

MINUTES OF THE MEETING
THE FLORIDA BIRTH-RELATED
NEUROLOGICAL INJURY COMPENSATION ASSOCIATION

August 26, 2019
Orlando Airport Hyatt
Orlando, Florida

EXECUTIVE SESSION

The Executive Session of the August 26, 2019 meeting of the Board of Directors of the Florida Birth-Related Neurological Injury Compensation Association was called to order by Charlie Lydecker.

Present and constituting a quorum were:

Charlie Lydecker
Steven Dukes, M.D.
Marcos Lorenzo, M.D.
Robert White

Also present:

Kenney Shipley, NICA Executive Director
Tim Daughtry, NICA Deputy Director
Steve Ecenia, NICA General Counsel
Tana Storey, NICA General Counsel's Office (by phone)
Paige Davis, Department of Financial Services
Martin Goldberg, Lash & Goldberg (by phone)
Sandi Nargiz, Phipps Reporting

Current and potential litigation issues were discussed.

The Board then met in regular session.

GENERAL SESSION

Charlie Lydecker then called the General Session of the Board meeting to order.

Present and constituting a quorum were:

Charlie Lydecker
Steven Dukes, M.D.
Marcos Lorenzo, M.D.
Robert White
Bryan Anderson (by phone)

Also present:

Kenney Shipley, NICA Executive Director
Tim Daughtry, NICA Deputy Director
Steve Ecenia, NICA General Counsel
Paige Davis, Department of Financial Services
Tamara St. Hilaire, Office of Insurance Regulation (by phone)
Janice Yecco, NICA Investment Consultant
Felicia Bennett, Wilshire Consulting
Russell Perkins, Thomas Howell Ferguson
Steve Lehmann, Pinnacle Actuarial Resources
Warren DeKinder, Intech (by phone)
Matthew Munro, MetLife Investment Management (formerly Logan Circle Partners) (by phone)
Nicole Marchand, BlackRock (by phone)

The Chair asked for a motion to approve the minutes of the June 7, 2019 Board meeting conference call.

A motion was made to approve the minutes as drafted. The motion passed unanimously.

Investments

Janice Yecco followed with a discussion of overall economic fundamentals as well as NICA's investment results. For the trailing twelve months ending June 30, 2019, the NICA portfolio had an absolute return of 8.75% which was below the policy index of 9.96% but above the expected return of 5.7% based on the asset allocation. Strong outperformance in the last two fiscal quarters could not mitigate the underperformance experienced the first half of the fiscal year. Underperformance in the total portfolio during the fiscal year was primarily due to negative returns in NICA's equity composite in the quarter ending December 31, 2018.

A summary of the fiscal year performance of active managers followed. In Fixed Income, MetLife investment management (formerly Logan Circle Partners) underperformed the benchmark by 71 bps while Sterling Capital outperformed their benchmark by 38 bps. Over the long term, both managers had outperformed their benchmarks by approximately 50 bps. In U.S. Equity, Intech and Panagora underperformed by their benchmarks by 276 bps and 212 bps respectively while Wellington outperformed by 722 bps. Both Panagora and Wellington had outperformed during the longer term periods. Both Non-U.S. Equity managers underperformed. Baillie Gifford underperformed by 142 bps while Schroders underperformed by 341 bps.

As of June 30, 2019, all asset classes in the portfolio were within their approved investment policy target ranges. Approximately \$16 million in reinsurance recoveries had been received in cash in July 2019. A discussion followed regarding whether or not to redeploy the cash in other asset classes of the portfolio. NICA's investment policy states that when asset classes

move outside their ranges, the portfolio would be rebalanced. Cash was within policy ranges at that time and no action was necessary.

Felicia Bennett of Wilshire Consulting then presented the executive summary for the quarter ending June 30, 2019 and the investment manager Watch List as of June 30, 2019. There were two managers on the Watch List, Intech (since September 30, 2016) and Schrodgers (since June 30, 2019). Intech had underperformed for the five year period. Relative to their peers, they were in the third quartile. It was recommended the NICA continue to monitor this manager. Schrodgers was just added to the Watch List for the quarter ending June 30, 2019 due to their three year performance and three year information ratio based on composite returns. It was recommended that NICA continue to monitor this manager.

The Chair expressed concern regarding Intech remaining in Watch List status since 2016 and asked that a recommendation be made at the next meeting.

***Change in order of agenda – Item #5 Reserve Evaluation and Claim Status and Item #6 Budget discussed prior to Item #4 Financial Statement ***

Reserve Evaluation

Steve Lehmann followed with the March 31, 2019 and June 30, 2019 actuarial reserve evaluations.

For the quarter ending March 31, 2019 the overall recommended reserve for loss and loss adjustment expenses, including both allocated and unallocated loss adjustment expense, was \$854.6 million gross of anticipated reinsurance recoveries. This was a decrease of \$1.9 million since December 31, 2018. Anticipated reinsurance recoveries decreased by \$2.9 million to \$15.99 million since December 31, 2018 based on the final decision of the arbitration panel relative to the reinsurance recovery from Gen Re. No change was proposed in the risk margin reserve of \$75.5 million.

Summary exhibits from the March 31, 2019 actuarial report were presented. The exhibits detailed case reserves as established by NICA, payments and incurred but not reported (IBNR) and loss development amounts by birth year. The assumptions used for prospective inflation of 3.5% and prospective investment rate of return of 5% had not changed since the last evaluation. Mr. Lehmann pointed out that the significant factor is the differential between the two which was 1.5%. The other key assumption was the incurred loss development factor of 1.099 for 363 months to ultimate. The present value of case reserves of \$577.8 million had increased by \$1.2 million since December. The reserve for IBNR and development of \$277 million decreased by approximately \$3 million for the quarter.

Exhibits summarizing the estimated reinsurance recoveries as of June 30, 2019 were presented. The estimated recoveries of approximately \$15.99 million were comprised of specific excess of \$9.83 million, aggregate excess of \$6.16 million.

The June 30, 2019 actuarial reserve evaluation included a recommended reserve for loss and loss adjustment expenses, including both allocated and unallocated loss adjustment expense,

of \$848.2 million gross of anticipated reinsurance recoveries. This represented a \$6.4 million decrease since the quarter ending June 30, 2019 presented above. The decrease during the quarter was primarily due to a decrease in IBNR reserves. There was no change in the anticipated reinsurance recoveries of \$15.99 million. No change was recommended to the risk margin reserve of \$75.5 million.

A motion was made to approve the March 31, 2019 actuarial reserve evaluation and the June 30, 2019 actuarial reserve evaluation. The motion passed unanimously.

Budget

Tim Daughtry then presented the budget to actual general and administrative expenses for the fiscal year ending June 30, 2019 as well as the proposed budget for the fiscal year ending June 30, 2020.

A motion was made to approve the proposed budget. The motion passed unanimously.

Audited Financial Statements

Russell Perkins of Thomas Howell Ferguson presented the audited financial statements for the fiscal year ending June 30, 2019. Mr. Perkins thanked Ms. Shipley and Mr. Daughtry for once again promoting both an efficient and effective audit. The audit was conducted in accordance with Governmental Auditing Standards. An unqualified opinion was rendered by Thomas Howell Ferguson which is the highest level of assurance a CPA firm can provide. There were no significant deficiencies or material weaknesses in internal control identified as part of the financial statement audit. The Statement of Net Position as of June 30, 2019 reflected total net position of \$393 million. The statement of Revenues, Expenses and Changes in Net Position reflected an operating loss of \$18 million which was offset by strong investment performance of approximately \$103 million resulting in a change in net position for the fiscal year of \$85 million.

A motion was made to approve the June 30, 2019 audited financial statements. The motion passed unanimously.

BNYM Custody Contract Extension

NICA's contract for custody with Bank of New York Mellon (BNYM) had been negotiated in conjunction with the State Treasury and the Florida State Board of Administration (SBA). Ms. Shipley presented an extension to NICA's custody agreement with BNYM that would match the time frame of the Treasury's and SBA's custody agreements which were both ten years. The amended agreement would expire April 30, 2024. There were no other changes to the agreement.

A motion was made to approve the extension of custody contract with the Bank of New York Mellon. The motion passed unanimously.

Commutation of Reinsurance

NICA had received the \$15.99 million reinsurance recovery from Gen Re based on the final award of the Arbitration Panel. All reinsurance contracts had been commuted and there would be no further reports.

The public portion of the meeting was concluded and the Board held a second Executive Session to meet with NICA's independent auditor Russell Perkins of Thomas Howell Ferguson.

EXECUTIVE SESSION

Present and constituting a quorum were:

Charlie Lydecker
Steven Dukes, M.D.
Marcos Lorenzo, M.D.
Robert White
Bryan Anderson (by phone)

Also present:

Russell Perkins, Thomas Howell Ferguson
Steve Ecenia, NICA General Counsel
Paige Davis, Department of Financial Services

The procedures and results of the June 30, 2019 audit were discussed.

There being no further business before the Association, the meeting was adjourned.