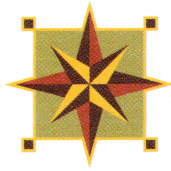


Kilgour Advisory Group

Portfolio Manager Report

UWO Liquidating Trust – Quarter ending 31 December 2009

Preamble

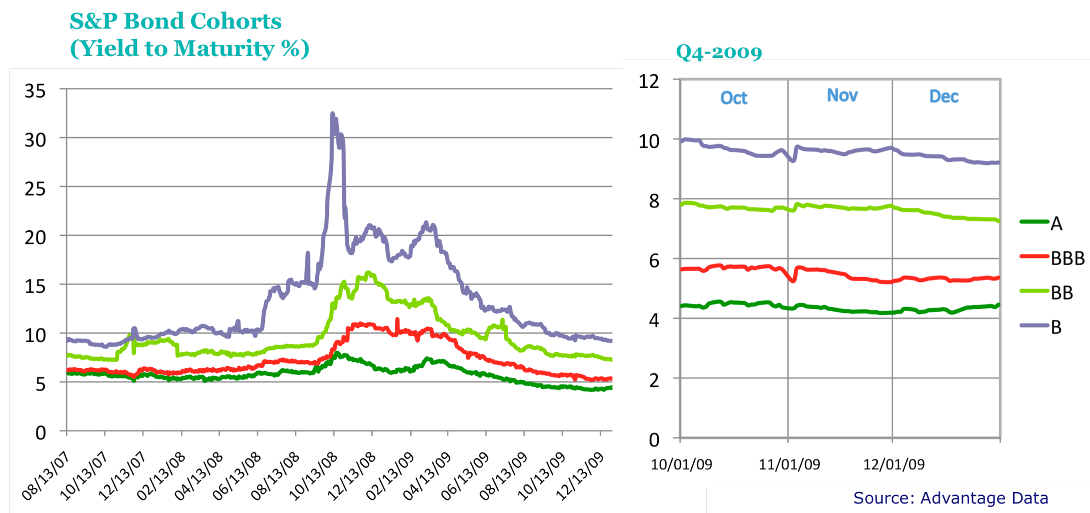
The University of Western Ontario Liquidating Trust ('UWO LT') holds a portfolio of Restructured Asset Backed Notes ('AB Notes') that resulted from the restructuring of Non-Bank Asset Backed Commercial Paper ('ABCP') that was completed in January 2009. The Kilgour Advisory Group is a specialist risk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

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

2009 was a very turbulent year for credit with the 'credit crisis' of Q4 2008 carrying forward into the first quarter of 2009. Since March, there has been a significant improvement in credit market conditions with the strong performance in the second and third quarters extending into Q4. Bond yields and Credit Default Swap ('CDS') spreads have tightened significantly since the peak of the credit crisis. KAG attributes this large price movement to a combination of fundamental improvement in the economy *and* the major financial stimulus infused by US and other federal governments. Notwithstanding the apparent 'return to normal' there is a persistent concern about corporate defaults as the US and global economies recover.

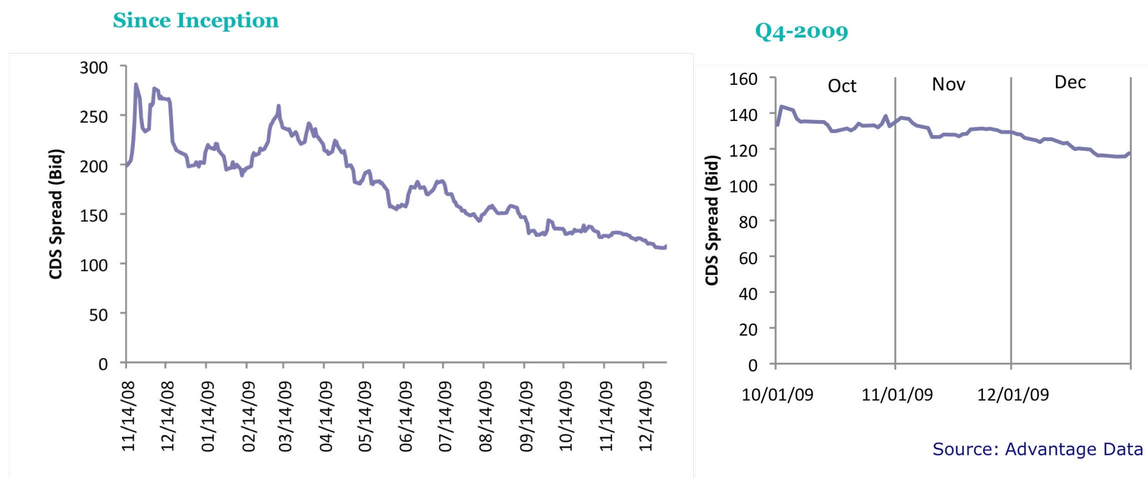
The movements in bond yields over time and during Q4 are tracked in the charts below.



It is notable that bond yields have fallen far since their peaks at the end of 2008 and early in 2009. The high grade cohorts (seen here as A and BBB) have actually tightened to lower levels than seen prior to the market disruption. We see that most of this tightening had occurred by the fourth quarter. In Q4, the high grade ratings cohorts were largely flat; the high yield cohorts (BB and B) tightened somewhat.

An examination of the index of Credit Default Swap prices shows a similar story. The charts below show the Credit Default Index for Investment Grade-rated US corporations ('CDX IG'). Series 11 is chosen, as this was the on-the-run (i.e. current) index at the time of the ABCP restructuring.

CDX IG Series 11 (5Y)



Again, CDX spreads peaked in December 2008 and March of 2009 and have since contracted significantly.

The reduction in credit spread indicates that the market perceives a major decrease in credit risk. Again, KAG cautions that the financial stimulus packages have been major contributors to this lowering of risk premiums. As this government-provided liquidity is extracted from the market, the price of credit risk may again widen. Additionally, corporate credit defaults tend to lag the economic cycle so it may be that actual default levels have not peaked notwithstanding the apparent end of the 2008/2009 recession. Overall, however, the fundamental credit risk picture is significantly improved since the time of the restructuring.

Reference Indices and Margin Triggers

Description and Importance of the 'Spread-Loss Triggers'. Most of the assets in the MAV2 Pool are credit derivatives whereby MAV2 is paid for taking on credit risk by writing credit derivatives to 'insure' a counterparty against credit losses on a portfolio of corporations. In order to demonstrate an ability to pay a claim on this credit insurance, collateral or 'margin' is posted in the form of near-cash, low-risk bonds. Many of the credit derivative assets underlying MAV2 are levered, in that the initial collateral is less than the total notional credit risk 'insured' by the MAV. If the credit quality of the asset deteriorates, the counterparty that has 'bought the insurance' has the right to call for additional collateral to be posted. When the old ABCP was restructured, these 'margin triggers' were renegotiated and now take the form of 'spread-loss triggers'

whereby the limit beyond which more margin is required 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 time to maturity. (See below for an example spread-loss matrix). 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 holders of the MAV2 Notes.

Spread- Loss Matrix
CDX7 7Y (maturity 20-Dec-2013)

	Years to Maturity						
Portfolio	6.00	5.00	4.00	3.00	2.00	1.00	0.00
Losses	20-Dec-07	20-Dec-08	20-Dec-09	20-Dec-10	20-Dec-11	20-Dec-12	20-Dec-13
0%	3.06%	4.61%	6.79%	8.14%	9.08%	9.50%	9.99%
2%	2.86%	4.46%	6.59%	7.89%	8.88%	9.19%	9.90%
4%	2.76%	4.31%	6.39%	7.69%	7.75%	8.94%	9.77%
6%	2.57%	4.01%	5.94%	6.94%	6.85%	7.93%	8.91%
8%	1.83%	3.06%	5.24%	5.69%	5.52%	6.70%	6.85%
10%	1.54%	2.33%	4.45%	4.88%	4.56%	5.66%	6.25%
12%	1.30%	2.04%	3.43%	3.63%	3.22%	4.17%	5.11%
12.10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Margin trigger at 31-Dec-09 was 673; value interpolated based on that date and actual index portfolio losses of 1.11%

The sample matrix above shows the spread-loss matrix for the most-commonly referenced index, CDX Investment Grade Series 7 with a 7 year initial maturity ('CDX7 7Y'). As can be seen in portfolio losses within the reference indices (here the) have the impact of lowering the 'margin trigger' spread limit, therefore increasing the risk of margin calls. The passage of time – and therefore 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 trigger at 31-December-2009 was 673 basis points. This value was interpolated within the yellow highlighted cells. This trigger level was compared to the actual market price of the index at that time of 114 basis points; the limit was not breached and there was no margin call.

<u>Status of the Reference Indexes.</u> There was one new default in the CDX Investment Grade Series 7 ('CDX IG7') and CDX Investment Group Series 5 ('CDX IG5') reference indices during the fourth quarter. CIT Group, a US-based lender to small and medium-sized businesses, defaulted in November 2009. The recovery under credit defaults swaps was established via an auction of CIT debt on 20 November; the recovery was set at 68.125%. Therefore, the CDX IG7 and IG5 indices realized an incremental loss of 0.26% (calculated as (1-recovery) x index weighting of 0.80%).

There were no additional defaults within the iTraxx Series 6 index of European credit default swaps. Thomson SA had previously defaulted in Q3. The auction of Thomson debt took place on 22 October and the final recovery was determined at 63.25%. This result was somewhat better than the estimate initially used by Blackrock[1] in the interim period between the default and auction date. As a result, the total loss level in the iTraxx Series 6 was decreased marginally from 0.33% last quarter to 0.29% as at 31 December.

[1] Blackrock is a global asset manager. Blackrock Canada acts as administrator to MAV2 and MAV3.

The loss levels within the indices are summarized in the tables to the right. As at the end of 2009, the Total Losses equal 1.11% in the CDX7 and CDX5 and 0.29% in iTraxx 6.

The index levels for the key indexes (CDX7 and iTraxx) are plotted in the charts below. In both cases, the index prices have tightened – significantly since the beginning of the year and somewhat during the fourth quarter (albeit with some volatility in the case of the CDX IG7). This fall in index spread is advantageous for the MAV2 Pooled Notes as it makes the possibility of margin calls more remote.

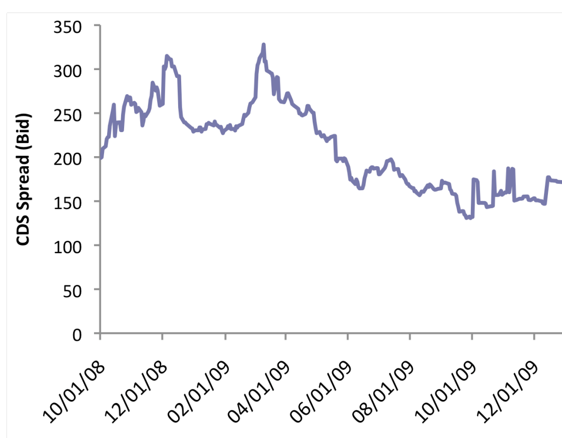
CDX7, CDX5 – Defaults

Reference Entity	Weighting in Index	Recovery	Loss in Index
Q4, 2008			
Fannie Mae	0.80%	91.60%	0.07%
Freddie Mac	0.80%	94.00%	0.05%
Washington Mutual	0.80%	57.00%	0.34%
Q2, 2009			
Idearc	0.40%	1.75%	0.39%
Q4, 2009			
CIT Group	0.80%	68.13%	0.26%
Total Losses in Index			1.11%

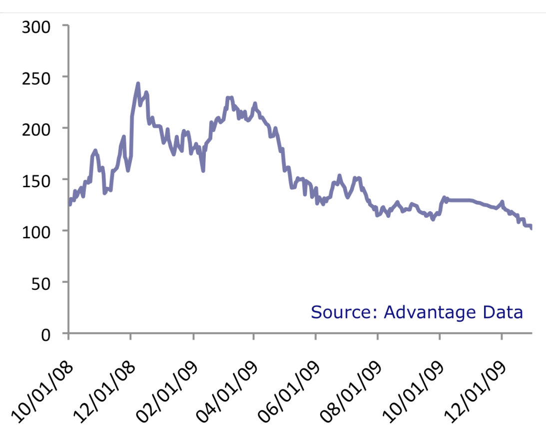
iTraxx S6– Defaults

Reference Entity	Weighting in Index	Recovery	Loss in Index
Q3, 2009			
Thomson	0.80%	63.25%	0.29%

CDX IG Series 7 (7Y)



iTraxx Europe Series 6 (10Y)

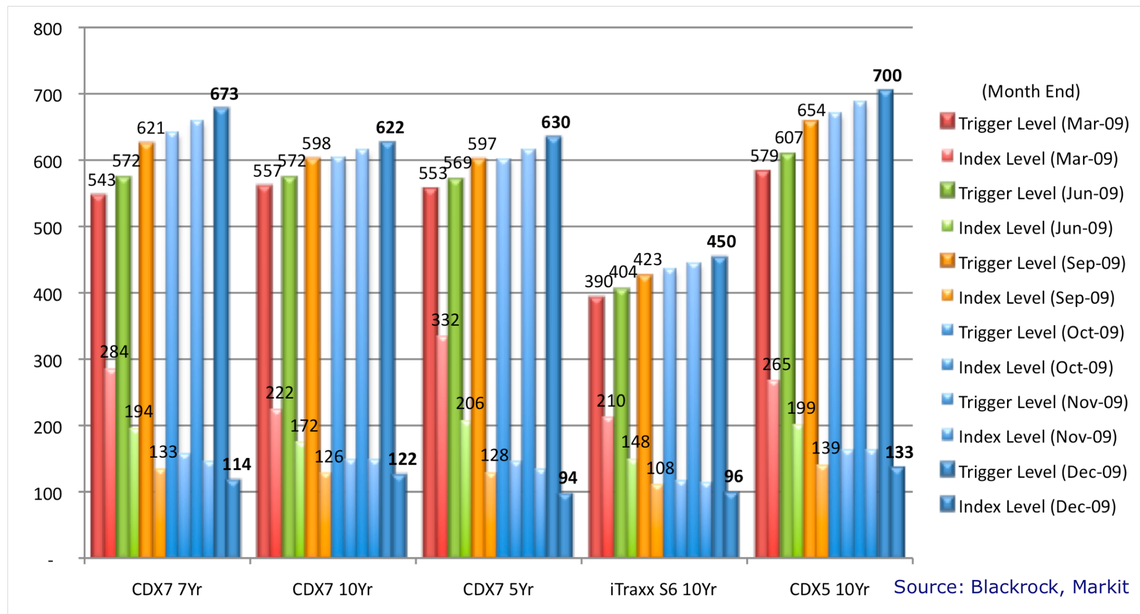


Index Levels v. Trigger Limits. The reference trigger indices are compared to the trigger levels at the end of each quarter of 2009 in the chart below. The higher columns provide the trigger levels for each index over time; the actual index levels are the lower ones. The red, green, and orange columns give the trigger and index levels at the end of the first three quarters of 2009. The blue columns give each month-end result in Q4.

It is notable that the trigger thresholds have moved upwards each period. The advantageous effect of the decreasing time-to-maturity has outweighed the detrimental effect of the (small) losses in the underlying indexes. As well, the index levels have fallen since the first quarter and are currently at their lowest levels. This is consistent with our review of the general improvement of conditions in the credit markets.

On average, the index levels were at 18.3% of their trigger levels at the end of Q4. Index levels would have to increase by more than five times to breach a trigger; at this time, margin call risk is remote.

Trigger Indices Relative to Trigger Levels (bps)



AB Notes Secondary Market

The secondary market for AB Notes has been slowly developing over the year. The AB Notes are neither listed on an exchange nor actively quoted on broker screens, so monitoring of market activity is done by direct contact with dealers and investors. To date, only six sales have been publicly disclosed by corporate holders of the Notes although higher market volume is both reported and rumoured.

Initial trading was characterized by distressed sellers taking whatever liquidity was available in order to liquidate their positions. The first disclosed trade in June exchanged MAV2 A-1 Notes in the area of 35 cents per dollar of par value. Bid prices appreciated over the summer and reached the 50 to 55 cent range in August for the A-1 Notes in August. After a hiatus period in September-October, the secondary market was relatively busy in November and December with the public disclosure of trades by Dundee Wealth and New Gold Inc. There was increased interest in the notes, largely expressed by US dealers seeking offers on behalf of US hedge funds. Additional US dealers are following these Notes.

Prices for MAV2 Class A-1s as at the date of this report were bid-offered at around 61-62 (cents per dollar of par value). The A-2s were priced 47.5-48.5. The Class Bs were 10.5-12 and the Class Cs were bid at less than one cent.

There has been limited interest in and trading of the MAV2 Tracking Notes. KAG has heard reports of a small number of trades. Trading is likely constrained by the ongoing lack of full disclosure regarding the assets underlying these Tracking Notes.

KAG continues to be of the opinion that these prices are deeply 'liquidity discounted' versus the intrinsic value of the Notes. The recent run-up in secondary market prices for the Pooled Notes is symptomatic of the motivated, liquidity-requiring sellers slowly being cleared out of the market and an associated reduction in the liquidity discount. Market value and intrinsic value should converge if and when the market becomes more liquid – albeit at higher or lower prices depending on the overall credit market context.

Events Affecting the AB Notes

General Conditions in Credit Markets. The evolutions of the credit markets during the year and during the fourth quarter are described above. The MAV2 Pooled Notes are broadly exposed to US corporate credit given that the majority of the underlying assets are portfolios of corporate credit derivatives – viz. 'levered super senior' trades and other synthetic CDOs. An improvement in corporate credit markets reflects a decline in default risk and a decline in the risk of spread-loss limits being reached; thus, the improvement in credit markets reduces the risk and therefore increases the fair market value of the AB Notes.

In valuing UWO's portfolio of AB Notes, KAG employs a discounted cash flow approach. Future cash flows are projected based on the coupon and maturity of the Notes. These cash flows are discounted to current value using various discount rates, depending an estimate of each Note's absolute level of risk and based on its relative riskiness (e.g. where AB Notes are supported by or subordinate to other AB Notes). The investor-required yield for each Note is calibrated to the current market price of risk; namely, the required yield is adjusted up or down based on an index of bond yields. The result of using this approach is the ability to calculate a value for AB Notes that lack liquid-traded market benchmarks and this valuation calculation takes into consideration movement in the credit markets over time. The general improvement (or, potentially, future deterioration) of the credit market is reflected in the valuation of the AB Notes.

As described above, credit prices tightened significantly since the beginning of 2009, with most of this movement in Q2 and Q3. As a result, the required yields for the AB Notes were adjusted downwards, which – all else being equal – increased the fair market price of the Notes.

Credit Quality Concerns for Specific MAV2 Pool Assets. KAG has identified and is closely following two specific assets within the MAV2 Pool that have heightened risk of default. 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). In combination, these trades represent about 3% of the MAV2 Pool.

Credit losses to date within the reference portfolio mean that the 'cushion' against losses has been significantly eroded. MAV2 will lose money if another 3.04% of the underlying portfolio is lost; MAV2 will lose 100% of the value of these two trades if losses climb past 4.13%.

The underlying portfolio of corporate credits has heightened credit risk: there are many credits that have deteriorated below investment grade and there is concentration of at-risk industry sectors such as monoline insurers and home construction. Additionally, the structure of the MAV's exposure means that if losses begin to affect Trade #1 and #7, they are likely to climb quickly and cause 100% losses on the assets held by the MAV.

Based on this review of the trade structure and underlying portfolio, KAG views it as likely that these two trades will default and suffer 100% loss. If these trades default and realize complete losses, then there will be a loss of 3% within the MAV2 Pool. The C Notes initially represented a 0% to 3% 'first loss' position with the MAV2 structure; 1.1% out of this 3% has already been lost due to the previous CIBC trades defaults. So, if Trade #1 and Trade #7 do default with complete losses, then the C Notes will be worthless. On this basis, KAG has recommended that the Fair Market Value price of the MAV2 Class C Notes be set to $0.01 and this risk has been reflected in the Fair Market Value of the portfolio.

Interest Payment on MAV2 Notes. There was a quarterly payment date on the MAV2 Pooled Notes on 22 October. As previously projected by KAG, no interest was accrued on the Pooled Notes during the July to October payment period. This was due to the fact that the A-1 and A-2 Notes earn interest at 3 months CDOR minus 50 bps; actual CDOR rates persisted below 50 bps during the payment period. No interest will accrue on the A-1 and A-2 Notes until there is a rise in prevailing interest rates. (Note that the Class B and C Notes do not pay interest until maturity, if at all.)

It was informative that all of the expenses and margin lender fees were paid and, in fact, there was excess cash flow that was placed in a 'reserve account' and used to reduce the commitment amount of the Margin Funding Facility lenders. There are no carry-forward accruals that are senior to the interest payments on the A-1 and A-2 Notes at this time.

On this basis, the KAG valuation model assumes that the MAV2 A-1 and A-2 Notes will miss future missed payments for the next 3 quarters. This is a projection that is revisited each month. Actual interest payments will be largely dependent on the monetary policy of the Bank of Canada and corresponding movements in short-term interest rates.

Ratings Actions and Disclosures by DBRS. On 11 August, the Dominion Bond Rating Service ('DBRS') downgraded the MAV2 A-2 Notes to BBB(low) with a negative outlook and made additional disclosures about the assets underlying the pool. Specifically, DBRS cited "credit quality concerns" in five underlying assets: two LSS trades (the same Trades # and #7 described above) and three related CDO^2 trades. These assets have experienced credit losses and ratings downgrades on corporate credits in their reference portfolios. In total, these five trades comprise 9.5% of MAV2. There is already 1.1% loss in MAV2 (due to the previously reported defaulted CIBC trades) and the C and B Notes total 10%, so a hypothetical total loss on all five trades would causes losses in the A-2 Notes. Thus, DBRS elected to downgrade the A-2 Notes to BBB(low). It is worth noting that all five assets are still performing and none have realized any losses to date; DBRS is concerned about heightened probabilities of losses. This new information disclosed by DBRS was taken into consideration for the determination discount rates (or, required yields) for the A-2, B, and C notes.

In Q4, DBRS made no rating actions or advisories regarding the A-1 and A-2 Notes and there were no new disclosures from DBRS regarding the MAV2 or MAV3 Notes. However, DBRS did comment recently on the MAV1 A-2 notes; KAG views the content of these comments as irrelevant to the MAV2 Notes since there are significant differences in the structure and administration of MAV1 and MAV2.

Declining Net Asset Value of the MAV2 Class 13 Tracking Note. UWO holds one 'tracking note' – the MAV2 Ineligible Asset Class 13 Tracking Note. This tracking note was created at the time of the ABCP restructuring in order to quarantine exposure to the US sub-prime real estate market. The Class 13s are comprised of a Levered Super Senior trade that is collateralized by a senior note on a highly-leveraged exposure to US real estate, including a high portion of sub-prime residential mortgage backed securities. This collateral note was originally rated AAA; it is currently rated C by DBRS.

The Class 13 assets currently have a negative Net Asset Value as per Blackrock. The LSS trade itself is highly risky, with concentrated exposure to monoline insurers. And if the LSS does survive to maturity, there is a high probability that the collateral note will have defaulted leaving little or no capital to be returned to the holders of the Note.

Unfortunately, there is very little detailed disclosure on either the LSS portfolio or the exposures underlying the collateral note. KAG is pressing Blackrock to improve the transparency of these risks. In the meantime and pending any evidence to the contrary, KAG recommends a conservative valuation of the Class 13 Notes and a fair value price of 1 cent per dollar of par.

Portfolio Valuation

The total par value of the UWO LT's portfolio of AB Notes as at 31 December 2009 was CAD26.149 million. The Fair Market Value ('FMV') of the Portfolio as at 31 December 2009 was CAD15.812 million, for a Weighted Average Price of 60.47.

UWO Liquidating Trust
AB Notes Portfolio Value, 31-Dec-2009

Notes	Fair Market Price	Fair Market Value
Class A-1	73.426	$ 9,096,014
Class A-2	55.10	$ 4,488,229
Class B	17.18	$ 253,958
Class C	1.00	$ 6,818
IA Tracking Note Class 13	1.00	$ 3,696
Class A-1 (USD)	75.398	$ 1,958,263
Class C (USD)	1.00	$ 805
IA Tracking Note Class 13 (USD	1.00	$ 4,087
Total (CAD)		$ 15,811,869
Wtd Average	60.47	
	CAD:USD =	1.04835

The events affecting the AB Notes that are described above where key factors determining the value of the Notes. Specifically, the considerable improvement in the credit markets had a buoyant effect on the value of the Class A-1, A-2, and B Notes. As well, the simple passage to time – all else being equal – increases the value of the Notes due to the pull-to-par inherent in all debt instruments. Offsetting these advantageous effects were the risk downgrades to the A-2 and B Notes and the adjustment for future missed interest payments on the A-1 and A-2 Notes. The Class C and IA Class 13 Notes were both classified as highly risky instruments and their prices set to $0.01 to reflect a small probability of repayment.

In future reports, KAG will track the period-to-period change in Fair Market Value and Weighted Average Price of the portfolio. We will identify the factors that drive change in price and quantify the effect of each on the WAP. Given the change in methodologies (see below), this analysis is not possible for the period ending 31 December 2009.

A note on Valuation Methodology. For the period ending 31 December 2009, UWO LT – with the assistance of KAG – adopted a GAAP 'fair value' approach to valuing its portfolio of AB Notes. The KAG methodology uses a discounted cash flow calculation whereby the projected future cash flows are discounted to present using a risk-adjusted discount rate. At then end of 2008, the Liquidating Trust valued the Notes with prices ranging from $0.86 to $1.00 per dollar of par value. In adopting a 'fair value' approach, the UWO LT has written down the value of the Notes substantially and in line with the inherent risks of holding these Notes

Kilgour Advisory Group

22 January 2010

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 the LP 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 the ABCP LP. MAV2 issues the Pooled Notes and IA Tracking Notes held by the LP. 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.