



Dion Durrell

**Canadian Lawyers Liability Assurance
Society (CLLAS)**

CLLAS Surplus Target

December 8, 2009

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Background

- Financial modeling presented at June 2009 Board meeting:
 - Used in July 1, 2009 reinsurance renewal to aid in analysis of taking on additional risk and impact of such on surplus.
- Historical surplus target and minimum surplus level presented at September 2009 Board meeting:
 - Surplus target of \$17.5 million set prior to 1998/99 policy year;
 - Minimum surplus level of \$11 million set in Contingency Reserve Policy (February 2007);
 - Having two benchmarks assists in internal surplus distribution decisions and in external surplus target communications.

Current Surplus Level

- At June 30, 2009:
 - Surplus of \$21.8 million;
 - MCT level of 269%;
 - 2009/2010 per claim retention of \$13.35 million with reinsurance protection of \$25 million excess of \$15 million.

Analysis

- Objective: to review the surplus target and minimum surplus level.
- Considerations:
 - External considerations (i.e. regulators and benchmarks);
 - Retention level;
 - Volatility of the portfolio of risk;
 - Risk appetite: probability of retro-assessment vs. premium stability;
 - Future considerations.

External Considerations

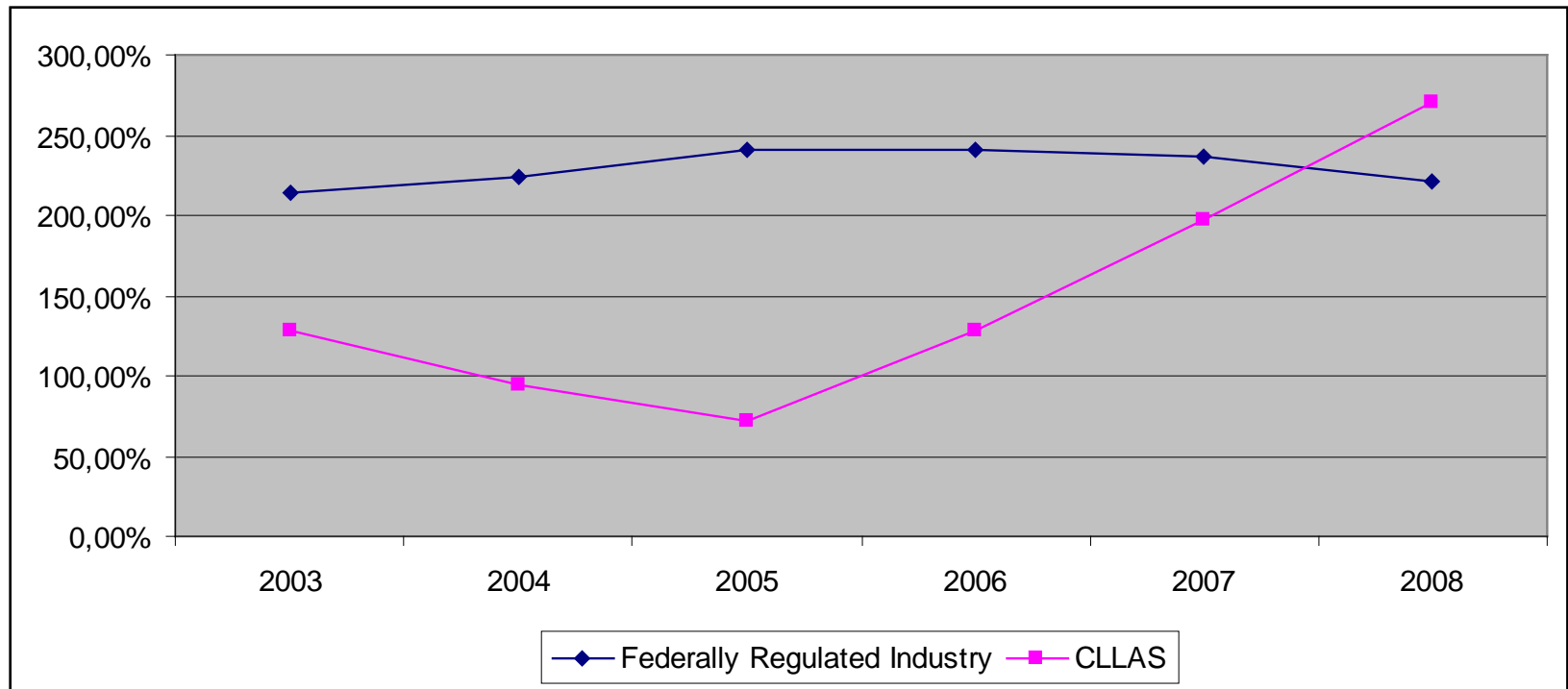
- Insurance regulators in Canada use a solvency test to benchmark property and casualty insurers. The Minimum Capital Test (“MCT”) sets a regulatory target of 150% before regulatory action is taken. Note that the MCT does not formally apply to reciprocals.
- Federally regulated insurance companies must also perform an annual Dynamic Capital Testing Adequacy (“DCAT”) exercise in which they must disclose to the regulators their company Surplus Target in terms of an MCT level. An MCT level of 175% is generally the lowest level a company would select as a target.

External Considerations...

- The DCAT would use June 30, 2008 actual financials and project the June 30, 2009, 2010 and 2011 financials. The financials would be stress tested and commentary would be provided on the likelihood of reaching company the target and MCT of 150% in 2011. Where applicable, possible management actions in case these targets are not reached would also need to be provided.

External Considerations...

- The graph below presents the actual MCT levels from 2003 to 2008 for CLLAS vs. the Federally Regulated Industry:



External Considerations...

- The most significant component for CLLAS in determining the MCT level is the amount of unpaid claims. Given the increase in retention level, the unpaid claims will increase over time. Considering this, a higher MCT level should be contemplated for the next 2-3 years. Therefore a 175% MCT target level for the industry would translate to a 200% MCT for CLLAS in the short term.
- Based on the June 30, 2009 financial projections from the model, a 175% MCT target represents \$14.9 million and a 200% MCT target represents \$16.625 million.

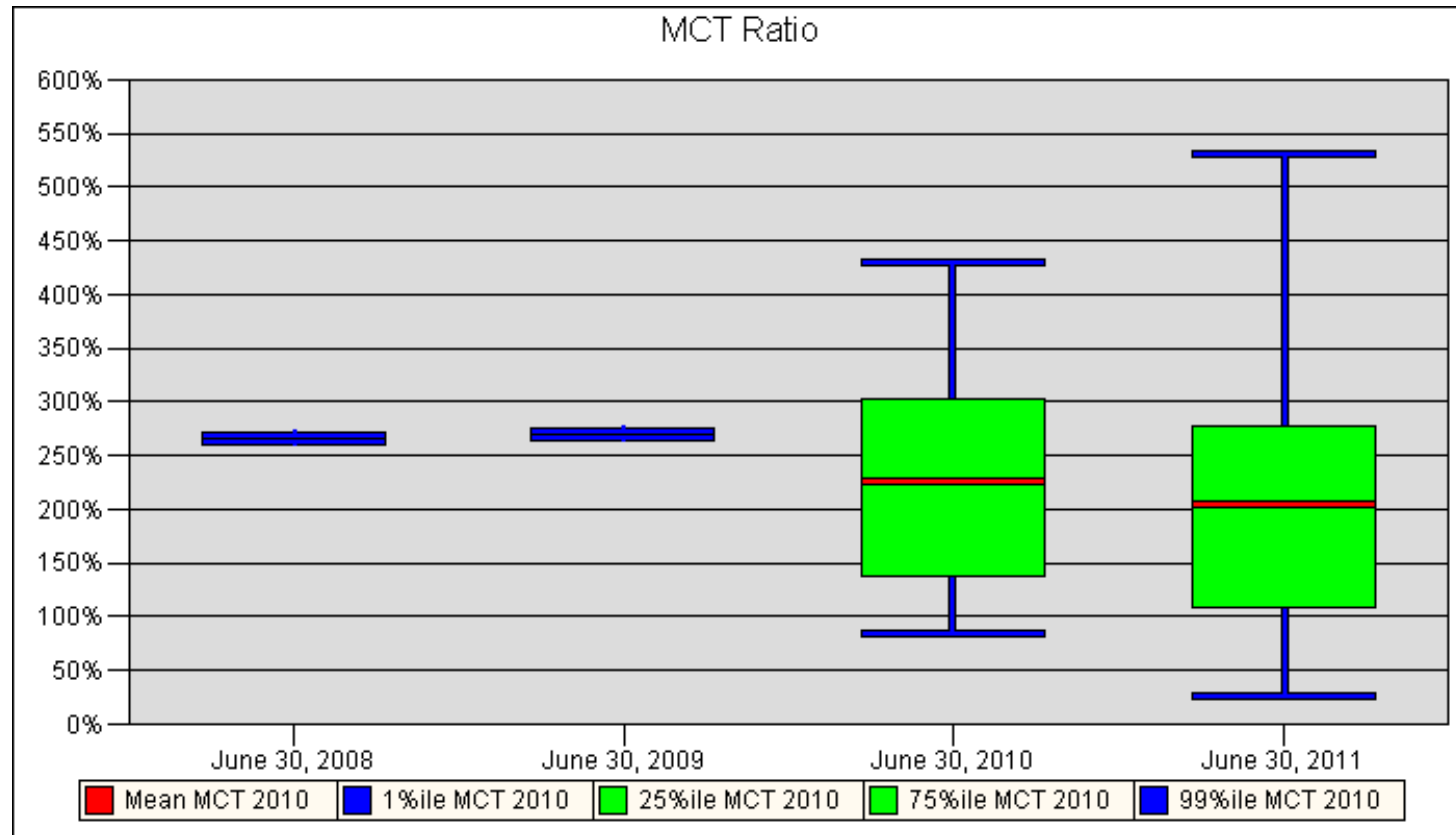
Retention Level

- For 2009/2010:
 - Per claim retention level is \$13.35 million;
 - Aggregate retention level is \$15 million.
- The minimum surplus target should be based on one year's maximum retention (e.g. \$15 million).

Volatility of the Portfolio of Risk

- Volatile claims vs. conservative investment portfolio.
- Qualitatively: CLLAS should expect sporadic results in financial statements due to few claims with high severity.
- Quantitatively: we can look at statistics around the mean level to assess volatility.
- A confidence level at the 75th percentile indicates that 75% of time the outcome is expected to be lower and 25% of time it is expected to be higher.

Volatility of the Portfolio of Risk...



- We observe a 50% chance that the MCT will be between 114% and 277% in 2011.

Future Considerations

- Desired surplus target and minimum surplus level may be affected in future by:
 - Increase in retention level;
 - Change in rating decision/methodology;
 - Surplus management.
- Surplus policy should therefore be reviewed at least every 2-3 years to maintain relevance.

Risk Appetite

- Need to balance the probability of retro-assessment vs. premium stability.
- Higher surplus provides “insurance” against retro-assessment.
- 4 surplus targets considered:

	Scenario A	Scenario B	Scenario C	Scenario D
Surplus Target	175%	200%	225%	250%
Mean level MCT in 2011	146.5%	160.4%	175.7%	192.8%
65 th percentile MCT in 2011	93.5%	105.9%	118.7%	133.5%
75 th percentile MCT in 2011	65.2%	76.2%	88.3%	102.2%
% of Scenarios with Retroassessment	53.2%	45.4%	36.8%	28.3%
Average amount of Retroassessment	4,313,496	3,905,881	3,745,251	3,733,011
Avg. Retro as a % of 2009/2010 premiums	17.8%	16.1%	15.4%	15.4%

Conclusions and Recommendations

- We recommend a benchmark for the surplus target based on the MCT level:
 - Allows target to move with retention changes, inflation, etc;
 - Gives one measure to address both regulators and surplus management.
- We recommend a minimum surplus level of \$15 million.
- The target surplus to be set based on discussion with the Board re: risk appetite.
- Actual surplus management actions to be reviewed annually at June Board meetings when setting next year's rates.

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

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

Tuesday, September 15, 2009

Present:

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

1. Constitution of Meeting

The Chairman brought the meeting to order.

2. Appointment of Secretary

Norma Ibbetson acted as Secretary.

3. Approval of Minutes of the June 16, 2009 Meeting of the Advisory Board

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

4. Comments of the Chair

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

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

General Liability Policy Review:

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

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

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

5. Report of the General Manager's Office

Management Report at June 30, 2009

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

Reinsurance Placement

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

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

Target Surplus

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

6. Report of the Claims Committee

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

7. Report of the Risk Management Committee

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

Blue Drop Initiative (E-learning)

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

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

There are four modules:

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

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

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

Status of Risk Management Audits

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

Risk Management Guidelines

Four draft guidelines have been created:

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

The Committee is now working on "Opinions Guidelines".

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

8. Report of the Policy Committee

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

9. Report of the Restructuring Committee

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

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

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

11. Other Business

There was no other business.

12. Next Meeting

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

There being no further business, the meeting was terminated.

Chairman

Secretary

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

For the Period Ending September 30, 2009

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

FINANCIAL MANAGEMENT REPORT

September 30, 2009

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

CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY
BALANCE SHEET
September 30, 2009

	As at <u>September 30, 2009</u>	As at <u>September 30, 2008</u>
ASSETS		
Cash	\$3,169,183	\$1,307,295
Investments		
Short Term	11,867,854	17,002,084
Bonds	38,174,123	28,479,481
Interest income due and accrued	339,040	322,389
Premiums receivable	11,824,657	12,158,057
Unearned reinsurance premium ceded	10,308,965	10,858,189
Prepaid Expenses	204,750	204,750
Deferred policy acquisition costs	532,685	547,158
Reinsurance recoverable	12,200,115	11,113,844
Other receivable	0	0
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	44,446,000	47,100,000
 Total Assets	 <u>\$133,067,372</u>	 <u>\$129,093,246</u>
 LIABILITIES		
Provision for unpaid claims and adjustment expenses	\$81,356,000	\$81,101,000
Provision for unpaid premium liabilities	\$2,629,821	\$2,629,821
Unearned premium	17,688,392	18,187,869
Due to reinsurers	6,891,522	7,258,678
Accounts payable & accrued charges	542,777	262,401
Premium taxes payable	103,402	89,930
 Total Liabilities	 109,211,913	 109,529,698
 SUBSCRIBERS' EQUITY		
Surplus	22,292,346	19,362,632
Accumulated Other Comprehensive Income (Loss),	1,563,113	200,916
	<u>23,855,459</u>	<u>19,563,548</u>
 TOTAL LIABILITIES AND SUBSCRIBERS' EQUITY	 <u>\$133,067,372</u>	 <u>\$129,093,246</u>

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

	Year to date Jan. 2009 to <u>September-09</u>	Previous year Jan. 2008 to <u>September-08</u>
Written premium	\$23,674,881	\$24,317,114
Gross Written Premiums	23,674,881	24,317,114
Less: Reinsurance Ceded	13,797,313	14,517,359
Net Written Premiums	9,877,568	9,799,755
Change in Unearned Premiums	(2,519,326)	(2,296,485)
Earned Premiums	7,358,242	7,503,270
Claims Paid	2,177,213	1,209,552
Change in IBNR	2,580,000	1,881,000
Change in Case Reserve	(704,000)	(201,000)
Change in provision for Unpaid Premium liability	0	0
Incurred Claims	4,053,213	2,889,552
Management and Operating Expenses	1,394,195	1,212,332
Reinsurance Fees	204,750	200,750
Premium Taxes	543,100	587,987
Total Operating Expenses	2,142,046	2,001,069
Underwriting Gain (Loss)	1,162,984	2,612,649
Investment Income	1,105,693	1,275,031
Net Gain (Loss)	<u>\$2,268,677</u>	<u>\$3,887,680</u>
Subscribers' Equity - Beginning of Period	\$20,023,669	\$15,474,952
Less: Adjustment to opening Policy Liabilities	\$0	\$0
Subscribers' Equity - End of Period	<u>\$22,292,346</u>	<u>\$19,362,632</u>

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

	Year to date Jan. 2009 to <u>September-09</u>	Previous year Jan. 2008 to <u>September-08</u>
Net Income	\$2,268,677	\$3,887,680
Other Comprehensive Income (Loss):		
Unrealized Gains and (Losses) on available-for-sale financial assets arising during the year	187,405	108,852
Reclassification of realized gains(losses) to the statement of operations		
Net change in the other comprehensive income for the year	187,405	108,852
Total Comprehensive Income (Loss)	<u>2,456,082</u>	<u>3,996,532</u>
Accumulated Other Comprehensive Income (Loss), beginning of year	\$1,375,708	\$92,064
Other comprehensive income (loss)	187,405	108,852
Balance at end of period	<u>1,563,113</u>	<u>200,916</u>

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

	Annual Budget	Year to Date Budget % Accrued to Date	\$	Year to Date Actual \$	Fav/(Unfav) Variance \$
MANAGEMENT SERVICES	414,000	75%	310,500	319,892	(9,392)
PROFESSIONAL SERVICES					
Actuarial Services	96,000	84%	80,640	72,145	8,495
Reinsurance Matters	270,000	84%	226,800	324,716	(97,916)
Strategic Matters	90,000	84%	75,600	74,906	694
Special, non-recurring	40,000	84%	33,600	64,796	(31,196)
Sub-Total Professional Services	496,000		416,640	536,563	(119,923)
Total Management & Professional Services * (See Note 1)	910,000		727,140	856,455	(129,315)
GST on Consulting Fees	45,500	75%	34,125	42,823	(8,698)
Total Consulting Services	955,500		761,265	899,278	(138,013)
OTHER EXPENSES					
Audit Expenses	64,000	75%	48,000	46,900	1,100
Annual Dinner	5,000	100%	5,000	4,244	756
Premium Taxes	729,543	75%	547,157	543,100	4,057
Chairman's Expenses	2,000	75%	1,500	0	1,500
Chairman's Honourium	60,000	100%	60,000	60,000	0
Reinsurance Expense	10,000	75%	7,500	4,927	2,573
Office Expenses	15,000	75%	11,250	10,545	705
Office Expenses - Website management software license	1,800	75%	1,350	0	1,350
Claims: Borderaux (LSUC)	13,850	75%	10,388	13,400	(3,013)
Special Services	100,000	75%	75,000	136,214	(61,214)
Special Services - Peer Review	0	75%	0	0	0
Miller Insurance Fees (Reins. Comm.) (See Note 2)	273,000	75%	204,750	204,750	0
I.B.C Statistical Plan Fees	15,000	75%	11,250	10,249	1,001
FSCO Assessment Fees	15,000	75%	11,250	5,201	6,049
Investment counsel fees	108,675	75%	81,506	92,398	(10,892)
Investment - Custodial	30,000	75%	22,500	25,030	(2,530)
Risk Management/Loss Prevention	80,000	75%	60,000	85,809	(25,809)
Sub-total	1,522,868		1,158,401	1,242,768	(84,367)
TOTAL	\$2,478,368		\$1,919,666	\$2,142,046	(222,380)

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

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

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

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

The annual budget is based upon the annual fee estimated for the policy period 2009/2010.

The year to date actual includes the fees billed for the later 6 months of 2008/2009 plus 1 month of 2009/2010

MEMORANDUM

DATE: November 26, 2009
TO: Patrick Mahoney, CLLAS Board
FROM: Julie-Linda Laforce
RE: CLLAS Surplus Target

Background

At the June 2009 Board meeting, an analysis of the financial modeling of CLLAS was presented in the context of the July 1, 2009 reinsurance renewal and to aid in the analysis of CLLAS taking on additional risk. A benchmark was defined based on the then-current surplus amount so that the additional risk taken would result in a “surplus charge” such that an increased level of capital, based on the same benchmark, would be maintained given the additional risk.

At the September Board meeting, a historical perspective of CLLAS’ surplus target and minimum surplus was provided to Board members. That memo stated that the CLLAS surplus target of \$17.5 million was set prior to the 1998/99 policy year. At that time, CLLAS’ per claim retention was \$7.75 million per claim with an aggregate protection from Colchester for all retained losses in a particular policy year of \$4.7 million in excess of \$3.3 million (and \$20 million excess of \$20 million).

Subsequent to this, the Contingency Reserve Policy dated February 2007 established a minimum surplus of \$11 million as of July 1, 2006. At that time, CLLAS’ per claim retention was \$9.75 million with Colchester providing aggregate protection of \$25 million excess of \$15 million. The communication was in response to concerns expressed by the regulators. It reflected that a target surplus would be determined based on actuarial advice with a view to:

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

The communication also indicated that the regulatory Minimum Capital Test (“MCT”) for insurance companies would be monitored as an information item. The regulators set a minimum threshold of 150% MCT for incorporated insurance companies, and if MCT falls below this level, the regulators will start to monitor the company closely. In fact, regulators prefer MCT to be well above 150%, and under 100%, they may revoke the insurer’s license.

As of June 30, 2009, CLLAS had a surplus of \$21.8 million, with a resulting MCT of 269%. CLLAS’ 2009/2010 per claim retention is currently \$13.35 million, with reinsurance protection of \$25 million excess of \$15 million.

Analysis

CLLAS' current per claim and aggregate retentions are significantly different from the per claim retentions in 1998/1999, when the \$17.5 million target surplus was established. CLLAS currently has five claims out of a total of 40 which have reported losses in excess of \$10 million. Four of these are closed.

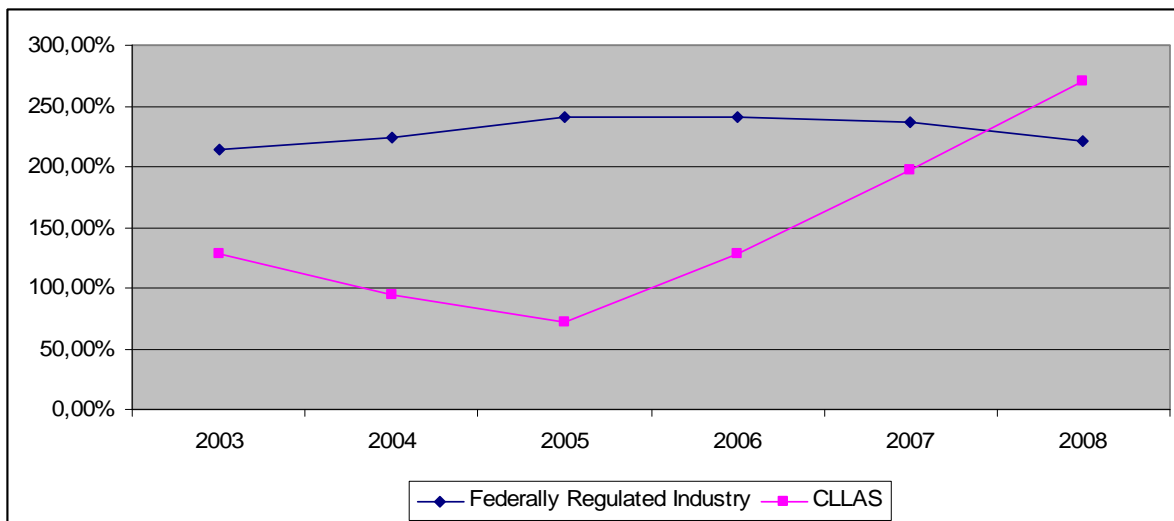
In order to establish on what basis the surplus target should be set, various considerations can be studied such as:

- External Considerations;
- Retention Level;
- Volatility of the portfolio of risk;
- Risk Appetite as defined by: probability of retroassessment vs. premium stability; and
- Future Considerations

External Considerations

If we focus on external considerations, the most meaningful benchmark for a surplus target would be based on the MCT used by the regulators. Other external benchmarks are ratings such as S&P's but it would be impractical to apply these tests to CLLAS. As well the MCT needs to be reported on to the regulators each quarter, so this information is readily available.

CLLAS' MCT since 2003 is plotted below against the average of the Canadian federally regulated companies:



CLLAS has been on average below the Industry average by 80% over the last 6 years. It should be noted that CLLAS ended the 2008 year above the Industry average, due to good relative investment

returns and positive claims emergence since 2005 which have increased the yearly CLLAS MCT results.

Federally regulated companies are expected to do a dynamic capital adequacy testing (“DCAT”) exercise annually. As part of that testing, they must specify and report a target MCT. An MCT of 150% is viewed as a minimum and would not be acceptable to the regulator as a company target. Therefore, targets are generally set in excess of 175%. Using a 175% target for CLLAS would translate into a surplus target of \$14.9 million based on the financial model projection of the June 30, 2009 financials.

CLLAS’ level of retention has increased significantly over the years. The MCT test is based on a combination of factors which are applied on various balance sheet entries but the most significant for CLLAS is the factor on the provision for unpaid claims which is obviously affected by the retention levels.

The unpaid claims are based on all policy years and 25% of the provision is set for years where the aggregate retention was at the \$5.5 million attachment point. As this represents a retention level which is lower than for the new renewal years, it would be more appropriate for CLLAS to consider an external target of 200% in the financial model to reflect this change for the next two to three years. A target of 200% would represent a \$16.625 million target surplus.

In a DCAT exercise, the analysis would focus on reaching the target surplus over a three-year projection period. So based on the June 30, 2008 financials, the actuary would project the surplus position at June 30, 2011. With CLLAS’ financial model we can assess the likelihood of this result at this date. The model assumes that a retroassessment will be declared if the MCT falls below 100% in any of the three years projected.

We present below the results for two scenarios. The first set of results are based on the actual projected June 30, 2009 surplus level of \$21.5 million from the financial model and the second set is based on a 200% MCT target projected at the June 30, 2009.

Table 1.0
Current rating methodology

	Scenario 1 June 30, 2009 projection based on actual surplus	Scenario 2 June 30, 2009 projection to a \$16.625 million surplus
Mean level MCT in 2009	270.5%	200.0%
Mean level MCT in 2011	206.4%	160.4%
Prob of 200% MCT in 2011	45.6%	30.3%
% of Scenarios with Retroassessment	22.7%	45.4%
Average amount of Retroassessment	4,192,085	4,328,851

The first observation under both scenarios is that the mean level of MCT and therefore of surplus reduces over time. It is important to understand why this happens. The provision for unpaid claims

is the main driver for the MCT for CLLAS. This provision increases over time to take into account the severity trend on claims and the increase in retention over the years. CLLAS' rating methodology is based on the expected claims and cost associated without generating any additional surplus. As well, the rating methodology distributes the investment income on the current surplus as a credit in the rating. Therefore the annual surplus is not expected to grow annually, not even by the investment income it generates. Given the steady surplus level and the increasing provision for unpaid claims, the projected MCT will reduce over time.

Scenario 2 was run to understand the results if the June 30, 2009 was exactly at a target Surplus of MCT 200%. In this situation, the probability of retroassessment would increase to 45.4% with an average retroassessment of \$4,329,000.

Retention Level

There are two retention levels which are relevant to this discussion: the per claim retention level and the aggregate retention level. The 2009/2010 per claim retention level is \$13.35 million and the aggregate retention level is \$15 million (i.e. Colchester protection applies at \$25 million excess of \$15 million).

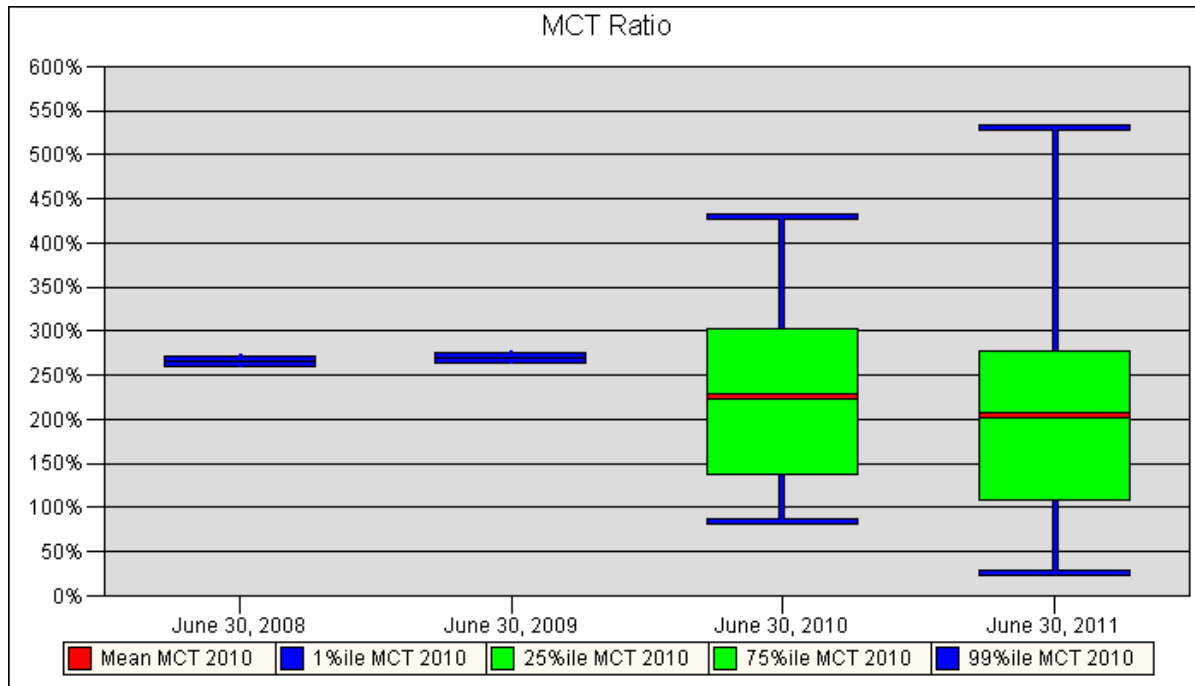
A minimum target could be set based on 1 year's maximum retention, which would be \$15 million.

Volatility of the portfolio of risk

Volatility can be understood qualitatively. The CLLAS business, which has very few claims of significant magnitude, presents an exposure which is quite volatile. On the other hand, the conservative nature of CLLAS' investment policy does not contribute to additional volatility. Claims are the main component of volatility for CLLAS. On a qualitative basis, the CLLAS business is expected to generate sporadic results in the financial statements.

Volatility can also be assessed quantitatively based on various statistical measures. One measure which can be easily understood is the confidence level. For example a confidence level at the 75th percentile, would indicate that 75% of times the probability will be lower and 25% of times the probability will be higher.

We observe in the graph on the next page the percentile projection of the MCT level from June 30, 2008 to June 30, 2011, given the current surplus position.



The volatility here is observed in the spread of the results at the 25th and 75th percentile compared to the mean (i.e. the green boxes above). We observe that we have 50% chance that the MCT will be between 114% and 277% in 2011. This is quite a wide spread and reflects the volatility of CLLAS business.

Risk Appetite as defined by: probability of retroassessment vs. premium stability

Risk appetite is a very important consideration in setting a target surplus. Surplus position will mitigate the probability of retroassessment but there is a balancing act between adding/keeping more surplus within CLLAS and providing an efficient self-insured business operating with as little capital as possible. For CLLAS, risk appetite and external benchmarks are most likely to dictate the surplus target, as the regulatory surplus is minimal for a reciprocal.

We present on the next page four options for surplus target and will discuss the advantages and disadvantages to the Subscribers of CLLAS in each scenario. For each scenario we assume the following:

- The June 30, 2009 surplus is set equal to the target; and
- A retroassessment is declared when the MCT drops below 100%.

Table 2.0

	Scenario A	Scenario B	Scenario C	Scenario D
Surplus Target	175%	200%	225%	250%
Mean level MCT in 2011	146.5%	160.4%	175.7%	192.8%
65 th percentile MCT in 2011	93.5%	105.9%	118.7%	133.5%
75 th percentile MCT in 2011	65.2%	76.2%	88.3%	102.2%
% of Scenarios with Retroassessment	53.2%	45.4%	36.8%	28.3%
Average amount of Retroassessment	4,313,496	3,905,881	3,745,251	3,733,011
Avg. Retro as a % of 2009/2010 premiums	17.8%	16.1%	15.4%	15.4%

The premium stability in the model is directly linked to the probability of retroassessment, since it is the only mechanism modeled to collect more than the growth in premium related to inflation.

The choice between setting a target between Scenarios A to D is entirely based on the desire of Subscribers to “insure” against retroassessment. Please note that Scenario A represents a \$14.9 million target and Scenario D a \$20.1 million target.

Future Considerations

CLLAS must also consider that various future considerations may affect the level of desired surplus target and even the minimum surplus. Decisions to increase the level of retention within the reciprocal, different rating decision or surplus management may all impact the level of surplus as it changes the potential volatility in CLLAS.

We therefore recommend that the surplus target and minimum surplus be reviewed at least every two to three years.

Conclusion

We have presented above an analysis which can assist CLLAS in making the following decisions:

- What is the appropriate benchmark for surplus targets?
- What should the minimum surplus be?
- What should the target surplus be?

In terms of benchmarks, we recommend that CLLAS set a surplus target based on the MCT level. This would allow for the target to move over time given the changes in retention level instead of being expressed as a set amount which does not recognize changes in the retention or inflation on claims/premiums overtime. It would also provide CLLAS with one measure to monitor to address concerns of the regulators and management of its surplus.

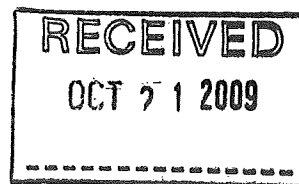
The target surplus can be set based on the risk appetite of CLLAS. We have presented above in Table 2.0 various scenarios for consideration as well as various considerations in setting a target surplus level.

In addition to the “optimal” target surplus based on MCT level, we believe that it would be prudent for CLLAS to continue to have a stated minimum target level which can be communicated to outside parties in notes to financials or communications to the regulators. The minimum surplus target set for July 1, 2006 was \$11 million. Given the retention increase that have taken place since this target was set, we would recommend that the minimum surplus be set at \$15 million.

Once these metrics are set, we suggest recommend that CLLAS discuss any necessary action regarding surplus at its June Board meeting. At that time, when the rates for the up-coming policy year are set, the Board would review that actual surplus against the minimum and target surplus, and discuss at that point any surplus management decision which may be appropriate.

We look forward to discussing our analysis and recommendations at the December 8, 2009 Board meeting.

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



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

October 20, 2009.

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

Dear Mr. Mahoney:

Re: Canadian Lawyers Liability Assurance Society

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

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

After experiencing a fair amount of volatility during the previous quarter, domestic bond prices settled into a sideways trading range during the third quarter and prices ended the period moderately higher on balance. Reflecting these gains, the valuation of the Long Term Investment Fund recorded a capital increase of some \$294,600 with most of the individual issues contributing to the advance.

Activity during the quarter centered on the rollover of money market and equivalent issues in the Short Term Investment Fund. There were no changes made in the Long Term Investment Fund and, as a result, this portfolio's maturity structure became slightly more defensive.

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

With best regards,

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Richard Bell". The signature is fluid and cursive, with a large, stylized "R" and "B".

RWB: sc
Enclosures

MARTIN, LUCAS & SEAGRAM LTD.
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October 20, 2009.

In account with

Canadian Lawyers Liability Assurance Society
- Short Term Investment Fund

Valuation of Short Term Investment Fund
at September 30, 2009

\$12,365,436

Investment Counsel Fee for the period
July 1 to September 30, 2009
at .05% (1/4 of .20% per annum)

\$6,182.72

Goods & Services Tax at 5%

309.14

\$6,491.86

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

G.S.T. Registration No. R103546115

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

October 20, 2009.

In account with

Canadian Lawyers Liability Assurance Society
- Long Term Investment Fund

Valuation of Long Term Investment Fund
at September 30, 2009

\$37,652,226

Investment Counsel Fee for the period
July 1 to September 30, 2009
at .0625% (1/4 of .25% per annum)

\$23,532.64

Goods & Services Tax at 5%

1,176.63

\$24,709.27

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

G.S.T. Registration No. R103546115

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

Security	06-30-09 Market Value	Additions Withdrawals	09-30-09 Market Value	09-30-09 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
GOVERNMENT BONDS								
Canada Housing Trust Sr. 9 3.75% due March 15, 2010	511,275	-9,375	507,710	496,515	0	0	11,195	-3,565
Canada 5-1/2% due June 1, 2010	470,448	0	465,183	448,965	0	0	16,218	-5,265
Canada 4% due September 1, 2010	519,835	-10,000	515,845	501,500	0	0	14,345	-3,990
Canada Housing Trust Sr. 13 4.05% due March 15, 2011	1,048,310	-20,250	1,044,240	990,150	0	0	54,090	-4,070
Canada 6% due June 1, 2011	1,090,030	0	1,081,010	1,037,325	0	0	43,685	-9,020
Canada Housing Trust Sr. 14 4.60% due September 15, 2011	1,597,395	-34,500	1,591,830	1,526,100	0	0	65,730	-5,565
Farm Credit Canada 4.20% due February 15, 2012	530,285	-10,500	529,615	506,006	0	0	23,610	-670
Canada Housing Trust Sr. 16 4.00% due June 15, 2012	2,313,850	0	2,319,614	2,212,456	0	0	107,158	5,764
Canada Housing Trust Sr. 18 4.55% due December 15, 2012	801,953	0	804,300	770,425	0	0	33,875	2,348
Canada Housing Trust Sr. 19 3.60% due June 15, 2013	931,707	0	938,808	898,840	0	0	39,968	7,101
Canada Housing Trust Sr. 22 3.55% due September 15, 2013	928,926	-15,975	936,720	946,117	0	0	-9,397	7,794
Canada Housing Trust Sr. 24 2.7% due December 15, 2013	1,642,955	0	1,661,171	1,654,203	0	0	6,968	18,216
Canada Housing Trust Sr. 26 2.20% due March 15, 2014	1,456,605	-15,822	1,474,140	1,497,053	0	0	-22,913	17,535
Canada Housing Trust Sr. 28 3.15% due June 15, 2014	1,011,070	0	1,020,210	999,460	0	0	20,750	9,140
Canada Mtge & Housing 4.30% due April 1, 2015	635,994	0	642,240	605,700	0	0	36,540	6,246
Canada Mtge & Housing Corp. 4.10% due October 1, 2015	680,037	0	689,468	639,525	0	0	49,943	9,432
Canada 4% due June 1, 2016	1,068,320	0	1,070,540	995,820	0	0	74,720	2,220
Canada Housing Trust Sr. 23 4.10% due December 15, 2018	765,900	0	773,258	783,840	0	0	-10,583	7,358
GOVERNMENT BONDS Total	18,004,894		18,065,901	17,509,999	0	0	555,902	61,008
PROVINCIAL BONDS								
British Columbia 6.375% due August 23, 2010	531,700	-15,938	525,395	521,100	0	0	4,295	-6,305
Ontario 6.10% due November 19, 2010	534,575	0	529,770	510,600	0	0	19,170	-4,805
Ontario 4.4% due December 2, 2011	1,272,360	0	1,270,044	1,212,190	0	0	57,854	-2,316
Ontario 4.50% due December 2, 2012	1,331,375	0	1,336,450	1,292,133	0	0	44,317	5,075
Ontario 4-3/4% due June 2, 2013	1,366,736	0	1,377,523	1,304,990	0	0	72,533	10,787

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

Security	06-30-09 Market Value	Additions Withdrawals	09-30-09 Market Value	09-30-09 Cost Basis	Realized Gain or Loss		Unrealized Gain or Loss	
					Cost	Market	Cost	Market
Manitoba 5.05% due December 3, 2013	1,086,040	0	1,095,880	1,016,075	0	0	79,805	9,840
Ontario 5% due March 8, 2014	813,645	-18,750	821,378	769,700	0	0	51,678	7,733
Ontario 3.25% due September 8, 2014	502,055	-8,125	508,700	499,180	0	0	9,520	6,645
Manitoba 4.80% due December 3, 2014	808,860	0	817,590	783,425	0	0	34,165	8,730
Ontario 4.5% due March 8, 2015	1,431,527	-30,375	1,449,738	1,371,933	0	0	77,806	18,212
Ontario 4.4% due March 8, 2016	1,830,133	-38,500	1,866,533	1,789,410	0	0	77,123	36,400
Ontario 4.30% due March 8, 2017	1,797,635	-37,625	1,841,595	1,776,025	0	0	65,570	43,960
Ontario 4.20% due March 8, 2018	1,009,290	-21,000	1,037,310	1,003,315	0	0	33,995	28,020
PROVINCIAL BONDS Total	14,315,930		14,477,905	13,850,076	0	0	627,829	161,975
CORPORATE BONDS								
GE Capital Cda Fndg 5.65% due October 23, 2009	252,673	0	250,593	248,875	0	0	1,718	-2,080
Bank of Nova Scotia 4.25% Sen. Dep. Note due November 23, 2010	312,180	0	310,884	301,340	0	0	9,544	-1,296
Royal Bank 4.17% Sen. Dep. Note due January 11, 2011	312,486	-6,255	311,622	300,300	0	0	11,322	-864
Bank of Montreal 4.69% due January 31, 2011	524,380	-11,725	523,460	521,050	0	0	2,410	-920
CIBC 5.00% Senior Dep Nts due September 10, 2012	318,387	-7,500	321,912	300,690	0	0	21,222	3,525
Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	404,508	0	414,660	399,120	0	0	15,540	10,152
Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	794,670	-18,203	804,975	760,125	0	0	44,850	10,305
Bank of Nova Scotia 4.56% due October 30, 2013	262,005	0	266,070	250,175	0	0	15,895	4,065
Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	298,470	0	308,064	299,920	0	0	8,144	9,594
Enbridge Gas Distribution 5.570% due January 29, 2014	272,663	-6,905	276,045	267,610	0	0	8,435	3,383
Canadian Utilities Inc. 5.096% due November 18, 2014	267,898	0	270,820	263,910	0	0	6,910	2,923
CIBC 4.75% due December 22, 2014	524,285	0	535,350	508,980	0	0	26,370	11,065
GE Capital Cda Fndg 4.65% due February 11, 2015	291,951	-6,975	304,122	306,600	0	0	-2,478	12,171
Bank of Montreal 4.55% due August 1, 2017	200,246	-4,550	209,844	199,882	0	0	9,962	9,598
CORPORATE BONDS Total	5,036,801		5,108,421	4,928,577	0	0	179,844	71,620
TOTAL PORTFOLIO	37,357,624		37,652,226	36,288,652	0	0	1,363,574	294,602
TOTAL DATE TO DATE GAIN OR LOSS								294,602
% CHANGE DURING PERIOD								0.79

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

INVESTMENT REPORT
FOR QUARTER ENDING SEPTEMBER 30, 2009

MARTIN, LUCAS & SEAGRAM LTD.
INDEPENDENT INVESTMENT COUNSEL

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CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

COMMENTARY FOR THE QUARTER ENDING SEPTEMBER 30, 2009

Review of Market Yields

Bond yields across all maturity ranges traded in a narrow sideways pattern during the third quarter and yields ended the period with small changes in both directions. At the short end of the curve, the yield on 3 month Treasury Bills eased 2 basis points lower, while 5-year Canada yields edged higher by 11 basis points. Further out the curve, the 10-year Canada yield dipped 5 basis points.

Following these shifts, the slope of the yield curve showed little net change. At the end of September, 10-year issues provided a 309 basis point yield advantage over Treasury Bills, which was just 3 basis points less than three months earlier.

	Jan. 1/95	Mar. 31/09	June 30/09	Sept. 30/09
3-Month Treasury Bills	6.80%	0.39%	0.24%	0.22%
5-year Canadas	8.99%	1.75%	2.46%	2.57%
10-year Canadas	9.09%	2.79%	3.36%	3.31%

During the third quarter, the valuation of the Long Term Investment Fund rose \$294,602 or 0.8% on a capital basis.

At September 30, 2009, the average term to maturity of the Long Term Investment Fund stood at 4.1 years, compared to 4.3 years three months earlier.

No changes were made in the individual security holdings in the Long Term Investment Fund during the past three-month period.

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

<i>Distribution as at September 30, 2009</i>	<i>Valuation</i>	<i>%</i>
Short Term Investment Fund	\$12,365,436	24.7%
Long Term Investment Fund	37,652,226	75.3%
TOTAL COMBINED VALUATION	\$50,017,662	100.0%

CLLAS
CANADIAN LAWYERS LIABILITY
ASSURANCE SOCIETY

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

- Investment Performance: Summary of Capital Performance and Total Returns for the Long Term Investment Fund
- (Returns Exclude Investment Counsel Fees)
- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund
by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short and Long Term Investment Funds
Listed and Valued Separately as at September 30, 2009
- Security Purchases and Sales in the Short Term Investment Fund
- Cash Reconciliations

CLLAS

LONG TERM INVESTMENT FUND

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

	Jan. 1/95	Mar. 31/09	June 30/09	Sept. 30/09
<i>Valuation of Long Term Investment Fund</i>	<i>\$3,466,369</i>	<i>\$33,596,982</i>	<i>\$37,357,624</i>	<i>\$37,652,226</i>
Cumulative Capital Added (Net) since January 1, 1995		\$27,714,868	\$31,846,398	\$31,846,398

Quarterly Capital Change		+\$ 198,475	-\$ 370,887	+\$ 294,602
Quarterly Capital % Change		+ 0.7%	- 1.1%	+ 0.8%

LONG TERM INVESTMENT FUND

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

	Five Years	Four Years	Three Years	Two Years	One Year	Last 3 Months
<i>Long Term Investment Fund</i>	<i>5.1</i>	<i>5.1</i>	<i>5.7</i>	<i>7.4</i>	<i>8.8</i>	<i>1.8</i>
DEX Canada Short Bond Index	4.8	5.0	5.7	6.8	7.1	1.0
DEX Provincial Short Bond Index	5.0	5.1	5.8	7.1	8.3	1.5

CLLAS

LONG TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING SEPTEMBER 30, 2009

	One Year	Last 9 Months	Last 6 Months	Last 3 Months
<i>Long Term Investment Fund – Gross of Fees</i>	<i>8.84</i>	<i>3.52</i>	<i>1.76</i>	<i>1.81</i>
<i>Long Term Investment Fund – Net of Fees</i>	<i>8.55</i>	<i>3.31</i>	<i>1.63</i>	<i>1.74</i>
Benchmark Portfolio *	8.76	2.62	1.12	1.70

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

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

SHORT TERM INVESTMENT FUND

TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIOD ENDING SEPTEMBER 30, 2009

	One Year	Last 9 Months	Last 6 Months	Last 3 Months
<i>Short Term Investment Fund – Gross of Fees</i>	<i>0.98</i>	<i>0.39</i>	<i>0.19</i>	<i>0.08</i>
<i>Short Term Investment Fund – Net of Fees</i>	<i>0.77</i>	<i>0.23</i>	<i>0.09</i>	<i>0.02</i>
Benchmark Portfolio *	0.85	0.31	0.12	0.04

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

CLLAS

LONG TERM INVESTMENT FUND

DISTRIBUTION OF SECURITIES BY CREDIT RISK

(Based on Market Values)

SINCE THE JANUARY 1, 1995, STARTING DATE

	Jan. 1/95	Mar. 31/09	June 30/09	Sept. 30/09
Bonds, Treasury Bills & Cash Less than 1 year term	29.0%	5.3%	3.4%	6.0%
Canadas Greater than 1 year term	54.7%	41.3%	45.5%	44.1%
Provincials Greater than 1 year term	16.3%	39.9%	38.3%	37.0%
Corporates Greater than 1 year term	-	13.5%	12.8%	12.9%
TOTAL PORTFOLIO	100.0%	100.0%	100.0%	100.0%

LONG TERM INVESTMENT FUND

DISTRIBUTION OF SECURITIES BY MATURITY

(Based on Market Values)

SINCE THE JANUARY 1, 1995, STARTING DATE

	Jan. 1/95	Mar. 31/09	June 30/09	Sept. 30/09
Under 1 year	29.0%	5.3%	3.4%	6.0%
1 - 3 years	19.8%	26.2%	28.3%	26.1%
3 - 5 years	29.3%	38.8%	36.7%	37.3%
5 - 7 years	11.4%	19.5%	21.5%	20.3%
7 - 10 years	10.5%	10.2%	10.1%	10.3%
TOTAL	100.0%	100.0%	100.0%	100.0%
Average Maturity (yrs)	2.6	4.2	4.3	4.1
Average Duration	2.3	3.7	3.8	3.6

CLLAS

COMPLIANCE WITH INVESTMENT POLICY STATEMENT

COMPLIANCE REPORT AT SEPTEMBER 30, 2009

	Investment Limits	Investment Funds	Compliance
<i>Short Term Investment Fund</i>			
Maximum Term of Any Issue	1 year	0.53 years	Yes
Minimum Size	20% of Total	24.7%	Yes
Minimum Canada & Provincial Percentage	50%	83.2%	Yes
Minimum Provincial Quality	A	A Hi	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<i>Long Term Investment Fund</i>			
Maximum Term of Any Issue	10 years	9.2 years	Yes
Minimum Cda and Cda Guarantee Percentage	40%	48.0%	Yes
Maximum Provincial Percentage	40%	38.4%	Yes
Minimum Provincial Quality *	A	A	Yes
Maximum Corporate Percentage	20%	13.6%	Yes
Minimum Corporate Quality *	A	A	Yes

** At time of purchase*

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

At September 30, the Short Term Fund represented 24.7% of the two Funds combined, which is above the 20% minimum required.

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

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

Provincial Bonds: Quebec and Manitoba @ A Hi

Corporate Bonds: Canadian Utilities Inc. @ A
Enbridge Gas Distribution @ A

Martin, Lucas & Seagram Ltd.
PERFORMANCE REPORT
GROSS OF FEES
CLLAS - LONG TERM INVESTMENT FUND
From 06-30-09 to 09-30-09

Portfolio Value on 06-30-09	37,357,624
Accrued Interest	292,534
Contributions	0
Withdrawals	-348,847
Realized Gains	0
Unrealized Gains	294,602
Interest	348,847
Dividends	0
Change in Accrued Interest	34,435
Portfolio Value on 09-30-09	37,652,226
Accrued Interest	326,969
Average Capital	37,543,567
Total Gain before Fees	677,884
IRR for 0.25 Years	1.81%

BOND MARKET COMMENTARY AND FUTURE POLICY

Over the past few months, there has been mounting evidence that the global economic backdrop has been improving at a faster pace than many forecasters had anticipated. The plunge in economic activity that started last fall abated considerably during the second quarter and more recent data suggests that the global economic contraction ended during the third quarter. China has been leading the way out of recession more decisively than most countries due in part to its massive stimulus program. However, there are numerous signs that the stimulative fiscal and monetary policies adopted around the world are also having the desired effect and most major economies are expected to expand in the current quarter.

The better than expected economic news has helped fuel a significant rally in global equity markets. As a result, there has been a shift in investors' focus away from the potential depth and duration of the downturn to the likely shape and sustainability of the recovery. The current debate centers around three possible scenarios, all of which are supported by historical precedents. One possibility is labeled a V-shaped recovery, which denotes a vigorous expansion. In the past, deep post-war recessions have most often been followed by stronger than average rebounds. Given the scale and duration of the slump this time around, optimistic forecasts believe pent-up demand coupled with extraordinary government stimulus will produce a better than average expansion. A second alternative is a U-shaped recovery, which is used to describe a much weaker and more drawn-out period of growth. Meanwhile, the more pessimistic viewpoint subscribes to a W-shaped recovery, or double-dip recession, where a relatively short period of growth is followed by another leg down in the economy.

In our previous market commentary, we suggested that a sizable economic rebound could occur sooner than many expected if the stock market rally and the often cited "green shoots" sprouting in the economy restored confidence in the outlook. Since then, consumer confidence in the U.S. rose to an 11 month high in August before slipping slightly in September and indicators of stock market sentiment have reached extremely high levels. This suggests to some that a V-shaped recovery lies ahead. Furthermore, now that the fiscal stimulus packages, which normally act with a lag, are starting to fuel the rebound the next few months could be relatively buoyant. However, looking beyond a near term bounce, we think the economy still faces significant headwinds.

Several major obstacles to a vigorous and unwavering recovery were discussed in previous reports and these remain largely intact. Both consumer and business borrowers remain under considerable stress and debt levels are still excessive. Defaults continue to accelerate, particularly in the commercial and residential mortgage markets, and as a result the number of problem banks is still growing, which will keep credit conditions tight. Meanwhile, the ability and willingness of consumers to add fuel to the recovery will be constrained for some time. In the U.S., unemployment has doubled during the recession to a 26 year high of 9.8% and the outlook for the labour market is weak in all regions. While the housing market is showing signs of forming a bottom, the prospects for consumer spending leave a cloud over the potential for improvement. Prime mortgages now account for over half of foreclosures and unemployment has replaced subprime mortgages as the most important factor behind defaults. Furthermore, consumer credit has experienced the sharpest annual decline in the post-war period and additional savings are required before consumer finances are returned to healthy levels.

In view of these obstacles, we expect the recovery will be weaker than has been historically the case after such a deep downturn. The economic collapse was rooted in credit excesses, which will take more time to correct, and we expect the headwinds against a vibrant recovery in the U.S. will serve to constrain, but not derail, the global expansion. As a result, we expect investors are most likely facing a U-shaped recovery, where growth rates remain below potential and an extended period of time is needed before the economic foundation appears solid. This more somber outlook seems to be reflected by the bond market, where yields have remained near historical lows, in contrast to the lofty expectations exhibited by the strong recover in equity prices.

Over the shorter term, we think the course of the recovery, inflation and monetary policy will remain generally supportive of bond yields and that bonds will remain in a trading range with a moderate upward bias. Inflation is not expected to be a near term problem given the historically low rate of capacity utilization, downward pressure on prices and wages, rising unemployment, and the large gap that now prevails over the non-inflation employment rate. These conditions are also expected to keep monetary policy on hold in Canada and the U.S., where the authorities have pledged to leave administered rates extremely low until well into next year.

Looking further ahead, we think bond yields will trend higher over the course of next year as the economic recovery gains traction and investors start discounting the likelihood that the monetary authorities will begin moving rates higher. The growing issuance of government debt and increasing credit demands from the private sector are also expected to put upward pressure on bond yields. Inflation concerns pose an additional risk if the unprecedented monetary and fiscal measures adopted during the downturn are not successfully unwound. Accordingly, we think the Long Term Investment Fund's defensive average maturity structure, which was allowed to shorten slightly to just over 4 years during the third quarter, is prudent and the mix of credits is appropriate given prevailing credit spreads.

RWB: sc

October 20, 2009

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

CLLAS - SHORT TERM INVESTMENT FUND**Portfolio Holdings at September 30, 2009**

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
CASH					
	Cash Account			5,675	0
MONEY MARKET ISSUES					
490,000	CIBC BA .15% due October 1, 2009	99.97	100.00	489,995	735
750,000	CIBC BA .20% due October 7, 2009	99.95	99.99	749,947	1,499
830,000	CIBC BA .20% due October 28, 2009	99.98	99.98	829,817	1,660
				<u>2,069,759</u>	<u>3,894</u>
GOVERNMENT BONDS					
425,000	Canada Coupon due December 1, 2009	99.87	99.95	424,788	0
800,000	Residue Canada Housing Trust due March 15, 2010	99.90	99.87	798,960	0
				<u>1,223,748</u>	<u>0</u>
PROVINCIAL BONDS					
500,000	Ontario 6.20% due November 19, 2009	100.77	100.72	503,605	31,000
2,000,000	Ontario Coupon due November 19, 2009	99.85	99.90	1,997,900	0
1,625,000	British Columbia Residue due December 1, 2009	99.88	99.90	1,623,375	0
1,000,000	PRN Financement Quebec due December 1, 2009	99.89	99.93	999,300	0
700,000	Ontario Coupon due December 2, 2009	99.84	99.90	699,300	0
1,500,000	Alberta Treasury Branch BDN Discount Note due February 10, 2010	99.89	99.89	1,498,350	0
750,000	Quebec Hydro Coupon due February 15, 2010	99.85	99.79	748,425	0
1,000,000	Ontario Hydro 40 yr. Ser. Global due April 11, 2010	99.51	99.60	996,000	0
				<u>9,066,255</u>	<u>31,000</u>
TOTAL PORTFOLIO				12,365,436	34,894

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 07-01-09 To 09-30-09

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
07-02-09	07-03-09	1,000,000	CIBC BA .15% due August 4, 2009	99.99	999,869.00
07-02-09	07-03-09	1,000,000	Ontario Hydro 40 yr. Ser. Global due April 11, 2010	99.51	995,100.00
07-10-09	07-13-09	750,000	CIBC BA .20% due October 7, 2009	99.95	749,646.75
07-10-09	07-13-09	350,000	Royal Bank BA .10% due August 7, 2009	99.99	349,976.20
07-22-09	07-23-09	490,000	CIBC BA .15% due October 1, 2009	99.97	489,858.88
08-05-09	08-06-09	1,000,000	PRN Financement Quebec due December 1, 2009	99.89	998,880.00
08-06-09	08-07-09	350,000	CIBC BA .21% due September 4, 2009	99.98	349,941.55
08-24-09	08-25-09	800,000	Bank of Nova Scotia BA .10% due September 25, 2009	99.99	799,932.00
08-31-09	09-01-09	910,000	Residue Canada Housing Trust due September 15, 2009	99.98	909,848.03
09-03-09	09-10-09	375,000	British Columbia Residue due December 1, 2009	99.93	374,748.75
09-16-09	09-17-09	1,500,000	Alberta Treasury Branch BDN Discount Note due February 10, 2010	99.89	1,498,290.00
09-16-09	09-17-09	750,000	British Columbia Residue due December 1, 2009	99.97	749,748.75
09-16-09	09-17-09	750,000	Quebec Hydro Coupon due February 15, 2010	99.85	748,875.00
09-16-09	09-17-09	800,000	Residue Canada Housing Trust due March 15, 2010	99.90	799,216.00
09-28-09	09-29-09	830,000	CIBC BA .20% due October 28, 2009	99.98	829,863.88
					11,643,794.79
SALES					
07-03-09	07-03-09	2,000,000	Bank of Nova Scotia BA .454% due July 3, 2009	100.00	2,000,000.00
07-13-09	07-13-09	1,095,000	Ontario Coupon due July 13, 2009	100.00	1,095,000.00
07-23-09	07-23-09	500,000	Bank of Nova Scotia BA .10% due July 23, 2009	100.00	500,000.00
08-04-09	08-04-09	1,000,000	CIBC BA .15% due August 4, 2009	100.00	1,000,000.00

Martin, Lucas & Seagram Ltd.
PURCHASE AND SALE
CLLAS - SHORT TERM INVESTMENT FUND
From 07-01-09 To 09-30-09

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
08-07-09	08-07-09	350,000	Royal Bank BA .10% due August 7, 2009	100.00	350,000.00
08-23-09	08-23-09	745,000	British Columbia Coupon due August 23, 2009	100.00	745,000.00
09-01-09	09-01-09	910,000	Residue Canada due September 1, 2009	100.00	910,000.00
09-04-09	09-04-09	350,000	CIBC BA .21% due September 4, 2009	100.00	350,000.00
09-15-09	09-15-09	650,000	Farm Credit 3.30% due September 15, 2009	100.00	650,000.00
09-15-09	09-15-09	2,910,000	Residue Canada Housing Trust due September 15, 2009	100.00	2,910,000.00
09-25-09	09-25-09	800,000	Bank of Nova Scotia BA .10% due September 25, 2009	100.00	800,000.00
					11,310,000.00

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - SHORT TERM INVESTMENT FUND
From 07-01-09 To 09-30-09

Cash Balance at July 1, 2009			19,332.72
ADD:	Proceeds from Sales	11,310,000.00	
	Bond Interest Credited (from Long Term Investment Fund)	348,847.19	
	Bond Interest Credited (from Short Term Investment Fund)	<u>10,725.00</u>	<u>11,669,572.19</u>
			11,688,904.91
LESS:	Cost of Purchases	11,643,794.79	
	Investment Counsel Fees - Short Term Investment Fund	6,325.27	
	Investment Counsel Fees - Long Term Investment Fund	24,515.95	
	Trust Company Charges	<u>8,593.78</u>	<u>11,683,229.79</u>
Cash Balance at September 30, 2009			5,675.12

CLLAS - LONG TERM INVESTMENT FUND

Portfolio Holdings at September 30, 2009

<u>Quantity</u>	<u>Security</u>	<u>Unit Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>Annual Income</u>
GOVERNMENT BONDS					
500,000	Canada Housing Trust Sr. 9 3.75% due March 15, 2010	99.30	101.54	507,710	18,750
450,000	Canada 5-1/2% due June 1, 2010	99.77	103.37	465,183	24,750
500,000	Canada 4% due September 1, 2010	100.30	103.17	515,845	20,000
1,000,000	Canada Housing Trust Sr. 13 4.05% due March 15, 2011	99.02	104.42	1,044,240	40,500
1,000,000	Canada 6% due June 1, 2011	103.73	108.10	1,081,010	60,000
1,500,000	Canada Housing Trust Sr. 14 4.60% due September 15, 2011	101.74	106.12	1,591,830	69,000
500,000	Farm Credit Canada 4.20% due February 15, 2012	101.20	105.92	529,615	21,000
2,200,000	Canada Housing Trust Sr. 16 4.00% due June 15, 2012	100.57	105.44	2,319,614	88,000
750,000	Canada Housing Trust Sr. 18 4.55% due December 15, 2012	102.72	107.24	804,300	34,125
900,000	Canada Housing Trust Sr. 19 3.60% due June 15, 2013	99.87	104.31	938,808	32,400
900,000	Canada Housing Trust Sr. 22 3.55% due September 15, 2013	105.12	104.08	936,720	31,950
1,650,000	Canada Housing Trust Sr. 24 2.7% due December 15, 2013	100.25	100.68	1,661,171	44,550
1,500,000	Canada Housing Trust Sr. 26 2.20% due March 15, 2014	99.80	98.28	1,474,140	33,000
1,000,000	Canada Housing Trust Sr. 28 3.15% due June 15, 2014	99.95	102.02	1,020,210	31,500
600,000	Canada Mtge & Housing 4.30% due April 1, 2015	100.95	107.04	642,240	25,800
650,000	Canada Mtge & Housing Corp. 4.10% due October 1, 2015	98.39	106.07	689,468	26,650
1,000,000	Canada 4% due June 1, 2016	99.58	107.05	1,070,540	40,000
750,000	Canada Housing Trust Sr. 23 4.10% due December 15, 2018	104.51	103.10	773,258	30,750
				18,065,901	672,725

CLLAS - LONG TERM INVESTMENT FUND

Portfolio Holdings at September 30, 2009

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
PROVINCIAL BONDS					
500,000	British Columbia 6.375% due August 23, 2010	104.22	105.08	525,395	31,875
500,000	Ontario 6.10% due November 19, 2010	102.12	105.95	529,770	30,500
1,200,000	Ontario 4.4% due December 2, 2011	101.02	105.84	1,270,044	52,800
1,250,000	Ontario 4.50% due December 2, 2012	103.37	106.92	1,336,450	56,250
1,275,000	Ontario 4-3/4% due June 2, 2013	102.35	108.04	1,377,523	60,563
1,000,000	Manitoba 5.05% due December 3, 2013	101.61	109.59	1,095,880	50,500
750,000	Ontario 5% due March 8, 2014	102.63	109.52	821,378	37,500
500,000	Ontario 3.25% due September 8, 2014	99.84	101.74	508,700	16,250
750,000	Manitoba 4.80% due December 3, 2014	104.46	109.01	817,590	36,000
1,350,000	Ontario 4.5% due March 8, 2015	101.62	107.39	1,449,738	60,750
1,750,000	Ontario 4.4% due March 8, 2016	102.25	106.66	1,866,533	77,000
1,750,000	Ontario 4.30% due March 8, 2017	101.49	105.23	1,841,595	75,250
1,000,000	Ontario 4.20% due March 8, 2018	100.33	103.73	1,037,310	42,000
				<hr/> 14,477,905	<hr/> 627,238
CORPORATE BONDS					
250,000	GE Capital Cda Fndg 5.65% due October 23, 2009	99.55	100.24	250,593	14,125
300,000	Bank of Nova Scotia 4.25% Sen. Dep. Note due November 23, 2010	100.45	103.63	310,884	12,750
300,000	Royal Bank 4.17% Sen. Dep. Note due January 11, 2011	100.10	103.87	311,622	12,510
500,000	Bank of Montreal 4.69% due January 31, 2011	104.21	104.69	523,460	23,450
300,000	CIBC 5.00% Senior Dep Nts due September 10, 2012	100.23	107.30	321,912	15,000

Martin, Lucas & Seagram Ltd.

CLLAS - LONG TERM INVESTMENT FUND

Portfolio Holdings at September 30, 2009

Quantity	Security	Unit Cost	Price	Market Value	Annual Income
400,000	Wells Fargo Financial Canada MTN 4.40% due December 12, 2012	99.78	103.67	414,660	17,600
750,000	Toronto Dominion Bank Dep. Note 4.854% due February 13, 2013	101.35	107.33	804,975	36,405
250,000	Bank of Nova Scotia 4.56% due October 30, 2013	100.07	106.43	266,070	11,400
300,000	Wells Fargo Financial Canada MTN 4.33% due December 6, 2013	99.97	102.69	308,064	12,990
250,000	Enbridge Gas Distribution 5.570% due January 29, 2014	107.04	110.42	276,045	13,925
250,000	Canadian Utilities Inc. 5.096% due November 18, 2014	105.56	108.33	270,820	12,740
500,000	CIBC 4.75% due December 22, 2014	101.80	107.07	535,350	23,750
300,000	GE Capital Cda Fndg 4.65% due February 11, 2015	102.20	101.37	304,122	13,950
200,000	Bank of Montreal 4.55% due August 1, 2017	99.94	104.92	209,844	9,100
				<hr/> 5,108,421	<hr/> 229,695
TOTAL PORTFOLIO				37,652,226	1,529,658

Martin, Lucas & Seagram Ltd.
CASH RECONCILIATION
CLLAS - LONG TERM INVESTMENT FUND
From 07-01-09 To 09-30-09

Cash Balance at July 1, 2009	0.00
Cash Balance at September 30, 2009	0.00