



Tab 6

Audit & Finance Committee

Report to Convocation

May 26, 2022

Committee Members:

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FOR INFORMATION

Law Society of Ontario Financial Statements For the Quarter ended March 31, 2022

The Audit & Finance Committee recommends the Law Society of Ontario's financial statements for the first quarter ended March 31, 2022 be received by Convocation for information.

This is part of the quarterly financial reporting schedule to Convocation. These interim statements convey the performance of the Law Society before the end of the year. Unlike annual statements, interim statements are not audited.

These financial statements present the financial position and operations of the Society and include the General Funds (or operating funds) and a number of special purpose or restricted funds.

- The Compensation Fund is restricted by the Law Society Act
- The Errors and Omissions Insurance Fund (E&O Fund), the Capital Allocation Fund, the Invested in Capital and Intangible Assets Fund, the County Libraries Fund and the "Other Restricted Funds" (Repayable Allowance Fund, Special Projects Fund and Parental Leave Assistance Fund) are restricted by Convocation.

Information on General Funds and restricted funds is provided in [Appendix A](#). [This information is included for reference and is not mandatory reading.](#)

The Financial Statements for the three months ended March 31, 2022 comprise the following statements:

- Statement of Financial Position
- Statement of Revenues and Expenses and Change in Fund Balances, detailing results of operations for lawyers and paralegals
- Schedule of Restricted Funds
- Supplemental schedules include Statements of Financial Position for the Compensation Fund and E&O Fund, and Schedules of Revenues and Expenses for the Combined General Funds, Lawyer and Paralegal General Funds, the Compensation Funds and the Errors and Omissions Insurance Fund

Financial Statement Highlights

General Funds

The lawyer General Fund shows an excess of expenses over revenues of \$1.3 million at the end of the first quarter of 2022, compared to a budget that planned for excess expenses over revenues of \$3.5 million for the same period. The paralegal General Fund experienced \$98,000 in excess revenues over expenses at the end of the first quarter of 2022 compared to a budgeted excess of expenses over revenues of \$87,000 for the same period.

The main reason for the positive financial performance within the General Funds for this period is lower expenses than budget across all departments—a result of continued pandemic and related restrictions curtailing operating costs.

The General Funds' annual fee revenues are in line with the budget for the quarter. With the annual fee payment deadline on March 31, the percentage of lawyers and paralegals who have paid is higher for this period than the prior year indicating positive collectability on the Law Society's main revenue source. This may be a benefit of the introduction of a harmonized date for licensees to have met their Law Society administrative obligations¹ or a sign of stability in the professions post pandemic.

However, total revenues are \$1.4 million under budget for the quarter due to notable unrealized losses on investments, which are not budgeted, and lower than budgeted Professional Development & Competence ("PD&C") revenue.

The negative variance in revenue for the period was offset by temporary expense savings, mainly attributable to:

- Circumstantial savings from the continuation of pandemic restrictions affecting building operations, meetings, events and travel. These savings are expected to decrease over the course of the year as Law Society employees return to the office under a new work model and in-person meetings and events commence in the second quarter.
- Although the number of vacant positions has dropped significantly from last year, staff vacancies contributed approximately \$1.1 million of savings during the period. Turnover throughout the last quarter of 2021 and first quarter of 2022 has been higher than average. Recruitment has been very active this year and several positions have since been filled. This should help manage further

¹ The deadline for payment of annual fees, filing of the Licensee Annual Return and compliance with CPD reporting requirements was harmonized to March 31 effective 2021 as recommended in the CEO's Report for Strategic Change and approved by Convocation.

variance although there are early signs of the impact of low unemployment on the ability to recruit.

As at March 31, 2022, the lawyer General Fund balance is \$36.9 million. The Law Society's Fund Balance Management Policy is to maintain a fund balance equivalent to two to three months of budgeted General Fund expenses, or \$17.3 million to \$26.0 million, respectively. In developing the 2022 budget, as the lawyer General Fund balance was projected to be above the benchmark, it plans for the use of \$6.4 million of the fund balance to fund operations and reduce the 2022 lawyer annual fee.

The paralegal General Fund is \$2.7 million as at March 31, 2022—an increase from \$1.7 million reported for this period last year—mainly as a result of expense reduction measures. The 2022 budget for the paralegal General Fund incorporated the use of \$1.15 million of the paralegal General Fund balance to fund operations and reduce annual fees for 2022.

While the Law Society continues to have strong fund balances at the end of the first quarter of 2022, the continued volatility in the financial markets affecting our investments and the anticipated unbudgeted costs associated with the licensing examination compromised integrity issue will likely encroach on these funds for the remainder of the year. These circumstances are unpredictable and it is for these types of situations that the Law Society has a fund balance management policy. It allows for ongoing operations while managing the financial impact of unforeseen events. Management is currently monitoring these impacts and will keep the Audit and Finance Committee apprised of developments.

Restricted Funds

The Law Society's restricted funds report an excess of expenses over revenues of \$5.8 million in the first quarter of 2022, compared to an excess of revenues over expenses of \$3.8 million in 2021. The key reasons for this are:

- a. Significant volatility in financial markets in the first quarter of 2022 resulting in unrealized investment losses of \$2.7 million within the Compensation Fund and the Errors and Omissions Insurance Fund ("E&O Fund") investment portfolios (2021 - \$2.3 million in unrealized gains);
- b. In the lawyer pool of the Compensation Fund, the provision for unpaid grants expense was \$2.4 million in the first quarter of 2022 (2021 – provision for unpaid grants was in a recovery position of \$368,000) (further explained in this report); and

- c. the reduction in the annual fee component for the lawyer pool of the Compensation Fund from \$86 to \$1 resulted in lower revenue of \$3.0 million in the first quarter of 2022 (2021 - \$3.9 million) with expenses remaining comparable year over year².

Compensation Fund

The lawyer pool of the Compensation Fund had an excess of expenses over revenues for the first quarter of \$3.6 million compared to a budget that planned an excess of expenses over revenues of \$922,000 for this period. As noted above, a combination of unbudgeted unrealized losses on the investment portfolio of \$1.6 million and higher than budgeted provision for grants expenses contributed to this variance.

The prorated budgeted provision for unpaid grants expense for the first quarter was \$1.1 million, compared to actual provision expenses of \$2.4 million. This increase is driven mainly by significant inquiries and claims activity in the first quarter related to two lawyers with a total of 73 inquiries received and 17 claims opened. This increase in grant expenses is expected to continue during the year and is being closely monitored in collaboration with Compensation Fund management.

The lawyer pool of the Compensation Fund ended the quarter with a fund balance of \$27.5 million, which is a decrease from the fund balance of \$33.3 million at the same time last year. The fund balance is within the minimum policy benchmark of the Fund Balance Management Policy, currently \$19.6 million.

The paralegal pool of the Compensation Fund had excess expenses over revenues for the first quarter of \$103,000, compared to a budget that planned an excess of expenses over revenues of \$29,000. Unbudgeted unrealized losses on the investment portfolio totalled \$86,000 in the first quarter. The paralegal pool of the Compensation Fund balance is \$861,000 as of March 31, 2022.

Errors & Omissions Insurance Fund

Due to unrealized losses on the investment portfolio in the first quarter, the E&O Fund had net expenses over revenues of \$961,000 in the first quarter. The E&O Fund balance was \$56.6 million as of March 31, 2022. The 2022 budget includes a transfer of \$1.2 million from the E&O Fund.

² An excess of expenses over revenues was planned in the 2022 budget with use of \$3.7 million of fund balance to fund Compensation Fund operations

Capital Allocation Fund

The Capital Allocation Fund increased slightly from \$6.0 million to \$6.6 million since this period last year due to the timing of capital projects. Procurement and planning activities typically occur at the beginning of the year related to capital projects with capital spending following these activities. The planning of capital projects is proceeding as intended in the 2022 budget. With the current supply chain challenges many organizations are facing, it is anticipated that the Law Society may be impacted by these same issues when it moves to the implementation stage of some capital projects.

Statement of Revenues and Expenses and Change in Fund Balances

Revenues

Annual Fees

Annual fees recognized in the first quarter of \$21.8 million decreased slightly from the \$21.9 million in 2021 and are in line with the 2022 budget. The 2022 budget incorporated an annual fee reduction for lawyers and paralegals of \$60 and \$9, partially offset by an increase in the number of full-fee equivalent paying lawyers and paralegals of 1,525 and 200, respectively. Annual fee revenue is recognized monthly.

Insurance Premium and Levies

Insurance premiums and levies have remained consistent with prior year at \$26.7 million. LAWPRO's base premium rate has remained consistent in 2022 at \$3,000.

Professional Development and Competence

PD&C revenues comprise income from the licensing process and continuing professional development ("CPD"). Total year-to-date revenues of \$3.9 million are consistent with last year's revenues but lower than the current year-to-date budget of \$4.6 million.

Lawyer licensing process revenues, budgeted at \$2.2 million for the quarter, totalled \$1.6 million and are less than the \$2.4 million recorded last year at the end of the first quarter. This negative variance to budget, and decrease from last year's actuals, resulted from the cancellation of the Barrister and Solicitor online licensing examinations, initially scheduled for March 2022 and rescheduled to in-person format in April 2022. This change was required in response to the strong possibility that the examination content had been improperly accessed by some candidates, compromising

the integrity of the March examinations. \$800,000 in revenues related to the March 2022 examinations were included in the budget for the first quarter. Licensing examination revenue is recognized in the financial statements when candidates elect to write the examinations. As a result, these revenues will now be recognized in April based on the number of candidates who wrote the in-person examinations.

Paralegal Licensing Process revenues of \$628,000 are less than the 2022 budget of \$706,000 but higher than the prior year actuals of \$348,000. The small variance from budget is based on a slightly lower number of candidates writing the February 2022 paralegal licensing examinations than budgeted.

CPD revenues were \$1.7 million at the end of March 2022, which is in line with the year to date budget of \$1.6 million. The 2022 budget included an increase in CPD revenues of \$1 million compared to the 2021 budget. All CPD programs in the first quarter of 2022 were delivered virtually and actual registrations were in line with budgeted amounts.

Change in Fair Value of Investments

As indicated above, volatility in financial markets affected the performance of the Law Society's investment holdings. The change in fair value of investments across all funds reflect unrealized losses of \$3.7 million for the quarter, compared to unrealized gains of \$3.2 million in the same period in 2021. The change in fair value is not budgeted.

Investment income for the period was \$289,000, which is less than the budget and last year's income of \$552,000, due in part to continuing low interest rates.

Other Revenues

Other revenues, totalling \$2.5 million, exceed the year-to-date budget and the 2021 actuals of \$1.8 million. The notable components of other revenues in 2021 are ordered costs, Ontario Report revenue, and pre-authorized payment plan fees. Other revenues are primarily higher in 2022 because of higher than budgeted ordered cost recoveries in the General Funds and the lawyer pool of the Compensation Fund. Two large unbudgeted recoveries were received in the Compensation Fund totalling \$350,000 in the first quarter of 2022 that contributed to this variance.

Expenses

Professional Regulation, Tribunals and Compliance

Professional Regulation, Tribunals and Compliance expenses totalled \$7.7 million are more than the 2021 amount of \$7.3 million and are less than budget by \$1.1 million.

This is primarily due to staffing vacancies that were filled throughout the first quarter of the year and the continued impact of work at home protocols that produced savings in travel, office, and document reproduction costs.

Professional Development and Competence

PD&C expenses totalling \$6.7 million are higher than the 2021 amount of \$6.3 million and are less than budget by \$777,000. The main reason for the positive variance from budget was the deferral of the March 2022 Barrister and Solicitor examination to April 2022.

Similar to the deferral of licensing revenue, noted above, the expenses related to delivery of licensing examinations will also be recognized in April 2022 when incurred. Other reasons for lower expenses include reduced travel costs as audits continued to be performed remotely for the first quarter of 2022.

As stated earlier, the improper access by some candidates to examination content compromised the integrity of the planned March examinations. To mitigate the impact on candidates not involved in the improper conduct, the Law Society pivoted to in-person examinations for the 2022/23 licensing cycle. This will result in unplanned costs this year of approximately \$3.5 million and \$1 million related to the lawyer and paralegal licensing processes, respectively. These increased expenses will begin to be recognized in the second quarter of 2022. The \$1 million contingency in the 2022 budget and available fund balances, both intended for unforeseen circumstances, will fund these incremental costs.

Corporate Services

Total Corporate Services expenses of \$7.6 million are higher than the 2021 expenses of \$7.4 million and are less than budget by \$420,000. The key drivers for the difference between actual and budgeted expenses are lower building operational costs resulting from the continued pandemic driven work-at-home status in the first quarter of 2022. It is expected that these costs will begin to more closely mirror the budget for the remainder of the year with the return to onsite work and in-person meetings early in the second quarter of 2022.

Convocation, Policy and Outreach

Convocation, Policy and Outreach expenses for the quarter are \$1.6 million compared to \$1.5 million for the same period in 2021 and are less than budget by \$1.1 million. The variance from budget is due to lower costs related to benchers remuneration, expenses and functions, stakeholder engagement and underspending related to policy,

media relations and communications—attributable to the timing of other program expenses. Also contributing to the variance in the first quarter is the unused contingency.

Services to Licensees and Public

Services to licensees and public expenses are \$1.3 million compared to \$1.4 million for the first quarter in 2021 and are less than budget by \$244,000. The main reason for the lower spending when compared to budget is the continuation of virtual conferences by the Federation of Ontario Law Associations.

Statement of Financial Position

Cash & Short-Term Investments

The total of cash and short-term investments at the end of the first quarter is \$103.6 million (2021 - \$96.4 million). Of this amount, \$13.5 million (2021 - \$20.4 million) pertains to the Compensation Fund and is held in separate accounts. The Law Society has sufficient working capital on hand to discharge its short and medium-term obligations.

Accounts Receivable

Accounts receivable at the end of the first quarter is \$73.4 million (2021 - \$78.0 million), attributable in part to the COVID-19 annual fee deferral plan. As of March 31, 2021, approximately 1,100 lawyers and paralegals deferred their 2021 annual fees to March 31, 2022, totalling approximately \$1.5 million. This was reflected as part of the accounts receivable balance in 2021. Most of licensees who deferred payment of their 2021 annual fees paid by the payment deadline of March 31, 2022. In addition, the lower annual fees for this year also contributed to the lower accounts receivable balance when compared to prior year.

Portfolio Investments

Portfolio investments are shown at fair value of \$81.1 million (2021 - \$73.4 million). The increase in fair value from the same period in 2021 is due in part to the transfer of approximately \$7 million from cash and short-term investments to the long-term investment portfolio throughout the latter portion of 2021. Also reflected in the current fair value of investments is unrealized losses of \$3.7 million in the first quarter of 2022 related to the significant market volatility in the first quarter. Of the total portfolio investments at the end the period, \$20.2 million pertains to the General Funds, \$38.4 million to the Compensation Fund, and \$22.5 million to the E&O Fund.

Deferred Revenue

Deferred revenue is made up of annual fees, licensing process revenues and insurance premiums which are recognized over the full year. The balance at the end of the first quarter of 2022 is \$142 million (2021 - \$140.2 million). The majority of the increase is related to an increase in the amount of insurance premiums deferred compared to the same time period last year.

Provision for Unpaid Grants Liability

The provision for unpaid grants liability represents the estimate for unpaid grants and inquiries against the Compensation Fund, supplemented by the costs for processing these grants. The current balance of \$23.2 million increased from \$15.3 million in 2021 as the Fund has received significant inquiries and claims against three³ lawyer licensees over the past year. The total Compensation Fund provision for unpaid grants includes \$391,000 allocated for paralegal related claims.

³ One lawyer in 2021 and two lawyers in 2022.

Appendix A

General Fund & Restricted Fund

General Fund

The General Fund accounts for the Society's program delivery and administrative activities related to the regulation and licensing of lawyers and paralegals. This fund reports unrestricted resources.

The Society's policy is to maintain the General Fund balance at no less than two and no more than three months of General Fund budgeted expenses.

If the General Fund balance exceeds three months of budgeted General Fund expenses, Convocation shall utilize the excess for one or more of the following:

- Mitigate the General Fund fee for the next fiscal year;
- Transfer the excess to another Society fund if the fund balance is below its stated policy benchmark.

If the General Fund balance is less than two months of budgeted General Fund expenses, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the General Fund fund balance is more than two months of budgeted General Fund expenses and less than three months of budgeted General Fund expenses, Convocation may appropriate funds from the General Fund balance for one or more of the following:

- Mitigate the General Fund fee for the next fiscal year;
- Transfer the excess to another Society fund if the fund balance is below its stated policy benchmark.

Restricted Funds

Compensation Fund

The Society maintains the Compensation Fund pursuant to section 51 of the Law Society Act to relieve or mitigate loss sustained by any person in consequence of

dishonesty on the part of a licensee, in connection with the licensee's professional business or in connection with any trust of which the licensee was a trustee. The Compensation Fund is restricted in use by the Law Society Act.

Pursuant to the Law Society Act, the Compensation Fund is supported by licensee annual fees, investment income and recoveries. The Compensation Fund accounts for program delivery, administration and payment of grants and has separate fund balances for lawyer licensees and paralegal licensees.

The Law Society's policy is to maintain the Lawyer Compensation Fund balance at an amount sufficient to provide for a minimum of one 97.5th percentile aggregate claim scenarios (one-in-forty-year event) and a maximum of four 99th percentile aggregate claim scenarios (one-in-one hundred-year event). The estimated amount of aggregate claims is to be actuarially reviewed at least every three years.

If the Lawyer Compensation Fund balance exceeds four one-in-one hundred-year events, Convocation shall utilize some or all of the excess for the following:

- Mitigation of the Lawyer Compensation Fund fee for the next fiscal year; or
- Annual mitigation of the Lawyer Compensation Fund fee shall continue such that within the next three fiscal years, the maximum benchmark shall be achieved.

If the Lawyer Compensation Fund balance is less than the minimum of one one-in-forty-year event, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the Lawyer Compensation Fund balance is more than the minimum of one one-in-forty-year event and less than four one-in-one-hundred-year events Convocation may:

- Mitigate the Lawyer Compensation Fund levy for the next fiscal year;
- Budget for a surplus sufficient to increase the fund balance to its maximum policy objective of four one-in-one-hundred-year events;
- Leave the fund balance at its current balance for the upcoming fiscal year.

Errors and Omissions Insurance Fund

The Errors and Omissions Insurance Fund (“E&O Fund”) accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers, reported as revenues, and remits these amounts to LAWPRO, reported as expenses.

Pursuant to section 61 of the Law Society Act, the Society arranges mandatory professional liability insurance for practising lawyers with LAWPRO, and through the E&O Fund, levies the insured lawyers. Each year, the premium for the insurance program is established through a process whereby LAWPRO provides an offer for review and acceptance by Convocation. The offer provides details on the components of the insurance program, including anticipated base premiums, claims history levies, transaction-based levies and amounts to be drawn from the E&O Fund balance.

Capital Allocation Fund

The Capital Allocation Fund is maintained to provide a source of funds for the acquisition and maintenance of the Society’s capital and intangible assets which comprise buildings and major equipment including computers and software. Amounts of assets capitalized, according to the Society’s capital asset policy, are transferred to the Invested in Capital and Intangible Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund.

Invested in Capital and Intangible Assets Fund

The Invested in Capital and Intangible Assets Fund records transactions related to the Society’s capital assets and intangible assets, specifically acquisitions, amortization and disposals.

County Libraries Fund

The County Libraries Fund records transactions related to the Society’s support of county law libraries. As approved by Convocation, the fund accumulates funds for county library purposes, which are remitted to LIRN.

Other Restricted Funds

The Repayable Allowance Fund provides loans for tuition and living expenses to candidates in the lawyer licensing process.

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects approved by Convocation.

The Parental Leave Assistance Fund accounts for the delivery of the Parental Leave Assistance Program (“PLAP”) and is funded by lawyers’ fees. PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who have a net annual practice income of less than \$50,000 and who do not have access to any other parental leave financial benefits. Under PLAP, the Society provides a fixed sum of \$750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave.



Statement of Financial Position

Unaudited

Stated in thousands of dollars

As at March 31

	2022	2021
Assets		
Current Assets		
Cash	87,790	78,671
Short-term investments	15,808	17,743
Accounts receivable	73,420	78,035
Prepaid expenses	82,818	82,240
Total current assets	259,836	256,689
Investment in subsidiaries	35,642	35,642
Portfolio investments	81,111	73,418
Loan receivable	1,701	1,692
Capital assets	6,334	7,289
Intangible assets	2,364	2,527
Total Assets	386,988	377,257
Liabilities and Fund Balances		
Current Liabilities		
Accounts payable and accrued liabilities	8,834	10,147
Deferred revenue	142,011	140,225
Due to LAWPRO	63,672	64,007
Total current liabilities	214,517	214,379
Provision for unpaid grants/claims	23,211	15,276
Unclaimed trust funds	7,152	6,109
Lease obligations	794	766
Total Liabilities	245,674	236,530
Fund Balances		
General funds		
Lawyers	36,888	31,153
Paralegals	2,783	1,714
Restricted funds		
Compensation - lawyers	27,489	33,256
Compensation - paralegals	861	946
Errors and omissions insurance	56,616	56,462
Capital allocation	6,624	6,001
Invested in capital and intangible assets	8,698	9,816
County libraries	104	62
Other	1,251	1,317
Total Fund Balances	141,314	140,727
Total Liabilities and Fund Balances	386,988	377,257

Statement of Revenues and Expenses and Change in Fund Balances

Unaudited

Stated in thousands of dollars

For the three months ended March 31

	2022	2021	2022	2021	2022	2021	2022	2021
	General Fund Lawyer		General Fund Paralegal		Restricted Funds		Total	
Revenues								
Annual fees	17,332	16,650	1,442	1,315	3,016	3,928	21,790	21,893
Insurance premiums and levies	-	-	-	-	26,664	26,681	26,664	26,681
Professional development and competence	3,067	3,424	821	480	-	-	3,888	3,904
Investment income	80	149	10	19	199	384	289	552
Change in fair value of investments	(884)	739	(114)	94	(2,729)	2,328	(3,727)	3,161
Other	1,742	1,615	260	179	525	(1)	2,527	1,793
Total revenues	21,337	22,577	2,419	2,087	27,675	33,320	51,431	57,984
Expenses								
Professional regulation, tribunals and compliance	7,273	6,904	428	402	-	-	7,701	7,306
Professional development and competence	5,903	5,591	797	726	-	-	6,700	6,317
Corporate services	6,795	6,569	848	813	-	-	7,643	7,382
Convocation, policy and outreach	1,467	1,327	153	131	-	-	1,620	1,458
Services to licensees and public	1,244	1,268	95	133	-	-	1,339	1,401
Restricted	-	-	-	-	33,456	29,533	33,456	29,533
Total expenses	22,682	21,659	2,321	2,205	33,456	29,533	58,459	53,397
Excess of revenues over expenses (expenses over revenues)	(1,345)	918	98	(118)	(5,781)	3,787	(7,028)	4,587
Fund balances, beginning of year	38,333	30,301	2,685	1,832	107,324	104,008	148,342	136,141
Interfund transfers	(100)	(66)	-	-	100	66	-	-
Fund balances, end of period	36,888	31,153	2,783	1,714	101,643	107,861	141,314	140,728

Schedule of Restricted Funds

Unaudited

Stated in thousands of dollars

For the three months ended March 31

	2022							2021	
	Compensation Fund		Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total	Total
	Lawyer	Paralegal							
Fund balances, beginning of year	31,055	964	57,577	7,123	9,322	117	1,166	107,324	104,007
Revenues									
Annual fees	21	2	-	870	-	2,123	-	3,016	3,928
Insurance premiums and levies	-	-	26,664	-	-	-	-	26,664	26,681
Investment income	148	8	43	-	-	-	-	199	384
Change in fair value of investments	(1,639)	(86)	(1,004)	-	-	-	-	(2,729)	2,328
Other	523	2	-	-	-	-	-	525	(1)
Total revenues	(947)	(74)	25,703	870	-	2,123	-	27,675	33,320
Total expenses	2,619	29	26,664	1,369	624	2,136	15	33,456	29,533
Excess of revenues over expenses (expenses over revenues)	(3,566)	(103)	(961)	(499)	(624)	(13)	(15)	(5,781)	3,787
Interfund transfers	-	-	-	-	-	-	100	100	66
Fund balances, end of period	27,489	861	56,616	6,624	8,698	104	1,251	101,643	107,860

Lawyers and Paralegals General Fund Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the three months ended March 31

	2022 Actual	2022 Budget YTD	Variance	2021 Actual
REVENUES				
Annual fees	18,774	18,611	163	17,965
Professional development and competence	3,888	4,562	(674)	3,904
Investment income	90	305	(215)	168
Change in fair value of investments	(998)	-	(998)	833
Other	2,002	1,644	358	1,794
Total revenues	23,756	25,122	(1,366)	24,664
EXPENSES				
Professional regulation, tribunals and compliance	7,701	8,809	1,108	7,306
Professional development and competence	6,700	7,477	777	6,317
Corporate services	7,643	8,063	420	7,382
Convocation, policy and outreach	1,620	2,756	1,136	1,458
Services to licensees and public	1,339	1,583	244	1,401
Total expenses	25,003	28,688	3,685	23,864
Excess of revenues over expenses (expenses over revenues)	(1,247)	(3,566)	2,319	800

General Fund - Lawyers
Schedule of Revenues and Expenses
Unaudited
Stated in thousands of dollars
For the three months ended March 31

	2022 Actual	2022 Budget YTD	Variance	2021 Actual
REVENUES				
Annual fees	17,332	17,265	67	16,650
Professional development and competence	3,067	3,669	(602)	3,424
Investment income	80	269	(189)	149
Change in fair value of investments	(884)	-	(884)	739
Other	1,742	1,396	346	1,615
Total revenues	21,337	22,599	(1,262)	22,577
EXPENSES				
Professional regulation, tribunals and compliance	7,273	8,327	1,054	6,904
Professional development and competence	5,903	6,604	701	5,591
Corporate services	6,795	7,205	410	6,569
Convocation, policy and outreach	1,467	2,491	1,024	1,327
Services to licensees and public	1,244	1,451	207	1,268
Total expenses	22,682	26,078	3,396	21,659
Excess of revenues over expenses (expenses over revenues)	(1,345)	(3,479)	2,134	918



General Fund - Paralegals
Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the three months ended March 31

	2022 Actual	2022 Budget YTD	Variance	2021 Actual
REVENUES				
Annual fees	1,442	1,346	96	1,315
Professional development and competence	821	893	(72)	480
Investment income	10	36	(26)	19
Change in fair value of investments	(114)	-	(114)	94
Other	260	248	12	179
Total revenues	2,419	2,523	(104)	2,087
EXPENSES				
Professional regulation, tribunals and compliance	428	482	54	402
Professional development and competence	797	873	76	726
Corporate services	848	858	10	813
Convocation, policy and outreach	153	265	112	131
Services to licensees and public	95	132	37	133
Total expenses	2,321	2,610	289	2,205
Excess of revenues over expenses (expenses over revenues)	98	(87)	185	(118)



**Lawyers and Paralegals Compensation Fund
Schedule of Revenues and Expenses**

Unaudited

Stated in thousands of dollars

For the three months ended March 31

	2022 Actual	2022 Budget YTD	Variance	2021 Actual
REVENUES				
Annual fees	23	14	9	966
Investment income	156	300	(144)	253
Change in fair value of investments	(1,725)	-	(1,725)	1,383
Recoveries	525	87	438	(1)
Total revenues	(1,021)	401	(1,422)	2,601
EXPENSES				
Provision for unpaid grants	2,465	1,163	(1,302)	(280)
Administrative	183	189	6	181
Total expenses	2,648	1,352	(1,296)	(99)
Excess of revenues over expenses (expenses over revenues)	(3,669)	(951)	(2,718)	2,700



**Compensation Fund - Lawyers
Schedule of Revenues and Expenses**

Unaudited

Stated in thousands of dollars

For the three months ended March 31

	2022 Actual	2022 Budget YTD	Variance	2021 Actual
REVENUES				
Annual fees	21	12	9	964
Investment income	148	285	(137)	240
Change in fair value of investments	(1,639)	-	(1,639)	1,314
Recoveries	523	83	440	(1)
Total revenues	(947)	380	(1,327)	2,517
EXPENSES				
Provision for unpaid grants	2,445	1,122	(1,323)	(368)
Administrative	174	180	6	172
Total expenses	2,619	1,302	(1,317)	(196)
Excess of revenues over expenses (expenses over revenues)	(3,566)	(922)	(2,644)	2,713



**Compensation Fund - Paralegals
Schedule of Revenues and Expenses**

Unaudited

Stated in thousands of dollars

For the three months ended March 31

	2022 Actual	2022 Budget YTD	Variance	2021 Actual
REVENUES				
Annual fees	2	2	-	2
Investment income	8	15	(7)	13
Change in fair value of investments	(86)	-	(86)	69
Recoveries	2	4	(2)	-
Total revenues	(74)	21	(95)	84
EXPENSES				
Provision for unpaid grants	20	41	21	88
Administrative	9	9	-	9
Total expenses	29	50	21	97
Excess of revenues over expenses (expenses over revenues)	(103)	(29)	(74)	(13)



Compensation Fund
Statement of Financial Position

Unaudited

Stated in thousands of dollars

As at March 31

	2022	2021
Assets		
Current Assets		
Cash	13,463	19,559
Short-term investments	-	862
Total Current Assets	13,463	20,421
Portfolio investments	38,355	32,165
Total Assets	51,818	52,586
Liabilities and Fund Balance		
Current Liabilities		
Accounts payable and accrued liabilities	140	145
Deferred revenue	68	2,905
Due to General Fund	50	58
Total Current Liabilities	258	3,108
Provision for unpaid grants/claims - lawyers	22,819	14,969
Provision for unpaid grants/claims - paralegals	391	307
Total Liabilities	23,468	18,384
Fund balance - lawyers	27,489	33,256
Fund balance - paralegals	861	946
Total Fund Balance	28,350	34,202
Total Liabilities and Fund Balance	51,818	52,586



**Errors & Omissions Insurance Fund
Statement of Financial Position**

Unaudited

Stated in thousands of dollars

As at March 31

	2022	2021
Assets		
Current Assets		
Cash	654	665
Short-term investments	-	588
Accounts receivable	42,807	42,780
Prepaid E&O premiums incurred	81,971	81,414
Total Current Assets	125,432	125,447
Investment in subsidiary	35,642	35,642
Portfolio investments	22,518	21,936
Total Assets	183,592	183,025
Liabilities and Fund Balance		
Current Liabilities		
Due to LawPRO	63,669	64,598
Unearned E&O premiums recovered	63,307	61,965
Total Current Liabilities	126,976	126,563
Fund Balance	56,616	56,462
Total Liabilities and Fund Balance	183,592	183,025



Errors and Omissions Insurance Fund
Schedule of Revenues and Expenses and Change in Fund Balance

Unaudited

Stated in thousands of dollars

For the three months ended March 31

	2022 Actual	2021 Actual
REVENUES		
Insurance premiums and levies	26,664	26,681
Investment income	43	131
Change in fair value of investments	(1,004)	945
Total revenues	25,703	27,757
EXPENSES		
Insurance	26,664	26,681
Total expenses	26,664	26,681
Excess of revenues over expenses (expenses over revenues)	(961)	1,076
Interfund transfers	-	-
Change in fund balance	(961)	1,076
Fund balance, beginning of year	57,577	55,386
Fund balance, end of period	56,616	56,462

FOR INFORMATION

Investment Compliance Reports For the Quarter ended March 31, 2022

The Committee recommends the Investment Compliance Reports for the quarter ended March 31, 2022 be received by Convocation for information.

Under section 5 of the Law Society Investment Policy (“Policy”) available at [Tab 6.2.1](#), Law Society Management shall report quarterly to the Committee on compliance with the Policy.

The Law Society, and its investment manager, have complied with the investment objectives of the Policy for the quarter ending March 31, 2022, as set out in the reports at:

- [Tab 6.2.2](#): Investment Compliance Report – Short Term Investments – Q1
- [Tab 6.2.3](#): CCL Investment Compliance Report – Q1

FINANCE POLICIES & PROCEDURES	
Subject: Investment Policy	
Effective Date:	Contact: Director, Finance
Policy Issue Date: June 23, 2021	Supersedes: April 26, 2018

Purpose & Background

1. The Law Society has adopted the following Investment Policy governing the management of the General Fund Long-Term Portfolio, the Compensation Fund Long-Term Portfolio and the Errors & Omissions Insurance Fund Long-Term Portfolio ("the Portfolios") as well as the operational investments ("Short-Term Operational Investments"). The Portfolios comprise the funds not required to finance the short-term obligations of the Law Society's operations.
2. The most recently approved revisions were informed by an exercise undertaken by the Law Society to revisit the objectives and risk tolerances of the Portfolios and an asset mix study guided by the Law Society's Investment Advisor.

Accountabilities and Responsibilities

3. Convocation

Convocation shall:

- review and approve the Investment Policy
- approve investment performance objectives
- approve the appointment and continuing retention of the Portfolio Manager and Custodian
- receive periodic reports on the Portfolios' investment returns, and the administration of the Portfolios in the context of this Policy. This shall be done on at least an annual basis.

4. Audit & Finance Committee

The Audit & Finance Committee shall:

- review and recommend approval of the Investment Policy to Convocation
- review the Portfolios and monitor their performance
- review and recommend the appointment and continuing retention of the Investment Advisor, Portfolio Manager and Custodian
- review and recommend investment performance objectives
- periodically report to Convocation on the investment returns of the Portfolios, and the administration of the Portfolios. This shall be done on at least an annual basis.

5. Law Society Management

Law Society management, supplemented by professional assistance when required, has overall responsibility for:

- preparing and recommending changes to the Policy
- recommending the selection of the Investment Advisor, Portfolio Manager and Custodian
- recommending investment performance objectives

- monitoring the Portfolios to ensure compliance with legislative requirements and this policy
- periodically evaluating the Investment Advisor, Portfolio Manager and Custodian
- accounting for transactions in the Portfolios
- reviewing the Portfolios' investment returns and the administration of the Portfolios in the context of this policy. This shall be done on at least a quarterly basis.
- periodically report to Audit & Finance Committee on the investment returns of the Portfolios, and the administration of the Portfolios. This shall be done on at least an annual basis
- manage Short-Term Operational Investments within the context of this policy

6. **Investment Advisor**

The Investment Advisor shall provide investment advisory services including:

- Performance and compliance monitoring typically through the provision of detailed monitoring reports
- Reviewing the Investment Policy annually and making recommendations to ensure that it is up to date, relevant for a not-for-profit in a regulatory environment such as the Law Society and reflects industry and legislated standards.
- Preparing special manager and market alerts and reports on trends and issues of interest
- Assisting the Audit & Finance Committee in the fulfillment of its duties.

7. **Portfolio Manager**

The Portfolio Manager directs the business of the Portfolios' purchases and sales, has full investment discretion subject to the Investment Policy, and has responsibility for:

- Managing the Portfolios in terms of this Investment Policy, and in the best interests of the Law Society
- Providing compliance reporting to the Law Society on a quarterly basis on adherence to this Investment Policy
- Adhering to the best standards of industry practice
- Required communications as described in Section 59

8. **Custodian**

The Custodian shall:

- store and protect all ownership documentation for the Portfolios
- execute all transactions for the Portfolios as directed by the Portfolio Manager
- collect all income of the Portfolios
- provide monthly statements to the Law Society
- make all required filings to government, regulatory, taxation or other authorities

and shall be one of the following:

- A bank listed in Schedule I or II of the Bank Act (Canada)
- A trust company that is incorporated under the laws of Canada, and that has shareholders' equity of not less than \$10,000,000
- A company that is incorporated under the laws of Canada and that is an affiliate of a bank or trust company referred to above and has shareholders' equity, of not less than \$10,000,000.

Philosophy

9. The Law Society is of the belief that:
- superior rates of return over longer time periods will be achieved through active management of a broadly diversified portfolio of high-quality securities
 - high-risk securities, which could lead to excessive volatility and the possibility of a reduction in the capital value of the Portfolios in a depressed market, are to be avoided
 - extreme positions in either individual securities or in an asset class are to be avoided

Business Characteristics

10. In order to establish an appropriate Investment Policy for the Portfolios, the following characteristics of the Law Society, relevant to the Portfolios, are noted.
- The Law Society is the governing body of Ontario's legal profession
 - Governance of the Law Society is regulated by *The Law Society Act*
 - The Law Society is a not-for-profit corporation and is not subject to income or capital taxes
 - The primary revenue source for both the General Fund and the Compensation Fund are licensee annual fees, mainly received between January and April of each year
 - The primary revenue source for the E&O Fund is premiums and levies from licensees mainly received in the period November to January
 - Withdrawals from the Portfolios will depend on operating conditions and capital requirements and therefore the Portfolios should be sensitive to short-term volatility.

Portfolio Purpose & Characteristics

11. The General Fund serves as the Law Society's operating fund for program delivery and administrative activities. The purpose of the General Fund Portfolio is to serve as a contingency fund for the operations of the Law Society.
12. The Compensation Fund serves to relieve or mitigate losses incurred by the public in consequence of dishonesty on the part of a licensee. The purpose of the Compensation Fund Portfolio is to fund claims activity in excess of short-term funds. It is a discretionary fund established under the *Law Society Act*, and claim payments have a maximum of \$500,000 for lawyers and \$10,000 for paralegals.
13. The Errors & Omissions Insurance Fund ("E&O Fund") collects insurance premiums from licensees and remits amounts to LAWPRO. The E&O Fund Portfolio predominantly represents the accumulated balance of the E&O Fund less the Law Society's investment in LAWPRO.
14. The Short-Term Operational Investments finance the short-term obligations of the Law Society's operations.

Objectives

15. The primary objective is to preserve and enhance the real capital base of the Portfolios.
16. The secondary objective is to generate investment returns to assist the Law Society in funding its programs.
17. Even with the guidelines outlined in this Policy, the investment returns from the Portfolios will vary from year to year, reflecting market and economic conditions, levels of inflation, government policies and many other factors which are beyond the control of the Portfolio Manager. These outside factors should not deter the Portfolio Manager from exercising due diligence and using its best efforts to achieve the long-term primary investment objective for the Portfolios as set out above, and the following benchmarks:
 - By asset class
 - to outperform the appropriate market index return over a complete market cycle
 - By benchmark portfolio
 - To outperform the target asset mix benchmark as defined for each Fund in the Asset Mix and Rebalancing section below over a four-year moving average or complete market cycle

Liquidity Requirements

18. The General Fund Portfolio should be positioned to fund unbudgeted expenditures which are unpredictable in size and timing.
19. The Compensation Fund Portfolio's liquidity requirements comprises lumpy and unpredictable claims activity. The magnitude of cash outflows can vary affecting liquidity requirements, although generally there is lead time between the receipt of claims and grant payments. The Compensation Fund Portfolio generally requires more liquidity than the General Fund Portfolio.
20. The E&O Fund Portfolio is used to fund annual disbursements to the operating budget (funding up to \$1.2 million). It is possible that a significant portion of the E&O Fund Portfolio will need to be liquidated within one to three years and it therefore requires more liquidity than the Compensation Fund.

Investment Time Horizon

21. The Law Society takes a long-term approach towards investing the General Fund Portfolio while acknowledging that liquidity may be required from time to time.
22. The Law Society takes a long-term approach towards investing the Compensation Fund Portfolio while acknowledging that liquidity may be required from time to time.
23. The Law Society takes a shorter-term approach towards investing the E&O Fund Portfolio due to the uncertainty around liquidity requirements.

Risk Tolerance

General Fund

24. The Law Society characterizes the financial capacity of the General Fund Portfolio to withstand volatility as 'higher than average', but the organization's willingness to withstand volatility as somewhat lower. The General Fund Portfolio has a higher tolerance for risk than the Compensation Fund.
25. Recognizing the uncertainty inherent in capital markets, the Law Society would generally be willing to tolerate an approximate loss of 9% in a given year in its pursuit of investment returns. The largest tolerable loss over five-year horizon is somewhat lower.

Compensation Fund

26. The Law Society characterizes the financial capacity of the Compensation Fund Portfolio to withstand volatility as 'higher than average', but the organization's willingness to withstand volatility as somewhat lower, and specifically lower than the General Fund Portfolio.
27. Recognizing the uncertainty inherent in capital markets, the Law Society would generally be willing to tolerate a loss of around 5% in a given year in its pursuit of investment returns. The largest tolerable loss over five-year horizon is somewhat lower.

E&O Fund

28. The Law Society characterizes the financial capacity of the E&O Fund Portfolio to withstand volatility as 'lower than average', and the organization's willingness to withstand volatility as low.
29. Recognizing the uncertainty inherent in capital markets, the Law Society would generally be willing to tolerate a loss of around 5% in a given year in its pursuit of investment returns. The largest tolerable loss over five-year horizon is somewhat lower.

Portfolio Manager

30. To achieve the portfolio objectives, the Law Society will retain the services of a firm registered as Investment Fund Manager and Portfolio Manager with the Ontario Securities Commission to manage the investment Portfolios on a discretionary basis within the constraints outlined in this document.

Asset Mix & Rebalancing

31. The following asset mix guidelines, based on market values, constitute the acceptable range of exposure for the various asset classes, which comprise each Portfolio:

General Fund Portfolio

Cash and Short-Term	0%	0%	15%	FTSE Canada 91-Day T-Bill Index
Bonds	35%	50%	60%	FTSE Canada Short-Term Overall Bond Index
Total Fixed Income	40%	50%	60%	
Canadian Equity	7%	17%	27%	S&P/TSX Capped Composite Index
Global Equity	23%	33%	43%	MSCI World Net Index (CAD)
Total Equity	40%	50%	60%	

Compensation Fund Portfolio

Cash and Short-Term	0%	0%	15%	FTSE Canada 91-Day T-Bill Index
Bonds	50%	65%	75%	FTSE Canada Short-Term Overall Bond Index
Total Fixed Income	55%	65%	75%	
Canadian Equity	2%	12%	22%	S&P/TSX Capped Composite Index
Global Equity	13%	23%	33%	MSCI World Net Index (CAD)
Total Equity	25%	35%	45%	

E&O Fund Portfolio

Cash and Short-Term	0%	0%	15%	FTSE Canada 91-Day T-Bill Index
Bonds	55%	70%	80%	FTSE Canada Short-Term Overall Bond Index
Total Fixed Income	60%	70%	80%	
Canadian Equity	0%	10%	20%	S&P/TSX Capped Composite Index
Global Equity	10%	20%	30%	MSCI World Net Index (CAD)
Total Equity	20%	30%	40%	

32. The Portfolio Manager will rebalance the Portfolios within the allowable ranges on a regular basis.

33. The Short-Term Operational Investments will be invested in cash and short-term investments. Law Society Management has the discretion to allocate the funds between the Portfolio Manager's money market pooled fund and the Law Society's bank accounts.

Diversification

34. The investment risk of the Portfolios shall be reduced by maintaining a diversified selection of industries and companies which places primary emphasis on value, long-term growth, and safety of capital. All percentages are based on market values, except where indicated.

Short-Term Investments

35. Short-term investments may be held as separate short-term investments or in the Portfolios when appropriate as an alternative to bond and equity investments. The maximum term to maturity for short-term investments is 1 year, except for floating rate notes (FRNs) whose term to maturity may be longer than 1 year. In managing FRNs, the "effective term to maturity" is considered, where the maximum term is 3 months. Appropriate short-term investments are:

- (a) Treasury bills issued by the Government of Canada and provincial governments and their agencies
- (b) Obligations of trust companies and Canadian and foreign banks chartered to operate in Canada, including bankers' acceptances

- (c) Commercial paper issued by Canadian corporations with a rating of "R1 low" or better as established by The Dominion Bond Rating Service or equivalent rating by another recognized bond rating service, at the time of purchase.

36. No more than 10% of each of the portfolios may be invested in the securities of any one single issuer permitted in 34(b) and (c) above.

37. Where the Portfolio Manager operates a pooled money market fund, which meets the requirements set out in 34(a), (b) and (c), this pooled money market fund may be used as an alternative in order to achieve better rates and liquidity.

Bonds

38. Investment instruments allowed include:

- bonds, debentures, notes, coupons, asset-backed securities, Tier 1 capital securities, structured notes, non-convertible preferred stock, term deposits, derivatives, guaranteed investment certificates and other evidence of indebtedness of Canadian or foreign issuers
- NHA-insured mortgage-backed securities or collateralized mortgage-backed securities
- Marketable private placements of bonds.

39. Each bond portfolio may be invested within the following parameters:

Bond Holdings	Maximum
Federal and Federally Guaranteed Bonds	100%
Provincials and Provincially Guaranteed Bonds	80%
Municipals	10%
Total Non-Government Bonds	70%
Mortgage-backed securities	25%
Asset-backed securities	25%
Total Corporate Issues	65%
Total BBB Issues with Corporate issues	20%
Cash or Money Market*	25%

* Cash or Money Market excludes any cash designated to collateralize derivatives exposure

40. Investment in any one security or issuer shall not exceed 10% of each Bond portfolio with the exception of Government of Canada and provincial government bonds and their guarantees.

41. In line with the benchmark portfolio of the FTSE Canada Short Term Overall Bond Index, the normal Duration range for the bond portfolio administered under this policy should be between 1 and 5 years. The Duration of a portfolio is a measure of the portfolio's sensitivity to changes in the general level of interest rates (Duration multiplied by change in interest rates gives change in value of bond portfolio).

42. The emphasis within the bond portfolio will be on quality, with a minimum rating "BBB-" for bonds and debentures or "P2" for preferred shares by The Dominion Bond Rating Service or equivalent rating by another recognized bond rating service, at the time of purchase.
43. In the event of a downgrade below "BBB-" for bonds and debentures, "P2" for preferred shares or "R-1 low" for short-term investments, the Portfolio Manager will advise of an appropriate course of action.
44. In cases where the recognized bond rating agencies do not agree on the credit rating, the bond will be classified according to the methodology used by FTSE, which states:
- If two agencies rate a security, use the lower of the two ratings
 - If three agencies rate a security, use the most common; and
 - If all three agencies disagree, use the middle rating.
45. In the event that an issuer is no longer rated by a recognized bond rating agency, the securities held will no longer be considered to be investment grade and the Portfolio Manager will place the asset on a watch list subject to monthly review by the Portfolio Manager with the Law Society until such time as the security matures, is sold or until it is upgraded to a level consistent with the purchase quality standards as expressed in the guidelines listed above.
46. Derivative instruments will only be used in ways that are consistent with the portfolio's investment objectives. The underlying exposures facilitated through the use of derivatives will be incorporated into the portfolio's constraints detailed above. Counterparty risk arising from derivative transactions will be limited to credits rated "A-" or better. Instruments used may include but are not limited to futures, forwards, options, and swaps. Derivatives cannot be used to facilitate or effect the borrowing of money.

Equities

47. The intent is to provide a diversified selection of Canadian and global common stocks, also allowing any of the following, provided that they are listed on a recognized stock exchange:
- Convertible preferred stock and convertible debentures
 - Real estate investment trusts ("REITs").
48. The market value of any one issuer cannot represent more than 10% of the market value of the asset class, or that equity's weight in the respective benchmark (S&P/TSX Capped Composite Index or MSCI World Index), whichever is greater.

Other Investments

49. Investments in open or closed-ended pooled or mutual funds are permitted provided that the assets of such funds are permissible investments under this Policy.
50. Deposit accounts of the custodian or Schedule 1 banks can be used to invest surplus cash holdings.
51. With the exception of rights, warrants and special warrants or instruments used for exposure purposes, no derivative investments will be permitted without the prior written approval of the Audit & Finance Committee.

52. No venture capital financing or non-conventional investments will be permitted without the prior written approval of the Audit & Finance Committee.

53. In the event any investment has no active market, the Portfolio Manager will advise of an appropriate course of action for the valuation of that investment.

Discretion

54. The Law Society must approve the use of any pooled funds. The Portfolio Manager is to have full discretion in the management of the assets of the Portfolios, selecting the appropriate asset mix, and the individual securities, within the guidelines set out herein.

Delegation of Voting Rights

55. The Portfolio Manager has been delegated the responsibility of exercising all voting rights acquired through the Portfolios' investments. The Portfolio Manager will exercise acquired voting rights with the intent of fulfilling the investment policies and objectives of the Fund. The Portfolio Manager is expected to act in good faith and to exercise the voting rights in a prudent manner that will maximize returns for the Portfolios, and to act against any proposal which will increase the risk level or reduce the investment value of the relevant security.

Performance Monitoring

56. The Audit & Finance Committee will monitor the performance of the Portfolio Manager semi-annually.

57. If the Portfolio Manager fails to achieve the objective over six consecutive quarters, the Audit & Finance Committee will consider if a review is required.

58. The Audit & Finance Committee will consider reviewing the Portfolio Manager when one or more of the following circumstances prevail:

- the Portfolio Manager's short-term underperformance is found to be a result of a change in the Portfolio Manager's investment style, process or discipline or a change in the key investment personnel;
- there is a significant change in the risk profile of the Portfolio Manager;
- the Portfolio Manager's investment style is no longer appropriate given the requirements of the Portfolios;
- the Portfolio Manager's reporting and client service are unsatisfactory; or
- the Audit & Finance Committee has concerns regarding the Portfolio Manager's ethics.

Communications

59. The Communications process between the Portfolio Manager and Law Society Management is flexible, but at a minimum will include the following:

- monthly transaction statements
- a quarterly written summary listing of all portfolio transactions from the Portfolio Manager
- a complete quarterly portfolio listing
- a quarterly written assessment of the North American economies and the financial markets, and impact on the Portfolios
- annual investment meetings with the Law Society. The agenda at these meetings would include an overview of the economy and the outlook for the financial markets, the current investment strategy, and a review of the performance results
- an annual review of the Investment Policy and the Portfolios' quality and diversification guidelines.
- timely notification of changes with respect to the organization, key investment professionals or investment process.

60. Any time that the Portfolio Manager is not in compliance with this policy, they are required to advise the Director, Finance and the Executive Director, Finance & Chief Financial Officer ("CFO") of the Law Society promptly, detailing the breach and recommending a course of action to remedy the situation.

61. The Portfolio Manager will promptly communicate to the Law Society any changes to the approved pooled fund policies and guidelines.

Standard of Professional Conduct

62. All investment activities of the Portfolio Manager and their employees shall be conducted in accordance with the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

63. The Portfolio Manager will manage the Portfolios with the care, diligence, and skill that a Portfolio Manager of ordinary prudence would use in dealing with institutional assets. The Portfolio Manager will also use all relevant knowledge and skill that it possesses or ought to possess as a prudent expert in investment management.

Securities Lending

64. No lending of securities is permitted.

Borrowing

65. The Portfolios shall not borrow money.

Conflicts of Interest – Investment Policy

66. Conflict of interest standards apply to all members of Convocation, Law Society management and the Portfolio Manager, as well as to all Agents employed by the Law Society, in the execution of their fiduciary responsibilities.

67. An 'Agent' is defined to mean a company, organization, association or individual, as well as its employees, retained by the Law Society to provide specific services with respect to the administration and management of the Law Society's investment assets.

68. In carrying out their fiduciary responsibilities, these parties must act at all times in the best interests, and for the benefit, of the Law Society. All parties must act in the manner that a "prudent person" would in matters related to the investment strategy and portfolio management.
69. No affected person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from an individual with whom the person deals in the course of performance of his or her duties and responsibilities.
70. In the execution of their duties, all of the parties listed in Section 66 above shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased decisions, as it relates to the administration of the investment assets.
71. Further, it is expected that none of the parties listed in Section 66 above shall make any personal financial gain (direct or indirect) because of their fiduciary position. However, normal and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved by the Law Society.
72. It is incumbent on any party affected by this Policy who believes that he/she may have a material conflict of interest, or who is aware of any conflict of interest, to notify the CEO or the CFO of the Law Society. Disclosure should be made promptly after the affected person becomes aware of the conflict. The CEO or CFO, in turn, will decide what action is appropriate under the circumstances but, at a minimum, will table the matter at the next regular meeting of the Audit & Finance Committee.
73. No affected person who has or is required to make a disclosure as contemplated in this Policy shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.

Changes to Policy

74. This Investment Policy may only be changed by Convocation on the specific recommendation of the Audit & Finance Committee.

Statement of Investment Compliance
Short-Term Investments
As at March 31, 2022

Short-Term Investment Parameters	Guidelines	Compliance
Allowable Investments		
Treasury bills issued by the Government of Canada, Provincial governments, and their agencies	Allowed	Yes
Bankers acceptances	Allowed	Yes
Commercial paper issued by Canadian corporations with a rating of "R1 low" or better as established by The Dominion Bond Rating service or equivalent rating	Allowed	Yes
Pooled Money Market Fund	Allowed	Yes
Concentration Tests		
Securities of any one single issuer	Maximum 10% of each	Yes
Maximum term to maturity	1 year	Yes



Christianne Abou-Saab
Director, Finance

March 31, 2022

All percentages set out below are based on market values except if noted otherwise.

Law Society of Ontario

Concentration Tests	Guidelines	Actual	Compliance	
Cash				
Cash as a % of the CC&L Short Term Bond Fund (excluding any cash designated to collateralize derivatives exposure)		25.0 %	13.32 %	Yes
Fixed Income				
Single corporate issuer (excluding Schedule 1 Banks) as a % of the CC&L Group Money Market Fund		10.0 %	3.65 %	Yes
Government of Canada and guaranteed bonds as a % of the CC&L Short Term Bond Fund		100.0 %	60.30 %	Yes
Provincial securities as a % of the CC&L Short Term Bond Fund		80.0 %	0.00 %	Yes
Municipal securities as a % of the CC&L Short Term Bond Fund		10.0 %	0.00 %	Yes
Non-government securities as a % of the CC&L Short Term Bond Fund		70.0 %	26.60 %	Yes
Mortgage-backed securities as a % of the CC&L Short Term Bond Fund		25.0 % max	0.00 %	Yes
Asset-backed securities as a % of the CC&L Short Term Bond Fund		25.0 % max	0.00 %	Yes
Corporate bonds as a % of the CC&L Short Term Bond Fund		65.0 % max	26.60 %	Yes
Corporate bonds with a BBB credit rating as a % of the CC&L Short Term Bond Fund		20.0 % max	17.20 %	Yes
Single corporate issuer (excluding Schedule 1 Banks) as a % of the CC&L Short Term Bond Fund		10.0 % max	3.00 %	Yes
Duration of the CC&L Short Term Bond Fund	1.0 yrs to	5.0 yrs	2.80 yrs	Yes
Equities				
Securities of a single issuer for the global equity portfolio will not exceed the greater of 10% of the market value of the total global equity portfolio or that equity's weight in the MSCI World Index				Yes
Securities of a single issuer for the Canadian equity portfolio will not exceed the greater of 10% of the market value of the total Canadian equity portfolio or that equity's weight in the S&P/TSX Capped Composite Index				Yes
Total Portfolio				
Leverage is prohibited				Yes
Exclusion Tests			Compliance	
Cash				
Maximum effective term to maturity of Floating Rate Notes cannot exceed 3 months				Yes
Maximum term to maturity of short term securities (excl FRNS) cannot exceed 1 year				Yes
Cash securities must have a minimum R1-Low credit rating at time of purchase				Yes
Fixed Income				
Minimum BBB- credit rating allowed				Yes
Minimum P2 preferred share rating allowed				Yes

All percentages set out below are based on market values except if noted otherwise.

Law Society of Ontario (General Fund)

Concentration Tests	Min	Target	Max	Actual	Compliance
Asset Mix					
Fixed income as a % of the total portfolio	40.0 %	50.0%	60.0 %	49.2 %	Yes
Total Equities as a % of the total portfolio	40.0 %	50.0%	60.0 %	50.8 %	Yes
NS Partners Global Equity Fund as a % of the total portfolio	23.0 %	33.0%	43.0 %	32.6 %	Yes
CC&L Canadian Equity Fund as a % of the total portfolio	7.0 %	17.0%	27.0 %	18.3 %	Yes
CC&L Group Money Market Fund as a % of the total portfolio	0.0 %	0.0%	15.0 %	0.0 %	Yes
CC&L Short Term Bond Fund as a % of the total portfolio	35.0 %	50.0%	60.0 %	49.2 %	Yes

All percentages set out below are based on market values except if noted otherwise.

Law Society of Ontario (Compensation Fund)

Concentration Tests	Min	Target	Max	Actual	Compliance
Asset Mix					
Fixed income as a % of the total portfolio	55.0 %	65.0%	75.0 %	64.3 %	Yes
Total Equities as a % of the total portfolio	25.0 %	35.0%	45.0 %	35.7 %	Yes
NS Partners Global Equity Fund as a % of the total portfolio	13.0 %	23.0%	33.0 %	22.7 %	Yes
CC&L Canadian Equity Fund as a % of the total portfolio	2.0 %	12.0%	22.0 %	13.0 %	Yes
CC&L Group Money Market Fund as a % of the total portfolio	0.0 %	0.0%	15.0 %	0.0 %	Yes
CC&L Short Term Bond Fund as a % of the total portfolio	50.0 %	65.0%	75.0 %	64.3 %	Yes

All percentages set out below are based on market values except if noted otherwise.

Law Society of Ontario (Errors & Omissions)

Concentration Tests	Min	Target	Max	Actual	Compliance
Asset Mix					
Fixed income as a % of the total portfolio	60.0 %	70.0%	80.0 %	69.5 %	Yes
Total Equities as a % of the total portfolio	20.0 %	30.0%	40.0 %	30.5 %	Yes
NS Partners Global Equity Fund as a % of the total portfolio	10.0 %	20.0%	30.0 %	19.8 %	Yes
CC&L Canadian Equity Fund as a % of the total portfolio	0.0 %	10.0%	20.0 %	10.7 %	Yes
CC&L Group Money Market Fund as a % of the total portfolio	0.0 %	0.0%	15.0 %	0.0 %	Yes
CC&L Short Term Bond Fund as a % of the total portfolio	55.0 %	70.0%	80.0 %	69.5 %	Yes