Liquidating Trust Update

Recommended: That management maintains the mandate of selling up to 20% of the MAV II Notes (Notes), in excess of the Notes required to be sold to fund member redemptions or fund transfers.

Background

In May 2010 the Board gave management latitude to exercise its discretion to sell up to 20% of the Notes held in the UWO Liquidating Trust. The Board agreed “to provide management with the flexibility to sell up to 20% of the portfolio, before needing to obtain further direction from the board.” This amount is in excess to the amount of sales needed to fund member redemptions. It is prudent to review the mandate and update the Board as to the liquidity and risk management opportunities in regard to the MAV II notes and assess whether the existing mandate at the current levels should be maintained or modified. The goal of the mandate is to de-risk the portfolio for the benefit of the members.

Update

It has been one year since members of the Retirement Plans have been able to redeem their Liquidating Trust units, so it is time to review the Board’s decision, in light of the redemptions that have been made since then and the future redemptions that are expected. In addition, some U.S. based hedge funds have been promoting and pursuing an early liquidating option. This would provide investors with an ongoing, periodic opportunity to redeem their Notes at the market value of the assets backing the notes. Currently industry consensus is that the Notes trade at a discount of approximately 6% to their underlying assets. Hedge funds have been bidding up the price of the Notes in anticipation of realizing the difference between the price of the notes and the market value of the underlying assets. However, if the optional redemption initiative fails, an external risk has been identified because there is a chance that hedge funds would most likely stop purchasing the Notes and the price could drop significantly. Although it would have no impact on the price at maturity, it would penalize Liquidating Trust unitholders if the University were forced to sell Notes at a depressed price to fund redemptions.

The table below shows the composition of the UWO Liquidating Trust as of April 30, 2011.

UWO Liquidating Trust Composition
As of April 30, 2011

Security	Market Value	% of Portfolio	Credit Rating
A-1	$8,552,913	52.1%	A(high)
A-2	$4,368,771	28.5%	BBB(low)
B	$629,956	5.2%	Unrated
C	$163,713	2.7%	Unrated
13	$350,988	3.1%	Unrated
Cash	$1,737,411	8.4%	N/A
Total Value	$15,803,750	100.0%	N/A

The table below shows members' monthly redemptions since April 2010 (some transactions took place in April 2010 because of members who were forced out of the Western Retirement Plans).

Members' Monthly Redemptions

Month	Redemptions
Apr-10	$8,100
May-10	$346,860
Jun-10	$773,072
Jul-10	$289,532
Aug-10	$410,491
Sep-10	$240,290
Oct-10	$240,397
Nov-10	$285,988
Dec-10	$101,654
Jan-11	$68,069
Feb-11	$80,887
Mar-11	$39,176
Apr-11	$144,012
May-11	$118,987

Redemption Data

	Monthly Redemptions
Average (Since May 2010):	$224,822
Average (2011 YTD):	$90,226
Largest Redemption:	$773,072
Smallest Redemption:	$39,176

Based on cash on hand of $1,618,424 (April balance minus May redemptions), the portfolio has the following number of months of cash on hand:

Number of Months of Cash
As of May 31, 2011

	# of Months
Average (Since May 2010):	7.2
Average (2011):	17.9
Largest Redemption:	2.1
Smallest Redemption:	41.3

Historical Transactions
Western has made the following sales of the MAV II Notes since May 2010.

Month	Proceeds	Details
May 2010	$1,584,052	Sold 10% of all the Notes in the portfolio (A-1, A-2, B, C and Class 13)
June 2010	$717,495	Sold 5% of all the Notes in the portfolio (A-1, A-2, B, C and Class 13)
September 2010	$2,006,392	Sold 15% of the A-1, A-2, B and C Notes only

As a result of the above transactions, the Liquidating Trust has sold 27.3% of the A-1, A-2, B and C Notes and 14.5% of the Class 13 Notes that it held in April 2010. Overall, the Liquidating Trust has sold about 27% of the Notes it held in April 2010. Members of the Western Retirement Plans have sold about 18.2% of their Liquidating Trust units over the same period. As a result, based on the existing mandate provided by the Board on May 17, 2010 management still has the flexibility to sell approximately 11% of the Notes without having to request Board approval

The Kilgour Advisory Group Opinion as of June 8, 2011
With the portfolio currently trading at around 76 cents in total, the hold-to-maturity yield is between 6% and 7%. In Kilgour's assessment, this represents a strong risk-adjusted return, especially given today's rate environment and when compared to a money market investment alternative. Consequently, their view is that there is no compulsion to sell based on a better alternative use of funds.

Using Kilgour's model framework for assessing risk: the credit risk of the Notes has fallen significantly in the past year and - notwithstanding some potential interim volatility - will continue to fall next year as some of the riskier assets mature. Margin call risk is essentially gone. The collateral is performing. And there have been no new incidents of 'structural risk' beyond the potential for an optional redemption. Therefore, given that the intrinsic risk of the portfolio is falling, Kilgour does not recommend further selling - 'de-risking' - at this time.

However, there is an external risk to the UWO Liquidating Trust in that unitholders have an optional monthly redemption. The downside risk is that unitholders choose to redeem at a time of low secondary market liquidity - the classic case of selling into a weak market. One such foreseeable situation would be if the 'optional redemption' process fails and prices fall based on supply-demand while at the same time UWO Liquidating Trust experiences higher than normal redemption requests. To manage this risk, Kilgour recommends that UWO Liquidating Trust continue to maintain a cash position with a minimum amount of $750,000 (namely, equal to the highest past single-month redemption). Also, were this to occur, then a communication should be prepared for members summarizing the situation to try to contain the "running for the exits".

Historical Return
The UWO Liquidating Trust has returned 17.5% from May 2010 to April 2011.

Interest Payments
A-1 and A-2 Notes denominated in Canadian dollars accrue interest at a rate equal to the 3-month Bankers' Acceptances rate minus 0.50%. The A-1 and A-2 Notes denominated in U.S. dollars accrue interest at a rate equal to the 3-month LIBOR rate minus 0.50%. There have been eight payments made in Canadian dollars since the MAV II Notes have started trading, while no U.S. interest payments have been made so far due to the lower level of interest rates in the U.S. For the next payment date on July 7, 2011, the interest payment for the Canadian Notes will be 0.80571% per annum, while it will be 0% for the U.S. Notes.