

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

2004 JUN 10 P 3:26

Docket No. 03-E-0106

In the Matter of the Liquidation of
The Home Insurance Company

LIQUIDATOR'S MOTION FOR APPROVAL
OF ASSET MANAGEMENT AGREEMENT

Roger A. Sevigny, Insurance Commissioner of the State of New Hampshire, as Liquidator ("Liquidator") of The Home Insurance Company ("Home"), by his attorneys, the Office of the Attorney General, hereby moves that the Court enter an order approving an Asset Management Agreement (the "Management Agreement") by and between Conning Asset Management Company ("Conning") and the Liquidator concerning management of a large portion of Home's invested assets. As reasons therefor, the Liquidator states as follows:

1. Home currently has an investment portfolio that includes cash and marketable securities valued in excess of \$624 million. To date, the Liquidator has invested the portfolio in Treasury and government agency securities of a short duration. The portfolio's investment income would be increased if more of these funds were invested in longer duration securities. In addition, it would be prudent to include a more diversified mix of fixed income securities, including high-quality corporate bonds and asset-backed securities, both to diversify the portfolio and to improve its returns over time. A large, more complex portfolio of this size, however, requires the stewardship of a professional asset manager that can monitor appropriate asset allocation, evaluate credit quality of security issuers and select securities with the proper size, price and duration based on market forces. Affidavit of Peter A. Bengelsdorf, Special Deputy Liquidator, in Support of Approval of Asset Management Agreement ("Bengelsdorf Aff.") ¶ 3.

2. The Liquidator has accordingly conducted a search for an investment manager that could oversee the longer-term portion of the portfolio, which totals at least \$524 million. (Liquidation staff will continue to manage up to \$100 million in short-term investments, depending on operating needs.) Four potential managers were investigated in a process that included interviews with management and reviews of written proposals, including representative model portfolios that indicated the investment philosophy of each firm. After this process, the Liquidator has concluded that Conning is best suited for this task. Conning manages \$39.2 billion of assets for the insurance industry, and the portfolio manager who would be assigned to Home's portfolio has substantial experience in managing portfolios of this size in the insurance industry. The Liquidator was also advised by Home's auditor, Ernst & Young, that its insurance clients often choose to invest with Conning, which has a reputation for excellence in evaluating credit quality of securities. The model portfolio Conning prepared for Home's review demonstrated a flexible approach based on the interest rate environment. Conning's technical expertise was clear and the firm demonstrated a desire to be selected by presenting a proposed fee structure substantially below their normal fee schedule. Bengelsdorf Aff. ¶ 4.

3. Conning and the Liquidator have now agreed on the Management Agreement, subject to approval by this Court. A copy of the Management Agreement is attached as Exhibit A. Bengelsdorf Aff. ¶ 5.

4. The Management Agreement provides for (a) the appointment of Conning as Home's investment manager to invest and reinvest certain assets of Home; (b) the deposit of such assets with an investment bank, trust company or other person as custodian (the "Custodian") and into segregated investment accounts that will be managed by Conning; (c) the delegation of management of such assets to Conning, subject to investment guidelines set forth

in Schedule 1 to the Management Agreement (“Investment Guidelines”), which are the guidelines submitted to the Court on September 12, 2003 as Exhibit A to the Liquidator’s Third Report; (d) the provision of periodic reports from Conning to the Liquidator; and (e) the payment by the Liquidator of a fee on a quarterly basis to Conning as compensation for its services in an amount equal to a percentage of the average monthly market value of assets under Conning’s management. For instance, the annual fee to Conning based on an average assumed monthly market value of assets of \$524 million would be \$526,900. Bengelsdorf Aff. ¶ 6.

5. The Management Agreement also provides for (a) termination by either party on ninety (90) days written notice; (b) confidentiality of non-public information; (c) Conning’s indemnification of the Liquidator to the extent any loss, liability or damage results from Conning’s gross negligence or acts in bad faith, or Conning’s reckless disregard of its obligations under the Management Agreement; (d) mandatory arbitration in New York, New York (site of Home’s financial operations); (e) New York as a governing law; and (f) the limitation of Conning’s liability for loss, liability or damage resulting from (i) the willful misconduct, negligence or bad faith of third parties it hires on behalf of the Liquidator unless such person was retained by Conning in a grossly negligent manner, (ii) acts of the Custodian, (iii) investments made consistent with the Investment Guidelines, and (iv) the reliance on information received from the Liquidator. Other terms of the transaction, including representations and warranties, are set forth in the Management Agreement. Bengelsdorf Aff. ¶ 7.

6. The Liquidator and Conning anticipate that they will prepare revised Investment Guidelines to permit more latitude in investments consistent with the goals of the liquidation, subject to the approval of the Court. The Liquidator is seeking the Court’s approval in advance of the revised Investment Guidelines because Conning can begin to implement a higher yielding

strategy under the existing Investment Guidelines in the current rising interest rate environment and so that Conning can begin to set up its software and systems with the Custodian, a process that will take some time. The revised Investment Guidelines are expected to be submitted for approval in approximately one to two months. Bengelsdorf Aff. ¶ 8.

7. The Liquidator submits that the Management Agreement is fair and reasonable and that it is in the best interests of the liquidation and the policyholders and other creditors of Home. *First*, the Management Agreement is commercially reasonable and consistent with asset management agreements to which Home was a party or of which the liquidation is aware. *Second*, Conning's management is expected to provide a better rate of return on Home's assets while simultaneously diversifying its holdings. *See* Bengelsdorf Aff. ¶ 9. *Third*, professional management of these assets under the Management Agreement is consistent with New Hampshire law. *See* RSA 402-C:25, VI (authorizing the Liquidator to "do such other acts as are necessary or expedient to collect, conserve or protect its assets or property").

WHEREFORE, the Liquidator prays that the Court enter an order granting his motion and approving the Management Agreement, in the form submitted herewith, and granting such other and further relief as may be just.

Respectfully submitted,

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

By his attorneys

PETER W. HEED, ATTORNEY GENERAL



Dated: June 10, 2004

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STATE OF NEW HAMPSHIRE

MERRIMACK, SS

SUPERIOR COURT

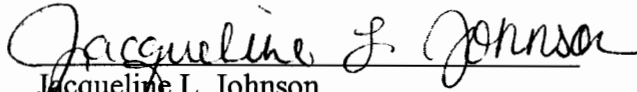
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CERTIFICATE OF SERVICE

I, Jacqueline L. Johnson, do hereby certify that on June 10, 2004, I served a true copy of the following documents upon the parties named on the attached Service List, by first class mail, postage prepaid:

1. *Liquidator's Request for a Status Conference*
2. *Liquidator's Motion for Approval of Asset Management Agreement*
 - a. *Exhibit A: Asset Management Agreement*
 - b. *Exhibit B: Affidavit of Peter A. Bengelsdorf In Support of Approval of Asset Management Agreement*
3. *(proposed) Order Approving Asset Management Agreement*

Dated: June 10, 2004


Jacqueline L. Johnson

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NOT RECORDED
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