

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

Minutes of a Meeting of the Advisory Board

8:30 a.m.

Davies Ward Phillips & Vineberg LLP
40th Floor, RBC Centre
155 Wellington Street West
Toronto, Ontario

Wednesday, June 26, 2013

Present:

Nicholas Leblovic (Chair)
Barry Bresner
Gordon Goodman
John Esvelt
Shayna Staniloff
Ken Crofoot
Bill Scott
Dan McDonald
David Morritt
Scott du Bois

Davies Ward Phillips & Vineberg LLP
Borden Ladner Gervais LLP
Cassels Brock & Blackwell LLP
Dentons LLP
Dentons LLP
Goodmans LLP
McCarthy Tétrault LLP
McMillan LLP
Osler, Hoskin & Harcourt LLP
Weirfoulds LLP

Patrick Mahoney
Norma Ibbetson
Joe Tontini
Julie-Linda Laforce

Office of the General Manager, CLLAS
Office of the General Manager, CLLAS
Office of the General Manager, CLLAS
Actuary

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 26, 2013 Meeting of the Advisory Board

It was moved by Gordon Goodman and seconded by Dan McDonald that the minutes of the February 26, 2013 meeting of the Advisory Board be approved. The motion was carried unanimously.

Approval of Minutes of the February 26, 2013 Annual General Meeting

It was moved by Gordon Goodman and seconded by Dan McDonald that the minutes of the February 26, 2013 Annual General meeting be approved. The motion was carried unanimously.

Approval of Minutes of the June 11, 2013 Meeting of the Advisory Board

It was moved by Ken Crofoot and seconded by Gordon Goodman that after correction of the typographical error the minutes of the June 11, 2013 meeting of the Advisory Board be approved. The motion was carried unanimously.

John Esvelt asked to address the Board. He thanked the Board for taking the time to carefully consider Dentons' request and advised that Dentons understood CLLAS' decision and looked forward to participating in the CLLAS for the balance of the current underwriting period.

4. Business Arising Out of the Minutes

There were no items arising out of the minutes that will not be addressed through the agenda items.

5. Comments of the Chair

Nick Leblovic spoke to the Board about his and Gord Goodman's attendance in London to meet with underwriters to discuss the July 1, 2013 renewal terms.

Some underwriters are advising that the market is hardening slightly (particularly in the US) but is still soft. CLLAS had sought a 5% reduction but in fact was looking for a flat renewal. Three issues came up repeatedly in the discussions:

- i) Dentons' request to withdraw;
- ii) Future plans to grow the number of firms in CLLAS; and
- iii) Claims, and in particular class actions involving tax planning – the Risk Management Committee will review these matters to determine whether any risk management guidelines could be of assistance.

Membership

It has been a busy Spring so expanded membership has not been aggressively pursued. The primary difficulty is expected to be that the continuing soft market means that capacity is readily available and rates are low. It was also noted that joining CLLAS would require making a contribution to CLLAS' surplus over some period of time.

Quebec Professional Corporations

This matter was discussed at the February Board meeting. The Barreau's historical position has raised concerns with respect to insurance coverage for professional corporations but recently the Barreau has indicated the concern has been resolved. A confirmation letter to this effect is expected from the Barreau.

Risk Management

The CLLAS firms have been canvased with respect to the e-learning program. Most firms have implemented or are in the course of implementing the e-learning program.. John Walker continues to perform the focused risk management audits and feels he will be complete by the end of 2014 or early 2015.

Board Meetings

Mr. Leblovic reminded the Board members that the regularly quarterly Board meetings have now been moved to Wednesdays due to regular firm functions that make appropriate meeting room space scarce on Tuesdays.

6. Pro-Form Insurance Services

Excess Insurance Renewal

Bob Wilson joined the meeting and reported that the renewal of the commercial excess layers has gone well and there will be no change to the rates for the coming year. The two-year renewal term will be in effect again and in fact the firms may benefit from it if market conditions harden. Mr. Wilson reviewed the policy wording changes made to the renewal wording as provided in his handout on both the CLLAS excess wording and CLLAS International wording

There has been no change in insurer participation but several insurers were looking to take on more of the program.

He advised that insurers are reporting higher frequency and large claims, and that the market is hardening in the US and Canada is slowly moving in that direction.

International Program

The CLLAS International will no longer operate with the two-year renewal feature due to adverse tax consequences on multi-year commitments. The insurers on this program are experiencing a deterioration in claims experience. There are four large claims currently open, with one settling for \$4 million.

Interstate indicated that it would not renew its 40% line, and only gave 1-1/2 weeks' notice, but Proform has managed to find new capacity to replace Interstate. As a result, the program has gone from two insurers to four, increasing the spread of risk. Consideration is being given to adding a reporting counsel to the program in place of the current approach of reporting directly to Lexington.

The International program is marketed as a group but each firm is rated separately based on claims experience.

Overall, rates are at a 12-year low.

A security schedule has been included in the hand-out materials.

Mr. Wilson left the meeting after confirming that firms will be renewed on the limits they currently purchase (unless Pro-form is advised otherwise) and based on the final headcount provided.

7. Reinsurance Renewal

Joe Tontini reported on the reinsurance renewal. He advised that the renewal objectives included:

- Maintain and enhance existing reinsurers relationships
- Attract new markets
- Reduce Colchester's participation from 35 to 30%
- Reduce overall reinsurance costs and possible rate reductions
- Buy more cover at lower cost as markets have capacity and when markets turn CLLAS can retain more risk

The Board decided a couple of years ago to strike a balance between buying coverage at market rates (i.e. lowest price) and maintaining relationships with long-term partners.

Reinsurance Costs

The Lead underwriters are willing to renew at the expiring rates. Overall costs can be reduced if we reduce Colchester's participation from 35 to 30%.

Return of Surplus/Premium Credit

The return of the surplus has traditionally been arrived at using two scenarios:

- Application of investment income earned on surplus
- Board directed surplus disbursement

There was no CLLAS return of surplus for 2013/14. The consensus of the Board was to reduce the Colchester retention from 35 to 30% for the 2013/14 renewal.

Policy Wording

The only change to the wording is the introduction of "foreign claims" wording to allow CLLAS to pay foreign claims in Canada if the foreign jurisdiction restricts CLLAS from paying directly in the foreign jurisdiction.

The Board confirmed that the reinsurance should be bound with current and new reinsurers on the basis of the "preferred" scenario outlined in the materials, subject to final reinsurance terms and conditions that are not significantly different from those presented in the report to the Board. Failing that the program should be bound on a status quo basis.

A memo summarizing the renewal placement terms will follow in the next few weeks.

8. **Presentation of the Actuary (MCT)**

Julie-Linda Laforce reviewed her analysis with respect to CLLAS' target surplus as it relates to the Minimum Capital Test (MCT). The MCT is a regulatory requirement traditionally applicable to incorporated insurers which is being increasingly applied to reciprocals. In addition, she reviewed an Alberta-specific requirement which is based on premium volume and not liabilities.

The Loss Portfolio Transfer which took place in June 2012 changed the net risk profile and surplus level requirement. CLLAS' current surplus level meets both the MCT test as well as the Alberta Regulatory test. Several scenarios were run to stress test the analysis. As a result of the analysis, CLLAS actuary recommended a Minimum Surplus Target of the amount required to meet the Alberta test plus 10% and an Operational Surplus Target of greater of the 210% of MCT (CLLAS' current target) and the amount required to meet the Alberta test plus 20%.

On motion of Ken Crofoot seconded by John Esvelt, it was moved to maintain Minimum Surplus Target of the amount required for the Alberta regulatory test plus 10% and the Operational Surplus Target based on the greater of 210% MCT or the amount required for the Alberta regulatory test plus 20%. The motion was carried unanimously.

9. **Report of the General Manager's Office**

Financial Statements Quarter Ending March 31, 2013

Mr. Mahoney reported. He indicated that the current level of surplus reflects the implementation of the LPT at June 30, 2012. He said that the underwriting loss (\$136,451) is a demonstration that CLLAS is largely insulated from claims volatility as a result of the LPT. He said that budget to actual expenses tracking as expected and he advised that the CLLAS business plan was filed with the regulator by the May 15, 2013 deadline and that a copy would be distributed to the Board. Mr. Mahoney also advised that the CLLAS Subscriber Accounts were in the process of being finalized and would be distributed when complete.

10. **Report of the Claims Committee**

Barry Bresner reported. The Committee continues to meet quarterly. Some reserves have been adjusted by significant amounts. Class-actions are very expensive to defend and resolve. He noted that Claim #15 has settled including a small contribution by CLLAS. LawPRO had initially categorized the matter as a single claim but in the end agreed that there were two occurrences.

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

Bill Scott reported. John Walker has developed a new questionnaire that will be used for the re-audit process. The Committee is meeting to review the set-up/agenda for the Risk Management Seminar which is expected to be held in the late fall. One issue that the Risk Management Committee suggested be brought to the Board is consideration of whether the Board should carry D&O insurance. After discussion, the General Manager's Office was asked to obtain a quote for D&O insurance to be considered by the Board at its next meeting.

12. **Report of the Policy Committee**

There was no report from the this committee.

13. **Report of the Investment Manager at March 31, 2013**

Information item only. It was concluded that the CLLAS investment policy should be reviewed for appropriateness in light of the revised surplus policy.

14. **Other Business**

Updated Committee Listing

On motion of Ken Crofoot seconded by Bill Scott, it was moved to accept the Committee List for 2013 as provided. The motion was carried unanimously.

15. **Next Meeting**

The next regularly scheduled meeting of the Board will be on September 11, 2013.

There being no further business, the meeting was terminated.

Chairman

Secretary

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

June 30, 2013

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CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF FINANCIAL POSITION
June 30, 2013

	As at June 30, 2013	As at June 30, 2012
ASSETS		
Cash	4,811,833	3,314,497
Short term investments	13,289,468	13,569,427
Bonds	0	43,358,951
Interest income due and accrued	0	299,412
Premium receivable	0	0
Other receivable	0	183,539
Prepaid expenses	203,115	114,778
Deferred policy acquisition costs	0	0
Unearned reinsurance premium ceded	0	0
Reinsurance recoverable	501,647	938,711
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	74,375,000	67,530,000
	<u>93,181,063</u>	<u>129,309,315</u>
LIABILITIES		
Accounts payable & accrued charges	354,325	201,233
Premium taxes payable	0	0
Unearned premium	0	0
Due to reinsurers	0	44,270,000
Provision for unpaid claims and adjustment expenses	81,067,000	72,944,000
Premium deficiency liability	0	0
	<u>81,421,325</u>	<u>117,415,233</u>
SUBSCRIBERS' EQUITY		
Surplus	11,772,753	9,832,322
Accumulated Other Comprehensive Income (Loss)	(13,014)	2,061,760
	<u>11,759,738</u>	<u>11,894,082</u>
	<u>93,181,063</u>	<u>129,309,315</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
For the Period Ending June 30, 2013

	Current Year		Prior Year	
	Quarter June 30, 2013	Year to Date June 30, 2013	Quarter June 30, 2012	Year to Date June 30, 2012
Written Premium	0	0	0	0
Gross Written Premiums	0	0	0	0
Less: Reinsurance Ceded	0	0	44,270,000	44,270,000
Net Written Premiums	0	0	(44,270,000)	(44,270,000)
Change in Unearned Premiums	833,270	1,657,382	1,268,284	2,536,567
Earned Premiums	833,270	1,657,382	(43,001,716)	(41,733,433)
Claims Paid	0	0	5,668,707	6,294,394
Change in IBNR	144,000	511,000	(25,580,000)	(26,035,000)
Change in Case Reserve	0	0	(13,563,000)	(14,063,000)
Premium Deficiency Expense	0	0	(298,000)	(586,000)
Incurred Claims	144,000	511,000	(33,772,293)	(34,389,606)
Management and operating expenses	507,935	959,369	711,619	1,305,862
Reinsurance fees	74,250	142,500	68,250	136,500
Premium taxes	73,879	147,759	0	0
Total Operating Expenses	656,065	1,249,628	779,869	1,442,362
Underwriting Gain (Loss)	33,205	(103,246)	(10,009,293)	(8,786,189)
Investment Income	35,398	66,252	387,138	795,061
Income on Claim Related Matters	0	0	0	0
Interest Income on Premium Tax	0	0	0	0
NET GAIN/(LOSS)	<u>68,603</u>	<u>(36,994)</u>	<u>(9,622,154)</u>	<u>(7,991,128)</u>
Other comprehensive income (loss)				
Unrealized gains (losses) on available for sale financial assets arising during the year	(5,393)	(3,002)	203,352	(246,584)
Recognition of realized (gain) loss included in income	-	-	-	5,912
Other comprehensive income (loss) for the year	(5,393)	(3,002)	203,352	(240,672)
Total comprehensive income (loss)	<u>63,210</u>	<u>(39,996)</u>	<u>(9,418,802)</u>	<u>(8,231,800)</u>

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF CHANGES IN EQUITY
June 30, 2013

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	11,759,747	(10,012)	11,799,734
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		(36,994)		(36,994)
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			(3,002)	(3,002)
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		(36,994)	(3,002)	(39,996)
Balance at June 30, 2013	50,000	11,722,753	(13,014)	11,759,738

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS
FOR THE PERIOD ENDED June 30, 2013**

	Annual Budget	Year to Date Budget % Accrued to Date	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES	611,000	50%	305,500	298,141	7,359
PROFESSIONAL SERVICES					
Actuarial Services	102,000	67%	68,340	73,480	(5,140)
Reinsurance Matters	350,000	67%	234,502	225,487	9,015
Strategic Matters	120,000	67%	80,400	53,394	27,006
Sub-Total Professional Services	572,000		383,242	352,361	30,881
GST/HST on Consulting Fees	153,790		89,536	84,565	4,971
Total Management & Professional Services * (See Note 1)	1,336,790		778,278	735,067	43,211
OTHER EXPENSES					
Audit Expenses	115,000	50%	57,500	72,646	(15,146)
Annual Dinner	7,000	100%	7,000	5,268	1,732
Premium Taxes	348,000	50%	174,000	147,759	26,241
Chairman's Expenses	2,000	50%	1,000	434	566
Chairman's Honourarium	75,000	100%	75,000	75,000	-
Reinsurance Expense	8,000	50%	4,000	10,817	(6,817)
Office Expenses	25,000	50%	12,500	5,998	6,502
Office Expenses - Website management software license	1,100	100%	1,100	1,188	(88)
Office Expenses - Translation	-		-	2,383	(2,383)
Claims: Borderaux (LSUC)	16,000	83%	13,334	14,190	(856)
Special Services	100,000	50%	50,000	12,113	37,887
Miller Insurance Fees (Reins. Comm.) (See Note 2)	282,000	50%	141,000	142,500	(1,500)
I.B.C Statistical Plan Fees	16,000	50%	8,000	1,820	6,180
FSCO Assessment Fees	5,000	50%	2,500	(3,031)	5,531
Investment counsel fees	21,000	50%	10,500	8,886	1,614
Investment - Custodial	18,000	50%	9,000	6,892	2,108
Risk Management/Loss Prevention	100,000	50%	50,000	6,184	43,816
License Fee	5,000	83%	4,167	3,500	667
Insurance: Sundry	-		-	13	(13)
Sub-total	1,144,100		620,601	514,561	106,040
TOTAL	2,480,890		1,398,879	1,249,628	149,251

*** NOTE 1: 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	26%
Second Quarter, ending June 30th	41%
Third Quarter, ending September 30th	16%
Fourth Quarter, ending December 31st	17%
	<u>100%</u>

*** NOTE 2: MILLER INSURANCE FEES (Reins. Comm.)**

The annual budget is based upon the annual fee estimated for the policy period 2013/2014.



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

Date: September 4, 2013

To: David Morritt
William Scott
Donald Milner
Gordon Goodman
Ken Crofoot
Nicholas Leblovic

Barry Bresner
Daniel MacDonald
John Esvelt
Julia Holland
Michael Swartz

Copy: Patrick Mahoney

From: Joe Tontini and Ryan Durrell

Re: Final Report on the CLLAS Renewal
July 1, 2013/2014

The purpose of this report is to provide the CLLAS Board with a final summary of the renewal highlights, including the rating and reinsurance placement for July 1, 2013/2014. 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
- D. Current Rate Structure and Participation by Retrocessionaire – Proportional and Aggregate Stop-Loss Retrocession
- E. Aggregate Stop-loss Reinsurance Structure (Historical)

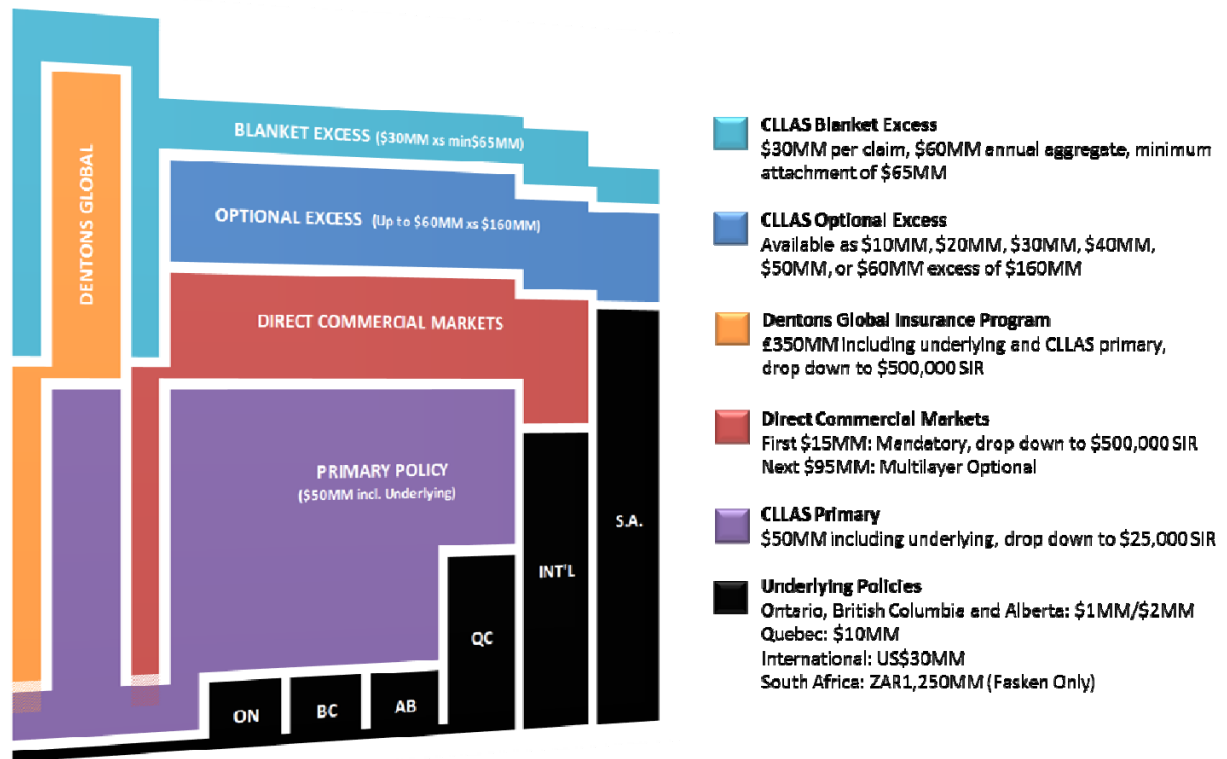
Highlights

The following are highlights of the renewal:

- After a special Board meeting in June, it was decided that Dentons Canada LLP should remain in CLLAS for the remainder of the current underwriting period ending June 30, 2017.
- The Umbrella Policy acts excess of Dentons Canada LLP's global insurance program.
- The Optional Excess Policy drops down to ZAR 1,250,000,000 (approximately \$125,000,000) for Fasken Martineau DuMoulin LLP's South African office.

- As a result, the CLLAS insurance structure at renewal was modified from last year. See Figure 1 below and Exhibit A.

Figure 1
CLLAS Insurance Structure as of July 1, 2013



- The rates that CLLAS charged its members on the Primary Policy were reduced by 2.3% while those charged on the Optional Excess and Umbrella Policies remained unchanged.
- CLLAS members have realized overall savings of approximately \$290,000 or roughly \$70 per lawyer. Savings were as a result of a year-over-year reduction in administrative expenses due to reduced regulatory and restructuring activities. Consistent with last year, and in light of sensitivities related to recent regulatory jurisdiction change, CLLAS opted not to distribute surplus for 2013/2014.
- A foreign claims endorsement has been added to the Primary Policy. Please see the “Policy Wording Changes” section below.
- The CLLAS reinsurance structure and retention at renewal were unchanged from last year and are described below:
 - a) Reinsurance Layer 1: \$49,000,000 excess of \$1,000,000 (\$40,000,000 excess of \$10,000,000 for Quebec lawyers) – 100% reinsured.

- 70% of this layer is proportionally reinsured with Lloyd's and other reinsurers.
- 30% is reinsured with Colchester. Colchester's involvement is then layered and retroceded to various markets. A portion of Colchester's participation which is not transferred to other markets is retained by Colchester – see Exhibit B.
- CLLAS retains the entire drop down exposure below \$1,000,000.

Due to Colchester's reduced participation this year (30% down from 35% last year), the combined CLLAS/Colchester maximum single loss retention is reduced to \$2,675,000 (down from \$5,125,000 last year).

- b) Reinsurance Layer 2: Between \$10,000,000 and \$60,000,000 excess of \$160,000,000 – 100% reinsured.
 - c) 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.
- The reinsurance rates remained unchanged from last year.
- Two new Lloyd's syndicates have been added to the London market. SCOR Re has withdrawn from the program and was partially replaced by HDI-Gerling. Allied World has given notice of non-renewal next year on Reinsurance Layer 2 but is now participating in Reinsurance Layer 2 as well as Reinsurance Layer 3. Details can be found in the "Reinsurance Overview" section below.
- Reinsurers' security ratings remain strong. Nevertheless, CLLAS maintains a rigorous security monitoring process which the Audit Committee continues to oversee.

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

The Primary Policy provides coverage per firm of \$50MM 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 \$10MM. If there is no underlying insurance, then CLLAS would provide \$49.975MM of coverage excess of \$25,000 deductible. CLLAS retains 100% of the drop down exposure of up to \$975,000.

CLLAS members were charged \$3,375 per lawyer (\$1,585 per Quebec lawyer) and \$844 per patent & trademark agent to cover the premium taxes, administration costs and expected loss costs related to the CLLAS drop down retention. Compared to last year, the rates were reduced by 2.3%.

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

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

Reinsurance Rates: \$2,530 per lawyer (\$1,215 per Quebec lawyer)/\$633 per P&T agent
The reinsurance rates were unchanged from last year.

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

Firms have the option of purchasing limits between \$10MM and \$60MM in increments of \$10MM. One firm purchased the limit of \$40MM while 8 others purchased the maximum limit of \$60MM. Two firms, including Dentons, did not purchase this policy.

CLLAS charged its members \$186 per lawyer and \$47 per patent & trademark agent for policies with limit of \$40MM. For policies with limit of \$60MM, CLLAS charged \$254 per lawyer and \$64 per patent & trademark agent. The rates were unchanged from last year.

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

CLLAS Retention: Nil

Reinsurance Rates: \$61 per lawyer/\$15 per P&T agent for limit of \$10MM
\$107 per lawyer/\$27 per P&T agent for limit of \$20MM
\$138 per lawyer/\$35 per P&T agent for limit of \$30MM
\$168 per lawyer/\$42 per P&T agent for limit of \$40MM
\$199 per lawyer/\$50 per P&T agent for limit of \$50MM
\$230 per lawyer/\$58 per P&T agent for limit of \$60MM
The above reinsurance rates were unchanged from last year.

CLLAS Blanket Excess Policy (Reinsurance Layer 3)
\$30MM per Claim/\$60MM Aggregate All Firms Combined xs Minimum of \$65MM per Firm

This policy is shared by all CLLAS firms.

CLLAS charged its members \$127 per lawyer and \$32 per patent & trademark agent. The rates were unchanged from last year.

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

CLLAS Retention: Nil

Reinsurance Rates: \$115 per lawyer/\$29 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 shows this year's reinsurance allocation:

	<u>London</u>	<u>Domestic</u>	<u>2013/2014</u> <u>Colchester</u>	<u>CLLAS Retention</u>
Reinsurance Layer 1	67%	3%	30%	Nil
Reinsurance Layer 2	33%	67%	Nil	Nil
Reinsurance Layer 3	49%	51%	Nil	Nil

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

We were able to add two new Lloyd's syndicates, namely Barbican and Pioneer, to the London market.

On the domestic front, SCOR Re did not renew due to their minimum capital requirements. They were a significant player on Reinsurance Layer 3. To replace them, Allied World has agreed to participate and we have introduced HDI-Gerling Industrial Insurance Company to the program. Both companies now participate in Reinsurance Layers 2 and 3.

Allied World, who had been a major reinsurer on Reinsurance Layer 2 in previous years, reduced their participation this year and has provided notice that they intend to withdraw from the Optional Excess Program in 2014. They thought that the premium they received was not proportionate to the risk they were exposed to. Upon our suggestion, they agreed to reduce their participation in Reinsurance Layer 2 this year and assumed a portion of Reinsurance Layer 3. We are confident that they will participate in Reinsurance Layer 3 at the next renewal.

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. 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 but CLLAS is protected through a Reinsurance Security Agreement with Colchester.

The Barbican Syndicate and Pioneer Syndicate are grouped under Lloyd's so their security ratings are as indicated for "Lloyd's" above. HDI-Gerling is rated A by Best and A+ by S&P.

Rating for all incumbent reinsurers are unchanged from our Report on Reinsurance dated February 19, 2013.

Aggregate Stop-Loss Protection and Retrocession Protection

Colchester provides the following aggregate stop-loss protection in 2013/14 (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 below \$1,000,000

Rate: \$24 per lawyer/\$6 per P&T agent

In turn, Colchester purchases aggregate retrocession coverage as follow:

Limit: \$17,500,000 excess of \$4,750,000 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 changes to the reinsurance contracts.

Policy Wording Changes

At renewal, CLLAS has attached the following endorsement to the Primary Policy to be issued to each member firm, whether they have an International Policy or not.

"Foreign Claims

*It is understood and agreed that if direct payment of a **Claim** to or on behalf of an **Insured** is not permitted due to any applicable non-Canadian regulatory restrictions, then such **Claim** shall be paid to the **Named Insured** provided the **Named Insured** is legally permitted and agrees to indemnify such **Insured** or has a vicarious liability for the actions of such **Insured**."*

The policies are currently being prepared and will be distributed shortly.

Reinsurance Guidelines

Since CLLAS is regulated by the Alberta Superintendent of Insurance, it is no longer bound by the FSCO guidelines of maximum 75% total reinsurance and maximum 25% unregistered reinsurance.

For your information, based on the 2013/14 CLLAS premiums and reinsurance premiums, total reinsurance is 77.4% and unregistered reinsurance is 21.7%.

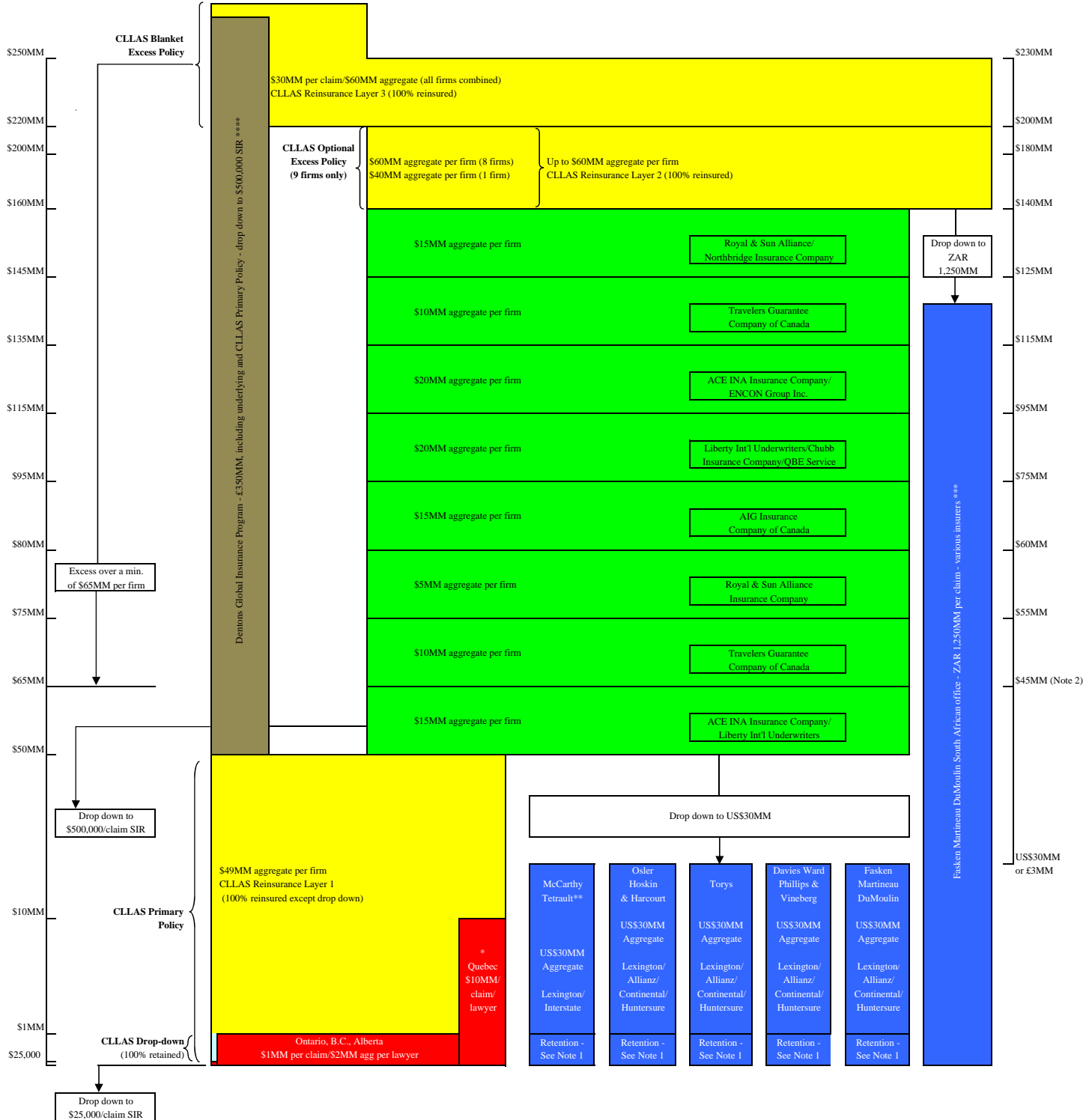
Concluding Remarks

The above summarizes the insurance and reinsurance programs that have been put in place for the July 1, 2013/2014 policy year. While the structure may appear somewhat complicated, it reflects the diverse nature of the CLLAS firms and the flexibility that CLLAS is able to exercise depending on market conditions.

CLLAS LIMIT STRUCTURE JULY 1, 2013 - JULY 1, 2014

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:

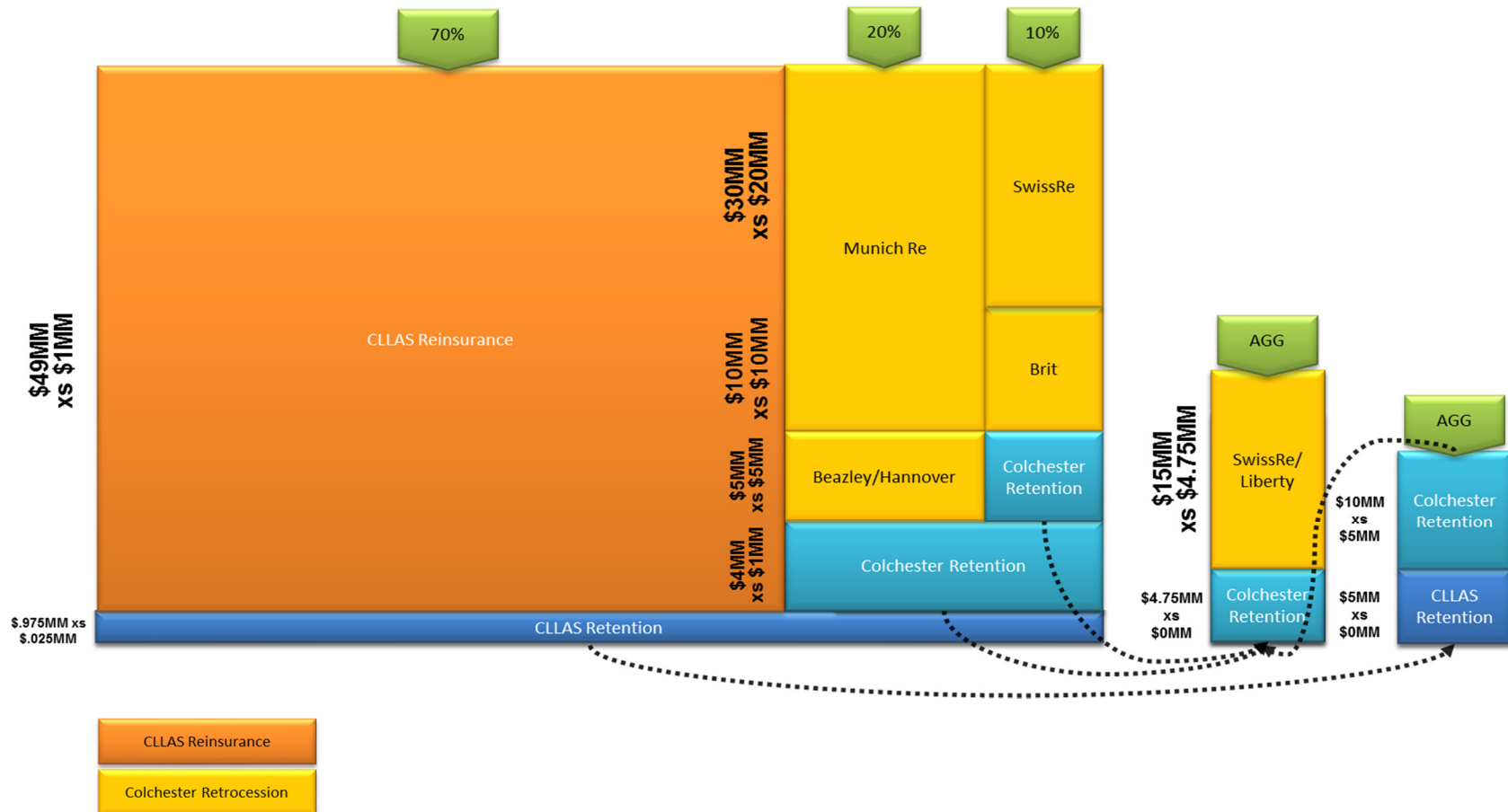
U.S. - US\$100,000 (US\$50,000 for McCarthy Tetrault); U.K. - US\$75,000 (US\$350,000 for Fasken); elsewhere in the world - US\$50,000

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

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

Reinsurance and Retrocession Structure Overview (2013-2014)

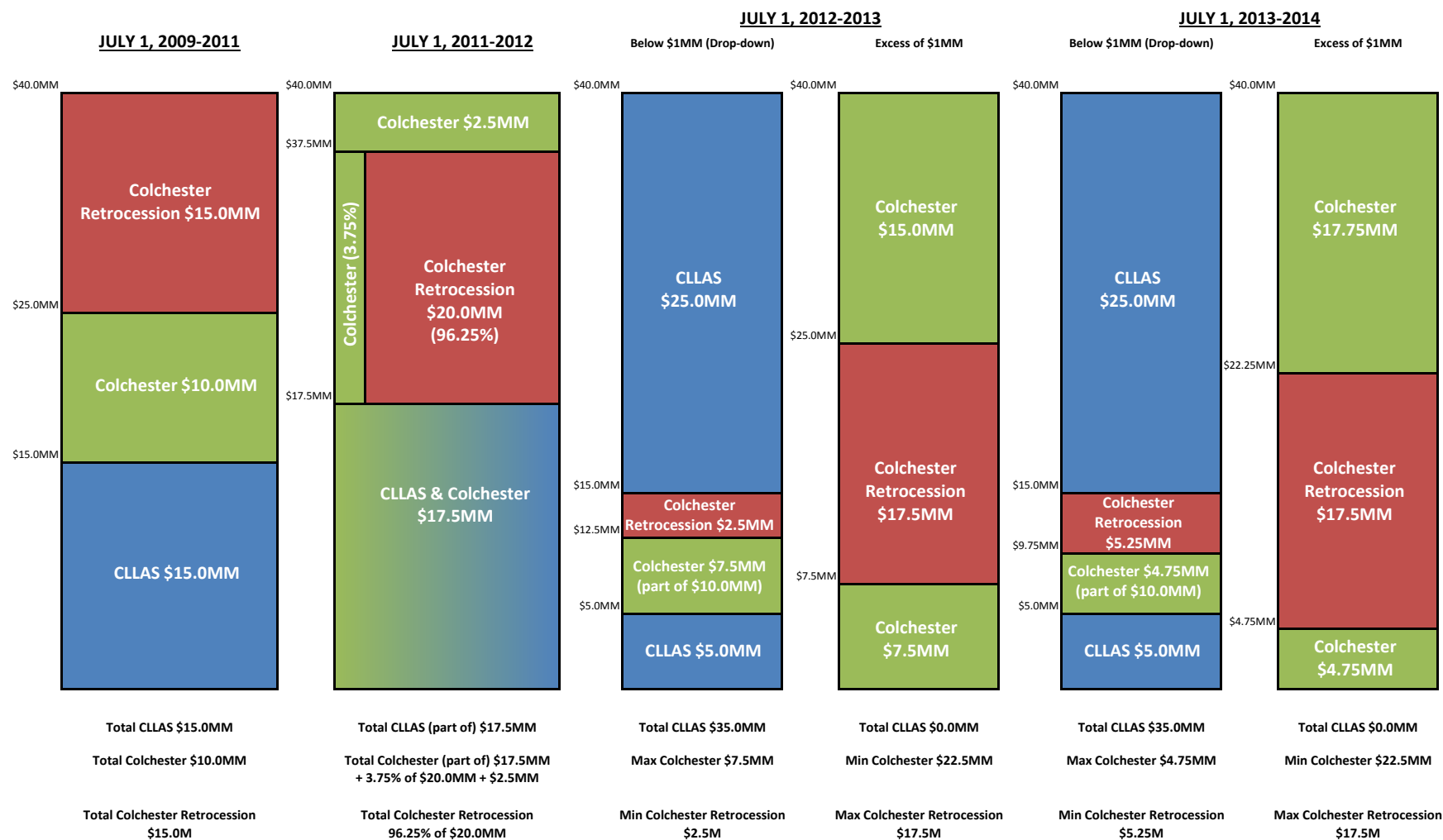
EXHIBIT B



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)				2013-2014 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - INFORMATION AS AT JULY 1, 2013 \1																						Exhibit C			
		LAYER 1 \$49MM XS \$1MM		LAYER 2 UP TO \$60MM XS \$160MM												LAYER 3 \$30/60MM XS MIN \$65MM													
				\$10MM XS \$160MM		\$20MM XS \$160MM		\$30MM XS \$160MM		\$40MM XS \$160MM		\$50MM XS \$160MM		\$60MM XS \$160MM															
REINSURERS		SHARE PREMIUM		SHARE PREMIUM		SHARE PREMIUM		SHARE PREMIUM		SHARE PREMIUM		SHARE PREMIUM		SHARE PREMIUM		SHARE PREMIUM		DUE JUL.15, 2013\2		DUE SEP. 1, 2013\3		DUE OCT. 1, 2013\3		DUE JAN.1, 2014\4		DUE APR. 1, 2014\3		GRAND TOTAL	
TOTAL PROPORTIONAL		100.00%	\$9,272,063	100.00%	\$0	100.00%	\$0	100.00%	\$0	100.00%	\$119,784	100.00%	\$0	100.00%	\$688,460	100.00%	\$494,744											\$10,575,051	
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	
PROPORTIONAL REINSURERS																													
Lloyd's		60.40%	\$5,600,326	33.00%	\$0	33.00%	\$0	33.00%	\$0	33.00%	\$39,529	33.00%	\$0	33.00%	\$227,191	49.00%	\$242,423		\$1,527,367	\$1,527,367	\$1,527,367	\$1,527,367	\$1,527,367	\$1,527,367	\$1,527,367	\$1,527,367	\$6,109,469		
A.G. Dore & Others - AGD 2526		10.20%	\$945,750	2.46%	\$0	2.46%	\$0	2.46%	\$0	2.46%	\$2,947	2.46%	\$0	2.46%	\$16,936														
Amlin - AML2001		8.57%	\$794,616																										
Antares - AUL 1274		4.23%	\$392,208																										
Argo - AMA 1200		30.00%	\$2,781,619																										
Barbican 1955				2.00%	\$0	2.00%	\$0	2.00%	\$0	2.00%	\$2,396	2.00%	\$0	2.00%	\$13,769	1.00%	\$4,947												
Beazley - AFB 2623																1.50%	\$7,421												
Brit - BRT 2987				7.00%	\$0	7.00%	\$0	7.00%	\$0	7.00%	\$8,385	7.00%	\$0	7.00%	\$48,192	2.01%	\$9,944												
Catlin - SJC 2003																24.00%	\$118,739												
Faraday - FDY 435				2.01%	\$0	2.01%	\$0	2.01%	\$0	2.01%	\$2,408	2.01%	\$0	2.01%	\$13,838	2.89%	\$14,298												
Markel - MKL 3000				8.69%	\$0	8.69%	\$0	8.69%	\$0	8.69%	\$10,409	8.69%	\$0	8.69%	\$59,827	3.57%	\$17,662												
Pembroke - PEM 4000		1.00%	\$92,721	3.61%	\$0	3.61%	\$0	3.61%	\$0	3.61%	\$4,324	3.61%	\$0	3.61%	\$24,853	5.99%	\$29,635												
Pioneer - PPI 9969		6.40%	\$593,412													2.51%	\$12,418												
Sagcor - SAL 1206				7.23%	\$0	7.23%	\$0	7.23%	\$0	7.23%	\$8,660	7.23%	\$0	7.23%	\$49,776	5.53%	\$27,359												
London Companies		6.60%	\$611,956	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0		\$305,978				\$305,978				\$611,956		
Allianz Global Risks		6.60%	\$611,956																\$305,978				\$305,978				611,956		
Total London Market		67.00%	\$6,212,282	33.00%	\$0	33.00%	\$0	33.00%	\$0	33.00%	\$39,529	33.00%	\$0	33.00%	\$227,191	49.00%	\$242,423		\$305,978	\$1,527,367	\$1,527,367	\$1,833,345	\$1,527,367	\$1,527,367	\$1,527,367	\$6,721,425			
Payable to Miller																			\$0	\$1,527,367	\$1,527,367	\$1,527,367	\$1,527,367	\$1,527,367	\$1,527,367	\$6,109,469			
Canadian Companies		33.00%	\$3,059,781	67.00%	\$0	67.00%	\$0	67.00%	\$0	67.00%	\$80,256	67.00%	\$0	67.00%	\$461,268	51.00%	\$252,319		\$1,926,812				\$1,926,812				\$3,853,624		
Arch Insurance Canada Ltd.				8.00%	\$0	8.00%	\$0	8.00%	\$0	8.00%	\$9,583	8.00%	\$0	8.00%	\$55,077				\$32,330				\$32,330				\$64,660		
AWAC (not Can. Lic.)				7.00%	\$0	7.00%	\$0	7.00%	\$0	7.00%	\$8,385	7.00%	\$0	7.00%	\$48,192	12.00%	\$59,369		\$57,973				\$57,973				\$115,946		
AXIS Re		3.00%	\$278,162	5.00%	\$0	5.00%	\$0	5.00%	\$0	5.00%	\$5,989	5.00%	\$0	5.00%	\$34,423				\$159,287				\$159,287				\$318,574		
Colchester (not Can. Lic.)		30.00%	\$2,781,619																\$1,390,810				\$1,390,810				\$2,781,619		
HDI-Gerling Industrial Insurance Company				12.00%	\$0	12.00%	\$0	12.00%	\$0	12.00%	\$14,374	12.00%	\$0	12.00%	\$82,615	4.00%	\$19,790		\$58,390				\$58,390				\$116,779		
Royal & Sun Alliance Insurance Co. of Canada				8.00%	\$0	8.00%	\$0	8.00%	\$0	8.00%	\$9,583	8.00%	\$0	8.00%	\$55,077				\$32,330				\$32,330				\$64,660		
Westport Insurance Corporation				27.00%	\$0	27.00%	\$0	27.00%	\$0	27.00%	\$32,342	27.00%	\$0	27.00%	\$185,884	35.00%	\$173,160		\$195,693				\$195,693				\$391,386		
TOTAL PROPORTIONAL REINSURERS		100.00%	\$9,272,063	100.00%	\$0	100.00%	\$0	100.00%	\$0	100.00%	\$119,785	100.00%	\$0	100.00%	\$688,459	100.00%	\$494,742		\$2,232,790	\$1,527,367	\$1,527,367	\$3,760,157	\$1,527,367	\$1,527,367	\$10,575,049				
AGGREGATE STOP-LOSS REINSURERS																													
Colchester																			\$48,606				\$48,606				\$97,212		
TOTAL REINSURANCE COST																			\$2,281,396	\$1,527,367	\$1,527,367	\$3,808,763	\$1,527,367			\$10,672,261			
PROPORTIONAL REINSURANCE																											Aggregate		
Rate per Lawyer		\$2,530.00		\$61.00		\$107.00		\$138.00		\$168.00		\$199.00		\$230.00		\$115.00											\$24.00		
Rate per Quebec Lawyer		\$1,215.00		n/a		n/a		n/a		n/a		n/a		n/a		n/a											n/a		
Total # Lawyers other than Quebec at 6/15/13		3278.5		0		0		0		703		0		2983		4272											3,278.5		
Total # Quebec Lawyers at 6/15/13		742		0		0		0		0		0		0		0											742		
Total # Lawyers practising foreign law at 6/15/13		0		0		0		0		0		0		0		0											0		
Total # NLC at Lawyer Rate at 6/15/13 \5		16		0		0		0		3		0		4		16											16		
Rate per P&T Agent \6		\$633.00		\$15.00		\$27.00		\$35.00		\$42.00		\$50.00		\$58.00		\$29.00											\$6.00		
Total # P&T Agents at 6/15/13		41		0		0		0		22		0		19		41											41		
Total # NLC at P&T Rate at 6/15/13		15		0		0		0		6		0		6		15											15		
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.		2013-2014 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - INFORMATION AS AT JULY 1, 2013 \1															Exhibit D
		LAYER 1		LAYER 2		LAYER 3		LAYER 4		AGGREGATE							
		\$5MM XS \$5MM		\$10MM XS \$10MM		\$30MM XS \$20MM		\$40MM XS \$10MM		\$15MM XS \$4.75MM							
REINSURERS		SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM						
												DUE JUL.15, 2013	DUE SEP. 1, 2013	DUE OCT. 1, 2013	DUE JAN.1, 2014	DUE APR. 1, 2014	GRAND TOTAL
TOTAL PROPORTIONAL		100.00%	\$2,362,297	100.00%	\$2,239,913	100.00%	\$3,228,235	100.00%	\$4,305,696	100.00%	\$300,000						\$12,436,140
CLLAS PROPORTIONAL		70.00%	\$1,653,608	70.00%	\$1,567,939	70.00%	\$2,259,764	70.00%	\$3,013,987	0.00%	\$0						\$8,495,298
RETENTION																	
COLCHESTER PROPORTIONAL		10.00%	\$236,230	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0						\$236,230
RETENTION																	
OTHER REINSURANCE		0.00%	\$0	20.00%	\$447,983	20.00%	\$645,647	10.00%	\$430,570	0.00%	\$0						\$1,524,200
PROPORTIONAL REINSURERS																	
Lloyd's		10.00%	\$236,230	10.00%	\$223,991	0.00%	\$0	0.00%	\$0	20.00%	\$60,000		\$130,055	\$130,055	\$130,055	\$130,055	\$520,221
AFB 623 / 2623		10.00%	\$236,230										\$59,058	\$59,058	\$59,058	\$59,058	\$236,230
BRT2987				10.00%	\$223,991								\$55,998	\$55,998	\$55,998	\$55,998	\$223,991
LIB4472										20.00%	\$60,000		\$15,000	\$15,000	\$15,000	\$15,000	\$60,000
London Companies		10.00%	\$236,230	0.00%	\$0	10.00%	\$322,823	20.00%	\$861,139	80.00%	\$240,000		\$415,048	\$415,048	\$415,048	\$415,048	\$1,660,192
Hannover Re		10.00%	\$236,230										\$59,058	\$59,058	\$59,058	\$59,058	\$236,230
Munich Re - UK Branch								20.00%	\$861,139				\$215,285	\$215,285	\$215,285	\$215,285	\$861,139
Swiss Re International SE						10.00%	\$322,823			80.00%	\$240,000		\$140,706	\$140,706	\$140,706	\$140,706	\$562,823
Total London Market		20.00%	\$472,459	10.00%	\$223,991	10.00%	\$322,823	20.00%	\$861,139	100.00%	\$300,000		\$545,103	\$545,103	\$545,103	\$545,103	\$2,180,413
Payable to Miller													\$545,103	\$545,103	\$545,103	\$545,103	\$2,180,413
Canadian Companies		0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0
None												\$0					\$0
TOTAL PROPORTIONAL REINSURERS		20.00%	\$472,459	10.00%	\$223,991	10.00%	\$322,823	20.00%	\$861,139	100.00%	\$300,000	\$0	\$545,103	\$545,103	\$545,103	\$545,103	\$2,180,413
PROPORTIONAL REINSURANCE																	
Rate per Lawyer		\$714.00		\$553.00		\$797.00		\$1,063.00		\$74.06							
Rate per Quebec Lawyer		\$0.00		\$553.00		\$797.00		\$1,063.00		\$74.06							
Total # Lawyers other than Quebec at 6/15/13		3279		3279		3279		3279		3279							3,278.5
Total # Quebec Lawyers at 6/15/13		742		742		742		742		742							742
Total # Lawyers practising foreign law at 6/15/13		0		0		0		0		0							0
Total # NLC at Lawyer Rate at 6/15/13		16		16		16		16		16							16
Rate per P&T Agent		\$179.00		\$138.00		\$199.00		\$266.00		\$18.52							
Total # P&T Agents at 6/15/13		41		41		41		41		41							41
Total # NLC at P&T Rate at 6/15/13		15		15		15		15		15							15
NLC = Non-lawyer Consultant																	
NOTE: \1 This is an information document, not an accounting ledger.																	

Aggregate Stop-loss Reinsurance Structure (Historical)



CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
JUNE 30, 2013

MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL

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M5E 1G9

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CLLAS

CANADIAN LAWYERS LIABILITY **ASSURANCE SOCIETY**

COMMENTARY FOR THE QUARTER ENDING JUNE 30, 2013

Review of Market Yields

Following a moderate downward shift during April, yields across the entire curve turned up early in May and continued to climb higher over the balance of the quarter. The rise in yields increased as the term to maturity lengthened. As a result, the 3-month Treasury Bill recorded the smallest increase of 4 basis points, while the 10-year Canada yield experienced the largest gain of 68 basis points.

Due to these shifts, during the second quarter the yield curve became significantly steeper as the yield advantage of 10-year issues over Treasury Bills climbed to 1.42%, from .78% at the end of March.

	Jan. 1/95	Dec. 31/12	Mar. 31/13	Jun. 30/13
3-Month Treasury Bills	6.80%	0.92%	0.98%	1.01%
5-year Canadas	8.99%	1.38%	1.30%	1.80%
10-year Canadas	9.09%	1.80%	1.76%	2.44%

At the end of the second quarter, the valuation of the Short Term Fund stood at \$13,300,544.

Activity in the account involved the roll-over of Treasury Bill and Banker's Acceptance maturities.

CLLAS

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

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

- Total Return vs. Benchmark - Gross and Net of Fees
- Compliance Statement
- Bond Market Commentary and Future Policy
- Security Holdings in the Short Term Fund at June 30, 2013
- Security Purchases and Sales
- Cash Reconciliation
- External Individual Credit Rating Report

CLLAS
SHORT TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN
FOR PERIOD ENDING JUNE 30, 2013

	Since Inception Oct. 1/08 *	Three Years*	Two Years *	One Year	Last 3 Months
<i>Short Term Investment Fund</i> <i>– Gross of Fees</i>	<i>0.82%</i>	<i>0.88%</i>	<i>0.90%</i>	<i>0.90%</i>	<i>0.24%</i>
<i>Short Term Investment Fund</i> <i>– Net of Fees</i>	<i>0.68%</i>	<i>0.77%</i>	<i>0.79%</i>	<i>0.79%</i>	<i>0.21%</i>
Benchmark Portfolio **	0.76%	0.86%	0.90%	0.93%	0.24%

* Annualized

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

	Jan. 1/95	Dec. 31/12	Mar. 31/13	Jun. 30/13
Short Term Average Duration	N/A	0.05	0.11	0.10

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

<i>June 30, 2013</i>	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.3 years	Yes
Minimum Canada & Provincial Percentage	50%	52.7%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes

This will confirm that the Short Term Investment Fund is in compliance with the Investment Policy Statement dated May 5, 2012.

CLLAS

BOND MARKET COMMENTARY AND FUTURE POLICY

In recent weeks, heightened uncertainty surrounding the future course of monetary policy has triggered significant shifts in the financial backdrop. After an extended period of relative calm, security markets became increasingly volatile in May, when the U.S. monetary authorities first hinted that they could reduce their monthly purchases of government bonds and mortgage securities. Volatility then spiked higher and both bonds and stocks experienced sharp corrections last month. The selloff followed the Federal Reserve's announcement that improving economic prospects could warrant a shift in monetary policy and that their third round of quantitative easing would likely be scaled back much sooner than had been broadly expected.

Recent precedents initially fuelled investors' concerns that stock prices could not be sustained without ongoing stimulus, since global equity markets had stumbled sharply lower after the two previous quantitative easing programs ended. However, unlike the previous stock market selloffs, bonds did not offer a safe haven from the turmoil and their prices also experienced a sharp slide as yields on both mid and longer term issues shifted noticeably higher.

The U.S. monetary authorities have since stressed that the timing and extent of any wind-down in their quantitative easing program is dependent on their expectations that a durable pickup in economic growth will push the unemployment rate down further towards 7% over the next twelve months. At this juncture, their economic forecast is more optimistic than most economists and bond prices have stabilized in recent weeks as investors have taken some comfort that U.S. monetary policy will not become less stimulative if the economy and unemployment fail to show sufficient improvement.

While better than expected economic data suggests the U.S. Fed will start to taper their stimulus policies sometime later this year, most major offshore central banks plan to maintain or even expand their expansionary policies. The European Central Bank and the Bank of England announced earlier this month that they will keep interest rates at record lows for an extended period, and that rates would be reduced further if necessary. Japan has also committed to the most expansionary policies ever tried, through their plan to double their monetary base in two years. As a result, offshore monetary policy will provide a partial offset if the Fed becomes less accommodative.

Meanwhile, trends in the global economic backdrop have remained mixed. On the plus side, the U.S. economy has shown considerable durability considering the fiscal drag from the year-end tax increase and the negative impact of the sequester, which triggered significant government budget cuts in March. Despite these headwinds, the housing sector continues to mend, employment growth has been better than expected and rising consumer confidence and spending have kept the expansion intact. Japan's economy has shown significant improvement as the country has pulled out of recession and posted solid growth so far this year.

CLLAS

On the minus side, outside of Japan, growth rates among the Far East economies have been slowing and recent developments in China have been of particular concern. Their overall growth rate has been slowing and a credit squeeze was triggered last month when the central bank temporarily withheld much needed liquidity in an effort to curb excesses that had developed in the financial sector. These developments suggest the Chinese authorities are willing to endure somewhat lower growth rates, while they try to transition the economy away from its dependence on capital spending and exports to rely more on internal demand for growth. Conditions in Europe present another negative for global growth as conditions there continue to deteriorate and the prospects for an eventual recovery are pushed further into the future.

On the domestic front, much like the U.S., the Canadian economy has performed reasonably well in view of a variety of international and domestic challenges. Outside of energy, slowing growth rates among the developing nations has weighed heavily on the commodity sector and exports, which has contributed to a pullback in the Canadian dollar. Some cooling in the housing market, cuts in public sector spending, and a pullback in consumer spending due to elevated household debt has also kept growth in check. However, an improving U.S. housing sector and strong auto demand has provided an important offset, and job growth has exceeded expectations. While overall growth has likely slowed since the first quarter, the Bank of Canada expects GDP to advance 1.8% in the second quarter, which is close to the consensus forecast for the U.S. economy. Based on this outlook, the Bank has indicated that it is still appropriate to keep their stimulative policies in place.

Turning to the outlook for bond prices, investor worries over how and when the authorities would eventually withdraw their unprecedented monetary policies, and the potential impact on yields, have now come to the forefront. While the initial impact on U.S. and Canada bond prices to a possible change in U.S. monetary policy was negative, prices have stabilized since the end of June. In some respects, the pending policy shift has some positive implications since the magnitude of monetary stimulus was creating distortions in the capital markets and causing some investors to take on too much risk, particularly in the bond market. The ensuing selloff helped to alleviate these excesses and better prepared investors for the eventual need for central banks to adjust current policies.

For the time being, the Canadian and U.S. authorities have quelled concerns that a reduction in stimulus was imminent and have reiterated that administered rates will be kept at extraordinarily low levels for an extended period. As a result, we expect money market yields will remain anchored around current levels for the balance of the year and possibly longer. Given the recent softening in the global economic backdrop, and the expectation that the North American expansion will remain subdued, we believe bond prices will drift in a sideways pattern over the short term. Looking further out, considering current yields in light of the prospects for further improvement in the economy and the likelihood that monetary policy will become less stimulative, we expect the yield curve will steepen and that yields will shift incrementally higher as term to maturity increases.

RWB/mab
July 23, 2013

As stipulated in our Investment Management Agreement, please let ML&S know if there are any 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.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
From 04-01-13 to 06-30-13

Cash Balance at April 1, 2013			13,855.39
ADD: Proceeds from Sales	17,885,000.00		
Interest on Balance	<u>26.76</u>	<u>17,885,026.76</u>	
			17,898,882.15
LESS: Cost of Purchases	17,880,532.56		
Investment Counsel Fees	3,750.59		
Trust Company Charges	<u>4,136.40</u>	<u>17,888,419.55</u>	
Cash Balance at June 30, 2013			10,462.60

Martin, Lucas & Seagram Ltd.

CLLAS - SHORT TERM INVESTMENT FUND

Portfolio Holdings at June 30, 2013

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
CASH					
	Cash Account			10,463	0
MONEY MARKET ISSUES					
✓ 1,000,000	CIBC BA 1.00% due July 2, 2013	99.84	99.99	999,881	9,984
✓ 1,500,000	Canada Treasury Bill .849% due July 18, 2013	99.87	99.95	1,499,178	12,718
✓ 1,000,000	Canada Treasury Bill .87% due July 18, 2013	99.83	99.95	999,452	8,686
✓ 1,595,000	FirstBank BA 1.00% due July 19, 2013	99.92	99.93	1,593,855	15,937
✓ 1,185,000	Bank of Nova Scotia BA 1.00% due July 25, 2013	99.76	99.92	1,184,001	11,822
✓ 1,000,000	Bank of Nova Scotia 1.00% due July 31, 2013	99.76	99.90	998,996	9,976
✓ 1,000,000	Canada Treasury Bill .879% due August 15, 2013	99.80	99.87	998,673	8,772
✓ 1,500,000	Canada Treasury Bill .90% due August 15, 2013	99.76	99.87	1,498,010	13,467
✓ 1,015,000	Bank of Nova Scotia 1.01% due August 26, 2013	99.84	99.82	1,013,166	10,235
✓ 2,010,000	Canada Treasury Bill .90% due August 29, 2013	99.79	99.83	2,006,539	18,051
✓ 500,000	CIBC BA 1.02% due October 4, 2013	99.73	99.67	498,332	5,081
				13,290,082	124,731
TOTAL PORTFOLIO				13,300,544	124,731

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 04-01-13 To 06-30-13

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
04-05-13	04-08-13	750,000	Royal Bank BA 1.00% due May 6, 2013	99.92	749,422.50
04-05-13	04-08-13	750,000	Toronto Dominion Bank BA 1.01% due May 6, 2013	99.92	749,422.50
04-29-13	04-30-13	1,185,000	Bank of Nova Scotia BA 1.00% due July 25, 2013	99.76	1,182,214.07
04-29-13	04-30-13	1,000,000	CIBC BA 1.00% due June 28, 2013	99.84	998,386.00
05-03-13	05-06-13	1,000,000	Bank of Nova Scotia 1.00% due July 31, 2013	99.76	997,649.00
05-03-13	05-06-13	515,000	Bank of Nova Scotia BA 1.00% due June 28, 2013	99.86	514,253.25
05-03-13	05-06-13	1,000,000	CIBC BA 1.00% due July 2, 2013	99.84	998,441.00
05-08-13	05-09-13	1,000,000	Canada Treasury Bill .87% due July 18, 2013	99.83	998,334.00
05-08-13	05-09-13	1,500,000	Canada Treasury Bill .90% due August 15, 2013	99.76	1,496,367.00
05-16-13	05-17-13	1,590,000	FirstBank BA 1.002% due June 17, 2013	99.92	1,588,648.50
05-22-13	05-23-13	1,500,000	Canada Treasury Bill .849% due July 18, 2013	99.87	1,498,047.00
05-22-13	05-23-13	1,000,000	Canada Treasury Bill .879% due August 15, 2013	99.80	997,979.00
05-31-13	06-03-13	2,010,000	Canada Treasury Bill .90% due August 29, 2013	99.79	2,005,696.59
06-18-13	06-19-13	1,595,000	FirstBank BA 1.00% due July 19, 2013	99.92	1,593,692.10
06-27-13	06-28-13	1,015,000	Bank of Nova Scotia 1.01% due August 26, 2013	99.84	1,013,345.55
06-27-13	06-28-13	500,000	CIBC BA 1.02% due October 4, 2013	99.73	498,634.50
					17,880,532.56
SALES					
04-08-13	04-08-13	1,500,000	FirstBank BA .99% due April 8, 2013	100.00	1,500,000.00
04-30-13	04-30-13	1,000,000	CIBC BA 1.00% due April 30, 2013	100.00	1,000,000.00
04-30-13	04-30-13	1,185,000	Toronto Dominion Bank BA 1.00% due April 30, 2013	100.00	1,185,000.00
05-06-13	05-06-13	750,000	Royal Bank BA 1.00% due May 6, 2013	100.00	750,000.00

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 04-01-13 To 06-30-13

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
05-06-13	05-06-13	1,010,000	Toronto Dominion Bank BA 1.00% due May 6, 2013	100.00	1,010,000.00
05-06-13	05-06-13	750,000	Toronto Dominion Bank BA 1.01% due May 6, 2013	100.00	750,000.00
05-09-13	05-09-13	2,500,000	Canada Treasury Bill .83% due May 9, 2013	100.00	2,500,000.00
05-17-13	05-17-13	1,575,000	CIBC BA 1.00% due May 17, 2013	100.00	1,575,000.00
05-23-13	05-23-13	2,500,000	Canada Treasury Bill .84% due May 23, 2013	100.00	2,500,000.00
06-02-13	06-02-13	2,010,000	Ontario Coupon due June 2, 2013	100.00	2,010,000.00
06-17-13	06-17-13	1,590,000	FirstBank BA 1.002% due June 17, 2013	100.00	1,590,000.00
06-28-13	06-28-13	515,000	Bank of Nova Scotia BA 1.00% due June 28, 2013	100.00	515,000.00
06-28-13	06-28-13	1,000,000	CIBC BA 1.00% due June 28, 2013	100.00	1,000,000.00
					17,885,000.00

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