

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

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

9:00 a.m.  
Davies Ward Phillips & Vineberg LLP  
40<sup>th</sup> Floor, RBC Centre  
155 Wellington Street West  
Toronto, Ontario

**Wednesday, June 24, 2015**

**Present:**

Nicholas Leblovic (Chair)	Davies Ward Phillips & Vineberg LLP
Barry Bresner	Borden Ladner Gervais LLP
Gordon Goodman	Cassels Brock & Blackwell LLP
Shayna Staniloff	Dentons LLP
Donald Milner	Fasken Martineau DuMoulin LLP
Ken Crofoot	Goodmans LLP
Bill Scott	McCarthy Tétrault LLP
Dan MacDonald (via phone)	McMillan LLP
Julia Holland	Torys LLP
Patrick Mahoney	Office of the General Manager, CLLAS
Norma Ibbetson	Office of the General Manager, CLLAS
Joe Tontini	Axxima
Ryan Durrell	Axxima

**Absent:**

David Morritt	Osler, Hoskin & Harcourt LLP
Mike Swartz	WeirFoulds LLP

**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 25, 2015 Meeting of the Advisory Board**

**It was moved by Ken Crofoot and seconded by Julia Holland that the minutes of the February 25, 2015 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**

Nick Leblovic spoke to the Board about his and Julia Holland's attendance in London to meet with underwriters to discuss the July 1, 2015 renewal terms.

He advised that the merger of Miller Insurance and Willis transaction was finalized. CLLAS has been assured that there will be no change to Miller team and approach being used to service CLLAS.

The Chair highlighted that many of the questions raised by underwriters, focused on "cyber risks". Ms. Holland as Tory's Risk Management Counsel was able to speak to that risk profile and to discuss firm specific risk management processes. These discussions were very well received by Underwriters.

The Chair advised the Board that he recommends continuing the practice of bringing an additional Board member to the renewal discussions in London in May/June.

Underwriters were also approached to consider supporting a facility to insure non-CLLAS firms as Associate Members. It is hoped that this facility will enable prospective CLLAS members to enjoy many of the benefits of the CLLAS program with a view to becoming full members in the future.

**6. Report of the Audit Committee**

Gordon Goodman reported. The Committee met on April 22, 2015 to review reinsurer security information and Colchester Reinsurance Limited's December 31, 2014 financials. No concerns were noted. The Committee continues to monitor the Argo syndicate concentration of risk but did not conclude that any specific action was required on this at renewal. Argo continues to be a good supporter of CLLAS both on rates and terms.

**7. Report of the Claims Committee**

Barry Bresner reported. The Committee continues to meet quarterly in person, and as needed by phone and email. The next meeting will be at the end of July. The General Manager's office will be reporting on a new claim that, while still very young, has significant potential at the upcoming Claims Committee meeting.

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

Julia Holland reported on a recent meeting of the Committee.

*Audit Process* – Ms. Holland reported that the first firm re-audit was essentially complete. As the template for the re-audit has now been developed and refined, John Walker expects to be able to complete the balance of the audits simultaneously and before the end of the year. Ms. Holland encouraged all the firms to actively process the questionnaires to assist in meeting the timeline.

*Bluedrop* – Ms. Holland reported that the firms had been canvassed to ascertain their interest in continuing to utilize the Bluedrop program. Feedback from all firms but two indicated that further funding on updating the program should be suspended. Next, the Committee will investigate whether individual firms can update content. The program has been well received by underwriters in London so if it is to be suspended, CLLAS should look at other ways of delivering risk management information/processes.

*Futures Seminars* – The Committee believes that a seminar on cyber risks would be appropriate. The timing and format have yet to be determined.

*Future Guidelines/Practice Notes* – Firms continue to receive requests to provide broad indemnities in outside counsel guidelines and during RFP processes. Firms continue to receive requests to disclosing insurance limits. The Committee is considering preparing a communication on issue to consider for terms of engagement.

**9. Report of the Policy Committee**

There was no report of the Policy Committee.

**10. Pro-Form Insurance Services**

*Excess Insurance Renewal*

Bob Wilson joined the meeting and reported that the renewal of the commercial excess layers has gone well and there will be an overall rate reduction of 5% for the coming year, although it was a little more difficult to achieve this time around. The two-year rate guarantee will be in effect again. Mr. Wilson reported that he saw the marketplace as stable compared to the soft market of past years.

The market still has a lot of capacity and it is possible to introduce additional limits if the firms desire.. Joe Tontini suggested that it would be appropriate to undertake a benchmarking study on limits as was done the last time that CLLAS increased their limits. This should be done well in advance of next year's renewal.

There has been some merger activity amongst reinsurers so Mr. Wilson said that he does expect to see some consolidation of capacity in future years.

Mr. Wilson advised that there were no changes to the policy wording.

#### *International Program*

The Board was reminded that the CLLAS International policy no longer operates with the two-year renewal feature due to negative US tax implications caused by multi-year commitments. Mr. Wilson advised that the insurers on this program continue to experience a deterioration in claims experience. The International program is marketed as a group but each firm is rated separately based on claims experience. Rates were negotiated on an as expiring basis, with only one firm being charged additional premium.

A schedule summarizing the S&P ratings of all the insurers on the excess and international programs was included in the hand-out materials. Also included was a 15-year summary of premium rates.

Mr. Wilson advised that firms will be renewed based on expiring limits, unless Pro-form is advised otherwise. He then left the meeting.

### **11. Reinsurance Renewal**

Joe Tontini and Ryan Durrell reported on the reinsurance renewal. The renewal objectives included:

- Maintain and enhance existing reinsurers relationships
- Attract new markets
- Consider a further reduction in Colchester's participation
- Reduce overall reinsurance costs and possible rate reductions
- Continue to evaluate ability to distribute surplus to members through premium credits

Additionally, CLLAS explored underwriters' interest in supporting a parallel facility to underwrite Associate member firms who could eventually become new members of CLLAS. The response to date has been positive. The initial focus will be on some Ontario firms with a January 1, 2016 target date. Pro-form has indicated that their limits/program would also be available to these Associate member firms.

No changes were proposed to the existing insurance and reinsurance structures for this renewal. CLLAS will continue to retain 100% of the drop down exposure.

Last year, CLLAS reduced Colchester's participation from 30% to 20%. Mr. Tontini advised that there is again additional capacity from London and domestic markets, such that it appears possible to reduce Colchester's participation from the current 20% to 15%. The Board considered and agreed with the recommendation not to reduce Colchester's participation.

### *Reinsurance Costs*

A rate reduction of 5% was proposed for the upcoming renewal, but negotiations to date indicate that the lead underwriters' actuaries will support a 2.5% reduction in rates. It may be possible to achieve a 5% reduction on the Optional Excess and Umbrella layers.

### *Return of Surplus/Premium Credit*

Any return of surplus has traditionally been arrived at from two sources: (1) the application of investment income earned on surplus, and (2) a Board directed surplus disbursement.

CLLAS' surplus position at the end of December 2014 was \$13,300,000. In considering CLLAS' surplus position it is prudent to take into account surplus attributable to Blakes and Dentons as well as regulatory surplus requirements. Taking all factors into consideration, there is \$1.9 million of available surplus. CLLAS' actuary recommends a distribution of no more than \$500,000 for 2015/2016. Board agreed to a surplus distribution of \$500,000 at July 1, 2015.

**On the expectation that there will be a rate reduction of between 2.5% and 0%, it was moved by Gord Goodman and seconded by Barry Bresner to instruct Axxima and Miller to bind reinsurance with current and new reinsurers, subject to final reinsurance terms and conditions that are not significantly different from those presented in the report to the Board. The motion was carried unanimously.**

### *Policy Wording*

Two years ago, CLLAS made two significant policy wording changes:

- Clarified cyber coverage for professional liability risks
- CLLAS International exposures were covered under the blanket excess (umbrella) policy

Last year, CLLAS added "foreign claims" wording to address situations where a foreign jurisdiction restricts CLLAS from paying claims in that jurisdiction.

This year, CLLAS will make the following changes:

- The Heenan Blaikie endorsement will be added
- Language with respect to choice of laws will be amended to meet the regulator's expectations
- The definition that refers to fines and penalties in the policy is being amended to remove extraneous words

A memo summarizing the final renewal terms will be provided for the September Board meeting.

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

### *Financial Statements Quarter Ending March 31, 2015*

Mr. Mahoney reported.

CLLAS's financial management report for the three months ended March 31, 2015 was included with the meeting materials.

CLLAS experienced a small underwriting loss (premiums minus claims and expenses) of \$47,000 first three months of 2015. After taking into account investment income (including unrealized gains arising during the quarter) CLLAS' total income for the quarter was \$87,000. Expenses for the first quarter are about 17% under budget. Expenses associated with July 1, 2015 the reinsurance placement are largely incurred in the second quarter, but in any event, barring unforeseen circumstances, operating expenses are on track to finish the year under budget. At March 31, 2015, CLLAS had a surplus of \$13.7 million.

### **Solvency Tests**

Mr. Mahoney reminded the Board that the key regulatory solvency test that CLLAS is required to comply with is known as the Alberta Maintenance of Reserve and Guarantee Fund. An Exhibit in the financial management report shows that CLLAS has well in excess of the minimum requirement

Mr. Mahoney also addressed the Minimum Capital Test (MCT) ratio. He pointed out that the calculation basis for the MCT changed effected January 1, 2015 and this change actually had a positive impact on CLLAS' ratio. At December 31, 2014, CLLAS' MCT ratio (calculated using the old basis) was 346%. At March 31, 2015, using the new basis, it is estimated to be 372%. There are transitional rules that phase in the new approach over three years, so all other things being equal, CLLAS' MCT ratio can be expected to increase further in the coming years.

### **Financial Ratios**

Mr. Mahoney advised the Board that the financial management report includes a new Exhibit which follows from the risk appetite discussions the Board had in 2014. During those discussions, the Board and management identified the material risks facing CLLAS and discussed "risk metrics" to serve as an early warning system in the monitoring of material risks. This Exhibit compares results for CLLAS at December 31, 2013, December 31, 2014 and March 31, 2015 against risk targets and risk limits. The results for March 31, 2015 are within CLLAS' risk tolerances. This Exhibit will continue to be refined as CLLAS works through the implementation of its Own Risk and Solvency Assessment (ORSA).

### ***Alberta Superintendent Examination Update***

Patrick Mahoney provided a progress report on the implementation of the recommendations outlined in the January 2014 Solvency, Compliance & Governance Examination report of the Alberta Superintendent of Insurance ("ASOI"). CLLAS submitted action plans in April and May 2014 which set out a timeline for adopting the various recommendations over a three year period. At this point in time, 19 of the 39 recommendations have been implemented and progress has been made on a number of others. The Board was also provided with a draft letter to the Alberta Superintendent of Insurance which provides an update on the outstanding items.

### *Own Risk and Solvency Assessment ('ORSA') Discussion*

CLLAS continues to develop its ORSA. The Board received a detailed memorandum dated June 12, 2015 from Patrick Mahoney.

The first part of the memo summarized discussions the Board had previously with respect to defining the risk facing CLLA and the second part presented for consideration by the Board a qualitative assessment of those risks.

The Board discussed the qualitative risk assessments set out in the memorandum. The next step in the ORSA process will consist of a quantitative evaluation of CLLAS' risks. The analysis will be performed by CLLAS' actuaries and will be based on the material risk categories identified by CLLAS. The analysis will allow CLLAS to select a surplus target that reflects its risk profile and risk appetite.

### *Business Plan for Regulator – FY15*

The 2015 Business Plan, which has been filed with the regulator, was included with the Board materials.

#### **13. Report of the Investment Manager at March 31, 2015**

This report is for information only. CLLAS has a conservative investment policy. Mr. Mahoney pointed out that the portfolio's weighting in short-term investments, while within the asset mix parameters of the Policy, is quite high. He said that he had discussed this with CLLAS' investment manager and was advised that this is deliberate as making a deliberate shift out of the short term fund would expose CLLAS to more interest rate risk.

#### **14. Other Business**

Mr. Leblovic advised that his term as Chair ends December 31, 2016 and he wishes to ensure an orderly transition to the next Chair. CLLAS has made it a practice to have the incoming Chair shadow the outgoing Chair for a period of approximately a year. This would require that a new Chair be selected by the end of 2015. Mr. Leblovic advised that Don Milner has agreed to chair the Nominating Committee for the purpose of assisting in the selection of the next Chair of CLLAS. He asked that anyone interested in serving on the Committee get in touch with Mr. Milner.

There was no other business.

#### **15. Next Meeting**

The next regularly scheduled meeting of the Board will be on September 9, 2015.

There being no further business, the meeting was terminated.

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Chairman

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Secretary



# MEMORANDUM

DATE: September 1, 2015  
TO: CLLAS Advisory Board  
FROM: Patrick Mahoney  
COPY:  
RE: June 30, 2015 Financial Management Report

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CLLAS's financial management report for the six months ended June 30, 2015 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 a small underwriting loss (premiums minus claims and expenses) of \$167,000 for the first six months of 2015. After taking into account investment income (including unrealized gains arising during the quarter) the loss is reduced to \$30,000. As you may be aware, as a result of an adverse trial decision, CLLAS has made a material reserve adjustment on a claim. The impact of CLLAS' net income is minimal as the loss is fully reinsured. There has however been a significant increase in the provision for unpaid claims (and the provision for claims recoverable from reinsurers) shown on Exhibit I. At June 30, 2015, CLLAS had a surplus of \$13.6 million.

The Budget Variance (Exhibit IV) shows that expenses for the first six months of the year are about \$70,000, or 6%, under budget. At this point in the year, our expectation is that operating expenses will finish the year on budget.

## Solvency Tests

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. Exhibit VI of the financial management report shows that the AMRGF required for CLLAS at March 31, 2015 was \$8.3 million. CLLAS' cash and approved securities totaled \$20.3 million, i.e. well in excess of the minimum requirement





CLLAS also monitors its Minimum Capital Test ratio. The Alberta Superintendent of Insurance expects reciprocals to maintain an MCT ratio of at least 210%. At December 31, 2014, CLLAS' MCT ratio was 346%. At June 30, 2015, using the new basis, it is estimated to be 323%. The calculation methodology for the MCT changed effective January 1, 2015 and there are transitional rules that phase in the new approach over three years. All other things being equal, CLLAS' MCT ratio can be expected to increase in the coming years. As mentioned in previous reports, mid-year MCT calculations are done on a simplified basis in the interest of efficiency; the "official" MCT calculation is done at year-end.

### **Financial Ratios**

Exhibit V is a new exhibit introduced in 2015. The Board and management have identified the material risks facing CLLAS and have defined "risk metrics" to monitor the material risks, like insurance risk and interest rate risk, that are capable of being quantified. Exhibit V compares results for CLLAS at December 31, 2013, December 31, 2014 and June 30, 2015 against risk targets and risk limits. With one exception, the results for June 30, 2015 are within CLLAS' risk tolerances. CLLAS' claims development (gross of reinsurance) as shown on Line 1 of Exhibit V is 35%, compared with a risk tolerance of 20%. This is the result of the single loss referred to above and does not represent a broad based deterioration in CLLAS' loss experience. As can be seen on Line 2, CLLAS' claims development (net of reinsurance) actually improved in the period.

This Exhibit will be refined as CLLAS works through the implementation of its Own Risk and Solvency Assessment (ORSA).

Please contact me if you have any questions with respect to the management financial statements, the solvency tests or the financial ratios.

Sincerely,

Patrick Mahoney  
General Manager

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

**QUARTERLY FINANCIAL MANAGEMENT REPORT**

**June 30, 2015**

# **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

## **QUARTERLY FINANCIAL MANAGEMENT REPORT**

**JUNE 30, 2015**

### **CONTENTS**

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

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2015**

	<b>As at June 30, 2015</b>	<b>As at June 30, 2014</b>
<b>ASSETS</b>		
Cash	3,663,982	1,517,458
Short term investments	11,855,424	9,138,243
Bonds	4,802,758	3,336,211
Interest income due and accrued	19,648	15,128
Premium receivable	0	19,768
Other receivable	0	0
Prepaid expenses	136,504	170,430
Deferred policy acquisition costs	0	0
Unearned reinsurance premium ceded	0	0
Reinsurance recoverable	165,760	5,636,003
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	100,299,000	69,590,000
	<u>120,943,076</u>	<u>89,423,242</u>
<b>LIABILITIES</b>		
Accounts payable & accrued charges	402,171	135,342
Premium taxes payable	0	0
Unearned premium	0	-0
Due to reinsurers	0	0
Provision for unpaid claims and adjustment expenses	106,918,000	75,962,000
Provision for unpaid premium liabilities	0	0
Premium deficiency liability	0	0
	<u>107,320,171</u>	<u>76,097,342</u>
<b>SUBSCRIBERS' EQUITY</b>		
Surplus	13,492,856	13,291,947
Accumulated Other Comprehensive Income (Loss)	130,050	33,953
	<u>13,622,905</u>	<u>13,325,900</u>
	<u>120,943,076</u>	<u>89,423,242</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Period Ending June 30, 2015**

	<b>Current Year</b>		<b>Prior Year</b>	
	<b>Quarter June 30, 2015</b>	<b>Year to Date June 30, 2015</b>	<b>Quarter June 30, 2014</b>	<b>Year to Date June 30, 2014</b>
Written Premium	-	-	184,471	184,471
Gross Written Premiums	-	-	184,471	184,471
Less: Reinsurance Ceded	-	-	138,932	138,932
Net Written Premiums	-	-	45,539	45,539
Change in Unearned Premiums	610,099	1,213,494	775,197	1,541,876
Earned Premiums	610,099	1,213,494	820,737	1,587,415
Claims Paid	(33,801)	31,617	-	-
Change in IBNR	150,000	191,000	(264,000)	383,000
Change in Case Reserve	22,000	35,000	-	-
Premium Deficiency Expense	-	-	-	-
Incurred Claims	138,199	257,617	(264,000)	383,000
Management and operating expenses	478,730	895,124	501,705	876,459
Reinsurance fees	69,750	139,500	69,750	139,500
Premium taxes	44,575	89,149	100,898	197,383
Total Operating Expenses	593,055	1,123,773	672,354	1,213,341
<b>Underwriting Gain (Loss)</b>	(121,154)	(167,896)	412,383	(8,926)
Investment Income	40,903	82,858	46,047	89,188
Income on Claim Related Matters	-	-	-	-
Interest Income on Premium Tax	-	-	-	-
<b>NET GAIN/(LOSS)</b>	<u>(80,252)</u>	<u>(85,039)</u>	<u>458,430</u>	<u>80,262</u>
<b>Other comprehensive income (loss)</b>				
Unrealized gains (losses) on available for sale financial assets arising during the year	(36,698)	55,332	19,344	60,180
Recognition of realized (gain) loss included in income	-	-	-	-
Other comprehensive income (loss) for the year	(36,698)	55,332	19,344	60,180
<b>Total comprehensive income (loss)</b>	<u>(116,949)</u>	<u>(29,706)</u>	<u>477,774</u>	<u>140,442</u>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF CHANGES IN EQUITY**  
**June 30, 2015**

	<b>Minimum Surplus</b>	<b>Additional Surplus</b>	<b>Unrealized gains and losses on AFS financial assets</b>	<b>Total Equity</b>
<b>Balance, beginning of year</b>	<b>50,000</b>	<b>13,527,894</b>	<b>74,717</b>	<b>13,652,612</b>
Prior year adjustment		-		-
<b>Comprehensive income (loss) for the year</b>				
Net gain (loss) for the year		(85,039)		(85,039)
<b>Other comprehensive income (loss)</b>				
Change in unrealized gain on available-for-sale assets			55,332	55,332
Recognition of realized (gain) loss on available-for-sale assets			-	-
<b>Total comprehensive income (loss) for the year</b>		<b>(85,039)</b>	<b>55,332</b>	<b>(29,706)</b>
<b>Balance at June 30, 2015</b>	<b>50,000</b>	<b>13,442,856</b>	<b>130,050</b>	<b>13,622,905</b>

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**STATEMENT OF OPERATIONS AND SURPLUS - VARIANCE ANALYSIS**  
**FOR THE PERIOD ENDED June 30, 2015**

	<b>Annual Budget</b>	<b>Year to Date Budget % Accrued to Date</b>	<b>Year to Date Budget \$</b>	<b>Year to Date Actual \$</b>	<b>Fav/(Unfav) Variance \$</b>
<b>MANAGEMENT SERVICES</b>	635,000	50%	317,500	316,569	931
<b>PROFESSIONAL SERVICES</b>					
Actuarial Services	85,000	50%	42,500	54,796	(12,296)
Reinsurance Matters	300,000	50%	150,000	160,352	(10,352)
Strategic Matters	150,000	50%	75,000	71,103	3,897
Sub-Total Professional Services	535,000		267,500	286,251	(18,751)
GST/HST on Consulting Fees	152,100		76,050	78,367	(2,317)
<b>Total Management &amp; Professional Services *</b> (See Note 1)	<b>1,322,100</b>		<b>661,050</b>	<b>681,186</b>	<b>(20,136)</b>
<b>OTHER EXPENSES</b>					
Audit Expenses	103,000	50%	51,500	57,293	(5,793)
Annual Dinner	7,000	50%	3,500	5,083	(1,583)
Premium Taxes	269,000	50%	134,500	89,149	45,351
Chairman's Expenses	3,000	50%	1,500	419	1,081
Chairman's Honourium	75,000	100%	75,000	75,000	-
Reinsurance Expense	11,000	50%	5,500	4,067	1,433
D&O Insurance	14,000	50%	7,000	-	7,000
Office Expenses	27,500	50%	13,750	12,380	1,370
Office Expenses - Website management software license	3,000	50%	1,500	1,125	375
Claims: Borderaux (LawPro/LIF)	14,600	91%	13,267	13,350	(83)
Special Services	50,000	50%	25,000	-	25,000
Miller Insurance Fees (Reins. Comm.) (See Note 2)	282,000	50%	141,000	139,500	1,500
I.B.C Statistical Plan Fees	5,000	50%	2,500	1,464	1,036
FSCO Assessment Fees	3,000	50%	1,500	2,000	(500)
Investment counsel fees	36,000	50%	18,000	12,405	5,595
Investment - Custodial	18,000	50%	9,000	8,724	276
Risk Management/Loss Prevention	50,000	50%	25,000	16,950	8,050
License Fee	6,500	50%	3,250	3,678	(428)
Insurance: Sundry	-		-	-	-
<b>Sub-total</b>	<b>977,600</b>		<b>532,267</b>	<b>442,586</b>	<b>89,680</b>
<b>TOTAL</b>	<b>2,299,700</b>		<b>1,193,317</b>	<b>1,123,773</b>	<b>69,544</b>

**\* 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	46%
Third Quarter, ending September 30th	14%
Fourth Quarter, ending December 31st	15%
	<u>100%</u>

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

The annual budget is based upon the annual fee estimated for the policy period 2013/2014.

**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**SUMMARY OF RISK METRICS**  
**June 30, 2015**

	<b>Risk Category</b>	<b>Risk Metric</b>	<b>December 31, 2013</b>	<b>December 31, 2014</b>	<b>June 30, 2015</b>	<b>Target</b>	<b>Limit</b>
(1)	<b>Insurance</b>	Prior year development - Gross of reinsurance	-16%	-6%	35%	0%	20%
(2)		Prior year development - Net of reinsurance	-17%	-33%	-1%	0%	10%
(3a)		3-year net combined ratio	n/a	84%	82%		
(3b)		3-year net combined ratio before surplus adjustments via premiums	n/a	81%	79%	100%	125%
(4)		Maximum allocation to a single jurisdiction	57%	57%	57%	n/a	67%
(5)	<b>Interest Rate</b>	Interest rate risk per MCT formula at 1.25%	\$382,500	\$201,667	\$170,000	\$250,000	\$600,000
(6)	<b>Liquidity</b>	Ratio of cash and short-term investments to gross claim liabilities	20%	21%	15%	15%	10%
(7)	<b>Asset Default</b>	Credit rating of invested assets	AAA	AA to AAA	AA to AAA	AA to AAA	A
(8)		Maximum allocation to a single non-government security	1.1%	1.6%	1.9%	n/a	5%
(9)	<b>Strategic</b>	Annual Advisory Board turnover	0	0	0	2 members	4 members
(10)	<b>Regulatory Solvency Indicators</b>	AMRGF - Excess of cash and approved securities over required reserve and guarantee fund	\$7,597,000	\$8,020,000	\$12,042,000	n/a	\$0
(11)		MCT	328%	346%	323%	210%	210%

**Notes**

(1) and (2) = Year-over-year change in ultimate losses / Prior year undiscounted unpaid claims (excl. ULAE)

(3a) = [3-year net incurred losses + 3-year operating expenses] / [3-year net earned premiums]; only experience after June 30, 2012 has been considered in the 2014 combined ratio to exclude the effect of the LPT transaction

(3b) = (3a), where 3-year net earned premiums reflect actuary's indicated premium rates before surplus distributions

(4) Based on insured lawyer counts

(8) Maximum allocation does not consider cash and cash equivalents

(11) For Provincially Regulated Insurance Entities that are required to file the MCT on an annual basis, the capital impact of the revised Guideline must be phased-in over three years, starting with the first year ending in 2015.



**CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**  
**For the Period Ending June 30, 2015**

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

	Current Year to Date 06/30/2015 (in \$000's)	Prior Year End 12/31/2014 (in \$000's)
<b><u>Reserve Fund</u></b>		
Premiums collected or credited having one year or less to run	(1) -	13,080
Less: Amount paid to licensed reinsurers	(2) -	10,471
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) -	2,609
Reserve Fund Required (50% of Line 5)	(6) -	1,305
<b><u>Guarantee Fund</u></b>		
Total Liabilities	(7) 107,320	84,993
Less: Unearned Premiums	(8) -	6,382
Less: Recoverable from licensed reinsurers	(9) 99,091	68,446
Plus: Statutory Margin	(10) 50	50
Guarantee Fund Required (Line 7 minus Lines 8 and 9 plus line 10)	(11) 8,279	10,215
<b>TOTAL RESERVE &amp; GUARANTEE FUND REQUIRED (Line 6+11)</b>	(12) 8,279	11,520
Cash & Approved Securities	(13) 20,321	19,539
Excess of Cash & Securities over Reserve & Guarantee Fund (line 13 minus line 12)	(14) 12,042	8,020



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P R I V A T E   &   C O N F I D E N T I A L

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**Date:** September 1, 2015

**To:**

David Morritt	Barry Bresner
William Scott	Daniel MacDonald
Donald Milner	John Esvelt
Gordon Goodman	Julia Holland
Ken Crofoot	Michael Swartz
Nicholas Leblovic	

**Copy:** Patrick Mahoney

**From:** Joe Tontini and Ryan Durrell

**Re:** Final Report on the CLLAS Reinsurance Renewal Placement and Rating for July 1, 2015/2016

The purpose of this report is to provide the CLLAS Board with a final summary of the renewal highlights, including the rating and reinsurance placement for July 1, 2015/2016. For ease of reference, we have attached the following exhibits:

- A. CLLAS Limit Structure
- B. Reinsurance and Colchester Retrocession Structure Overview
- C. Current Rate Structure and Participation by Reinsurer – Proportional and Aggregate Stop-Loss Reinsurance for CLLAS
- D. Current Rate Structure and Participation by Retrocessionaire – Proportional and Aggregate Stop-Loss Retrocession for Colchester
- E. Aggregate Stop-loss Reinsurance Structure (Historical between CLLAS and Colchester)

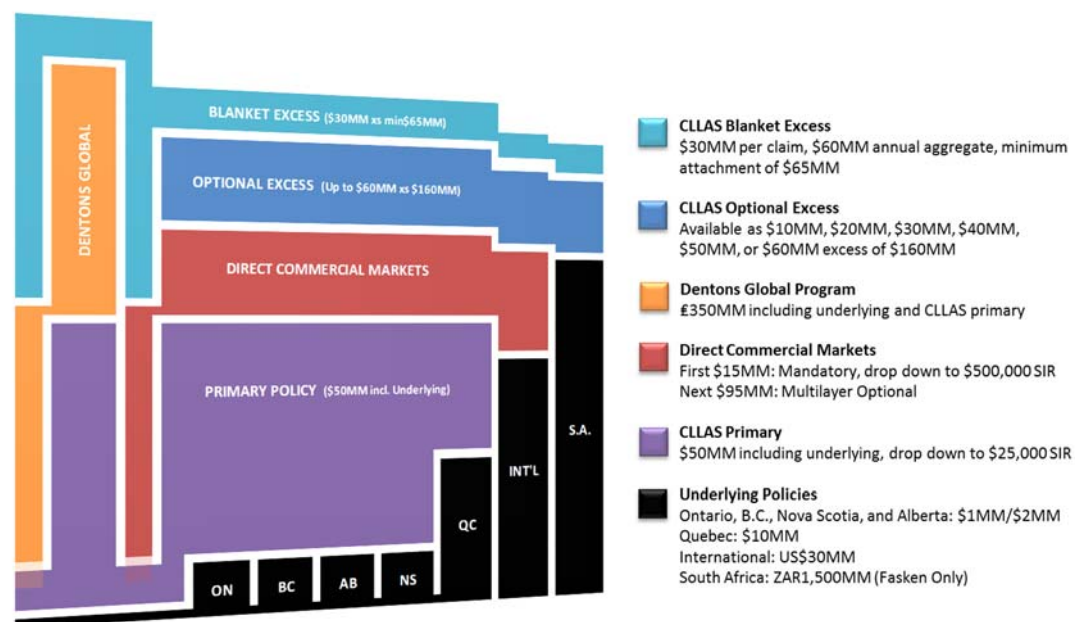
**Highlights**

The following are highlights of the renewal:

- As indicated in our report to the Board in June, the main objectives for the July 1, 2015/2016 renewal were to:
  - ✓ maintain and enhance existing reinsurer relationships;
  - ✓ attract new markets;
  - ✓ consider a further reduction in Colchester's participation;
  - ✓ explore ways of reducing overall reinsurance costs along with possible reduction in insurance rates for CLLAS members; and
  - ✓ continue to evaluate ability to distribute surplus to members through premium credits.

We are very pleased to say that we were able to meet all of the objectives. We continued to strengthen reinsurer relationships, attracted new markets, and managed a reduction in overall reinsurance costs. We considered reducing Colchester's quota share participation, however, this would have reduced the participation of some of the long-standing reinsurers, so the current structure was maintained in order to preserve those strategic relationships. CLLAS members also benefited from surplus distributions in the form of rate reductions from both CLLAS and Colchester.

- The CLLAS insurance structure as of July 1, 2015 remains unchanged and is depicted below. Please also see Exhibit A for a more detailed structure chart.



- The rates that CLLAS charged its members outside of Quebec were lowered by 1.97%, 2.9% and 3.3% on the Primary, Optional Excess and Umbrella Policies, respectively. Similar reductions were realized in Quebec.
- CLLAS members have realized overall savings of approximately \$243,000, or roughly \$59 per lawyer, over the previous year's rates (excluding optional excess). Savings were primarily the result of a reduction in reinsurance costs. CLLAS also matched last year's return of surplus of \$500,000 for 2015/2016.
- Tail coverage continues to be provided to former Heenan Blaikie LLP ("HB") lawyers on all CLLAS policies. Coverage is added by endorsement with premium charged only on the Primary Policy.
- There are minor changes to the policy wordings at renewal. Please see the "Policy Wording Changes" section below. Corresponding changes have also been made to the reinsurance contracts.

- The CLLAS reinsurance structure and retentions at renewal were unchanged from last year and are described below:

a) Primary Policy Reinsurance (Layer 1): \$49,000,000 excess of \$1,000,000 (\$40,000,000 excess of \$10,000,000 for Quebec lawyers) – 100% reinsured.

- 80% of this layer is proportionally reinsured with Lloyd's and other reinsurers (unchanged from last year).
- 20% is reinsured with Colchester (unchanged from last year). Colchester's involvement is then layered and retroceded to various markets. A portion of Colchester's participation is not transferred to other markets and is retained by Colchester – see Exhibit B.
- CLLAS retains the entire drop down exposure below \$1,000,000.

Due to the change in regulatory jurisdiction and the loss portfolio transfer which was put into effect in 2012, CLLAS was able to retain less risk and transfer more risk to Colchester subject to Colchester's approval. Although sufficient capacity was available on Layer 1 to reduce Colchester's participation to 15%, it was felt that the financial upside to reducing Colchester's participation was not commensurate with the reduction in the strategic value of holding the participation at 20%.

The combined CLLAS/Colchester maximum single loss retention remains at \$1,775,000.

b) Optional Excess Policy Reinsurance (Layer 2): Between \$10,000,000 and \$60,000,000 excess of \$160,000,000 – 100% reinsured.

c) Umbrella Policy Reinsurance (Layer 3): \$30,000,000/\$60,000,000 excess of \$65,000,000 (minimum) – 100% reinsured.

d) Aggregate Stop-loss Reinsurance: \$10,000,000 aggregate excess of \$5,000,000 aggregate – 100% reinsured by Colchester.

e) Loss Portfolio Transfer Reinsurance: \$39,420,000 claims reserves and IBNR as at June 30, 2012 – 100% reinsured by Colchester.

- We proposed a 5% reduction in our submission. Underwriters' actuaries were universally unsupportive of a reduction. However, following challenging negotiations, we were able to secure renewal of Layer 1 rates with a 2.5% reduction, and Layers 2 and 3 rates with a 3.75% reduction.
- On the London market front, all the Lloyd's syndicates have renewed and new capacity has been obtained from two new syndicates. Domestically, we have added CNA Canada to the Program and have replaced Arch Insurance. More details can be found in the "Reinsurance Overview" section below.
- The lead underwriter's (Argo) participation was reduced slightly to 27.26% down from 29.01%. This reduction is in accordance with the Audit Committee's guidance.
- Reinsurers' security ratings remain strong. Nevertheless, CLLAS maintains a rigorous security monitoring process which the Audit Committee continues to oversee.

**CLLAS Primary Policy (Reinsurance Layer 1)**  
**\$50M per Claim and in the Annual Aggregate**

The Primary Policy provides coverage per firm of \$50M per claim and in the annual aggregate, including any underlying coverage provided by the respective law society and/or other mandatory insurance and/or any other insurance arranged on behalf of the firm. In Quebec, the Primary Policy is excess of the Quebec mandatory limit of \$10M. If there is no underlying insurance, then CLLAS would provide \$49.975M of coverage excess of \$25,000 deductible. CLLAS retains 100% of the drop down exposure of up to \$975,000.

CLLAS members were charged \$2,985 per lawyer (\$1,390 per Quebec lawyer) and \$746 per patent & trademark agent to cover the expected loss costs, administration costs and premium taxes related to the CLLAS drop down retention. Compared to last year, the rates were reduced by 1.97%.

Reinsurance Limit: \$49M aggregate per firm excess of \$1M aggregate per lawyer

CLLAS Retention: Nil other than 100% of the drop down exposure of up to \$975,000

Reinsurance Rates: \$2,340 per lawyer (\$1,121 per Quebec lawyer)/\$585 per P&T agent  
The reinsurance rates were reduced by 2.5%.

\$850 per former HB lawyer (\$408 per lawyer in Quebec) for tail coverage.

**CLLAS Optional Excess Policy (Reinsurance Layer 2)**  
**Between \$10M and \$60M Aggregate xs \$160M Aggregate**

Firms have the option of purchasing limits between \$10M and \$60M in increments of \$10M. One firm purchased the limit of \$40M while eight others purchased the maximum limit of \$60M. Two firms did not purchase this policy.

CLLAS charged its members \$170 per lawyer and \$43 per patent & trademark agent for policies with limit of \$40M. For policies with limit of \$60M, CLLAS charged \$233 per lawyer and \$58 per patent & trademark agent. The rates were reduced by between 2.9% and 3.4% (depending on limit).

Reinsurance Limit: Between \$10M and \$60M (in increments of \$10M) aggregate per firm excess of \$110M aggregate per firm excess of the CLLAS Primary Policy

CLLAS Retention: Nil

Reinsurance Rates: \$56 per lawyer/\$14 per P&T agent for limit of \$10M  
\$98 per lawyer/\$25 per P&T agent for limit of \$20M  
\$126 per lawyer/\$32 per P&T agent for limit of \$30M  
\$154 per lawyer/\$39 per P&T agent for limit of \$40M  
\$182 per lawyer/\$46 per P&T agent for limit of \$50M  
\$211 per lawyer/\$53 per P&T agent for limit of \$60M

The above reinsurance rates were reduced by 3.75% (subject to rounding).

**CLLAS Umbrella Policy (Reinsurance Layer 3)**  
**\$30M per Claim/\$60M Aggregate All Firms Combined xs Minimum of \$65M per Firm**

This policy is shared by all CLLAS firms.

CLLAS charged its members \$116 per lawyer and \$29 per patent & trademark agent. The rates were reduced by 3.3%.

Reinsurance Limit: \$30M per claim/\$60M aggregate all firms combined excess of a minimum of \$65M per firm

CLLAS Retention: Nil

Reinsurance Rates: \$105 per lawyer/\$26 per P&T agent  
The rates were reduced by 3.75% (subject to rounding).

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

**Reinsurance Overview**

The following table compares the 2015/2016 reinsurance allocation to those of 2014/2015:

	London		Domestic		Colchester	
	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015
Reinsurance Layer 1	71%	76%	9%	4%	20%	20%
Reinsurance Layer 2	30%	30%	70%	70%	Nil	Nil
Reinsurance Layer 3	44%	44%	56%	56%	Nil	Nil

*Note: One Bermuda reinsurer is included under "Domestic".*

CNA left the Program on July 1, 2012 and we were able to bring them back as a domestic market this year. They took up 5% of Layer 1. We are also working with them on a Binding Authority for the proposed CLLAS Associate Member Program on which you will find more details below.

We have replaced Arch Insurance for this renewal. Although they have been a longtime supporter of the Program, we were not able to obtain their renewal confirmation on June 30, and so their 5% line on Layer 2 was offered to, and accepted by, Catlin Canada Inc. This decision was made because of service issues and not because of Arch's risk appetite for the CLLAS Program.

All the incumbent Lloyd's syndicates renewed. The Argo Syndicate's participation as Lead on Layer 1 has been reduced slightly from 29.01% to 27.26%. Miller had been successful in obtaining capacity from two new underwriters at the Acappella and Vibe Syndicates.

CNA Canada and the two newly added Lloyd's syndicates will provide extra security in the event other markets do not renew in the future. New markets would also facilitate the Associate Member initiative.

Please refer to Exhibits C and D for more details on the participating reinsurers and their percentages.

### **Reinsurance Security**

CLLAS has a number of reinsurers participating in the various layers of reinsurance and on the aggregate stop-loss and loss portfolio transfer protections. CLLAS is notably reliant on the following reinsurers:

- **Lloyd's** has a significant participation in all layers of coverage and also participates in Colchester's retrocession protection. The Argo Syndicate at Lloyd's leads Reinsurance Layer 1 and is the most exposed among the Lloyd's syndicates with 27.26% of Reinsurance Layer 1. Lloyd's is A rated by Best and A+ rated by S&P.
- **Swiss Re/Westport** has a significant participation in Reinsurance Layers 2 and 3 and also in the Colchester retrocession protection. Swiss Re is A+ rated by Best and AA- rated by S&P.
- **Colchester** has a significant participation in Reinsurance Layer 1 and also provides CLLAS with aggregate stop-loss and loss portfolio transfer protections. Colchester is not registered in Canada and is not rated by the rating agencies, however CLLAS is protected through a Reinsurance Security Agreement with Colchester.

CNA Canada, who returns to the Program, is rated A by both Best and S&P.

CLLAS' comprehensive reinsurance security review is due to be completed by the Audit Committee this fall.

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

Colchester provides the following aggregate stop-loss protection in 2015/16 (see Exhibits C and E):

Limit: \$10,000,000 in the annual aggregate excess of \$5,000,000 in the annual aggregate in respect of CLLAS' retained losses in the drop down below \$1,000,000

Rate: \$22.80 per lawyer/\$5.70 per P&T agent

In turn, Colchester purchases aggregate retrocession coverage as follows:

Limit: \$15,000,000 excess of \$2,500,000 for losses in respect of proportional and aggregate reinsurances provided to CLLAS net of other proportional retrocession protection purchased

### **Changes to Reinsurance Contracts**

Corresponding to the changes made to the CLLAS policies (see the "Policy Wording Changes" section), amendments have been made to this year's reinsurance contracts, specifically the Insolvency, Outstanding Claims Advances, Arbitration, and Law & Jurisdiction clauses.

An endorsement continues to be attached to each contract to provide tail coverage to former HB lawyers.

### **Reinsurance Guidelines**

Since CLLAS is regulated by the Alberta Superintendent of Insurance (“ASOI”), it is no longer bound by the FSCO guidelines of maximum 75% total reinsurance and maximum 25% unregistered reinsurance. The ASOI instead takes a risk-based approach to reinsurance and recognizes CLLAS’ annual reinsurance security review, the implementation of the CLLAS/Colchester Reinsurance Security Agreement, and CLLAS’ reinsurance reserving margin on ceded liabilities.

### **Policy Wording Changes**

The ASOI performed a review on CLLAS in 2013. They concluded that the CLLAS policies should be governed by the laws of Alberta as opposed to the laws of Ontario. As a result, the policies have been amended at renewal to reflect this. Changes have been made to the Arbitration, Choice of Law and Action Against Insurer clauses.

The policies have already been issued and distributed.

### **Expectations for the Next Reinsurance Renewal**

Given the difficulties experienced in this year’s renewal, we are confident that CLLAS’ reinsurance rates are at, or near the underwriters’ minimum pricing levels. Increasingly, underwriters are involving their actuaries, and increasingly their actuaries’ arguments are influencing their pricing decisions. In light of the disparity between actuarially-determined loss costs and reinsurance rates, we expect next year’s renewal to be just as challenging, and likely more so in light of new claims developments post July 1, 2015.

### **Update on the CLLAS Associate Member Initiative**

We have secured much of the necessary support needed to create the CLLAS Associate Member facility. We expect that this facility will ultimately be made up 80% by Lloyd’s and 20% by CNA. Once the facility is in place, likely by mid- to late-September, we will begin approaching the candidate firms.

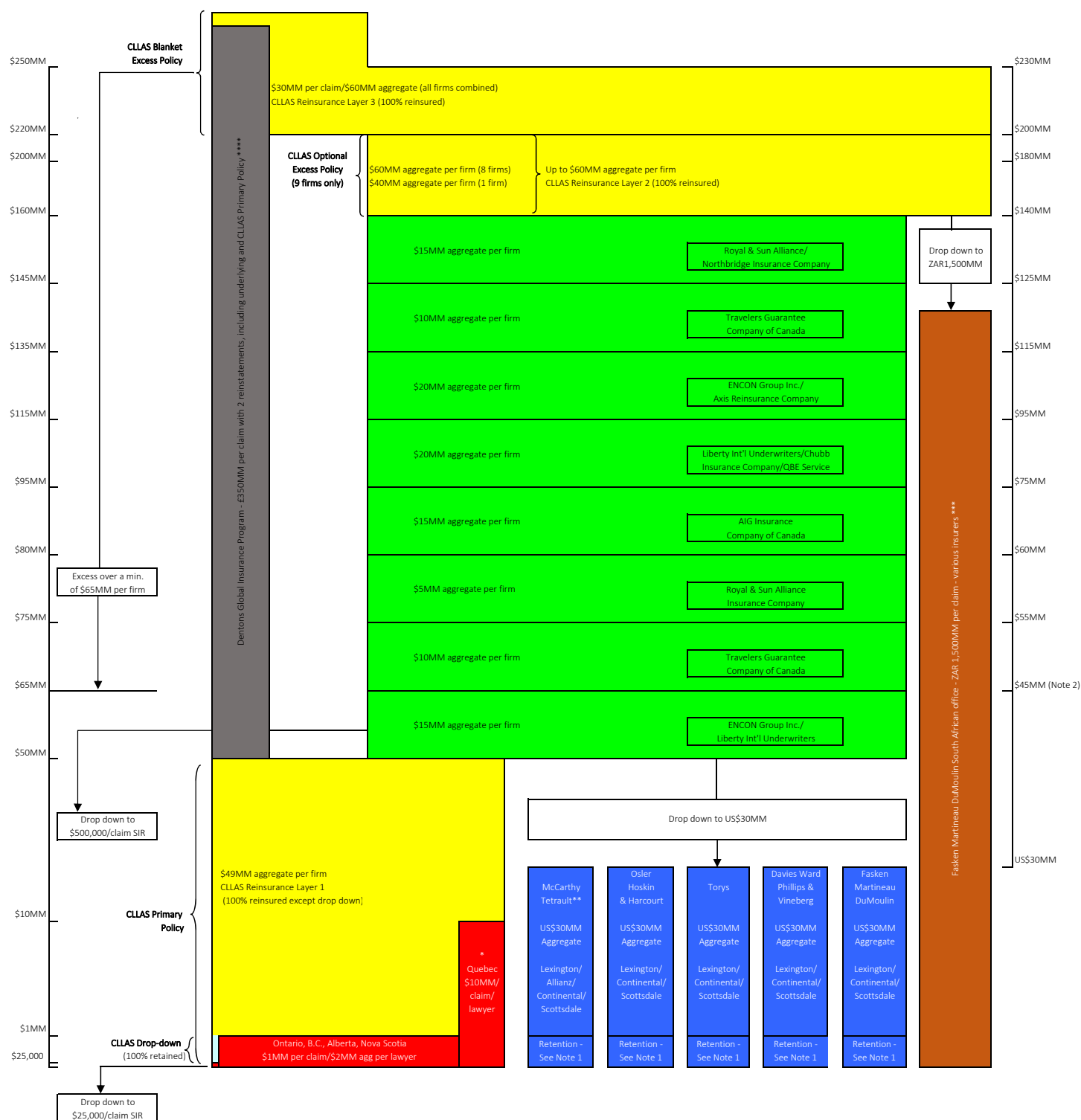
### **Concluding Remarks**

The above summarizes the insurance and reinsurance programs that have been put in place for the July 1, 2015/2016 policy year. The reduced premiums per lawyer are a reflection of the excellent reputation that CLLAS has in the marketplace. CLLAS continues to take advantage of a relatively soft insurance market by retaining less and transferring more risk. It does so in a responsible manner through appropriate spread of risk and being mindful of the key underwriters and their respective participations on the various placements with a focus on making sure that the long-standing and reliable underwriters continue to participate in some meaningful way.

The next renewal, which also happens to be the last renewal of the current underwriting period, will no doubt be challenging, especially in light of recent claims experience.



**CLLAS Limit Structure**  
**JULY 1, 2015 - JULY 1, 2016**

Canadian ExposuresForeign Exposures

Note: All limits are expressed in Canadian currency unless otherwise specified

\* The CLLAS Primary Policy is excess of \$10MM/claim/lawyer in Quebec

\*\* The policy runs from September 30 to September 30

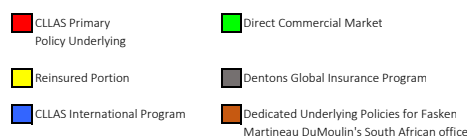
\*\*\* The policies run from February 1 to February 1

\*\*\*\* The policies run from May 1 to May 1

Note 1: Retentions based on locations of the risk as follows:

U.S. - US\$100,000 (US\$50,000 for McCarthy Tetrault); U.K. - US\$75,000 for McCarthy Tetrault, US\$350,000 for Fasken; elsewhere in the world - US\$50,000  
 Patent & Trademark work for McCarthy Tetrault only - US\$50,000 worldwide.

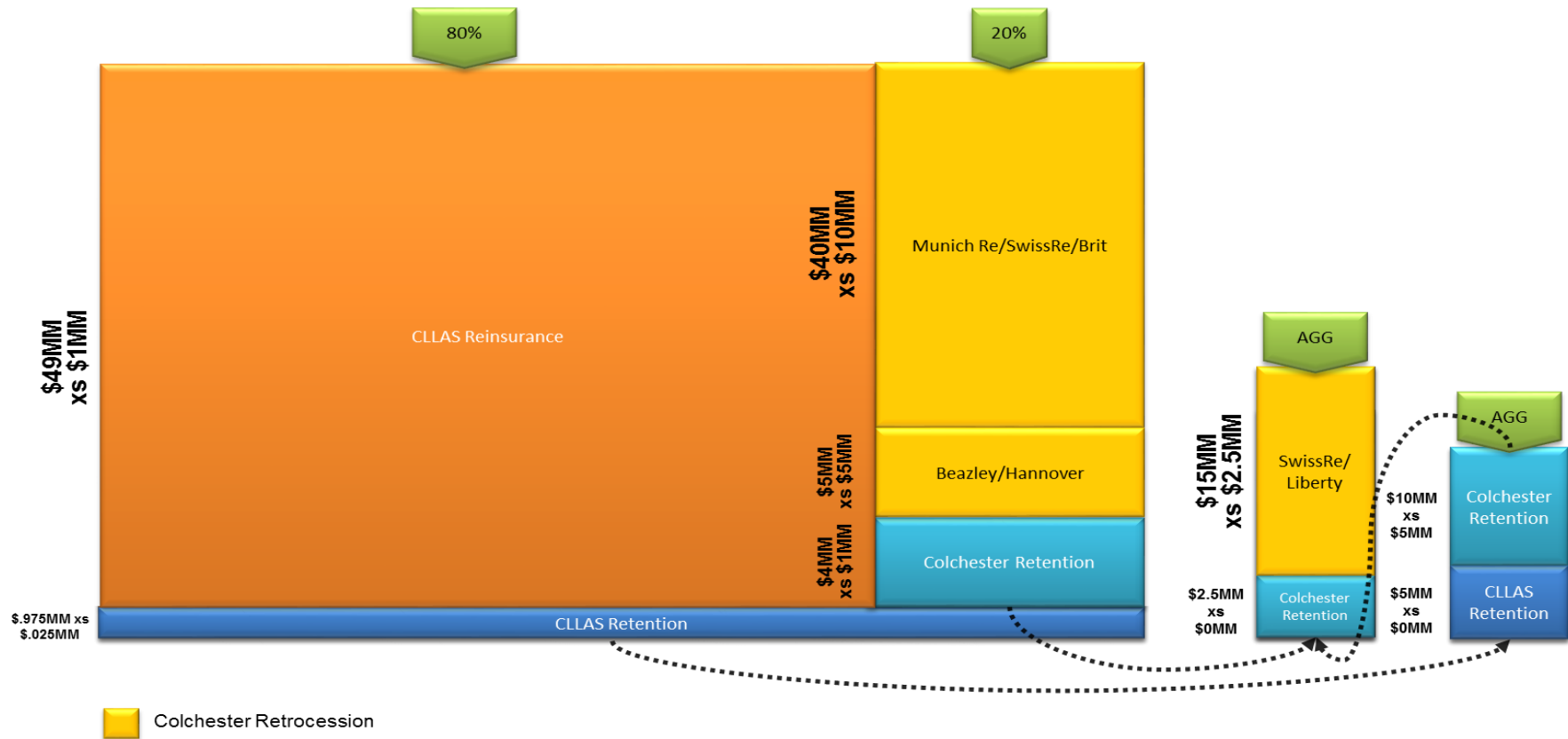
Note 2: Assume underlying limit of US\$30MM equivalent to \$30MM



# CLLAS/Colchester

Reinsurance and Retrocession Structure Overview (2015-2016)

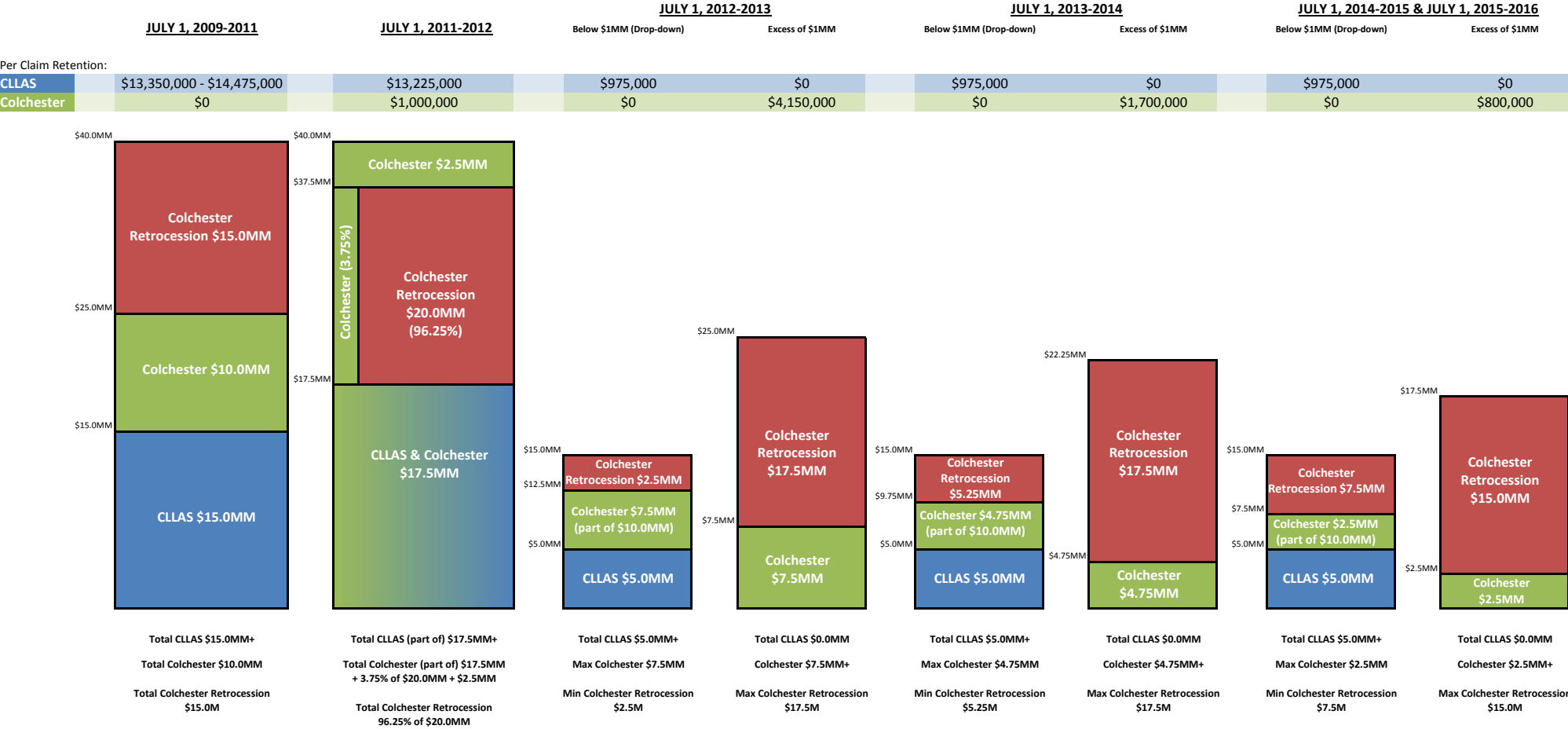
EXHIBIT B



CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY (CLLAS)			2015-2016 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - INFORMATION AS AT JULY 1, 2015 \1																												Exhibit C	
		LAYER 1 \$49MM XS \$1MM		LAYER 2 UP TO \$60MM XS \$160MM										LAYER 3 \$30/60MM XS MIN \$65MM		HEENAN BLAIKIE RUN-OFF COVER																
REINSURERS	SHARE	PREMIUM	\$10MM XS \$160MM SHARE	\$10MM XS \$160MM PREMIUM	\$20MM XS \$160MM SHARE	\$20MM XS \$160MM PREMIUM	\$30MM XS \$160MM SHARE	\$30MM XS \$160MM PREMIUM	\$40MM XS \$160MM SHARE	\$40MM XS \$160MM PREMIUM	\$50MM XS \$160MM SHARE	\$50MM XS \$160MM PREMIUM	\$60MM XS \$160MM SHARE	\$60MM XS \$160MM PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	DUE JUL.15, 2015 \2	DUE SEP. 1, 2015 \3	DUE OCT. 1, 2015 \3	DUE JAN.1, 2016 \4	DUE APR. 1, 2016 \3	GRAND TOTAL								
TOTAL PROPORTIONAL	100.00%	\$8,642,476	100.00%	\$0	100.00%	\$0	100.00%	\$0	100.00%	\$108,543	100.00%	\$0	100.00%	\$631,793	100.00%	\$452,196	100.00%	\$96,103							\$9,931,110							
CLLAS PROPORTIONAL RETENTION	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0							\$0							
PROPORTIONAL REINSURERS																																
Lloyd's	64.27%	\$5,554,519	30.00%	\$0	30.00%	\$0	30.00%	\$0	30.00%	\$32,563	30.00%	\$0	30.00%	\$189,539	44.00%	\$198,966	64.27%	\$61,766		\$1,509,338	\$1,509,338	\$1,509,338	\$1,509,338		\$6,037,353							
A.G. Dore & Others - AGD 2526	3.36%	\$290,387															3.36%	\$3,229														
Acappella 2014	1.01%	\$87,289	5.89%	\$0	5.89%	\$0	5.89%	\$0	5.89%	\$6,393	5.89%	\$0	5.89%	\$37,213	3.82%	\$17,274	1.01%	\$971														
Amlin - AML 2001	10.10%	\$872,890															10.10%	\$9,706														
Antares - AUL 1274	6.73%	\$581,639															6.73%	\$6,468														
Argo - AMA 1200	27.26%	\$2,355,939															27.26%	\$26,198														
Barbican - BAR 9077	1.34%	\$115,809															1.34%	\$1,288														
Beazley - AFB 623/2623																																
Brit - BRT 2987			10.10%	\$0	10.10%	\$0	10.10%	\$0	10.10%	\$10,963	10.10%	\$0	10.10%	\$63,811	1.75%	\$7,913																
Catlin - SIC 1003/2003															23.00%	\$104,005																
Faraday - FDY 435			1.76%	\$0	1.76%	\$0	1.76%	\$0	1.76%	\$1,910	1.76%	\$0	1.76%	\$11,120	2.29%	\$10,355																
Markel - MKL 3000			6.69%	\$0	6.69%	\$0	6.69%	\$0	6.69%	\$7,262	6.69%	\$0	6.69%	\$42,267	3.01%	\$13,611																
Pembroke - PEM 4000			3.28%	\$0	3.28%	\$0	3.28%	\$0	3.28%	\$3,560	3.28%	\$0	3.28%	\$20,723	5.83%	\$26,363																
Pioneer - PPI 9988	13.46%	\$1,163,277																														
Sagacor - SAL 1206			2.28%	\$0	2.28%	\$0	2.28%	\$0	2.28%	\$2,475	2.28%	\$0	2.28%	\$14,405	2.04%	\$9,225	13.46%	\$12,935														
Vibe 5678	1.01%	\$87,289															1.01%	\$971														
London Companies	6.73%	\$581,639	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	6.73%	\$6,468	\$294,054			\$294,054			\$588,107							
Allianz Global Risks	6.73%	\$581,639															6.73%	\$6,468	\$294,054			\$294,054			\$588,107							
Total London Market	71.00%	\$6,136,158	30.00%	\$0	30.00%	\$0	30.00%	\$0	30.00%	\$32,563	30.00%	\$0	30.00%	\$189,539	44.00%	\$198,966	71.00%	\$68,234	\$294,054	\$1,509,338	\$1,509,338	\$1,803,392	\$1,509,338		\$6,625,460							
Payable to Miller																			\$0	\$1,509,338	\$1,509,338	\$1,509,338	\$1,509,338		\$6,037,353							
Canadian Companies	29.00%	\$2,506,318	70.00%	\$0	70.00%	\$0	70.00%	\$0	70.00%	\$75,979	70.00%	\$0	70.00%	\$442,255	56.00%	\$253,231	29.00%	\$27,870	\$1,652,827			\$1,652,827			\$3,305,653							
Allied World (not Can. Lic.)			7.00%	\$0	7.00%	\$0	7.00%	\$0	7.00%	\$7,598	7.00%	\$0	7.00%	\$44,226	12.00%	\$54,264			\$53,044			\$53,044			\$106,088							
AXIS Re	4.00%	\$345,699	5.00%	\$0	5.00%	\$0	5.00%	\$0	5.00%	\$5,427	5.00%	\$0	5.00%	\$31,590			4.00%	\$3,844	\$193,280			\$193,280			\$386,560							
Catlin Canada Inc.	10.00%		10.00%	\$0	10.00%	\$0	10.00%	\$0	10.00%	\$10,854	10.00%	\$0	10.00%	\$63,179	5.00%	\$22,610			\$48,322			\$48,322			\$96,643							
Colchester (not Can. Lic.)	20.00%	\$1,728,495															20.00%	\$19,221	\$873,858			\$873,858			\$1,747,716							
CNA Canada	5.00%	\$432,124															5.00%	\$4,805	\$218,465			\$218,465			\$436,929							
HDI-Gerling Industrial Insurance Company			10.00%	\$0	10.00%	\$0	10.00%	\$0	10.00%	\$10,854	10.00%	\$0	10.00%	\$63,179	4.00%	\$18,088			\$46,061			\$46,061			\$92,121							
Royal & Sun Alliance Insurance Co. of Canada			8.00%	\$0	8.00%	\$0	8.00%	\$0	8.00%	\$8,683	8.00%	\$0	8.00%	\$50,543					\$29,613			\$29,613			\$59,226							
Westport Insurance Corporation			30.00%	\$0	30.00%	\$0	30.00%	\$0	30.00%	\$32,563	30.00%	\$0	30.00%	\$189,538	35.00%	\$158,269			\$190,185			\$190,185			\$380,370							
TOTAL PROPORTIONAL REINSURERS	100.00%	\$8,642,476	100.00%	\$0	100.00%	\$0	100.00%	\$0	100.00%	\$108,542	100.00%	\$0	100.00%	\$631,794	100.00%	\$452,197	100.00%	\$96,104	\$1,946,880	\$1,509,338	\$1,509,338	\$3,456,218	\$1,509,338		\$9,931,113							
AGGREGATE STOP-LOSS REINSURERS																																
Colchester																			\$46,680			\$46,680			\$93,360							
TOTAL REINSURANCE COST																			\$1,993,560	\$1,509,338	\$1,509,338	\$3,502,898	\$1,509,338		\$10,024,473							
PROPORTIONAL REINSURANCE																									AGGREGATE							
Rate per Lawyer	\$2,340.00		\$56.00		\$98.00		\$126.00		\$154.00		\$182.00		\$211.00		\$105.00		\$850.08								\$22.80							
Rate per Quebec Lawyer	\$1,121.00		n/a		n/a		n/a		n/a		n/a		n/a		n/a		\$408.24								n/a							
Total # Lawyers other than Quebec at 6/15/15	3299.5		0		0		0		695		0		2985		4282		90								3,299.5							
Total # Quebec Lawyers at 6/15/15	770.5		0		0		0		0		0		0		0		48							770.5								
Total # Lawyers practising foreign law at 6/15/15	0		0		0		0		0		0		0		0		0							0								
Total # NLC at Lawyer Rate at 6/15/15 \5	12		0		0		0		4		0		3		12		N/A							12								
Rate per P&T Agent \6	\$585.00		\$14.00		\$25.00		\$32.00		\$39.00		\$46.00		\$53.00		\$26.00		N/A								\$5.70							
Total # P&T Agents at 6/15/15	39		0		0		0		19		0		20		39		0								39							
Total # NLC at P&T Rate at 6/15/15	12		0		0		0		4		0		5		12		0								12							
NLC = Non-lawyer Consultant																																
NOTES: \1 This is an information document, not an accounting ledger.																																
\2 Semi-annual instalment for Canadian Companies.																																
\3 Quarterly instalment for Miller. Fund should be sent to Miller, through ARS as Miller's broker, with about 2 weeks lead time.																																
\4 Semi-annual instalment for Canadian Companies and quarterly instalment for Miller. Fund should be sent to Miller, through ARS as Miller's broker, with about 2 weeks lead time.																																
\5 The rate for NLC in all provinces is the same as the rate for lawyers in provinces other than Quebec.																																
\6 Applicable in all provinces.																																

COLCHESTER REINSURANCE LTD.		2015-2016 REINSURANCE CASH FLOW/PAYMENT SCHEDULE - INFORMATION AS AT JULY 1, 2015 \1 - REVISED											Exhibit D
		LAYER 1		LAYER 4		AGGREGATE							
		\$5MM XS \$5MM		\$40MM XS \$10MM		\$15MM XS \$2.5MM							
REINSURERS		SHARE	PREMIUM	SHARE	PREMIUM	SHARE	PREMIUM	DUE	DUE	DUE	DUE	DUE	GRAND
								JUL.15, 2015	SEP. 1, 2015	OCT. 1, 2015	JAN.1, 2016	APR. 1, 2016	TOTAL
TOTAL PROPORTIONAL		100.00%	\$2,197,317	100.00%	\$4,033,316	100.00%	\$270,000						\$6,500,633
CLLAS PROPORTIONAL RETENTION		80.00%	\$1,757,853	80.00%	\$3,226,653	0.00%	\$0						\$4,984,506
COLCHESTER PROPORTIONAL RETENTION		0.00%	\$0	0.00%	\$0	0.00%	\$0						\$0
OTHER REINSURANCE		0.00%	\$0	0.00%	\$0	0.00%	\$0						\$0
PROPORTIONAL REINSURERS													
Lloyd's		11.00%	\$241,704	2.50%	\$100,833	20.00%	\$54,000		\$99,134	\$99,134	\$99,134	\$99,134	\$396,537
AFB 623 / 2623		9.00%	\$197,758						\$49,440	\$49,440	\$49,440	\$49,440	\$197,758
BRT2987		2.00%	\$43,946	2.50%	\$100,833				\$36,195	\$36,195	\$36,195	\$36,195	\$144,779
LIB4472						20.00%	\$54,000		\$13,500	\$13,500	\$13,500	\$13,500	\$54,000
London Companies		9.00%	\$197,758	17.50%	\$705,831	80.00%	\$216,000		\$279,897	\$279,897	\$279,897	\$279,897	\$1,119,589
Hannover Re		9.00%	\$197,758						\$49,440	\$49,440	\$49,440	\$49,440	\$197,758
Munich Re - UK Branch				12.50%	\$504,165				\$126,041	\$126,041	\$126,041	\$126,041	\$504,165
Swiss Re International SE				5.00%	\$201,666	80.00%	\$216,000		\$104,417	\$104,417	\$104,417	\$104,417	\$417,666
Total London Market		20.00%	\$439,463	20.00%	\$806,663	100.00%	\$270,000		\$379,032	\$379,032	\$379,032	\$379,032	\$1,516,126
Payable to Miller									\$379,032	\$379,032	\$379,032	\$379,032	\$1,516,126
Canadian Companies		0.00%	\$0	0.00%	\$0	0.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0
None								\$0					\$0
TOTAL PROPORTIONAL REINSURERS		20.00%	\$439,463	20.00%	\$806,663	100.00%	\$270,000	\$0	\$379,032	\$379,032	\$379,032	\$379,032	\$1,516,126
PROPORTIONAL REINSURANCE													
Rate per Lawyer		\$661.00		\$985.00		\$65.94							
Rate per Quebec Lawyer		\$0.00		\$985.00		\$65.94							
Total # Lawyers other than Quebec at 6/15/15		3299.5		3299.5		3299.5							
Total # Quebec Lawyers at 6/15/15		770.5		770.5		770.5							
Total # Lawyers practising foreign law at 6/15/15		0		0		0							
Total # NLC at Lawyer Rate at 6/15/15		12		12		12							
Rate per P&T Agent		\$165.00		\$246.00		\$16.48							
Total # P&T Agents at 6/15/15		39		39		39							
Total # NLC at P&T Rate at 6/15/15		12		12		12							
NLC = Non-lawyer Consultant													
NOTE: \1 This is an information document, not an accounting ledger.													

Aggregate Stop-loss Reinsurance Structure (Historical)

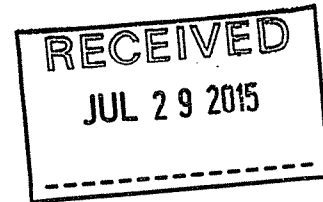


MARTIN, LUCAS & SEAGRAM LTD.  
INDEPENDENT INVESTMENT COUNSEL  
SUITE 620, 48 YONGE STREET  
TORONTO  
M5E 1G9

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

July 24, 2015

Mr. Patrick Mahoney,  
Axxima,  
36 Toronto Street, Suite 510  
Toronto ON M5C 2C5



Dear Patrick:

**Re: Canadian Lawyers Liability Assurance Society**

Please find enclosed our quarterly investment report for the period ending June 30 last on the Short and Long Term Fund last for CLLAS, together with a copy of our accounts, the originals of which have been sent to RBC Dexia Investor Services for payment.

It was an unsettled period for the domestic bond market and while money market yields showed little net change, the balance of the curve pivoted higher. As a result, the short bond price index lost .5%, while the mid-term index declined 2.0%.

Reflecting these shifts, the Long Term Investment Fund recorded a capital decline of .9%.

Activity during the quarter centred on the roll-over of maturities in the Short Term Investment Fund. In the Long Term Investment Fund a new medium term provincial issue was added to the list, which invested part of the proceeds from a matured issue in the Short Term Fund.

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

With best regards,

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Andrew Bell".

RWB/mab  
Enclosures

MARTIN, LUCAS & SEAGRAM LTD.  
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July 24, 2015

In account with

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

---

Valuation of Short Term Investment Fund at June 30, 2015	\$11,855,233
---	--------------

Investment Counsel Fee for the period April 1 to June 30, 2015 at .025% (1/4 of .10% per annum)	\$2,963.81
---	------------

Harmonized Sales Tax (HST) at 13%	<u>385.30</u>
	<u><u>\$3,349.11</u></u>

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

HST Registration No. R103546115

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July 24, 2015

In account with

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

---

Valuation of Long Term Investment Fund at June 30, 2015	\$4,802,574
--	-------------

Investment Counsel Fee for the period April 1 to June 30, 2015 at .0625% (1/4 of .25% per annum)	\$3,001.61
--	------------

Harmonized Sales Tax (HST) at 13%	390.21
	<u>\$3,391.82</u>

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

HST Registration No. R103546115



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

INVESTMENT REPORT  
JUNE 30, 2015

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

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

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

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

**COMMENTARY FOR THE QUARTER ENDING JUNE 30, 2015**

**Review of Market Yields**

Bond yields across the entire curve moved gradually higher during the first half of the quarter. However, yields on T-Bills out to the 5 year term then turned down and erased the earlier increase by the end of the period. As a result, yields on issues maturing within 5 years ended the second quarter practically unchanged. Meanwhile, longer term yields continued to climb until early June, before retreating somewhat near the close of the quarter. The most significant change was recorded by the 10-year issue, where the yield increased 32 basis points.

As a result of these shifts, the yield curve steepened during the second quarter as the yield advantage of 10-year issues over Treasury Bills increased from 81 basis points at the end of March to 110 basis points at June 30.

	Jan. 1/95	Dec. 31/14	Mar.31/15	Jun. 30/15
3-Month Treasury Bills	6.80%	0.91%	0.55%	0.58%
5-year Canadas	8.99%	1.34%	0.77%	0.81%
10-year Canadas	9.09%	1.79%	1.36%	1.68%

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

In the Long Term Investment Fund, a new medium term provincial issue was added to the list, which invested part of the proceeds from a matured issue in the Short Term Fund.

During the second quarter, the market value of the Long Term Investment Fund holdings declined by \$39,935, which represents a capital decrease of 0.9%.

At June 30, 2015, the average term to maturity of the Long Term Investment Fund stood at 4.4 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, 2015</i></b>	<b><i>Valuation</i></b>	<b><i>%</i></b>
Short Term Investment Fund	\$11,855,233	71.2%
Long Term Investment Fund	4,802,574	28.8%
<b>TOTAL COMBINED VALUATION</b>	<b>\$16,657,807</b>	<b>100.0%</b>

## ***CLLAS***

### **CANADIAN LAWYERS LIABILITY ASSURANCE SOCIETY**

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

- Total Returns vs. Benchmarks - Gross and Net of Fees
- Distribution of Securities in the Long Term Investment Fund  
by Credit Risk and by Maturity
- Compliance Statement
- Quarterly Performance Report - Gross of Fees: Long Term Investment Fund
- Bond Market Commentary and Future Policy
- Security Holdings in the Short and Long Term Investment Funds  
Listed and Valued Separately as at June 30, 2015
- Security Purchases and Sales
- Cash Reconciliations
- External Individual Credit Rating Report

# CLLAS

## LONG TERM INVESTMENT FUND

### TIME-WEIGHTED RATES OF TOTAL RETURN FOR PERIODS ENDING JUNE 30, 2015

	Since Inception Dec. 17/13	1 Year	Last 3 months
<b><i>Long Term Investment Fund</i></b> <b><i>– Gross of Fees</i></b>	<b>4.28%</b>	<b>4.65%</b>	<b>-0.25%</b>
<b><i>Long Term Investment Fund</i></b> <b><i>– Net of Fees</i></b>	<b>3.97%</b>	<b>4.35%</b>	<b>-0.32%</b>
<b>Benchmark Portfolio **</b>	<b>5.05%</b>	<b>4.74%</b>	<b>-0.36%</b>

\*\* 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, 2015

	Since Inception Oct. 1/08 *	Three Years*	Two Years *	One Year	Last 3 Months
<b><i>Short Term Investment Fund</i></b> <b><i>– Gross of Fees</i></b>	<b>0.82%</b>	<b>0.87%</b>	<b>0.85%</b>	<b>0.78%</b>	<b>0.14%</b>
<b><i>Short Term Investment Fund</i></b> <b><i>– Net of Fees</i></b>	<b>0.70%</b>	<b>0.76%</b>	<b>0.74%</b>	<b>0.67%</b>	<b>0.12%</b>
<b>Benchmark Portfolio **</b>	<b>0.79%</b>	<b>0.89%</b>	<b>0.87%</b>	<b>0.80%</b>	<b>0.14%</b>

\* Annualized

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

***CLLAS***

**LONG TERM INVESTMENT FUND**

**DISTRIBUTION OF SECURITIES BY CREDIT RISK**  
(Based on Market Values)

	<b>Dec. 17/13</b>	<b>Sep. 30/14</b>	<b>Dec. 31/14</b>	<b>Mar. 31/15</b>	<b>Jun. 30/15</b>
<b>Bonds, Treasury Bills &amp; Cash</b> Less than 1 year term	100.0%	0.0%	0.0%	0.0%	0.0%
<b>Canadas</b> Greater than 1 year term		21.2%	25.2%	27.2%	25.7%
<b>Provincials</b> Greater than 1 year term		39.9%	37.9%	34.0%	37.5%
<b>Corporates</b> Greater than 1 year term		38.9%	36.9%	38.8%	36.8%
<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)

	<b>Jun. 30/14</b>	<b>Dec. 31/14</b>	<b>Mar. 31/15</b>	<b>Jun. 30/15</b>
Under 1 year	0.0%	0.0%	0.0%	0.0%
1 - 3 years	21.3%	33.4%	34.0%	37.8%
3 - 5 years	42.0%	31.6%	23.8%	29.2%
5 - 7 years	18.9%	19.5%	23.4%	15.8%
7 - 10 years	17.8%	15.5%	18.8%	17.2%
<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>4.64</b>	<b>4.35</b>	<b>4.39</b>	<b>4.43</b>
<b>Average Duration</b>	<b>4.28</b>	<b>4.02</b>	<b>4.07</b>	<b>4.09</b>

**SHORT TERM INVESTMENT FUND**

	<b>Jun. 30/14</b>	<b>Dec. 31/14</b>	<b>Mar. 31/15</b>	<b>Jun. 30/15</b>
<b>Short Term</b> <b>Average Duration</b>	<b>0.11</b>	<b>.09</b>	<b>.11</b>	<b>0.10</b>

# CLLAS

## COMPLIANCE WITH INVESTMENT POLICY STATEMENT

AT JUNE 30, 2015

	Investment Limits	Investment Funds	Compliance
<b><i>Short Term Investment Fund</i></b>			
Maximum Term of Any Issue	1 year	0.2 years	Yes
Minimum Percentage of Total Fund (Short & Long)	40% of Total	71.2%	Yes
Minimum Canada & Provincial Percentage	50%	56.1%	Yes
Minimum Provincial Quality	A	N/A	Yes
Minimum Bank CD & BA Quality	R1	R1	Yes
<b><i>Long Term Investment Fund</i></b>			
Maximum Term of Any Issue	10 years	9.9 years	Yes
Maximum Percentage of Total Fund (Short & Long)	60% of Total	28.8%	Yes
Minimum Canada Percentage	20%	25.7%	Yes
Maximum Provincial Percentage	40%	37.5%	Yes
Minimum Canada & Provincial Percentage	60%	63.2%	Yes
Minimum Provincial Quality *	A	AA (low)	Yes
Maximum Corporate Percentage	40%	36.8%	Yes
Minimum Corporate Quality *	A	AA	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.

# ***CLLAS***

Martin, Lucas & Seagram Ltd.  
**PERFORMANCE REPORT**  
**GROSS OF FEES**

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

*From 03-31-15 to 06-30-15*

Portfolio Value on 03-31-15	4,592,134
Accrued Interest	22,014
Contributions	250,802
Withdrawals	-30,764
Realized Gains	0
Unrealized Gains	-39,935
Interest	30,336
Dividends	0
Change in Accrued Interest	-1,868
Portfolio Value on 06-30-15	4,802,574
Accrued Interest	20,147
Average Capital	4,619,036
Total Gain before Fees	-11,466
<b>IRR for 0.25 Years</b>	<b>-0.25%</b>

## **CLLAS**

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

North American bond yields have been range bound since the start of the year, although volatility has increased over the past few months in the wake of simmering offshore issues that came to the forefront.

The long-running financial crisis in Greece entered a climactic stage earlier this month after Greek voters emphatically rejected austerity measures in a referendum. This result raised the spectre of a euro-area exit, with unpredictable consequences for the whole region. However, a tentative deal was reached by the euro-area partners after Greece's Prime Minister agreed to implement wide-ranging austerity measures in order to qualify for a third bailout package of up to 86 billion euros.

Meanwhile, investors also had to contend with unnerving gyrations in the Chinese stock market. With the encouragement of the authorities and fuelled by retail investors using margin debt, the main Chinese index rose to a one-year gain of some 150% in mid-June, before correcting by some 30% in just a few weeks. This raised fears that the collapse in stock prices could portend a serious economic slowdown, with ripple effects around the globe. Throughout the correction phase, government officials introduced a wide variety of increasingly intrusive measures in order to support stocks and stabilize the markets. After authorities allowed more than half of listed firms to suspend trading, the index has since recouped some of the lost ground.

Beneath these headlines, the North American economic backdrop has remained mixed during the second quarter. On the plus side, the U.S. economy has regained upward momentum over the past few months, after experiencing a slight contraction in GDP during the first quarter. While the strong U.S. dollar has continued to weigh on exports and industrial production, gains in consumer spending, ongoing employment growth and improvements in the housing market suggests the U.S. expanded by over 2% during the second quarter. These economic improvements have rekindled expectations that the U.S. Fed will begin to move administered rates higher before the end of the year, possibly as early as September. As a result, U.S. bond prices moved erratically lower during the quarter, with periodic rallies triggered by offshore developments due to their safe haven status.

The Canadian economy, on the other hand, has failed to rebound from the oil price shock. The latest data shows that GDP shrank slightly in April, which marked the fourth straight monthly decline. Leading on the downside was a 3.4% drop in the energy sector, while retail sales and manufacturing also turned lower. Since then, the trade deficit has widened to near record levels due to a drop in non-energy exports and business investment has remained weak. In light of these trends, the Bank of Canada now forecasts the economy contracted .5% in the second quarter. As a result, Canada bonds outperformed their U.S. counterparts reflecting the weaker economic performance and the likelihood that the Bank of Canada would implement another interest rate cut. Domestic bond prices were given a subsequent boost last week when the Bank announced a reduction of its benchmark rate by one-quarter percent.



## CLLAS

Outside of North America, results for the major economies have been moderately positive on balance. Both Europe and Japan continue to expand, albeit at a slow pace, as the continuation of monetary stimulus, lower oil prices and more competitive exchange rates have eased deflationary pressures and allowed their recoveries to gain some traction. Meanwhile, China's economic growth has proved more resilient than expected during the second quarter, as GDP growth matched the 7% rate recorded during the previous quarter. The latest data shows the authorities' increasingly stimulative policies have stabilized the economy and that progress has been made in transitioning the economy to more domestically driven growth.

Over the past few months, investors have faced a challenging environment with numerous twists and turns in the geopolitical and economic backdrop. Given the recent easing in contagion risks from Europe and China, as well as the clarification provided by the Iran nuclear agreement, investor attention has refocused on the underlying economic, monetary and business trends. Here, the underlying global themes that have been supportive of bond prices remain largely intact. These include the major central banks' commitment to expansionary policies for the foreseeable future and slow but positive global economic growth, which is keeping deflationary and inflationary forces in check.

Domestic factors are also expected to remain favourable for Canadian bond prices over the near term. Over the past six weeks, Canada 10-year yields have quickly retreated from this year's high water mark of 1.91% to 1.5%, which is close to the midpoint of the year-to-date trading range. This has coincided with widespread weakness in commodity prices, lower expectations for a recovery in oil prices and a downward revision for growth from the Bank of Canada, which will cause a further delay in closing the output gap until 2017. Given the subdued near term prospects for the Canadian economy and the likelihood that the Bank of Canada will remain highly accommodative regardless of when the U.S. Fed begins to tighten policy, we expect domestic bond yields will remain at the lower end of this year's trading range over the near term.

While we believe recent developments have pushed the normalization of interest rates further into the future, we believe the Long Term Investment Fund's laddered maturity structure and defensive duration of 4.1 years remains appropriate after weighing the potential for near term gains in light of the longer term risks. With prevailing domestic yields back near their historic lows, the upside for prices seems limited. Furthermore, we expect a gradual improvement in economic data from Japan, Europe and the U.S. later this year, as well as the inflationary implications of the lower Canadian dollar, will eventually put upward pressure on domestic yields and provide a better entry point to expand the Long Term Fund.

RWB/mab  
July 24, 2015

---

*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 & Seagram Ltd.

**CLLAS - SHORT TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2015**

<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			4,540	0
<b>MONEY MARKET ISSUES</b>					
1,640,000	Canada Treasury Bill .54% due July 2, 2015	99.92	100.00	1,639,941	8,849
1,110,000	Bank of Nova Scotia .70% due July 9, 2015	99.94	99.96	1,109,570	7,766
1,510,000	Canada Treasury Bill .52% due July 16, 2015	99.92	99.98	1,509,626	7,846
1,030,000	CIBC BA 0.730% due July 27, 2015	99.82	99.93	1,029,315	7,506
1,765,000	Canada Treasury Bill .49% due August 13, 2015	99.92	99.93	1,763,787	8,642
1,535,000	FirstBank BA .731% due August 18, 2015	99.83	99.88	1,533,147	11,202
1,750,000	Canada Treasury Bill .51% due August 27, 2015	99.88	99.91	1,748,416	8,915
1,520,000	Toronto Dominion Bank BA .688% due September 22, 2015	99.83	99.80	1,516,890	10,440
				<hr/> 11,850,693	<hr/> 71,164
<b>TOTAL PORTFOLIO</b>				<b>11,855,233</b>	<b>71,164</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - SHORT TERM INVESTMENT FUND**  
*From 04-01-15 To 06-30-15*

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
<b>PURCHASES</b>					
04-08-15	04-09-15	1,765,000	Canada Treasury Bill .45% due June 18, 2015	99.91	1,763,478.57
04-24-15	04-27-15	1,530,000	Bank of Nova Scotia BA .709% due May 25, 2015	99.95	1,529,167.68
04-28-15	04-29-15	1,030,000	CIBC BA 0.730% due July 27, 2015	99.82	1,028,169.69
04-29-15	04-30-15	1,750,000	CIBC BA 0.718% due June 26, 2015	99.89	1,748,040.00
05-06-15	05-07-15	1,640,000	Canada Treasury Bill .54% due July 2, 2015	99.92	1,638,642.08
05-20-15	05-21-15	1,510,000	Canada Treasury Bill .52% due July 16, 2015	99.92	1,508,796.42
05-22-15	05-25-15	1,535,000	FirstBank BA .731% due August 18, 2015	99.83	1,532,390.50
06-03-15	06-04-15	1,750,000	Canada Treasury Bill .51% due August 27, 2015	99.88	1,747,949.00
06-08-15	06-09-15	1,110,000	Bank of Nova Scotia .70% due July 9, 2015	99.94	1,109,361.75
06-17-15	06-18-15	1,765,000	Canada Treasury Bill .49% due August 13, 2015	99.92	1,763,674.49
06-25-15	06-26-15	1,520,000	Toronto Dominion Bank BA .688% due September 22, 2015	99.83	1,517,481.36
					<b>16,887,151.54</b>
<b>SALES</b>					
04-09-15	04-09-15	1,765,000	Canada Treasury Bill .41% due April 9, 2015	100.00	1,765,000.00
04-27-15	04-27-15	1,525,000	Bank of Nova Scotia BA .78% due April 27, 2015	100.00	1,525,000.00
04-29-15	04-29-15	1,030,000	Toronto Dominion Bank BA .76% due April 29, 2015	100.00	1,030,000.00
04-30-15	04-30-15	1,750,000	Royal Bank BA .72% due April 30, 2015	100.00	1,750,000.00
05-07-15	05-07-15	1,635,000	Canada Treasury Bill .39% due May 7, 2015	100.00	1,635,000.00
05-21-15	05-21-15	1,510,000	Canada Treasury Bill .48% due May 21, 2015	100.00	1,510,000.00
05-25-15	05-25-15	1,530,000	Bank of Nova Scotia BA .709% due May 25, 2015	100.00	1,530,000.00
06-04-15	06-04-15	1,750,000	Canada Treasury Bill .43% due June 4, 2015	100.00	1,750,000.00
06-08-15	06-08-15	1,100,000	CIBC BA .73% due June 8, 2015	100.00	1,100,000.00

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
*From 04-01-15 To 06-30-15*

<b>Trade Date</b>	<b>Settle Date</b>	<b>Quantity</b>	<b>Security</b>	<b>Unit Price</b>	<b>Amount</b>
06-18-15	06-18-15	1,765,000	Canada Treasury Bill .45% due June 18, 2015	100.00	1,765,000.00
06-26-15	06-26-15	1,750,000	CIBC BA 0.718% due June 26, 2015	100.00	1,750,000.00
					<b>17,110,000.00</b>

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Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - SHORT TERM INVESTMENT FUND***  
*From 04-01-15 to 06-30-15*

Cash Balance at April 1, 2015			11,994.17
ADD:	Proceeds from Sales	17,110,000.00	
	Bond Interest Credited (from Long Term Investment Fund)	30,763.75	
	Bank Interest Credited	<u>9.69</u>	<u>17,140,773.44</u>
			17,152,767.61
LESS:	Cost of Purchases	16,887,151.54	
	Transfer to Long Term Investment Fund	250,802.40	
	Investment Counsel Fees - Short Term Investment Fund	2,420.64	
	Investment Counsel Fees - Long Term Investment Fund	3,243.19	
	Trust Company Charges	<u>4,609.88</u>	<u>17,148,227.65</u>
<b>Cash Balance at June 30, 2015</b>			<b>4,539.96</b>

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2015

**CLLAS - SHORT TERM INVESTMENT FUND**[illegible]

**CLLAS - LONG TERM INVESTMENT FUND**

**Portfolio Holdings at June 30, 2015**

<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>					
300,000	Canada Housing Trust 1.85% Series 43 due December 15, 2016	101.30	101.73	305,199	5,550
250,000	Canada Housing Trust 1.75% due June 15, 2018	100.11	102.62	256,558	4,375
250,000	Canada Housing Trust 1.95% due June 15, 2019	100.10	103.44	258,593	4,875
200,000	Canada Housing Trust 2.4% Series 48 due December 15, 2022	100.37	104.39	208,782	4,800
200,000	Canada Housing Trust 2.35% due September 15, 2023	105.62	103.29	206,578	4,700
				<hr/> 1,235,709	<hr/> 24,300
<b>PROVINCIAL BONDS</b>					
300,000	Alberta 1.85% due September 1, 2016	101.35	101.36	304,089	5,550
330,000	Ontario 1.90% due September 8, 2017	100.18	102.35	337,748	6,270
350,000	Ontario 2.1% due September 8, 2018	99.57	103.39	361,851	7,350
250,000	British Columbia 3.25% due December 18, 2021	102.30	109.33	273,313	8,125
250,000	Ontario 3.15% due June 2, 2022	99.04	107.90	269,755	7,875
250,000	Ontario 2.60% due June 2, 2025	100.15	101.24	253,098	6,500
				<hr/> 1,799,853	<hr/> 41,670
<b>CORPORATE BONDS</b>					
200,000	Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	100.32	101.20	202,402	4,200
200,000	Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	100.73	102.37	204,738	4,866
200,000	Royal Bank Dep. Note 2.26% due March 12, 2018	99.28	102.25	204,504	4,520
200,000	Wells Fargo Canada 2.944% due July 25, 2019	100.02	104.96	209,922	5,888
300,000	Bank of Montreal 2.84% due June 4, 2020	101.77	104.69	314,061	8,520
250,000	Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	104.57	103.44	258,595	6,408
200,000	Bank of Montreal 3.4% due April 23, 2021	100.65	107.36	214,712	6,800



Martin, Lucas & Seagram Ltd.

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

**Portfolio Holdings at June 30, 2015**

<b>Quantity</b>	<b>Security</b>	<b>Unit Cost</b>	<b>Price</b>	<b>Market Value</b>	<b>Annual Income</b>
150,000	Wells Fargo 3.46% due January 24, 2023	102.36	105.39	158,078	5,190
				1,767,012	46,392
<b>TOTAL PORTFOLIO</b>				<b>4,802,574</b>	<b>112,362</b>

Martin, Lucas & Seagram Ltd.  
**PURCHASE AND SALE**  
**CLLAS - LONG TERM INVESTMENT FUND**  
*From 04-01-15 To 06-30-15*

<u>Trade Date</u>	<u>Settle Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Price</u>	<u>Amount</u>
<b>PURCHASES</b>					
06-24-15	06-26-15	250,000	Ontario 2.60% due June 2, 2025	100.15	250,375.00
					<b>250,375.00</b>

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Martin, Lucas & Seagram Ltd.  
**CASH RECONCILIATION**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 04-01-15 to 06-30-15*

Cash Balance at April 1, 2015		0.00
ADD: Transfer from Short Term Investment Fund		<u>250,802.40</u>
		250,802.40
LESS: Cost of Purchase	250,375.00	
Accrued Bond Interest on Purchases	<u>427.40</u>	<u>250,802.40</u>
<b>Cash Balance at June 30, 2015</b>		<b>0.00</b>

Martin, Lucas & Seagram Ltd.  
**DATE TO DATE GAINS AND LOSSES**  
***CLLAS - LONG TERM INVESTMENT FUND***  
*From 03-31-15 to 06-30-15*

Security	03-31-15 Market Value	Additions Withdrawals	06-30-15 Market Value	06-30-15 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 1.85% Series 43 due December 15, 2016	305,997	-2,775	305,199	303,900	0	0	1,299	-798
Canada Housing Trust 1.75% due June 15, 2018	257,173	-2,188	256,558	250,275	0	0	6,283	-615
Canada Housing Trust 1.95% due June 15, 2019	260,033	-2,438	258,593	250,238	0	0	8,355	-1,440
Canada Housing Trust 2.4% Series 48 due December 15, 2022	213,076	-2,400	208,782	200,740	0	0	8,042	-4,294
Canada Housing Trust 2.35% due September 15, 2023	211,746	0	206,578	211,240	0	0	-4,662	-5,168
<b>GOVERNMENT BONDS Total</b>	<b>1,248,024</b>		<b>1,235,709</b>	<b>1,216,393</b>	<b>0</b>	<b>0</b>	<b>19,317</b>	<b>-12,315</b>
<b>PROVINCIAL BONDS</b>								
Alberta 1.85% due September 1, 2016	305,145	0	304,089	304,050	0	0	39	-1,056
Ontario 1.90% due September 8, 2017	338,389	0	337,748	330,594	0	0	7,154	-640
Ontario 2.1% due September 8, 2018	363,311	0	361,851	348,495	0	0	13,356	-1,460
British Columbia 3.25% due December 18, 2021	278,433	-4,063	273,313	255,750	0	0	17,563	-5,120
Ontario 3.15% due June 2, 2022	275,003	-3,938	269,755	247,600	0	0	22,155	-5,248
Ontario 2.60% due June 2, 2025	0	250,802	253,098	250,375	0	0	2,723	2,723
<b>PROVINCIAL BONDS Total</b>	<b>1,560,279</b>		<b>1,799,853</b>	<b>1,736,864</b>	<b>0</b>	<b>0</b>	<b>62,989</b>	<b>-10,801</b>
<b>CORPORATE BONDS</b>								
Bank of Nova Scotia Dep. Note 2.1% due November 8, 2016	202,856	-2,100	202,402	200,640	0	0	1,762	-454
Toronto Dominion Bank Dep. Note 2.433% due August 15, 2017	205,336	0	204,738	201,460	0	0	3,278	-598
Royal Bank Dep. Note 2.26% due March 12, 2018	205,276	0	204,504	198,560	0	0	5,944	-772
Wells Fargo Canada 2.944% due July 25, 2019	211,384	0	209,922	200,040	0	0	9,882	-1,462
Bank of Montreal 2.84% due June 4, 2020	317,169	-4,260	314,061	305,307	0	0	8,754	-3,108
Toronto Dominion Bank Dep. Note 2.563% due June 24, 2020	260,570	-3,204	258,595	261,425	0	0	-2,830	-1,975
Bank of Montreal 3.4% due April 23, 2021	218,568	-3,400	214,712	201,300	0	0	13,412	-3,856
Wells Fargo 3.46% due January 24, 2023	162,672	0	158,078	153,542	0	0	4,536	-4,595
<b>CORPORATE BONDS Total</b>	<b>1,783,831</b>		<b>1,767,012</b>	<b>1,722,274</b>	<b>0</b>	<b>0</b>	<b>44,738</b>	<b>-16,820</b>
<b>TOTAL PORTFOLIO</b>	<b>4,592,134</b>		<b>4,802,574</b>	<b>4,675,530</b>	<b>0</b>	<b>0</b>	<b>127,044</b>	<b>-39,935</b>
TOTAL DATE TO DATE GAIN OR LOSS								-39,935
% CHANGE DURING PERIOD								-0.87

Martin, Lucas & Seagram Ltd.

EXTERNAL INDIVIDUAL CREDIT RATING REPORT - JUNE 30, 2015

## CLLAS - LONG TERM INVESTMENT FUND

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