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PORTFOLIO MANAGER REPORT

UWO LIQUIDATING TRUST
QUARTER ENDING 30 JUNE 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 Williams Group (KWG) is a specialist risk management firm retained by UWO LT to provide portfolio valuation, risk management and reporting, and market liaison. KWG 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 KWG except as disclosure may be required by regulatory or self-regulatory agencies having jurisdiction.

Credit Markets

North American credit markets widened during the second quarter of 2012, reflecting an increase in perceived risk. The favourable affects of positive short-term solutions in Greece that were felt in the first quarter gave way to realisation that the sovereign credit crisis in Europe is spreading to other 'peripheral' economies and that no quick fixes appear feasible. North American economies continued to struggle to sustain growth in the face of negative influences from the global economy – Europe and also slowing momentum in China and India. The rate of job growth in the US declined but remained positive. Housing firmed up somewhat but in context of a market recovering from the housing crash of 2008.

Looking forward, there is no obvious near-term solution to the sovereign debt crisis in Europe and this will continue to be a drag on global economic activity. North America will continue to fight to sustain a slow-paced economic recovery. And in the US specifically, the political uncertainty of the upcoming Presidential election and the impending 'fiscal cliff' – expiration of the Bush tax cuts and start of legislated spending cuts – present potential obstacles to continued economic recovery.

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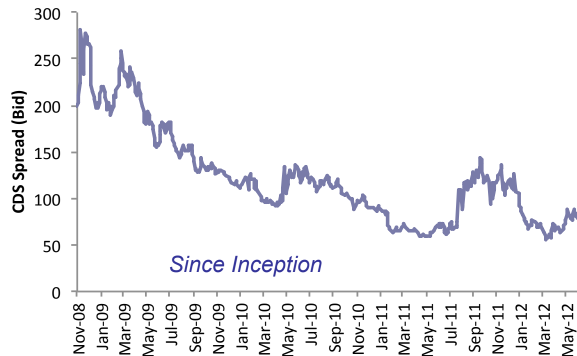
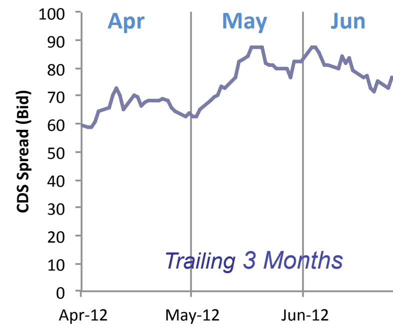
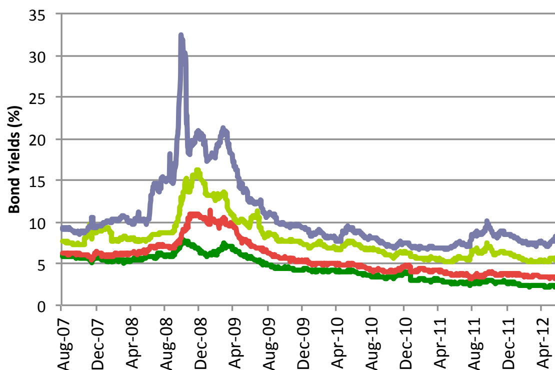
The effects of these economic developments on the North American credit default swap market can be observed in the upper charts below. On the right, credit spreads widened considerably during April and May before partially recovering in Jun. The left chart puts current spread levels in a longer historical context and it can be seen that the referenced credit index has widened versus the first quarter of 2012 but still remains low relative to spreads in the summer/fall of 2011.

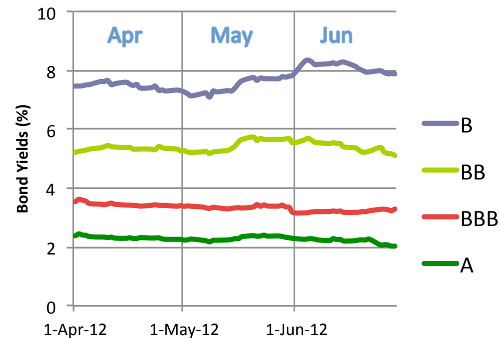
CDX IG Series 11 (5Y)





S&P Bond Cohorts





Source: Advantage Data

Bond yields moved on a different path than credit default swap spreads during the second quarter (bottom right chart above) as High Grade cohorts (A and BBB in the charts above) actually tightened and the High Yield cohorts traded either flat (BB) or somewhat wider (B). It is deduced that there were two factors that caused bond yields to move contrary to the 'pure' credit risk market: that High Grade North American bonds benefited from increased demand due to a flight-to-quality effect and that continued historically low interest rates continued to dampen yields. High Grade spreads are at historically tight levels (see lower left chart above).

As noted previously, it is important 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. In the second

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quarter, there was one new default in a referenced credit index: Residential Capital LLC was in the CDX North American Investment Grade Series 7 index.

Risk Assessment

KWG 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 specific to the MAV Notes held by UWO LT.

The credit markets' deterioration as described above indicates a general increase in credit risk in the MAV2 Pool[1]. However, specific underlying assets in the MAV2 Pool matured during the second quarter and no longer present any risk to the portfolio.

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. As we have reported in previous editions of this report, we have closely tracked the performance of 'Trades 1&7', which we have classified as 'Severe' risk.

On 20 June 2012, Trades 1&7 matured without loss and were removed from the pool of risk underlying the MAV2 Pooled Notes. This significantly reduced the risk of near-term credit losses to the MAV2 Class C and B notes.

In addition to Trades 1&7, three other Leveraged Super Senior credit default swaps matured in the MAV2 Pool on 20-June. These trades were previously rated as of 'Low' risk.

The risk segmentation chart[2] below shows the LSS portfolio on the day before the maturity of the five LSS trades. The maturing trades are highlighted in purple. The key observations are

[1] When the original non-bank asset-backed commercial paper was restructured, all eligible LSS trades and their collateral were pooled. Currently, there are 48 LSS trades with a total notional value at risk of $62 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.

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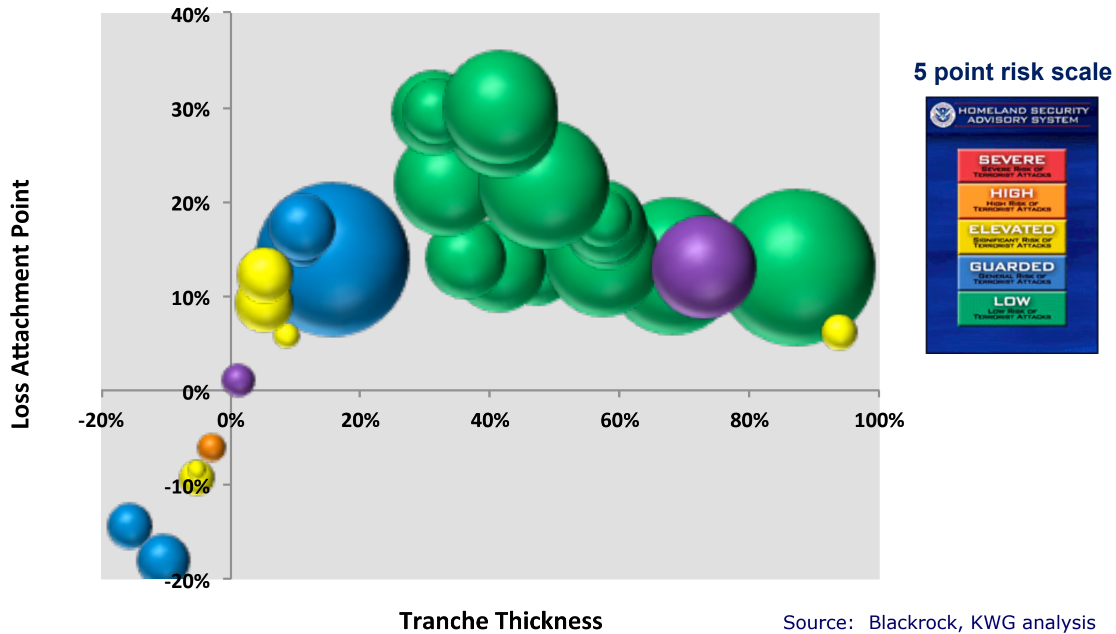
twofold. First, that the maturity of Trades 1&7 is a material reduction in near-term risk of loss. As seen in the chart below, there are no remaining 'Severe' or 'High' risk trades.



Second, the maturity of $3.7 Bn represented a material reduction in the total notional value at risk. In combination with the termination of the HSBC trades in Q1[3], the notional value at risk has been reduced by approximately $10 Bn in 2012 to date. As can be seen in the chart on the following page, the various LSS trades have staggered maturity dates out to January 2017 and, 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'. By the end of 2012, another ~$8 Bn of swaps will mature, which will reduce the total 'pool' of credit exposure from $71 Bn to $53 Bn. More importantly, the amount of 'Elevated' risk trades will drop by almost 50% by early 2013, as can be seen by the yellow area in the chart below. Note that the MAV2 Pooled Notes will repay principal only upon final maturity in 2017. The interim maturity of the LSS deals does not result in cash flow to noteholders but rather the collateral is retained in the comingled pool until final maturity.

[3] See Portfolio Manager Report of April 2012.

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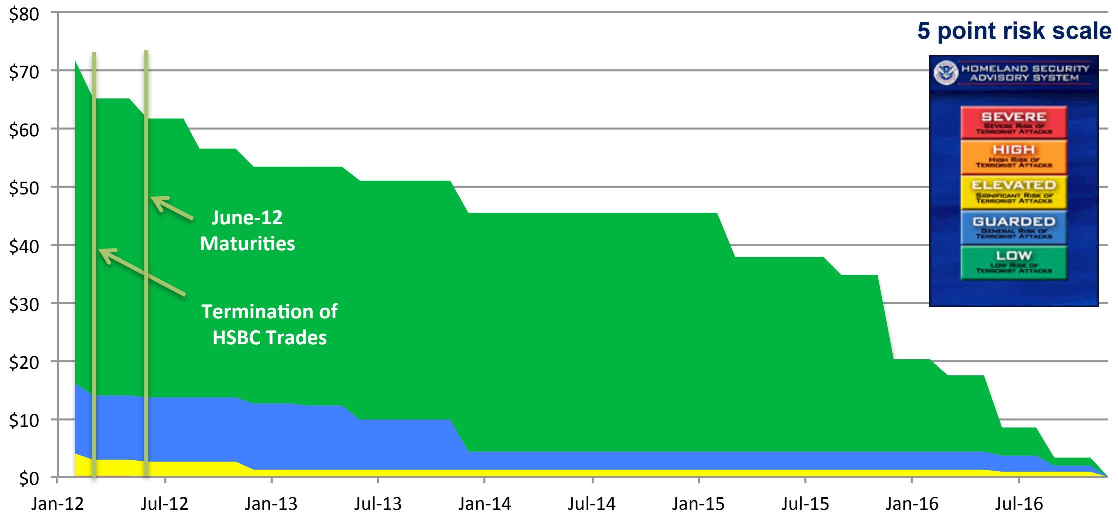
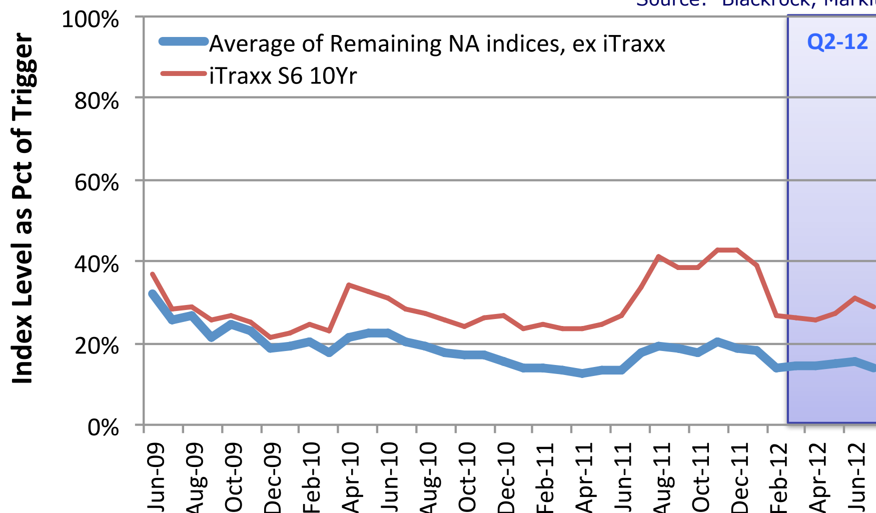


Margin Trigger Risk

Margin trigger risk continues to be very remote. On average, the three North American indices ended the quarter at 13.9% of triggers, down from 14.4% last quarter. The European iTraxx index ended the quarter at 29% of its trigger level, up from 25% at 31-Mar-12; but it would still require a more than 3-times widening to breach this trigger.



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There was one default within the reference indices: Residential Capital was referenced by the North American Investment Grade Series 7 index. Holding all else constant, the effect of this default was to lower the trigger level marginally. But this decline in the trigger was more than offset by the rise in trigger level due to the passage of time and was imperceptible overall.[4]

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.

KWG continues to monitor the disclosures from BlackRock, the asset administrator, regarding these assets. During Q2/12, there were no disclosed material changes to the quality or performance of the collateral.

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 in January 2017. The Reserve Account balance was $64.3 MM at the end of Q2.

Structuring Risk

KWG 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.

There were no new developments announced during the quarter regarding the 'optional redemption initiative'[5] that continues to be under development. Subsequent to quarter-end, an

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[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 two reference indices exceeds their trigger levels, 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 margin. This would result in the underlying assets in MAV2 defaulting and would entail significant losses to noteholders.

[5] This 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

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information statement was mailed to all holders of the MAV2 A-1 and A-2 notes that describes the proposed amendment in detail and announces a noteholders vote in August. UWO Pension staff are reviewing these materials.

DBRS announced on 27-June that they upgraded the rating of the MAV2 A-1 Notes to AA(low).

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 is now less than 9 months remaining to maturity. Given this short time to maturity and given the remaining attachment point and given the quality of the underlying portfolio, KWG continues to expect that this portfolio will mature with no or low losses.

There was little change in the TABS note during Q2. It remains paid down by almost 63% and therefore there is $59.6MM in cash collateral. The remaining $36.5MM outstanding on the TABS note is exposed to very poor performing sub-prime mortgage programs and is being valued by Blackrock at $3.2MM. KWG 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

Secondary market for the MAV2 Pooled Notes was largely unchanged in the quarter, with the price of the 'full strip' (namely, the MAV2 A-1, A-2, B and C notes in the proportion that they

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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.

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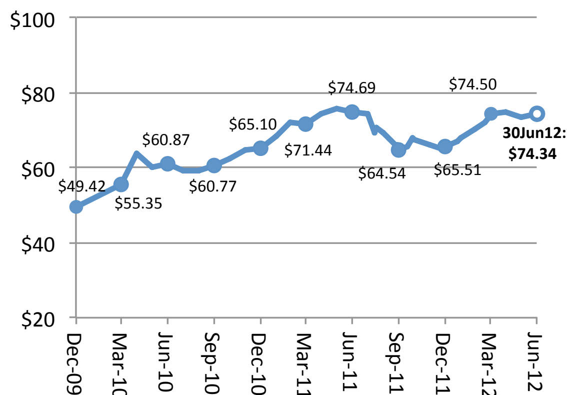
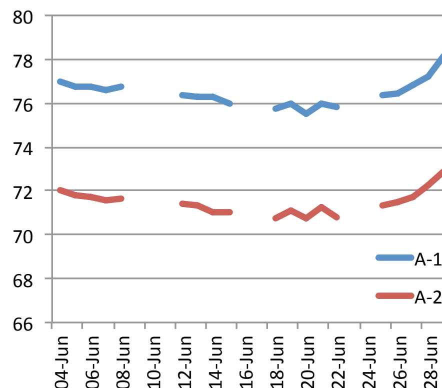
were issued) ending at $74.34 versus $74.50 at the start. UWO LT did not sell any notes during the quarter.

Prices were somewhat volatile during the month of June; at least one large sale (greater than $200MM) was made by an original investor. This appeared to temporarily suppress prices during the month as the market took some time to digest this new supply.





Portfolio Valuation

The Fair Market Value ('FMV') of the Portfolio as at 30 June 2012 was $13.223MM, up negligibly from $13.220MM as at 31 March 2012. The Weighted Average Price ('WAP') of the Portfolio at end of Q2 was $74.36, down slightly from $74.52 at end of Q1. The Canadian dollar weakened over the quarter. 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-Sep-11**			**31-Dec-11**			**31-Mar-12**			**30-Jun-12**		
			CAD:USD 1.04205			CAD:USD 1.01825			CAD:USD 0.99945			CAD:USD 1.01945
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	68.75	6,185,763	8,384,274	71.05	5,957,027	8,384,274	78.71	6,599,122	8,384,274	78.06	6,544,974
Class A-2	5,919,516	63.58	3,763,332	5,516,216	62.75	3,461,426	5,516,216	73.77	4,069,359	5,516,216	73.02	4,027,987
Class B	1,074,551	55.88	600,405	1,001,351	53.88	539,478	1,001,351	63.75	638,361	1,001,351	67.40	674,911
Class C	495,472	25.88	128,203	461,472	34.25	158,054	461,472	37.46	172,860	461,472	44.25	204,201
IA Tracking Note Class 13	316,001	58.00	183,281	316,001	58.00	183,281	316,001	62.00	195,921	316,001	63.00	199,081
Class A-1 (USD)	1,799,382	68.75	1,289,094	1,676,882	71.05	1,213,168	1,676,882	78.71	1,319,120	1,676,882	78.06	1,334,476
Class C (USD)	55,836	25.88	15,055	52,036	34.25	18,148	52,036	37.46	19,481	52,036	44.25	23,474
IA Tracking Note Class 13 (USD)	333,292	58.00	201,438	333,292	58.00	196,837	333,292	62.00	206,527	333,292	63.00	214,058
Total (Local currency)	$ 18,991,524			$ 17,741,524			$ 17,741,524			$ 17,741,524		
Total (CAD)	$ 19,083,551		$ 12,366,572	$ 17,779,159		$ 11,727,418	$ 17,740,390		$ 13,220,751	$ 17,781,634		$ 13,223,161
Wtd Average (CAD)		64.80			65.96			74.52			74.36	

The Weighted Average Price of the portfolio (red line in chart below) was flat during the quarter and ended at $75.36, in line with past peak prices in Q1 and Q2 of 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 June, virtually unchanged since 31 March 2012.

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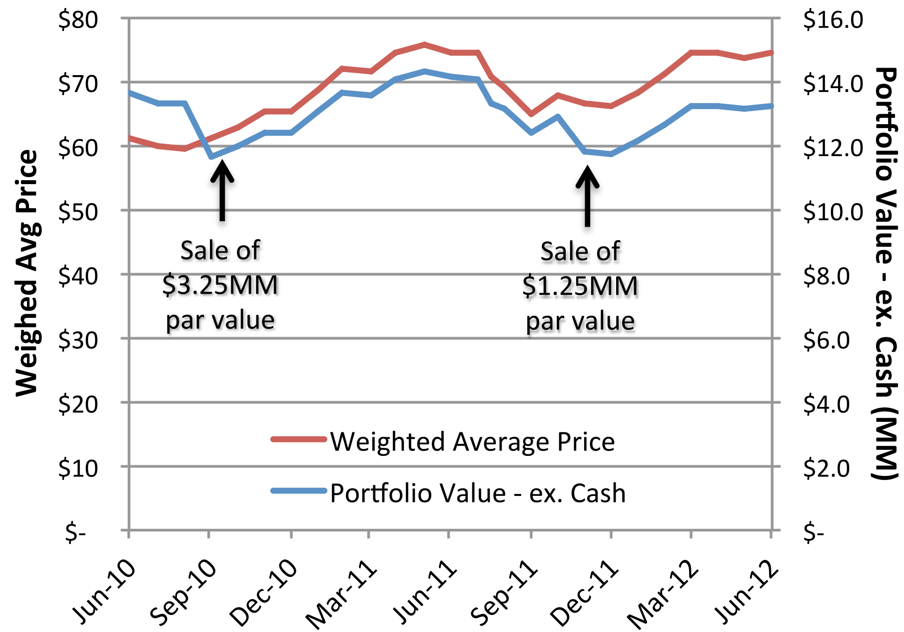
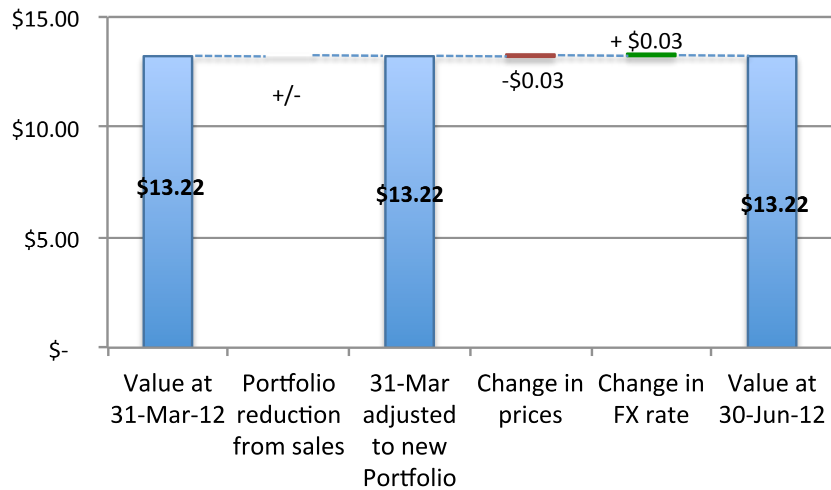


Through the quarter, changes in price were perfectly offset by a weakening in the Canadian dollar; portfolio value was largely unchanged.



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In summary, the second quarter of 2012 saw some deterioration in North American and global credit markets as the European sovereign debt crisis continued and slowing global growth began to affect the domestic economy. On the positive side, the most-risky LSS assets - Trades 1&7 – matured without making any losses. Trigger risk continues to be very remote. UWO LT made no sales in the quarter. The Fair Market Value of the portfolio was largely unchanged through the quarter.

Kilgour Williams Group
28 July 2012

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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 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.

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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.

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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.

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