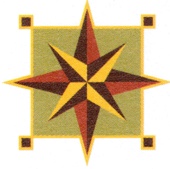

Portfolio Manager Report

UWO Liquidating Trust – Quarter ending 31 March 2011

Preamble

The University of Western Ontario Liquidating Trust ('UWO LT') holds a portfolio of Restructured 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 is a specialist risk management firm retained by UWO 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. This is the sixth quarterly report to date in respect of this 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 continued to strengthen through the first quarter of 2011. Positive domestic factors – strong corporate earnings, rising equity markets, continued government market intervention, benign interest rate environment, etc. – appeared to trump negative events abroad. This strengthening in credit conditions has had a positive effect on the value of and ultimate prognosis for UWO LT's holdings.

The movements in credit default swap premiums and bond yields over time and during the first quarter of 2011 are tracked in the charts below. The upper charts show the Credit Default Swap Index for Investment Grade rated US corporations ('CDX IG')[1]. The lower charts track corporate bond yields by S&P ratings cohorts.

Looking first at the credit default index, it is notable how significant has been the contraction in credit spreads since the credit crisis peaked in late 2007/early 2008 (see upper left chart). Credit market prices reflect considerable reduction in risk. The shorter-term performance (see upper right chart) shows a continuation of this tightening trend, notwithstanding some volatility due to recent global events. Peak prices can be observed at the end of January as the popular uprising in Egypt affected global markets, again in mid to end of February due to events in Libya and then in mid-March as global risk markets reacted to the March 11 earthquake in Japan. The apparently deepening European sovereign debt crisis added volatility in March, as Portugal appeared ready to follow Greece and Ireland into a bailout. While the long-term implications of these geopolitical developments continue to unfold, in the short-run North American credit markets have largely shrugged them off in the face of a strengthening domestic picture.

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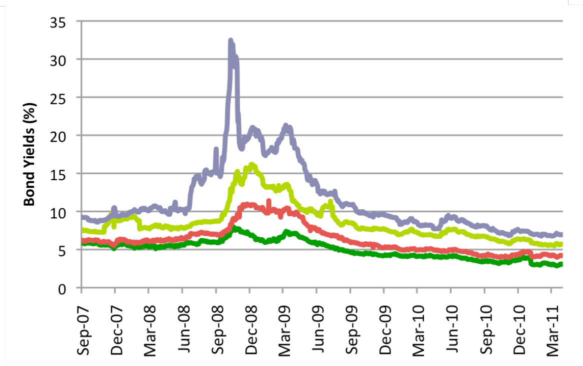
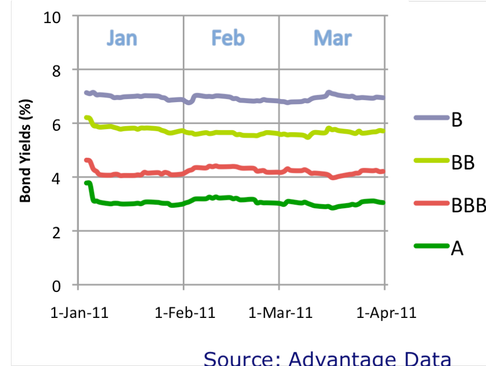
[1] Series 11 is shown as this was the on-the-run (i.e. current) index at the time of the ABCP restructuring.

Bond yields have similarly contracted from their 2007/2008 peaks (see lower left chart). In the recent quarter, there was a drop in yields in early January (see lower right chart) when the US Federal Reserve Bank announced a continuation of an accommodative monetary policy and a continuation of the so-called 'quantitative easing' through bond purchases. There subsequently was some volatility in bond yields in the rest of the quarter but yields ultimately ended the quarter tighter than they began.

CDX IG Series 11 (5Y)

S&P Bond Cohorts





Risk Assessment

To evaluate UWO LT's MAV2 Pooled Note holdings, KAG uses a risk assessment framework that 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.[2] The continued improvement in broad credit markets gives a high level indication that there has been a reduction in credit risk and this is beneficial 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

[2] When the original non-bank asset-backed commercial paper was restructured, all eligible LSS trades and their collateral were pooled. Currently, there are 69 LSS trades with a total notional value at risk of $73 Bn; these are collateralized by the $9.8 Bn of assets in the collateral pool.

closest to incurring losses, it is informative to look at the individual corporate names in those portfolios.

During the first quarter of 2011, there were zero defaults of any reference entities in any of the credit default swap portfolios underlying the AB Notes. As the result, there were no changes to risk categorization of any LSS trade in KAG risk segmentation of the LSS pool. KAG maintains a segmentation of the LSS pool whereby each individual trade is categorized as Severe, High, Elevated, Guarded, or Low risk.

There continues to be only two LSS trades – Trades #1 and #7 – that are identified as of 'Severe' risk and none that are identified as 'High' risk. There are a small number of trades that are classified in the 'Elevated' risk category; the remainder is 'Guarded' or 'Low' risk.

Therefore, Trades #1 and #7 continue to be the most immediate source of credit risk for the MAV2 Pooled notes and the focus of our analysis. 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 and have the same leverage (2.5X). Trades #1 and Trade #7 together have levered 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 portfolio 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 14 months, after which they will present no risk to UWO LT's notes.

During Q1 2011, there was a general improvement in the credit quality of the Trade #1 and #7 portfolio as reflected by the tightening of credit spreads amongst the highest-risk names (see table below). Most notably, there was considerable improvement in the three highest risk credits.

Trade #1 and #7 –Names with CDS spread greater than 400 bps
10 Highest Risk Names (9 at 30 December 2010)

Reference Entity	3 Yr CDS Spread (bps) 31-Mar-11	3 Yr CDS Spread (bps) 28-Feb-11	3 Yr CDS Spread (bps) 31-Jan-11	3 Yr CDS Spread (bps) 31-Dec-10	Qtr-to-Qtr Change	Pctg of Notional	Sector (Blackrock)
MBIA Insurance Corp.	1,924	1,659	2,639	2,732	(809)	2.45%	Property & Casualty
Hovnanian Enterprises Inc.	945	682	1,116	1,341	(396)	0.49%	Home Construction
Clear Channel Communications Ir	649	621	667	787	(138)	1.35%	Media Non Cable
Boyd Gaming Corp.	591	483	508	639	(49)	0.31%	Gaming
Financial Security Assurance Hldg	577	541	597	552	25	1.84%	Property & Casualty
MGM Mirage	574	525	556	675	(101)	0.49%	Gaming
Radian Group Inc.	503	432	373	364	139	1.22%	Property & Casualty
Meritage Homes Corp.	489	460	500	171	318	0.61%	Home Construction
First Data Corp.	464	488	529	598	(134)	0.61%	Technology
Beazer Homes USA Inc.	407	384	383	457	(50)	0.92%	Home Construction
Weighted Average	889	787	1,057	1,097	(208)	10.29%	

Source: Advantage Data

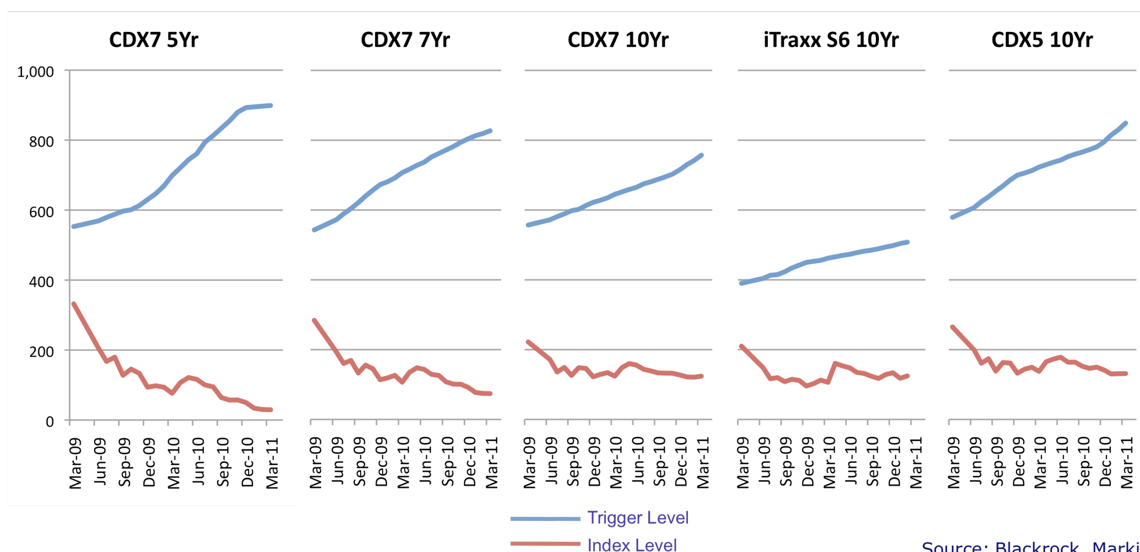
MBIA Insurance Corp. is both the highest-risk name and also an over-weight exposure at 2.45% of the portfolio; the survival of Trades #1 and #7 largely hinges on this single name. MBIA Insurance is a US 'monoline' insurer of residential mortgage backed securities. Once the largest monoline, MBIA Insurance was badly affected by the sub-prime crisis and its fallout on the US real estate market. MBIA Insurance is now in a "run off mode" whereby it is not writing any new

insurance and is balancing its assets versus current and future liabilities. It is engaged in litigation and negotiations with mortgage originators disputing whether the bonds that they insured were properly made in context of their mortgage origination policies. Any success in these disputes will reduce MBIA Insurance's liabilities. Since Trades #1 and #7 have maturity date of June 20, 2012, the key question is whether MBIA Insurance will or will not default in the next approximately 14 months. During the quarter, the credit markets reduced the price of credit insurance on MBIA Insurance, reflecting an improved view on the near-term survival of the company.

Margin Trigger Risk

Margin trigger risk is very remote. There were no new defaults during Q1/11 in any of the reference indices for the MAV2 Spread-Loss margin triggers[3]. Credit markets have greatly improved since the time of the restructuring and that trend continued over the quarter. These two factors – along with the reduction in time to maturity – have driven a very large divergence between the falling reference indices (red lines below) and their trigger levels (blue lines). A trigger breach would occur if, at any time, a red line crosses above a blue one.

Trigger Indices Relative to Trigger Levels (bps)



As at the end of March 2011, indices on average were 13.5% of their trigger level; put another way, credit indices would have to blow out to levels almost seven-and-a-half times wider to trigger. On average, the index levels were 15.9% of the trigger levels at the end of Q4/10 and 17.3% as at the end of Q3/10.

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[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 UWO LT.

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. One notable exception is the three CDO-squared assets that have been highlighted by DBRS and others as potentially risky. These assets have been stable and realized no additional losses in Q1/11. KAG continues to monitor the disclosures from BlackRock, the asset administrator, regarding these assets.

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.

The possibility of an early redemption – as described in last quarter's Portfolio Manager report – continues to exist. To recap, this initiative is being led by US-based hedge funds who have accumulated very large positions in the MAV2 notes but, due to that size, have no ability to liquidate those positions in the secondary market at today's prices. This group is advocating and actively negotiating a process whereby investors could chose to redeem their notes in return for approximately Net Asset Value (NAV) of the LSS and collateral. Since, NAV is greater than the current market price, this potential for a vertical unwind is supporting the rising secondary market bid. In the short-run, so long as the potential for an early redemption exists, we would expect to see continued upward pressure on price to a ceiling at or near the NAV.

In order to put in place this redemption procedure, a very complex, multipartite negotiation must be completed along with re-drafting of many agreements and final ratification by a vote of noteholders – the success of this undertaking is by no means assured. This presents some downside risk to the market value of UWO LT's holdings: if the early redemption initiative were to fail, current support for the bid would dry up and there may be large volume at the offer – market prices would likely fall and perhaps significantly.

It is important to note that these are 'technical' market forces of supply and demand. Nothing in the success or failure of the optional redemption initiative will affect the underlying credit quality of the notes or the ultimate value at maturity of those assets.

KAG continues to monitor the situation and is in dialogue with the investors driving the process. UWO LT will be informed of any recommended actions or decisions to be taken.

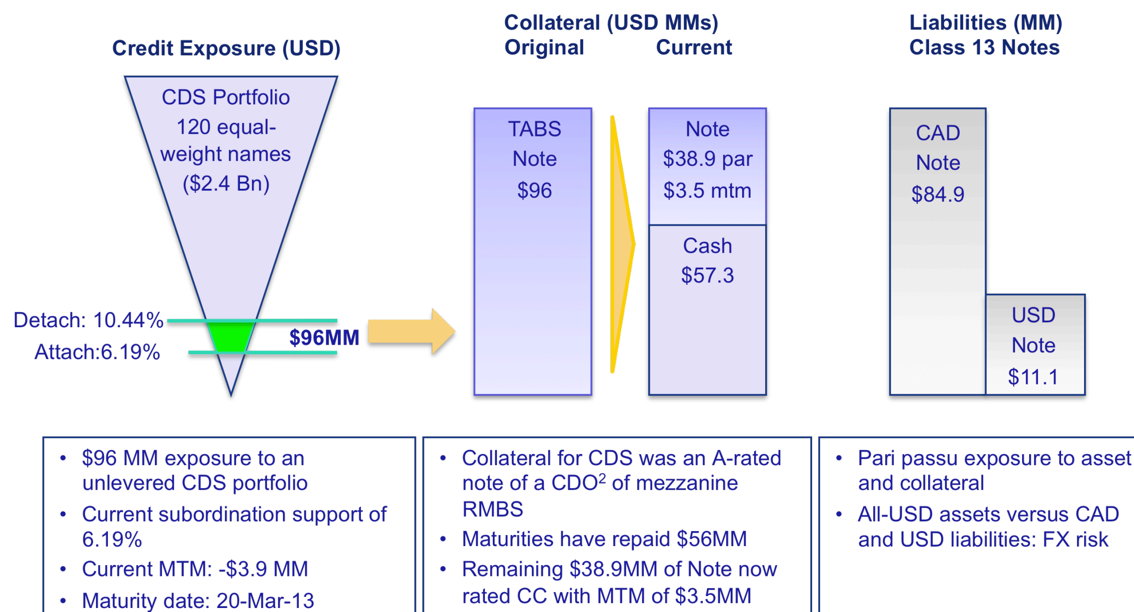
Risk Assessment – MAV2 Class 13s

In addition to the MAV2 Pooled notes, UWO LT holds approximately $650,000 of the MAV2 Class 13 Ineligible Asset Tracking note.

This note has a US$96 million unlevered credit exposure to a portfolio of Credit Default Swaps. There were zero additional defaults within this portfolio in Q1/11 to the attachment point is unchanged at 6.19%; it would take additional *losses* (as opposed to defaults) amounting to 6.19% of the remaining portfolio prior to the first dollar of loss on the credit exposure. The credit exposure matures in March 2013.

The collateral for the credit derivatives exposure was originally a US$96 million 'TABS note', which was the senior note of a credit structure with exposure to US sub-prime mortgage. The current par value of this note is US$38.9 million; there has been a total of US$57.3 million repaid on the note that is currently being held as cash collateral. The remaining portion of the TABS note is likely to realize losses: its credit ratings were reduced to CC/Ca during the quarter and it has a mark-to-market value of US$3.5 million.

The Class 13 notes outstanding against these assets are CAD$84.9 million plus US$11.1 million.



The credit risk of the CDS portfolio has fallen considerably with the general tightening of credit spreads and the decreasing time to maturity, now roughly 24 months. There is a considerable cushion against loss (the 6.19% attachment point), so it would require between 6 and 12 additional defaults to break the attachment point and cause any losses on the credit exposure. KAG continues to be of the view that it is likely that the credit exposure will mature without losses.

Thus, the key question becomes: what collateral will be available to pay down the Class 13 notes at maturity? There is US$57.3 million in cash that will be available, which suggests a minimum value at redemption of ~$0.60 (somewhat variable due to CAD:USD fx rates). This redemption

value may be higher in the – albeit unlikely – case that the there is higher recovery on the remaining par value of the TABS note.

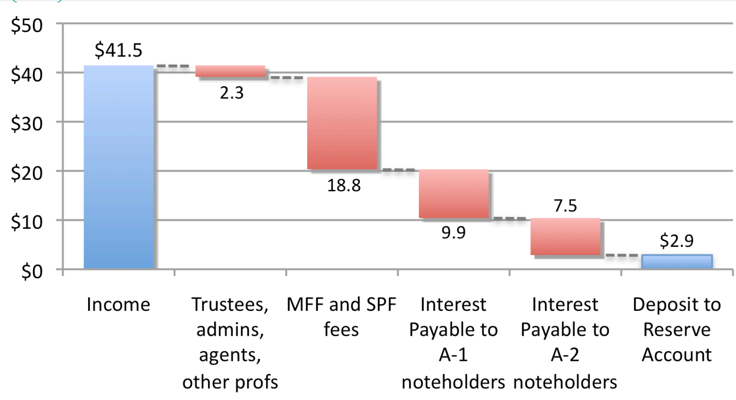
Interest Payments on A-1 and A-2 Notes

January 7, 2011 was a payment date on the Pooled Notes and interest on the A-1 and A-2 notes was accrued and paid in full. The CAD notes accrue interest at the rate of 3-month Bankers Acceptances minus 50 basis points, which amounted to a rate of 0.78143% in the quarter ending 7 January. The USD notes accrue interest at 3-month LIBOR minus 50 bps, which amounted to 0% during the quarter given the very low LIBOR rate.

During the three months period ending 7 January, the entire MAV2 assets and collateral earned $41.5MM (up from $35.2MM the previous quarter). After all of expenses and margin lender fees were paid, there was a total of $17.4MM interest accrued and paid on the A-1 and A-2 Notes. A $2.9MM deposit was made to the Reserve Account. The Reserve Account comprises part of the 'CA-Held Collateral' and reduces the commitment amount of the Margin Funding Facility lenders. These funds ($34.2MM cumulative) will not be available for payment on the notes until final maturity.

It is notable that fixed expenses – the fees to trustees, administrators, etc. plus the stand-by fee to the margin lenders – comprised more than half of the total expenses and are senior to the interest on the Notes. If there is a shortfall in the future, interest would be accrued but not paid on the A-2 Notes first and then the A-1 notes. During the recent payment period, there was sufficient income to pay the full interest due on both the A-1 and A-2 notes.

Simplified CAD Payments 'Waterfall' – Quarter ending 7-Jan-11 (MM)



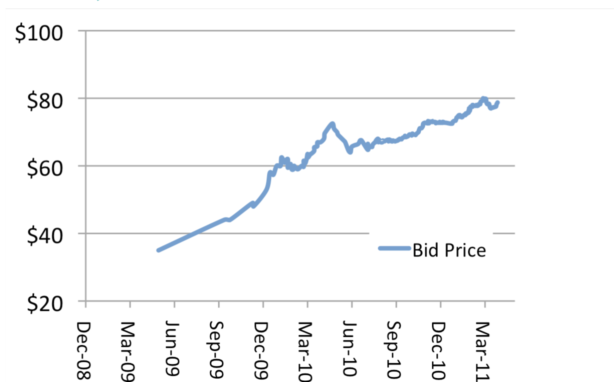
Source: Blackrock

Income is generated within the MAV2 pool from two sources: the interest on the collateral plus the fees or 'spread' on the Leveraged Super Senior (LSS) trades. As the LSS mature over time, there will be less exposure and therefore less spread being earned by MAV2. Additionally, as LSS mature, they will release their specific collateral into the general asset pool that is managed by the asset administrator (BlackRock). The challenge will be for BlackRock to reinvest that cash in high-quality assets in compliance with the conservative investment policies of MAV2 *and* earn sufficient income to pay interest on the Notes. Thus far, income in MAV2 has been sufficient to pay interest but this is not assured for all future payment periods. KAG will continue to monitor the interest rates on the LSS and collateral going forward.

AB Notes Secondary Market

Secondary market indicative bid prices rose again during Q1/11. The indicative bids for the 'full strip' (namely, the MAV2 A-1, A-2, B and C notes in the proportion that they were issue) rose from $0.654 as at 31 December 2010 to $0.714 as at 31 March 2011. Prices actually peaked at higher rates in mid-March at which point dealers began to state that they were over-supplied and priced dropped by 2.5 cents due the temporary period of market illiquidity due to imbalance of sellers and buyers.

The potential for an 'early redemption' (as discussed above) continued to drive the run-up in secondary market prices, as did the general improvement in credit markets and the reduced time to maturity.



UWO LT did not sell any of its portfolio during Q1/11, electing instead to hold its Notes while using cash on hand to meet any obligations to redeem investors. This appears to have been a sound investment management decision given that secondary market prices continued to rise.

Market bids for the Class 13s also rose to 54 cents at quarter end from the 48 cents at the end of Q4.

Portfolio Valuation

The Market Value of the Portfolio as at 31 March 2011 was CAD$13.55 million, up from CAD $12.41 million as at 31 December 2010.

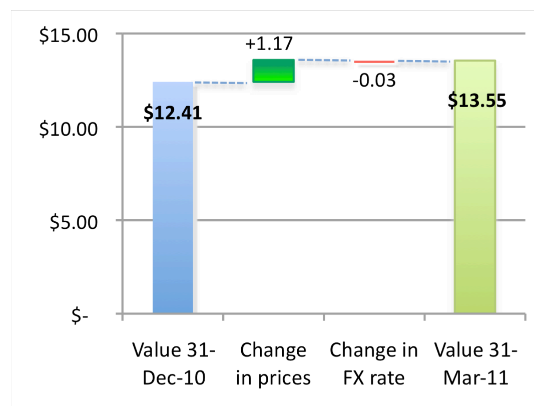
UWO Liquidating Trust

Re-Structured Asset Backed Notes

Valuation as of:	**31-Dec-10**			**31-Mar-11**		
			CAD:USD 0.99365			CAD:USD 0.97275
Notes	**Par Value (Local currency)**	**Price (Local currency)**	**Market Value (CAD)**	**Par Value (Local currency)**	**Price (Local currency)**	**Market Value (CAD)**
Class A-1	8,997,474	72.44	6,517,590	8,997,474	77.38	6,961,796
Class A-2	5,919,516	63.94	3,784,820	5,919,516	70.10	4,149,581
Class B	1,074,551	41.81	449,302	1,074,551	55.50	596,376
Class C	495,472	9.81	48,621	495,472	25.30	125,354
IA Tracking Note Class 13	316,001	48.00	151,680	316,001	54.33	171,694
Class A-1 (USD)	1,799,382	72.44	1,295,160	1,799,382	77.38	1,354,332
Class C (USD)	55,836	9.81	5,444	55,836	25.30	13,742
IA Tracking Note Class 13 (USD)	333,292	48.00	158,964	333,292	54.33	176,154
Total (Local currency)	$ 18,991,524			$ 18,991,524		
Total (CAD)	$ 18,977,627		$ 12,411,582	$ 18,931,887		$ 13,549,028
Wtd Average (CAD)		65.40			71.57	

The quarter-to-quarter change in the value of the portfolio was affected by two factors:

- *Change in prices*. A general improvement in secondary market prices for the AB Notes drove the overall increase in portfolio value.
- *Change in FX rate.* Because UWO LT holds both Canadian and US dollar denominated notes, the Canadian value of the portfolio is subject to the change in foreign exchange rates between the two currencies. During the quarter, the CAD:USD rate fell from 0.99365 to 0.97275. This had a marginal detrimental effect on Canadian dollar value of the portfolio.



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In summary, Q1 2011 saw continued improvement in North American credit market in spite of the volatility caused by global events. Secondary market prices continued their climb and narrowed the gap to intrinsic Net Asset Value. This increase in prices more than offset the adverse change in USD:CAD exchange rates. Market price appreciation is largely due to the possibility of an 'optional redemption', a potentially important development in the next year. KAG continues to believe that UWO LT's strategy of holding its portfolio of notes for a gradual liquidation as required rather than selling all notes at current prices is financially prudent.

Kilgour Advisory Group
26 April 2011

GLOSSARY OF TERMS

GLOSSARY OF TERMS

Asset-Backed Notes or *'AB Notes'*	Notes created through the restructuring of the former non-bank asset-backed commercial paper (ABCP). 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 the 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.