

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

August 28, 2020
Virtual Meeting/Conference Call

EXECUTIVE SESSION

The Executive Session of the August 28, 2020 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
Robert White
Bryan Anderson
Marcos Lorenzo, M.D.
Steven Dukes, M.D.

Also present:

Kenney Shipley, NICA Executive Director
Tim Daughtry, NICA Deputy Director
Steve Ecenia, NICA General Counsel
Tana Story, NICA General Counsel's office
Matt Dufek, Kikoda
Jason White, Kikoda
Russell Perkins, Thomas Howell Ferguson (for audit discussion only)
Tamra Piderit, Phipps Reporting

Kenney Shipley and Tim Daughtry left the room and the Board met with Russell Perkins of Thomas Howell Ferguson. The procedures and results of the June 30, 2020 audit were discussed.

Russell Perkins left the meeting and Kenney Shipley and Tim Daughtry returned.

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.
Robert White
Bryan Anderson
Marcos Lorenzo, M.D.

Also present:

Kenney Shipley, NICA Executive Director
Tim Daughtry, NICA Deputy Director
Tana Story, NICA General Counsel's Office
Janice Yecco, NICA Investment Consultant
Felicia Bennett, Wilshire Consulting
Mark Crawshaw, Madison Consulting
Russell Perkins, Thomas Howell Ferguson
Matt Dufek, Kikoda
Jason White, Kikoda
Linda Nelson, NICA Computer Consultant
Jacky Chu, BlackRock
Matt Munro, MetLife
Kana Daniel, MetLife

The Chair asked for a motion to approve the minutes of the June 12, 2020 Board meeting.

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.

The economic impact of the COVID-19 pandemic continued into the second quarter, including negative growth, extreme unemployment and mortgage defaults not seen since the 2008, 2009 housing crisis. In spite of the poor economic conditions, the financial markets had improved since the prior quarter due to actions taken by the Federal Reserve.

NICA's policy index returned 12.52% for the quarter and had returned 7.26% for the trailing twelve months.

For the fiscal year ending June 30, 2020, the fixed income composite returned 11.14% net of fees. MetLife and Sterling Capital both outperformed their benchmarks. BlackRock High Yield modestly underperformed.

In the equity markets, NICA's US Equity Composite returned 5.19% for the fiscal year underperforming the Russell 3000 index of 6.53% by 134 basis points net of fees. Wellington and the BlackRock Russell 1000 Index fund both outperformed their respective benchmarks.

With a return of -7.78%, Panagora underperformed against its benchmark return of -6.63% by 115 basis points.

The Non-US Equity composite returned 3.63% net of fees and outperformed its benchmark return of -4.80% by 843 basis points. Baillie Gifford returned 12.95% beating its benchmark return of -4.80 % by 1,775 basis points. NICA's overweight to Baillie Gifford added significant value as the growth index continued to outperform the value index. For the trailing 12 months the MSCI ACWI ex US Growth index returned 5.80% compared to the MSCI ACWI ex US Value index return of -15.26%. Schroders, with a Value style bias, returned -11.05% and underperformed the benchmark return of -4.80% by 625 bps.

The estimated portfolio balances as of August 17, 2020 were within their asset allocation target ranges.

Ms. Yecco then discussed the Non-US equity benchmark. At NICA's request, Wilshire reviewed the benchmark, the MSCI ACWI ex US net, used to evaluate the performance of NICA's Non-US Equity managers. This benchmark is a broadest representation of the international equity opportunity set. Wilshire determined that the two managers in NICA's Non-US Equity composite had distinct style biases. Baillie Gifford was geared to growth while Schroders was value-oriented. Consequently, using a broad benchmark to define the opportunity set and measure manager performance could provide misleading results.

Recommendation:

Wilshire recommended that NICA benchmark the Non-US Equity managers to their appropriate style benchmark. Baillie Gifford's benchmark should be changed to the MSCI ACWI ex US Growth Index and Schroders benchmark should be changed to the MSCI ACWI ex US Value Index. NICA concurs with this recommendation.

A motion was made to approve the above recommendation. The motion passed unanimously.

Felicia Bennett of Wilshire Consulting then presented the executive summary for the quarter ending June 30, 2020 and the investment manager Watch List as of June 30, 2020. There were two managers on the Watch List, Panagora (since 3/31/2020) and Schroders (since 6/30/2019). Panagora triggered Watch List status due to their 5 year performance being below benchmark. It was recommended that NICA continue to monitor this manager. After consideration of the above change in benchmark for Schroders, Watch List status would no longer be triggered for that manager.

Audited Financial Statements

Russell Perkins of Thomas Howell Ferguson presented the audited financial statements for the fiscal year ending June 30, 2020. Mr. Perkins thanked Ms. Shipley and Mr. Daughtry for promoting both an efficient and effective audit. No significant deficiencies or material

weaknesses in internal control were noted during the audit. There were no uncorrected misstatements noted and there were no audit adjustments. Thomas Howell Ferguson issued an unqualified opinion which is the highest level of assurance rendered by a CPA firm to an organization. The Statement of Net Position as of June 30, 2020 reflected total assets of \$1.476 billion, total liabilities of \$1.049 billion and net position of \$426.5 million. It was noted that the claims reserves liability exceeded \$1 billion. The Statement of Revenues, Expenses and Changes in Net Position reflected a change in net position for the year of \$33.3 million.

The Chair advised those in attendance that the Board had met privately in Executive Session with Mr. Perkins to discuss the audit.

A motion was made to approve the June 30, 2020 audited financial statements. The motion passed unanimously.

Reserve Evaluation

Mark Crawshaw followed with the June 30, 2020 actuarial reserve evaluation. A summary of claims payments and reserves for periods from December 31, 2016 through June 30, 2020 was presented along with a summary of projected ultimate accepted claim counts by birth year. The assumptions regarding the interest discount rate and the rate of inflation had not changed from prior analyses which reflected a 1.5% differential between the two. For the quarter ending June 30, 2020, the reserve for loss and loss adjustment expenses had increased by \$7.5 million to \$939 million. The increase was attributed to an increase in the number of outstanding claims. A summary showing the claims payments, reserves and claims counts for various quarters showed an increase in the quarter of 6 claims. It was noted that claims reserves in the audited financial statements differed from the \$939 million due to the inclusion of the risk margin reserve of \$75.5 million and the projection of estimated claims expenses for the full 2020 birth year. Charts summarizing the rolling year reported claim counts and the ratio of accepted claims to reported claims were presented. Both of these charts showed increases over time.

Dr. Crawshaw advised the Board that NICA had received a draft of the actuarial review of NICA by the Office of Insurance Regulation. The conclusions in the draft report were similar to those of NICA's actuaries. Ms. Shipley noted that the draft was received after the Board materials were sent. NICA had already sent a response to the report to OIR.

No change was recommended to the risk margin reserve of \$75.5 million.

A motion was made to approve the June 30, 2020 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, 2020 as well as the proposed budget for the fiscal year ending June 30, 2021. For the fiscal year ending June 30, 2020, the general and administrative

expenses had exceeded the budget primarily due to litigation that is not part of long term recurring expenses.

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

Legislation

As discussed at previous Board meetings, NICA has proposed an amendment to increase the parental award from \$100,000 to \$250,000 initially with an increase of 3% annually thereafter. NICA will continue to work to generate support to have the legislation included in an appropriate bill in either a special or regular legislative session.

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