

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 THIRD 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 Third 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 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. 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.

6. 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%.

7. 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 to the Motion), 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.

8. 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 to the Motion.

9. 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. Conning and I 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 to the Motion. I have worked with Conning since 2004 and am 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

10. The revisions sought in the Third Revised Investment Guidelines will permit the Liquidator to increase investment income, and I believe that the revisions and the Third Revised Investment Guidelines as a whole are consistent with a prudent and reasonably conservative investment policy.

11. For the reasons described above, I believe 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.

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.

Signed under the penalties of perjury this 28 day of March, 2012.

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

STATE OF CALIFORNIA
COUNTY OF VENTURA

On March 28, 2012 before me, Tina Le,
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 Tina
Signature of Notary Public

