



TAB 6

**Report to Convocation
September 27, 2018**

Audit & Finance Committee

Committee Members

Teresa Donnelly (Chair)
Christopher Bredt (Vice-Chair)
Suzanne Clément (Vice-Chair)
Peter Beach
Janis Criger
Seymour Epstein
David Howell
Vern Krishna
Brian Lawrie
Cathy Strosberg
Tanya Walker
Heather Zordel

Prepared by the Finance Department
Brenda Albuquerque-Boutilier, Executive Director & CFO, 416-947-3436 or
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COMMITTEE PROCESS

1. The Audit & Finance Committee (“the Committee”) met on September 12, 2018.
2. Committee members in attendance were Teresa Donnelly (Chair), Chris Bredt (Vice-Chair), Suzanne Clément (Vice Chair), Peter Beach (phone), Janis Criger, Seymour Epstein, David Howell, Cathy Strosberg, and Heather Zordel.
3. Others in attendance were Treasurer Malcolm Mercer and Anne Vespry.
4. Law Society staff in attendance: Diana Miles, Brenda Albuquerque-Boutilier, Fred Grady and Andrew Cawse.
5. Also in attendance: Geoff Owen (Foresight Strategic Advisory), Blair Manktelow (Eckler), Dan Pinnington (LAWPRO) and Steve Jorgensen (LAWPRO).

TAB 6.1

FOR INFORMATION
LAWYERS' PROFESSIONAL INDEMNITY COMPANY FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2018

6. **Convocation is requested to receive the second quarter financial statements for LAWPRO for information.**
7. The Law Society provides mandatory professional liability insurance to lawyers through LAWPRO, a provincially licensed insurer and wholly-owned subsidiary of the Law Society. There is a quarterly financial reporting schedule to the shareholder. These interim statements convey the performance of LAWPRO before the end of the year.
8. The professional liability insurance program generally requires practising lawyers to pay premiums and levies to the Errors & Omissions (E&O) Fund that contribute toward the premium paid by the Law Society to fund the anticipated costs of professional liability claims made in each annual policy period.
9. Paralegals typically obtain this form of coverage through independent insurance companies. In addition to providing mandatory lawyers professional liability insurance, LAWPRO also sells optional excess lawyers professional liability and title insurance.
10. LAWPRO administers the operations of the E&O Fund at no charge, under an administrative services agreement.
11. Each September, LAWPRO reports to Convocation on changes to the Law Society's professional liability insurance program for the following calendar year. The timing of this report is necessitated by the logistics of renewing over 24,000 policies effective January 1, and the need to negotiate and place any related or corollary reinsurance treaties. This report is also an opportunity for LAWPRO's Board to review with Convocation issues of importance to its insurance operations and receive policy direction where necessary.
12. As an information item, the interim financial statements have no direct financial impact but LAWPRO's financial results in 2018 influence insurance premiums in future years. The base premium for professional liability insurance coverage for Ontario lawyers is \$2,950 in 2018. The annual policy limits for each of the years effective January 1, 1995 to December 31, 2018 have been \$1 million per claim and \$2 million in aggregate per member.
13. The statements have been approved by LAWPRO's Board. Dan Pinnington, President & CEO and Steve Jorgensen, Chief Financial Officer will be in attendance.



Report to the
Audit and Finance Committee of
The Law Society of Ontario
September 12, 2018



***Report to the Audit and Finance Committee – Law Society
September 12, 2018***

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KEY POINT SUMMARY

- LAWPRO has sufficient assets to discharge its claims and other liabilities.
- At June 30, 2018, LAWPRO held investment assets totaling \$689.3 million, inclusive of cash and cash equivalents and investment income due and accrued. These funds have been invested in accordance with the Company's investment policy. LAWPRO was in compliance with its policy during the six months ended June 30, 2018 (see pages 11 and 12).
- LAWPRO's net income for the six months ended June 30, 2018 was \$5.5 million compared to a budgeted income of \$0.2 million and a net income of \$1.0 million for the same period in 2017. During the six months ended June 30, 2018 LAWPRO experienced a total comprehensive income of \$1.1 million, which reflects a decrease in unrealized gains of \$4.4 million on its surplus investments, compared to a budgeted income of \$1.4 million and a loss of \$3.6 million for the same period in 2017.
- Overall, earned premiums on the mandatory program of \$47.9 million were \$1.1 million below budgeted levels, primarily due to real estate transaction levies being \$1.2 million lower than budget. Investment income of \$11.5 million for the six months of 2018 was higher than budgeted levels by \$2.1 million, mainly due to \$4.4 million of realized gains. Current year investment income was below the results for the same period in 2017 by \$3.6 million, primarily due to the sizable realized gains in the prior period.
- Claims and adjustment expenses for the six months ended June 30, 2018 of \$42.9 million were \$9.6 million lower than budget and \$12.2 million lower than the same period last year, primarily due to \$9.9 million more favourable prior year development in the E&O program experienced during 2018. General expenses for the six months ended June 30, 2018 of \$11.0 million were \$0.1 million higher than budget and \$1.0 million higher than the same period in 2017.
- LAWPRO is in compliance with all regulatory requirements regarding solvency and filing of financial information. A summary of LAWPRO's position with respect to its Risk Appetite Statement (including standard insurance ratios) at June 30 is included on page 10.

Lawyers' Professional Indemnity Company
STATEMENT OF FINANCIAL POSITION

Stated in thousands of Canadian dollars

UNAUDITED

	As at June 30 2018	As at December 31 2017
Assets		
Cash and cash equivalents	14,975	20,245
Investments	671,607	656,551
Investment income due and accrued	2,756	2,852
Due from reinsurers	451	309
Due from insureds	3,665	1,882
Due from the Law Society of Ontario	46,045	6,998
Reinsurers' share of provisions for:		
Unpaid claims and adjustment expenses	38,526	39,495
Unearned premiums	3,615	-
Deferred policy acquisition expenses	1,732	-
Other receivables	3,465	3,167
Other assets	2,034	2,097
Property and equipment	1,839	1,764
Intangible asset	548	658
Income taxes recoverable	2,588	1,825
Deferred income tax asset	5,486	5,606
Total assets	799,332	743,449
Liabilities		
Provision for unpaid claims and adjustment expenses	479,838	485,088
Unearned premiums	58,958	1,068
Unearned reinsurance commissions	765	-
Due to reinsurers	2,422	720
Due to insureds	56	220
Expenses due and accrued	2,131	2,217
Other taxes due and accrued	373	458
	544,543	489,771
Equity		
Capital stock	5,000	5,000
Contributed surplus	30,645	30,645
Retained earnings	188,246	182,716
Accumulated other comprehensive income	30,898	35,317
Total liabilities and equity	799,332	743,449

Lawyers' Professional Indemnity Company
STATEMENT OF PROFIT OR LOSS

Stated in thousands of Canadian dollars

UNAUDITED

<u>For six months ended June 30</u>	<u>2018</u>	<u>2017</u>
Income		
Gross written premiums	112,207	111,399
Premiums ceded to reinsurers	<u>(7,178)</u>	<u>(7,127)</u>
Net written premiums	105,029	104,272
(Increase)/decrease in unearned premiums	<u>(54,275)</u>	<u>(52,080)</u>
Net premiums earned	50,754	52,192
Net investment income	11,455	15,064
Ceded commissions	948	738
	<u>63,157</u>	<u>67,994</u>
Expenses		
Gross claims and adjustment expenses	44,548	56,996
Reinsurers' share of claims and adjustment expenses	<u>(1,623)</u>	<u>(1,910)</u>
Net claims and adjustment expenses	42,925	55,086
Operating expenses	11,045	10,076
Premium taxes	1,635	1,677
	<u>55,605</u>	<u>66,839</u>
Profit (loss) before income taxes	<u>7,552</u>	<u>1,155</u>
Income tax expense/(recovery) - current	1,902	309
- deferred	<u>120</u>	<u>(115)</u>
	2,022	194
Profit (loss)	<u>5,530</u>	<u>961</u>
Other comprehensive income / (loss)		
Unrealized gains/(losses) - bonds	(604)	(707)
- equities	(3,815)	(3,830)
Defined benefit remeasurements	<u>-</u>	<u>-</u>
	<u>(4,419)</u>	<u>(4,537)</u>
Total comprehensive income	<u>1,111</u>	<u>(3,576)</u>

Lawyers' Professional Indemnity Company
STATEMENT OF COMPREHENSIVE INCOME

Stated in thousands of Canadian dollars

UNAUDITED

For six months ended June 30

	2018	2017
Profit (loss)	5,530	961
Other comprehensive income, net of income tax:		
<u>Items that will not be reclassified subsequently to profit or loss:</u>		
Remeasurements of defined benefit plans, net of income tax expense/(recovery) of (\$0) [2017: \$0]	-	-
<u>Items that may be reclassified subsequently to profit or loss:</u>		
<i>Available-for-sale assets</i>		
Net changes unrealized gains/(losses), net of income tax expense/(recovery) of (\$408) [2017: \$6]	(1,130)	(11)
Reclassification adjustment for (gains)/losses recognized in profit or loss, net of income tax (expense)/recovery of (\$1,256) [2017: (\$1,853)]	(3,485)	(5,141)
Reclassification adjustment for impairments, recognized in profit or loss, net of income tax expense of \$70 [2017: \$222]	196	615
Other comprehensive income	(4,419)	(4,537)
Comprehensive income	1,111	(3,576)

Lawyers' Professional Indemnity Company**STATEMENT OF CHANGES IN EQUITY**

Stated in thousands of Canadian dollars

UNAUDITED

	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Equity
Balance at December 31, 2016	5,000	30,645	182,222	35,599	253,466
Total comprehensive income for the year	-	-	616	(404)	212
Transfer of defined benefit remeasurements from OCI to retained earnings			(122)	122	-
Balance at December 31, 2017	5,000	30,645	182,716	35,317	253,678
Total comprehensive income for the year	-	-	5,530	(4,419)	1,111
Transfer of defined benefit remeasurements from OCI to retained earnings			-	-	
Balance at June 30, 2018	5,000	30,645	188,246	30,898	254,789

**LAWYERS' PROFESSIONAL INDEMNITY COMPANY
REPORT TO AUDIT AND FINANCE COMMITTEE - LAW SOCIETY OF ONTARIO
MANDATORY E&O INSURANCE PROGRAM
SIX MONTHS ENDED JUNE 30, 2018**

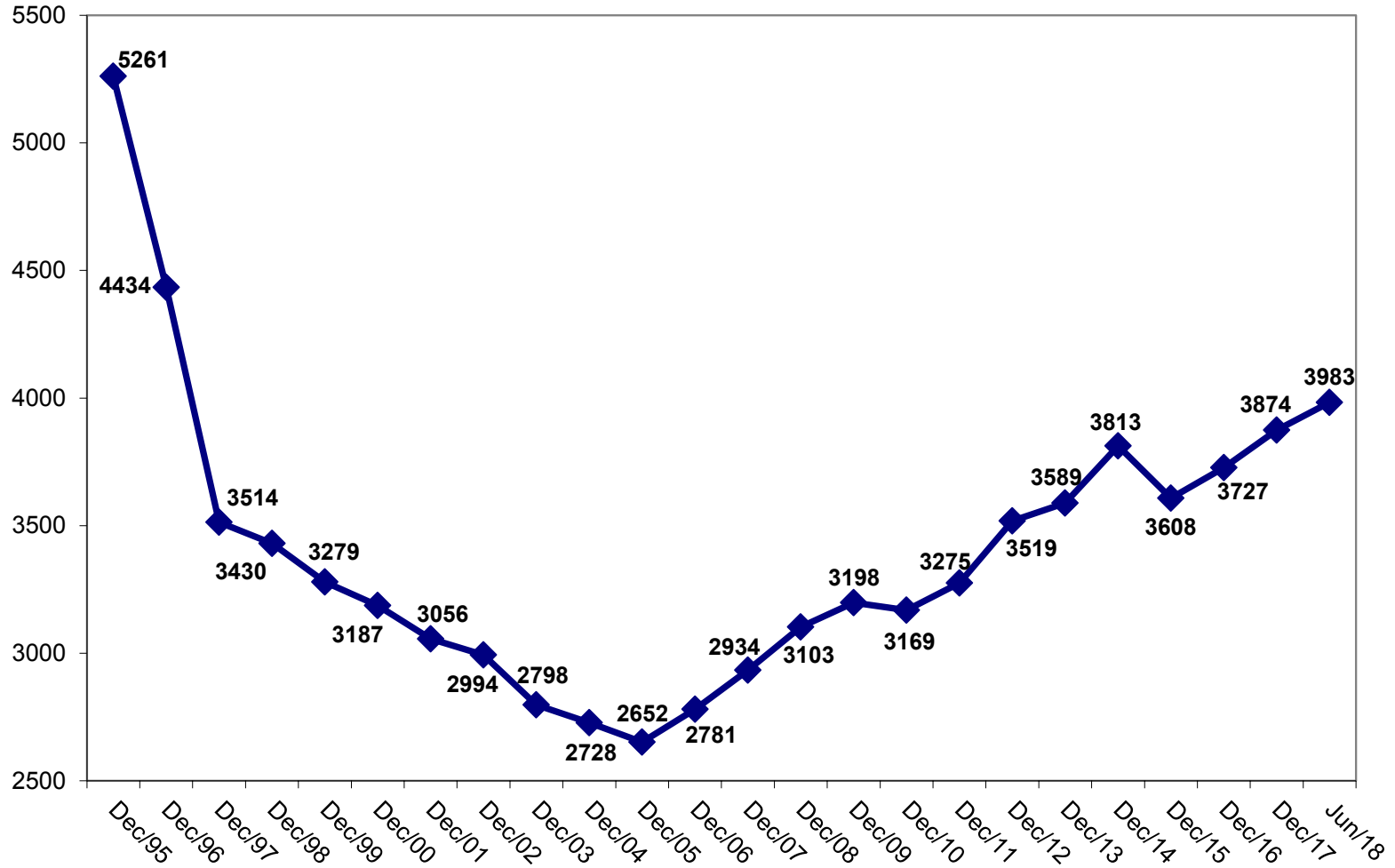
PREMIUMS

- The 2018 Ontario mandatory professional liability program performed slightly below expected levels. At June 30, 2018, there were 26,951 full-time equivalent practitioners, a level which were slightly below the budgeted amount of 27,301, as all of the new calls have not yet been included in the Program.
- For 2018, transaction levies were \$1.2 million below budget and \$0.6 million, below the results for the same period in 2017. Transaction levies collected during the first half of 2018 was \$12.1 million, compared to \$12.7 million collected during the same period prior year.

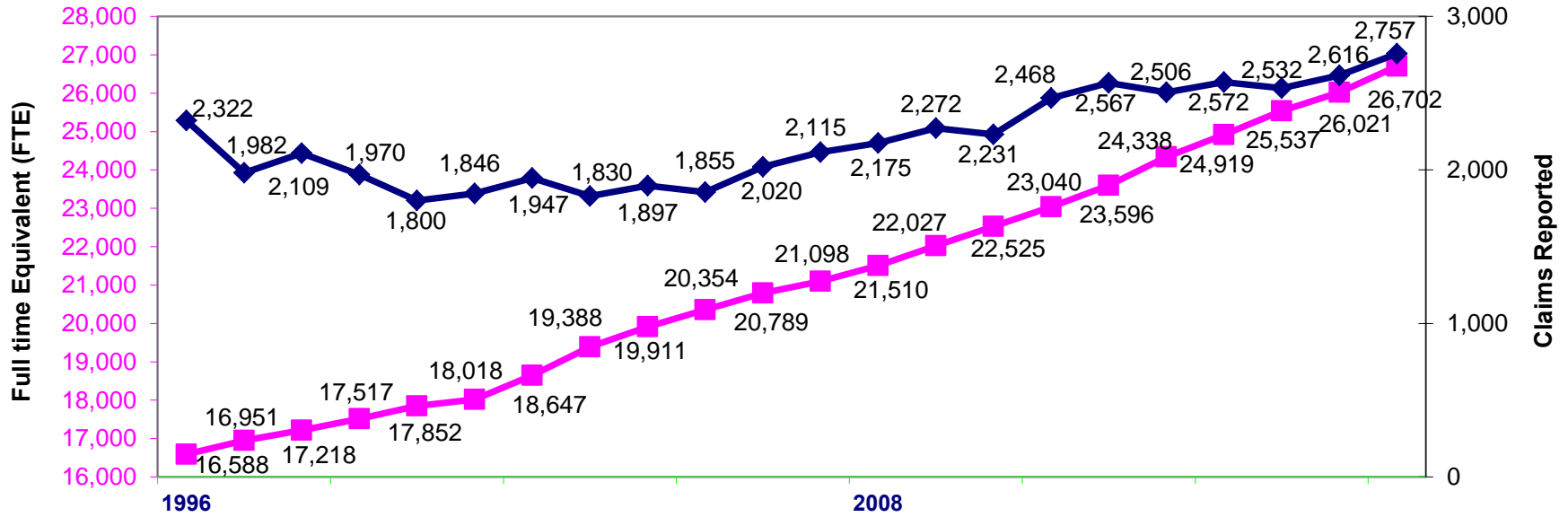
CLAIMS & ADJUSTMENT EXPENSES

- In the year of 2018, there were 1,155 new 2018 fund year claim files reported compared with 1,121 new 2017 fund year claim files reported in 2017.
- The number of files remaining open at June 30, 2018 was 3,983, higher than the 3,889 files remaining open at June 30, 2017.
- For all fund years, 1,476 new files were activated through June 30, 2018 (including 81 which were reopened) and 1,367 closed. The comparable figures for the six months ended June 30, 2017 were 1,525 claims files activated (including 95 which were reopened) and 1,363 closed.
- On an aggregate basis, for the first six months of 2018 there has been a net favorable development on claims of prior years (in particular fund years 2011, 2012, 2016 and 2017, offset somewhat by an unfavourable development for the fund years 2009, 2010 and 2015). Regarding prior year development, in the same period in 2017, there was a net favourable development on claims of prior years (in particular fund years 2015 and 2016, offset somewhat by an unfavourable development for the fund years 2011, 2012 and 2014).

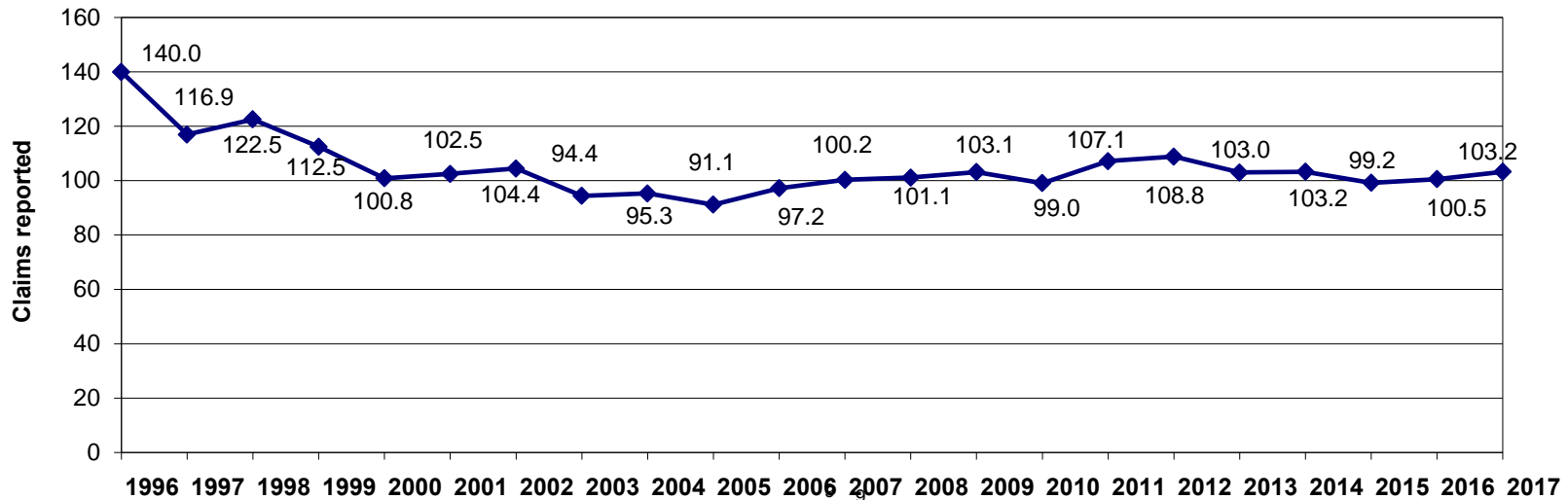
Open Claims (for fund years 1995 and forward)



New Claims Reported & Full Time Equivalents by Fund Year (as at December 31)



Claims reported per 1,000 FTE



INSURANCE RATIOS

TEST	RECOMMENDED TARGET	JUN 2018	DEC 2017	JUN 2017	DEC 2016
I. Solvency Ratios					
1. Minimum Capital Test					
<i>(Measures the excess of capital available to capital required based on a risk-based capital adequacy framework and is used to determine capital adequacy of a company.)</i>	Preferred: 215-240% Minimum: 170%	225%	237%	236%	253%
2. Loss reserves to equity					
<i>(Measures unpaid claim and adjustment reserves as a percentage of surplus and provides a simple test of the leveraged position of the company.)</i>	Preferred: < 225% Maximum: 250%	173%	176%	175%	169%
II. Other Select Ratios					
1. Liabilities as a % of liquid assets					
<i>(Liabilities as a percentage of Cash and other liquid assets-measures company's ability to meet its financial demands.)</i>	Preferred: < 80% Maximum: 105%	73%	67%	73%	65%
2. Net premiums written as a % of surplus					
<i>(Net risk ratio measures the company's ability to absorb financial shocks. The higher the ratio of premiums to surplus, the greater is the potential risk borne by the company in relation to the surplus available to absorb loss variations.)</i>	Preferred: < 80% Maximum: 100%	41%	43%	42%	46%
3. Comprehensive return on equity					
<i>(Measures an insurer's comprehensive income as a percentage of equity. The higher the ratio, the greater the return to shareholders per unit of invested capital. Sustainability of earnings is more important than periods of high returns followed by periods of low returns or losses.)</i>	Greater than 0%	1.0%	0.1%	(2.9%)	6.3%
4. General expense ratio					
<i>(Measures an insurer's general expenses, excluding commissions, as a percentage of net earned premiums.). This ratio should be maintained at lower than or equal to comparable small insurance companies.</i>	Up to small insurance company benchmark (28% as at Dec 2017)	25%	22%	23%	20%
5. Optional business segment					
<i>(Excess program and TitlePLUS title insurance is planned to achieve break-even or better on a trailing 4 year average basis).</i>	Greater than \$0 (stated in '\$000s)	414	670	564	995

Note:

1. Sufficient to maintain/grow MCT.

Better Than Target
Within Target
Outside of Target



CIBC Asset Management Inc.
18 York Street, Suite 1400
Toronto ON M5J 2T8
Tel: 416-364-5620
Fax: 416-364-3286

Confidential

July 25, 2018

Subject: Quarterly Compliance Report as at June 30, 2018
for Lawyers' Professional Indemnity Company

As of and for the quarter ending June 30, 2018, we hereby certify that to the best of our knowledge the investments in the Lawyers' Professional Indemnity Company portfolio were in compliance, based on our records which are issued on a trade date basis, in accordance with the Investment Policy Statement dated January 1, 2018.

Yours truly,

A handwritten signature in black ink, appearing to read "Deborah Lewis", written in a cursive style.

Deborah Lewis, CFA
First Vice-President



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July 23, 2018

Lawyer's Professional Indemnity Company
C/O Mr. Daniel E. Pinnington, President & CEO
250 Yonge Street, Suite 3101
P.O. Box 3
Toronto, Ontario
M5B 2L7

SUBJECT: COMPLIANCE CERTIFICATE

Dear Mr. Pinnington,

This is to confirm that, at the end of each month of the quarter ending June 30, 2018, Letko Brosseau was in compliance with the requirements of the Statement of Investment Policies and Procedures, effective January 1st, 2018. To the best of our knowledge, we have no reason to believe that we were not in compliance with all such requirements at any other time during such period.

Should you require additional information, please do not hesitate to contact us at your convenience.

Regards,

Original letter signed by Peter Letko

Peter Letko
Letko Brosseau & Associates Inc.
PL/mn

TAB 6.2

FOR INFORMATION

**LAW SOCIETY OF ONTARIO FINANCIAL STATEMENTS FOR THE SIX MONTHS
ENDED JUNE 30, 2018**

14. **Convocation is requested to receive the second quarter financial statements for the Law Society for information.**

**Law Society of Ontario Financial Statements
For the six months ended June 30, 2018**

Financial Statement Highlights

15. The Lawyer General Fund shows a surplus of \$3.7 million at the end of the second quarter of 2018, compared to a surplus of \$2.1 million for the same period of 2017. The Paralegal General Fund experienced a deficit of \$308,000 at the end of the second quarter of 2018 compared to a surplus of \$230,000 in the prior year.
16. The 2018 budget planned deficits in the General Funds, allocating \$600,000 from the accumulated surplus investment income in the E&O Fund and \$4.8 million from the Lawyer General Fund to mitigate a fee increase for lawyers. \$2.1 million was allocated from the Paralegal General Fund to mitigate a fee increase for paralegals.
17. The main reason for the positive financial performance compared to budget is that all the major expense categories are under budget with staffing vacancies being a common theme.
18. The Law Society's restricted funds report a surplus of \$2.2 million (2017: \$6.1 million deficit) primarily because of a \$3.4 million surplus in the Lawyer Compensation Fund offset by amortization of \$1.1 million in the Invested in Capital and Intangible Assets Fund.
19. In the 2018 budget, the provision for grant claims in the Lawyer Compensation Fund was set at \$7.7 million, increased by \$4 million from 2017 based on claims incurred data. In addition, a provision of \$5 million was included to restore the fund balance to its policy approved level within three years, sufficient to withstand a 1 in 200 year event. At the end of the second quarter of 2018, this refinancing strategy appears to be working with the fund balance increasing from \$3.3 million at the beginning of the year to \$6.7 million. The latest actuarial report completed in August 2018, establishes the minimum fund balance required by the Fund Balance Management Policy at \$20.4 million.

Background

20. The Financial Statements are prepared under Generally Accepted Accounting Principles for Canadian not-for-profit organizations using the restricted fund method of accounting.
21. The Financial Statements for the six months ended June 30, 2018 comprise the following statements:
 - Balance Sheet
 - 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 Schedules of Revenues and Expenses for the Combined General Fund, Lawyer and Paralegal General Funds, the Compensation Fund and the Errors and Omissions Insurance Fund

Statement of Revenues and Expenses and Change in Fund Balances

22. The Lawyer General Fund had a surplus of \$3.7 million at the end of the second quarter of 2018 (2017: \$2.1 million).
23. The Paralegal General Fund had a deficit of \$308,000 (2017: \$230,000 surplus).
24. The Law Society's restricted funds report a surplus of \$2.2 million for the period (2017: \$6.1 million deficit) due to the surplus in the Lawyer Compensation Fund.

Revenues

25. The 2018 budget incorporated an annual fee increase for lawyers of \$267 and paralegals of \$54 and an increase of 1,000 in the number of full fee equivalent lawyers and an increase of 500 in the number of full fee equivalent paralegals. Annual fees recognized in the first half of \$46.9 million have increased by \$6.7 million due to the increase in licensees and the increases in the annual fees. Annual fee revenue is recognized on a monthly basis.
26. While most elements of the insurance premium are earned evenly over the year, discounts such as e-filing, early payment and CPD are recognized early in the year which can lead to fluctuations in comparative periods and leads to the appearance of lower premiums initially. Overall, the number of insureds is trending up so far in 2018, with new calls during the year to come into the program. LAWPRO's base premium was unchanged from 2017 and transaction levies have decreased slightly from the first half of 2017, leading to E&O Fund premium and levy revenue of \$48.7 million (2017: \$49.7 million).
27. Lawyer licensing process revenues of \$6.9 million were the same as 2017 but exceeded budget by \$786,000. The total Licensing Process fee including the fees for the initial application, the Barrister and Solicitor Licensing Examinations and the Call to the Bar, is \$4,710, unchanged from last year.
28. Paralegal licensing process revenues of \$1.1 million were in line with 2017 levels and slightly more than budget.
29. Continuing Professional Development revenue totals \$3.8 million at the end of June 2018 compared to \$3.9 million in 2017 and budget for the period of \$4.9 million. Some of the variances are attributable to timing of CPD programming and also the ratio between nominal fee and traditional fee generating programs. In recent years, the CPD department has seen a softening in its revenue from previous years, largely on account

of increasing competition in the CPD market due to technological advances that has allowed other providers to offer low cost alternatives. In recent years, demand for in depth, live programs at a higher price point has declined in favour of shorter programs, professionalism content, and archived content, all of which are offered at a lower price point.

30. Other income totaling \$5.9 million exceeds the 2017 amount of \$4.6 million and comfortably exceeds budget due to increasing late fees and ordered costs. In September 2017, Convocation approved increases to the reinstatement fee, late payment fees, late filing fees and the service fee for returned cheques.

Expenses

31. Professional Regulation, Tribunals and Compliance expenses totaling \$14.4 million (2017: \$14.1 million) are \$2.7 million less than budget due to staff vacancies associated with the department's reorganization. The variance is spread across all areas.
32. Based on the current state of uncertainty as to outcome and amount, no provision has been made for the Statement of Claim from DeMerchant and Sukonick alleging malfeasance in public office, negligent investigation, abuse of process, malicious prosecution and libel. The two plaintiffs each claim a total of \$22 million (a combined total of \$44 million) in general, special, aggravated and punitive damages. The Law Society's insurers have been put on notice, although the aggregate annual insurance coverage was less than the total claimed during the year.
33. Included in the financial statements is \$550,000 in costs to Joseph Groia arising from the Supreme Court of Canada decision.
34. There is at least a reasonable possibility that one or more other cost awards from the Law Society's regulatory proceedings may be awarded against the Law Society but the amount of any losses cannot be reliably estimated at this time and because of the uncertainty no provision has been made in compliance with accounting standards.
35. The impact of cost awards in the Law Society's favour in the TWU decision will be reflected in the third quarter financial statements.
36. Total professional development and competence expenses were \$15.2 million (2017: \$14.8 million) and were nominally under budget.
- Licensing process expenses were slightly over budget due to additional resources directed to exam administration and the continuing increasing resources required for candidate support but this negative variance is offset by the positive variance in licensing process revenues.
 - Continuing professional development was also very slightly over budget with full resources used in all areas.

37. Total corporate services expenses of \$12.7 million have increased (2017: \$11.5 million) but are still under budget. The main reasons for the year-on-year-increase are:
- increased consulting fees in the CEO's Office, including costs associated with the Indigenous Review Panel
 - increased costs for the new premises leased at 393 University
 - increased Information Technology and Human Resource staffing as budgeted.
38. All the significant components of Convocation, Policy and Outreach expenses of \$4 million (2017: \$3.3 million) are under budget such as the contingency allocated to the period of \$500,000 which has not been used. The increase from 2017 is primarily due to staff complements in areas such as Policy.

Balance Sheet

39. The increase in the total of cash and short-term investment balances can primarily be attributed to the General Fund and Compensation Fund surpluses during the period and increased deferred revenues.
40. Most of the prepaid expense balance of \$56.6 million relates to annual E&O insurance premiums paid or payable for the year, which are expensed over the full year.
41. The investment in subsidiaries represents the 100% ownership of LAWPRO totaling \$35.6 million and the 100% ownership of LibraryCo totaling \$200.
42. Portfolio investments are shown at fair value of \$64.2 million, a small decrease from June 2017 because of withdrawal of capital in the Compensation Fund to finance grant payments. Under the Investment Policy, the benchmark Canadian equity component is 30% and the fixed income component is 70%.
43. The new Investment Loan of \$878,000 represents the Law Society of Ontario's participation in the subordinated loan used to fund CanLII's acquisition of Lexum in 2018 as approved by Convocation.
44. Deferred revenue (\$93.8 million) is made up of annual fees, licensing process revenues and insurance premiums which are recognized over the full year. The balance has increased from the same time in 2017 due to the increase in annual fees.
45. Due to LAWPRO (\$46 million) will decline by year-end as insurance premiums and levies collected are paid to LAWPRO.
46. The provision for unpaid grants of \$28 million (2017 - \$22.5 million) represents the estimate for unpaid claims and inquiries against the Compensation Fund, supplemented by the costs for processing these claims. The Fund continues to process some large

alleged defalcations on the part of certain licensees but the underlying volume of grant applications has improved compared to the immediately prior years. The paralegal Compensation Fund provision for unpaid grants comprises \$294,000 of the total Compensation Fund provision for unpaid grants.

47. The Law Society Act permits a member who has dormant trust funds, to apply for permission to pay the money to the Law Society. Money paid to the Law Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. At the end of June, unclaimed money held in trust amounts to \$5.2 million.
48. The operating surplus in the lawyer General Fund has increased the fund balance to \$27.5 million at the high end of the parameters established by Convocation's fund balance administration policy. The paralegal General Fund balance has decreased to \$4.2 million.
49. The lawyer Compensation Fund results for the six months have succeeded in refinancing the Fund from its lows of \$3.3 million to \$6.7 million which is still well below the minimum level which is required by Convocation's fund balance administration policy of approximately \$20 million. 2018 is the first year of the three year plan to restore the Fund to appropriate levels which is expected to be achieved by 2021. The fund balance policy requires the minimum benchmark to be restored within three years. These considerations have been incorporated into the drafting of the 2019 budget.

Restricted Funds

50. A supplementary income and expense schedule for the Compensation Fund is provided.
51. A supplementary income and expense schedule for the Errors and Omissions Insurance (E&O) Fund is also provided. The E&O Fund accounts for the mandatory professional liability insurance program of the Law Society which is administered by LAWPRO. The insurance premium expense, as well as related levies and income from their investment are tracked within this fund. The Law Society is insured for lawyers' professional liability and recovers annual premium costs from lawyers through a combination of annual base levies and additional levies that are charged based on a lawyer's claims history, status, and real estate and litigation levies.

LAW SOCIETY OF ONTARIO**Balance Sheet***Unaudited**Stated in thousands of dollars**As at June 30*

	2018	2017
Assets		
Current Assets		
1 Cash	33,522	30,339
2 Short-term investments	52,096	41,760
3 Accounts receivable	43,266	40,478
4 Prepaid expenses	56,591	54,463
5 Total current assets	185,475	167,040
6 Investment in subsidiaries	35,642	35,642
7 Portfolio investments	64,199	67,536
8 Investment loan	878	-
9 Capital assets	8,580	8,122
10 Intangible assets	1,163	493
11 Total Assets	295,937	278,833
Liabilities and Fund Balances		
Current Liabilities		
12 Accounts payable and accrued liabilities	11,095	10,720
13 Deferred revenue	93,806	86,469
14 Due to LAWPRO	46,044	43,125
15 Total current liabilities	150,945	140,314
16 Provision for unpaid grants/claims	28,041	22,460
17 Unclaimed trust funds	5,215	4,961
18 Total Liabilities	184,201	167,735
Fund Balances		
General funds		
19 Lawyers	27,523	25,593
20 Paralegals	4,169	5,295
Restricted funds		
21 Compensation - lawyers	6,716	6,922
22 Compensation - paralegals	705	545
23 Errors and omissions insurance	55,387	55,490
24 Capital allocation	6,461	7,852
25 Invested in capital and intangible assets	9,743	8,616
26 County libraries	47	(49)
27 Other	985	834
28 Total Fund Balances	111,736	111,098
29 Total Liabilities and Fund Balances	295,937	278,833

LAW SOCIETY OF ONTARIO**Statement of Revenues and Expenses and Change in Fund Balances***Unaudited**Stated in thousands of dollars**For the six months ended June 30*

	2018	2017	2018	2017	2018	2017	2018	2017
	General Fund Lawyer		General Fund Paralegal		Restricted Funds		Total	
Revenues								
1 Annual fees	31,881	29,841	2,832	2,491	12,255	7,956	46,968	40,288
2 Insurance premiums and levies	-	-	-	-	48,672	49,734	48,672	49,734
3 Professional development and competence	10,218	10,354	1,567	1,660	-	-	11,785	12,014
4 Investment income	550	292	75	32	631	633	1,256	957
5 Change in fair value of investments	31	(241)	4	(27)	98	(859)	133	(1,127)
6 Other	4,971	4,094	846	594	97	(86)	5,914	4,602
7 Total revenues	47,651	44,340	5,324	4,750	61,753	57,378	114,728	106,468
Expenses								
8 Professional regulation, tribunals and compliance	12,646	12,514	1,716	1,569	-	-	14,362	14,083
9 Professional development and competence	13,557	13,520	1,613	1,272	-	-	15,170	14,792
10 Corporate services	11,128	10,298	1,579	1,158	-	-	12,707	11,456
11 Convocation, policy and outreach	3,606	3,066	416	278	-	-	4,022	3,344
12 Services to members and public	3,003	2,821	308	243	-	-	3,311	3,064
13 Restricted	-	-	-	-	59,511	63,512	59,511	63,512
14 Total expenses	43,940	42,219	5,632	4,520	59,511	63,512	109,083	110,251
15 Surplus (Deficit)	3,711	2,121	(308)	230	2,242	(6,134)	5,645	(3,783)
16 Fund balances, beginning of year	23,239	23,602	4,477	5,065	78,375	86,214	106,091	114,881
17 Interfund transfers	573	(130)	-	-	(573)	130	-	-
18 Fund balances, end of period	27,523	25,593	4,169	5,295	80,044	80,210	111,736	111,098

LAW SOCIETY OF ONTARIO**Schedule of Restricted Funds***Unaudited**Stated in thousands of dollars**For the six months ended June 30*

	2018							2017	
	Compensation Fund		Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total Restricted funds	Total
	Lawyer	Paralegal							
1 Fund balances, beginning of year	3,285	717	55,716	6,684	10,838	-	1,135	78,375	86,214
Revenues									
2 Annual fees	6,131	35	-	2,125	-	3,964	-	12,255	7,956
3 Insurance premiums and levies	-	-	48,672	-	-	-	-	48,672	49,734
4 Investment income	354	48	229	-	-	-	-	631	633
5 Change in fair value of investments	49	7	42	-	-	-	-	98	(859)
6 Other	34	3	-	60	-	-	-	97	(86)
7 Total revenues	6,568	93	48,943	2,185	-	3,964	-	61,753	57,378
8 Total expenses	3,137	105	48,672	2,448	1,095	3,917	137	59,511	63,512
9 (Deficit) Surplus	3,431	(12)	271	(263)	(1,095)	47	(137)	2,242	(6,134)
10 Interfund transfers	-	-	(600)	40	-	-	(13)	(573)	130
11 Fund balances, end of period	6,716	705	55,387	6,461	9,743	47	985	80,044	80,210

LAW SOCIETY OF ONTARIO
Lawyers and Paralegals General Fund
Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the six months ended June 30

	2017 Actual	2018 Actual	Budget YTD	Variance
REVENUES				
1 Annual fees	32,332	34,713	34,537	176
2 Professional development and competence	12,014	11,785	11,994	(209)
3 Investment income	324	625	387	238
4 Change in fair value of investments	(268)	35	-	35
5 Other	4,688	5,817	4,854	963
6 Total revenues	49,090	52,975	51,772	1,203
EXPENSES				
7 Professional regulation, tribunals and compliance	14,083	14,362	17,020	2,658
8 Professional development and competence	14,792	15,170	15,462	292
9 Corporate services	11,456	12,707	13,843	1,136
10 Convocation, policy and outreach	3,344	4,022	6,147	2,125
11 Services to members and public	3,064	3,311	3,556	245
12 Total expenses	46,739	49,572	56,028	6,456
13 Surplus (Deficit)	2,351	3,403	(4,256)	7,659

LAW SOCIETY OF ONTARIO
General Fund - Lawyers
Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the six months ended June 30

	2017 Actual	2018 Actual	Budget YTD	Variance
REVENUES				
1 Annual fees	29,841	31,881	31,623	258
2 Professional development and competence	10,354	10,218	10,551	(333)
3 Investment income	292	550	341	209
4 Change in fair value of investments	(241)	31	-	31
5 Other	4,094	4,971	4,217	754
6 Total revenues	44,340	47,651	46,732	919
EXPENSES				
7 Professional regulation, tribunals and compliance	12,514	12,646	15,035	2,389
8 Professional development and competence	13,520	13,557	13,813	256
9 Corporate services	10,298	11,128	12,177	1,049
10 Convocation, policy and outreach	3,066	3,606	5,550	1,944
11 Services to members and public	2,821	3,003	3,242	239
12 Total expenses	42,219	43,940	49,817	5,877
13 Surplus (Deficit)	2,121	3,711	(3,085)	6,796

LAW SOCIETY OF ONTARIO
General Fund - Paralegals
Schedule of Revenues and Expenses

Unaudited

Stated in thousands of dollars

For the six months ended June 30

	2017 Actual	2018 Actual	Budget YTD	Variance
REVENUES				
1 Annual fees	2,491	2,832	2,914	(82)
2 Professional development and competence	1,660	1,567	1,443	124
3 Investment income	32	75	46	29
4 Change in fair value of investments	(27)	4	-	4
5 Other	594	846	637	209
6 Total revenues	4,750	5,324	5,040	284
EXPENSES				
7 Professional regulation, tribunals and compliance	1,569	1,716	1,985	269
8 Professional development and competence	1,272	1,613	1,649	36
9 Corporate services	1,158	1,579	1,666	87
10 Convocation, policy and outreach	278	416	597	181
11 Services to members and public	243	308	314	6
12 Total expenses	4,520	5,632	6,211	579
13 (Deficit) Surplus	230	(308)	(1,171)	863

LAW SOCIETY OF ONTARIO**Compensation Fund****Schedule of Revenues and Expenses and Change in Fund Balances***Unaudited**Stated in thousands of dollars**For the six months ended June 30*

	2018			2017		
	Lawyers	Paralegals	Total	Lawyers	Paralegals	Total
Revenues						
1 Annual fees	6,131	35	6,166	1,696	46	1,742
2 Investment income	354	48	402	368	41	409
3 Change in fair value of investments	49	7	56	(471)	(52)	(523)
4 Recoveries	34	3	37	(163)	12	(151)
5 Total Revenues	6,568	93	6,661	1,430	47	1,477
Expenses						
6 Provision for unpaid grants	2,821	65	2,886	7,070	71	7,141
7 Administrative	316	40	356	263	28	291
8 Total Expenses	3,137	105	3,242	7,333	99	7,432
9 Surplus (Deficit)	3,431	(12)	3,419	(5,903)	(52)	(5,955)
10 Fund balances, beginning of year	3,285	717	4,002	12,825	597	13,422
11 Fund Balances, end of period	6,716	705	7,421	6,922	545	7,467

LAW SOCIETY OF ONTARIO
Errors and Omissions Insurance Fund
Schedule of Revenues and Expenses and Change in Fund Balance

Unaudited

Stated in thousands of dollars

For the six months ended June 30

	2018 Actual	2017 Actual
REVENUES		
1 Insurance premiums and levies	48,672	49,734
2 Investment income	229	224
3 Change in fair value of investments	42	(336)
4 Other income	-	-
5 Total revenues	48,943	49,622
EXPENSES		
6 Administrative	-	-
7 Claims	-	(18)
8 Insurance	48,672	49,734
9 Total expenses	48,672	49,716
10 Surplus (Deficit)	271	(94)
10 Interfund transfers	(600)	-
11 Change in fund balance	(329)	(94)
12 Fund balance, beginning of year	55,716	55,584
13 Fund balance, end of period	55,387	55,490

TAB 6.3

**FOR INFORMATION
LIBRARYCO INC. FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED
JUNE 30, 2018**

52. Convocation is requested to receive the second quarter financial statements for LibraryCo for information.
53. LibraryCo Inc. is the central manager of the Ontario county courthouse library system in accordance with the objectives, policies and principles established and approved by the Law Society, in consultation with the Federation of Ontario Law Associations and the Toronto Lawyers' Association. LibraryCo is a wholly-owned subsidiary of the Law Society. There is a quarterly financial reporting schedule to the shareholder. These interim statements convey the performance of LibraryCo before the end of the year. Unlike annual statements, interim statements are not audited.
54. The Law Society provides administrative services to LibraryCo, for a fee, under an administrative services agreement.
55. The statements have been approved by LibraryCo's board.



LIBRARYCO INC.
FINANCIAL REPORT
For the six months ended June 30, 2018

KEY POINT SUMMARY

Overall Results

56. Results for the second quarter identify a deficit of \$3,398 compared to a budgeted deficit of \$64,518 for the 6 months. The 2018 budget envisages a \$158,572 deficit for the year through the use of the General Fund balance.
57. The positive variance for the period of \$61,121 is attributable to a number of positive expense variances particularly publications, board of directors' meeting expenses, toll free telephone charges, the group benefit plan, insurance, and the bursaries, capital and special needs expenses.
58. There is a negative variance of \$10,542 in consulting fees with transition expenses being incurred as approved by the board on May 2, 2018.

Revenues

59. The Law Society grant (line 1) includes amounts for central administration and quarterly transfers to the 48 libraries. The actual grant from the Law Society was \$3,949,968 and matched budgeted amounts for the period.
60. Interest income (line 2) is earned on LibraryCo's cash and short term investments.

Expenses

61. Total expenses (line 16) were \$3,957,942 compared to a budget of \$4,014,486 for the period and \$3,852,739 in the prior year.
62. Administration expenses (line 4) of \$152,500 represents the service fee paid to the Law Society and equals budget and the 2017 amount.
63. Professional fees (line 5) include audit expenses and consulting fees. The consulting fee budget was overspent by \$11,500 resulting in the negative variance for this line of \$10,542. Additional transition funding of \$100,000 was approved at the May 2, 2018 board meeting and the consultants assisting in implementing the governance changes have commenced their work.
64. Totalling \$6,407, other head-office expenses (line 6) are lower than budget for the period by \$19,671 primarily as a result of underspending for the production of the Annual Report, board of directors' meetings, web initiatives, toll free telephone charges and miscellaneous expenses.

65. Electronic product expenses of \$171,195 (line 8) are in line with the agreement with LexisNexis and budget.
66. Group benefits and insurance (line 9) of \$164,399 consist of the group benefits for library staff and directors & officers and property insurance. Group benefits and insurance are lower than budget by \$9,701 as group benefits premiums are negotiated after the budget and these are budgeted conservatively. Given that both the D&O and property insurance policies were renewed at the end of April, a conservative increase in insurance for the remainder of 2018 was also taken into consideration when budgeting for 2018.
67. Other centralized expenses (line 10) of \$29,352 includes continuing education bursaries for library staff, library courier costs for inter-library loans of materials, publications provided by the Law Society to each of the 48 law libraries, and the Federation of Ontario Law Associations' (FOLA) meeting expenses for their Library Committee. Other centralized expenses are lower than budget by \$31,148 due to underspending in continuing education bursaries, publications and courier costs, although much of this is attributable to timing differences.
68. County and District law libraries grants (line 12) are in line with budget at \$3,384,610 and increased from 2017.
69. Bursaries, capital and special needs grants (line 13) of \$23,637 consist of computer refreshment grants, special needs grants and conference bursaries for library staff. Computer purchases by the libraries during the year do not follow a pattern. A negative variance of at least \$10,000 is projected for the year based on special needs grants approved to date.

Balance Sheet

70. Short-term investments (line 2) were not renewed in 2018 given the negotiated increased rate of interest received in LibraryCo's bank account.
71. Accounts receivable (line 3) of \$20,332 are long term disability benefits premiums paid by LibraryCo on the libraries' behalf for the past quarter. These receivables are usually repaid early in the next quarter.
72. Prepaid expenses (line 4) of \$76,035 primarily represents the property and D&O insurance policies for LibraryCo and the libraries which were renewed at the end of April.
73. Accounts payable and accrued liabilities (line 6) of \$48,757 are \$14,977 higher than 2017. This variance is a result of timing of expenses.

74. The General Fund has increased to \$268,686. Based on results for the 2018 year to date and the \$100,000 transition funding approved by the board in May, the projection of the fund balance at year end approximates \$100,000.
75. The Reserve Fund has a balance at the end of June of \$500,000 comprising a general component of \$200,000, a capital and special needs component of \$150,000, and a staffing and severance component of \$150,000 in accordance with Board policy.

LIBRARYCO INC.
Schedule of Actual and Budgeted Revenues and Expenses
Stated in Dollars
For the six months ended June 30
Unaudited

	2018	YTD		Annual	2017
	Actual	Budget	Variance	Budget	Actual
REVENUES					
1 Law Society of Ontario grant	3,949,968	3,949,968	-	7,899,937	3,907,650
2 Interest income	4,576	-	4,576	-	2,415
3 Total revenues	3,954,544	3,949,968	4,576	7,899,937	3,910,065
EXPENSES					
Head office/administration					
4 Administration	152,502	152,502	-	305,000	152,500
5 Professional fees	25,840	15,298	(10,542)	30,600	6,363
6 Other	6,407	26,078	19,671	48,600	9,469
7 Total Head office/administration expenses	184,749	193,878	9,129	384,200	168,332
Law Libraries - centralized purchases					
8 Electronic products and services	171,195	171,198	3	342,390	169,500
9 Group benefits and insurance	164,399	174,100	9,701	359,000	156,315
10 Other	29,352	60,500	31,148	157,900	35,264
11 Total Law Libraries - centralized purchases	364,946	405,798	40,852	859,290	361,079
12 County and District law libraries - grants	3,384,610	3,384,610	-	6,769,219	3,306,362
13 Bursaries, capital and special needs grants	23,637	30,200	6,563	45,800	16,966
14 Total County and District Law Libraries Expenses	3,408,247	3,414,810	6,563	6,815,019	3,323,328
15 Total expenses	3,957,942	4,014,486	56,544	8,058,509	3,852,739
16 (Deficit) Surplus	(3,398)	(64,518)	61,121	(158,572)	57,326

This statement includes the revenues and expenses of the LibraryCo entity only.

LIBRARYCO INC.**Balance Sheet****Stated in Dollars****As at June 30****Unaudited**

	2018	2017
Assets		
Current Assets		
1 Cash	721,276	274,522
2 Short-term investments	-	401,151
3 Accounts receivable	20,332	19,513
4 Prepaid expenses	76,035	75,477
5 Total Assets	817,643	770,663
Liabilities, Share Capital and Fund Balances		
Current Liabilities		
6 Accounts payable and accrued liabilities	48,757	33,780
7 Total Liabilities	48,757	33,780
Share Capital and Fund Balances		
8 Share capital	200	200
9 General fund	268,686	236,683
10 Reserve fund	500,000	500,000
11 Total Share Capital and Fund Balances	768,886	736,883
12 Total Liabilities, Share Capital and Fund Balances	817,643	770,663

This Balance Sheet includes the financial resources of the LibraryCo entity only.

LIBRARYCO INC.
Statement of Changes in Fund Balances
Stated in Dollars
For the six months ended June 30

	2018		2017	
	General Fund	Reserve Fund	Total	Total
1 Balance, beginning of year	272,084	500,000	772,084	679,357
2 Surplus (Deficit)	(3,398)	-	(3,398)	57,326
3 Balance, end of period	268,686	500,000	768,686	736,683

This statement includes the fund balances of the LibraryCo entity only.

TAB 6.4

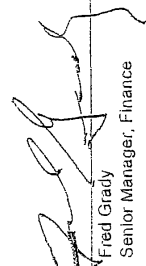
FOR INFORMATION

INVESTMENT COMPLIANCE REPORTS

76. Compliance Statements for the General Fund, Compensation Fund, and Errors & Omissions Insurance Fund portfolios as at June 30, 2018 are on the following pages.

LAW SOCIETY OF UPPER CANADA
 STATEMENT OF INVESTMENT COMPLIANCE
 LONG TERM
 As at June 30, 2018

Investment Parameters	Guidelines	Target	COMPLETION FUND			GENERAL FUND			E & O FUND		
			Compliance	Compliance	Compliance	Compliance	Compliance	Compliance	Compliance	Compliance	Compliance
1. <u>Asset Mix</u> Cash and Short-Term Equity Investments Bonds	0 - 15% 20 - 40% 45 - 80%	0% 30% 70%	Yes Yes Yes	Yes Yes Yes	Yes Yes Yes	Yes Yes Yes	Yes Yes Yes	Yes Yes Yes	Yes Yes Yes	Yes Yes Yes	
2. <u>Quality Requirements</u> Bonds	Min. BBB		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
3. <u>Quantity Restrictions</u> <u>Equities:</u> Single holding Weight in portfolio > weight in S&P/TSX Composite Index Derivatives etc. Non-Canadian <u>Bonds:</u> Government of Canada or Government of Canada guaranteed bonds Provincial Government and Provincial Government guaranteed bonds and municipal bonds Corporate Bonds* Target for BBB bonds within corporate bonds of the fixed income portfolio	Max. 10% Varies None None 26-100% 0-38% 0-56% 0-18%		Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes	Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes	Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes	Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes	Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes	Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes	Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes	Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes Yes	


 Fred Grady
 Senior Manager, Finance

**The Law Society of Upper Canada
General Fund**
 Manager: Foyston, Gordon & Payne Inc.
Compliance Report
 (Period ending June 30, 2018)


1. Asset Mix:	Min.	Mid-Point	Max.	Compliance* (Y/N)
Cash & Short Term	0%	0%	15%	Y
Bonds	45%	70%	80%	Y
Total Fixed Income	60%	70%	80%	Y
Canadian Equity	20%	30%	40%	Y
Minimum bond rating "BBB" or better by the Dominion Bond Rating Service or equivalent rating by another recognized bond rating service.				Y
Minimum holding in Federal and Federally Guaranteed Bonds				FTSE TMX Short Term Bond Index Benchmark Weight minus 20% Y
Provincials, Provincially Guarantees and Municipals				FTSE TMX Short Term Bond Index Benchmark Weight plus or minus 20% Y
Maximum Total Corporate Issues				FTSE TMX Short Term Bond Index Benchmark Weight plus 20% Y
Maximum Total Corporate BBB Issues				FTSE TMX Short Term Bond Index Benchmark Weight plus 10% Y
Not more than 10% of the total market value of the bond portfolio will be invested in securities issued by a foreign issuer, or Canadian issuer.				Y
Bond portfolio duration 1 to 5 years.				Y
The Market value of any one common equity issuer cannot represent more than 10% of the market value of the total portfolio, or that equity's weight in the S&P/TSX Composite Index, whichever is greater.				Y

Note: In mid-June 2014 Law Society General Fund moved into the FGP Short Term Bond Fund from the segregated Short Term Bonds.

Investment policy dated February 23, 2017.

*If policy not complied with, comment on specifics.

Date: July 26, 2018


 Robert Laughlin
 Vice President - Institutional Client
 Services

**The Law Society of Upper Canada
Compensation Fund
Manager: Foyston, Gordon & Payne Inc.
Compliance Report
(Period ending June 30, 2018)**

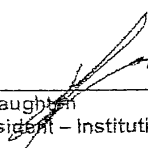
1. Asset Mix:	Min.	Mid-Point	Max.	Compliance* (Y/N)
Cash & Short Term	0%	0%	15%	Y
Bonds	45%	70%	80%	Y
Total Fixed Income	60%	70%	80%	Y
Canadian Equity	20%	30%	40%	Y
Minimum bond rating "BBB" or better by the Dominion Bond Rating Service or equivalent rating by another recognized bond rating service.				Y
Each bond portfolio may be invested within the following parameters:				
Minimum holding in Federal and Federally Guaranteed Bonds	FTSE TMX Short Term Bond Index Benchmark Weight minus 20%			Y
Provincials, Provincially Guarantees and Municipals	FTSE TMX Short Term Bond Index Benchmark Weight plus or minus 20%			Y
Maximum Total Corporate Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 20%			Y
Maximum Total Corporate BBB Issues	FTSE TMX Short Term Bond Index Benchmark Weight plus 10%			Y
Not more than 10% of the total market value of the bond portfolio will be invested in securities issued by a foreign issuer, or Canadian issuer.				Y
Bond portfolio duration 1 to 5 years.				Y
The Market value of any one common equity issuer cannot represent more than 10% of the market value of the total portfolio, or that equity's weight in the S&P/TSX Composite Index, whichever is greater.				Y

Note: In mid-June 2014 Law Society Compensation Fund moved into the FGP Short Term Bond Fund from the segregated Short Term Bonds.

Investment policy dated February 23, 2017.

*If policy not complied with, comment on specifics.

Date: July 26, 2018


Robert Laughlin
Vice President – Institutional Client
Services



July 2018

Ms. Wendy Tysall
Chief Financial Officer
Osgoode Hall
Finance Dept., 1st Floor
130 Queen Street West
Toronto, Ontario
M5H 2N6

Dear Wendy:

Re: Manager Compliance Reporting

For the Law Society of Upper Canada Errors and Omissions Insurance Fund, we wish to confirm that the portfolio being managed by Foyston, Gordon & Payne Inc. was in compliance with the Fund's Investment Policy Statement dated February 23, 2017, for the quarter ending June 30, 2018.

Yours truly,

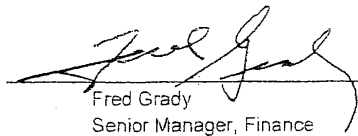
Robert Laughton
Vice President – Institutional Client Services

P.O. Box 200, 1 Adelaide Street East, Suite 2600, Toronto Ontario M5C 2V9
Tel 416.362.4725 Fax 416.367.1183 www.foyston.com

LAW SOCIETY OF UPPER CANADA
 STATEMENT OF INVESTMENT COMPLIANCE
 SHORT TERM
 As at June 30, 2018

COMPENSATION GENERAL

Investment Parameters	Guidelines for Both	Compliance	Compliance
1. <u>Asset Mix</u>			
Federal & provincial treasury bills	Allowed	Yes	Yes
Bankers acceptances	Allowed	Yes	Yes
Commercial paper	Allowed	Yes	Yes
Investment manager Money Market Fund	Allowed	Yes	Yes
Premium Savings Account	Allowed	Yes	Yes
FGP S/T Invest Fund	Allowed	Yes	Yes
2. <u>Quality Requirements</u>			
Commercial paper rating	Min. R1	N/A	N/A
Liquidity	Max. term to maturity of 365 days	Yes	Yes
3. <u>Quantity Restrictions</u>			
Commercial paper of a single corporate issuer	Max. 8% of Fund	Yes	Yes
4. <u>Other Restrictions</u>			
Equity securities	None	Yes	Yes
Direct investments in:			
resource properties	None	Yes	Yes
mortgages and mortgage-backed securities	None	Yes	Yes
real estate	None	Yes	Yes
venture capital financings	None	Yes	Yes
Derivatives	None	Yes	Yes


 Fred Grady
 Senior Manager, Finance