

Junior, Steve J - OCI

From: Rick Ecklord <Rick@sandellre.com>
Sent: Thursday, March 16, 2017 6:04 AM
To: Junior, Steve J - OCI
Cc: 'Thomas Hodson'
Subject: RE: Form A Sandell Holdings Ltd./NNIC
Attachments: NNIC.Stip.Order.pdf

Good Morning Steve,

Please see the attached and signed NNIC form.

Let me know what else I can do to further process.

Best,

Rick

From: Junior, Steve J - OCI [mailto:Steve.Junior@wisconsin.gov]
Sent: Wednesday, March 15, 2017 3:16 PM
To: Rick Ecklord <Rick@sandellre.com>
Cc: Thomas Hodson <thomas.hodson@sobccorp.com>
Subject: RE: Form A Sandell Holdings Ltd./NNIC

Dear Mr. Ecklord:

If the attached stipulation and order is agreeable, please have Mr. Sandell sign it and send the signature page to my attention. The stipulation is designed to be valid in counterparts, so everyone else should send their signature pages to my attention as well. The stipulation and order clearly allows for the OCI to request and obtain an attested financial statement from Mr. Sandell, and if we do, it provides that Mr. Sandell be given an opportunity to interpose a defense of the confidentiality of such statements in the event of an open records request. However, I do not anticipate that such a request will be made. Since no money stands to be contributed or taken out in dividends, I am much more interested in the disclosure of arrangements with management or management-affiliated entities. This is what the stipulation and order can address better than would be the case without it.

I am giving further consideration to the Investment Management Agreement and would hope to resolve any issues before the hearing. If circumstances don't permit complete resolution, we would just have any approval of the acquisition of control provide that the agreement be filed with the OCI on Form D within some time certain (10 business days if that seems to work).

I hope to get a hearing scheduled tomorrow if everything works out. The minimum notice period is typically ten days.

Thank you.

Steve

Steven J. Junior
Insurance Examiner Supervisor
Office of the Commissioner of Insurance
125 S. Webster Street

Madison, Wisconsin 53703
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Facsimile: (608) 264-6237
E-mail: steve.junior@wisconsin.gov

From: Rick Ecklord [<mailto:Rick@sandellre.com>]
Sent: Friday, March 10, 2017 7:31 PM
To: Junior, Steve J - OCI
Cc: Thomas Hodson
Subject: Form A Sandell Holdings Ltd./NNIC

Dear Mr. Junior,

I have been asked to provide responses to your email below. In regard to the proposed OCI website layout, we have no concerns and appreciate the Biographical Affidavits being fully redacted before posting.

We have reviewed the proposed Stipulation Order and have no concerns accepting the terms set forth therein. Mr. Lars ("Tom") Sandell understands that his proposed ownership percentage would make him a "controlling person" under Wisconsin law. He simply asks for the utmost confidentiality in the event he is required to provide financial information. In regard to the services to be provided to NNIC by management and ownership of Sandell Holdings, beyond the management of the company's investments, no other services are planned. As we mentioned in our previous correspondence, upon approval and completion of the proposed transaction, we expect to enter a Shareholder Agreement for SOBC Holdings, identical to the one entered for SOBC Sandell Holdings. Such agreement will allow Sandell Holdings two seats on the Board of Directors of SOBC Holdings, out of the seven seats. We expect those seats will be held by myself and Justin Meadlin, for whom you have Biographical Affidavits. Further, management and oversight of NNIC and Compass will continue to be carried out by the five executive directors of SOBC (Mocatta, Whatton, Johnston, Hodson and Whitcher) as set forth in SOBC's Form A approved for its original acquisition of NNIC and Compass.

We would like to address your concerns regarding the Investment Management Agreement by, first, assuring you that we will not invest any funds of either NNIC or Compass in high risk or exotic investments. Our investment strategy takes an appropriately conservative approach, always well within the guidelines set forth in the law of the applicable jurisdiction. It is through active, professional management of investment that we can achieve superior returns. It is for this reason that we can justify charging a higher fee for consistently higher returns. We employ two distinct investment strategies. In the MA strategy, Sandell Asset Management invests exclusively in liquid public equities, and only in announced deals aiming to achieve 6-8% per annum with downside protection. The fund is geographically diverse and has close to zero beta to equity markets with extremely low volatility making it an ideal strategy for an insurance company. The strategy has consistently produced positive results every year but one since inception. In the Credit Carveout strategy, Sandell Asset Management invest exclusively in liquid debt instruments across capital structures with an emphasis on capital preservation. The fund is focused on performing high grade credit and senior secured loans predominately in North American and occasionally Western Europe with limited downside, solid risk-adjusted upside and with strong current income profile, making this fund also an ideal investment vehicle for insurance companies. The attached spreadsheet shows historical returns for both strategies, with the MA strategy achieving 8.65% annualized net returns over the last ten years, and the Credit Carveout strategy achieved 9.47% annualized net returns over the same period. Further, we commit that if, after the first year, we are not achieving returns that more than justify the fees charged, we agree to lower the fees to an appropriate level for the returns posted.

In regard to your specific concerns regarding Section 4 (b), (f), (h), (j) and (q), those provisions are drafted broadly to give us flexibility for the types of investments to be made. Please be assured that all investments will be made and executed pursuant to applicable state law, as required by Section 7 of the Investment Management Agreement. This, we take very seriously.

Finally, all expenses charged under the Investment Management Agreement will be fair and reasonable. While both Sandell and SOBC believe the Investment Management Agreement provides a good, safe foundation for our relationship, if any provision violates specific state law or causes serious concern among the regulators, I am certain we would agree to any necessary amendments to the agreement.

We have been very impressed by the SOBC team, from the results achieved so far to their plans for the future. Sandell's expectation is that our investment in SOBC will be in the nature of a (very) long term partnership, combining our superior investment expertise with their superior management of companies in run off, to achieve superior results for all stakeholders, including the states with oversight of the companies in run off.

If you have any additional questions or comments, please do not hesitate to contact me.

Sincerely,
Rick Ecklord

From: "Steven J. Junior" <Steve.Junior@wisconsin.gov>
Date: Thursday, March 2, 2017 at 2:24 PM
To: "Rick@SandellRe.com" <Rick@SandellRe.com>, "Thomas Hodson (thomas.hodson@sobccorp.com)" <thomas.hodson@sobccorp.com>
Subject: Form A Sandell Holdings Ltd./NNIC

Dear Messrs. Ecklord and Hodson:

Attached is the layout I'd like to post to the OCI's website regarding the proposed acquisition of control of Northwestern National Insurance Company of Milwaukee, Wisconsin by Sandell Holdings Ltd. The items in red do not exist yet and will not be posted yet.

Biographical affidavits are redacted in their entirety. There was nothing else that it seems to me requires redacting from the public record. If you disagree with respect to any item, please provide a written legal analysis in support of your position that the item should be kept confidential under s. 19.36 (5), Wis. Stat., or other applicable Wisconsin law. Please describe this in a distinct and separate written communication, so that this Office's Legal Unit can review the merits of the legal analysis.

There are two points concerning the Form A and its supplemental filings that I think merit discussion before we can move forward with a hearing.

1. Lars Sandell indirectly owns 97.62% of an entity that would indirectly own 50% of NNIC. There is no way in which Lars Sandell reasonably could disclaim control. At the same time, I am very interested in knowing exactly what services the management and ownership team is providing and at what cost to NNIC. Attached is a draft stipulation and order for discussion.
2. On the Investment Management Agreement, I would not mind a Performance Fee, but the overall investment services expense is excessive for a company with the potential for liquidity problems that cannot afford to go for high-risk or exotic investments. The authority granted the investment manager in Sections 4 (b), (f), (h), (j), and

(q) are problematic as well. Section 11 is problematic because the amount that will be charged is open-ended, which is problematic given the company's situation.

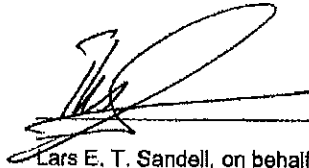
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Date

3/16/17

Date

Thomas F. X. Hodson, on behalf of himself and as
General Counsel, Secretary and Director on behalf of
Northwestern National Insurance Company
of Milwaukee, Wisconsin



Lars E. T. Sandell, on behalf of himself and
on behalf of Sandell Holdings Ltd.

Date

Stephanie C. Mocalta, on behalf of herself and as
President of Northwestern National Insurance Company
of Milwaukee, Wisconsin

Date

Richard P. Whatton, on behalf of himself and as a
Director of Northwestern National Insurance Company
of Milwaukee, Wisconsin

Date

Harry M. Whitchee, on behalf of himself and as a
Director of Northwestern National Insurance Company
of Milwaukee, Wisconsin