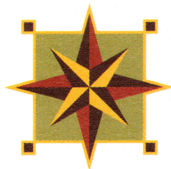


Portfolio Manager Report

UWO Liquidating Trust
Quarter ending 31 March 2012

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

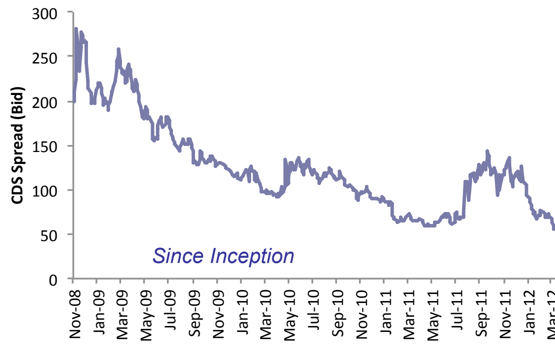
There was considerable improvement in credit markets and global risk markets in general during the first quarter of 2012. This was in contrast to the last half of 2011, which was characterized by market volatility as the US debt limit crisis of July was closely followed by an increase in European sovereign risk. The beginning of 2012 saw the near-term resolution of Greece's potential default. This event combined with more buoyant economic indicators in North America – improving employment rates and continued strong corporate earnings in particular. Broadly, global equity and debt markets improved.

Going forward, there are persistent concerns about Europe's economies and the apparent dilemma of how to implement fiscal austerity to maintain sovereign solvency but at the same time enabling expansionary conditions to the economy in order to avoid prolonged recession or depression. North America appears to be at the start of a sustained yet slow-paced recovery but remains subject to the economic performance of key trading partners, especially China.

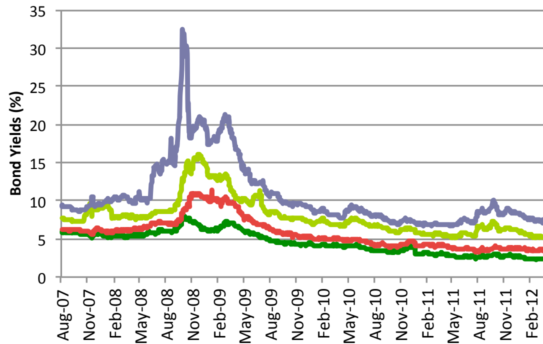
During the first quarter of 2012, North American credit markets improved significantly. The trend within the credit default swap market can be observed in the upper charts below. On the right, credit spreads tightened considerably over the quarter. The left chart puts current spread levels in a longer historical context and it can be seen that the referenced credit index ended March 2012 at the tight levels last seen at the mid-point of 2011 and in fact tighter than at any time prior to then.

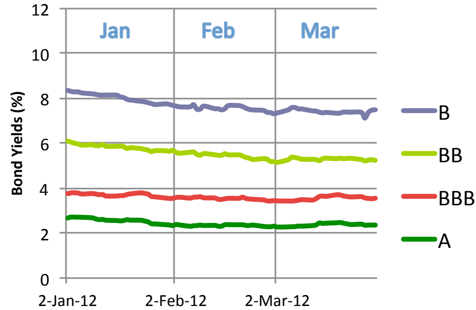
Bond yields have benefited from the improved credit risk picture as well as continued historically low interest rates. Yields matched the pattern seen in the CDS with considerable tightening in both Investment Grade and High Yield bonds over the quarter (see lower right). In the longer run, Investment Grade bond yields (A and BBB below) are at their tightest levels since before the credit crisis of 2008. High Yield (BB and B) spreads are at the tight levels last seen in mid-2011.

CDX IG Series 11 (5Y)



S&P Bond Cohorts





Source: Advantage Data

It is important to note that there still has not been a significant increase in corporate default rates either in North America or Europe. Corporate balance sheets and earnings continued to be generally strong but a prolonged period of slow economic activity could be damaging. Generally, corporate defaults lag the economic cycle. There were no new defaults in any of the referenced credit indices during the quarter. Note that it was ruled that Greece (viz. 'Hellenic Republic') did default for purposes of Credit Default Swap (CDS) protection but Greece is not a reference entity in any of the AB Notes.

Risk Assessment

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

Credit Risk

Our assessment of credit risk begins with the broad performance of the credit markets and then drills-down to identify, isolate, and track specific areas of higher risk.

At the highest level, the general improvement in global credit markets indicates that the credit risk in the MAV2 Pool[1] decreased during Q1 and this is beneficial to the value of those notes.

Drilling down beneath 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.

Our 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.

The most significant event affecting the LSS risk segmentation occurred on 20 March when it was announced that there has been a negotiated termination of all LSS trades with HSBC as the counterparty. Specifically, all 9 HSBC credit default swap portfolios with a combined notional value of $6.2 billion were cancelled. There were 7 long risk portfolios where the MAV had written the credit insurance and 2 where the MAV was short risk or the purchaser of credit insurance. The termination was done at slightly better than par value resulting in a $3 million payment made by HSBC to MAV2.

The risk segmentation chart[2] below shows the LSS portfolio on the day before the HSBC swaps were terminated. Those HSBC trades are highlighted in purple. This chart helps us to interpret the motivation for and the implications of this event. Of particular note is the short position that was terminated (purple bubble in the lower left quadrant). This would have been classified as a 'high risk' (orange) trade but, given that it was short risk to the MAV, it was HSBC that had ~$170MM at risk. This high risk position to HSBC was largely offset by the generally 'low' and one 'elevated' long risk trades where the MAV was at risk. On balance, HSBC made a small

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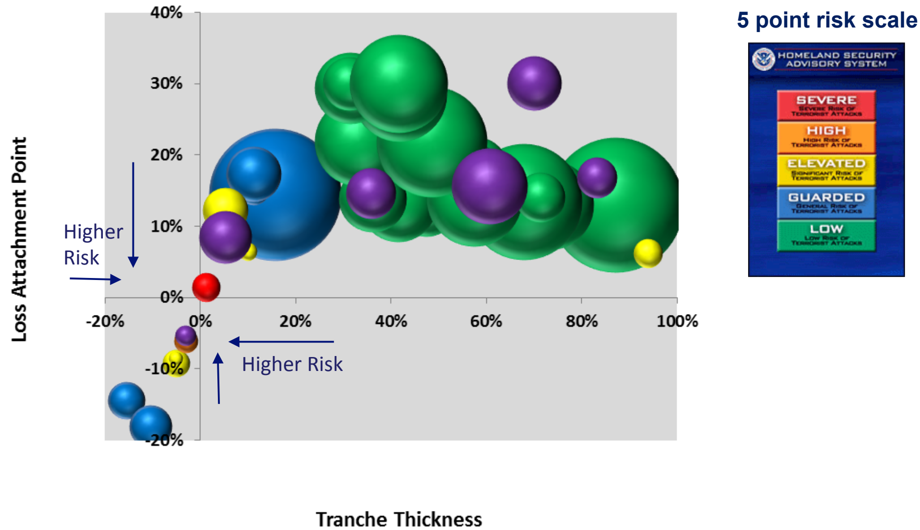
[1] When the original non-bank asset-backed commercial paper was restructured, all eligible LSS trades and their collateral were pooled. Currently, there are 59 LSS trades with a total notional value at risk of $65 Bn; these are collateralized by the $9.8 Bn of assets in the collateral pool.

[2] As detailed in previous reports, the vertical axis gives the loss attachment point as a percentage of total risk for each individual LSS portfolio; this can be thought of as the distance to first dollar of loss. The horizontal axis gives the tranche thickness; this is the distance from losing the first dollar to losing the last dollar. The size of the bubble indicates the relative amount of dollars at risk in the trade. And the risk category is indicated by colour, referencing the scale on the right. The MAV is long risk (or has written protection) for the trades in the upper-right quadrant; it is short risk (or the buyer of protection) for the trades in the lower-left quadrant.

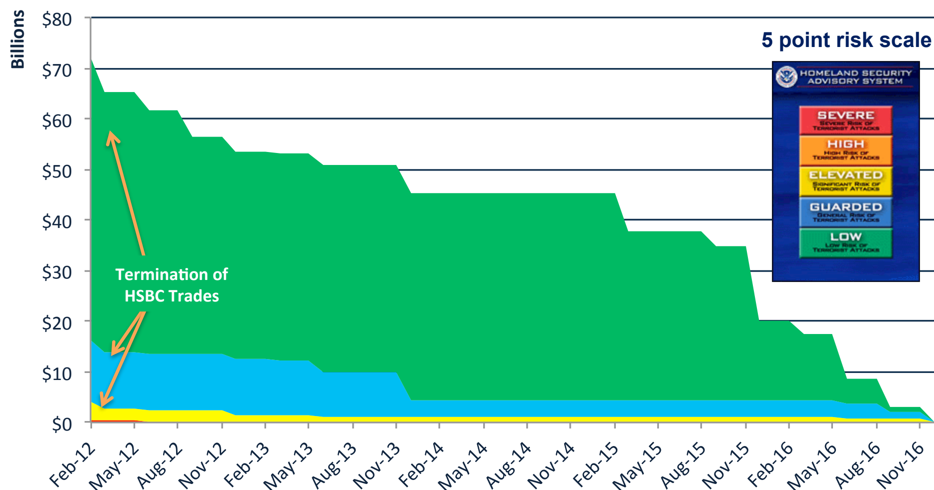
payment to get out of its risk on the short trade while simultaneously terminating the larger but much lower-risk long trades.

LSS Pool Risk Segmentation
As at 19Mar12. Purple bubbles are the now-terminated HSBC trades



The termination of the HSBC trades reduced the net notional value of the LSS pool from \$70 billion to \$64 billion. The various LSS trades have staggered maturity dates out to January 2017 and the High and Elevated risk trades have nearer-term maturities. The high risk Trades 1&7 are scheduled to mature in June of 2012 and the notional value of the yellow trades will be halved by June of 2013. As we approach the final maturity of the Notes, the LSS pool will reduce in size – 'de-lever' – and reduce in average risk level – 'de-risk'. The declining balance of the LSS pool is categorized by risk category in the chart below.

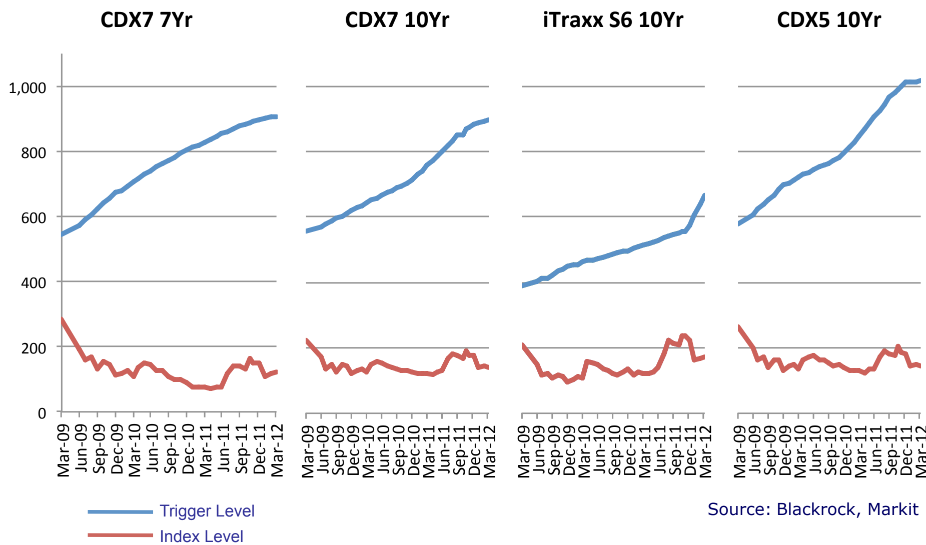
Maturity Profile of Long LSS Trades By Risk Segmentation
As at 20Mar12



Trades #1 and #7[3] continue to be the only 'High' risk portfolios and are the most immediate source of credit risk for the MAV2 Pooled notes. These trades are each scheduled to mature on 20 June 2012, less than two months from the date of this report. In an interesting development during the first quarter of 2012, MBIA Insurance reduced in risk and is now no longer viewed as the lynchpin determining the survival of these trades. By our assessment, it would now take the default of the three or four highest risk names in order for this portfolio to make a significant loss. Our current view is that it is likely that Trades 1&7 will survive to maturity without major loss. The implication for UWO LT is that the prognosis for recovery at maturity on the MAV2 Class B and C notes improves but there is unlikely to be a large change in the market value of the notes as the declining risk profile should be 'priced in'.

Margin Trigger Risk

Margin trigger risk continues to be very remote and is largely irrelevant other than as an extreme 'tail risk' or catastrophe event.



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[3] 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 ~2 months, after which they will present no risk to MAV2.

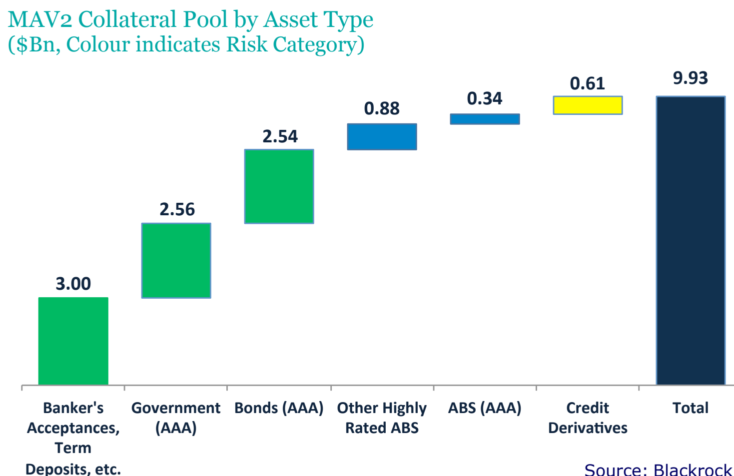
There were no new defaults during Q1/12 in any of the reference indices for the MAV2 Spread-Loss margin triggers[4].

The European index – iTraxx – is the nearest to its trigger level at 25%, down from 39% at the end of 2011. iTraxx would have to widen by roughly 4 times to breach the current trigger level. The three remaining North American (CDX) indices are at 14% of their trigger level on average, down from 18% last quarter. And it should be noted that for a margin trigger event to occur, two indices would have to breach their trigger levels.

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 (see chart). Three CDO-squared credit derivatives that have been highlighted by DBRS and others as potentially risky have been stable and realized no additional losses in their reference assets during Q1/12. KAG continues to monitor the disclosures from BlackRock regarding these assets.



[4] 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.

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 $51.2 MM at the end of Q1.

Structuring Risk

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

The Ontario Securities Commission ('OSC') and the Investment Industry Regulatory Organisation of Canada ('IIROC') announced that they will be distributing the almost $60 million of fines that they collected from CIBC, HSBC, Scotia Capital, Canaccord Financial, and Credential Securities based on their misbehaviour in the period leading up to the seizure of the ABCP market in August of 2007. The MAV notes held by UWO LT came from ABCP that was originally purchased by Northwater Asset Management in a comingled account that they managed for UWO Pensions. Northwater has reviewed their trading records and concluded that, based on the dates of those trades, it is unlikely that the comingled fund will be eligible for any distribution of fines. In any case, any funds received – though potentially gratifying – would not be particularly material in the context of the total portfolio.

There were no new developments announced regarding the 'optional redemption initiative' that continues to be under development. As previously described, 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 choosing to redeem. Any investor that chooses not to submit their notes for redemption should be left in an identical position in terms of risk and potential return. Therefore, the success or failure to implement the optional redemption should have no bearing on the intrinsic risk of the notes or influence on the ultimate value at maturity. However, there is potential downside risk to the market price of the notes if the initiative fails and the hedge fund investors move from being buyers to becoming sellers in size.

Risk Assessment – MAV2 Class 13 Notes

UWO LT predominantly holds MAV2 Pooled Notes but also has a relatively small - ~4% of notional value of its portfolio – 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. Therefore, the key questions for valuation are whether the CDS will survive without losses and, if so, what value of collateral will be available to repay the notes at maturity.

The CDS portfolio experienced no additional losses during Q1-12. The 'attachment point' – the remaining cushion before the Class 13 notes realize losses – is therefore unchanged at 5.5% of the remaining portfolio. The maturity date of the CDS is 20 March 2013. There are some high-risk names remaining in the portfolio but, with about 11 months remaining, KAG continues to expect that this portfolio will mature with no or low losses.

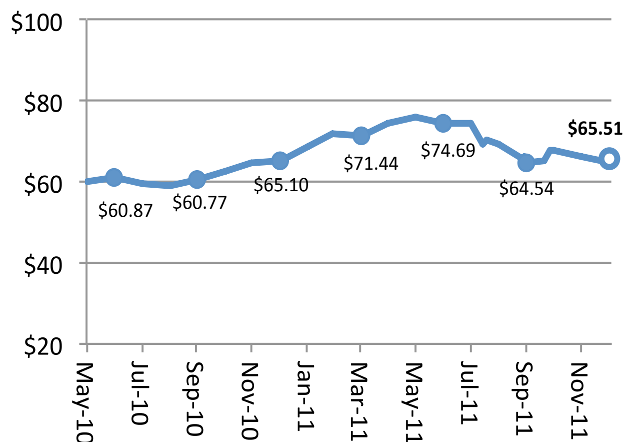
The TABS note has now paid down by almost 63% and so there is $59.6MM in cash collateral. The remaining $36.6MM outstanding on the TABS note is exposed to very poor performing sub-prime mortgage programs and is being valued by Blackrock at $3.4MM. Therefore, KAG expects that Class 13 will mature but the loss on the TABS collateral will reduce principal repaid at maturity to as low as $0.63 per dollar of notional – although likely at least some amount more depending on the performance of the remaining TABS note.

AB Notes Secondary Market

The secondary market for the MAV2 Pooled Notes rose by 9¢ or almost 14% in the first quarter of 2012. 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 $74.50 at 31 March as compared to $65.51 at 31 December 2011..

UWO LT did not sell any notes during the quarter.

Secondary Market Value of 'Full Strip'
MAV2 A-1s (51%), A-2s (39%), Bs (7%), Cs (3%)



Portfolio Valuation

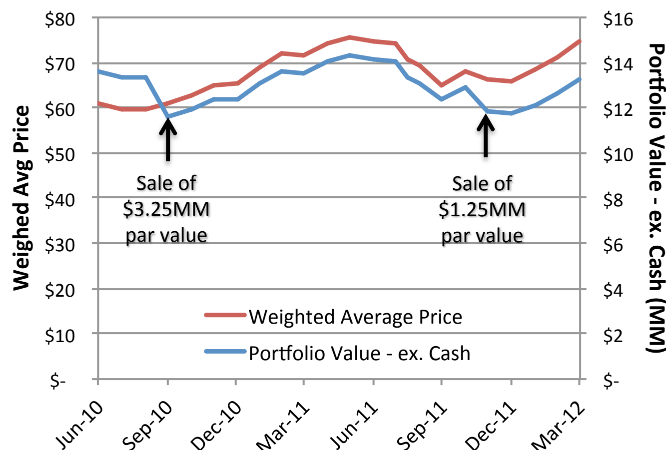
The Fair Market Value ('FMV') of the Portfolio as at 31 March 2012 was $13.22MM, up from $11.73MM as at 31 December-11. The Weighted Average Price ('WAP') of the Portfolio at end of Q3 was $74.52, up from $65.96 at year-edn. The full portfolio and note-by-note pricing for the last four quarters is listed in the table below.

UWO Liquidating Trust

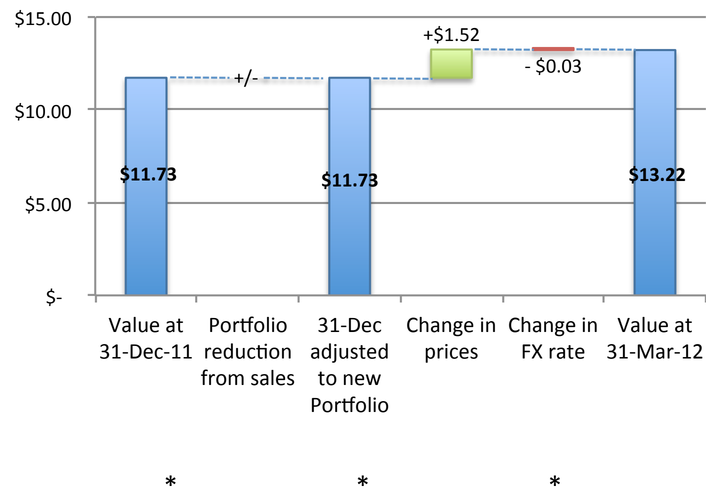
Re-Structured Asset Backed Notes

Valuation as of:	30-Jun-11			30-Sep-11			31-Dec-11			31-Mar-12		
			CAD:USD 0.96510			CAD:USD 1.04205			CAD:USD 1.01825			CAD:USD 0.99945
Notes	**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	8,997,474	78.92	7,100,507	8,997,474	68.75	6,185,763	8,384,274	71.05	5,957,027	8,384,274	78.71	6,599,122
Class A-2	5,919,516	73.92	4,375,509	5,919,516	63.58	3,763,332	5,516,216	62.75	3,461,426	5,516,216	73.77	4,069,359
Class B	1,074,551	64.73	695,548	1,074,551	55.88	600,405	1,001,351	53.88	539,478	1,001,351	63.75	638,361
Class C	495,472	35.98	178,246	495,472	25.88	128,203	461,472	34.25	158,054	461,472	37.46	172,860
IA Tracking Note Class 13	316,001	57.50	181,701	316,001	58.00	183,281	316,001	58.00	183,281	316,001	62.00	195,921
Class A-1 (USD)	1,799,382	78.92	1,370,454	1,799,382	68.75	1,289,094	1,676,882	71.05	1,213,168	1,676,882	78.71	1,319,120
Class C (USD)	55,836	35.98	19,386	55,836	25.88	15,055	52,036	34.25	18,148	52,036	37.46	19,481
IA Tracking Note Class 13 (USD)	333,292	57.50	184,955	333,292	58.00	201,438	333,292	58.00	196,837	333,292	62.00	206,527
Total (Local currency)	$ 18,991,524			$ 18,991,524			$ 17,741,524			$ 17,741,524		
Total (CAD)	$ 18,915,145		$ 14,106,304	$ 19,083,551		$ 12,366,572	$ 17,779,159		$ 11,727,418	$ 17,740,390		$ 13,220,751
Wtd Average (CAD)		74.58			64.80			65.96			74.52	

The Weighted Average Price of the portfolio (red line in chart below) rose considerably during the quarter and ended the period at $74.52. This is the highest price since the previous peak priced of $75.72 in May 2011. 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. The portfolio value was $13.2 million at the end of March, compared to $11.7 million as at 31 December 2011.



Through the quarter, the largest driver of the increase in portfolio value was the increase in market prices of the Notes (see chart below). This was somewhat offset by the relative strengthening of the Canadian dollar: UWO LT's US-denominated notes were worth comparatively less when valued in Canadian currency this quarter.



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In summary, the first quarter of 2012 was characterized by considerable improvement in North American and global credit markets. LSS trades comprising roughly 9% of the notional value at risk in the MAV2 Pool were terminated; however, given that these were cancelled by HSBC at par, the reduction in risk to the MAV is notionally less than 9%. The most risky LSS assets - Trades 1&7 – are now less than two months from maturity and appear likely to avoid losses. Trigger risk continues to be very remote. UWO LT made no sales in the. The Fair Market Value of the portfolio increased by $1.5 million or 13% over the quarter due to the improvement in market prices of the notes.

Kilgour Advisory Group
30 April 2012

GLOSSARY OF TERMS

Term	Definition
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.