

DRAFT Financial Statements of

THE UNIVERSITY OF WESTERN ONTARIO
RETIREMENT INCOME FUND

Year ended December 31, 2008

AUDITORS' REPORT

To the Board of Governors of The University of Western Ontario

We have audited the statement of net assets available for retirement income payments of The University of Western Ontario Retirement Income Fund as at December 31, 2008 and the statement of changes in net assets available for retirement income payments for the year then ended. These financial statements are the responsibility of the Management of the Retirement Income Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for retirement income payments of the Fund as at December 31, 2008 and the changes in net assets available for retirement income payments for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

London, Canada

April 17, 2009

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

Statement of Net Assets Available for Retirement Income Payments

DRAFT

December 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Cash	\$ 2,815,342	\$ 2,013,136
Accrued income	45,602	81,253
Investments (note 5(a))	170,398,678	211,251,039
	<u>173,259,622</u>	<u>213,345,428</u>
Liabilities		
Accrued expenses	324,948	351,176
Retirement income payments payable	2,226,415	1,455,076
	<u>2,551,363</u>	<u>1,806,252</u>
Net assets available for retirement income payments	\$ 170,708,259	\$ 211,539,176

See accompanying notes to financial statements.

On behalf of the Board of Governors:

_____ Chair

_____ Secretary

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

Statement of Changes in Net Assets Available for Retirement Income Payments

DRAFT

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Investment income:		
Investment income (note 5(b))	\$ 2,188,703	\$ 2,966,165
Net realized gain (loss) on sale of investments	(956,226)	4,874,534
Net unrealized change in fair value of investments	(36,891,411)	(4,856,208)
	<u>(35,658,934)</u>	<u>2,984,491</u>
Increase in net assets:		
Transfers (note 8)	17,509,290	23,932,593
Transfers in to fund	77,773	-
	<u>17,587,063</u>	<u>23,932,593</u>
Decrease in net assets:		
Retirement income payments	(14,300,418)	(12,732,525)
Lump sum payments	(7,962,972)	(3,974,141)
Fund managers' fees (note 10)	(18,767)	(344,327)
Transaction costs	(100,000)	(102,145)
Administrative costs recovered by the University (note 9)	(203,706)	(181,799)
Custodian fees	(119,931)	(81,335)
Transaction costs	(53,252)	(81,473)
	<u>(22,759,046)</u>	<u>(17,497,745)</u>
Net increase (decrease) for the year	(40,830,917)	9,419,339
Net assets available for retirement income payments, beginning of year	211,539,176	202,119,837
Net assets available for retirement income payments, end of year	<u>\$ 170,708,259</u>	<u>\$ 211,539,176</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements

Year ended December 31, 2008

1. Description of program:

The University of Western Ontario Retirement Income Fund (the "UWO RIF", "RIF" or "Fund") is a periodic payment program that provides income to former members of the University of Western Ontario Pension Plans for Academic Staff and Administrative Staff (the "University pension plans"). The Northern Trust Company, Canada is the trustee of the Fund which is managed by The University of Western Ontario (the "University"). The Fund was initiated effective October 1, 2000. The following description of the Fund is a summary only. For more complete information, reference should be made to the Declaration of Trust, registered under the Income Tax Act, Canada, registration number RIF 1220.

Former members of the University pension plans may allocate all or a portion of their entitlement accrued under the pension plans to either a Registered Retirement Income Fund ("RRIF"), a Life Income Fund ("LIF") or a Locked in Retirement Income Fund ("LRIF"). These transfers may be made directly from the pension plans or from another registered retirement vehicle trusted by another financial institution, provided the funds originated in the University pension plans. Surviving spouses and former spouses of the former members of the University pension plans may also make transfers to the Fund, provided the funds originated from the University pension plans.

Upon death, the annuitant's total accumulated entitlement is equal to the amount allocated plus the pro-rata share of net investment earnings less cumulative retirement income payments that have been made. If the annuitant has a spouse at the date of death, that individual may continue to receive periodic payments or may transfer the funds to another registered retirement vehicle on a tax deferred basis. If there is no spouse at the date of death, the balance of the funds are payable to the last named beneficiary in a taxable lump sum payment. At any time, the annuitant may choose to transfer his or her funds to a registered retirement vehicle trusted by another financial institution or use the funds to purchase a life annuity.

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

1. Description of program (continued):

Funds are invested at the discretion of the annuitant into units of separate pooled investment funds as follows:

- Money Market Fund
- Target Date Fund 2010
- Target Date Fund 2012
- Target Date Fund 2014
- Balanced Income Fund (Includes B Fund)
- Balanced Growth Fund (Includes B Fund)
- Diversified Bond Fund
- Canadian Bond Fund
- Long Term Bond Fund
- Diversified Equity Fund (Includes B Fund)
- Canadian Equity Fund
- U.S. Equity Hedged Fund (Includes B Fund)
- U.S. Equity Unhedged Fund (Includes B Fund)
- Non-North American Equity Fund
- Socially Responsible Global Equity Fund

The Balanced Income Fund and the Balanced Growth Fund are portfolios that hold units of the Diversified Bond Fund and Diversified Equity Funds. They were established in September, 2001.

The Master Trust holds units in each of the fifteen investment pooled funds. These pooled funds contain investments in units of external pooled funds and individual securities. The B funds do not have any exposure to Asset Backed Commercial Paper.

Some of these investment funds are not available for the annuitants of the UWO RIF since they do not yet qualify as registered investments under the Income Tax regulations. The investment options that are offered to the annuitants of the RIF have all been registered effective October 1, 2000 with Canada Revenue Agency as Quasi-Mutual Fund Trusts.

The contributions or transfers of each annuitant are credited to an individual account in the annuitants' name and accumulated together with pro-rata net investment earnings. This account is fully vested and payable to the annuitant on termination of retirement income fund or to the annuitants' beneficiary on death.

Annuitants can choose, as frequently as each month, the proportion of his or her personal account which is to be invested in any of the active investment funds. The valuation of each investment fund is established at the end of each month based on policies set by the Pension Board.

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

2. Basis of presentation:

The Fund is a participant in the University of Western Ontario Master Trust which was established by the University to facilitate the collective management of investment assets for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Fund of the University. These financial statements have been prepared using the proportionate consolidation method based on units of the Master Trust held by the Fund at year end.

3. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and present the information of the Fund as a separate financial reporting entity independent of the University and annuitants members. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the University to make estimates and assumptions that affect the reported amounts of changes in net assets available for retirement income payments during the year. Actual results could differ from these estimates.

(a) Revenue:

Interest earned on investments is recorded on an accrual basis. Dividends are recorded as income on the date the dividend is declared. Investment income is allocated each month among the annuitants' accounts under the assumption that all interfund transfers of assets occurred at the month end following the request for transfer. Transfers into the Fund are allocated to annuitants' records effective the end of the month in which the transfer occurs.

(b) Investments:

Under a management and administration agreement for the Fund, the Academic and Administrative Staff Pension Boards of the University of Western Ontario have been delegated the responsibility for investing the Fund's assets. The assets available for investment are pooled with the Academic Staff Pension Plan and the Administrative Staff Pension Plan in the Master Trust. Purchase and sale of assets are recorded on the trade date of the transactions. The assets of the Master Trust are exposed to market, interest rate, exchange rate, and liquidity risks.

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

3. Significant accounting policies (continued):

(b) Investments (continued):

The Master Trust uses derivatives with the primary investment objective to gain market exposure on a passive basis and to manage currency risk at the portfolio level. As a policy, the Master Trust does not speculate in currencies when using derivatives. The notional amount of these derivative financial instruments is not recognized in the financial statements when initiated. However, the unrealized gains or losses on these instruments are recognized in the financial statements. The Master Trust's present use of derivative financial instruments is restricted to pooled funds that invest in exchange traded, unleveraged, U.S. and foreign equity index futures, currency forwards and swaps.

Investments are carried at fair value. In determining fair values, adjustments have not been made for transaction costs as they are not considered significant. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for retirement income payments as net unrealized change in fair value of investments. Fair values are determined as follows:

- (i) Publicly traded bonds, debentures and equities are valued at published closing market quotations.
- (ii) Units in pooled funds are valued based on published unit values supplied by the pooled fund administrator, which represents the Fund's proportionate share of underlying net assets at fair values determined using closing market prices.

(c) Unit valuation:

Annuitants are issued units based on the unit value at the end of the month in which any transfers are made. Investment income, net of custodian fees and fund managers' fees, is credited to unit holders each month. Redemptions are made each month to recover trustee fees and operating costs.

Fund units are redeemed at net asset market value per unit at the end of the month in which the request for redemption is made by the annuitant. The redemption amount is paid in the following month and includes interest for the interim period.

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

3. Significant accounting policies (continued):

(d) Foreign exchange:

Transactions in foreign currencies are accounted for using the exchange rates in effect at the transaction date. At year end, investments in foreign currencies are accounted for at the rates of exchange in effect at year end and the resulting unrealized gains or losses are included in the net unrealized change in fair value in investments.

(e) Capital disclosure:

The main objective of the Fund is to sustain a certain level of net assets in order to meet the retirement income obligations of the University. The Fund fulfills its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the "SIPP"), which is reviewed annually by the University. The Fund manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds transferred in to the Fund in accordance with the approved SIPP.

(f) Future new accounting pronouncement:

In January 2009, The Canadian Institute of Chartered Accountants' Emerging Issue Committee ("EIC") issued Abstract No. 173 ("EIC-173"), Credit and the Fair Value of Financial Assets and Liabilities, which requires entities to take both counterparty credit risk and their own credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. EIC-173 will be effective for annual periods beginning on or after January 1, 2009. The Fund is currently assessing the impact of the standard.

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

4. Changes in accounting policies:

Effective January 1, 2008, the Commission adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "*Capital Disclosures*", Section 3862, "*Financial Instruments - Disclosures*", and Section 3863, "*Financial Instruments - Presentation*".

Section 3862, "*Financial Instruments - Disclosures*" revises and enhances the disclosure requirements of Section 3861, "*Financial Instruments - Disclosure and Presentation*". Section 3862 requires the Fund to provide disclosures in its financial statements that enable users to evaluate the significance of financial instruments for the Fund's financial position and performance, the nature and extent of risks arising from financial instruments to which the Fund is exposed during the period and at the Statement of Net Assets Available for Retirement Income Payments date, and how the Fund manages those risks. Section 3863, "*Financial Instruments - Presentation*" carries forward unchanged the presentation requirements of Section 3861.

The additional disclosures as a result of adopting these sections have been detailed in note 11.

Section 1535, "*Capital Disclosures*" establishes guidelines for the disclosure of both qualitative and quantitative information regarding the Fund's capital and how it is managed. As the Plan manages net assets rather than capital, the adoption of this section had no impact on the financial statements

Effective January 1, 2008, the Fund adopted Emerging Issues Committee Abstract 168, Accounting by Pension Plans for Transaction Costs ("EIC-168"), retrospectively without restatements. This abstract requires transaction costs, such as brokerage commissions incurred on the purchase or sale of securities, to be expensed rather than included in the fair value of investments on initial recognition or subsequent remeasurement. This is a change from prior periods where transaction costs on purchases were recorded as an addition to the costs of the investments and transaction costs on sales were a reduction from the sales proceeds. The adoption of EIC-168 had no impact on the Statement of Net Assets Available for Retirement Income Payments; it did not result in an offsetting change in reported net realized gain or loss on sales of investments and net unrealized change in fair value of investments and transaction costs on the Statement of Changes in Net Assets Available for Benefits, since all transaction costs are incurred within the pooled funds held by the Plan.

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

5. Investments and investment income:

- (a) The Fund owns pro-rata shares of each investment with the Master Trust, based on units held by individual annuitants, as follows:

	2008		2007	
	Cost	Market	Cost	Market
Short-term:				
Money Market Fund	\$ 10,868,879	\$ 10,860,688	\$ 9,014,897	\$ 9,053,825
Bonds:				
Target Date Fund 2008	-	-	8,185,042	8,793,165
Target Date Fund 2010	9,684,020	11,314,399	7,747,303	8,603,593
Target Date Fund 2012	7,335,821	8,363,671	4,522,567	4,819,863
Target Date Fund 2014	4,687,095	4,992,887	-	-
Canadian Bond Fund	39,161,418	47,310,963	40,764,081	46,884,984
Long Term Bond Fund	8,150,068	8,174,787	8,776,606	9,071,066
Equities:				
Diversified Equity Fund	78,276,094	57,088,832	92,263,518	98,866,340
Diversified Equity Fund B	11,687,768	8,385,097	1,943,173	1,830,931
Canadian Equity Fund	15,937,717	11,817,105	17,178,481	20,734,828
Socially Responsible Investments	241	190	-	-
U.S. Equity Hedged Fund	1,393,092	667,225	1,790,809	1,736,145
U.S. Equity Hedged Fund B	37,174	29,449	-	-
U.S. Equity Unhedged Fund	767,283	480,881	920,374	764,907
U.S. Equity Unhedged Fund B	10,653	8,760	-	-
Liquidating Trust	1,251,437	903,744	102,859	91,392
	\$189,248,760	\$170,398,678	\$193,209,710	\$211,251,039

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

5. Investments and investment income (continued):

(b) The investment income of the Master Trust consists of the following:

	2008	2007
Interest:		
Securities lending	\$ 17,715	\$ 2,039
Short-term notes	1,083,337	881,252
Cash balances	326,895	349,425
Bonds and debentures:		
Government	1,309,902	1,501,411
Pooled fund	-	247
Corporate	940,910	1,279,069
Dividends:		
Domestic	4,798,701	3,790,609
Foreign	3,349,393	8,617,266
	<u>\$ 11,826,853</u>	<u>\$ 16,421,318</u>
Allocated to:		
Academic Staff Pension Plan	\$ 5,695,266	\$ 7,879,633
Administrative Staff Pension Plan	3,942,884	5,575,520
Retirement Income Fund	2,188,703	2,966,165
	<u>\$ 11,826,853</u>	<u>\$ 16,421,318</u>

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

5. Investments and investment income (continued):

(c) The maturity dates of individual debt securities of the Master Trust consists of the following:

2008	One year or less	One to five years	Five to ten years	More than ten years	No maturity date	Total \$	Total %
Short-term:							
Individual holdings	\$ 69,908,365	\$ -	\$ -	\$ -	\$ -	\$ 69,908,365	16.9
Bonds and debentures:							
Individual holdings Canadian:							
Government bonds	2,204,031	82,048,893	34,553,843	47,134,418	-	165,941,185	40.2
Corporate bonds	6,452,699	19,722,691	11,371,969	16,759,487	-	54,306,846	13.1
Individual holdings Global:							
Government bonds	1,432,119	18,830,853	16,161,935	23,120,061	-	59,544,968	14.4
Corporate bonds	1,608,348	15,911,609	30,207,342	15,631,988	-	63,359,287	15.3
	\$ 81,605,562	\$136,514,046	\$ 92,295,089	\$102,645,954	\$ -	\$413,060,651	99.9
Percentage of total	19.8%	33.0%	22.3%	24.9%	-	100.0%	

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

5. Investments and investment income (continued):

(c) (continued):

2007

	One year or less	One to five years	Five to ten years	More than ten years	No maturity date	Total \$	Total %
Short-term:							
Individual holdings	\$ 49,478,409	\$ -	\$ -	\$ -	\$ -	\$ 49,478,409	11.6
Bonds and debentures:							
Individual holdings Canadian:							
Government bonds	32,060,189	86,741,222	10,806,632	49,884,844	-	179,492,887	42.0
Corporate bonds	8,603,316	25,260,219	5,920,134	19,004,444	-	58,788,113	13.8
Individual holdings Global:							
Government bonds	593,050	27,590,475	39,877,110	21,597,160	-	89,657,795	21.0
Corporate bonds	1,383,244	9,981,337	24,154,517	14,204,020	-	49,723,118	11.6
	\$ 92,118,208	\$149,573,253	\$ 80,758,393	\$104,690,468	\$ -	\$427,140,322	100.0
Percentage of total	21.6%	34.9%	18.9%	24.5%	-	100.0%	

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

5. Investments and investment income (continued):

- (d) The weighted average market yield rates for individual debt securities of the Master Trust consists of the following::

2008

	One year or less	One to five years	Five to ten years	More than ten years
Short-term:				
Individual holdings	0.7%	-	-	-
Bonds and debentures:				
Individual holdings:				
Canadian government bonds	2.7%	2.0%	2.9%	4.5%
Canadian corporate bonds	3.9%	6.2%	7.1%	7.5%
Global government bonds	5.6%	2.5%	3.2%	4.6%
Global corporate bonds	6.8%	9.2%	8.2%	8.6%

2007

	One year or less	One to five years	Five to ten years	More than ten years
Short-term:				
Individual holdings	2.2%	-	-	-
Bonds and debentures:				
Individual holdings:				
Canadian government bonds	3.0%	3.6%	3.2%	4.6%
Canadian corporate bonds	3.9%	4.2%	6.1%	6.0%
Global government bonds	4.3%	4.8%	3.4%	5.1%
Global corporate bonds	5.3%	5.5%	6.0%	5.2%

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

6. Individually significant investments:

The following information is provided in respect of individual investments in the Master Trust with a cost or market value in excess of 1% of the cost or market value of the Master Trust as at December 31, 2008, as required by the Pension Benefits Act (Ontario).

The Master Trust consists of fifteen separate investment pools as described in note 1. Within these pools some investments are in units of pooled funds and some investments are individual securities.

	Cost	Market
Bonds:		
Pooled Funds:		
UWO SSGA Canadian Bond Fund	\$108,575,149	\$134,482,636
UWO Alliance Global Plus Bond Fund	145,275,812	147,319,420
Equities:		
Pooled Funds:		
Greystone Canadian Equity Fund (Incl. 'B' Fund)	49,036,027	42,009,936
Alliance Bernstein Canadian Value Fund (Incl. 'B' Fund)	58,138,340	41,184,271
Connor Clark & Lunn Core Fund (Incl. 'B' Fund)	60,653,624	41,608,113
Highstreet Canadian Equity Fund (Incl. 'B' Fund)	46,685,509	40,360,160
Northwater Derivatives U.S. Equity Fund, Hedged (Incl. 'B' Fund)	126,748,150	74,482,474
Northwater Derivatives U.S. Equity Fund, Unhedged (Incl. 'B' Fund)	10,265,165	7,042,051
Northwater Derivatives Mid Cap Fund (Incl. 'B' Fund)	13,952,296	8,385,748
PanAgora Small Cap Core Equity (Incl. 'B' Fund)	16,006,144	10,066,095
Alliance Bernstein Equity Cap (Incl. 'B' Fund)	92,102,477	69,546,319
Mackenzie Socially Responsible Investments	1,984,083	1,561,450
T. Rowe Price Global Equity Fund	38,280,681	31,163,976
Harris Associates Global Large Cap LP	42,812,722	38,549,366
Fidelity Global Fund (Incl. 'B' Fund)	77,685,941	69,930,553

7. Income taxes:

The Fund is governed by the Income Tax Act, Canada. Provided that all assets are invested and administered as qualified investments for Registered Retirement Income Funds, the Fund is not liable for any income taxes.

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

8. Transfers:

Total transfers received by the Fund are as follows:

	2008	2007
From the:		
Academic Staff Pension Plan	\$ 9,901,377	\$ 14,929,500
Administrative Staff Pension Plan	7,607,913	9,003,093
	<u>\$ 17,509,290</u>	<u>\$ 23,932,593</u>

Annuitants are allowed to redistribute past transfers among the investment funds. They may also choose which investment fund(s) that periodic retirement income payments should be made from.

9. Administrative costs recovered by the University:

Non-investment administrative expenses for participants of the Fund are incurred by the University on behalf of the Fund and are funded by various methods as follows:

- (i) A portion of the costs are recovered, by the University, from annuitants through monthly redemptions of investments from the individual annuitants' accounts.
- (ii) All remaining costs are paid by the University out of the corporate benefits budget.

	2008	2007
Administrative expenses incurred:		
Salaries and benefits	\$ 133,329	\$ 88,536
Other professional fees	215,093	99,444
Systems and software	17,333	88,533
Office supplies and equipment	5,867	728
Audit fees	8,290	3,745
Professional development and membership	3,421	3,163
	<u>383,333</u>	<u>284,149</u>
Recoveries:		
Paid by the University out of corporate benefits budget	179,627	102,350
Administrative costs recovered by the University	203,706	181,799
	<u>383,333</u>	<u>284,149</u>
	<u>\$ -</u>	<u>\$ -</u>

THE UNIVERSITY OF WESTERN ONTARIO

RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

10. Fund managers' fees:

Fund managers' fees include any fees paid by the custodian to the various fund managers. Fund managers' fees of certain pooled funds are netted against the unit value of those pooled funds.

11. Financial instruments:

(a) Fair values:

The fair values of investments are as described in note 3(a). The fair values of other financial assets and liabilities, being cash, accrued income, accrued expenses and retirement income payments payable approximate the carrying values due to the short-term nature of these financial instruments.

(b) Associated risks:

(i) Market price risk:

Market price risk is the risk that value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market. As all of the Fund's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly affect the change in net assets available for benefits. Market price risk is managed by the Administrator through construction of a diversified portfolio of instruments traded on various markets and across various industries. In addition, market price risk may be hedged using derivative financial instruments such as futures contracts.

As at December 31, 2008, had the value of the equity portfolio increased or decreased by 1% with all other variables remaining unchanged, net assets of the Fund would have increased or decreased respectively, by approximately \$897,836 or 0.52% of total net assets.

THE UNIVERSITY OF WESTERN ONTARIO
RETIREMENT INCOME FUND
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

11. Financial instruments (continued):

(b) Associated risks (continued):

(ii) Foreign currency risk:

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Fund invests in financial instruments and enters into transactions denominated in U.S. dollars. Consequently, the Fund is exposed to risks that the exchange rate of the foreign currency may change in a manner that has an adverse affect on the value of the portion of the Fund's assets or liabilities denominated in currencies other than Canadian dollars. The Fund's overall currency positions and exposures are monitored on a regular basis by the Administrator.

As at December 31, 2008, if the Canadian dollar had strengthened or weakened by 1% in relation to foreign currencies held by the Fund, with all other variables held constant, net assets of the Fund would have decreased or increased respectively, by approximately \$439,026 or 0.26% of total net assets.

(iii) Interest rate risk:

A portion of the Plan's assets financial assets and liabilities are interest bearing and as a result, the Fund is subject to certain level of interest rate risk. In general, bond returns are sensitive to changes in the level of interest rates, with longer term bonds being more sensitive to interest rate changes than shorter term bonds.

At December 31, 2008, had the prevailing interest rates increased or decreased by 1% with all other variables held constant, net assets of the Fund would have decreased or increased respectively, by approximately \$4,008,305 or 2.33% of total net assets.

(iv) Liquidity risk:

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. The Fund maintains an investment policy, as approved by the Administrator, which contains asset mix guidelines which help to ensure the Fund is able to liquidate investments to meet its pension benefit or other obligations.

THE UNIVERSITY OF WESTERN ONTARIO
RETIREMENT INCOME FUND
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2008

11. Financial instruments (continued):

(b) Associated risks (continued):

(iv) Liquidity risk (continued):

The Master Trust holds Asset Backed Commercial Paper securities with a cost basis of approximately \$26 million. In August of 2007, these non-bank asset-backed commercial paper securities stopped trading and redemption restrictions were imposed by the manager, Northwater Capital Management Inc. These securities have subsequently been exchanged for restructured notes but to date no liquid market exists for these notes.