

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS

SUPERIOR COURT

Docket No. 03-E-0106

**In the Matter of the Liquidation of
The Home Insurance Company**

**LIQUIDATOR'S MOTION FOR APPROVAL
OF SECOND REVISED INVESTMENT GUIDELINES**

Roger A. Sevigny, Insurance Commissioner for the State of New Hampshire, as Liquidator ("Liquidator") of The Home Insurance Company ("Home"), hereby moves that the Court enter an order approving revised investment guidelines for Home that increase the percentage of the portfolio that can be invested in corporate obligations from 40% to 55%. The proposed second revised statement of investment policy ("Second Revised Investment Guidelines"), which is attached hereto as Exhibit A, is otherwise identical to the Revised Investment Guidelines approved by the Court on February 17, 2005. As reasons therefor, the Liquidator states as follows:

1. Background. Home's investment portfolio has been managed pursuant to investment guidelines since the beginning of the liquidation proceeding in June 2003. The original investment guidelines were summarized in the statement of investment policy attached as Exhibit A to the Liquidator's Third Report dated September 12, 2003. The Liquidator entered into an Asset Management Agreement dated June 2, 2004 with Conning Asset Management Company ("Conning"), which was approved by the Court on July 6, 2004. The Asset Management Agreement included as Schedule 1 investment guidelines to govern Conning's management of the longer-term portion of Home's portfolio. As explained in the Liquidator's

Motion for Approval of Revised Investment Guidelines dated January 27, 2005, those guidelines proved too restrictive given the size of Home's portfolio. The Liquidator accordingly sought approval of the Revised Investment Guidelines that allowed Conning to make larger investments in individual issues, while maintaining the conservative nature of the investment policy. Those Revised Investment Guidelines were approved by the Court on February 17, 2005. Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, in Support of Motion for Approval of Second Revised Investment Guidelines ("Bengelsdorf Aff.") ¶ 3.

2. Limitations of the Revised Investment Guidelines. One aspect of the Revised Investment Guidelines now needs revision in light of Conning's experience in managing the Home portfolio over the last few months. During recent discussions concerning potential means of increasing investment income, Conning has advised the Liquidator that the turmoil in the financial markets has increased the yield spreads between U.S. government obligations and other obligations to differentials not seen in a decade. Conning believes that the best opportunities for the portfolio to benefit from these wider spreads, consistent with the limitations on types of investments found in the Revised Investment Guidelines, are in the investment grade corporate obligations sector. The Revised Investment Guidelines limit the portion of the portfolio that can be allocated to investments in corporates to 40%. The current allocation is just under 39%. Bengelsdorf Aff. ¶ 4.

3. The requested increase in corporate allocation. In response to a request that Conning consider ways of increasing investment income, Conning has asked the Liquidator to increase the corporate allocation limit to 55%. Conning's intent is to be able to increase the amount of the portfolio invested in corporates to approximately 50%. The additional 5% in the proposed limit is to avoid the need to make sales to remain within the limit in the event the

relative value of the corporate part of the portfolio increases as compared to the rest of the portfolio. Conning does not request any other changes to the Revised Investment Guidelines. It continues to support the credit quality and single issuer limits and the other sector allocation limits in those guidelines. Bengelsdorf Aff. ¶ 5.

4. The Second Revised Investment Guidelines. The proposed Second Revised Investment Guidelines are the same as the Revised Investment Guidelines except for the increase of the “Maximum asset allocation for an asset class” for “Corporate” to 55% from 40%. See Exhibit A at 2. The Second Revised Investment Guidelines would permit Conning to allocate more of the portfolio to investment grade corporate obligations. Consistent with the goals of the liquidation, they maintain the conservative nature of the investment policy. They continue to limit the types of permissible investments, the percentage of the portfolio that can be invested in any single issuer in any single asset class,¹ and the percentage of the portfolio that can be invested in any asset class (including the change proposed here).² Bengelsdorf Aff. ¶ 6.

5. The revision sought in the Second Revised Investment Guidelines will permit Home to increase investment income, and both the revision and the Second Revised Investment Guidelines as a whole are consistent with a prudent and conservative investment policy. See Bengelsdorf Aff. ¶ 7.

6. For the reasons described above, the Liquidator submits that the Second Revised Investment Guidelines are fair and reasonable and in the best interest of the liquidation and the policyholders and other creditors of Home. See Bengelsdorf Aff. ¶ 8. The Second Revised Investment Guidelines are consistent with the Liquidator’s authority under paragraphs (f) and (h) of the Order of Liquidation entered June 13, 2003, to administer and invest assets under the

¹ No limits apply to US Government and US Government Agency Obligations.

² This limitation does not apply to US Government and US Agency Obligations, commercial paper and certificates of deposit.

orders of the Court and under RSA 402-C:25, VI to “do such other acts as are necessary or expedient to collect, conserve or protect [the insurer’s] assets or property.”

WHEREFORE, the Liquidator respectfully requests that the Court grant this motion, enter an order in the form submitted herewith approving the Second Revised Investment Guidelines, and grant such other and further relief as justice may require.

Respectfully submitted,

ROGER A. SEVIGNY, INSURANCE
COMMISSIONER OF THE STATE OF
NEW HAMPSHIRE SOLELY AS
LIQUIDATOR OF THE HOME
INSURANCE COMPANY,

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April 11, 2008

Certificate of Service

I hereby certify that a copy of the foregoing Liquidator's Motion for Approval of Second Revised Investment Guidelines, the supporting Affidavit of Peter A. Bengelsdorf, and the Proposed Order, were sent, this 11th day of April, 2008, by first class mail, postage prepaid to all persons on the attached service list.

A handwritten signature in cursive script, appearing to read "Eric A. Smith", is written above a horizontal line.

Eric A. Smith

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EXHIBIT A – SECOND REVISED INVESTMENT GUIDELINES

Second Revised Statement of Investment Policy The Home Insurance Company (in liquidation)

I. Investment Objective

To maintain a portfolio of high quality, readily marketable investments that protects and enhances the assets of The Home Insurance Company (in liquidation) (“the Company”). The portfolio should produce a high level of investment income over a multiple year time horizon in accordance with expected liability payouts, and otherwise support the objectives of the Liquidator, consistent with safety and preservation of capital.

II. Investment Responsibility

The Special Deputy Liquidator and the Chief Financial Officer shall be responsible for the selection of investments and for their purchase or sale within the authority delegated to them by the Liquidator. They may seek investment advice from professional investment advisers outside the Company.

The Chief Financial Officer shall be responsible for periodic estimates and evaluation of the cash flow needs of the Company and the amounts available for investment.

III. Qualifications of Investment Policy

Those responsible for the Company’s investment program shall invest only in bonds and fixed income securities and shall, at all times, observe the General Guide to Maximum Commitment Size as stated in the Policy summary, attached hereto and made a part hereof, which supplements the following guidelines:

1. Only Baa (Moody’s), Triple B (S&P), or higher rated bonds, which are readily marketable, will be purchased.
2. Mortgage backed securities will exclude derivatives such as inverse floating rates and interest only tranches.
3. Asset backed securities will exclude franchise loan and equipment trust certificates transactions.
4. Only commercial paper with a Moody’s Rating of P-1 or S&P Rating of A-1, which are readily marketable, will be purchased.
5. The Company may invest excess cash required for operating purposes in overnight “Sweep Accounts” provided by its bank. These accounts utilize repurchase agreements which must have collateral consisting of full faith agencies, and be collateralized at approximately 101% of market value.
6. The investment portfolio shall reflect a maturity policy consistent with the cash flow needs of the Company.

EXHIBIT A – SECOND REVISED INVESTMENT GUIDELINES

Second Revised Policy Summary The Home Insurance Company (in liquidation)

General Guide to Maximum Commitment Size (1)

	<u>Percentage of total portfolio (2)</u>
Maximum asset allocation for a single issuer:	
• US Government and US Government Agency Obligations	No limit
• Corporate Bonds, Asset Backed, Mortgage Backed and Commercial Mortgage Backed (CMBS) (3):	
Triple A (S&P) or Aaa (Moody's)	2.50%
Double A (S&P) or Aa (Moody's)	2.00%
Single A (S&P and Moody's)	1.25%
Triple B (S&P) or Baa (Moody's)	.50% (4)
• Commercial paper – Prime Moody's Rating of P-1, and S&P rating of A-1	2.50%
• Certificates of Deposit	2.50%
Maximum asset allocation for an asset class:	
• US Government and US Government Agency Obligations	No limit
• Corporate	55.0%
• Mortgage Backed	25.0%
• Commercial Mortgage Backed (CMBS)	5.0%
• Asset Backed	25.0%
• Commercial paper – Prime Moody's Rating of P-1, and S&P rating of A-1	No limit
• Certificates of Deposit	No limit

- (1) The guidelines are based on percentages of the portfolio, and there may be a requirement to sell investments if the portfolio size decreases. In such circumstances, those responsible for selling investments will have 90 days to bring the portfolio into compliance with the guidelines.
- (2) Portfolio size is based on market value at prior month end.
- (3) The asset allocation will be based on the lower of the S&P or Moody's rating.
- (4) No more than 5% of the total portfolio may be invested in Triple B (S&P) or Baa (Moody's) securities.