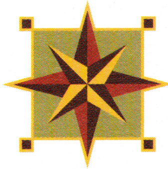


Kilgour Advisory Group

Portfolio Manager Report

UWO Liquidating Trust
Quarter ending 31 December 2011

Preamble

The University of Western Ontario Liquidating Trust ('UWO LT') holds a portfolio of Asset Backed Notes ('AB Notes') that resulted from the restructuring of Non-Bank Asset Backed Commercial Paper ('ABCP') that was completed in January 2009. Kilgour Advisory Group (KAG) is a specialist risk management firm retained by UWO LT to provide portfolio valuation, risk management and reporting, and market liaison. KAG reports quarterly with commentary on credit markets, description of the margin triggers and reference indices, discussion of events affecting UWO LT's holdings, summary of secondary markets, and valuation of the portfolio.

These reports are limited to the confidential use of University of Western Ontario and its external audit and legal advisors and are not to be circulated beyond that group or be publicly published without consent of KAG except as disclosure may be required by regulatory or self-regulatory agencies having jurisdiction.

Credit Markets

North American credit markets improved somewhat versus the last quarter of 2011 but remain at wider spreads and heightened risk levels when compared to the first half of the year. Credit markets and global financial markets were driven by persistent concerns about the solvency of certain European sovereign issuers and, more generally, the outlook for the Eurozone. Although credit markets were volatile through the quarter, spreads did tighten versus Q3 – albeit to levels previously seen in mid-2010. News in Europe did not particularly improve but rather the threat of 'tail-risk events' such as a rapid disintegration of the European monetary union or short-term multiple sovereign defaults (beyond Greece) appeared to abate. It is now apparent that the Eurozone economy is in recession, which will dampen the economic recovery in North America.

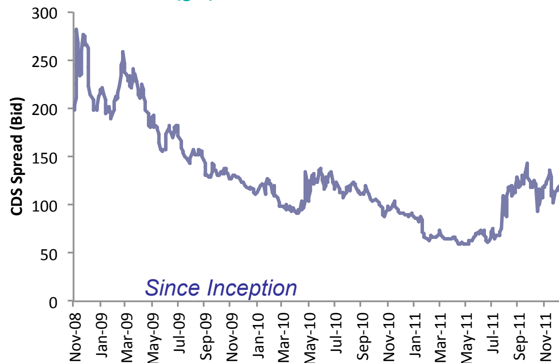
Relevant to the Asset Backed Notes portfolio held by UWO LT, it is important to note that there has not yet been a significant increase in corporate default rates either in North America or Europe. Corporate balance sheets and earnings are generally strong but a prolonged period of

slow economic activity could be damaging. Generally, corporate defaults lag the economic cycle.

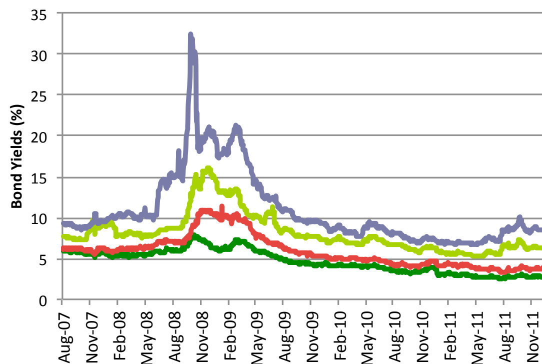
The trend within the credit default swap index can be observed in the upper charts below. On the right, credit spreads were volatile but tightened over the quarter. The left chart puts this tightening in a longer historical context and it can be seen that spread levels in Q4 were much higher than in the first half of 2011 although nowhere near the wide levels during and following the 2008 credit crisis.

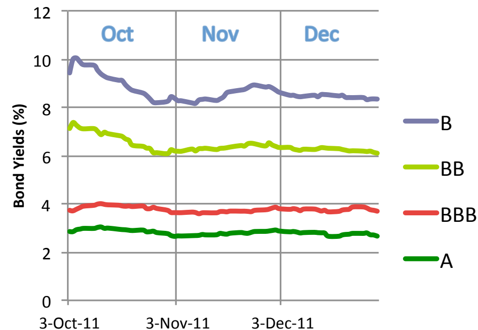
Bond yields generally matched the pattern seen in the CDS market although there was some divergence between the High Yield (i.e. B and BB) bonds versus the Investment Grade (i.e. BBB, A) bonds (see lower right chart). Investment Grade cohorts outperformed High Yield bonds, likely due to the aforementioned balance sheet strength of those companies as well as a continued flight-to-quality effect as investors exited lower rated bonds in exchange for higher rated ones. In a historical context, bond yields are also wider than early in 2011 but are nowhere near levels during the credit crisis (see lower left chart).

CDX IG Series 11 (5Y)



S&P Bond Cohorts





Source: Advantage Data

Risk Assessment

KAG uses a risk assessment framework that primarily tracks credit risk, margin trigger risk, collateral risk, and structuring risk.

Credit Risk

The assessment of credit risk focuses on the potential for losses within the portfolio of Leveraged Super Senior ('LSS') credit default swaps that underlie the MAV2 Pool[1]. The marginal improvement in the broad credit markets shows at a high level that credit risk in the Pool has somewhat decreased and this is positive to the value of the MAV2 Pooled notes.

In addition to considering the general state of the credit markets, it is necessary to consider the risk of each individual LSS deal when assessing overall credit risk. And for the LSS deals that are closest to incurring losses, the MAV2 Pooled notes are exposed to the idiosyncratic risk of the individual corporate names in those portfolios.

The LSS Pool risk segmentation classifies each portfolio of credit default swaps by its relative risk. This enables us to isolate and focus on the most-immediate risk within the diverse pool. There were two events in Q4 that affected the risk segmentation.

First, PMI Group, a US mortgage bond insurer, defaulted in November. PMI was a reference entity in 12 LSS portfolios including three that we classify as 'elevated' risk (yellow). However, the default of PMI did not cause any of the LSS trades to deteriorate to a degree that they would be downgraded in the risk classification; no trades were reclassified to 'High' or 'Severe' risk status.

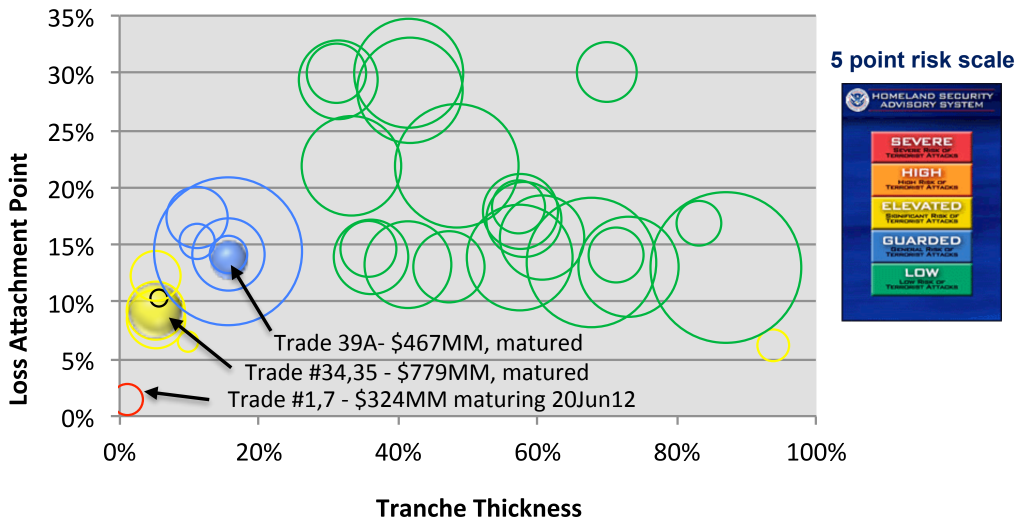
The second event was that on 20 December 2011 four LSS portfolios (3 long and 1 short risk) matured without loss. The net effect was to reduce the notional value at risk within the LSS pool by about $1 Bn to $70 Bn in total. In the context of the risk segmentation, two of the maturing LSS trades totalling almost $800 million were previously classified as 'Elevated' risk, so there was a disproportionate and beneficial reduction in overall risk.

The updated risk segmentation chart is shown below. The chart is a snapshot of the risk as at 19 December. Shown in solid bubbles are the three long-risk trades that matured on the next day on 20 December. The empty circles represent the magnitude and risk class of the remaining LSS portfolios as at the end of Q4.

[1] When the original non-bank asset-backed commercial paper was restructured, all eligible LSS trades and their collateral were pooled. Currently, there are 65 LSS trades with a total notional value at risk of $70 Bn; these are collateralized by the $9.8 Bn of assets in the collateral pool.

LSS Pool Risk Segmentation

As at 19Dec11. Highlighted Trades have now matured with zero loss



Trades #1 and #7[2] continue to be the only 'High' risk portfolios and are the most immediate source of credit risk for the MAV2 Pooled notes. As has been explored in previous Portfolio Manager reports, MBIA Insurance Corp is the lynchpin credit that will likely determine whether these assets cause losses to the MAV2 Pooled notes. MBIA Insurance is overweight within the portfolios and represents 2.45% of the notional risk. These trades have a thin subordinated 'cushion' of 1.4% of remaining value before the MAV2 notes would realize losses. A default of MBIA Insurance alone could cause these trades to lose money; otherwise, it would take two or three defaults before there are losses. That Trades #1 and #7 are less than five months from maturity makes multiple credit events less likely.

MBIA is currently fighting a legal war on two fronts: MBIA is alleging that banks whose bonds it insured fraudulently included non-compliant mortgages in bonds that subsequently defaulted. The banks are counter-suing, alleging that MBIA acted improperly when it divided into two separate legal entities. MBIA has been negotiating settlements with these banks whereby MBIA

[2] To recap: trades #1 and #7 are two Leveraged Super Senior trades with Deutsche Bank as the asset provider. They contain portfolios that are identical in composition and allocation. Trades #1 and Trade #7 together have amounts at risk of $324 million. In combination, these trades represent about 3% of the MAV2 Pool. If Trade #1 and #7 begin to experience losses, those losses will first affect the value of the MAV2 Class C notes. If #1 and #7 were to lose all value – namely $324 million – then the Class C notes will lose all value and the maximum value at redemption of the Class B notes would be reduced to ~$0.80 per dollar of par value. The Class A-2 and A-1 notes that comprise the bulk of UWO LT's exposure to the Pooled Notes cannot be affected by a default of Trades #1 and #7 alone. Trades #1 and #7 have a maturity date of 20 June 2012 therefore we are only concerned with their performance for the next ~5 months, after which they will present no risk to MAV2.

has been paying off (or "commuting") the banks' insurance claims at a significant discount in order to terminate the litigation. As of the date of this report, all but 4 of the 18 original plaintiff banks had agreed to settlements with MBIA. It now appears likely that MBIA Insurance will indeed survive beyond the maturity of Trades #1 and #7.

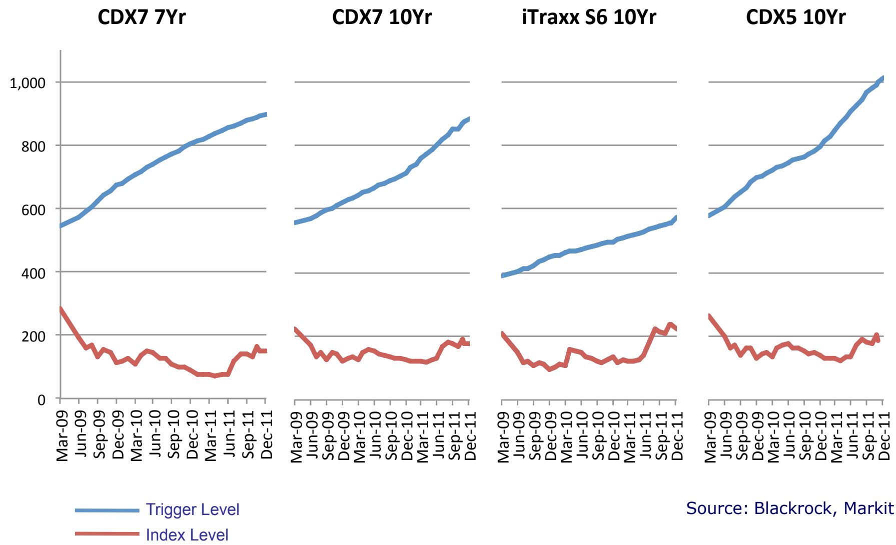
The credit default swap spread on MBIA Insurance traded with volatility through Q4 but ended the quarter significantly tighter due to news that settlements had been reached with HSBC, Morgan Stanley, and subsequent to month-end, BNP (see chart).

Margin Trigger Risk

Margin trigger risk continues to be very remote. There were no new defaults during Q4/11 in any of the reference indices for the MAV2 Spread-Loss margin triggers[3]. Also, concurrent with the 20 December maturity of the 4 LSS trades as described above, the CDX7 5Year index also matured. This reduces the number of reference indices from five to four.

[3] The margin triggers for the Pooled Notes take the form of 'spread-loss' triggers whereby a limit is defined in terms of the market spread of a reference index (e.g. CDX IG7) and determined within a matrix of actual loss and remaining time to maturity. Losses within the reference indices have the impact of lowering the 'margin trigger' spread limit, thereby increasing the risk of margin calls. The passage of time – and resulting decrease in time to maturity – has the effect of increasing the spread limit and, all else being equal, reduces the risk of a margin call. The margin triggers are important because if the market spread on the reference index exceeds the trigger level, MAV2 must draw upon its margin funding facility to post margin. If credit markets deteriorate significantly, there is a possibility that the margin funding facility will not be large enough to post sufficient margin. This would result in the underlying assets in MAV2 defaulting and would entail significant losses to noteholders.

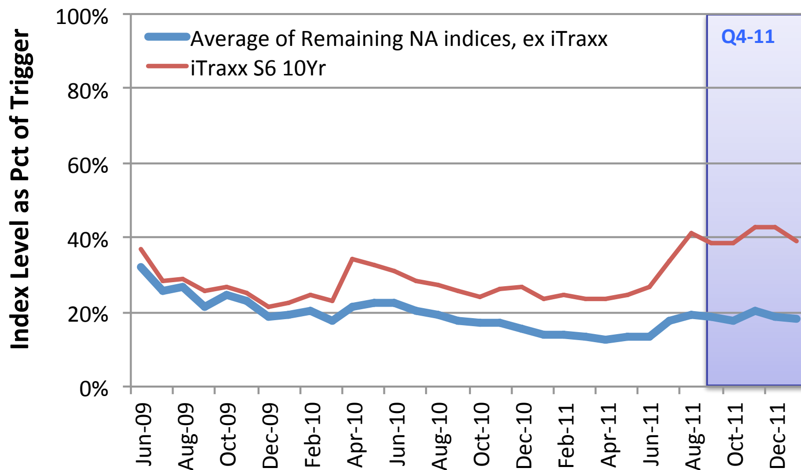
Trigger Indices Relative to Trigger Levels (bps)



Source: Blackrock, Markit

The European index – iTraxx – is the nearest to its trigger level at 39%. iTraxx would have to widen by roughly 2 ½ times to breach the current trigger level. The three remaining North American indices (CDX) are at less than 20% of their trigger level on average; it would require a more than 5-times widening for one to breach its limit. And it should be noted that for a margin trigger event to occur, two indices would have to breach their trigger levels.

Trigger Indices as Percentage of Trigger Levels (bps)



Source: Blackrock, Markit

Margin trigger risk is still assessed as extremely remote.

Collateral Risk

The Leveraged Super Senior pool is supported by $9.8 Bn of collateral. These assets are available to the LSS counterparties in the case that an LSS trade defaults. At the maturity of the notes, the remaining collateral will be released and distributed to the noteholders as return of principal. Therefore, it is important to monitor the quality of the collateral pool itself in order to be assured that funds will be available to investors at maturity.

The collateral pool is generally composed of high-quality, low-risk assets. The three CDO-squared assets that have been highlighted by DBRS and others as potentially risky have been stable and realized no additional losses in their reference assets during Q4/11. KAG continues to monitor the disclosures from BlackRock, the asset administrator, regarding these assets.

On each quarterly payment date, any excess cash after all expenses and the A-1 and A-2 notes interest are paid is deposited in the 'Reserve Account'. This account is part of the collateral pool and therefore, barring further losses, will be available to repay investors on final maturity of the MAV2 notes. The Reserve Account balance was $46.6 MM at the end of Q4.

Structuring Risk

KAG monitors for adverse affects of 'structuring risk', which is a hold-all category for errors in drafting or application of legal documents, changes in regulatory environment, etc.

One development in this category is the 'optional redemption initiative' that is under development. As detailed in last quarter's report, the concept is to provide investors wishing to divest of their MAV2 Pooled notes with a periodic option to redeem their notes rather than selling to another investor. Each period and for the portion of the total outstanding notes that are to be redeemed, a vertical 'slice' of the MAV2 LSS exposures and collateral would be liquidated and the net proceeds paid out to investors who have chosen to redeem. Any investor that choses not to submit their notes for redemption should be left in an identical position in terms of risk and potential return.

UWO Pension staff has met with the investment banking firm that is designing and negotiating this process and will continue to monitor developments. In particular, it is anticipated that UWO LT, as MAV2 noteholders, will be asked to vote on an amendment to the documents governing MAV2 sometime in Q1 or early Q2 of 2012.

Risk Assessment – MAV2 Class 13 Notes

UWO LT predominantly holds MAV2 Pooled Notes but also has a relatively small - ~3% of notional value – position in the MAV2 Class 13s.

The Class 13s are comprised of one senior exposure to an equally-weighted portfolio of 120 Credit Default Swaps that is collateralized by a US$96MM 'TABS note', which is the senior note

of a credit structure with exposure to US sub-prime residential mortgages. The original design of the trade was for the TABS note to mature by the maturity of the CDS exposure; if there were no losses on the CDS, then the cash proceeds of the TABS note would be returned as principal to the Class 13 noteholders.

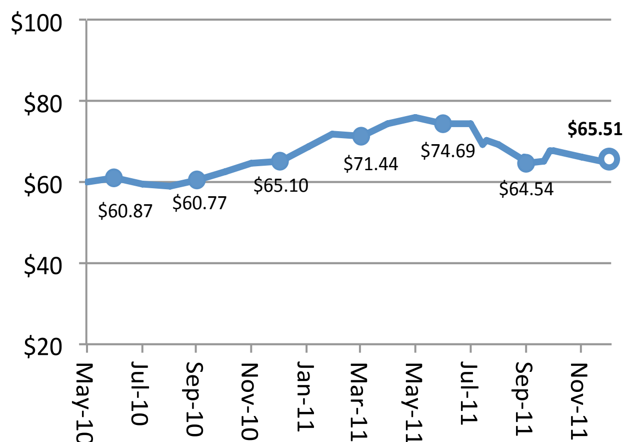
The CDS portfolio did contain PMI Group and therefore experienced further decay during Q4. The 'attachment point' – the remaining cushion before the Class 13 notes realize losses – was reduced to 5.5% of the remaining portfolio, down from 6.19%. The maturity date of the CDS is 20 March 2013. There are some high-risk names remaining in the portfolio but, with about 14 months remaining, KAG continues to expect that this portfolio will mature with no or low losses.

The TABS note has now paid down by over 61% and so there is $59.0MM in cash collateral. The remaining $37.1MM outstanding on the TABS note is exposed to very poor performing sub-prime mortgage programs and is being valued by Blackrock at $2.7MM. Therefore, KAG expects that Class 13 will mature but the loss on the TABS collateral will reduce principal repaid at maturity to as low as $0.61 per dollar of notional – although possibly more depending on the performance of the remaining TABS note.

AB Notes Secondary Market

Secondary market for the MAV2 Pooled Notes rose by almost a cent in the fourth quarter. The indicative bids for the 'full strip' (namely, the MAV2 A-1, A-2, B and C notes in the proportion that they were issued) rose to $65.51 at 31 December as compared to $64.54 at 30 September.

Anecdotally, there seemed to be less activity in the market as original investors who did not sell at the highs in Q2 continued to hold at these lower price levels and likely some are waiting to see if the optional redemption is put into place. There are very few buyers of Tracking Notes.



In November, UWO LT sold a $1.25MM (or 6.6% of total) par value position of its MAV2 Pooled notes. The individual classes of notes were sold in proportion to the holdings. No MAV2 Class 13 notes were sold as there is limited liquidity for these notes and market bids lag our assessment of Fair Value. The proceeds of the sale totalled $837k. This sale was undertaken in order to replenish the cash liquidity of the Trust to satisfy redemptions and to maintain a liquidity cushion so as to avoid being forced to sell into a distressed market in the potential future.

Portfolio Valuation

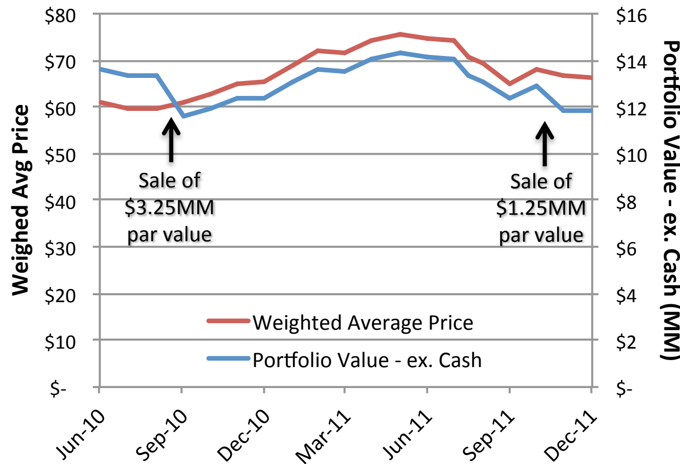
The Fair Market Value ('FMV') of the Portfolio as at 31 December 2011 was $11.73MM, down from $12.37 MM as at 30-Sep-11. The Weighted Average Price ('WAP') of the Portfolio at end of Q3 was $65.96, up from $64.80 one quarter prior. The full portfolio and note-by-note pricing for the last four quarters is listed in the table below.

UWO Liquidating Trust

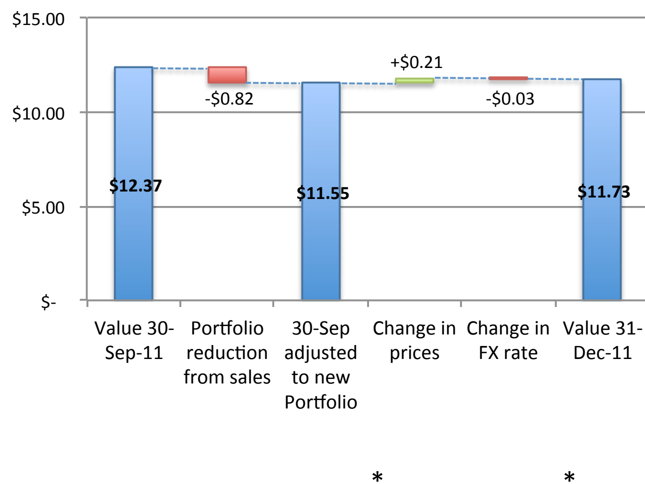
Re-Structured Asset Backed Notes

Valuation as of:		31-Mar-11			30-Jun-11			30-Sep-11			31-Dec-11		
				CAD:USD			CAD:USD			CAD:USD			CAD:USD
				0.97275			0.96510			1.04205			1.01825
Notes	**ID**	**Par Value (Local currency)**	**Price (Local currency)**	**Market Value (CAD)**	**Par Value (Local currency)**	**Price (Local currency)**	**Market Value (CAD)**	**Par Value (Local currency)**	**Price (Local currency)**	**Market Value (CAD)**	**Par Value (Local currency)**	**Price (Local currency)**	**Market Value (CAD)**
Class A-1	CA 57632XAW35	8,997,474	77.38	6,961,796	8,997,474	78.92	7,100,507	8,997,474	68.75	6,185,763	8,384,274	71.05	5,957,027
Class A-2	CA 57632XAY90	5,919,516	70.10	4,149,581	5,919,516	73.92	4,375,509	5,919,516	63.58	3,763,332	5,516,216	62.75	3,461,426
Class B	CA 57632XBA06	1,074,551	55.50	596,376	1,074,551	64.73	695,548	1,074,551	55.88	600,405	1,001,351	53.88	539,478
Class C	CA 57632XBC61	495,472	25.30	125,354	495,472	35.98	178,246	495,472	25.88	128,203	461,472	34.25	158,054
IA Tracking Note Class 13	CA 57632XAV51	316,001	54.33	171,694	316,001	57.50	181,701	316,001	58.00	183,281	316,001	58.00	183,281
Class A-1 (USD)	CA 57632XAX18	1,799,382	77.38	1,354,332	1,799,382	78.92	1,370,454	1,799,382	68.75	1,289,094	1,676,882	71.05	1,213,168
Class C (USD)	CA 57632XBD45	55,836	25.30	13,742	55,836	35.98	19,386	55,836	25.88	15,055	52,036	34.25	18,148
IA Tracking Note Class 13 (USD)	CA 57632XBE28	333,292	54.33	176,154	333,292	57.50	184,955	333,292	58.00	201,438	333,292	58.00	196,837
Total (Local currency)		$ 18,991,524			$ 18,991,524			$ 18,991,524			$ 17,741,524		
Total (CAD)		$ 18,931,887		$ 13,549,028	$ 18,915,145		$ 14,106,304	$ 19,083,551		$ 12,366,572	$ 17,779,159		$ 11,727,418
Wtd Average (CAD)			71.57			74.58			64.80			65.96	

The Weighted Average Price of the portfolio (red line in chart below) followed the evolutions of the broader credit markets in 2011, with peak prices reached in May/June, falling in Q3 as the European sovereign credit concerns arose, and moderating – and marginally improving – in the final three months of the year. Portfolio value (see blue line below) generally tracks the average price, but diverges due to portfolio sales and, to a lesser degree, foreign exchange rates.



Through the quarter, the largest driver of the decline in portfolio value was the sale of notes with par value of $1.25MM. The quarter-to-quarter change in price added value to the portfolio. And strength of the Canadian dollar somewhat reduced the CAD value of UWO LT's US dollar-denominated notes.



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In summary, the fourth quarter of 2012 was characterized by continued heightened risk in the credit markets, notwithstanding the marginal spread tightening since the end of Q3. There were some positive developments in the risk profile of UWO LT's AB Notes portfolio, specifically the maturity of LSS trades previously categorized as of 'Elevated' risk and favourable news regarding the lynchpin credit MBIA Insurance. Trigger risk continues to be very remote and one of the reference indices has now matured. UWO LT sold 6.6% of its notes in order to enhance its cash liquidity. Aside from this sale, the improvement in market prices somewhat increased the Weighted Average Price of the portfolio.

Kilgour Advisory Group
23 January 2012

GLOSSARY OF TERMS

Asset-Backed Notes or *'AB Notes'*	Notes created through the restructuring of the former non-bank asset-backed commercial paper (ABCP) purchased by UWO LT in July 2008. The AB Notes are comprised of: 'Pooled Notes', 'Ineligible Asset Tracking Notes' and 'Traditional Asset Tracking Notes'.
Credit Default Swap *or 'CDS'*	Contract where Counterparty A pays financial consideration to a Counterparty B to assume the risk of default by a specific third party company. Analogous to insurance, where A pays a premium to B in return for a lump-sum payment should the specified third-party company go bankrupt or otherwise default. Credit default swaps can be done on an 'unfunded' basis since there is no requirement for either party to own the referenced credit. A CDS premium is quoted in terms of basis points (one-hundredths of a percent) of the notional value 'insured'. Portfolios of CDSs typically underlie 'Leveraged Super Senior' trades.
Credit Default Index *e.g. 'CDX' or 'iTraxx'*	A quoted market index of the Credit Default Swap premiums on one hundred representative corporate credits. The indices are renewed semi-annually; the vintage most relevant to the AB Notes is the CDX Investment Grade Series 7, which was issued in Sep-06. Indices also are quoted in terms of term to maturity – e.g. the CDX IG7 '5 Year' is based on prices for 5-year credit insurance. The CDX indices are comprised of North American companies; the iTraxx indices reference European credits.
Ineligible Asset ('IA') *Tracking Notes*	Notes created from the restructuring of ABCP assets that had exposure to US subprime mortgage securities. The Ineligible Assets were quarantined from the Pooled Notes and the IA Tracking Notes will directly track the financial performance of the underlying assets on a one-note-per-asset basis.

Leveraged Super-Senior or 'LSS'	A trade of a portfolio of Credit Default Swaps where the seller of the insurance/buyer of the risk receives a small premium in return for insuring the losses on the portfolio only above a certain amount, for example, the insurance might be for any losses above 30%. Thus, 'super senior'. LSS is partially funded in that the seller of insurance posts collateral ('Margin') for only a portion of the total amount of risk insured. In this way, the small premium is levered to provide a higher return on investment. There are many LSS trades underlying the MAV2 Pooled Notes whereby the MAV is the seller of credit insurance on a levered basis.

Margin	A reserve of cash or near-cash securities pledged as collateral to the insurance purchaser (swap counterparty) under an LSS trade. If the portfolio of CDS experiences losses or the market price of the CDS premiums increase, the counterparty may have the right to call for additional collateral to be posted (a 'margin call').
Margin Funding Facility or 'MFF'	A lending facility established by the federal government, Canadian banks, and some international banks to provide Margin funding should the Spread-Loss Triggers be breached. By making this additional collateral available, the MFF reduces the risk that the AB Notes will be terminated early and incur massive losses to investors.
Master Asset Vehicle or 'MAV'	The so-called Master Asset Vehicles are the issuers of the restructured AB Notes. Essentially, they are the legal entities holding the assets and issuing the Notes, receiving income on the assets and paying expenses and interest to the Noteholders. MAV1 is the vehicle for issuing Notes to the self-margin investors (e.g. the Caisse de Depot) and is not relevant to UWO LT. MAV2 issues the Pooled Notes and IA Tracking Notes held by UWO LT. MAV3 is the issuer of the Traditional Asset Tracking Notes.
Net Asset Value or 'NAV'	The value of a security or fund; equal to the market value of assets minus liabilities.
Pooled Notes	AB Notes created from the restructuring of ABCP containing both cash assets (loans, non-US residential mortgage backed securities, commercial mortgage backed-securities, etc.) and Leveraged Super Senior assets. These notes are comprised of classes A-1, A-2, B, and C, in order of seniority. These notes are supported by the Margin Funding Facility.

Spread-Loss Trigger	A 'margin trigger' is the metric by which it is judge whether an AB Note must provide additional collateral. A 'Spread-Loss' trigger provides a limit for a pre-determined CDX index's market price (the 'spread') above which additional margin must be posted (e.g. "if spreads on the CDX IG7 5Year exceed 550 basis points, then the note triggers."). The Spread-Loss Triggers are given within a matrix of the level of losses on the Index and the remaining term to maturity on the note. When the AB Notes were restructured, the triggers where changed from market price triggers to Spread-Loss Triggers and the overall levels of the triggers were raised; this reduces the likelihood of margin calls relative to current market conditions.
Traditional Asset ('TA') Tracking Notes	Notes created from the restructuring of ABCP assets that had exposure ONLY to cash assets (loans, non-US residential mortgage backed securities, commercial mortgage backed-securities, etc.). These notes will directly track the performance of the underlying assets on a one-note-per-asset basis.