



## ADVISORY BOARD MEETING

<u>Board Member</u>	<u>Alternate</u>	<u>Board Member</u>	<u>Alternate</u>
David Morritt	Lyndon Barnes	Donald Milner	S. Bruce Blain
Barry Bresner	Robert Love	Gordon Goodman	Anne-Marie Widener
Mike Swartz	Reta Coburn	Ken Crofoot	Eugene Cipparone
Julia Holland	James C. Tory	Nicholas Leblovic	Natasha MacParland
William Scott	Malcolm Mercer	Daniel MacDonald	Carol Lyons
John Esvelt	Shayna Staniloff		

Wednesday, September 7, 2016  
 8:30 a.m.  
 Davies Ward Phillips & Vineberg LLP  
 40<sup>th</sup> Floor, RBC Centre, 155 Wellington Street West  
 Toronto, Ontario

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### DIAL-IN INFORMATION for those participating by phone:

Toronto:	416-933-8665
Canada/US:	1-888-402-9166
Conference ID #:	2675844#

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## AGENDA

	<u>Responsibility</u>	<u>Tab</u>
1. Constitution of Meeting	Nicholas Leblovic	
2. Appointment of Secretary	Nicholas Leblovic	
3. Approval of the Minutes of the June 22, 2016 Advisory Board Meeting	Nicholas Leblovic	A
4. Comments of the Chair	Nicholas Leblovic	
5. Report of the General Manager's Office		
(a) Management Report at June 30, 2016	Patrick Mahoney	B
(b) Enterprise Risk Management Policy	Patrick Mahoney	C
(c) Board Self-Evaluation	Patrick Mahoney	D
(d) Blakes – Update	Patrick Mahoney	
(e) Reinsurance Placement – Final	Joe Tontini	E
(f) CLLAS Associate Firm Initiative – Update	Joe Tontini	



	<u>Responsibility</u>	<u>Tab</u>
6. Report of the Claims Committee	Barry Bresner	
7. Report of the Risk Management Committee	Julia Holland	
8. Report of the Policy Committee - Subscribers' Agreement Amendments	Donald Milner	
9. Report of the Audit Committee	Gordon Goodman	
10. Report of the Investment Manager at June 30, 2016	Patrick Mahoney	F
11. Other Business - Annual Dinner – Date to be set		
12. Next Meeting – December 7, 2016		

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
("CLLAS")**

**Minutes of a Meeting of the Advisory Board**

9:00 a.m.  
Davies Ward Phillips & Vineberg LLP  
40<sup>th</sup> Floor, RBC Centre  
155 Wellington Street West  
Toronto, Ontario

**Wednesday, June 22, 2016**

**Present:**

Nicholas Leblovic (Chair)	Davies Ward Phillips & Vineberg LLP
Barry Bresner (via phone)	Borden Ladner Gervais LLP
Gordon Goodman	Cassels Brock & Blackwell LLP
Catherine Pilon (via phone)	Dentons LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Ken Crofoot	Goodmans LLP
Bill Scott	McCarthy Tétrault LLP
Dan MacDonald (via phone)	McMillan LLP
David Morritt	Osler, Hoskin & Harcourt LLP
Mike Swartz/Reta Coburn (via phone)	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
Joe Tontini	Axxima
Ryan Durrell	Axxima

**Absent:**

Julia Holland	Torys LLP
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**1. Constitution of Meeting**

The Chair brought the meeting to order.

**2. Appointment of Secretary**

Norma Ibbetson acted as Secretary.

**3. Approval of Minutes of the February 24, 2016 Meeting of the Advisory Board**

It was moved by Gordon Goodman and seconded by Ken Crofoot that the minutes of the February 24, 2016 meeting of the Advisory Board be approved. The motion was carried unanimously.

**4. Business Arising Out of the Minutes**

All business arising out of the minutes is being dealt with elsewhere in the agenda.

**5. Comments of the Chair**

At the request of the Chair, Patrick Mahoney reported on a meeting of Alberta-based reciprocals held by Alberta Regulator in Edmonton in June. The main topic of discussion was progress on ORSA. The regulator will be seeking input from reciprocals (and insurers generally) on the regulations to the Alberta *Insurance Act*.

Nick Leblovic spoke to the Board about the reinsurance renewal meetings in London. The key dynamics in the discussions were the continuing soft market conditions, the upcoming Underwriting Period renewal (July 1, 2017), the significant claim that emerged shortly after last year's renewal, and CLLAS' stated desire to get a 15% reduction in reinsurance rates. The Chair reported that the participation of Ken Crofoot, who shared his in-depth knowledge of law firm risk management with the reinsurers, was very valuable.

**6. Pro-Form Insurance Services**

Bob Wilson joined the meeting. He reported that the renewal of the commercial excess layers has gone well, and there will be an overall rate reduction of 15% for the coming year. The two-year rate guarantee will be in effect again. Mr. Wilson reported that rates continue to soften, especially in the lower layers, and new insurers continue to enter the Canadian marketplace.

He reported that AIG provided "as is" terms and was not able to support the rate reduction (it had previously advised that it would be withdrawing from the lawyers' professional liability market generally) and as a result it was replaced by XL Catlin.

Mr. Wilson advised that there were no changes to the policy wording. He said that the market still has a lot of capacity and it is possible to introduce additional limits if the firms desire.

Mr. Wilson advised that the CLLAS International program would be renewing at expiring rates. He saw this as a positive development given the significant loss experience, in particular on one policy year. He reminded the Board was reminded that the International program is marketed as a group but each firm is rated separately based on claims experience.

A schedule summarizing the S&P ratings of all the insurers on the excess and international programs was included in the hand-out materials. Also included a 16-year rate summary which highlights the decrease in rates year over year. Although the claims experience is starting to touch the excess layers the markets have not overreacted with a rate increase.

Only policy wording change on the International program is going to be to the claims reporting requirement to reflect the change in insurers participating in the program.

There was some discussion generally on competing rates with other programs and the upcoming end of the underwriting period. No doubt there will be very aggressive pricing from other brokers. Mr. Wilson said that this will not be sustainable overtime and that firm's should keep in mind the significant benefits of the CLLAS program, including cyber coverage (for third party

risks) up to the full limits of the policy, and the valuable claims management services which are in his experience unique to CLLAS.

The Chair asked that for the next renewal the rates for the \$20,000,000 excess of \$95,000,000 and the \$20,000,000 excess of \$115,000,000 be reviewed to see if additional savings can be had.

Mr. Wilson advised that firms will be renewed based on expiring limits, unless Pro-form is advised otherwise. He then left the meeting.

## **7. Reinsurance Renewal**

Joe Tontini and Ryan Durrell reported on the reinsurance renewal. The Board received a copy of a June 17, 2016 report on the placement. Renewal objectives this year include:

- Exploring ways of reducing overall reinsurance costs along with possible reduction in insurance rates for CLLAS members;
- Attracting new markets;
- Considering a further reduction in Colchester's participation;
- Maintaining and enhancing existing reinsurer relationships;
- Continuing to evaluate the ability to distribute surplus to members through premium credits

With respect to the CLLAS Associate Member initiative, the focus will be on some Ontario firms with a January 1, 2017 target date.

No changes were proposed to the existing insurance and reinsurance structures for this renewal. CLLAS will continue to retain 100% of the drop down exposure.

### *Reinsurance Costs*

Mr. Tontini reported that CLLAS took an aggressive approach this year, seeking a 15% rate reduction notwithstanding the significant claim event in the second half of 2015. The lead underwriter, Argo, has tentatively agreed (subject to management approval) but agreement has not yet been obtained from all the following markets. It is possible some incumbents will not agree and have to be replaced. Mr. Tontini expects the final placement to have a rate reduction of between 7.5% and 15%. An increase in Colchester participation may become necessary to complete the renewal.

### *Return of Surplus/Premium Credit*

Any return of surplus has traditionally come from two sources: (1) the application of investment income earned on surplus, and (2) a Board directed surplus disbursement.

CLLAS' surplus position at the end of December 2015 was \$14,200,000. In considering CLLAS' surplus position it is prudent to take into account surplus attributable to departing Subscribers as well as regulatory surplus requirements. Taking all factors into consideration, there is \$1.8 million of available surplus. CLLAS' actuary recommends a distribution of \$700,000 for 2016/2017.

**It was moved by Donald Milner and seconded by Gordon Goodman that the distribution of surplus for 2016/17 of \$700,000 be approved. The motion was carried unanimously.**

There was a Board consensus that on the expectation that there will be a rate reduction of between 7.5% and 15%, Axxima and Miller should bind reinsurance with current and new reinsurers, subject to final reinsurance terms and conditions that are not significantly different from those presented in the report to the Board.

Slide 9 of the presentation summarizes the required premium to cover costs, discounted with the surplus and broken out on a per lawyer basis.

#### *Policy Wording*

The only wording change this year there is a minor amendment to the definition of “Service Company”.

A memo summarizing the final renewal terms will be provided for the September Board meeting.

### **8. Report of the General Manager’s Office**

Mr. Mahoney reported.

#### *Financial Statements Quarter Ending March 31, 2016*

CLLAS’s financial management report for the three months ended March 31, 2016 was included with the meeting materials.

CLLAS experienced a small underwriting loss (premiums minus claims and expenses) of \$63,000 first three months of 2016. After taking into account investment income (including unrealized gains arising during the quarter) the loss was reduced to \$15,000. Expenses for the first quarter are about 10% under budget. Expenses associated with the July 1, 2016 reinsurance placement are largely incurred in the second quarter. CLLAS’ portion of the fees for the risk management audits will also be paid in the coming months. Barring unforeseen circumstances, operating expenses are on track to finish the year within budget. At March 31, 2016, CLLAS had a surplus of \$14.2 million.

The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund (“AMRGF”). CLLAS must maintain “cash and approved securities” in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. The AMRGF required for CLLAS at March 31, 2016 was \$7.8 million. CLLAS’ cash and approved securities totaled \$20.6 million, i.e. well in excess of the minimum requirement.

CLLAS also monitors its Minimum Capital Test ratio. At March 31, 2016, CLLAS’ MCT ratio is estimated to be 383%, well above CLLAS’ minimum requirements.

Mr. Mahoney also referred the Board to the risk metrics monitored by CLLAS on a quarterly basis. The results for March 31, 2016 are all within CLLAS’ risk tolerances.

### *Alberta Superintendent's Annual Review*

Included in the Board package was the letter received by CLLAS from the Superintendent commenting on the annual regulatory filings, together with a draft response. The review did not highlight any problem areas.

### *Alberta Superintendent Examination Update*

Also provided in the Board material was an update on progress on items identified in the Superintendent's examination. A number of items have been addressed and others will be dealt with in the coming months. For example, Mr. Mahoney advised that the Board would be expected to participate in a brief self-evaluation survey in advance of the September Board meeting.

### *Reinsurance Risk Management Policy*

Mr. Mahoney referred the Board to the draft Reinsurance Risk Management Policy dated June 10, 2016. He explained the background, purpose and content of the policy.

**It was moved by Ken Crofoot and seconded by Gordon Goodman that the Reinsurance Policy be adopted as presented. The motion was carried unanimously.**

### *Business Plan for Regulator – FY16*

The 2015 Business Plan, which has been filed with the regulator, was included with the Board materials.

*(Dentons left the meeting).*

## **9. Report of the Audit Committee**

Gordon Goodman reported. The Committee met on May 18, 2016 to review reinsurer security information and Colchester Reinsurance Limited's December 31, 2015 financials. No concerns were noted.

## **10. Report of the Claims Committee**

Barry Bresner reported and, with Patrick Mahoney, provided a high level overview of claims activity. The Committee continues to meet quarterly in person, and as needed by phone and email. The next meeting is scheduled for July 5, 2016.

**11. Report of the Risk Management Committee**

The Chair reported on behalf of Julia Holland. The Risk Management Seminar will be held on Wednesday, September 21, 2016 over lunch. The firm representatives were asked to let the relevant people at their respective firms know to hold the date, but an invitation from the Chair of the Risk Management Committee/Chair of CLLAS will be sent directly to potential attendees. Work on the agenda has started. Among the topics will be conflicts and cyber exposures, and there will be a panel discussion on “sharing lessons learned”. Consideration is being given to asking John Walker to do a short talk on best practices based on the recent re-audits as well as a short presentation on insurance renewal, and perhaps having a short session on the benefits of CLLAS given that the start of the next Underwriting Period is approaching.

The Chair advised that John Walker has provided individual firms with customized risks management audit reports.

*(BLG left the meeting).*

**12. Report of the Policy Committee**

There was no report of the Policy Committee.

**13. Report of the Investment Manager at March 31, 2016**

The report of the investment manager was included with the Board materials for information.

**14. Other Business**

There was no other business.

**15. Next Meeting**

The next scheduled meeting of the Board will be on September 7, 2016.

There being no further business, the meeting was terminated.

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Chairman

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Secretary





# MEMORANDUM

DATE: August 30, 2016  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY:  
RE: June 30, 2016 Financial Management Report

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CLLAS's financial management report for the six months ended June 30, 2016 is attached. Included are the following exhibits:

Exhibit I:	Statement of Financial Position
Exhibit II:	Statement of Comprehensive Income
Exhibit III:	Statement of Changes in Equity
Exhibit IV:	Budget Variance Analysis
Exhibit V:	Summary of Risk Metrics
Exhibit VI:	Alberta Maintenance of Reserve and Guarantee Fund

## Financial Results

As shown on Exhibit II, CLLAS experienced a small underwriting loss (premiums minus claims and expenses) of \$84,000 for the first six months of 2016. After taking into account investment income (including unrealized gains arising during the period) the loss turned into a small gain of \$32,000.

The Budget Variance (Exhibit IV) shows that expenses for the first six months are about 10% (\$145,000) under budget. The first six months of the year are typically the most active for CLLAS, due to year-end activity in the first quarter and reinsurance renewal work in the second quarter. As a result, barring unforeseen circumstances, management expects operating expenses to finish the year under budget.

At June 30, 2016, CLLAS had a surplus of \$14.2 million, as shown on Exhibit I.

## Solvency Tests

The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). CLLAS must maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI of the financial management report shows that the AMRGF required for CLLAS at June 30, 2016 was \$7.8 million. CLLAS' cash and approved securities totaled \$19.7 million, i.e. well in excess of the minimum requirement



CLLAS also monitors its Minimum Capital Test ratio. At December 31, 2015, CLLAS' MCT ratio was 359%. At June 30, 2016, it is estimated to be 407%. The increase is partly attributable to the phasing in of the transition to a new MCT calculation basis which is more favourable to CLLAS. As mentioned in previous reports, mid-year MCT calculations are done on a simplified basis in the interest of efficiency; the "official" MCT calculation is done at year-end.

### **Financial Ratios**

Exhibit V presents the results of various "risk metrics" monitored by CLLAS based on what have been identified through the ORSA process as its material risks. The Exhibit has been refined to improve enhance readability and colour coding has been added to indicate where the result falls in terms of CLLAS's risk targets and limits. The Exhibit shows results for CLLAS at December 31, 2014, December 31, 2015 and June 30, 2016 against risk targets and risk limits. The results for June 30, 2016 are all within CLLAS' risk tolerances, except that, as noted in Footnote 4, one reinsurer no longer on the CLLAS program has an AM Best rating lower than CLLAS' current standard.

Please contact me if you have any questions with respect to the management financial statements or the solvency tests.

Sincerely,

Patrick Mahoney  
General Manager

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

**QUARTERLY FINANCIAL MANAGEMENT REPORT**

**June 30, 2016**

# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **QUARTERLY FINANCIAL MANAGEMENT REPORT**

**JUNE 30, 2016**

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Exhibit I	Statement of Financial Position
Exhibit II	Statement of Comprehensive Income
Exhibit III	Statement of Changes in Equity
Exhibit IV	Operating Budget Variance Analysis
Exhibit V	Risk Metrics
Exhibit VI	Alberta Maintenance of Reserve and Guarantee Funds

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2016**

	<b>As at June 30, 2016</b>	<b>As at June 30, 2015</b>
<b>ASSETS</b>		
Cash	2,947,147	3,663,982
Short term investments	11,978,344	11,855,424
Bonds	4,826,755	4,802,758
Interest income due and accrued	20,190	19,648
Premium receivable	0	0
Other receivable	0	0
Prepaid expenses	128,716	136,504
Deferred policy acquisition costs	0	0
Unearned reinsurance premium ceded	0	0
Reinsurance recoverable	951,188	165,760
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	96,341,000	100,299,000
	<u>117,193,340</u>	<u>120,943,076</u>
<b>LIABILITIES</b>		
Accounts payable & accrued charges	117,788	402,171
Premium taxes payable	0	0
Unearned premium	0	0
Due to reinsurers	0	0
Provision for unpaid claims and adjustment expenses	102,856,000	106,918,000
Premium deficiency liability	0	0
	<u>102,973,788</u>	<u>107,320,171</u>
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	14,055,849	13,492,856
Accumulated Other Comprehensive Income (Loss)	163,703	130,050
	<u>14,219,552</u>	<u>13,622,905</u>
	<u>117,193,340</u>	<u>120,943,076</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Period Ending June 30, 2016**

	<b>Current Year</b>		<b>Prior Year</b>	
	<b>Quarter June 30, 2016</b>	<b>Year to Date June 30, 2016</b>	<b>Quarter June 30, 2015</b>	<b>Year to Date June 30, 2015</b>
Written Premium	-	-	-	-
Gross Written Premiums	-	-	-	-
Less: Reinsurance Ceded	-	-	-	-
Net Written Premiums	-	-	-	-
Change in Unearned Premiums	600,221	1,200,441	610,099	1,213,494
Earned Premiums	600,221	1,200,441	610,099	1,213,494
Claims Paid	(57,220)	(111,873)	(33,801)	31,617
Change in IBNR	51,000	131,000	150,000	191,000
Change in Case Reserve	(1,000)	(4,000)	22,000	35,000
Premium Deficiency Expense	-	-	-	-
Incurred Claims	(7,220)	15,127	138,199	257,617
Management and operating expenses	472,205	956,386	478,730	895,124
Reinsurance fees	69,750	139,500	69,750	139,500
Premium taxes	86,607	173,213	44,575	89,149
Total Operating Expenses	628,561	1,269,099	593,055	1,123,773
<b>Underwriting Gain (Loss)</b>	(21,121)	(83,785)	(121,154)	(167,896)
Investment Income	43,061	79,595	40,903	82,858
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
<b>NET GAIN/(LOSS)</b>	<u>21,940</u>	<u>(4,190)</u>	<u>(80,252)</u>	<u>(85,039)</u>
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on available for sale financial assets arising during the year	24,710	36,276	(36,698)	55,332
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	24,710	36,276	(36,698)	55,332
<b>Total comprehensive income (loss)</b>	<u>46,650</u>	<u>32,086</u>	<u>(116,949)</u>	<u>(29,706)</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF CHANGES IN EQUITY**  
**June 30, 2016**

	<b>Minimum Surplus</b>	<b>Additional Surplus</b>	<b>Unrealized gains and losses on AFS financial assets</b>	<b>Total Equity</b>
<b>Balance, beginning of year</b>	<b>50,000</b>	<b>14,010,039</b>	<b>127,427</b>	<b>14,187,466</b>
Prior year adjustment		-		-
<b>Comprehensive income (loss) for the year</b>				
Net gain (loss) for the year		(4,190)		(4,190)
<b>Other comprehensive income (loss)</b>				
Change in unrealized gain on available-for-sale assets			36,276	36,276
Recognition of realized (gain) loss on available-for-sale assets			-	-
<b>Total comprehensive income (loss) for the year</b>		<b>(4,190)</b>	<b>36,276</b>	<b>32,086</b>
<b>Balance at June 30, 2016</b>	<b>50,000</b>	<b>14,005,849</b>	<b>163,703</b>	<b>14,219,552</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS**  
**FOR THE PERIOD ENDED June 30, 2016**

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
<b>MANAGEMENT SERVICES*</b> (See Note 1)	580,000	50%	290,000	299,325	(9,324)
<b>PROFESSIONAL SERVICES</b>					
Actuarial Services	85,000	67%	56,950	43,142	13,808
Reinsurance Matters	325,000	67%	217,750	199,366	18,384
Strategic Matters	160,000	67%	107,200	35,825	71,375
Sub-Total Professional Services	570,000		381,900	278,333	103,567
GST/HST on Consulting Fees	149,500		87,347	75,095	12,252
<b>Total Management &amp; Professional Services *</b> (See Note 2)	<b>1,299,500</b>		<b>759,247</b>	<b>652,753</b>	<b>106,494</b>
<b>OTHER EXPENSES</b>					
Audit Expenses	107,000	50%	53,500	54,241	(741)
Annual Dinner	7,000	100%	7,000	5,885	1,115
Premium Taxes	355,000	50%	177,500	173,213	4,287
Chairman's Expenses	3,000	50%	1,500	38	1,462
Chairman's Honourarium	150,000	100%	150,000	150,000	-
Reinsurance Expense	7,500	100%	7,500	8,553	(1,053)
D&O Insurance	14,000	50%	7,000	-	7,000
Office Expenses	25,000	50%	12,500	5,638	6,862
Office Expenses - Website management software license	3,000	50%	1,500	563	938
Claims: Borderaux (LawPro/LIF)	15,000	100%	15,000	13,300	1,700
Special Services	50,000	50%	25,000	-	25,000
Miller Insurance Fees (Reins. Comm.) (See Note 3)	279,000	50%	139,500	139,500	-
I.B.C Statistical Plan Fees	4,000	50%	2,000	1,267	733
FSCO Assessment Fees	3,000	100%	3,000	5,500	(2,500)
Investment counsel fees	32,000	50%	16,000	13,561	2,439
Investment - Custodial	17,000	50%	8,500	8,751	(251)
Risk Management/Loss Prevention	50,000	50%	25,000	35,030	(10,030)
License Fee	6,500	50%	3,250	113	3,137
Insurance: Sundry	-		-	1,193	(1,193)
<b>Sub-total</b>	<b>1,128,000</b>		<b>655,250</b>	<b>616,346</b>	<b>38,905</b>
<b>TOTAL</b>	<b>2,427,500</b>		<b>1,414,497</b>	<b>1,269,099</b>	<b>145,398</b>

**\* NOTE 1: MANAGEMENT SERVICES**

The actual budget of \$615,00 has been reduced to \$580,000 as a result of Commissions received on CLLAS associate program.

**\* NOTE 2: PROFESSIONAL SERVICES - SEASONALLY WEIGHTED BUDGET**

This is based upon an analysis of the current budget and previous years' experience, the anticipated pattern of seasonal workflow is as follows:

First Quarter, ending March 31st	22%
Second Quarter, ending June 30th	45%
Third Quarter, ending September 30th	15%
Fourth Quarter, ending December 31st	18%
	<u>100%</u>

**\* NOTE 3: MILLER INSURANCE FEES (Reins. Comm.)**

The annual budget is based upon the annual fee estimated for the policy period 2015/2016.



**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**SUMMARY OF RISK METRICS**  
June 30, 2016

Exhibit V

	Risk Category	Risk Metric	December 31, 2014	December 31, 2015	June 30, 2016	Target	Limit
(1a)	<b>Insurance</b>	Prior year development - Gross of reinsurance	-6%	27%	-6%	≤ 0%	> 20%
(1b)		Prior year development - Net of reinsurance	-33%	-29%	-19%	≤ 0%	> 10%
(2a)		3-year net combined ratio	84%	79%	94%		
(2b)		3-year net combined ratio before surplus adjustments via premiums	81%	74%	82%	≤ 100%	> 125%
(3)		Maximum allocation to a single jurisdiction	57%	56%	56%	n/a	> 67%
(4)	<b>Reinsurance</b>	Reinsurer credit rating	BBB+ to A+	BBB+ to A+	n/a	≥ A	< A-
(5)		Maximum concentration with a single reinsurer excl. Colchester	13.3%	11.6%	n/a	≤ 10%	> 15%
(6)	<b>Interest Rate</b>	Interest rate risk per MCT formula at 1.25%	\$201,667	\$162,000	\$134,000	≤ \$250,000	> \$600,000
(7)	<b>Liquidity</b>	Ratio of cash and short-term investments to gross claim liabilities	21%	13%	15%	≥ 15%	< 10%
(8)		Ratio of short term funds to total short & long term funds	69%	64%	71%	≥ 40%	< 20%
(9a)	<b>Asset Default</b>	Credit rating of invested assets	AA to AAA	AA to AAA	AA to AAA	AA to AAA	< A
(9b)		Credit rating of Bankers Acceptances and Certificates of Deposit	R1 - High	R1 - High	R1 - High	R1-High	< R1-High
(10)		Maximum allocation to a single non-government security	1.6%	2.4%	1.8%	n/a	> 5%
(11)	<b>Strategic</b>	Annual Advisory Board turnover	0	0	0	≤ 2 members	> 4 members
(12)	<b>Operational</b>	Key management/advisor turnover	0	0	0	≤ 1 per 3 years	> 1 per year
(13)	<b>Regulatory Solvency Indicators</b>	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$8,020,000	\$6,934,000	\$11,938,000	\$3,500,000 to \$7,000,000	< 3500000
(14)		MCT	346%	359%	407%	≥ 210%	< 210%

**Notes**

(1) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE)

(2a) = [3-year net incurred losses + 3-year operating expenses] / [3-year net earned premiums]; only experience after June 30, 2012 has been considered in the 2014 combined ratio to exclude the effect of the LPT transaction

(2b) = (2a), where 3-year net earned premiums reflect actuary's indicated premium rates before surplus distributions

(3) Based on insured lawyer counts

(4) Based on A.M. Best. 2014 information from report on reinsurance security (September 23, 2014); 2015 information from report on reinsurance security (October 30, 2015). Note that there is only one reinsurer with credit rating of BBB+ (Alleghany Corporation, formerly Transatlantic Reinsurance Company) and the outstanding liabilities are \$225,000 as at June 30, 2016.

(5) Based on claim liabilities exposure. Lloyds syndicates are assessed separately. 2014 information from report on reinsurance security (September 23, 2014); 2015 information from report on reinsurance security (October 30, 2015).

(10) Maximum allocation does not consider cash and cash equivalents

(12) Includes principal attorney, general manager, accountant, auditor, actuary, reinsurance broker and excess insurance broker.

(14) For Provincially Regulated Insurance Entities that are required to file the MCT on an annual basis, the capital impact of the revised Guideline must be phased-in over three years, starting with the first year ending in 2015. 2014 MCT ratio shown above calculated based on the old MCT guidelines.

Color Code
Meets Target
Between Target and Limit
Exceeds Limit

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**For the Period Ending June 30, 2016**

**ALBERTA MAINTENANCE OF RESERVE AND GUARANTEE FUNDS**  
 (Section 99 and 100)

	Current Year to Date 6/30/2016 (in \$000's)	Prior Year End 6/30/2015 (in \$000's)
<b><u>Reserve Fund</u></b>		
Premiums collected or credited having one year or less to run	(1) -	-
Less: Amount paid to licensed reinsurers	(2) -	-
Premiums collected with more than one year to run, less expired portion	(3) -	-
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) -	-
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) -	-
Reserve Fund Required (50% of Line 5)	(6) -	-
<b><u>Guarantee Fund</u></b>		
Total Liabilities	(7) 102,974	107,320
Less: Unearned Premiums	(8) -	-
Less: Recoverable from licensed reinsurers	(9) 95,210	99,091
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 7,814	8,279
<b>TOTAL RESERVE &amp; GUARANTEE FUND REQUIRED (Line 6+11)</b>	(12) 7,814	8,279
Cash & Approved Securities	(13) 19,752	20,321
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 11,938	12,042



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Enterprise Risk Management Policy

Last Updated  
September 7, 2016

**DRAFT**

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## ENTERPRISE RISK MANAGEMENT POLICY

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Effective date: **TBD**

### 1. Purpose and Scope

Enterprise Risk Management (“ERM”) is the process through which CLLAS proactively manages risk by identifying, assessing, monitoring and mitigating risks from all sources that may impact short- and long-term financial sustainability. ERM is intended to enhance decision-making by integrating strategic planning with a focused evaluation of the risk exposures stemming from CLLAS’ operations and the environment in which it operates. The purpose of this policy is to document the practices and responsibilities with respect to ERM.

The ERM policy, together with CLLAS’ risk appetite assessment, constitutes the foundation for CLLAS’ Own Risk and Solvency Assessment (“ORSA”) and most governance policies, including the surplus target and surplus policy, the investment policy, the reinsurance security policy and the outsourcing policy.

### 2. Objectives

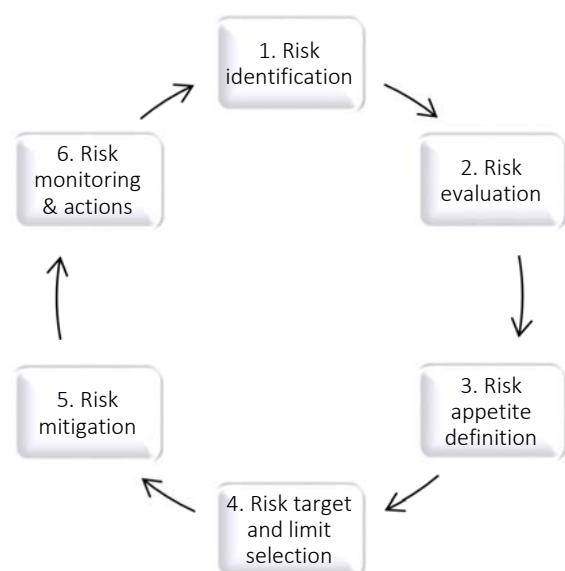
ERM has multiple objectives, including the following:

- Avoid or mitigate risks that could materially impair the financial position or condition of CLLAS;
- Accept risks that contribute to CLLAS’ strategy;
- Manage risks in accordance with best practices and enhance strategic decision-making; and
- Promote a better understanding of the interrelationships between CLLAS’ risk profile and capital needs.

### 3. ERM Cycle

ERM is a cycle where risks are periodically identified and measured, where risk targets and limits are set, and where CLLAS’ financial condition and material risks are regularly monitored and compared to its risk targets and limits. Risk appetite is fluid and would reflect any improvement or deterioration in risk tolerance, changes in the business strategy and changes in economic conditions.

The diagram on the right illustrates the steps of the ERM cycle. CLLAS’ approach to the various steps is outlined in the next sections.





#### **4. Identification and Evaluation of Material Risks**

The Office of the General Manager identifies, defines and assesses the materiality of known, reasonably foreseeable or emerging risks that may have an impact on CLLAS' ability to continue operations, both under normal and stressed conditions. The materiality of the risks CLLAS is exposed to will change over time as the risks are, in part, dependent on CLLAS' business strategy (e.g. amount of net retention, subscriber base, reinsurers selected for reinsurance placement) and on its business environment (e.g. stage of the insurance/reinsurance cycle, outlook for investment market).

The risks which are considered to be material are reviewed in more detail and their potential impact on CLLAS' financial position and continued ability to meet minimum regulatory requirements is quantified.

#### **5. Risk Appetite**

Risk appetite is the high-level direction for the amounts and types of risks CLLAS wants to pursue based on its risk profile, vision and overall strategy. CLLAS currently considers the following risk appetite statements to be appropriate:

- CLLAS has an overall low to medium risk appetite;
- CLLAS wants to balance the likelihood of retroassessment against the efficiency of operating with as little capital as is prudent and appropriate;
- CLLAS does not want to engage in risk-taking activities that could be detrimental to its reputation or the reputation of its subscribers;
- CLLAS wants protection against extreme events that could compromise its solvency;
- CLLAS strives to maintain excellent long-term relationships with its reinsurance partners in order to continue accessing reinsurance markets at a reasonable cost;
- CLLAS strives to protect itself from strategic risk by having knowledgeable and stable Advisory Board and senior management;
- CLLAS reduces its operational risk by outsourcing operational functions to experts (accounting, claims management, actuarial, investments, etc.).

#### **6. Risk Targets and Limits**

CLLAS' surplus target is based on an MCT of 210%.

Risk targets and limits are determined in the context of applying risk appetite statements to specific risk categories or business units. Risk targets and limits should be mindful of regulatory requirements or constraints, such as AMRGF requirements, MCT requirements and statutory limits on investment.

The following table shows the risk categories that can be monitored quantitatively. As these risks may challenge the ability to meet strategic objectives, risk targets and limits have been determined, above which management action could be considered:



Risk Category	Risk Metric	Risk Target	Risk Limit
Insurance	Prior year development <sup>1</sup>	0%	Gross: 20% Net: 10%
	3-year net combined ratio before surplus adjustments <sup>2</sup>	100%	125%
	Maximum allocation to a single jurisdiction <sup>3</sup>		67%
Reinsurance	Minimum reinsurer credit rating <sup>4</sup>	A	A-
	Maximum concentration with a single reinsurance excluding Colchester <sup>5</sup>	10%	15%
Interest Rate	Interest rate risk per MCT formula at 1.25% <sup>6</sup>	\$250,000	\$600,000
Liquidity	Proportion of the short-term investment fund to the total value of the short-term and long-term investment funds	40%	20%
	Cash and short-term investments to gross liabilities <sup>7</sup>	15%	10%
	Cash and investments in excess of AMRGF requirement	\$3,500,000 to \$7,000,000	\$3,500,000
Asset Default	Credit rating of bonds and treasury bills	AA to AAA	A
	Credit rating of bankers' notes and certificates of deposit	R-1 high	R-1 high
	Maximum allocation to a single non-government security <sup>8</sup>		5%

<sup>1</sup> This is a measure of the redundancy or deficiency of reserves. It is calculated as the year-over-year development in ultimate losses expressed as a ratio of the prior year's unpaid claims (excluding ULAE).

<sup>2</sup> This is a measure of underwriting profitability during a given fiscal year. It is calculated as follows:

$$\text{Net Combined Ratio} = \frac{\text{Fiscal Year Net Incurred Claims} + \text{Fiscal Year Operating Expenses}}{\text{Fiscal Year Net Earned Premiums}}$$

The three-year net combined ratio is monitored as there could be significant volatility in annual net combined ratios, especially in years when CLLAS has a higher claim retention. Further, the net earned premiums exclude the effect of surplus adjustments order to provide a more meaningful comparison of expected losses and operating expenses (i.e. premiums) to actual losses and operating expenses.

<sup>3</sup> This is monitored to assess concentration risk and is expressed as a percentage of insured lawyers.

<sup>4</sup> The credit rating is based on A.M. Best and S&P.

<sup>5</sup> The is monitored to assess concentration risk. It is measured based on a reinsurer's proportion of current claims liability exposure (i.e. case reserves and IBNR) for all policy years. Lloyd's syndicates are assessed separately.

<sup>6</sup> This is an expected measure of net loss due to the timing mismatch of the expected payment steams from fixed income assets and those from claim liabilities, assuming a movement of 1.25% in interest rates.

<sup>7</sup> CLLAS' liquidity risk mainly arises from the possibility of realizing a loss on the sale of invested assets if insufficient liquid assets are available to pay for claims.

<sup>8</sup> The maximum allocation to a single security is monitored to assess concentration risk. The allocation to the largest single security excludes investments in cash or cash equivalents and is expressed as a percentage of total cash and invested assets. The



Risk Category	Risk Metric	Risk Target	Risk Limit
Strategic	Annual Advisory Board turnover	2 members	4 members
Operational	Key management/advisor turnover	1 per 3 years	1 per year
Equity <sup>1</sup>	Proportion of equities in investment portfolio	0%	0%
Foreign Exchange <sup>2</sup>	Proportion of investments in foreign currency	0%	0%

Reinsurance is a critical element of CLLAS' risk management framework. Reinsurer credit risk is managed by means of CLLAS' reinsurance security policy, pursuant to which CLLAS monitors its reinsurers' financial strength ratings and assesses its reinsurance concentration risk according to various metrics such as the actual claim liabilities by reinsurer and claim liability limit by reinsurer.

Risk categories such as strategic, operational, regulatory compliance, social inflation and reputation risks, are difficult to monitor quantitatively. The Office of the General Manager will qualitatively monitor any trends or risk sources for these risk categories and report on them to the Board along with the above risk metrics.

## 7. Risk Mitigation

Risk mitigation measures are implemented by the Advisory Board and the Office of the General Manager, with the support of its standing committees, in order to mitigate the frequency or severity of risks. Risk mitigation strategies should be considered for all material risk categories (as outlined in Appendix A) and should be periodically reviewed.

## 8. Risk Monitoring and Actions

Risks are monitored and compared against targets and limits on a quarterly basis by the Office of the General Manager. Results are presented to the Advisory Board along with management financial statements, which also include aggregate solvency measures such as the AMRGF, MCT and other financial performance ratios.

The Advisory Board and Office of the General Manager would consider implementing appropriate actions when a risk exceeds the established limit. Corrective actions would be discussed with the Advisory Board thereof before being implemented by the Office of the General Manager.

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maximum allowable per the Insurance Act is 5% of total assets (the 5% limit does not apply to investments in federal or provincial bonds and banks).

<sup>1</sup> CLLAS is not exposed to this risk category as the Investment Policy does not allow investments in equities.

<sup>2</sup> CLLAS is not exposed to this risk category as the Investment Policy does not allow foreign investments.



## **9. ORSA and Stress Testing**

CLLAS performs an ORSA on an annual basis in accordance with OSFI Guideline E-19. The ORSA is a comprehensive assessment of CLLAS' risks and is intended to assist the Advisory Board in determining the internal MCT ratio target to support the reciprocal's strategy. The ORSA process should:

- Be conducted at least annually;
- Strive to identify and quantify all risks material to CLLAS' operations;
- Be the basis for the selection of the overall internal target;
- Be the basis for the selection of targets and limits by risk category;
- Be used to identify current and potential mitigation strategies;
- Be used to review Advisory Board, principal attorney and management responsibilities;
- Be documented in a summary report; and
- Be approved annually by the Advisory Board.

CLLAS performs stress testing in the context of its ORSA and in accordance with OSFI Guideline E-18. Stress testing involves evaluating the impact of a set of specified assumptions on CLLAS' financial condition. CLLAS' stress testing should:

- Include plausible but severe scenarios that could materially impact its operations or financial condition;
- Cover a range of scenarios, including non-historical scenarios;
- Take into account the effectiveness of risk mitigation techniques such as reinsurance in stressed conditions; and
- Be documented in the ORSA summary report.

## **10. Responsibility for ERM**

The Advisory Board is ultimately responsible for overseeing ERM and risk-taking activities. The Advisory Board is responsible for the following:

- Annual review/approval of risk appetite statements;
- Annual review/approval of risk targets and limits;
- Annual review/approval of the ERM policy; and
- Annual review/approval of the internal capital target and the ORSA.

The Principal Attorney is responsible for the following:

- Reporting to the Advisory Board on the effectiveness of and compliance with the ERM policy.





The Office of the General Manager is responsible for the implementation of the Board-approved strategy and overall business performance, specifically:

- Ensuring compliance with the ERM policy;
- Identifying, assessing and monitoring risks;
- Assessing the effectiveness of operations against risk appetite statements and risk limits;
- Recommending appropriate risk mitigation strategies;
- Developing appropriate action plans and ensuring timely communication with the Advisory Board or a committee thereof when risk limits are exceeded;
- Reporting to the Principal Attorney and Board on the risk profile and capital needs, including ORSA;
- Recommending improvements in policies, processes and procedures;
- Developing and reporting on internal controls with respect to risk-taking activities;
- Filing appropriate documentation and communication with the regulator with respect to the ERM policy and ORSA.

#### **11. Authority**

The Advisory Board has the authority to make revisions to this policy.

#### **12. History of Modifications**

This policy was first approved by the Advisory Board on **TBD**.



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## APPENDIX A – MATERIAL RISKS

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Pursuant to its ERM policy, CLLAS periodically identifies, assesses and monitors material risks. The following are CLLAS' exposure to material risks:

- 1. Insurance risk:** CLLAS provides Canadian law firms with up to \$139,975,000 of professional liability insurance coverage per occurrence. Coverage is provided on a claims-made basis. Coverage is provided excess of the mandatory law society coverage (or \$25,000 in the case of drop-down coverage) and so CLLAS is exposed to low frequency, high severity losses. There is significant uncertainty around the timing, frequency and severity of these insurance losses.

Further, CLLAS is a monoline insurer, with no line of business diversification to mitigate insurance risk. However, CLLAS has a geographical diversification benefit as it insures lawyers in multiple Canadian provinces.

- 2. Reinsurance default risk (credit risk):** Given the loss portfolio transfer at June 30, 2012 and the low net claim retention since July 1, 2012, CLLAS retains only a small proportion of its insurance exposure and cedes the remaining exposure to reinsurers. A reinsurer default or dispute on claims presents a material risk as CLLAS has the ultimate responsibility for the payment of claims.

CLLAS places reinsurance with multiple reinsurers, the largest placement being with Colchester Reinsurance Limited. due to the loss portfolio transfer. Colchester also has an important participation on the proportional treaty since July 1, 2012.

Deposits held in Canada for unregistered reinsurance amounts recoverable from Colchester Reinsurance Limited do not present a material off-balance sheet risk exposure for CLLAS given that amounts are secured under a security agreement and are held in cash or government bonds in Canadian denomination.

- 3. Strategic risk:** Strategic risk arises from the potential inability to implement appropriate business plans and strategies, make decisions, allocate resources, or adapt to changes in the business environment<sup>1</sup>.

CLLAS operates on the basis of five year underwriting periods, and can expect significant competitive pressure from insurance brokers during the lead up

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<sup>1</sup> OSFI Own Risk and Solvency Assessment Guideline, January 2014.



to a new underwriting period. In order for CLLAS' premium rates to remain competitive, there must be a sufficiently large subscriber base to share the administrative costs necessary to maintain the self-insurance structure. If the subscriber base decreased significantly as a result of, for example, uncompetitive rates, the viability of the reciprocal may be compromised.

**4. Operational risk:** Operational risk arises from inadequate or failed internal processes, people and systems, or from external events. It includes selling practices, claims processes, physical security, people, product, project, internal fraud, external fraud, model, legal, privacy and information security, technology and infrastructure, business continuity, third party, financial reporting, and money laundering / terrorist financing risks<sup>1</sup>.

**5. Inflation Risk:** General inflation risk: Sudden and sustained increases in the inflation rate would most likely lead to higher-than-anticipated claim payments and general expenses as well as disruptions in fixed income and capital markets.

Social inflation risk: This is the risk of unfavorable changes in claim behavior driven by new legal precedents as well as changes in social attitudes and expectations. Social inflation could be exacerbated by the fact that information is readily available through global news, social media and the internet.

**6. Interest rate risk (market risk):** CLLAS' fixed income investments are classified as available-for-sale and are therefore reported at fair market value in the financial statements. Claim liabilities are also reported on a fair value basis (i.e. liabilities are discounted using market rates).

Interest rate risk exists when there is a mismatch between expected payments from assets and expected payments from liabilities. For example, when interest rates increase, both fixed income assets and claim liabilities would decrease. If they were perfectly matched, the impact on surplus would be nil. If not, one would decrease more than the other, creating a non-zero impact on surplus. The converse would also be true when interest rates decrease.

**7. Liquidity risk:** Liquidity risk is the potential for losses due to holding insufficient funds in liquid assets such as cash. An example of a situation leading to liquidity risk is needing to realize a loss on the sale of invested assets when insufficient liquid assets are available to pay for losses.

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<sup>1</sup> OSFI Own Risk and Solvency Assessment Draft Guideline, January 2014.



- 8. Asset default risk (credit risk):** Fixed income default risk: CLLAS is exposed to asset default risk as it has investments in fixed income instruments. CLLAS' investment policy allows for long-term investments in federal and provincial government bonds as well as corporate bonds rated A or better.
- The riskiest class of fixed income in CLLAS' portfolio is corporate bonds. Although provincial and federal government bonds present some default risk, it is not considered material at this moment.
- Other asset default risk: CLLAS has minimal exposure to default risk on other assets, for example receivables or cash held in bank accounts.
- 9. Reputation risk:** Reputation risk arises when the confidence of insured members, creditors, reinsurers and other business partners leads to a negative impact on earnings, liquidity or capital position.
- For example:
- Reputation with subscribers could be negatively impacted by unstable or noncompetitive premium rates or failure to pay claims in a timely manner;
  - Reputation with reinsurers could be negatively impacted by a lack of risk management efforts or failure to report claims information in a timely manner;
  - Reputation with various business partners could be negatively impacted by failure to provide timely payments;
  - Reputation with regulators could be negatively impacted by failure to communicate in a timely manner.
- 10. Regulatory compliance risk:** Regulatory compliance risk arises from losses due to failure to comply with regulatory requirements. Examples include costs associated with the need to restate financial statements if they are not in compliance with professional standards, or fines and penalties if legislative requirements are not fulfilled.
- 11. Equity risk (market risk):** Investments in equities are subject to significant volatility in fair value. In addition, there is typically uncertainty around dividend payments and investments in equities can present significant exposure to default risk. This risk category is not material for CLLAS at this time as the investment policy does not allow for investments in equities.



- 12. Foreign exchange risk (market risk):** Investments in denominations other than Canadian dollars can present foreign exchange risk, as ultimately these investments would have to be converted to Canadian dollars in order to pay for losses. This risk category is not material for CLLAS at this time as the investment policy does not allow for foreign investments.

Concentration risk arises from failure to diversify risk. It is a risk category that is closely tied with other risk categories, most notably with risks involving insurance, reinsurance and invested assets.

It is also important to keep in mind that risk mitigation measures – such as the use of reinsurance to reduce the net insurance exposure or the use of collateral or letters of credit to secure reinsurance recoverables – may not be functioning as usual under stressed market conditions. For example, if there were a property catastrophe and multiple insurers were seeking recoveries from reinsurers, CLLAS' communications and recoveries on professional liability losses with these same reinsurers may be delayed or compromised.



# MEMORANDUM

DATE: August 30, 2016  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY:  
RE: Board Self-Evaluation Survey

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In its January 17, 2014 Examination Report, the Alberta Superintendent recommended that “the Advisory Board establish a process to evaluate their performance as a combined unit, as well as individually and as Committees. This will ensure that the weaknesses are addressed and strengths are emphasized for continued robust governance in the future.”

We have considered how best to address this recommendation and propose that the Board conduct a self-evaluation survey. Attached are the proposed survey questions. The survey would be conducted via Survey Monkey and the results would be summarized and presented on an anonymous basis for discussion at the December Board meeting. At that meeting, the Board would discuss the results of the survey as well as the usefulness of the process and, if appropriate, timing of future surveys.

I look forward to discussing this matter with you at the upcoming Board meeting.

## Goverance - General

#	Question	Responses				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The Board actively embraces its responsibilities and brings its collective skills and experiences to bear in providing independent, objective, and thoughtful oversight and guidance to the organization					
2	Board members are aware of what is expected of them					
3	The Board has an effective role in the adoption of broad strategies, business objectives and plans					
4	The Board provides appropriate direction and support to the Chair and management					
5	The Board is satisfied with the processes that permit discussion and advance consideration of important matters, based on appropriate and timely information and analysis					
6	When necessary, adequate information is received between Board meetings					
7	The board's structure allows it to get work done in a timely and effective way					

## Committees

#	Question	Responses				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Board committees complete their tasks in an effective and timely way					
	a) Audit					
	b) Claims					
	c) Risk Management					
	d) Policy					
2	Board committee assignments generally reflect the interests and expertise of the individual Board members					
	a) Audit					
	b) Claims					
	c) Risk Management					
	d) Policy					
3	Board committees streamline work process and increase board effectiveness					





## Preparation for Meetings

#	Question	Responses				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The Board gets suitable information in support of agenda items					
2	Meeting materials are not overwhelming in quantity					
3	Meeting materials are received in sufficient time to allow for adequate preparation					
4	The right matters get placed on Board agendas including issues raised by Committees					

## Conduct of Meetings

#	Question	Responses				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Meeting materials provide appropriate context and background information to support informed decision-making					
2	Meetings allow for candid, constructive discussion and critical questioning					
3	Debates take place in an atmosphere of mutual respect and courtesy					
4	The authority of the Chair is respected					
5	Management's involvement in meetings is at an appropriate level					
6	Board members come to meetings prepared					
7	Decision making processes are satisfactory					
8	Matters arising from minutes and other outstanding items from prior meetings are suitably addressed					
9	Issues and opportunities that arise are brought to the Board in a timely fashion					
10	The minutes are a fair record of Board proceedings					



## Financial and Operational Performance

#	Question	Responses				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Financial matters are clearly presented and understood by the Board					
2	Financial risks and capital adequacy are clearly presented and understood by the Board					
3	Clear and appropriate monitoring reports on all aspects of the organization are presented at Board meetings					
4	Appropriate financial and regulatory matters are undertaken by Committees					
5	The Board has appropriate information to satisfy itself that all regulatory and legal requirements for which the Board has responsibility are being discharged properly, and in a timely fashion					



## Strategic Planning and Risk Assessment

#	Question	Responses				
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	CLLAS has a vision and a mission that is understood by all Board members					
2	The Board is appropriately involved in the strategic planning process					
3	The Board has appropriate structures and processes to help evaluate CLLAS' short and long term strategy and objectives					
4	The Board spends an appropriate amount of time to discuss strategy					
5	In making every major decision, the Board analyzes the potential risks arising from the decision					



## Open-ended Questions

#	Please complete the following questions:	Responses
1	The best thing about the Board is:	
2	The biggest issue facing the Board is:	
3	One thing I would change is:	
4	My thoughts on more fully engaging the Board in the processes of strategic planning are:	
5	My personal overall satisfaction is:	
6	Compared to other Boards, this Board is:	
7	Other comments: Please comment on any of the above questions or any aspects you think might be valuable to the Board	



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P R I V A T E   &   C O N F I D E N T I A L

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**Date:** August 26, 2016

**To:**

David Morritt	Barry Bresner
William Scott	Daniel MacDonald
Donald Milner	John Esvelt
Gordon Goodman	Julia Holland
Ken Crofoot	Michael Swartz
Nicholas Leblovic	

**Copy:** Patrick Mahoney

**From:** Joe Tontini and Ryan Durrell

**Re:** Final Report on the CLLAS Reinsurance Renewal Placement and Rating for July 1, 2016/2017

The purpose of this report is to provide the CLLAS Board with a final summary of the renewal, including the rating and reinsurance placement for July 1, 2016/2017. For ease of reference, we have attached the following exhibits:

- A. CLLAS Limit Structure
- B. Reinsurance and Colchester Retrocession Structure Overview
- C. Current Rate Structure and Participation by Reinsurer – Proportional and Aggregate Stop-Loss Reinsurance for CLLAS
- D. Current Rate Structure and Participation by Retrocessionaire – Proportional and Aggregate Stop-Loss Retrocession for Colchester
- E. Aggregate Stop-loss Reinsurance Structure (Historical between CLLAS and Colchester)

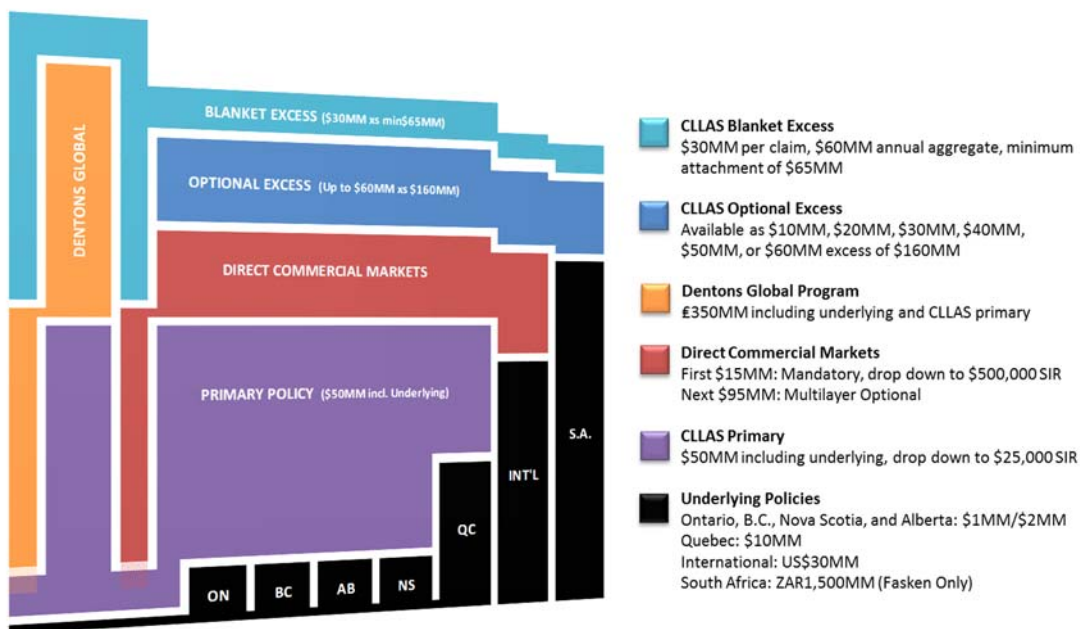
**Highlights**

The following are highlights of the renewal:

- As indicated in our report to the Board in June, the main objectives for the July 1, 2016/2017 renewal were to:
  - explore ways of reducing overall reinsurance costs along with possible reduction in insurance rates for CLLAS members;
  - attract new markets;
  - consider a further reduction in Colchester's participation;
  - maintain and enhance existing reinsurer relationships;
  - continue to evaluate ability to distribute surplus to members through premium credits.

We are very pleased to say that we were able to meet all of the objectives. We continued to strengthen reinsurer relationships, attracted new markets, and managed a significant reduction in overall reinsurance costs. We explored reducing Colchester's quota share participation, however, we concluded that participation below Colchester's expiring level is not strategically advisable at this time, so the current structure was maintained. CLLAS members also benefited from surplus distributions in the form of rate reductions from both CLLAS and Colchester for their net retentions.

- The CLLAS insurance structure as of July 1, 2016 remains unchanged and is depicted below. Please also see Exhibit A for a more detailed structure chart.



- The rates that CLLAS charged its members outside of Quebec were lowered significantly by 13.4%, 15.9% and 15.5% on the Primary, Optional Excess and Umbrella Policies, respectively. Similar reductions were realized in Quebec.
- CLLAS members have realized overall savings of approximately \$1,540,000, or roughly \$383 per lawyer, over the previous year's rates (excluding optional excess). Savings were primarily the result of a reduction in reinsurance costs. CLLAS also increased its return of surplus from \$500,000 to \$700,000 for 2016/2017.
- Tail coverage continues to be provided to former Heenan Blaikie LLP ("HB") lawyers on all CLLAS policies. Coverage is added by endorsement with premium charged only on the Primary Policy. Initially, it was decided that premium would be charged until the end of the current underwriting period. CLLAS should reassess the risk next year but it is unlikely, given the specific HB loss experience, that additional premiums will need to be charged during the next underwriting period.

- There is one minor house-keeping change to the policy wordings at renewal. Please see the “Policy Wording Changes” section below.
- The CLLAS reinsurance structure and retentions at renewal as described below were unchanged from last year:
  - a) Primary Policy Reinsurance (Layer 1): \$49,000,000 excess of \$1,000,000 (\$40,000,000 excess of \$10,000,000 for Quebec lawyers) – 100% reinsured.
    - 80% of this layer is proportionally reinsured with Lloyd’s and other reinsurers (unchanged from last year).
    - 20% is reinsured with Colchester (unchanged from last year). Colchester’s involvement is then layered and retroceded to various markets. A portion of Colchester’s participation is not transferred to other markets and is retained by Colchester – see Exhibit B.
    - CLLAS retains drop down exposure below \$1,000,000.

The combined CLLAS/Colchester maximum single loss retention remains at \$1,775,000.

- b) Optional Excess Policy Reinsurance (Layer 2): Between \$10,000,000 and \$60,000,000 excess of \$160,000,000 – 100% reinsured.
  - c) Umbrella Policy Reinsurance (Layer 3): \$30,000,000/\$60,000,000 excess of \$65,000,000 (minimum) – 100% reinsured.
  - d) Aggregate Stop-loss Reinsurance: \$10,000,000 aggregate excess of \$5,000,000 aggregate – 100% reinsured by Colchester.
  - e) Loss Portfolio Transfer Reinsurance: Retained claim liabilities from inception up to June 30, 2012 – 100% reinsured by Colchester.
- We proposed an aggressive 15% across the board reduction in our submission, notwithstanding the adverse claims development over the past year, due mainly to a large increase in the reserve on one claim, and the fact that our actuarially determined rates continue to be much higher than market rates. Naturally, underwriters were extremely hesitant to allow a reduction of this magnitude. Following challenging negotiations, we were finally able to achieve what we asked for. The underwriter at Argo Syndicate (lead on Layer 1) commented that this renewal had been challenging for them because the historical loss experience did not justify that kind of a reduction. While the resulting rate level is unsustainable, it was the strength of Argo’s relationship with CLLAS that had made this possible as they appreciated the critical nature of the final year of the current underwriting cycle. Once Argo, as lead syndicate, agreed to the reduction, the remaining syndicates followed suit.
  - On the London market front, all but one of the Lloyd’s syndicates have renewed and new capacity has been obtained from two new syndicates. As well, Munich Reinsurance Company (UK) rejoined the CLLAS Program. Domestically, Catlin Canada Inc. has exited the Program. More details can be found in the “Reinsurance Overview” section below.



- The participation of the lead on Layer 1 (Argo) was reduced slightly to 26.22% down from 27.26%. This reduction is in accordance with the general guidelines as proposed by the Audit Committee.
- Reinsurers' security ratings remain strong and CLLAS maintains a rigorous security monitoring process which the Audit Committee continues to oversee.

**CLLAS Primary Policy (Reinsurance Layer 1)**  
**\$50M per Claim and in the Annual Aggregate**

The Primary Policy provides coverage per firm of \$50M per claim and in the annual aggregate, including any underlying coverage provided by the respective law society and/or other mandatory insurance and/or any other insurance arranged on behalf of the firm. In Quebec, the Primary Policy is excess of the Quebec mandatory limit of \$10M. If there is no underlying insurance, then CLLAS would provide \$49.975M of coverage excess of \$25,000 deductible. CLLAS retains 100% of the per claim drop down exposure of up to \$975,000.

CLLAS members were charged \$2,585 per lawyer (\$1,180 per Quebec lawyer) and \$646 per patent & trademark agent to cover the expected loss costs, administration costs and premium taxes related to the CLLAS drop down retention. Compared to last year, the rates were reduced by 13.4%.

The premium charged for tail coverage provided to former HB lawyers is \$1,134 per lawyer (\$533 per Quebec lawyer).

Reinsurance Limit: \$49M aggregate per firm excess of \$1M aggregate per lawyer

CLLAS Retention: Nil other than 100% of the per claim drop down exposure of up to \$975,000

Reinsurance Rates: \$1,990 per lawyer (\$940 per Quebec lawyer)/\$498 per P&T agent  
The reinsurance rates were reduced by 15%.

\$850 per former HB lawyer (\$408 per lawyer in Quebec) for tail coverage.

**CLLAS Optional Excess Policy (Reinsurance Layer 2)**  
**Between \$10M and \$60M Aggregate xs \$160M Aggregate**

Firms have the option of purchasing limits between \$10M and \$60M in increments of \$10M. One firm purchased the limit of \$40M while eight others purchased the maximum limit of \$60M. Two firms did not purchase this policy.

CLLAS charged its members \$144 per lawyer and \$36 per patent & trademark agent for policies with limit of \$40M. For policies with limit of \$60M, CLLAS charged \$196 per lawyer and \$49 per patent & trademark agent. The rates were reduced by roughly 15.9% (depending on limit).

Reinsurance Limit: Between \$10M and \$60M (in increments of \$10M) aggregate per firm excess of \$110M aggregate per firm excess of the CLLAS Primary Policy

CLLAS Retention: Nil

Reinsurance Rates:     \$48 per lawyer/\$12 per P&T agent for limit of \$10M  
                                  \$83 per lawyer/\$21 per P&T agent for limit of \$20M  
                                  \$107 per lawyer/\$27 per P&T agent for limit of \$30M  
                                  \$131 per lawyer/\$33 per P&T agent for limit of \$40M  
                                  \$155 per lawyer/\$39 per P&T agent for limit of \$50M  
                                  \$179 per lawyer/\$45 per P&T agent for limit of \$60M

The above reinsurance rates were reduced by 15%.

**CLLAS Umbrella Policy (Reinsurance Layer 3)**  
**\$30M per Claim/\$60M Aggregate All Firms Combined xs Minimum of \$65M per Firm**

This policy is shared by all CLLAS firms.

CLLAS charged its members \$98 per lawyer and \$25 per patent & trademark agent. The rates were reduced by 15.5%.

Reinsurance Limit:     \$30M per claim/\$60M aggregate all firms combined excess of a minimum of \$65M per firm

CLLAS Retention:       Nil

Reinsurance Rates:     \$89 per lawyer/\$22 per P&T agent  
                                  The rates were reduced by 15%.

*Note: For all CLLAS policies, certain non-lawyer consultants, depending on risk, are charged the lawyer rate or the patent & trademark agent rate as appropriate.*

**Reinsurance Overview**

The following table compares the 2016/2017 reinsurance allocation to those of 2015/2016:

	London		Domestic		Colchester	
	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016
Reinsurance Layer 1	69%	71%	11%	9%	20%	20%
Reinsurance Layer 2	40%	30%	60%	70%	Nil	Nil
Reinsurance Layer 3	49%	44%	51%	56%	Nil	Nil

*Note: One Bermuda reinsurer is included under "Domestic".*

All but one (Barbican) of the incumbent Lloyd's syndicates renewed. The Argo Syndicate's participation as lead on Layer 1 has been reduced slightly from 27.26% to 26.22%. Miller had been successful in obtaining capacity from two new underwriters at the Endurance and Hamilton Syndicates. Miller has also brought Munich Reinsurance Company (UK) back to the CLLAS Program who participates 5% on Layer 2.

Catlin Group Limited was acquired by XL Group plc in May 2015. Catlin Canada Inc. was a significant reinsurer on CLLAS' Layer 2 (10%) and Layer 3 (5%) while XL was a significant insurer on Hub International's placement of the commercial excess policies. The newly merged group was not prepared to double its capacity. Since we have maintained overcapacity in our reinsurance placement, we agreed to allow the capacity to be used

in Hub International's placement because of some challenges posed by AIG in their layers. As a result, Catlin exited the CLLAS Program at renewal.

Westport Insurance Corporation continues to be the domestic lead with 30% on Layer 2 and 35% on Layer 3.

The new markets will provide extra security in the event other markets do not renew in the future. New markets would also facilitate the Associate Member initiative.

Please refer to Exhibits C and D for more details on the participating reinsurers and their percentages.

### **Reinsurance Security**

CLLAS has a number of reinsurers participating in the various layers of reinsurance and on the aggregate stop-loss and loss portfolio transfer protections. CLLAS is notably reliant on the following reinsurers:

- **Lloyd's** has a significant participation in all layers of coverage and also participates in Colchester's retrocession protection. Lloyd's is a marketplace of insurance entities operating under the Lloyd's umbrella called Syndicates. Each syndicate is individually capitalized, and also benefits from two layers of central assets held by Lloyd's. The Argo Syndicate at Lloyd's leads Reinsurance Layer 1 and is the most exposed among the Lloyd's syndicates with 26.22%. Lloyd's is A rated by Best and A+ rated by S&P.
- **Swiss Re/Westport** has a significant participation in Reinsurance Layers 2 and 3 and also in the Colchester retrocession protection. Swiss Re is A+ rated by Best and AA- rated by S&P.
- **Colchester** has a significant participation in Reinsurance Layer 1 and also provides CLLAS with aggregate stop-loss and loss portfolio transfer protections. Colchester is not registered in Canada and is not rated by the rating agencies. However, CLLAS is protected through a Reinsurance Security Agreement with Colchester.

Munich Reinsurance Company (UK), who rejoined the CLLAS Program, is rated A+ by Best and AA- by S&P.

CLLAS' comprehensive reinsurance security review is due to be completed by the Audit Committee this fall.

### **Aggregate Stop-Loss Protection and Retrocession Protection**

Colchester provides the following aggregate stop-loss protection in 2016/17 (see Exhibits C and E):

Limit: \$10,000,000 in the annual aggregate excess of \$5,000,000 in the annual aggregate in respect of CLLAS' retained losses in the drop down layer below \$1,000,000

Rate: \$22.8 per lawyer/\$5.7 per P&T agent

In turn, Colchester purchases aggregate retrocession coverage as follows:

Limit: \$15,000,000 excess of \$2,500,000 for losses in respect of proportional and aggregate reinsurances provided to CLLAS net of other proportional retrocession protection purchased

### Changes to Reinsurance Contracts

There is no change to the reinsurance contracts this year. An endorsement continues to be attached to each contract to provide tail coverage to former HB lawyers.

### Reinsurance Guidelines

Since CLLAS is regulated by the Alberta Superintendent of Insurance (“ASOI”), it is no longer bound by the FSCO guidelines of maximum 75% total reinsurance and maximum 25% unregistered reinsurance. The ASOI instead takes a risk-based approach to reinsurance and recognizes CLLAS’ annual reinsurance security review, the implementation of the CLLAS/Colchester Reinsurance Security Agreement and CLLAS’ reinsurance reserving margin on ceded liabilities.

### Policy Wording Changes

To be consistent with the rest of the wording, the definition of “Service Company” on the Primary Policy is amended slightly as follow:

“**Service Company**” means a corporation or partnership (other than a **Professional Corporation**) including its officers, directors, partners and **Employees**, providing services exclusively to or through the **Named Insured**.

There is no change other than this.

The policies have already been prepared and will be issued and distributed shortly.

### Expectations for the Next Reinsurance Renewal

Next year will be a critical year for CLLAS members as they will be asked to commit to another five-year underwriting period. As critical participants in the success of CLLAS, reinsurance underwriters have demonstrated their allegiance to CLLAS by allowing a significant rate reduction this year on the hope and expectation that CLLAS members will renew for another five-year period.

It is too early to predict what the market conditions will be like next year but it is likely that market rates will continue to be lower than actuarially determined rates. This means that CLLAS can continue to take advantage of market conditions through low risk retention and surplus distribution both at the CLLAS and Colchester levels.

### Update on the CLLAS Associate Member Initiative

As advised in our June 17, 2016 report, Lenczner Slaght Royce Smith Griffin LLP, the first CLLAS Associate Member, has already indicated a strong interest in formally joining CLLAS as a subscriber to the reciprocal on July 1, 2017. Axxima Insurance Services will pursue this.

Also, over the course of the next few months leading up to the January 1, 2017 renewals (for most Ontario firms), Axxima will be selectively approaching a number of other law firms to explore the prospect of joining CLLAS either as full members or as Associate Members.

### **The Colchester Initiative**

Another possible added value initiative relates to the use of Colchester. As a more substantial insurance entity, Colchester has the ability to expand its services to individual members. While a “segregated cell captive” structure was given some consideration by CLLAS members, the business case was not compelling. Discussions were initiated with Blakes and Dentons on the prospect of using its distributable capital and surplus in a more effective manner. These discussions continue but are still very preliminary. Hopefully, they will lead to an expansion of value added possibilities for Colchester shareholders.

### **Cyber Risks**

Cyber risks continue to be of prime concern to CLLAS members. CLLAS was ahead of the curve when it amended its professional liability policy to clarify that cyber coverage would be included as it related to professional services. Since then, we have had a number of inquiries about the extent of the coverage; some initiated by clients of the CLLAS member firms and some initiated because of member firms’ concern about the potential for reputation damage in the event of a significant cyber event. We continue to investigate and evaluate the merits of various approaches to cyber risks and will provide some developing thoughts on the subject during the upcoming year.

### **Concluding Remarks**

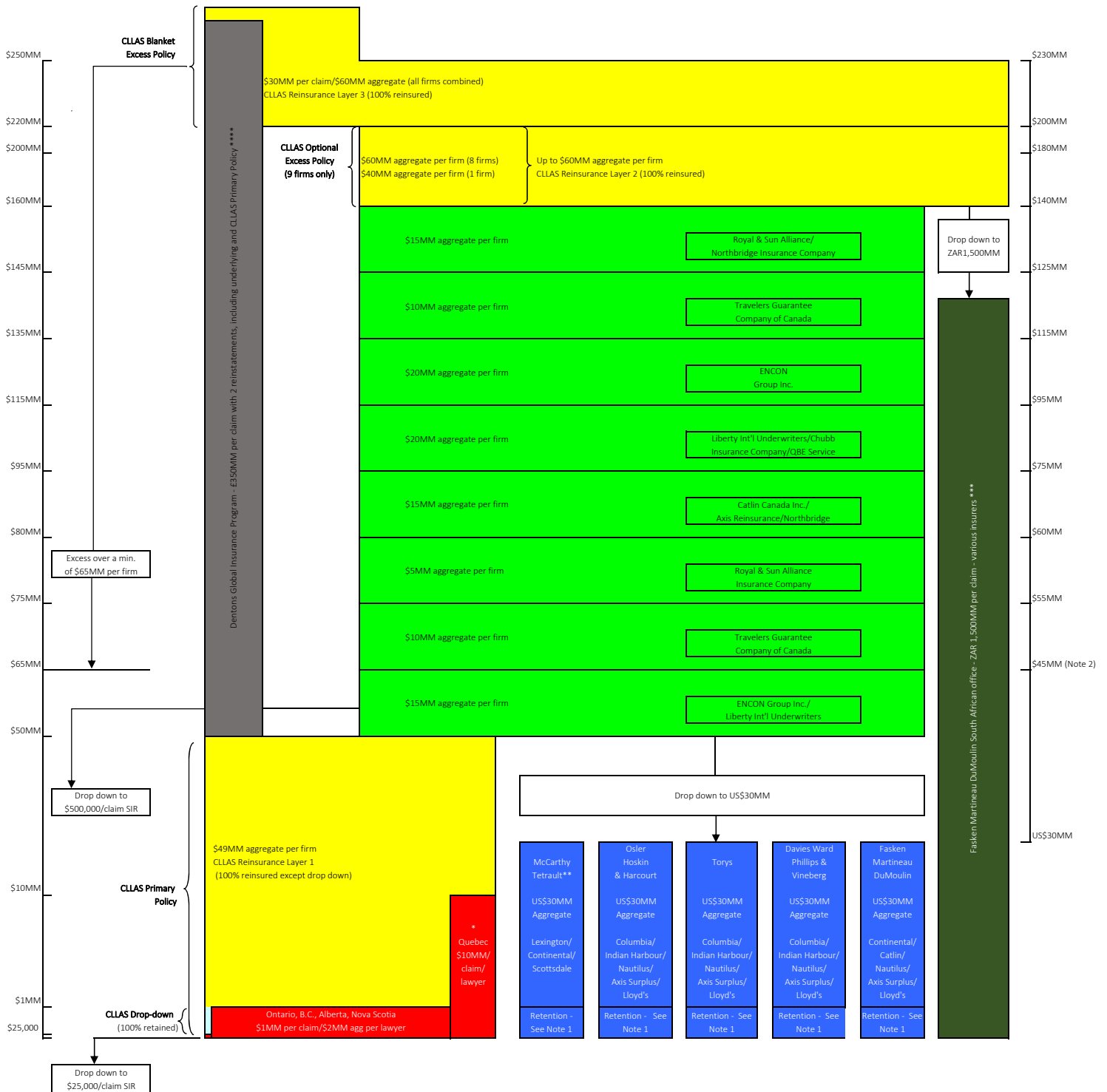
The above summarizes the insurance and reinsurance programs that have been put in place for the July 1, 2016/2017 policy year. The results have exceeded expectations. The significantly reduced reinsurance premiums that we were able to achieve were directly due to the excellent reputation that CLLAS has in the marketplace, the long-standing and reliable relationship that CLLAS enjoys with its reinsurers and their strong desire to continue writing the largest excess lawyers’ professional liability insurance group in the country for another underwriting cycle. We trust that these considerations, resulting in significantly reduced premiums, will be important factors in the upcoming decision that CLLAS members will have to make about the next five-year underwriting period.

CLLAS has served its members well for almost 30 years and there is no reason why it cannot continue to do so for many years to come. CLLAS is a unique organization that is able to take advantage of market conditions through group buying power and strategic risk retention. Its solid reinsurance relationships, excellent risk management and personal claims management approach make CLLAS the envy of the legal community.

CLLAS LIMIT STRUCTURE  
JULY 1, 2016 - JULY 1, 2017

Canadian Exposures

Foreign Exposures



Note: All limits are expressed in Canadian currency unless otherwise specified.

\* The CLLAS Primary Policy is excess of \$10MM/claim/lawyer in Quebec.

\*\* The policy runs from September 30 to September 30.

\*\*\* The policies run from February 1 to February 1.

\*\*\*\* The policies run from May 1 to May 1.

Note 1: Retentions based on locations of the risk as follows:

U.S. - US\$100,000 (US\$50,000 for McCarthy Tetrault); U.K. - US\$75,000 for McCarthy Tetrault, US\$350,000 for Fasken; elsewhere in the world - US\$50,000

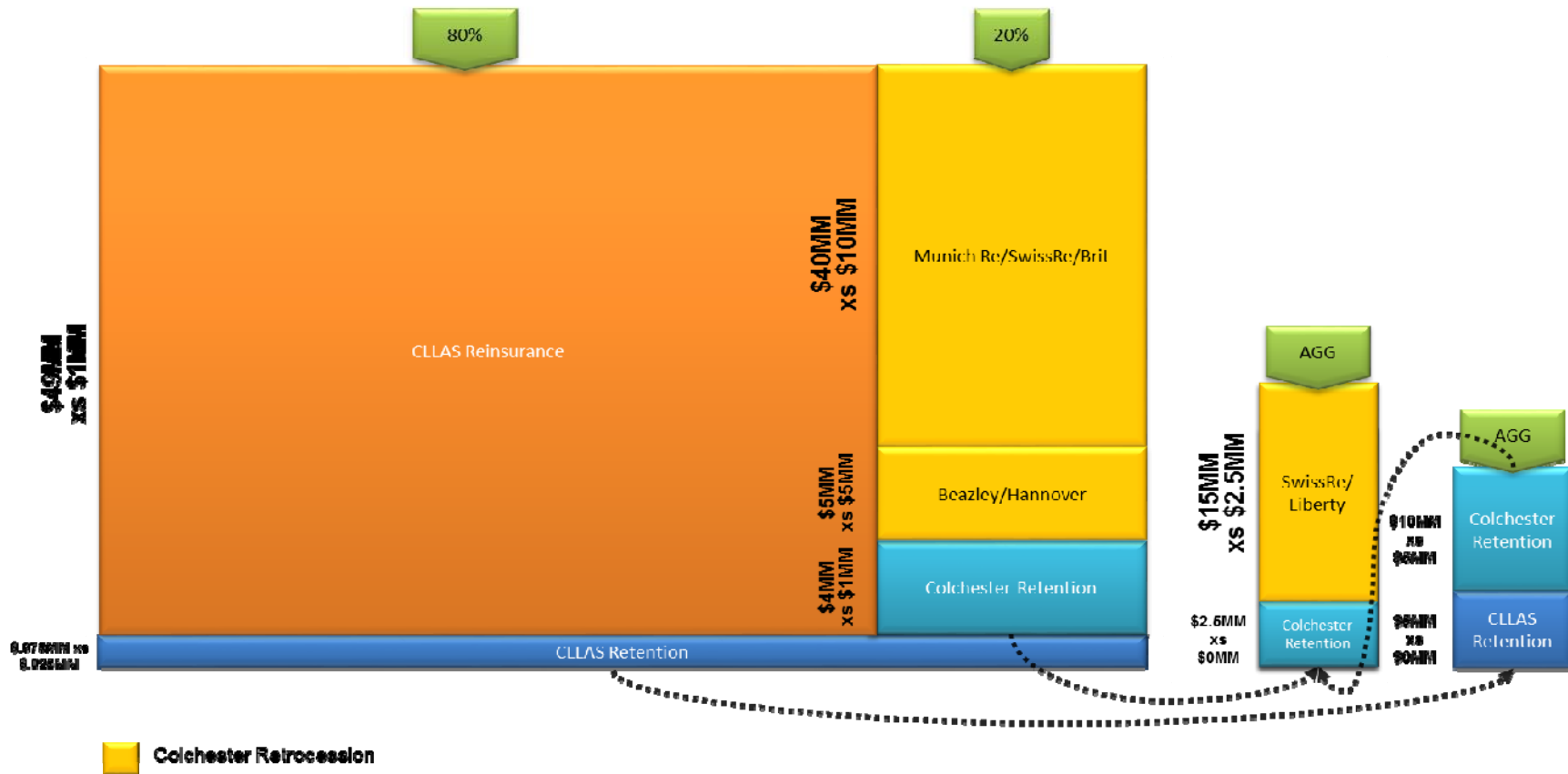
Patent & Trademark work for McCarthy Tetrault only - US\$50,000 worldwide.

Note 2: Assume underlying limit of US\$30MM equivalent to \$30MM.

# CLLAS/Colchester

Reinsurance and Retrocession Structure Overview (2016-2017)

EXHIBIT B



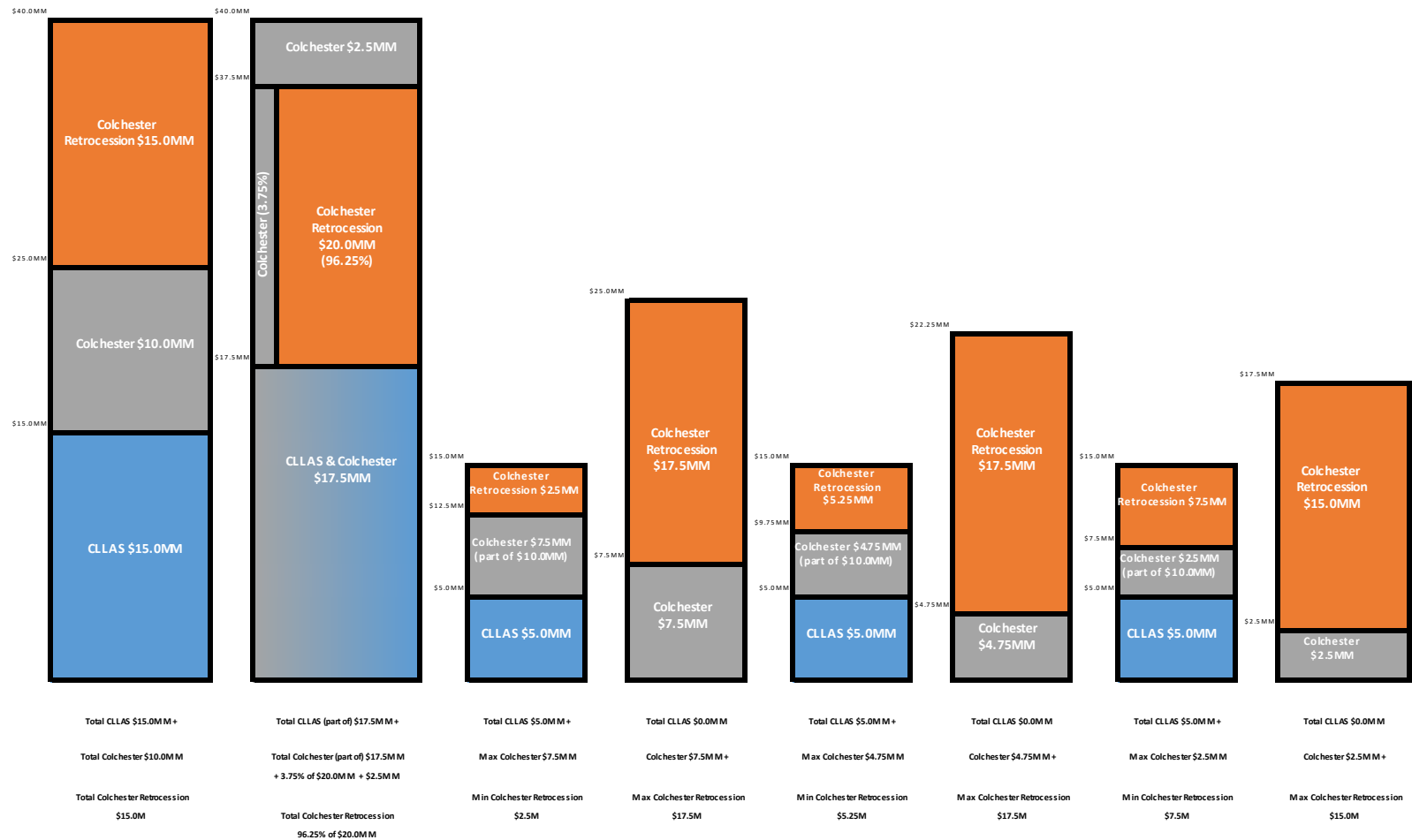
CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)				2016-2017 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - INFORMATION AS AT JULY 1, 2016 \1																														Exhibit C	
		LAYER 1 \$49MM XS \$1MM		LAYER 2 UP TO \$60MM XS \$160MM												LAYER 3 \$30/60MM XS MIN \$65MM		HEENAN BLAIKIE RUN-OFF COVER																	
REINSURERS		SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM		DUE JUL 15, 2016 \2	DUE SEP 1, 2016 \3	DUE DEC 1, 2016 \3	DUE JAN 1, 2017 \4	DUE JUN 1, 2017 \3	GRAND TOTAL									
TOTAL PROPORTIONAL		100.00%	\$7,262,322	100.00%	\$0	100.00%	\$0	100.00%	\$0	100.00%	\$92,623	100.00%	\$0	100.00%	\$517,093	100.00%	\$373,475	100.00%	\$96,103							\$8,341,616									
CLLAS PROPORTIONAL RETENTION		0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0							\$0									
PROPORTIONAL REINSURERS																																			
Lloyd's		62.53%	\$4,541,130	35.00%	\$0	35.00%	\$0	35.00%	\$0	35.00%	\$32,416	35.00%	\$0	35.00%	\$180,983	49.00%	\$183,002	62.53%	\$60,093		\$1,249,406	\$1,249,406	\$1,249,406	\$1,249,406	\$4,997,624										
Acappella 2014		0.97%	\$70,445	5.89%	\$0	5.89%	\$0	5.89%	\$0	5.89%	\$5,455	5.89%	\$0	5.89%	\$30,457	4.49%	\$16,769	0.97%	\$932																
Amlin - AML 2001		9.71%	\$705,171															9.71%	\$9,332																
Antares - AUL 1274		6.47%	\$469,872															6.47%	\$6,218																
Argo - AMA 1200		26.22%	\$1,904,181															26.22%	\$25,198																
Beazley - AFB 623/2623																																			
Brit - BRT 2987				10.10%	\$0	10.10%	\$0	10.10%	\$0	10.10%	\$9,355	10.10%	\$0	10.10%	\$52,226	1.99%	\$7,432																		
Catlin - SIC 1003/2003																23.00%	\$85,899																		
Endurance - ENH 5151				3.13%	\$0	3.13%	\$0	3.13%	\$0	3.13%	\$2,899	3.13%	\$0	3.13%	\$16,185	2.69%	\$10,046																		
Faraday - FDY 435				1.76%	\$0	1.76%	\$0	1.76%	\$0	1.76%	\$1,630	1.76%	\$0	1.76%	\$9,101	3.21%	\$11,989																		
Hamilton - HAM 3334		2.49%	\$180,832	1.16%	\$0	1.16%	\$0	1.16%	\$0	1.16%	\$1,074	1.16%	\$0	1.16%	\$5,998	1.49%	\$5,565	2.49%	\$2,393																
Markel - MKL 3000				6.69%	\$0	6.69%	\$0	6.69%	\$0	6.69%	\$6,196	6.69%	\$0	6.69%	\$34,594	5.83%	\$21,774																		
Pembroke - PEM 4000				3.03%	\$0	3.03%	\$0	3.03%	\$0	3.03%	\$2,806	3.03%	\$0	3.03%	\$15,668	3.61%	\$13,482																		
Pioneer - PPI 9969		12.95%	\$940,471															12.95%	\$12,445																
AmTrust 1206		1.21%	\$87,874	3.24%	\$0	3.24%	\$0	3.24%	\$0	3.24%	\$3,001	3.24%	\$0	3.24%	\$16,754	2.69%	\$10,046	1.21%	\$1,163																
Vibe 5678		2.51%	\$182,284															2.51%	\$2,412																
London Companies		6.47%	\$469,872	5.00%	\$0	5.00%	\$0	5.00%	\$0	5.00%	\$4,631	5.00%	\$0	5.00%	\$25,855	0.00%	\$0	6.47%	\$6,218	\$238,045	\$7,622	\$7,622	\$245,667	\$7,622	\$506,576										
Allianz Global Risks		6.47%	\$469,872															6.47%	\$6,218	\$238,045			\$238,045		\$476,090										
Munich Reinsurance Company, UK General Branch				5.00%	\$0	5.00%	\$0	5.00%	\$0	5.00%	\$4,631	5.00%	\$0	5.00%	\$25,855					\$7,622	\$7,622		\$7,622		\$30,486										
Total London Market		69.00%	\$5,011,002	40.00%	\$0	40.00%	\$0	40.00%	\$0	40.00%	\$37,047	40.00%	\$0	40.00%	\$206,838	49.00%	\$183,002	69.00%	\$66,311	\$238,045	\$1,257,028	\$1,257,028	\$1,495,073	\$1,257,028	\$5,504,200										
Payable to Miller																				\$0	\$1,257,028	\$1,257,028	\$1,257,028	\$1,257,028	\$5,028,110										
Canadian Companies		31.00%	\$2,251,319	60.00%	\$0	60.00%	\$0	60.00%	\$0	60.00%	\$55,574	60.00%	\$0	60.00%	\$310,256	51.00%	\$190,472	31.00%	\$29,792	\$1,418,707			\$1,418,707		\$2,837,413										
Allied World (not Can. Lic.)				7.00%	\$0	7.00%	\$0	7.00%	\$0	7.00%	\$6,484	7.00%	\$0	7.00%	\$36,197	12.00%	\$44,817			\$43,749			\$43,749		\$87,498										
AXIS Re		5.00%	\$363,116	5.00%	\$0	5.00%	\$0	5.00%	\$0	5.00%	\$4,631	5.00%	\$0	5.00%	\$25,855			5.00%	\$4,805	\$199,204			\$199,204		\$398,407										
Colchester (not Can. Lic.)		20.00%	\$1,452,464															20.00%	\$19,221	\$735,843			\$735,843		\$1,471,685										
Continental Casualty Company, Canadian Branch		6.00%	\$435,739															6.00%	\$5,766	\$220,753			\$220,753		\$441,505										
HDI Global SE Canada Branch				10.00%	\$0	10.00%	\$0	10.00%	\$0	10.00%	\$9,262	10.00%	\$0	10.00%	\$51,709	4.00%	\$14,939			\$37,955			\$37,955		\$75,910										
Royal & Sun Alliance Insurance Co. of Canada				8.00%	\$0	8.00%	\$0	8.00%	\$0	8.00%	\$7,410	8.00%	\$0	8.00%	\$41,367					\$24,389			\$24,389		\$48,777										
Westport Insurance Corporation				30.00%	\$0	30.00%	\$0	30.00%	\$0	30.00%	\$27,787	30.00%	\$0	30.00%	\$155,128	35.00%	\$130,716			\$156,816			\$156,816		\$313,631										
TOTAL PROPORTIONAL REINSURERS		100.00%	\$7,262,321	100.00%	\$0	100.00%	\$0	100.00%	\$0	100.00%	\$92,621	100.00%	\$0	100.00%	\$517,094	100.00%	\$373,474	100.00%	\$96,103	\$1,656,752	\$1,257,028	\$1,257,028	\$2,913,779	\$1,257,028	\$8,341,613										
AGGREGATE STOP-LOSS REINSURERS																																			
Colchester																				\$46,033			\$46,033		\$92,066										
TOTAL REINSURANCE COST																				\$1,702,785	\$1,257,028	\$1,257,028	\$2,959,812	\$1,257,028	\$8,433,679										
PROPORTIONAL REINSURANCE																																			
Rate per Lawyer		\$1,990.00		\$48.00		\$83.00		\$107.00		\$131.00		\$155.00		\$179.00		\$89.00		\$850.08							AGGREGATE										
Rate per Quebec Lawyer		\$940.00		n/a		n/a		n/a		n/a		n/a		n/a		n/a		\$408.24							\$22.80										
Total # Lawyers other than Quebec at 6/15/16		3278.0		0		0		0		700		0		2878		4173		90							3,278.0										
Total # Quebec Lawyers at 6/15/16		736.5		0		0		0		0		0		0		0		48							736.5										
Total # Lawyers practising foreign law at 6/15/16		0		0		0		0		0		0		0		0		0							0										
Total # NLC at Lawyer Rate at 6/15/16 \5		10		0		0		0		1		0		4		10									10										
Rate per P&T Agent \6		\$498.00		\$12.00		\$21.00		\$27.00		\$33.00		\$39.00		\$45.00		\$22.00		N/A							\$5.70										
Total # P&T Agents at 6/15/16		38		0		0		0		19		0		19		38		0							38										
Total # NLC at P&T Rate at 6/15/16		16		0		0		0		5		0		8		16		0							16										
NLC = Non-lawyer Consultant																																			
NOTES: \1 This is an information document, not an accounting ledger.																																			
\2 Semi-annual instalment for Canadian Companies.																																			
\3 Quarterly instalment for Miller. Fund should be sent to Miller, through ARS as Miller's broker, with about 2 weeks lead time.																																			
\4 Semi-annual instalment for Canadian Companies and quarterly instalment for Miller. Fund should be sent to Miller, through ARS as Miller's broker, with about 2 weeks lead time.																																			
\5 The rate for NLC in all provinces is the same as the rate for lawyers in provinces other than Quebec.																																			
\6 Applicable in all provinces.																																			



COLCHESTER REINSURANCE LTD.		2016-2017 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - INFORMATION AS AT JULY 1, 2016 \1											Exhibit D
		LAYER 1		LAYER 4		AGGREGATE							
		\$5MM XS \$5MM		\$40MM XS \$10MM		\$15MM XS \$2.5MM							
REINSURERS		SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	DUE	DUE	DUE	DUE	DUE	GRAND
								JUL.15, 2015	SEP. 1, 2015	OCT. 1, 2015	JAN.1, 2016	APR. 1, 2016	TOTAL
TOTAL PROPORTIONAL		100.00%	\$1,855,470	100.00%	\$3,581,720	100.00%	\$229,500						\$5,666,690
CLLAS PROPORTIONAL RETENTION		80.00%	\$1,484,376	80.00%	\$2,865,376	0.00%	\$0						\$4,349,752
COLCHESTER PROPORTIONAL RETENTION		0.00%	\$0	0.00%	\$0	0.00%	\$0						\$0
OTHER REINSURANCE		0.00%	\$0	0.00%	\$0	0.00%	\$0						\$0
PROPORTIONAL REINSURERS													
Lloyd's		11.00%	\$204,101	2.50%	\$89,543	20.00%	\$45,900		\$84,886	\$84,886	\$84,886	\$84,886	\$339,544
AFB 623 / 2623		9.00%	\$166,992						\$41,748	\$41,748	\$41,748	\$41,748	\$166,992
BRT2987		2.00%	\$37,109	2.50%	\$89,543				\$31,663	\$31,663	\$31,663	\$31,663	\$126,652
LIB4472						20.00%	\$45,900		\$11,475	\$11,475	\$11,475	\$11,475	\$45,900
London Companies		9.00%	\$166,992	17.50%	\$626,801	80.00%	\$183,600		\$244,348	\$244,348	\$244,348	\$244,348	\$977,393
Hannover Re		9.00%	\$166,992						\$41,748	\$41,748	\$41,748	\$41,748	\$166,992
Munich Re - UK Branch				12.50%	\$447,715				\$111,929	\$111,929	\$111,929	\$111,929	\$447,715
Swiss Re International SE				5.00%	\$179,086	80.00%	\$183,600		\$90,672	\$90,672	\$90,672	\$90,672	\$362,686
Total London Market		20.00%	\$371,094	20.00%	\$716,344	100.00%	\$229,500		\$329,234	\$329,234	\$329,234	\$329,234	\$1,316,937
Payable to Miller									\$329,234	\$329,234	\$329,234	\$329,234	\$1,316,937
Canadian Companies		0.00%	\$0	0.00%	\$0	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0
None								\$0					\$0
TOTAL PROPORTIONAL REINSURERS		20.00%	\$371,094	20.00%	\$716,344	100.00%	\$229,500	\$0	\$329,234	\$329,234	\$329,234	\$329,234	\$1,316,937
PROPORTIONAL REINSURANCE													
Rate per Lawyer		\$562.00		\$887.00		\$56.84							
Rate per Quebec Lawyer		\$0.00		\$887.00		\$56.84							
Total # Lawyers other than Quebec at 6/15/15		3278.0		3278.0		3278.0							
Total # Quebec Lawyers at 6/15/15		736.5		736.5		736.5							
Total # Lawyers practising foreign law at 6/15/15		0		0		0							
Total # NLC at Lawyer Rate at 6/15/15		10		10		10							
Rate per P&T Agent		\$141.00		\$222.00		\$14.21							
Total # P&T Agents at 6/15/15		38		38		38							
Total # NLC at P&T Rate at 6/15/15		16		16		16							
NLC = Non-lawyer Consultant													
NOTE: \1 This is an information document, not an accounting ledger.													

Aggregate Stop-loss Reinsurance Structure (Historical)

JULY 1, 2009-2011		JULY 1, 2011-2012		JULY 1, 2012-2013		JULY 1, 2013-2014		JULY 1, 2014-2015 - JULY 1, 2016-2017	
				Below \$1MM (D rop-down)	Excess of \$1MM	Below \$1MM (D rop-down)	Excess of \$1MM	Below \$1MM (D rop-down)	Excess of \$1MM
Per Claim Retention:									
CLLAS	\$13,350,000 - \$14,475,000	\$13,225,000		\$975,000	\$0	\$975,000	\$0	\$975,000	\$0
Colchester	\$0	\$1,000,000		\$0	\$4,150,000	\$0	\$1,700,000	\$0	\$800,000

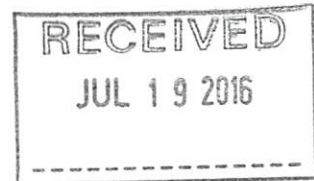


MARTIN, LUCAS & SEAGRAM LTD.  
INDEPENDENT INVESTMENT COUNSEL  
SUITE 620, 48 YONGE STREET  
TORONTO  
M5E 1G9

TELEPHONE: 416-363-6216  
FACSIMILE: 416-363-4538  
E-MAIL: INFO@MLSINVEST.COM

July 14, 2016

Mr. Patrick Mahoney,  
Axxima,  
36 Toronto Street, Suite 510  
Toronto ON M5C 2C5



Dear Patrick:

**Re: Canadian Lawyers Liability Assurance Society**

Please find enclosed our quarterly investment report for the period ending June 30 last on the Short and Long Term Fund last for CLLAS, together with a copy of our accounts, the originals of which have been sent to RBC Dexia Investor Services for payment.

Bond prices ended the period moderately higher on balance. The short-term index remained flat, while the mid and long term bond indices rose 1.6% and 4.6% respectively.

Reflecting these shifts, the Long Term Investment Fund recorded a capital increase of 0.5%.

Activity during the quarter centred on the roll-over of maturities in the Short Term Investment Fund.

Please do not hesitate to call if you have any questions or comments on the report.

With best regards,

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Andrew Bell". The signature is fluid and cursive, with a large initial 'A'.

RWB/mab  
Enclosures

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July 14, 2016

*Duplicate*

In account with

**Canadian Lawyers Liability Assurance Society**  
**- Short Term Investment Fund**

---

Valuation of Short Term Investment Fund at June 30, 2016	\$11,981,027
Investment Counsel Fee for the period April 1 to June 30, 2016 at .025% (1/4 of .10% per annum)	\$2,995.26
Harmonized Sales Tax (HST) at 13%	<u>389.38</u>
	<u><u>\$3,384.64</u></u>

Please return this account when  
making payment so that it may be  
receipted and sent back to you.

HST Registration No. R103546115

**MARTIN, LUCAS & SEAGRAM LTD.**  
**INDEPENDENT INVESTMENT COUNSEL**  
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July 14, 2016

*Duplicate*

In account with

**Canadian Lawyers Liability Assurance Society**  
**- Long Term Investment Fund**

---

Valuation of Long Term Investment Fund at June 30, 2016	\$4,827,499
--	-------------

Investment Counsel Fee for the period April 1 to June 30, 2016 at .0625% (1/4 of .25% per annum)	\$3,017.19
--	------------

Harmonized Sales Tax (HST) at 13%	392.23
	<u>\$3,409.42</u>

Please return this account when  
making payment so that it may be  
receipted and sent back to you.

HST Registration No. R103546115

**CLLAS**  
***CANADIAN LAWYERS LIABILITY***  
***ASSURANCE SOCIETY***

**INVESTMENT REPORT**  
**JUNE 30, 2016**

**MARTIN, LUCAS & SEAGRAM LTD.**  
**INDEPENDENT INVESTMENT COUNSEL**

Suite 620, 48 Yonge Street  
Toronto, Ontario  
M5E 1G9

Tel.: 416-363-6216  
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e-mail: [info@mlsinvest.com](mailto:info@mlsinvest.com)



***CLLAS***  
***CANADIAN LAWYERS LIABILITY***  
***ASSURANCE SOCIETY***

**COMMENTARY FOR THE QUARTER ENDING JUNE 30, 2016**

**Review of Market Yields**

Following a sharp upward move early in the second quarter, bond yields traded in a downward sawtooth pattern over the balance of the period. At the end of June, 3-Month Treasury yields were up 3 basis points, while 5-year yields fell back 11 basis points. The decline for longer term issues was more pronounced, with 7-year yields falling 24 basis points, while 10-year yields moved down by 17 basis points.

As a result of the slight uptick at the short end and the downward shift in yields at the longer end, the yield curve flattened during the second quarter as the yield advantage of 10-year issues over Treasury Bills declined to 58 points at the end of June from 78 basis points three months earlier.

	<b>Jan. 1/95</b>	<b>Dec. 31/15</b>	<b>Mar. 31/16</b>	<b>Jun. 30/16</b>
3-Month Treasury Bills	6.80%	0.51%	0.45%	0.48%
5-year Canadas	8.99%	0.73%	0.68%	0.57%
10-year Canadas	9.09%	1.39%	1.23%	1.06%

During the quarter, in the Short Term Investment Fund, activity involved the roll-over of money market securities.

There were no transactions in the Long Term Investment Fund during the period.

During the second quarter, the market value of the Long Term Investment Fund holdings increased by \$22,165, which represents a capital increase of 0.5%.

At June 30, 2016, the average term to maturity of the Long Term Investment Fund stood at 3.5 years.

The table below shows the distribution of the assets held in both the Short and Long Term Investment Funds at June 30.

<b><i>Distribution at June 30, 2016</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$11,981,027	71.3%
Long Term Investment Fund	4,827,499	28.7%
<b>TOTAL COMBINED VALUATION</b>	<b>\$16,808,526</b>	<b>100.0%</b>



## ***CLLAS***

### **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

*The following pages set out tables, commentary and schedules on the items listed below:*

- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund  
by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short and Long Term Investment Funds  
Listed and Valued Separately as at June 30, 2016
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

## **CLLAS**

### **LONG TERM INVESTMENT FUND**

#### **TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING JUNE 30, 2016**

	Since Inception Dec. 17/13*	2 Years*	1 Year	Last 3 months
<b><i>Long Term Investment Fund – Gross of Fees</i></b>	<b>3.73%</b>	<b>3.77%</b>	<b>2.89%</b>	<b>1.04%</b>
<b><i>Long Term Investment Fund – Net of Fees</i></b>	<b>3.43%</b>	<b>3.47%</b>	<b>2.60%</b>	<b>0.97%</b>
<b>Benchmark Portfolio **</b>	<b>4.33%</b>	<b>3.98%</b>	<b>3.23%</b>	<b>1.34%</b>

\* Annualized

\*\* The Benchmark Portfolio is based on the sum of the following total return indices:  
60% Canada Short Bond Index  
40% Canada Mid Bond Index

### **SHORT TERM INVESTMENT FUND**

#### **TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING JUNE 30, 2016**

	Since Inception Oct. 1/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
<b><i>Short Term Investment Fund – Gross of Fees</i></b>	<b>0.79%</b>	<b>0.74%</b>	<b>0.65%</b>	<b>0.52%</b>	<b>0.15%</b>
<b><i>Short Term Investment Fund – Net of Fees</i></b>	<b>0.66%</b>	<b>0.63%</b>	<b>0.54%</b>	<b>0.41%</b>	<b>0.13%</b>
<b>Benchmark Portfolio **</b>	<b>0.75%</b>	<b>0.73%</b>	<b>0.63%</b>	<b>0.46%</b>	<b>0.11%</b>

\* Annualized

\*\* The Benchmark Portfolio, adopted from October 1, 2008, is based 100%  
on the total return index of the 30-day Treasury Bill Index

***CLLAS*****LONG TERM INVESTMENT FUND****DISTRIBUTION OF SECURITIES BY CREDIT RISK****(Based on Market Values)**

	<b>Dec. 17/13</b>	<b>Sep. 30/15</b>	<b>Dec. 31/15</b>	<b>Mar. 31/16</b>	<b>Jun. 30/16</b>
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	100.0%	6.3%	16.8%	16.8%	16.6%
<b>Canadas</b> Greater than 1 year term		25.8%	19.5%	19.5%	19.6%
<b>Provincials</b> Greater than 1 year term		31.2%	31.2%	31.2%	31.3%
<b>Corporates</b> Greater than 1 year term		36.7%	32.5%	32.5%	32.5%
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**LONG TERM INVESTMENT FUND****DISTRIBUTION OF SECURITIES BY MATURITY****(Based on Market Values)**

	<b>Sep. 30/15</b>	<b>Dec. 31/15</b>	<b>Mar. 31/16</b>	<b>Jun. 30/16</b>
Under 1 year	6.3%	16.8%	16.8%	16.6%
1 - 3 years	39.0%	28.4%	28.2%	33.4%
3 - 5 years	21.6%	21.6%	21.6%	20.7%
5 - 7 years	15.8%	20.2%	23.6%	19.3%
7 - 10 years	17.3%	13.0%	9.8%	10.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average Maturity (yrs)</b>	<b>4.18</b>	<b>3.94</b>	<b>3.70</b>	<b>3.47</b>
<b>Average Duration (yrs)</b>	<b>3.85</b>	<b>3.65</b>	<b>3.43</b>	<b>3.23</b>

**SHORT TERM INVESTMENT FUND**

	<b>Sep. 30/15</b>	<b>Dec. 31/15</b>	<b>Mar. 31/16</b>	<b>Jun. 30/16</b>
<b>Short Term</b> <b>Average Duration (yrs)</b>	<b>0.11</b>	<b>0.12</b>	<b>0.07</b>	<b>0.14</b>

# CLLAS

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT JUNE 30, 2016

	Investment Limits	Investment Funds	Compliance
<b><i>Short Term Investment Fund</i></b>			
Maximum Term of Any Issue	1 year	0.3 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	71.3%	Yes
Minimum Canada & Provincial Percentage	50%	50.1%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1 (high)	R1 (high)	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	8.9 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	28.7%	Yes
Minimum Canada Percentage	20%	25.8%	Yes
Maximum Provincial Percentage	40%	37.5%	Yes
Minimum Canada & Provincial Percentage	60%	63.3%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	36.7%	Yes
Minimum Corporate Quality *	A	AA	Yes

\* At time of purchase

This will confirm that during the second quarter the Long Term Investment Fund was managed in compliance with the Investment Policy limits provided on December 3, 2013.

Similarly, during the same period the Short Term Fund remained in compliance with the Investment Policy Statement that became effective on May 5, 2012.

# ***CLLAS***

Martin, Lucas & Seagram Ltd.  
**PERFORMANCE REPORT**  
**GROSS OF FEES**  
***CLLAS - LONG TERM INVESTMENT FUND***  
***(RBC Investor Services)***  
*From 03-31-16 to 06-30-16*

Portfolio Value on 03-31-16	4,805,334
Accrued Interest	26,272
Contributions	0
Withdrawals	-34,014
Realized Gains	0
Unrealized Gains	22,166
Interest	34,014
Dividends	0
Change in Accrued Interest	-6,082
Portfolio Value on 06-30-16	4,827,499
Accrued Interest	20,190
Average Capital	4,821,958
Total Gain before Fees	50,097
IRR for 0.25 Years	1.04%

## **CLLAS**

### **BOND MARKET COMMENTARY AND FUTURE POLICY**

Following a rocky start during the first six weeks of the year, global equity markets regained their footing and as measures of volatility moved steadily lower, the major North American and offshore stock indices moved in a bumpy upward trend in the second quarter. During this period, investor confidence was bolstered by a recovery in commodity prices, additional monetary stimulus from offshore central banks and a moderation in global growth. The latter two trends were also supportive of bond prices, as global investors increasingly sought the safety and comparatively higher yields available in North America, after Central banks in Europe and Japan adopted negative rates and expanded their bond buying program.

As the Brexit vote grew nearer, volatility returned and equity markets became increasingly erratic, with prices spiking higher on the eve of the vote, while bond yields shifted higher. Clearly, investors were surprised by the leave side's win given the subsequent global stock market selloff and the rush into bonds, which pushed yields of over half of EU sovereign bonds into negative territory, while moving Canada and U.S. 10-year yields to all-time record lows. Since then, stocks have recorded a sharp v-shaped recovery and bond yields have shifted moderately higher, although they remain well below their levels prior to the Brexit vote, due in part to expectations of further central bank intervention.

While Brexit has dominated investor attention over the past few weeks, news on the global economic front has been mixed. On the plus side, the U.S. economy gained upward momentum during the second quarter and the latest figures suggest GDP growth will be above 2%, compared to the disappointing 1.1% gain in the first quarter. The service sector, which accounts for some two-thirds of economic activity, showed a strong uptick in June with the purchasing manager's index (PMI) reaching a seven month high. The manufacturing PMI also strengthened last month and posted its highest reading in three months. Similarly, America's job market rebounded in June. Following a two-month lull, payrolls climbed well ahead of the highest estimates. This has alleviated concerns surrounding the outlook for consumer spending, which is further supported by wage gains, healthy household balance sheets and rising house prices. Despite encouraging U.S. economic data, which would normally put upward pressure on yields, developments offshore have overwhelmed domestic considerations. These have prompted the Fed to cut its rate projections twice this year and triggered safe-haven flows into the North American bond markets.

Meanwhile, the Canadian economy has been moving in the opposite direction. After outperforming the U.S. with aggregate growth of 2.4% in the first quarter, its fastest pace in over a year, the second quarter data has deteriorated across areas that the Bank of Canada was hoping would help offset the slack in the energy sector. Over the past few months, Canada's export sector has faltered, led by a slump in non-energy exports. Furthermore, the ongoing decline in business investment, seen over the previous five quarters, and diminished output resulting from Alberta's wildfires, has more than offset uneven consumer spending growth. As a result, the Bank of Canada forecasts GDP contracted 1% in the second quarter. Although the domestic economy is expected to improve in the second half as oil production resumes and public infrastructure spending ramps up, overall growth is likely to remain below 1-1/2% for the second consecutive year. As a result, the Bank of Canada is expected to remain on the sidelines for some time yet, as they balance the downside risks to the economy against the concerns that another rate cut would fuel the Vancouver and Toronto housing bubble and inflate consumer debt.

## *CLLAS*

On the international front, growth expectations for the Eurozone have fallen in the aftermath of the UK's decision to leave the EU. Many forecasters expect the U.K. will experience a recession in the second half of this year and the International Monetary Fund believes euro area growth will slow to 1.6% in 2016 and to 1.4% in 2017, down from their prior estimate of 1.7%. Looking ahead, the region's prospects will significantly depend on the new relationship the UK is able to negotiate with the EU, which will not likely be known for some two years. These negotiations are expected to be difficult, as the EU will want to avoid setting any precedents that would encourage other members to leave the union. Disillusionment within the EU has been mounting for some time and if momentum builds among other members for their own referendums, the political and economic risks would be compounded. Additional obstacles to growth for the region include the substantial exposure to non-performing loans by major European banks and a growing uncertainty surrounding the long term effects of negative interest rates implemented by the European Central Bank, despite being supportive in the near term.

Turning to China, economic growth moderated to 6.7% in the first quarter of 2016, the slowest pace in seven years. This was in line with the government's recently reduced full year target range of 6.5% to 7.0%, as the authorities attempt to shift from a production-oriented export economy to one centered more on domestic consumption. China's leading economic indicators point to further progress on this front given the relative strength of the service side of the economy compared to the manufacturing sector. For the second quarter, growth is expected to ease slightly to 6.6%, as record low interest rates and a large fiscal stimulus package have yet to show much traction. In addition to these measures, China's policy makers have again resorted to devaluing the yuan in wake of the recent Brexit vote and resurgence in the U.S. dollar. Given the EU is China's largest importer, the anticipated slowdown in the UK and Europe, together with the euro's depreciation against the yuan, despite currency actions, will likely have a negative spillover on China's trade. Meanwhile, first quarter growth in Japan surprised on the upside following a contraction in the fourth quarter of last year, thus avoiding another technical recession. However, there has been little follow-through. Despite moving to negative interest rates early this year, a slowdown in offshore demand and unfavourable currency moves, including a nearly 20% surge by the yen against the U.S. dollar, have undermined inflation, investment spending and exports, which have declined for eight consecutive months. As a result, the Bank of Japan remains under pressure to expand its already aggressive and unorthodox monetary policies. Furthermore, the recent victory by Prime Minister Abe's ruling coalition has raised expectations that there will be more structural economic reforms and possibly a new fiscal stimulus package.

Signs of financial stress have increased since the Brexit vote and already modest expectations for global growth have been lowered further. Looking ahead, we believe investors are facing a particularly challenging environment and expect it will take some time before the fallout from Brexit can be quantified. In the meantime, we believe the degree of uncertainty surrounding the outlook has reduced the probability of another U.S. Fed rate hike this year and increased the likelihood of further central bank intervention offshore.

## ***CLLAS***

With the major central banks expected to remain highly accommodative for some time yet, we expect bond yields have settled into a new lower trading range. However, we believe fixed income investors should be prepared for periodic bouts of volatility, given the conflicting signals from stock markets, which are suggesting that the global economic expansion will remain intact. At this juncture, we believe the constructive outlook for the U.S. economy, which is reasonably well insulated from Brexit related risks, will keep bond yields from moving significantly lower, unless there is a marked deterioration in the major offshore economies that is accompanied by an acceleration in deflationary pressures. Similarly, there are few indications that bond yields are poised to reverse and move higher on a sustained basis, hence the expectation that yields will remain range bound. In light of the magnitude of the downward shift in the yield curve and keeping in mind the risks of moving to longer duration issues when yields are near historical lows, we believe it is prudent to maintain the Long Term Fund's current duration of 3.2 years and look for opportunities to moderately expand the Long Term Fund if yields do correct higher.

RWB/mab  
July 14, 2016

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***As stipulated in our Investment Management Agreement, please let ML&S know if there are major changes in your financial circumstances, income needs or risk tolerance in order for us to review the suitability of your investment objectives.***



Martin, Lucas & Seagram Ltd.

**CLLAS - SHORT TERM INVESTMENT FUND**  
(RBC Investor Services)

**Portfolio Holdings at June 30, 2016**

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
<b>CASH</b>					
	Cash Account			7,362	0
<b>MONEY MARKET ISSUES</b>					
500,000	Bank of Nova Scotia BA .699% due July 14, 2016	99.96	99.96	499,802	3,494
1,475,000	Canada Treasury Bill .409% due July 14, 2016	99.90	99.98	1,474,726	6,026
1,755,000	Canada Treasury Bill .46% due July 28, 2016	99.93	99.96	1,754,368	8,020
1,005,000	Canada Treasury Bill .45% due August 11, 2016	99.93	99.94	1,004,433	4,519
885,000	CIBC BA .719% due August 17, 2016	99.89	99.90	884,083	6,356
1,770,000	Canada Treasury Bill .48% due August 25, 2016	99.87	99.92	1,768,669	8,485
1,500,000	Toronto Dominion Bank BDN .769% due September 6, 2016	99.75	99.85	1,497,801	11,506
820,000	CIBC BA .768% due September 12, 2016	99.81	99.84	818,691	6,286
1,775,000	FirstBank BA .689% due September 26, 2016	99.83	99.84	1,772,084	12,209
500,000	Bank of Nova Scotia BA .769% due September 30, 2016	99.78	99.80	499,009	3,836
				<u>11,973,665</u>	<u>70,739</u>
<b>TOTAL PORTFOLIO</b>				<b>11,981,027</b>	<b>70,739</b>

Disclosures:

1. Please note that the securities listed herein are held on your behalf by the above noted custodian. You may wish to contact them directly to determine if your account is covered by any recognized Investor Protection Plan and/or for information on how these securities are held.
2. The cost of each position shown in the account is the book cost (original cost adjusted for distributions, capital returns and re-orgs). For unit costs marked with an \*, the book cost cannot be determined and the value shown is based on the closing market price on July 15, 2015.

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*(RBC Investor Services)*  
*From 04-01-16 To 06-30-16*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
04-01-16	04-01-16	1,765,000	Toronto Dominion Bank BA .75% due June 30, 2016	99.82	1,761,741.81
04-11-16	04-12-16	305,000	CIBC BA .759% due June 15, 2016	99.87	304,594.35
04-11-16	04-12-16	1,475,000	Canada Treasury Bill .409% due July 14, 2016	99.90	1,473,466.00
04-13-16	04-14-16	1,500,000	Royal Bank BA .77% due May 11, 2016	99.94	1,499,145.00
04-18-16	04-19-16	1,000,000	CIBC BA .801% due June 15, 2016	99.88	998,750.00
04-20-16	04-21-16	995,000	Canada Treasury Bill .46% due June 16, 2016	99.93	994,298.53
05-06-16	05-09-16	1,385,000	Bank of Nova Scotia BA 0.80% due May 31, 2016	99.95	1,384,332.43
05-10-16	05-11-16	1,500,000	Toronto Dominion Bank BDN .769% due September 6, 2016	99.75	1,496,280.00
05-18-16	05-19-16	1,770,000	Canada Treasury Bill .48% due August 25, 2016	99.87	1,767,722.01
05-30-16	05-31-16	1,385,000	Royal Bank BA .776% due June 24, 2016	99.95	1,384,293.65
06-01-16	06-02-16	1,755,000	Canada Treasury Bill .46% due July 28, 2016	99.93	1,753,762.73
06-14-16	06-15-16	500,000	Bank of Nova Scotia BA .769% due September 30, 2016	99.78	498,875.00
06-14-16	06-15-16	820,000	CIBC BA .768% due September 12, 2016	99.81	818,466.60
06-15-16	06-16-16	1,005,000	Canada Treasury Bill .45% due August 11, 2016	99.93	1,004,306.55
06-23-16	06-24-16	500,000	Bank of Nova Scotia BA .699% due July 14, 2016	99.96	499,808.50
06-23-16	06-24-16	885,000	CIBC BA .719% due August 17, 2016	99.89	884,058.36
06-29-16	06-30-16	1,775,000	FirstBank BA .689% due September 26, 2016	99.83	1,772,053.50
					<b>20,295,955.02</b>
<b>SALES</b>					
04-01-16	04-01-16	1,750,000	Toronto Dominion Bank BA .72% due April 1, 2016	100.00	1,750,000.00
04-07-16	04-07-16	1,475,000	Canada Treasury Bill .294% due April 7, 2016	100.00	1,475,000.00

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 04-01-16 To 06-30-16*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
04-08-16	04-08-16	300,000	CIBC BA .627% due April 8, 2016	100.00	300,000.00
04-14-16	04-14-16	1,500,000	Royal Bank BA .706% due April 14, 2016	100.00	1,500,000.00
04-19-16	04-19-16	1,000,000	CIBC BA .711% due April 19, 2016	100.00	1,000,000.00
04-21-16	04-21-16	1,000,000	Canada Treasury Bill .425% due April 21, 2016	100.00	1,000,000.00
05-09-16	05-09-16	1,385,000	Bank of Nova Scotia BA .711% due May 9, 2016	100.00	1,385,000.00
05-11-16	05-11-16	1,500,000	Royal Bank BA .77% due May 11, 2016	100.00	1,500,000.00
05-19-16	05-19-16	1,765,000	Canada Treasury Bill .405% due May 19, 2016	100.00	1,765,000.00
05-31-16	05-31-16	1,385,000	Bank of Nova Scotia BA 0.80% due May 31, 2016	100.00	1,385,000.00
06-02-16	06-02-16	1,750,000	Canada Treasury Bill .40% due June 2, 2016	100.00	1,750,000.00
06-15-16	06-15-16	305,000	CIBC BA .759% due June 15, 2016	100.00	305,000.00
06-15-16	06-15-16	1,000,000	CIBC BA .801% due June 15, 2016	100.00	1,000,000.00
06-16-16	06-16-16	995,000	Canada Treasury Bill .46% due June 16, 2016	100.00	995,000.00
06-24-16	06-24-16	1,385,000	Royal Bank BA .776% due June 24, 2016	100.00	1,385,000.00
06-30-16	06-30-16	1,765,000	Toronto Dominion Bank BA .75% due June 30, 2016	100.00	1,765,000.00
					<b>20,260,000.00</b>

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Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
***(RBC Investor Services)***  
***From 04-01-16 to 06-30-16***

Cash Balance at April 1, 2016			20,659.52
ADD: Proceeds from Sales	20,260,000.00		
Bond Interest Credited (from Long Term Investment Fund)	34,013.75		
Bank Interest Credited	<u>35.42</u>	<u>20,294,049.17</u>	
			20,314,708.69
LESS: Cost of Purchases	20,295,955.02		
Investment Counsel Fees - Short Term Investment Fund	3,373.03		
Investment Counsel Fees - Long Term Investment Fund	3,393.76		
Trust Company Charges	<u>4,624.89</u>	<u>20,307,346.70</u>	
<b>Cash Balance at June 30, 2016</b>			<b>7,361.99</b>

Martin, Lucas & Seagram Ltd.										
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2016										
CLLAS - SHORT TERM INVESTMENT FUND										
Quantity	Security		Rating	Unit Cost	Total Cost	Price	Market Value	Pct. Assets		
CASH										
	Cash Account				7,362		7,362	0		
MONEY MARKET ISSUES										
500,000	Bank of Nova Scotia BA .699%	due July 14, 2016	R-1 (high)	99.96	499,809	99.96	499,802	4.2		
1,475,000	Canada Treasury Bill .409%	due July 14, 2016	R-1 (high)	99.90	1,473,466	99.98	1,474,726	12.3		
1,755,000	Canada Treasury Bill .46%	due July 28, 2016	R-1 (high)	99.93	1,753,763	99.96	1,754,368	14.6		
1,005,000	Canada Treasury Bill .45%	due August 11, 2016	R-1 (high)	99.93	1,004,307	99.94	1,004,433	8.4		
885,000	CIBC BA .719%	due August 17, 2016	R-1 (high)	99.89	884,058	99.90	884,083	7.4		
1,770,000	Canada Treasury Bill .48%	due August 25, 2016	R-1 (high)	99.87	1,767,722	99.92	1,768,669	14.8		
1,500,000	Toronto Dominion Bank BDN .769%	due September 6, 2016	R-1 (high)	99.75	1,496,280	99.85	1,497,801	12.5		
820,000	CIBC BA .768%	due September 12, 2016	R-1 (high)	99.81	818,467	99.84	818,691	6.8		
1,775,000	FirstBank BA .689%	due September 26, 2016	R-1 (high)	99.83	1,772,054	99.84	1,772,084	14.8		
500,000	Bank of Nova Scotia BA .769%	due September 30, 2016	R-1 (high)	99.78	498,875	99.80	499,009	4.2		
					11,968,799		11,973,665	100		
TOTAL PORTFOLIO										
					11,976,161		11,981,027	100		

Martin, Lucas & Seagram Ltd.

**CLLAS - LONG TERM INVESTMENT FUND**  
(RBC Investor Services)

**Portfolio Holdings at June 30, 2016**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
<b>GOVERNMENT BONDS</b>					
300,000	Canada Housing Trust 1.85% Series 43 due December 15, 2016	101.30	100.57	301,701	5,550
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	102.04	255,090	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	103.30	258,245	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	107.44	214,870	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	107.24	214,476	4,700
				1,244,382	24,300
<b>PROVINCIAL BONDS</b>					
300,000	Alberta 1.85% due September 1, 2016	101.35	100.18	300,543	5,550
330,000	Ontario 1.90% due September 8, 2017	100.18	101.40	334,613	6,270
350,000	Ontario 2.1% due September 8, 2018	99.57	102.66	359,293	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	110.55	276,385	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	109.99	274,983	7,875
250,000	Ontario 2.60% due June 2, 2025	100.15	106.31	265,780	6,500
				1,811,596	41,670
<b>CORPORATE BONDS</b>					
200,000	Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	100.32	100.38	200,756	4,200
200,000	Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	100.73	101.45	202,906	4,866
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	101.65	203,298	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	104.32	208,648	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	105.12	315,354	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	104.02	260,040	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	108.34	216,680	6,800

Martin, Lucas & Seagram Ltd.

***CLLAS - LONG TERM INVESTMENT FUND***  
***(RBC Investor Services)***

**Portfolio Holdings at June 30, 2016**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	109.23	163,839	5,190
				1,771,521	46,392
<b>TOTAL PORTFOLIO</b>				<b>4,827,499</b>	<b>112,362</b>

Disclosures:

1. Please note that the securities listed herein are held on your behalf by the above noted custodian. You may wish to contact them directly to determine if your account is covered by any recognized Investor Protection Plan and/or for information on how these securities are held.
2. The cost of each position shown in the account is the book cost (original cost adjusted for distributions, capital returns and re-orgs). For unit costs marked with an \*, the book cost cannot be determined and the value shown is based on the closing market price on July 15, 2015.



Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
***CLLAS - LONG TERM INVESTMENT FUND***  
***(RBC Investor Services)***  
*From 04-01-16 To 06-30-16*

<b>Trade Date</b>	<b>Settle Date</b>	<b>Quantity</b>	<b>Security</b>	<b>Unit Price</b>	<b>Amount</b>
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**No transactions were found!**

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Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
***RBC Investor Services)***  
***From 04-01-16 to 06-30-16***

Cash Balance at April 1, 2016

0.00

**Cash Balance at June 30, 2016**

**0.00**

**Martin, Lucas & Seagram Ltd.**

## DATE TO DATE GAINS AND LOSSES

**CLLAS - LONG TERM INVESTMENT FUND**

***(RBC Investor Services)***

*From 03-31-16 to 06-30-16*

Security	03-31-16 Market Value	Additions Withdrawals	06-30-16 Market Value	06-30-16 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>GOVERNMENT BONDS</b>								
Canada Housing Trust 1.85% Series 43 due December 15, 2016	302,622	-2,775	301,701	303,900	0	0	-2,199	-921
Canada Housing Trust 1.75% due June 15, 2018	255,235	-2,188	255,090	250,275	0	0	4,815	-145
Canada Housing Trust 1.95% due June 15, 2019	258,115	-2,438	258,245	250,238	0	0	8,008	130
Canada Housing Trust 2.4% Series 48 due December 15, 2022	212,420	-2,400	214,870	200,740	0	0	14,130	2,450
Canada Housing Trust 2.35% due September 15, 2023	211,458	0	214,476	211,240	0	0	3,236	3,018
<b>GOVERNMENT BONDS Total</b>	<b>1,239,850</b>		<b>1,244,382</b>	<b>1,216,393</b>	<b>0</b>	<b>0</b>	<b>27,990</b>	<b>4,532</b>
<b>PROVINCIAL BONDS</b>								
Alberta 1.85% due September 1, 2016	301,443	0	300,543	304,050	0	0	-3,507	-900
Ontario 1.90% due September 8, 2017	335,112	0	334,613	330,594	0	0	4,019	-498
Ontario 2.1% due September 8, 2018	359,398	0	359,293	348,495	0	0	10,798	-105
British Columbia 3.25% due December 18, 2021	274,553	-4,063	276,385	255,750	0	0	20,635	1,833
Ontario 3.15% due June 2, 2022	272,003	-3,938	274,983	247,600	0	0	27,383	2,980
Ontario 2.60% due June 2, 2025	258,680	-3,250	265,780	250,375	0	0	15,405	7,100
<b>PROVINCIAL BONDS Total</b>	<b>1,801,187</b>		<b>1,811,596</b>	<b>1,736,864</b>	<b>0</b>	<b>0</b>	<b>74,732</b>	<b>10,409</b>
<b>CORPORATE BONDS</b>								
Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	201,318	-2,100	200,756	200,640	0	0	116	-562
Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	203,098	0	202,906	201,460	0	0	1,446	-192
Royal Bank Dep. Note 2.26% due March 12, 2018	203,304	0	203,298	198,560	0	0	4,738	-6
Wells Fargo Canada 2.944% due July 25, 2019	208,286	0	208,648	200,040	0	0	8,608	362
Bank of Montreal 2.84% due June 4, 2020	314,127	-4,260	315,354	305,307	0	0	10,047	1,227
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	258,688	-3,204	260,040	261,425	0	0	-1,385	1,353
Bank of Montreal 3.4% due April 23, 2021	214,742	-3,400	216,680	201,300	0	0	15,380	1,938
Wells Fargo 3.46% due January 24, 2023	160,734	0	163,839	153,542	0	0	10,298	3,105
<b>CORPORATE BONDS Total</b>	<b>1,764,297</b>		<b>1,771,521</b>	<b>1,722,274</b>	<b>0</b>	<b>0</b>	<b>49,248</b>	<b>7,225</b>
<b>TOTAL PORTFOLIO</b>	<b>4,805,334</b>		<b>4,827,499</b>	<b>4,675,530</b>	<b>0</b>	<b>0</b>	<b>151,969</b>	<b>22,166</b>
<b>TOTAL DATE TO DATE GAIN OR LOSS</b>								<b>22,166</b>
<b>% CHANGE DURING PERIOD</b>								<b>0.46</b>

Martin, Lucas & Seagram Ltd.									
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2016									
CLLAS - LONG TERM INVESTMENT FUND									
Quantity	Security		Rating	Unit	Total	Cost	Price	Market Value	Pct. Assets
GOVERNMENT BONDS									
300,000	Canada Housing Trust 1.85% Series 43	due December 15, 2016	AAA	101.30	303,900	100.57	301,701	6.2	
250,000	Canada Housing Trust 1.75%	due June 15, 2018	AAA	100.11	250,275	102.04	255,090	5.3	
250,000	Canada Housing Trust 1.95%	due June 15, 2019	AAA	100.10	250,238	103.30	258,245	5.3	
200,000	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	107.44	214,870	4.5	
200,000	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	107.24	214,476	4.4	
					1,216,393		1,244,382	25.8	
PROVINCIAL BONDS									
300,000	Alberta 1.85%	due September 1, 2016	AA (high)	101.35	304,050	100.18	300,543	6.2	
330,000	Ontario 1.90%	due September 8, 2017	AA (low)	100.18	330,594	101.40	334,613	6.9	
350,000	Ontario 2.1%	due September 8, 2018	AA (low)	99.57	348,495	102.66	359,293	7.4	
250,000	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	110.55	276,385	5.7	
250,000	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	109.99	274,983	5.7	
250,000	Ontario 2.60%	due June 2, 2025	AA (low)	100.15	250,375	106.31	265,780	5.5	
					1,736,864		1,811,596	37.5	
CORPORATE BONDS									
200,000	Bank of Nova Scotia Dep. Note 2.1%	due November 8, 2016	AA	100.32	200,640	100.38	200,756	4.2	
200,000	Toronto Dominion Bank Dep. Note 2.433%	due August 15, 2017	AA	100.73	201,460	101.45	202,906	4.2	
200,000	Royal Bank Dep. Note 2.26%	due March 12, 2018	AA	99.28	198,560	101.65	203,298	4.2	
200,000	Wells Fargo Canada 2.944%	due July 25, 2019	AA	100.02	200,040	104.32	208,648	4.3	
300,000	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	105.12	315,354	6.5	
250,000	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA	104.57	261,425	104.02	260,040	5.4	
200,000	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	108.34	216,680	4.5	
150,000	Wells Fargo 3.46%	due January 24, 2023	AA	102.36	153,542	109.23	163,839	3.4	
					1,722,274		1,771,521	36.7	
TOTAL PORTFOLIO									
					4,675,530		4,827,499	100	