

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

8:30 a.m.

Davies Ward Phillips & Vineberg LLP  
44<sup>th</sup> Floor, 1 First Canadian Place  
Toronto, Ontario

**Tuesday, September 15, 2009**

**Present:**

Nicholas Leblovic (Chairman)	Davies Ward Phillips & Vineberg LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Chris Woodbury	Fraser Milner Casgrain LLP
Gale Rubenstein	Goodmans LLP
William Scott	McCarthy Tetrault LLP
Julia Holland	Torys LLP
Les O'Connor	WeirFoulds LLP
Barry Bresner	Borden Ladner Gervais LLP
Carol Lyons	Lang Michener LLP
Anne-Marie Widener	Cassels, Brock and Blackwell LLP
Dan MacDonald	McMillan LLP
Patrick Mahoney	Dion, Durrell + Associates
Norma Ibbetson	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 June 16, 2009 Meeting of the Advisory Board**

**It was moved by Barry Bresner and seconded by Gale Rubenstein that the minutes of the June 16, 2009 meeting of the Advisory Board be approved. The motion was carried unanimously.**

**4. Comments of the Chair**

Mr. Leblovic reported the CLLAS website is up and running, and additional content is being added in the form of historical board meeting materials. Claim forms, renewal applications, etc. will also be added and it is anticipated that the commercial insurance policies will also be available in the future. By the Spring, the website will be expanded to provide access by reinsurers and insurers to claims information and renewal information.

It was suggested that the Risk Management Guidelines form part of the Website information. The Board was asked to pass along any other comments or suggestions.

*General Liability Policy Review:*

Firms were to provide claims and broker commission information to Joe Tontini and that information has been slow to funnel back. If CLLAS decides to further investigate the pooling arrangement then claims information would be required. Firms were asked to provide feedback on their desire to consider such an arrangement. The Chair has asked Dion Durrell to consider the benefits of integrating the current ODL program and coverage more closely with the CLLAS coverage..

Firms were also asked to consider whether they were interested in accessing an additional optional excess layer, i.e. 10MMxs190MM at an estimated cost of \$52 per lawyer and to advise Joe Tontini if interested.

Dion Durrell on behalf of CLLAS has been approached to see if we are interested in participating in a new group known as CIRAG (Canadian Insurance Reciprocal Advocacy Group). The mission of this group is to look out for the interests of reciprocals. Patrick Mahoney will be participating in the group on behalf of CLLAS.

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

*Management Report at June 30, 2009*

Patrick Mahoney reported to the Board. CLLAS has recorded a \$545,000 gain over the first six months of the year with claims being somewhat active and investment income remaining steady. With respect to the Budget Variance Analysis he noted that the reinsurance line in particular was the source of heavy activity through the renewal period and will likely finish the year over budget. Additional activities on this line included the reinsurance security review and the ACE arbitration.

*Reinsurance Placement*

Joe Tontini's memo of September 4, 2009 was reviewed. The renewal has been completed with reinsurance rates unchanged. As discussed at the previous Board meeting, CLLAS has retained more of the risk and this has resulted in an overall premium decrease of 3.5%. A ratings downgrade clause was introduced into the reinsurance treaty. Minor policy wording changes have been made, as summarized in the memo.

**It was moved by Carol Lyons and seconded by Donald Milner that the appointment by CLLAS of Alternative Risk Services Inc. as its reinsurance intermediary be confirmed with effect from June 1, 2009. The motion was carried unanimously.**

*Target Surplus*

Patrick Mahoney reviewed a memo summarizing CLLAS' historical approach to surplus. At the December meeting, an in-depth discussion will take place on establishing an appropriate level of target surplus going forward. A memo on this subject will be circulated in advance of the meeting.

**6. Report of the Claims Committee**

Barry Bresner reported to the Board. There is one matter proceeding to trial in October, as well as the reinsurance arbitration. It is unlikely the October trial will settle in advance.

## 7. Report of the Risk Management Committee

Bill Scott presented his report on the latest initiatives of the Committee.

### *Blue Drop Initiative (E-learning)*

The contract has been signed and Blue Drop is now working with John Walker on content. Customization of the e-learning tools is being done with a goal date of November 1<sup>st</sup>, 2009. McCarthy's is the first test firm. With the roll out to take place in November, December and January with the other firms who have volunteered to participate. It is hoped the pilot firms will provide feedback on the usefulness.

Six firms have volunteered to participate resulting in a minor adjustment to the budget from \$35,000 to \$40,000. The six firms are Cassels, Brock & Blackwell, LLP, Borden Ladner Gervais LLP, Lang Michener LLP, Davies Ward Phillips & Vineberg LLP, Osler, Hoskin & Harcourt LLP and McCarthy Tetrault LLP.

There are four modules:

- 1) Overview
- 2) Client In-take
- 3) Conflicts
- 4) Client Confidentiality

Firms that are not part of the pilot project can access the program, but it will not be customized to that firm specifics. Blue Drop has an online assessment tool and feedback will be provided by the firms on the usefulness for the modules and approach.

**It was moved by Bill Scott and seconded by Les O'Connor that the budget for the e-learning pilot project be increased from \$35,000 to \$40,000 to accommodate additional firms. The motion was carried unanimously.**

### *Status of Risk Management Audits*

The audits of three firms are currently being scheduled: Borden Ladner Gervais LLP, Torys LLP and Goodmans LLP, with one set for March 2010 and the others still be settled. It is anticipated that by the June 2010 meeting, all firms will have been audited by John Walker. At that time next steps for this initiative will be reviewed.

### *Risk Management Guidelines*

Four draft guidelines have been created:

- 1) Publically Traded Securities
- 2) Conflict of Interest
- 3) Directors and Officers Outside Interest

The Committee is now working on "Opinions Guidelines".

The Risk Management Committee is planning a meeting with the Claims Management Committee as a method of gaining some intelligence on areas of claims that could meet with some improvement. Bill Scott will circulate an invitation to all Board members who have expressed an interest.

8. **Report of the Policy Committee**

Gale Rubenstein reported to the Board that Dion Durrell is conducting a high level review of CLLAS' policy wording since it has been well over 10 years since the last substantial review of the policy.

9. **Report of the Restructuring Committee**

Donald Milner reported to the Board and summarized the work of the Committee to date. Any decision on restructuring was deferred to the December meeting to allow firms an opportunity to obtain feedback from management committees.

10. **Report of the Investment Manager at June 30, 2009**

Patrick Mahoney discussed the report of the investment manager included in the Board materials.

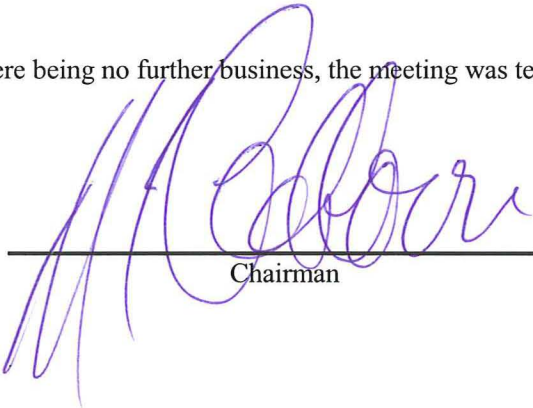
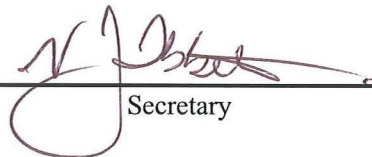
11. **Other Business**

There was no other business.

12. **Next Meeting**

The next regularly scheduled meeting of the Board will be December 8, 2009.

There being no further business, the meeting was terminated.

  
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Chairman  
\_\_\_\_\_  
Secretary

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

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

**Tuesday, June 16, 2009**

**Present:**

Nicholas Leblovic (Chairman)	Davies Ward Phillips & Vineberg LLP
Glenn Leslie	Blake Cassels & Graydon LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Chris Woodbury	Fraser Milner Casgrain LLP
Gale Rubenstein	Goodmans LLP
William Scott	McCarthy Tetrault LLP
Julia Holland	Torys LLP
Les O'Connor	WeirFoulds LLP
Barry Bresner	Borden Ladner Gervais LLP
David Morritt	Osler Hoskin & Harcourt LLP
Hartley Lefton	Lang Michener LLP
Anne-Marie Widener	Cassels, Brock and Blackwell LLP
Patrick Mahoney	Dion, Durrell + Associates
Norma Ibbetson	Dion, Durrell + Associates
Joe Tontini	Dion, Durrell + Associates
Julie-Linda Laforce	Dion, Durrell + Associates
Bob Wilson	Pro-Form Insurance Services

**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 24, 2009 Meeting of the Advisory Board**

**It was moved by Donald Milner and seconded by Gale Rubenstein that the minutes of the February 24, 2009 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. He met with the principal London reinsurers to review relevant issues, in particular the impact of current economic conditions. He has also had teleconference meetings with the commercial layer and CLLAS International North American insurers. A summary of the questions put to the markets about their financial health was included in the materials provided by Joe Tontini.

Mr. Tontini will discuss later in the agenda a proposal to strike a Reinsurance/Insurance Security Committee to monitor CLLAS reinsurers.

Mr. Leblovic advised that the two-year term was proposed to all reinsurers and they were not receptive.

*General Liability Policy Review:*

Feedback is being sought from firms on claims experience, broker's commissions, process to date and next steps. Feedback is to be provided to Joe Tontini.

*Website:*

Phase I of the Website is close to being finalized. Overall, reinsurers are very receptive to the idea that the Website will be expanded to provide access to their documentation on line.

*Peer Review Recommendations Implemented:*

Mr. Leblovic advised that many of the recommendations contained in the Peer Review report (e.g. proactive consideration of increased retention, ratings downgrade clause, Reinsurance Security Committee, etc.) were being addressed in the up-coming renewal.

*Surplus:*

Mr. Leblovic reminded the Board that Julie-Linda Laforce would be discussing the financial modeling of CLLAS and providing analysis in connection with the increased retention decision but the more detailed analysis with respect to the appropriate level of CLLAS surplus would be conducted in the second half of 2009.

*P&T Agents Coverage:*

CLLAS is considering the issue of coverage for intellectual property work done in the US for US subsidiaries of Canadian companies. The issue is complicated and no changes are contemplated for this renewal. This issue will be reviewed by Joe Tontini over the course of the upcoming year.

*Annual Dinner:*

Further to discussions at the last Board meeting, the Annual Dinner will be moved from January to April.

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

Bob Wilson joined the meeting and reported to the Board. Circulated prior to the meeting was a report on the security of the current insurers. Enhanced reporting in this area was prompted by discussions with the Chair as a result of the economic situation and in particular its impact on AIG. This has resulted in a change to the cancellation clause to reflect action CLLAS can take in the event one of the insurers falls below the standard required by CLLAS (A – AM Best or BBB – S&P).

A report on the insurance renewal was handed out at the meeting. Mr. Wilson advised that the CLLAS firms are headed into the second year of a two year term. Rates are unchanged, which Mr. Wilson viewed as positive given that rates overall have decreased roughly 35% over the past four years. All insurers have agreed to roll the two-year rate guarantee forward for an additional year subject to the same claims experience thresholds as last year.

The only change in the program with respect to participation of insurers at July 1, 2009 is the reduction of AIG's participation (\$20M xs \$60M, reduced to \$15M, with GCAN taking an additional \$5M). There was no change to the rates for this layer. Mr. Wilson said that based on current information, he concluded that it was reasonable to carry on with AIG.

Included in Mr. Wilson's materials was a summary of the security ratings by insurer, including those on the CLLAS international program.

He advised that currently there are four firms in the CLLAS international program, with the likelihood of a fifth firm joining mid-term. Rates are unchanged for 2009/10, and again guaranteed for 2010/11, subject again to the claims experience thresholds.

Mr. Wilson noted that some markets are carrying reserves in their layers on a particular claim notwithstanding that CLLAS has not reserved the claim up to its limit. The claim was excluded by agreement from the thresholds that support the rolling two year rate guarantee.

*Lawyer Count:*

Mr. Wilson suggested that it would streamline administration in the future if it could be agreed that lawyer counts would be finalized as of a date in advance of July 1<sup>st</sup> (e.g. June 20<sup>th</sup>).

(Mr. Wilson left the meeting.)

## 7. **Reinsurance Renewal**

*Review of Surplus and Retention Levels:*

Julie-Linda Laforce led the Board through a presentation on the Review of Surplus and Retention Levels. This presentation was the result of the Board's decision at its February meeting to have a financial model of CLLAS' structure created to facilitate planning for appropriate levels of both surplus and retentions.

The focus of today's discussion is:

- the adequacy of the current level of surplus;
- the determination of a benchmark for surplus analysis; and
- the review of the impact on the benchmark on various retention scenarios

Incorporated insurers in Canada are subject to the Minimum Capital Test (MCT). A minimum MCT of 150% is required or else regulatory action is taken. Although the MCT does not formally apply to reciprocals, regulators use the MCT as a reference point for monitoring reciprocals.

At December 31, 2008 CLLAS' MCT is 271%. This represents \$21.4 million in equity. 100% MCT would be about \$7.9 million for CLLAS.

CLLAS is currently not charging to build surplus. The modeling flagged the fact that if this remains unchanged over time the impact of the "maturation" of the increase in Colchester's attachment point would increase CLLAS' unpaid claims while no surplus contribution is collected or investment income earned on such. This would create an erosion of the MCT level which relates level of liabilities and level of surplus in its calculation.

The actuaries analyzed the probability of retroassessment based on CLLAS' MCT falling below 100% and indicated the percentage probability of retroassessment in the next four years.

A benchmark was also set in order to analyze potential changes in retention. This was set at an MCT ratio of 100% in four years at the 75<sup>th</sup> confidence level (assuming investment credit is maintained). What this means is that for any changes in retention, the model will be run to assess how much of the premium savings needs to be retained in order to have an equivalent amount of surplus as the status quo retention and meet the benchmark with the same likelihood in four years.

The analysis shows that the volatility of CLLAS is significant as indicated by the range of the projected MCT results over four years. The modeling reflects a 50% chance of CLLAS' MCT ratio in four years will be between 125% and 300%.

Overall, Ms. Laforce advised that the current surplus level of CLLAS seems adequate given the risk profile and as a result, CLLAS could consider increasing its retention.

There was some discussion with respect to the "right" level of surplus for CLLAS. This is dependent on CLLAS' risk tolerance. Further discussions on the surplus will take place at the Fall and Winter meetings with a focus on establishing a comprehensive surplus plan at that time.

The presentation will be circulated.

#### *Renewal:*

Joe Tontini reviewed with the Board the current structure and reinsurance exposure, including expected loss costs and reinsurance costs. He discussed the current status of the renewal discussions and various scenarios for the retention, including recommendations. He said that reinsurers are likely to agree to a status quo renewal from a premium perspective, which is a positive result given that expected losses have increased. He said that the cost differential between CLLAS' cost for retaining the risk versus the reinsurance cost for accepting the risk means that there is still room for savings for CLLAS from increased retentions.

The combination of higher retentions on each of the three reinsured layers plus adjustments to the Colchester aggregate protection (collectively referred to as Scenario C in the materials) would allow CLLAS to maintain its overall costs from last year, notwithstanding the increase in expected loss costs. This approach is also viewed as balancing the reinsurers' desire to maintain premium volumes and CLLAS' need to maintain access to these reinsurance markets in future years.

Mr. Tontini advised that while reinsurers are coming back with agreement to a 0% increase, we have not heard back from everyone.



*Reinsurer/Insurer Security:*

Mr. Tontini reviewed the issue of how best to monitor and address the security of CLLAS' reinsurers. He said that on an annual basis, CLLAS will provide a Reinsurance Security Report to the Board that will include:

- Current Best's and S&P ratings compared to previous year
- Current total liability exposure from each reinsurer all years
- Expected loss exposure from each reinsurer for the current year
- Limits provided by each reinsurer for the current year

CLLAS objective would be for reinsurance security to be rated A or better by Best's and S&P, except for special circumstances agreed to by the Board. He recommended that the Board strike a Committee (or add this mandate to the Audit Committee's mandate) to monitor reinsurer security.

Mr. Tontini noted Towers Perrin's recommendation that aggregate exposure to each reinsurer be limited to no more than 10% of CLLAS' total exposure. By this measure, CLLAS would be over-exposed to Lloyd's as a whole, but not on a syndicate by syndicate basis. It was also noted that CLLAS' "single claim exposure" to a particular reinsurer exceeded 10% in the case of Lloyds (as a whole, the BRIT syndicate (in particular), Swiss Re and AWAC. It was agreed that these exposures should continue to be monitored but that no action was required at this time.

On the Best's and S&P rating basis there are several reinsurers that are being monitored (Transatlantic Re, Swiss Re, Hannover Re, Ace). It was agreed that no action was required as this time.

The Committee would also monitor the commercial insurers using similar criteria and Dion Durrell was to have discussions with Bob Wilson on how to co-ordinate this exercise.

After discussion, the Audit Committee agreed that reinsurer/insurer security monitoring should be added to its mandate.

Mr. Tontini addressed various other issues, including compliance with FSCO's 75%/25% reinsurance limits. He also said that OSFI's "doing business in Canada" which was discussed at the February Board meeting has developed and the good news is that Lloyds has been able to structure itself so that it will be viewed by OSFI as doing business in Canada.

Consideration was given to increasing available limits by another \$10 million or perhaps increasing the Umbrella coverage by \$10 million. Firms were asked to communicate directly with Joe Tontini on this issue. The initial reaction was that there was no appetite for increasing the Umbrella layer and only limited appetite for adding an additional \$10 million in the optional excess layers.

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

Bill Scott reported to the Board, further to his e-mail report circulated in advance of the Board meeting. He asked the Board for feedback with respect to the development and delivery of Risk Management Templates.

The recommendation of the Committee is to study the option of delivering the Risk Management Templates by e-learning through a company called Bluedrop. This would be done on a pilot project basis. Bluedrop would work with John Walker to develop three or four templates into e-learning tools. The cost of this pilot project is approximately \$30,000. It was estimated that it would cost about \$85,000 to develop all templates into e-learning modules.

CLLAS would own the program (John Walker will be asked to ensure this is proprietary to CLLAS) and the program could over time be customized on a firm-specific basis. There is a \$500 per month cost for utilizing Bluedrop's platform. There was Board consensus to implement the pilot project.

**It was moved by Bill Scott and seconded by Les O'Connor that a budget of \$35,000 be approved for the e-learning pilot project. The motion was carried unanimously.**

**9. Report of the General Manager**

Patrick Mahoney reported to the Board. With respect to the March 31, 2009 management financial statements, he noted that CLLAS registered a small net income in the quarter, driven by generally stable claims experience and reasonable investment income due to CLLAS' conservative investment policy. He pointed out that the bulk of reinsurance recoverable on the balance sheet relates to the reinsurer dispute currently in arbitration and the dates for that hearing are in September 2009. He reviewed the budget variance analysis and indicated that the overage on the actuarial line was a timing issue (due to year end and rating work) while the reinsurance line will likely finish over budget due to work on the reinsurance security issue, work on the regulatory situation (the "doing business in Canada" issue) and the arbitration currently underway.

**10. Report of the Claims Committee**

Barry Bresner provided a brief overview of the claims activity of CLLAS, including the fact that a claim that involved a lengthy and acrimonious dispute with an insured firm's US insurer had finally been settled well within CLLAS' current reserve.

**11. Report of the Policy Committee**

Nick Leblovic reported to the Board in place of the Chair of the Policy Committee. There are some minor wording clarifications taking place at July 1<sup>st</sup>, including clarifying the coverage provided in the case of professional corporations. Some work remains to clarify the coverage under the Barreau policy and Dion Durrell was to contact the Barreau to attempt to deal with the issue.

The Committee will be conducting an overall policy wording review (working with the General Manager's office) as this task has not been undertaken in some time.

**12. Report of the Restructuring Committee**

This item was deferred to the September meeting.

**13. March 31, 2009 Investment Manager's Report**

Patrick Mahoney reported. Page 3 of the Martin Lucas report shows that the long-term fund (which typically contains between 70% and 80% of CLLAS' invested assets) is doing well. He noted that the yield on the portfolio will drop over time because as current investments mature, they are being rolled over and new rates are lower. This will have the effect not only of increasing the liability provision, but also affecting the discount rate used in determining future premiums. There are no plans to change the Investment Strategy at this time but Mr. Mahoney suggested that it might be prudent to review the basic Investment Strategy over the 12 – 18 months.

**14. Other Business**

There was no other business.

**15. Next Meeting**

The next regularly scheduled meeting of the Board will be on September 15, 2009.

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, 2009

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**BALANCE SHEET**  
**June 30, 2009**

	As at <u>June 30, 2009</u>	As at <u>June 30, 2008</u>
<b>ASSETS</b>		
Cash	\$673,839	\$1,169,160
Investments		
Short Term	10,875,509	14,148,810
Bonds	38,511,662	27,638,129
Interest income due and accrued	303,079	222,357
Premiums receivable	0	0
Unearned reinsurance premium ceded	0	0
Prepaid Expenses	517,703	628,444
Deferred policy acquisition costs	(0)	0
Reinsurance recoverable	10,200,115	11,113,770
Other receivable	0	0
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	46,092,000	45,380,000
 Total Assets	 <u>\$107,173,907</u>	 <u>\$100,300,670</u>
 <b>LIABILITIES</b>		
Provision for unpaid claims and adjustment expenses	\$82,584,000	\$77,678,000
Provision for unpaid premium liabilities	\$2,629,821	\$2,629,821
Unearned premium	0	0
Due to reinsurers	0	0
Accounts payable & accrued charges	163,641	237,331
Premium taxes payable	0	0
 Total Liabilities	 85,377,461	 80,545,152
 <b>SUBSCRIBERS' EQUITY</b>		
Surplus	20,568,965	19,505,932
Accumulated Other Comprehensive Income (Loss),	1,227,481	249,586
	<u>21,796,445</u>	<u>19,755,518</u>
 TOTAL LIABILITIES AND SUBSCRIBERS' EQUITY	 <u>\$107,173,907</u>	 <u>\$100,300,670</u>

# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **FINANCIAL MANAGEMENT REPORT**

**June 30, 2009**

### **CONTENTS**

Exhibit I	Balance Sheet
Exhibit II	Income Statement
Exhibit III	Other Comprehensive Income
Exhibit IV	Operating Budget Variance Analysis

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**INCOME STATEMENT**  
**FOR THE PERIOD ENDED June 30, 2009**

	Year to date Jan. 2009 to <u>June-09</u>	Previous year Jan. 2008 to <u>June-08</u>
Written premium	\$25,566	\$0
Gross Written Premiums	25,566	0
Less: Reinsurance Ceded	14,264	0
Net Written Premiums	11,302	0
Change in Unearned Premiums	4,860,100	5,033,195
Earned Premiums	4,871,402	5,033,195
Claims Paid	2,143,035	447,644
Change in IBNR	2,152,000	175,000
Change in Case Reserve	(694,000)	(198,000)
Change in provision for Unpaid Premium liability	0	0
Incurred Claims	3,601,035	424,644
Management and Operating Expenses	946,314	904,993
Reinsurance Fees	136,500	132,500
Premium Taxes	365,539	405,601
Total Operating Expenses	1,448,353	1,443,093
Underwriting Gain (Loss)	(177,986)	3,165,458
Investment Income	723,281	865,523
Net Gain (Loss)	\$545,295	\$4,030,980
Subscribers' Equity - Beginning of Period	\$20,023,669	\$15,474,952
Less: Adjustment to opening Policy Liabilities	\$0	\$0
Subscribers' Equity - End of Period	\$20,568,965	\$19,505,932

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME (LOSS) AND**  
**ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**  
**FOR THE PERIOD ENDED June 30, 2009**

	Year to date Jan. 2009 to <u>June-09</u>	Previous year Jan. 2008 to <u>June-08</u>
Net Income	\$545,295	\$4,030,980
Other Comprehensive Income (Loss):		
Unrealized Gains and (Losses) on available-for-sale financial assets arising during the year	(148,227)	157,522
Reclassification of realized gains(losses) to the statement of operations		
Net change in the other comprehensive income for the year	(148,227)	157,522
Total Comprehensive Income (Loss)	397,068	4,188,502
Accumulated Other Comprehensive Income (Loss), beginning of year	\$1,375,708	\$92,064
Other comprehensive income (loss)	(148,227)	157,522
Balance at end of period	1,227,481	249,586



**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS**  
**FOR THE SIX MONTHS ENDED June 30, 2009**

	Annual Budget		Year to Date Budget	Year to Date Actual	Fav/(Unfav) Variance
		%	\$	\$	\$
		Accrued to Date			
<b>MANAGEMENT SERVICES</b>	414,000	50%	207,000	213,856	(6,856)
<b>PROFESSIONAL SERVICES</b>					
Actuarial Services	96,000	68%	65,280	66,868	(1,588)
Reinsurance Matters	270,000	68%	183,600	246,557	(62,957)
Strategic Matters	90,000	68%	61,200	48,375	12,825
Special, non-recurring	40,000	68%	27,200	64,796	(37,596)
Sub-Total Professional Services	496,000		337,280	426,596	(89,316)
<b>Total Management &amp; Professional Services *</b>	910,000		544,280	640,452	(96,172)
(See Note 1)					
GST on Consulting Fees	45,500	50%	22,750	32,023	(9,273)
<b>Total Consulting Services</b>	955,500		567,030	672,475	(105,445)
<b>OTHER EXPENSES</b>					
Audit Expenses	64,000	50%	32,000	30,900	1,100
Annual Dinner	5,000	100%	5,000	4,244	756
Premium Taxes	729,543	50%	364,772	365,539	(767)
Chairman's Expenses	2,000	50%	1,000	0	1,000
Chairman's Honourium	60,000	100%	60,000	60,000	0
Reinsurance Expense	10,000	50%	5,000	4,927	73
Office Expenses	15,000	50%	7,500	7,051	449
Office Expenses - Website management software license	1,800	50%	900	0	900
Claims: Borderaux (LSUC)	13,850	50%	6,925	800	6,125
Special Services	100,000	50%	50,000	38,982	11,018
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	7,169	331
FSCO Assessment Fees	15,000	50%	7,500	5,201	2,299
Investment counsel fees	108,675	50%	54,338	61,197	(6,859)
Investment - Custodial	30,000	50%	15,000	16,436	(1,436)
Risk Management/Loss Prevention	80,000	50%	40,000	36,932	3,068
<b>Sub-total</b>	1,522,868		793,934	775,878	18,056
<b>TOTAL</b>	2,478,368		1,360,964	1,448,353	(87,389)

**\* NOTE 1: PROFESSIONAL SERVICES - SEASONALLY WEIGHTED BUDGET**

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

First Quarter, ending March 31st	25%
Second Quarter, ending June 30th	43%
Third Quarter, ending September 30th	16%
Fourth Quarter, ending December 31st	16%
	<u>100%</u>

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

The annual budget is based upon the annual fee estimated for the policy period 2009/2010.  
The year to date actual includes the fees billed for the later 6 months of 2008/2009



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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:** September 4, 2009

**To:** David Morritt  
William Scott  
Donald Milner  
Gordon Goodman  
Les O'Connor  
Nicholas Leblovic  
Julia Holland

Barry Bresner  
Daniel MacDonald  
Chris Woodbury  
Carol Lyons  
Glenn Leslie  
Gale Rubenstein

**Copy:** Patrick Mahoney

**From:** Joe Tontini

**Re: Final Report on CLLAS Rating and Reinsurance Placement  
July 1, 2009/2010**

The purpose of this report is to provide the CLLAS Board with a final summary of the rating and reinsurance placement for July 1, 2009/2010. 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 the Previous Year
- D. Aggregate Stop-Loss Reinsurance Structure
- E. FSCO Reinsurance Guidelines

**Highlights**

- While there is a slight downward trend to claims frequency, claims severity continues to rise resulting in a general increase in the actuarially determined expected loss costs.
- Notwithstanding the above, CLLAS was successful in keeping the reinsurance rates stable with no increases in any of the reinsurance layers.
- Given CLLAS's healthy surplus position, CLLAS made a conscious decision to retain more risk and increased its retention on the first three layers of reinsurance.

- The Colchester stop-loss protection rate increased by 9.6% due to increased risk to Colchester because of CLLAS' higher single loss retention – Colchester increased its net retention by \$5,000,000 and its retrocession protection decreased by \$5,000,000 resulting in a 26% decrease in retrocession costs. As in the previous year, 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.
- As a result of all of the above and an actuarial change in one aspect of the rating methodology, CLLAS firms experienced a year-over-year insurance rate reduction of 3.5% in overall premium costs (not including the optional excess layers).
- A number of policy changes have been implemented – more details are provided in this memorandum.
- A “rating downgrade” clause has been introduced to the reinsurance contracts at renewal.
- The CLLAS reinsurers are virtually unchanged from last year except that Transatlantic Reinsurance Company UK (TRC UK) is removed from the Program at renewal. There have been some minor adjustments in participation due to CLLAS' increased retention.
- Reinsurers' security ratings remain strong – nevertheless, CLLAS initiated a more rigorous security monitoring process and the Audit Committee has been given the responsibility to monitor the security and to provide an annual review.
- CLLAS is well within the FSCO total reinsurance and unregistered reinsurance guidelines.
- Due to a change by OSFI in the interpretation of Part XIII of the Insurance Act, Alternative Risk Services Inc. has been appointed by CLLAS as its reinsurance intermediary effective June 1, 2009.

**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 was no underlying 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 \$1,488 compared to \$1,317 for the year before. This represents a 13% increase. In addition to these rates, the CLLAS actuary added a loading for the possibility of dropping down to \$25,000.

Notwithstanding the increase in the expected loss costs, the CLLAS members enjoyed an overall decrease in this layer because of an actuarial change in one aspect of the rating methodology (i.e. the way in which expected loss costs were distributed between Quebec and the rest of Canada).

#### **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: 45% or \$3,375,000 (up from 35% last year)  
Rate: \$952 per lawyer in Quebec/\$1,622 per lawyer in locations other than Quebec/\$811 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 \$1,019 compared to \$952 the year before or a 7% increase. We managed to keep the reinsurance rates unchanged despite the increase in expected loss cost.

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

Limit: \$12,500,000 aggregate per firm excess of \$12,500,000  
CLLAS Retention: 28% or \$3,500,000 (up from 24% last year)  
Rate: \$888.75 per lawyer in Quebec/\$1,137.50 per lawyer in locations other than Quebec/\$568.75 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 \$780 compared to \$659 the year before or an 18.3% increase. We managed to keep the reinsurance rates unchanged despite the increase in expected loss cost.

### **Reinsurance Layer 3**

Limit: \$10,000,000 aggregate per firm excess of \$25,000,000  
CLLAS Retention: 15% or \$1,500,000 (up from 12.5% last year)  
Rate: \$301 per lawyer in Quebec/\$423 per lawyer in locations other than Quebec/\$211.50 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 \$340 compared to \$324 the year before or a 5% increase. We managed to keep the reinsurance rates unchanged despite the increase in expected loss cost.

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

The Board had authorized CLLAS to continue 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 use some of this authorization in Reinsurance Layers 1, 2 and 3 where CLLAS increased its retention from 35% to 45%, from 24% to 28% and from 12.5% to 15% respectively. This increases CLLAS' maximum retention in any one loss from \$11,850,000 to \$13,350,000.

Based on the above, CLLAS members were charged a rate of \$3,078 per lawyer (\$2,187 for Quebec lawyers) and \$1,539 per patent & trademark agent for the First Excess Policy. The decreases from last year were 2% outside of Quebec and 0.5% in Quebec.

### **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.

CLLAS charged its members \$155 per lawyer and \$78 per patent & trademark agent for the CLLAS First Optional Excess Policy which is unchanged from last year.

**CLLAS Second Optional Excess Policy – Up to \$30,000,000 Aggregate Excess of \$160,000,000**  
**(Reinsurance Layer 5)**

Firms have the options of purchasing limits of \$10,000,000 or \$20,000,000 or \$30,000,000. One firm purchased limit of \$20,000,000 and six firms purchased limit of \$30,000,000.

Limit: \$10,000,000 or \$20,000,000 or \$30,000,000 aggregate per firm excess of \$155,000,000 aggregate per firm excess of the CLLAS Primary Policy  
CLLAS Retention: nil  
Rate: \$86 per lawyer/\$43 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

At this high level, the reinsurance costs are driven more by market conditions and the cost of capacity than by actuarial calculations.

CLLAS charged its members \$138 per lawyer and \$69 per patent & trademark agent for the CLLAS Second Optional Excess Policy with a limit of \$20,000,000. For policies with a limit of \$30,000,000, CLLAS charged its members \$190 per lawyer and \$95 per patent & trademark agent. The rates are the same as last year.

CLLAS planned to make available at renewal an additional limit of \$10,000,000 in the Second Optional Excess Layer (i.e. options of \$10,000,000, \$20,000,000, \$30,000,000 and \$40,000,000 excess of \$160,000,000). However, since the CLLAS firms did not have sufficient time to review the options with their respective management committees, the increased limit option was not finalized. Please advise if there is interest in an extra \$10,000,000 so that we can plan appropriately for next year.

**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: \$185 per lawyer/\$92.50 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.

CLLAS charged its members \$207 per lawyer and \$104 per patent & trademark agent for the CLLAS Umbrella Excess Policy. The rates are unchanged from last year.

*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 re-assigned the London and domestic placements as follows:

	<b><u>London</u></b>		<b><u>Domestic</u></b>	
	<b><u>2009/10</u></b>	<b><u>2008/09</u></b>	<b><u>2009/10</u></b>	<b><u>2008/09</u></b>
Layer 1	30.0%	45.0%	25.0%	20.0%
Layer 2	46.0%	54.0%	26.0%	22.0%
Layer 3	48.0%	50.0%	37.0%	37.5%

The split is unchanged on Layers 4, 5 and 6.

CLLAS managed to maintain the same reinsurance rates as last year across the board despite the increase in expected loss costs.

The majority of the incumbent reinsurers renewed their participation on the CLLAS Program, some with slightly increased or decreased percentages. The only exception is Transatlantic Reinsurance Company UK which was removed from the London market. Some of TRC UK's participation has been picked up by Transatlantic Reinsurance Company in Canada.

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 past years. 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 2009/10 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: \$515 per lawyer/\$258 per P&T agent

The above rates have been increased by 9.6% 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.

Since Colchester's surplus position is strong, it is in a position to take on more risk on a net basis. Colchester has increased its net retention to \$10,000,000 from \$5,000,000 excess of \$15,000,000 and reduced its retrocession protection from \$20,000,000 excess of \$20,000,000 to \$15,000,000 excess of \$25,000,000 resulting in a saving in retrocession premium of \$332,500.

### **Reinsurance Security**

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

However, in view of the uncertainty in the financial market, including the uncertainty in the insurance and reinsurance markets, CLLAS had identified a need to document and develop a more rigorous approach to monitoring its reinsurance security. The Audit Committee has been given the responsibility to monitor the security and to provide an annual review.

Going forward, as a "Level I monitoring" due diligence, CLLAS will provide a Reinsurance Report to the Board on an annual basis that would include a) current A.M. Best and Standard & Poors' ratings compared to the previous year; b) current total liability exposure for each reinsurer all years; c) expected loss exposure from each reinsurer for the current year; and d) expected limit exposure to each reinsurer for the current year. CLLAS has also designed a number of criteria for triggering a "Level II monitoring" on reinsurers. Details were provided in our June 9, 2009 Report on Reinsurance.

A "rating downgrade" clause has been introduced to the reinsurance contracts at renewal. CLLAS may terminate a reinsurer's participation when, among other things, its financial strength rating is reduced by A.M. Best or Standard & Poor's or equivalent rating agency to less than A-.

### **Policy Wordings Changes**

The policies have been prepared and will be distributed very shortly. The following changes have been made to the Primary Policy this year. The other policies follow form.

#### **1. Definition of "Costs, Charges and Expenses"**

A definition of "Costs, Charges and Expenses" has been added. In prior policies, this term was referred to as if it were a defined term.

#### **2. Clarification of Coverage for "Professional Corporations"**

The coverage for Professional Corporations ("PC") has been clarified, resulting in the addition of a definition of "Professional Corporation" and references to PC's throughout the



policy. The policy has, for many years, included coverage for services rendered by a partner of the firm which is a PC. As law firms consider how best to implement the PC structure, the “US model” of having the PC be the partner in the firm is not likely to be the common approach in Canada. The Canadian approach is more likely to involve the provision of services by the PC established by a lawyer (typically a partner of the firm) on a contract basis to the firm, while the lawyer remains a partner. The changes in the CLLAS policy relating to PC’s follow closely the relevant provisions of the LawPro policy.

The rationale for the use of PC’s is personal financial planning and the structure is not seen as adding any incremental risk from an E&O perspective. However, CLLAS wants to be sure, as these structures are implemented, that the full benefit of the underlying insurance (through the provincial law societies) remains intact and therefore, for the time being, the drop-down provisions in the CLLAS policy will not apply to PC’s in the unlikely event that the underlying insurance does not provide coverage to the PC.

### **3. New Wording for Coverage B**

New wording has been added to “Coverage B – Cost, Charges and Expenses” to deal with recent case law developments on the allocation of defence costs between covered and uncovered allegations.

The “Goodman and Carr LLP Lateral Hire Extension Endorsement” will continue to be attached. The premium charged for this (third) year is \$600 per lawyer involved in a lateral hire from Goodman and Carr LLP.

### **FSCO Reinsurance Guidelines**

Exhibit “E” sets forth the reinsurance calculations based on the 2009/10 premiums and reinsurance protections to determine whether CLLAS is onside with respect to the reinsurance guidelines provided by the Financial Services Commission of Ontario. The guideline for total reinsurance is 75% and the guideline for unregistered reinsurance is 25%. The calculations for CLLAS results in 58.3% total reinsurance and 13.8% unregistered. CLLAS is well within the guideline with respect to both total reinsurance and unregistered reinsurance.

### **OSFI Changes in the Interpretation of Part XIII of the Insurance Act**

CLLAS has taken the necessary steps to comply with OSFI’s changes relating to “Insurance in Canada of Risks” referenced in Part XIII of the Insurance Companies Act, scheduled to take effect on January 1, 2010. These include i) appointing Alternative Risk Services Inc. (Dion Durrell + Associates’ brokerage arm), an approved Lloyd’s Open Market Correspondent, as its reinsurance intermediary effective June 1, 2009; and ii) determining if a number of reinsurers, including Lloyd’s, Hannover Re and Aspen Re, have met the new OSFI guidelines for “in Canada risks”.

**Concluding Remarks**

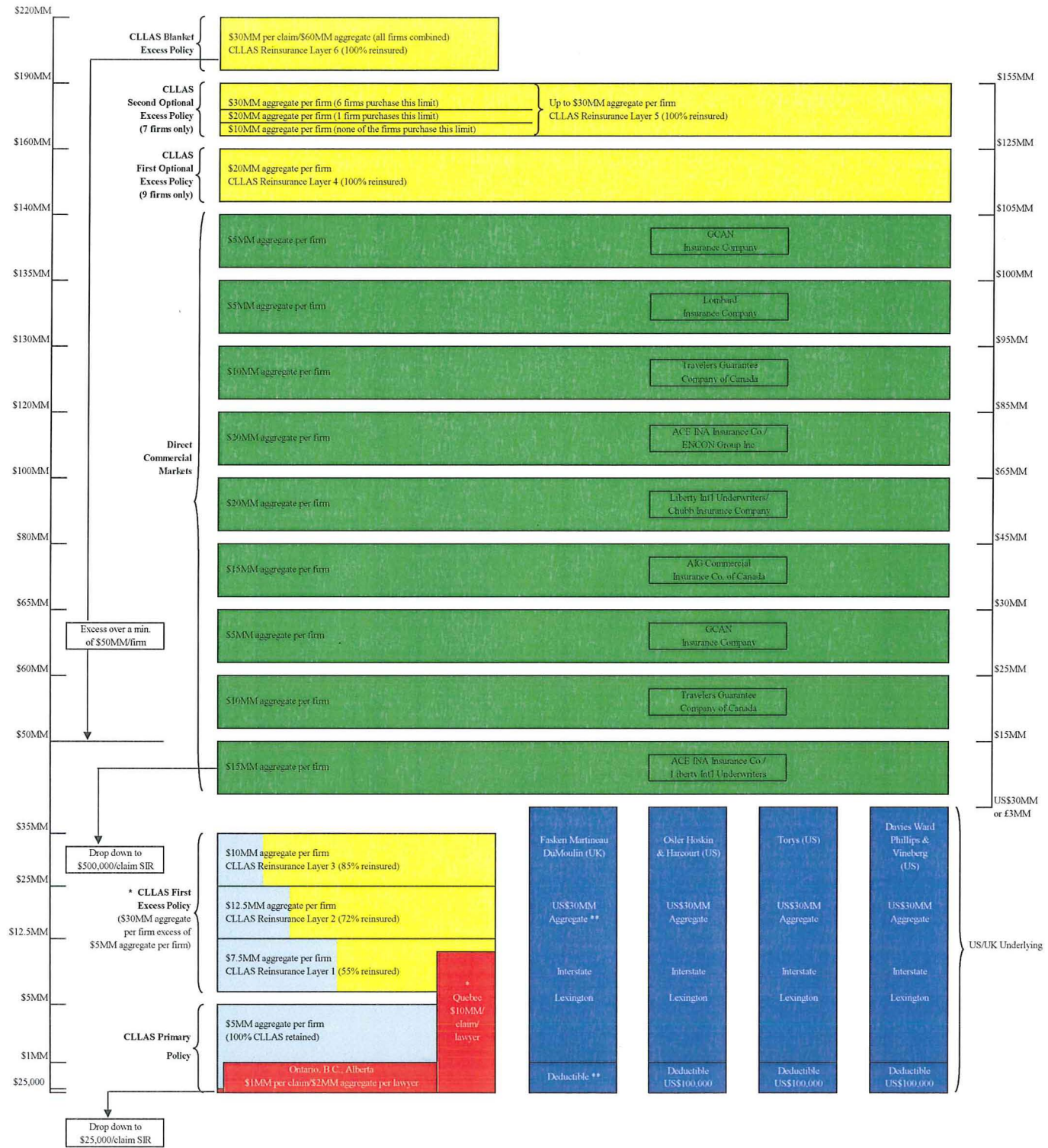
We are pleased with the reinsurance renewal results for the 2009/2010 term. Specifically, we were able to ensure that the reinsurance rates would remain unchanged across the board from last year despite the increase in expected loss costs. Increased retentions by CLLAS and Colchester because of strong surplus positions were possible this year. The above, plus an actuarial change in one aspect of the rating methodology, resulted in an overall premium decrease of 3.5%.

CLLAS members should feel confident that they are paying premiums that are commensurate with the risk and competitive in the current marketplace.

CLLAS LIMIT STRUCTURE  
JULY 1, 2009 - JULY 1, 2010

Canadian Exposures

US Exposures



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

\*\* US\$30MM limit with a UK indemnity limit of £3MM (provided by Lloyd's).  
Deductibles: US\$75,000 for UK work, US\$250,000 for US work, US\$50,000 for other work.

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

Primary CLLAS Policy Underlying  
CLLAS Retained  
Reinsured Portion  
Direct Commercial Market  
US/UK Underlying

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)				2009-2010 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - INFORMATION AS AT JULY 1, 2009 1)																		Exhibit B	
		LAYER 1 \$7.5MM XS \$5MM		LAYER 2 \$12.5MM XS \$12.5MM		LAYER 3 \$10MM XS \$25MM		LAYER 4 \$20MM XS \$140MM		LAYER 5 UP TO \$30MM XS \$160MM				LAYER 6 \$30/60MM XS MIN \$50MM									
REINSURERS		SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	\$20MM XS \$160MM SHARE      PREMIUM		\$30MM XS \$160MM SHARE      PREMIUM		SHARE	PREMIUM	DUE JUL 15, 200912	DUE SEP. 1, 200913	DUE OCT. 1, 200913	DUE JAN. 1, 201014	DUE APR. 1, 201013	GRAND TOTAL		
TOTAL PROPORTIONAL		100.00%	\$7,214,161	100.00%	\$5,245,434	100.00%	\$1,925,773	100.00%	\$584,637	100.00%	\$91,918	100.00%	\$376,805	100.00%	\$988,555							16,317,282	
CLLAS PROPORTIONAL		45.00%	\$3,246,372	28.00%	\$1,468,721	15.00%	\$288,866	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0							5,003,959	
RETENTION																							
PROPORTIONAL REINSURERS																							
Lloyd's		22.50%	\$1,823,185	22.20%	\$1,164,486	40.00%	\$770,309	11.00%	\$64,310	50.00%	\$40,959	50.00%	\$188,403	55.00%	\$488,705		1,085,080	1,085,080	1,085,080	1,085,080	1,085,080	4,340,358	
London Companies																							
Hannover Ruck, (Can. Lic.)				16.30%	\$855,005											427,503			427,503			855,006	
Aspen Re (Can. Lic.)		7.50%	\$541,062	7.50%	\$393,408	8.00%	\$154,062										272,133		272,133	272,133	272,133	1,088,532	
Sub-Total London Cos.		7.50%	\$541,062	23.80%	\$1,248,414	8.00%	\$154,062	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0		485,885	485,885	485,885	485,885	485,885	1,943,538	
Total London Market		30.00%	\$2,164,248	46.00%	\$2,412,900	48.00%	\$924,371	11.00%	\$64,310	50.00%	\$40,959	50.00%	\$188,403	55.00%	\$488,705		1,570,874	1,570,874	1,570,874	1,570,874	1,570,874	6,283,896	
Payable to Miller																		1,357,223	1,357,223	1,357,223	1,357,223	5,428,890	
Payable to Hannover Ruck,																427,503			427,503			855,006	
Canadian Companies																							
Arch Insurance Company (Canada Branch)		8.00%	\$577,133													288,567			288,567			577,133	
AWAC (not Can. Lic.)								64.00%	\$374,168							187,084			187,084			374,168	
CRC (Bermuda) Reinsurance Limited (not Can. Lic.)		3.00%	\$216,425	4.00%	\$209,817					25.00%	\$20,480	25.00%	\$94,201			213,121			213,121			426,242	
GC&I Insurance Company						12.00%	\$231,093									57,341			57,341			114,681	
Scor Reinsurance		3.00%	\$216,425	8.00%	\$419,635	25.00%	\$481,443	25.00%	\$146,159	25.00%	\$20,480	25.00%	\$94,201	10.00%	\$88,856	478,005			478,005			956,009	
Swiss Reinsurance Company Ltd., Canadian Branch														35.00%	\$310,994	526,639			526,639			1,053,277	
TOA Re		3.00%	\$216,425	3.00%	\$157,363											186,894			186,894			373,788	
Transatlantic Re		8.00%	\$577,133	11.00%	\$576,998											577,066			577,066			1,154,131	
Sub-Total Canadian Cos.		25.00%	\$1,803,541	26.00%	\$1,363,813	37.00%	\$712,538	89.00%	\$520,327	50.00%	\$40,960	50.00%	\$188,402	45.00%	\$399,850	2,514,715			2,514,715			5,020,429	
TOTAL PROPORTIONAL REINSURERS		55.00%	\$3,967,789	72.00%	\$3,776,713	85.00%	\$1,636,907	100.00%	\$584,637	100.00%	\$81,919	100.00%	\$376,805	100.00%	\$988,555	2,514,715	1,570,874	1,570,874	4,085,689	1,570,874		11,313,325	
AGGREGATE STOP-LOSS REINSURERS																							
Colchester																1,234,862			1,234,862			2,469,724	
TOTAL REINSURANCE COST																3,749,576	1,570,874	1,570,874	5,320,550	1,570,874		13,783,049	
PROPORTIONAL REINSURANCE																							
Rate per Lawyer		\$1,622.00		\$1,137.50		\$423.00		\$138.00		\$123.00		\$170.00		\$185.00									
Total # Lawyers		3952.00		5888.75		3301.00		N/A		N/A		N/A		N/A									
Rate per Quebec Lawyer																							
Total # Lawyers other than Quebec at 7/1/09		3896.5		3896.5		3896.5		3285		403		1816		3904								3,896.5	
Total # Quebec Lawyers at 7/1/09		842		842		842		801		214		299		642								842	
Total # US/UK Lawyers at 7/1/09 15		0		0		0		118		42		76		0								118	
Total # NLC at Lawyer Rate at 7/1/09 16		16		16		16		15		0		11		16								16	
Rate per P&T Agent 17		\$811.00		\$568.75		\$211.50		\$69.00		\$61.50		\$85.00		\$92.50									
Total # P&T Agents at 7/1/09		63		63		63		60		10		22		63								63	
Total # NLC at P&T Rate at 7/1/09		19		19		19		15		4		7		19									
RI/ Licensed		52.00%	\$3,751,364	68.00%	\$3,566,895	85.00%	\$1,636,907	36.00%	\$210,469	100.00%	\$81,918	100.00%	\$376,805	100.00%	\$988,555							10,512,913	
RI/ Unlicensed		3.00%	\$216,425	4.00%	\$209,817	0.00%	\$0	64.00%	\$374,168	0.00%	\$0	0.00%	\$0	0.00%	\$0							3,270,134	
NLC = Non-lawyer Consultant																							
NOTES: 1) This is an information document, not an accounting ledger.																							
2) Semi-annual instalment for Canadian Companies and Colchester.																							
3) Quarterly instalment for Miller. Fund should be sent to Miller, through ARS as Miller's broker, with about 2 weeks lead time.																							
4) Semi-annual instalment for Canadian Companies and Colchester and quarterly instalment for Miller. Fund should be sent to Miller, through ARS as Miller's broker, with about 2 weeks lead time.																							
5) These are OHH, Torys & DWPV lawyers in the US and FMD lawyers in UK. They are not covered by Layers 1, 2, 3, 6 and Colchester.																							
6) 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.																							
7) 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 28, 2009			September 4, 2008 Rating	September 6, 2007 Rating	August 28, 2009			September 4, 2008 Rating	September 6, 2007 Rating
		Rating	Outlook Implication	Change from Last Rating			Rating	Outlook Implication	Change from Last Rating		
Lloyd's	Note 1	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	A+ (Strong)	Stable	Unchanged	A+ (Strong)	A+ (Strong)
Aspen Re	Note 2	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	A (Strong)	Stable	Unchanged	A (Strong)	A (Strong)
Hannover Ruck	Note 2	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	AA- (Very Strong)	Negative	Unchanged	AA- (Very Strong)	AA- (Very Strong)
Transatlantic Reinsurance Company (UK) *	Note 2	A (Excellent)	Negative	Downgraded	A+ (Superior)	A+ (Superior)	A+ (Strong)	Stable	Downgraded	AA- (Very Strong)	AA- (Very Strong)
Arch Insurance Company (Canada Branch)	Registered	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	A (Strong)	Positive	Unchanged	A (Strong)	A (Strong)
Allied World Assurance Company Ltd.	Unregistered	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	A- (Strong)	Stable	Unchanged	A- (Strong)	A- (Strong)
CRC (Bermuda) Reinsurance Ltd.	Unregistered	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	Not Available	Not Available	Unchanged	Not Available	Not Available
GCAN Insurance Company	Registered	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	Not Available	Not Available	N/A	BBB (Good)	BBB (Good)
SCOR Canada Reinsurance Company	Registered	A- (Excellent)	Stable	Unchanged	A- (Excellent)	A- (Excellent)	A (Strong)	Stable	Upgraded	A- (Strong)	A- (Strong)
Swiss Reinsurance Company Ltd. (Canada Branch)	Registered	A (Excellent)	Stable	Downgraded	A+ (Superior)	A+ (Superior)	A+ (Strong)	Stable	Downgraded	AA- (Very Strong)	AA- (Very Strong)
Toa Reinsurance Company of America	Registered	A (Excellent)	Stable	Unchanged	A (Excellent)	A (Excellent)	A+ (Strong)	Stable	Unchanged	A+ (Strong)	A+ (Strong)
Transatlantic Reinsurance Company (Canada)	Registered	A (Excellent)	Negative	Downgraded	A+ (Superior)	A+ (Superior)	A+ (Strong)	Stable	Downgraded	AA- (Very Strong)	AA- (Very Strong)
Colchester Reinsurance Ltd.	Unregistered	Not Available	Not Available	Unchanged	Not Available	Not Available	Not Available	Not Available	Unchanged	Not Available	Not Available

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

Note 1: Lloyd's has long been "registered" in Canada but the new OSFI guidelines impose certain conditions that Lloyd's are required to meet in order to be considered as writing "in Canada risks". These conditions would be met with Alternative Risk Services Inc. acting as the Lloyd's open market intermediary.

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

## Colchester Aggregate Stop-Loss Protection



2009/2010

## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

REINSURANCE CEDED  
FINANCIAL SERVICES COMMISSION OF ONTARIO GUIDELINES

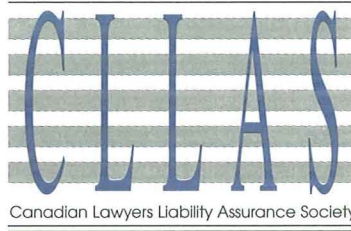
	CALENDAR YEAR 2009	RATIO OF DIRECT PREMIUM
A. 2009/2010 CONTINGENCY RESERVE ADJUSTMENT	\$35,296	
B. 2009/2010 PREMIUM FOR LAWYERS	\$22,120,454	
C. 2009/2010 GOODMAN AND CARR LATERAL HIRE EXTENSION ENDORSEMENT PREMIUM	\$33,600	
D. 2009/2010 FIRST OPTIONAL EXCESS LAYER PREMIUM FOR LAWYERS	\$648,520	
E. 2009/2010 SECOND OPTIONAL EXCESS LAYER PREMIUM FOR LAWYERS	\$507,232	
F. 2009/2010 PREMIUM FOR P&T AGENTS	\$160,398	
G. 2009/2010 FIRST OPTIONAL EXCESS LAYER PREMIUM FOR P&T AGENTS	\$4,680	
H. 2009/2010 SECOND OPTIONAL EXCESS LAYER PREMIUM FOR P&T AGENTS	\$2,780	
I. 2009/2010 PREMIUM FOR NON-LAWYER CONSULTANTS	\$129,830	
J. 2009/2010 FIRST OPTIONAL EXCESS LAYER PREMIUM FOR NON-LAWYER CONSULTANTS	\$3,495	
K. 2009/2010 SECOND OPTIONAL EXCESS LAYER PREMIUM FOR NON-LAWYER CONSULTANTS	\$3,031	
<b>L. DIRECT WRITTEN PREMIUM</b>	<b>\$23,649,316</b>	<b>100.0%</b>
M. REGISTERED REINSURANCE		
N. PROPORTIONAL REINSURANCE	\$10,512,913	
O. AGGREGATE REINSURANCE	\$0	
<b>P. TOTAL REGISTERED REINSURANCE</b>	<b>\$10,512,913</b>	<b>44.5%</b>
Q. UNREGISTERED REINSURANCE		
R. PROPORTIONAL REINSURANCE	\$800,410	
S. AGGREGATE REINSURANCE	\$2,469,724	
<b>T. TOTAL UNREGISTERED REINSURANCE</b>	<b>\$3,270,134</b>	<b>13.8%</b>
<b>U. TOTAL REINSURANCE</b>	<b>\$13,783,047</b>	<b>58.3%</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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**Date:** September 4, 2009

**To:** David Morritt  
William Scott  
Donald Milner  
Gordon Goodman  
Les O'Connor  
Nicholas Leblovic  
Julia Holland

Barry Bresner  
Daniel MacDonald  
Chris Woodbury  
Carol Lyons  
Glenn Leslie  
Gale Rubenstein

**Copy:** Julie Linda Laforce

**From:** Patrick Mahoney

**Re: Canadian Lawyers Liability Assurance Society (CLLAS)  
Surplus Target**

During discussions at the June 2009 Board meeting, analysis from the financial modeling of CLLAS was presented in the context of the July 1, 2009 reinsurance renewal. As discussed, the nature of the risks insured by CLLAS result in a wide range of potential outcomes in the financial modeling, i.e. there is significant volatility in the anticipated financial results of CLLAS. To assess this volatility, the actuaries reviewed the likelihood of CLLAS requiring a retroassessment within the next four years and also the size of any resulting retroassessment. The overall conclusion was that although CLLAS faces significant volatility, the current level of CLLAS surplus (around \$20 million) was adequate given the risk profile of CLLAS and that CLLAS could prudently assume additional risk if desired.

Although the analysis concluded that CLLAS is operating with a prudent level of surplus, it did not address the question as to what is the appropriate level of surplus going forward. The purpose of this memo is to provide some historical context for that question and to "set the table" for a discussion on appropriate surplus levels at the December meeting. For the sake of clarity, no decisions on this matter are expected at the September 2009 Board meeting.

In its early years, CLLAS operated "close to the line" from a surplus perspective. An increase in claims activity in the mid-90's created immediate pressure on CLLAS'



bottom line, with the resulting increase in attention from the regulator and concerns about premium stability. In response to this, CLLAS made a decision to deliberately accumulate a significant amount of surplus by means of explicit surplus contributions over the 1998/99 to 2001/02 policy years. The target that was ultimately agreed upon was \$17.5 million. This surplus target was seen as providing reasonable insulation from retroassessment, based on the then-current lawyer counts (taking into account the increased headcount due to national firm mergers) and retention levels.

Once this surplus was accumulated, CLLAS' actual surplus position was allowed to "float", with explicit surplus adjustments being mandated only in the event that financial results pushed the actual surplus level far from the target. It is worth noting that the surplus target was not adjusted as CLLAS' retention levels increased. For example, when the decision was taken to assume 100% of the first \$4 million layer on July 1, 2002, analysis indicated that a comparable surplus target would be in the range of \$21 million, but it was decided that the existing surplus target provided an adequate level of stability to the firms.

This surplus policy, in effect since 1998, has been a success when viewed against the most fundamental objective: CLLAS has not had to declare a retroassessment since the policy was implemented, notwithstanding periods of adverse claims experience. The only changes to CLLAS rates during this period have been driven by changes in expected losses, reinsurance costs or other expenses.

Notably, of course, surplus was strained during the 2004 year as a result of a number of significant claims. Even at December 31, 2004, CLLAS' surplus position was \$9.5 million, a healthy level given the recent experience. At that time, the surplus policy was reviewed to determine whether surplus should be explicitly rebuilt or not. It was concluded that while the "long-term" surplus target should likely be higher, an appropriate minimum surplus target for CLLAS of \$11 million could be justified.

This was documented in a formal communication to FSCO (see attached) and it was determined by the Board that since CLLAS' bottom line was steadily improving, no explicit move to rebuild surplus was required. Again, time has proven this decision to have been appropriate, since CLLAS' surplus is currently in excess of \$20 million.

Given the current financial position of CLLAS, it is appropriate to review the surplus policy and ensure that it meets the current needs of the CLLAS firms. The financial model that was created in the first half of 2009 enables the actuaries to test the "level of comfort" provided by various surplus levels at various reinsurance/retention levels. Therefore, recommendations will be made for the December Board meeting on various options for adjusting the surplus target for CLLAS based on the financial modeling now available and the evolution in CLLAS' retention levels.

The objective is to enable the Board to ensure that the surplus policy appropriately reflects the risk tolerances of the firms and that it balances the need to maintain a prudent level of surplus within CLLAS (to stabilize costs and alleviate regulatory concerns) against the desire to deploy firm assets in firm operations (and call on additional money only if/when needed).

Attachment (1)

**CANADIAN LAWYERS LIABILITY  
ASSURANCE SOCIETY**

**CONTINGENCY RESERVE POLICY**

February 2007

## Contingency Reserve Policy

### **Background**

The purpose of this memo is to document the Contingency Reserve Policy adopted by the CLLAS Board. Specifically, this paper will discuss the considerations that go into establishing the target surplus, the current recommended target surplus, and the approach to managing CLLAS' financial position relative to that target surplus.

CLLAS is a reciprocal insurance exchange and not a traditional insurance company. A March 1986 report issued by the Government of Ontario's Ministry of Consumer and Commercial Relations Financial Institutions Division stated that a reciprocal differs from an insurance company in that:

- "a reciprocal does not require a large infusion of capital but is founded on the mutual agreement of the members to contribute to the losses incurred by other members"; and
- "insurance companies must maintain substantial amounts of cash and securities to have sufficient funds to cover future claims, while reciprocals may rely on contractual agreement to make assessments in future and depend on the credit worthiness of subscribers".

Incorporated insurers are expected to meet the statutory Minimum Capital Test ("MCT"). The regulators set a minimum MCT threshold of 150%. The MCT does not apply to reciprocals as they are entitled to rely on the creditworthiness of their subscribers. In other words, the MCT is a useful information tool for management purposes, but the minimum regulatory standard for reciprocals in Ontario is focused on "adjusted equity". In essence, surplus, after deducting any provision for recovery from unlicensed reinsurers which is not fully secured, must exceed \$50,000.

As a result, CLLAS could theoretically operate (and in fact has at points in the past operated) with very little surplus. However, the regulators have made it clear that a higher level of surplus should be maintained. CLLAS, on its own account, also believes that surplus beyond the bare regulatory minimum is appropriate for the prudent operation of the reciprocal and in order to provide for relatively predictable premium costs for its members over time.

## **Surplus Target**

The appropriate surplus target for CLLAS is to be established taking into account CLLAS' gross exposure to risk, the level and nature of reinsurance protection purchased, and the resulting net exposure to members. The target surplus will be determined based on actuarial advice with a view to:

- Allowing for volatility in current year losses,
- Allowing for deterioration in prior year losses, and
- Providing for regulatory reserves for unregistered reinsurance.

CLLAS has established a minimum surplus target as of July 1, 2006 of \$11 million. This target has been determined in the context of the current insurance/reinsurance structure pursuant to which CLLAS has a maximum per claim exposure, net of reinsurance, of \$9.75 million and has reinsurance protection of \$25 million excess of \$15 million for its aggregate net retained claims in any one year. The surplus target will be reviewed annually and more frequently if appropriate due to changes in CLLAS' reinsurance arrangements, retention, etc.

Given the rationale for holding surplus beyond the absolute regulatory minimum, it is not CLLAS' intention to immediately fund to the target level of surplus in the event that experience at a particular point in time reduces CLLAS' equity below the target. This would be disruptive to the year-over-year costs of its subscribers and therefore would run counter to the purpose of maintaining the additional surplus.

CLLAS' surplus position will be monitored quarterly and in particular at year-end and the Board will make appropriate determinations for the up-coming policy year. In the event of a permanent impairment in CLLAS' surplus position, it is expected that surplus will be re-accumulated to the target over an appropriate timeframe, likely two to three years.

Notwithstanding the foregoing, CLLAS will monitor the minimum regulatory requirements and will take immediate action if necessary to ensure that such standards are met. CLLAS will also monitor the MCT as an information item.

## **Conclusion**

As at December 31, 2006, CLLAS has a surplus of \$10.8 million, up from \$7.8 million the previous year. CLLAS' adjusted equity is \$7.8 million, up from \$2.8 million the previous year. CLLAS' MCT is 125%, up from 72% the previous year. (Note that part of the reason for the marked improvement against the regulatory standards is related to the use of unlicensed reinsurance, which has an adverse effect on the tests. The hard reinsurance markets of circa 2002 meant that CLLAS utilized more unlicensed capacity than usual and a deliberate effort has been undertaken to reduce reliance on unlicensed reinsurance in the years since then.) The 2007 Business Plan shows that further improvement in each of these areas is expected over the course of 2007.

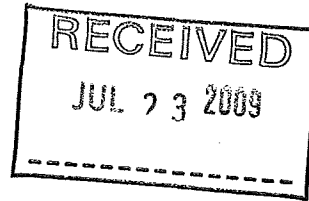
As a result of the foregoing, no action is currently required with respect to surplus.

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

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

July 23, 2009.

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. Copies of our accounts are also enclosed. As requested, we have also included an additional schedule which details the date to date gains and losses for each of the individual holdings 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.

It was a transitional period in the domestic bond market as a result of some noteworthy shifts in the tone and, in some cases, direction of various economic reports. Following the gloom that prevailed during the first quarter, investors overall became more upbeat during the second quarter. As a result, bond prices ended the reporting period mixed. On the one hand, corporate bonds moved higher reflecting ongoing improvements in the credit environment and growing confidence in the economic outlook. However, government bond prices softened as risk premiums narrowed towards pre-crises levels as their safe-haven status waned. As a result of these trends, the Long Term Investment Fund experienced a net capital loss of \$370,887, although income returns mostly offset this decline.

Activity during the quarter in the Long Term Investment portfolio centered on the investment of funds transferred from the Short Term Investment Fund. This shift capitalizes on the steeply sloped yield curve by moving out of money market investments, where yields have dropped

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

With best regards,

Yours sincerely,

RWB: sc  
Enclosures

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

INVESTMENT REPORT  
FOR QUARTER ENDING JUNE 30, 2009

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

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

Tel.: 416-363-6216  
Fax: 416-363-4538  
e-mail: [info@mlsinvest.com](mailto:info@mlsinvest.com)

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

**COMMENTARY FOR THE QUARTER ENDING JUNE 30, 2009**

**Review of Market Yields**

Government bond yields at the short end of the yield curve continued to edge down during the second quarter, with the yield on the 3 month Treasury Bills declining 15 basis points. Beyond one year out, the entire yield curve shifted higher, with the largest increase in the 5 to 7-year maturity range where yields moved 71 to 75 basis points higher.

As a result of these shifts, the upward slope of the yield curve steepened during the second quarter. At the end of June, 10-year issues provided a 312 basis point yield advantage over Treasury Bills, up from 240 basis points three months earlier.

	<b>Jan. 1/95</b>	<b>Dec. 31/08</b>	<b>Mar. 31/09</b>	<b>June 30/09</b>
3-Month Treasury Bills	6.80%	0.83%	0.39%	0.24%
5-year Canadas	8.99%	1.69%	1.75%	2.46%
10-year Canadas	9.09%	2.69%	2.79%	3.36%

After taking into account the \$4,180,395 capital transferred from the Short Term Investment Fund, less \$48,865 accrued interest debited on the bond purchases, the valuation of the Long Term Investment Fund declined \$370,887 or 1.1% on a capital basis during the second quarter.

At June 30, 2009, the average term to maturity of the Long Term Investment Fund stood at 4.3 years, compared to 4.2 years three months earlier.

During the quarter, in the Long Term Investment Fund a Canada bond matured. These proceeds plus approximately \$4.2 million transferred from the Short Term Investment Fund were invested in a range of maturities from 4½ to 9½ years. Purchases were concentrated in Canada and provincial credits. A new corporate issue was also added.

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, 2009</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$12,048,138	24.4%
Long Term Investment Fund	37,357,624	75.6%
<b>TOTAL COMBINED VALUATION</b>	<b>\$49,405,762</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, 2009
- 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. 31/08	Mar. 31/09	June 30/09
<b><i>Valuation of Long Term Investment Fund</i></b>	<b><i>\$3,466,369</i></b>	<b><i>\$30,742,467</i></b>	<b><i>\$33,596,982</i></b>	<b><i>\$37,357,624</i></b>
Cumulative Capital Added (Net) since January 1, 1995		\$25,058,827	\$27,714,868	\$31,846,398

Quarterly Capital Change		+\$1,155,633	+\$ 198,475	-\$ 370,887
Quarterly Capital % Change		+ 4.1%	+ 0.7%	- 1.1%

## LONG TERM INVESTMENT FUND

### TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING JUNE 30, 2009 (ANNUALIZED)

	Five Years	Four Years	Three Years	Two Years	One Year	Last 3 Months
<b><i>Long Term Investment Fund</i></b>	<b><i>5.1</i></b>	<b><i>4.6</i></b>	<b><i>6.2</i></b>	<b><i>7.5</i></b>	<b><i>8.0</i></b>	<b><i>0.0</i></b>
DEX Canada Short Bond Index	5.0	4.6	6.2	7.4	7.7	- 0.7
DEX Provincial Short Bond Index	5.0	4.6	6.2	7.3	8.0	0.3

## ***CLLAS***

### **LONG TERM INVESTMENT FUND**

#### **TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING JUNE 30, 2009**

	Last 9 Months	Last 6 Months	Last 3 Months
<i>Long Term Investment Fund – Gross of Fees</i>	<i>6.91</i>	<i>1.68</i>	<i>-0.04</i>
<i>Long Term Investment Fund – Net of Fees</i>	<i>6.69</i>	<i>1.54</i>	<i>-0.11</i>
<b>Benchmark Portfolio *</b>	<b>6.94</b>	<b>0.90</b>	<b>-0.57</b>

\* 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, 2009**

	Last 9 Months	Last 6 Months	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	<i>0.90</i>	<i>0.31</i>	<i>0.11</i>
<i>Short Term Investment Fund – Net of Fees</i>	<i>0.75</i>	<i>0.21</i>	<i>0.06</i>
<b>Benchmark Portfolio *</b>	<b>0.81</b>	<b>0.27</b>	<b>0.07</b>

\*\* 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

	<b>Jan. 1/95</b>	<b>Dec. 31/08</b>	<b>Mar. 31/09</b>	<b>June 30/09</b>
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	29.0%	6.6%	5.3%	3.4%
<b>Canadas</b> Greater than 1 year term	54.7%	42.1%	41.3%	45.5%
<b>Provincials</b> Greater than 1 year term	16.3%	37.0%	39.9%	38.3%
<b>Corporates</b> Greater than 1 year term	-	14.3%	13.5%	12.8%
<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

	<b>Jan. 1/95</b>	<b>Dec. 31/08</b>	<b>Mar. 31/09</b>	<b>June 30/09</b>
Under 1 year	29.0%	6.6%	5.3%	3.4%
1 - 3 years	19.8%	28.5%	26.2%	28.3%
3 - 5 years	29.3%	35.7%	38.8%	36.7%
5 - 7 years	11.4%	18.5%	19.5%	21.5%
7 - 10 years	10.5%	10.7%	10.2%	10.1%
<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>4.0</b>	<b>4.2</b>	<b>4.3</b>
<b>Average Duration</b>	<b>2.3</b>	<b>3.6</b>	<b>3.7</b>	<b>3.8</b>

# CLLAS

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

### COMPLIANCE REPORT AT JUNE 30, 2009

	Investment Limits	Investment Funds	Compliance
<b><i>Short Term Investment Fund</i></b>			
Maximum Term of Any Issue	1 year	0.42 years	Yes
Minimum Size	20% of Total	24.4%	Yes
Minimum Canada & Provincial Percentage	50%	79.1%	Yes
Minimum Provincial Quality	A	AA	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	9.5 years	Yes
Minimum Cda and Cda Guarantee Percentage	40%	48.2%	Yes
Maximum Provincial Percentage	40%	38.3%	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 Fund represented 24.4% 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: 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 03-31-09 to 06-30-09*

Portfolio Value on 03-31-09	33,596,982
Accrued Interest	308,604
Contributions	4,180,395
Withdrawals	-426,569
Realized Gains	-8,460
Unrealized Gains	-362,427
Interest	377,704
Dividends	0
Change in Accrued Interest	-16,070
Portfolio Value on 06-30-09	37,357,624
Accrued Interest	292,534
Average Capital	34,816,312
Total Gain before Fees	-9,253
<b>IRR for 0.25 Years</b>	<b>-0.03%</b>

## BOND MARKET COMMENTARY AND FUTURE POLICY

Since our last report, there have been some noticeable shifts in the direction and tone of the economic data. The plunge in economic activity that started during the fourth quarter of last year carried into the New Year and the downturn gathered strength in terms of its intensity and global reach during the first quarter. In the U.S., GDP fell close to 6% during each of these two quarters, which was the worst six-month performance in over 50 years. The Canadian economy shrunk at a similar rate over the first three months of this year, which marked its weakest performance since 1991.

In the wake of these dire economic reports, early in March stock prices set new cyclical lows and government bond prices rallied close to their highs as investor pessimism reached extreme levels. Amid the prevailing gloom, investors were then surprised on the upside as the equity averages bounced higher. Initially, this was attributed to short-covering, shifting opinions on government efforts to address the financial crises and glimmers of hope on the economic front. However, the rally in stock prices continued through May and most of June. As a result, many pundits began shifting their attention away from the potential depth and duration of the downturn to the possible shape and scope of a recovery. The turnaround in opinion was also reflected in the bond market, as corporate bonds rallied strongly while government issues weakened as investors became willing to take on more risk. These trends were further buoyed by several economic indicators that surprised on the upside and others that showed a marked slowdown in the rate of contraction during the second quarter.

In our view, the outlook for government and corporate bond yields will continue to be most heavily influenced by the near-term path taken by the economy. In previous market commentaries, we examined some of the positive and negative factors that would influence the economy going forward. Most of the positive factors covered the extraordinary efforts undertaken globally by governments and monetary authorities to backstop the financial system, revive credit market activity and stimulate the economy. The negative issues mentioned centered on the degree of economic deterioration being experienced worldwide, the unique aspects of the downturn and the possibility of a self-reinforcing contraction in credit and business conditions. The following points will update how these and other factors affecting the outlook have evolved over the past few months.

Starting first with an update and assessment of previously mentioned positive factors:

1. Monetary authorities worldwide have adopted measures that are unprecedented in size and reach. Administered interest rates across the globe have stabilized at their lowest levels on record. With little room left to reduce rates, the U.S. central bank has embarked on quantitative easing while the Bank of Canada has considered a similar strategy. Following these moves, many areas of the credit markets have shown significant improvement. Borrowing costs have fallen in the mortgage and commercial paper markets and corporate debt issuance has resumed. Furthermore, the significant drop in LIBOR rates shows that liquidity and greater confidence has returned to the wholesale credit markets. However, activity in securitized debt, which is important to the consumer sector, remains largely frozen and interest costs for weaker creditors are still very high. Meanwhile, private sector credit demand is still contracting.

2. TARP, the U.S. government bailout package designed to provide much needed capital to the banks and loans to other debtors, has now committed most of the \$700 billion that was originally earmarked. This program provided important bridge financing during the darkest hours of the banking crises late last year. Some participants are now in a position to begin paying back these funds and ten large banks have been given permission to repay \$68 billion in TARP loans.
3. The U.S. Treasury also unveiled a new Financial Stability Plan (FSP) which is even larger in scope than TARP. This effort to support the financial system includes a plan to have private investors participate with the public sector to purchase troubled bank assets, and other measures to get credit flowing to consumers, homeowners and small businesses. These moves are designed to have \$1-2 trillion in financing flowing through the economy. As part of this initiative, the Treasury conducted stress-tests of the major U.S. banks. The recently announced results raised hopes that the worst of the banking crises has past. While a number of banks need to raise an additional \$75 billion to bolster their capital, none were deemed insolvent and the results were, for the most part, better than feared.
4. These expansive monetary measures have been accompanied by huge fiscal stimulus packages in most of the world's major economies. The U.S. is implementing a plan containing tax cuts and infrastructure spending of \$787 billion. Thus far, only 10% of this package has been spent and the impact to date has been muted since most of the tax cuts to the personal sector are being saved. Furthermore, some of this federal stimulus has been offset by budget cuts at the state level. Meanwhile, China's \$585 billion stimulus program is already showing positive results as this program quickly funnelled money into infrastructure and consumer spending.
5. Deflationary pressures on most consumer goods and services have persisted over the past few months and there is now considerable slack in the economy as capacity utilization has fallen to an all-time low. These conditions have kept near term inflationary concerns at bay. However, the acceleration in monetary stimulus and the outlook for record deficit spending have raised concerns that stagflation may develop over the medium term.
6. Following a prolonged deluge of negative economic reports, there have been signs of improvement in many economic indicators over the past few months. In the U.S. these include a modest uptick in factory orders, housing starts, personal spending and consumer confidence. As a result, U.S. leading indicators and the ratio of coincident to lagging indicators have moved higher for three consecutive months. These indicators confirm that the rate of economic contraction has slowed and, based on historical precedents, strongly suggest that we have passed the trough in economic activity.
7. Most economists expect that any economic recovery will be anaemic over the near term. However, history has shown that following some of the sharpest quarterly drops in final sales over the past 50 years, economic activity most often records a sizeable rebound. It should also be kept in mind that the stock market is a forward looking indicator. If the stock market rally, coupled with the often cited "green shoots" sprouting in the economy, restores confidence in the outlook, pent-up demand could produce a surprising bounce sooner than most economists expect.



There are, however, major headwinds to contend with, and the most significant question mark continues to be the economic outlook, which remains fraught with risks. Some noteworthy negatives include:

1. The deterioration in the global economic backdrop was extraordinary over the past six months to the end of March. The IMF estimates that the developed economies contracted at a 7-1/2% annualized rate during that period, which far exceeds any other postwar downturn. In a historical context, this pace of decline seemed far too rapid to be sustained. Therefore, the recent exuberance surrounding some better than expected economic data should be taken in perspective. While the most intense phase of the economic decline appears to be past, the overall level of activity remains very weak and in most cases the pace of contraction has only slowed, rather than reversed and turned higher.
2. Both consumer and business borrowers remain under considerable stress and these conditions still cloud the outlook for the banks and hinder their ability to lend. Mortgage defaults have spread well beyond sub-prime borrowers and prime borrowers now account for half of foreclosures. Furthermore, defaults are accelerating in the commercial mortgage market. Commercial real estate prices had their largest ever one-month decline in April, and have now fallen 25% over the past year. Losses on credit card loans have also reached record levels, with over 10% of outstanding loans defaulting in May. As a result, there has been ample criticism that the U.S. Treasury's stress-test of the banks was not rigorous enough and the banks' capital requirements will far exceed initial forecasts.
3. A bottom in the U.S. housing market remains a key component for a meaningful recovery. Despite a marked improvement in affordability and a small uptick in sales, the latest figures show prices are still falling. Foreclosures accounted for about one-third of May sales and over 20% of U.S. homeowners with mortgages owe more than the market value of their house. As a result, supply and demand remain unbalanced and the prospects for housing remain questionable.
4. Consumers have experienced an unprecedented loss of wealth from falling real estate values and the drop in equity prices. Furthermore, they are carrying far more debt this recession than in previous ones. With unemployment rising to a 27-year high of 9.5%, while income levels have slipped, consumer discretionary spending dropped over the past three months. Meanwhile, consumer saving rates have surged to a 16-year high as they attempt to rebuild their balance sheets. The era of low savings and debt accumulation seems over, and since consumers represent 70% of the economy, they could restrain the pace of recovery for an extended period.
5. During the Great Depression, one of the greatest mistakes made by governments was the adoption and escalation of protectionist policies. Since the fall of last year, there has been a sharp downturn in world trade flows and protectionist sentiments are rising. The "Buy American" provisions in the U.S. stimulus package have led other countries, including Canada and China, to adopt similar measures and trade frictions are spreading. A spate of protectionist measures around the globe will impede the recovery and increase the risk of policy mistakes.

6. A key question is whether the recent rally in stock prices signals the start of a sustained economic upturn or is just another bear market rally. Historical precedents provide conflicting messages. On the one hand, the magnitude and duration of the rebound has comfortably exceeded the average postwar bear market rally, signalling that the worst is behind us. However, if one delves further back into market history, the recent move is not unprecedented and during the 1930's the markets and the economy suffered deep setbacks after the stock prices posted even larger gains.

In weighing these complex and conflicting factors, investors continue to face an uncertain economic environment with few historical parallels. As a result, the outlook for bond yields continues to be clouded by a much greater than usual amount of uncertainty. The U.S. recession, which has entered its 19<sup>th</sup> month, now exceeds the longest downturn since the depression and on balance the economy continues to contract. However, events over the past few months suggest that global policy makers have successfully arrested a self-reinforcing downturn in credit and business conditions and we are encouraged by the slowing pace of the decline, which is a precursor of an eventual recovery.

Looking ahead, we still believe that global efforts to repair the credit markets and stimulate the economy will fuel a global recovery. However, given the damage wrought by the downturn, we expect this will take more time and believe the recovery in the economy and equity markets will be both hesitant and uneven, and subject to considerable volatility. We think this environment will lead to ongoing volatility in medium and longer term bonds with a moderate upward bias to yields as the recovery gradually gains traction. However, given the amount of slack that will remain in the economy for some time and the benign outlook for inflation, we do not expect longer term yields to shift significantly higher over the shorter term. Similarly, we expect short term interest rates to remain at very low levels for at least the balance of this year, given the commitment by the U.S. and Canadian Central Banks to hold administered rates at exceptionally low levels for an extended period of time.

When assessing the longer term outlook for bond prices, investors should remain mindful of the unintended consequences that may lie ahead given the unprecedented monetary and fiscal measures that have been adopted since the downturn began. While the monetary authorities and governments attempt to assure markets that their policies will not over-stimulate the economy and cause high levels of inflation down the road, we think inflation concerns will remain a genuine longer term risk to bond prices at both the short and long end of the yield curve. Accordingly, we think the Long Term Investment Fund's defensive laddered maturity structure should be maintained in order to control duration risk, and believe the distribution of credit risk is appropriate given prevailing credit spreads.

RWB: sc

July 23 2009

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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 Fund's investment objectives.*

Martin, Lucas & Seagram Ltd.

**CLLAS - SHORT TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2009**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
<b>CASH</b>					
	Cash Account			19,333	0
<b>MONEY MARKET ISSUES</b>					
2,000,000	Bank of Nova Scotia BA .454% due July 3, 2009	99.90	100.00	1,999,944	9,071
500,000	Bank of Nova Scotia BA .10% due July 23, 2009	99.98	99.98	499,893	500
				<u>2,499,837</u>	<u>9,571</u>
<b>GOVERNMENT BONDS</b>					
910,000	Residue Canada due September 1, 2009	99.89	99.93	909,363	0
650,000	Farm Credit 3.30% due September 15, 2009	100.95	100.56	653,608	21,450
2,000,000	Residue Canada Housing Trust due September 15, 2009	99.84	99.96	1,999,200	0
425,000	Canada Coupon due December 1, 2009	99.87	99.85	424,363	0
				<u>3,986,533</u>	<u>21,450</u>
<b>PROVINCIAL BONDS</b>					
1,095,000	Ontario Coupon due July 13, 2009	99.73	99.99	1,094,891	0
745,000	British Columbia Coupon due August 23, 2009	99.81	99.90	744,225	0
500,000	Ontario 6.20% due November 19, 2009	100.77	102.13	510,670	31,000
2,000,000	Ontario Coupon due November 19, 2009	99.85	99.80	1,996,000	0
500,000	British Columbia Residue due December 1, 2009	99.71	99.75	498,750	0
700,000	Ontario Coupon due December 2, 2009	99.84	99.70	697,900	0
				<u>5,542,436</u>	<u>31,000</u>
<b>TOTAL PORTFOLIO</b>				<b>12,048,138</b>	<b>62,021</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-09 To 06-30-09*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
04-01-09	04-02-09	775,000	CIBC BA .30% due June 30, 2009	99.93	774,433.48
04-08-09	04-09-09	500,000	Residue Canada due June 1, 2009	99.94	499,721.50
04-14-09	04-15-09	910,000	Residue Canada due September 1, 2009	99.89	908,992.63
04-15-09	04-16-09	2,000,000	Bank of Nova Scotia BA .454% due July 3, 2009	99.90	1,998,060.00
04-15-09	04-16-09	500,000	British Columbia Coupon due August 23, 2009	99.81	499,050.00
04-15-09	04-16-09	805,000	Canada Coupon due June 1, 2009	99.94	804,517.00
04-17-09	04-20-09	1,000,000	Royal Bank BA .391% due June 16, 2009	99.94	999,390.00
04-23-09	04-28-09	245,000	British Columbia Coupon due August 23, 2009	99.81	244,534.50
04-23-09	04-24-09	180,000	Canada Coupon due June 1, 2009	99.94	179,892.00
05-08-09	05-11-09	500,000	Bank of Nova Scotia BA .10% due July 23, 2009	99.98	499,900.00
05-08-09	05-11-09	600,000	Ontario Coupon due November 19, 2009	99.85	599,116.20
05-13-09	05-14-09	500,000	Ontario Coupon due November 19, 2009	99.82	499,095.50
05-14-09	05-19-09	650,000	Farm Credit 3.30% due September 15, 2009	100.95	656,194.50
05-29-09	06-01-09	700,000	Ontario Coupon due December 2, 2009	99.84	698,872.30
05-29-09	06-01-09	900,000	Ontario Coupon due November 19, 2009	99.86	898,736.40
05-29-09	06-01-09	500,000	Residue Canada Housing Trust due September 15, 2009	99.92	499,623.00
06-29-09	06-30-09	425,000	Canada Coupon due December 1, 2009	99.87	424,462.80
					<b>11,684,591.81</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-09 To 06-30-09*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>SALES</b>					
04-02-09	04-02-09	750,000	Canada Treasury Bill .55% due April 2, 2009	100.00	750,000.00
04-09-09	04-09-09	500,000	Royal Bank BA .95% due April 9, 2009	100.00	500,000.00
04-15-09	04-15-09	910,000	Toronto Dominion Bank BA .25% due April 15, 2009	100.00	910,000.00
04-16-09	04-16-09	2,525,000	Canada Treasury Bill .50% due April 16, 2009	100.00	2,525,000.00
04-16-09	04-16-09	780,000	Canada Treasury Bill .71% due April 16, 2009	100.00	780,000.00
04-20-09	04-20-09	1,000,000	CIBC BA .70% due April 20, 2009	100.00	1,000,000.00
04-24-09	04-24-09	420,000	TD Bank BA .20% due April 24, 2009	100.00	420,000.00
05-11-09	05-11-09	1,125,000	CIBC BA .55% due May 11, 2009	100.00	1,125,000.00
05-14-09	05-14-09	500,000	Canada Treasury Bill .50% due May 14, 2009	100.00	500,000.00
05-14-09	05-14-09	1,155,000	Canada Treasury Bill .55% due May 14, 2009	100.00	1,155,000.00
05-26-09	05-27-09	770,000	CIBC BA .30% due May 29, 2009	100.00	769,985.37
05-29-09	05-29-09	230,000	CIBC BA .30% due May 29, 2009	100.00	230,000.00
06-01-09	06-01-09	1,055,000	British Columbia Residue due June 1, 2009	100.00	1,055,000.00
06-01-09	06-01-09	985,000	Canada Coupon due June 1, 2009	100.00	985,000.00
06-01-09	06-01-09	500,000	Residue Canada due June 1, 2009	100.00	500,000.00
06-05-09	06-05-09	500,000	CIBC BA .35% due June 5, 2009	100.00	500,000.00
06-16-09	06-16-09	1,000,000	Royal Bank BA .391% due June 16, 2009	100.00	1,000,000.00
06-30-09	06-30-09	775,000	CIBC BA .30% due June 30, 2009	100.00	775,000.00
					<b>15,479,985.37</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
*From 04-01-09 To 06-30-09*

Cash Balance at April 1, 2009		5,004.80
ADD: Proceeds from Sales	15,479,985.37	
Bond Interest Credited (from Long Term Investment Fund)	426,569.06	
Bond Interest Credited (from Short Term Investment Fund)	15,500.00	
Cash Interest on Daily Balance	<u>9.01</u>	<u>15,922,063.44</u>
		15,927,068.24
LESS: Cost of Purchases	11,684,591.81	
Transfer to Long Term Investment Fund	4,180,395.22	
Accrued Bond Interest on Purchases (net)	3,819.86	
Investment Counsel Fees - Short Term Investment Fund	8,307.52	
Investment Counsel Fees - Long Term Investment Fund	22,048.02	
Trust Company Charges	<u>8,573.09</u>	<u>15,907,735.52</u>
Cash Balance at June 30, 2009		19,332.72

Martin, Lucas & Seagram Ltd.

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2009**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
<b>GOVERNMENT BONDS</b>					
500,000	Canada Housing Trust Sr. 9 3.75% due March 15, 2010	99.30	102.26	511,275	18,750
450,000	Canada 5-1/2% due June 1, 2010	99.77	104.54	470,448	24,750
500,000	Canada 4% due September 1, 2010	100.30	103.97	519,835	20,000
1,000,000	Canada Housing Trust Sr. 13 4.05% due March 15, 2011	99.02	104.83	1,048,310	40,500
1,000,000	Canada 6% due June 1, 2011	103.73	109.00	1,090,030	60,000
1,500,000	Canada Housing Trust Sr. 14 4.60% due September 15, 2011	101.74	106.49	1,597,395	69,000
500,000	Farm Credit Canada 4.20% due February 15, 2012	101.20	106.06	530,285	21,000
2,200,000	Canada Housing Trust Sr. 16 4.00% due June 15, 2012	100.57	105.18	2,313,850	88,000
750,000	Canada Housing Trust Sr. 18 4.55% due December 15, 2012	102.72	106.93	801,953	34,125
900,000	Canada Housing Trust Sr. 19 3.60% due June 15, 2013	99.87	103.52	931,707	32,400
900,000	Canada Housing Trust Sr. 22 3.55% due September 15, 2013	105.12	103.21	928,926	31,950
1,650,000	Canada Housing Trust Sr. 24 2.7% due December 15, 2013	100.25	99.57	1,642,955	44,550
1,500,000	Canada Housing Trust Sr. 26 2.20% due March 15, 2014	99.80	97.11	1,456,605	33,000
1,000,000	Canada Housing Trust Sr. 28 3.15% due June 15, 2014	99.95	101.11	1,011,070	31,500
600,000	Canada Mtge & Housing 4.30% due April 1, 2015	100.95	106.00	635,994	25,800
650,000	Canada Mtge & Housing Corp. 4.10% due October 1, 2015	98.39	104.62	680,037	26,650
1,000,000	Canada 4% due June 1, 2016	99.58	106.83	1,068,320	40,000
750,000	Canada Housing Trust Sr. 23 4.10% due December 15, 2018	104.51	102.12	765,900	30,750
				18,004,894	672,725
<b>PROVINCIAL BONDS</b>					
500,000	British Columbia 6.375% due August 23, 2010	104.22	106.34	531,700	31,875
500,000	Ontario 6.10% due November 19, 2010	102.12	106.92	534,575	30,500

Martin, Lucas & Seagram Ltd.

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2009**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
1,200,000	Ontario 4.4% due December 2, 2011	101.02	106.03	1,272,360	52,800
1,250,000	Ontario 4.50% due December 2, 2012	103.37	106.51	1,331,375	56,250
1,275,000	Ontario 4-3/4% due June 2, 2013	102.35	107.20	1,366,736	60,563
1,000,000	Manitoba 5.05% due December 3, 2013	101.61	108.60	1,086,040	50,500
750,000	Ontario 5% due March 8, 2014	102.63	108.49	813,645	37,500
500,000	Ontario 3.25% due September 8, 2014	99.84	100.41	502,055	16,250
750,000	Manitoba 4.80% due December 3, 2014	104.46	107.85	808,860	36,000
1,350,000	Ontario 4.5% due March 8, 2015	101.62	106.04	1,431,527	60,750
1,750,000	Ontario 4.4% due March 8, 2016	102.25	104.58	1,830,133	77,000
1,750,000	Ontario 4.30% due March 8, 2017	101.49	102.72	1,797,635	75,250
1,000,000	Ontario 4.20% due March 8, 2018	100.33	100.93	1,009,290	42,000
				14,315,930	627,238
<b>CORPORATE BONDS</b>					
250,000	GE Capital Cda Fndg 5.65% due October 23, 2009	99.55	101.07	252,673	14,125
300,000	Bank of Nova Scotia 4.25% Sen. Dep. Note due November 23, 2010	100.45	104.06	312,180	12,750
300,000	Royal Bank 4.17% Sen. Dep. Note due January 11, 2011	100.10	104.16	312,486	12,510
500,000	Bank of Montreal 4.69% due January 31, 2011	104.21	104.88	524,380	23,450
300,000	CIBC 5.00% Senior Dep Nts due September 10, 2012	100.23	106.13	318,387	15,000
400,000	Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	99.78	101.13	404,508	17,600
750,000	Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	101.35	105.96	794,670	36,405
250,000	Bank of Nova Scotia 4.56% due October 30, 2013	100.07	104.80	262,005	11,400
300,000	Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	99.97	99.49	298,470	12,990



Martin, Lucas & Seagram Ltd.

***CLLAS - LONG TERM INVESTMENT FUND***

**Portfolio Holdings at June 30, 2009**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
250,000	Enbridge Gas Distribution 5.570% due January 29, 2014	107.04	109.07	272,663	13,925
250,000	Canadian Utilities Inc. 5.096% due November 18, 2014	105.56	107.16	267,898	12,740
500,000	CIBC 4.75% due December 22, 2014	101.80	104.86	524,285	23,750
300,000	GE Capital Cda Fndg 4.65% due February 11, 2015	102.20	97.32	291,951	13,950
200,000	Bank of Montreal 4.55% due August 1, 2017	99.94	100.12	200,246	9,100
				<hr/> 5,036,801	<hr/> 229,695
<b>TOTAL PORTFOLIO</b>				<b>37,357,624</b>	<b>1,529,658</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 04-01-09 To 06-30-09*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
05-13-09	05-19-09	500,000	Canada Housing Trust Sr. 26 2.20% due March 15, 2014	99.26	496,300.00
05-21-09	05-27-09	750,000	Canada Housing Trust Sr. 23 4.10% due December 15, 2018	104.51	783,840.00
05-28-09	06-02-09	200,000	Bank of Montreal 4.55% due August 1, 2017	99.94	199,882.00
05-28-09	06-02-09	500,000	Canada Housing Trust Sr. 24 2.7% due December 15, 2013	100.11	500,535.00
05-28-09	06-02-09	500,000	Canada Housing Trust Sr. 24 2.7% due December 15, 2013	100.11	500,535.00
05-28-09	06-02-09	500,000	Ontario 4.20% due March 8, 2018	99.73	498,665.00
06-03-09	06-05-09	650,000	Canada Housing Trust Sr. 24 2.7% due December 15, 2013	100.48	653,133.00
06-16-09	06-23-09	1,000,000	Canada Housing Trust Sr. 28 3.15% due June 15, 2014	99.95	999,460.00
06-26-09	06-30-09	375,000	Ontario 3.25% due September 8, 2014	99.84	374,385.00
06-26-09	06-30-09	125,000	Ontario 3.25% due September 8, 2014	99.84	124,795.00
					<b>5,131,530.00</b>
<b>SALES</b>					
06-01-09	06-01-09	1,000,000	Canada 5-1/2% due June 1, 2009	100.00	1,000,000.00
					<b>1,000,000.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 04-01-09 To 06-30-09*

Cash Balance at April 1, 2009		0.00
ADD: Proceeds from Sales	1,000,000.00	
Transfer from Short Term Investment Fund	<u>4,180,395.22</u>	<u>5,180,395.22</u>
		5,180,395.22
LESS: Cost of Purchases	5,131,530.00	
Accrued Bond Interest on Purchases	<u>48,865.22</u>	<u>5,180,395.22</u>
Cash Balance at June 30, 2009		0.00

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 04-01-09 To 06-30-09*

Cash Balance at April 1, 2009			0.00
ADD:	Proceeds from Sales	1,000,000.00	
	Transfer from Short Term Investment Fund	<u>4,180,395.22</u>	<u>5,180,395.22</u>
			5,180,395.22
LESS:	Cost of Purchases	5,131,530.00	
	Accrued Bond Interest on Purchases	<u>48,865.22</u>	<u>5,180,395.22</u>
Cash Balance at June 30, 2009			0.00

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 03-31-09 to 06-30-09*

Security	03-31-09 Market Value	Additions Withdrawals	06-30-09 Market Value	06-30-09 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
<b>CASH</b>								
Cash Account	0	0	0	0				
<b>GOVERNMENT BONDS</b>								
Canada 5-1/2% due June 1, 2009	1,008,460	-1,027,500	0	0	1,725	-8,460	0	0
Canada Housing Trust Sr. 9 3.75% due March 15, 2010	514,680	0	511,275	496,515	0	0	14,760	-3,405
Canada 5-1/2% due June 1, 2010	475,146	-12,375	470,448	448,965	0	0	21,483	-4,698
Canada 4% due September 1, 2010	522,620	0	519,835	501,500	0	0	18,335	-2,785
Canada Housing Trust Sr. 13 4.05% due March 15, 2011	1,054,340	0	1,048,310	990,150	0	0	58,160	-6,030
Canada 6% due June 1, 2011	1,104,500	-30,000	1,090,030	1,037,325	0	0	52,705	-14,470
Canada Housing Trust Sr. 14 4.60% due September 15, 2011	1,611,930	0	1,597,395	1,526,100	0	0	71,295	-14,535
Farm Credit Canada 4.20% due February 15, 2012	535,800	0	530,285	506,006	0	0	24,280	-5,515
Canada Housing Trust Sr. 16 4.00% due June 15, 2012	2,352,812	-44,000	2,313,850	2,212,456	0	0	101,394	-38,962
Canada Housing Trust Sr. 18 4.55% due December 15, 2012	820,035	-17,063	801,953	770,425	0	0	31,528	-18,083
Canada Housing Trust Sr. 19 3.60% due June 15, 2013	957,294	-16,200	931,707	898,840	0	0	32,867	-25,587
Canada Housing Trust Sr. 22 3.55% due September 15, 2013	957,060	0	928,926	946,117	0	0	-17,191	-28,134
Canada Housing Trust Sr. 24 2.7% due December 15, 2013	0	1,652,761	1,642,955	1,654,203	0	0	-11,249	-11,249
Canada Housing Trust Sr. 26 2.20% due March 15, 2014	1,004,090	497,988	1,456,605	1,497,053	0	0	-40,448	-43,785
Canada Housing Trust Sr. 28 3.15% due June 15, 2014	0	999,460	1,011,070	999,460	0	0	11,610	11,610
Canada Mtge & Housing 4.30% due April 1, 2015	662,484	-12,900	635,994	605,700	0	0	30,294	-26,490
Canada Mtge & Housing Corp. 4.10% due October 1, 2015	709,579	-13,325	680,037	639,525	0	0	40,512	-29,543
Canada 4% due June 1, 2016	1,118,020	-20,000	1,068,320	995,820	0	0	72,500	-49,700
Canada Housing Trust Sr. 23 4.10% due December 15, 2018	0	782,197	765,900	783,840	0	0	-17,940	-17,940
<b>GOVERNMENT BONDS Total</b>	<b>15,408,850</b>		<b>18,004,894</b>	<b>17,509,999</b>	<b>1,725</b>	<b>-8,460</b>	<b>494,895</b>	<b>-329,300</b>
<b>PROVINCIAL BONDS</b>								
British Columbia 6.375% due August 23, 2010	536,835	0	531,700	521,100	0	0	10,600	-5,135
Ontario 6.10% due November 19, 2010	538,820	-15,250	534,575	510,600	0	0	23,975	-4,245
Ontario 4.4% due December 2, 2011	1,278,024	-26,400	1,272,360	1,212,190	0	0	60,170	-5,664

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 03-31-09 to 06-30-09*

Security	03-31-09 Market Value	Additions Withdrawals	06-30-09 Market Value	06-30-09 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Ontario 4.50% due December 2, 2012	1,345,263	-28,125	1,331,375	1,292,133	0	0	39,242	-13,888
Ontario 4-3/4% due June 2, 2013	1,382,432	-30,281	1,366,736	1,304,990	0	0	61,746	-15,695
Manitoba 5.05% due December 3, 2013	1,098,320	-25,250	1,086,040	1,016,075	0	0	69,965	-12,280
Ontario 5% due March 8, 2014	824,325	0	813,645	769,700	0	0	43,945	-10,680
Ontario 3.25% due September 8, 2014	0	504,255	502,055	499,180	0	0	2,875	2,875
Manitoba 4.80% due December 3, 2014	815,153	-18,000	808,860	783,425	0	0	25,435	-6,293
Ontario 4.5% due March 8, 2015	1,448,429	0	1,431,527	1,371,933	0	0	59,594	-16,902
Ontario 4.4% due March 8, 2016	1,845,323	0	1,830,133	1,789,410	0	0	40,723	-15,190
Ontario 4.30% due March 8, 2017	1,804,268	0	1,797,635	1,776,025	0	0	21,610	-6,633
Ontario 4.20% due March 8, 2018	504,615	503,613	1,009,290	1,003,315	0	0	5,975	6,010
<b>PROVINCIAL BONDS Total</b>	<b>13,421,804</b>		<b>14,315,930</b>	<b>13,850,076</b>	<b>0</b>	<b>0</b>	<b>465,854</b>	<b>-103,719</b>
<b>CORPORATE BONDS</b>								
GE Capital Cda Fndg 5.65% due October 23, 2009	251,295	-7,063	252,673	248,875	0	0	3,798	1,378
Bank of Nova Scotia 4.25% Sen. Dep. Note due November 23, 2010	311,934	-6,375	312,180	301,340	0	0	10,840	246
Royal Bank 4.17% Sen. Dep. Note due January 11, 2011	311,685	0	312,486	300,300	0	0	12,186	801
Bank of Montreal 4.69% due January 31, 2011	523,250	0	524,380	521,050	0	0	3,330	1,130
CIBC 5.00% Senior Dep Nts due September 10, 2012	318,753	0	318,387	300,690	0	0	17,697	-366
Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	377,560	-8,800	404,508	399,120	0	0	5,388	26,948
Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	800,130	0	794,670	760,125	0	0	34,545	-5,460
Bank of Nova Scotia 4.56% due October 30, 2013	264,295	-5,700	262,005	250,175	0	0	11,830	-2,290
Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	275,547	-6,495	298,470	299,920	0	0	-1,450	22,923
Enbridge Gas Distribution 5.570% due January 29, 2014	265,343	0	272,663	267,610	0	0	5,053	7,320
Canadian Utilities Inc. 5.096% due November 18, 2014	261,585	-6,370	267,898	263,910	0	0	3,988	6,313
CIBC 4.75% due December 22, 2014	530,460	-11,875	524,285	508,980	0	0	15,305	-6,175
GE Capital Cda Fndg 4.65% due February 11, 2015	274,491	0	291,951	306,600	0	0	-14,649	17,460
Bank of Montreal 4.55% due August 1, 2017	0	202,899	200,246	199,882	0	0	364	364
<b>CORPORATE BONDS Total</b>	<b>4,766,328</b>		<b>5,036,801</b>	<b>4,928,577</b>	<b>0</b>	<b>0</b>	<b>108,224</b>	<b>70,591</b>
<b>TOTAL PORTFOLIO</b>	<b>33,596,982</b>		<b>37,357,624</b>	<b>36,288,652</b>	<b>1,725</b>	<b>-8,460</b>	<b>1,068,972</b>	<b>-362,427</b>
<b>TOTAL DATE TO DATE GAIN OR LOSS</b>								<b>-370,887</b>
<b>% CHANGE DURING PERIOD</b>								<b>-1.10</b>