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

AFFIDAVIT OF PETER A. BENGELSDORF, SPECIAL DEPUTY LIQUIDATOR, IN SUPPORT OF LIQUIDATOR'S MOTION FOR APPROVAL OF FOURTH REVISED INVESTMENT GUIDELINES

I, Peter A. Bengelsdorf, hereby depose and say:

1. I was appointed Special Deputy Liquidator of The Home Insurance Company ("Home"), by the Insurance Commissioner for the State of New Hampshire, as Liquidator ("Liquidator") of Home. I submit this affidavit in support of the Liquidator's Motion for Approval of Fourth Revised Investment Guidelines (the "Motion"). The facts and information set forth are either within my own knowledge gained through my involvement with this matter, in which case I confirm that they are true, or are based on information provided to me by others, in which case they are true to the best of my knowledge, information, and belief.

2. 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.

3. 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.

4. 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 the 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.

5. The uncertain investment environment in recent years, the limited opportunities for investments in "investment grade" corporate obligations, together with the maturation of investments made in the earlier years of the liquidation, caused the portfolio's average maturity to decrease in 2012 and Conning to recommend some investment in "high yield" corporation obligations as well as an increase in the percentage of the portfolio that may be invested in obligations rated BBB (S&P) or Baa (Moody's). The Liquidator moved on March 29, 2012 for approval of the Third Revised Investment Guidelines which reflected these recommendations. The Court approved the Third Revised Investment Guidelines on May 10, 2012.

6. Yields on United States obligations are presently at historical lows. This low yield environment has changed the valuation relationship between tax exempt municipal bonds, Treasuries, and corporate obligations. ("Municipal bonds" mean the marketable debt instruments of the States, their agencies and political subdivisions.) Generally, due to investor demand for

tax exempt income, municipal bonds have produced lower yields than taxable fixed income assets such as Treasuries and corporate obligations. However, municipal bonds in the 5 to 15 year maturity range (attractive to Home due to its expected distributions to creditors) are presently available at prices that produce yields exceeding those on Treasuries. Indeed, some high grade municipal issues are trading at yield levels close to A-rated industrial corporate obligations. The present low yield on Treasuries means that returns on Treasuries are now substantially lower than those on many high quality corporate obligations, reducing the desirability of weighting Home's portfolio towards United States obligations.

7. The Third Revised Investment Guidelines, like the previous investment guidelines, do not include municipal bonds as an asset class that may be included in the portfolio. This omission was premised on the fact that Home, being insolvent, is not in a position to enjoy the tax advantages that have historically caused yields on municipal bonds to be lower than yields on Treasuries and other fixed income assets. It was assumed that municipal bond yields would continue to be lower than those on Treasuries so it was not contemplated that there would be an economic advantage to investing in tax exempt obligations issued by states, their political subdivisions, and their agencies. The present low yield environment, however, has disproven that assumption and the yields on certain high quality municipal bonds exceed those on Treasuries and approach those on A-rated industrial corporate obligations. The low yield environment has also reduced the desirability of holding large portions of the portfolio in United States obligations. However, the Third Revised Investment Guidelines preclude investments in municipal bonds and limit Home's investment in the principal alternative asset class, corporate obligations, to 55% of the portfolio.

8. The Liquidator proposes to permit investment of Home assets in certain high quality municipal bonds. Conning believes that, in the present low yield environment, investing in high grade municipal bonds offers the opportunity to diversify portfolio credit risk, maintain or improve overall credit ratings, and achieve yields in excess of those available on Treasuries. Conning also notes that municipal bonds have historically lower default rates than AAA-rated corporate bonds, that municipal bonds have historically shown lower market price volatility, and that municipal bonds have the potential for better market price returns as interest rates rise back towards more historical valuations. See August 13, 2012 letter from Conning attached to the Motion as Exhibit 3.

9. The Liquidator also proposes to raise the present cap on investments in corporate obligations from 55% to 65% of the portfolio. The Liquidator does not propose increasing the single issuer exposure limits. Conning believes that such an increase in overall exposure, in the context of a highly diversified portfolio, will provide better earnings potential without materially adding to overall portfolio risk. Such adjustments in investment limitations by asset class are merited by the significant changes in investment yields on fixed income investments in the years since 2003.

10. Regarding the cumulative impact of these proposed changes, Conning believes that the overall credit risk of the portfolio operating within the parameters of the proposed Fourth Revised Investment Guidelines will actually be lower than that of the portfolio under the Third Revised Investment Guidelines.

11. The proposed Fourth Revised Investment Guidelines reflect the recommended changes. First, those Guidelines establish municipal bonds as an asset class in which up to 25% of Home's portfolio could be invested. Guidelines for municipal bonds, proposed on the basis of

Conning's recommendation, include minimum issuer credit ratings of A3 (Moody's) and A- (S&P), unless an issuer is not rated but is "escrowed to maturity" and backed by United States obligations; a minimum average municipal portfolio rating of Aa3 (Moody's) and AA- (S&P); maximum exposure to any state, including all its agencies and political subdivisions, of 1.9% of the total portfolio; exposure to an individual issuer of .5% of the total portfolio; a maximum final maturity of 15 years from the date of purchase; and, average effective maturities of 10 years or less. Second, the proposed Fourth Revised Investment Guidelines permit up to 65% of the portfolio to be allocated to corporate obligations. Guidelines regarding limits on individual corporate issue exposure and the rating of the assets to be included in the portfolio remain unchanged.

12. The revisions sought in the Fourth Revised Investment Guidelines are intended to permit the Liquidator to prudently limit the reduction in investment income arising from the present low yield interest environment, and the Liquidator believes that the revisions and the Fourth Revised Investment Guidelines as a whole are consistent with a prudent and reasonably conservative investment policy.

13. For the reasons described above, I submit that the Fourth Revised Investment Guidelines are fair and reasonable and in the best interest of the liquidation and the policyholders and other creditors of Home.

Signed under the penalties of perjury this 14 day of August, 2012.

Peter A. Bengelsdorf
Peter A. Bengelsdorf
Special Deputy Liquidator of The Home Insurance Company

STATE OF CALIFORNIA
COUNTY OF VENTURA

On August 14, 2012 before me, Tina Le, Notary Public, personally appeared Peter A. Bengelsdorf, Special Deputy Liquidator of The Home Insurance Company, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature of Notary Public

TINA TRINH LE
COMM. #1820876
Notary Public - California
Ventura County
My Comm. Expires Nov. 27, 2012
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