

Executive Summary

Finance and Investment Committee, September 24, 2024

Board of Governors Meeting, September 25, 2024

2024 Investment Management Services

Background

Citizens is a not-for-profit government entity established to provide property insurance to those in Florida who are unable to purchase coverage in the private market. Effective management of insurance assets is a vital component of its operations to diversify overall risk and generate appropriate risk-adjusted returns. In line with the property and casualty insurance industry, Citizens utilizes asset management firms to provide the specialized expertise insurers require.

Citizens has approximately \$10 billion par value of total assets under management (AUM) invested pursuant to its investment policies, that are focused on safety, stability, and competitive returns. Citizens' investment policies are very conservative as the funds are used to pay policyholder claims, and it is difficult to predict in advance when the funds will be needed to pay those claims, especially in a catastrophe situation. The prioritized investment objectives are (i) safety, protection, and preservation of principal, (ii) liquidity, and (iii) competitive returns. Citizens' investment policies are reviewed at least annually and may be amended from time to time as deemed appropriate and necessary, with approval from Citizens Board of Governors. Citizens currently contracts with a panel of nine (9) vendors to serve as Investment Managers for Citizens' invested assets. Citizens last competitive solicitation was in 2018 and the awarded Investment Managers contracts began April 1, 2019 and expire on March 31, 2025.

2024 Investment Managers Services ITN

On April 19, 2024, ITN 24-0002 for Investment Managers Services was released. The ITN sought to solicit vendors capable of providing professional investment management services to manage Citizens' invested assets. These investment managers are responsible for investing assets consistent with the investment policies previously approved by the Board of Governors. A multiple vendor panel is needed to replace the existing contracts which expire on March 31, 2025. Citizens received thirty one (31) responses and selected the twelve (12) firms highest scoring firms for negotiations.

Citizens intends to contract with eleven (11) investment management firms that agreed to Citizens terms. Citizens staff is recommending increasing the number of firms to eleven (11) from nine (9) to provide flexibility, diversifying the investment expertise, idea generation and assets across all managers. No awarded Investment Manager is guaranteed any amount of funds to manage. Citizens will evaluate and allocate funds based on its current business need and total assets, Investment Managers are expected to approximately manage a portfolio of \$500 million to \$1.5 billion. Citizens utilizes a uniform tiered compensation schedule for all Investment Managers and negotiated a favorable fee schedule.

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| Prior Contract Fees | New Contract Fees |
|---|---|
| Up to \$750 million Citizens AUM at 5 basis points (.05%) | Up to \$500 million Citizens AUM at 5 basis points (0.05%) |
| \$750 million and above Citizens AUM at 4 basis points (.04%) | \$500 million to \$1 billion Citizens AUM at 4 basis points (0.04%) |
| | \$1 billion and above Citizens AUM at 3.5 basis points (.035%) |

Approximate fee estimates based on Citizens current assets of \$10 billion under management would be \$4.5 million annually and \$27 million over the life of the contracts of six years (6) for all 11 investment managers combined. Total fees will fluctuate if Citizens' assets under management increase or decrease during the contract period.

The proposed 2024 Investment Managers for award are as follows:

1. AllianceBernstein L.P.
2. Conning, Inc.
3. Federated Investment Counseling
4. Goldman Sachs Asset Management, L.P.
5. Hartford Investment Management Company
6. Insight North America
7. Macquarie Investment Management Advisers; a series of Macquarie Investment Management Business Trust
8. New England Asset Management Inc
9. RBC Global Asset Management (U.S) Inc.
10. UBS Asset Management (Americas)LLC
11. Wellington Management Company LLP

Recommendation

Staff proposes that the Finance & Investment committee review and if approved recommend that the Board of Governors to:

- 1) Approve the above eleven (11) recommended firms for a base term of three (3) years and at Citizens' discretion, three (3) one (1) year renewals; and
- 2) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

INVESTMENT MANAGEMENT SERVICES

ACTION ITEM

New Contract

Contract Amendment

Other _____

CONSENT ITEM

Contract Amendment

Existing Contract Extension

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.

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| Item Description | Investment Management Services |
| Purpose/Scope | This Action Item seeks Board approval to contract with the eleven (11) investment management firms listed below to provide investment management services related to Citizens' investment grade fixed income portfolios in accordance with our investment policies. |
| Contract ID | Investment Management Services Contract numbers 24-24-0002 (01-11) 1. AllianceBernstein L.P. 2. Conning, Inc. 3. Federated Investment Counseling 4. Goldman Sachs Asset Management, L.P. 5. Hartford Investment Management Company 6. Insight North America 7. Macquarie Investment Management Advisers; a series of Macquarie Investment Management Business Trust 8. New England Asset Management Inc 9. RBC Global Asset Management (U.S) Inc. 10. UBS Asset Management (Americas)LLC 11. Wellington Management Company LLP |
| Budgeted Item | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |

INVESTMENT MANAGEMENT SERVICES

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| Procurement Method | On April 19, 2024 Citizens issued Invitation to Negotiate (ITN) 24-0004 for Investment Management Services in accordance with Section 287.057((1)(c), Florida Statutes. |
| Contract Amount | <p>Tiered fee structure:</p> <p>Up to \$500 million Citizens AUM at 5 basis points (0.05%) \$500 million to \$1 Billion Citizens AUM at 4 basis points (0.04%) \$1 Billion and above Citizens AUM at 3.5 basis points (0.035%)</p> <p>Approximate fee estimates based on Citizens current assets under management would be \$4.5 million annually and \$27 million over the life of the contracts of six years for all eleven (11) investment managers combined. Total fees will fluctuate if Citizens' assets under management increase or decrease during the contract period.</p> |
| Contract Terms | The contract term is for three (3) years and may be renewed at Citizens' discretion for three (3), one (1) year renewal periods. |
| Committee Recommendation | <p>Staff proposes that the Finance and Investment Committee review, and if approved, recommends the Board of Governors:</p> <ul style="list-style-type: none"> a) Approve the above eleven (11) recommendation firms for a base term of three (3) years and at Citizens' discretion, three (3) one (1) year renewals; and b) Authorize staff to take any appropriate or necessary action consistent with this Action Item. |
| Board Recommendation From Committee | <p>If approved at its September 24, 2024 meeting, the Finance & Investment Committee recommends that the Board of Governors:</p> <ul style="list-style-type: none"> c) Approve the above eleven (11) recommendation firms for a base term of three (3) years and at Citizens' discretion, three (3) one (1) year renewals; and d) Authorize staff to take any appropriate or necessary action consistent with this Action Item. |
| Contacts | Jennifer Montero, Chief Financial Officer |