Kilgour Advisory Group

UWO Liquidating Trust

Joint Pension Board Meeting

May 17, 2010

Current Situation

Hold-to-Maturity strategy has the highest expected return…

- The Investment Manager Mandate restricts any reinvestment other than in "high-grade short-term fixed income securities" – low, safe return
- Based on the maturity scenarios previously developed, the rate of return on holding-to-maturity are (As of April 30, 2010):
  - Aggressive Case: 8.42%
  - Reasonable Case: 6.56%
  - Conservative Case: 3.51%

… but is exposed to long-term risk of loss should an unanticipated crisis occur

Downside risks persist in the hold-to-maturity option

Credit Losses	**Losses in assets or collateral causing loss of principal; Primary risk today**
Margin Triggers	**Deterioration of credit markets trigger a collateral call that cannot be met; Significantly reduced in past year**
Counterparty defaults	**One or more banks fail to meet obligations; Reduced in past year and mitigated by MAV legal structuring**
Structural failures	**One or more of the complicated legal and structural elements triggers unforeseen negative results; Uncertain**

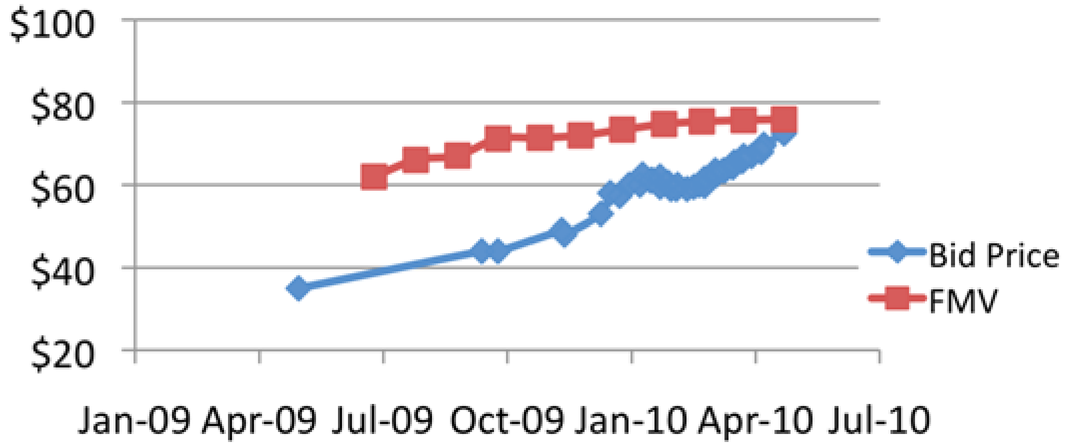
The secondary market has developed

- Secondary market for MAV2 Pooled Notes has developed in depth, liquidity, and number of participants
- There is sufficient buying volume to enable the Liquidating Trust to sell part or all of its MAV2 Pooled Notes
- ***There is no guarantee that the current level of liquidity will persist in the future***; **a market shock and/or negative events affecting the Notes could dampen appetites**

This presents an opportunity to liquidate all or a portion of the portfolio

- **The 'liquidity discount' required by the buyers has shrunk considerably and market bids are converging with intrinsic 'fair market value'**
- **In short, the Liquidating Trust could sell Notes at very close to their intrinsic value**

Market Price v. Intrinsic Value
MAV2 A-1s



Risk Management Framework

“Investment Strategy”

From <u>Liquidating Trust Fund Mandate</u>

- ***The Manager shall be responsible for the ongoing investment of the assets in the Fund including the Restructured Notes and interest payments generated by the Restructured Notes with a view to <u>maximizing the return on the Fund, while preserving capital</u>. The Manager has the discretion to sell assets held in the Liquidating Trust where in the view of Manager it may <u>maximize the return on the fund or minimize risk of loss</u>.   Proceeds from the sale of assets must be re-invested in a diversified portfolio of high-quality fixed income securities***

This mandate allows latitude in how to manage the AB Notes portfolio

- As ever, there is an inherent conflict between dual objectives of maximizing return while minimizing risk
  - Given the limited options for reinvestment, maximizing return points to holding AB Notes
  - Given the relative riskiness of the AB Notes, minimizing return would suggest converting to cash
  - Middle ground option would be to convert to fixed income securities with maturity date of approximately 2017

This leads to questions of how to weigh the trade-off between risk and return

- **Direction is sought from the Joint Pension Board:**
  - **When to sell and how much?**
  - **Where to reinvest the proceeds of any sale?**

Risk Management framework options

Option:	Minimal Risk	Middle ground	Max. Return
Management strategy:	Immediate liquidation; convert to cash	Gradual liquidation; sell 1/7th per year as long a price>FMV	No liquidation; hold-to-maturity
Pro:	All risky assets sold at market value; very low risk	Assets sold at or above 'fair value'; mitigates risk of downside loss	
Con:	Also, minimal return; perception of over-ruling individuals' choices to hold AB Notes	Selling is depend on liquid market; risk that individuals will feel that value is lost	Highest risk option; risks perception that no action is being taken
Reinvestment options:	MM Fund or cash out investors	MM Fund (return: ~1%) or Target Date Fund (~3.5%)	n/a