

## FAQ

- **What do I need to do right now?**

You don't need to do anything right now. We are letting members know about this plan to get feedback. If you want to provide feedback please direct it to [-hr-communication@uwo.ca](mailto:-hr-communication@uwo.ca). A decision on whether to proceed is scheduled to be considered in September and we are asking for any feedback to be provided by September 15, 2009. If you don't want to comment then you don't have anything to do. We will be communicating with you after the Joint Pension Board has reached a decision as whether to proceed.

- **How can I tell how much non-bank Asset Backed Commercial paper exposure I have in my pension account?**

Any member invested in the Balanced Income Fund, Balanced Growth Fund, the Diversified Equity Fund, US Equity Hedged Fund and the US Equity Unhedged Fund in August 2007 has exposure. The dollar amount of the exposure is calculated by multiplying the redemption restriction percentage in the month to the value of the fund. For example if a member has \$50,000 in the Diversified Equity Fund and this fund has a redemption restriction of 5.58% then the amount of the exposure is  $\$50,000 \times 5.58\% = \$2,790.00$ . Each of the five affected investment account has a different redemption restriction. These are updated regularly at:

[http://www.uwo.ca/humanresources/facultystaff/comp/pension/temp\\_restrictions.htm](http://www.uwo.ca/humanresources/facultystaff/comp/pension/temp_restrictions.htm)

- **What is non-bank asset backed commercial paper (“ABCP”)?**

Non-bank ABCP is short-term debt issued by financial institutions for terms of generally less than a year. There are underlying assets that back such paper (typically car loans, mortgages, and credit-card receivables and complex securities called collateralized debt obligations). Each non-bank ABCP was issued an investment rating by an agency called DBRS (Dominion Bond Rating Service). The rating helps investors determine the quality and risk of the investment. The scale is from R-1 High (there's also R-1 Mid and R-1 Low) to R-5, in order from highest to lowest quality (10 ratings in total). Ratings from R-1 High to R-3 are considered to be “investment grade”, which means that these securities are not speculative and that repayment can reasonably be expected. Ratings of R-4 and R-5 are for speculative securities and a security gets rated “D” when its issuer has not met a scheduled payment. All non-bank ABCP purchased by Northwater, the investment manager that invested in those securities, were rated R-1 High.

All non-bank asset backed commercial paper in the Canadian market has been exchanged, at the end of January 2009 when the court approved the plan for restructuring the non-bank ABCP market, for new securities referred to as restructured notes.

- **Which are the Affected Investment Accounts?**

These are the 5 western retirement plan funds referred to as the Affected Investment Accounts - Balanced Income Fund, Balanced Growth Fund, the Diversified Equity Fund, US Equity Hedged Fund and the US Equity Unhedged Fund. These are the funds that have exposure to non-bank asset backed commercial paper. These are affected funds because they have exposure to non-bank asset back commercial paper.

- **When will you know if you are implementing the recommended approach?**

We expect to announce whether the recommended approach will be implemented after the feedback period is over and the Joint Pension Board has had an opportunity to review that information. The earliest that this could happen is later in September 2009.

- **What is the recommend approach that is being proposed?**

The approach that is being proposed is:

->to move or carve out the restructured notes out of the 5 Affected investment accounts and transfer the restructured notes to the Liquidating Trust;

->members will have the same amount of exposure but now they will hold the restructured notes by holding units of the Liquidating Trust;

->redemption restrictions will be removed on the Affected investment accounts but remain in place for the Liquidating Trust for the time being;

-> if a suitable buyer for the restructured notes is found members will be given the option to hold or sell their liquidating trust units; and

->after the restructured notes have been removed from the Affected investment accounts , the "B" Funds will be merged with the **original funds**.

- **What are “B” Funds?**

The “B” funds are parallel funds to the Affected Investment Accounts. The “B” Funds were created in September 2007 and have no exposure to non-bank asset backed commercial paper. There are 5 “B” Funds, these are:

Diversified Equity Fund B

Balanced Income Fund B

Balanced Growth Fund B

US Equity Hedged Fund B

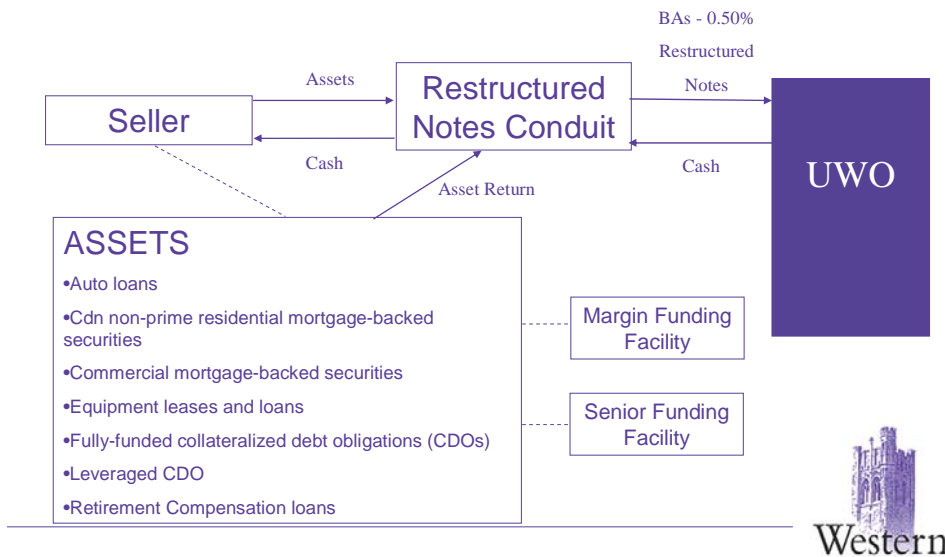
US Equity Unhedged Fund B

These funds have similar investment mandates as the Diversified Equity Fund, the Balanced Growth Fund, the Balanced Income Fund, and the US Equity Hedged Fund and US Equity Unhedged Fund but they were created to ensure that members’ contributions into these funds made since September 2007 have no exposure to non-bank asset backed commercial paper.

- **What is a Restructured Note? ( diagram)**

The Restructured Notes that the Western Retirement Plans received in exchange for the non-bank ABCP are fixed income securities that pay a variable interest. The rate is variable because it depends on the rate paid by bankers’ acceptances. The assets in the investment vehicle pay income and principal at maturity and this is what will be used to pay interest on the restructured notes and repay the principal at the end.

# Restructured Notes



- **What is the investment risk for restructured notes?**

The value that can be expected to be recuperated from the restructured notes at maturity is highly dependent on how the economy will perform between now and the maturity date of the notes (January 2017). If the economy avoids periods of extreme volatility such as the one experienced in the fall of 2008 when large financial institutions failed, it is reasonable to expect that most of the value of the Western Plans restructured notes will be recuperated at maturity. On the other hand, if we face another period of severe dislocation, then a very small portion, if any, of our investments can be expected to be recuperated.

- **When do the Restructured notes mature?**

The latest maturity date of the assets backing the restructured notes is December 20, 2016. The approved agreements provide an expected repayment date of January 22, 2017.

- **What can I expect to receive if I hold to maturity?**

This is impossible to predict with certainty but we have developed a couple scenarios based on key market assumptions to illustrate the range of returns that might occur. Absent any major economic disruption in which case the value to

be recuperated is expected to be very small, the expected value at maturity is highly dependent on two variables: 1) the value at maturity of assets backing the notes (the collateral) and 2) the losses be generated by derivatives contracts overlaid to the collateral. The larger the value of the collateral and the smaller the losses, the larger the amount you can expect to receive at maturity.

### **Scenario 1:**

Assuming that the assets used as collateral are not impaired and that the derivatives contracts would not generate any losses, almost 100% of the face value of the restructured notes would be recuperated at maturity.

### **Scenario 2:**

Using conservative assumptions provided to us by a third-party investment firm, if the assets used as collateral are impaired by 20% and the losses generated by the derivatives contracts amount to \$630 million (for the entire notes issued), the value at maturity would be around \$0.75.

- **What are the assets backing the re-structured notes?**

The assets backing the notes include: auto loans, Canadian non-prime residential mortgage-backed securities, commercial mortgage-backed securities, equipment leases and loans, fully-funded CDO (collateralized debt obligations), leveraged CDO and retirement compensation loans. Most of the assets in the notes held by Western (76%) are in leveraged CDO.

- **Do the Restructured Notes pay interest, and if so how much?**

The A-1 and A-2 notes (which account for close to 90% of the Liquidating Trust) pay a quarterly interest rate of 3-month bankers' acceptances (BAs) minus 0.50%. The B notes accrue interest at BAs minus 0.50% but don't make any payment before maturity. Because interest rates are so low at the moment, 3-month BAs yield less than 0.50% so the interest payments for the notes will be minimal for the foreseeable future.

- **If the approach is implemented will I get a statement after the restructured notes have been moved to the Liquidating Trust? and when?**

Yes, members impacted will receive a personalized statement showing them the details of the transaction. The statement would be provided to members affected at the end of October 2009 showing all values at September 30, 2009.

- **Will there be any redemption restrictions that affect my pension account if the plan is implemented and the restructured notes are carved out of the Affected Investment Accounts?**

After the carve out there will be no redemption restrictions on the 5 funds that had previously had restrictions ( Diversified Equity Fund, Balanced Growth Fund, Balanced Income Fund, US Equity Hedged and US Equity Unhedged Fund) . Only the one fund, the Liquidating Trust which will be holding all the Restructured Notes, will be subject to redemption restrictions for the time being. Members will be get a choice to sell or redeem their units in the Liquidating Trust if and when a suitable buyer is found.

- **How did non-bank ABCP end up in U.S. equity funds?**

Non-bank ABCP were found in synthetic U.S. equity funds, funds that replicate the return of an equity index (such as the S&P 500 Index) by combining stock index futures and money market securities (such as non-bank ABCP).

