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 THIRD 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 to expand the ratings of investments in which the Liquidator may invest and increase the percentages of the portfolio that may be held in certain corporate obligations. The proposed third revised statement of investment policy ("Third Revised Investment Guidelines") is attached hereto as Exhibit 1. 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. Affidavit of Peter A. Bengelsdorf,

Special Deputy Liquidator, in Support of Motion for Approval of Third Revised Investment Guidelines ("Bengelsdorf Aff.") ¶ 2.

2. 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. Bengelsdorf Aff. ¶ 3.

3. In light of the increasing differential between the investment returns on U.S. government obligations and on other obligations, the Liquidator moved for approval of Second Revised Investment Guidelines that increased the percentage of the portfolio that could be invested in investment grade corporate obligations on April 8, 2008. The Court approved the Second Revised Investment Guidelines on April 30, 2008. Bengelsdorf Aff. ¶ 4.

4. The Current Circumstances. In light of the uncertain investment environment since the last revision to the investment guidelines in 2008, Conning has been holding a part of Home's portfolio in short-term obligations, which are less exposed to interest rate risk than longer term investments. Moreover, a number of the investments made in the earlier years of the liquidation are now maturing or will mature over the next couple of years. As a result, the portfolio's average maturity has been decreasing, and the Liquidator anticipates having a significant amount to invest in the next year or two. At the same time, U.S. government obligations presently have historically low rates of return, and rates on corporate obligations have also decreased while the number of persons seeking to invest in them has increased. The

opportunities for investments in "investment grade" corporate obligations are thus relatively limited due to the number of interested purchasers. Bengelsdorf Aff. ¶ 5.

5. Limitations of the Second Revised Investment Guidelines. During recent discussions concerning potential means of increasing investment income in the current investment environment, Conning has advised the best opportunities for the portfolio to seek to maintain investment returns consistent with a prudent approach is to allow some investments in "high yield" corporate obligations, those rated below BBB- (as rated by Standard & Poor's) or Baa3 (as rated by Moody's), and to increase the portion of the portfolio that may be invested in obligations rated BBB (S&P) or Baa (Moody's). The Second Revised Investment Guidelines do not allow for investment in BB/Ba rated obligations, and they cap the portion of the portfolio that may be invested in BBB/Baa obligations at 5%. Bengelsdorf Aff. ¶ 6.

6. The proposed changes to the Second Revised Investment Guidelines. To increase the potential for investment income in the current economic climate, Conning has recommended that the Liquidator expand the permissible investments to include some rated BB by Standard & Poor's or Ba by Moody's. As noted in Conning's letter of March 19, 2012 (attached as Exhibit 2), this would expand the universe of qualifying issuers and enhance investment yields. Conning recommends that the investment guidelines have a minimum credit rating of BB- (S&P) or Ba3 (Moody's); that the maximum allocation to BB and BBB rated securities be 10% of the market value of Home's portfolio, with BB rated securities not to exceed 4%; and that the single issuer limit for BB rated securities be 0.25% (with the 0.5% single issuer limit for BBB rated securities to remain in place). Id. Bengelsdorf Aff. ¶ 7.

7. The Third Revised Investment Guidelines. The proposed Third Revised Investment Guidelines reflect these recommended changes. They permit investments in BB-

(S&P) and Ba3 (Moody's) rated obligations subject to a per issuer limit of 0.25%. The percentage of the total portfolio that may be invested in BBB and BB (S&P) or Baa and Ba (Moody's) rated securities is capped at 10%, which includes a 4% limit for BB and Ba securities. A markup showing the changes from the Second Revised Investment Guidelines to the proposed Third Revised Investment Guidelines is attached as Exhibit 3. Bengelsdorf Aff. ¶ 8.

8. The Third Revised Investment Guidelines would permit Conning to invest in additional categories of corporate securities and to place a slightly larger amount of the portfolio – still capped at 10% – in somewhat lower rated securities, which may reduce the average credit quality of the portfolio. The Liquidator seeks to increase returns, which requires some increased risk. The Liquidator and Conning believe the additional credit risk associated with investments on the Conning approved BB issuer list is low on a relative basis, especially when considering the incremental value that may be realized. See Exhibit 2. The Liquidator has worked with Conning since 2004 and is satisfied with Conning's analysis of the creditworthiness of corporate obligations. Consistent with the goals of the liquidation, the revised guidelines maintain a reasonably conservative 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.[2] Bengelsdorf Aff. ¶ 9.

9. The revisions sought in the Third Revised Investment Guidelines will permit the Liquidator to increase investment income, and the Liquidator believes that the revisions and the Third Revised Investment Guidelines as a whole are consistent with a prudent and reasonably conservative investment policy. See Bengelsdorf Aff. ¶ 10.

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[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.

10. For the reasons described above, the Liquidator submits that the Third 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. ¶ 11. The Third 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 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 Third 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,

By his attorneys,
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March 29, 2012

Certificate of Service

I hereby certify that a copy of the foregoing Liquidator's Motion for Approval of Third Revised Investment Guidelines, the supporting Affidavit of Peter A. Bengelsdorf, and the Proposed Order, were sent, this 29th day of March, 2012, by first class mail, postage prepaid to all persons on the attached service list.

Eric A. Smith

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS. SUPERIOR COURT

In the Matter of the Liquidation of
The Home Insurance Company
Docket No. 03-E-0106

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Third Revised Statement of Investment Policy **Exhibit 1**

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 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 Ba3 (Moody's), Double 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.

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

General Guide to Maximum Commitment Size (1)

	Percentage of total portfolio (2)
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)
Double B (S&P) or Ba (Moody's)	.25% (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 10% of the total portfolio may be invested in Triple B and Double B (S&P) or Baa and Ba (Moody's) securities, provided, however, that the aggregate market value of BB and Ba securities shall not exceed 4% of the total portfolio market value.

Exhibit 2

CONNING

Paul J. Sellier
Director

Conning, Inc.
One Financial Plaza
Hartford, CT 06103-2627
Phone: 860-299-2240
Fax: 860-299-0240
paul.sellier@conning.com

March 19, 2012

Mr. Peter Bengelsdorf, Special Deputy Liquidator
Mr. Arthur Wilson, Chief Financial Officer
The Home Insurance Company in Liquidation
61 Broadway
New York, NY 10006

Gentlemen,

Pursuant to recent discussions regarding Investment Guidelines, Conning recommends an amendment to include credit ratings of Ba3 (Moody's and BB- (S&P) and higher. Current investment guidelines have a minimum credit rating requirement of Baa3 (Moody's) and BBB- (S&P).

Conning further recommends the maximum allocation to BB and BBB rated securities be 10%, with BB rated securities not to exceed 4% of the market value of portfolio holdings.

Additionally, single issuer limits for BB rated securities should not exceed 0.25% of the market value of portfolio holdings (and the 0.5% single issuer exposure limit to BBB rated securities should remain in place).

The purpose of these recommendations is to expand the universe of qualifying issuers and to enhance investment yields. For example, intermediate maturity BB rated issues on average yield approximately 3.50% more than A rated counterparts (the typical quality rating of corporate holdings). A 4% allocation to select BB issuers may generate an additional $1.5 million in annual investment income compared to A rated counterparts, which is meaningful in the current interest rate environment. We believe the additional credit risk associated with our approved BB issuer list is low on a relative basis, especially with respect to the incremental value realized. For example, the market price decline from a 1% increase in yields for a 4-year BB rated security is less than half of the price decline compared to a 1% increase in market yield of a 10-year Treasury.

You have previously reviewed the scope of our corporate credit capabilities and our risk management process generally. We currently manage just under $40 billion of corporate bonds and this sector represents the largest security category across our client managed holdings. We have 12 analysts with an average of 18 years of experience dedicated to corporate bond research. We employ a fundamental process that emphasizes the capacity of borrowers to meet their future debt obligations.

We are available to further discuss, as you may require.

Sincerely,
Conning, Inc.

By: Paul J. Sellier
Director

Third Revised Statement of Investment Policy **Exhibit 3**

Home Insurance Company (in ~~L~~liquidation)

I. Investment Objective

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II. Investment Responsibility

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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 Ba~~a~~3 (Moody's), ~~Triple~~Double B- (S&P), or higher rated bonds, which are readily marketable, will be purchased.
~~1.~~

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.

~~6.~~

Third Revised Statement of Investment Policy

Home Insurance Company (in liquidation)

~~**Policy Summary**~~

~~Home Insurance Company in Liquidation~~

General Guide to Maximum Commitment Size (1)

	Percentage of total portfolio (2)
Maximum asset allocation for a single issuer:	
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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)
Double B (S&P) or Ba (Moody's)	.25% (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~~10% of the total portfolio may be invested in Triple B and Double B (S&P) or Baa and Ba (Moody's) securities, provided, however, that the aggregate market value of BB and Ba securities shall not exceed 4% of the total portfolio market value.