



### ADVISORY BOARD MEETING

<u>Board Member</u>	<u>Alternate</u>	<u>Board Member</u>	<u>Alternate</u>
David Morritt	Lyndon Barnes	Donald Milner	S. Bruce Blain
Robert Love	Kate Menear	Gordon Goodman	John Birch
Mike Swartz	Paul Wilson	Ken Crofoot	Eugene Cipparone
Julia Holland	James C. Tory	Laurence Detière	Melanie Koszegi
William Scott	David E. Woollcombe	Margaret McNee	Christopher Garrah

Tuesday, September 14, 2021 at 8:30 a.m.  
 Goodmans LLP  
 34<sup>th</sup> Floor, Bay Adelaide Centre, West Tower  
 333 Bay Street  
 Toronto, Ontario

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ZOOM login information: Advisory Board of CLLAS

To join meeting using a computer:

<https://us02web.zoom.us/j/83816150233?pwd=a0VsSG42dFN3RW96WVBPeVFuT0hKZz09>

Meeting ID: 838 1615 0233

Meeting Password: 790535

To join meeting by phone:

+1 647 558 0588 Canada

Meeting ID: 838 1615 0233

Meeting Password: 790535

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### AGENDA

	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
1. Constitution of Meeting	Ken Crofoot		
2. Appointment of Secretary	Ken Crofoot		
3. Approval of the Minutes of June 22, 2021 Meeting	Ken Crofoot	5 mins	3.1

*Proposed Resolution: To approve the minutes.*



	<u>Responsibility</u>	<u>Est. Time</u>	<u>Tab</u>
4. Business Arising Out of the Minutes	Ken Crofoot		
5. Comments of Chair	Ken Crofoot	5 mins	
6. Risk Management Audit Presentation (@ 9:00am)	John Walker	30 mins	
7. Reinsurance Renewal and State of the Market Outlook	Ryan Durrell	10 mins	
8. Report of the General Manager's Office	Patrick Mahoney	20 mins	
8.1 Management Financial Statements as at June 30, 2021			8.1
8.2 Overview of CLLAS Governance Policies			8.2
• Reinsurance Risk Management Policy			
<b><i>Proposed Resolution: To confirm the Reinsurance Risk Management Policy.</i></b>			
9. Committee Reports		20 mins	
9.1 Audit Committee	Gord Goodman		
9.2 Claims Committee	Bill Scott		9.2
9.3 Risk Management Committee	Julia Holland		
9.4 Policy Committee	Donald Milner		
10. Other Business		10 mins	
10.1 Quarterly Report of the Investment Manager	Patrick Mahoney		10.1
10.2 Investment in BBB Corporate Bonds			10.2
11. Proposed Meeting Dates for 2022:			
• February 22, 2022			
• June 21, 2022			
• September 13, 2022			
• December 6, 2022			
12. Next Meeting – December 7, 2021			

**Anticipated Adjournment Time: 10:30 a.m.**

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

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

8:45 a.m.

Goodmans LLP (via videoconference)

**Tuesday, June 22, 2021**

**Present:**

Ken Crofoot (Chair)	Goodmans LLP
Robert Love	Borden Ladner Gervais LLP
Laurence Detière	Davies Ward Phillips & Vineberg LLP
Gordon Goodman	Cassels Brock & Blackwell LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Bill Scott	McCarthy Tétrault LLP
Margaret McNee	McMillan LLP
David Morritt	Osler, Hoskin & Harcourt LLP
Julia Holland	Torys LLP
Mike Swartz	WeirFoulds LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
Ryan Durrell	Axxima

**Absent:**

**1. Constitution of Meeting**

The Chair brought the meeting to order.

**2. Appointment of Secretary**

Norma Ibbetson acted as Secretary.

**3. Approval of Minutes of the February 23, 2021 Meeting of the Advisory Board**

**It was moved by Robert Love and seconded by Gordon Goodman that the minutes of the February 23, 2021 meeting of the Advisory Board be approved. The motion was carried unanimously.**

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

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

## 5. Comments of the Chair

Ken Crofoot reported to the Board that next year is the end of the five-year underwriting period and each firm must give notice to CLLAS well in advance of that date about their on-going commitment. One of the firms has been approached by a broker with the suggestion that the board tender both the reinsurance and the management services of the reciprocal. The Board discussed this and ultimately concluded that it was not in CLLAS' best interest to be managed and insured by a large brokerage.

As during previous underwriting period renewals, CLLAS will provide Board members with a background memorandum on the merits of CLLAS for distribution to each firm's management, and management is available to meet with firm management if desired.

## 6. Pro-Form Insurance Services

Bob Wilson and Scott Belton joined the meeting. Mr. Wilson introduced Scott Belton to the Board, who joined HUB a year or so ago and has been working with Mr. Wilson on CLLAS and other accounts. Mr. Belton had exposure to CLLAS in was working with the program on the international placements.

The market for lawyers' professional liability insurance has continued to harden over the past 12 months, driven by restrictions on insurers' capacity and a trend towards increasingly large claim settlements. This comes on top of the broader systemic challenges facing insurers, such as cyber-risk and increasingly frequent catastrophic natural events. Having said that, the market seems to be settling down and while the renewal work was difficult it was not as difficult as the year prior. Mr. Wilson stressed in his presentation the value of the buying power represented by the 4,000-plus lawyers of CLLAS.

Current excess insurers have agreed to renew their participation for a further year and have agreed to limit their increases to 10% on the \$50,000,000 excess of \$50,000,000 layer and 10% on the next layer of \$60,000,000 excess of \$100,000,000. There are no changes to the structure of the program this year.

Mr. Wilson indicated that there will be no changes to the policy wordings in 2021 unless there are changes to the CLLAS wording.

The CLLAS International program is renewing with a 15% rate increase. There is also an option with a lessor rate increase that requires a higher firm retention. Overall, Mr. Wilson stressed to the Board that he views this as a very good result. He reminded the Board that the international program is marketed as a group but each firm is rated separately based on claims experience.

A schedule summarizing the AM Best and S&P ratings of all the insurers on the excess and international programs was included in the hand-out materials. Also included was a rate summary going back to 2001 which highlights the decrease in rates since 2004 up to 2018. Rates increased for the first time in a long time in 2019. The 2021 rate is still competitive at \$885 for \$110 million of coverage and well below the rate of 15 years ago.

With respect to non-CLLAS renewals that Pro-Form handles, Mr. Belton advised that firms without any claims activity are still seeing rate increases, although less than last year, driven by a lack of capacity, COVID and cyber losses.

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

Head counts as of June 1<sup>st</sup> are considered final.

## **7. Reinsurance Renewal**

Ryan Durrell reported on the reinsurance renewal.

### *Reinsurance Renewal*

The Board received a copy of a June 14, 2021 memo reporting on the placement. The primary renewal objective for this year was to achieve the best renewal terms possible for CLLAS members given the current market conditions.

This year, once again, Ken Crofoot and Julia Holland from the CLLAS Board and Patrick Mahoney, Ryan Durrell and Christopher Marley from Axxima pre-recorded a video presentation for the markets and had telephone meetings with those markets that requested a follow-up discussion.

Interesting discussions centered around cyber risks and a Quebec decision adverse to the interest of some of the insurers participating on the CLLAS program. CLLAS' relationship with the markets remains positive, however the business requirements of the individual markets varied, and COVID has had a significant impact on all markets.

The proposed renewal terms were a 10% increase on the primary layer, 20% on the optional excess and 20% on the umbrella layer. Last year, we faced the headwinds of a hardening reinsurance market and continued to fight hard to resist pressure for significant rate increase. Despite some easing in the availability of capacity the upward pressure has not significantly subsided. COVID-19 has resulted in significant losses in specific market segments such as business interruption and contingency business but has not yet translated into losses across other lines of business, as markets had initially feared. That said there is apprehension about losses emerging down the road as a result of macro-economic deterioration with negative impacts of the cessation of stimulus packages being among the cited concerns.

On the positive side, CLLAS' loss development and loss emergence over the past 12 months have been relatively benign. Although some markets are not quick to forget the significant incurred losses reported in 2019, another year of relative stability was the highlight of our "business as usual" approach during renewal presentations.

On the excess layers, (optional and umbrella), we have lead agreement at 20% driven by Swiss Re and Brit.

A challenging decision on a case involving SNC-Lavalin out of Quebec is causing at least one of our markets to consider non-renewal. We are working with the underwriter to persuade their management to support renewal.

Cyber has become a key concern with markets across the placement in London, domestically there does not seem to be as much concern. CLLAS has affirmative coverage for third-party professional liability claims arising out of the use of computer systems as well as malicious cyber acts. We are working to maintain this coverage within CLLAS, but we may require the adoption of a market-standard cyber endorsement (similar to common nuclear and war and terrorism endorsements), albeit with adjustment to mirror CLLAS' current coverage. This may become an annual negotiating point even if we maintain the coverage this year. It does help tremendously that the firms all purchase separate cyber policies and do not strictly rely on the CLLAS coverage.

Allianz has exited the professional liability which has left 12.5% of the primary \$49MM xs \$1MM layer without support which will likely result in Colchester increasing their participation from 23% to 35%.

Mr. Durrell noted that the cost of reinsurance is still well below the actuarially projected loss costs, which have remained relatively stable over the past number of years. Even with the increases this year and last year, it makes sense to continue to purchase reinsurance versus retaining the risk in CLLAS.

We continue our dialogue with underwriters regarding adding another layer of optional excess coverage to the structure which we started during the 2020/2021 renewal and while we received positive support for a \$50 million excess of \$250 million umbrella layer, this is far from firmed up. The implementation of the new layer has been deferred to August 1, 2021 at the request of the markets.

#### *Surplus Position and Impact on 2021/22 Premium*

CLLAS' surplus position at December 31, 2020 was slightly above \$12.4 million. In considering the appropriate surplus level for CLLAS, it is important to consider regulatory requirements and surplus attributable to departed firms. Taking all factors into account and building in a prudent "cushion" over the minimum regulatory requirements, there is \$4.4 million of available surplus. CLLAS' actuary recommends the application of \$700,000 of surplus towards premium credits for 2021/2022, which is the same amount as in the previous two years.

During last year's rate discussion, the Board agreed that the return of a certain amount of surplus was appropriate to smooth premium increases but that it should be at a level that is sustainable for the next three or four years.

Overall, the rate increase for the coming year is expected to be 12.9%. Mr. Durrell reiterated the discussions from last year about the need to return to "technical" rates. In the past number of years, CLLAS' rates have moved by fixed percentages in all layers (e.g. -25% in 2017, +20% in 2019, +13.7% in 2020). However, the costs on each layer do not uniformly change due to asymmetric reinsurance cost increases. This means that the overall CLLAS rate is accurate, but the individual rates by layer are not. In other words, as time has gone by, the rates by layer are moving too far from the technical cost over time and should be adjusted.

In order to smooth out the impact on the firms the return to technical rates will take place in two steps as agreed by the Board last year. In 2020/21, the rates by layer were adjusted, in particular by increasing the primary \$50 million layer by more than the average, and the upper layers by less. For 2021/22 the Board is asked to consider adjusting the rates by jurisdiction (i.e. the Quebec/non-Quebec differential) to move those closer to technical rates.

**It was moved by Michael Swartz and seconded by Gordon Goodman that the surplus of \$700,000 be distributed by way of premium credit and that the 2021/22 premium rate be set at a 12.9% overall increase, subject to final minor adjustments with the change on each layer adjusted to continue to move towards the technical rate. The motion was carried unanimously.**

The first instalment of premium invoices will go out as soon as rates are finalized, which we expect to happen in next few days. As has been previously approved by the Board, the collection of premium has changed from semi-annual to quarterly installments.

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

Patrick Mahoney reported.

### *Financial Statements Quarter Ending March 31, 2021*

CLLAS's financial management report for the three months ended March 31, 2021 was included with the meeting materials.

CLLAS experienced a small underwriting loss (premiums minus claims and expenses) of \$128,000 for the first three months of 2021. After taking into account investment income (including unrealized gains arising during the quarter) CLLAS' total comprehensive loss was just over \$205,000. At March 31, 2021, CLLAS had a surplus of \$12.2 million. Expenses to date are approximately 16% under budget.

The key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund ("AMRGF"). CLLAS must maintain "cash and approved securities" in excess of the reserve fund plus the guarantee fund required by the Alberta regulator. The AMRGF required for CLLAS at March 31, 2021 was \$9.4 million. CLLAS' cash and approved securities are well in excess of the minimum requirement.

CLLAS also monitors its Minimum Capital Test ratio. At March 31, 2021, CLLAS' MCT ratio is estimated to be 534%, well above CLLAS' minimum internal requirements of 210% and slightly below the December 31, 2020 result of 538%.

Mr. Mahoney also referred the Board to the risk metrics, Exhibit V, monitored by CLLAS on a quarterly basis. The results for March 31, 2021 are within CLLAS' risk tolerances with the exception of the "maximum concentration with a single reinsurer" as the Argo Syndicate reinsures 19.3% of CLLAS' total liabilities. As noted before, appropriate moves to continue diversifying CLLAS' reinsurance support should be made when market conditions permit.

### *Surplus Policy Review and Recommendations*

At the February 2021 Board meeting, the Board discussed changes to the regulatory framework in Alberta, most notably that the Superintendent no longer requires reciprocals to meet a minimum surplus requirement of 210% MCT. We advised that we would discuss this matter with the actuary to see whether CLLAS' Surplus Policy should be amended in light of the regulatory changes.

As background, when CLLAS completed its first Own Risk and Solvency Assessment (ORSA) in 2016, the analysis suggested that CLLAS could prudently set its surplus target at a lower level than the supervisory level of 210% MCT. As a result, the surplus target adopted by the Board, 210% MCT, was driven more by regulatory requirements than by CLLAS' own risk assessment. When the second ORSA was completed in 2019, the analysis resulted in a recommended target of 210% MCT, i.e. right in line with the regulatory requirement.

The 2019 ORSA suggests that CLLAS' internal target of 210% remains appropriate notwithstanding the regulatory changes. As a result, CLLAS' actuary and management recommend that no change be made to the current surplus target at this time.

With the Board's agreement, a further surplus review will take place in 2022, with any updated surplus target being made effective on January 1, 2023. The implementation of IFRS 17 on that date will result in changes not only to the presentation of the financial statements but also to some of the numbers, and it was agreed that it would be appropriate to review the surplus target in light of those changes.

### *Business Plan for Regulator – FY21 to FY23*

The Business Plan, which has been filed with the regulator in May, was included with the Board materials and is for the period December 31, 2021 to December 31, 2023. The plan includes the return of the surplus in the financial numbers.

## **9. Committee Reports**

### *Report of the Audit Committee*

Gordon Goodman reported. The Audit Committee met with the actuaries on June 11, 2021 for its third IFRS 17 orientation session. Discussions with CLLAS' auditors will take place over the summer and some policy decisions need to be made before the end of the year. Implementation is on track

### *Report of the Claims Committee*

Bill Scott reported. The Committee continues to meet quarterly in person, and as needed by phone and email. The next meeting is scheduled for early July 2021.



*Report of the Risk Management Committee*

Ken Crofoot reported on behalf of the Committee. The Risk Management audits are complete and John Walker is compiling the results and preparing individual firm reports. The firms should receive their report by the fall and there will be a high-level presentation to the Board at the September meeting.

*Report of the Policy Committee*

Don Milner reported. There is currently no new activity.

**10. Other Business***Report of the Investment Manager at March 31, 2021*

The report of the investment manager was included with the Board materials as an information item.

*Updated Committee Membership*

An updated committee list was provided. No changes. Appreciation as always was expressed for the work being done by the committees. Anyone interested in a change was asked to contact the chair.

There was no other business.

**11. Next Meeting**

The next scheduled meeting of the Board will be on September 14, 2021.

There being no further business, the meeting was terminated.

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Chairman

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Secretary



# MEMORANDUM

DATE: September 1, 2021  
 TO: CLLAS Advisory Board  
 FROM: Patrick Mahoney  
 COPY:  
 RE: June 30, 2021 Financial Management Report

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CLLAS' financial management report for the six months ended June 30, 2021 is attached. Included are the following exhibits:

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

## Financial Results

As shown on Exhibit II, CLLAS experienced an underwriting gain of \$107,000 in the second quarter and total comprehensive income (after taking into account realized and unrealized gains/losses on the investment portfolio) of \$132,000. Year-to-date, CLLAS has a total comprehensive loss of \$72,000.

As shown on Exhibit I, CLLAS' surplus at June 30, 2021 stood at just under \$12.4 million.

The Budget Variance (Exhibit IV) shows that expenses were about \$207,000, or 18%, under budget for the six-month period. Axxima fees are under budget for the first quarter and will likely remain that way for the balance of the year. Premium taxes were also under budget due to an accounting requirement which forced the recognition of part of the 2021 premium tax expense in 2020 (i.e. a timing issue).

## Risk Metrics

Exhibit V presents the results of various "risk metrics" monitored by CLLAS based on what have been identified through the ORSA process as its material risks. The Exhibit shows the year-end results for 2019 and 2020, and the results at June 30, 2021 against risk targets and risk limits.



Most of the metrics at June 30, 2021 are within CLLAS' risk targets. The items of note are discussed below.

- Line 6: The Board had a discussion on the risk of systemic loss at its September 2020 meeting and some concerns were noted due to the pandemic, which results in this metric appearing in yellow. This metric will be reviewed again if circumstance change.
- Line 8: The insurance market continues to be very difficult and so this metric appears in yellow. Again, this metric will be reviewed again if circumstance change.
- Line 9: As has been discussed as part of CLLAS' Reinsurance Security Report, a couple of CLLAS reinsurers have A- ratings with AM Best and/or S&P.
- Line 10: As noted as part of CLLAS' Reinsurance Security Report, the Argo Syndicate (Lloyds) reinsures 19.3% of CLLAS' total liabilities. The percentage has reduced slightly from 19.6% in 2019 and exceeds CLLAS' risk limit. Appropriate moves to continue diversifying CLLAS' reinsurance support should be made when market conditions permit.

Please contact me if you have any questions with respect to the statements or the risk metrics.

Sincerely,

Patrick Mahoney, General Manager

## Exhibit I

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2021**

	As at June 30, 2021	As at June 30, 2020
<b>ASSETS</b>		
Cash	2,868,514	1,938,275
Short term investments	11,282,686	12,454,655
Bonds	6,160,494	6,281,737
Interest income due and accrued	23,119	22,448
Premium receivable	-	-
Other receivable	-	-
Prepaid expenses	114,076	99,394
Deferred policy acquisition costs	-	-
Unearned reinsurance premium ceded	-	-
Reinsurance recoverable	800,836	332,666
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	68,055,944	63,229,000
	<u>89,305,669</u>	<u>84,358,175</u>
<b>LIABILITIES</b>		
Accounts payable & accrued charges	234,756	122,993
Premium taxes payable	-	-
Unearned premium	-	-
Due to reinsurers	378	-
Provision for unpaid claims and adjustment expenses	76,691,680	70,296,000
Premium deficiency liability	-	-
	<u>76,926,813</u>	<u>70,418,992</u>
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	12,187,075	13,627,075
Accumulated Other Comprehensive Income (Loss)	191,780	312,107
	<u>12,378,855</u>	<u>13,939,182</u>
	<u>89,305,669</u>	<u>84,358,175</u>

## Exhibit II

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Period Ending June 30, 2021**

	<b>Current Year</b>		<b>Prior Year</b>	
	<b>Quarter June 30, 2021</b>	<b>Year to Date June 30, 2021</b>	<b>Quarter June 30, 2020</b>	<b>Year to Date June 30, 2020</b>
Written Premium	999	999	-	-
Gross Written Premiums	999	999	-	-
Less: Reinsurance Ceded	817	817	-	-
Net Written Premiums	182	182	-	-
Change in Unearned Premiums	503,946	1,002,354	496,144	992,287
Earned Premiums	504,128	1,002,536	496,144	992,287
Claims Paid	89,479	96,972	7,307	16,946
Change in IBNR	42,833	153,147	173,000	267,000
Change in Case Reserve	(144,479)	(101,973)	(75,000)	(84,000)
Premium Deficiency Expense	-	(30,774)	-	-
Incurred Claims	(12,167)	117,372	105,307	199,946
Management and operating expenses	337,159	761,823	328,240	724,366
Reinsurance fees	71,875	143,750	71,875	143,750
Premium taxes	-	-	13,183	26,365
Total Operating Expenses	409,034	905,573	413,298	894,481
<b>Underwriting Gain (Loss)</b>	107,262	(20,409)	(22,461)	(102,139)
Investment Income	36,563	73,949	50,723	156,051
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
<b>NET GAIN/(LOSS)</b>	<b>143,825</b>	<b>53,539</b>	<b>28,261</b>	<b>53,912</b>
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on available for sale financial assets arising during the year	(11,353)	(126,057)	148,961	264,677
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	(11,353)	(126,057)	148,961	264,677
<b>Total comprehensive income (loss)</b>	<b>132,472</b>	<b>(72,518)</b>	<b>177,222</b>	<b>318,589</b>

Exhibit III

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
STATEMENT OF CHANGES IN EQUITY  
June 30, 2021

	Minimum Surplus	Additional Surplus	Unrealized gains and losses on AFS financial assets	Total Equity
Balance, beginning of year	50,000	12,083,536	317,837	12,451,373
Prior year adjustment		-		-
Comprehensive income (loss) for the year				
Net gain (loss) for the year		53,539		53,539
Other comprehensive income (loss)				
Change in unrealized gain on available-for-sale assets			(126,057)	(126,057)
Recognition of realized (gain) loss on available-for-sale assets			-	-
Total comprehensive income (loss) for the year		53,539	(126,057)	(72,518)
Distribution of premium surplus		-		-
Balance at June 30, 2021	50,000	12,137,075	191,780	12,378,855

Exhibit IV

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS  
FOR THE PERIOD ENDED June 30, 2021

	Annual Budget	Year to Date Budget %	Year to Date Budget \$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES (See Note 1)	420,500	50%	210,250	199,476	10,774
PROFESSIONAL SERVICES (See Note 2)					
Actuarial Services	75,000	63%	47,250	37,453	9,797
Reinsurance Matters	281,770	63%	176,400	164,390	12,010
Strategic Matters	120,000	63%	75,600	40,997	34,603
Sub-Total Professional Services	476,770		299,250	242,840	56,410
GST/HST on Consulting Fees	116,645		66,235	57,501	8,734
Total Management & Professional Services	1,013,915		575,735	499,817	75,918
OTHER EXPENSES					
Audit Expenses	125,000	50%	62,500	64,891	(2,391)
Annual Dinner	-		-	-	-
Premium Taxes	170,000	50%	85,000	-	85,000
Chairman's Honourium	150,000	100%	150,000	150,000	-
Reinsurance Expense	2,500	50%	1,250	-	1,250
D&O Insurance	20,000	0%	-	-	-
Office Expenses	10,000	50%	5,000	1,603	3,397
Claims: Borderaux (LawPro/LIF)	16,800	92%	15,400	14,665	735
Special Services	25,000	50%	12,500	-	12,500
Reinsurance Fee (BWI) (See Note 3)	293,250	50%	146,625	143,750	2,875
I.B.C Statistical Plan Fees	3,000	50%	1,500	562	938
Assessment Fees	3,000	50%	1,500	2,141	(641)
Investment counsel fees	34,000	50%	17,000	15,072	1,928
Investment - Custodial	19,000	50%	9,500	9,571	(71)
Risk Management/Loss Prevention (See Note 4)	50,000	50%	25,000	-	25,000
License Fee	5,000	80%	4,000	3,500	500
Insurance: Sundry	-		-	-	-
Sub-total	926,550		536,775	405,756	131,019
TOTAL	1,940,465		1,112,510	905,573	206,937

\* NOTE 1: MANAGEMENT SERVICES

The budget of \$420,500 has been increased from \$396,000 prior year budget due to:

- small decrease in annual fixed fee
- decrease in credit applied which is as a combined result of the increase in the commissions on CLLAS Associates and CLLAS cyber renewals, and commissions calculated in the current year on CLLAS Associate firms (i.e. \$44,500 in 2019)

\* NOTE 2: PROFESSIONAL SERVICES - SEASONALLY WEIGHTED BUDGET

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

First Quarter, ending March 31st	23%
Second Quarter, ending June 30th	40%
Third Quarter, ending September 30th	19%
Fourth Quarter, ending December 31st	18%
	100%

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

The annual budget represents 4% increase from the fees on policy year 2020/2021.

\* NOTE 4: RISK MANAGEMENT/LOSS PREVENTION

To finalize work on Risk Management Audit that took place in 2020.

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY  
SUMMARY OF RISK METRICS  
June 30, 2021

Exhibit V

Risk Category	Risk Metric	December 31, 2019	December 31, 2020	June 30, 2021	Green Zone (Meets Target)	Yellow Zone	Red Zone (Limit Exceeded)
General	(1) AMRGF - Excess of Cash/Appr. Securities Over Reg. Req'ment	\$11,670,500	\$6,421,000	\$10,296,909	5,000,000 and above	\$2,500,000 to \$5,000,000	Less than \$2,500,000
	(2) MCT Ratio	712%	538%	555%	210% and above	n/a	Less than 210%
	(3) Status of Governance Policies	Up to date	Up to date	Up to date	Up to date	Items outstanding	Materially behind schedule
Insurance	(4) Gross Loss Ratio	42%	96%	49%	Less than 150%	150% to 300%	Over 300%
	(5) Net Loss Ratio	-36%	63%	8%	Less than 50%	50% to 100%	Over 100%
	(6) Risk of Systemic Loss	n/a	Some concerns raised	Some concerns raised	Nothing on horizon	Some concerns raised	Adverse experience
Premium & Strategy	(7) Actual Expenses vs. Budget	95%	92%	81%	Less than 105%	105% to 120%	Over 120%
	(8) State of the Market Outlook	n/a	Some concerns raised	Some concerns raised	Nothing on horizon	Some concerns raised	Adverse experience
Reinsurance	(9) Reinsurer Credit Rating	A- to A+	A- to A+	A- to A+	A or above	A-	B+ and below
	(10) Maximum Concentration with a Single Reinsurer excl. Colchester	19.6%	19.3%	19.3%	Less than 10%	10% to 15%	Over 15%
Operational	(11) Board Discussion of Prior Quarter Risk Metrics	Discussed corrective measures	Discussed corrective measures	Discussed corrective measures	Discussed corrective measures	Received but no discussion	Not received
	(12) Resiliency Capacity - People (e.g. redundancy, succession)	n/a	n/a	n/a	Score of 4 or 5 out of 5	Score of 3 out of 5	Score of 1 or 2 out of 5
	(13) Resiliency Capacity - Data/Systems	n/a	n/a	n/a	Score of 4 or 5 out of 5	Score of 3 out of 5	Score of 1 or 2 out of 5
	(14) Advisory Board Turnover in Last 12 Months	1	1	1	0 to 2 members	3 to 4 members	5 or more members
	(15) Key Management/Advisor Turnover in Last 36 Months	1	1	1	0 to 1 person	2 to 3 people	4 or more members
Investments	(16) Investment Manager Compliance Statement	In compliance	In compliance	In compliance	In compliance	Temporarily or slightly not	Consistently or materially not
Regulatory Compliance	(17) Regulatory Outlook Report	n/a	No significant concerns noted	No significant concerns noted	No significant issues noted	Issues being addressed	Significant issues

**Notes**

(1) = From Exhibit 6.

(2) Based on financial statements and quarterly actuarial valuation as of June 30, 2021. Target based on ORSA analysis.

(3) Reviewed annually in December.

(4) = Gross incurred losses / gross earned premiums. Gross losses from the actuarial valuations. Premiums exclude the effect of any return of surplus.

(5) = Net incurred losses / net earned premiums. Net losses derived from the financial statements. Premiums exclude the effect of any return of surplus.

(6) Reviewed in December 2020.

(7) = Actual expenses / budget expenses. From the financial statements.

(8) Reviewed in December 2020.

(9) Based on A.M. Best. information from report on reinsurance security (October 2020).

(10) Based on claim liabilities exposure. Lloyds syndicates are assessed separately. 2020 information from report on reinsurance security (October 2020).

(11) Reviewed quarterly.

(12) Reviewed annually in December.

(13) Reviewed annually in December.

(14) Reviewed quarterly based on turnover in the preceding 12-month period

(15) Senior Management/Key Advisor Turnover in Last 36 Months – Includes principal attorney, general manager, accountant, auditor, actuary, reinsurance broker and excess insurance broker.

(16) Reviewed quarterly.

(17) Reviewed annually in December.

Color Code
Meets Target
Between Target and Limit
Exceeds Limit



## Exhibit VI

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**For the Period Ending June 30, 2021**

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

	Current Year to Date 06/30/2021 (in \$000's)	Prior Year End 06/30/2020 (in \$000's)
<b><u>Reserve Fund</u></b>		
Premiums collected or credited having one year or less to run	(1) 10,696	9,288
Less: Amount paid to licensed reinsurers	(2) 8,602	7,233
Premiums collected with more than one year to run, less expired portion	(3) -	-
Less: Amount paid to reinsurers on premiums on line 3, less expired portion.	(4) -	-
Subtotal (lines 1, minus line 2, plus line 3, minus line 4)	(5) 2,094	2,055
Reserve Fund Required (50% of Line 5)	(6) 1,047	1,028
<b><u>Guarantee Fund</u></b>		
Total Liabilities	(7) 76,927	70,419
Less: Unearned Premiums	(8) -	-
Less: Recoverable from licensed reinsurers	(9) 68,010	63,165
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 8,967	7,304
<b>TOTAL RESERVE &amp; GUARANTEE FUND REQUIRED (Line 6+11)</b>	(12) 10,014	8,332
Cash & Approved Securities	(13) 20,311	20,674
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 10,297	12,343



## M E M O R A N D U M

**TO:** CLLAS Board  
**FROM:** Patrick Mahoney  
**RE:** Summary of CLLAS Governance Policies  
**DATE:** September 7, 2021

CLLAS has adopted a number of governance policies over the past few years. The table below summarizes the status of these policies together with the anticipated dates for on-going review and approval.

Policy	Status	Regulatory requirement for approval	Last Reviewed/ Approved	Next Review/ Approval
Reinsurance Risk Management	Adopted	Annual	Dec 2019	Dec 2020
Surplus	Adopted	Annual	Feb 2021	Feb 2022
Investment	Adopted	Annual	Dec 2020	Dec 2021
Enterprise Risk Management	Adopted	Annual	Dec 2019	Dec 2020
Rate Setting	Adopted		June 2019	June 2024
Outsourcing	Adopted		Dec 2017	Dec 2022
Related Party Transactions	Adopted	Annual /1	Dec 2017	Dec 2022

/1 The Superintendent has agreed to a review every five years for CLLAS' related party transaction policy.

The Reinsurance Risk Management Policy was subject to a detailed review and revision in late 2018. The policy is attached to the memo and the Board is requested to confirm that it continues to be appropriate. The ERM policy will be considered at the December Board meeting.



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Reinsurance Policy

Last Updated  
December 11, 2018




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## REINSURANCE POLICY

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Effective date: June 22, 2016

### 1. Purpose and Scope

- 1.1. The purpose of this policy is to provide guidance to the Advisory Board, Audit Committee, Principal Attorney, General Manager, and Broker on the implementation and monitoring of reinsurance arrangements for CLLAS. This policy complies with the Insurance Act of Alberta and OSFI Guideline B-3, *Sound Reinsurance Practices and Procedures*.
- 1.2. This policy outlines guiding principles with regards to the following:
  - Objectives in seeking reinsurance coverage;
  - Policies and procedures used to manage reinsurance risk;
  - Monitoring and oversight of reinsurance risk; and
  - Roles and responsibilities in managing reinsurance risk.
- 1.3. This policy applies to all existing and potential reinsurance transactions.

### 2. Objectives

CLLAS' objectives in purchasing reinsurance are the following:

- 2.1. Capacity – The purchase of reinsurance gives CLLAS flexibility to offer high coverage limits to its Subscribers while ceding insurance layers beyond its risk appetite.
- 2.2. Cost effectiveness – CLLAS has the flexibility to use its reciprocal structure to purchase more reinsurance and reduce its self-insured retention, or conversely retain more risk and reduce reinsurance, in order to optimize short and long term costs.
- 2.3. Surplus preservation – The purchase of reinsurance reduces the volatility in CLLAS' earnings and surplus position as it provides protection against large losses in exchange for a fixed premium at the inception of the policy year.
- 2.4. Surplus relief – The level of surplus required by regulatory authorities varies directly with the amount of net, i.e. retained, policy liabilities. The purchase of reinsurance allows CLLAS to operate with less surplus due to the lower amount of net policy liabilities.



### 3. Policies and Procedures to Manage Reinsurance Risk – New Transactions

- 3.1. The reinsurance structure will be reviewed and approved by the Advisory Board annually prior to the inception of the policy year with consideration to CLLAS' risk appetite, surplus position, exposure to large losses, short and long term strategic goals as well as then-prevailing reinsurance market conditions.
- 3.2. CLLAS will purchase reinsurance from either:
  - Insurance companies duly licensed to operate in Canada; or
  - Insurance companies not licensed to operate in Canada, provided that CLLAS implements such security arrangements as:
    - it deems appropriate to protect its financial interests; and
    - are in a form acceptable to the regulator (e.g. a Reinsurance Security Agreement) to the extent it wishes to obtain a surplus/asset credit for such reinsurance.
- 3.3. The selection of reinsurers will be subject to due diligence, which will be commensurate with CLLAS' exposure to a reinsurer, and may include a review of the following:
  - Cost of coverage;
  - Availability of coverage;
  - Financial strength, credit rating and outlook as determined by A.M. Best, Standard and Poor's or other similar credit rating agency;
  - Level of claims liability exposure ceded;
  - Claims payment record;
  - Funding sources;
  - Retrocession arrangements;
  - Reputation;
  - Management and governance practices;
  - Supervisory regime and legal/insolvency framework in the reinsurer's home jurisdiction;
  - Any other matters that may threaten the service or security of a reinsurer.
- 3.4. For reinsurers with significant reliance on retrocession, CLLAS' due diligence will extend to a review of the reinsurer's retrocession partners.
- 3.5. In order to minimize its reinsurance default risk, CLLAS' reinsurers should, at time of reinsurance placement, be rated A- or better by A.M. Best and/or S&P unless otherwise expressly authorized by the Advisory Board.
- 3.6. In order to minimize its reinsurance concentration risk, on an annual basis, CLLAS will assess its exposure to individual reinsurers as set out in Section 4.1 below. The results of this annual



assessment will be reviewed by the Audit Committee, which will report any recommendations to the Board.

- 3.7. All reinsurance contracts will be in written form, binding, signed by signing officers of CLLAS and the reinsurers and, subject to Section 3.8 below, will be executed prior to the effective date of reinsurance coverage. Reinsurance contracts will clearly and comprehensively document all material terms and conditions mutually agreed to by CLLAS and its reinsurers.
- 3.8. In the event that a full reinsurance contract cannot be executed prior to the effective date, the reinsurance coverage will be set out in a summary document (e.g. cover note, binding letter of intent, or confirmation email). The summary document will set out the following, at a minimum:
  - The premium paid by CLLAS;
  - The percentage of the risk being assumed by each reinsurer;
  - The risks and limits reinsured;
  - The effective and termination dates of the coverage;
  - Any applicable exclusions to the terms of coverage;
  - Any substantive changes from the expiring terms; and
  - Any material issues most likely to arise.

Upon finalization, the reinsurance contract will replace the summary document. The reinsurance contract will be signed by the authorized signing officers of CLLAS and the reinsurers as soon as practicable and within 90 days of execution.

- 3.9. The reinsurance contracts will contain an insolvency clause clarifying that the reinsurers must continue to make full payments to CLLAS in the unlikely event of CLLAS' insolvency. Reinsurance contracts will not contain terms or conditions that may limit CLLAS' ability to enforce the contractual obligations of its reinsurers.
- 3.10. The reinsurance contracts will be subject to the laws of the province of CLLAS' head office.

#### **4. Policies and Procedures to Manage Reinsurance Risk – Existing Transactions**

- 4.1. The Broker will monitor the security of the reinsurance arrangements between CLLAS and its reinsurers and, subject to Section 3.4 above, the security of the retrocession arrangements between CLLAS' reinsurers and their retrocession partners. The monitoring will include the following, at a minimum:
  - Financial health and credit rating measured against criteria recommended by the Broker and reviewed by the Audit Committee;
  - Concentration by reinsurer measured against criteria recommended by the Broker and reviewed by the Audit Committee;



- Collectability issues;
- Licensing status in Canada (registered vs. unregistered).

The Broker will provide other relevant reinsurance updates as necessary. The Broker will advise CLLAS of any rating downgrade as soon as practicable.

- 4.2. The Broker will report to the Audit Committee on an annual basis. The report will reflect the approach outlined in Appendix I unless otherwise advised by the Audit Committee. The Audit Committee will report any recommendations to the Board.
- 4.3. The General Manager will ensure the following:
  - The reinsurance risk management practices and procedures comply with this reinsurance policy;
  - The reinsurance arrangements effect a transfer of risk; and
  - The reinsurance arrangements are accounted for in the appropriate manner.
- 4.4. The General Manager, with the assistance of the Broker, will maintain a complete description of all reinsurance arrangements, including reinsurance contracts and records of due diligence performed on reinsurance counterparties.

## 5. Roles and Responsibilities

- 5.1. The Board is responsible for the following:
  - Annually reviewing and approving the reinsurance strategy and structure;
  - Annually reviewing and approving policies and procedures to manage and control reinsurance risks; and
  - Annually reviewing and approving this reinsurance policy on the recommendation of the Audit Committee.
- 5.2. The Audit Committee is responsible for the following:
  - Annually reviewing the report on reinsurance security prepared by the Broker, including the criteria used measure financial health and concentration risk; and
  - Annually reviewing this reinsurance policy and recommending appropriate changes in reinsurance structure to the Advisory Board for the upcoming renewal.
- 5.3. The Principal Attorney is responsible for the following:
  - Annually participating in the negotiation of reinsurance rates and coverage; and
  - Annually signing and executing reinsurance agreements on behalf of the Subscribers.



5.4. The General Manager is responsible for the following:

- Annually participating in the negotiation of reinsurance rates and coverage;
- Annually reporting to the Board on the effectiveness and compliance with this reinsurance policy;
- Identifying, assessing and monitoring reinsurance risks;
- Recommending appropriate changes in reinsurance strategies, policies and procedures;
- Immediately informing the Advisory Board and regulator of any reinsurance issues that could materially impact CLLAS' financial condition;
- Developing appropriate action plans and ensuring timely communication with the Board when reinsurance risk limits are exceeded; and
- Maintaining all reinsurance contracts.

5.5. The Broker is responsible for the following:

- Conducting a reinsurance renewal strategy meeting with the General Manager to discuss objectives and recommend a cost-effective reinsurance structure in accordance with CLLAS' risk appetite;
- Adhering to the reinsurance policy guidelines regarding reinsurer selection;
- Negotiating on CLLAS' behalf with reinsurers and keeping CLLAS informed of significant developments in the negotiations;
- Ensuring that all reinsurance contracts meet the requirements laid out in this policy;
- Monitoring the security of reinsurance arrangements and reporting to the Audit Committee based on the requirements of this policy;
- Providing such additional information as may be necessary to assess the creditworthiness of reinsurers (e.g. credit agency reports, annual reports, stock price information); and
- Providing relevant timely market updates regarding the reinsurance marketplace in general, and any developments respecting CLLAS reinsurers specifically (e.g. mergers, acquisitions, regulatory proceedings, etc.).

## 6. Authority

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

The Principal Attorney has the authority to sign and execute reinsurance agreements.

The Broker has the authority to negotiate reinsurance arrangements on behalf of CLLAS.

## 7. History of Modifications

The reinsurance policy was first approved by CLLAS on June 22, 2016.





The reinsurance policy was reviewed by CLLAS on December 11, 2018. Section 3.8 was amended to include confirmation email as a summary document, and Appendix I was added.



## APPENDIX I

### Section 4.2 – Annual Report to the Audit Committee

#### Level I Monitoring

The Broker will provide the Audit Committee with the following information (“Level I Monitoring information”) on all reinsurers participating on policy years with open claims:

- Current A.M. Best and S&P 5-year rating chart comparison;
- Current claims liability exposure (i.e. case reserves and IBNR) to each reinsurer from all policy years combined;
- Current claims liability exposure to each reinsurer for the prior policy year; and
- Claim limit exposure to each reinsurer for the current year.

#### Triggers for Level II Monitoring

With respect to any particular reinsurer, should any of the following events occur, Level II Monitoring will take place:

- Downgrading of the financial strength rating;
- A rating agency placing a reinsurer on a “watch” list;
- Difficulties collecting reinsurance proceeds after a claim is settled;
- Use of a reinsurer that is unregistered in Canada; or
- Any other events deemed material by the Audit Committee or its advisors.

With respect to any particular reinsurer, should any of the following events occur, Level II Monitoring will take place if its exposure to the reinsurer is significant relative to the reinsurer’s total assets and/or capital and surplus, as set out below:

- Current claims liability exposure (i.e. case reserves and IBNR) for all policy years combined exceeds 10% of the total;
- Current claims liability exposure for the prior policy year exceeds 10% of the total; or
- Claim limit exposure to each reinsurer for the current year exceeds 10% of the total limits provided by CLLAS.

CLLAS’ exposure is considered to be significant to the reinsurer if its share of CLLAS’ total current liabilities or claim limit exposure exceeds 0.1% of the reinsurer’s assets or 0.5% of the reinsurer’s capital and surplus.

#### Level II Monitoring:

The Broker will provide the Audit Committee with the following information (“Level II Monitoring information”) on all reinsurers triggering Level II Monitoring:



- Stock performance relative to the remainder of the market;
- Early warning signals/ratios (as provided by A.M. Best or equivalent agency); and
- Balance sheet and income statement highlights (as provided by A.M. Best or equivalent agency);

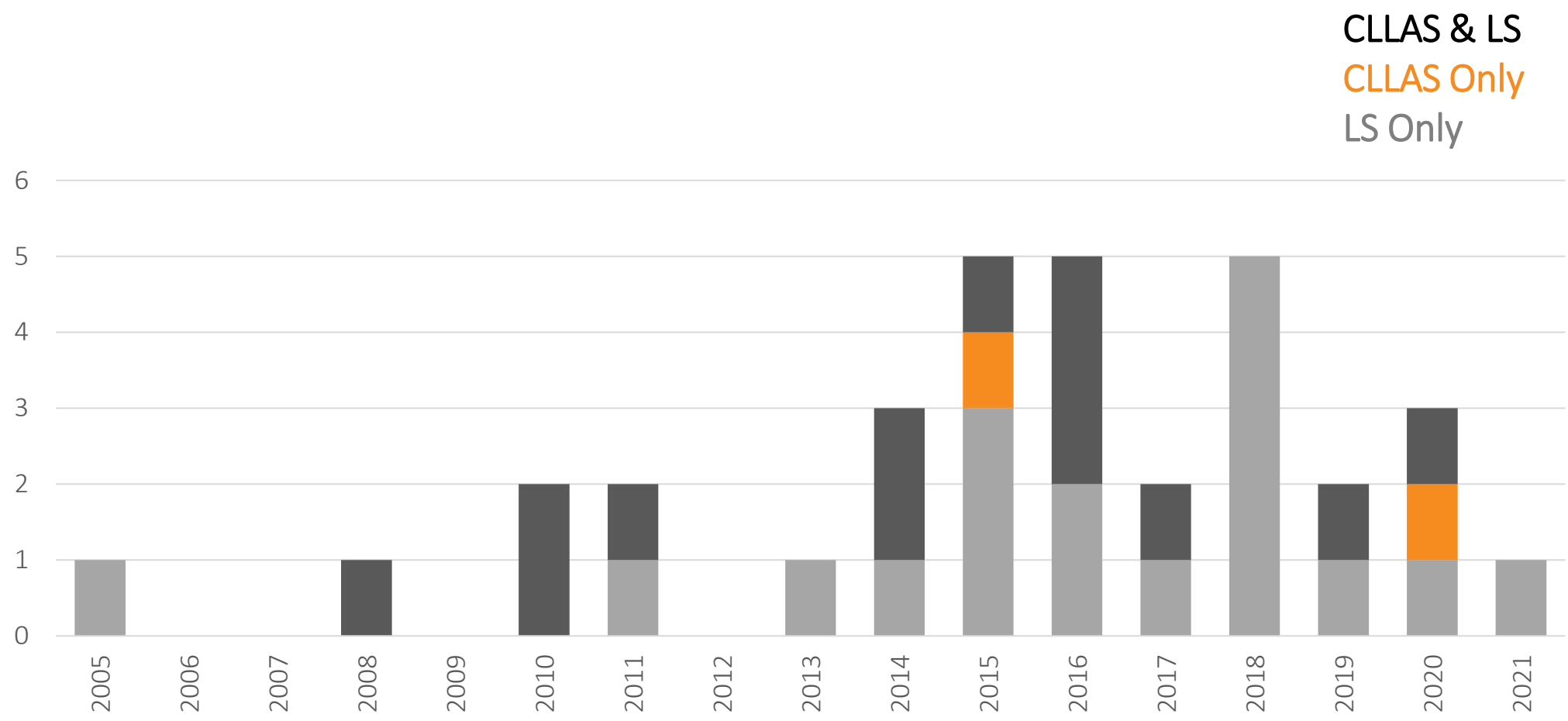
In addition, meetings or direct correspondence with these reinsurers may be undertaken as necessary to discuss the financial health of the reinsurer.



# Canadian Lawyers Liability Assurance Society

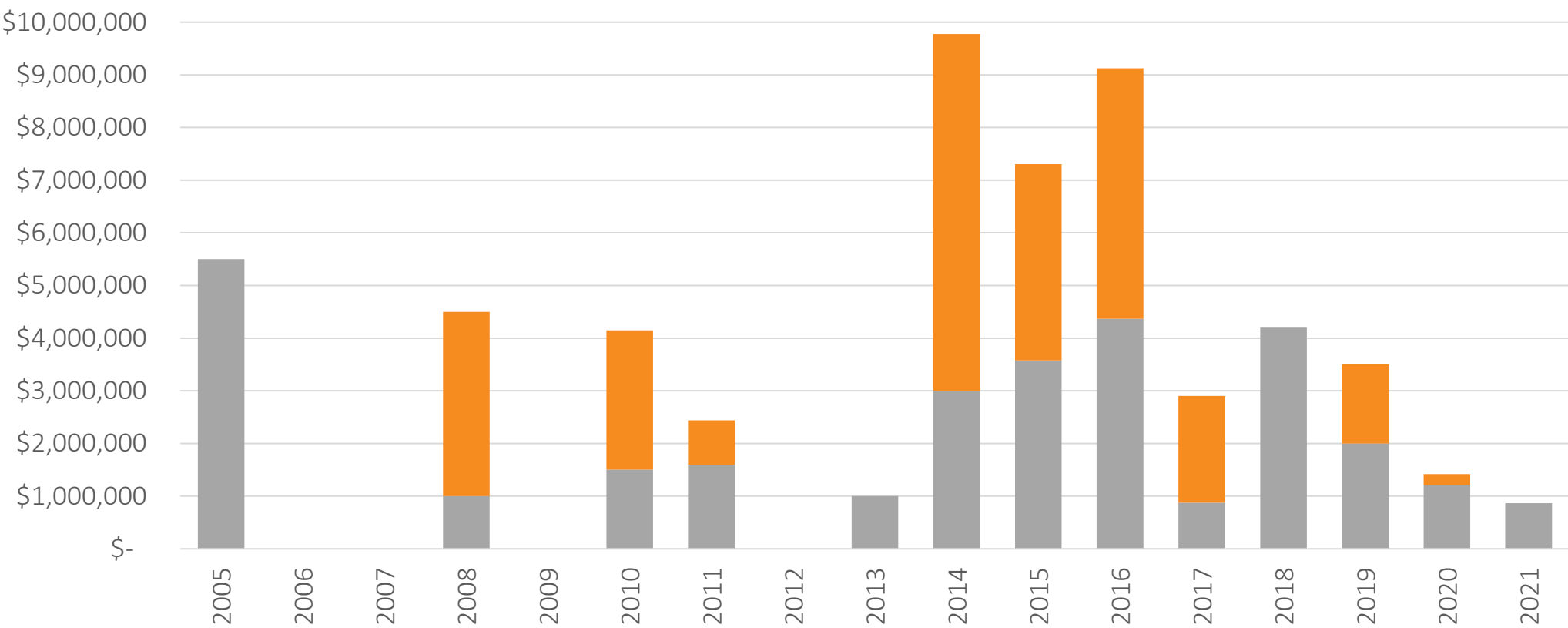
Open Large Loss Claims Summary as at June 30, 2021

# Number of Claims by Insurer

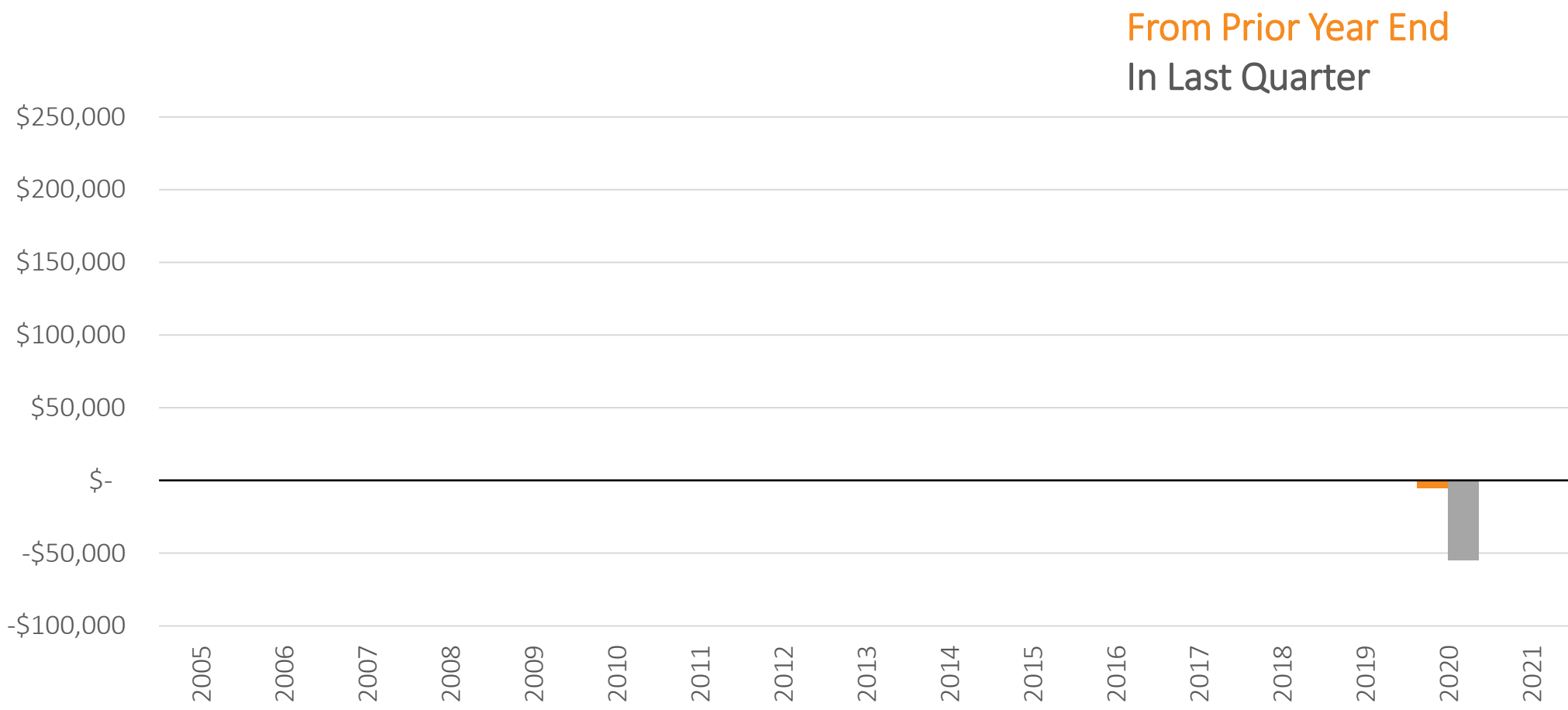


# Incurred Amounts by Insurer

LS - **CLLAS**

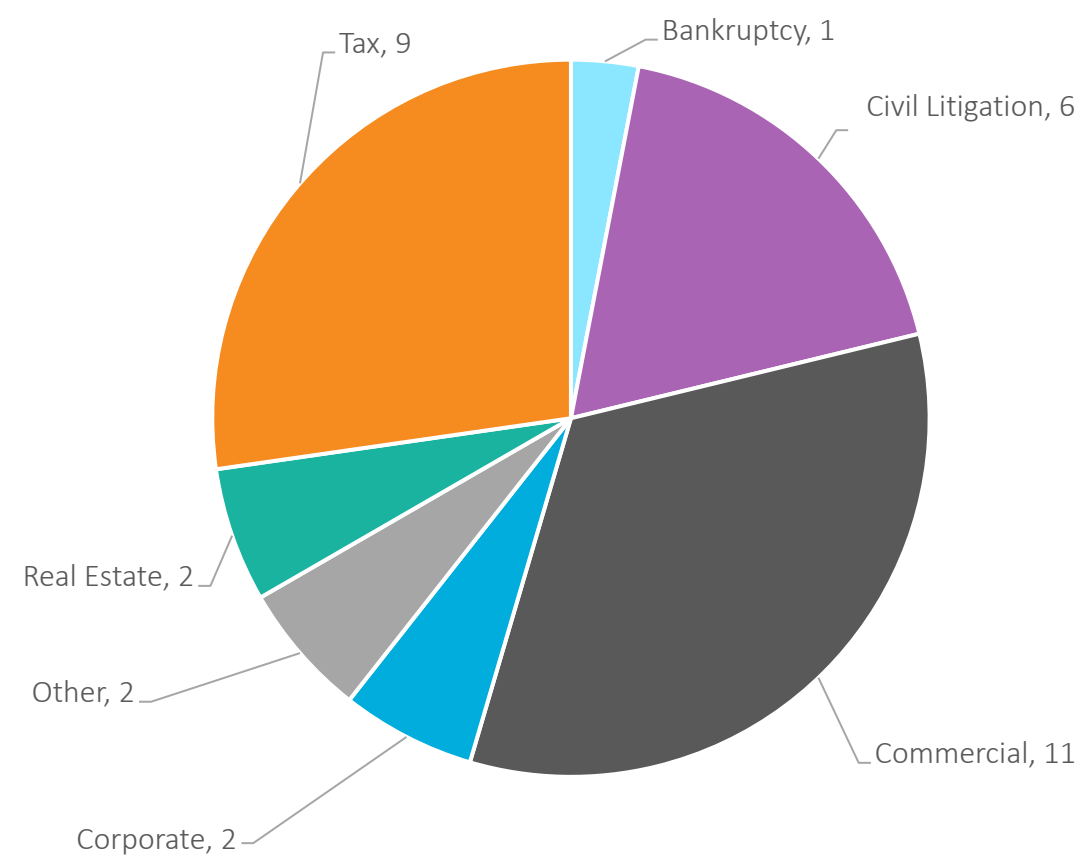


# Change in Incurred Amounts (CLLAS)

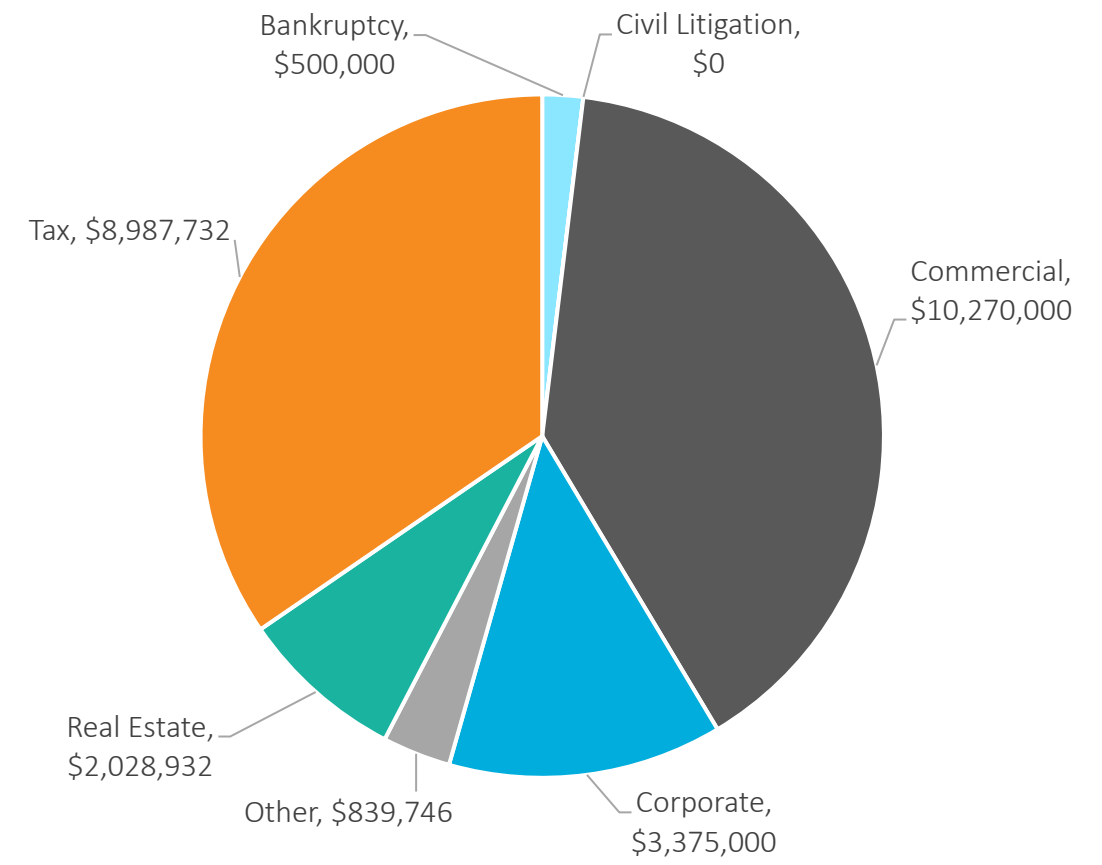


# By Area of Law

Number of Claims (CLLAS & LS)

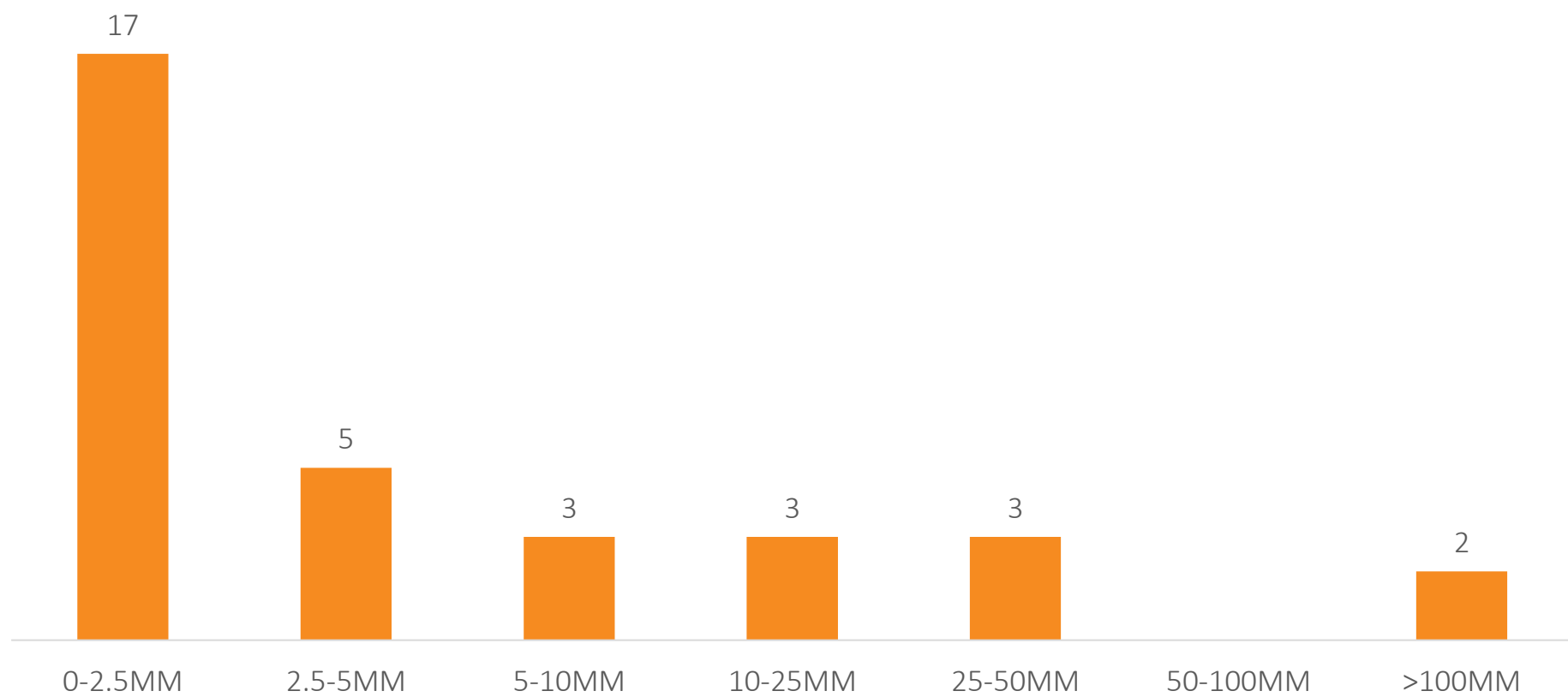


CLLAS Incurred





# Number of Claims by Best Estimate of Worst Case



# Claim Count Movement in Quarter

Policy Year	Law Society Only	CLLAS Only	CLLAS & Law Society
2005 and prior	0	0	0
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009	0	0	0
2010	0	0	0
2011	0	0	0
2012	0	0	0
2013	0	0	0
2014	0	0	0
2015	0	0	0
2016	0	0	0
2017	0	0	0
2018	0	0	0
2019	0	0	0
2020	0	0	0
2021	1	0	0

# Notes

## Slide 1

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

## Slide 2

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

## Slide 3

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

## Notes (Cont'd)

### Slide 4

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

### Slide 5

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

### Slide 6

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

# discussion



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

INVESTMENT REPORT  
JUNE 30, 2021

**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)

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

**COMMENTARY FOR THE QUARTER ENDING JUNE 30, 2021**

**Review of Market Yields**

Shorter-term yields moved gradually higher during the second quarter and at the end of June the 3-month Treasury yield was up 6 basis points, the 1-year Canada yield had increased 7 basis points, while the 3-year Canada yield rose 16 basis points. Meanwhile, longer-term yields, after trading in a sideways pattern during the first half of the quarter, drifted gradually lower over the balance of the period. As a result, the yield on issues maturing from 5- to 10-years closed the quarter lower. The largest decline was recorded by the 10-year issue, where the yield was down 16 basis points.

As a result of the small increase in short-term yields and a moderate decline in yields for longer dated maturities, the slope of the yield curve flattened. At the end of June, the yield advantage of 10-year issues over 3-month T-bills was 124 basis points compared to 146 basis points at the end of March.

	<b>Jan. 01/95</b>	<b>Dec. 31/20</b>	<b>Mar. 31/21</b>	<b>Jun. 30/21</b>
3-month Treasury Bills	6.80%	0.06%	0.09%	0.15%
5-year Canadas	8.99%	0.39%	0.99%	0.97%
10-year Canadas	9.09%	0.67%	1.55%	1.39%

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

In the Long Term Fund a government bond and a corporate bond matured. A new medium-term government bond and a new medium-term corporate bond were purchased from the proceeds of the maturities. The market value of the Long Term Investment Fund decreased \$14,126 which represents a capital decline of 0.2%.

At June 30, 2021, the average term to maturity of the Long Term Investment Fund was 3.7 years and the duration was 3.5 years.

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

<b><i>Distribution at June 30, 2021</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$11,283,264	64.7%
Long Term Investment Fund	\$ 6,161,000	35.3%
<b>TOTAL COMBINED VALUATION</b>	<b>\$17,444,264</b>	<b>100.0%</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

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

- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short Term and Long Term Investment Funds Listed and Valued Separately as at June 30, 2021
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report



**LONG TERM INVESTMENT FUND****TIME-WEIGHTED RATES OF TOTAL RETURN  
FOR PERIODS ENDING JUNE 30, 2021**

	3 Years*	2 Years*	1 Year	Last 3 months
<b><i>Long Term Investment Fund – Gross of Fees</i></b>	<b><i>3.74%</i></b>	<b><i>2.85%</i></b>	<b><i>0.29%</i></b>	<b><i>0.36%</i></b>
<b><i>Long Term Investment Fund – Net of Fees</i></b>	<b><i>3.45%</i></b>	<b><i>2.56%</i></b>	<b><i>0.01%</i></b>	<b><i>0.28%</i></b>
<b>Benchmark Portfolio **</b>	<b>3.72%</b>	<b>2.85%</b>	<b>-0.13%</b>	<b>0.68%</b>

\*Annualized

\*\* The Benchmark Portfolio is based on the sum of the following total return indices:

60% Canada Short Bond Index  
40% Canada Mid Bond Index

**SHORT TERM INVESTMENT FUND****TIME-WEIGHTED RATES OF TOTAL RETURN  
FOR PERIODS ENDING JUNE 30, 2021**

	Since Inception Oct. 01/08 *	3 Years*	2 Years *	1 Year	Last 3 Months
<b><i>Short Term Investment Fund – Gross of Fees</i></b>	<b><i>0.86%</i></b>	<b><i>1.05%</i></b>	<b><i>0.75%</i></b>	<b><i>0.12%</i></b>	<b><i>0.02%</i></b>
<b><i>Short Term Investment Fund – Net of Fees</i></b>	<b><i>0.73%</i></b>	<b><i>0.92%</i></b>	<b><i>0.62%</i></b>	<b><i>0.01%</i></b>	<b><i>-0.01%</i></b>
<b>Benchmark Portfolio **</b>	<b>0.81%</b>	<b>1.02%</b>	<b>0.75%</b>	<b>0.12%</b>	<b>0.02%</b>

\* Annualized

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

**LONG TERM INVESTMENT FUND****DISTRIBUTION OF SECURITIES BY CREDIT RISK**

(Based on Market Values)

	Dec. 17/13	Sep. 30/20	Dec. 31/20	Mar. 31/21	Jun. 30/21
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	100.0%	7.2%	11.3%	18.1%	17.4%
<b>Canadas</b> Greater than 1 year term		20.6%	20.5%	20.5%	28.0%
<b>Provincials</b> Greater than 1 year term		38.3%	34.2%	34.1%	27.3%
<b>Corporates</b> Greater than 1 year term		33.8%	34.0%	27.3%	27.3%
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**LONG TERM INVESTMENT FUND****DISTRIBUTION OF SECURITIES BY MATURITY**

(Based on Market Values)

	Sep. 30/20	Dec. 31/20	Mar 31/21	Jun. 30/21
Under 1 year	7.2%	11.3%	18.1%	17.3%
1 - 3 years	39.9%	35.7%	29.5%	27.0%
3 - 5 years	20.0%	25.1%	25.0%	30.0%
5 - 7 years	28.5%	23.5%	27.3%	18.0%
7 - 10 years	4.4%	4.4%	0.0%	7.6%
<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>3.78</b>	<b>3.53</b>	<b>3.25</b>	<b>3.69</b>
<b>Average Duration (yrs)</b>	<b>3.55</b>	<b>3.33</b>	<b>3.06</b>	<b>3.48</b>

**SHORT TERM INVESTMENT FUND**

	Sep. 30/20	Dec. 31/20	Mar. 31/21	Jun. 30/21
<b>Short Term</b> <b>Average Duration (yrs)</b>	<b>0.10</b>	<b>0.11</b>	<b>0.08</b>	<b>0.11</b>

# COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT JUNE 30, 2021

	Investment Limits	Investment Funds	Compliance
<b><i>Short Term Investment Fund</i></b>			
Maximum Term of Any Issue	1 year	0.3 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	64.7%	Yes
Minimum Canada & Provincial Percentage	50%	57.3%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1 (high)	R1 (high)	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	9.7 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	35.3%	Yes
Minimum Canada Percentage	20%	28.0%	Yes
Maximum Provincial Percentage	40%	38.1%	Yes
Minimum Canada & Provincial Percentage	60%	66.1%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	33.9%	Yes
Minimum Corporate Quality *	A	AA (low)	Yes

\* At time of purchase

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

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

Martin, Lucas & Seagram Ltd.  
 PERFORMANCE REPORT  
 GROSS OF FEES  
**CLLAS – LONG TERM INVESTMENT FUND**  
*(RBC Investor Services)*  
*From 03-31-21 to 06-30-21*

Portfolio Value on 03/31/21	6,162,759
Accrued Interest	42,200
Contributions	265,767
Withdrawals	-308,680
Realized Gains	-8,916
Unrealized Gains	-15,186
Interest	65,255
Dividends	0
Change in Accrued Interest	-19,081
Portfolio Value on 06/30/21	6,161,000
Accrued Interest	23,119
Average Capital	6,184,679
Total Gains before Fees	22,073
<b>IRR for 0.25 Years</b>	<b>0.36%</b>

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

The rally in North American equity markets that started last November has remained intact, with only brief intermittent periods of consolidation and a few shallow pullbacks. Throughout this period, equity markets have had the support of stimulative monetary and fiscal policies that have been unprecedented in terms of their size and scope. In the wake of these expansionary policies and the ramping up of vaccine deliveries, the economic recovery has built considerable upward momentum over the past nine months and there has been a marked improvement in the business backdrop.

Meanwhile, domestic and U.S. bond prices have experienced swings in both directions. After starting the year below 0.7%, the benchmark Canada 10-year yield more than doubled to reach a high of 1.61% in March before settling into a sideways trading range. The U.S. Treasury 10-year yield experienced a similar move from below 1% in January to a high of 1.75% in March. This sharp upward shift in yields caught many investors by surprise and raised concerns that the U.S. government's massive fiscal relief package, alongside a broad reopening of the economy, could overstimulate the economy and cause a surge in inflation and push bond yields even higher.

These lofty expectations for growth have been largely met. Real GDP in the U.S. expanded in the first quarter at an annualized pace of 6.7%, which is the second largest gain since 2003. Given the success of an aggressive U.S. vaccination campaign that has managed to fully vaccinate close to 50% of the population, combined with strong gains in consumer confidence as restrictions were lifted, GDP growth in the second quarter is expected to easily exceed the previous quarter's gain. However, these demand pressures are bumping up against bottlenecks in the supply chain and there has also been a year-over-year surge in the inflation figures, which have been running above expectations for several months. The latest figures show consumer prices increased 5.4% in June from a year earlier, while the core rate, which excludes food and energy prices, increased 4.5%, which is more than double the Federal Reserve's long-term target of 2%.

In Canada, first quarter GDP grew at an annual rate of 5.6% following a 9.6% surge during the previous quarter. As a result, at the end of March, overall economic activity was just one per cent below the levels seen pre-pandemic in February 2020. However, during the second quarter some key economic data deteriorated as provincial governments tightened lockdown measures to combat the third wave of infections. Employment was particularly hard hit as a total of 275,000 jobs were lost in April and May, which caused an uptick in the unemployment rate to 8.2%. However, the economy added some 230,000 jobs in June and the unemployment rate fell to 7.8% as vaccinations ramped up and the provinces moved into the first phase of their reopening plans. Now that over 70% of all Canadians have received one dose and some 50% are fully vaccinated, the service sector is expected to lead the economy higher in the current quarter as public health restrictions are eased further through the summer months.

In its latest forecast, the World Bank expects the global economy to expand 5.6% this year, which would be the strongest post-recession advance in 80 years. Among the major economies, China is expected to lead, with an 8.5% gain, followed by the U.S. with a projected increase of 6.8%. Meanwhile, growth rates among other advanced economies are also expected to gain ground, but to a lesser extent. While Europe experienced a double-dip recession in the first

quarter, the most recent economic indicators that track manufacturing, consumption, trade and construction have all improved. Together with Europe's increased pace of vaccinations, this provides optimism for a strong rebound as the year progresses. Unfortunately, many emerging market economies are being held back by high infection rates and limited access to vaccines. While the World Bank forecasts this group to grow a more modest 4.4% this year, gains forecasted for this year and next are not expected to recoup the losses experienced during the 2020 recession.

Despite the rapidly recovering North American economy and accelerating inflation, yields reversed course during the second quarter and had been drifting lower until earlier this month, when the decline accelerated. In Canada, the 10-year yield fell from 1.4% at the start of July to a low of 1.15% earlier this week. In the U.S., the drop was even more pronounced from 1.47% to 1.14%, which set a five-month low. There has been considerable debate surrounding the reasons for the recent slide in yields. Some believe the decline has been largely driven by technical factors. Many fund managers were expecting yields would move higher as the year progressed and held short positions in bonds. However, as prices continued to rise as yields fell and the Federal Reserve reiterated its patient stance on tapering their bond purchases, managers changed course and covered their short positions, which accelerated the decline in yields. International demand has also been cited as a contributing factor for the rally in bond prices. Over the past year, offshore bonds trading with a negative yield have increase 6% to \$15.2 trillion, which improved the relative attractiveness of U.S. treasuries. Portfolio rebalancing has also increased the demand for bonds as managers lock in equity gains and shift the proceeds to bonds in order to reach asset mix targets.

The unexpected decline in yields has also been attributed to growing concerns surrounding the economic outlook and helped fuel worries that the expected pace of the global recovery could prove too optimistic, given the growing prevalence of the more transmissible Delta variant and the low vaccination rates among many emerging markets. Economic forecasts have also been pared in the wake of recent data that has been moderately below expectations along with signs that fiscal and monetary policy might not provide as much stimulus as anticipated.

Turning to the outlook for inflation, while readings have exceeded expectations for several months and have also triggered periodic bouts of volatility in the bond and stock markets, the Fed and Bank of Canada have held to the view that the current rise in prices is due to temporary factors. While a pickup in inflation is normal as the economy reopens, these pressures are expected to ease, given the considerable slack remaining in the economy, as supply chain backlogs are cleared and pandemic-related distortions recede. This favourable outlook has been mirrored in recent investor surveys and supported by recent price action in the bond market, where both nominal and inflation-adjusted yields have been drifting lower. Nevertheless, investors remain heavily focused on the prospects for inflation and the risk that the Fed will need to start tapering their stimulative policies sooner than anticipated if price pressures prove less transitory than expected. In its latest economic update, the Fed increased its projections for both economic growth and inflation and acknowledged that inflation could be higher and longer lasting than expected. As a result, the Fed moved forward the timing of a hike in interest rate to 2023 and committee members are now considering when to start reducing their monthly bond purchases.

Looking ahead, we believe the economic and business backdrop will continue to improve and that expansionary fiscal and monetary policies will remain in place for some time yet. Given the potential for disappointments and elevated complacency, we think investors should be prepared for uncomfortable bouts of volatility, which could trigger flight-to-safety trades and periodic downticks in bond yields. However, we believe bond yields will trade with an upward bias as the year progresses based on the constructive outlook for the North American economy and the expectation that the breadth of the global recovery will improve. As a result, we think it is prudent to maintain the Long Term Fund's laddered maturity structure and relatively defensive duration of approximately 3.5 years.

RWB/de

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

Martin, Lucas &amp; Seagram Ltd.

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

**Portfolio Holdings at June 30, 2021**

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
<b>CASH</b>					
	Cash Account			4,951	0
<b>MONEY MARKET ISSUES</b>					
1,200,000	CIBC BA 0.13% due July 8, 2021	99.97	100.00	1,199,957	1,560
1,305,000	Canada Treasury Bill .03% due July 15, 2021	99.99	99.99	1,304,930	391
1,180,000	Royal Bank BA 0.14% due July 16, 2021	99.99	99.99	1,179,915	1,652
1,225,000	TD Bank BA 0.15% due July 26, 2021	99.99	99.99	1,224,857	1,838
1,300,000	Canada Treasury Bill 0.04% due August 5, 2021	99.99	99.99	1,299,826	520
1,215,000	CIBC BA 0.14% due August 9, 2021	99.97	99.98	1,214,776	1,700
1,210,000	Canada Treasury Bill .07% due August 12, 2021	99.98	99.98	1,209,808	847
1,320,000	Canada Treasury Bill 0.05% due September 9, 2021	99.99	99.97	1,319,666	660
1,330,000	Canada Treasury Bill 0.06% due September 30, 2021	99.98	99.96	1,329,531	798
				<u>11,283,264</u>	<u>9,966</u>
<b>TOTAL PORTFOLIO</b>				<b>11,288,216</b>	<b>9,966</b>

## Disclosures:

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



Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 04-01-21 To 06-30-21*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
04-07-21	04-08-21	1,305,000	Canada Treasury Bill .03% due July 15, 2021	99.99	1,304,894.30
04-14-21	04-15-21	1,215,000	Bank of Nova Scotia BA 0.14% due May 14, 2021	99.99	1,214,865.14
04-14-21	04-15-21	1,215,000	TD Bank BA 0.14% due June 29, 2021	99.97	1,214,650.08
04-16-21	04-19-21	1,200,000	CIBC BA 0.13% due July 8, 2021	99.97	1,199,658.00
04-20-21	04-22-21	1,300,000	Canada Treasury Bill 0.04% due August 5, 2021	99.99	1,299,850.50
04-22-21	04-23-21	1,175,000	Royal Bank BA 0.15% due May 25, 2021	99.99	1,174,846.08
05-05-21	05-06-21	1,210,000	Canada Treasury Bill .07% due August 12, 2021	99.98	1,209,772.52
05-13-21	05-14-21	1,215,000	CIBC BA 0.14% due August 9, 2021	99.97	1,214,594.19
05-21-21	05-25-21	1,175,000	Bank of Nova Scotia BA 0.15% due June 21, 2021	99.99	1,174,870.75
05-26-21	05-27-21	1,320,000	Canada Treasury Bill 0.05% due September 9, 2021	99.99	1,319,809.92
06-09-21	09-10-21	1,330,000	Canada Treasury Bill 0.06% due September 30, 2021	99.98	1,329,755.28
06-18-21	06-18-21	1,180,000	Royal Bank BA 0.14% due July 16, 2021	99.99	1,179,886.72
06-28-21	06-29-21	1,225,000	TD Bank BA 0.15% due July 26, 2021	99.99	1,224,864.03
					<b>16,062,317.51</b>
<b>SALES</b>					
04-08-21	04-08-21	1,305,000	Canada Treasury Bill 0.06% due April 8, 2021	100.00	1,305,000.00
04-15-21	04-15-21	1,205,000	Royal Bank BA .14% due April 15, 2021	100.00	1,205,000.00
04-15-21	04-15-21	1,225,000	Toronto Dominion Bank BA 0.13% due April 15, 2021	100.00	1,225,000.00
04-19-21	04-19-21	1,200,000	CIBC BA 0.12% due April 19, 2021	100.00	1,200,000.00
04-22-21	04-22-21	1,300,000	Canada Treasury Bill 0.04% due April 22, 2021	100.00	1,300,000.00
04-23-21	04-23-21	1,185,000	Toronto Dominion Bank BA 0.15% due April 23, 2021	100.00	1,185,000.00
05-06-21	05-06-21	1,210,000	Canada Treasury Bill 0.01% due May 6, 2021	100.00	1,210,000.00

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 04-01-21 To 06-30-21*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
05-14-21	05-14-21	1,215,000	Bank of Nova Scotia BA 0.14% due May 14, 2021	100.00	1,215,000.00
05-25-21	05-25-21	1,175,000	Royal Bank BA 0.15% due May 25, 2021	100.00	1,175,000.00
05-27-21	05-27-21	1,315,000	Canada Treasury Bill 0.03% due May 27, 2021	100.00	1,315,000.00
06-10-21	06-10-21	1,305,000	Canada Treasury Bill 0.08% due June 10, 2021	100.00	1,305,000.00
06-21-21	06-21-21	1,175,000	Bank of Nova Scotia BA 0.15% due June 21, 2021	100.00	1,175,000.00
06-29-21	06-29-21	1,215,000	TD Bank BA 0.14% due June 29, 2021	100.00	1,215,000.00
					<b>16,030,000.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
***(RBC Investor Services)***  
*From 03-31-21 to June-30-21*

Cash Balance at March 31, 2021		<u>6,608.28</u>
ADD: Proceeds from Sales	16,030,000.00	
Capital Contribution		
Bond Interest Credited (from Long Term Investment Fund)	55,280.00	
Transfers to Long Term Fund re: net sales and purchases	<u>-12,367.30</u>	<u>16,072,912.70</u>
LESS: Cost of Purchases	-16,062,317.51	
Capital Withdrawal		
Q1 2021 Investment Counsel Fees - Short Term Investment Fund	-4,352.45	
Q1 2021 Investment Counsel Fees - Long Term Investment Fund	-3,179.73	
Trust Company Charges	<u>-4,720.21</u>	<u>-16,074,569.90</u>
<b>Cash Balance at June 30, 2021</b>		<b><u><u>4,951.08</u></u></b>

0.00

0.00

Martin, Lucas & Seagram Ltd.							
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2021							
CLLAS - SHORT TERM INVESTMENT FUND							
			Unit	Total		Market	%
Quantity	Security	Rating	Cost	Cost	Price	Value	Assets
1,200,000	CIBC BA 0.13% due July 8, 2021	R-1 (high)	99.972	1,199,658	99.996	1,199,957	10.6%
1,305,000	Canada Treasury Bill .03% due July 15, 2021	R-1 (high)	99.992	1,304,894	99.995	1,304,930	11.6%
1,180,000	Royal Bank BA 0.14% due July 16, 2021	R-1 (high)	99.990	1,179,887	99.993	1,179,915	10.5%
1,225,000	TD Bank BA 0.15% due July 26, 2021	R-1 (high)	99.989	1,224,864	99.988	1,224,857	10.9%
1,300,000	Canada Treasury Bill 0.04% due August 5, 2021	R-1 (high)	99.989	1,299,851	99.987	1,299,826	11.5%
1,215,000	CIBC BA 0.14% due August 9, 2021	R-1 (high)	99.967	1,214,594	99.982	1,214,776	10.8%
1,210,000	Canada Treasury Bill .07% due August 12, 2021	R-1 (high)	99.981	1,209,773	99.984	1,209,808	10.7%
1,320,000	Canada Treasury Bill 0.05% due September 9, 2021	R-1 (high)	99.986	1,319,810	99.975	1,319,666	11.7%
1,330,000	Canada Treasury Bill 0.06% due September 30, 2021	R-1 (high)	99.982	1,329,755	99.965	1,329,531	11.8%
				11,283,085		11,283,264	100%

Martin, Lucas &amp; Seagram Ltd.

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

**Portfolio Holdings at June 30, 2021**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
<b>GOVERNMENT BONDS</b>					
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	102.92	205,832	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	103.89	207,781	4,700
250,000	Canada Housing Trust 2.9% due June 15, 2024	102.64	106.21	265,535	7,250
300,000	Canada Housing Trust Ser. 70 2.25% due December 15, 2025	100.98	104.86	314,594	6,750
250,000	Canada Housing Trust No.1 2.350% due March 15, 2028	103.96	105.71	264,278	5,875
200,000	Canada Housing Trust 2.1% Series 88 due September 15, 2029	102.89	103.65	207,302	4,200
275,000	Canada Housing Trust 1.1% Series 95 due March 15, 2031	94.05	94.04	258,615	3,025
				<hr/> 1,723,936	<hr/> 36,600
<b>PROVINCIAL BONDS</b>					
250,000	British Columbia 3.25% due December 18, 2021	102.30	101.38	253,448	8,125
400,000	Ontario 3.15% due June 2, 2022	100.00	102.61	410,444	12,600
500,000	Ontario 2.85% due June 2, 2023	102.29	104.38	521,885	14,250
400,000	Ontario 2.60% due June 2, 2025	101.08	105.74	422,966	10,400
350,000	British Columbia 2.3% due June 18, 2026	104.40	105.05	367,664	8,050
350,000	Ontario 2.60% due June 2, 2027	97.56	106.28	371,996	9,100
				<hr/> 2,348,402	<hr/> 62,525
<b>CORPORATE BONDS</b>					
150,000	Royal Bank 1.968% due March 2, 2022	100.05	101.09	151,636	2,952
250,000	National Bank of Canada 2.105% due March 18, 2022	102.04	101.26	253,156	5,263
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	104.10	156,155	5,190
300,000	Toronto Dominion Bank Dep. Note 1.909% due July 18, 2023	102.63	102.22	306,661	5,727

Martin, Lucas &amp; Seagram Ltd.

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

**Portfolio Holdings at June 30, 2021**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
250,000	Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	102.02	106.41	266,022	8,065
250,000	CIBC Deposit Note 3.3% due May 26, 2025	100.24	107.78	269,461	8,250
200,000	Wells Fargo & Company 2.975% due May 19, 2026	102.15	105.06	210,118	5,950
300,000	Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	102.07	105.52	316,556	7,860
150,000	Bank of Montreal Dep. Note 2.70% due December 9, 2026	108.76	105.93	158,897	4,050
				<hr/> 2,088,661	<hr/> 53,307
<b>TOTAL PORTFOLIO</b>				<b>6,161,000</b>	<b>152,432</b>

## Disclosures:

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Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 04-01-21 To 06-30-21*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
04-28-21	04-30-21	200,000	Canada Housing Trust 2.1% Series 88 due September 15, 2029	102.89	205,780.00
06-18-21	06-22-21	275,000	Canada Housing Trust 1.1% Series 95 due March 15, 2031	94.05	258,637.50
					<b>464,417.50</b>
<b>SALES</b>					
04-23-21	04-23-21	200,000	Bank of Montreal 3.4% due April 23, 2021	100.00	200,000.00
06-15-21	06-15-21	250,000	Canada Housing Trust Ser 71 1.25% due June 15, 2021	96.83	242,075.00
					<b>442,075.00</b>

Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 03-31-21 to June-30-21*

Cash Balance at March 31, 2021		<u>0.00</u>
ADD: Proceeds from Sales	453,400.00	
Bond Interest Credited to Long Term Investment Fund	55,280.00	
Transfer Bond Interest to Short Term Investment Fund	-55,280.00	
Transfer to Short Term Investment Fund net purchases & sales	<u>12,367.30</u>	<u>465,767.30</u>
LESS: Cost of Purchases	-465,767.30	<u>-465,767.30</u>
<b>Cash Balance at June 30, 2021</b>		<b><u><u>0.00</u></u></b>



Martin, Lucas & Seagram Ltd.									
EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2021									
CLLAS - LONG TERM INVESTMENT FUND									
Quantity	CUSIP	Security		Rating	Unit Cost	Total Cost	Price	Market Value	Pct. Assets
<b>GOVERNMENT BONDS</b>									
200,000	13509PDL4	Canada Housing Trust 2.4% Series 48	due December 15, 2022	AAA	100.37	200,740	102.92	205,832	3.3%
200,000	13509PDV2	Canada Housing Trust 2.35%	due September 15, 2023	AAA	105.62	211,240	103.89	207,781	3.4%
250,000	13509PEF6	Canada Housing Trust 2.9%	due June 15, 2024	AAA	102.64	256,600	106.21	265,535	4.3%
300,000	13509PFD0	Canada Housing Trust Ser. 70 2.25%	due December 15, 2025	AAA	100.98	302,940	104.86	314,594	5.1%
250,000	13509PGF4	Canada Housing Trust No.1 2.350%	due March 15, 2028	AAA	103.96	259,900	105.71	264,278	4.3%
200,000	13509PHD8	Canada Housing Trust 2.1% Series 88	due September 15, 2029	AAA	102.89	205,780	103.65	207,302	3.4%
275,000	13509PHQ9	Canada Housing Trust 1.1% Series 95	due March 15, 2031	AAA	94.05	258,638	94.04	258,615	4.2%
						1,695,838		1,723,936	28.0%
<b>PROVINCIAL BONDS</b>									
250,000	110709BJ0	British Columbia 3.25%	due December 18, 2021	AA (high)	102.30	255,750	101.38	253,448	4.1%
400,000	68323AAW4	Ontario 3.15%	due June 2, 2022	AA (low)	100.00	400,000	102.61	410,444	6.7%
500,000	68323ABN3	Ontario 2.85%	due June 2, 2023	AA (low)	102.29	511,430	104.38	521,885	8.5%
400,000	68323ACX0	Ontario 2.60%	due June 2, 2025	AA (low)	101.08	404,305	105.74	422,966	6.9%
350,000	11070TAJ7	British Columbia 2.3%	due June 18, 2026	AA (high)	104.40	365,400	105.05	367,664	6.0%
350,000	68323AEE0	Ontario 2.60%	due June 2, 2027	AA (low)	97.56	341,460	106.28	371,996	6.0%
						2,278,345		2,348,402	38.1%
<b>CORPORATE BONDS</b>									
150,000	780086KD5	Royal Bank 1.968%	due March 2, 2022	AA (high)	100.05	150,075	101.09	151,636	2.5%
250,000	633067C27	National Bank of Canada 2.105%	due March 18, 2022	AA (low)	102.04	255,100	101.26	253,156	4.1%
150,000	94975ZBN5	Wells Fargo 3.46%	due January 24, 2023	AA (low)	102.36	153,542	104.10	156,155	2.5%
300,000	891160LV3	Toronto Dominion Bank Dep. Note 1.909%	due July 18, 2023	AA (high)	102.63	307,890	102.22	306,661	5.0%
250,000	891145T79	Toronto Dominion Bank Dep. Note 3.226%	due July 24, 2024	AA (high)	102.02	255,050	106.41	266,022	4.3%
250,000	13596Z3Y9	CIBC Deposit Note 3.3%	due May 26, 2025	AA	100.24	250,600	107.78	269,461	4.4%
200,000	949746RX1	Wells Fargo & Company 2.975%	due May 19, 2026	AA (low)	102.15	204,300	105.06	210,118	3.4%
300,000	064151QE6	Bank of Nova Scotia Dep. Notes 2.62%	due December 2, 2026	AA	102.07	306,210	105.52	316,556	5.1%
150,000	06368AAA8	Bank of Montreal Dep. Note 2.70%	due December 9, 2026	AA	108.76	163,140	105.93	158,897	2.6%
						2,045,907		2,088,661	33.9%
<b>TOTAL PORTFOLIO</b>						<b>6,020,089</b>		<b>6,161,000</b>	<b>100.0%</b>

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 12-31-20 to 06-30-21*

Security	12-31-20 Market Value	Additions Withdrawals	06-30-21 Market Value	06-30-21 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 Housing Trust Ser 71 1.25% due June 15, 2021	251,260	-251,563	0	0	0	-9,185	0	0
Canada Housing Trust 2.4% Series 48 due December 15, 2022	208,270	-2,400	205,832	200,740	0	0	5,092	-2,438
Canada Housing Trust 2.35% due September 15, 2023	210,616	-2,350	207,781	211,240	0	0	-3,459	-2,835
Canada Housing Trust 2.9% due June 15, 2024	270,925	-3,625	265,535	256,600	0	0	8,935	-5,390
Canada Housing Trust Ser. 70 2.25% due December 15, 2025	323,448	-3,375	314,594	302,940	0	0	11,654	-8,855
Canada Housing Trust No.1 2.350% due March 15, 2028	276,235	-2,938	264,278	259,900	0	0	4,378	-11,958
Canada Housing Trust 2.1% Series 88 due September 15, 2029	0	206,309	207,302	205,780	0	0	1,522	1,522
Canada Housing Trust 1.1% Series 95 due March 15, 2031	0	259,458	258,615	258,638	0	0	-23	-23
<b>GOVERNMENT BONDS Total</b>	<u>1,540,754</u>		<u>1,723,936</u>	<u>1,695,838</u>	<u>0</u>	<u>-9,185</u>	<u>28,099</u>	<u>-29,975</u>
<b>PROVINCIAL BONDS</b>								
British Columbia 3.25% due December 18, 2021	257,290	-4,063	253,448	255,750	0	0	-2,303	-3,843
Ontario 3.15% due June 2, 2022	416,460	-6,300	410,444	400,000	0	0	10,444	-6,016
Ontario 2.85% due June 2, 2023	529,805	-7,125	521,885	511,430	0	0	10,455	-7,920
Ontario 2.60% due June 2, 2025	434,244	-5,200	422,966	404,305	0	0	18,661	-11,278
British Columbia 2.3% due June 18, 2026	378,945	-4,025	367,664	365,400	0	0	2,264	-11,281
Ontario 2.60% due June 2, 2027	385,606	-4,550	371,996	341,460	0	0	30,536	-13,609
<b>PROVINCIAL BONDS Total</b>	<u>2,402,350</u>		<u>2,348,402</u>	<u>2,278,345</u>	<u>0</u>	<u>0</u>	<u>70,057</u>	<u>-53,947</u>
<b>CORPORATE BONDS</b>								
Bank of Montreal 3.4% due April 23, 2021	201,868	-203,400	0	0	-1,300	-1,868	0	0
Royal Bank 1.968% due March 2, 2022	152,814	-1,476	151,636	150,075	0	0	1,561	-1,178
National Bank of Canada 2.105% due March 18, 2022	255,300	-2,631	253,156	255,100	0	0	-1,944	-2,144
Wells Fargo 3.46% due January 24, 2023	158,604	-2,595	156,155	153,542	0	0	2,613	-2,449
Toronto Dominion Bank Dep. Note 1.909% due July 18, 2023	310,239	-2,864	306,661	307,890	0	0	-1,229	-3,578
Toronto Dominion Bank Dep. Note 3.226% due July 24, 2024	272,240	-4,033	266,022	255,050	0	0	10,972	-6,218
CIBC Deposit Note 3.3% due May 26, 2025	276,710	-4,125	269,461	250,600	0	0	18,861	-7,249

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
**CLLAS - LONG TERM INVESTMENT FUND**  
**(RBC Investor Services)**  
*From 12-31-20 to 06-30-21*

Security	12-31-20 Market Value	Additions Withdrawals	06-30-21 Market Value	06-30-21 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Wells Fargo & Company 2.975% due May 19, 2026	216,170	-2,975	210,118	204,300	0	0	5,818	-6,052
Bank of Nova Scotia Dep. Notes 2.62% due December 2, 2026	328,578	-3,930	316,556	306,210	0	0	10,346	-12,022
Bank of Montreal Dep. Note 2.70% due December 9, 2026	165,042	-2,025	158,897	163,140	0	0	-4,243	-6,145
CORPORATE BONDS Total	2,337,565		2,088,661	2,045,907	-1,300	-1,868	42,755	-47,036
<b>TOTAL PORTFOLIO</b>	<b>6,280,668</b>		<b>6,161,000</b>	<b>6,020,089</b>	<b>-1,300</b>	<b>-11,053</b>	<b>140,911</b>	<b>-130,958</b>
TOTAL DATE TO DATE GAIN OR LOSS								-142,011
<b>% CHANGE DURING PERIOD</b>								<b>-2.26</b>



## MEMORANDUM

DATE: September 7, 2021  
 TO: CLLAS Advisory Board  
 FROM: Patrick Mahoney  
 RE: CLLAS Investment Policy – Investment in BBB Corporate Bonds

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Colchester's Board has been discussing how it might prudently enhance its investment return. The recommendation from Colchester's investment manager is to amend the investment policy to allow investment of a portion of the portfolio in BBB-rated corporate bonds. Currently, corporate bonds must be rated A or higher. The assets supporting Colchester's liabilities to CLLAS are subject to the terms of a Reinsurance Security Agreement (RSA) that gives CLLAS some control over the assets. As a result, Colchester asked CLLAS' General Manager to seek some input from the CLLAS Board before it takes any further steps.

Colchester's management provided me with the attached portfolio review which recommends a maximum allocation of 30% be permitted in BBB-rated securities. We also asked CLLAS' investment manager, Rowland Bell at Martin, Lucas & Seagram, to provide his views on the appropriateness of making a similar change to CLLAS' Investment Policy. His commentary, which recommends that CLLAS make the change, is also attached. Mr. Bell suggests setting a relatively low (but unspecified) maximum percentage.

At the September 2021 meeting, the Board is asked to consider whether CLLAS should amend its Investment Policy to permit investment in BBB-rated bonds. If so, we will prepare an amendment to CLLAS' Investment Policy for formal consideration at the December meeting. Also, if the Board has no objection to Colchester making a similar change (obviously on terms that Colchester's board determines are appropriate and prudent) I would like to advise Colchester management accordingly.

I look forward to discussing this matter at the up-coming meeting.

Sincerely,

Patrick Mahoney, General Manager

Wealth Management

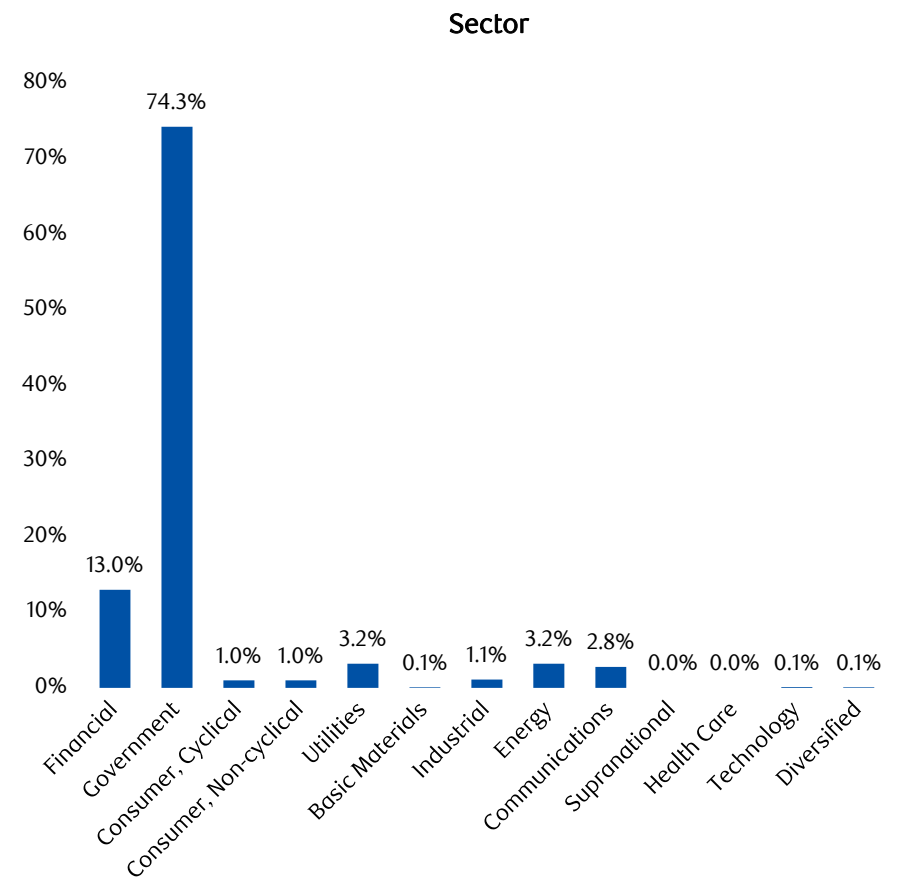
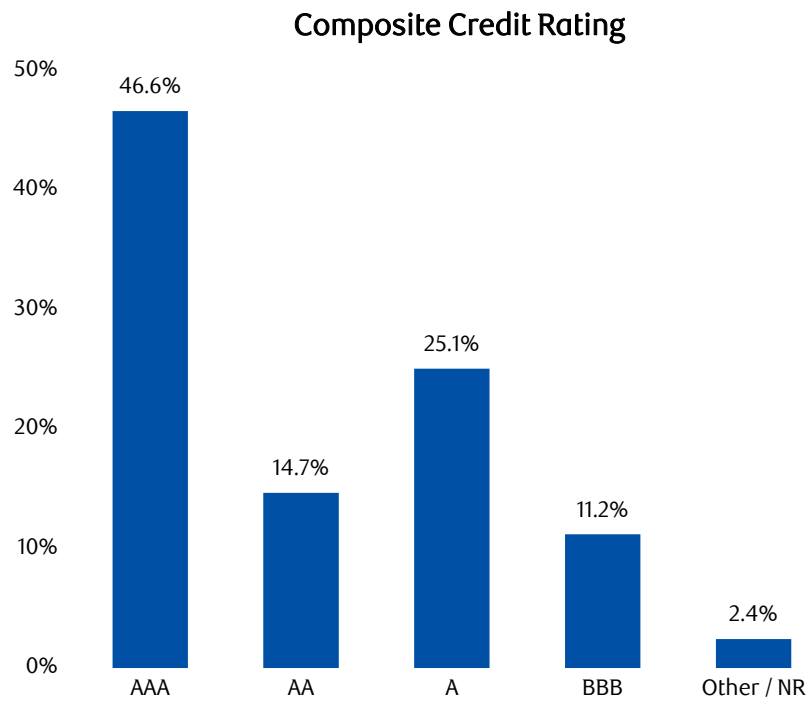
# Colchester Reinsurance Limited BBB Allocation Proposal

Grow more than wealth



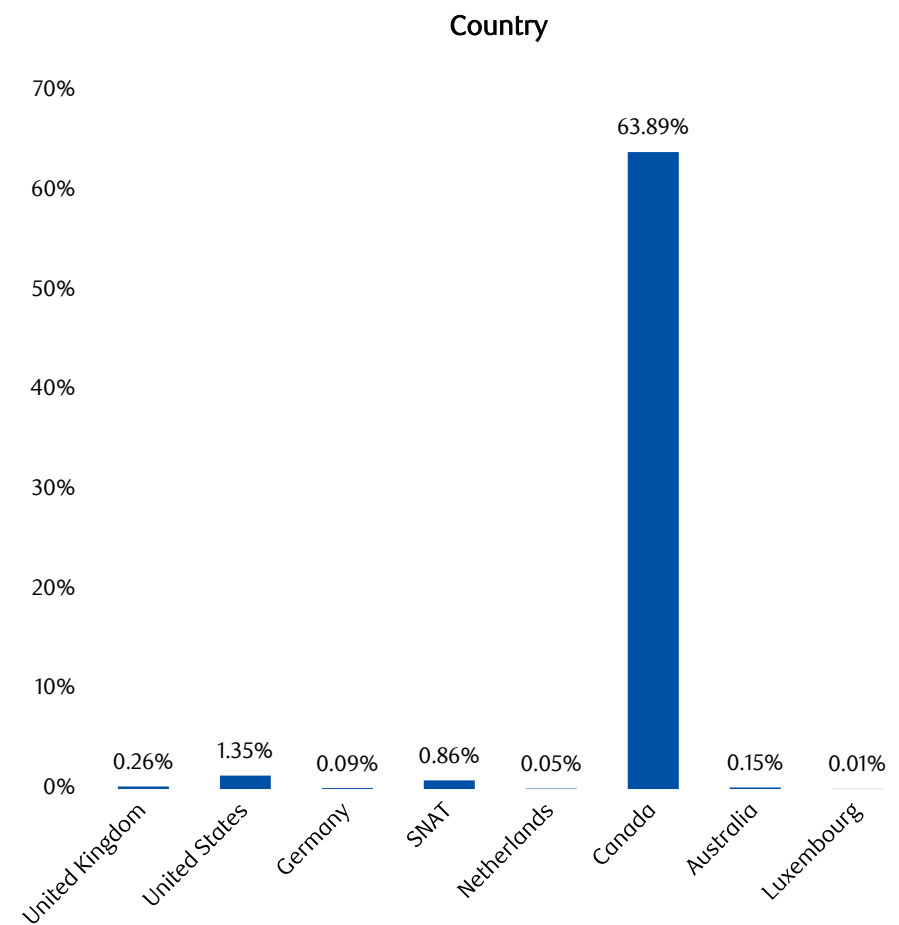
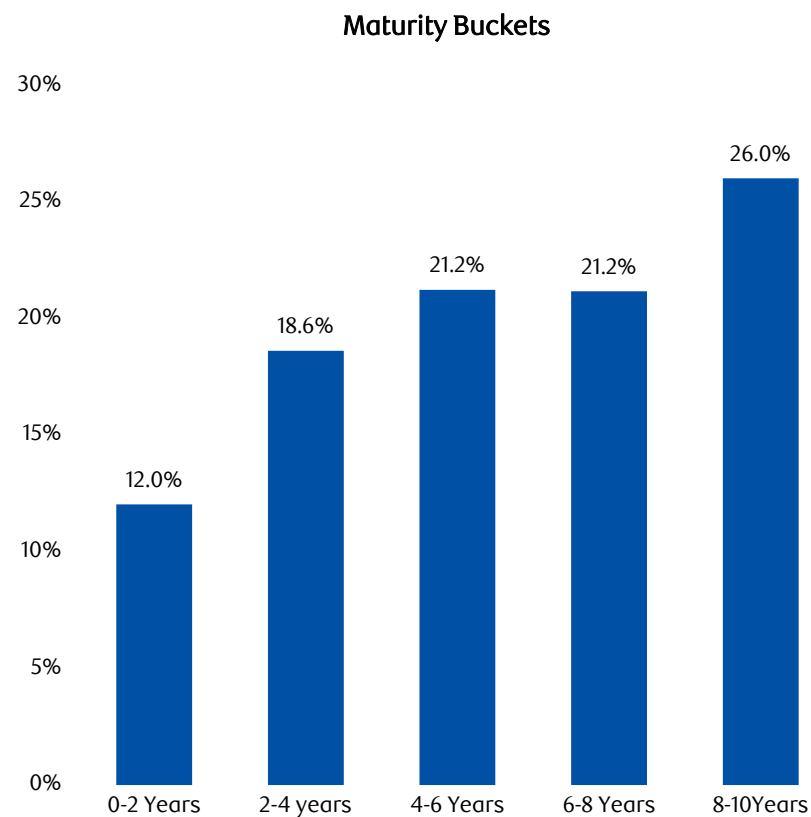
# Benchmark Rating and Sector Allocation

Allocations extracted from the FTSE TMX Mid and Short Benchmarks



## Maturity and Country Allocation

Allocations extracted from the FTSE TMX Mid and Short Benchmarks



## Proposed BBB Rated Securities

Allocations extracted from the FTSE TMX Mid and Short Benchmark

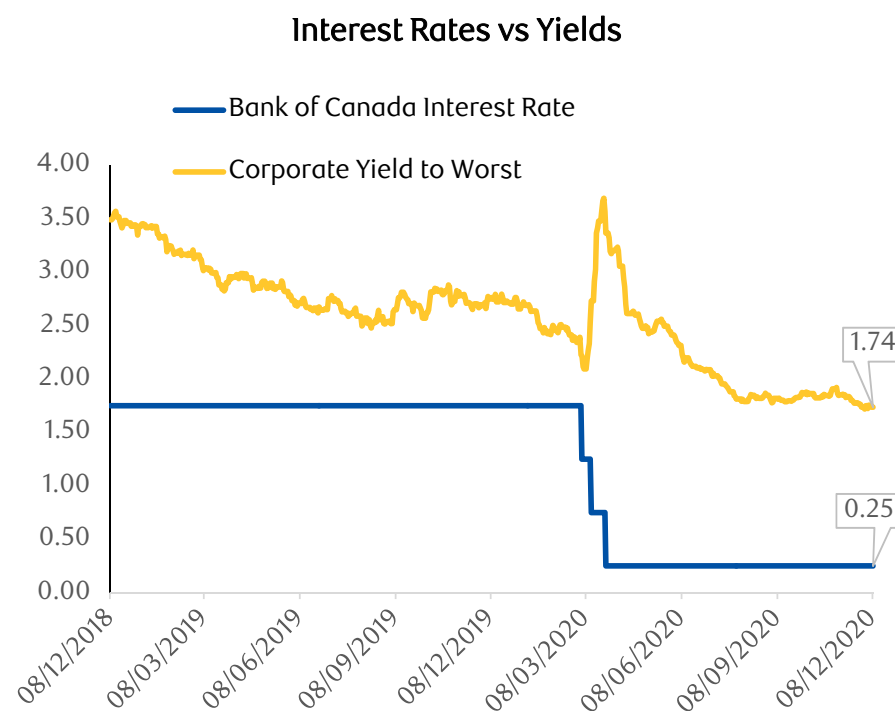
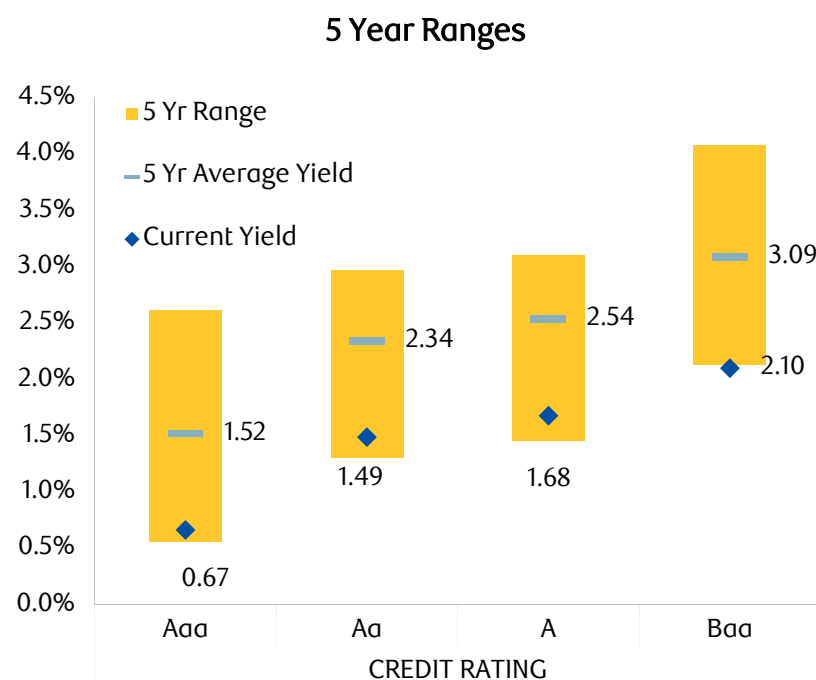
Composite Rating	Sector	Weight
BBB	Communications	0.15%
	Consumer, Cyclical	0.11%
	Consumer, Non-cyclical	0.36%
	Diversified	0.09%
	Energy	1.32%
	Financial	1.06%
	Industrial	0.04%
	Utilities	0.37%
BBB Total		3.50%
BBB+	Communications	2.20%
	Consumer, Cyclical	0.28%
	Consumer, Non-cyclical	0.26%
	Energy	1.28%
	Financial	1.06%
	Industrial	0.25%
	Utilities	0.50%
BBB+ Total		5.83%
Grand Total		9.33%

- The Colchester portfolio has a current restriction of A/A2 as the lowest rating
- The overall allocation in the benchmark within the BBB allocation is 11.71%, however we recommend allocating to BBB+ and BBB rated bonds only to reduce risk of securities becoming non-investment grade
- Within the BBB+/BBB bucket in the benchmark the highest sector allocation is in Energy at 2.60% of the benchmark followed by Communications (2.35%) and Financials (2.12%)
- Our recommendation is to permit an allocation of no more than 30% in “BBB” rated securities with a minimum rating of BBB/Baa2



# The Current Environment

## Yield to Maturity and Interest Rates



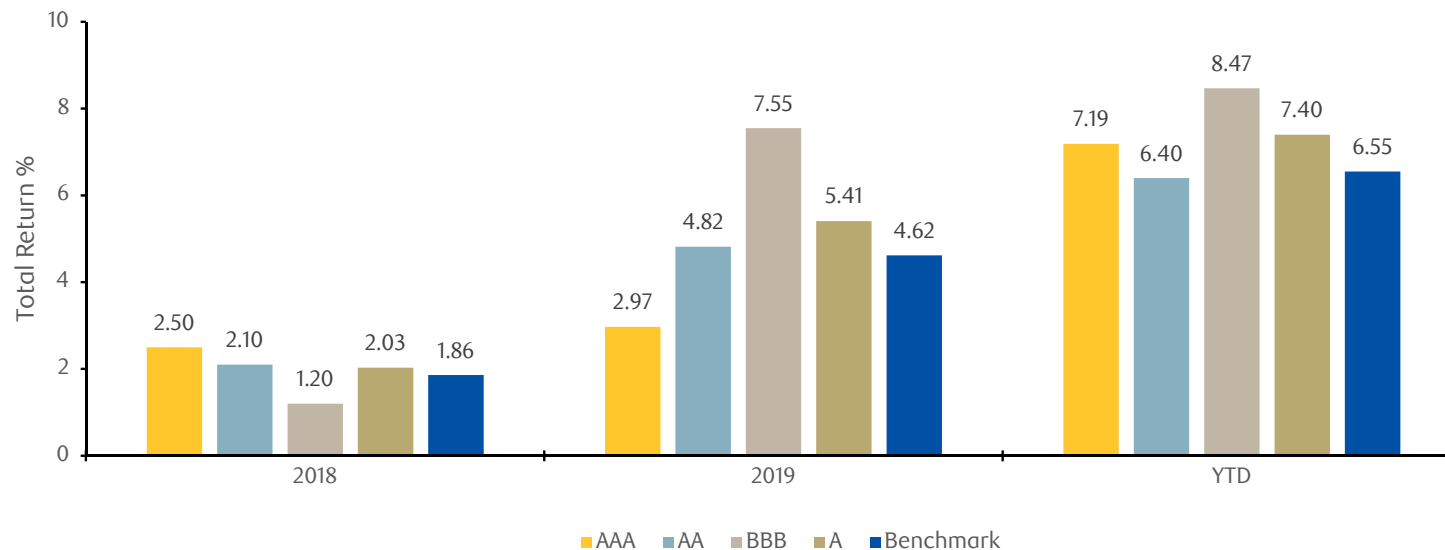
- The Bank of Canada has cut rates from 1.75% to 0.25% in March to support the Canadian market during the pandemic. This has driven bond yields lower as shown on the chart (right)
- BBB rated securities currently have an average yield to maturity of 2.10%
- Flexibility within the mandate presents opportunities to allocate to A-/BBB rated securities which are offering attractive yields

# Historic Performance

## Benchmark BBB Returns

- Historic Performance is not a guide to future performance. These figures have been provided for illustrative purposes.

Historic Returns by Credit Rating



# Our Proposal

## Investment Parameters

### Details

Portfolio Currency	Canadian Dollars		
Inception Date	04 Nov 2015		
Term to Maturity	Max. 10 years per individual investment		
Investment Objective	The focus is capital preservation. The portfolio will typically be invested mainly in fixed income and other low volatility instruments. The investor in this category has a low tolerance for loss over their investment horizon (minimum one to five years).		
Investment Mandate	Discretionary		
Risk Profile	Very Conservative – On a scale of 1 – 5, 1 being very conservative and 5 being aggressive growth, the portfolio would be rated 1		
Portfolio Benchmark	5% FTSE TMX Canada 91 Day T-Bill Index, 47.5% FTSE TMX Canada Short Term Overall Bond Index, 47.5% FTSE TMX Canada Mid Term Overall Bond Index		
Portfolio Fees	First \$10 million at 0.30% per annum Next \$10 million at 0.25% per annum Next \$30 million at 0.20% per annum Next \$50 million at 0.15% per annum Balance at 0.13% per annum		
Credit Ratings	All fixed income investments shall be rated a minimum of <u>'BBB' by S&amp;P or 'Baa2' by Moody's</u> or the equivalent short term ratings of either 'A-1' by S&P or 'P-1' by Moody's. <u>The allocation to BBB rated securities shall be limited to 30%.</u> RBC have 60 days to dispose of a security which is downgraded and falls outside of these minimum ratings		
Cash Flow Demands	Significant cash flows may occur. Asset allocation ranges/restrictions can be waived for 30 days to satisfy cash flow needs		
Corporate Credit Limitation	No more than 40% of the portfolio shall be invested in corporate issuers		
Issuer Limitation	No more than 5% of the portfolio shall be invested in the securities of any one issuer with the exception that Sovereign, Other Government Issues and Supranational risk will not be subject to this limitation		
Trading of the Portfolio	Trading of securities in the portfolio will be left to the discretion of RBC Investment Management (UK) Limited.		
Asset Allocation	<b>Asset Class</b>	<b>Benchmark</b>	<b>Range</b>
	Cash & Cash Equivalents	5%	0% -15%
	Fixed Income	95%	85% - 100%



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## Patrick Mahoney

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**From:** Rowland W. Bell <rowlandbell@mlsinvest.com>  
**Sent:** September 1, 2021 4:21 PM  
**To:** Patrick Mahoney  
**Subject:** RE: CLLAS Investment Policy [Filed 01 Sep 2021 16:55]

Hi Patrick,

As requested, we have set out our thoughts below on some of the pros and cons of adjusting the Long-Term Investment Fund's Investment Policy Statement to allow the purchase of BBB-grade corporate bonds.

Over the past 10 years, bond yields have traded at historically low levels and credit spread has become a more significant component of the return from bonds during this period. This has led many investors to consider moving into corporate bonds and to lower minimum credit ratings in order to enhance returns.

Based on recent prices, BBB corporate issues with an average term to maturity of 10 years are yielding 2.44% on average. This yield represents an incremental return of 43 basis points over single A corporate issues of a similar term. Looking at shorter-term issues with an average term to maturity of 7 years, the incremental return increased to 50 basis points for BBB corporate issues vs. single A corporates. For bonds with a term to maturity averaging 3 years, the incremental yield advantage was lower at 32 basis points. The preceding figures are based on statistics contained in the Short, Medium and Universe FTSE Russell Canada domestic bond indices.

The absolute yield advantage, or spread, of BBB issues over A rated issues is relatively low on an historical basis. However, because absolute yields are near historically low levels, the incremental pickup in yield is quite meaningful. In the case of the 10-year term, the BBB issue yields 21% more than an issue rated A. For the 7- and 3-year terms, the yields on BBB issues are 26% higher.

In addition to the incremental yields available on BBB issues, including this category would provide more opportunities to improve the diversification of the portfolio. In Canada, bank issues account for approximately one-third of the corporate bond market. However, they account for the bulk of the issues available with a rating of A or higher. As a result, the portfolio's corporate bond list is concentrated in bank issues. By allowing investments in BBB rated bonds, the portfolio's diversification could be broadened to more non-financial corporates, which also account for about one-third of the domestic corporate bond market.

In assessing whether the incremental yields, and the opportunity to diversify the portfolio away from its concentration on financial credits, are sufficient to compensate for the increased risk that would be assumed, we believe the following points are worthy of consideration.

Issues rated BBB are the lowest rated issues considered to be investment-grade. Looking at these issues' risk profile, based on U.S. figures provided by Moody's, a major bond rating service, the annual long-term default rate is around 0.3% for BBB bonds and in a typical recession fewer than 5% of investment grade issues default. However, on average, 10% of BBB-rated corporate bonds is downgraded during a recession. When an issue's rating is dropped one notch to BB, they lose their investment grade status and are considered high yield debt or "junk" bonds. For BB issues, the average annual default rate is about 1.5% and for all high-yield debt, the average annual default rate is 4.7%. During the financial crises in 2007-2008 the default rate for high-yield debt reached 14% and, during the latest crises triggered by the pandemic, the default rate approached 9% in 2020. However, for this year, the default rate is expected to fall below the 4.7% annual average.

It should also be noted that, in many respects, the quality of investment-grade issues has deteriorated over the past 10 years. During this period, ultra-low interest rates have encouraged a surge in corporate debt issuance. As a result, the

next economic downturn may prove more damaging to the investment-grade market. Due to corporations adding debt in this low interest rate environment, the median firm with an investment grade rating has higher leverage compared to 10 years ago and inferior covenant protection. Also, the entire investment grade debt market is now populated with weaker credits. In the U.S., the BBB rated category now accounts for 56% of the market, compared to less than 35% some 10 years ago. This likely contributed to the record amount of debt that was downgraded to the high yield or junk category last year. Nevertheless, overall default rates were lower than expected during the pandemic, due in large part to the central banks' unprecedented support of the corporate bond market.

Another consideration is the significant growth in corporate bond funds and passively managed investment-grade bond funds since the 2007-2008 financial crises. Non-bank intermediaries such as mutual funds and ETFs have become significant players in debt markets over the past decade. When an issue is downgraded to "junk" these funds are forced to sell, which exacerbates the downward pressure on the price of these issues, even if the risk of default remains relatively low. Furthermore, a downgrade from investment grade to non-investment grade would require many other institutions, such as pension funds, to sell their positions to maintain their required rating-based investment obligations. The spillover effect would be less liquidity in the market with prices and bid-ask spreads adversely affected.

In weighing the incremental returns and inherent risks of investing in BBB issues and keeping in mind our understanding of the Long Term Fund's risk profile, we think it would be appropriate to allow the purchase of bonds rated BBB. To mitigate the risks, we believe it would be prudent to set a relatively low limit on the maximum percentage that could be held in BBB credits, with no minimum. This leaves the manager the latitude to avoid this category altogether when this is deemed to be prudent. We also think it would be helpful to provide the manager with some flexibility surrounding the timing of when an issue must be sold if its rating drops below the minimum allowed.

In cases where we are allowed to invest in BBB bonds, safety of capital through security selection remains our primary concern, particularly in light of the aforementioned secular trends in the corporate bond market. Our exposure to BBB credits is generally below the maximum percentage allowed as we feel that investors should not be aggressively reaching for yield at this juncture. Individual issuers rated BBB that we currently favour include Bell Canada, Enbridge, Loblaws, Telus, Algonquin Power and Canadian Tire.

I hope these thoughts and observations are helpful in your deliberations. Please let me know if there are any questions or comments.

Regards,  
Rowland

Rowland W. Bell, CFA  
Martin, Lucas & Seagram Ltd.  
620 - 48 Yonge St.  
Toronto, ON. M5E 1G9  
Phone: 416-363-6216  
Fax: 416-363-4538  
[rowlandbell@mlsinvest.com](mailto:rowlandbell@mlsinvest.com)



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