



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	John Birch
Mike Swartz	Paul Wilson	Ken Crofoot	Eugene Cipparone
Julia Holland	James C. Tory	Melanie Koszegi	Natasha MacParland
William Scott	Malcolm Mercer	Daniel MacDonald	Carol Lyons

Tuesday, September 11, 2018 at 8:30 a.m.
Goodmans LLP
34th Floor, Bay Adelaide Centre, West Tower
333 Bay Street.
Toronto, Ontario

DIAL-IN INFORMATION for those participating by phone:

Toronto:	416-915-3623
Toll Free North America:	1-877-211-3621
Conference ID #:	558 181 8200#

AGENDA

	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
1. Constitution of Meeting	Ken Crofoot		
2. Appointment of Secretary	Ken Crofoot		
3. Approval of the Minutes of June 19, 2018 Meeting	Ken Crofoot	5 mins	A
<i>Proposed Resolution: To approve the minutes.</i>			
4. Business Arising Out of the Minutes	Ken Crofoot		
5. Comments of Chair	Ken Crofoot	10 mins	



	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
6. Reinsurance Renewal Final/Associate Firm Update	Ryan Durrell	10 mins	B
7. Report of the General Manager's Office		25 mins	
• Cyber Initiative – Update	Ryan Durrell		
• Management Financial Statements as at June 30, 2018	Patrick Mahoney		C
• 2019 AGM – to be held in Alberta	Patrick Mahoney		
• Digital Filing/Offsite Storage Update	Patrick Mahoney		
8. Committee Reports		20 mins	
• Audit Committee	Gord Goodman		
• Claims Committee	Barry Bresner		D
o “Top-up” Policy			
• Risk Management Committee	Julia Holland		
• Policy Committee	Donald Milner		
Proposed Resolution: To modify top-up provision for defence costs			
9. Other Business		5 mins	
• Quarterly Report of the Investment Manager	Patrick Mahoney		E
• Annual Dinner – Date to be advised	Ken Crofoot		
10. Proposed Meeting Dates in 2019:			
• February 26			
• June 25			
• September 10			
• December 10			
11. Next Meeting – December 11, 2018			

Anticipated Adjournment Time: 10:00 a.m.

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

Minutes of a Meeting of the Advisory Board

8:45 a.m.
Goodmans LLP
34th Floor, Bay Adelaide Centre, West Tower
333 Bay Street.
Toronto, Ontario

Tuesday, June 19, 2018

Present:

Ken Crofoot (Chair)	Goodmans LLP
Melanie M. Koszegi	Davies Ward Phillips & Vineberg LLP
Barry Bresner	Borden Ladner Gervais LLP
Gordon Goodman	Cassels Brock & Blackwell LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Bill Scott	McCarthy Tétrault LLP
Carol Lyons (via phone)	McMillan LLP
Julia Holland	Torys LLP
Mike Swartz (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:

David Morritt	Osler, Hoskin & Harcourt 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 22, 2018 Meeting of the Advisory Board

It was moved by Julia Holland and seconded by Donald Milner that the minutes of the February 22, 2018 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

Ken Crofoot reported to the Board on the reinsurance renewal meetings in London. CLLAS met with most of the major markets on the program, and was generally well received. Although CLLAS' loss history has been improving, it is difficult from an actuarial perspective to support the current rates being charged. Underwriters were generally supportive, asked for our input into their discussions with their own actuaries.

Many underwriters advised that they believe that market conditions are starting to harden and that they would likely be looking for rate increases in the future. The lead, Argo, was very clear on this point, i.e. a rate increase next year is expected as part of the rationale for supporting a status quo renewal this year. It will be a tougher renewal with existing markets if CLLAS is not prepared to move on pricing in the foreseeable future.

Mr. Crofoot commented that CLLAS is well served by Miller Insurance.

6. Pro-Form Insurance Services

Bob Wilson joined the meeting. He reported that the restructuring of the program that took place last year remains in place, i.e. the integration of many layers into two, as follows:

- Layer 1 - \$50 million excess of \$50 million
- Layer 2 - \$60 million excess of \$100 million

The insurers generally seem to prefer the risk profile of taking a smaller piece of a larger layer. The renewal of the commercial excess layers has gone well, and there will be no change in rates, i.e. the rate negotiated last year (25% reduction over prior year) will be continued for the coming year. Liberty insisted in reducing its participation this year. It participated on both layers and asked that it be replaced on the second layer. Trisura took over this participation on the \$60 million excess of \$100 million layer. The two-year rate guarantee will be in effect again.

Mr. Wilson advised that there were no changes expected to the policy wording except that a clause allowing signatures in counterpart evidenced by PDF will be added to simplify document handling.

Mr. Wilson advised that the CLLAS International program will be renewing at expiring rates. He sees this as a positive development given the program's loss experience, in particular, on one policy year. He reminded the Board that the International program is marketed as a group but each firm is rated separately based on claims experience. Currently five firms participate in the program.

A schedule summarizing the AM Best and S&P ratings of all the insurers on the excess and international programs was included in the hand-out materials. Also included was a rate summary going back to 2001 which highlights the decrease in rates year over year.

With respect to non-CLLAS renewals that Pro-Form handles, Mr. Wilson advised that the rates remained stable although some external pressure on pricing was experienced.

On a final note, he advised that XL Catlin has been bought by AXA. He views this as a positive as AXA is not currently on the CLLAS program.

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

7. Reinsurance Renewal

Ryan Durrell reported on the reinsurance renewal.

Reinsurance Renewal

The Board received a copy of a June 12, 2018 report on the placement. The primary renewal objective for this year was to achieve an overall status quo renewal for CLLAS members.

The markets were asked for a flat renewal on the basis that the loss experience since July 1, 2011, when the \$50 million primary layer was introduced, continues to emerge profitability for underwriters. The point was also made that maintaining credibility with the CLLAS firms who recommitted to CLLAS for a further five years required a stable renewal.

There are no changes to the reinsurance structure. There was some preliminary discussion about providing limits in excess of the \$250 million limit currently offered by CLLAS. Member firms have indicated that Axxima should explore optional higher limits for next year.

Mr. Durrell advised that not all markets had been heard from, but that there is already sufficient capacity to renew as is. He advised that CNA, a domestic market, had advised that it would not renew due to the current pricing. In addition, he advised that CLLAS has support from the Vibe syndicate in London in the event that Argo no longer wished to be the lead.

As was previously noted, Mr. Durrell advised that the desire for a rate increase at the next renewal was expressed by more than one market during the discussions.

Return of Surplus/Premium Credit

CLLAS' surplus management policy will be discussed and, if appropriate, confirmed later in the meeting. CLLAS' surplus position at December 31, 2017 was \$11,500,000. 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 \$4.4 million of available surplus. CLLAS' actuary recommends the application of

\$700,000 of surplus towards premium credits for 2018/2019, which is the same amount as in the previous year.

Mr. Durrell advised that the OFSI rules with respect to security required from an unlicensed reinsurer will be changing effective January 1, 2020. The margin required under a Reinsurance Security Agreement (such as the one CLLAS has in place with Colchester) will be increased from 15% to 20%. There was some discussion about the need to retain adequate surplus to account for the hardening of markets and the necessity of CLLAS retaining more risk. CLLAS' surplus management policy contemplates this.

It was moved by Gordon Goodman and seconded by Bill Scott that the distribution of surplus by way of premium credit for 2018/19 of \$700,000 be approved. The motion was carried unanimously.

Cyber Insurance Initiative

Some of the CLLAS firms have bought the cyber coverage and an eighth is in process. Axxima has raised the benefit of moving to a common anniversary date for the renewals. This will assist with respect to group buying power and streamline administration. There was agreement to use October 1st as the common renewal date which will result in some firms having their policies endorsed to extend the current coverage period and some will have a renewal policy issued for more than 12 months.

If all CLLAS firms eventually purchase the cyber coverage consideration will be given to a CLLAS policy for cyber.

The ad-hoc committee cyber committee has been looking at the wording and claims protocol.

8. Report of the General Manager's Office

Mr. Mahoney reported.

Financial Statements Quarter Ending March 31, 2018

CLLAS's financial management report for the three months ended March 31, 2018 was included with the meeting materials.

CLLAS experienced a small underwriting gain (premiums minus claims and expenses) of \$55,000 first three months of 2018. After taking into account investment income (including unrealized gains arising during the quarter) CLLAS' total comprehensive income was just over \$94,000. At March 31, 2018, CLLAS had a surplus of \$11.6 million. Expenses to date are slightly under budget.

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, 2018 was \$5.86 million. CLLAS' cash and approved securities are well in excess of the minimum requirement.

CLLAS also monitors its Minimum Capital Test ratio. At March 31, 2018, CLLAS' MCT ratio is estimated to be 456%, well above CLLAS' minimum requirements and slightly above the December 31, 2017 result of 451%.

Mr. Mahoney also referred the Board to the risk metrics monitored by CLLAS on a quarterly basis. The results for March 31, 2018 are within CLLAS' risk tolerances.

Business Plan for Regulator – FY18 to FY20

The Business Plan, which has been filed with the regulator, was included with the Board materials and is for the period December 31, 2018 to December 31, 2020.

Surplus Management Policy

As part of the Own Risk and Insolvency Assessment (ORSA) process, the Board established an internal surplus target equal to a Minimum Capital Test (MCT) ratio of 210%. At their June 2017 Board meeting the Board adopted a Surplus Management Policy wherein CLLAS manages its surplus position via premium adjustments in order to ensure it maintains an appropriate level of surplus. A review of and reconfirmation of the policy is an annual requirement by the regulator. Included in the Board material is a copy of that policy.

It was moved by Donald Milner and seconded by Barry Bresner that the surplus policy as presented be reconfirmed. The motion was carried unanimously.

9. Committee Reports

Report of the Audit Committee

Gordon Goodman reported. The Committee met on February 15, 2018 and that report was provided to the Board at their February meeting. No further report was required.

Report of the Claims Committee

Barry Bresner reported and 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 25, 2018.

There have been several settlements in the first quarter of the year and the GM claim is now almost at an end for CLLAS, such that full limits will be paid.

Report of the Risk Management Committee

Julia Holland reported. There have been a couple of meetings of the committee. There will be a Risk Management session held over lunchtime on September 28, 2018 again targeting firm management. The session will be focused on cyber crime, technology, social engineering, artificial intelligence and the cloud. Dan Pinnington, LawPRO CEO and Chris Mather, a retired undercover officer have been lined up to speak.

Report of the Policy Committee

Don Milner reported. Over the past several months, a subcommittee has been reviewing cyber policy wordings and claims management protocols. One final item for the committee not yet underway is the Rules review.

10. Other Business

Report of the Investment Manager at March 31, 2018

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

Updated Committee membership

An updated committee list was provided. Of note is that Barry Bresner will be retiring at the end of 2018.

File Retention/Transfer of paper to electronic

CLLAS maintains all paper files since inception, including all claim files, in an off-site storage facility. Axxima went paperless a couple of years ago and no new CLLAS paper files have been created since that time. CLLAS should consider destroying some of the offsite files and scanning and creating electronic files for the remainder.

A rough estimate of the cost for recalling and scanning all offsite files is \$50,000. This was not budgeted for in the 2018 budget.

The Board was in agreement that old claim files could be shredded once closed but that Axxima in conjunction with the Chair should identify governance files – implementation files, subscriber files that should be scanned before paper files are destroyed.

There was no other business.

11. Next Meeting

The Chair recognized Joe Tontini's last meeting and thanked him on behalf of the Board for all of the support he has provided to CLLAS over many years.

The next scheduled meeting of the Board will be on September 11, 2018.

There being no further business, the meeting was terminated.

Chairman

Secretary



PRIVATE AND CONFIDENTIAL

Date: September 4, 2018

To: David Morritt Donald Milner
Barry Bresner Gordon Goodman
Mike Swartz Ken Crofoot
Julia Holland Melanie Koszegi
William Scott Daniel MacDonald

From: Ryan Durrell and Christopher Marley

Copy: Patrick Mahoney

Re: **Report on the CLLAS Reinsurance Renewal Placement for July 1, 2018/2019 and Rates for CLLAS Members**

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, 2018/2019. 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

CLLAS' reinsurance was successfully renewed. As indicated in our report to the Board in June, the main objectives for the July 1, 2018/2019 renewal were:

- Obtaining an as-is renewal based on last year's rates;
- Attract new markets if necessary to maintain rates;
- Maintain existing reinsurer relationships; and
- Continue to evaluate ability to distribute surplus to members through premium credits.

We are very pleased to say that we were able to meet the objectives.



- This year, Ken Crofoot, Patrick Mahoney, Ryan Durrell, and Joe Tontini met with Miller Insurance Services LLP and most of the incumbent London underwriters to present proposed renewal terms. A status quo renewal was being sought after a 20% reduction in reinsurance rates last year resulted in challenging renewal negotiations. Our main arguments for the renewal terms were that (1) loss experience since July 1, 2011, when the \$50MM primary layer was introduced, continues to emerge profitably for underwriters and (2) an as-is renewal was necessary to maintain credibility with the CLLAS firms who have committed to remain in CLLAS for a further five years.

Ken Crofoot provided a recap of last year's difficult renewal, culminating in an expression of gratitude for the partnership of the reinsurers in that process. He also gave an update on CLLAS, including insights into current issues affecting the member firms, and CLLAS' current risk management initiatives. These updates were very well received by underwriters.

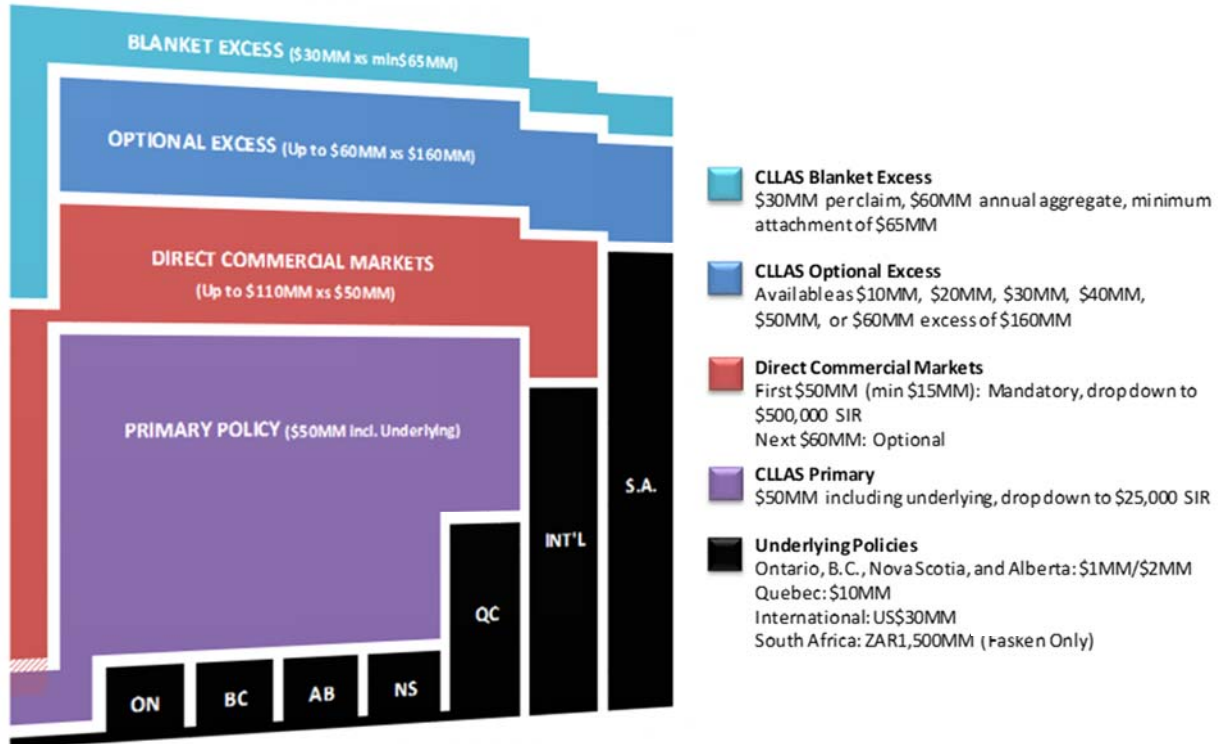
- On the London market front, while markets continue to be competitive, many underwriters indicated that a pricing floor has been reached. Syndicates have been negatively impacted by increases in reinsurance costs, as well as poor loss experience across multiple lines of business, including professional liability. Rate reductions, especially in the international professional liability area are an exception rather than the norm. The lead market, Argo, struggled with an as is renewal but eventually agreed to renew at expiring participation after building a case for their actuaries.
- Domestically, most of the markets were understanding of the need for a stable renewal but are apprehensive of the long-term outlook at current pricing. The actuary at CNA would not sign off on renewal at the current rates, and as such their 10% on the \$49,000,000 excess of \$1,000,000 needed to be replaced which was done by increasing the London capacity from 65% to 75%. Vibe increased their written line from 10% to 15% and though Argo remained firm at 20%, the other markets were written up accordingly. High level discussions were held with Scor and Arch who both were reinsurers in the past, but were not able to meet pricing needs.
- 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 is \$1,675,000.

- b) First Excess Policy (Layer 2): Between \$15,000,000 and \$50,000,000 excess of \$50,000,000 – CLLAS has 5% participation, which is 100% reinsured.



- c) Optional Second Excess Policy (Layer 3): Optional \$60,000,000 excess of \$50,000,000 – CLLAS has 5% participation, which is 100% reinsured.
 - d) Optional Third Excess Policy (Layer 4): Between \$10,000,000 and \$60,000,000 excess of \$160,000,000 – 100% reinsured.
 - e) Umbrella Policy (Layer 5): \$30,000,000/\$60,000,000 excess of \$65,000,000 (minimum) – 100% reinsured.
 - f) Aggregate Stop-loss Reinsurance: \$10,000,000 aggregate excess of \$5,000,000 aggregate – 100% reinsured by Colchester.
 - g) Loss Portfolio Transfer Reinsurance: Retained claim liabilities from inception up to June 30, 2012 – 100% reinsured by Colchester.
- The CLLAS insurance structure as of July 1, 2018 remains unchanged, and is depicted below. Please also see Exhibit A for a more detailed structure chart.





- 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 CLLAS 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 drop-down exposure of up to \$975,000 per claim.

CLLAS members were charged \$1,939 per lawyer (\$885 per Quebec lawyer) and \$485 per patent & trademark agent to cover the expected loss costs, administration costs and premium taxes related to the CLLAS drop-down retention. The rates were unchanged from last year.

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

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

Reinsurance Rates: \$1,592 per lawyer (\$710 per Quebec lawyer)/\$398 per P&T agent
The reinsurance rates were unchanged from last year.

Colchester applied additional premium credits to further reduce its reinsurance rates to \$460 per lawyer (\$205 per Quebec lawyer)/\$115 per P&T agent

First Excess Policy (Reinsurance Layer 2)
Between \$15M and \$50M Aggregate xs \$50M Aggregate

CLLAS has a 5% participation on this layer of coverage, which is entirely reinsured.

Firms have the option of purchasing limits between \$15M and \$50M. One firm purchased the limit of \$30M while the remaining firms purchased the maximum limit of \$50M.

CLLAS members were charged \$236 per lawyer and \$341 per lawyer for policies with limits of \$30M and \$50M, respectively. The rates were unchanged from last year.

Reinsurance Limit: Between \$15M and \$50M aggregate per firm excess of the CLLAS Primary Policy

CLLAS Retention: Nil

Reinsurance Rates: \$212 per lawyer for limit of \$30M
\$307 per lawyer for limit of \$50M



Optional Second Excess Policy (Reinsurance Layer 3)
\$60M Aggregate xs \$100M Aggregate

CLLAS has a 5% participation on this layer of coverage, which is entirely reinsured.

Nine of the ten CLLAS firms purchased this layer of coverage.

CLLAS members were charged \$303 per lawyer. The rates were unchanged from last year.

Reinsurance Limit: \$60M aggregate per firm excess of the CLLAS Primary Policy and the First Excess Policy

CLLAS Retention: Nil

Reinsurance Rates: \$273 per lawyer

Optional Third Excess Policy (Reinsurance Layer 4)

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. Only one firm did not purchase this policy.

CLLAS charged its members \$108 per lawyer and \$27 per patent & trademark agent for policies with limit of \$40M. For policies with limit of \$60M, CLLAS charged \$147 per lawyer and \$37 per patent & trademark agent. The rates were unchanged from last year.

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: \$38 per lawyer/\$10 per P&T agent for limit of \$10M
\$66 per lawyer/\$17 per P&T agent for limit of \$20M
\$86 per lawyer/\$22 per P&T agent for limit of \$30M
\$105 per lawyer/\$26 per P&T agent for limit of \$40M
\$124 per lawyer/\$31 per P&T agent for limit of \$50M
\$143 per lawyer/\$36 per P&T agent for limit of \$60M

The above reinsurance rates were unchanged from last year.



CLLAS Umbrella Policy (Reinsurance Layer 5)
\$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 \$74 per lawyer and \$19 per patent & trademark agent. The rates were unchanged since last year.

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

CLLAS Retention: Nil

Reinsurance Rates: \$71 per lawyer/\$18 per P&T agent
The rates were unchanged from last year.

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 2018/2019 reinsurance allocation to those of 2017/2018:

	London		Domestic		Colchester	
	2018/2019	2017/2018	2018/2019	2017/2018	2018/2019	2017/2018
Reinsurance Layer 1	75%	65%	5%	15%	20%	20%
Reinsurance Layer 2	Nil	Nil	100%	100%	Nil	Nil
Reinsurance Layer 3	Nil	Nil	100%	100%	Nil	Nil
Reinsurance Layer 4	32.5%	32.5%	60%	60%	7.5%	7.5%
Reinsurance Layer 5	55%	55%	45%	45%	Nil	Nil

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

All of the incumbent Lloyd's syndicates renewed. As described above, the Lloyd's market share increased from 65% to 75% due to the departure of domestic market CNA. Vibe syndicate increased their written line from 10% to 15% and though Argo remained firm at 20%, the other markets were written up accordingly

Westport Insurance Corporation continues to be the domestic lead with 30% on Layer 4 and 35% on Layer 5.

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. 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.

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

Aggregate Stop-Loss Protection and Retrocession Protection

Colchester provides the following aggregate stop-loss protection in 2018/19 (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 \$2,000,000 for losses in respect of proportional and aggregate reinsurances provided to CLLAS net of other proportional retrocession protection purchased

Changes to Reinsurance Contracts

There are no material change to the reinsurance contracts this year.

Reinsurance Guidelines

CLLAS's reinsurance placements are governed by its Reinsurance Risk Management Policy, which was last updated on June 22, 2016 and is scheduled to be reviewed by the Audit Committee in the fall.

CLLAS is regulated by the Alberta Superintendent of Insurance ("ASOI"). The ASOI 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. There have been no regulatory concerns raised regarding CLLAS' use of reinsurance.

Policy Wording Changes

There are no material policy wording changes this year.



Expectations for the Next Reinsurance Renewal

It is too early to predict what market conditions we will be faced with next year, but increased resistance from underwriters, slowly rising interest rates, as well as poor loss experience in London across multiple lines of business (including professional liability) suggest that markets will be hardening. Underwriters and actuaries of the markets currently supporting the program have expressed concern with the current pricing and may push for a modest increase next year.

We understand that Lloyd's is requiring its Managing Agencies to identify and review the worst performing parts of their Underwriting Syndicates' portfolios. As part of this, professional indemnity is under scrutiny for a number of Agents. We also understand that Lloyd's is requiring Managing Agents to submit remediation plans for the identified segments of their portfolios and that Lloyd's is working closely with them to agree to a resolution. In practice, we have seen action already taken with Brit and Channel Syndicates exiting international professional indemnity (but not US/Canada in Brit's case), along with a number of other sales, consolidations and exits from certain market segments. With help from Miller, we are monitoring the situation closely. It is anticipated that further merger/acquisition activity is likely, which may also reduce overall capacity available to CLLAS for future renewals.

Though CLLAS should continue to take advantage of market conditions through low risk retention and surplus distribution both at the CLLAS and Colchester levels while available, it is advisable to begin planning for a more rational reinsurance market in near term.

Update on the CLLAS Associate Member Initiative

Both Lenczner Slaght Royce Smith Griffin LLP, the first CLLAS Associate Member, and Stockwoods LLP who joined the program on January 1, 2017 renewed participation in the Associate Member for another year.

Since our last update, Axxima has met with members of Lawson Lundell LLP in Vancouver and Blaney McMurtry in Toronto regarding the possibility of them joining the associate member program. The meetings went well and the firms continue to consider their potential participation and how it would fit with their insurance goals. We are working to set up meetings with contacts at Hicks Morley and Nelligan O'Brien Payne in the coming months.

While CLLAS' rates were heavily reduced last year, which translated to lower rates on the Associate Member initiative, it is worth highlighting that CLLAS and Colchester both contributed surplus to achieve the overall reduction offered to CLLAS members. Associate Members received a healthy discount, but not as pronounced as that of CLLAS members who now benefit from years of surplus accumulation.

Over the course of the next few months leading up to the January 1, 2019 renewals (for most Ontario and BC firms), Axxima will be approaching a number of target law firms to continue exploring the prospect of joining CLLAS either as full members or as Associate Members.



Concluding Remarks

The above summarizes the insurance and reinsurance programs that have been put in place for the July 1, 2018/2019 policy year. We are pleased that the results have succeeded in preserving the pricing and structure that were a result of the hard-fought negotiations last year. CLLAS' unique 5-year underwriting period was a significant factor in being able to achieve stability for this renewal, as it so clearly reflects 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.

CLLAS has served its members well for over 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 continue to make CLLAS a sterling example of successful self-insurance.

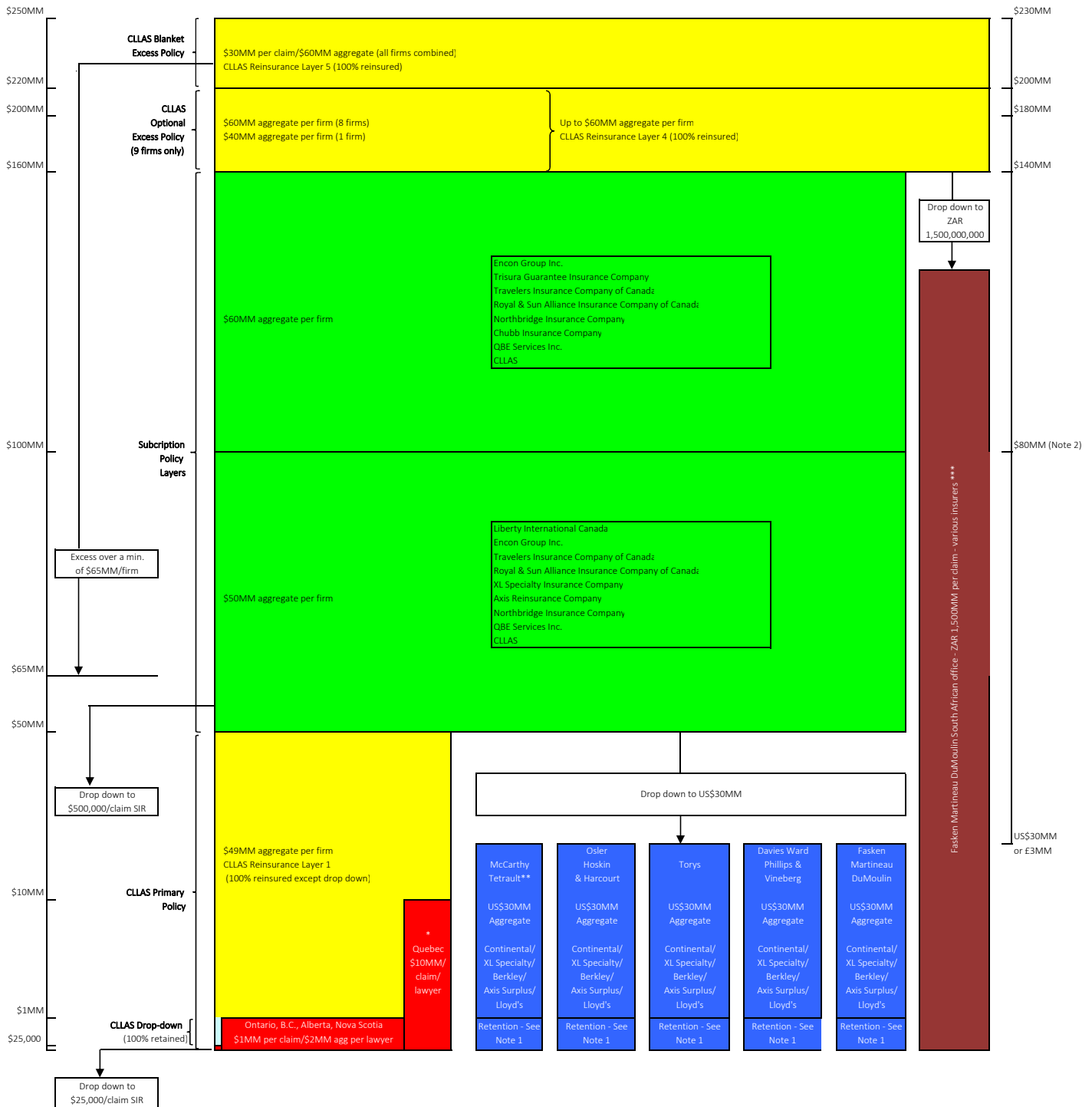
Encl.
Ad-Bd_1809_Final Report to Board re 2018/19 Reins Placement

CLLAS LIMIT STRUCTURE
JULY 1, 2018 - JULY 1, 2019

EXHIBIT A

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.

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

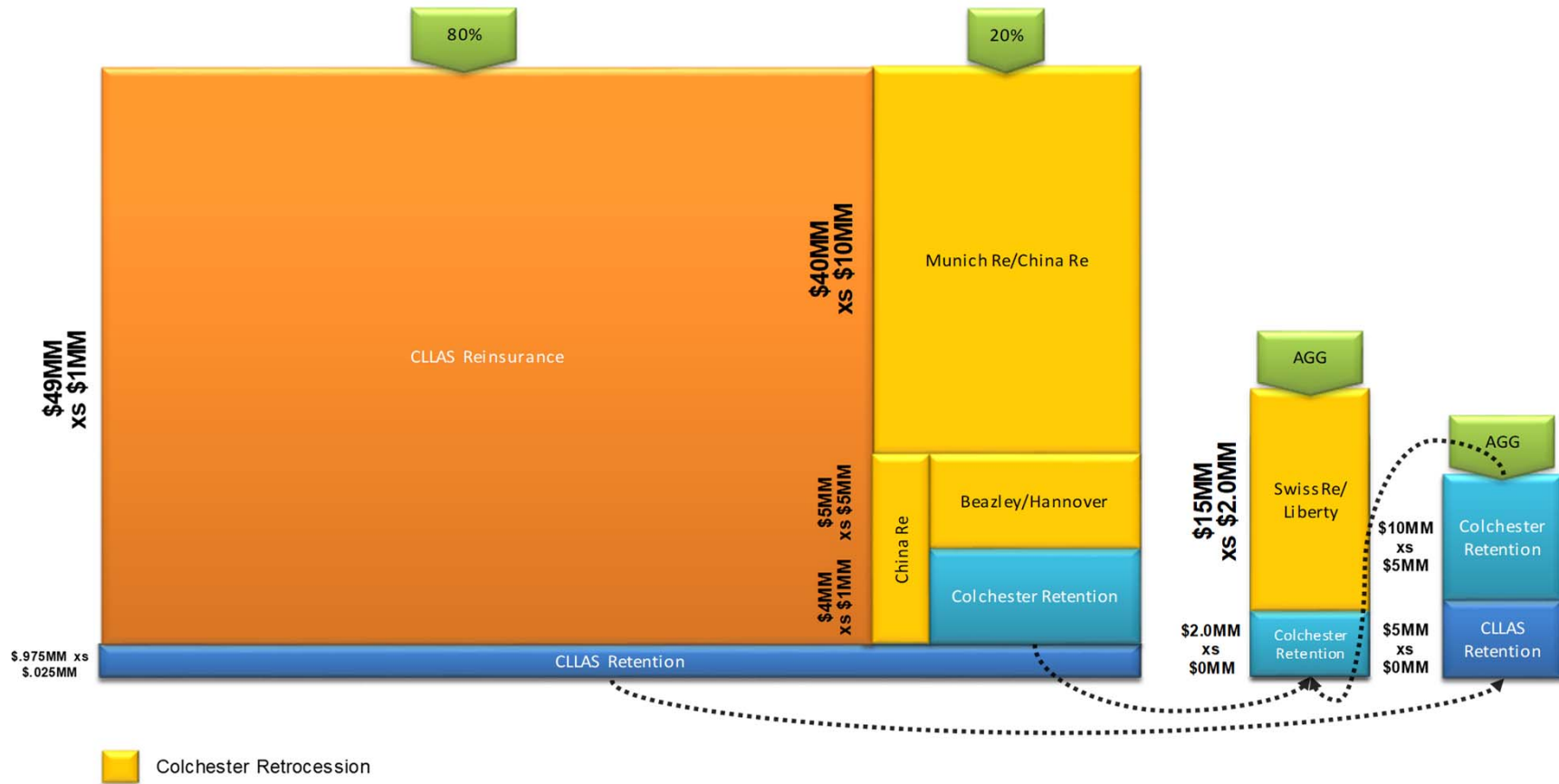
Patent & Trademark work for McCarthy Tetrault only - US\$50,000 worldwide

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

CLLAS/Colchester

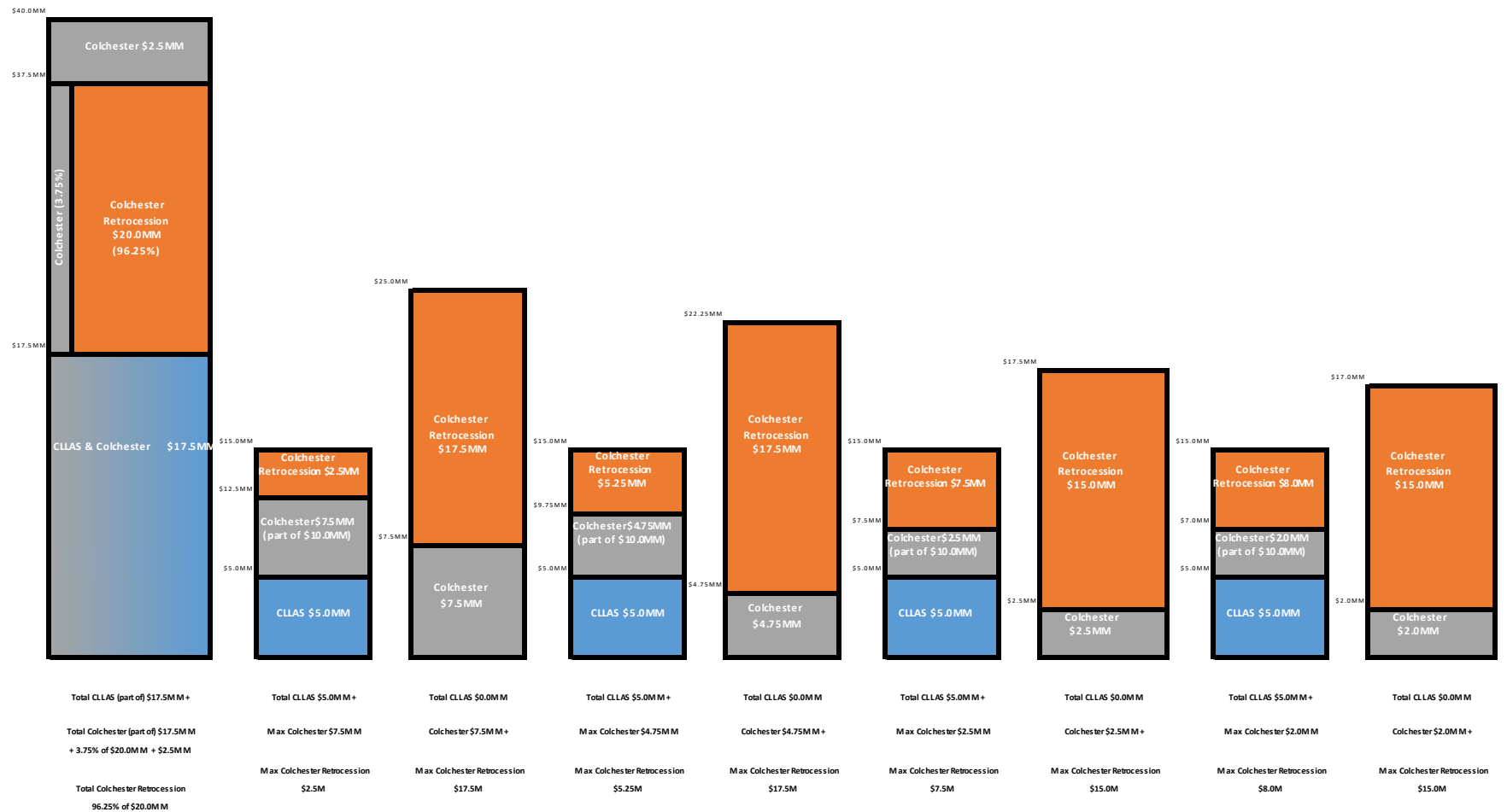
Reinsurance and Retrocession Structure Overview (2018-2019)

EXHIBIT B



Aggregate Stop-loss Reinsurance Structure (Historical)

		<u>JULY 1, 2011-2012</u>		<u>JULY 1, 2012-2013</u>		<u>JULY 1, 2013-2014</u>		<u>JULY 1, 2014-2015 - JULY 1, 2016-2017</u>		<u>JULY 1, 2017-2018 - JULY 1, 2018-2019</u>	
				Below \$1MM (Drop-down)	Excess of \$1MM	Below \$1MM (Drop-down)	Excess of \$1MM	Below \$1MM (Drop-down)	Excess of \$1MM	Below \$1MM (Drop-down)	Excess of \$1MM
Per Claim Retention:											
CLLAS		\$13,225,000		\$975,000	\$0	\$975,000	\$0	\$975,000	\$0	\$975,000	\$0
Colchester		\$1,000,000		\$0	\$4,150,000	\$0	\$1,700,000	\$0	\$800,000	\$0	\$700,000





MEMORANDUM

DATE: August 24, 2018
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY:
RE: June 30, 2018 Financial Management Report

CLLAS' financial management report for the quarter ended June 30, 2018 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 an underwriting loss (premiums minus claims and expenses) of \$142,000 for the first six months of 2018. After taking into account investment income (including unrealized losses arising during the period) CLLAS' total comprehensive loss was just over \$45,000. As shown on Exhibit I, CLLAS' surplus at June 30, 2018 stood at \$11.5 million.

The Budget Variance (Exhibit IV) shows that overall expenses for the year are tracking remarkably close to budget for the first six months. Management Services fees are \$27,000 (10%) over budget due to the heightened level of activity involved in managing a number of complex claims, but this overage is almost exactly offset by savings on other budget lines. Overall, at this point, management's expectation is that expenses for the year will end up being under budget.

Risk Metrics

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 shows results for CLLAS at December 31, 2016, December 31, 2017, and June 30, 2018 against risk targets and risk limits. The results for June 30, 2018 are within CLLAS' risk tolerances. Items of note include:

Line 13: The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). Details of this calculation are



included in Exhibit VI, with the result summarized in Line 13 of Exhibit V. CLLAS must maintain “cash and approved securities” in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. Exhibit VI shows that the CLLAS held cash and approved securities well in excess of the AMRGF requirement at June 30, 2018.

Line 14: CLLAS also monitors its Minimum Capital Test ratio. At June 30, 2018, CLLAS’ MCT ratio is estimated to be 454%, up slightly from 451% at December 31, 2017. Note that mid-year MCT calculations are done on a simplified basis in the interest of efficiency; the “official” MCT calculation is done at year-end.

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

FINANCIAL MANAGEMENT REPORT

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

QUARTERLY FINANCIAL MANAGEMENT REPORT

June 30, 2018

CONTENTS

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, 2018

	As at June 30, 2018	As at June 30, 2017
ASSETS		
Cash	4,288,441	2,600,315
Short term investments	9,795,812	11,690,584
Bonds	5,106,270	5,128,853
Interest income due and accrued	20,414	20,780
Premium receivable	-	-
Other receivable	-	530,542
Prepaid expenses	76,947	109,668
Deferred policy acquisition costs	-	-
Unearned reinsurance premium ceded	-	-
Reinsurance recoverable	319,730	833,572
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	96,738,000	96,730,000
	<u>116,345,614</u>	<u>117,644,314</u>
LIABILITIES		
Accounts payable & accrued charges	145,819	142,792
Premium taxes payable	-	-
Unearned premium	-	-
Due to reinsurers	-	-
Provision for unpaid claims and adjustment expenses	104,698,000	104,004,000
Premium deficiency liability	-	-
	<u>104,843,819</u>	<u>104,146,792</u>
SUBSCRIBERS' EQUITY		
Surplus	11,563,894	13,453,900
Accumulated Other Comprehensive Income (Loss)	(62,099)	43,622
	<u>11,501,795</u>	<u>13,497,522</u>
	<u>116,345,614</u>	<u>117,644,314</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending June 30, 2018

	Current Year		Prior Year	
	Quarter June 30, 2018	Year to Date June 30, 2018	Quarter June 30, 2017	Year to Date June 30, 2017
Written Premium	-	-	-	-
Gross Written Premiums	-	-	-	-
Less: Reinsurance Ceded	-	-	-	-
Net Written Premiums	-	-	-	-
Change in Unearned Premiums	502,070	998,622	542,675	1,079,387
Earned Premiums	502,070	998,622	542,675	1,079,387
Claims Paid	(55,795)	(111,998)	(39,106)	(89,755)
Change in IBNR	118,000	50,000	57,000	172,000
Change in Case Reserve	-	(21,000)	7,000	649,000
Premium Deficiency Expense	-	-	-	-
Incurred Claims	62,205	(82,998)	24,894	731,245
Management and operating expenses	515,275	980,574	483,240	1,081,344
Reinsurance fees	69,750	139,500	69,750	139,500
Premium taxes	51,655	103,310	77,110	154,221
Total Operating Expenses	636,680	1,223,384	630,101	1,375,065
Underwriting Gain (Loss)	(196,815)	(141,764)	(112,319)	(1,026,923)
Investment Income	71,924	136,697	45,538	90,594
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
NET GAIN/(LOSS)	(124,892)	(5,067)	(66,781)	(936,329)
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	(14,950)	(40,331)	(37,624)	(17,989)
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	(14,950)	(40,331)	(37,624)	(17,989)
Total comprehensive income (loss)	(139,842)	(45,398)	(104,405)	(954,318)

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
June 30, 2018

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	11,518,961	(21,768)	11,547,193
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		(5,067)		(5,067)
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			(40,331)	(40,331)
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		(5,067)	(40,331)	(45,398)
Distribution of premium surplus		-		-
Balance at June 30, 2018	50,000	11,513,894	(62,099)	11,501,795

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED June 30, 2018

	Annual Budget	Year to Date Budget	Year to Date Budget	Year to Date Actual	Fav/(Unfav) Variance
		%	\$	\$	\$
MANAGEMENT SERVICES* (See Note 1)	520,500	50%	260,250	287,391	(27,141)
PROFESSIONAL SERVICES					
Actuarial Services	70,000	62%	43,400	54,510	(11,110)
Reinsurance Matters	300,000	62%	186,000	183,510	2,490
Strategic Matters	160,000	62%	99,200	89,471	9,729
Sub-Total Professional Services	530,000		328,600	327,492	1,108
GST/HST on Consulting Fees	136,565		76,550	79,935	(3,384)
Total Management & Professional Services * (See Note 2)	1,187,065		665,400	694,817	(29,417)
OTHER EXPENSES					
Audit Expenses	113,000	50%	56,500	64,705	(8,205)
Annual Dinner	8,500	100%	8,500	5,996	2,504
Premium Taxes	207,000	50%	103,500	103,310	190
Chairman's Expenses	3,000	50%	1,500	-	1,500
Chairman's Honourium	150,000	100%	150,000	150,000	-
Reinsurance Expense	8,500	50%	4,250	4,159	91
D&O Insurance	20,000	50%	10,000	-	10,000
Office Expenses	25,000	50%	12,500	16,937	(4,437)
Claims: Borderaux (LawPro/LIF)	15,400	100%	15,400	15,075	325
Special Services	25,000	50%	12,500	-	12,500
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	984	1,016
Assessment Fees	3,000	50%	1,500	2,000	(500)
Investment counsel fees	30,000	50%	15,000	12,742	2,258
Investment - Custodial	18,000	50%	9,000	8,995	5
Risk Management/Loss Prevention	25,000	50%	12,500	-	12,500
License Fee	5,000	90%	4,500	4,163	337
Sub-total	939,400		558,650	528,567	30,083
TOTAL	2,126,465		1,224,050	1,223,384	666

* NOTE 1: MANAGEMENT SERVICES
The actual budget of \$597,00 has been reduced to \$520,500 as s result of Commissions 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	21%
Second Quarter, ending June 30th	41%
Third Quarter, ending September 30th	17%
Fourth Quarter, ending December 31st	21%
	100%

* NOTE 3: MILLER INSURANCE FEES (Reins. Comm.)
The annual budget is based upon the annual fee actual for the policy year 2017/2018 and estimated for the policy period 2018/2019.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
SUMMARY OF RISK METRICS
June 30, 2018

Exhibit V

	Risk Category	Risk Metric	December 31, 2016	December 31, 2017	June 30, 2018	Target	Limit
(1a)	Insurance	Prior year development - Gross of reinsurance	-13%	-8%	-2%	≤ 0%	> 20%
(1b)		Prior year development - Net of reinsurance	-45%	8%	-14%	≤ 0%	> 10%
(2a)		3-year net combined ratio	91%	115%	128%		
(2b)		3-year net combined ratio before surplus adjustments via premiums	78%	91%	97%	≤ 100%	> 125%
(3)		Maximum allocation to a single jurisdiction	56%	60%	60%	n/a	> 67%
(4)	Reinsurance	Reinsurer credit rating	A- to A+	A- to A+	A- to A+	≥ A	< A-
(5)		Maximum concentration with a single reinsurer excl. Colchester	12.2%	12.8%	12.8%	≤ 10%	> 15%
(6)	Interest Rate	Interest rate risk per MCT formula at 1.25%	\$112,000	\$198,000	\$156,000	≤ \$250,000	> \$600,000
(7)	Liquidity	Ratio of cash and short-term investments to gross claim liabilities	16%	14%	13%	≥ 15%	< 10%
(8)		Ratio of short term funds to total short & long term funds	69%	70%	66%	≥ 40%	< 20%
(9a)	Asset Default	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
(10a)		Maximum allocation to a single non-government security - Schedule I/II Banks	6.7%	6.7%	6.4%	< 7.5%	> 10%
(10b)		Maximum allocation to a single non-government security - Other	2.2%	2.1%	2.4%	< 3.75%	> 5%
(11)	Strategic	Annual Advisory Board turnover	0	0	1	≤ 2 members	> 4 members
(12)	Operational	Key management/advisor turnover	0	0	0	≤ 1 per 3 years	> 1 per year
(13)	Regulatory Solvency Indicators	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$9,595,000	\$7,749,500	\$8,993,500	\$3,500,000 to \$7,000,000	< \$3,500,000
(14)		MCT	463%	451%	454%	≥ 210%	< 210%

Notes

(1) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE); net development in 2017 is mainly due to one claim of \$650,000

(2a) = [3-year net incurred losses + 3-year operating expenses] / [3-year net earned premiums]

(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. information from report on reinsurance security (October 31, 2017).

(5) Based on claim liabilities exposure. Lloyds syndicates are assessed separately. 2015 information from report on reinsurance security (October 30, 2015); 2016 information from report on reinsurance security (October 21, 2016); 2017 information from report on reinsurance security (October 31, 2017).

(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.

Color Code
Meets Target
Between Target and Limit
Exceeds Limit

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
For the Period Ending June 30, 2018

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

	Current Year to Date 06/30/2018 (in \$000's)	Prior Year End 06/30/2017 (in \$000's)
<u>Reserve Fund</u>		
Premiums collected or credited having one year or less to run	(1) 7,138	10,610
Less: Amount paid to licensed reinsurers	(2) 5,075	8,347
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) 2,063	2,263
Reserve Fund Required (50% of Line 5)	(6) 1,032	1,132
<u>Guarantee Fund</u>		
Total Liabilities	(7) 104,844	104,147
Less: Unearned Premiums	(8) -	-
Less: Recoverable from licensed reinsurers	(9) 95,729	95,644
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 9,165	8,553
TOTAL RESERVE & GUARANTEE FUND REQUIRED (Line 6+11)	(12) 10,197	9,685
Cash & Approved Securities	(13) 19,190	19,419
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 8,994	9,735



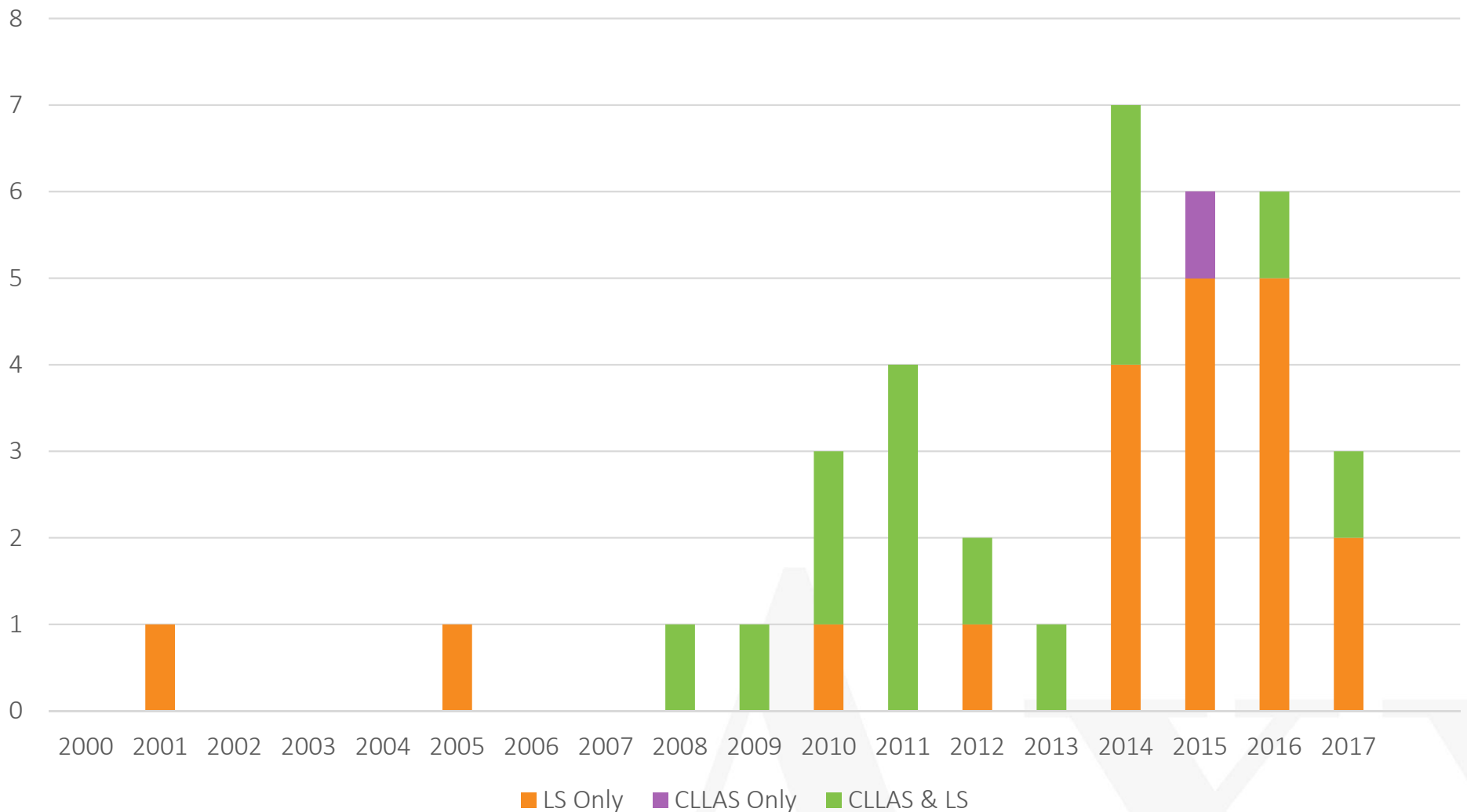
Actuaries & Insurance Management Advisors

CLLAS

Open Large Loss Claims Summary
As at June 30, 2018

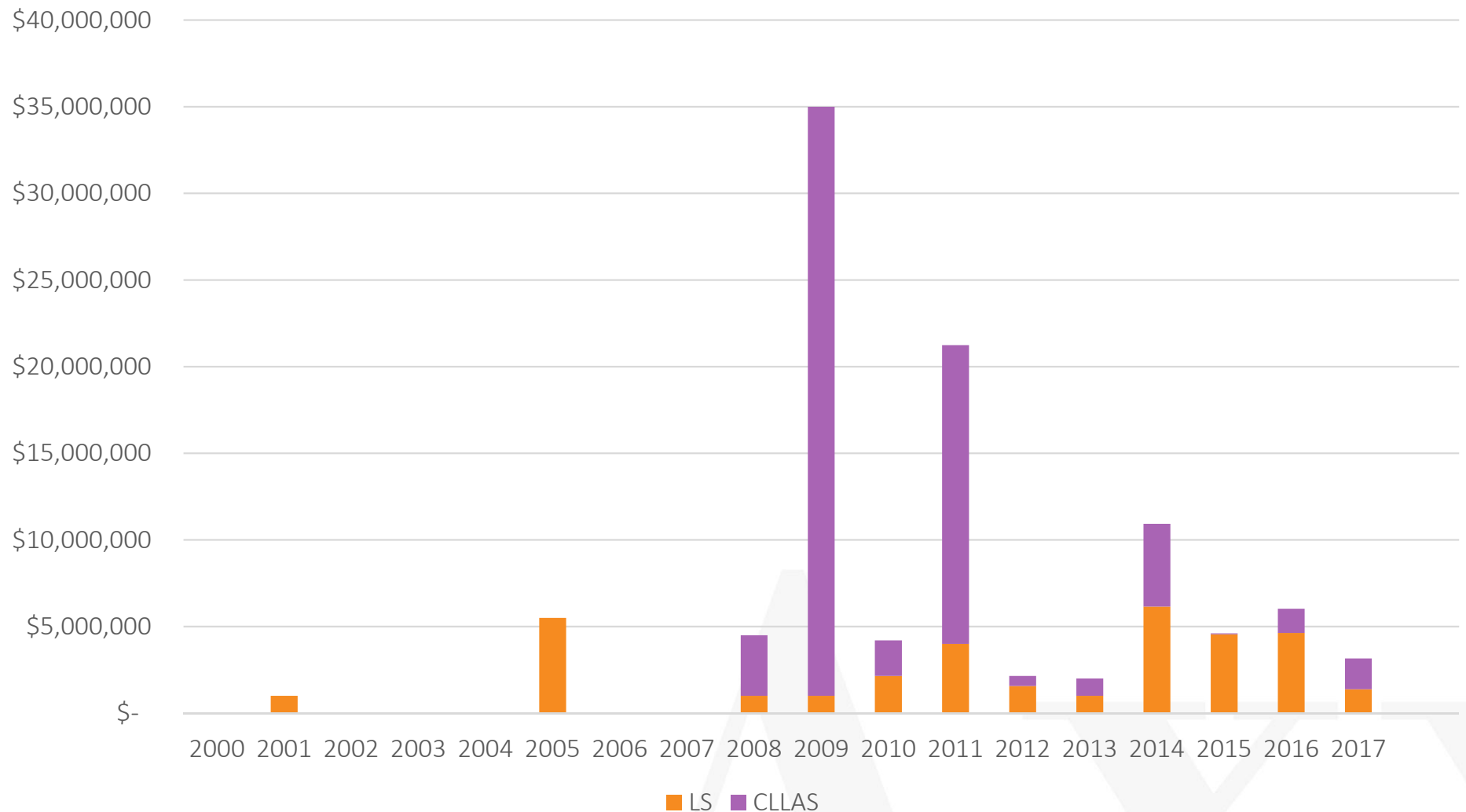
Open Large Loss Claims

Number of Claims by Insurer



Open Large Loss Claims

Incurred Amounts by Insurer



Open Large Loss Claims

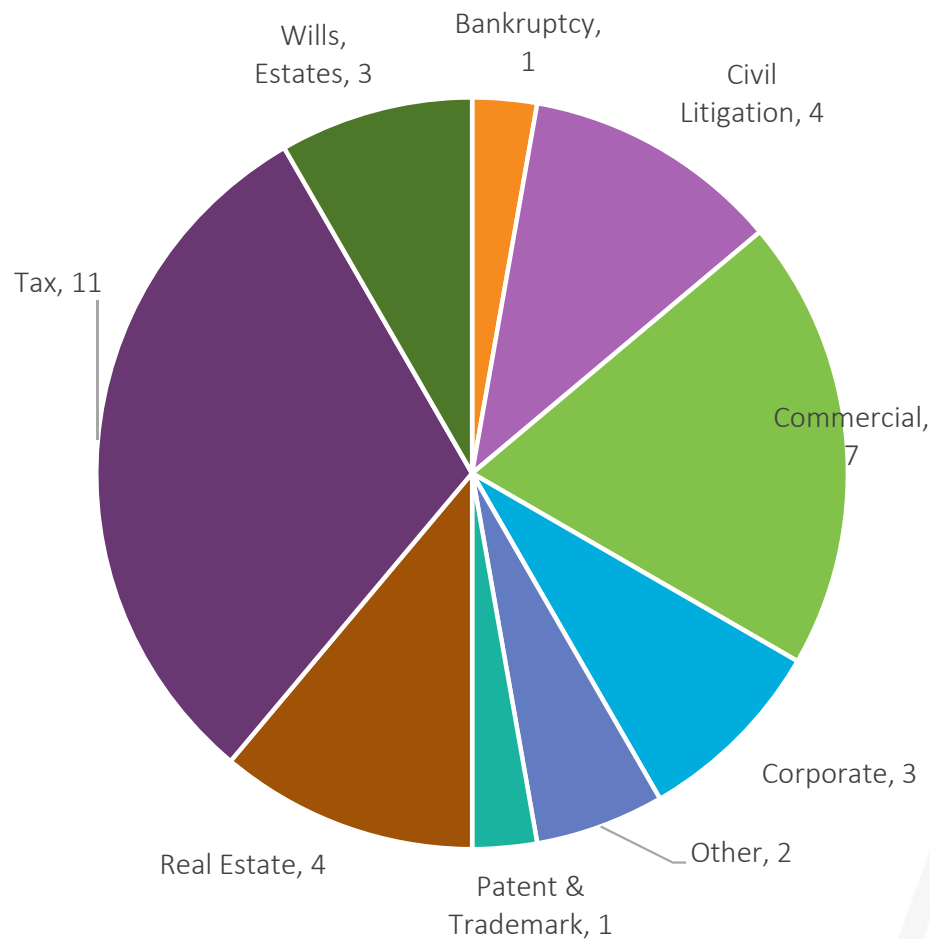
Change in Incurred Amounts (CLLAS)



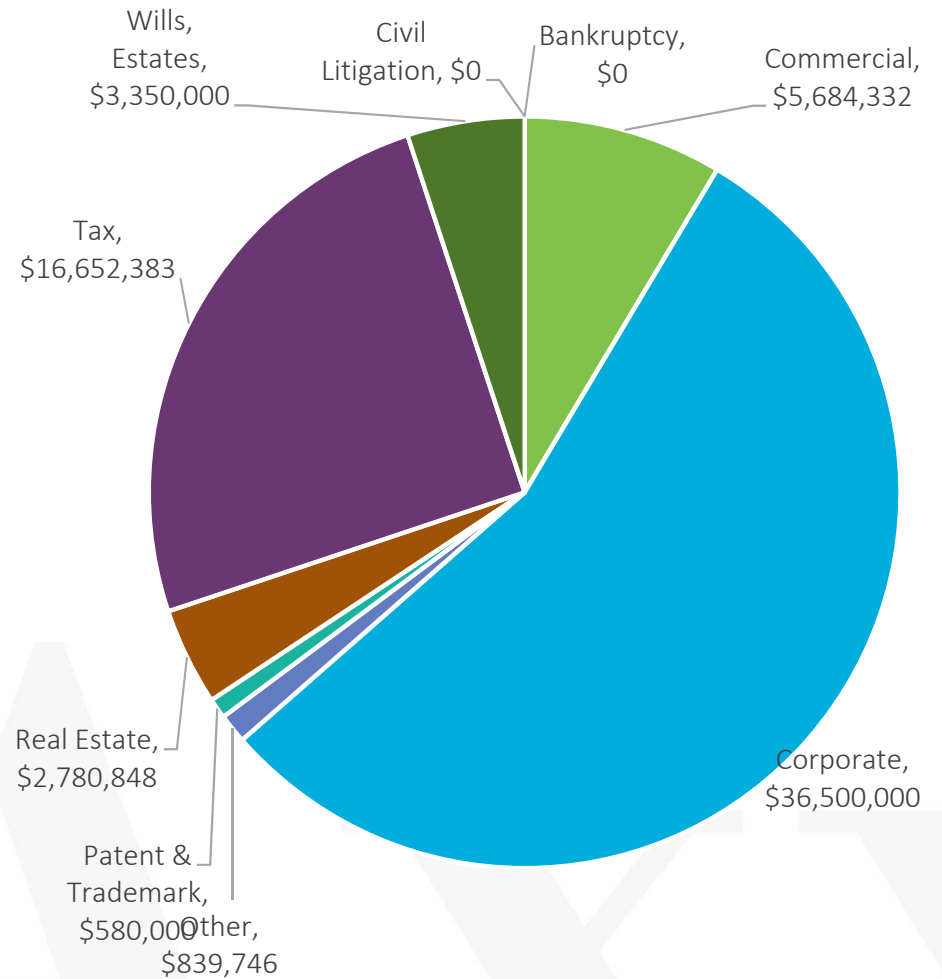
Open Large Loss Claims

By Area of Law

Number of Claims (CLLAS & LS)

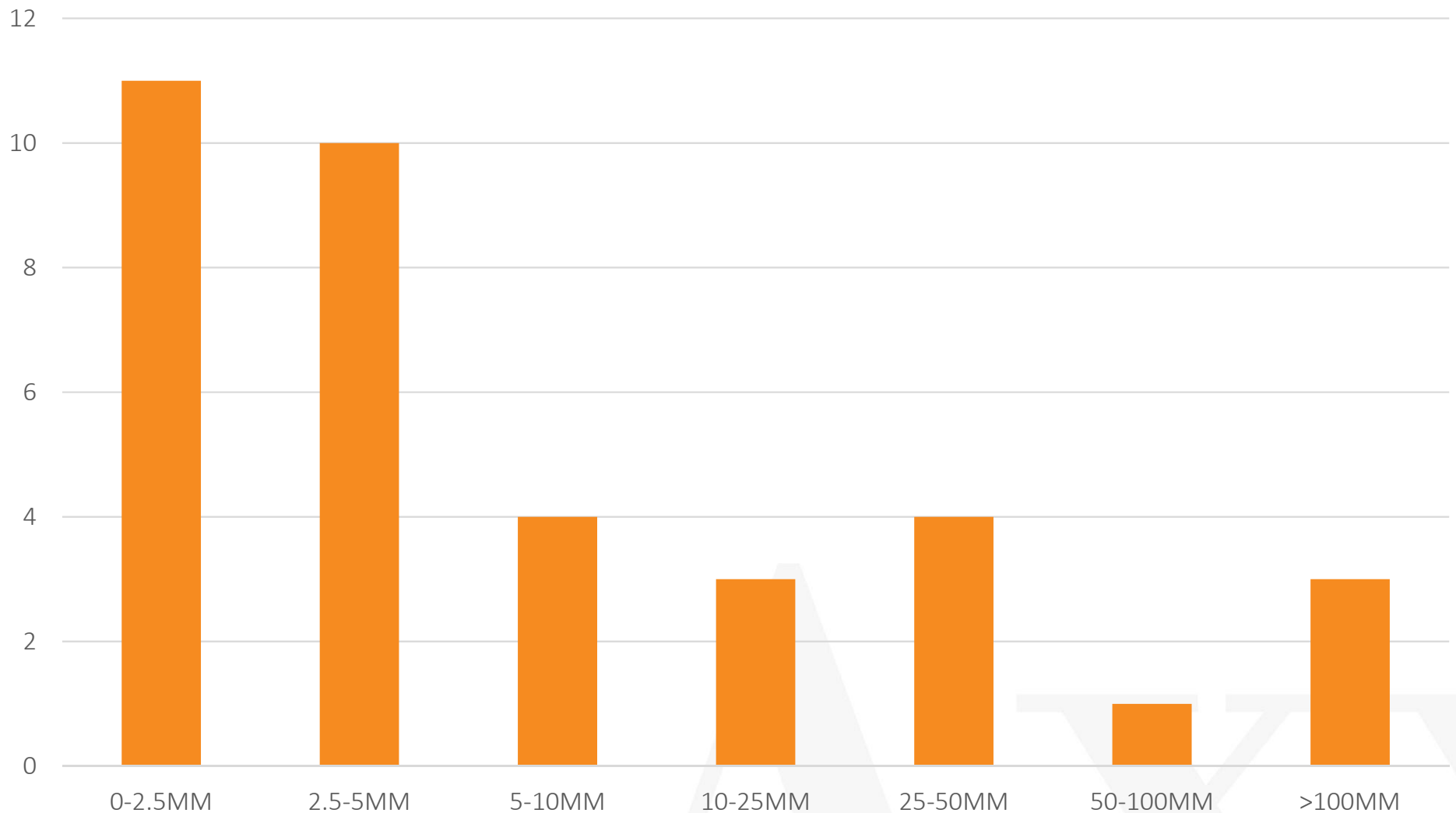


CLLAS Incurred



Open Large Loss Claims

Number of Claims by Best Estimate of Worst Case



Open Large Loss Claims

Claim Count Movement in Quarter

Policy Year	Law Society Only	CLLAS Only	CLLAS & Law Society
2000	0	0	0
2001	0	0	0
2002	0	0	0
2003	0	0	0
2004	0	0	0
2005	0	0	0
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009	0	0	-1
2010	0	0	0
2011	-1	0	1
2012	-1	0	1
2013	0	0	0
2014	0	0	0
2015	0	0	0
2016	1	0	0
2017	0	0	0
2018	0	0	0

Notes

Slide 1

- Illustrates the number of open claims by insurer.
- LS Only: Large (\$500,000+) Law Society (“LS”) claims which have not yet developed into CLLAS (\$1,000,000+) claims
- CLLAS Only: Claims which are typically drop-down claims where the Law Society does not respond
- CLLAS & LS: Claims where amounts have been incurred by both the Law Society and CLLAS

Slide 2

- Illustrates the aggregate incurred amounts (paid + reserved) by policy year
- Identifies the quantum yet to be crystalized and highlights extraordinary years

Slide 3

- Illustrates movements in paid (always positive, except in cases of recovery) and reserved amounts
- Positive values highlight strengthening of reserves, or adverse claim development. Negative values highlight reduced reserves or better than expected outcomes

Notes (Cont'd)

Slide 4

- Illustrates the split between areas of law for the number of open claims and the incurred amounts (paid + reserved)
- Highlights the law areas of claims being actively managed

Slide 5

- Based on counsel's best estimate of the worst case outcome of each open claim
- Highlights the potential claim sized being actively managed

Slide 6

- Illustrates the emergence or closure (including reduction of incurred value below the large loss monitoring threshold of \$500,000) of claims over the previous quarter
- Note: Claims may move between Law Society Only, CLLAS & Law Society, and CLLAS Only



MEMORANDUM

DATE: August 29, 2018
TO: CLLAS Advisory Board
FROM: Patrick Mahoney
COPY: Barry Bresner – Chair CLLAS Claims Committee
RE: “Topping Up” of Defence Counsel Fees

In the mid 1990’s LawPRO introduced a cap on fees paid to counsel retained to defend claims. CLLAS concluded that its member firms should have the ability to retain counsel of their choice even if the rates per hour for the defense team exceeded the maximums permitted by LawPRO, and that it was in CLLAS’ interest to support the retainer of these counsel in the case of claims with significant potential.

As a result, CLLAS implemented the following policy in June 1995:

1. If any member of the defense team has signed on with LawPRO at a specified rate, that will be the applicable rate in settling the claim with CLLAS.
2. If the claim (including costs) is ultimately paid or settled at \$1 million or less, the firm will be responsible for any difference in the cost of the defense counsel and the LawPRO rates.
3. If the claim (including costs) is ultimately paid or settled above \$1 million, CLLAS will pay the excess of the cost of defense counsel over the LawPRO rates from ground up.

This policy has continued in force for 20+ years, and CLLAS has reimbursed firms for legal fees on files that have exceeded the \$1 million underlying limit on numerous occasions. Sometimes (most notably in the case of class actions) the reimbursement is triggered by the expenditure of the full underlying limit on legal costs. In those cases, CLLAS typically carries a significant legal reserve, including provision for the top-up payment. In other cases, it is clear early on in a claim’s lifespan that it will exceed the underlying limit, and that a top-up payment will at some point be triggered and, again, the anticipated payment is reflected in CLLAS’ legal reserves. Note that the top-up payment forms part of the incurred on the claim and is therefore reinsured on years (from July 1, 2011 forward) where CLLAS’ reinsurance attaches at \$1 million.

In the recent past, we had two claim situations develop that have caused us to re-examine the policy – not the substance of the top-up approach, but rather the way in which it is managed. Those two cases involved claims that CLLAS, based on our own analysis and that of defence counsel and LawPRO, had no expectation would exceed the underlying \$1 million limit. In both cases, during the course of mediation, it was concluded that CLLAS should make a contribution to settlement. This triggered the top-up payment which, in both cases, was quite large due to the growing disparity between LawPRO counsel rates and the going



rate for counsel of choice in Toronto. The result was a “double-whammy”, i.e. the relatively modest contribution to settlement, for which CLLAS was not reserved, triggered a not-so-modest payment of legal expenses, for which CLLAS was also not reserved.

The purpose of this memo is not to suggest that the top-up policy be changed – in fact the policy is probably more necessary (and more valued by the firms) now than when it was implemented. The purpose of this memo is to propose an amendment to the policy to allow management to better track the potential impact of future top-up payments, to better manage its case reserves and to minimize surprises for reinsurers.

We propose that the policy be amended to make it a pre-condition for reimbursement that, when requested, the firm provide CLLAS with copies of all legal accounts processed in the past, as well as copies of all legal accounts processed going forward. This will enable CLLAS to better monitor costs in the underlying layer and the potential quantum of the reimbursement amount if it is in fact triggered.

From a process perspective, when a claim file first exceeds the reporting threshold (\$500,000 in the underlying layer), management would remind the firm in writing of the policy and ask (1) to be provided with all legal accounts paid to date, and (2) to be copied on all legal accounts paid in the future. We expect that we would get good cooperation from the firms but if the firm chooses to not provide the accounts for some reason, we would advise that the entitlement to the top-up is conditional on providing the accounts in a timely manner.

If the Board is in agreement with the above approach, we will update the policy accordingly. I look forward to discussing this at the up-coming meeting.

Sincerely,

Patrick Mahoney
General Manager

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
JUNE 30, 2018

MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL

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

Tel.: 416-363-6216
Fax: 416-363-4538
e-mail: info@mlsinvest.com

CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

COMMENTARY FOR THE QUARTER ENDING JUNE 30, 2018

Review of Market Yields

After climbing sharply higher during the first half of the second quarter, bond yields turned down in mid-May and continued to trend lower for the balance of the quarter. This downward shift in yields reversed much of the earlier gain. Over the quarter, the most significant change occurred at the short end of the curve, where the yield on 3-month Treasury Bills increased 16 basis points. Further out the curve, the increase was limited to 10 basis points for issues in the 3 to 7-year range, while the 10-year yield was up just 8 basis points.

As a result of these shifts, the slope of the yield curve flattened slightly during the quarter. At the end of June, the yield advantage of the 10-year issue over the Treasury bill was down to 91 basis points compared to 99 basis points three months earlier.

	Jan. 01/95	Dec. 31/17	Mar. 31/18	Jun. 30/18
3-month Treasury Bills	6.80%	1.06%	1.10%	1.26%
5-year Canadas	8.99%	1.86%	1.96%	2.06%
10-year Canadas	9.09%	2.04%	2.09%	2.17%

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

In the Long Term Investment Fund a government bond matured and a new medium-term government bond was purchased with the proceeds.

During the second quarter, the market value of the Long Term Investment Fund holdings declined \$19,418 which represents a capital decrease of 0.38%.

At June 30, 2018, the average term to maturity of the Long Term Investment Fund stood at 4.4 years.

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

<i>Distribution at June 30, 2018</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$9,802,945	65.8%
Long Term Investment Fund	\$5,105,686	34.2%
TOTAL COMBINED VALUATION	\$14,908,631	100.0%

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, 2018
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

LONG TERM INVESTMENT FUND

**TIME-WEIGHTED RATES OF TOTAL RETURN
FOR PERIODS ENDING JUNE 30, 2018**

	3 Years*	2 Years*	1 Year	Last 3 months
<i>Long Term Investment Fund – Gross of Fees</i>	<i>0.99%</i>	<i>0.06%</i>	<i>0.28%</i>	<i>0.26%</i>
<i>Long Term Investment Fund – Net of Fees</i>	<i>0.73%</i>	<i>-0.19%</i>	<i>0.07%</i>	<i>0.19%</i>
Benchmark Portfolio **	1.04%	-0.03%	0.18%	0.29%

*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, 2018**

	Since Inception Oct. 01/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	<i>0.80%</i>	<i>0.74%</i>	<i>0.85%</i>	<i>1.12%</i>	<i>0.36%</i>
<i>Short Term Investment Fund – Net of Fees</i>	<i>0.67%</i>	<i>0.59%</i>	<i>0.69%</i>	<i>0.91%</i>	<i>0.30%</i>
Benchmark Portfolio **	0.74%	0.63%	0.72%	0.94%	0.31%

* Annualized

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

LONG TERM INVESTMENT FUND

DISTRIBUTION OF SECURITIES BY CREDIT RISK
(Based on Market Values)

	Dec. 17/13	Sep. 30/17	Dec. 31/17	Mar. 31/18	Jun. 30/18
Bonds, Treasury Bills & Cash Less than 1 year term	100.0%	15.8%	15.8%	11.8%	11.8%
Canadas Greater than 1 year term		18.7%	18.7%	18.5%	18.6%
Provincials Greater than 1 year term		31.8%	31.9%	31.5%	31.5%
Corporates Greater than 1 year term		33.7%	33.6%	38.2%	38.1%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%	100.0%	100.0%

LONG TERM INVESTMENT FUND

DISTRIBUTION OF SECURITIES BY MATURITY
(Based on Market Values)

	Sep. 30/17	Dec. 31/17	Mar. 31/18	Jun. 30/18
Under 1 year	15.8%	15.7%	11.8%	11.8%
1 - 3 years	19.9%	19.8%	19.7%	18.7%
3 - 5 years	22.1%	26.0%	28.7%	31.6%
5 - 7 years	18.1%	14.1%	15.9%	21.7%
7 - 10 years	24.1%	24.4%	24.1%	16.2%
TOTAL	100.0%	100.0%	100.0%	100.0%
Average Maturity (yrs)	4.53	4.30	4.31	4.36
Average Duration (yrs)	4.15	3.95	3.96	4.01

SHORT TERM INVESTMENT FUND

	Sep. 30/17	Dec. 31/17	Mar. 31/18	Jun. 30/18
Short Term Average Duration (yrs)	0.07	0.10	0.08	0.10

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT JUNE 30, 2018

	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.68 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	65.8%	Yes
Minimum Canada & Provincial Percentage	50%	52.0%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1 (high)	R1 (high)	Yes
<i>Long Term Investment Fund</i>			
Maximum Term of Any Issue	10 years	8.42 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	34.2%	Yes
Minimum Canada Percentage	20%	23.5%	Yes
Maximum Provincial Percentage	40%	38.4%	Yes
Minimum Canada & Provincial Percentage	60%	61.9%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	38.1%	Yes
Minimum Corporate Quality *	A	AA (low)	Yes

* At time of purchase

This will confirm that during the first 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.

Martin, Lucas & Seagram Ltd.
 PERFORMANCE REPORT
 GROSS OF FEES
CLLAS – LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 03-31-18 to 06-30-18

Portfolio Value on 03-31-18	5,118,504
Accrued Interest	33,456
Contributions	6,699
Withdrawals	-46,096
Realized Gains	-218
Unrealized Gains	-19,201
Interest	45,997
Dividends	0
Change in Accrued Interest	-13,042
Portfolio Value on 06-30-18	5,105,686
Accrued Interest	20,414
Average Capital	5,140,509
Total Gains before Fees	13,537
IRR for 0.25 Years	0.26%

BOND MARKET COMMENTARY AND FUTURE POLICY

The domestic bond market experienced considerable volatility during the first half of the year, with prices changing direction several times. After yields reached their highest year-to-date levels in mid-May, they have since retreated and bond prices are now close to the levels that prevailed at the beginning of the year. Over the past two months, fixed income markets have been relatively stable, despite ongoing deterioration on the trade and inflation fronts, which shook investor confidence earlier this year.

In the domestic economic backdrop, aggregate growth eased lower in the first quarter to 1.3%, matching the Bank of Canada's forecast. The main headwind came from trade, as imports grew faster than exports, which more than offset strong domestic demand fuelled by government spending, business investment and consumption. While weakness in real estate has persisted under the weight of stricter mortgage lending standards, national home sales and housing starts have improved recently and the drag from this sector now shows signs of dissipating. Despite recording the worst start to the year since the 2009 recession in terms of job creation, employment wages are now growing at a brisk pace. However, this has raised concerns about upward pressures on core inflation. Indeed, earlier this month the Bank of Canada increased its overnight lending rate by another 1/4%, which marks the fourth increase over the past year, stating that a gradual approach to higher interest rates will be warranted to restrain inflation. Since then, Statistics Canada reported that the annual inflation rate hit 2-1/2% in June, which was the highest increase in over six years and well above the 2% mid-point of the Bank of Canada's target range.

Despite the Bank of Canada's recent shift towards a less accommodative stance, a variety of risks continue to overhang the Canadian economy. Chief among these is the mounting trade tensions with the U.S., which accounts for 75% of Canada's goods exports. While the recently introduced steel and aluminum tariffs along with Canada's retaliatory measures are not expected to have a significant impact on aggregate growth, Trump's threat to add punitive tariffs on Canada's auto exports would have more dire consequences, particularly for Ontario. While this may be a negotiating tactic, since it would inflict significant damage on both sides of the border, the threat of these tariffs alone, along with the stalled NAFTA negotiations, creates significant uncertainty that could suppress future investment activity.

Turning to the U.S., recently revised estimates show the economy expanded at an annualized pace of 2% in the first quarter of this year, which was in line with the consensus. Growth in the second quarter is expected to accelerate above 3% and expectations for the balance of the year remain buoyed by continued strength in the labour market, the ongoing boost from reduced corporate and personal tax rates, as well as interest rates that remain historically low, in absolute and real terms. The Federal Open Market Committee has also acknowledged that economic activity has been rising at a solid rate and cited a pick-up in household spending and continued strong growth in business fixed investment to support the case for tighter monetary policy. As expected, the Federal Reserve followed up with another increase to the Fed funds rate last month. Pointing to a more optimistic view on economic growth, employment and higher inflation expectations, the central bank also projected two more hikes this year, bringing the 2018 total to four, which is one more than their previous forecast.

In Europe, aggregate growth disappointed in the first quarter by expanding at an annualized pace of just 1.6%, its softest gain since mid-2016. This slowdown in economic momentum followed a string of weak monthly results for retail spending and industrial output. This has contributed to an easing in economic sentiment, although it remains high by historical standards. Despite downside risks to the economic outlook, ranging from international trade uncertainty to the re-emergence of political turbulence following the Italian elections, the European Central Bank (ECB) has announced that it will reduce the pace of its monthly bond purchases and end this quantitative easing program by December of this year. Furthermore, the ECB has stated that it expects key interest rates to “remain at their present levels at least through the summer of 2019”. As a result, ECB interest rate policy will remain stimulative for some time yet. As for economic growth, the ECB has trimmed its forecast for this year to 2.1% and expects gains of 1.9% in 2019 and 1.7% in 2020.

Meanwhile, China posted strong GDP growth of 6.9% in the first quarter, which was comfortably above the government’s forecast of around 6.5% growth in 2018. While strong consumption and investment activity in the first quarter supports this expectation, the recent softening of retail sales and fixed asset investment suggests the economy may be losing some momentum. Leverage also remains a concern, despite stringent administrative measures having so far proven effective in cooling the rate of credit expansion. While its trade battle with the U.S. has escalated following the implementation of tit-for-tat tariffs on \$34 billion of goods, it should be noted that, over the past decade, China has become less dependent on global trade and significantly less vulnerable to U.S. trade pressure. Nevertheless, China’s equity market has fallen some 20% over the last five months and its currency is trading near the lows for the year.

Japan’s economy contracted at an annualized pace of 0.6% in the first quarter, which ended the country’s longest stretch of economic growth in 28 years. This was primarily due to weakness in private consumption, which accounts for approximately 60% of GDP. A slowdown in capital expenditures brought on by a stronger yen and tensions on the trade front also contributed. As a result, the Bank of Japan is expected to keep monetary conditions accommodative, particularly as core inflation has also been weak in recent months.

While growth rates outside of the U.S. have recently slowed from multi-year highs, the expansion remains well-established and synchronized global growth, along with the adoption of sweeping tax cuts in the U.S., suggests the global macro framework remains reasonably sound. However, the recent pivot by the U.S. administration toward protectionist policies has the potential to undercut the positive macro fundamentals. Unfortunately, news on the trade front has gone from bad to worse after the imposition of tariffs by the Trump administration sparked retaliatory measures from affected trade partners. While the direct costs of these tariffs are thought to be relatively small, Trump’s inflammatory comments and threat of new tariffs would greatly magnify the costs to all economies if enacted.

At this juncture, current global macro-economic conditions, along with growing cyclical price pressures and signals from the monetary authorities, suggest that bond yields will drift higher during the second half of this year. However, we believe the fixed income markets could be buffeted by elevated uncertainty on a number of fronts, led by the prospect of an escalating trade war if calmer heads south of the border do not prevail. Furthermore, recent indicators suggest that offshore growth cooled somewhat during the second quarter and financial conditions have tightened in the wake of higher administered interest rates. The transition to higher interest rates may also exacerbate underlying financial excesses that remain in the markets, particularly related to historically elevated debt levels, which could also weigh on the global expansion.

As harsh rhetoric and discord among trading partners continue making waves that threaten to erode the macro-outlook, for the time being investors have maintained a more optimistic view that the global economic expansion will continue apace and that trade tensions will eventually be favourably resolved. However, Trump's latest threat of potential U.S. tariffs on \$200 billion of Chinese goods, scheduled to take effect after August 30, leaves the macro-outlook vulnerable if the two nations are unable to reach a compromise. Given the unpredictable nature of the U.S. administration, at this juncture we think investors should avoid making significant bets on how the dispute will unfold. As a result, we think it is prudent to maintain the Long Term Fund's laddered maturity structure and believe the current bias towards shorter maturities is appropriate in light of the plausible outcomes.

RWB/de

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.

CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at June 30, 2018

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
CASH					
	Cash Account			6,204	0
MONEY MARKET ISSUES					
615,000	Bank of Nova Scotia BA 1.424% due July 3, 2018	99.89	99.98	614,895	8,748
840,000	Bank of Nova Scotia BA 1.500% due July 20, 2018	99.89	99.91	839,249	12,586
655,000	Toronto Dominion Bank BA 1.461% due July 20, 2018	99.91	99.91	654,414	9,561
960,000	CIBC BA 1.509% due July 24, 2018	99.64	99.89	958,979	14,434
1,500,000	Canada Treasury Bill 1.160% due July 26, 2018	99.73	99.93	1,498,890	17,354
1,525,000	Canada Treasury Bill 1.190% due August 9, 2018	99.73	99.88	1,523,202	18,098
860,000	CIBC BA 1.559% due August 17, 2018	99.73	99.79	858,178	13,371
780,000	FirstBank BA 1.534% due August 17, 2018	99.76	99.79	778,347	11,937
250,000	Canada Treasury Bill 1.020% due August 23, 2018	99.84	99.83	249,583	2,546
1,825,000	Canada Treasury Bill 1.210% due September 6, 2018	99.72	99.78	1,821,005	22,021
				<u>9,796,741</u>	<u>130,655</u>
TOTAL PORTFOLIO				9,802,945	130,655

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 04-01-18 To 06-30-18

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
04-02-18	04-02-18	655,000	Toronto Dominion Bank BA 1.519% due April 27, 2018	99.90	654,318.80
04-13-18	04-16-18	650,000	CIBC BA 1.51% due June 1, 2018	99.81	648,765.65
04-19-18	04-19-18	1,800,000	Canada Treasury Bill 1.130% due June 14, 2018	99.83	1,796,884.20
04-19-18	04-19-18	775,000	Royal Bank BA 1.473% due May 24, 2018	99.86	773,938.25
04-25-18	04-26-18	860,000	CIBC BA 1.543% due June 15, 2018	99.79	858,185.40
04-26-18	04-27-18	960,000	CIBC BA 1.509% due July 24, 2018	99.64	956,518.08
05-02-18	05-03-18	1,500,000	Canada Treasury Bill 1.160% due July 26, 2018	99.73	1,496,007.00
05-02-18	05-03-18	820,000	Toronto Dominion Bank BA 1.505% due May 28, 2018	99.90	819,155.40
05-04-18	05-07-18	615,000	Bank of Nova Scotia BA 1.510% due June 4, 2018	99.88	614,288.45
05-16-18	05-17-18	1,525,000	Canada Treasury Bill 1.190% due August 9, 2018	99.73	1,520,835.23
05-23-18	05-24-18	780,000	Bank of Nova Scotia BA 1.499% due June 21, 2018	99.89	779,103.78
05-25-18	05-28-18	820,000	Toronto Dominion Bank BA 1.505% due June 22, 2018	99.90	819,155.40
06-01-18	06-04-18	615,000	Bank of Nova Scotia BA 1.424% due July 3, 2018	99.89	614,305.05
06-01-18	06-01-18	650,000	Toronto Dominion Bank BA 1.505% due June 26, 2018	99.90	649,330.50
06-13-18	06-14-18	1,825,000	Canada Treasury Bill 1.210% due September 6, 2018	99.72	1,819,931.98
06-14-18	06-15-18	860,000	CIBC BA 1.559% due August 17, 2018	99.73	857,690.90
06-20-18	06-21-18	780,000	FirstBank BA 1.534% due August 17, 2018	99.76	778,135.80
06-21-18	06-22-18	840,000	Bank of Nova Scotia BA 1.500% due July 20, 2018	99.89	839,034.00
06-27-18	06-27-18	250,000	Canada Treasury Bill 1.020% due August 23, 2018	99.84	249,609.50
06-27-18	06-28-18	655,000	Toronto Dominion Bank BA 1.461% due July 20, 2018	99.91	654,423.60
					18,199,616.97

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 04-01-18 To 06-30-18

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
SALES					
04-02-18	04-02-18	655,000	Bank of Nova Scotia BA 1.444% due April 2, 2018	100.00	655,000.00
04-16-18	04-16-18	655,000	CIBC BA 1.452% due April 16, 2018	100.00	655,000.00
04-19-18	04-19-18	1,800,000	Canada Treasury Bill 1.13% due April 19, 2018	100.00	1,800,000.00
04-20-18	04-20-18	775,000	FirstBank BA 1.449% due April 20, 2018	100.00	775,000.00
04-26-18	04-26-18	860,000	CIBC BA 1.498% due April 26, 2018	100.00	860,000.00
04-27-18	04-27-18	305,000	FirstBank BA 1.474% due April 27, 2018	100.00	305,000.00
04-27-18	04-27-18	655,000	Toronto Dominion Bank BA 1.519% due April 27, 2018	100.00	655,000.00
05-03-18	05-03-18	1,495,000	Canada Treasury Bill 1.150% due May 3, 2018	100.00	1,495,000.00
05-03-18	05-03-18	815,000	Toronto Dominion Bank BA 1.420% due May 3, 2018	100.00	815,000.00
05-07-18	05-07-18	615,000	CIBC BA 1.439% due May 7, 2018	100.00	615,000.00
05-17-18	05-17-18	1,520,000	Canada Treasury Bill 1.111% due May 17, 2018	100.00	1,520,000.00
05-24-18	05-24-18	775,000	Royal Bank BA 1.473% due May 24, 2018	100.00	775,000.00
05-28-18	05-28-18	820,000	Toronto Dominion Bank BA 1.505% due May 28, 2018	100.00	820,000.00
06-01-18	06-01-18	650,000	CIBC BA 1.51% due June 1, 2018	100.00	650,000.00
06-04-18	06-04-18	615,000	Bank of Nova Scotia BA 1.510% due June 4, 2018	100.00	615,000.00
06-14-18	06-14-18	1,800,000	Canada Treasury Bill 1.130% due June 14, 2018	100.00	1,800,000.00
06-15-18	06-15-18	860,000	CIBC BA 1.543% due June 15, 2018	100.00	860,000.00
06-21-18	06-21-18	780,000	Bank of Nova Scotia BA 1.499% due June 21, 2018	100.00	780,000.00
06-22-18	06-22-18	820,000	Toronto Dominion Bank BA 1.505% due June 22, 2018	100.00	820,000.00
06-26-18	06-26-18	650,000	Toronto Dominion Bank BA 1.505% due June 26, 2018	100.00	650,000.00
06-28-18	06-28-18	250,000	Canada Treasury Bill 1.060% due June 28, 2018	100.00	250,000.00
					18,170,000.00

Martin, Lucas & Seagram Ltd.
ESTIMATED REALIZED GAINS AND LOSSES
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 01-01-18 Through 06-30-18

Date	Quantity	Security	Cost Basis	Proceeds	Gain or Loss
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Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
(RBC Investor Services)
From 04-01-18 to 06-30-18

Cash Balance at March 31, 2018		7,148.23
ADD: Proceeds from Sales	18,170,000.00	
Bond Interest Credited (from Long Term Investment Fund)	46,096.25	
Interest on cash balance	0.00	18,216,096.25
LESS: Capital Withdrawal	0.00	
Transfer to Long Term Investment Fund	-6,699.32	-6,699.32
LESS: Cost of Purchases	-18,199,616.97	
Q1 2018 Investment Counsel Fees - Short Term Investment Fund	-2,752.02	
Q1 2018 Investment Counsel Fees - Long Term Investment Fund	-3,614.95	
Trust Company Charges	-4,357.54	-18,210,341.48
Cash Balance at June 30, 2018		6,203.68

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2018

CLLAS - SHORT TERM INVESTMENT FUND

			Unit	Total		Market	%
Quantity	Security	Rating	Cost	Cost	Price	Value	Assets
615,000	Bank of Nova Scotia BA 1.424%	R-1 (high)	99.89	614,305	99.98	614,895	6.3%
	due July 3, 2018						
840,000	Bank of Nova Scotia BA 1.500%	R-1 (high)	99.89	839,034	99.91	839,249	8.6%
	due July 20, 2018						
655,000	Toronto Dominion Bank BA 1.461%	R-1 (high)	99.91	654,424	99.91	654,414	6.7%
	due July 20, 2018						
960,000	CIBC BA 1.509%	R-1 (high)	99.64	956,518	99.89	958,979	9.8%
	due July 24, 2018						
1,500,000	Canada Treasury Bill 1.160%	R-1 (high)	99.73	1,496,007	99.93	1,498,890	15.3%
	due July 26, 2018						
1,525,000	Canada Treasury Bill 1.190%	R-1 (high)	99.73	1,520,835	99.88	1,523,202	15.5%
	due August 9, 2018						
860,000	CIBC BA 1.559%	R-1 (high)	99.73	857,691	99.79	858,178	8.8%
	due August 17, 2018						
780,000	FirstBank BA 1.534%	R-1 (high)	99.76	778,136	99.79	778,347	7.9%
	due August 17, 2018						
250,000	Canada Treasury Bill 1.020%	R-1 (high)	99.84	249,610	99.83	249,583	2.5%
	due August 23, 2018						
1,825,000	Canada Treasury Bill 1.210%	R-1 (high)	99.72	1,819,932	99.78	1,821,005	18.6%
	due September 6, 2018						
				9,786,492		9,796,742	100%

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at June 30, 2018

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
GOVERNMENT BONDS					
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	100.13	250,335	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	100.22	200,440	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	99.72	199,438	4,700
250,000	Canada Housing Trust 2.9% due June 15, 2024	102.64	102.53	256,323	7,250
300,000	Canada Housing Trust Ser. 70 2.25% due December 15, 2025	100.98	98.28	294,837	6,750
				1,201,373	28,375
PROVINCIAL BONDS					
350,000	Ontario 2.1% due September 8, 2018	99.57	100.09	350,315	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	103.09	257,723	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	102.67	256,663	7,875
350,000	Ontario 2.85% due June 2, 2023	103.15	101.43	355,016	9,975
400,000	Ontario 2.60% due June 2, 2025	101.08	99.41	397,624	10,400
350,000	British Columbia 2.3% due June 18, 2026	104.40	97.56	341,446	8,050
				1,958,786	51,775
CORPORATE BONDS					
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	100.63	201,260	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	100.57	301,713	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	100.06	250,145	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	101.77	203,530	6,800
150,000	Royal Bank 1.968% due March 2, 2022	100.05	97.08	145,613	2,952
250,000	National Bank of Canada 2.105% due March 18, 2022	102.04	97.45	243,630	5,263

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)

Portfolio Holdings at June 30, 2018

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	101.91	152,867	5,190
250,000	Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	102.02	101.38	253,439	8,065
200,000	Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	99.23	96.67	193,332	5,240
				1,945,528	54,325
TOTAL PORTFOLIO				5,105,686	134,475

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 04-01-18 To 06-30-18

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
06-18-18	06-20-18	250,000	Canada Housing Trust 2.9% due June 15, 2024	102.64	256,600.00
					256,600.00
SALES					
06-15-18	06-19-18	250,000	Canada Housing Trust 1.75% due June 15, 2018	100.00	250,000.00
					250,000.00

Martin, Lucas & Seagram Ltd.
ESTIMATED REALIZED GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 01-01-18 Through 06-30-18

Date	Quantity	Security	Cost Basis	Proceeds	Gain or Loss
03-12-18	200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	198,560.00	200,000.00	1,440.00
06-15-18	250,000	Canada Housing Trust 1.75% due June 15, 2018	250,275.00	250,000.00	-275.00
TOTAL GAINS					
TOTAL LOSSES					
			448,835.00	450,000.00	1,165.00

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - LONG TERM INVESTMENT FUND
From 04-01-18 to 06-30-18

Cash Balance at March 31, 2018		<u>0.00</u>
ADD: Transfer from Short Term Investment Fund	6,699.32	<u>6,699.32</u>
ADD: Proceeds from Sales	250,000.00	
Bond Interest Credited (to Long Term Investment Fund)	46,096.25	
Transfer to Short Term Investment Fund	<u>-46,096.25</u>	<u>250,000.00</u>
LESS: Cost of Purchases	-256,600.00	
Accrued Interest Debited (from Long Term Investment Fund)	-99.32	<u>-256,699.32</u>
Cash Balance at June 30, 2018		<u><u>0.00</u></u>

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2018

CLLAS - LONG TERM INVESTMENT FUND

					Unit	Total		Market	Pct.
Quantity	CUSIP	Security		Rating	Cost	Cost	Price	Value	Assets
GOVERNMENT BONDS									
250,000	13509PEF6	Canada Housing Trust 2.9%	due June 15, 2024	AAA	102.64	256,600	102.53	256,323	5.0%
250,000	13509PEL3	Canada Housing Trust 1.95%	due June 15, 2019	AAA	100.10	250,238	100.13	250,335	4.9%
200,000	13509PDL4	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	100.22	200,440	3.9%
200,000	13509PDV2	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	99.72	199,438	3.9%
300,000	13509PFD0	Canada Housing Trust Ser. 70 2.25%	due December 15, 2025	AAA	100.98	302,940	98.28	294,837	5.8%
						1,221,758		1,201,373	23.5%
PROVINCIAL BONDS									
350,000	68323ABR4	Ontario 2.1%	due September 8, 2018	AA (low)	99.57	348,495	100.09	350,315	6.9%
250,000	110709BJ0	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	103.09	257,723	5.0%
250,000	68323AAW4	Ontario 3.15%	due June 2, 2022	AA (low)	99.04	247,600	102.67	256,663	5.0%
350,000	68323ABN3	Ontario 2.85%	due June 2, 2023	AA (low)	103.15	361,025	101.43	355,016	7.0%
400,000	68323ACX0	Ontario 2.60%	due June 2, 2025	AA (low)	101.08	404,305	99.41	397,624	7.8%
350,000	11070TAJ7	British Columbia 2.3%	due June 18, 2026	AA (high)	104.40	365,400	97.56	341,446	6.7%
						1,982,575		1,958,785	38.4%
CORPORATE BONDS									
300,000	06367VCT0	Bank of Montreal 2.84%	due June 4, 2020	AA	101.77	305,307	100.57	301,713	5.9%
200,000	06367VJN6	Bank of Montreal 3.4%	due April 23, 2021	AA	100.65	201,300	101.77	203,530	4.0%
200,000	064151QE6	Bank of Nova Scotia Dep. Note 2.62%	due December 2, 2026	AA	99.23	198,460	96.67	193,332	3.8%
250,000	633067C27	National Bank of Canada 2.105%	due March 18, 2022	AA (low)	102.04	255,100	97.45	243,630	4.8%
150,000	780086KD5	Royal Bank 1.968%	due Mar 2, 2022	AA	100.05	150,075	97.08	145,613	2.9%
250,000	891145S47	Toronto Dominion Bank Dep. Note 2.563%	due June 24, 2020	AA	104.57	261,425	100.06	250,145	4.9%
250,000	891145T79	Toronto Dominion Bank Dep. Note 3.226%	due July 24, 2024	AA	102.02	255,050	101.38	253,439	5.0%
150,000	94975ZBN5	Wells Fargo 3.46%	due January 24, 2023	AA (low)	102.36	153,542	101.91	152,867	3.0%
200,000	94975ZBM7	Wells Fargo Canada 2.944%	due July 25, 2019	AA (low)	100.02	200,040	100.63	201,260	3.9%
						1,980,299		1,945,528	38.1%
TOTAL PORTFOLIO						5,184,630		5,105,684	100.0%

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 12-31-17 to 06-30-18

Security	12-31-17 Market Value	Additions Withdrawals	06-30-18 Market Value	06-30-18 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
CASH								
Cash Account	0	0	0	0				
GOVERNMENT BONDS								
Canada Housing Trust 1.75% due June 15, 2018	250,538	-252,188	0	0	-275	-538	0	0
Canada Housing Trust 1.95% due June 15, 2019	250,878	-2,438	250,335	250,238	0	0	98	-543
Canada Housing Trust 2.4% Series 48 due December 15, 2022	202,352	-2,400	200,440	200,740	0	0	-300	-1,912
Canada Housing Trust 2.35% due September 15, 2023	201,562	-2,350	199,438	211,240	0	0	-11,802	-2,124
Canada Housing Trust 2.9% due June 15, 2024	0	256,699	256,323	256,600	0	0	-278	-278
Canada Housing Trust Ser. 70 2.25% due December 15, 2025	297,822	-3,375	294,837	302,940	0	0	-8,103	-2,985
GOVERNMENT BONDS Total	<u>1,203,151</u>		<u>1,201,373</u>	<u>1,221,758</u>	<u>-275</u>	<u>-538</u>	<u>-20,385</u>	<u>-7,841</u>
PROVINCIAL BONDS								
Ontario 2.1% due September 8, 2018	351,470	-3,675	350,315	348,495	0	0	1,820	-1,155
British Columbia 3.25% due December 18, 2021	260,843	-4,063	257,723	255,750	0	0	1,973	-3,120
Ontario 3.15% due June 2, 2022	259,995	-3,938	256,663	247,600	0	0	9,063	-3,333
Ontario 2.85% due June 2, 2023	359,489	-4,988	355,016	361,025	0	0	-6,010	-4,473
Ontario 2.60% due June 2, 2025	402,400	-5,200	397,624	404,305	0	0	-6,681	-4,776
British Columbia 2.3% due June 18, 2026	344,204	-4,025	341,446	365,400	0	0	-23,954	-2,758
PROVINCIAL BONDS Total	<u>1,978,400</u>		<u>1,958,786</u>	<u>1,982,575</u>	<u>0</u>	<u>0</u>	<u>-23,790</u>	<u>-19,615</u>
CORPORATE BONDS								
Royal Bank Dep. Note 2.26% due March 12, 2018	200,318	-202,260	0	0	1,440	-318	0	0
Wells Fargo Canada 2.944% due July 25, 2019	202,590	-2,944	201,260	200,040	0	0	1,220	-1,330
Bank of Montreal 2.84% due June 4, 2020	304,167	-4,260	301,713	305,307	0	0	-3,594	-2,454
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	251,923	-3,204	250,145	261,425	0	0	-11,280	-1,778
Bank of Montreal 3.4% due April 23, 2021	206,270	-3,400	203,530	201,300	0	0	2,230	-2,740
Royal Bank 1.968% due March 2, 2022	146,957	-1,476	145,613	150,075	0	0	-4,463	-1,344
National Bank of Canada 2.105% due March 18, 2022	246,235	-2,631	243,630	255,100	0	0	-11,470	-2,605
Wells Fargo 3.46% due January 24, 2023	155,757	-2,595	152,867	153,542	0	0	-675	-2,891
Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	0	256,111	253,439	255,050	0	0	-1,611	-1,611
Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	196,150	-2,620	193,332	198,460	0	0	-5,128	-2,818
CORPORATE BONDS Total	<u>1,910,366</u>		<u>1,945,528</u>	<u>1,980,299</u>	<u>1,440</u>	<u>-318</u>	<u>-34,771</u>	<u>-19,570</u>

Martin, Lucas & Seagram Ltd.
DATE TO DATE GAINS AND LOSSES
CLLAS - LONG TERM INVESTMENT FUND
(RBC Investor Services)
From 12-31-17 to 06-30-18

Security	12-31-17 Market Value	Additions Withdrawals	06-30-18 Market Value	06-30-18 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
TOTAL PORTFOLIO	5,091,917		5,105,686	5,184,631	1,165	-856	-78,945	-47,026
TOTAL DATE TO DATE GAIN OR LOSS								-47,881
% CHANGE DURING PERIOD								-0.94