

INVESTMENT POLICY CHANGES

☒ **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.

Item Description	
	Staff recommends an update to Citizens' Taxable Investment Policies. Changes to the <u>Taxable Liquidity Fund Policy</u> as follows: - Decrease maximum limit for securities with ratings of "Baa3" or "BBB-" from 10% to 5% and decrease the maximum issuer limit from 1.5% to 0.5%. Changes to the <u>Taxable Claims-Paying Fund Policy</u> as follows: - Decrease maximum limit for securities with ratings of "Baa3" or "BBB-" from 10% to 7.5% and decrease the maximum issuer limit from 1.5% to 1.0%. Changes to the <u>Taxable Claims-Paying Long Duration Fund Policy</u> as follows: - Increase minimum Treasury and U.S. Agency composition from 20% to 25% and decrease maximum allow corporate securities from 80% to 75%. - Decrease the minimum tranche size for asset-backed securities from \$75 million to \$50 million. Changes to <u>All Taxable Fund Policies</u> as follows: - Require written notice from the investment manager within one business day of an event where a security is downgraded by one notch to "BBB+".

INVESTMENT POLICY CHANGES

	- Require an action plan from the investment manager within five business days of an event where a security is downgraded by one notch to "BBB+" or if a negative watch falls outside of the investment policy standards. - Decrease maximum issuer limit for asset-backed securities from 1.5% to 1.0%. - Exclude Treasury and Agency Money Market Funds from limitations regarding money market funds. - Include portfolio management language regarding the investment strategy being based solely on pecuniary factors to comply with the recent statutory changes.
Purpose/Scope	N/A
Contract ID	N/A
Budgeted Item	☐ Yes ☒ No N/A
Procurement Method	N/A
Contract Amount	N/A
Contract Terms	N/A
Committee Recommendation	Staff proposes that the Finance and Investment Committee review, and if approved, recommend the Board of Governors: a) Approve the changes to Citizens' Investment Policies, which will allow Citizens to be more proactive with adverse rating actions, reduce exposure to individual issuers that have minimum ratings levels, and reduces issuer exposure for asset-backed securities. b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

INVESTMENT POLICY CHANGES

**Board Recommendation
from Committee**

If approved at its April 9th meeting, the Finance and Investment Committee recommends that the Board of Governors:

- a) Approve the changes to Citizens' Investment Policies. These changes will allow Citizens to be more proactive with adverse rating actions, reduce exposure to individual issuers that have minimum ratings levels, and reduces issuer exposure for asset-backed securities.
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

Contacts

Jennifer Montero, Chief Financial Officer

Investment Policy Taxable Liquidity Fund

CLEAN

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Liquidity Fund (Taxable)

INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to three separate policies:

- (1) Liquidity Fund (Taxable): generally, this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis. The liquidity fund amount, including internally managed funds, is evaluated annually to equal the approximate amount of funds needed to reach the attachment point of the Florida Hurricane Catastrophe Fund (FHCF).
- (2) Claims-Paying Fund (Taxable): generally, this policy will govern the investment of funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (3) Claims-Paying Long Duration Fund (Taxable): generally, this policy will govern the investment of funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.

In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to use its own investment personnel to invest operating funds. The Operating Funds Portfolio will consist of the approximate amount of funds needed to pay the operating expenses of Citizens, as determined by Citizens' Chief Financial Officer (CFO). Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, and Treasury or Agency securities,. For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

Citizens Property Insurance Corporation

Liquidity Fund (Taxable) Investment Policy

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In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that operating expenses and claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

INVESTMENT OBJECTIVES

The primary investment objectives of the Liquidity Fund are to provide stability of principal and liquidity while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses quickly. Since paying such losses fully and in a timely manner is the highest priority for Citizens, and since Liquidity Fund moneys will be among the first used by Citizens to pay claims after a storm, liquidity and principal stability in the Liquidity Fund must be paramount. The achievement of these goals is of prime importance and should not be jeopardized in the quest for additional return.

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens' Liquidity Fund portfolio ("the Portfolio") will be invested only in short-term high quality fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its Investment Managers will invest in include corporate debt securities, bank instruments, US Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), Mortgage-Backed securities, certain Asset-Backed securities, Municipal securities, and shares of Money Market Mutual Funds. Investment Managers are permitted to buy 144A securities. It is the responsibility of the investment manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all investment managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens' compliance checks do not relieve the investment managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return

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performance by comparing the various Investment Managers' Liquidity Funds (Taxable) performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers' professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio's overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

PORTFOLIO MANAGEMENT AND IMPLEMENTATION

Any investment recommendation, approval or decision under this Guideline made by Citizens or its Investment Manager (an "Investment Action") must be made only in accordance with the following:

- (i) any Investment Action must be based solely on pecuniary factors and may not subordinate the interests of the participants and beneficiaries of the applicable fund to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor;
- (ii) the weight given to any pecuniary factor in any Investment Action must appropriately reflect a prudent assessment of its impact on risk and returns; and
- (iii) any Investment Action must be consistent with the fiduciary standard of care required by Section 215.47, Fla. Stat.

As defined by law, a "pecuniary factor" is a factor that Citizens, or its Investment Manager, expects to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with applicable investment objective. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

INVESTMENT GUIDELINES

Credit Quality

At the time of purchase, all securities must be rated in accordance with the following.

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- (1) Securities with long-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch with minimum ratings of BBB-/Baa3;
- (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch;
- (3) Money Market Funds must be rated Aaa by Moody's, AAA_m by S&P and/or AAA_{mmf} by Fitch;
- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, floorplans, handset devices, and credit card receivables, must be rated from at least one of Moody's, S&P, and/or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- (6) Collateralized Loan Obligations (CLOs) from Broadly Syndicated Markets, Non-Agency Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS), including Single Asset Single Borrower (SASB), must be rated from at least one of Moody's, S&P, or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- (7) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

If anything occurs which causes an investment in the Portfolio to be downgraded by one notch to BBB+ or falls outside the standards described above, the applicable Investment Manager must notify Citizens' CFO or the CFO's designee in writing via e-mail within one business day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to the CFO, or the CFO's designee, within five business days of an event or a negative watch that falls outside the standards. In general, any such affected security outside the standards should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to the CFO or the CFO's designee; however, immediate sale in a temporarily depressed market is not mandated by this policy.

Diversification

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the

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financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage-Backed Securities (MBS), Agency Collateralized Mortgage Obligations (CMO), Agency Commercial Mortgage-Backed Securities (CMBS) and notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least 35% of the Portfolio.
- Corporate securities, Commercial Paper, Banker's Acceptances (BAs), and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 65% of the Portfolio.
- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities or Treasury and Agency Money Market Funds are not considered to be part of an industry for these purposes. The Bloomberg BCLASS Indices Global Sector Classification will be used to verify the sector limit.
- No more than 15% of the Portfolio shall be invested in Agency MBS, CMBS or CMO.
- No more than 15% of the Portfolio shall be invested in 144A securities.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that have a rating(s) from Moody's, S&P, and/or Fitch of either BBB- or Baa3 shall not represent more than 5% of the Portfolio, with the securities of a single issuer representing no more than 0.5% of the Portfolio.
- Securities of any individual Agency, including MBS, CMBS or CMO, should not represent more than 20% of the Portfolio.
- Investments in an individual Prime Money Market Fund (excluding Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.
- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD Program will be considered Corporate Floating Rate Notes.
- Municipal Securities shall not represent more than 25% of the overall Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 15% of the Portfolio.
- Structured products including non-agency mortgage-backed securities, CLOs, and asset-backed securities for prime automobile, floorplans, handset devices, equipment loan and lease receivables, and credit card receivables shall not represent more than 15.0% of the Portfolio with the securities of a single issuer representing no more than 1.0% of the Portfolio.

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- Exposure to banks providing LOC or liquidity support for the underlying securities in Citizens' portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the total Portfolio.
- Commercial Paper shall not represent more than 20% of the Portfolio.

Duration

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity or weighted average life for any security in the portfolio is 42 months or three years and six months.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 397 days at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
 - No more than twenty-five percent (25%) of the portfolio may be invested in securities with remaining time to maturities or remaining weighted average life of 30 to 42 months.
- The dollar weighted average maturity of the portfolio shall not exceed 548 days, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
 - The dollar weighted average life maturity of the portfolio shall not exceed 36 months, calculated using the stated legal maturity for any VROs without a Demand Feature and for VROs with a Demand Feature using the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
- Repurchase Agreements must have a maximum maturity of 30 days or less.

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- Asset-backed, agency and non-agency mortgage-backed securities, CMBS and CLOs shall use the weighted average life as the final maturity date with a maximum weighted average life of 3 years and 6 months.
- If a fixed rate security has mandatory put option, then the mandatory put date will be used as a final maturity date.
- If a variable rate security has mandatory put option, then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of A2 from Moody's, A from S&P and/or A from Fitch.

STRESS TESTING

Upon request by Citizens, the Investment Managers will stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions with its request prior to the stress test date.

OTHER RESTRICTIONS

- Auction Rate Securities are not permitted.
- Commercial Paper Notes issued under Section 4(2) of the Securities Act of 1933 are not permitted.
- Qualified Public Depositories are not permitted.
- Derivatives are not permitted.
- Subordinate obligations, regardless of ratings, are not permitted.
- Middle Market CLOs are not permitted.
- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.
- Citizens' investment policies follow the guidelines under Sections 215.471, 215.4725 and 215.473. Investment managers are prohibited from acquiring or retaining any obligation, security or other investment that is in violation of these sections.
- All securities must be dollar-denominated and regulated by United States securities laws.
- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO or the CFO's designee of Citizens.

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on TBD.

Appendix A-Definitions of Types of Permitted Securities

CORPORATE DEBT SECURITIES

Corporate Debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Citizens may also purchase interests in bank loans to companies.

COMMERCIAL PAPER

Commercial Paper is an issuer's obligation with a maturity of less than 9 or 12 months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

DEMAND INSTRUMENTS

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Citizens' treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

BANK INSTRUMENTS

Bank instruments are unsecured interest-bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, Time Deposits, Certificates of Deposit and Banker's Acceptances. Yankee instruments are denominated in US dollars and issued by non-US branches or foreign banks.

Neither Citizens nor its Investment Managers will invest in instruments of domestic or foreign banks and savings and loans unless they have capital, surplus and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund of the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation either directly or as part of CDARS (Certificate of Deposit Account Registry Service) program.

These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Eurodollar Time Deposits.

FLOATING RATE NOTES

Floating rate Notes are Variable rate bonds with an interest rate that is periodically reset, usually every three months, and that carry a fixed spread, usually over the three-month London Interbank Offered Rate (LIBOR).

U.S. TREASURY SECURITIES

US Treasury securities are direct obligations of the federal government of the United States.

AGENCY SECURITIES

Agency securities are issued or guaranteed by a federal agency or other Government-Sponsored Entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans, or other benefits. For example, the US Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Notes issued through the US Government Temporary Liquidity Guarantee Program, whose interest and principal payments are fully and unconditionally guaranteed by the FDIC will be considered Agency Notes.

AGENCY MORTGAGE-BACKED SECURITIES

Mortgage pass-through securities are issued by Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHMLC) and Federal National Mortgage Association (FNMA). The pass-through securities represent a direct ownership interest in a pool of mortgage loans.

An issuer of a pass-through or participation certificate (PC) collects monthly payments from the borrowers whose loans are in a given pool and “passes through” the cash flow to investors in monthly payments, less any servicing and/or guarantee fees. Most pass-throughs are backed by fixed-rate mortgage loans; however, *adjustable-rate mortgage loans (ARMs)* are also pooled to create the securities.

NON-AGENCY MORTGAGE-BACKED SECURITIES

Non-Agency mortgage-backed securities are for real estate and mortgage-backed securities. They are not issued by an Agency but are issued by private lenders and are issued in tranches with a structure similar to Agency backed securities.

COLLATERALIZED LOAN OBLIGATIONS

A collateralized loan obligation (CLO) is a security backed by a pool of debt. They are backed by corporate loans or loans taken out by private equity firms to conduct leveraged buyouts.

ASSET-BACKED SECURITIES

An asset-backed security is a financial security backed by a loan, lease, credit card, or receivables against assets other than real estate and mortgage-backed securities.

MUNICIPAL SECURITIES

Municipal securities are issued by states, counties, cities, and other political subdivisions and authorities. Both taxable and tax-exempt municipal securities are allowable investments.

FOREIGN SECURITIES

Foreign securities are US dollar-denominated securities of issuers based outside the United States. Citizens considers the issuer to be based outside the United States if: it is organized under the laws of, or has a principal office located in, another country; or it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue, or profit from goods produced, services performed, or sales made in another country.

MONEY MARKET MUTUAL FUNDS

Money Market mutual funds are registered investment companies that comply with rule 2a7 of the Investment Company Act of 1940.

REPURCHASE AGREEMENTS (REPOs)

Repurchase Agreements are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back at an agreed upon price the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo.

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least "A2" by Moody's and "A" by S &P without regard to gradation. In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

Any Repurchase Agreement must be collateralized at least 102% with U.S. Government or Agency securities, excluding Mortgage-Backed Securities. All Repurchase Agreements must be marked-to-market daily.

Investment Policy Taxable Liquidity Fund

REDLINE

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Liquidity Fund (Taxable)

INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to ~~five~~three separate policies:

- (1) Liquidity Fund (Taxable): generally, this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis. The liquidity fund amount, including internally managed funds, is evaluated annually to equal the approximately equal to the amount of funds needed up to reach the attachment point of the Florida Hurricane Catastrophe Fund (FHCF).
- ~~(2) Liquidity Fund (Tax Exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on as needed basis.~~
- ~~(3)(2)~~ (2) Claims-Paying Fund (Taxable): generally, this policy will govern the investment of funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- ~~(4)(3)~~ (3) Claims-Paying Long Duration Fund (Taxable): generally, this policy will govern the investment of funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- ~~(5) Claims Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Tax-Exempt Liquidity Fund and all taxable funds. The funds will also be used to pay principal and / or interest debt service payments.~~

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In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to use its own investment personnel ~~and the investment procedures to invest operating funds approved by the Board of Governors in October 2007 (Citizens' "Operating Funds Portfolio")~~. The Operating Funds Portfolio will consist of the approximate amount of funds needed to pay the ~~day-to-day~~ operating expenses of Citizens, as determined by Citizens' Chief Financial Officer (CFO). Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, and Treasury or Agency securities, ~~and certain Asset Backed securities~~. For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that operating expenses and claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

INVESTMENT OBJECTIVES

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INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens' Liquidity Fund portfolio ("the Portfolio") will be invested only in short-term high quality fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its Investment Managers will invest in include corporate debt securities, bank instruments, US Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), ~~Non-Agency~~ Mortgage-Backed securities, certain Asset-Backed

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securities, Municipal securities, and shares of Money Market Mutual Funds. Investment Managers are permitted to buy 144A securities. It is the responsibility of the investment manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all investment managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens' compliance checks do not relieve the investment managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return performance by comparing the various Investment Managers' Liquidity Funds (Taxable) performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers' professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio's overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

PORTFOLIO MANAGEMENT AND IMPLEMENTATION

Any investment recommendation, approval or decision under this Guideline made by ~~any~~ Citizens ~~employee or its Investment Manager~~ (an "Investment Action") must be made only in accordance with the following:

- (i) any Investment Action must be based solely on pecuniary factors and may not subordinate the interests of the participants and beneficiaries of the applicable fund to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor;
- (ii) the weight given to any pecuniary factor in any Investment Action must appropriately reflect a prudent assessment of its impact on risk and returns; and
- (iii) any Investment Action must be consistent with the fiduciary standard of care required by Section 215.47, Fla. Stat., ~~and for the FRS Trust Fund, Sections 112.656 and 112.662, Fla. Stat.~~

As defined by law, a “pecuniary factor” is a factor that ~~a~~ Citizens, or its Investment Manager, employee expects to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with applicable investment objective. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

INVESTMENT GUIDELINES

Credit Quality

At the time of purchase, all securities must be rated in accordance with the following.

- (1) Securities with long-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch with minimum ratings of BBB-/Baa3;
- (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or -F1 by Fitch;
- (3) Money Market Funds must be rated Aaa by Moody's, AAA_m by S&P and/or AAA_{mmf} by Fitch;
- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, floorplans, handset devices, and credit card receivables, must be rated from at least one of Moody's, S&P, and/or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- (6) Collateralized Loan Obligations (CLOs) from Broadly Syndicated Markets, Non-Agency Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS), including Single Asset Single Borrower (SASB), must be rated from at least one of Moody's, S&P, or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- (7) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

If anything occurs which causes an investment in the Portfolio ~~to be~~ is downgraded by one notch to BBB+ or ~~to~~ falls outside the standards described above, the applicable Investment Manager must notify Citizens' CFO and/or Citizens' investment personnel and the CFO's designee

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in writing via e-mail within one business day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to the Citizens' CFO, and/or the CFO's designee, within five business days of an~~the~~ event or a negative watch that falls outside the standards. In general, any such affected security outside the standards should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to the Citizens' CFO and/or the CFO's designee; however, immediate sale in a temporarily depressed market is not mandated by this policy.

Diversification

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage-Backed Securities (MBS), Agency Collateralized Mortgage Obligations (CMO), Agency Commercial Mortgage-Backed Securities (CMBS) and notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least 35% of the Portfolio.
- Corporate securities, Commercial Paper, Banker's Acceptances (BAs), and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 65% of the Portfolio.
- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities or Treasury and Agency Money mMarket Funds are not considered to be part of an industry for these purposes. The Bloomberg BCLASS Indices Global Sector Classification will be used to verify the sector limit.
- No more than 15% of the Portfolio shall be invested in Agency MBS, CMBS or CMO.
- No more than 15% of the Portfolio shall be invested in 144A securities.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that have a rating(s) from Moody's, S&P, and/or Fitch of either BBB- or Baa3 shall not represent more than ~~105~~% of the Portfolio, with the securities of a single issuer representing no more than 10.5% of the Portfolio.
- Securities of any individual Agency, including MBS, CMBS or CMO, should not represent more than 20% of the Portfolio.
- Investments in an individual Prime Money Market Fund (~~in~~excluding Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.

Citizens Property Insurance Corporation

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- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD Program will be considered Corporate Floating Rate Notes.
- Municipal Securities shall not represent more than 25% of the overall Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 15% of the Portfolio.
- Structured products including non-agency mortgage-backed securities, CLOs, and asset-backed securities for prime automobile, floorplans, handset devices, equipment loan and lease receivables, and credit card receivables shall not represent more than 15.0% of the Portfolio with the securities of a single issuer representing no more than 1.05% of the Portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Citizens' portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the total Portfolio.
- Commercial Paper shall not represent more than 20% of the Portfolio.

Duration

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity or weighted average life for any security in the portfolio is 42 months or three years and six months.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 397 days at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
 - No more than twenty-five percent (25%) of the portfolio may be invested in securities with remaining time to maturities or remaining weighted average life of 30 to 42 months.

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- The dollar weighted average maturity of the portfolio shall not exceed 548 days, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
 - The dollar weighted average life maturity of the portfolio shall not exceed 36 months, calculated using the stated legal maturity for any VROs without a Demand Feature and for VROs with a Demand Feature using the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
- Repurchase Agreements must have a maximum maturity of 30 days or less.
- Asset-backed, agency and non-agency mortgage-backed securities, CMBS and CLOs shall use the weighted average life as the final maturity date with a maximum weighted average life of 3 years and 6 months.
- If a fixed rate security has mandatory put option, then the mandatory put date will be used as a final maturity date.
- If a variable rate security has mandatory put option, then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of A2 from Moody's, A from S&P and/or A from Fitch.

STRESS TESTING

Upon request by Citizens, the Investment Managers will stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions with its request prior to the stress test date.

OTHER RESTRICTIONS

- Auction Rate Securities are not permitted.
- Commercial Paper Notes issued under Section 4(2) of [the Securities Act](#) of 1933 are not permitted.
- Qualified Public Depositories are not permitted.
- Derivatives are not permitted.
- Subordinate obligations, regardless of ratings, are not permitted.
- Middle Market CLOs are not permitted.
- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.

- Citizens' investment policies follow the guidelines under Sections 215.471, 215.4725 and 215.473. Investment managers are prohibited from acquiring or retaining any obligation, security or other investment that is in violation of these sections.
- All securities must be dollar-denominated and regulated by United States securities laws.
- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO and/or the CFO's designee of Citizens.

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on TBD ~~March 23, 2022~~.

Appendix A-Definitions of Types of Permitted Securities

CORPORATE DEBT SECURITIES

Corporate Debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Citizens may also purchase interests in bank loans to companies.

COMMERCIAL PAPER

Commercial Paper is an issuer's obligation with a maturity of less than 9 or 12 months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

DEMAND INSTRUMENTS

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Citizens' treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

BANK INSTRUMENTS

Bank instruments are unsecured interest-bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, Time Deposits, Certificates of Deposit and Banker's Acceptances. Yankee instruments are denominated in US dollars and issued by non-US branches or foreign banks.

Neither Citizens nor its Investment Managers will invest in instruments of domestic or foreign banks and savings and loans unless they have capital, surplus and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund of the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation either directly or as part of CDARS (Certificate of Deposit Account Registry Service) program.

These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Eurodollar Time Deposits.

FLOATING RATE NOTES

Floating rate Notes are Variable rate bonds with an interest rate that is periodically reset, usually every three months, and that carry a fixed spread, usually over the three-month London Interbank Offered Rate (LIBOR).

U.S. TREASURY SECURITIES

US Treasury securities are direct obligations of the federal government of the United States.

AGENCY SECURITIES

Agency securities are issued or guaranteed by a federal agency or other Government-Sponsored Entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans, or other benefits. For example, the US Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Notes issued through the US Government Temporary Liquidity Guarantee Program, whose interest and principal payments are fully and unconditionally guaranteed by the FDIC will be considered Agency Notes.

AGENCY MORTGAGE-~~BACKED~~ SECURITIES

Mortgage pass-through securities are issued by Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHMLC) and Federal National Mortgage Association (FNMA). The pass-through securities represent a direct ownership interest in a pool of mortgage loans.

An issuer of a pass-through or participation certificate (PC) collects monthly payments from the borrowers whose loans are in a given pool and “passes through” the cash flow to investors in monthly payments, less any servicing and/or guarantee fees. Most pass-throughs are backed by fixed-rate mortgage loans; however, *adjustable-rate mortgage loans (ARMs)* are also pooled to create the securities.

NON-AGENCY MORTGAGE-BACKED SECURITIES

Non-Agency mortgage-backed securities are for real estate and mortgage-backed securities. They are not issued by an Agency but are issued by private lenders and are issued in tranches with a structure similar to Agency backed securities.

COLLATERALIZED LOAN OBLIGATIONS

A collateralized loan obligation (CLO) is a security backed by a pool of debt. They are backed by corporate loans or loans taken out by private equity firms to conduct leveraged buyouts.

ASSET-BACKED SECURITIES

An asset-backed security is a financial security backed by a loan, lease, credit card, or receivables against assets other than real estate and mortgage-backed securities.

MUNICIPAL SECURITIES

Municipal securities are issued by states, counties, cities, and other political subdivisions and authorities. Both taxable and tax-exempt municipal securities are allowable investments.

FOREIGN SECURITIES

Foreign securities are US dollar-denominated securities of issuers based outside the United States. Citizens considers the issuer to be based outside the United States if: it is organized under the laws of, or has a principal office located in, another country; or it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue, or profit from goods produced, services performed, or sales made in another country.

MONEY MARKET MUTUAL FUNDS

Money Market mutual funds are registered investment companies that comply with rule 2a7 of the Investment Company Act of 1940.

REPURCHASE AGREEMENTS (REPOs)

Repurchase Agreements are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back at an agreed upon price the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo.

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least "A2" by Moody's and "A" by S &P without regard to gradation. In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

Any Repurchase Agreement must be collateralized at least 102% with U.S. Government or Agency securities, excluding Mortgage-Backed Securities. All Repurchase Agreements must be marked-to-market daily.

Investment Policy Taxable Claims Paying Fund

CLEAN

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for Claims-Paying Fund (Taxable)

INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to three separate policies:

- (1) Liquidity Fund (Taxable): generally, this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis. The liquidity fund amount, including internally managed funds, is evaluated annually to equal the approximate amount of funds needed to reach the attachment point of the Florida Hurricane Catastrophe Fund (FHCF).
- (2)
- (3) Claims-Paying Fund (Taxable): generally, this policy will govern the investment of funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (4) Claims-Paying Long Duration Fund (Taxable): generally, this policy will govern the investment of funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.

In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to use its own investment personnel and the investment procedures to invest operating funds. The Operating Funds Portfolio will consist of the approximate amount of funds needed to pay the operating expenses of Citizens, as determined by Citizens' Chief Financial Officer (CFO). Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, and Treasury or Agency securities. For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that operating expenses and claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

INVESTMENT OBJECTIVES

The primary investment objectives of the Claims-Paying Fund are to provide safety of principal and liquidity while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses. Since paying such losses fully and in a timely manner is a priority for Citizens, liquidity in all portfolios must be paramount. While the moneys invested pursuant to this policy will not be the first funds Citizens uses after a storm to pay claims, the uncertainty of when they will be needed still demands a fixed income portfolio with relatively short to intermediate duration and high credit quality.

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens' Claims-Paying Fund portfolio ("the Portfolio") will be invested only in high quality fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its Investment Managers will invest in include corporate debt securities, bank instruments, US Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), Mortgage-Backed Securities, certain Asset-Backed securities, Municipal securities, and shares of Money Market Mutual Funds. Investment Managers are permitted to buy 144A securities. It is the responsibility of the Investment Manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all Investment Managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens' compliance checks do not relieve the Investment Managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return

performance by comparing the various Investment Managers' Claims-Paying Funds (Taxable) performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers' professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio's overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

PORTFOLIO MANAGEMENT AND IMPLEMENTATION

Any investment recommendation, approval or decision under this Guideline made by Citizens or its Investment Manager (an "Investment Action") must be made only in accordance with the following:

- (i) any Investment Action must be based solely on pecuniary factors and may not subordinate the interests of the participants and beneficiaries of the applicable fund to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor;
- (ii) the weight given to any pecuniary factor in any Investment Action must appropriately reflect a prudent assessment of its impact on risk and returns; and
- (iii) any Investment Action must be consistent with the fiduciary standard of care required by Section 215.47, Fla. Stat

As defined by law, a "pecuniary factor" is a factor that Citizens, or its Investment Manager, expects to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with applicable investment objective. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

INVESTMENT GUIDELINES

Credit Quality

At the time of purchase, all securities must be rated in accordance with the following.

Citizens Property Insurance Corporation
Claims-Paying Fund (Taxable) Investment Policy

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- (1) Securities with long-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch with minimum ratings of BBB-/Baa3;
- (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch;
- (3) Money Market Funds must be rated Aaa by Moody's, AAA_m by S&P and/or AAA_{mmf} by Fitch;
- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, floorplans, handset devices, and credit card receivables must be rated from at least one of Moody's, S&P, and/or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- (6) Collateralized Loan Obligations (CLOs) from Broadly Syndicated Markets, Non-Agency Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS), including Single Asset Single Borrower (SASB), must be rated from at least one of Moody's, S&P, or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- (7) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

If anything occurs which causes an investment in the Portfolio to be downgraded by one notch to BBB+ or falls outside the standards described above, the applicable Investment Manager must notify Citizens' CFO or the CFO's designee in writing via e-mail within one business day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to the CFO, or the CFO's designee, within five business days of an event or a negative watch that falls outside the standards. In general, any such affected security outside the standards should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to the CFO or the CFO's designee; however, immediate sale in a temporarily depressed market is not mandated by this policy.

Diversification

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the

Citizens Property Insurance Corporation
Claims-Paying Fund (Taxable) Investment Policy

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financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage-Backed Securities (MBS), Agency Commercial Mortgage-Backed Securities (CMBS), Agency Collateralized Mortgage Obligations (CMO) and Notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least 25% of the Portfolio.
- Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 75% of the Portfolio.
- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities or Treasury Money Market Funds are not considered to be part of an industry for these purposes. The Bloomberg BCLASS Indices Global Sector Classification will be used to verify the sector limit.
- No more than 15% of the Portfolio shall be invested in Agency MBS, CMBS or CMO.
- No more than 15% of the Portfolio shall be invested in 144A securities.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that have a rating(s) from Moody's, S&P, and/or Fitch of either BBB- or Baa3 shall not represent more than 7.5% of the Portfolio, with the securities of a single issuer representing no more than 10% of the Portfolio.
- Securities of any individual Agency, including MBS, CMBS or CMO, should not represent more than 20% of the Portfolio.
- Investments in an individual Prime Money Market Fund (excluding Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.
-
- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD program will be considered Corporate Floating Rate Notes.
- Municipal Securities shall not represent more than 30% of the Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 10% of the Portfolio.
- Structured products including non-agency mortgage-backed securities, CLOs, and asset-backed securities for prime automobile, floorplans, handset devices, equipment loan and lease receivables, and credit card receivables shall not represent more than 15% of the

Portfolio, with the securities of a single issuer representing no more than 1.0% of the Portfolio.

- Exposure to banks providing LOC or liquidity support for the underlying securities in Portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the Portfolio.
- No more than 30% of the Portfolio shall consist of securities, excluding securities where weighted average life is used, with a final maturity between 97 and 121 months.

Duration

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security, except for securities where the weighted average life is used, in the Portfolio is 121 months or ten years and one month.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 3 years at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
- The dollar weighted average maturity of the Portfolio shall not exceed 72 months, or six years, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
- Repurchase Agreements must have a maximum maturity of 30 days or less.
- If a fixed rate security has mandatory put option, then the mandatory put date will be used as a final maturity date.
- If a variable rate security has mandatory put option, then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of A2 from Moody's, A from S&P and/or A from Fitch.

- Asset-backed, agency and non-agency mortgage-backed securities, CMBS and CLOs shall use the weighted average life as the final maturity date with a maximum weighted average life of 6 years.

STRESS TESTING

Upon request by Citizens, the Investment Managers will stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions with its request prior to the stress test date.

OTHER RESTRICTIONS

- Auction Rate Securities are not permitted.
- Commercial Paper Notes issued under Section 4(2) of the Securities Act of 1933 are not permitted.
- Qualified Public Depositories are not permitted.
- Derivatives are not permitted.
- Subordinate obligations, regardless of ratings, are not permitted.
- Middle Market CLOs are not permitted.
- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.
- Citizens' investment policies follow the guidelines under Sections 215.471, 215.4725 and 215.473. Investment managers are prohibited from acquiring or retaining any obligation, security or other investment that is in violation of these sections.
- All securities must be dollar-denominated and regulated by United States securities laws.
- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO or the CFO's designee of Citizens.

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on TBD.

Appendix A-Definitions of Types of Permitted Securities

CORPORATE DEBT SECURITIES

Corporate Debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Citizens may also purchase interests in bank loans to companies.

COMMERCIAL PAPER

Commercial Paper is an issuer's obligation with a maturity of less than 9 or 12 months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

DEMAND INSTRUMENTS

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Citizens' treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

BANK INSTRUMENTS

Bank instruments are unsecured interest-bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, Time Deposits, Certificates of Deposit and Banker's Acceptances. Yankee instruments are denominated in US dollars and issued by non-US branches or foreign banks.

Neither Citizens nor its Investment Managers will invest in instruments of domestic or foreign banks and savings and loans unless they have capital, surplus and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund of the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation either directly or as part of CDARS (Certificate of Deposit Account Registry Service) program.

These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Eurodollar Time Deposits.

FLOATING RATE NOTES

Floating rate Notes are Variable rate bonds with an interest rate that is periodically reset, usually every three months, and that carry a fixed spread, usually over the three-month London Interbank Offered Rate (LIBOR).

U.S. TREASURY SECURITIES

US Treasury securities are direct obligations of the federal government of the United States.

AGENCY SECURITIES

Agency securities are issued or guaranteed by a federal agency or other Government-Sponsored Entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans, or other benefits. For example, the US Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Notes issued through the US Government Temporary Liquidity Guarantee Program, whose interest and principal payments are fully and unconditionally guaranteed by the FDIC will be considered Agency Notes.

AGENCY MORTGAGE-BACKED SECURITIES

Mortgage pass-through securities are issued by Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHMLC) and Federal National Mortgage Association (FNMA). The pass-through securities represent a direct ownership interest in a pool of mortgage loans.

An issuer of a pass-through or participation certificate (PC) collects monthly payments from the borrowers whose loans are in a given pool and “passes through” the cash flow to investors in monthly payments, less any servicing and/or guarantee fees. Most pass-throughs are backed by fixed-rate mortgage loans; however, *adjustable-rate mortgage loans (ARMs)* are also pooled to create the securities.

NON-AGENCY MORTGAGE-BACKED SECURITIES

Non-Agency mortgage-backed securities are secured by real estate mortgage loans. They are not issued by an Agency but are issued by private lenders and are issued in tranches with a structure similar to Agency backed securities.

COLLATERALIZED LOAN OBLIGATIONS

A collateralized loan obligation (CLO) is a security backed by a pool of debt. They are backed by corporate loans or loans taken out by private equity firms to conduct leveraged buyouts.

ASSET-BACKED SECURITIES

An asset-backed security is a financial security backed by a loan, lease, credit card, or receivables against assets other than real estate and mortgage-backed securities.

MUNICIPAL SECURITIES

Municipal securities are issued by states, counties, cities, and other political subdivisions and authorities. Both taxable and tax-exempt municipal securities are allowable investments.

FOREIGN SECURITIES

Foreign securities are US dollar-denominated securities of issuers based outside the United States. Citizens considers the issuer to be based outside the United States if: it is organized under the laws of, or has a principal office located in, another country; or it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue, or profit from goods produced, services performed, or sales made in another country.

MONEY MARKET MUTUAL FUNDS

Money Market mutual funds are registered investment companies that comply with rule 2a7 of the Investment Company Act of 1940.

REPURCHASE AGREEMENTS (REPOs)

Repurchase Agreements are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back at an agreed upon price the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo.

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least "A2" by Moody's and "A" by S &P without regard to gradation. In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

Any Repurchase Agreement must be collateralized at least 102% with U.S. Government or Agency securities, excluding Mortgage-Backed Securities. All Repurchase Agreements must be marked-to-market daily.

Investment Policy Taxable Claims Paying Fund

REDLINE

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for Claims-Paying Fund (Taxable)

INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to ~~five~~three separate policies:

- (1) Liquidity Fund (Taxable): generally, this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis. The liquidity fund amount, including internally managed funds, is are evaluated annually to equal the be approximately equal to the amount of funds needed up to reach the attachment point of the Florida Hurricane Catastrophe Fund (FHCF).
- ~~(2) Liquidity Fund (Tax Exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on as needed basis.~~
- ~~(2)-1~~
- (3) Claims-Paying Fund (Taxable): generally, this policy will govern the investment of funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (4) Claims-Paying Long Duration Fund (Taxable): generally, this policy will govern the investment of funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- ~~(5) Claims Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Tax Exempt Liquidity Fund and all taxable funds. The funds will also be used to pay principal and / or interest debt service payments.~~

In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to use its own investment personnel and the investment procedures ~~to invest operating funds approved by the Board of Governors in October 2007 (Citizens' "Operating Funds Portfolio")~~. The Operating Funds Portfolio will consist of the approximate amount of funds needed to pay the ~~day-to-day~~ operating expenses of Citizens, as determined by Citizens' Chief Financial Officer (CFO). Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, ~~and~~ Treasury or Agency securities, ~~and certain Asset-Backed securities~~. For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that operating expenses and claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

INVESTMENT OBJECTIVES

The primary investment objectives of the Claims-Paying Fund are to provide safety of principal and liquidity while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses. Since paying such losses fully and in a timely manner is a priority for Citizens, liquidity in all portfolios must be paramount. While the moneys invested pursuant to this policy will not be the first funds Citizens uses after a storm to pay claims, the uncertainty of when they will be needed still demands a fixed income portfolio with relatively short to intermediate duration and high credit quality.

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens' Claims-Paying Fund portfolio ("the Portfolio") will be invested only in high quality fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its Investment Managers will invest in include corporate debt securities, bank instruments, US Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), ~~Non-Agency~~ Mortgage-Backed Securities, certain Asset-Backed securities,

Citizens Property Insurance Corporation
Claims-Paying Fund (Taxable) Investment Policy

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Municipal securities, and shares of Money Market Mutual Funds. Investment Managers are permitted to buy 144A securities. It is the responsibility of the Investment Manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all Investment Managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens' compliance checks do not relieve the Investment Managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return performance by comparing the various Investment Managers' Claims-Paying Funds (Taxable) performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers' professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio's overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

PORTFOLIO MANAGEMENT AND IMPLEMENTATION

Any investment recommendation, approval or decision under this Guideline made by ~~any Citizens employee or its Investment Manager~~ (an "Investment Action") must be made only in accordance with the following:

- (i) any Investment Action must be based solely on pecuniary factors and may not subordinate the interests of the participants and beneficiaries of the applicable fund to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor;
- (ii) the weight given to any pecuniary factor in any Investment Action must appropriately reflect a prudent assessment of its impact on risk and returns; and
- (iii) any Investment Action must be consistent with the fiduciary standard of care required by Section 215.47, Fla. Stat., ~~and for the FRS Trust Fund, Sections 112.656 and 112.662, Fla. Stat.~~

As defined by law, a “pecuniary factor” is a factor that ~~a~~ Citizens, or its Investment Manager, employee expects to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with applicable investment objective. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

INVESTMENT GUIDELINES

Credit Quality

At the time of purchase, all securities must be rated in accordance with the following.

- (1) Securities with long-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch with minimum ratings of BBB-/Baa3;
- (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch;
- (3) Money Market Funds must be rated Aaa by Moody's, AAA_m by S&P and/or AAA_{mmf} by Fitch;
- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, floorplans, handset devices, and credit card receivables must be rated from at least one of Moody's, S&P, and/or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- (6) Collateralized Loan Obligations (CLOs) from Broadly Syndicated Markets, Non-Agency Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS), including Single Asset Single Borrower (SASB), must be rated from at least one of Moody's, S&P, or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- (7) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

If anything occurs which causes an investment in the Portfolio to be is downgraded by one notch to BBB+ or -to falls outside the standards described above, the applicable Investment Manager must notify Citizens' CFO and/or the CFO's designee ~~itizens' investment personnel and CFO~~ in

Citizens Property Insurance Corporation
Claims-Paying Fund (Taxable) Investment Policy

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writing via e-mail within one business day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to the Citizens' CFO, and/or the CFO's designee, within five business days of an~~the~~ event or a negative watch that falls outside the standards. In general, any such affected security outside the standards should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to the Citizens' CFO and/or the CFO's designee or CFO; however, immediate sale in a temporarily depressed market is not mandated by this policy.

Diversification

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage-Backed Securities (MBS), Agency Commercial Mortgage-Backed Securities (CMBS), Agency Collateralized Mortgage Obligations (CMO) and Notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least 25% of the Portfolio.
- Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 75% of the Portfolio.
- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities or Treasury Money Market Funds are not considered to be part of an industry for these purposes. The Bloomberg BCLASS Indices Global Sector Classification will be used to verify the sector limit.
- No more than 15% of the Portfolio shall be invested in Agency MBS, CMBS or CMO.
- No more than 15% of the Portfolio shall be invested in 144A securities.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that have a rating(s) from Moody's, S&P, and/or Fitch of either BBB- or Baa3 shall not represent more than 7.5~~10~~% of the Portfolio, with the securities of a single issuer representing no more than 1.5~~5~~% of the Portfolio.
- Securities of any individual Agency, including MBS, CMBS or CMO, should not represent more than 20% of the Portfolio.
- Investments in an individual Prime Money Market Fund (exin~~clud~~ing Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.

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Claims-Paying Fund (Taxable) Investment Policy

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- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD program will be considered Corporate Floating Rate Notes.
- Municipal Securities shall not represent more than 30% of the Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 10% of the Portfolio.
- Structured products including non-agency mortgage-backed securities, CLOs, and asset-backed securities for prime automobile, floorplans, handset devices, equipment loan and lease receivables, and credit card receivables shall not represent more than 15% of the Portfolio, with the securities of a single issuer representing no more than 1.05% of the Portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the Portfolio.
- No more than 30% of the Portfolio shall consist of securities, excluding securities where weighted average life is used, with a final maturity between 97 and 121 months.

Duration

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security, except for securities where the weighted average life is used, in the Portfolio is 121 months or ten years and one month.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 3 years at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
- The dollar weighted average maturity of the Portfolio shall not exceed 72 months, or six years, calculated using the interest rate reset period for any VROs without a Demand

Citizens Property Insurance Corporation
Claims-Paying Fund (Taxable) Investment Policy

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Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.

- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
- Repurchase Agreements must have a maximum maturity of 30 days or less.
- If a fixed rate security has mandatory put option, then the mandatory put date will be used as a final maturity date.
- If a variable rate security has mandatory put option, then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of A2 from Moody's, A from S&P and/or A from Fitch.
- Asset-backed, agency and non-agency mortgage-backed securities, CMBS and CLOs shall use the weighted average life as the final maturity date with a maximum weighted average life of 6 years.

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Upon request by Citizens, the Investment Managers will stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions with its request prior to the stress test date.

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- Auction Rate Securities are not permitted.
- Commercial Paper Notes issued under Section 4(2) of [the](#) Securities [a](#)Act of 1933 are not permitted.
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- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.
- Citizens' investment policies follow the guidelines under Sections 215.471, 215.4725 and 215.473. Investment managers are prohibited from acquiring or retaining any obligation, security or other investment that is in violation of these sections.
- All securities must be dollar-denominated and regulated by United States securities laws.

- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO and/or the CFO's designee of Citizens.

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on ~~March 23, 2022~~ TBD.

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Bank instruments are unsecured interest-bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, Time Deposits, Certificates of Deposit and Banker's Acceptances. Yankee instruments are denominated in US dollars and issued by non-US branches or foreign banks.

Neither Citizens nor its Investment Managers will invest in instruments of domestic or foreign banks and savings and loans unless they have capital, surplus and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund of the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation either directly or as part of CDARS (Certificate of Deposit Account Registry Service) program.

These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Eurodollar Time Deposits.

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Floating rate Notes are Variable rate bonds with an interest rate that is periodically reset, usually every three months, and that carry a fixed spread, usually over the three-month London Interbank Offered Rate (LIBOR).

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Agency securities are issued or guaranteed by a federal agency or other Government-Sponsored Entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans, or other benefits. For example, the US Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

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An issuer of a pass-through or participation certificate (PC) collects monthly payments from the borrowers whose loans are in a given pool and “passes through” the cash flow to investors in monthly payments, less any servicing and/or guarantee fees. Most pass-throughs are backed by fixed-rate mortgage loans; however, *adjustable-rate mortgage loans (ARMs)* are also pooled to create the securities.

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Foreign securities are US dollar-denominated securities of issuers based outside the United States. Citizens considers the issuer to be based outside the United States if: it is organized under the laws of, or has a principal office located in, another country; or it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue, or profit from goods produced, services performed, or sales made in another country.

MONEY MARKET MUTUAL FUNDS

Money Market mutual funds are registered investment companies that comply with rule 2a7 of the Investment Company Act of 1940.

REPURCHASE AGREEMENTS (REPOs)

Repurchase Agreements are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back at an agreed upon price the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo.

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least "A2" by Moody's and "A" by S &P without regard to gradation. In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

Any Repurchase Agreement must be collateralized at least 102% with U.S. Government or Agency securities, excluding Mortgage-Backed Securities. All Repurchase Agreements must be marked-to-market daily.

Investment Poliy Taxable Claims Paying
Long Duration Fund

CLEAN

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Claims-Paying Long Duration Fund (Taxable)

INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to three separate policies:

- (1) Liquidity Fund (Taxable): generally, this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis. The liquidity fund amount, including internally managed funds, is evaluated annually to equal the approximate amount of funds needed to reach the attachment point of the Florida Hurricane Catastrophe Fund (FHCF).
- (2) Claims-Paying Fund (Taxable): generally, this policy will govern the investment of funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (3) Claims-Paying Long Duration Fund (Taxable): generally, this policy will govern the investment of funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.

In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to use its own investment personnel to invest operating funds. The Operating Funds Portfolio will consist of the approximate amount of funds needed to pay the operating expenses of Citizens, as determined by Citizens' Chief Financial Officer (CFO). Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, and Treasury or Agency securities. For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that operating expenses and claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

INVESTMENT OBJECTIVES

The primary investment objectives of the Claims-Paying Long Duration Fund are to provide safety of principal while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed to pay covered losses. Since paying such losses fully and in a timely manner is a priority for Citizens, liquidity in all portfolios must be paramount. However, the moneys invested pursuant to this policy will be used only after Citizens uses the moneys in its Liquidity Funds and Claims-Paying Funds for losses that exhaust approximately a 1-100 year probable maximum loss. As the moneys invested pursuant to this policy will be Citizens' last source of available funds, the duration limits of this policy will be longer than the duration of the Claims-Paying Fund (Taxable).

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens' Claims-Paying Long Duration Fund portfolio ("the Portfolio") will be invested only in high quality fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its Investment Managers will invest in include corporate debt securities, bank instruments, US Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), Mortgage-backed Securities, certain Asset-Backed securities, Municipal securities, and shares of Money Market Mutual Funds. Investment Managers are permitted to buy 144A securities.

It is the responsibility of the Investment Manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all Investment Managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens' compliance checks do not relieve the Investment Managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return performance by comparing the various Investment Managers' Claims-Paying Long Duration Funds (Taxable) performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers' professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio's overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

PORTFOLIO MANAGEMENT AND IMPLEMENTATION

Any investment recommendation, approval or decision under this Guideline made by Citizens or its Investment Manager (an "Investment Action") must be made only in accordance with the following:

- (i) any Investment Action must be based solely on pecuniary factors and may not subordinate the interests of the participants and beneficiaries of the applicable fund to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor;
- (ii) the weight given to any pecuniary factor in any Investment Action must appropriately reflect a prudent assessment of its impact on risk and returns; and
- (iii) any Investment Action must be consistent with the fiduciary standard of care required by Section 215.47, Fla. Stat

As defined by law, a "pecuniary factor" is a factor that Citizens, or its Investment Manager, expects to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with applicable investment objective. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

INVESTMENT GUIDELINES

Credit Quality

At the time of purchase, all securities must be rated in accordance with the following.

- (1) Securities with long-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch with minimum ratings of BBB-/Baa3;
- (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch;
- (3) Money Market Funds must be rated Aaa by Moody's, AAA_m by S&P **and/or** AAA_{mmf} by Fitch;
- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, floorplans, handset devices, and credit card receivables must be rated from at least one of Moody's, S&P, and/or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- (6) Collateralized Loan Obligations (CLOs) from Broadly Syndicated Markets, Non-Agency Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS), including Single Asset Single Borrower (SASB), must be rated from at least one of Moody's, S&P, or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- (7) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

If anything occurs which causes an investment in the Portfolio to be downgraded by one notch to BBB+ or falls outside the standards described above, the applicable Investment Manager must notify Citizens' CFO or the CFO's designee in writing via e-mail within one business day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to the CFO, or the CFO's designee, within five business days of an event or a negative watch that falls outside the standards. In general, any such affected security outside the standards should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to the CFO or the CFO designee; however, immediate sale in a temporarily depressed market is not mandated by this policy.

Diversification

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the

financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage-Backed Securities (MBS), Agency Commercial Mortgage-Backed Securities (CMBS), Agency Collateralized Mortgage Obligations (CMO) and Notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least 25% of the Portfolio.
- Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 75% of the Portfolio.
- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities or Treasury Money Market Funds are not considered to be part of an industry for these purposes. The Bloomberg BCLASS Indices Global Sector Classification will be used to verify the sector limit.
- No more than 15% of the Portfolio shall be invested in Agency MBS, CMBS or CMO.
- No more than 15% of the Portfolio shall be invested in 144A securities.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that have a rating(s) from Moody's, S&P, and/or Fitch of either BBB- or Baa3 shall not represent more than 7.5% of the Portfolio with the securities of a single issuer representing no more than 1.0% of the Portfolio.
- Securities of any individual Agency, including MBS, CMBS or CMO, should not represent more than 20% of the Portfolio.
- Investments in an individual Prime Money Market Fund (excluding Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.
- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD program will be considered Corporate Floating Rate Notes.
- Municipal Securities shall not represent more than 30% of the Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 10% of the Portfolio.
- Structured products including agency and non-agency mortgage-backed securities, CLOs, and asset-backed securities for prime automobile, floorplans, handset devices, equipment loan and lease receivables, and credit card receivables shall not represent more than 15% of the Portfolio with the securities of a single issuer representing no more than 1.0% of the Portfolio.

- Exposure to banks providing LOC or liquidity support for the underlying securities in Portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the Portfolio.
- No more than 30% of the Portfolio shall consist of securities, excluding securities where weighted average life is used, with a final maturity between 12 and 15 years.
- No more than 15% of the Portfolio shall consist of securities, excluding securities where weighted average life is used, with a final maturity between 15 and 20 years and one month.

Duration

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security, except for securities where the weighted average life is used, in the Portfolio is 20 years and one month.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 3 years at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
- The dollar weighted average maturity of the Portfolio shall not exceed 120 months, or ten years, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
- Repurchase Agreements must have a maximum maturity of 30 days or less.
- If a fixed rate security has mandatory put option, then the mandatory put date will be used as a final maturity date.
- If a variable rate security has mandatory put option, then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of

Moody's, S&P and/or Fitch, with minimum ratings of A2 from Moody's, A from S&P and/or A from Fitch.

- Asset-backed, agency and non-agency mortgage-backed securities, CMBS, and CLOs shall use the weighted average life as the final maturity date with a maximum weighted average life of 10 years.

STRESS TESTING

Upon request by Citizens, the Investment Managers will stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions with its request prior to the stress test date.

OTHER RESTRICTIONS

- Auction Rate Securities are not permitted.
- Commercial Paper Notes issued under Section 4(2) of the Securities Act of 1933 are not permitted.
- Qualified Public Depositories are not permitted.
- Derivatives are not permitted.
- Subordinate obligations, regardless of ratings, are not permitted.
- Middle market CLOs are not permitted.
- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.
- Citizens' investment policies follow the guidelines under Sections 215.471, 215.4725 and 215.473. Investment managers are prohibited from acquiring or retaining any obligation, security or other investment that is in violation of these sections.
- All securities must be dollar-denominated and regulated by United States securities laws.
- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO /or the CFO's designee of Citizens.

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on TBD.

Appendix A-Definitions of Types of Permitted Securities

CORPORATE DEBT SECURITIES

Corporate Debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Citizens may also purchase interests in bank loans to companies.

COMMERCIAL PAPER

Commercial Paper is an issuer's obligation with a maturity of less than 9 or 12 months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

DEMAND INSTRUMENTS

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Citizens' treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

BANK INSTRUMENTS

Bank instruments are unsecured interest-bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, Time Deposits, Certificates of Deposit and Banker's Acceptances. Yankee instruments are denominated in US dollars and issued by non-US branches or foreign banks.

Neither Citizens nor its Investment Managers will invest in instruments of domestic or foreign banks and savings and loans unless they have capital, surplus and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund of the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation either directly or as part of CDARS (Certificate of Deposit Account Registry Service) program.

These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Eurodollar Time Deposits.

FLOATING RATE NOTES

Floating rate Notes are Variable rate bonds with an interest rate that is periodically reset, usually every three months, and that carry a fixed spread, usually over the three-month London Interbank Offered Rate (LIBOR).

U.S. TREASURY SECURITIES

US Treasury securities are direct obligations of the federal government of the United States.

AGENCY SECURITIES

Agency securities are issued or guaranteed by a federal agency or other Government-Sponsored Entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans, or other benefits. For example, the US Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Notes issued through the US Government Temporary Liquidity Guarantee Program, whose interest and principal payments are fully and unconditionally guaranteed by the FDIC will be considered Agency Notes.

AGENCY MORTGAGE-BACKED SECURITIES

Mortgage pass-through securities are issued by Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHMLC) and Federal National Mortgage Association (FNMA). The pass-through securities represent a direct ownership interest in a pool of mortgage loans.

An issuer of a pass-through or participation certificate (PC) collects monthly payments from the borrowers whose loans are in a given pool and “passes through” the cash flow to investors in monthly payments, less any servicing and/or guarantee fees. Most pass-throughs are backed by fixed-rate mortgage loans; however, *adjustable-rate mortgage loans (ARMs)* are also pooled to create the securities.

NON-AGENCY MORTGAGEBACKED SECURITIES

Non-Agency mortgage-backed securities are secured by real estate mortgage loans. They are not issued by an Agency but are issued by private lenders and are issued in tranches with a structure similar to Agency backed securities.

COLLATERALIZED LOAN OBLIGATIONS

A collateralized loan obligation (CLO) is a security backed by a pool of debt. They are backed by corporate loans or loans taken out by private equity firms to conduct leveraged buyouts.

ASSET-BACKED SECURITIES

An asset-backed security is a financial security backed by a loan, lease, credit card, or receivables against assets other than real estate and mortgage-backed securities.

MUNICIPAL SECURITIES

Municipal securities are issued by states, counties, cities, and other political subdivisions and authorities. Both taxable and tax-exempt municipal securities are allowable investments.

FOREIGN SECURITIES

Foreign securities are US dollar-denominated securities of issuers based outside the United States. Citizens considers the issuer to be based outside the United States if: it is organized under the laws of, or has a principal office located in, another country; or it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue, or profit from goods produced, services performed, or sales made in another country.

MONEY MARKET MUTUAL FUNDS

Money Market mutual funds are registered investment companies that comply with rule 2a7 of the Investment Company Act of 1940.

REPURCHASE AGREEMENTS (REPOs)

Repurchase Agreements are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back at an agreed upon price the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo.

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least "A2" by Moody's and "A" by S &P without regard to gradation. In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

Any Repurchase Agreement must be collateralized at least 102% with U.S. Government or Agency securities, excluding Mortgage-Backed Securities. All Repurchase Agreements must be marked-to-market daily.

Investment Policy Taxable Claims Paying Long Duration Fund

REDLINE

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Claims-Paying Long Duration Fund (Taxable)

INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to ~~five~~three separate policies:

- (1) Liquidity Fund (Taxable): generally, this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis. The liquidity fund amount, including internally managed funds, is~~are~~ evaluated annually to equal the~~be~~ approximately equal to the amount of funds needed ~~up to reach~~ the attachment point of the Florida Hurricane Catastrophe Fund (FHCF).
- ~~(2) Liquidity Fund (Tax Exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on as needed basis.~~
- ~~(3)~~(2) Claims-Paying Fund (Taxable): generally, this policy will govern the investment of funds that are up to the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- ~~(4)~~(3) Claims-Paying Long Duration Fund (Taxable): generally, this policy will govern the investment of funds that are above the 1-100 year probable maximum loss and will be used to pay claims post-event after Citizens has expended all moneys in the Taxable Claims-Paying Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- ~~(5) Claims Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Tax-Exempt Liquidity Fund and all taxable funds. The funds will also be used to pay principal and / or interest debt service payments.~~

Citizens Property Insurance Corporation
Claims-Paying Long Duration Fund (Taxable) Investment Policy
Page 2 of 11

In addition, Citizens may choose to invest a portion of its portfolio in a separately externally managed account, similar to 2a-7 money market funds, and continue to use its own investment personnel ~~to invest operating funds and the investment procedures approved by the Board of Governors in October 2007 (Citizens' "Operating Funds Portfolio")~~. The Operating Funds Portfolio will consist of the approximate amount of funds needed to pay the ~~day-to-day~~ operating expenses of Citizens, as determined by Citizens' Chief Financial Officer (CFO). Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, ~~and Treasury or Agency securities, and certain Asset Backed securities~~. For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that operating expenses and claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

INVESTMENT OBJECTIVES

The primary investment objectives of the Claims-Paying Long Duration Fund are to provide safety of principal while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed to pay covered losses. Since paying such losses fully and in a timely manner is a priority for Citizens, liquidity in all portfolios must be paramount. However, the moneys invested pursuant to this policy will be used only after Citizens uses the moneys in its Liquidity Funds and Claims-Paying Funds for losses that exhaust approximately a 1-100 year probable maximum loss. As the moneys invested pursuant to this policy will be Citizens' last source of available funds, the duration limits of this policy will be longer than the duration of the Claims-Paying Fund (Taxable).

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens' Claims-Paying Long Duration Fund portfolio ("the Portfolio") will be invested only in high quality fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its Investment Managers will invest in include corporate debt securities, bank

Citizens Property Insurance Corporation
Claims-Paying Long Duration Fund (Taxable) Investment Policy
Page 3 of 11

instruments, US Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), ~~Non-Agency~~ Mortgage-backed Securities, certain Asset-Backed securities, Municipal securities, and shares of Money Market Mutual Funds. Investment Managers are permitted to buy 144A -securities.

It is the responsibility of the Investment Manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all Investment Managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens' compliance checks do not relieve the Investment Managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return performance by comparing the various Investment Managers' Claims-Paying Long Duration Funds (Taxable) performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers' professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio's overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

PORTFOLIO MANAGEMENT AND IMPLEMENTATION

Any investment recommendation, approval or decision under this Guideline made by any Citizens employee or its Investment Manager (an "Investment Action") must be made only in accordance with the following:

- (i) any Investment Action must be based solely on pecuniary factors and may not subordinate the interests of the participants and beneficiaries of the applicable fund to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor;
- (ii) the weight given to any pecuniary factor in any Investment Action must appropriately reflect a prudent assessment of its impact on risk and returns; and

(iii) any Investment Action must be consistent with the fiduciary standard of care required by Section 215.47, Fla. Stat., and for the FRS Trust Fund, Sections 112.656 and 112.662, Fla. Stat.

As defined by law, a “pecuniary factor” is a factor that a Citizens, or its Investment Manager, employee expects to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with applicable investment objective. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

INVESTMENT GUIDELINES

Credit Quality

At the time of purchase, all securities must be rated in accordance with the following.

- (1) Securities with long-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch with minimum ratings of BBB-/Baa3;
- (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch;
- (3) Money Market Funds must be rated Aaa by Moody's, AAA_m by S&P **and/or** AAA_{mmf} by Fitch;
- (4) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (5) Asset-backed securities of single issuing trust or master trust for prime automobile, equipment loan and lease receivables, floorplans, handset devices, and credit card receivables must be rated from at least two-one of Moody's, S&P, and/or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, and/or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$5075 million for each security.
- (6) Collateralized Loan Obligations (CLOs) from Broadly Syndicated Markets, Non-Agency Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS), including Single Asset Single Borrower (SASB), must be rated from at least one of Moody's, S&P, or Fitch and must have long-term ratings of Aaa by Moody's, AAA by S&P, or AAA by Fitch. At original issuance, deal size must be at least \$250 million, and tranche size must be at least \$50 million for each security.
- (7) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

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If anything occurs which causes an investment in the Portfolio to be downgraded by one notch to BBB+ or to falls outside the standards described above, the applicable Investment Manager must notify Citizens' CFO and/or the CFO's designee~~Citizens' investment personnel and CFO~~ in writing via e-mail within one business day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to Citizens' the CFO, and/or the CFO's designee, within five business days of an~~the~~ event or a negative watch that falls outside the standards. In general, any such affected security outside the standards should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to Citizens' the CFO and/or the CFO designee; however, immediate sale in a temporarily depressed market is not mandated by this policy.

Diversification

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage-Backed Securities (MBS), Agency Commercial Mortgage-Backed Securities (CMBS), Agency Collateralized Mortgage Obligations (CMO) and Notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least 20~~25~~% of the Portfolio.
- Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 80~~75~~% of the Portfolio.
- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities or Treasury Money Market Funds -are not considered to be part of an industry for these purposes. The Bloomberg BCLASS Indices Global Sector Classification will be used to verify the sector limit.
- No more than 15% of the Portfolio shall be invested in Agency MBS, CMBS or CMO.
- No more than 15% of the Portfolio shall be invested in 144A securities.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that have a rating(s) from Moody's, S&P, and/or Fitch of either BBB- or Baa3 shall not represent more than 7.5% of the Portfolio with the securities of a single issuer representing no more than 1.0% of the Portfolio.

- Securities of any individual Agency, including MBS, CMBS or CMO, should not represent more than 20% of the Portfolio.
- Investments in an individual Prime Money Market Fund (~~exin~~cluding Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.
- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD program will be considered Corporate Floating Rate Notes.
- Municipal Securities shall not represent more than 30% of the Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 10% of the Portfolio.
- Structured products including agency and non-agency mortgage-backed securities, CLOs, and asset-backed securities for prime automobile, floorplans, handset devices, equipment loan and lease receivables, and credit card receivables shall not represent more than 15% of the Portfolio with the securities of a single issuer representing no more than 1.05% of the Portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the Portfolio.
- No more than 30% of the Portfolio shall consist of securities, excluding securities where weighted average life is used, with a final maturity between 12 and 15 years.
- No more than 15% of the Portfolio shall consist of securities, excluding securities where weighted average life is used, with a final maturity between 15 and 20 years and one month.

Duration

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security, except for securities where the weighted average life is used, in the Portfolio is 20 years and one month.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 3 years at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where

such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.

- The dollar weighted average maturity of the Portfolio shall not exceed 120 months, or ten years, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
- Repurchase Agreements must have a maximum maturity of 30 days or less.
- If a fixed rate security has mandatory put option, then the mandatory put date will be used as a final maturity date.
- If a variable rate security has mandatory put option, then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of A2 from Moody's, A from S&P and/or A from Fitch.
- Asset-backed, agency and non-agency mortgage-backed securities, CMBS, and CLOs shall use the weighted average life as the final maturity date with a maximum weighted average life of 10 years.

STRESS TESTING

Upon request by Citizens, the Investment Managers will stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions with its request prior to the stress test date.

OTHER RESTRICTIONS

- Auction Rate Securities are not permitted.
- Commercial Paper Notes issued under Section 4(2) of [the](#) Securities ~~a~~[A](#)ct of 1933 are not permitted.
- Qualified Public Depositories are not permitted.
- Derivatives are not permitted.

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- Subordinate obligations, regardless of ratings, are not permitted.
- Middle market CLOs are not permitted.
- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.
- Citizens' investment policies follow the guidelines under Sections 215.471, 215.4725 and 215.473. Investment managers are prohibited from acquiring or retaining any obligation, security or other investment that is in violation of these sections.
- All securities must be dollar-denominated and regulated by United States securities laws.
- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO and/or the CFO's designee of Citizens.

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on March 23, 2022 TBD.

Appendix A-Definitions of Types of Permitted Securities

CORPORATE DEBT SECURITIES

Corporate Debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Citizens may also purchase interests in bank loans to companies.

COMMERCIAL PAPER

Commercial Paper is an issuer's obligation with a maturity of less than 9 or 12 months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

DEMAND INSTRUMENTS

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Citizens' treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

BANK INSTRUMENTS

Bank instruments are unsecured interest-bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, Time Deposits, Certificates of Deposit and Banker's Acceptances. Yankee instruments are denominated in US dollars and issued by non-US branches or foreign banks.

Neither Citizens nor its Investment Managers will invest in instruments of domestic or foreign banks and savings and loans unless they have capital, surplus and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund of the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation either directly or as part of CDARS (Certificate of Deposit Account Registry Service) program.

These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Eurodollar Time Deposits.

FLOATING RATE NOTES

Floating rate Notes are Variable rate bonds with an interest rate that is periodically reset, usually every three months, and that carry a fixed spread, usually over the three-month London Interbank Offered Rate (LIBOR).

U.S. TREASURY SECURITIES

US Treasury securities are direct obligations of the federal government of the United States.

AGENCY SECURITIES

Agency securities are issued or guaranteed by a federal agency or other Government-Sponsored Entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans, or other benefits. For example, the US Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Notes issued through the US Government Temporary Liquidity Guarantee Program, whose interest and principal payments are fully and unconditionally guaranteed by the FDIC will be considered Agency Notes.

AGENCY MORTGAGE-~~BACKED~~ SECURITIES

Mortgage pass-through securities are issued by Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHMLC) and Federal National Mortgage Association (FNMA). The pass-through securities represent a direct ownership interest in a pool of mortgage loans.

An issuer of a pass-through or participation certificate (PC) collects monthly payments from the borrowers whose loans are in a given pool and “passes through” the cash flow to investors in monthly payments, less any servicing and/or guarantee fees. Most pass-throughs are backed by fixed-rate mortgage loans; however, *adjustable-rate mortgage loans (ARMs)* are also pooled to create the securities.

NON-AGENCY MORTGAGE-BACKED SECURITIES

Non-Agency mortgage-backed securities are secured by real estate mortgage loans. They are not issued by an Agency but are issued by private lenders and are issued in tranches with a structure similar to Agency backed securities.

COLLATERALIZED LOAN OBLIGATIONS

A collateralized loan obligation (CLO) is a security backed by a pool of debt. They are backed by corporate loans or loans taken out by private equity firms to conduct leveraged buyouts.

ASSET-BACKED SECURITIES

An asset-backed security is a financial security backed by a loan, lease, credit card, or receivables against assets other than real estate and mortgage-backed securities.

MUNICIPAL SECURITIES

Municipal securities are issued by states, counties, cities, and other political subdivisions and authorities. Both taxable and tax-exempt municipal securities are allowable investments.

FOREIGN SECURITIES

Foreign securities are US dollar-denominated securities of issuers based outside the United States. Citizens considers the issuer to be based outside the United States if: it is organized under the laws of, or has a principal office located in, another country; or it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue, or profit from goods produced, services performed, or sales made in another country.

MONEY MARKET MUTUAL FUNDS

Money Market mutual funds are registered investment companies that comply with rule 2a7 of the Investment Company Act of 1940.

REPURCHASE AGREEMENTS (REPOs)

Repurchase Agreements are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back at an agreed upon price the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo.

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least "A2" by Moody's and "A" by S &P without regard to gradation. In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

Any Repurchase Agreement must be collateralized at least 102% with U.S. Government or Agency securities, excluding Mortgage-Backed Securities. All Repurchase Agreements must be marked-to-market daily.