



## CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY

### Investment Policy

Last Updated  
December 7, 2021



## 1. PURPOSE

- 1.1. This investment policy ("Policy") sets forth the investment objectives and guidelines for the management of the investments of the Canadian Lawyers Liability Assurance Society ("CLLAS") and the conflict of interest rules applicable to the members of the Advisory Board (the "Board") of CLLAS, the employees of the Office of the General Manager (the "General Manager") directly engaged in providing services to CLLAS and the employees of the investment counsel directly engaged in providing investment services to CLLAS (the "Investment Manager"), collectively referred to as the "CLLAS Agents".
- 1.2. This policy formalizes investment-related activities that comply with the *Alberta Insurance Act* and OSFI's Guideline B-1 *Prudent Person Approach* adopted by the Alberta Superintendent of Insurance.
- 1.3. This Policy is considered to reflect the financial needs of CLLAS and the risk appetite of its subscribers and to set investment standards which a reasonably prudent person would apply to avoid undue risk of loss, maintain appropriate liquidity and obtain a reasonable return.

## 2. CLLAS INVESTMENT ACTIVITIES

- 2.1. The Investment Manager will invest and reinvest, with full discretion but in accordance with the provisions of this Policy, the funds of CLLAS not required for operational purposes.
- 2.2. The Investment Manager will maintain two Funds (the "Funds") for investment purposes: the Short Term Investment Fund and the Long term Investment Fund. Monies provided to the Investment Manager for investment shall be allocated to one or both of the Funds as follows:

Fund	Target Allocation	Acceptable Range
Short Term Investment Fund	40%	20% to 100%
Long Term Investment Fund	60%	0% to 80%

- 2.3. In any event, the Short Term Investment Fund must represent not less than 20% of the total market value of the two Funds at the time the monies are received by the Investment Manager, after giving effect to such allocation. Transfers between the Funds may also be made subject to the Short Term Fund being at least 20% of the market value of the two Funds at the time of transfer and after giving effect thereto.
- 2.4. Investments in the two Funds will be denominated in Canadian dollars.



2.5. The Short Term Investment Fund is restricted to investments which mature within one year.

2.5.1. Such investments are restricted to the following:

- Treasury Bills issued by the Government of Canada or by any province of Canada having a rating A or better;
- Certificates of Deposit issued by a Canadian chartered bank having a rating R-1 High or better;
- Bankers Acceptances accepted by a Canadian chartered bank having a rating of R-1 High or better; and
- Bonds issued or guaranteed by any of the above which mature in less than one year.

2.5.2. Not less than 50% of short term investments will be invested in qualifying Government of Canada or provincial securities.

2.6. The Long Term Investment Fund consists of all investments which are not designated as being part of the Short Term Investment Fund.

2.6.1. Such investments are restricted to the following:

- Securities issued or guaranteed by the Government of Canada or any province of Canada; and
- Bonds issued by corporations incorporated under the laws of Canada or any province of Canada.

2.6.2. The maximum term to maturity of any one investment shall not exceed 10 years. For greater certainty, this Fund may include short term investments of the type permitted for investment under section 2.5.1

2.6.3. Not less than 60% of the market value of this Fund shall be invested in securities issued or guaranteed by the Government of Canada or by the government of any province of Canada and all such securities must, at the time of purchase, be rated A or better.

2.6.4. Not more than 40% of the market value of this Fund may be invested in bonds issued by corporations incorporated under the laws of Canada or any province of Canada and all such bonds, at the time of purchase, are restricted to the following:

Rating	Acceptable Range
BBB	0% to 10%
A or better	0% to 40%

In any event, not more than 10% of long term investments will be invested in BBB rated corporate bonds.



- 2.7. Investments which do not meet the criteria in Sections 2.5 and 2.6 are ineligible for inclusion in the investment portfolio.
- 2.8. If the credit rating for a fixed income instrument held in the portfolio is downgraded by a debt rating agency and results in part of the portfolio falling below the minimum rating standard, the investment manager is in the first ten days to communicate a plan that will result in the security's liquidation within a reasonable period of time. If a downgrade results in a split rating (variation among rating agencies in rating an issue), the security may be held under the condition of monitoring by the investment manager and ongoing communication with CLLAS provided at least one of the ratings meets the criteria in Section 2.6.4.
- 2.9. Under IAS 39, all CLLAS investments are designated as available-for-sale and have been reported at fair market value, unless otherwise determined by the General Manager with the concurrence of CLLAS' auditor. However, effective January 1, 2023, IFRS 9 will replace IAS 39.

Under IFRS 9, the classification for financial assets is dependent on two key criteria:

- The business model within which the asset is held, and
- the contractual cash flows of the asset

CLLAS holds financial instruments to fund insurance contract liabilities and uses the proceeds from the contractual cash flows on the financial assets to settle insurance liabilities as they come due. To ensure that the contractual cash flows from the financial assets match the insurance liabilities, CLLAS undertakes buying and selling activities as required to rebalance its portfolio.

Based on this criterion, the financial instruments of CLLAS meet the required conditions to be measured at Fair Value through Other Comprehensive Income (FVOCI).

- 2.10. The investment portfolio, in aggregate, will at all times comply with the applicable regulatory requirements and restrictions. In particular, Sections 415 to 432 of the *Alberta Insurance Act* describe restrictions with respect to investments.
- 2.11. Unless otherwise required by the Board, the Investment Manager will report to CLLAS each quarter on the status of the Funds and will compare the performance of the Funds with the following benchmarks for the period covered by the report.
- 2.11.1. The benchmark for the Short Term Investment Fund consists of 30-day Treasury Bills.
- 2.11.2. The benchmark for the Long Term Investment Fund is a composite benchmark comprised of 60% FTSE Canada Short Term Bond Index and 40% FTSE Canada Mid Term Bond Index.



- 2.11.3. Each report shall also provide such additional information as CLLAS may reasonably require.
- 2.12. The Board will re-examine the asset mix policy periodically in light of significant changes in any of the following:
- 2.12.1. the Board becoming aware of any significant liability with respect to any claim;
  - 2.12.2. capital market prospects;
  - 2.12.3. the risk appetite of the subscribers of CLLAS;
  - 2.12.4. any changes in regulatory requirements, and
  - 2.12.5. any other factors considered relevant by the Board.
- 2.13. Nothing in this Section 2 will preclude the Chair or, in his absence, the Vice Chair, from withholding from the Investment Manager funds anticipated to be required for operational purposes and investing such funds in short term investments of the type permitted for investment under Section 2.5.1 and having maturities not exceeding 90 days.
- 2.14. The Board, in conjunction with the General Manager, will review and, if necessary, update this Policy at least annually.

### **3. ASSETS HELD PURSUANT TO REINSURANCE SECURITY AGREEMENTS**

- 3.1. Section 3 of this Policy applies to monies held for the benefit of CLLAS pursuant to Reinsurance Security Agreements with reinsurers not licensed to do business in Canada which may be entered into by CLLAS from time to time.
- 3.2. Such Reinsurance Security Agreements must comply with the requirements of the Alberta Superintendent of Insurance. Pursuant to the terms of applicable Reinsurance Security Agreements, the market value of the deposits held pursuant to such Agreements must total not less than the amount required in the Minimum Capital Test in order to avoid any capital deduction or margin requirement as a result of CLLAS ceding risks to unlicensed reinsurers.
- 3.3. Pursuant to the terms of applicable Reinsurance Security Agreements, such deposits must be denominated in Canadian dollars and are restricted to the following:
- 3.3.1. Cash;
  - 3.3.2. Bonds and debentures issued by the Government of Canada, any province of Canada or any municipality of Canada;
  - 3.3.3. Bonds and debentures issued by a Canadian corporation, trust or limited partnership;
  - 3.3.4. Common or preferred shares in the capital of a Canadian or Provincial corporation; and
  - 3.3.5. Guaranteed investment certificates.



- 3.4. CLLAS has entered into a Loss Portfolio Transfer (“LPT”) with Colchester Reinsurance Limited. The terms of the LPT require that the assets supporting Colchester’s liabilities be held under a Reinsurance Security Agreement and that an investment policy that permits investment in securities other than Cash, T-bills, Government of Canada bonds and Canadian Provincial Government Bonds must be approved by CLLAS.

#### **4. CONFLICTS OF INTEREST**

- 4.1. No CLLAS Agent will knowingly permit his or her interest to conflict with his or her duties and powers in respect of CLLAS.
- 4.2. A conflict of interest is deemed to include any direct, indirect, actual or perceived material pecuniary interest of a CLLAS Agent in any arrangement, contract, investment, transaction or other matter in which CLLAS participates or proposes to participate. The pecuniary interest of a CLLAS Agent is deemed to include that of:
- 4.2.1. his or her spouse;
  - 4.2.2. any person with whom the CLLAS Agent is living in a relationship outside marriage;
  - 4.2.3. any member of the CLLAS Agent's family who shares his or her home; and
  - 4.2.4. any corporation or trust controlled by the CLLAS Agent or in which he or she has a substantial beneficial interest.
- 4.3. CLLAS Agents must not:
- 4.3.1. make, influence or participate in the making of any decision, if the effect or such decision is the potential furthering of the CLLAS Agent's interests;
  - 4.3.2. use material information derived from his or her status as a CLLAS Agent that has not been generally disclosed, to further the CLLAS Agent's interests; or
  - 4.3.3. accept, in connection with his or her status as a CLLAS Agent, any gift or personal benefit except those of a minor nature or as permitted by law.
- 4.4. At the earliest opportunity, each CLLAS Agent must fully disclose in writing, if practical, any conflict of interest or potential conflict of interest to the Chair or Vice Chair. The Chair or Vice Chair will record such declarations of conflict and report them to the Board at the earliest opportunity.
- 4.5. Board members in attendance at any meeting of the Board or its Committees must also declare to the Chair of the meeting any conflict or potential conflict of interest in any matter being considered at that meeting which relates to investment made pursuant to this policy and must refrain from participating in the discussion of or voting on such matter.



- 4.6. If any CLLAS Agent has doubt as to whether a particular situation represents a conflict of interest, he or she may provide the necessary information to the Chair or Vice Chair and request that the Board determine whether or not a conflict exists. The Chair or Vice Chair will record such requests and include them on the agenda for the next Board meeting for determination.
- 4.7. The obligation of CLLAS Agents under this Policy are in addition to those imposed on CLLAS Agents by any professional organization with which they may be associated.
- 4.8. The Chair will provide each member of the Board, the General Manager and the Investment Manager with a copy of this Policy. The Board may require periodic confirmation of compliance with this Policy.

## **5. ROLES AND RESPONSIBILITIES**

- 5.1. The Board is responsible for the following:
  - 5.1.1. Ensuring that the investments are in compliance with applicable regulatory requirements and restrictions and that the investments are managed in a prudent manner;
  - 5.1.2. Establishing investment objectives, asset allocations and performance measures;
  - 5.1.3. Reviewing and approving this Policy annually;
  - 5.1.4. Appointing and modifying or terminating the appointment of the Investment Manager;
  - 5.1.5. Reviewing the annual investment review and compliance report; and
  - 5.1.6. Reviewing changes, if any, to the investment policy for the assets supporting the LPT.
- 5.2. The General Manager is responsible for the following:
  - 5.2.1. Ensuring that the investments are in compliance with applicable regulatory requirements and restrictions and that the investments are managed in a prudent manner;
  - 5.2.2. Monitoring the Investment Manager's performance, based on the benchmarks set in this Policy, and recommending corrective actions to the Board when required;
  - 5.2.3. Monitoring compliance with this Policy;
  - 5.2.4. Maintaining a system of internal controls designed to prevent losses from inappropriate investment activities, fraud or human error;
  - 5.2.5. Filing all documentation required by the Alberta Superintendent of Insurance.
- 5.3. The Investment Manager is responsible for the following:
  - 5.3.1. Managing the day-to-day securities transactions;
  - 5.3.2. Ensuring compliance with this Policy;
  - 5.3.3. Achieving performance targets set in this Policy;
  - 5.3.4. Maintaining an appropriate level of liquidity to meet financial obligations;



- 5.3.5. Reporting to the General Manager and Board on a quarterly basis, or if warranted, on a more frequent basis on compliance with this Policy;
- 5.3.6. Providing regular reports to the Board which include a review of the current portfolio, a review of investment performance and future investment strategies.

## **6. AUTHORITY**

- 6.1. The Board has the authority to make revisions to this Policy.
- 6.2. The Board may, at any time, modify or terminate the appointment of Investment Manager and appoint one or more investment counsel to act as an Investment Manager in its place. The Chair or, in his absence, the Vice Chair shall be responsible, in consultation with the General Manager, for the supervision of the Investment Manager.
- 6.3. The Investment Manager has the authority to purchase, sell or hold securities that will be used to meet the objectives set forth in this Policy.

## **7. HISTORY OF CHANGES**

December 2021: The Policy was amended to allow up to 10% of long term investments to be invested in BBB Corporate Bonds.

A section was added to specify steps to be taken in the event a fixed income security held in the portfolio is downgraded by a debt rating agency causing it to fall below the minimum rating standard specified in the policy.

A section was also added to address the future transition to IRFS 9 which will replace IAS 39 on January 1, 2023. Under the new accounting standard, the financial instruments of CLLAS will be measured at FVOCI.

The benchmark for the long term fund was updated to reflect the following:

- Change in name from the DEX Indices to FTSE Canada Indices.
- In order to align with the addition of BBB bonds, the composition of the benchmark was modified to include the entire index, whereas previously it was limited to equal portions of the federal and provincial indexes only.

Other minor changes were also made.





- December 2015: The Policy was amended to comply with OSFI's Guideline B-1 adopted by the Alberta Superintendent of Insurance. Notable changes include the following:
- Addition of accounting classification of investments;
  - Addition of section on the oversight of assets held pursuant to Reinsurance Security Agreements;
  - Addition of section on roles and responsibilities;
  - Addition of section on authority with respect to this Policy;
  - Addition of section on history of changes.
- Other minor changes were also made.
- December 2013: The Policy was amended to reflect CLLAS' financial profile in light of the Loss Portfolio Transfer. The following changes were adopted:
- Increasing the maximum allowable investments in corporate bonds from 20% to 40%;
  - Changing the minimum for federal and provincial bonds to 60% in the Long Term Investment Fund;
  - Adding a benchmark for the Short-Term Investment Fund.
- May 2012: The Policy was amended to restrict all investments based on applicable regulatory requirements and restrictions. The reporting frequency was clarified to be on a quarterly basis. Other minor stylistic changes were made.
- October 2008: The benchmark for the Long-Term Fund was changed from Scotia McLeod's Short Term Bond Index and Provincial Short Term Bond Index to 60% DEX short-term index and 40% DEX mid-term index.
- Prior: Prior revisions to this Policy date from 2001.