time is left on the incumbent's contract?

Jennifer Montero: I should know that. February 28, 2022, it expires February 28, 2022.

Governor Dunbar: So, we have a little bit of time and that is our last renewal?

Jennifer Montero: Yes.

Governor Dunbar: I don't know what the pleasure of everybody else is, but I agree with all the questions and comments and not really comfortable moving this forward. There are two ways we can go. We can reject it and go back to the marketplace, go for a re bid or we can delay this until you are table get sufficient information that gets everybody to feel comfortable. At this point I agree 30%, I don't know how much more information that we can get that is going to make us comfortable paying a 30% increase over what we are paying currently knowing full well our assets are going to be going up, and I share the big Chair's concern about its the dollars really, it is not the basis points. We have got to be paying attention to the nickel. So, I for one would, well, I guess I could make a motion. I would like to reject all bids and start over, and then maybe to the BAFO process, make these folks sharpen their pencils a little bit recognizing that we are looking at dollars up here. So that would be my motion that we reject all bids.

Governor Knight: One question, you said February 2022. When is the notice period? The contract ends February of 2022, but what is the notice period?

Governor Beruff: Do they have to give them 60 or 90 days' notice or something? We have to give them some period of notice, right, 30, 60, 90 days.

Jennifer Montero: It is usually 90.

Governor Beruff: 90. So we really got until November 30th.

Barry Gilway: A comment. What is occurring is we are going to be pulling the scoring sheet from each of the evaluators and that will establish for every category that was evaluated, how each of the individuals that were on the evaluation committee scored in that area which should provide before we defer it, we should be able to provide far more information relative to what the differential is in this program versus the alternative program.

Governor Beruff: Chair, isn't our next meeting in September?

Barbara Walker: Yes.

Governor Beruff: So, you are the Chair, so I can make a motion, right?

Governor Dunbar: I made one. Do you want me to withdraw?

Governor Beruff: Because I think we are going to get the same place. **My motion is to defer, get more information and make a decision in September which is 10 weeks away.** It gives everybody plenty of time to regroup. We can have some of the evaluations that you are talking about, Mr. Gilway for all of us to digest and then we can be better informed in September.

Governor Dunbar: **I will withdraw my motion and second his motion.**

Chairman Fields: All right, the motion has been seconded. Ms. Walker, do we need to call the role on that or just ask for a voice vote?

Barbara Walker: Ask for a voice vote, sir.

Chairman Fields: **All those in favor signify by saying aye.**

(Chorus of ayes.)

Chairman Fields: **The motion carries. So, we postpone that action item until September**. And in the interim, we will get some more information on this issue which Jennifer you and I had already discussed previously. In any event, seeing as that action item has been postponed, the last thing on the agenda for Ms. Montero is the investment portfolio update.

c. Investment Portfolio Update

Jennifer Montero: Thank you, Mr. Chairman. This is as of July, I am sorry, May 2021. The total portfolio is $9.5 billion with approximately $8.66 billion or 91% externally managed by 10 money managers. The remaining $850 million or approximately 9% is internally managed and primarily consists of operating funds, debt service funds and debt service reserve funds. The taxable portfolio is $8.71 billion or approximately 92% and the tax exempt portfolio is $800 million or approximately 8%.

The portfolio is very conservative and stable with sufficient liquidity to pay any claims, any current claims or any potential future claims. The total portfolio average duration is stable and just over 4.7 years. The total return and income return for one year are approximately 1.22% and 1.02% respectively. The total and income return reflect a stable portfolio, its interest rates and corporate spreads have stabilized. On slide two, rates for treasury significantly decreased in 2020 with some recoveries experienced in 2021, however, we expect interest rates to remain at current historical low levels over the next 18 months or until the end of 2022. The yield curve steepened earlier in the year, but since then has become flat again. The current 2 to 10-year tread is 112 basis points, as compared to 49 basis points a year ago. Tax exempt rates have also decreased, but at a lesser pace than the treasury rates declined. On slide three, both the taxable and tax exempt portfolios have very strong credit quality, approximately 74% of the taxable portfolio is in money market funds or rated A or better. 100% of the tax exempt portfolios in money market funds are rated A or higher and approximately 34% of the total portfolio is in treasury and agency securities or in money market funds. The portfolio income return was 1.02% over the last 12 months and 1.45% over the last two years, and the portfolio total return was 1.22% over the last 12 months and 4.21% over the last two years. And that concludes my report if there are no questions.

Chairman Fields: Any questions from the Board?

Governor Thomas: Ms. Montero, going back to the last action item, how long will it take for staff to get some of that information to the members of this committee and I am not sure if it's prudent to get it to the whole Board, but I will kind of defer to you on that.

Jennifer Montero: We can probably get it to you next week.

Governor Fields: We don't need it much more before September I suppose.

Governor Beruff: That is plenty of time next or week after, we have got plenty of time.

Chairman Fields: Governor Dunbar.

Governor Dunbar: One other thing that I just asked Tim if we can confirm that we have the ability and that we can do a six-month extension so that if we can push past the February, that the February is not a hard date. So that is the other thing, hopefully we will know here in a week or so.

Governor Knight: I had a question on the portfolio returns. Are these figures net of fees?

Jennifer Montero: I am sorry?

Governor Knight: Are these figures net of fees, the return numbers?

Jennifer Montero: Yes.

Governor Knight: Thank you.

Chairman Fields: All right, seeing no further questions, thank you both for being here. Is there any further business?

Governor Knight: And would that also include net of fees of Clearwater?

Kapil Bhatia: No, it is net of fees of the investment managers. But if we adjust for FactSet the numbers will be the same because it is .005 or .004 basis points which is basically rounding..

Governor Knight: Thank you.

Chairman Fields: Thank you both again. If there is no further business, we will be adjourned without objection. Thank you.

(Whereupon the meeting was concluded.)