

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

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

8:30 a.m.  
Davies Ward Phillips & Vineberg LLP  
44<sup>th</sup> Floor, 1 First Canadian Place  
Toronto, Ontario

**Tuesday, June 15, 2010**

**Present:**

Nicholas Leblovic (Chairman)	Davies Ward Phillips & Vineberg LLP
Glenn Leslie	Blake Cassels & Graydon LLP
Barry Bresner	Borden Ladner Gervais LLP
Gord Goodman	Cassels Brock & Blackwell LLP
Chris Woodbury	Fraser Milner Casgrain LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Gale Rubenstein	Goodmans LLP
Bill Scott	McCarthy Tetrault LLP
Bill Woloshyn	McMillan LLP
Julia Holland	Torys LLP
Les O'Connor	WeirFoulds LLP
Frank Palmay	Lang Michener LLP
Patrick Mahoney	Office of the General Manager
Norma Ibbetson	Office of the General Manager
Joe Tontini	Dion, Durrell + Associates

**1. Constitution of Meeting**

The Chairman brought the meeting to order.

**2. Appointment of Secretary**

Norma Ibbetson acted as Secretary.

**3. Approval of Minutes of the February 23, 2010 Meeting of the Advisory Board**

**It was moved by Barry Bresner and seconded by Gale Rubenstein that the minutes of the February 23, 2010 meeting of the Advisory Board be approved. The motion was carried unanimously.**

#### **Approval of Minutes of the May 18, 2010 Meeting of the Advisory Board**

It was moved by Barry Bresner and seconded by Gale Rubenstein that the minutes of the May 18, 2010 meeting of the Advisory Board be approved. The motion was carried unanimously.

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

Items arising out of the minutes will be dealt with under the other agenda items.

#### **5. Comments of the Chair**

Mr. Leblovic reported on his trip to London with Joe Tontini and Lester Lee of Dion Durrell + Associates. They met with the principal London reinsurers to review relevant issues. Essentially the market remains soft with a lot of available capital.

##### *Website:*

The Website continues to evolve. One of the next steps is to have applications and claim forms interactive so they can be completed on the website. During the renewal process, access was granted to CLLAS' reinsurers and excess insurers on a time-limited basis.

##### *General Liability Policy Review:*

No action is to be taken at this time.

#### **6. Pro-Form Insurance Services**

Bob Wilson reported to the Board on the status of the excess insurance and CLLAS International renewals.

There are no changes to the Canadian Excess policy wordings. The CLLAS International policy has been amended to allow for costs arising from potential claim notices to be covered by the policy.

Rates remain unchanged from 2009/2010 for 2011/2012 in both the excess and International program however there is a rate decrease of 10% for U.S. lawyers for 2010/2011.

An updated reinsurance rating schedule was included in the agenda materials. There were no changes from the report previously discussed. It was pointed out that it is likely that a number of the insurers on the CLLAS excess program reinsure their programs to reinsurers on the CLLAS program and we do not have access to information at that level.

The Chair thanked Mr. Wilson for his work on the renewal and Mr. Wilson left the meeting.

## 7. **Reinsurance Renewal**

Joe Tontini reported to the Board. The CLLAS Audit Committee has taken on responsibility for reviewing and providing comments/direction to Dion Durrell with respect to the reinsurance and commercial insurance security of the individual CLLAS reinsurers on both the CLLAS and commercial excess placements. No action is required for the upcoming renewal arising out of the criteria previously designated by the Board.

The Board concluded that TRC Canada should have its participation reduced by 50% and a further review should take place at next year's renewal. It will be left to Dion Durrell to determine how to most effectively manage this.

There had been some discussion of the feasibility of combining the reinsurance and the insurance security reports. The difficulty with this is that a number of the tests require an analysis of claim reserves which make sense only in the lower layers. The only assessment that could be made on a combined basis is with respect to the limits profile. Reviewing this test on a combined basis would leave only Lloyds and Swiss Re on the Level II monitoring list. The decision was made to continue with separate reporting but review the reports in conjunction with each other.

It was pointed out that the implications of default are different for CLLAS reinsurers versus excess program insurers. Claim liabilities in the commercial excess layer directly affect the individual firm with the claim, whereas the default of a CLLAS reinsurer effects all 13 CLLAS firms.

The Board indicated its satisfaction with the first year of the security monitoring process, while noting that the methodology will continue to be fine-tuned over the coming years.

### *CLLAS Rates for 2010/2011 Policy Year*

Mr. Tontini explained that a number of factors would serve to reduce rates for the up-coming policy year. First, the actuarial estimate of expected losses was lower. Second, as in the past years, investment income on CLLAS' surplus can be applied as a credit to the rates (this practice is recommended as long as the actual surplus exceeds the "operational surplus target"). Finally, CLLAS went to the market seeking an overall reduction in reinsurance costs on all the layers and it appears as though reductions will be achieved on most layers.

CLLAS also plans to utilize the additional retention authority as provided for in the Subscribers' Agreement as follows:

Increase Retentions to	Layer 1 -	50%
	Layer 2 -	30%
	Layer 3 -	20%

These changes in retention will have an overall effect of a total increase of \$1.125 million in per claim retention which utilizes almost all of the current \$15 million retention limit permitted under the Subscribers Agreement. CLLAS will review the retention threshold of \$15 million and consider amending the Subscriber Agreement to increase this limit for future years.

There have been no changes to the Colchester structure

Overall, Mr. Tontini advised that, assuming final reinsurance costs come in as expected, the result should be a reduction of about 5% over the previous year. It was suggested that, taking into account CLLAS' current surplus position and its need for surplus driven by various uncertainties relating to a large claim payout, a reduction of up to 10% could be accommodated due to CLLAS' current surplus position and this was supported by the Board.

**8. Report of the Audit Committee**

The report of the Audit Committee was included under the Reinsurance Renewal discussion.

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

*Premium Tax Update*

Mr. Mahoney provided an update on this matter and indicated that discussions with legal counsel continued.

*Management Report at March 31, 2010*

Only item of note is the overage on the Special Services line item which encompasses the ACE arbitration and legal counsel engaged to review issues on an ad-hoc basis.

**10. Report of the Claims Committee**

Barry Bresner reported to the Board. There is some ongoing activity with respect to previously reported matters. There is a new matter in the 2009/10 policy year that is expected to have significant legal costs. Overall the number of claims being managed at the CLLAS level is down.

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

Bill Scott reported.

*Risk Management Audits*

All thirteen firms have now been audited by Mr. John Walker. Mr. Walker will do a comprehensive review to compile statistics with the proviso that some of the earlier firms may have made some changes since their initial review.

The Committee will discuss and bring recommendations forward at the September meeting on the next steps in the audit process.

*Risk Management Policy*

The opinions policy is in circulation. The Committee would like to present the policy for adoption at the September meeting so Board members were asked to provide comments. There are three additional guidelines being reviewed – Engagement, Ancillary Services and Conflict.

*Risk Management/Claims*

Mr. Walker and the General Manager have met to discuss whether CLLAS' claims experience could be used to provide insight into risk management practices at the firm level. Further details will be provided at a future meeting.

*E-Learning*

Mr. Leblovic reported that the E-Learning tool was demonstrated to the reinsurers as part of the renewal discussions. It was very well received.

The pilot project is underway. Some feedback have been received, largely positive, but more input is needed. The constructive feedback tends to focus on the desire for more video and more interactive screens but Mr. Scott pointed out that there is a cost associated with these enhancements.

Mr. Scott advised that as a result of recent cost estimates provided by Bluedrop, the Committee intended to take additional time to consider how best to enhance the E-Learning tools.

It was noted that in Quebec and B.C., the CLLAS E-Learning program is now recognized as a continuing education credit.

The committee will report further at the September meeting or earlier if information is available with respect to the pilot project.

**12. Report of the Policy Committee**

The Committee reported that a comprehensive policy review would likely be undertaken over the medium term.

**13. Report of the Investment Manager**

CLLAS has a very conservative investment policy and this is reflected in the returns on investments.

**14. Other Business - Banking Resolution**

**It was moved by Frank Palmay and seconded by Chris Woodbury that the banking resolution with respect to Royal Trust be approved as presented. The motion was carried unanimously.**

**15. Next Meeting**

The next regularly scheduled meeting of the Board will be on September 14, 2010.

There being no further business, the meeting was terminated.

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Chairman

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Secretary

# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **FINANCIAL MANAGEMENT REPORT**

For the Period Ending June 30, 2010

# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **FINANCIAL MANAGEMENT REPORT**

**June 30, 2010**

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Exhibit II	Income Statement
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Exhibit IV	Operating Budget Variance Analysis

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**BALANCE SHEET**  
**June 30, 2010**

	As at <u>June 30, 2010</u>	As at <u>June 30, 2009</u>
<b>ASSETS</b>		
Cash	\$5,411,214	\$673,839
Investments		
Short Term	11,621,265	10,875,509
Bonds	36,767,706	38,511,662
Interest income due and accrued	285,801	303,079
Premiums receivable	(0)	0
Unearned reinsurance premium ceded	0	0
Prepaid Expenses	471,348	517,703
Deferred policy acquisition costs	(0)	(0)
Reinsurance recoverable	12,117,610	10,200,115
Other receivable	0	0
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	45,462,000	46,092,000
 Total Assets	 \$112,136,944	 \$107,173,907
<b>LIABILITIES</b>		
Provision for unpaid claims and adjustment expenses	\$86,875,000	\$82,584,000
Provision for unpaid premium liabilities	\$2,629,821	\$2,629,821
Unearned premium	0	0
Due to reinsurers	0	0
Accounts payable & accrued charges	308,475	163,641
Premium taxes payable	0	0
 Total Liabilities	 89,813,296	 85,377,461
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	20,952,879	20,568,965
Accumulated Other Comprehensive Income (Loss),	1,370,769	1,227,481
	22,323,648	21,796,445
 TOTAL LIABILITIES AND SUBSCRIBERS' EQUITY	 \$112,136,944	 \$107,173,907



**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**INCOME STATEMENT**  
**FOR THE PERIOD ENDED June 30, 2010**

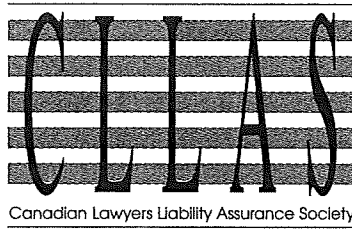
	Year to date Jan. 2010 to <u>June-10</u>	Previous year Jan. 2009 to <u>June-09</u>
Written premium	(\$16,568)	\$25,566
Gross Written Premiums	(16,568)	25,566
Less: Reinsurance Ceded	0	14,264
Net Written Premiums	(16,568)	11,302
Change in Unearned Premiums	4,892,587	4,860,100
Earned Premiums	4,876,018	4,871,402
Claims Paid	125,393	2,143,035
Change in IBNR	2,247,000	2,152,000
Change in Case Reserve	998,000	(694,000)
Change in provision for Unpaid Premium liability	0	0
Incurred Claims	3,370,393	3,601,035
Management and Operating Expenses	1,288,880	946,314
Reinsurance Fees	136,500	136,500
Premium Taxes	283,123	365,539
Total Operating Expenses	1,708,503	1,448,353
Underwriting Gain (Loss)	(202,878)	(177,986)
Investment Income	724,414	723,281
Net Gain (Loss)	\$521,536	\$545,295
Subscribers' Equity - Beginning of Period	\$20,431,343	\$20,023,669
Less: Adjustment to opening Policy Liabilities	\$0	\$0
Subscribers' Equity - End of Period	\$20,952,879	\$20,568,965

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME (LOSS) AND**  
**ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**  
**FOR THE PERIOD ENDED June 30, 2010**

	Year to date Jan. 2010 to <u>June-10</u>	Previous year Jan. 2009 to <u>June-09</u>
Net Income	\$521,536	\$545,295
Other Comprehensive Income (Loss):		
Unrealized Gains and (Losses) on available-for-sale financial assets arising during the year	160,284	(148,227)
Reclassification of realized gains(losses) to the statement of operations		
Net change in the other comprehensive income for the year	160,284	(148,227)
Total Comprehensive Income (Loss)	681,820	397,068
Accumulated Other Comprehensive Income (Loss), beginning of year	\$1,210,485	\$1,375,708
Other comprehensive income (loss)	160,284	(148,227)
Balance at end of period	1,370,769	1,227,481

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS**  
**FOR THE SIX MONTHS ENDED June 30, 2010**

	Annual Budget	Year to Date Budget %	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
		Accrued to Date			
<b>MANAGEMENT SERVICES</b>	457,500	50%	228,750	268,360	(39,610)
<b>PROFESSIONAL SERVICES</b>					
Actuarial Services	100,000	68%	68,000	74,395	(6,395)
Reinsurance Matters	300,000	68%	204,000	288,984	(84,984)
Strategic Matters	100,000	68%	68,000	61,055	6,945
Special, non-recurring	0	68%	0	0	0
Sub-Total Professional Services	500,000		340,000	424,434	(84,434)
<b>Total Management &amp; Professional Services *</b>	957,500		568,750	692,794	(124,044)
(See Note 1)					
GST on Consulting Fees	47,875	50%	23,938	34,640	(10,702)
<b>Total Consulting Services</b>	1,005,375		592,688	727,434	(134,746)
<b>OTHER EXPENSES</b>					
Audit Expenses	64,000	50%	32,000	28,102	3,898
Annual Dinner	5,000	100%	5,000	5,096	(96)
Premium Taxes	638,000	50%	319,000	283,123	35,877
Chairman's Expenses	2,000	50%	1,000	0	1,000
Chairman's Honourium	60,000	100%	60,000	67,004	(7,004)
Reinsurance Expense	10,000	50%	5,000	0	5,000
Office Expenses	17,500	50%	8,750	7,779	971
Office Expenses - Website management software license	1,800	50%	900	1,785	(885)
Claims: Borderaux (LSUC)	14,500	50%	7,250	1,350	5,900
Special Services	275,000	50%	137,500	329,505	(192,005)
Special Services - Peer Review	0	50%	0	0	0
Miller Insurance Fees (Reins. Comm.) (See Note 2)	273,000	50%	136,500	136,500	0
I.B.C Statistical Plan Fees	15,000	50%	7,500	3,932	3,568
FSCO Assessment Fees	15,000	50%	7,500	(1,494)	8,994
Investment counsel fees	124,000	50%	62,000	53,827	8,173
Investment - Custodial	35,000	50%	17,500	16,721	779
Risk Management/Loss Prevention	120,000	50%	60,000	47,838	12,162
<b>Sub-total</b>	1,669,800		867,400	981,069	(113,669)
<b>TOTAL</b>	<b>\$2,675,175</b>		<b>\$1,460,088</b>	<b>\$1,708,503</b>	<b>(248,415)</b>



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**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**

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**Date:** August 26, 2010

<b>To:</b>	David Morritt	Barry Bresner
	William Scott	Daniel MacDonald
	Donald Milner	Chris Woodbury
	Gordon Goodman	Carol Lyons
	Les O'Connor	Glenn Leslie
	Nicholas Leblovic	Gale Rubenstein
	Julia Holland	

**Copy:** Patrick Mahoney

**From:** Joe Tontini

**Re:      Final Report on CLLAS Rating and Reinsurance Placement**  
**July 1, 2010/2011**

The purpose of this report is to provide the CLLAS Board with a final summary of the rating and reinsurance placement for July 1, 2010/2011. For ease of reference, we have attached the following updated exhibits:

- A. CLLAS Limit Structure
- B. Current Rate Structure and Participation by Reinsurer
- C. Current A.M. Best and Standard & Poor's Ratings Compared to Previous Years
- D. Aggregate Stop-Loss Reinsurance Structure
- E. FSCO Reinsurance Guidelines

**Highlights**

- Given its healthy surplus position, CLLAS made a conscious decision to retain more risk and increased its retention on the first three layers of reinsurance.
- The investment income from the CLLAS surplus has been used to offset the premium rates on all policies, including the optional excess policies.

- Further, the CLLAS Board decided at its June 2010 meeting to use \$1,000,000 of surplus to further reduce the rates.
- The actuarially determined expected loss costs are lower than the year before which is a result of a favourable trend in claims frequency and from longer payout pattern assumptions for claims excess of \$1,000,000.
- CLLAS was successful in achieving reduced or status quo reinsurance rates on all layers except one.
- As a result of all of the above, CLLAS firms enjoyed a year-over-year rate reduction of 10.8% in overall insurance premium costs (not including the optional excess layers).
- The limit on the Second Optional Excess Policy (excess of \$160,000,000) has been increased to up to \$40,000,000 with options of \$10,000,000, \$20,000,000, \$30,000,000 or \$40,000,000.
- A number of policy changes have been implemented. More details are provided in this report.
- To make it more efficient administratively, starting from this year and going forward, the June 15 headcounts are used to calculate the CLLAS and reinsurance premiums.
- The Colchester stop-loss protection rate increased by 5.8% due to increased risk to Colchester because of CLLAS' higher single loss retention. As Colchester's surplus position is still strong, it continues to retain \$10,000,000 with a retrocession protection limit of \$15,000,000. The retrocession cost this year has been increased by 10.5%. As in the previous years, the Colchester stop-loss protection does not assume the exposure for the additional \$225,000 of cover resulting from the drop down to \$25,000. CLLAS will pick up this additional exposure without the benefit of stop-loss protection.
- The CLLAS reinsurers are virtually unchanged from last year except for the addition of a new Lloyd's syndicate. There have been some minor adjustments in some reinsurers' participation due to CLLAS' increased retention. The participation of Transatlantic Reinsurance Company (Canada) has been reduced by 50%.
- Reinsurers' security ratings remain strong. Nevertheless, CLLAS maintains a rigorous security monitoring process. The Audit Committee continues to oversee the process.
- CLLAS is well within the FSCO total reinsurance and unregistered reinsurance guidelines.

**CLLAS Primary Policy – \$5,000,000 per Claim and in the Annual Aggregate**

The Primary Policy currently provides coverage per firm of \$5,000,000 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. If

there is no underling insurance, then CLLAS would provide \$4,975,000 of coverage excess of \$25,000 deductible. The maximum CLLAS retention on any one claim is \$4,975,000 of which only \$4,750,000 is stop-loss protected by Colchester.

There is no reinsurance protection for this layer (other than the aggregate stop-loss protection provided by Colchester) so CLLAS rates the layer on the basis of the actuarially determined expected loss cost with an appropriate allowance for expenses. The most recent actuarially determined discounted loss cost per lawyer for this layer is \$1,355 compared to \$1,488 for the year before. This represents a 9% decrease. The CLLAS actuary has also added a loading for the possibility of dropping down to \$25,000.

Due to the lower expected loss costs, CLLAS members enjoyed an overall premium decrease of 13.5% for this policy.

#### **CLLAS First Excess Policy – \$30,000,000 Aggregate Excess of the Primary Policy**

The First Excess Policy provides \$30,000,000 aggregate per firm excess of the Primary CLLAS Policy of \$5,000,000 or excess of the Quebec mandatory limit of \$10,000,000 and is divided into three layers for reinsurance purposes as follows:

##### **Reinsurance Layer 1**

Limit: \$7,500,000 aggregate per firm excess of \$5,000,000  
CLLAS Retention: 50% or \$3,750,000 (up from 45% last year)  
Rate: \$913 per lawyer in Quebec/\$1,557 per lawyer in locations other than Quebec/\$779 per P&T agent in all locations

For comparative purposes, the most recent actuarially determined discounted expected loss cost per lawyer (outside of Quebec) for this layer was \$942 compared to \$1,019 the year before or a 7.6% decrease. We have achieved a decrease of 4% in the reinsurance rates for both non-Quebec and Quebec lawyers.

##### **Reinsurance Layer 2**

Limit: \$12,500,000 aggregate per firm excess of \$12,500,000  
CLLAS Retention: 30% or \$3,750,000 (up from 28% last year)  
Rate: \$840 per lawyer in Quebec/\$1,110 per lawyer in locations other than Quebec/\$555 per P&T agent in all locations

For comparative purposes, the most recent actuarially determined discounted expected loss cost per lawyer (outside of Quebec) for this layer is \$743 compared to \$780 the year before or a 4.7% decrease. We have achieved a 2.4% decrease in the reinsurance rates for non-Quebec lawyers and a 5.5% decrease for Quebec lawyers.

### **Reinsurance Layer 3**

Limit: \$10,000,000 aggregate per firm excess of \$25,000,000  
CLLAS Retention: 20% or \$2,000,000 (up from 15% last year)  
Rate: \$301 per lawyer in Quebec/\$440 per lawyer in locations other than Quebec/\$220 per P&T agent in all locations

For comparative purposes, the most recent actuarially determined discounted expected loss cost per lawyer (outside of Quebec) for this layer is \$323 compared to \$340 the year before or a 5% decrease. Although we were able to negotiate a status quo renewal rate for lawyers in Quebec, there was a 4% increase in the rate for the non-Quebec lawyers. This was due to a paid and reserved claim resulting in a total loss in this layer.

### **CLLAS Policy Premium for the \$30,000,000 First Excess Policy**

CLLAS continues to use \$15,000,000 as the maximum amount of liability that it may retain on its own account for any one loss to allow more flexibility in negotiating the best possible reinsurance rates for its members. CLLAS did increase its retention in Reinsurance Layers 1, 2 and 3 from 45% to 50%, from 28% to 30% and from 15% to 20% respectively. This increases CLLAS' maximum retention in any one loss from \$13,350,000 to \$14,475,000.

Based on the above, CLLAS members were charged a rate of \$2,817 per lawyer (\$1,999 for Quebec lawyers) and \$1,409 per patent & trademark agent for the First Excess Policy. The decrease from last year was 8.5%.

### **CLLAS First Optional Excess Policy – \$20,000,000 Aggregate Excess of \$140,000,000** **(Reinsurance Layer 4)**

Nine firms purchased this policy.

Limit: \$20,000,000 aggregate per firm excess of \$135,000,000 aggregate per firm excess of the CLLAS Primary Policy  
CLLAS Retention: nil  
Rate: \$138 per lawyer/\$69 per P&T agent

At this high level, the reinsurance costs are driven more by market conditions and the cost of capacity than by actuarial calculations. This layer was renewed at the same rate as last year.

CLLAS charged its members \$148 per lawyer and \$74 per patent & trademark agent for the CLLAS First Optional Excess Policy which is a 4.5% decrease from last year.

**CLLAS Second Optional Excess Policy – Up to \$40,000,000 Aggregate Excess of \$160,000,000**  
**(Reinsurance Layer 5)**

Firms have the option of purchasing limits of \$10,000,000, \$20,000,000, \$30,000,000 or \$40,000,000. One firm purchased a limit of \$20,000,000 while six firms purchased the maximum limit of \$40,000,000.

Limit:	\$10,000,000 or \$20,000,000, \$30,000,000 or \$40,000,000 aggregate per firm excess of \$155,000,000 aggregate per firm excess of the CLLAS Primary Policy
CLLAS Retention:	nil
Rate:	\$76 per lawyer/\$38 per P&T agent for limit of \$10,000,000 \$123 per lawyer/\$61.50 per P&T agent for limit of \$20,000,000 \$170 per lawyer/\$85 per P&T agent for limit of \$30,000,000 \$200 per lawyer/\$100 per P&T agent for limit of \$40,000,000

At this high level, the reinsurance costs are driven more by market conditions and the cost of capacity than by actuarial calculations. There is an 11.6% rate decrease for the \$10,000,000 limit because the expiring rate was inconsistent with the rate on other layers. The rates for the \$20,000,000 and \$30,000,000 limits were unchanged. The limit of \$40,000,000 is new this year.

CLLAS charged its members \$137 per lawyer and \$69 per patent & trademark agent for the CLLAS Second Optional Excess Policy with a limit of \$20,000,000 which is unchanged from last year. For policies with a limit of \$40,000,000, CLLAS charged its members \$220 per lawyer and \$110 per patent & trademark agent.

**CLLAS Umbrella Excess Policy – \$30,000,000 per Claim/\$60,000,000 Aggregate All Firms Combined Excess of a Minimum of \$50,000,000 per Firm**  
**(Reinsurance Layer 6)**

This policy is shared by all CLLAS firms.

Limit:	\$30,000,000 per claim/\$60,000,000 aggregate all firms combined excess of a minimum of \$50,000,000 per firm
CLLAS Retention:	nil
Rate:	\$150 per lawyer/\$75 per P&T agent

At this high level, the reinsurance costs are driven more by market conditions and the cost of capacity than by actuarial calculations. We were able to achieve a 19% rate decrease this year.

CLLAS charged its members \$161 per lawyer and \$81 per patent & trademark agent for the CLLAS Umbrella Excess Policy. The rates are down 22%.



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

### **Reinsurance Overview**

With its increased retention in Layers 1, 2 and 3, CLLAS has allocated the London and domestic placements as follows:

	<b><u>London</u></b>		<b><u>Domestic</u></b>	
	<b><u>2010/11</u></b>	<b><u>2009/10</u></b>	<b><u>2010/11</u></b>	<b><u>2009/10</u></b>
Layer 1	27.5%	30.0%	22.5%	25.0%
Layer 2	45.0%	46.0%	25.0%	26.0%
Layer 3	45.5%	48.0%	34.5%	37.0%
Layer 4	11.0%	11.0%	89.0%	89.0%
Layer 5	48.0%	50.0%	52.0%	50.0%
Layer 6	55.0%	55.0%	45.0%	45.0%

We were able to achieve lower or status quo reinsurance rates for most of the layers except Layer 3 where there is a 4% increase.

All of the incumbent reinsurers renewed their participation, some with slightly increased or decreased percentages. A new Lloyd's syndicate (AGD 2526) has been added to the Program.

The participation of Transatlantic Reinsurance Company (Canada) on Layers 1 and 2 has been reduced by 50%. We will perform a further review at the next renewal.

As in the expired term, Swiss Re (Canada) agreed to "front" for Swiss Re (U.K.) thus alleviating the unlicensed burden created by Swiss Re (U.K.) in the past. This positive arrangement allows CLLAS to purchase more stop-loss protection from Colchester.

Please refer to Exhibit "B" for more details on the participating reinsurers and their percentages.

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

Colchester provides the following aggregate stop-loss protection in 2010/11 which is unchanged from last year (see Exhibit "D"):

Limit: \$25,000,000 in the annual aggregate excess of \$15,000,000 in the annual aggregate in respect of CLLAS' retained losses

Rate: \$545 per lawyer/\$273 per P&T agent

The rates have been increased by 5.8% due to increased risk to Colchester because of CLLAS' higher single loss retention.

The Colchester stop-loss protection does not assume the exposure for the additional \$225,000 of cover resulted from the drop down to \$25,000 from \$250,000.

Colchester's net retention is \$10,000,000 excess of \$15,000,000 and has arranged retrocession protection of \$15,000,000 excess of \$25,000,000. The retrocession premium is \$1,050,000, a 10.5% increase from last year.

### **Reinsurance Security**

The most current security ratings of each of the CLLAS reinsurers are set forth in Exhibit "C". Reinsurers' security ratings remain strong.

Since last year, CLLAS has adopted a more rigorous 2-level approach to monitor its reinsurance security and the Audit Committee has been assigned the responsibility to oversee this. The reinsurance security review is done in conjunction with the insurance security review performed by Proform Insurance Services.

### **Policy Wordings Changes**

The CLLAS policy was amended in the past to ensure that coverage is available in relation to professional corporations ("PC"). The wording was drafted with the Ontario structure in mind. In Ontario, the individual lawyer typically remains a partner (or associate) of the firm and contracts with the PC to provide professional services. As a result, the CLLAS policy wording specifically required that each person who provides professional services on behalf of the professional corporation must be a partner, associate, employee or counsel to the law firm in question.

The PC structure that is common in B.C. has a PC holding the partnership interest in the firm, and contracting with a second PC which has in turn retained the individual lawyer to provide the services. In order to explicitly accommodate this two-tier structure, the definitions of "Insured", "Professional Corporation" and "Service Company" will be amended on the Primary Policy. The other policies will follow form.

The "Goodman and Carr LLP Lateral Hire Extension Endorsement" will continue to be attached. The premium charged for this (fourth) year is \$500 per lawyer involved in a lateral hire from Goodman and Carr LLP.

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

### **FSCO Reinsurance Guidelines**

Exhibit "E" sets forth the reinsurance calculations based on the 2010/11 premiums and reinsurance protections to determine whether CLLAS is onside with respect to the reinsurance guidelines provided by the Financial Services Commission of Ontario (FSCO). The guideline for total reinsurance is 75% and the guideline for unregistered reinsurance is 25%. The calculations

for CLLAS results in 61.4% total reinsurance and 15.5% unregistered reinsurance. CLLAS is well within the FSCO guidelines.

### **Regulatory Issues**

Lloyd's believes that FSCO, the Ontario agency that regulates CLLAS, will continue to apply the same rules that they have in the past about registered and unregistered reinsurance so the Part XIII changes relating to "Insurance in Canada of Risks" introduced by OSFI will not likely have any effect on CLLAS. We are, however, continuing to monitor the situation very closely.

Alternative Risk Services continues to act as CLLAS' reinsurance intermediary in order to comply with the Part XIII requirements.

### **Concluding Remarks**

We are pleased with the reinsurance renewal results for the 2010/2011 term. Specifically, we were able to achieve reduced or status quo reinsurance rates on most layers. Because of its strong surplus position, increased CLLAS retentions were again possible this year. These, coupled with the lower expected loss costs and the application of \$1,000,000 of surplus resulted in an overall premium decrease of 10.8%. CLLAS members should feel confident that they are paying premiums that are commensurate with the risk and competitive in the current marketplace.

We are also pleased to see that an additional \$10,000,000 limit is available on the Second Optional Excess Policy. Member firms may now have more diversified options to suit their specific requirement.

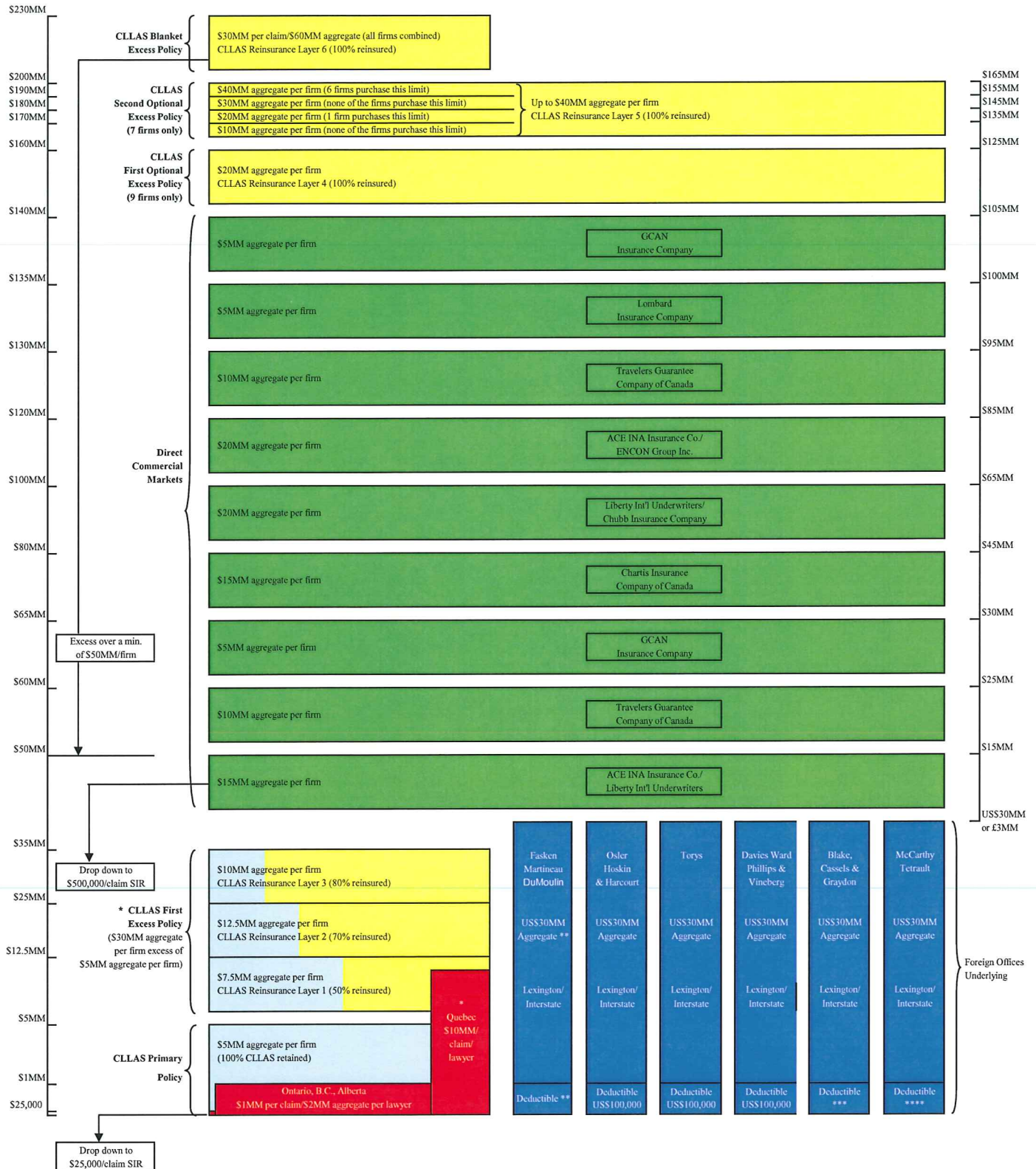
The increase in retention this year utilizes almost the full \$15,000,000 retention authorized under the Subscriber Agreement. We recommend that CLLAS should review the Agreement over the course of the year with the intention of increasing the maximum retention to \$20,000,000 or \$25,000,000.

Although we were unable to achieve a 2-year rolling contract this year, CLLAS' London broker is still in discussions with the lead Lloyd's underwriters over a multi-year proposal as this may of interest for the future.

# CLLAS LIMIT STRUCTURE JULY 1, 2010 - JULY 1, 2011

## Canadian Exposures

## Foreign Exposures



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)										2010-2011 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - INFORMATION AS AT JULY 1, 2010 - 11										EXHIBIT B																	
LAYER 1										LAYER 2		LAYER 3		LAYER 4		LAYER 5				LAYER 6																	
\$7.5MM XS \$5MM										\$12.5MM XS \$12.5MM		\$10MM XS \$25MM		\$20MM XS \$140MM		UP TO \$40MM XS \$160MM				\$30/60MM XS MIN \$50MM																	
SHARE										PREMIUM		SHARE		PREMIUM		SHARE		PREMIUM		SHARE		PREMIUM															
TOTAL PROPORTIONAL										100.00%		\$5,785,937		100.00%		\$1,952,654		100.00%		\$83,948		100.00%		\$436,900		704,250											
CLLAS PROPORTIONAL										50.00%		\$3,392,968		20.00%		\$390,531		0.00%		\$0		0.00%		\$0		0											
RETENTION																																					
PROPORTIONAL REINSURERS																																					
Lloyd's										21.20%		\$1,438,619		37.93%		\$740,642		11.00%		\$63,574		48.00%		\$209,712		387,338											
London Companies																																					
Hannover Ruck. (Can. Lic.)																																					
Aspen Re (Can. Lic.)										6.30%		\$427,514		7.57%		\$147,816										0											
Sub-Total London Cos.										6.30%		\$427,514		7.57%		\$147,816		0.00%		\$0		0.00%		\$0		0											
Total London Market										27.50%		\$1,866,133		45.50%		\$888,458		11.00%		\$63,574		48.00%		\$209,712		387,338											
Payable to Miller																																					
Payable to Hannover Ruck.																																					
Canadian Companies																																					
Arch Insurance Company (Canada Branch)										8.00%		\$542,875						64.00%		\$369,884		7.00%		\$30,583													
AWAC (not Can. Lic.)										2.50%		\$169,648		2.50%		\$124,792																					
CRC (Bermuda) Reinsurance Limited (not Can. Lic.)										5.00%		\$339,297		10.50%		\$205,029						18.00%		\$15,111		\$78,642		70,425									
GCAN Insurance Company										3.00%		\$203,578		24.00%		\$468,637		25.00%		\$144,486		27.00%		\$22,666		\$117,963		246,488									
Soar Reinsurance										4.00%		\$271,437																									
Swiss Reinsurance Company Ltd., Canada Branch										22.50%		\$1,526,835		34.50%		\$673,666		89.00%		\$514,370		52.00%		\$43,653		\$227,188		316,913									
TOA Re										50.00%		\$3,392,968		80.00%		\$1,562,124		100.00%		\$577,944		100.00%		\$83,948		\$436,900		704,251									
Transatlantic Re																																					
Sub-Total Canadian Cos.																																					
TOTAL PROPORTIONAL																																					
REINSURERS																																					
AGGREGATE STOP-LOSS																																					
REINSURERS																																					
Colchester																																					
TOTAL REINSURANCE COST																																					
PROPORTIONAL REINSURANCE																																					
Rate per Lawyer										\$1,557.00		\$913.00		\$440.00		\$138.00		\$123.00		\$200.00		\$150.00															
Rate per Quebec Lawyer										\$913.00		\$840.00		\$301.00		N/A		N/A		N/A		N/A															
Total # Lawyers other than Quebec at 6/15/10										3820.5		3820.5		3820.5		3196		399		1787		3820.5															
Total # Quebec Lawyers at 6/15/10										814		814		814		778		208		266		814															
Total # Lawyers practising foreign law at 6/15/10										0		0		0		159		68		0		0															
Total # NLC at Lawyer Rate at 6/15/10										23		23		23		21		16		23		23															
Rate per P&T Agent										\$779.00		\$555.00		\$220.00		\$69.00		\$100.00		\$75.00																	
Total # P&T Agents at 6/15/10										55		55		55		52		10		55		55															
Total # NLC at P&T Rate at 6/15/10										20		20		20		16		7		20		20															
RI Licensed										47.50%		\$3,223,320		80.00%		\$208,060		100.00%		\$83,948		100.00%		\$436,900		704,250											
RI Unlicensed										2.50%		\$169,648		0.00%		\$0		64.00%		\$369,884		0.00%		\$0		0.00%		0									
NLC = Non-lawyer Consultant																																					
NOTES: 1) This is an information document, not an accounting ledger.																										Note: The headcounts used are as of June 15, 2010.											
2) For Layers 1, 2 and 3, the rate for NLC in all provinces is the same as the rate for lawyers in provinces other than Quebec.																																					
3) Applicable in all provinces.																																					
SPECIAL NOTE: CLLAS RETAINED 100% OF THE FIRST \$4MM XS \$1MM LAYER SINCE JULY 1, 2002.																																					



**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
REINSURERS' SECURITY RATING**

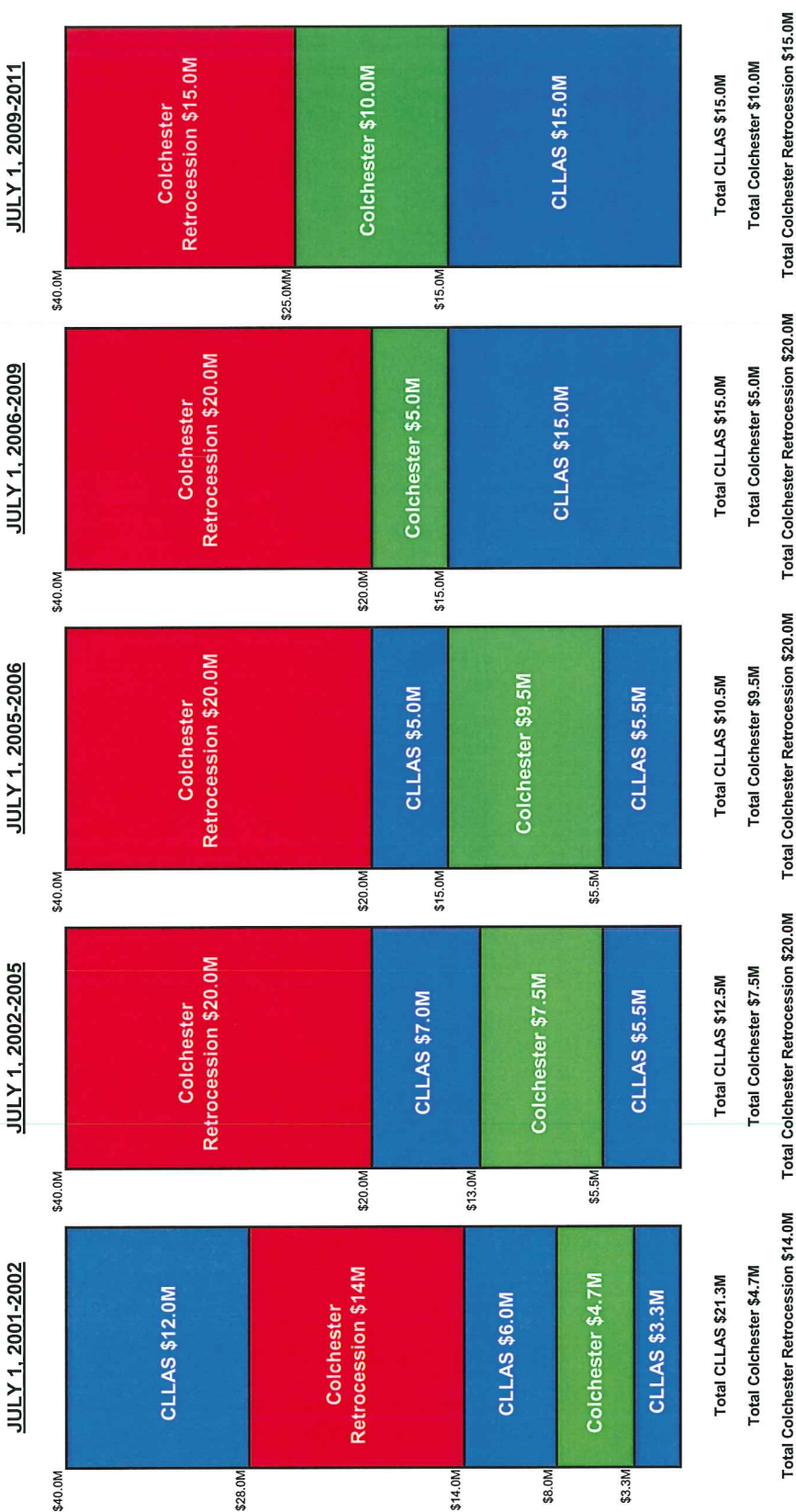
Reinsurer	Registered Status	A.M. Best					S&P									
		August 20, 2010		June 10, 2010	Rating	June 5, 2009	Rating	September 4, 2008	August 20, 2010		June 10, 2010	Rating	June 5, 2009	Rating	September 4, 2008	Rating
		Change from Last	Rating						Change from Last	Rating						
Lloyd's	Note 1	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)	A+ (Strong)	A+ (Strong)	A+ (Strong)	A+ (Strong)
Aspen Re	Note 2	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	A (Strong)/Stable	Unchanged	A (Strong)/Stable	A (Strong)	A (Strong)	A (Strong)	A (Strong)	A (Strong)
Hannover Ruck	Note 1	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	AA- (Very Strong)/Stable	Unchanged	AA- (Very Strong)/Stable	AA- (Very Strong)	AA- (Very Strong)	AA- (Very Strong)	AA- (Very Strong)	AA- (Very Strong)
Brit Insurance Limited	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	Not Known	A (Excellent)	A (Excellent)	A (Excellent)	Not Available	N/A	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available
Transatlantic Reinsurance Company (UK) *	Note 2	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)	A+ (Strong)	A+ (Strong)	AA- (Very Strong)	AA- (Very Strong)
Arch Insurance Company (Canada Branch)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	A+ (Strong)/Stable	Upgraded	A (Strong)/Positive	A (Strong)	A (Strong)	A (Strong)	A (Strong)	A (Strong)
Allied World Assurance Company Ltd.	Unregistered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	A- (Strong)/Stable	Upgraded	A- (Strong)/Stable	A- (Strong)	A- (Strong)	A- (Strong)	A- (Strong)	A- (Strong)
CRC (Bermuda) Reinsurance Ltd.	Unregistered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	Not Available	N/A	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available
GCAN Insurance Company	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	Not Available	N/A	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available
SCOR Canada Reinsurance Company	Registered	A- (Excellent)/Positive	Unchanged	A- (Excellent)/Positive	A- (Excellent)	A- (Excellent)	A- (Excellent)	A- (Excellent)	A (Strong)/Stable	Unchanged	A (Strong)/Stable	A (Strong)	A (Strong)	A (Strong)	BBB (Good)	BBB (Good)
Swiss Reinsurance Company Ltd. (Canada Branch)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)	A+ (Strong)	A+ (Strong)	AA- (Very Strong)	AA- (Very Strong)
Toa Reinsurance Company of America	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)	A+ (Strong)	A+ (Strong)	A+ (Strong)	A+ (Strong)
Transatlantic Reinsurance Company (Parent)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)	A+ (Strong)	A+ (Strong)	AA- (Very Strong)	AA- (Very Strong)
Transatlantic Reinsurance Company (Canada)	Registered	A (Excellent)/Stable	Unchanged	A (Excellent)/Stable	A (Excellent)	A (Excellent)	A (Excellent)	A (Excellent)	A+ (Strong)/Stable	Unchanged	A+ (Strong)/Stable	A+ (Strong)	A+ (Strong)	A+ (Strong)	AA- (Very Strong)	AA- (Very Strong)
Colchester Reinsurance Ltd.	Unregistered	Not Available	N/A	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available	N/A	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available

\* Not participating in Program effective July 1, 2009.

Note 1: Lloyd's and Hamover Re have long been "registered" in Canada but the new OSFI guidelines impose certain conditions that they are required to meet in order to be considered as writing "in Canada risks". These conditions would be met with Alternative Risk Services acting as the Lloyd's open market intermediary. Notwithstanding OSFI's new guidelines, we understand that FSCO is not changing its guidelines at this time.

Note 2: While these companies are "registered" in Canada, we are in the process of confirming that they meet the new OSFI guidelines for "in Canada risks".

Colchester Aggregate Stop-Loss Protection



## 2010 EXHIBIT

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**REINSURANCE CEDED**  
**FINANCIAL SERVICES COMMISSION OF ONTARIO GUIDELINES**

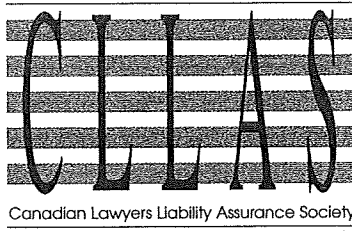
	<i>CALENDAR YEAR 2010</i>	<i>RATIO OF DIRECT PREMIUM</i>
A. 2010/2011 CONTINGENCY RESERVE ADJUSTMENT	\$30,025	
B. 2010/2011 PREMIUM FOR LAWYERS	\$19,325,283	
C. 2010/2011 GOODMAN AND CARR LATERAL HIRE EXTENSION ENDORSEMENT PREMIUM	\$28,000	
D. 2010/2011 FIRST OPTIONAL EXCESS LAYER PREMIUM FOR LAWYERS	\$611,684	
E. 2010/2011 SECOND OPTIONAL EXCESS LAYER PREMIUM FOR LAWYERS	\$566,575	
F. 2010/2011 PREMIUM FOR P&T AGENTS	\$124,960	
G. 2010/2011 FIRST OPTIONAL EXCESS LAYER PREMIUM FOR P&T AGENTS	\$3,848	
H. 2010/2011 SECOND OPTIONAL EXCESS LAYER PREMIUM FOR P&T AGENTS	\$2,890	
I. 2010/2011 PREMIUM FOR NON-LAWYER CONSULTANTS	\$149,883	
J. 2010/2011 FIRST OPTIONAL EXCESS LAYER PREMIUM FOR NON-LAWYER CONSULTANTS	\$4,292	
K. 2010/2011 SECOND OPTIONAL EXCESS LAYER PREMIUM FOR NON-LAWYER CONSULTANTS	<u>\$4,635</u>	
<b>L. DIRECT WRITTEN PREMIUM</b>	<b>\$20,852,074</b>	<b>100.0%</b>
M. REGISTERED REINSURANCE		
N.     PROPORTIONAL REINSURANCE	\$9,587,978	
O.     AGGREGATE REINSURANCE	<u>\$0</u>	
<b>P. TOTAL REGISTERED REINSURANCE</b>	<b>\$9,587,978</b>	<b>46.0%</b>
Q. UNREGISTERED REINSURANCE		
R.     PROPORTIONAL REINSURANCE	\$664,324	
S.     AGGREGATE REINSURANCE	<u>\$2,558,813</u>	
<b>T. TOTAL UNREGISTERED REINSURANCE</b>	<b>\$3,223,137</b>	<b>15.5%</b>
<b>U. TOTAL REINSURANCE</b>	<b>\$12,811,115</b>	<b>61.4%</b>

## Notes:

T. The FSCO guideline for unregistered reinsurance is 25% (maximum).

U. The FSCO guideline for total reinsurance is 75% (maximum).





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**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**

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**To:** CLLAS Advisory Board

<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	Carol Lyons	Frank Palmay
Les O'Connor	Scott Du Bois	Gordon Goodman	Anne-Marie Widener
Glenn Leslie	Richard Prupas	Gale Rubenstein	Daniel Gormley
Julia Holland	James C. Tory	Nicholas Leblovic	Natasha MacParland
William Scott	Caroline Zayid	Daniel MacDonald	Paul Macdonald
Chris Woodbury			

**From:** Patrick Mahoney

**Re:** Correction to March 31, 2010 IBNR Calculation and Implications for Surplus

**Date:** September 3, 2010

Attached is an email exchange with Nick Leblovic and Chris Woodbury (in his capacity as Chair of the Audit Committee) that will serve as background for the discussion on this agenda item.

Regards,



Patrick

Encl.  
AD-BD\_Sept 2010

**Karen M. McCourt**

**From:** Woodbury, Christopher [Christopher.Woodbury@FMC-Law.com]  
**Sent:** Tuesday, August 10, 2010 2:00 PM  
**To:** Patrick M. Mahoney; Leblovic, Nicholas  
**Subject:** RE: CLLAS Mar 31/10 Financials

Thanks to both of you.

My only additional thought is that I believe the Board also wanted to wait until the result of the reinsurance arbitration is known before agreeing to any further allocation of surplus because, obviously, if the result should be unfavourable, that would have an adverse effect on the amount of CLLAS' surplus. Pending any information on that subject, the corrected CLLAS surplus is still above our internal operational target although, as Patrick says, it is not as much above that target as was thought. Whether the Board would have made the same decision to use \$1 million of the surplus in setting rates for the current year had the true amount of the "excess surplus" been known is something that cannot be determined now since there was no discussion based on that premise. It can be said, however, that even with the adjusted surplus number, CLLAS' surplus remains above the internal operational target.

I agree that this issue should be on the agenda for the September meeting so that the Board can take any action that it may wish to take in response to this new information.

Chris

---

**Christopher D Woodbury, Partner**  
**Fraser Milner Casgrain LLP | [www.fmc-law.com](http://www.fmc-law.com)**  
**T 416 863 4773 | F 416 863 4592**  
**E [christopher.woodbury@fmc-law.com](mailto:christopher.woodbury@fmc-law.com)**  
 Suite 3900, 1 First Canadian Place, 100 King Street West, Toronto ON, M5X 1B2  
[Bio](#) | [vCard](#)

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Please consider the environment before printing this e-mail.

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**From:** Patrick M. Mahoney [mailto:PatrickM@dion-durrell.com]  
**Sent:** Tuesday, August 10, 2010 1:45 PM  
**To:** 'Leblovic, Nicholas'  
**Cc:** Woodbury, Christopher  
**Subject:** RE: CLLAS Mar 31/10 Financials

Thanks for this Nick. At the June meeting the Board concluded that CLLAS had "excess" surplus (for lack of a better term) based on the operational target of 210% MCT. (The regulatory minimum is 150% and the regulator likes to see insurers above 175%.) The operational target, 210%, represents target surplus of \$19.5 million at Mar 31/10. The reported surplus was \$23.9 million while the actual surplus was in fact \$21.2 million, i.e. CLLAS still had "excess" surplus, but obviously not as much. The Board agreed to allocate \$1 million towards the rates and indicated, informally, that it would review the matter further at the end of the year to see if it might be appropriate to allocate any further surplus towards the second installment.

9/7/2010

I agree this issue should be on the agenda for Sept. Let me know if you wish to discuss further at this stage.

Regards,

Patrick

---

**From:** Leblovic, Nicholas [mailto:NLeblovic@dwvpv.com]  
**Sent:** Tuesday, August 10, 2010 11:57 AM  
**To:** Patrick M. Mahoney  
**Cc:** 'Woodbury, Christopher'  
**Subject:** RE: CLLAS Mar 31/10 Financials

Patrick. I think that the main issue is whether the adjusted number can still support the premium reduction that was agreed on or whether we need to adjust this reduction to take into account the reduced surplus. I do not recall the exact formulation that was used to come up with the premium reduction that derived from the original surplus amount that was reported and perhaps you can refresh our memory in that regard. In any event I suggest that this issue should be on the agenda for September. I assume that if we are to make any changes to the premium this can be done in conjunction with the second installment of the 2010/11 premium payable in December.

Nick

Nicholas J. Leblovic  
Chair,  
Canadian Lawyers Liability Assurance Society  
tel: 416-863-5514  
fax: 416-863-0871  
email: [nleblovic@dwvpv.com](mailto:nleblovic@dwvpv.com)



Nicholas Leblovic

**DAVIES WARD PHILLIPS & VINEBERG LLP**

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**From:** Patrick M. Mahoney  
[mailto:PatrickM@dion-durrell.com]  
**Sent:** August 9, 2010 9:36 AM

**To:** Leblovic, Nicholas; 'Woodbury, Christopher'  
**Subject:** CLLAS Mar 31/10 Financials

Hi guys. I wanted to let you know that in the course of finalizing the June 30/10 financial statements (due to be filed at the end of this week), we discovered an error in the Mar 31/10 financials. The bottom line is that our surplus was overstated by \$2.7 million due to an error in the IBNR calculation. The surplus for the last three quarter ends is set out below:

Surplus as at:

9/7/2010

Dec 31/09 - 21.6MM  
Mar 31/10 - 23.9MM (as originally reported)  
Mar 31/10 - 21.2MM (corrected)  
Jun 30/10 - 22.3MM

The good news is that the incorrect information was not communicated in any way to our reinsurers during the renewal discussions and so no "repair work" is required there. However, you will recall that the Board did make a decision to apply a portion of the surplus towards reducing the 2010/11 premium and that decision was based on the overstated surplus position. Fortunately, CLLAS is still carrying a material surplus at June 30th as noted above.

We have concluded based on GAAP and regulatory requirements that we are not required to restate and refile the Mar 31/10 financials. In fact, the error will not be apparent on the Jun 30/10 financials as they simply show the six month information (i.e. the error is reversed and the financial results smooth out). However, given that the error occurred, and that a decision was made based on Mar 31/10 surplus information, we wanted to bring this issue to your attention.

The issue was driven by a "spreadsheet error" in the actuarial calculation in updating numbers for the March 31 quarter-end where a manual adjustment to a formula was overlooked. There is no question but that the error should have been identified during the actuarial peer review process and if not then, then during the preparation and review of the financial statements. The impact of the error was to some extent obscured because it netted against a significant increase in a case reserve on a matter that recently settled (i.e. overall the total change in reserve, case and IBNR together, was within the expected range).

We have taken steps to make sure that this error cannot happen again, and we are considering some format changes to the management financial statements to improve their "readability" in an effort to reduce the chances of this type of issue arising again. We are obviously sorry that this error occurred. I intend to mention this at the Board meeting, but let me know if you wish to discuss in the interim.

Thanks,

Patrick

**WALKER SORENSEN LLP**  
BARRISTERS & SOLICITORS

**Memorandum**

Walker Sorensen LLP  
Barristers & Solicitors  
Suite 202  
1451 Royal York Road  
Toronto ON M9P 3B2  
Canada  
Telephone: 416-249-3929  
Facsimile: 416 249-4060

**John L. Walker**  
E-mail: [jwalker@wslaw.ca](mailto:jwalker@wslaw.ca)

To: William G. Scott, McCarthy Tétrault LLP and  
Nicholas J. Leblovic, Davies Ward Phillips & Vineberg LLP

From: John L. Walker

Date: August 3, 2010

Re: CLLAS Risk Management Course

I am writing to advise that the working group that has been studying how to proceed with the completion of the Bluedrop e-Learning course has reached a consensus on how best to proceed.

The working group consisted of: Mara Nickerson and Ruth Alexandor of Oslers; Stewart Whittingham of McCarthy's; John Gillies and Leigh-Ann McGowan of Cassels; Scott Whitley of Lang Michener and Chantelle Courtney of Davies.

As you know, feedback on the first four modules was very positive. Approximately 95% of respondents to the survey reported that the course enhanced their understanding of risk management; 90% of respondents reported that e-Learning is an effective medium for this training; 85% of respondents reported that the course was a good use of their time; and 85% of respondents would like to see CLLAS produce additional risk management modules.

We also received a number of excellent constructive comments on the first four modules. The working group considered these and recommends that the existing four modules be revised as follows:

- (a) add the ability to mute the narration;
- (b) provide a way to print the presentation;
- (c) add some pop-up risk management tips;

- (d) amend some of the questions and answers and make the correct answers easier to compare to the answers given by the student;
- (e) add a pop-up that explains that answers must be provided before the student can click the arrow to proceed to the next screen; and
- (f) add instructions on how to use the mouse on the "dollhouse" view screen dealing with confidentiality.

The working group also recommends that CLLAS proceed to produce the remaining 9 modules; a number of these modules will be much shorter than the existing modules. Whereas the existing modules take approximately 1 hour and 10 minutes to view, Bluedrop estimates that the remaining 9 modules will take 2 hours and 30 minutes to view.

The working group considered a number of options, including adding scenario-based learning and videos to the course. Ultimately, however, the working group recommends that the course be created in the same style and level of interactivity as the existing course (but with the ability to mute the narrator, print the presentation, include risk management tips and include navigation pop-ups).

In order to ensure that the course qualifies for CLE credit in Ontario, at least 2 lawyers must take the course together. To achieve this result, the working group will prepare fact scenarios for group discussion and a facilitator guide to help facilitators at the CLLAS firms lead these discussion groups. The idea is that lawyers will be asked to take the course on-line and then some firms (particularly for their Ontario offices and for partners) will hold group sessions to discuss the fact scenarios.

Bluedrop has prepared the following budget for this work:

Course	Component	Price	Notes
Existing	Global Mute Function	\$ 2,640.00	
Existing	Create PDF for printing	\$ 2,160.00	
Existing	Add risk mgmt tips	\$ 2,960.00	12 rollover popups
Existing	Change questions; answers hard to see	\$ 1,760.00	
Existing	Modify restricted navigation	\$ 800.00	

Course	Component	Price	Notes
Existing	Add instructions on mouse over	\$ 1,040.00	
Sub total existing		\$11,360.00	
New	2.5 hours Level 2 course build with blended learning enhancements	\$73,000.00	one generic course
General	IT Support	\$ 6,500.00	Two days onsite support in Toronto to assist with the course rollout; includes travel, accommodation and daily rate
General	CoursePark Hosting	\$39,000.00	13 learning networks for one year
General	CoursePark setup	\$10,000.00	
Total		\$139,860.00	

The cost for the remaining modules is consistent with the cost for the first four modules.

This budget is for the production of the generic course, and does not include the cost of customizing the course for each CLLAS firm. Each CLLAS firm will be responsible for the cost of any customizations.

It may be necessary or advisable to modify the course in the future to reflect changes in conflicts law or best risk management practices. The cost of such changes are not reflected in the budget.

The budget provides for additional IT support from CoursePark to avoid the technical issues the pilot firms experienced when setting the course up on their systems. Course Park has also changed the look of their website to make it easier for students to launch the course. The Course Park setup and hosting fees are the same as before. The Course Park hosting fee of \$39,000 is an annual fee that will recur each year.

In addition to the costs for Bluedrop, I estimate my fees for supervising the development of the course, providing the relevant subject matter expertise and assisting the working group to develop the fact scenarios and facilitator's guide will be approximately \$40,000.

Accordingly, we recommend that CLLAS proceed to revise the first four modules and produce the remaining nine modules as described above.

Yours very truly,

John L. Walker

JLW/mh

Attachments

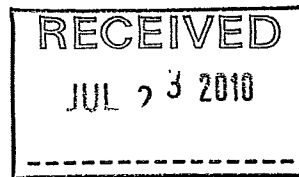
*groups:documents:cllas:cllas seminar:memo-080310-scott-v2.doc*



MARTIN, LUCAS & SEAGRAM LTD.  
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E-MAIL: INFO@MLSINVEST.COM

July 22, 2010.



Mr. Patrick Mahoney,  
Dion, Durrell + Associates Inc.,  
2900 - 250 Yonge St.,  
Toronto, ON M5B 2L7

Dear Mr. Mahoney:

**Re: Canadian Lawyers Liability Assurance Society**

Please find enclosed our quarterly investment report on CLLAS for the period ending June 30 last. We have also included an additional schedule which details the date to date gains and losses for each of the individual holdings in the Long Term Investment Fund over the second quarter.

The originals of the two separate accounts for the Short and the Long Term Investment Funds have been sent to the RBC Dexia Investor Services for payment.

During the quarter, domestic interest rates diverged as very short term yields increased in response to moves by the monetary authorities. Meanwhile, longer term yields shifted lower as the European sovereign debt crises fuelled a flight to safety and investors tempered their expectations for global economic growth in the second half. As a result of higher prices for most of the individual holdings, the Long Term Investment Fund recorded a capital gain of some \$322,000.

Activity during the quarter involved several shifts between the Short and Long Term Investment Funds in anticipation of a pending withdrawal subsequent to the quarter's end.

We have also enclosed a copy of our firm's **Conflict of Interest Disclosure Statement** in order to comply with new relationship and conflict disclosure requirements. These requirements are set out in the recently adopted National Instrument 31-103 - *Registration Requirements and Exemptions*, which reformed Canada's securities registration regime. The enclosed Statement updates and expands information that was previously provided to you in our Statement of Policies.

Please let me know if there are any questions or comments on the report.

With best regards,

Yours sincerely,

RWB: sc  
Enclosures

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July 22, 2010.

In account with

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

---

Valuation of Short Term Investment Fund at June 30, 2010	\$12,631,411
---	--------------

Investment Counsel Fee for the period April 1 to June 30, 2010 at .025% (1/4 of .10% per annum)	\$3,157.85
---	------------

Goods & Services Tax at 5%	<u>157.89</u>
	<u><u>\$3,315.74</u></u>

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

G.S.T. Registration No. R103546115

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July 22, 2010.

In account with

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

---

Valuation of Long Term Investment Fund  
at June 30, 2010

\$35,756,187

Investment Counsel Fee for the period  
April 1 to June 30, 2010  
at .0625% (1/4 of .25% per annum)

\$22,347.62

Goods & Services Tax at 5%

1,117.38

\$23,465.00

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

G.S.T. Registration No. R103546115

**Martin, Lucas & Seagram Ltd.**  
**CONFLICT OF INTEREST DISCLOSURE STATEMENT**

**Introduction**

The purpose of the **Conflicts of Interest Disclosure Statement** is to set out a description of the conflicts of interest Martin, Lucas & Seagram Ltd. may encounter as a registrant Firm.

Martin, Lucas & Seagram Ltd. is registered under the Portfolio Manager category with the Ontario Securities Commission, British Columbia Securities Commission, and the New Brunswick Securities Commission.

The Firm is an Ontario corporation and all of the common shares are owned by the senior active staff. It is the Firm's policy to be completely independent with no corporate affiliations or association with any other firm.

Martin, Lucas & Seagram Ltd. is guided by and adheres to the Functions and Principles of the Profession of Investment Counsel as adopted by the Investment Counsel Association of Canada. This document can be found at [www.investmentcounsel.org/](http://www.investmentcounsel.org/) under the heading About Us/Guiding Principles and a copy is available on request.

**Conflicts of Interest**

As a client or prospective client, it is important that you are aware of any potential areas of conflict of interest that may be encountered between your interests and those of Martin, Lucas & Seagram Ltd., ("ML & S") and how, by policy, our Firm addresses these potential conflicts. The Firm does not engage in any of the following activities:

- ML & S is not an issuer of securities;
- ML & S does not trade in or advise with respect to its own securities;
- ML & S is not related to an issuer of securities or public company; and
- ML & S is not related to any other party that is related or connected to an issuer of securities or public company.
- ML & S is not related to any Registrant Firm, Broker or Mutual Fund.

All employees, officers and directors of the Firm must avoid any situation in which their personal interests conflict or appear to conflict with their duties at the Firm. All employees are obliged to disclose any conflict of interest or potential conflict of interest to the management of the Firm immediately after becoming aware of the existence of a conflict of interest or a potential conflict of interest. Once a conflict of interest or a potential conflict of interest is disclosed by an employee, that particular individual must comply with any prohibitions on activities imposed by Firm management. The following outlines areas of potential conflict and our policies:

1. ML & S and all of its employees are prohibited from receiving any personal benefits, including gifts and entertainment, from companies in which they invest client capital, or through whom they execute such transactions, or from third party vendors or issuers of securities.
2. Employees of ML & S are not permitted to be directors or officers of public companies and are required to disclose any outside business activities. If these activities give rise to real or perceived conflicts, the outside activity will be prohibited or disclosed to the Firm's clients.
3. ML & S revenues (excluding interest on deposits) consist exclusively of direct charges to clients for services rendered. Discretionary account fees are based on a negotiable and agreed upon per annum percentage rate of the market value of each portfolio. Investment counsel fees are paid quarterly, in arrears, directly by the client or through the client's direct authorization to their custodian. In order to provide independent and verifiable end of quarter portfolio valuations, these are based on security prices provided by unrelated third party vendors.
4. It is the Firm's objective to allocate client trades on a basis that is fair, reasonable and equitable. The procedures adopted by ML & S for trade allocation and order placement policies are described in the attached document entitled "Allocation of Orders Amongst Clients" (appendix A).
5. ML & S votes proxies on behalf of clients, which in their judgement is in the best interests of their clients. The Firm will vote all proxies received from custodians. On questionable issues, all members of the investment committee will review the voting issues before a group decision is made. Proxy votes will be entered during the week prior to the deadline to allow time for clients to provide specific voting instructions that may differ from the Firm's.
6. Client fee-paying portfolios will not be invested in any company with whom ML & S or any employee of ML & S is deemed to be not arms-length without the express written consent of the client who acknowledges the disclosure of such a relationship.
7. ML & S does not trade in any types of securities for its own account. Employees must agree and adhere to specific policies and rules of procedure before placing security transactions for their own account to ensure such transactions are free of bias or self-interest.
8. ML & S has no sub-advisory agreements with any other investment adviser.
9. ML & S has no formal soft dollar arrangements with any investment dealer or third party and has no obligation to generate a minimum level of client brokerage commission with any investment dealer. The use of client brokerage commissions is described in the attached appendix A.
10. ML & S does not pay referral fees or participate in any referral arrangements for new clients.

## Appendix A

### Allocation of Orders

Martin, Lucas & Seagram Ltd. ("ML & S") provides discretionary investment management to both individual, corporate and estate/trust accounts. The majority of assets under management use the custodial and trading services of bank owned investment dealers. A number of accounts use the custodial services of major trust companies.

It is the Firm's objective to allocate trades on a basis that is fair, reasonable and equitable to all clients based on investment objectives. This includes all clients of like investment objectives having an equal opportunity to invest in securities and ensuring fair allocation of securities with respect to distribution and price. The Firm's internal procedures for fair trade allocation are listed below.

It is the Firm's policy that:

- 1) Each client's portfolio is managed and supervised separate and distinct from other clients. The Firm does not manage pooled funds on behalf of its clients.
- 2) When a security is purchased or sold for a large number of clients with the same investment objectives, transactions are executed through the investment dealer in blocks for those clients who are customers of those dealers. Every effort is made to effect the transaction at the same time in an effort to get the same price for each client. Accordingly, each dealer is given the same trade instructions, including price limits. When a dealer completes a block order at different prices, the dealer is instructed to calculate the average price of the entire order and to assign this price to each individual client order. A record is kept in a trading blotter setting out any discrepancies and these must be reported to the Compliance Officer.
- 3) In a few cases, the Firm has found that some dealers cannot execute block transactions at the same price when combining small orders. The Firm believes that the resulting price differences have no meaningful impact on investment results.
- 4) The executed portion of a block transaction (i.e. a partial fill), on the same trading day, will be allocated on a pro-rata basis to the original order for each client. For example, if only 50% of a block transaction is completed on a given day, each client will be allocated 50% of their original order. Trades may not be allocated on a pro-rata basis where the size of the allocation is so small as to render an allocation uneconomical for the client.
- 5) Other transactions placed from time to time on behalf of clients will reflect the client's needs, objectives, constraints and other factors that bear on the investment management process such as a required change in asset mix, tax considerations, capital additions and withdrawals and improvement in diversification.
- 6) Where the same security for a number of clients is being bought or sold on the same day, these orders are grouped together by broker to ensure that they are placed through designated brokers at the same time.

- 7) In the allocation of orders, the Firm has no soft-dollar arrangements with any financial institution.
- 8) Commission rates are negotiated on behalf of each client with the investment dealer designated by that client. Commission rates are based on the value of individual trades and commission costs are not affected when individual trades are consolidated and executed as a block.
- 9) The officers and directors and any associated persons who are not clients of the Firm, and employees of the Firm are prohibited from participating in block transactions of any type of security executed on behalf of clients of the Firm.
- 10) The Firm may participate on behalf of clients in new bond issues of the Government of Canada, the Provinces and investment grade Corporations. The allocation of newly issued debt is done on a pro-rata basis unless the size of the allocation is so small as to render an allocation uneconomical for the client.
- 11) It is the Firm's current policy not to participate in new issue common stock underwritings (IPOs) unless directed by the client. In the event this policy is changed, the allocation of newly issued shares would be done on a pro-rata basis.
- 12) The Firm does not execute cross transactions between client accounts. The Firm may effect the transfer of securities between portfolios of the same client but only on the direction of the client.

#### **Use of Client Brokerage Commissions**

Client brokerage commissions are paid for order execution and goods and services relating to custody, clearing and settlement of executed orders. ML & S also receives research goods and services from broker/dealers consisting of transaction advice, analysis and reports concerning individual securities, portfolio strategy, industry, economic or political factors or trends. Only Order Execution and Research goods and services are obtained through client brokerage commissions and the firm does not receive any Mixed Use Items, which are goods or services falling outside the order execution or research categories. A record of the broker/dealers that provided Research goods and services is maintained and available to clients upon request.

#### **Best Price and Execution**

In most cases, the custodian/dealer used is under the client's direction. When executing trades for clients who have not directed trading to a specific custodian/dealer, ML & S will select broker/dealers who they believe will provide the "best price and execution", while taking into consideration the commissions charged and the quality and reliability of research goods and services provided.

*This document is kept current and you may contact us for the most recent version.*

June 9, 2010

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

INVESTMENT REPORT  
FOR QUARTER ENDING JUNE 30, 2010

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

Suite 620, 48 Yonge Street  
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e-mail: [info@mlsinvest.com](mailto:info@mlsinvest.com)



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

**COMMENTARY FOR THE QUARTER ENDING JUNE 30, 2010**

**Review of Market Yields**

The direction of market yields diverged during the second quarter as yields at the very short end of the curve began moving higher in the lead-up to and following the Bank of Canada's announcement of a 25 basis point increase in their overnight target rate to .50% from a record low of .25%. Longer term yields, on the other hand, moved down in a saw tooth pattern. As a result, at the end of June the direction of change was mixed, with 3-month Treasury Bill yields rising 22 basis points, while yields on issues with 5 and 10-year terms increasing 53 basis points on average.

As a result of these shifts, there was a noticeable flattening in the slope of the yields curve. At the end of June, the yield advantage of the 10-year issue over the Treasury Bill had fallen to 258 basis points, which was 70 basis points below the March 31 spread.

	Jan. 1/95	Dec. 31/09	Mar. 31/10	June 30/10
3-Month Treasury Bills	6.80%	0.19%	0.28%	0.50%
5-year Canadas	8.99%	2.77%	2.90%	2.32%
10-year Canadas	9.09%	3.61%	3.56%	3.08%

During the second quarter, the valuation of the Long Term Investment Fund rose \$322,387 or 0.9% on a capital basis.

At June 30, 2010, the average term to maturity of the Long Term Investment Fund stood at 3.6 years, compared to 3.7 years three months earlier.

During the quarter, a Canada bond matured and the proceeds were transferred to the Short Term Investment Fund. Two near-term bonds were also withdrawn and added to the Short Term Investment Fund. These shifts were to provide for a pending withdrawal after the quarter's end and to keep the percentage distribution of the Short and Long Term Investment Funds in compliance subsequent to the withdrawal.

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

<b><i>Distribution as at June 30, 2010</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$12,631,411	26.1%
Long Term Investment Fund	35,756,187	73.9%
<b>TOTAL COMBINED VALUATION</b>	<b>\$48,387,598</b>	<b>100.0%</b>

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

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

- Investment Performance: Summary of Capital Performance and Total Returns for the Long Term Investment Fund  
- (Returns Exclude Investment Counsel Fees)
- 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, 2010
- Security Purchases and Sales
- Cash Reconciliations

# CLLAS

## LONG TERM INVESTMENT FUND

### SUMMARY OF CAPITAL PERFORMANCE SINCE THE STARTING DATE OF JANUARY 1, 1995

	Jan. 1/95	Dec. 31/09	Mar. 31/10	June 30/10
<b><i>Valuation of Long Term Investment Fund</i></b>	<b><i>\$3,466,369</i></b>	<b><i>\$37,119,477</i></b>	<b><i>\$36,901,945</i></b>	<b><i>\$35,756,187</i></b>
Cumulative Capital Added (Net) since January 1, 1995		\$31,642,471	\$31,642,471	\$30,174,326

Quarterly Capital Change		-\$ 328,822	-\$ 217,532	+\$ 322,387
Quarterly Capital % Change		- 0.9%	- 0.6%	+ 0.9%

## LONG TERM INVESTMENT FUND

### TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING JUNE 30, 2010 (ANNUALIZED)

	Five Years	Four Years	Three Years	Two Years	One Year	Last 3 Months
<b><i>Long Term Investment Fund</i></b>	<b><i>4.5</i></b>	<b><i>5.7</i></b>	<b><i>6.4</i></b>	<b><i>6.1</i></b>	<b><i>4.3</i></b>	<b><i>1.9</i></b>
DEX Canada Short Bond Index	4.3	5.5	6.0	5.4	3.3	1.8
DEX Provincial Short Bond Index	4.5	5.6	6.2	5.9	3.9	1.8

## **CLLAS**

### **LONG TERM INVESTMENT FUND**

#### **TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING JUNE 30, 2010**

	Since Inception Oct. 1/08 *	One Year	Last 6 Months	Last 3 Months
<i>Long Term Investment Fund – Gross of Fees</i>	<b>6.45</b>	<b>4.34</b>	<b>2.36</b>	<b>1.94</b>
<i>Long Term Investment Fund – Net of Fees</i>	<b>6.17</b>	<b>4.07</b>	<b>2.22</b>	<b>1.87</b>
<b>Benchmark Portfolio **</b>	<b>6.65</b>	<b>4.65</b>	<b>3.17</b>	<b>2.58</b>

\* Annualized

\*\* The Benchmark Portfolio, adopted from October 1, 2008, is based on the sum of the following total return indices:

30% DEX Short Term Federal Bond Index  
30% DEX Short Term Provincial Bond Index  
20% DEX Mid Term Federal Bond Index  
20% DEX Mid Term Provincial Bond Index

### **SHORT TERM INVESTMENT FUND**

#### **TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING JUNE 30, 2010**

	Since Inception Oct. 1/08 *	One Year	Last 6 Months	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	<b>0.70</b>	<b>0.32</b>	<b>0.18</b>	<b>0.11</b>
<i>Short Term Investment Fund – Net of Fees</i>	<b>0.52</b>	<b>0.16</b>	<b>0.13</b>	<b>0.09</b>
<b>Benchmark Portfolio **</b>	<b>0.58</b>	<b>0.20</b>	<b>0.11</b>	<b>0.07</b>

\* Annualized

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

# CLLAS

## LONG TERM INVESTMENT FUND

### DISTRIBUTION OF SECURITIES BY CREDIT RISK

(Based on Market Values)

SINCE THE JANUARY 1, 1995, STARTING DATE

	Jan. 1/95	Dec. 31/09	Mar. 31/10	June 30/10
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	29.0%	6.2%	11.2%	10.3%
<b>Canadas</b> Greater than 1 year term	54.7%	45.0%	42.2%	41.1%
<b>Provincials</b> Greater than 1 year term	16.3%	36.6%	36.5%	38.2%
<b>Corporates</b> Greater than 1 year term	-	12.2%	10.1%	10.4%
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## LONG TERM INVESTMENT FUND

### DISTRIBUTION OF SECURITIES BY MATURITY

(Based on Market Values)

SINCE THE JANUARY 1, 1995, STARTING DATE

	Jan. 1/95	Dec. 31/09	Mar. 31/10	June 30/10
Under 1 year	29.0%	6.2%	11.2%	10.3%
1 - 3 years	19.8%	30.9%	28.0%	32.4%
3 - 5 years	29.3%	36.6%	39.1%	36.3%
5 - 7 years	11.4%	16.0%	16.2%	15.3%
7 - 10 years	10.5%	10.3%	5.4%	5.7%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average Maturity (yrs)</b>	<b>2.6</b>	<b>3.9</b>	<b>3.7</b>	<b>3.6</b>
<b>Average Duration</b>	<b>2.3</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>

# CLLAS

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

### COMPLIANCE REPORT AT JUNE 30, 2010

	Investment Limits	Investment Funds	Compliance
<b><i>Short Term Investment Fund</i></b>			
Maximum Term of Any Issue	1 year	0.4 years	Yes
Minimum Size	20% of Total	26.1%	Yes
Minimum Canada & Provincial Percentage	50%	63.4%	Yes
Minimum Provincial Quality	A	A Hi	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	8.4 years	Yes
Minimum Cda and Cda Guarantee Percentage	40%	48.3%	Yes
Maximum Provincial Percentage	40%	38.2%	Yes
Minimum Provincial Quality *	A	A	Yes
Maximum Corporate Percentage	20%	13.5%	Yes
Minimum Corporate Quality *	A	A	Yes

*\* At time of purchase*

This will confirm that during the quarter the portfolio and its components were managed in compliance with the Investment Policy Statement dated October 2008.

At June 30, the Short Term Investment Fund represented 26.1% of the two Funds combined, which is above the 20% minimum required.

At June 30, none of the bond holdings' current credit ratings were below the minimum requirement.

*"At the end of the quarter, the lowest rated bonds were:"*

Provincial Bonds: Quebec and Manitoba @ A Hi  
 Corporate Bonds: Canadian Utilities Inc. @ A  
 Enbridge Gas Distribution @ A

Martin, Lucas & Seagram Ltd.  
**PERFORMANCE REPORT**  
**GROSS OF FEES**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 03-31-10 to 06-30-10*

Portfolio Value on 03-31-10	36,901,945
Accrued Interest	321,701
Contributions	0
Withdrawals	-1,889,927
Realized Gains	-3,699
Unrealized Gains	326,086
Interest	421,782
Dividends	0
Change in Accrued Interest	-50,651
Portfolio Value on 06-30-10	35,756,187
Accrued Interest	271,049
Average Capital	36,592,408
Total Gain before Fees	693,518
<b>IRR for 0.25 Years</b>	<b>1.90%</b>

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

The North American economy continued to improve during the first half of the year, although the post-recession recovery remains subpar in the U.S. Their rate of expansion cooled during the first quarter as GDP growth slowed to 2.7% compared to the 5.6% inventory-led bounce during the previous quarter. Most reports show ongoing improvements in the industrial and consumer sectors and corporate profit growth has exceeded expectations. However, housing activity remains depressed and employment growth has been weak and irregular. Meanwhile, the Canadian economy accelerated more than expected. First quarter GDP advanced 6.1%, up from 4.9% during the fourth quarter of last year. Housing and consumer spending have powered the domestic expansion and employment growth has been solid. In the wake of these gains, the Bank of Canada became the first G8 country to begin edging administered interest rates higher with a 25 basis point hike in June. The Bank has since followed with a second consecutive 25 basis point hike in July, despite a downward revision to their forecast for domestic growth.

The global economic recovery is also proceeding, although the rate of improvement remains unbalanced across regions. Developing countries continue to lead the expansion while growth rates remain relatively depressed in most industrialized countries, particularly in Japan and most of Europe. These disparate results have increased downside risks to the global economy and the response of policy makers to these imbalances is expected to restrain international growth rates.

China, which has been a key driver of the recovery, has been implementing restrictive policies designed to relieve bubble-like conditions in their property market, contain inflationary pressures and prevent their economy from overheating. These moves have been bolstered by China's recent announcement to sanction a gradual revaluation of their currency. While China's revaluation of the Yuan will help ease global trade imbalances at the margin, more significant adjustments will be required to ultimately correct the chronic distortions in foreign exchange flows. Successfully engineering a soft-landing has often been a difficult and delicate task and there are growing concerns that China's restrictive measures could produce a marked slowdown. This would have a negative impact on the surrounding regions, which have also been an important source of global growth.

The sovereign debt crises in Europe will also impede their recovery and weigh on the global expansion. In order to contain a debt contagion and avert a possible domino of sovereign defaults, the European Union adopted a massive \$1 trillion emergency lending package, which included a \$318 billion commitment from the International Monetary Fund. These measures have provided the most vulnerable countries, led by Greece, Portugal, Spain and Ireland, time to address their debt and deficit problems. The recent G20 meetings in Toronto confirmed the European Union is committed to implementing the austerity measures necessary to address their underlying solvency issues. However, they are still faced with a difficult balancing act between the budget cuts necessary to reign in their deficits, without crimping the growth required to pay down their debts.



These broad global concerns have overwhelmed generally positive news on the domestic economic front and triggered a flight from risk assets into traditional safe-havens including gold and government bonds. The rally in domestic bond prices has also been fuelled by strong foreign demand, with net purchases of government and corporate bonds setting record levels in recent months. As a result, prices have strengthened across all maturity ranges and domestic yields in the 5 to 10 year term have dropped to the low end of the range that has prevailed so far this year. Meanwhile, money market rates in Canada have been pushed modestly higher in response to the Bank of Canada's two administered rate hikes.

As discussed in previous reports, we felt that the numerous domestic headwinds and international imbalances would cause the recovery to be U-shaped, and that we were facing a period of drawn-out subpar growth. Given our subdued economic outlook and the expectation that inflation would remain benign, we believed the impact of higher administered rates would be muted at the longer end of the curve and that bond yields would remain in a trading range over the near term.

Looking further head, we felt that we had entered the early stages of a rising interest rate cycle and that yields across the entire curve would begin trending higher, as most of the forces that have held them at historically low levels slowly recede. We continue to believe that this is still the most likely scenario. However, the widespread correction across equity markets worldwide coupled with the recent drop in bond yields may foreshadow a more pronounced slowdown in global growth, and we recognize that downside risks to the global economic outlook have increased. As a result, we think upward pressure on longer term bond prices will be slower to unfold. Furthermore, there is a small but growing risk that a double-dip recession could develop. If this were to occur, government bond yields would likely be pushed even lower by the ensuing deflationary pressures and flight to safety. In view of the heightened uncertainty and the potential for divergent outcomes, we think it is prudent to continue the portfolio's emphasis on high quality holdings and maintain the laddered maturity structure. During the second quarter, the average term to maturity of the Long Term Investment Fund shortened slightly to 3.6 years. In view of the recent drop in yields and weighing the bond market's near term prospects, we think this slightly more defensive posture is appropriate.

RWB: sc

July 22, 2010

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

Martin, Lucas & Seagram Ltd.

**CLLAS - SHORT TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2010**

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
<b>CASH</b>					
	Cash Account			7,891	0
<b>MONEY MARKET ISSUES</b>					
1,350,000	CIBC BA .46% due July 16, 2010	99.97	99.97	1,349,598	6,208
2,150,000	CIBC BA .48% due July 16, 2010	99.97	99.97	2,149,359	10,317
615,000	Bank of Nova Scotia BA .53% due August 19, 2010	99.92	99.91	614,416	3,257
500,000	CIBC BA .55% due September 1, 2010	99.86	99.87	499,339	2,746
				<hr/> 4,612,712	<hr/> 22,528
<b>GOVERNMENT BONDS</b>					
525,000	PRN Canada due September 1, 2010	99.83	99.90	524,486	0
3,000,000	Residue Canada Housing Trust due September 15, 2010	99.88	99.90	2,996,880	0
				<hr/> 3,521,366	<hr/> 0
<b>PROVINCIAL BONDS</b>					
500,000	Quebec Hydro Coupon due July 16, 2010	99.81	99.98	499,900	0
740,000	Manitoba Coupon due July 25, 2010	99.86	99.96	739,711	0
500,000	British Columbia 6.375% due August 23, 2010	104.22	100.79	503,970	31,875
1,550,000	British Columbia Coupon due August 23, 2010	99.85	99.89	1,548,342	0
500,000	Ontario 6.10% due November 19, 2010	102.12	101.95	509,735	30,500
690,000	Ontario Residue due November 19, 2010	99.78	99.68	687,785	5,451
				<hr/> 4,489,443	<hr/> 67,826
<b>TOTAL PORTFOLIO</b>				<b>12,631,411</b>	<b>90,354</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-10 To 06-30-10*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
04-09-10	04-12-10	525,000	PRN Canada due September 1, 2010	99.83	524,082.30
05-19-10	05-20-10	500,000	British Columbia Coupon due August 23, 2010	99.89	499,454.00
05-19-10	05-20-10	1,600,000	Residue Canada Housing Trust due September 15, 2010	99.86	1,597,830.40
06-01-10	06-02-10	500,000	CIBC BA .55% due September 1, 2010	99.86	499,315.50
06-07-10	06-08-10	2,000,000	CIBC BA .45% due June 18, 2010	99.99	1,999,754.00
06-08-10	06-09-10	100,000	Bank of Nova Scotia BA .43% due June 25, 2010	99.98	99,981.20
06-08-10	06-09-10	1,975,000	Royal Bank BA .43% due June 25, 2010	99.98	1,974,628.70
06-18-10	06-21-10	2,150,000	CIBC BA .48% due July 16, 2010	99.97	2,149,292.65
06-21-10	06-22-10	615,000	Bank of Nova Scotia BA .53% due August 19, 2010	99.92	614,482.79
06-21-10	06-22-10	1,350,000	CIBC BA .46% due July 16, 2010	99.97	1,349,592.30
06-22-10	06-25-10	690,000	Ontario Residue due November 19, 2010	99.78	688,475.10
06-22-10	06-25-10	1,400,000	Residue Canada Housing Trust due September 15, 2010	99.89	1,398,523.00
					<b>13,395,411.94</b>
<b>SALES</b>					
04-11-10	04-11-10	500,000	Ontario Hydro 40 yr. Ser. Global due April 11, 2010	100.00	500,000.00
05-19-10	05-19-10	2,100,000	Ontario Residual due May 19, 2010	100.00	2,100,000.00
06-01-10	06-01-10	1,175,000	Canada Residue due June 1, 2010	100.00	1,175,000.00
06-02-10	06-02-10	2,730,000	Ontario Coupon due June 2, 2010	100.00	2,730,000.00
06-18-10	06-18-10	2,000,000	CIBC BA .45% due June 18, 2010	99.99	1,999,754.00
06-22-10	06-22-10	500,000	Export Development Canada Coupon due June 22, 2010	100.00	500,000.00
06-22-10	06-22-10	1,465,000	PRN Export Development Canada due June 22, 2010	100.00	1,465,000.00
06-25-10	06-25-10	100,000	Bank of Nova Scotia BA .43% due June 25, 2010	99.98	99,981.20
06-25-10	06-25-10	1,975,000	Royal Bank BA .43% due June 25, 2010	99.98	1,974,628.70
					<b>12,544,363.90</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
*From 04-01-10 To 06-30-10*

Cash Balance at April 1, 2010			31,386.31
ADD:	Proceeds from Sales	12,544,363.90	
	Transfer from Long Term Investment Fund	450,000.00	
	Bankers Acceptance Interest (from Short Term Investment Fund)	636.10	
	Bond Interest Credited (from Long Term Investment Fund)	412,308.75	
	Bond Interest Credited (from Short Term Investment Fund)	<u>0.00</u>	<u>13,407,308.75</u>
			13,438,695.06
LESS:	Cost of Purchases	13,395,411.94	
	Investment Counsel Fees - Short Term Investment Fund	2,829.40	
	Investment Counsel Fees - Long Term Investment Fund	24,216.91	
	Trust Company Charges	<u>8,345.94</u>	<u>13,430,804.19</u>
Cash Balance at June 30, 2010			<b>7,890.87</b>

Martin, Lucas & Seagram Ltd.  
**SECURITIES ADDED**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
*From 04-01-10 to 06-30-10*

**SECURITIES ADDED**

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Market Value</u>
05-31-10	05-31-10	500,000	British Columbia 6.375% due August 23, 2010	101.30	506,500.00
05-31-10	05-31-10	500,000	Ontario 6.10% due November 19, 2010	102.33	511,645.00
					<b>1,018,145.00</b>

Martin, Lucas & Seagram Ltd.

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2010**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
<b>GOVERNMENT BONDS</b>					
500,000	Canada 4% due September 1, 2010	100.30	100.55	502,765	20,000
1,000,000	Canada Housing Trust Sr. 13 4.05% due March 15, 2011	99.02	102.12	1,021,180	40,500
1,000,000	Canada 6% due June 1, 2011	103.73	104.52	1,045,210	60,000
1,500,000	Canada Housing Trust Sr. 14 4.60% due September 15, 2011	101.74	104.01	1,560,150	69,000
500,000	Farm Credit Canada 4.20% due February 15, 2012	101.20	104.48	522,410	21,000
2,200,000	Canada Housing Trust Sr. 16 4.00% due June 15, 2012	100.57	104.56	2,300,364	88,000
750,000	Canada Housing Trust Sr. 18 4.55% due December 15, 2012	102.72	106.34	797,573	34,125
900,000	Canada Housing Trust Sr. 19 3.60% due June 15, 2013	99.87	104.30	938,664	32,400
900,000	Canada Housing Trust Sr. 22 3.55% due September 15, 2013	105.12	104.16	937,440	31,950
1,650,000	Canada Housing Trust Sr. 24 2.7% due December 15, 2013	100.25	101.36	1,672,358	44,550
1,500,000	Canada Housing Trust Sr. 26 2.20% due March 15, 2014	99.80	99.45	1,491,705	33,000
1,000,000	Canada Housing Trust Sr. 28 3.15% due June 15, 2014	99.95	102.61	1,026,070	31,500
250,000	Canada Housing Trust Sr. 29 2.75% due September 15, 2014	99.90	100.85	252,113	6,875
600,000	Canada Mtge & Housing 4.30% due April 1, 2015	100.95	107.35	644,118	25,800
650,000	Canada Mtge & Housing Corp. 4.10% due October 1, 2015	98.39	106.59	692,816	26,650
1,000,000	Canada 4% due June 1, 2016	99.58	107.86	1,078,550	40,000
750,000	Canada Housing Trust Sr. 23 4.10% due December 15, 2018	104.51	105.10	788,250	30,750
				<hr/> 17,271,734	<hr/> 636,100

Martin, Lucas & Seagram Ltd.

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2010**

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
<b>PROVINCIAL BONDS</b>					
1,200,000	Ontario 4.4% due December 2, 2011	101.02	104.22	1,250,652	52,800
1,250,000	Ontario 4.50% due December 2, 2012	103.37	105.91	1,323,875	56,250
1,275,000	Ontario 4-3/4% due June 2, 2013	102.35	107.07	1,365,181	60,563
1,000,000	Manitoba 5.05% due December 3, 2013	101.61	108.67	1,086,680	50,500
750,000	Ontario 5% due March 8, 2014	102.63	108.60	814,493	37,500
500,000	Ontario 3.25% due September 8, 2014	99.84	102.21	511,035	16,250
300,000	Alberta 2.75% due December 1, 2014	100.22	100.91	302,718	8,250
750,000	Manitoba 4.80% due December 3, 2014	104.46	108.61	814,583	36,000
1,350,000	Ontario 4.5% due March 8, 2015	101.62	107.26	1,447,956	60,750
1,750,000	Ontario 4.4% due March 8, 2016	102.25	106.52	1,864,013	77,000
1,750,000	Ontario 4.30% due March 8, 2017	101.49	105.34	1,843,485	75,250
1,000,000	Ontario 4.20% due March 8, 2018	100.33	103.83	1,038,280	42,000
				<u>13,662,949</u>	<u>573,113</u>
<b>CORPORATE BONDS</b>					
300,000	Bank of Nova Scotia 4.25% Sen. Dep. Note due November 23, 2010	100.45	101.21	303,636	12,750
300,000	Royal Bank 4.17% Sen. Dep. Note due January 11, 2011	100.10	101.58	304,728	12,510
500,000	Bank of Montreal 4.69% due January 31, 2011	104.21	101.94	509,705	23,450
300,000	CIBC 5.00% Senior Dep Nts due September 10, 2012	100.23	105.83	317,493	15,000
400,000	Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	99.78	103.76	415,028	17,600

Martin, Lucas & Seagram Ltd.

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2010**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
750,000	Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	101.35	106.26	796,928	36,405
250,000	Bank of Nova Scotia 4.56% due October 30, 2013	100.07	105.80	264,490	11,400
300,000	Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	99.97	103.49	310,461	12,990
250,000	Enbridge Gas Distribution 5.570% due January 29, 2014	107.04	109.18	272,943	13,925
250,000	Canadian Utilities Inc. 5.096% due November 18, 2014	105.56	108.62	271,545	12,740
500,000	CIBC 4.75% due December 22, 2014	101.80	106.91	534,535	23,750
300,000	GE Capital Cda Fndg 4.65% due February 11, 2015	102.20	103.80	311,403	13,950
200,000	Bank of Montreal 4.55% due August 1, 2017	99.94	104.31	208,610	9,100
				<b>4,821,504</b>	<b>215,570</b>
<b>TOTAL PORTFOLIO</b>				<b>35,756,187</b>	<b>1,424,783</b>



Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 04-01-10 To 06-30-10*

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Amount</u>
<b>SALES</b>					
06-01-10	06-01-10	450,000	Canada 5-1/2% due June 1, 2010	100.00	450,000.00
					<b>450,000.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 04-01-10 To 06-30-10*

Cash Balance at April 1, 2010	0.00
ADD: Proceeds from Sales	<u>450,000.00</u>
	450,000.00
LESS: Transfer to Short Term Investment Fund	450,000.00
<b>Cash Balance at June 30, 2010</b>	<b>0.00</b>

Martin, Lucas & Seagram Ltd.  
**SECURITIES WITHDRAWN**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 04-01-10 to 06-30-10*

**SECURITIES WITHDRAWN**

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Market Value</u>
05-31-10	05-31-10	500,000	British Columbia 6.375% due August 23, 2010	101.30	506,500.00
05-31-10	05-31-10	500,000	Ontario 6.10% due November 19, 2010	102.33	511,645.00
					<b>1,018,145.00</b>