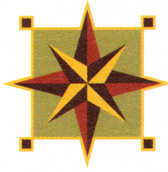


Portfolio Manager Report

UWO Liquidating Trust – Quarter ending 30 June 2010

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. Additionally, KAG provides a report to UWO on a quarterly basis that provides commentary on credit markets, description of the margin triggers and reference indices, discussion of events affecting the Trust's holdings, summary of secondary markets, and valuation of the portfolio. This report covers the quarter ending June 30, 2010.

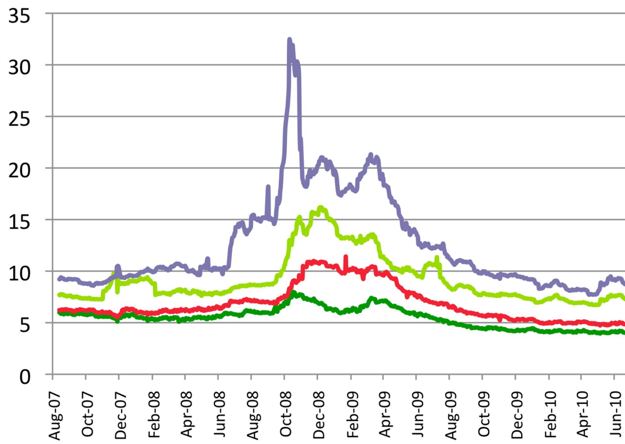
These reports are limited to the confidential use of University of Western Ontario and its external audit and legal advisors and are not to be circulated beyond that group or be publicly published without consent of KAG except as disclosure may be required by regulatory or self-regulatory agencies having jurisdiction.

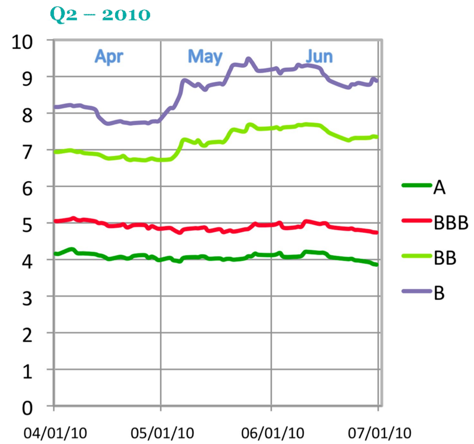
Credit Markets

The markets began the second quarter of 2010 as they ended the previous quarter: with low volatility and a continuing improving trend through April. Then in May and June, risk markets in general – equity, credit, etc. – were roiled as the concerns over sovereign debt in Greece that initially emerged in February grew and led to broader concerns for other European sovereign issuers. Further, there were resolutions at the G20 meeting for governments to take action to curtail budget deficits and reduce the issuance of public sector debt. This raised fears in the markets that the reduction of fiscal stimulus spending by US and other federal governments could trigger a 'double-dip' recession.

Credit markets reflected these events during the quarter. April was characterised by stability and tightening credit spreads. May to mid-June were volatile with spreads widening and prices falling. Then, bond markets moderated at the end of June with spreads tightening and prices rising once again.

The movements in bond yields over time and during Q2 are illustrated below. The net result of these evolutions was that bond markets on average ended the quarter at similar levels to those at the beginning of the quarter. Investment Grade credits outperformed High Yield.





Credit Default Swap prices also reflected these same events. The charts below show the Credit Default Index for Investment Grade rated US corporations ('CDX IG')[1].

CDX spreads were stable through April and then showed volatility and a widening trend through to the end of the quarter[2].

Reference Indices and Margin Triggers

<u>Status of the Reference Indices.</u> In spite of the market volatility, there were no new defaults during Q2 in any of the reference indices for the MAV2 Spread-Loss margin triggers. Total loss

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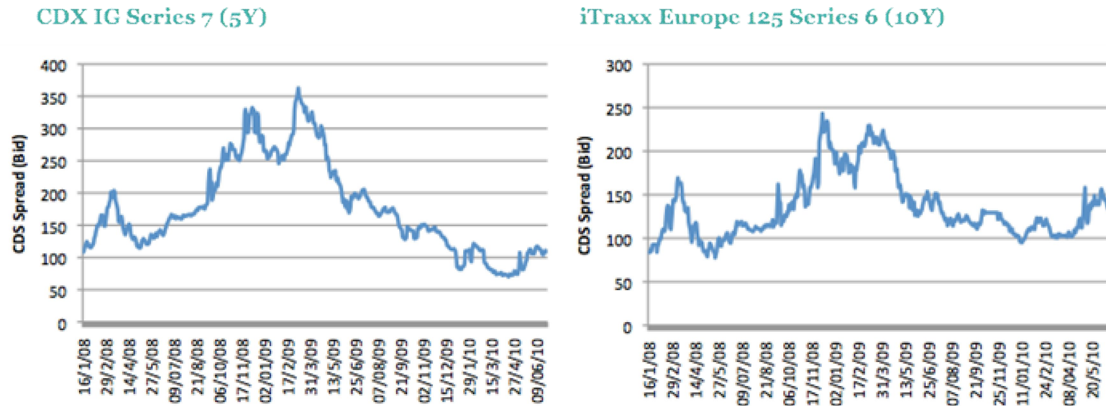
[1] Series 11 is shown as this was the on-the-run (i.e. current) index at the time of the ABCP restructuring.
[2] Higher Credit Default Swap prices reflect a market perception of increased risk.

levels are unchanged since Q4 of 2009. Specifically, the total losses on the CDX North American IG7 and IG5 indices are 1.11%; the total losses on the iTraxx Europe series 6 is 0.29%.

The index levels for the reference indices most relevant to the MAV2 triggers are plotted in the charts below. While these indices reflect the overarching market trends discussed above, it is notable that the iTraxx traded at a relatively higher level than the CDX during the last quarter. This is logical and explained by the fact that the iTraxx references exclusively European corporate credits while the CDX tracks North American ones.



Index Levels v. Trigger Limits. The trigger indices are compared to the margin trigger [3] levels on a quarterly basis in the chart at the top of the next page.

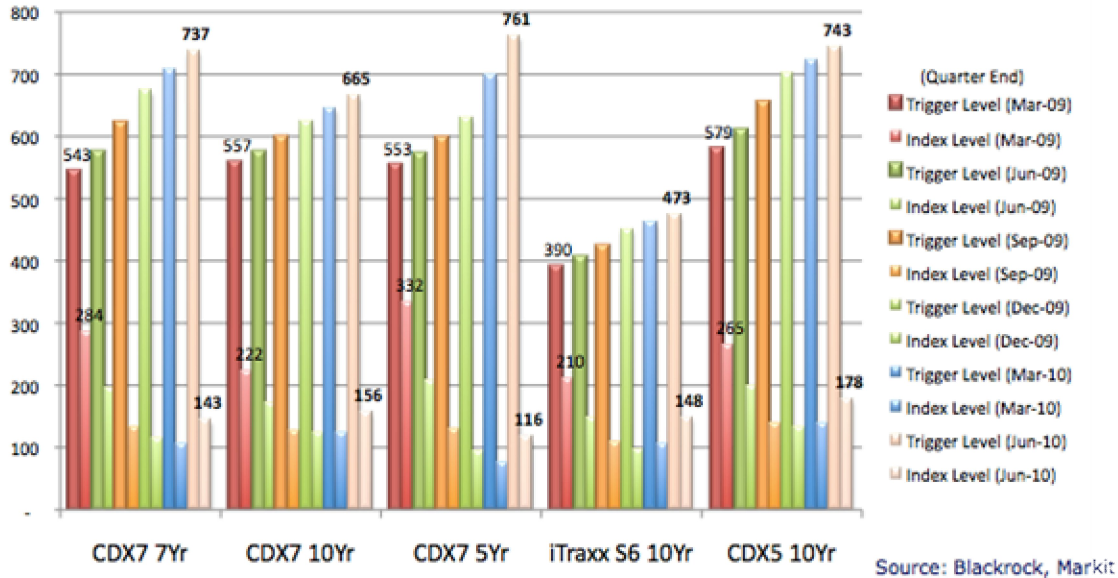
In comparing Q2-2010 to Q1-2010, we see that the margin trigger levels (the higher columns in each case) have continued to rise. This is because there were no new defaults in any of the reference indices so the only influencing factor was the passage of time. Looking at the actual levels of the reference indices (the lower columns), we see that there was an increase in the index levels quarter-to-quarter. This reflects risk markets in general and the evolution of the credit default swap markets during the quarter as discussed above.

On average, the reference indices were at 22.7% of their trigger levels as at the end of March. Put another way, it would require the indices to rise to more than four times their currentl levels for them to trigger margin calls. At the end of Q1, the indices were at 17.5% of their trigger levels. So, the market volatility during Q2 did have some effect in reducing the cushion between index levels and triggers. However, to trigger margin calls would require a very significant

[3] 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 the unitholders.

'credit crisis'-type increase in credit risk and/or a very significant increase in actual credit losses within the indices.

At this time, KAG views the risk of triggering margin calls as very remote.



AB Notes Secondary Market

Secondary market prices for the MAV2 Pooled Notes were also somewhat volatile during Q2. Secondary bids peaked at the end of April and then retreated as credit markets were generally hurt by concerns over possible contagion from the European sovereign debt problem. MAV prices rallied at the end of the quarter and ultimately ended at bid prices similar to those at the beginning (e.g. A1s bid at ~67 cents).

It is notable that there was a fall-off in bidding activity for MAV notes during the times of highest market volatility. It appeared that some bidders turned their attention to other asset classes during these times and/or were not representing actual firm buyers.

The secondary market continues to be characterized by a small number of real buyers, a small number of active brokers, and a somewhat larger number of ancillary brokers. Fluctuations in bid prices continue to be driven more by liquidity factors than the underlying credit quality of the MAV notes. For these reasons, we continue to hold the view that this is not yet a fully - active market.

The Liquidating Trust was able to successfully sell a portion of its portfolio at the ends of May and June. These sales were made to raise cash to pay out unitholders who elected or were required to liquidate their holdings in the Trust. As well, a portion of the AB Notes portfolio was converted to cash and invested in a highly-rated money market fund as a measure to reduce the risk in the portfolio – particularly to mitigate the risk of being forced to sell into an illiquid market in the future.

Events Affecting the AB Notes

General Conditions in Credit Markets. As observed in previous reports, the MAV2 Pooled Notes are broadly exposed to US and, to a lesser degree, European corporate credit inasmuch as the majority of the underlying assets are portfolios of corporate credit derivatives. Turmoil and spread-widening in the corporate credit markets impacted the Notes two ways: an increase in default risk amongst underlying credits and, an increase in the risk of spread-loss limits being reached.

Credit Quality Concerns for Specific MAV2 Pool Assets. KAG continues to closely monitor 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.

In the portfolio manager's report for Q1 2010, it was noted that Ambac Assurance Corporation (AAC), which is the operating company under Ambac Financial, had a restructuring event of default in March. It has since been determined in accordance with the terms of the Credit Default Swap governing Trades #1 and #7 that the loss on AAC decreased the 'cushion' against losses to 2.49%. In other words, these trades can withstand further losses of only 2.49% of their remaining portfolio before the MAV2 - and therefore the Trust's unitholders - begin to lose money.

The table below lists the highest risk names within these trade #1 and #7 portfolios, giving their CDS pricing over the quarter and their weighting in the portfolio ('percentage of notional'). In particular, the CDS spread of Ambac Financial Group ('ABK') is priced for imminent default, MBIA declined over the quarter. It is notable that the portfolios have an undue concentration of at-risk industry sectors such as monoline insurers (here 'Property & Casualty') and home construction. As well, the three highest-risk names are also relatively heavily weighed within the portfolios in question; a default of as few as two of those names could trigger losses.

Trade #1 and #7 –Names with Highest CDS Spread

Reference Entity	3 Yr CDS Spread (bps) 30-Jun-10	3 Yr CDS Spread (bps) 1-Jun-10	3 Yr CDS Spread (bps) 30-Apr-10	3 Yr CDS Spread (bps) 1-Apr-10	Pctg of Notional	Sector (Blackrock)
Ambac Financial Group Inc.	7,542	19,733	6,203	11,847	1.20%	Property & Casualty
MBIA Insurance Corp.	4,291	4,601	2,188	3,291	2.41%	Property & Casualty
Clear Channel Communications Inc.	1,513	1,434	1,045	1,159	1.32%	Media Non Cable
Hovnanian Enterprises Inc.	1,352	1,160	596	884	0.48%	Home Construction
MGM Mirage	1,104	1,052	713	799	0.48%	Gaming
First Data Corp.	1,041	1,090	626	696	0.60%	Technology
Boyd Gaming Corp.	967	910	760	965	0.30%	Gaming
Financial Security Assurance Hldg LTD	809	791	240	417	1.81%	Property & Casualty
Beazer Homes USA Inc.	758	645	417	605	0.90%	Home Construction
Radian Group Inc.	693	762	613	953	1.20%	Property & Casualty
American Axle & Manufacturing Inc.	671	660	363	400	0.51%	Automotive
International Lease Finance Corp.	628	778	397	335	1.43%	Non Captive Diversified
Ford Motor Co.	613	611	346	425	0.78%	Automotive
ArvinMeritor Inc.	612	625	364	429	0.51%	Automotive
Unisys Corp.	598	590	366	419	0.60%	Technology
Residential Capital Corp.	572	600	526	550	0.48%	Property & Casualty
MGIC Investment Corp.	546	575	417	803	1.20%	Property & Casualty
Meritage Homes Corp.	507	761	482	470	0.60%	Home Construction
Weighted Average	1,789	2,714	1,151	1,823		
Weighted Average ex. ABK	1,346	1,404	762	1,051		

Source: Advantage Data

Trades #1 and #7 have a maturity date of 20-December-2013, giving them three and one-half years to maturity. A shorter time-to-maturity has a beneficial impact on the credit risk of a portfolio; however, these trades still have a relatively long period during which further defaults can occur.

KAG continues to view it as likely that these two trades will default and suffer 100% loss. If this happens 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 previous CIBC trades defaulting. So, if Trade #1 and Trade #7 do default with complete losses, then the C Notes will be worthless.

Interest Payment on MAV2 Notes. There were no quarterly payments of interest on the MAV2 Notes in the preceding three quarters. This was due to the fact that the A-1 and A-2 Notes earn interest at 3-month Bankers Acceptance rate minus 50 bps; BA rates persisted below 50 bps during this time.

Through the second quarter of 2010, BA rates rose in anticipation of the Bank of Canada reverting to a tightening of monetary policy. As anticipated by the market, the Bank of Canada raised rates at the beginning of June. It is now projected that the MAV2 A-1 and A-2 Notes will pay interest to investors as per the quarterly payment schedule for the foreseeable future.

Change in Net Asset Value of MAV2 Class 13 Tracking Notes. UWO holds the MAV2 Class 13 Tracking Note. This 'Ineligible Asset' 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.

The collateral note was originally rated AAA; it is currently rated C by DBRS. The original par value held of the collateral note was $98MM but the note has been amortizing and has returned more than 50% of that capital. Given the 'C' rating on the collateral note, it is uncertain how much of the remaining $40.9MM of principal outstanding will actually be returned. Blackrock's mark-to-market valuation of the $41 MM par value was $4.1MM as at the end of June. In addition, there is $58.0MM of cash collateral, which represents the previously-matured portion of the collateral note. A shortfall in collateral will reduce the Class 13 Note's ability to repay principal if and when the Levered Super Senior trade matures.

The mark-to-market value of the LSS trade was negative $15.6MM at the end of June 2010, which compares to the similar MTM value of -$15.0MM at the end of March. This trade has a current attachment point (viz. 'cushion' against loss) of 7.62% and matures in March of 2013.

KAG's prognosis for this note is that it is likely that the LSS portfolio will mature without losses to the investors. However, the losses on the underlying collateral will limit the Notes ability to re-pay principal to investors on the range of 60%-65%.

No Ratings Actions by DBRS; A-1s put 'under review' with positive implications. There were no changes to the ratings ascribed to the MAV2 A-1 and A-2 notes by the Dominion Bond Rating Service ('DBRS'). DBRS continues to rate these two notes A and BBB (low) respectively. On 22 June 2010, DBRS issued a rating review report that confirmed the rating of the A-2s as BBB(low) and put the A-1 Notes 'under review' for a possible upgrade due to the remoteness of the margin triggers and the high (viz. 50%) subordination cushion from credit losses.

US Financial Services Reform Legislation. The recently passed Dodd-Frank Wall Street Reform and Consumer Protection Act could potentially have consequences for the MAV Notes. The new legislation can require swap counterparties to post regulatory capital. Since the MAVs have no way to raise capital, such a requirement could potentially cause them to default – which would likely result in losses to MAV noteholders. This legislation represents a change from current industry practice where swaps are governed by ISDA rules and protocols which principally require swap counterparties to maintain a certain credit rating or, in the case of the MAV's, post collateral to the satisfaction of the other party to the swap.

On the face of it, this new requirement to maintain capital can seem reasonable, but what it fails to contemplate are the many different 'flavours' of swaps and derivatives in the market. For swaps where there is an ongoing commitment for each party to deliver cash and where the insolvency of one counterparty can have a significant adverse affect on the the other party, one can make a case for some level of capital to be maintained by both parties. This is likely what the legislators contemplated when they designed this law.

In the case of the MAVs' swaps, however, the swaps are structured so that the MAVs have no contractual commitment beyond the collateral that has already been posted and any supplements provided by the margin funding facility. Having the MAVs add regulatory capital would serve no purpose since the MAVs fully and completely satisfied their funding obligations to the counterparties when the swaps were negotiated. Put simply, there is no ongoing performance obligation on the part of the MAVs in respect of these swaps. Ergo, it is illogical to require them to post capital.

That being said, it is beyond the scope of our expertise to answer whether the MAVs will get caught in this legislation. We understand that the implementation details remain to be worked out and it is our hope that logic will prevail. We remain in contact with expert legal counsel and will be following these developments closely and take the steps we deem prudent to ensure that the best interests of MAV investors are represented.

Portfolio Valuation

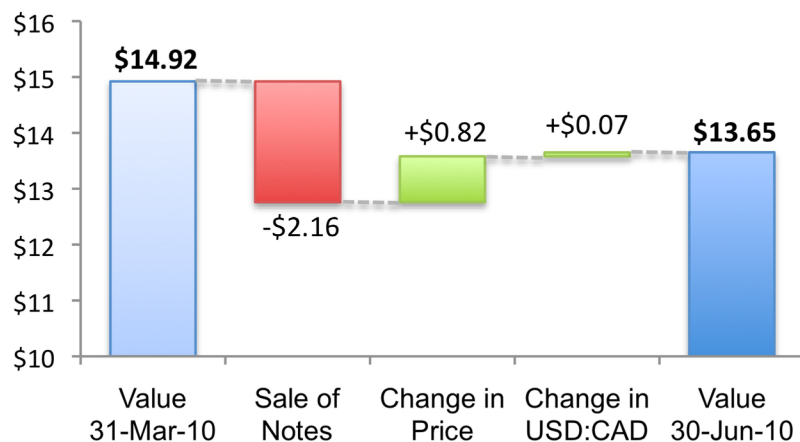
The total par value of the UWO LT's portfolio of AB Notes as at 30 June 2010 was CAD22.386 (versus CAD26.042 million as at 31 March 2010). The Value of the Portfolio as at 30 June 2010 was CAD13.652 (vs. CAD14.921 million at 31 March). Weighted Average Price of the portfolio was 60.98 (vs. 57.36 at 31 March).

UWO Liquidating Trust
AB Notes Portfolio Value, 30-June-2010

Holdings		Market-based Prices	
Notes	Par Value	Price	Market Value (CAD)
Class A-1	10,585,264	67.25	7,118,590
Class A-2	6,964,136	61.50	4,282,944
Class B	1,264,178	34.00	429,821
Class C	582,908	7.00	40,804
IA Tracking Note Class 13	316,001	39.13	123,651
Class A-1 (USD)	2,116,920	67.25	1,512,819
Class C (USD)	65,689	7.00	4,886
IA Tracking Note Class 13 (USD)	333,292	39.13	138,588
Total (native)	$ 22,228,388		
Total (CAD)	$ 22,386,009		$ 13,652,102
Wtd Average		60.98	

The chart below decomposes the key factors influencing the quarter-to-quarter change in portfolio value. The largest impact was the two partial sales of Notes as described above. The secondary market prices of the Notes appreciated over the quarter. And the depreciation of Canadian dollar ('CAD") versus USD over the quarter also had the effect of marginally increasing the value of the portfolio.

Factors Influencing Change in Portfolio Value (CAD millions)



Kilgour Advisory Group
July 30, 2010

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). 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 the 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.