"When You Talk - We Listen!"

MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2023/2024 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Irene Hamilton, K.C.	-	Panel Chairperson
Robert Gabor, K.C.	-	Board Chair
Susan Nemec	-	Board Member
George Bass, K.C.	-	Board Member
Susan Boulter	-	Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 24, 2022

Pages 837 to 1050

Day 4

1 APPEARANCES

2

3 Kathleen McCandless)Board Counsel

4 Robert Watchman)Board Counsel

5 Kara Moore (remote))Board Counsel

6 Roger Cathcart)Board Advisor

7 Blair Mantketelow-Eckler (remote))Board Advisor

8

9 Steve Scarfone)Manitoba Public

10 Michael Triggs)Insurance

11 Anthony Guerra)

12 Jordan Lang (Student-at-law))

13

14 Byron Williams) CAC (Manitoba)

15 Chris Klassen)

16

17 Karen Wittman) Taxi Coalition

18

19 Charlotte Meek) CMMG

20

21 Jennifer Sokal) IBAM

22 Michael Weinstein)

23

24 Christian Monnin) Bike Winnipeg

25 Charles Feaver (np))

1 TABLE OF CONTENTS

2 Page No.

3 List of Undertakings 840

4 List of Exhibits 841

5

6 MPI INVESTMENTS/ALM PANEL

7 NEIL LLOYD, Sworn

8 GLENN BUNSTON, Sworn

9 CARA LOW, Resumed

10

11 Examination by Mr. Steve Scarfone 844

12 Cross-examination by Mr. Robert Watchman 880

13 Cross-examination by Dr. Byron Williams 966

14 Cross-examination by Ms. Charlotte Meek 1015

15 Re-Direct Examination by Mr. Steve Scarfone 1040

16

17

18

19

20 Certificate of Transcript 1050

21

22

23

24

25

1 List of Undertakings

	No.	Description	Page No.
2	No.	Description	Page No.
3	24	MPI To provide a revised PF-1, PF-2,	
4		and PF-3 from Exhibit 50, which is the	
5		October 12th update, which corrects for	
6		the net income overstatement identified	
7		in Exhibit 58.	898

8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

1 List of Exhibits

	Exhibit No.	Description	Page No.
2			
3	MPI-60	Affidavit of Publication of Kelly	
4		Saunderson	842
5	MPI-61	Investments Presentation Presented by	
6		Glenn Bunston of MPI	842
7	MPI-62	Investments Presentation Presented by	
8		Neil Lloyd of Mercer	843
9	MPI-63	MPI 2021 annual report	880
10	MPI-64	Blackline clean version of	
11		CAC/MPI-2-17	1014
12	MPI-65	Part 8, AR Appendix 4, Corporate	
13		Quarterly Financial Report, First	
14		Quarter, previously filed in the	
15		confidential module as Exhibit 17	1014
16	MPI-66	Response to Undertaking 13	1015

17
18
19
20
21
22
23
24
25

1 --- Upon commencing at 9:04 a.m.
2
3 THE PANEL CHAIRPERSON: Good morning,
4 everyone. Mr. Scarfone, do you have exhibits to
5 enter?
6 MR. STEVE SCARFONE: I do, Madam
7 Chair. Thank you for the reminder. Mr. Guerra I
8 think caught us up last week to Exhibit -- MPI Exhibit
9 number 59, so I have just three (3) that I'd like to
10 read into the record this morning.
11 MPI Exhibit number 60 is an Affidavit
12 of Publication of Kelly Saunderson.
13
14 --- EXHIBIT NO. MPI-60: Affidavit of Publication
15 of Kelly Saunderson
16
17 MR. STEVE SCARFONE: MPI Exhibit
18 number 61 is the Investments Presentation that the
19 Board will hear this morning from Mr. Bunston.
20
21 --- EXHIBIT NO. MPI-61: Investments Presentation
22 Presented by Glenn Bunston
23 of MPI
24
25 MR. STEVE SCARFONE: And MPI Exhibit

1 number 2 (sic) is another Investments Presentation
2 that the Board will hear today from the Mercer witness
3 Mr. Lloyd. That's Exhibit 62.
4
5 --- EXHIBIT NO. MPI-62: Investments Presentation
6 Presented by Neil Lloyd of
7 Mercer
8
9 MR. STEVE SCARFONE: Now, I did
10 receive from Mr. Watchman an indication yesterday, a
11 heads-up that he is going to ask questions of this
12 panel on the MPI 2021 Annual Report. We intend to
13 have that filed as an exhibit.
14 It just hasn't been circulated in the
15 manner it normally is in advance of us reading it into
16 the record by Regulatory Affairs. So, I'm not going
17 to read that into the record yet 'cause I was told not
18 to. But I think Mr. Watchman's free to ask questions
19 about that report to the -- to the panel.
20 And so, with that, we have our -- if
21 we're ready to begin, we have our next panel here. I
22 can introduce them and then have the witnesses sworn.
23 The investments panel will be made up
24 of the gentleman to my right, joining us from
25 Vancouver. His name is Neil Lloyd. He's a partner

1 from Mercer.
2 Beside him you'll recognize Mr.
3 Bunston. He's MPIC's Director of Asset Liability
4 Management and Investment Management. And then beside
5 Mr. Bunston is Cara Low, our Vice-President, Chief
6 Actuary, and Chief Risk Officer.
7 THE PANEL CHAIRPERSON: Thank you, Mr.
8 Scarfone.
9
10 MPI INVESTMENTS/ALM PANEL:
11
12 NEIL JAMES LLOYD, Sworn
13 GLENN BRIAN BUNSTON, Sworn
14 CARA LOW, Resumed
15
16 EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:
17 MR. STEVE SCARFONE: Thank you. So
18 Ms. Schubert should be having that presentation of Mr.
19 Bunston brought up, but before he begins, let me just
20 ask Mr. Lloyd a couple of questions, just to
21 familiarize the Board with him.
22 Sir, As I've indicated, you are a
23 partner with Mercer out of the Vancouver office,
24 correct?
25 MR. NEIL LLOYD: That is correct.

1 MR. STEVE SCARFONE: And, sir, how
2 long have you been with Mercer?
3 MR. NEIL LLOYD: Almost sixteen (16)
4 years now.
5 MR. STEVE SCARFONE: Okay. Thank you.
6 And so this Board, or at least some of its members,
7 and others in the room will be familiar with another
8 gentleman that had testified a few years back, Dave
9 Makarchuk. Are you familiar with him?
10 MR. NEIL LLOYD: Yes, I'm familiar
11 with Dave.
12 MR. STEVE SCARFONE: And you're
13 familiar just generally with the history that Mercer
14 has with MPIC and the advice it's provided in the
15 past?
16 MR. NEIL LLOYD: Within reason, yes.
17 MR. STEVE SCARFONE: Okay. Thank you.
18 And I understand that you'll have a presentation to
19 make to this Board after Mr. Bunston is done?
20 MR. NEIL LLOYD: That is correct.
21 MR. STEVE SCARFONE: Okay. Thank you
22 for that.
23 And so, Mr. Bunston, I don't need to
24 introduce you, but I -- I just want to confirm with
25 you, sir, that this presentation that you're about to

1 give will form part of your evidence, your
2 examination-in-chief this morning.
3 MR. GLENN BUNSTON: Yes, that's
4 correct.
5 MR. STEVE SCARFONE: Okay. Thank you
6 for that. And you can proceed if you're -- if you're
7 ready.
8 MR. GLENN BUNSTON: Okay. Thank you.
9 Well, good morning. It's a pleasure to be here before
10 you again. So today I'll be speaking about our
11 investment strategy, and so I'll talk first about
12 providing economic updates and talk about the
13 performance of our portfolio over our last fiscal year
14 and during the first half of this fiscal year.
15 I'll talk about the objectives of our
16 investment portfolio and our target asset allocations.
17 I'll talk about our Asset Liability Management
18 Strategy, and finally, interest rate forecasting.
19 So it's been -- it's been a volatile
20 year, and -- last year and continuing into this year.
21 During the pandemic, unemployment spiked to almost 14
22 percent in -- in May of 2020, but it since has fallen
23 to 3 1/2 percent in Manitoba, which is an all-time
24 low, and a full 2 percent lower than the -- the five
25 (5) year average for unemployment.

1 Canadian inflation briefly fell into
2 negative territory in the spring of 2020 but hit just
3 -- reached just over 8 percent in June of 2022 and
4 hasn't been this high since 1982.
5 The Bank of Canada's expected to
6 increase interests rates -- has already increased
7 interest rates four (4) times and is expected to
8 increase interest rates by an additional seventy-five
9 (75) basis points later this week and possibly another
10 twenty-five (25) basis points in December, which would
11 bring the overnight rate to 4.25 percent, which is a
12 full 4 percent higher than at the start of the year.
13 Turning to the next slide.
14 Inflation has been above the Bank of
15 Canada's 2 percent target for eighteen (18) months
16 now, since March of 2021, but it has decreased in each
17 of the last three (3) months. And, as I mentioned,
18 the Bank of Canada has already increased interest
19 rates four (4) times and two (2) additional increases
20 are expected by -- by the market.
21 Our Asset Liability Management Study
22 has -- has carefully considered the -- the impact of
23 inflation and inflation volatility by utilizing a real
24 liability benchmark. And no changes are planned to
25 our current investment strategy until the asset

1 liability management's recommendations are approved by
2 our Investment Committee.
3 Over the twelve (12) months, ended at
4 March 31st of 2022, the -- the Basic claims portfolio
5 outperformed its benchmark by 2 percent. And the RSR
6 and employee future benefits portfolios outperformed
7 their benchmarks by 1 percent and 1 1/2 percent
8 respectively.
9 The Basic claims portfolio was driven -
10 - the performance was driven by the nonmarketable or
11 MUSH bond portfolio which outperformed its benchmark
12 by 8.2 percent, and also by corporate bonds which
13 outperformed the benchmark by sixty (60) basis points.
14 Within the Rate Stabilization Reserve
15 portfolio, performance was driven there by equities by
16 both of our active Canadian equity managers. Global
17 low volatility equities, real estate, and private debt
18 all outperformed their benchmarks.
19 And within the employee future benefits
20 portfolio, the same sectors outperformed but with --
21 Canadian equities performed slightly better because
22 there was a large allocation to one (1) of our equity
23 managers who had slightly higher returns than the
24 others.
25 And finally, in -- in real estate, we

1 have no exposure to City Place within the employee
2 future benefits portfolio, and so the pooled fund had
3 a strong return last year.
4 In terms of impact on the equity
5 portfolio, equity markets performed very well in 2021
6 as fiscal and monetary stimulus created a risk on
7 environment. So low interest rates sparked investors
8 to pursue equities and -- and other risky assets.
9 As travel and other restrictions were
10 lifted, businesses started to recover and investors
11 felt optimistic. Value style investing has been in
12 favour for the last two (2) years which has helped our
13 Canadian equity portfolio which was up 20 -- 26
14 percent to March 31st of 2022 while Global equities
15 were up a more modest 8.7 percent over the same
16 period.
17 Since March 31st, our equity portfolio
18 has fallen by approximately 7 percent as rising
19 inflation and interest rates bears a recession and
20 conflict in Europe have unsettled financial markets.
21 So, real estate and infrastructure
22 investments are -- are private equity positions in
23 real assets that are long-term in nature. They
24 provide regular income through regulated or
25 contractual revenue streams and are partially linked

1 to inflation, and valuations are appraisal based.
2 To March 31st of 2022, infrastructure
3 return was driven by our investment in a global pooled
4 fund which had a return of 8 1/2 percent. We also had
5 an investment in a toll road in -- in the Toronto area
6 which had a return of 7 percent and, also, a global
7 pooled fund with a return of approximately 4 percent,
8 and, finally, an investment in a UK-based clean water
9 asset which was down 12 1/2 percent.
10 Our real estate pooled fund has
11 performed extremely well, was up almost 17 percent,
12 primarily due to strong returns in the multifamily
13 residential and industrial sectors.
14 Last year yields on federal and
15 corporate bonds increased by eighty-five (85) to a
16 hundred-and-fifty (150) basis points. And after March
17 31st, interest rates continued to increase, rising a
18 further seventy (70) to a hundred-and-twenty (120)
19 basis points.
20 And this increase in yields produced
21 capital losses within our fixed income investment
22 portfolio.
23 Normally, the yield curve is upward
24 sloping, meaning that long-term interest rates are
25 higher than short-term interest rates, in order to

1 compensate investors for lending long-term.
2 However, the yield curve is currently
3 inverted as short-term rates have risen more rapidly
4 than long-term rates.
5 And this situation is rare and
6 generally indicates that a recession is highly likely
7 in the near future.
8 And rising interest rates resulted in
9 loses of 4 1/2 to 5 1/2 percent for MPI's bond
10 holdings last year. As a result, we wrote $29.2
11 million of fixed income assets in 2021/'22 fiscal
12 year.
13 The strong equity market returns last
14 year and the sell-off in -- so far in 2022, does not
15 change the forecasted return for MPI's equity
16 portfolio as the forecast is based on the long-term
17 historical average return for the asset class. But
18 the starting values within the financial model do
19 reflect the reduced market values at March 31st of
20 2022.
21 Forecasted real estate and
22 infrastructure returns are stable as they are based on
23 forecasted inflation as per the Canadian chartered
24 banks, plus a fixed spread of 4 and 5 percent,
25 respectively.

1 The forecast of bond yields is based on
2 two (2) components: The Government of Canada ten (10)
3 year bond yield and spreads.
4 The forecast of the Government of
5 Canada ten (10) year bond yield is based on the actual
6 yield at March 31st, which, at 2.41 percent, was
7 eighty-five (85) basis points higher than the yield
8 one (1) year previous.
9 The forecasted spreads for marketable
10 bonds are based upon actual spreads at March 31st,
11 which, at a hundred-and-three (103) basis points,
12 we're ten (10) basis points higher than the previous
13 year.
14 And income generated by the fixed
15 income portfolio is based upon actual weighted average
16 coupon of the portfolio at March 31st. And is only
17 impacted by changes in market yields to the extent
18 that there is turnover within the portfolio.
19 So next, I'll talk about the objectives
20 of our investment portfolio.
21 So our last asset liability management
22 study helped us to design portfolios that meet these
23 four (4) objectives, which are to reduce premium
24 volatility, so rates charged to customers; and to
25 directly match investments to liabilities to ensure

1 that capital is available to pay claims when
2 necessary; and finally, to take appropriate levels of
3 risk for each portfolio driven by the purpose of the
4 portfolio.
5 In terms of our asset allocation, it's
6 unchanged from last year. So the Basic claims
7 portfolio is invested 100 percent in fixed income
8 assets. So 60 percent is invested in provincial bonds
9 and the remainder in corporate and non-marketable or,
10 what we call, MUSH bonds.
11 The Rate Stabilization Reserve
12 portfolio is a balanced portfolio with 50 percent in
13 fixed income and 50 percent in growth assets, which
14 include real estate infrastructure and equities.
15 And finally, the employee future
16 benefits portfolio is invested 40 percent in fixed
17 income and 60 percent in growth assets.
18 And that's depicted on the next three
19 (3) slides. These pie charts. If you can turn to
20 page 18. Thank you.
21 So this table shows the consolidated
22 corporate investment portfolio by asset class in the
23 second column. The total portfolio is now valued at
24 $3.3 billion. And the highlighted columns show the
25 actual asset allocation at August 31st.

1 Asset -- asset classes highlighted in
2 red are outside of the minimum or maximum weights
3 specified in the investment policy statement. So the
4 RSR portfolio is overweight in real estate by sixty
5 (60) basis points and in infrastructure by twenty (20)
6 basis points at August 31st.
7 While the employee future benefits
8 portfolio was -- was overweight in real estate by
9 fifty (50) basis points. And these slight overweights
10 will be corrected when the new asset allocation
11 targets are implemented.
12 Turning now to our asset liability
13 management strategy. In June of 2021, with the
14 assistance of ADENDA (phonetic), we implemented a
15 strategy called moment matching, which means that we
16 now match both the -- the duration and convexity
17 between the Basic claims assets and liabilities.
18 And duration measures the sensitivity
19 of bond changes to -- bond prices, to changes in
20 interest rates. While convexity measures the -- the
21 curvature of the relationship between bond prices and
22 interest rates.
23 And the duration of convexity are
24 monitored by ADENDA on a daily basis and re-balanced,
25 as necessary. This strategy provides a better

1 protection from non-parallel changes in interest
2 rates. And moment matching is expected to reduce our
3 interest rate risk by approximately 40 percent.
4 And, finally, liability cash flows will
5 be discounted using a full yield curve, rather than a
6 single interest rate, when International Financial
7 Reporting Standard 17 is adopted on April 1st of 2023.
8 This will more accurately capture
9 changes in the yield curve and match how the asset
10 portfolio is actually priced.
11 So, overall the ALM strategy is -- is
12 working very well. The net impact of interest rates
13 from March 31st to August 31st of 2022 was 0.2
14 million, which was 9 1/2 million better than the
15 budgeted amount. And this represents 0.4 percent of
16 the value of the portfolio.
17 During this period, interest rates rose
18 by approximately ninety (90) basis points, causing the
19 market value of the bond portfolio to fall by $128
20 million and the net present value of the Basic Claims
21 to also fall by $128 million, creating the net impact
22 of 0.2 million.
23 This indicates that the strategy is
24 working as designed, as the change in the value of the
25 asset portfolio has matched the change in the value of

1 the liabilities and the net impact of interest rates
2 has been, essentially, zero.
3 So the previous Asset Liability
4 Management Study is now fully implemented. The last
5 asset class to be fully invested was private debt and
6 to -- that occurred in -- in May of 2022.
7 The -- the current Asset Liability
8 Management Study is now complete. We started working
9 with Mercer in December of 2021. Phase 1 considered
10 IFRS 9 and 17, as well as the merits of new fixed
11 income asset classes and non-fixed income asset
12 classes, interest rate risk management strategies and
13 also forecasting of capital markets assumptions.
14 Phase 2 addressed efficient --
15 developed efficient frontiers and identified potential
16 asset mixes on those efficient frontiers.
17 And Phase 3 considered the merits of
18 developing a unique investment strategy for motorcycle
19 assets.
20 The study considered the impact of
21 inflation on MPI's assets and liabilities by using a
22 real liability benchmark. We are not recommending the
23 inclusion of equities or levered bonds in the Basic
24 claims portfolio and we are not recommending that
25 current -- or we are recommending current asset

1 classes only for the non-Basic claims portfolios.
2 And, the final Phase 2 report will be
3 shared once our investment committee has reviewed and
4 approved the recommendations.
5 Turning to interest rate forecasting.
6 Using an accurate forecast of interest rates is
7 critical as interest rates are one (1) of the key
8 inputs into our financial model, which is used to
9 forecast our revenues and expenses.
10 Using an accurate forecast ensures that
11 customers are charged the correct premium. Updating
12 our forecast with interest rates as of August 31st
13 reduces the time between making the forecast and
14 beginning to charge the new rates to customers on
15 April 1st.
16 Using accepted actuarial practice also
17 reduces the impact of interest rates on premiums
18 charged to customers.
19 In terms of forecasting interest rates,
20 MPI's goal is to reduce pricing risk by using the most
21 accurate forecast. A naive forecast simply uses
22 today's actual interest rate as the forecast of future
23 rates. The naive interest rate provides an unbiased
24 forecast and recognizes that interest rates could
25 increase, decrease or remain unchanged.

1 A naive forecast is a better predictor
2 of future interest rates than the previous applied
3 50/50 or standard interest rate forecast
4 methodologies.
5 Over the short term the Bank of Canada
6 overnight rate is not reliably predictive of the
7 direction and magnitude of movements in the Government
8 of Canada ten-year bond rate and the yield on a
9 Government of Canada ten-year bond rate rose from 2.4
10 percent at March 31st to 3.1 percent at August 31st
11 and a further increase -- increased further to 3.5
12 percent on October 14th.
13 So, we asked Mercer to review our
14 capital markets assumptions and how we forecast those
15 and Mercer suggested a number of alternatives. In
16 particular, in relation to interest rates, they
17 suggested that we could consider the use of forward
18 rates, something that we are currently considering and
19 -- and studying, however, forward rates do represent a
20 point-in-time estimate and they can be quite volatile.
21 They also recommended the equilibrium
22 yield approach and this approach, as -- as per Mercer,
23 does require significant judgment so.
24 In conclusion, unique business
25 strategies are -- are better aligned to the -- the

1 purpose and characteristics of the associated
2 liabilities. The investment strategy developed in the
3 last Asset Liability Management Study has now been
4 fully implemented and improvements to the current ALM
5 strategy have reduced interest rate risk exposure.
6 The hed -- hedging strategy is effective, as the
7 impact of interest rates -- changes in interest rates
8 on assets and liabilities has been fully offset.
9   The next Asset Liability Management
10 Study is now complete. It carefully considered the
11 impacts of inflation on both assets and liabilities,
12 as well as changes to the adoption of International
13 Financial Reporting Standards 9 and 17.
14   Once the recommendations are reviewed
15 and improved by MPI's Investment Committee, they will
16 be shared. We won't be making any changes to our
17 investment strategy, until the Asset Liability
18 Management Study is approved by MPI's Investment
19 Committee. Thank you.
20   THE PANEL CHAIRPERSON: Mr.
21 Scarfone...?
22   MR. STEVE SCARFONE: Thank you, Madam
23 Chair. Thanks for that, Mr. Bunston. Just a couple
24 of follow-up questions. Ms. Schubert, if you could go
25 back to Slide 5, please.

1 So, Mr. Bunston, I heard you say that
2 the increase in the bond yield resulted in losses in
3 the Basic claims portfolio and we see that there --
4 reflected there at minus 2.8?
5 MR. GLEN BUNSTON: Yes. That's
6 correct.
7 MR. STEVE SCARFONE: If we contrast
8 that to -- to what we see in the returns for the RSR
9 portfolio and the Employee Future Benefits portfolio,
10 is that largely the result of the asset mixes -- the
11 various asset mixes in those latter two, compared to
12 what's in the Basic claims portfolio?
13 MR. GLENN BUNSTON: Yes. The RSR and
14 employee future benefits portfolios contain growth
15 assets. So, there's real estate, infrastructure,
16 equities in -- in those portfolios and those asset
17 classes performed well last year.
18 MR. STEVE SCARFONE: Yes. Indeed. I
19 think you indicated 35 percent in both the EFB and the
20 RSR, correct, for equities?
21 MR. GLENN BUNSTON: So, those --
22 sorry, it's 50 percent growth assets in RSR and 60
23 percent in Employee Future Benefits. Equities is one
24 of the growth assets.
25 MR. STEVE SCARFONE: Yes, and, so, the

1 -- that's my question then. The alternative
2 investments are also characterized as growth assets?
3 MR. GLENN BUNSTON: Correct. Yes.
4 So, you're right. Both RSR and employee future
5 benefits have 35 percent target weight for equities.
6 MR. STEVE SCARFONE: Okay. And, given
7 those respective performances, Mr. Bunston, why is it
8 that the Corporation is -- is going forward with the
9 same asset mixes, so, maintaining 100 percent fixed
10 income in the RS -- in the Basic claims portfolio?
11 Correct?
12 MR. GLENN BUNSTON: That's -- that is
13 going to be our recommendation to the Investment
14 Committee. Yes.
15 MR. STEVE SCARFONE: And, again, no
16 changes in the asset mixes or the -- the
17 diversification in the RSR and EFB? Is that what I
18 understood you to say?
19 MR. GLENN BUNSTON: We plan to
20 recommend the main -- investing in the same asset
21 classes but rebalancing amongst those asset classes.
22 MR. STEVE SCARFONE: I see. Okay.
23 Thank you for that. And so, given that and those
24 performances that we see there, what was the main
25 driver for the decision to maintain 100 percent fixed

1 income in the Basic claims portfolio?
2 MR. GLEN BUNSTON: Well, the Basic
3 claims portfolio was about ensuring that we have
4 capital in place to -- to pay claims as they come due
5 and also to manage the risks associated with the
6 liabilities, the Basic claims liabilities.
7 And those risks primarily are related
8 to interest rate changes and inflation. And the best
9 hedge against interest rate risk is fixed income
10 assets. And the best hedge against inflation would be
11 real return bonds.
12 MR. STEVE SCARFONE: Okay. Thank you.
13 And what -- what liabilities do the RSR and Employee
14 Feature Benefits portfolios back?
15 MR. GLENN BUNSTON: So there -- there
16 are no liabilities associated with the RSR portfolio.
17 It's essentially retained earnings associated with the
18 Basic claims line of business, while the Employee
19 Future Benefits portfolio is -- supports primarily
20 pension liabilities and also retirement -- future
21 retirement obligations.
22 MR. STEVE SCARFONE: The last
23 Asset/Liability Management Study, you indicated at the
24 end of your presentation, is -- is now fully
25 implemented?

1 MR. GLENN BUNSTON: Yes, that's
2 correct.
3 MR. STEVE SCARFONE: And remind me
4 again, how long that took from the completion of the
5 study for the implementation -- full implementation of
6 -- of all those investments?
7 MR. GLENN BUNSTON: So these -- the
8 study was completed in -- it was in 2018 and we
9 started implementing in -- in the spring of 2019. The
10 -- the liquid asset classes were implemented
11 relatively quickly, so we added global equities that
12 happened within -- within about a month of starting
13 the implementation in -- in April of 2019.
14 The -- the less liquid asset class, the
15 private asset class, which is private debt, took until
16 May of 2022 to be fully implemented. So, it -- it
17 took, I guess, three (3) years to be fully implemented
18 in that asset class.
19 MR. STEVE SCARFONE: And is the
20 expectation the same for the new ALM study,
21 approximately three (3) years to fully implement?
22 MR. GLENN BUNSTON: I think it should
23 be shorter. We are looking at some -- some private
24 asset classes that -- that will take some time to --
25 to get invested in, but we're hopeful that it will

1 take less time, you know, maybe it's about twelve (12)
2 months, potentially, to -- to get fully invested.
3 But the private asset classes depends
4 on the managers finding suitable investments and
5 drawing capital so that the -- the time required is
6 really outside of our control and is dependent on the
7 investment managers finding suitable investments.
8 MR. STEVE SCARFONE: Thank you for
9 that. And given that the last ALM Study was just
10 fully implemented in March of this year, why did the
11 Corporation embark upon a new study this year?
12 MR. GLENN BUNSTON: Well, typically we
13 undertake an Asset/Liability Management Study every
14 four (4) years. It's now been four (4) years. It
15 usually doesn't take as long as it did for this
16 investment strategy to be implemented.
17 Typically, you would want to wait until
18 the strategy is -- had a number of years to -- to be
19 fully implemented to -- to assess the -- the
20 performance of the strategy. But given the upcoming
21 changes, adoption of IFRS 9 and 17, and the fact that
22 it's been four (4) years, we felt that it was prudent
23 to -- to complete an Asset/Liability Management Study
24 now.
25 MR. STEVE SCARFONE: And in addition

1 to the IFRS changes that are afoot, did the inflation
2 pressures that we're now seeing have any impact on
3 that decision? On a new ALM study, that is.
4 MR. GLENN BUNSTON: Yes, they did.
5 During the last ALM study we -- we believed that
6 inflation risk was -- was low and -- which is why we
7 decided to -- to use a nominal liability benchmark in
8 -- as the basis of the study.
9 And clearly, inflation has -- has been
10 a significant issue in the last year and a half. And
11 so, we felt that it was important that we re-evaluate
12 our investment strategy in the light of that.
13 MR. STEVE SCARFONE: Okay. Thank you.
14 Could you also, Ms. Schubert, turn to slide 21,
15 please?
16
17 (BRIEF PAUSE)
18
19 MR. STEVE SCARFONE: So you spoke of
20 the strategy that the Corporation has to hedge against
21 the impact of a change in interest rates, correct?
22 MR. GLENN BUNSTON: Yes, I did.
23 MR. STEVE SCARFONE: And we heard you
24 make reference to a strategy called Moment Matching.
25 We heard about that last year for the first time. And

1 so when you indicate that that strategy is expected to
2 increase the success that the Corporation has on -- on
3 forecasting interest rates by 40 percent, has that
4 occurred since the strategy was implemented?
5 MR. GLENN BUNSTON: Well, we can see
6 here that the performance to date in our current
7 fiscal year has shown that the strategy has,
8 essentially, immunized the impact of interest rate
9 changes since the change in the value of the bond
10 portfolio has -- has offset the change in the value of
11 the -- the liabilities.
12 MR. STEVE SCARFONE: And the
13 Corporation, as I understand it and as referenced in
14 the -- in the presentation, makes use of the ten (10)
15 year Government of Canada bond yield as a -- as a
16 benchmark of sorts for interest rate forecasting?
17 MR. GLENN BUNSTON: Yes. We use that
18 as the -- as the risk-free rate and as the basis of
19 our interest rate forecasting methodology.
20 MR. STEVE SCARFONE: And why is that
21 bond yield selected?
22 MR. GLENN BUNSTON: Well, it was
23 originally selected because it is one (1) of the --
24 one (1) of the few interest rates that's available
25 that's forecasted by the Canadian chartered banks.

1 And it also coincided with the approximate duration of
2 our Basic claims liabilities.
3 MR. STEVE SCARFONE: I see. And does
4 the Corporation expect to make use of that bond yield
5 going forward? Is there any changes that might be
6 considered in that regard?
7 MR. GLENN BUNSTON: Possibly. Like I
8 said, we asked Mercer to review our capital markets
9 assumption forecasting methodologies. They've brought
10 forward a number of recommendations related to
11 interest rates and -- and other asset classes.
12 As you know, we've also recommended
13 changing the -- the duration that is used in terms of
14 the interest rate forecast, and so, if we do -- if
15 that is approved, then we might want to look at using
16 a shorter-term risk-free bond as the basis of the
17 interest rate forecast.
18 MR. STEVE SCARFONE: Okay. And last
19 question: I heard you -- I think I heard you say that
20 the -- the Government of Canada ten (10) year bond
21 yield has increased from 2.4 to 3.1 to 3.5.
22 Why did you tell us that?
23 MR. GLENN BUNSTON: Just highlighting
24 what everybody knows: that both inflation and -- and
25 interest rates have been increasing this year, and --

1 and those are reflected in -- in our -- in our
2 Application, I think.
3 MR. STEVE SCARFONE: Okay. Okay.
4 Thank you. Those are my questions, and I think Mr.
5 Lloyd has a presentation for the Board.
6 THE PANEL CHAIRPERSON: Thank you.
7 Mr. Lloyd...?
8 MR. NEIL LLOYD: Thank you. There was
9 a comment earlier about my predecessor being Dave
10 Makarchuk, and just to give you some context, I mean,
11 I have a really similar background to Dave. I've also
12 been a qualified actuary for about thirty (30) years,
13 and most of that time focussing on the investment
14 side, which is a very similar role to which Dave --
15 Dave played.
16 One (1) slight difference is that I
17 have experience from other countries. I've worked in
18 South Africa, US, and for quite a long time now in
19 Canada as well. (INDISCERNIBLE) slide.
20 I think a lot of these -- the continent
21 slide has largely been covered by what's come before,
22 but just to give you an overview from -- from our
23 side, and we saw there were three (3) different
24 phases. I don't really need to go through the full
25 sort of list, but (INDISCERNIBLE) was added on, which

1 was the assessment of the motorcycle line.
2 I know the phase 2 report hasn't been
3 shared yet, and there was a question-response period
4 where we did actually help -- due to the responses
5 that came back from PUB, CAC, and the -- the
6 Motorcycle Group as well.
7 I'll mention it later, but in phase 1,
8 maybe the first comment is we did actually -- we did
9 actually look into IFRS 9 and 17. It doesn't actually
10 make a material difference to our recommendations, but
11 I know it does have an impact on the organization.
12 In terms of the next slide, we'll talk
13 about the process. I mean, really, this is the
14 process that we followed throughout, and it's the same
15 as we did last year, last -- last time we did the
16 review.
17 And the first thing we do is we discuss
18 the capital market assumptions that we're going to
19 look at. We take into account -- we go over which
20 asset classes we're going to consider, and there's
21 some papers on that that talks of what would be
22 included.
23 We then look at the liabilities that
24 were given, and we come up with proxies or we come up
25 with a fixed-income benchmark that matches those

1 liabilities, and we already covered the fact that we
2 look at both real and nominal liabilities there.
3 We then do an efficient frontier
4 analysis where we're really looking for -- in terms of
5 return, we're looking for the higher -- the higher
6 sort of return in excess of the liability benchmark
7 return. And then we look at that from the risk side.
8 We look at surplus volatility.
9 And then we come up with -- I'm not
10 sure whether it's a recommended portfolio, but we come
11 up with four (4) sort of portfolios we bring forward,
12 one which basically is a higher return for a very
13 similar risk to the current, one that is same sort of
14 -- similar return and lower risk to the current.
15 We then end up with a midpoint which
16 has slightly higher return and slightly reduced risk,
17 and then a fourth option which is an even higher
18 return, and that brings with it slightly higher risk
19 as well. So that gives -- rather than focussing on an
20 infinite number -- infinite range, okay, that gives us
21 shorter groups to have a look at as well.
22 And then we went through every single
23 liability portfolio, and again, I'll comment on it
24 later, but we did on Basic claims split out the short-
25 term liabilities or the -- the Basic short and the

1 longer dated liabilities as well.
2 On the next slide, we talk about the
3 key differences from the 2017/2018 study. I should
4 have mentioned IFRS 9 and 17 on here, but we did --
5 although our first 9 and 17 doesn't really make
6 material differences to the -- to the way we did the
7 study, we do in certain cases highlight the impact on
8 the MCT test as well.
9 The big issues you know about. You've
10 heard the conversation already, that we are focussing
11 on matching both real and nominal fixed-income
12 durations. Last time was just focussing on nominal
13 liabilities.
14 We also tried as far as possible to
15 limit the number of constraints we put in place, and
16 (INDISCERNIBLE) quantify. We certainly try to show
17 the costs of constraints, so what the implications of
18 those constraints was.
19 Remember that attachment a couple of
20 minutes ago, we did look at the Basic claims
21 liabilities, separating out the Basic short versus the
22 Basic long.
23 In terms of capital market assumptions,
24 everybody had some questions on this. I mean,
25 compared to the last study, the returns were updated.

1 In general, they were lower with the same methodology
2 applied.
3 Vola -- volatility and correlations
4 were unchanged. The one (1) difference that did come
5 up -- and again, we had some questions on this from
6 the real estate side and -- so that effectively, last
7 time we had one (1) generic real estate assumption.
8 We now have gone more granular in terms
9 of our real estate -- in terms of our real estate
10 assumptions. So, we had a more specific assumption
11 which impacted the volatility and correlations for
12 core real estate. So that was the one place there was
13 a change, and we answered a question on that earlier.
14 The other issue, the -- the study was
15 done using 31st of December, 2021. The assumptions
16 that we had at that point in time, and there's no
17 doubt that a lot has happened since then.
18 What we did do is we tested the results
19 that we had at 31 Dece -- using the 31 December
20 assumption set verus what happened the 31st of March -
21 - using a 31st of March assumption set.
22 Basically, we found that the
23 recommended portfolios were still -- very much sort of
24 on the efficient frontier. I mean, there were some
25 very minor changes, but nothing material.

1 Really, I think what we found is the
2 relative attractiveness of each asset class did
3 increase or the returns increased, but on the relative
4 basis, nothing materially changed.
5 Having said that, the one (1) think we
6 have agreed to do is we will do a final check using a
7 30th of September capital market assumption set. We
8 don't expect to see any changes to any
9 recommendations, and obviously Glenn's hoping that we
10 don't have any changes, but we think it would be a
11 good thing just to check there isn't anything there
12 that we would need to come back on.
13 And that's the balance of our
14 presentation.
15 THE PANEL CHAIRPERSON: Thank you.
16 Mr. Scarfone...?
17 MR. STEVE SCARFONE: Thank you.
18
19 CONTINUED BY MR. STEVE SCARFONE:
20 MR. STEVE SCARFONE: Just a couple of
21 questions for you, Mr. Lloyd. If we go back to slide
22 2 of the presentation, the overview of -- of the study
23 that -- that Mercer provided to MPIC, in phase 2 -- so
24 we heard from Mr. Bunston that the last ALM study made
25 use of a liability, a nominal liability benchmark,

1 correct?
2 MR. NEIL LLOYD: That is correct.
3 MR. STEVE SCARFONE: And this time
4 around, the Corporation has decided to make use of a
5 real liability benchmark.
6 MR. NEIL LLOYD: That is correct.
7 MR. STEVE SCARFONE: So just, you
8 know, to help everyone in the room understand, do
9 those serve as the foundation going forward in
10 determining the asset mixes? Like why -- why are
11 those benchmark proxies important?
12 MR. NEIL LLOYD: I mean, everything we
13 do is measured against as proxies. So, what we -- if
14 you're not on the efficient frontier, we're looking at
15 excess return over the liability benchmark proxies.
16 So, that's -- we're looking -- we're looking to see
17 how much we can earn beyond that.
18 And then the second thing is, when we
19 look at surplus volatility, we're again looking at how
20 the assets move relative to the liabilities.
21 So, the fact that we're showing now
22 some of the (INDISCERNIBLE) account with nominal and
23 real liabilities means that we should be protected
24 against both interest rate changes, and inflation rate
25 changes, as well.

1 MR. STEVE SCARFONE: Right. So,
2 that's what -- what -- my -- leads to my next
3 question. So, you indicate that with -- with use of -
4 - of the real liability benchmark you can match both
5 real and nominal fixed income durations, correct?
6 MR. NEIL LLOYD: That's correct.
7 MR. STEVE SCARFONE: Why is it that
8 the old liability benchmark that was used, the nominal
9 one, couldn't do that same job?
10 MR. NEIL LLOYD: Because it doesn't --
11 that doesn't take -- that -- when you construct a
12 nominal liability benchmark, you do not look at change
13 in the inflation, you just look at change in interest
14 rates.
15 MR. STEVE SCARFONE: Okay. And -- and
16 I recall -- so, for example, purchasing investments
17 that hedge against inflation, is that possible with
18 use of a nominal liability benchmark?
19 MR. NEIL LLOYD: It's possible but an
20 unlikely conclusion.
21 MR. STEVE SCARFONE: Okay. And I
22 think I recall that from last time that, for example,
23 the purchase of -- of real return bonds, they didn't
24 fit nicely on to the efficient frontier.
25 Would you expect that?

1 MR. NEIL LLOYD: That's correct.
2
3 (BRIEF PAUSE)
4
5 MR. STEVE SCARFONE: And what assets
6 are available that would hedge against the effects of
7 -- of the inflation that we're now seeing?
8 MR. NEIL LLOYD: The -- the obvious
9 one you referred to, which is real return bonds.
10 There can be others. I mean, certainly things like
11 real estate, infrastructure have some -- some
12 inflationary components, as well.
13 You can't argue equities, but I think
14 more specifically, certain growth assets, like
15 infrastructure and real estate would have some
16 inflation hedge, but the primary one would be real
17 return bonds, and that certainly comes through in the
18 study.
19 MR. STEVE SCARFONE: Okay. And I
20 would expect that those types of investments are in
21 high demand right now?
22 MR. NEIL LLOYD: Yes. And, well, I
23 mean it's interesting because the price is and was --
24 they're cheaper today than they were actually when we
25 did the last study. So as long as you're coming

1 through in the price because the interest rates
2 generally have changed.
3 But there is an issue we have raised,
4 which is that you can't make the decision, and then as
5 you have it in -- have the portfolio in place straight
6 away. There will be an mount of time, and it'll be
7 somewhere between -- we think between five (5) to ten
8 (10) months, maybe call it six (6) or twelve (12)
9 months, to build up a portfolio of real return bonds.
10 MR. STEVE SCARFONE: But those --
11 those types of assets are available in the market for
12 purchase?
13 MR. NEIL LLOYD: They are. They --
14 but what -- what actually really happens is there's
15 auctions that happen quite regularly. So, we know
16 that there were four (4) auctions due, so you can get
17 access to them. They are not bought and sold as much
18 as other asset classes though. It's not as easy just
19 to go and build up a portfolio like it is an equity
20 portfolio.
21 MR. STEVE SCARFONE: And I understand
22 that the returns on those types of bonds aren't --
23 aren't large?
24 MR. NEIL LLOYD: They are materially
25 better now than they were four (4) years ago. In

1 fact, actually, they're actually quite significantly
2 better than I think when we did the study. If I
3 recall, there's somewhere in the report we mentioned
4 of a term, which is a negative real yield, and now
5 they're into positive territory.
6 MR. STEVE SCARFONE: And what would
7 the impact -- and -- and I'm sure that the study
8 touches upon this, but just generally, the impact of
9 purchasing assets like that on the overall return of
10 the -- of the portfolio, the Basic claims portfolio?
11 MR. NEIL LLOYD: The Basic claims
12 portfolio. We'd have to specifically look at that
13 and... I think it might reduce the return slightly,
14 but that's not a particular focus. Do you have
15 anything to add?
16 MR. GLENN BUNSTON: Well, when
17 considering the yield of real return bonds, it's
18 important to consider the -- the nominal yield. So,
19 the coupon is -- is a real yield which is relatively
20 low, but the payment to the investor is adjusted for
21 increases in inflation.
22 So, the change in inflation from the --
23 the last coupon date would be added to the -- to the -
24 - the payment. So, the nominal yield is the real
25 yield, plus the change in inflation since the last

1 coupon date.
2 And so, the nominal yield, they're --
3 they're competitive with other Government of Canada
4 nominal bonds because of that inflation adjustment.
5 MR. STEVE SCARFONE: Okay, thank you
6 for that, Mr. Bunston. Give me one (1) moment.
7
8 (BRIEF PAUSE)
9
10 MR. STEVE SCARFONE: Those are all my
11 questions for the Mercer representative. Thanks, Mr.
12 Lloyd.
13 THE PANEL CHAIRPERSON: Thanks, Mr.
14 Scarfone. Mr. Watchman...?
15 MR. ROBERT WATCHMAN: Thank you, Madam
16 Chair. I was wondering if I could have just a couple
17 of minutes to speak to Ms. Schubert about bringing up
18 a document I wish to refer to.
19 THE PANEL CHAIRPERSON: Certainly.
20 Thank you.
21
22 (BRIEF PAUSE)
23
24 MR. STEVE SCARFONE: Madam Chair,
25 while Mr. Watchman is -- is discussing his cross-

1 examination strategy with Ms. Schubert, perhaps -- I'm
2 told now that MPI Exhibit number 63 can now be read
3 into the record. And it is the MPI 2021 annual
4 report.
5
6 --- EXHIBIT NO. MPI-63: MPI 2021 annual report
7
8 THE PANEL CHAIRPERSON: Thank you, Mr.
9 Scarfone. Mr. Watchman...?
10 MR. ROBERT WATCHMAN: Yeah. Thank
11 you, Madam Chair. And -- and that does resolve the
12 issue that I was having.
13
14 CROSS-EXAMINATION BY MR. ROBERT WATCHMAN:
15 MR. ROBERT WATCHMAN: So, good
16 morning, Panel. For those of you I haven't met
17 before, my name is Robert Watchman, and I am one (1)
18 of the Board Counsel.
19 And my questions, some may be directed
20 to a particular individual on the panel, but all of
21 the members are welcome to respond to any of the
22 questions that I might ask.
23 So, I'm going to start with reviewing
24 investment and investment performance over the last
25 year, and I'm going to start with corporate overall.

1 So, we're turning to Exhibit now marked 63, which is
2 the annual report for the Corporation for the year
3 ending March 31, 2022.
4 And if we could turn to page 47.
5
6 (BRIEF PAUSE)
7
8 MR. ROBERT WATCHMAN: And that --
9 well, hold it right there. If we could scroll down
10 actually to the bottom of the page there. And so, the
11 indication there is that the -- I'm sorry, could we go
12 back up to the top first just to introduce this.
13 So, this is cash -- cash equivalence
14 and investments. And so, as at March 31, 2022, if we
15 scroll to the bottom on the far right column, we see
16 that the total was approximately $3.64 billion,
17 correct?
18 MR. GLENN BUNSTON: That was the total
19 at March 31st, 2021.
20 MR. ROBERT WATCHMAN: Okay. And we
21 could scroll back to the top, Kristen. Okay.
22 So, now looking under the headings, the
23 first row, cash and cash equivalence was approximately
24 $197 million?
25 MR. GLENN BUNSTON: That's correct.

1 MR. ROBERT WATCHMAN: And if we scroll
2 down to -- in the blue section, the second last row,
3 which is investment property, they totalled
4 approximately $13.8 million?
5 MR. GLENN BUNSTON: Correct.
6 MR. ROBERT WATCHMAN: And so, then the
7 investment portfolios totalled 3. -- almost $3.4
8 billion, correct?
9 MR. GLENN BUNSTON: Almost 3.6
10 billion.
11 MR. ROBERT WATCHMAN: Oh, sorry, I'm
12 looking at the second last line. No, I'm -- I'm
13 sorry, 3.6 billion, correct.
14 Now, if we could go then to MPI Exhibit
15 4, part 7, investments. And I'm going to page 12 of
16 86.
17 And this is figure INV-2. And this
18 then provide the breakdown of the value of the
19 investment portfolio assets for the Basic line of
20 businesses, correct?
21 MR. GLENN BUNSTON: Yes, that's
22 correct.
23 MR. ROBERT WATCHMAN: And so, that
24 constitutes the Basic claims portfolio, the Rate
25 Stabilization Reserve portfolio, and a pro-rated

1 portion of the employee future benefits portfolio.
2 Correct?
3 MR. GLENN BUNSTON: Correct. Yes.
4 MR. ROBERT WATCHMAN: And so, if we go
5 to the -- about the middle column, where it's 2021/'22
6 actual, and if we go down to line 12, we see that the
7 total assets in those portfolios was approximately 2.9
8 billion.
9 MR. GLENN BUNSTON: Yes, that's right.
10 MR. ROBERT WATCHMAN: And so, relating
11 that back to overall corporate, the 3.6 billion, the
12 Basic line of business portfolios are approximately 81
13 percent?
14 MR. GLENN BUNSTON: Yeah, that sounds
15 right. Subject to check. Yeah.
16 MR. ROBERT WATCHMAN: Now, for -- if
17 we go to the next column there, the 2022/'23 budget,
18 and we go down to line 12, we see that what's
19 forecasted or budgeted for the rating year of this
20 application is total assets of approximately 2.96
21 billion. Correct?
22 MR. GLENN BUNSTON: Correct. Yes.
23 MR. ROBERT WATCHMAN: Now, Kristen,
24 if we could then turn to PUB-MPI-1-43. And looking at
25 Appendix 1 to that Information Request.

1 And now, so this figure, AP-1-2 --
2 sorry, can we go back? One up? 1.1.
3 Now, this represents the -- the asset
4 income -- sorry, for the Basic claims investment asset
5 income. Correct?
6 MR. GLENN BUNSTON: Yes, that's
7 correct.
8 MR. ROBERT WATCHMAN: Sorry. And now,
9 if we could turn to the next page. And this is the
10 breakdown for the Basic line of business portfolios.
11 The asset mix.
12 MR. GLENN BUNSTON: This is the Basic
13 claims portfolio.
14 MR. ROBERT WATCHMAN: Oh, I'm sorry.
15 Basic claims portfolio asset mix.
16 And so, if we look at the third column
17 projected '22/'23, and it's projected to have a total
18 asset value of 2.09 billion at the end of the next
19 rating year?
20 MR. GLENN BUNSTON: Yes, that's right.
21 MR. ROBERT WATCHMAN: And we see that
22 the asset mix below, the projected asset mix below,
23 will be 54 percent provincial bonds, 25 percent
24 corporate bonds, and 21 percent MUSH bonds. Correct?
25 MR. GLENN BUNSTON: That's correct.

1 Yes.
2 MR. ROBERT WATCHMAN: And I believe
3 that the Corporation has said many times that this
4 asset mix was designed to mitigate against interest
5 rate risk. Correct?
6 MR. GLENN BUNSTON: Correct.
7 MR. ROBERT WATCHMAN: And so, it has
8 no growth assets in it?
9 MR. GLENN BUNSTON: That's right.
10 MR. ROBERT WATCHMAN: Now, looking at
11 the relative portion of MUSH bonds in either lines 5
12 or 11, value or percentage, we see that they are
13 projected to decline over the forecast period?
14 MR. GLENN BUNSTON: Yes, that's right.
15 They are projected to decrease to about 14 percent in
16 the final year.
17 MR. ROBERT WATCHMAN: And is that
18 overall -- is that overall decrease at the direction
19 of the province?
20 MR. GLENN BUNSTON: No, it's not.
21 It's based on availability of MUSH bonds, which the
22 province doesn't directly control. They're issued
23 primarily by municipalities in Manitoba. And so, for
24 the last number of years, the issuance of those bonds
25 has been quite limited, in the range of $20 to $40

1 million.
2 And so, we have -- we've been buying 20
3 to 40 million for the last couple of years.
4 MR. ROBERT WATCHMAN: So perhaps I
5 should have rephrased my question. Is -- is the
6 decline based upon guidance from the province as
7 opposed to direction?
8 MR. GLENN BUNSTON: Well, the province
9 provides us with estimates of what they believe will
10 be available for the coming year.
11
12 (BRIEF PAUSE)
13
14 MR. ROBERT WATCHMAN: Now, if --
15 Kristen, if we could return to that Exhibit 63, this
16 time at page 51. And I'm now -- I'm changing topics.
17 I'm going to investment income.
18 And so, if we look at this page, from
19 the annual report, we see that, corporately, total
20 investment income as at March 31, 2022, saw a decrease
21 of $45.4 million?
22 MR. GLENN BUNSTON: Yes, that's right.
23 MR. ROBERT WATCHMAN: So that's
24 investment loss over the course of that period?
25 MR. GLENN BUNSTON: Negative net

1 investment income, yes.
2 MR. ROBERT WATCHMAN: Now, if we look
3 at the first row under the headings and we see
4 interest income. We see that, for 2022, as compared
5 to 2021, they were relatively equal. Correct?
6 MR. GLENN BUNSTON: Yes. Seventy --
7 rounding 72 million in 2022 versus 71 million in 2021.
8 MR. ROBERT WATCHMAN: And if we go to
9 the third column, unrealized losses on fair value
10 through profit and loss bonds, we see a significant
11 difference there year over year.
12 From a $10 million loss to a $129.4
13 million loss?
14 MR. GLENN BUNSTON: Yes, that's
15 correct.
16 MR. ROBERT WATCHMAN: And what is that
17 loss attributable to?
18 MR. GLENN BUNSTON: That's driven by
19 the increase in interest rates that I mentioned.
20 Higher interest bond prices move inversely with
21 interest rates. And so, the -- we had unrealized
22 losses on the bonds that had not been sold during the
23 year because of the increase in interest rates, which
24 was offset by a similar reduction in the -- in the
25 value of the Basic claims liabilities, which are also

1 interest rate sensitive.
2 MR. ROBERT WATCHMAN: Now, the other -
3 - there's a loss -- the second row before total
4 recovery impairment of -- I believe that's available
5 for sale investments, is that -- is that what AFS
6 stands for?
7 MR. GLENN BUNSTON: Yes, available for
8 sale investments.
9 MR. ROBERT WATCHMAN: And so, we see a
10 write-off of twenty -- a little over $29 million?
11 MR. GLENN BUNSTON: Correct.
12 MR. ROBERT WATCHMAN: And can you tell
13 us what that is attributable to?
14 MR. GLENN BUNSTON: Yes. So we have a
15 -- a policy that -- where we review all of our
16 investments every year for impairment. The policy
17 looks at two (2) things; whether the impairment has
18 been prolonged, which we define as a period of twelve
19 (12) months or more, or significant. And so, we had
20 these -- we had a number of fixed income investments
21 that met the policy and were written down.
22 So that -- what that means is that the
23 -- the market value of those investments was lower
24 than their book value -- lower than the purchase
25 price. And so, they were written down.

1 (BRIEF PAUSE)

2

3 MR. ROBERT WATCHMAN: Now, can you
4 confirm that the write-down was, generally speaking,
5 allocated to employee future benefit?
6 MR. GLENN BUNSTON: Yes, I believe
7 that is -- was the case.
8 MR. ROBERT WATCHMAN: And -- and that
9 loss related to both corporate bonds and private debt?
10 MR. GLENN BUNSTON: Yes.
11 MR. ROBERT WATCHMAN: And, so as -- as
12 we know the employee future benefit portfolio is pro-
13 rated as between Basic and Non-Basic lines of
14 business?
15 MR. GLENN BUNSTON: Correct, yeah.
16 MR. ROBERT WATCHMAN: And, relative --
17 you know, approximately 75 percent is allocated to
18 Basic?
19 MR. GLENN BUNSTON: Correct. Yeah.
20 MR. ROBERT WATCHMAN: So, of that 29.1
21 million, approximately 22 million was allocated to
22 Basic.
23 MR. GLENN BUNSTON: That sounds about
24 right, yes.
25

1 (BRIEF PAUSE)

2

3 MR. ROBERT WATCHMAN: Now, my

4 understanding that Basic's share of overall corporate

5 investment loss was 47.2 million? And I can perhaps

6 direct you to -- to a pro forma.

7 Kristen, could we -- Kristen, could we

8 send -- go to Exhibit 58 and turn to page 6 of 56 pro

9 forma 1, statement of -- and if we go down to line 32,

10 net investment loss. And so, we have there the -- in

11 the first column -- sorry, can we see what the -- the

12 -- that -- that column is 2021/'22 actual.

13 So, we see a net investment loss of

14 47.2 million, correct?

15 MR. GLENN BUNSTON: Yes, that's

16 correct.

17 MR. ROBERT WATCHMAN: And so that

18 number 42 million -- sorry, 47.2 million is greater

19 than the overall corporate loss of 45.4 million?

20 MR. GLENN BUNSTON: Yes, that's

21 correct.

22 MR. ROBERT WATCHMAN: And how do we

23 reconcile that?

24

25 (BRIEF PAUSE)

1 MR. GLENN BUNSTON: Can you turn to
2 the schedule for invest -- investment income for the
3 Basic line of business. That -- that's the balance
4 sheet. Again, that was --
5 MR. ROBERT WATCHMAN: No, I -- Kristen
6 can we turn to INV-1.
7
8 (BRIEF PAUSE)
9
10 MR. GLENN BUNSTON: Well, in order to
11 adequately explain that, I think what I need to do is
12 compare the -- the actual investment income for each
13 of the five (5) portfolios to see how the -- the
14 investment income for each of them and, particularly,
15 Basic claims -- or sorry, EFP to understand how they
16 roll up to this $47 million for the Basic claims line
17 of business.
18 MR. STEVE SCARFONE: So, Mr. Watchman,
19 I -- I thought I was following along, but maybe not.
20 The 47.184 number to be reconciled, the -- what was
21 the other number.
22 MR. GLENN BUNSTON: It was 45.4
23 million which was Corporate overall investment loss.
24 MR. STEVE SCARFONE: Right, so one (1)
25 from the annual report the other from Exhibit 58?

1 MR. GLENN BUNSTON: Correct.
2 MR. ROBERT WATCHMAN: Now, I -- I may
3 be of some assistance, if we could go back to Exhibit
4 58, Kristen, and if we could go to pro forma EFP-1 on
5 page 20. And if we scroll down -- so this is the
6 first column 2022 actual and if we go down to line 27,
7 we see investment -- oop, 27, no -- it's page 20 of
8 56.
9 And if we look down to line 27, we see
10 there it -- so, for example, Extension experienced net
11 in -- investment income increase. So that's -- that
12 would operate as an offset to losses in the Basic line
13 of business, is that where we're going with this?
14 MR. GLENN BUNSTON: Yes, it appears
15 there was a positive net income in investment -- in --
16 the Extension, yes, which would offset part of the
17 loss.
18 MR. ROBERT WATCHMAN: And -- and --
19 and that -- and then that's sufficient for our
20 purposes, so I'll -- I'll just move on.
21 Now, okay, now one thing -- I'd like to
22 take a moment to -- to address some matters in terms
23 of where we are in this Application process and the
24 key factors that result in alternate rate indications
25 and -- and -- and so my questions are not intended as

1 a criticism, but just to make sure everybody
2 understands exactly where we are as of today.
3 And so -- with the GRA itself it was
4 filed in July, on July 12th, largely based upon
5 information as at March 31, 2022, using a new money
6 yield of 3.43 percent, which resulted in an overall
7 rate request of negative 0.9 percent. Correct?
8 MS. CARA LOW: Correct.
9 MR. ROBERT WATCHMAN: And then, in --
10 in accordance with past practice in the procedural
11 order in this matter, a -- a rate update was filed on
12 October 20 -- sorry, October 12th, 2022, which is in
13 the record as MPI Exhibit 50.
14 And now that update was based upon
15 information available as at August 31, 2022 and used a
16 new money yield of 4.05, resulting in a revised rate
17 request of minus 0.1 percent. Correct?
18 MS. CARA LOW: That would be correct.
19 It was the interest rate as of August 31st. Actual
20 claims date as of July 31st.
21 MR. ROBERT WATCHMAN: Thank you. Now,
22 shortly before the commencement of the hearing two (2)
23 pre-asks were submitted to MPI on behalf of the Board,
24 requesting a rate update, using information available,
25 as at August 31, 2022, but using a new money yield as

1 determined in preg -- prior GRAs, which the Board
2 advisors anticipated would be 4.24 percent?
3 MS. CARA LOW: Correct.
4 MR. ROBERT WATCHMAN: Correct? Thank
5 you. And, on October 20, 2022, MPI filed its response
6 to pre-ask 1, which is this Exhibit 58 that we've been
7 looking at? Correct?
8 MS. CARA LOW: Correct.
9 MR. ROBERT WATCHMAN: And the two (2)
10 items of note with respect to Exhibit 58, the first
11 being that, in providing the response, MPI used a new
12 money yield of 4.17 percent rather than the 4.24
13 percent that was anticipated and the result was, if I
14 got -- if I understand the materials correctly, a rate
15 indication of negative 0.3 percent?
16 MS. CARA LOWE: Correct.
17 MR. ROBERT WATCHMAN: And during last
18 week's proceedings, MPI undertook to provide a rate
19 update, using the 4.2.4 (sic) yield, which it
20 anticipated would be able to provide -- the
21 Corporation would be able to provide later this week?
22 MS. CARA LOW: That is correct.
23 MR. ROBERT WATCHMAN: Now, the second
24 matter with respect to Exhibit 58 and, Kristen, can we
25 go to the second page of Exhibit 58 and just scroll

1 down to the -- to the paragraph under Response.
2 So, now, the second aspect of this
3 exhibit that's important to note is that, in the
4 course -- in course of preparing the response to the
5 pre-ask, MPI discovered that there was an error in the
6 original October update?
7 MS. CARA LOW: That is correct.
8 MR. ROBERT WATCHMAN: And so -- and
9 that's the note there that said while preparing the
10 revised rate update per Part A of this pre-ask, MPI
11 discovered that the net income in the original rate
12 update was overstated by $57 million.
13 Claims incurred, interest rate impacts,
14 as at August 31, 2022, whereas investment income
15 incurred -- sorry, included interest rate impacts as
16 of July 31, 2022, causing this $57 million difference.
17 And so, now, the pro formas have been
18 revised to ensure that the interest rate impacts and
19 investment income interest rate impacts are as at
20 August 31, 2022 and both pre-ask 1 and 2 reflect this
21 change. Correct?
22 MS. CARA LOW: That is correct. So,
23 the error was in a pro forma not in a AAP rate
24 indication.
25 MR. ROBERT WATCHMAN: Oh, so, okay, so

1 -- so -- so, where we are today, as I understand it,
2 it's -- it's M -- it is still the Corporation's
3 position that the appropriate new money yield is 4.05
4 percent?
5 MS. CARA LOW: That is correct.
6 MR. ROBERT WATCHMAN: And that the
7 Corporation is currently providing a new update, based
8 upon that 4.05 percent new money yield but with this
9 correction in income overstatement?
10 MS. CARA LOW: No. The minus -- like
11 at 4.05, which is in the AAP rate-making, that results
12 in a minus 0.1 percent, that is correct. That is not
13 being -- we are not providing a revised one.
14 MR. ROBERT WATCHMAN: Okay. So,
15 you're not providing -- okay, are you providing a
16 correction, then, to Exhibit 50, as it relates to this
17 yeah -- yeah, net income overstatement?
18 MS. CARA LOW: Sorry. I would need to
19 see Exhibit 50.
20 MR. ROBERT WATCHMAN: Well, okay. I'm
21 just -- well, I'm just -- if we could perhaps just
22 stay here for a minute. I'm just trying to get an
23 understanding as to -- there was an error indicated
24 here and that error was used in preparing Exhibit 50,
25 was it not?

1 MS. CARA LOW: I would need to see
2 what Exhibit 50 is.
3 MR. ROBERT WATCHMAN: Okay.
4 Certainly. If we could go to Exhibit 50?
5 MR. STEVE SCARFONE: That's the
6 October 12 update.
7 MS. CARA LOW: No. The error was in
8 the forecasted income statement. The forecasted
9 income statement is not used for AAP rate-making.
10
11 CONTINUED BY MR. ROBERT WATCHMAN:
12 MR. ROBERT WATCHMAN: Okay. So, the
13 Corporation's pos -- position now, then, is that the
14 rate request, based upon new money yield of 4.05
15 percent results in a rate request of negative 0.1
16 percent overall?
17 MS. CARA LOW: That is correct.
18 MR. ROBERT WATCHMAN: Thank you.
19 Okay. Could we have an undertaking to refile the PF-1
20 from Exhibit 50, correcting the income error?
21
22 (BRIEF PAUSE)
23
24 MR. STEVE SCARFONE: Yep. Mr.
25 Watchman, we can make that undertaking.

1 Oh, I'm supposed to have you --
2 MR. ROBERT WATCHMAN: -- review it?
3 MR. STEVE SCARFONE: Yes.
4 MR. ROBERT WATCHMAN: Okay. So, the
5 undertaking is to provide a revised PF-1 from Exhibit
6 50, which is the October 12th update, which corrects
7 for the net income overstatement identified in Exhibit
8 58.
9 MR. STEVE SCARFONE: Thank you.
10 MR. ROBERT WATCHMAN: Sorry, as well,
11 I probably should have asked for similar updates to
12 PF-2 and PF-3, if that's acceptable?
13 MR. STEVE SCARFONE: Yes. That's --
14 that's acceptable. Thank you.
15
16 --- UNDERTAKING NUMBER 24: MPI To provide a
17 revised PF-1, PF-2,
18 and PF-3 from
19 Exhibit 50, which is
20 the October 12th
21 update, which
22 corrects for the net
23 income overstatement
24 identified in
25 Exhibit 58.

1 CONTINUED BY MR. ROBERT WATCHMAN:
2 MR. ROBERT WATCHMAN: So, Kristen, if
3 we could return to Exhibit 58, page 6 of 56, which is
4 the PF-1. And, if we could keep one finger on this
5 pro forma and, then, bring up the pro forma from Part
6 5 of the Application pro formas, PF-1, which is page 5
7 of 29, and we could just scroll to the top of that.
8 So, this is the pro forma 1 from the
9 original Application? Correct?
10 MS. CARA LOW: Correct.
11 MR. ROBERT WATCHMAN: And, so, this
12 was based upon a new money yield of 3.43 percent.
13 Is that correct?
14 MS. CARA LOW: Correct?
15 MR. ROBERT WATCHMAN: And, if we --
16 looking at the second column of numbers, which is the
17 2023 forecast budget and, if we scroll down to Line
18 30, we see that forecast net investment income was
19 $136 million?
20 MS. CARA LOW: That is correct.
21 MR. ROBERT WATCHMAN: And, so, if we
22 could go back to Exhibit -- sorry, Exhibit 58, the pro
23 forma 1, and we look at the similar column -- the
24 second column, forecast budget 2023, we see that
25 investment income has decreased to 125.7?

1 MS. CARA LOW: Correct.
2 MR. ROBERT WATCHMAN: For a change of
3 $10 million?
4 MS. CARA LOW: Correct.
5 MR. ROBERT WATCHMAN: And we see there
6 -- sorry, we see there -- sorry, for flipping back and
7 forth, that the interest rate impact is $124.4
8 million?
9 MS. CARA LOW: Correct.
10 MR. ROBERT WATCHMAN: And so, the --
11 the net investment income now being forecast -- oh,
12 sorry, based upon Exhibit 58, is approximately $1.3
13 million?
14 MS. CARA LOW: Correct.
15 MR. ROBERT WATCHMAN: So, that's down
16 from the 136 million in the original application?
17 MS. CARA LOW: Correct.
18 MR. ROBERT WATCHMAN: And is that --
19 so, I take it that that difference is primarily due to
20 the interest rate impact, correct?
21 MS. CARA LOW: One (1) minute, please.
22
23 (BRIEF PAUSE)
24
25 MS. CARA LOW: Sorry, could you repeat

1 the question?
2 MR. ROBERT WATCHMAN: So, is -- is the
3 decrease in forecast budget, net investment income
4 from 136.1 million to 1.3 million, that is primarily
5 due to the interest rate impact?
6 MS. CARA LOW: That would be correct.
7 MR. ROBERT WATCHMAN: Now...
8
9 (BRIEF PAUSE)
10
11 MR. ROBERT WATCHMAN: Could we turn to
12 the investment presentation from this morning? And I
13 believe it's slide 21. Thank you.
14 And we see there that the increase in
15 claims incurred due to discount rate change is $128.2
16 million?
17 MR. GLENN BUNSTON: Yes, that's what
18 the slide shows.
19 MR. ROBERT WATCHMAN: And then -- and
20 then 128.4 for claims impact -- or -- or sorry,
21 investment income impact?
22 MR. GLENN BUNSTON: Yes, a loss --
23 unrealized and realized loss of $128.4 million on
24 marketable bonds.
25 MR. ROBERT WATCHMAN: And if --

1 Kristen, if we could turn back to Exhibit 58, PF-5,
2 page 9 of 56. There we are.
3 And if we could look at line 16 and if
4 we look at line 16 we see claims incurred interest
5 rate impact for the -- under the update is 134.3
6 million?
7 MR. GLENN BUNSTON: Yes, that's what
8 that says.
9 MR. ROBERT WATCHMAN: Okay. And
10 should that not correspond to the figure in your
11 slide?
12
13 (BRIEF PAUSE)
14
15 MR. STEVE SCARFONE: Mr. Watchman, can
16 the panel take that away and reconcile those two (2)
17 numbers for you after -- after the break, or even
18 perhaps end of day?
19 MR. ROBERT WATCHMAN: That -- that
20 would be appropriate. And perhaps, Madam Chair, given
21 that, that this might be a -- a good time for the
22 morning break.
23 THE CHAIRPERSON: Yes, thank you, Mr.
24 Watchman. It's 10:27 right now. We'll return at
25 10:45, please.

1

2 --- Upon recessing at 10:27 a.m.

3 --- Upon resuming at 10:52 a.m.

4

5 THE PANEL CHAIRPERSON: Mr.

6 Watchman...?

7 MR. ROBERT WATCHMAN: Thank you, Madam

8 Chair.

9

10 CONTINUED BY MR. ROBERT WATCHMAN:

11 MR. ROBERT WATCHMAN: I'm going to now

12 change to the topic of interest rate forecasting, and

13 as you may be aware that in the -- in the past GRAs,

14 certainly, interest rate forecasting has taken up a

15 considerable portion of the hearing.

16 And going back even as far as the '27 -

17 - sorry, the 2017 GRA, we had different variations and

18 models of forecasting presented. And back in the 2017

19 GRA, there was something referred to as the IRF-IRF,

20 the IRFRF, interest rate forecast risk factor. That's

21 before all your time, so I -- I won't go into that.

22 But just to review part of that

23 history, in the 2018 GRA -- and if we could go,

24 Kristen, to Board Order 130/'17 at page 69, and we see

25 there -- yes, right there.

1 "Given that interest rates have
2 begun to rise in recent months, the
3 Board does not accept that the naive
4 forecast should be relied on for
5 rate-setting purposes."
6 And if we go down a paragraph, the one
7 beginning -- and the only expert testimony before the
8 Board on interest-rate forecasting was from CAC's
9 expert, Dr. Simpson.
10 "The Board accepts the evidence of
11 Dr. Simpson that a 50/50 interest
12 rate forecast is the appropriate
13 approach for rate setting and tar --
14 in those days, target capital
15 purposes."
16 So the Board's position at that time
17 was that given rises in -- in interest rates in recent
18 months before the GRA that it was more appropriate to
19 use the 50/50 interest rate forecast. And -- and for
20 the -- for the record, the 50/50 interest rate
21 forecast is the average between a naive forecast and
22 the standard interest rate forecast.
23 Is that your understanding?
24 MR. GLENN BUNSTON: Yes, that's
25 correct.

1 MR. ROBERT WATCHMAN: And then turning
2 ahead, Kristen, if we could go to Board Order 159/'18,
3 and towards the bottom of the page, this is where the
4 decision addressed interest rate forecasting and put
5 the:
6 "This Application included
7 considerable discussion of the
8 appropriate basis for interest rate
9 forecasting as in previous years.
10 The naive interest rate forecast
11 which was proposed by the
12 Corporation assumes no change in
13 market interest rates going forward
14 from the starting forecast date in
15 the Application filed the end of
16 February 2018."
17 And so ultimately, the Board then
18 approved the naive forecast for the 2019 GRA.
19 Do you recall that?
20 MR. GLENN BUNSTON: Yes, I recall
21 that.
22 MR. ROBERT WATCHMAN: Now moving ahead
23 to the 2021 GRA. And, Kris -- Kristen, if we could go
24 to Order 121/'21, and page 36. And you'll see there
25 the -- the second paragraph:

1 "The Board's approval of the use of
2 the naive interest rate forecast is
3 consistent with its position taken
4 in Board Order 176/'19, as well as
5 159/'18. The Board finds that the
6 volatility in market interest rates
7 and the uncertainty in forecasting
8 their movement are self-evident.
9 The Board acknowledges that Basic
10 insurance operations are less
11 sensitive to interest rate movements
12 because of recent ALM initiatives,
13 and that the use of AAP rate-making
14 has reduced interest rate
15 forecasting risk by shortening the
16 length of the interest rate forecast
17 needed in the derivation of rate
18 indications."
19 And scrolling to the next paragraph:
20 "The Board's approval of the use of
21 the naive interest rate forecast
22 follows its finding in Board Order -
23 - sorry, in Order 159/'18 that this
24 represents a best estimate for rate-
25 setting purposes.

1 "The Board notes that in Order
2 159/'18, it also observed that,
3 prior to the 2017 GRA, the parties
4 applied the Standard Interest Rate
5 Forecast, SIRF, notwithstanding
6 eight (8) years of flat interest
7 rates, and there was inconsistency
8 from year to year in the interest
9 rate forecasts advocated by the
10 parties."
11 See that there?
12 MR. GLENN BUNSTON: Yes, I do.
13 MR. ROBERT WATCHMAN: And so since the
14 -- the 2018 GRA, the Corporation has been advocating
15 the use of the naive interest -- naive interest rate
16 forecast. Is that correct?
17 MR. GLENN BUNSTON: Yes, that's
18 correct.
19 MR. ROBERT WATCHMAN: And the
20 countervailing position through the years has been
21 that, while these rates have been so low and so stable
22 for so long, they're just bound to go up.
23 Is that a fair summary of the -- of the
24 counterpoint?
25 MR. GLENN BUNSTON: Well, I think we -

1 - we arrived at the naive forecasting methodology
2 because we had been relying on the -- the banks to
3 forecast interest rates, which was the foundation of
4 the Standard Interest Rate Forecasting methodology, or
5 the SIRF.
6 And we found the banks to be
7 consistently wrong, frankly, because they assumed a --
8 a simple reversion to the long-term mean, and that
9 caused the Corporation to -- to forecast rising
10 interest rates which -- which never materialized, or
11 didn't for a very long period of time, and caused the
12 Corporation to overestimate its -- its net income.
13 So we decided to abandon the banks'
14 forecast as the basis of our forecast and recommended
15 the -- just the naive.
16 MR. ROBERT WATCHMAN: And now, given
17 global events over the -- the past two (2) years,
18 we've seen the impact, particularly in this year, with
19 increasing interest rates, correct?
20 MR. GLENN BUNSTON: Interest rates
21 have increased over the last eighteen (18) months,
22 yes.
23 MR. ROBERT WATCHMAN: And as those
24 increases came into being, was it not -- would you not
25 say it was -- it was more predictable that these rates

1 were going to occur and the magnitude of the
2 increases?
3 MR. GLENN BUNSTON: Well, I would say
4 that there were expectations in the marketplace that -
5 - that central banks were going to increase short-term
6 administered rates.
7 Longer-term interest rates the central
8 banks do not control, and so there's less certainty
9 with those rates. And in fact we've seen the
10 inversion of the yield curve, which means that the
11 long-term rates have not risen in lockstep with the
12 short-term rates, so... But, yes, interest rates have
13 increased over the last eighteen (18) months, there's
14 no doubt.
15 MR. ROBERT WATCHMAN: Yeah. And --
16 and the point I was attempting to make is that it
17 seems to be more predictable -- has been more
18 predictable over the past year. And in your
19 testimony, you referred to two (2) anticipated -- two
20 (2) further anticipated increases in interest rates?
21 MR. GLENN BUNSTON: Marketplace is
22 anticipating that the -- the Bank of Canada will hike
23 increased interest rates two (2) more times this year,
24 which is the short-term overnight interest rate that
25 they control specifically.

1 MR. ROBERT WATCHMAN: And that will --
2 those increases would have an impact on the rating
3 year?
4 MR. GLENN BUNSTON: Well, those would
5 happen in the current year, so they would -- they
6 would be -- they would occur before the rating year.
7 But, as I said, the yield curve is inverted, and so
8 increases by the Bank of Canada do not necessarily
9 translate on a one-for-one basis to increases in
10 yields and long-term interest rates.
11 MR. ROBERT WATCHMAN: Now, I'm -- I'm
12 going to turn to different aspects of the Mercer
13 report because in the Mercer report, there is
14 commentary about alternatives to MPI's interest rate
15 forecasting.
16 Is that correct?
17 MR. GLENN BUNSTON: That's correct.
18 MR. ROBERT WATCHMAN: Okay. And,
19 Kristen, if we could turn to in -- from the
20 Application, it's part 7, INV, attachment B. I
21 believe it's -- ah, thank you.
22 So, this is the -- phase 1 of the asset
23 liability study dated March 17, 2022, correct?
24 MR. GLENN BUNSTON: Correct.
25 MR. ROBERT WATCHMAN: And I'm just

1 going to turn to page 26 of 33.

2

3 (BRIEF PAUSE)

4

5 MR. ROBERT WATCHMAN: And if we could

6 scroll down toward the bottom of the page, Kristen.

7 There. A little bit more. And we see there the

8 comment at the last paragraph:

9 "MPI could consider an interest rate

10 forecasting methodology that allows

11 for changes in future assumed

12 interest rates rather than holding

13 them constant throughout the

14 projection period."

15 You see that?

16 MR. GLENN BUNSTON: Yes, I do.

17 MR. ROBERT WATCHMAN: Now, is the --

18 the Corporation considering altering its interest rate

19 forecasting based upon the Mercer report?

20 MR. GLENN BUNSTON: We are reviewing

21 our interest rate forecasting methodology in light of

22 their recommendation, yes.

23

24 (BRIEF PAUSE)

25

1 MR. ROBERT WATCHMAN: And so now, if I
2 understand it, the -- is the -- the methodology that
3 Mercer is referring to is a forward-rate methodology.
4 Is that correct?
5 MR. GLENN BUNSTON: Well, there were
6 two (2) methodologies. For -- the one that's
7 highlighted here is -- is the -- what's called the
8 equilibrium yield methodology, I believe, which is
9 outlined on this page and the top of the next page.
10 And below that, they talk about the forward rates.
11 MR. ROBERT WATCHMAN: And...
12
13 (BRIEF PAUSE)
14
15 MR. ROBERT WATCHMAN: Kristen, if we
16 could go to IR PUB-MPI-114.
17
18 (BRIEF PAUSE)
19
20 MR. ROBERT WATCHMAN: And if we could
21 scroll to page 2, towards the bottom. And this is
22 that reference to considering alternate methodology.
23 And so, with respect to the first
24 suggested methodology, the Corporation's position was
25 that, while it requires significant professional

1 judgment for all assumptions such that -- such as the
2 level of equilibrium Government of Canada yield curve
3 (INDISCERNIBLE) of conversion to the equilibrium and
4 the path of convergence.
5 And the conclusion there, as I
6 understand it, is MPI will not be pursuing this
7 recommendation. Is that correct?
8 MR. GLENN BUNSTON: Yes, that's
9 correct.
10 MR. ROBERT WATCHMAN: Okay. And so,
11 the -- the following is an alternative approach
12 recommended by Mercer. If we could go to the next
13 page, please.
14 Rather than making an assumption for an
15 equilibrium Government of Canada yield curve, another
16 possible methodology is to take a more neutral view on
17 interest rates and use forward rates.
18 And the Corporation's response was:
19 "This recommendation uses forward
20 rates that are available in the
21 market. It is most appropriate for
22 short-term forecasting of about five
23 (5) years, which is the current
24 forecasting period MPI uses, and it
25 requires no judgment.

1 MPI will evaluate the merits and
2 risks of changing its forecasting
3 methodology. MPI's primary
4 objective is rate stability and
5 conservatism.
6 MPI will attempt to gather
7 historical forward rates in order to
8 assess the accuracy of forward rates
9 relative to other methodology,
10 including naive."
11 Correct? That's the position of the
12 Corporation?
13 MR. GLENN BUNSTON: That was our
14 response to the Information Request, yes.
15 MR. ROBERT WATCHMAN: And can you tell
16 us where you are in your evaluation of this
17 forecasting methodology?
18 MR. GLENN BUNSTON: Yes. We have
19 gathered historical forward rates. And we're in the
20 process of evaluating them right now.
21
22 (BRIEF PAUSE)
23
24 MR. ROBERT WATCHMAN: Kirsten, if we
25 could -- Kristen rather, if we could go to IR PUB-MPI-

1 2-59.
2
3 (BRIEF PAUSE)
4
5 MR. ROBERT WATCHMAN: And the -- the
6 subject matter of this Information Request was the
7 possible transferring of pension management to the
8 province. Do you see that?
9 MR. GLENN BUNSTON: Yes, I see that.
10 MR. ROBERT WATCHMAN: And so, this
11 would involve transferring the Corporation's pension
12 assets and obligations to the province or some other
13 holder?
14 MR. GLENN BUNSTON: It would involve
15 transferring a significant portion of the pension
16 assets and liabilities to the province, yes.
17 MR. ROBERT WATCHMAN: And would you
18 anticipate on that transfer a gain or a loss?
19 MR. GLENN BUNSTON: Well, it depends
20 on the interest rates on that date. I think what we
21 filed in response to this question was, at -- at -- as
22 of that date, we expected a gain, but that could
23 change depending on the level of interest rates on
24 that date of the transfer.
25 MR. ROBERT WATCHMAN: And so, that

1 response was September 27th. Do you have any sense as
2 to timing, first, in terms of transfer and what the
3 rates would be?
4 MR. GLENN BUNSTON: Well, I think we
5 indicated in our response to the Information Request
6 was that the decision is really with the Province of
7 Manitoba. And we didn't expect any transfer to happen
8 until I think it was '23/'24, so it's really in the
9 Province's hands to make that decision at this point
10 because the timing is outside of our control.
11 MR. ROBERT WATCHMAN: And if I
12 understand your correct -- your answer correctly, it's
13 not all of the pension assets, but a significant
14 portion thereof.
15 Can you indicate what portion is
16 remaining and why?
17 MR. GLENN BUNSTON: Yes. So, the
18 pension assets would transfer, but there's other
19 future benefits that would -- would not transfer. So,
20 severance I think is -- is one (1) of them. There's
21 also benefits related to so-called high -- high
22 earners that would remain on MPI's books.
23 MR. ROBERT WATCHMAN: Okay. I'm going
24 to change topics again. And -- just so it doesn't
25 seem to be too random. Mr. Bunston, you'll be glad to

1 hear that two (2) of the panels last week deferred
2 questions to this panel. So here they are.
3 And Kristen, if we could turn to PUB-
4 MPI-122.
5
6 (BRIEF PAUSE)
7
8 MR. ROBERT WATCHMAN: Sorry, it's 1-
9 122.
10
11 (BRIEF PAUSE)
12
13 MR. ROBERT WATCHMAN: And -- and the
14 subject matter here is the claims discount rate
15 approach.
16 MR. GLENN BUNSTON: Yes, that's
17 correct.
18 MR. ROBERT WATCHMAN: And the use of
19 the top-down approach?
20 MR. GLENN BUNSTON: Correct.
21 MR. ROBERT WATCHMAN: And so, as I --
22 and so, our understanding is -- is that the
23 Corporation and -- and this relates to IFRS 17, is
24 that correct?
25 MR. GLENN BUNSTON: Yes.

1 MR. ROBERT WATCHMAN: And that the
2 Corporation can choose either a reference portfolio or
3 an actual portfolio for the selection of its discount
4 rate?
5 MR. GLENN BUNSTON: That's correct.
6 MR. ROBERT WATCHMAN: And you are --
7 and the Corporation is -- has decided to use which
8 portfolio?
9 MR. GLENN BUNSTON: We've decided to
10 use a reference portfolio.
11 MR. ROBERT WATCHMAN: And if, instead,
12 the Corporation had selected the actual portfolio,
13 might that lead to different asset class selections?
14 MR. GLENN BUNSTON: I don't think it
15 would, no.
16 MR. ROBERT WATCHMAN: Okay. Now, as
17 my understanding is the use of an actual portfolio
18 would result in additional complexity, which is one of
19 the reasons why the Corporation is not adopting it.
20 Can you explain that for the Board?
21
22 (BRIEF PAUSE)
23
24 MR. GLENN BUNSTON: So the top-down
25 approach using a reference portfolio involves

1 selecting appropriate benchmarks, market indices, for
2 each issue or type. So those are published by FTSE
3 Russell in Canada and using the yields based on those
4 -- those indices.
5 And so, given that those indices are
6 published on a monthly basis and published independent
7 of MPI, they're easily verifiable and easy to obtain,
8 relative to the actual portfolio which requires
9 gathering the -- the yields for all the fixed income
10 assets in our portfolio and -- and calculated in the
11 weighted average of those.
12 So the reference portfolio, again,
13 based on those market indices, is somewhat easier to
14 obtain.
15 MR. ROBERT WATCHMAN: Thank you for
16 that. Now addressing interest rate impact on claims
17 incurred. And Kristen, if we could go to figure CI-5
18 in the Application.
19
20 (BRIEF PAUSE)
21
22 MR. ROBERT WATCHMAN: CI-5. And the -
23 - the table at figure CI-5, it shows us that -- so for
24 Q4 of '22/'23, the discount rate would be 3.55
25 percent. Do you see that?

1 MR. GLENN BUNSTON: Yes, I do.
2 MR. ROBERT WATCHMAN: And if we could
3 turn to PUB-2-2.
4
5 (BRIEF PAUSE)
6
7 MR. ROBERT WATCHMAN: And if we look
8 here, this is a determination of the claim discount
9 rate. If we look to, again, the end of Q4 2023, we
10 see -- right to the bottom, line 15, we see that the
11 discount rate there is 4.19 percent. Do you see that?
12 MR. GLENN BUNSTON: Yes, I see that.
13 MR. ROBERT WATCHMAN: And so, that
14 represents a -- an increase of approximately sixty-
15 four (64) basis points from the three-point-five-five
16 (3.55) to the four-point-one-nine (4.19)?
17 MR. GLENN BUNSTON: Yes, that's
18 correct.
19 MR. ROBERT WATCHMAN: And my
20 understanding is that that difference is attributable
21 to the item at line 14, the portfolio management fee?
22 MR. GLENN BUNSTON: The weighted
23 average yield is reduced by the portfolio management
24 fee, which is seven (7) basis points.
25 MR. ROBERT WATCHMAN: Which would take

1 us down to the three-point-five-five (3.55), correct?
2 MR. GLENN BUNSTON: I believe that the
3 -- the claim discount rate of four-point-one-nine
4 (4.19) is -- is net of the portfolio management fee of
5 seven (7) basis points.
6 So the -- the weighted average yield
7 would be four-point-one-nine (4.19) plus the seven (7)
8 basis points. So it would be four-point-two-six
9 (4.26).
10 MR. ROBERT WATCHMAN: Okay.
11
12 (BRIEF PAUSE)
13
14 MR. ROBERT WATCHMAN: Now, if we could
15 turn to the next appendix, Appendix 3.
16
17 (BRIEF PAUSE)
18
19 MR. ROBERT WATCHMAN: I'm -- I'm
20 sorry. Staying with Appendix 2.
21 And if we look at the MUSH bonds, they
22 now have a yield that is close to the marketable bond
23 yield?
24 MR. GLENN BUNSTON: Yes. The -- the
25 yield in Q4 of '22/'23 is 4.31 percent, which is

1 eleven (11) -- only eleven (11) basis points higher
2 than the claims discount rate.
3
4 (BRIEF PAUSE)
5
6 MR. ROBERT WATCHMAN: And so, is that
7 -- that relates to the mark-to-market impact as at
8 August 31, 2021 -- '22, rather?
9 MR. GLENN BUNSTON: No. The yield
10 here is independent of how they're accounted for.
11 This -- this is the market-based yield.
12 MR. ROBERT WATCHMAN: Thank you. I am
13 now going to turn to the topic of the ALM study.
14
15 (BRIEF PAUSE)
16
17 MR. ROBERT WATCHMAN: And --
18 MR. STEVE SCARFONE: You know, Mr.
19 Watchman -- sorry to interrupt. We brought Mr. Lloyd
20 in all the way from Vancouver --
21 MR. ROBERT WATCHMAN: Well --
22 MR. STEVE SCARFONE: -- some questions
23 for.
24 MR. ROBERT WATCHMAN: Well, we -- yes,
25 we'll make it worth his while, I'm sure.

1 MR. STEVE SCARFONE: Good. Thank you.
2
3 (BRIEF PAUSE)
4
5 MR. ROBERT WATCHMAN: And Kristen, if
6 we could turn to attachment -- INV, attachment B.
7 Again, this was the phase 1 report.
8 And just on the topic of -- of the
9 impact of adopting IFRS 9 and 17, Mr. Lloyd, the new
10 standards requiring fair market adjustments for all
11 investments and because they are a large portion of
12 the assets of the Basic claims portfolio is duration
13 matching.
14 So does Mercer believe that there is
15 any need to change the current approach?
16 MR. NEIL LLOYD: No. And its change.
17 MR. ROBERT WATCHMAN: Right. So, is
18 it Mercer's view that there should -- there should be
19 no change to the investment strategy or AM -- ALM, but
20 that MPI may want to consider additional investment
21 asset types?
22 MR. NEIL LLOYD: I think that the
23 basic principles would remain the same.
24 MR. ROBERT WATCHMAN: All right, the
25 basic principles being?

1 MR. NEIL LLOYD: I -- I mean there --
2 there's not a reason to change the approach of
3 interest rate managements -- the way we approach the
4 modeling is exactly the same -- exactly the same. I
5 don't think IFRS doesn't materially change that.
6 MR. ROBERT WATCHMAN: Now, if we could
7 turn ahead then to page, it's 15 of the report by 17
8 of the PDF, 17 of 33. And, if we just scroll down to
9 that first table there in the notes.
10 Now there's an identification here of
11 sensitivity to both interest rate changes and
12 inflation rate changes. And we see that these
13 primarily affect the Basic claims portfolio and the
14 employee future benefit portfolio. Do you see that?
15 MR. NEIL LLOYD: That's correct.
16 MR. ROBERT WATCHMAN: And -- and can
17 you explain why that is?
18 MR. NEIL LLOYD: I mean, in both those
19 cases, those liabilities do change by the impact of
20 inflation. And that's not the case on the Extension
21 SRE and the RSR.
22 MR. ROBERT WATCHMAN: Okay, and -- and
23 is the reason for that is because both Basic claims in
24 its personal injury protection plan and the EFB
25 benefits are tied to consumer price index?

1 MR. NEIL LLOYD: In fact, in a number
2 of cases, that's just Manitoba inflation, but yes.
3 MR. ROBERT WATCHMAN: So, Manitoba
4 CPI? Is that --
5 MR. NEIL LLOYD: Correct. I think so,
6 yeah.
7 MR. ROBERT WATCHMAN: And, just so we
8 can understand the significance of -- of the numbers
9 there, I note that in -- there's a footnote 2, which
10 talks about duration. And it says:
11 "Duration is a measure of interest
12 rate sensitivity. A duration of ten
13 (10), means a 1 percent decrease or
14 increase in the interest rate used
15 to calculate the liability will --
16 will result in a 10 percent increase
17 or decrease in the liability."
18 And so, that's the relationship between
19 the two (2)?
20 MR. NEIL LLOYD: Correct.
21 MR. ROBERT WATCHMAN: So, now I wanted
22 to -- and -- and I note the reference there to -- to
23 inflation rate changes and we're going to be focusing
24 more on that. And if we could turn then, Kristen, to
25 attachment F.

1 And this is the Mercer discussion paper
2 concerning real return bonds, levered bonds and
3 mortgage investments dated, if you scroll down a bit,
4 May 25, 2022. Is that correct sir?
5 MR. NEIL LLOYD: Correct.
6 MR. ROBERT WATCHMAN: And each of
7 these types of assets do address inflation rate risk.
8 Is that correct?
9 MR. NEIL LLOYD: Particularly the
10 first two (2), yes.
11 MR. ROBERT WATCHMAN: Okay. So, can
12 you just in -- at -- at high level, explain to us what
13 real return bonds are and what the levered bonds are?
14 MR. NEIL LLOYD: The -- the real
15 return bonds are effectively are where, you know, you
16 -- you pack on -- you know, you -- you -- you get a
17 normal interest payment back but the difference here,
18 the coupon payments, increase each year with -- with
19 inflation.
20 So, you're getting inflation linked
21 return and, in fact, when it gets repaid, there's also
22 been increase with inflation throughout the whole
23 period. So provides you with that inflation
24 protection.
25 The -- the levered bonds is effectively

1 where, in order to get a protection, you actually --
2 you have certain amount universal (INDISCERNIBLE)
3 bonds and you borrow another amount. And the other
4 amount you do to -- to -- to get additional real
5 return bond -- to real return exposure.
6 So, it's a more -- it's a way of
7 actually getting the real return protection, but with
8 using less capital. But there are a couple of risks
9 that you have to manage when you do that.
10 MR. ROBERT WATCHMAN: Now, I
11 understand -- understand that historically, one of the
12 concerns with real return bonds is their illiquidity.
13 Is that correct?
14 MR. NEIL LLOYD: The -- the -- it's
15 not so much they're illiquid, they're difficult to
16 buy. They're not so hard to sell.
17 MR. ROBERT WATCHMAN: Okay. So, and -
18 - and has that changed with -- with increase in
19 inflation, I imagine many consumers are -- are
20 reacting to inflation through this process?
21 MR. NEIL LLOYD: It -- it's still the
22 same situation. It's difficult to buy the bonds, but
23 it's not difficult to sell them which is why we said
24 that it would take somewhere between five (5) and ten
25 (10) months to build up a portfolio, depending on how

1 you did it.
2 MR. ROBERT WATCHMAN: And, are some of
3 those real return bonds issued by the Province of
4 Manitoba?
5 MR. NEIL LLOYD: Not that I'm aware
6 of, but I could be wrong on that.
7 MR. ROBERT WATCHMAN: Mr. Bunston, do
8 you know?
9 MR. GLENN BUNSTON: I believe that the
10 Province of Manitoba has issued real return bonds in
11 the past, but I don't believe they've issued them
12 recently.
13 My understanding is that the federal
14 government is the largest issuer of real return bonds
15 and that the provinces have issued, but are -- real
16 return bonds, but they're limited in size and
17 frequency of issue by the provinces.
18 MR. ROBERT WATCHMAN: But, if -- if
19 they were issued, those are bonds that MPI can gain
20 access to?
21 MR. GLENN BUNSTON: If the provinces
22 chose to issue real return bonds, then yes, MPI could
23 gain access to them.
24 MR. ROBERT WATCHMAN: So, going back
25 to the levered bonds, so, my understanding is -- is

1 that -- the purchaser doesn't physically hold the
2 bonds, but they hold the derivative instrument which
3 has the characteristics of the real return bonds.
4 Is that correct?
5 MR. NEIL LLOYD: Generally, that's
6 correct. Yes.
7 MR. ROBERT WATCHMAN: Now, my
8 understanding well -- as well, is that levered real
9 return bonds would provide long-term inflation
10 protection?
11 MR. NEIL LLOYD: That is correct.
12 MR. ROBERT WATCHMAN: And that's
13 because of -- of duration, is that correct?
14 MR. NEIL LLOYD: They're -- they're
15 effectively giving three (3) times the duration of a
16 normal real return bond.
17 MR. ROBERT WATCHMAN: Okay. So going
18 from the typical 5-year to something like a 16.7-year
19 duration?
20 MR. NEIL LLOYD: Something like that.
21 MR. GLENN BUNSTON: Actually, I think
22 the duration of a real return -- well they're --
23 they're issued in different -- various terms, but I
24 think the duration is typically closer to fifteen (15)
25 years, for an unlevered real return bond.

1 MR. NEIL LLOYD: Three (3) times,
2 again, that was the key point.
3 MR. ROBERT WATCHMAN: Now, I'm -- I'm
4 going to go back to attachment V, if I can Kristen.
5 And I'd like to go to page 21 of 33, of the
6 attachment. Just to make it easy for us, if we could
7 go to the chart at the bottom of the page, 'cause this
8 is -- as I understand it, this is a graphic
9 representation of the benefit of using real return
10 bonds and so if -- sorry, scroll up just slightly.
11 And so, the indication here is -- is
12 this is a forecast based upon a portfolio that has 34
13 percent nominal bonds, being Corporate bonds and non-
14 marketable bonds, or MUSH, and 66 percent of real
15 return bonds.
16 Now if you -- can you take us through
17 this, Mr. Lloyd, and just explain what -- what this
18 tells us in terms of fighting -- or -- or I --
19 inflation risk.
20 MR. NEIL LLOYD: I think the key point
21 is trying to show, is that, the light blue, you can
22 see the -- the -- the liability cash flows are fairly
23 even across the whole period. I mean, they do
24 gradually, sort of, reduce over time, but they're
25 very, very even.

1 The -- the real return bonds, on the
2 other hand, I mean have those very significant cash
3 flows set on particular years, which is the different
4 maturities that are in play. It -- it's very
5 difficult to get cash flows that perfectly match the
6 liability. So it's not perfect, but you can protect,
7 to some degree, but it's not a perfect match.
8 MR. ROBERT WATCHMAN: And -- and what
9 you're trying to achieve here is that the -- the asset
10 -- the asset cash flows exceed the liability cash
11 flow.
12 MR. NEIL LLOYD: I mean, ideally, when
13 you're cash flow matching, you would have the dark
14 blue lines perfectly matching the light blue lines.
15 But you can't quite do that, so you -- you do this as
16 best as you can, but it -- you know, ideally do not
17 want -- I mean you have -- because you have some
18 differences that can occur because the cash flows do
19 not match perfectly.
20 MR. ROBERT WATCHMAN: Right. So --
21 and that's a timing issue, but -- but ultimately you -
22 - you want more dark blue than light blue; is that
23 fair to say?
24 MR. NEIL LLOYD: It think it's a
25 little more complicated than that but I think you

1 would want them to be closer together.
2 MR. ROBERT WATCHMAN: Thank you. And
3 -- and, Kristen, if we could turn to the next page,
4 and there's a similar chart there, but, oh, just down
5 a bit, where we can read the text above it.
6 So, this is, now, looking at levered
7 bonds and, so, you have 78 percent nominal bonds, the
8 provincial bonds, corporate bonds, and non-marketable
9 bonds, with 22 percent levered real return bonds.
10 And, so, can you just explain this
11 graphic to us and relate that to the graph on the
12 earlier page?
13 MR. NEIL LLOYD: I think if you -- let
14 me see if I can compare -- if you compare -- if you
15 look here, you will find, again, you find that the
16 dark blue lines are more similar to the light blue
17 lines and maybe if -- maybe if you flip back to the
18 previous page -- the previous chart.
19 If you see there, you can really see
20 the light blue lines and the dark blue lines as
21 significantly above or significantly below. Whereas
22 with the -- with the -- with the levered bonds in
23 place, so, again, go to the -- go to the other chart,
24 there is a closer match.
25 So, what I am saying is it's not a case

1 of being -- you -- you want, actually, the blue --
2 dark blue to be bigger than the light blue. You
3 ideally want them to be closer together and the --
4 even the scale shows that they are a closer match than
5 using the return bonds.
6 MR. ROBERT WATCHMAN: And, so, is it
7 Mercer's recommendation that MPI adopt an inflati --
8 an inflation-fighting device, by using the real return
9 bonds, either just real return bonds or the levered
10 bonds?
11 MR. NEIL LLOYD: Correct. You would
12 need -- yeah. To -- to cover for inflation, you would
13 need real return bonds or the levered real return
14 bonds.
15 MR. ROBERT WATCHMAN: So, it -- it --
16 can we say, overall, it's a better strategy for
17 addressing inflation rate risk?
18 MR. NEIL LLOYD: Correct.
19 MR. ROBERT WATCHMAN: And, Kristen,
20 can we turn to this morning's presentation on
21 investments and I believe it was slide 25 -- 23,
22 rather. I'm sorry. Okay.
23 So -- and, now, Mr. Bunston, you
24 indicated that recommended asset mixes will be
25 presented to MPI's Investment Committee on November

1 10. So, we -- the Board won't have information
2 available as to what changes might be made until next
3 year's GRA? Is that correct?
4 MR. GLENN BUNSTON: That's correct.
5 MR. ROBERT WATCHMAN: Now, but the
6 next bullet says:
7 "... in not recommending the
8 inclusion of equities or levered
9 bonds in the Basic claims
10 portfolio."
11 Is that correct?
12 MR. GLENN BUNSTON: Correct.
13 MR. ROBERT WATCHMAN: Now, does that
14 mean you're not recommending real return bonds either?
15 MR. GLENN BUNSTON: No. That means
16 that when Mercer did its -- developed the efficient
17 frontiers, they did them in a step-wise fashion. The
18 first step was to add real return bonds and they
19 developed an efficient frontier, identified port --
20 asset mixes on that, efficient frontier, then, they
21 added mortgages and real estate, developed an --
22 another efficient frontier.
23 The final step was to add levered bonds
24 and equities and, so, we are not -- we are not
25 recommended leverage in equities. So, we are

1 recommending -- we are considering asset mixes that
2 were on the -- the efficient frontier that included
3 real return bonds, real estate, and mortgages.
4 MR. ROBERT WATCHMAN: So -- so, there
5 is, in -- in your recommendations or the Committee's
6 recommendations, they're intended to address the
7 inflation rate risk? Is that correct?
8 MR. GLENN BUNSTON: Correct.
9 MR. ROBERT WATCHMAN: So, now, my
10 understanding is -- is that the levered strategy is
11 better.
12 Can you explain to us why the Committee
13 is not recommending levered real return bonds or any
14 other levered bonds?
15 MR. GLENN BUNSTON: Well, use of
16 leverage comes with risks and rewards. It -- it --
17 and the -- the primary motivation for recommending or
18 considering the use of leverage was to free up capital
19 to invest in growth investments which, in this case,
20 was equities.
21 And our recommendation to our
22 Investment Committee is going to be that we not invest
23 in equities within the Basic claims portfolio, and,
24 so, from that decision, then, it falls out that
25 leverage is not required, if -- if, in fact, we don't

1 want to invest in growth assets within the Basic
2 claims portfolio.
3 MR. ROBERT WATCHMAN: Could you give
4 us some better idea of -- of what the risks are to
5 leveraging?
6 MR. GLENN BUNSTON: Yep. There's a
7 number of risks. Counter-party risk would be one.
8 You're -- you -- you're purchasing derivative products
9 from -- from banks. So, you're exposed to counter-
10 party risk.
11 There's risk of being able to finance
12 the -- to gain the leverage to finance the investment
13 strategy. So, it is usually done through repurchase
14 agreements.
15 There's the risk that you may not be
16 able to -- they're short-term in nature. They need to
17 be rolled on a -- on a frequent basis. There's a risk
18 that you might not be able to -- to roll those
19 repurchase agreements.
20 There's also risk of shape of the yield
21 curve. So, you borrow short term and invest long term
22 and, so, in a -- in a typical upward-sloping yield
23 environment, you'd have what's called a positive
24 carry, where you're borrowing at a lower rate than
25 you're investing in -- at.

1 So, in a -- in an inverted yield curve
2 environment, you would have a negative carry, which
3 would reduce the return from the investment strategy.
4 So, there's a number of risks.
5 MR. ROBERT WATCHMAN: Kristen, if we
6 could go back to the charts we were just looking at,
7 for real return bonds.
8 And, Mr. Lloyd, so, these portfolios
9 are -- do they have any equities in them or is this
10 just purely bonds?
11 MR. NEIL LLOYD: This is purely bonds.
12 MR. ROBERT WATCHMAN: I am going to
13 now refer to the phase 2 report. So, Kristen, that's
14 Attachment C to Investments and if we could turn to
15 page 6 of 33 -- sorry, page 8 of 33.
16 And in the -- what this chart here is
17 it addresses different forms of inflation risk? Is
18 that correct?
19 MR. NEIL LLOYD: Yes, different
20 inflation scenarios.
21 MR. ROBERT WATCHMAN: Okay. And if we
22 scroll down to the second chart, there's an indication
23 of forecast or net position for the different
24 portfolios and it appears here that what is referred
25 to as Basic long is more susceptible to these

1 inflation risks than the non-Basic portfolios and --
2 and -- and is that because again of the indexing of
3 certain Basic long-term benefits?
4 MR. NEIL LLOYD: That is correct.
5 MR. ROBERT WATCHMAN: Now, if we could
6 turn ahead to page 13 of that report and this talks
7 about the nominal and real liability benchmarks that
8 are appropriate for investment strategies.
9 And it is my understanding is that it's
10 Mercer's recommendation that, for those portfolios
11 that are subject to inflation risk that a real
12 liability benchmark should be used, whereas, for those
13 that are not exposed to inflation risk, a nominal
14 benchmark liability -- liability benchmark is
15 appropriate?
16 MR. NEIL LLOYD: That -- that's
17 correct.
18 MR. ROBERT WATCHMAN: And so, when we
19 look at this chart -- and we'll -- we'll get to some
20 definitions in a little bit. It's the -- the last row
21 there with -- it has the real return bonds. We see
22 that an allocation to Basic long and then EFB status
23 quo and EFB refunded.
24 So those are the portfolios that are at
25 risk for inflation, is that fair to say?

1 MR. NEIL LLOYD: That is correct.
2 MR. ROBERT WATCHMAN: And if we could
3 just return the page. And this gives us our -- so
4 this helps with a definition as to Basic long and what
5 is considered Basic short.
6 And so, the Basic long liabilities, as
7 I indicated, appear to be sort of PIPP or bodily
8 injury claims, is that correct?
9 MR. NEIL LLOYD: I don't know.
10 MS. CARA LOW: Yeah, the long total
11 claims would be the injuries to Manitobans through
12 PIPP or the public liability, which is your bodily
13 injury.
14 MR. ROBERT WATCHMAN: And then, we see
15 sort of Basic short, which is your property damage and
16 collision and comprehensive that we see that are
17 short-tail type claims. Is that right?
18 MS. CARA LOW: Correct. Yeah.
19 MR. ROBERT WATCHMAN: Now, is Mercer
20 recommending or is MPI considering dividing the Basic
21 claims portfolio to address long-tail claims versus
22 short-tail claims?
23 MR. GLENN BUNSTON: Yes, we are
24 considering the establishment of a short-term
25 investment portfolio with the intention that that

1 would cover these short-term claims that are listed
2 here.
3 MR. ROBERT WATCHMAN: And with respect
4 to then the Basic long, real return bonds or some
5 other sort of inflation dividing asset class would be
6 included?
7 MR. GLENN BUNSTON: Yes. Real return
8 bonds would be included in the Basic long-term
9 portfolio.
10 MR. ROBERT WATCHMAN: And do you have
11 an idea as to the amount of the portfolio attributable
12 to Basic long versus Basic short?
13 MR. GLENN BUNSTON: Yeah, Basic short
14 would represent approximately 7 percent of the overall
15 Basic claims assets.
16 MR. ROBERT WATCHMAN: And that stands
17 currently at about 2.9 billion -- 2.9 billion?
18 MR. GLENN BUNSTON: Two-point-nine
19 (2.9) billion is for the Basic line of business, which
20 --
21 MR. ROBERT WATCHMAN: Oh, sorry.
22 MR. GLENN BUNSTON: -- includes RSR and
23 EFB. So it's -- Basic claims portfolio, on its own,
24 is closer to 2 billion.
25

1 (BRIEF PAUSE)
2
3 MR. ROBERT WATCHMAN: If we could then
4 turn ahead to page 18 of this report. And then, so
5 this then is a graphic representation of how the
6 efficient frontiers were determined?
7 MR. NEIL LLOYD: That is correct and
8 we modelled through them, yes.
9 MR. ROBERT WATCHMAN: Yeah. And can
10 you just then perhaps go through this graphic and
11 explain the Stepwise (phonetic) analysis that Mercer
12 undertook?
13 MR. NEIL LLOYD: Sure. So in the
14 first efficient fund -- efficient frontier 1, we added
15 real return bonds and we seem -- we looked to what
16 portfolios would come up on the efficient frontier
17 with those bond -- with those in place.
18 We then went a step further and we came
19 back with efficient frontier 2, where, in addition to
20 what we already had with the real return bonds in
21 place, we added commercial mortgages and real estate
22 to see whether they would make a difference as well.
23 And in the third case, which impact
24 everybody referred to, we included the levered bonds
25 and that gave us the ability to invest in the adverse

1 equity portfolios.
2 MR. ROBERT WATCHMAN: And --
3 MR. NEIL LLOYD: Rather than having
4 all of them in one go and did -- to understand what
5 the changes are taking place.
6 MR. ROBERT WATCHMAN: Thank you. And
7 as I understand the Corporation's evidence is that the
8 efficient frontier 3 is not under consideration any
9 longer?
10 MR. GLENN BUNSTON: That's correct.
11 Yeah. We are considering asset mixes that were on
12 efficient frontier number 2.
13
14 (BRIEF PAUSE)
15
16 MR. ROBERT WATCHMAN: So if we could
17 then turn to attachment G, which is the asset mix
18 optimization report, dated June 2nd, 2022.
19 Is that correct, Mr. Lloyd?
20 MR. NEIL LLOYD: That is correct.
21 MR. ROBERT WATCHMAN: And Kristen, if
22 we could turn ahead to page 11.
23 And so, this is the efficient frontier
24 based upon the current asset classes only. But as I
25 understand it, with some change in the asset mix.

1 Is that what this represents?
2 MR. NEIL LLOYD: That is correct.
3 MR. ROBERT WATCHMAN: And so, what we
4 see is -- is there -- changes to, essentially,
5 midterm, provincial, corporate, and MUSH bonds?
6 MR. NEIL LLOYD: MUSH bonds remain the
7 same, but if there's a change in provincial and
8 corporate, in particular.
9 MR. ROBERT WATCHMAN: And -- and so,
10 when we look at the -- the chart on -- on the right,
11 the green dot at the bottom is the current asset mix?
12 MR. NEIL LLOYD: That's correct.
13 MR. ROBERT WATCHMAN: And so, what
14 we're looking at in an efficiency frontier is along
15 the 'X' axis, we have increasing return volatility.
16 Correct?
17 MR. NEIL LLOYD: Correct.
18 MR. ROBERT WATCHMAN: And on the 'Y',
19 the reward, the expected excess return? Correct?
20 MR. NEIL LLOYD: Correct.
21 MR. ROBERT WATCHMAN: So -- so what
22 we're trying to do is we're -- we're trying to get as
23 -- as high to the left, if I can put it that way, as
24 we can. Is that fair to say?
25 MR. NEIL LLOYD: Not necessarily to

1 the left. I mean, example, if you look at position
2 'E' and position 'E' is a point actually to the right.
3 It is giving you higher risk, but it is giving you
4 higher return as well.
5 MR. ROBERT WATCHMAN: So -- so it's a
6 question of risk appetite?
7 MR. NEIL LLOYD: Correct. You want to
8 be on the dotted line is the key point.
9 MR. ROBERT WATCHMAN: Right.
10 MR. NEIL LLOYD: You can't get -- you
11 can't get further to the left and above based on those
12 asset classes.
13 MR. ROBERT WATCHMAN: Yeah. Okay.
14 So, for example, in this one, what we see is -- is --
15 so we're -- if we're not going to change our risk
16 appetite, we want to look straight up from the current
17 'A' green dot, correct?
18 MR. NEIL LLOYD: Correct.
19 MR. ROBERT WATCHMAN: And if we do
20 that, we see that we can achieve both higher risk and
21 higher returns with the different asset mixes
22 indicated in column 'C', 'D', and 'B'. Correct?
23 MR. NEIL LLOYD: Correct. And 'B', in
24 fact, gives you a higher return for the same risk.
25 MR. ROBERT WATCHMAN: For the same

1 risk, okay.
2 MR. NEIL LLOYD: Others actually give
3 you lower risk, except for 'E'.
4 MR. GLENN BUNSTON: If I could just
5 add, I think the point of the efficient frontier is to
6 identify an asset mix at each level of risk that
7 maximizes the return. That -- that defines the
8 efficient frontier.
9 And then, from that, you identify mixes
10 on the efficient frontier, and then selection of the
11 asset mix on the efficient frontier is driven by risk
12 appetite.
13 MR. ROBERT WATCHMAN: Now, if we could
14 go to the next page then, Kristen. Oh, I -- perhaps I
15 should have asked Mr. Bunston then.
16 So, is MPI considering different asset
17 than the current asset mixes?
18 MR. GLENN BUNSTON: Well, we're
19 considering the addition of real return -- well,
20 sorry. We're considering asset mixes on efficient
21 frontier number 3, which includes real return bonds,
22 mortgages, and real estate.
23 MR. ROBERT WATCHMAN: All right. So
24 then, Kristen, if -- if we could go to the next -- and
25 this is now adding real return bonds to the asset mix?

1 MR. NEIL LLOYD: That is correct.
2 MR. ROBERT WATCHMAN: And so again,
3 you know, to the extent that we don't want to increase
4 risk -- or there's a possibility of lowering risk, but
5 there's also a possibility of lowering risk and
6 increasing return --
7 MR. NEIL LLOYD: Correct.
8 MR. ROBERT WATCHMAN: -- through the
9 asset -- again, the asset mixes 'C', 'D', and 'B',
10 correct?
11 MR. NEIL LLOYD: Correct. And those
12 are meaningful changes, yes.
13 MR. ROBERT WATCHMAN: Now, if we go to
14 the next page, this then adds, in addition to the real
15 returns bonds, commercial mortgages and real estate?
16 MR. NEIL LLOYD: That's correct.
17 MR. ROBERT WATCHMAN: And what we're
18 seeing here is an even -- if the scaling is correct,
19 an even larger increased possibility for return?
20 MR. NEIL LLOYD: That's correct.
21 MR. ROBERT WATCHMAN: And can you
22 indicate, Mr. Bunston, where on the efficiency
23 frontier the Corporation is targeting?
24 MR. GLENN BUNSTON: Well, I -- I'd
25 rather not. Our position is that we would like to

1 share that with the investment committee and have them
2 review it and approve it before we share it with the -
3 - with the Public Utilities Board.
4 MR. ROBERT WATCHMAN: Okay. So -- so
5 in -- in general terms, though, this is the new asset
6 classes that the Corporation or the committee is
7 considering.
8 MR. GLENN BUNSTON: Correct.
9 MR. ROBERT WATCHMAN: Now, Mr. Lloyd,
10 did Mercer model any other asset mixes than the ones
11 that are set out on this graphic?
12 MR. NEIL LLOYD: Other than the one on
13 the next page, which is the one with the levered
14 bonds, I'm not aware of any.
15 MR. ROBERT WATCHMAN: Thank you.
16
17 (BRIEF PAUSE)
18
19 MR. ROBERT WATCHMAN: And I -- perhaps
20 I should have asked before. In terms of dividing the
21 portfolio between Basic claims long and Basic claims
22 short, is the Corporation then looking at shorter
23 duration matching for the short claims?
24 MR. GLENN BUNSTON: Yes. The short-
25 term portfolio would have a short duration target, I

1 think. I can't remember the -- there was a liability
2 benchmark that was developed, and I think it was about
3 95 percent in short-term bonds.
4
5 (BRIEF PAUSE)
6
7 MR. ROBERT WATCHMAN: And, sorry, can
8 you indicate what is that duration for short-term
9 bonds?
10 MR. NEIL LLOYD: It's actually -- if
11 you go -- this is slide 13. If you go to slide 19,
12 you can see the Basic short. There's a liability
13 benchmark of eighty-five fifteen (8515), and duration
14 point six five (.65).
15 MR. ROBERT WATCHMAN: So that's point
16 six five (.65) of a year?
17 MR. NEIL LLOYD: Effectively, yes.
18 MR. ROBERT WATCHMAN: Some -- some
19 place in the seven (7) or eight (8) month range. Is
20 that correct?
21 MR. GLENN BUNSTON: Yes, that's
22 correct.
23
24 (BRIEF PAUSE)
25

1 MR. ROBERT WATCHMAN: Now, if we could
2 just go back to page 13. So this is the efficient
3 frontiers which add both commercial mortgages, real
4 estate, and real return bonds.
5 And the information that we are looking
6 for in terms of risk metrics there, the box that's
7 third from the bottom, the information ratio -- can
8 you see that?
9 MR. GLENN BUNSTON: Yes, I see that.
10 MR. ROBERT WATCHMAN: And so the
11 information ratio is the excess return over risk?
12 MR. GLENN BUNSTON: That's correct.
13 MR. ROBERT WATCHMAN: And so this is -
14 - we're looking for a number. The -- the higher the
15 number, the better. Is that generally --
16 MR. GLENN BUNSTON: Yes.
17 MR. ROBERT WATCHMAN: -- the idea?
18 MR. GLENN BUNSTON: The higher the
19 information ratio, the better, yeah.
20 MR. ROBERT WATCHMAN: Okay.
21 MR. NEIL LLOYD: I will -- I will
22 caveat that. It -- it's isn't always the better. So
23 what you will tend to find is the -- the lower risk
24 numbers typically look better, and you can see it
25 there. The light -- the light risk number always

1 tends to have a higher information ratio. Just
2 dividing by a lower number gives you that effect.
3 MR. ROBERT WATCHMAN: Right.
4 MR. NEIL LLOYD: So you do look at
5 that, but it's not the say the position of 'C' is
6 better than 'D' or 'E' or 'B'.
7 MR. ROBERT WATCHMAN: Yeah. Okay. So
8 you have to -- it's -- it's helpful to look at the
9 graphic as well to see where you are because, again,
10 you might be in a situation where you have high risk -
11 - like a high -- very high return but a very high
12 risk, and that wouldn't -- may not be the purchaser's
13 risk appetite.
14 MR. NEIL LLOYD: Correct.
15
16 (BRIEF PAUSE)
17
18 MR. ROBERT WATCHMAN: Now, if the
19 Corporation selects one (1) of the efficient
20 portfolios, does it intend to include the expected
21 return of that portfolio in its new money yield
22 calculation in the 2024 GRA?
23 MR. GLENN BUNSTON: Well, the new
24 money yield would reflect the -- the asset classes
25 that are in the portfolio, so we would need to work to

1 determine appropriate capital markets assumptions for
2 each of the new asset classes. So it may not be
3 exactly matching what Mercer has here.
4 Keep in mind, Mercer's forecast is a
5 different horizon than ours. Mercer forecasts over a
6 ten (10) year period, and so our forecasting
7 methodology may not match Mercer's exactly.
8 MR. ROBERT WATCHMAN: Okay. And so
9 with respect to the -- any split in the Basic claims
10 portfolio as between long and short, do you have a
11 sense for when that might occur?
12 MR. GLENN BUNSTON: Probably not until
13 our next fiscal year. There's going to be a period of
14 time where we're going to need to search for the new
15 managers, and we're also going to make -- need to make
16 some changes to our accounting systems to -- to set up
17 -- make the changes to accommodate the -- the new
18 short-term portfolio and the new asset classes, so
19 that will take some work.
20 So, we expect that that won't be
21 completed until the beginning of our next fiscal year.
22 MR. ROBERT WATCHMAN: So in terms of
23 the 2024 GRA, you will either have the portfolios
24 separated, or there will be some weighting as between
25 short and long?

1 MR. GLENN BUNSTON: Well, for next
2 year's GRA, I would expect that we would have all of
3 these changes incorporated into the forecasting.
4 Whether they're actually implemented or not remains to
5 be seen, but we would forecast -- include the changes
6 in the forecast.
7
8 (BRIEF PAUSE)
9
10 MR. ROBERT WATCHMAN: Sorry. So,
11 taking these reports in order, if we could move ahead
12 then to attach -- oh, sorry, it's actually a different
13 exhibit. It's MPI Exhibit 13, which is the inventory
14 attachment I.
15
16 (BRIEF PAUSE)
17
18 MR. ROBERT WATCHMAN: So, this is the
19 -- specifically, the study that Mercer conducted in
20 terms of inflation scenario analysis for the other
21 portfolios, meaning other -- meaning other than Basic
22 claims --
23 MR. NEIL LLOYD: That's correct.
24 MR. ROBERT WATCHMAN: And, again,
25 dated May of 2022. And if we could turn ahead to page

1 8 of that.
2 And -- and can you just tell us, at a
3 high level, explain to us what this graphic tells us?
4 MR. NEIL LLOYD: It's -- it's trying
5 to show the -- the growth in surplus starting off with
6 the current asset mix under a number of different
7 scenarios.
8 So, the meeting is the base case that
9 we already have. So, we would expect that -- in the
10 meeting case, that over time, over the -- the ten (10)
11 year period, the surplus would grow from one sixty
12 (160) up to two fifty-five (255).
13 We then have three (3) different
14 scenarios if the definition's correct, the financial
15 repression, pandemic stagflation and overheat. The
16 financial repression is one that doesn't make a
17 material difference. It's the green line.
18 But that's really a situation where
19 we're likely to see low rates, high inflation but
20 things do begin to -- to recover.
21 The pandemic stagflation, which is the
22 purple line, is the one that I think that we're all
23 trying to avoid, and that's a situation where we end
24 up seeing low growth, high inflation, and everything
25 that points to that environment.

1 And the other heat, which is the --
2 that was the -- the middle line between -- in the --
3 is an environment where potential banks tighten
4 policy. They retain -- they -- they deal with
5 inflation, but it tends to lead to sort of recessions.
6 So, in a way, I think the financial
7 repression is -- to put it, the more acceptable
8 outcome. The pandemic stagflation, the dark purple,
9 is the one that we would least like to see. And NOVA,
10 he's not a great scenario either.
11 So, what we did was we went through and
12 then looked at actually how robust the portfolio was
13 for these various scenarios.
14 MR. ROBERT WATCHMAN: Great. Thank
15 you. And I probably should have identified that that
16 was for the Extension portfolio.
17 But with that comparison, can we turn
18 to page 18.
19
20 (BRIEF PAUSE)
21
22 MR. ROBERT WATCHMAN: Now -- so, this
23 is then a similar graphic with respect to the current
24 asset mix analysis for Basic long-term -- or longtail
25 claims?

1 MR. NEIL LLOYD: Correct.
2 MR. ROBERT WATCHMAN: And -- and what
3 are we seeing here?
4 MR. NEIL LLOYD: The same thing, but
5 you get a different result. So I mean, again,
6 remembering here that things like inflation affect the
7 liabilities, as well.
8 But, I mean, here, in fact -- it was --
9 in the -- in the previous graph you saw the financial
10 repression and the light blue line, the medium
11 outcome, were very similar. That's not the case under
12 this scenario.
13 It's suggesting that the overheat
14 scenario is -- I mean, it's still a worse scenario but
15 not quite as bad as in the previous charts. The
16 financial repression, which is where we are seeing
17 those low rates and some inflation, is somewhere
18 between. But again, the pandemic stagflation is the -
19 - the situation we want to avoid.
20 MR. ROBERT WATCHMAN: And if we can
21 turn to the next page. These are a little smaller and
22 perhaps not as easy to see on the screen. But what
23 these represent are the different scenarios but with
24 the inclusion now of real return bonds, the adding of
25 mortgages and real estate and then, thirdly, adding

1 levered bonds.
2 And each of these scenarios -- so, you
3 look again at the median, the financial repression,
4 the stagflation scenario and the overheat scenario.
5 But is it fair to say that each of these asset mixes
6 perform better than the current asset mix?
7 MR. NEIL LLOYD: Correct. I mean --
8 and I'll be honest. After reading these myself,
9 they're hard to read.
10 MR. ROBERT WATCHMAN: Yes.
11 MR. NEIL LLOYD: And I did find
12 actually page 17 which showed the ten (10) year
13 returns is a little bit easier to get the sense of
14 this.
15 MR. ROBERT WATCHMAN: There we go.
16 MR. NEIL LLOYD: So, here we show ten
17 (10) year returns, which is effectively showing where
18 you end up after the ten (10) years. And we see the
19 current numbers. And then you will see -- add real
20 return bonds, you know, really across the board look
21 significantly better.
22 Mortgage and real estate a bit mixed
23 experienced but, I mean, certainly the median a little
24 bit better and then pandemic stagflation were worse.
25 And then we have the levered bonds, as well.

1 But, yes, I mean, the real return bonds
2 definitely make the portfolio much more robust to any
3 of these scenarios.
4
5 (BRIEF PAUSE)
6
7 MR. ROBERT WATCHMAN: Okay. And so,
8 just -- so, we're there. The -- the levered bonds
9 being the last line but in addition to real return
10 bonds and mortgages and real estate provide the -- I
11 was going to say, provide the best return, but that's
12 not always the case?
13 MR. NEIL LLOYD: What was the question
14 again?
15 MR. ROBERT WATCHMAN: I answered my
16 own question. I was going to say that the leverage --
17 the leverage bonds provide a better return over this
18 period of time?
19 MR. NEIL LLOYD: I think the issue
20 with the levered bonds is the -- the levered bonds
21 always will look the most attractive in these models,
22 and, however, there are additional risks that come --
23 come along with that. But bonds, they're not captured
24 by the model.
25 So, there's the modelling outcome. But

1 then you -- if you look to the paper, we wrote of the
2 real return bonds, we wrote about the levered bonds.
3 There was long section about the risk involved in
4 levered bonds, things that aren't taken into account
5 in the financial models.
6 They will always tend to come out
7 looking more attractive, but you then need to assess
8 it against those other risks.
9 One (1) of them -- so, essentially, we
10 highlighted at the time yield covered inversion risk
11 when we wrote the reports, and today we have a yield
12 covered inversion.
13 MR. ROBERT WATCHMAN: Now, Kristen, if
14 we could go back to attachment C.
15
16 (BRIEF PAUSE)
17
18 MR. ROBERT WATCHMAN: All right. Now,
19 the response to these next three (3) sections, section
20 6, 7, and 8, the indication is that these are pending
21 MPI selection of the final asset mix for each
22 portfolio. You see that?
23 MR. NEIL LLOYD: That's correct.
24 MR. ROBERT WATCHMAN: So, the
25 intention is, is that once the investment committee

1 has reviewed its recommendations with the Board of
2 Directors, there will be certain decisions made.
3 And then the intention is, is that
4 Mercer will then continue to analyze the selections to
5 recommend certain asset allocations?
6 MR. NEIL LLOYD: That's correct.
7 MR. ROBERT WATCHMAN: Madam Chair, I'm
8 -- I'm at the end, but perhaps over the lunch hour I
9 could just get an opportunity to speak to the
10 advisers, so, I was wondering if we could perhaps have
11 the lunch break now and then return at -- whenever the
12 Board determines.
13 THE PANEL CHAIRPERSON: Sure, that --
14 that sounds fine, Mr. Watchman. If we could return at
15 five after 1:00, please. Thank you.
16
17 --- Upon recessing at 12:10 p.m.
18 --- Upon resuming at 1:10 p.m.
19
20 THE PANEL CHAIRPERSON: Thank you,
21 everyone. Mr. Watchman...?
22 MR. ROBERT WATCHMAN: Thank you, Madam
23 Chair. I just have a few more questions for this
24 panel. Kristen, if we could turn to this morning's
25 investment presentation, slide 23.

1 (BRIEF PAUSE)

2

3 CONTINUED BY MR. ROBERT WATCHMAN:

4 MR. ROBERT WATCHMAN: Thank you. And

5 that's MPI Exhibit 61. Mr. Bunston, with respect to

6 the second bullet point in terms of presenting to

7 MPI's Investment Committee on November the 10th.

8 And is -- is that the final say or the

9 final approval that's necessary to make the changes to

10 the assets or is there a further requirement to obtain

11 Board approval?

12 MR. GLENN BUNSTON: Well, the

13 Investment Committee would need to make a

14 recommendation to the Board of Directors who would

15 provide the final approval.

16 MR. ROBERT WATCHMAN: And do you have

17 any sense as to when that would be or how long that

18 would take?

19 MR. GLENN BUNSTON: The Board is

20 meeting that same day.

21 MR. ROBERT WATCHMAN: And -- and is it

22 anticipated it would -- it could proceed that quickly,

23 from committee to Board in one (1) day?

24

25 (BRIEF PAUSE)

1 MR. GLENN BUNSTON: So, the chair of
2 the Investment Committee does bring a report to the
3 Investment Committee. However, I don't attend that
4 meeting, so I'm not a hundred percent sure whether
5 it's -- he would provide a report based on that
6 meeting or the prior, so we'll have to check that.
7
8 (BRIEF PAUSE)
9
10 MR. GLENN BUNSTON: I think we'll have
11 to get back to you on that point.
12 MR. ROBERT WATCHMAN: Do you -- do you
13 know when the next Board of Directors meeting would be
14 after November the 10th?
15
16 (BRIEF PAUSE)
17
18 MR. GLENN BUNSTON: The next meeting
19 would be December 15th.
20 MR. ROBERT WATCHMAN: Thank you. Now,
21 do you know what the impact would be in respect of
22 marking to market the MUSH bonds based upon the August
23 31 interest rate?
24
25 (BRIEF PAUSE)

1 MR. GLENN BUNSTON: I don't off the
2 top of my head, but we can get that number for you in
3 relatively short order.
4 MR. ROBERT WATCHMAN: Should I ask Mr.
5 Scarfone for an undertaking or...?
6 MR. STEVE SCARFONE: I think it's
7 something that we can give to you this afternoon.
8 Will that be sufficient for those purposes?
9 MR. ROBERT WATCHMAN: Yes. Thank you
10 Now, you spoke about the difference between short-term
11 interest rates and long-term interest rates. And
12 there's an inversion in the curve.
13 Is there typically some lag between
14 changes to long-term rates relative to changes to
15 short-term rates?
16
17 (BRIEF PAUSE)
18
19 MR. GLENN BUNSTON: If by short-term
20 rates you mean administered rates by the central
21 banks, then those rates change on meeting announcement
22 dates. Long-term rates are impacted by many different
23 factors, supply and demand and, you know, for long-
24 term bonds by -- by investors, their outlook for
25 inflation for economic growth, you know, all of those

1 factors.

2 So, long-term interest rates, I don't
3 think that there's a set relationship between short-
4 term and long-term interest rates. It depends on many
5 different factors.

6 MR. ROBERT WATCHMAN: Thank you. Now,
7 Kristen, if we could turn to Information Request PUB-
8 MPI-2-7.

9

10 (BRIEF PAUSE)

11

12 MR. ROBERT WATCHMAN: And what this
13 Information Request relates to is an updated interest
14 rate calculation and actuarial indicated rate based
15 upon the Mercer forward rates, interest rate forecast.

16 And if we scroll down to 'B' towards
17 the bottom of the page. There we go. So, it said:

18 "Based on the Mercer recommended
19 approach of using forward rates as
20 of August 31st, MPI calculated the
21 new money yield to be 4.05 percent.
22 The result to the actuarially
23 indicated rate would be a negative
24 2.1 percent rate change versus the
25 current applied for negative 0.9

1 percent provisional rate change."
2 Do you see that?
3 MR. GLENN BUNSTON: I do see that,
4 yes.
5 MR. ROBERT WATCHMAN: Now, do you know
6 whether the interest rate -- that interest rate
7 forecast was prepared by Mercer or was it prepared by
8 MPI?
9 MR. GLENN BUNSTON: It was prepared by
10 MPI.
11 MR. ROBERT WATCHMAN: And did -- do
12 you know if Mercer checked that calculation?
13
14 (BRIEF PAUSE)
15
16 MR. GLENN BUNSTON: I don't believe
17 that Mercer checked this forward -- forward rate
18 forecast, no.
19 MR. ROBERT WATCHMAN: Now, I believe,
20 Mr. Lloyd, in your evidence, you spoke about doing an
21 update to September 30th. Is that correct?
22 MR. NEIL LLOYD: That is correct.
23 MR. ROBERT WATCHMAN: And can you tell
24 us where you are with that and when you would expect
25 to provide some update to MPI?

1 MR. NEIL LLOYD: We haven't got the
2 capital market assumptions yet. We're going to get
3 them shortly, and it'll be near the -- it'll be fairly
4 close to the time when they present on November the
5 10th.
6 MR. ROBERT WATCHMAN: And can you tell
7 us what information in the Mercer reports would be
8 affected by the update?
9 MR. NEIL LLOYD: What we're going to
10 do is we're going to look at the -- we're going to
11 check whether the recommended portfolios sit on the
12 efficient frontier. So we're probably going to redo
13 the efficient frontiers but only the ones where, you
14 know -- no, we're not going to do the efficient
15 frontiers, we're not going to explore, so not the ones
16 with levered bonds and things like that.
17
18 (BRIEF PAUSE)
19
20 MR. ROBERT WATCHMAN: Okay. If we
21 could just refer to the appropriate report in the
22 application.
23 And would it be the frontiers that are
24 currently set out in Attachment G starting at page 11?
25

1 (BRIEF PAUSE)
2
3 MR. NEIL LLOYD: It would be, but we
4 would focus on efficient frontiers the intention is to
5 use.
6 MR. ROBERT WATCHMAN: So that would be
7 then, moving two (2) pages ahead, Kristen.
8 MR. NEIL LLOYD: We would start there,
9 yes.
10 MR. ROBERT WATCHMAN: Okay.
11 MR. NEIL LLOYD: And then obviously we
12 would do the same for the RSR, Extension, et cetera.
13
14 (BRIEF PAUSE)
15
16 MR. ROBERT WATCHMAN: Thank you, Madam
17 Chair. Those are all my questions.
18 THE PANEL CHAIRPERSON: Thank you, Mr.
19 Watchman.
20 Mr. Williams...?
21
22 CROSS-EXAMINATION BY DR. BYRON WILLIAMS:
23 DR. BYRON WILLIAMS: Good afternoon,
24 Madam Chair and members of the Panel, and good
25 afternoon, Mr. Bunston, Mr. Lloyd, and Ms. Low. And,

1 Mr. Lloyd, welcome to Winnipeg.
2 And, Ms. Low, apologizing in advance.
3 You and I had quite a conversation on Friday. I don't
4 think I'm going to have many questions for you today,
5 but jump in if you feel the need.
6 Mr. Bunston, you recall having a
7 conversation with my learned friend Mr. Watchman
8 earlier today about losses associated with the bond
9 portfolio in the '21/'22 year, sir?
10 MR. GLENN BUNSTON: Yes, I do.
11 DR. BYRON WILLIAMS: And in -- as we
12 try to understand those losses, sir, would it be fair
13 to say that they were, in large part, a consequence of
14 rising invest -- interest rates, as well as increasing
15 spreads between Canada bonds and provincial and
16 corporate bonds?
17 MR. GLENN BUNSTON: Yes. Well,
18 spreads are one (1) component of interest rates and so
19 they would -- rising spreads would cause losses on the
20 bonds, yes.
21 DR. BYRON WILLIAMS: Yeah. And just
22 so I'm clear, there's the overall growth in interest
23 rates, but you were also seeing a deterioration in the
24 spreads between provincial bonds versus Canada bonds,
25 as well as corporate bonds versus Canada bonds,

1 agreed, in the '21/'22 year, sir?
2 MR. GLENN BUNSTON: Yes. Provincial
3 and corporate bond spreads have been increasing.
4 DR. BYRON WILLIAMS: And that had an
5 adverse effect on the MPI bond portfolio, especially
6 given its con -- concentration in provincial bonds and
7 corporate bonds, agreed?
8 MR. GLENN BUNSTON: Rising interest
9 rates caused bond prices to fall, so yes.
10 DR. BYRON WILLIAMS: And I wonder if
11 Ms. Schubert could -- to turn up figure Investment
12 37. And I don't mean to trench too much upon this,
13 Mr. Bunston, because you did talk a bit about things
14 with my friend Mr. Watchman.
15 But figure Investment 37 is what MPI
16 was telling the Public Utilities Board last year it
17 was expecting in terms of investment income for the
18 Basic line of business, agreed?
19 MR. GLENN BUNSTON: Agreed.
20 DR. BYRON WILLIAMS: And focussing on
21 the '21/'22 year, and if we turn to line 8, you were
22 looking at pretty a -- in terms of gains and losses on
23 long-term bonds, you were pretty much looking at
24 break-even, three hundred and twelve thousand
25 (312,000) to the good, agreed?

1 MR. GLENN BUNSTON: Correct.
2 DR. BYRON WILLIAMS: And in terms of
3 line 32, still under '21/'22, yeah, you were expecting
4 a net income for the line of business of about $100
5 million. Is that right, sir?
6 MR. GLENN BUNSTON: That's correct.
7 DR. BYRON WILLIAMS: Okay. Now, if we
8 can turn to figure Investment 38. And, sir, this is
9 from this year's General Rate Application, agreed?
10 MR. GLENN BUNSTON: Yes, it is.
11 DR. BYRON WILLIAMS: And turning again
12 to line 8 for the '21/'22 year, the total loss in
13 marketable bonds was one hundred and twenty-seven
14 thousand (127,000) -- million, sir? Sorry, let me try
15 that again. Was -- that wasn't a very good number.
16 Was 127 million, sir?
17 MR. GLENN BUNSTON: Yes, that's right.
18 DR. BYRON WILLIAMS: And if we go to -
19 - and so that's a swing really of about 127 million
20 from what you were expecting in your previous GRA
21 forecast, agreed?
22 MR. GLENN BUNSTON: Correct.
23 DR. BYRON WILLIAMS: And if we go down
24 to line 32, we see a loss of 147 million, sir?
25 MR. GLENN BUNSTON: Correct.

1 DR. BYRON WILLIAMS: And that's for
2 the investment income for the '21/'22 year?
3 MR. GLENN BUNSTON: Yes, that's right.
4 DR. BYRON WILLIAMS: And so as com --
5 compared to the forecast at the previous year's
6 General Rate Application of 100 million to the good,
7 this was basically a quarter of a billion dollars of a
8 negative swing, sir?
9 MR. GLENN BUNSTON: It's significantly
10 lower than we had expected, yes.
11 DR. BYRON WILLIAMS: Doing the math,
12 sir, it was a quarter of a billion dollars less than
13 you expected at the time of last year's General Rate
14 Application?
15 MR. GLENN BUNSTON: Approximately $250
16 million to the worse, yes.
17 DR. BYRON WILLIAMS: And this question
18 can go either to Mr. Lloyd or Mr. Bunston.
19 In terms of the term 'nominal interest
20 rates', that generally refers to the interest rate
21 without adjusting for inflation, agreed?
22 MR. GLENN BUNSTON: Agreed.
23 DR. BYRON WILLIAMS: And so if I were
24 to go to my neighbourhood used car dealer and see
25 interest rates posted at 4 percent, that would be the

1 nominal rate, agreed?
2 MR. GLENN BUNSTON: Yes.
3 DR. BYRON WILLIAMS: And a real
4 interest rate is an interest rate that's been adjusted
5 to remove the effects of inflation, correct?
6 MR. GLENN BUNSTON: Yes. It's an
7 interest rate that -- where your purchasing power is
8 protected by changes in inflation.
9 DR. BYRON WILLIAMS: And when we look
10 at real interest rates, that would reflect the real
11 cost of funds to a borrower, agreed?
12 MR. GLENN BUNSTON: Net of inflation,
13 yes.
14 DR. BYRON WILLIAMS: And similarly,
15 net of inflation, it would reflect the real yield to
16 an investor, agreed?
17 MR. GLENN BUNSTON: Agreed.
18 DR. BYRON WILLIAMS: And again, since
19 1992, the Bank of Canada has aimed to keep inflation
20 at the 2 percent midpoint of its inflation control
21 target range of 1 to 3 percent, agreed?
22 MR. GLENN BUNSTON: Correct.
23 DR. BYRON WILLIAMS: And we can pull
24 up Investment -- figure Investment 8.
25 Mr. Bunston, in terms of inflation,

1 would it be fair to say that March 2021 was the last
2 month where inflation was close to that long-term
3 target of the Bank of Canada? It's not on that table.
4 It's the month before.
5 MR. GLENN BUNSTON: Yes. It was I
6 think below 3 percent in March of 2021.
7 DR. BYRON WILLIAMS: And, Mr. Bunston,
8 I realize that there's a more up-to-date figure in
9 your -- in terms of inflation in your PowerPoint from
10 this morning, which we'll come to in a couple of
11 minutes.
12 But when we look at figure Investment
13 8, it is trying to capture changes in the monthly
14 infra -- inflation rate for the period between April
15 2021 and March 20 -- and May 2020 -- sorry, March 2022
16 as compared to the same months for the previous year,
17 agreed?
18 MR. GLENN BUNSTON: That's correct,
19 yes. It's the year-over-year inflation in each month.
20 DR. BYRON WILLIAMS: Okay. And
21 Canadian CPI's in blue, Manitoba CPI's in red, agreed?
22 MR. GLENN BUNSTON: Agreed.
23 DR. BYRON WILLIAMS: And so if we look
24 at Canadian CPI in -- in the first column, that April
25 2020 to April 2021 range, there's a 3.4 percent year-

1 over-year for that particular month, agreed?
2 MR. GLENN BUNSTON: Agreed.
3 DR. BYRON WILLIAMS: If we go out to
4 September of -- which is I guess six (6) columns in,
5 we're looking at a year-over-year change from
6 September of 2020 to September of 2021 of 4.4 percent,
7 sir?
8 MR. GLENN BUNSTON: It's hard to read,
9 but I think it says 4.4, yes.
10 DR. BYRON WILLIAMS: I struggle to
11 read it, too. I -- that wasn't a trick, sir.
12 And if we go to January, which is the
13 third column from the end, we see, focussing on
14 Canadian CPI, a 5.1 percent change year over year?
15 MR. GLENN BUNSTON: Correct.
16 DR. BYRON WILLIAMS: And then finally,
17 March 2021 to March 2022, there was a 6.7 percent
18 change in Canadian CPI, sir?
19 MR. GLENN BUNSTON: That is correct.
20 MR. BYRON WILLIAMS: And so, when we
21 seek to understand the negative performance in the
22 Basic bond portfolio in the '21/'22 year, figure INV-8
23 has a lot to tell us about why your performance was
24 not very strong. Agreed?
25 MR. GLENN BUNSTON: Yes. Nominal

1 rates are influenced by inflation, so rising inflation
2 caused nominal rates to increase. Yes.
3 MR. BYRON WILLIAMS: Thank you. And
4 just moving a little bit farther along that, in terms
5 of the increasing -- again, you've agree that there
6 was an increasing spread between Canada and Manitoba
7 bonds as well in the '21/'22 year, sir?
8 MR. GLENN BUNSTON: Yes.
9 MR. BYRON WILLIAMS: And looming fears
10 of recession due to the increasing inflationary
11 environment also had an influence on those spreads.
12 Agreed?
13 MR. GLENN BUNSTON: Agreed.
14 MR. BYRON WILLIAMS: And similarly,
15 sir, there was an increase in the spreads between
16 Canada's and corporate bonds.
17 And again, that would be a reflection
18 of inflationary concerns, as well as increased
19 liquidity and credit premiums. Agreed?
20 MR. GLENN BUNSTON: Primarily
21 increased credit premiums, yes. Agreed.
22 MR. BYRON WILLIAMS: Just so I
23 understand, sir, are you saying that the -- the
24 deteriorating spread between Canada's and Corporate's
25 was not at all a reflection of inflation?

1 MR. GLENN BUNSTON: Inflation would
2 play a portion of it, but I think it's primarily
3 influenced by credit spreads.
4 MR. BYRON WILLIAMS: If we can pull up
5 MPI Exhibit 61, slide 4, please.
6
7 (BRIEF PAUSE)
8
9 MR. BYRON WILLIAMS: I appear to have
10 broken the PUB computer.
11
12 (BRIEF PAUSE)
13
14 MR. BYRON WILLIAMS: Mr. Bunston, this
15 -- this just provides a little bit more recent update
16 in terms of the changes in the Consumer Price Index
17 year over year for specific months. And goes out to
18 August of 2022. Agreed?
19 MR. GLENN BUNSTON: Agreed.
20
21 MR. BYRON WILLIAMS: And sir, based
22 upon your evidence with my learned friend Mr. Watchman
23 -- or perhaps in your direct this morning -- there is
24 -- inflation risk is still strongly present in the
25 Canadian and Manitoba economy. Agreed?

1 MR. GLENN BUNSTON: Inflation is still
2 high and is expected to remain elevated for probably
3 the next year at least.
4 MR. BYRON WILLIAMS: And with those
5 concerns about inflation, there continue to be
6 concerns about a potential recession, in part due to
7 the need to raise interest rates to counter inflation?
8 MR. GLENN BUNSTON: Yeah. As I said
9 in my testimony this morning, the yield curve in
10 Canada is inverted, which generally signals an
11 upcoming -- or recession in the near future.
12 MR. BYRON WILLIAMS: And that
13 information relating to yield curves and the threat of
14 inflation would be made available to Manitoba Public
15 Insurance senior management. Agreed?
16 MR. GLENN BUNSTON: Yes.
17 MR. BYRON WILLIAMS: And it would be
18 common knowledge in the Corporation that there is a
19 significant risk of -- of recession in the '23 year.
20 Agreed, sir?
21 MR. GLENN BUNSTON: Well, we have -- a
22 regular economic update goes to our executive. We
23 don't necessarily draw -- well, we make forecasts on
24 inflation and interest rates. We don't forecast GDP
25 growth.

1 But as I said, the inverted yield curve
2 typically signals that a recession is coming in the --
3 MR. BYRON WILLIAMS: Okay. And so, if
4 you were asked to give advice to the Manitoba Public
5 Insurance executive, you would let them know that, in
6 terms of making their decisions with regard to the
7 2023 year, the potential for a looming recession
8 should be in their minds. Agreed?
9 MR. GLENN BUNSTON: Agreed.
10 MR. BYRON WILLIAMS: Mr. Bunston,
11 you're very familiar with the term 'real return
12 bonds'?
13 MR. GLENN BUNSTON: I am.
14 MR. BYRON WILLIAMS: And you and I
15 have been talking about real return bonds in Public
16 Utility Board rate hearings probably dating back to
17 2016 or so, sir. You and I and Mr. Johnston.
18 MR. GLENN BUNSTON: It's been several
19 years, yes.
20 MR. BYRON WILLIAMS: And when we use
21 the term 'real return bonds', they could be issued by
22 the -- the Canadian government or the provincial
23 governments in Canada. Agreed, sir?
24 MR. GLENN BUNSTON: Yes. Primarily
25 issued by the federal government, but also provinces

1 have issued them and can.
2 MR. BYRON WILLIAMS: And they're
3 issued in the United States or some similar tool.
4 Agreed, sir?
5 MR. GLENN BUNSTON: Yes. Treasury and
6 inflation protected sureties, or TIPS, in the US.
7 MR. BYRON WILLIAMS: In the essence of
8 real return bonds, I'll suggest to you and ask you to
9 agree is that purchasing power is protected as both
10 the coupon and principle are indexed to the Consumer
11 Price Index, sir?
12 MR. GLENN BUNSTON: Yes, that's
13 correct.
14 MR. BYRON WILLIAMS: So they're one
15 potential hedge against long-term inflation, agreed?
16 MR. GLENN BUNSTON: Agreed.
17 MR. BYRON WILLIAMS: And if we look at
18 tools in the investors' toolkit in terms of hedges
19 against long-term inflation, another potential hedge
20 would be real estate which would at least offer a
21 partial hedge against long-term inflation, sir?
22 MR. GLENN BUNSTON: Yes. Real assets,
23 such as real estate and infrastructure, that provide
24 returns that are in some ways linked to increases in
25 inflation can provide an inflation hedge.

1

2 (BRIEF PAUSE)

3

4 MR. BYRON WILLIAMS: I wonder if Ms.
5 Schubert can turn to part 7 Investment Appendix 12,
6 slide 8, please.

7

8 (BRIEF PAUSE)

9

10 MR. BYRON WILLIAMS: And, Mr. Bunston,
11 you'll recall this document which was part of a
12 presentation that MPI made to PUB and Intervener
13 advisors in on or about July 29th of 2022?
14 MR. GLENN BUNSTON: Yes, I believe
15 this was part of that presentation delivered at that
16 meeting.
17 MR. BYRON WILLIAMS: Okay. And, Mr.
18 Bunston, just to direct your attention to the first
19 three (3) bullets, one of the -- the point you're
20 making in the first bullet is that roughly 89 percent
21 of the Basic portfolio is -- well, actually, you tell
22 me what you're trying to make in that point, sir.
23 You're trying to make the point that a
24 significant amount of the long-term liabilities of
25 Manitoba Public Insurance are in -- impacted by

1 inflation. Is that your point?
2 MR. GLENN BUNSTON: Yes. So 73
3 percent are directly indexed to Manitoba CPI and the
4 remaining 16 percent not directly tied to increases in
5 CPI, but impacted by increases in healthcare
6 inflation, which is different than Manitoba CPI.
7 Often higher than Manitoba CPI.
8 MR. BYRON WILLIAMS: Okay. Thank you
9 for that.
10 And, obviously, based upon data curve
11 to June of 2022, you're making the -- the point that,
12 at that -- on or about that time, inflation was at a
13 forty (40) year high. Agreed?
14 MR. GLENN BUNSTON: Agreed.
15 MR. BYRON WILLIAMS: And then, sir,
16 the -- the third point you're making is that the Basic
17 claims investment portfolio currently offers no
18 inflation protection?
19 MR. GLENN BUNSTON: Yes, that's right.
20 It has nominal bonds in the -- in the Basic claims
21 portfolio only.
22 MR. BYRON WILLIAMS: And so, what's
23 not there -- and we'll come to it a bit later -- but
24 there's no real return bonds in the current makeup of
25 the Basic portfolio.

1 MR. GLENN BUNSTON: Correct. There's
2 no real return bonds on the Basic claims portfolio.
3 MR. BYRON WILLIAMS: And there's no
4 real estate in the current portfolio?
5 MR. GLENN BUNSTON: No real estate.
6 MR. BYRON WILLIAMS: And that has left
7 the Basic portfolio somewhat vulnerable in the face of
8 forty (40) year highs in the -- in terms of inflation.
9 MR. GLENN BUNSTON: Yes. As the
10 bullet -- third bullet here points out, there is no
11 inflation protection in the Basic claims portfolio
12 currently.
13 MR. BYRON WILLIAMS: Thank you.
14 Mr. Lloyd, I'll come to a lot more
15 later, so -- but I do have just one (1) question -- a
16 couple questions.
17 You recall a conversation with Mr.
18 Watchman earlier today about some stress tests that
19 Mercer's kindly performed in terms of the MPI Basic
20 Extension SRE portfolios in terms of inflation.
21 MR. GLENN BUNSTON: Correct. Yes.
22 DR. BYRON WILLIAMS: Yes. And I don't
23 want to canvass -- re-canvass all that conversation,
24 sir, but it would be fair to say that the Basic
25 portfolio has the largest exposure to inflation risk

1 of -- of all those portfolios, sir.
2 MR. GLENN BUNSTON: That's right,
3 yeah.
4 DR. BYRON WILLIAMS: Mr. Bunston, in
5 terms of inflation risk, it could up, it could go --
6 go down, it would be the view of the Corporation that,
7 at the present time, it's more likely that there will
8 be an upward surprise than a downturn -- downward
9 surprise. Would that be your view?
10 MR. GLENN BUNSTON: Well, as I pointed
11 out in my testimony this morning, CPI has -- has
12 decreased in the last three (3) months so hard to say
13 whether that will continue, but certainly the last
14 twelve (12) to fifteen (15) months have been
15 characterized by upward and surprises in inflation.
16 DR. BYRON WILLIAMS: Very significant
17 upward surprises, sir.
18 MR. GLENN BUNSTON: Yes, to 40-year
19 highs.
20 DR. BYRON WILLIAMS: Mr. Bunston, as
21 we adverted to previously, you -- you've been with MPI
22 for quite a few years, agreed?
23 MR. GLENN BUNSTON: It was nineteen
24 (19) years in June, yeah.
25 DR. BYRON WILLIAMS: Congratulations.

1 And you're, of course, familiar with Mr. Valter Viola,
2 who provided independent expert evidence on behalf of
3 CAC Manitoba to the PUB on investment issues?
4 MR. GLENN BUNSTON: Very familiar with
5 Mr. Viola, yes.
6 DR. BYRON WILLIAMS: And you've
7 participated in prior hearings where Mr. Viola shared
8 his expert opinion on investment portfolio modeling
9 choices. Agreed?
10 MR. GLENN BUNSTON: Yes, I have.
11 DR. BYRON WILLIAMS: And, of course,
12 Mr. Bunston, part of your job is to review Public
13 Utility Board Orders, as they relate to investments.
14 Agreed?
15 MR. GLENN BUNSTON: Agreed.
16 DR. BYRON WILLIAMS: And, sir, you
17 were advised earlier today that I might be referring
18 you to Public Utilities Board Order 159/'18, certain
19 select pages from that?
20 MR. GLENN BUNSTON: Yes, I was.
21 DR. BYRON WILLIAMS: And, these would
22 be pages that you would be familiar with, based upon
23 your general role, in terms of the investment
24 portfolio, sir. Agreed?
25 MR. GLENN BUNSTON: Yes.

1 DR. BYRON WILLIAMS: We'll come to
2 those pages in a second, but in terms of the 2018
3 asset/liability matching study, one of the innovations
4 brought in by Manitoba Public Insurance and Mercers,
5 in that study, was the development of a -- a liability
6 benchmark, intended to model the liability
7 characteristics. Agreed?
8 MR. GLENN BUNSTON: I don't know that
9 it was an innovation that was introduced in that
10 study. I think it was -- I think it was the basis of
11 all of the studies that we've done.
12 DR. BYRON WILLIAMS: Okay. We won't
13 quibble over that. You -- you won't -- you'll -- you
14 may recall that that was one (1) of the
15 recommendations that Mr. Viola made in previous
16 hearings, to develop a -- a liability benchmark.
17 MR. GLENN BUNSTON: He made -- many --
18 many recommendations.
19 DR. BYRON WILLIAMS: He ---
20 MR. GLENN BUNSTON: I think he --
21 there was eighteen (18) in total, but I think that was
22 one (1) of them.
23 DR. BYRON WILLIAMS: Okay. But there
24 -- for -- for -- regardless of whether it was an
25 innovation or not, sir, the -- the core first step, in

1 developing the asset/liability study, was developing
2 that benchmark liability portfolio. Agreed?
3 MR. GLENN BUNSTON: Yes, the first
4 step is to -- to model the liabilities and then
5 develop a asset mix that responds to the risks and --
6 and manages the risks associated with those
7 liabilities.
8 DR. BYRON WILLIAMS: And in 2018 there
9 were choices available to Manitoba Public Insurance
10 and to Mercers in the sense that you could adopt a
11 liability benchmark, consisting of a bond portfolio
12 that was focused on the interest rate sensitivity of
13 the underlying liabilities. That's one (1) option.
14 MR. GLENN BUNSTON: Yes, the liability
15 benchmark again should reflect the characteristics of
16 the underlying liabilities, in this case, or
17 liabilities that are long in duration and inflation
18 sensitive, so yes.
19 DR. BYRON WILLIAMS: Okay, but, sir,
20 in -- in 2018, you had a choice. You could look at
21 inflation sensitive -- a liability benchmark that was
22 focused on interest rate and inflation sensitivities,
23 i.e., a re -- real liability benchmark. Agreed?
24 MR. GLENN BUNSTON: That was one (1)
25 of the choices that we had before us at the time.

1 Yeah.
2 DR. BYRON WILLIAMS: And the other one
3 was to -- to really, instead, focus on interest rate
4 sensitivity, a nominal liability benchmark. Agreed?
5 MR. GLENN BUNSTON: Correct.
6 DR. BYRON WILLIAMS: And Mercers --
7 Mercer -- actually prepared both liability benchmarks
8 for Manitoba Public Insurance -- a real liability
9 benchmark as well as a nominal liability benchmark,
10 sir.
11 MR. GLENN BUNSTON: Yes, they did.
12 DR. BYRON WILLIAMS: Okay. And
13 Manitoba Public Insurance chose to be guided by the
14 nominal liability benchmark. Agreed?
15 MR. GLENN BUNSTON: We did, yeah, with
16 advice from Mercer.
17 DR. BYRON WILLIAMS: And Mr. -- my
18 friend, Mr. Scarfone, asked the panel this question
19 this morning. I'm going to try and ask it again in a
20 slightly different way.
21 Mr. Bunston, it would be fair that the
22 asset allocations that flow from an optimizing process
23 depend materially on whether a nominal or real
24 liability benchmark is selected.
25 MR. GLENN BUNSTON: Yes, that'd fair.

1 DR. BYRON WILLIAMS: In other words,
2 when you're preparing and undertaking the optimization
3 process, the -- the computer whatevers, are responding
4 to the benchmark? Leave aside the 'whatevers' word.
5 MR. GLENN BUNSTON: Yeah. So, it --
6 it would be a mean variance optimizers used by -- by
7 Mercer and the basis for that is the -- the liability
8 benchmark that is selected to -- to, as a proxy, for
9 the liabilities.
10 DR. BYRON WILLIAMS: So, the choice of
11 a nominal liability benchmark would lead to different
12 optimization choices, than the choice of a real
13 liability benchmark.
14 MR. GLENN BUNSTON: Yes.
15 DR. BYRON WILLIAMS: And then if we
16 can just go to page 79 of -- of 116, the first
17 paragraph -- sorry, page 79 or Order 159/'18. Right
18 to the top, please.
19 And, Mr. Bunston, I've just put --
20 brought this before you, I know you know this by
21 heart, but I just wanted to make sure you had the --
22 had it there if you needed it.
23 And, what the PUB is suggesting is that
24 in order to evaluate the financial risks, associated -
25 - for the purposes of the asset liability study,

1 Mercer's developed this liability benchmark portfolio.
2 Agreed?
3 MR. GLENN BUNSTON: Yes, agreed.
4 DR. BYRON WILLIAMS: And -- and the
5 liability portfolio, ultimately used accepted
6 inflation volatility, assuming that a 2 percent
7 inflation rate static through the modeling exercise.
8 Correct?
9 MR. GLENN BUNSTON: Well, I believe
10 that in that study and this study, that they used a 2
11 percent inflation rate with a 2.6 percent standard
12 deviation for inflation, sir.
13 DR. BYRON WILLIAMS: Fair enough.
14 MR. GLENN BUNSTON: Wasn't necessarily
15 static.
16 DR. BYRON WILLIAMS: Okay. But it was
17 really focused on protecting against nominal interest
18 rate risk, rather than real interest rate risk.
19 Agreed?
20 MR. GLENN BUNSTON: Agreed.
21 DR. BYRON WILLIAMS: And, if we can
22 turn to page 85 of 116 and go into the second last
23 paragraph. Focusing on the first line, sir.
24 Mr. Viola's criticism of the Mercer
25 study from 2018, one (1) of the key concerns was --

1 was the use of the nominal, rather than the real
2 liability benchmark. Agreed?
3 MR. GLENN BUNSTON: Agreed. That's
4 what it says.
5 DR. BYRON WILLIAMS: And that's what
6 you recall, sir?
7 MR. GLENN BUNSTON: Yeah.
8 DR. BYRON WILLIAMS: And, of course,
9 he was also expressing concern about the rejection of
10 real return bonds. Correct?
11 MR. GLENN BUNSTON: Correct.
12 DR. BYRON WILLIAMS: And Mr. Bunston,
13 if you can't remember this, I'll -- I'll -- I'll
14 understand but, you may recall that Mr. Viola's a -- a
15 hockey -- a hockey guy and he characterized real
16 return bonds as the goalie that would provide greater
17 defence and also allowing you to take more risks on
18 offence through the selection of real estate and
19 equities. Do you remember that generally, sir?
20 MR. GLENN BUNSTON: I do remember his
21 very colourful analogies, hockey and otherwise, yes.
22 DR. BYRON WILLIAMS: And just
23 directing your attention to para -- paragraph -- page
24 86, the -- the second full paragraph in Mr. Viola's
25 opinion, the concern he was raising in his evidence

1 was that the benchmark portfolio -- the liability
2 benchmark portfolio, was understating the significance
3 of inflation volatility and real interest rate risk?
4 Do you recall that, sir, and that's
5 consistent with your understanding?
6 MR. GLENN BUNSTON: Yes. I recall
7 that.
8 DR. BYRON WILLIAMS: And, just going
9 down to the last paragraph, page 86, and about line 4,
10 we'll get to Mr. Viola, without the colourful hockey
11 language, but he was rec -- recommending not only the
12 inclusion of -- of low risk real return bonds, but, he
13 is also suggesting that they be matched off with --
14 with riskier assets and arguing that it would both
15 provide a better return and lower volatility over the
16 long term.
17 Is that consistent with your
18 understanding, sir?
19 MR. GLENN BUNSTON: That's consistent
20 with what I believe he was recommending at the time.
21 Yes.
22 DR. BYRON WILLIAMS: At a high level,
23 Mr. Bunston, would it be fair to say that I'm -- I'm
24 just going to try and restate this.
25 One of Mr. Viola's concerns is that

1 nominal benchmarks did not match the risk of the
2 liabilities. Agreed?
3 MR. GLENN BUNSTON: Yes. I think that
4 was one (1) of his concerns.
5 DR. BYRON WILLIAMS: And he also
6 suggested that if a proper benchmark was used, it
7 would support the inclusion of real return bonds,
8 which would be a better hedge against long-term
9 inflation. Agreed?
10 MR. GLENN BUNSTON: Agreed.
11 DR. BYRON WILLIAMS: And the third
12 component of his argument was that, if there was a
13 better hedge against inflation, you could also improve
14 the results of the portfolio by investing in assets,
15 other than bonds, such as equities and real estate?
16 MR. GLENN BUNSTON: Yes. I believe
17 that was one (1) of his conclusions.
18 DR. BYRON WILLIAMS: Okay. Thank you.
19 Mr. Bunston, we don't -- I don't need to refer you to
20 this part of the Board Order but you will recall that
21 the Board did direct Manitoba Public Insurance to
22 prepare shadow portfolios with the intended purpose
23 that they would test Mr. Viola's hypothesis against
24 the performance of the MPI policy portfolio?
25 MR. GLENN BUNSTON: Yes. I do recall

1 the -- the Board Order to create the shadow
2 portfolios.
3 DR. BYRON WILLIAMS: Okay, and my
4 friend, Ms. Meek, is going to take you through CA --
5 CMMG 2-8 later today but it would be fair to say, sir,
6 at a high level, over the last three (3) years, if we
7 look at the performance of the shadow portfolios
8 compared to the policy passive Basic, that the shadow
9 portfolios have outperformed the policy passive Basic,
10 both in terms of return and surplus volatility?
11 MR. GLENN BUNSTON: I believe that the
12 -- some of the shadow portfolios have outperformed but
13 not all of them I don't think.
14 DR. BYRON WILLIAMS: Ms. Meeks (sic)
15 will take you through that a bit later. I wonder if
16 we can go to Mercer Report, Investments -- I think
17 it's a Mercer Report, Investment Attachment E, Slide
18 2? That's perfect. Thank you.
19 Mr. Lloyd, in this report, Mercer --
20 sorry, do you have that before you, sir? If I'm going
21 too fast, just slow me down, okay?
22 Sir, in this report, Mercer provided
23 its results, its analysis of returns for the period
24 from 2015 to 2019, in terms of investment gross
25 returns of ICBC, Saskatchewan Government Insurance,

1 Workers Compensation Board of Manitoba, the Civil
2 Service Superannuation Board, and the Teachers'
3 Retirement Allowance Fund against returns of Manitoba
4 Public Insurance? Is that correct, sir?
5 MR. NEIL LLOYD: That's correct.
6 DR. BYRON WILLIAMS: And, sir, on the
7 right hand of this figure, you'll see MPI results
8 reported with two -- two (2) different year ends, one
9 being the 31st of December and the other being the
10 31st of March? Agreed?
11 MR. NEIL LLOYD: Correct.
12 DR. BYRON WILLIAMS: And the reason
13 for doing that, I'll suggest to you, was that some of
14 the companies that you were comparing MPI to had
15 different fiscal year ends? Agreed?
16 MR. NEIL LLOYD: That's correct.
17 DR. BYRON WILLIAMS: Okay, and line 8
18 looks at what it calls MPI value added as compared to
19 these different portfolios? Is that right, sir?
20 MR. NEIL LLOYD: That's correct.
21 DR. BYRON WILLIAMS: And, if the
22 number is positive, that would suggest that the MPI
23 portfolio outperformed its comparison portfolio over
24 that five-year time period?
25 MR. NEIL LLOYD: That's correct.

1 DR. BYRON WILLIAMS: And, if the
2 result is negative, it would suggest that the
3 comparative portfolio outperformed MPI during that
4 five-year period? Agreed?
5 MR. NEIL LLOYD: That's right.
6 DR. BYRON WILLIAMS: And so, just
7 going from the second column, as compared to the
8 Teacher's Fund, MPI was in a negative 2.1 percent
9 position, sir. Is that correct?
10 MR. NEIL LLOYD: That's correct.
11 DR. BYRON WILLIAMS: And, as compared
12 to the Civil Service Superannuation Board, negative
13 1.5 percent. Agreed?
14 MR. NEIL LLOYD: Correct.
15 DR. BYRON WILLIAM: Compared to the
16 WCB over that five-year period, negative 0.9 percent,
17 sir?
18 MR. NEIL LLOYD: That's right.
19 DR. BYRON WILLIAMS: Compared to ICBC
20 over that five-year period, positive 1.4 percent?
21 MR. NEIL LLOYD: That's correct.
22 DR. BYRON WILLIAMS: And compared to
23 SGI, a negative 1.6 percent, sir?
24 MR. NEIL LLOYD: That's correct.
25 DR. BYRON WILLIAMS: And, sir, when --

1 when Mercer looked at these different portfolios, one
2 of your general conclusions that -- was that insurance
3 companies, with the exception of WCB, are, generally,
4 more in fixed income than equities and alternatives?
5 Agreed?
6 MR. NEIL LLOYD: That's correct.
7 DR. BYRON WILLIAMS: And, for the
8 period examined, you also concluded that asset mixes
9 with higher allocations to fixed income generated, on
10 average, lower returns?
11 MR. NEIL LLOYD: That's correct.
12 DR. BYRON WILLIAMS: And you also
13 noted that MPI, of the six (6) companies compared, had
14 the largest alloca -- allocation towards fixed income,
15 compared to its peers?
16 MR. NEIL LLOYD: I believe that's
17 correct. Yeah.
18 DR. BYRON WILLIAM: You can accept
19 that, subject to check. I think it's on page 3.
20 Mr. Bunston, I -- I think you can
21 accept this, subject to check, but, if not, you -- we
22 could pull up for you PUB-1-38.
23 But do you recall MPI being asked to
24 update its -- its performance compared to -- if you
25 could go to -- yeah -- yeah -- it's compared to SGI

1 and ICBC, sir? Sorry, I didn't hear.
2 MR. GLENN BUNSTON: Yes. I do.
3 DR. BYRON WILLIAMS: Okay, and would
4 it be fair to say that, in the fiscal year '21/'22,
5 MPI investment portfolio underperformed SGI by 2.9
6 percent?
7 MR. GLENN BUNSTON: Yes. That would
8 be fair.
9 DR. BYRON WILLIAMS: And over the
10 five-year period and in March 31st, 2022, MPI
11 underperformed SGI by 2.5 percent?
12 MR. GLENN BUNSTON: That's correct.
13 DR. BYRON WILLIAMS: And, in terms of
14 the '22 figures for ICBC, they were not yet available?
15 Is that right, sir?
16 MR. GLENN BUNSTON: That's correct.
17 DR. BYRON WILLIAMS: Okay. Mr.
18 Bunston, you'll recall we've had a discussion
19 regarding the 2018 Asset Liability Study and you'll
20 agree that, for the purposes of the 2022 Asset
21 Liability Study, Manitoba Public Insurance is looking
22 to manage both real and nominal liabilities. Agreed?
23 MR. GLENN BUNSTON: Agreed.
24 DR. BYRON WILLIAMS: Okay, and that's
25 one (1) of the reasons you're actively examining and

1 considering whether to make an allocation to real
2 return bonds. Correct?
3 MR. GLENN BUNSTON: Correct.
4 DR. BYRON WILLIAMS: Okay. Mr. Lloyd,
5 I think most of my remaining questions will be to you,
6 sir, and I'd like to draw your attention to the
7 Corporation's response to PUB First Round Information
8 Request 128(e), Appendix 1, pages 1 and 2. And I'll
9 just give you a second to pull that up, sir.
10
11 (BRIEF PAUSE)
12
13 MR. NEIL LLOYD: Okay.
14 DR. BYRON WILLIAMS: And if we could
15 go to page 2 of 2 for a second and, Mr. Lloyd, you'll
16 recall a bit of a conversation earlier today with My
17 Friend Mr. Watchman, and that was on a similar
18 diagram, but it was for Basic long, agreed?
19 MR. NEIL LLOYD: Correct.
20 DR. BYRON WILLIAMS: And so this is
21 looking at the -- I'll suggest to you that Appendix 1
22 of PUB-1-128(e) is looking at the efficient frontiers
23 minimally constrained for the Basic combined
24 portfolio, agreed?
25 MR. NEIL LLOYD: That's correct.

1 DR. BYRON WILLIAMS: Okay. And just
2 to situate ourselves for a second, sir, at the top on
3 the less -- left are different types of investments,
4 including fixed-income investments, public equities,
5 and alternatives, agreed?
6 MR. NEIL LLOYD: Correct.
7 DR. BYRON WILLIAMS: And moving to the
8 right are different portfolios, including in the first
9 column the liability benchmark portfolio?
10 MR. NEIL LLOYD: Correct.
11 DR. BYRON WILLIAMS: And that's the
12 2022 liability benchmark portfolio based upon real
13 interest rates, agreed, sir?
14 MR. NEIL LLOYD: Correct.
15 DR. BYRON WILLIAMS: Okay. And next
16 to that is the current MPI portfolio, and that's the
17 one that was developed based upon the nominal
18 benchmark back in -- in 2018, agreed?
19 MR. NEIL LLOYD: That's my
20 understanding, yes.
21 DR. BYRON WILLIAMS: Okay. And then
22 as we -- we move to the right, we see some of the
23 different portfolios that Mercer tested for the
24 purpose of its analysis, agreed?
25 MR. NEIL LLOYD: (NO AUDIBLE

1 RESPONSE).
2 DR. BYRON WILLIAMS: And, sir, if we
3 go down on the left-hand side, you'll see under 'Risk
4 Metrics' first of all 'Expected Excess Return, Ten
5 (10) Year'. You see that, sir?
6 MR. NEIL LLOYD: Right.
7 DR. BYRON WILLIAMS: And then below
8 that is 'Surplus Volatility', agreed?
9 MR. NEIL LLOYD: Correct.
10 DR. BYRON WILLIAMS: Okay. We'll come
11 back to this page in just a second, but could we go to
12 page 1 of 2.
13 Sir, if I direct your attention to the
14 horizontal axis on -- on this diagram, the risk in
15 this -- in the Mercer assessment is based upon excess
16 return volatility, agreed?
17 MR. NEIL LLOYD: (NO AUDIBLE
18 RESPONSE).
19 DR. BYRON WILLIAMS: And if I've got
20 that right -- and you'll correct me if I don't --
21 that's based upon the standard deviation of the growth
22 in surplus where surplus growth is the difference
23 between the return on assets and the growth in
24 liabilities. Agreed, sir?
25 MR. NEIL LLOYD: That sounds right.

1 It's based on the difference between the return on the
2 assets and the return on the liability benchmark.
3 DR. BYRON WILLIAMS: Right.
4 MR. NEIL LLOYD: Same --
5 DR. BYRON WILLIAMS: Yeah. And -- and
6 again, that's one (1) of the reasons why that
7 liability benchmark determination --
8 MR. NEIL LLOYD: Report, yes.
9 DR. BYRON WILLIAMS: -- is so critical
10 because you're comparing it to the proxy for the risk
11 of the liabilities.
12 MR. NEIL LLOYD: Correct.
13 DR. BYRON WILLIAMS: Okay. And if we
14 look on the 'Y' axis or vertical axis, there return,
15 you're -- you're looking at excess return of a
16 portfolio again measured against the liability
17 benchmark, agreed?
18 MR. NEIL LLOYD: That's correct.
19 DR. BYRON WILLIAMS: Going back to
20 page 2 of 2, under 'Current', at the time the analysis
21 was done, Mr. Lloyd, you'll see that the current
22 portfolio was exclusively provincial bonds and
23 corporate bonds? Oh, sorry, let me try that again.
24 It was about 60 percent provincial
25 bonds, agreed?

1 MR. NEIL LLOYD: Correct.
2 DR. BYRON WILLIAMS: About 20 percent
3 corporate bonds, and about 20 percent municipal and
4 school bonds using the acronym MUSH --
5 MR. NEIL LLOYD: Yes.
6 DR. BYRON WILLIAMS: -- M-U-S-H. So
7 in the current portfolio, no real return bonds,
8 agreed?
9 MR. NEIL LLOYD: That's correct.
10 DR. BYRON WILLIAMS: No real estate,
11 agreed?
12 MR. NEIL LLOYD: Correct.
13 DR. BYRON WILLIAMS: And no equity,
14 correct?
15 MR. NEIL LLOYD: That's correct.
16 DR. BYRON WILLIAMS: Okay. And I'll
17 come right back to you, Mr. Lloyd.
18 But, Mr. Bunston, the fact that there
19 were no real return bonds in the portfolio is, in
20 part, a consequence of the -- the liability benchmark
21 selected in 2018, agreed?
22 MR. GLENN BUNSTON: Yes. It was a
23 byproduct of the fact that we selected a nominal
24 liability benchmark at that time.
25 DR. BYRON WILLIAMS: Okay. By

1 contrast, the absence of equities is a policy choice
2 of the Manitoba Public Insurance board of directors.
3 MR. GLENN BUNSTON: That's correct.
4
5 (BRIEF PAUSE)
6
7 DR. BYRON WILLIAMS: Mr. Lloyd,
8 turning to the liability benchmark which is the second
9 column, it's got 58 percent real return bonds in
10 there. Is that correct, sir?
11 MR. NEIL LLOYD: That's correct.
12 DR. BYRON WILLIAMS: And again, that's
13 a reflection -- in part, you're optimizing compared to
14 the real liability benchmark, correct?
15 MR. NEIL LLOYD: Correct.
16 DR. BYRON WILLIAMS: And going across
17 three (3) more columns to the 'Lower Risk' column,
18 sir, again, that column is heavily -- has a lot of
19 real return bonds, about 35 percent, agreed?
20 MR. NEIL LLOYD: Correct.
21 DR. BYRON WILLIAMS: And one (1) of
22 the conclusions of Mercer was that real return bonds
23 in the 2022 Asset/Liability Matching Study led to a
24 significant improvement in outcomes, especially at
25 more conservative levels of risk, agreed?

1 MR. NEIL LLOYD: That's correct.
2
3 (BRIEF PAUSE)
4
5 DR. BYRON WILLIAMS: Mr. Lloyd, when
6 we're looking at returns as calculated for the purpose
7 of this study, the total portfolio's return is the
8 weighted average of the returns of its component
9 returns, agreed?
10 MR. NEIL LLOYD: Largely, yes. There
11 is -- there's an interactive effect between different
12 asset classes, so it won't quite work out that way,
13 but essentially, yes.
14 DR. BYRON WILLIAMS: Okay. When we
15 look at surplus volatility and contrast, it's not an
16 average of the component volatilities of assets and
17 liabilities, agreed?
18 MR. NEIL LLOYD: Correct.
19 DR. BYRON WILLIAMS: And that's
20 because the correlations are not perfect?
21 MR. NEIL LLOYD: (NO AUDIBLE
22 RESPONSE).
23 DR. BYRON WILLIAMS: You nodded your
24 head, but did you say yes --
25 MR. NEIL LLOYD: I would say 'yes'.

1 DR. BYRON WILLIAMS: Yes? Okay. So
2 when we think of surplus volatility, it depends on the
3 volatility of the assets, the volatility of the
4 liabilities, and the correlation of returns between
5 the assets and liabilities, agreed?
6 MR. NEIL LLOYD: I'm not sure the
7 volatility to the liabilities actually matter. It's
8 the relationship of the liabilities to the assets.
9 DR. BYRON WILLIAMS: Okay.
10 MR. NEIL LLOYD: Volatility to that
11 relationship matters.
12 DR. BYRON WILLIAMS: And the
13 correlation of returns?
14 MR. NEIL LLOYD: Relations would be
15 part of that, yes.
16 DR. BYRON WILLIAMS: And if we went
17 back up to page 1 of 2 for just a second, because
18 risks don't add, when we look at the return risk graph
19 on that efficient frontier, it bends to the right,
20 agreed?
21 MR. NEIL LLOYD: It does bend to the
22 right, correct.
23 DR. BYRON WILLIAMS: Yeah, and that's
24 a reflection -- okay. That's fair enough.
25 So, Mr. Lloyd, I want to take you,

1 going back to page -- just stay on this page for a
2 second. And again, I'm trying not to trespass too
3 much on what My Friend Mr. Watchman did, but I am
4 doing this for a purpose.
5 If we look at this depiction of the
6 efficient frontiers, page 1 of 2, of PUB-1-128(e),
7 Appendix 1, the current MPI portfolio A is situated in
8 terms of excess return out beyond 3.5 percent.
9 Is that right, sir?
10 MR. NEIL LLOYD: Correct.
11 DR. BYRON WILLIAMS: And in terms of
12 expected excess return, it's -- it's fairly low on --
13 in this depiction, as well, agreed?
14 MR. NEIL LLOYD: That's correct.
15 DR. BYRON WILLIAMS: If we move to the
16 left and look at the lower risk portfolio C, it would
17 have considerably lower risk than current 'A', agreed?
18 MR. NEIL LLOYD: That's correct.
19 DR. BYRON WILLIAMS: And about the
20 same level of return?
21 MR. NEIL LLOYD: That's the design of
22 that portfolio, yes.
23 DR. BYRON WILLIAMS: Okay. Thank you.
24 Midpoint being 'D' on the efficient frontier, Mr.
25 Lloyd, would have lower risk as measured in excess

1 return volatility than current A, agreed?
2 MR. NEIL LLOYD: Correct.
3 DR. BYRON WILLIAMS: And also a higher
4 return as measured in excess return as compared to
5 portfolio A?
6 MR. NEIL LLOYD: That's correct.
7 DR. BYRON WILLIAMS: Okay. And if we
8 go up to higher return B, in terms of risk, by design,
9 it's pretty comparable to current A, agreed?
10 MR. NEIL LLOYD: That's right.
11 DR. BYRON WILLIAMS: And, of course,
12 the -- in terms of excess return, it's significantly
13 higher than current A, and I'm speaking of high return
14 portfolio B?
15 MR. NEIL LLOYD: That's correct.
16
17 (BRIEF PAUSE)
18
19 DR. BYRON WILLIAMS: If we can go to
20 the -- page 2 of 2 of PUB-1-128(e). And I -- Mr.
21 Lloyd, I want to take a look at current A versus low-
22 risk C.
23 And, again, we've agreed that current A
24 is provincial bonds, corporate bonds, and MUSH bonds,
25 agreed?

1 MR. NEIL LLOYD: Correct.
2 DR. BYRON WILLIAMS: In terms of
3 current C, which is about the fifth column in, it has
4 4 percent equity, sir, agreed?
5 MR. NEIL LLOYD: That's correct.
6 DR. BYRON WILLIAMS: And 15 percent
7 alternatives, correct?
8 MR. NEIL LLOYD: That's correct.
9 DR. BYRON WILLIAMS: So, it has 19
10 percent more volatile asset -- assets than the fixed
11 income assets in current A, agreed?
12 MR. NEIL LLOYD: That's correct.
13 DR. BYRON WILLIAMS: And the rest of
14 the portfolio is fixed income, including 35 percent, I
15 believe, of real return bonds?
16 MR. NEIL LLOYD: That's right.
17 There's also 3 -- there's also 2 percent in levered
18 bonds, as well.
19 DR. BYRON WILLIAMS: Yeah, there's a
20 bit of levered. And, sir, to help my clients to
21 understand why portfolio C can have less surplus
22 volatility than portfolio A when 19 percent of the
23 portfolio is in more volatile assets, in part, that's
24 because of correlations, right? Risks don't add?
25 MR. NEIL LLOYD: Correct.

1 DR. BYRON WILLIAMS: And, in part,
2 it's also because of a better match and correlation of
3 the real return bonds with the liability?
4 MR. NEIL LLOYD: That is right.
5 DR. BYRON WILLIAMS: Okay. So,
6 there's two (2) things going on there, at least, in
7 terms of why it has -- has --
8 MR. NEIL LLOYD: At lease. Those
9 would be -- those would be two (2) strong ones, yes.
10 DR. BYRON WILLIAMS: Okay. Thank you.
11 And just let's go over to higher return portfolio B
12 for a second. That's the fourth column. It has 15
13 percent in public equities, sir?
14 MR. NEIL LLOYD: Correct.
15 DR. BYRON WILLIAMS: And 15 percent in
16 alternatives, correct?
17 MR. NEIL LLOYD: That's correct.
18 DR. BYRON WILLIAMS: And the
19 remainder, about 70 percent, in fixed return bonds,
20 including some of those levered?
21 MR. NEIL LLOYD: Correct, more levered
22 bonds than in the lower risk portfolio.
23 DR. BYRON WILLIAMS: And, also, some
24 treasury bills?
25 MR. NEIL LLOYD: And that comes from

1 the Basic short separated from the Basic long, yes.
2 DR. BYRON WILLIAMS: And the reason
3 that a portfolio like that would -- would have the
4 same surplus volatility is, again, we'll be looking at
5 correlations and the -- the matching of the -- it'll
6 be the same two (2) reasons we've already talked
7 about.
8 MR. NEIL LLOYD: Yeah. I mean, these
9 are correlations, but the diversification benefit of
10 having other asset classes, yes.
11 DR. BYRON WILLIAMS: Yes. Thank you.
12
13 (BRIEF PAUSE)
14
15 DR. BYRON WILLIAMS: Mr. Bunston, if
16 we look at portfolio B with a return of 3.66 percent
17 versus portfolio A with a return of 2.48 percent,
18 would be -- that be about a difference of 1.18
19 percent, sir --
20 MR. GLENN BUNSTON: Yes, sir.
21 DR. BYRON WILLIAMS: -- in -- in terms
22 of -- yeah.
23 MR. GLENN BUNSTON: Yes, I think
24 that's right.
25 DR. BYRON WILLIAMS: Okay. And

1 hypothetically, Mr. Bunston, with assets under
2 management let's say of $2 billion, the extra return
3 would be about 25 billion a year?
4
5 (BRIEF PAUSE)
6
7 MR. GLENN BUNSTON: Yes, I think
8 approximately.
9 DR. BYRON WILLIAMS: Subject to check.
10 Under this analysis, being PUB-1-128, appendix 1, page
11 2 of 2, there's also a reference under 'Other Metrics'
12 to the minimum capital required.
13 Mr. Lloyd, do you see that? It's the
14 third last line.
15 MR. NEIL LLOYD: Yes, I see that.
16 Yeah.
17 DR. BYRON WILLIAMS: Did Mercer
18 perform this calculation or did MPI?
19 MR. NEIL LLOYD: We performed that
20 calculation.
21 DR. BYRON WILLIAMS: Sir, are you able
22 by way of undertaking to provide the calculation of
23 the minimum capital required for 'A', 'B', 'C', 'D'
24 and the...?
25 MR. NEIL LLOYD: I couldn't at this

1 stage. Well, I can, but I -- I couldn't explain it
2 now.
3 DR. BYRON WILLIAMS: No, I'm not
4 asking you to. I'm asking whether Mercer -- like,
5 Mercer will have done this calculation. It's readily
6 available to you, sir?
7
8 (BRIEF PAUSE)
9
10 MR. STEVE SCARFONE: So, I'm told, Mr.
11 Williams, that that information was already provided
12 to MPIC by Mercer, so we'll just file it.
13 DR. BYRON WILLIAMS: Okay. That would
14 be much appreciated. And so, it's the derivation with
15 -- including the calculations for the minimum capital
16 required for portfolios 'A' through 'E' of PUB-1-
17 128(e), appendix 1, page 2 of 2.
18 MR. STEVE SCARFONE: Yes. Thank you.
19
20 CONTINUED BY DR. BYRON WILLIAMS:
21 DR. BYRON WILLIAMS: Thank you to both
22 MPI and Mercer for that. Mr. Lloyd, just a last
23 couple of questions.
24 If I -- if I look under lower risk,
25 column C, under 'surplus volatility', the result that

1 Mercer's determined for that portfolio was 1.22
2 percent, agreed?
3 MR. NEIL LLOYD: That is correct.
4 DR. BYRON WILLIAMS: And if I go over
5 a couple to the left in terms of the surplus
6 volatility for current A, the calculation of surplus
7 volatility was 3.6.9 percent?
8 MR. NEIL LLOYD: Correct.
9 DR. BYRON WILLIAMS: So, in terms of
10 measures, the forecast -- let me back up.
11 In terms of your assessment of the
12 market risk of the two (2) portfolios, portfolio C had
13 significantly less surplus volatility than portfolio
14 A?
15 MR. NEIL LLOYD: That's correct.
16 DR. BYRON WILLIAMS: Mathematically,
17 Mr. Lloyd, when we go down to the minimum capital
18 required, you'll see that the minimum capital required
19 for the lower risk is 65.4 million.
20 You see that, sir?
21 MR. NEIL LLOYD: That's correct.
22 DR. BYRON WILLIAMS: And you'll see
23 that the minimum capital required for the current
24 portfolio is 16.8 million?
25 MR. NEIL LLOYD: That's correct.

1 DR. BYRON WILLIAMS: And so, that
2 would be a function of the mechanics of the MCT
3 analysis?
4 MR. NEIL LLOYD: That's correct, yes.
5 DR. BYRON WILLIAMS: Okay. But in
6 terms of the Mercer analysis of risk, portfolio C
7 brings significantly less surplus volatility than --
8 than portfolio A?
9 MR. NEIL LLOYD: That's correct.
10 DR. BYRON WILLIAMS: Okay. Thank you.
11 I have no further questions.
12 THE PANEL CHAIRPERSON: Thank you, Ms.
13 Williams.
14 Ms. Meek, have you got an estimate of
15 how long you might be?
16 MS. CHARLOTTE MEEK: I think I -- I've
17 been able to cut out a couple of questions with Mr.
18 Williams's cross, so I would expect about a half an
19 hour max, maybe less.
20 THE PANEL CHAIRPERSON: Okay. Then
21 maybe what we'll do is take a short break, come back
22 in ten (10) minutes. And we'll proceed with you.
23 Thank you.
24
25 --- Upon recessing at 2:20 p.m.

1 October 24, 2022--- Upon resuming at 2:35 p.m.
2
3 THE PANEL CHAIRPERSON: Okay. Thanks
4 very much, everyone.
5 Mr. Scarfone, I see that we have some
6 exhibits. Would you like to enter them now?
7
8 (BRIEF PAUSE)
9
10 MR. STEVE SCARFONE: Yes. I think the
11 last exhibit that I marked this morning was Exhibit
12 63. So MPI Exhibit 64 has now been filed. It's
13 CAC/MPI-2-17, a blackline clean version.
14
15 --- EXHIBIT NO. MPI-64: Blackline clean version of
16 CAC/MPI-2-17
17
18 MR. STEVE SCARFONE: MPI Exhibit
19 number 65, Part 8, AR Appendix 4, the Corporate
20 Quarterly Financial Report, First Quarter, previously
21 filed in the confidential module as Exhibit 17.
22
23 --- EXHIBIT NO. MPI-65: Part 8, AR Appendix 4,
24 Corporate Quarterly
25 Financial Report, First

1 Quarter, previously filed
2 in the confidential module
3 as Exhibit 17
4
5 MR. STEVE SCARFONE: And MPI Exhibit
6 number 66 is the response to Undertaking number 13.
7
8 --- EXHIBIT NO. MPI-66: Response to Undertaking 13
9
10 THE PANEL CHAIRPERSON: Thank you.
11 Ms. Meek...?
12 MS. CHARLOTTE MEEK: Thank you, Madam
13 Chair. Good afternoon to the Board and -- and good
14 afternoon to the panel.
15
16 CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:
17 MS. CHARLOTTE MEEK: Similar to --
18 similarly to the other Interveners, I will just direct
19 my questions mostly broadly to any of you, and -- and
20 whoever feels best able to respond can do so. I'll
21 start off, though, with you, Mr. Bunston, if I could.
22 In your presentation this morning, you
23 discussed the volatile year we've had. Do you recall
24 that?
25 MR. GLENN BUNSTON: I do recall that,

1 yes.
2 MS. CHARLOTTE MEEK: And you cited
3 various factors that have contributed to the
4 volatility of the year, such as inflation, changes in
5 interest rates, and changes in returns on equity
6 investments. Is that correct?
7 MR. GLENN BUNSTON: Yes. There's been
8 nowhere to hide this year.
9 MS. CHARLOTTE MEEK: And -- and you'd
10 agree that the previous year was also fairly volatile
11 in 2020 and 2021 with the impacts of the COVID-19
12 pandemic?
13 MR. GLENN BUNSTON: Yes, 2020 marked
14 by the pandemic and the shocks that brought to the
15 market, and then the subsequent recovery after that.
16 MS. CHARLOTTE MEEK: Right. And then
17 most recently, we've seen the impacts of the Russian
18 war in Ukraine and how that's affected global markets
19 as well. Is that correct?
20 MR. GLENN BUNSTON: Yes. That's wide-
21 ranging impacts on commodity markets, fuel, energy,
22 food, yes.
23 MS. CHARLOTTE MEEK: So would it be
24 fair to say then that the last three (3) years have
25 all been rather volatile?

1 MR. GLENN BUNSTON: That would be
2 fair.
3 MS. CHARLOTTE MEEK: And that
4 volatility, we've seen some major fluctuations in the
5 market. Is that correct?
6 MR. GLENN BUNSTON: Yes. Both within
7 equity and within fixed-income markets there's been
8 volatility.
9 MS. CHARLOTTE MEEK: Thank you. So I
10 want to talk a little bit about efficient frontier
11 theory, and I know other Interveners and counsel have
12 -- have asked you some questions on this, so I'll do
13 my best not to duplicate.
14 But the efficient frontier is part of
15 portfolio theory, and that represents the relationship
16 between risk and return. Is that correct?
17 MR. GLENN BUNSTON: Yes. As I
18 mentioned this morn -- earlier today, it's an effort
19 to identify the portfolio with the highest return for
20 each level of risk.
21 MS. CHARLOTTE MEEK: Thank you. And
22 in order to invest prudently for a portfolio, it's
23 necessary, as you kind of just mentioned there -- it's
24 necessary to determine the optimal risk/reward
25 combination. Is that correct?

1 MR. GLENN BUNSTON: Yes. So
2 typically, a mean-variance optimizer is used to select
3 amongst the asset classes and make assumptions about
4 the return and risk of each asset class and
5 correlation.
6 MS. CHARLOTTE MEEK: Okay. And so
7 that examination that's done, would you agree that
8 that's evaluated at the total portfolio level?
9 MR. GLENN BUNSTON: Typically it would
10 be at the total portfolio level, yes.
11 MS. CHARLOTTE MEEK: Okay. And that
12 optimization process requires determining the asset
13 classes to be included in a portfolio and the weights
14 of those classes to get the desired risk and return
15 combination.
16 MR. GLENN BUNSTON: Yes. The outcome
17 of the analysis is -- is the weights of the asset
18 classes and the inputs or the risk-return and
19 correlation between the asset classes.
20 MS. CHARLOTTE MEEK: Okay. And a
21 portfolio that is optimized would be deemed an
22 efficient mix and would then fall on the efficient
23 frontier. Is that correct?
24 MR. GLENN BUNSTON: Correct.
25 MS. CHARLOTTE MEEK: Okay. And an

1 efficient portfolio is one that either for a given
2 level of risk maximizes the expected return or for a
3 given level of return minimizes the risk.
4 Would you say that's accurate?
5 MR. GLENN BUNSTON: Yes, that's
6 accurate.
7 MS. CHARLOTTE MEEK: And that risk is
8 measured by surplus volatility. Is that correct?
9 MR. GLENN BUNSTON: Well, there's a
10 number of measures, but in our studies case, yes, that
11 was the measure that was selected.
12 MS. CHARLOTTE MEEK: Thank you. And
13 you would agree that when comparing two (2)
14 portfolios, the more optimal portfolio would have less
15 surplus volatility if the expected return between the
16 two (2) portfolios is the same.
17 MR. GLENN BUNSTON: Correct.
18 MS. CHARLOTTE MEEK: Thank you. And
19 then if we could just go quickly to part 7, Investment
20 Attachment G, page 7. And so this is kind of what
21 we're talking about. This is the efficient frontier.
22 And so the curved blue line and above
23 the matched bonds point, that's where the efficient
24 frontier occurs. Is that correct?
25 MR. GLENN BUNSTON: Well, it's really

1 from the bottom, which would be 100 percent cash, to
2 100 percent bonds, and then to equities. So it's all
3 along that blue --
4 MS. CHARLOTTE MEEK: Thank you --
5 MR. GLENN BUNSTON: -- blue line.
6 MS. CHARLOTTE MEEK: -- for clarifying
7 that. Okay. So the efficient frontier extends all
8 along that blue line.
9 MR. GLENN BUNSTON: Correct.
10 MS. CHARLOTTE MEEK: That's what
11 you're indicating. Okay.
12 So I guess the goal then is to fall
13 somewhere within the efficient mixes, so that would be
14 from matched bonds kind of higher on the efficient
15 frontier?
16 MR. GLENN BUNSTON: Generally, yes.
17 You would like to be above that matched bonds point.
18 MS. CHARLOTTE MEEK: Okay. And you
19 would agree that adding constraints to a portfolio has
20 a cost. Is that correct?
21 MR. GLENN BUNSTON: Yes.
22 MS. CHARLOTTE MEEK: And that cost is
23 that they tend to shift the efficient frontier down or
24 to the right. Is that correct?
25 MR. GLENN BUNSTON: Correct.

1 MS. CHARLOTTE MEEK: And then,
2 conversely, by relaxing a constraint, the efficient
3 frontier shifts up or to the left. Is that correct?
4 MR. GLENN BUNSTON: Correct.
5 MS. CHARLOTTE MEEK: Okay. And you'd
6 agree that it's fair to say that the volatility of an
7 asset class in isolation does not conclusively
8 indicate how it may impact the surplus volatility of a
9 portfolio at the total portfolio level.
10 MR. GLENN BUNSTON: Correct, because
11 it depends on the correlation between that asset class
12 and the other asset classes in the portfolio.
13 MS. CHARLOTTE MEEK: Thank you. And
14 so now I want to talk a little bit about the ALM
15 study. So if we can just scroll down here to page 11.
16 And so you looked at this a little bit
17 earlier today. This part of the Mercer
18 Asset/Liability Management Study for this year's GRA.
19 Is that correct?
20 MR. GLENN BUNSTON: Yes, that's
21 correct.
22 MS. CHARLOTTE MEEK: Okay. And this
23 page is providing us the efficient frontier for the
24 Basic portfolio, the long portion, and that's using
25 the current portfolio. Is that correct?

1 MR. GLENN BUNSTON: This is using the
2 current asset classes and reweighting those to create
3 an efficient frontier.
4 MS. CHARLOTTE MEEK: Thank you. And
5 so, as you note in the right side of the page, this
6 creates the efficient frontier for the current asset
7 classes that we have.
8 MR. GLENN BUNSTON: Correct.
9 MS. CHARLOTTE MEEK: Okay. And the
10 current portfolio here is represented by 'A'.
11 Is that correct?
12 MR. GLENN BUNSTON: Yes.
13 MS. CHARLOTTE MEEK: And it's not on
14 the efficient frontier. Is that correct?
15 MR. GLENN BUNSTON: Correct.
16 MS. CHARLOTTE MEEK: Thank you. And
17 so I'll skip ahead here as Mr. Williams did a -- a
18 great job talking to you about some of the other IRs
19 today. And I'll skip towards the shadow portfolios
20 that were created from the last Asset/Liability
21 Management Study.
22 So I guess I'll be directing my
23 questions probably to Mr. Bunston then. You're aware
24 that, after the last ALM study, MPI was directed to
25 create shadow portfolios.

1 You talked about that with Mr.
2 Williams?
3 MR. GLENN BUNSTON: Yes, I'm aware,
4 yeah.
5 MS. CHARLOTTE MEEK: Thank you. And
6 those shadow portfolios were intended to allow the
7 Board to compare the results of MPI's chosen asset mix
8 against alternative asset mixes with certain
9 constraints removed. Would you that's fair?
10 MR. GLENN BUNSTON: Yes, that's fair.
11 MS. CHARLOTTE MEEK: And one (1) of
12 those portfolios was the Shadow 2 Portfolio.
13 Is that correct?
14 MR. GLENN BUNSTON: That's correct.
15 MS. CHARLOTTE MEEK: Okay. And the
16 Shadow 2 Portfolio was created removing the
17 constraints prohibiting equities and alternative
18 investments. Does that sound accurate?
19 MR. GLENN BUNSTON: Sorry, could you
20 repeat that?
21 MS. CHARLOTTE MEEK: Sure. The Shadow
22 2 portfolio was created removing the constraints
23 prohibiting equities and alternative investments.
24 MR. GLENN BUNSTON: Yes. Shadow
25 Portfolio 2 had allocations to real return bonds,

1 levered bonds, growth, and growth assets, which
2 included equities, real estate, and infrastructure.
3 MS. CHARLOTTE MEEK: Thank you. You
4 anticipated about three (3) of my questions going
5 forward, so I'll just put to you that Shadow Portfolio
6 2 included equities of about 18 percent, subject to
7 check. Is that about accurate?
8 MR. GLENN BUNSTON: Checking right
9 now.
10 MS. CHARLOTTE MEEK: I can also take
11 you to a reference if that's easier.
12
13 (BRIEF PAUSE)
14
15 MR. GLENN BUNSTON: So it had 13
16 percent allocation to Canadian equities, 5 percent to
17 private equity.
18 MS. CHARLOTTE MEEK: Thank you. And
19 then real estate and infrastructure had a total of 9
20 percent. Is that correct?
21 MR. GLENN BUNSTON: That's correct.
22 MS. CHARLOTTE MEEK: Thank you. So
23 keeping that asset mix in mind, if we could turn to
24 PUB-MPI-1-128(e), and we'll go to Appendix 1, page 2,
25 please, Kristen.

1 So keeping the asset mix in mind of the
2 Shadow Port -- Portfolio 2, would you agree that the
3 asset mixes of Shadow Portfolio 2 are most similar to
4 the higher return list listed here in this response to
5 IR?
6
7 (BRIEF PAUSE)
8
9 MR. GLENN BUNSTON: So, are you saying
10 is it similar to portfolio E?
11 MS. CHARLOTTE MEEK: Well, I would say
12 it -- it could either be 'B' or 'E'. Let's -- let's
13 look at both of those because they're really quite
14 similar to one another. But Shadow portfolio 2 would
15 probably be most similar to those asset mixes and
16 weights.
17 Would you agree with that suggestion?
18 MR. GLENN BUNSTON: Well, Shadow
19 portfolio had 16 percent allocation to three (3) times
20 real return bonds and these two (2) portfolios are
21 about half of that allocation to real return bonds, so
22 similar in that they have allocation to real returns,
23 not the same.
24 MS. CHARLOTTE MEEK: Right. So, there
25 -- there might be some differences, but comparatively

1 to the other scenarios there, would you say that 'B'
2 and 'E' were the most similar to Shadow portfolio 2?
3 MR. GLENN BUNSTON: Yes, in that they
4 include allocations to equities and alternatives, as
5 did Shadow portfolio 2.
6 MS. CHARLOTTE MEEK: Okay. Thank you.
7 And if we could go to CMMG-MPI-2-8, please. Go to
8 page 3. Thanks, Kristen.
9 So, this was an IR that CMMG had asked
10 just requesting some information about the Shadow
11 portfolio since inception to present day. And this
12 kind of brings us up to about March of 2022.
13 And figure 1 here provides the
14 compounded annualized returns for each of the
15 portfolios since inception, March 2019 to -- to March
16 2022. Is that correct?
17 MR. GLENN BUNSTON: That's correct.
18 MS. CHARLOTTE MEEK: Okay. And the
19 policy passive Basic portfolio had compounded annual
20 returns of 1.67 percent. Is that correct?
21 MR. GLENN BUNSTON: Correct.
22 MS. CHARLOTTE MEEK: And the portfolio
23 2, Basic, has compounded annualized returns of 4.99
24 percent. Is that correct?
25 MR. GLENN BUNSTON: Correct.

1 MS. CHARLOTTE MEEK: And you'd agree
2 with me that the Shadow portfolio 2 outperformed the
3 Basic policy portfolio by 3.32 percent?
4 MR. GLENN BUNSTON: That would be the
5 difference between the returns, yeah.
6 MS. CHARLOTTE MEEK: Thank you. And
7 if we could scroll down to figure 3, please. And so,
8 figure 3 here is providing the surplus volatility.
9 Is that correct?
10 MR. GLENN BUNSTON: Correct.
11 MS. CHARLOTTE MEEK: And so, again, we
12 can see the Basic policy portfolio had surplus
13 volatility of 3.36 percent. Is that correct?
14 MR. GLENN BUNSTON: Correct.
15 MS. CHARLOTTE MEEK: And Shadow 2
16 portfolio, a surplus volatility of 3.09 percent?
17 MR. GLENN BUNSTON: Yes.
18 MS. CHARLOTTE MEEK: Okay. And so,
19 you'd agree with me that the Shadow portfolio 2 had a
20 lower surplus volatility by about .27 percent.
21 Is that correct?
22 MR. GLENN BUNSTON: Relative to the --
23 the policy Basic, yes.
24 MS. CHARLOTTE MEEK: Yes. Thank you.
25 And so, you would agree with me that the Shadow

1 portfolio 2 then has a higher risk adjusted return
2 than the Basic portfolio. Is that correct?
3 MR. GLENN BUNSTON: Yes, given that it
4 has a higher return and less volatility.
5 MS. CHARLOTTE MEEK: Thank you. And
6 subject to check, would you agree that Shadow
7 portfolio 2 had a higher risk return ratio of 1.6,
8 more than the Basic portfolio, which was about .5?
9 MR. GLENN BUNSTON: I haven't done the
10 calculations but, generally, directionally, Shadow
11 portfolio P2 would have a higher risk adjusted return.
12 MS. CHARLOTTE MEEK: Thank you. And I
13 just want to go to your presentation from this morning
14 if we could and -- and ask you a couple of questions
15 about that. So, we'll go to MPI Exhibit 61, slide 21,
16 please.
17 And so, this morning, in your
18 presentation, you noted the net impact of interest
19 rate changes is minimal. Is that correct?
20 MR. GLENN BUNSTON: Correct.
21 MS. CHARLOTTE MEEK: And it was about
22 .2 million. Is that -- is that accurate there?
23 MR. GLENN BUNSTON: Yes.
24 MS. CHARLOTTE MEEK: Okay. And you
25 were saying that this demonstrated that the ALM

1 strategy is working in that it's minimized the impact
2 of interest rate changes. Is that correct?
3 MR. GLENN BUNSTON: Correct.
4 MS. CHARLOTTE MEEK: And would you
5 agree that this number doesn't acknowledge the
6 opportunity cost of excluding other assets from the
7 portfolio?
8 MR. GLENN BUNSTON: It doesn't include
9 opportunity costs, no.
10 MS. CHARLOTTE MEEK: Thank you. And
11 if we could go to slide 23, please. So, you provided
12 some information here about kind of the next steps for
13 the ALM study.
14 So, it indicates here that the
15 recommended asset mixes will be prevented to --
16 presented -- sorry -- to MPI's Investment Committee on
17 November 10th. Is that correct?
18 MR. GLENN BUNSTON: That's correct.
19 MS. CHARLOTTE MEEK: Thank you. And
20 following that November 10th meeting, the committee
21 will then approve asset mixes for the Corporation.
22 Is that accurate?
23 MR. GLENN BUNSTON: The committee will
24 make recommendations to the Board of Directors --
25 MS. CHARLOTTE MEEK: Okay.

1 MR. GLENN BUNSTON: -- who will
2 ultimately approve.
3 MS. CHARLOTTE MEEK: Thank you. And
4 then I think earlier today you had said that the Board
5 of Directors would then meet on December 15th?
6 MR. GLENN BUNSTON: So, the meet on
7 November 10th. And then the subsequent meeting is
8 December 15th. And I'm not a hundred percent sure on
9 when the chair of the committee intends to make his
10 recommendation to the Board.
11 MS. CHARLOTTE MEEK: Sure. Thank you.
12 And presumably, the asset mixes that are going to be
13 recommended to the Investment Committee are going to
14 be informed by the recommendations of the Investment
15 Committee working group who already met.
16 Is that accurate?
17 MR. GLENN BUNSTON: yes.
18 MS. CHARLOTTE MEEK: Okay. And so,
19 this slide here says in the third bullet point that
20 you're not recommending the inclusion of equities or
21 levered bonds in the Basic claims portfolio.
22 Is that correct?
23 MR. GLENN BUNSTON: That's correct.
24 MS. CHARLOTTE MEEK: Okay. And -- and
25 during your cross, Mr. Watchman had confirmed this

1 with you earlier that this is going to be a
2 recommendation made to the Investment Committee?
3 MR. GLENN BUNSTON: Correct.
4 MS. CHARLOTTE MEEK: Okay. And also,
5 during cross with Mr. Watchman this morning you
6 confirmed that MPI is considering establishing a short
7 and long-term investment portfolio within the Basic
8 portfolio?
9 MR. GLENN BUNSTON: Correct.
10 MS. CHARLOTTE MEEK: Okay. And those
11 two (2) portfolios within the Basic, the short and
12 long, they would have different asset mixes.
13 Is that correct?
14 MR. GLENN BUNSTON: They would, yes.
15 MS. CHARLOTTE MEEK: Okay. And I
16 think you confirmed that the long portfolio would
17 include RRBs and mortgages.
18 Is that the recommendation?
19 MR. GLENN BUNSTON: Real return bonds,
20 mortgages, and real estate.
21 MS. CHARLOTTE MEEK: And real estate.
22 Thank you. And in the short portfolio will there be
23 any different asset classes in that portfolio that
24 differ from the current Basic asset mix?
25 MR. GLENN BUNSTON: A small allocation

1 to mortgages would be included there.
2 MS. CHARLOTTE MEEK: A small
3 allocation to mortgages?
4 MR. GLENN BUNSTON: Mortgages.
5 MS. CHARLOTTE MEEK: Thank you. And I
6 indicated that you'd prefer not to provide the asset
7 weights that are going to be recommended to the
8 Investment Committee at this time.
9 Is that correct?
10 MR. GLENN BUNSTON: Correct.
11 MS. CHARLOTTE MEEK: Okay. So, aside
12 from that information, is there any other information
13 that you can provide today regarding the recommended
14 recommendations that will be made to the Investment
15 Committee that you haven't already shared with us?
16 MR. GLENN BUNSTON: No, I don't think
17 there's any additional information that we can share
18 at this point.
19 MS. CHARLOTTE MEEK: Okay. Thank you.
20 Those are my questions.
21 THE PANEL CHAIRPERSON: Thank you, Ms.
22 Meek. Board members...? Mr. Gabor...?
23 BOARD CHAIR GABOR: Mr. Bunston, how
24 frequently does the Investment Committee meet?
25 MR. GLENN BUNSTON: They meet on a

1 quarterly basis.
2 BOARD CHAIR GABOR: So, the meeting
3 before November would have been when?
4 MR. GLENN BUNSTON: It was in early
5 August.
6 BOARD CHAIR GABOR: Okay. And when
7 was the Mercer report filed with MPI?
8 MR. GLENN BUNSTON: Mercer completed
9 phase 1 -- I don't remember -- May, I think. Phase 2
10 was -- the analysis was substantially complete by the
11 middle of June, I believe. And phrase 3, a similar
12 time frame -- or sorry, phrase 3 I think was in July.
13 BOARD CHAIR GABOR: Okay. And if the
14 report -- sorry. If the recommendations are approved
15 either in November or December, when will the
16 Investment Committee meet after that?
17 MR. GLENN BUNSTON: The next meeting
18 of the Investment Committee is the end -- early
19 February.
20 BOARD CHAIR GABOR: Okay. And is that
21 tied to a Board meeting, as well?
22 MR. GLENN BUNSTON: I believe there
23 would be a Board meeting either that day or the next
24 day.
25 BOARD CHAIR GABOR: And what happens

1 at that committee -- at that meeting? Does the
2 committee just go through what the performance has
3 been since the -- since the decision was made in
4 December?
5 MR. GLENN BUNSTON: Well, there's --
6 we haven't -- we haven't developed the agenda for that
7 meeting. But at a typical meeting, I would report on
8 performance of the portfolio, you know, to that date.
9 Is your question related to the
10 implementation of the --
11 BOARD CHAIR GABOR: Yes. Correct.
12 MR. GLENN BUNSTON: Okay. So,
13 assuming that the Investment Committee approves the
14 recommendations on November, then we'll start to
15 implement the -- the investment strategy. We have --
16 we're working on an implementation plan which will be
17 presented to the committee on November 10th, as well.
18 Assuming they accept that, then we'll
19 start on implementing the -- the investment strategy.
20 Right after that, we're likely going to need to do
21 searches for a number of new asset managers for new
22 asset classes. And I would anticipate that process
23 would probably take about six (6) months. We need to
24 issue an RFP and select a search consultant, and then
25 do the actual search work.

1 And so, I would expect that we probably
2 won't be in a position to start moving funds until the
3 new fiscal year, until after April 1st.
4 BOARD CHAIR GABOR: Okay. You start
5 moving after April 1st. And when you do an
6 examination -- is there an update or an examination at
7 every meeting? Or are there specific investment
8 committee meetings where that's done?
9 MR. GLENN BUNSTON: An examination of
10 the --
11 BOARD CHAIR GABOR: Of the
12 implementation and --
13 MR. GLENN BUNSTON: -- implementation?
14 BOARD CHAIR GABOR: Yeah.
15 MR. GLENN BUNSTON: Well, we would
16 provide regular updates to the committee at every
17 meeting as we go throughout the implementation
18 process.
19 BOARD CHAIR GABOR: Okay. So there
20 wouldn't be anything specifically set of greater
21 significance for the meeting in November? It would
22 simply be an update as the others are updates?
23 MR. GLENN BUNSTON: Well, the meeting
24 that's coming up in November --
25 BOARD CHAIR GABOR: No, I mean --

1 sorry. November '23.

2 MR. GLENN BUNSTON: Oh, of '23. No, I
3 would expect, at that point, that we would have
4 selected the managers, signed contracts, and we would
5 have started moving funds to the new managers. So it
6 would just be a -- a regular update to the committee
7 at that point.

8 BOARD CHAIR GABOR: Am I -- am I
9 correct that this meeting on November 10th is a big
10 meeting for the investment committee?

11 MR. GLENN BUNSTON: It's a significant
12 meeting, yes. Given that we only do asset/liability
13 management studies every approximately four (4) years,
14 and we're recommending changes. So yes, it's an
15 important meeting.

16 BOARD CHAIR GABOR: Okay. Those are
17 my questions.

18 THE PANEL CHAIRPERSON: Ms. Nemec...?

19 BOARD MEMBER NEMEC: Two (2)
20 questions. And Mr. Lloyd, I'll ask you this first
21 question.

22 Have you ever charted short-term
23 interest rates over, say, a twenty (20), thirty (30),
24 forty (40) year basis and then also chart the same
25 time, in a graph, the long-term interest rates and the

1 -- any relationship between the two (2)?
2 MR. NEIL LLOYD: I'm sure I've seen
3 charts like that. I haven't charted them myself.
4 BOARD MEMBER NEMEC: But what have you
5 seen over that? Are there trends? Are there anything
6 that you see from those -- from reviewing such charts?
7 MR. NEIL LLOYD: I -- I think the
8 whole -- I mean, when you look at short-term and -- I
9 mean, in general, you get a yield curve inversion like
10 you've got now that won't stay forever. But it can
11 stay for a long time.
12 I think we've seen, over the last sort
13 of ten (10) plus years, that interest rates have been
14 much lower than we thought they were going to be.
15 So it's a -- it's a difficult thing to
16 forecast. You know, we do a different approach to
17 MPI, but I think we all try our best. But it's --
18 it's very difficult to accurately forecast.
19 And I think you can see this as you --
20 when you look at investment managers, who don't tend
21 to make big interest calls and they don't -- not many
22 of them are very, very successful or have a high
23 degree of confidence in that.
24 So I think it is difficult, and that's
25 why people do what they can do and work with that.

1 And look at opportunities to hedge away the interest
2 rate risk.
3 BOARD MEMBER NEMEC: And my second
4 question will be for -- to Mr. Bunston.
5 Just -- we talked about the naive --
6 you talked about the naive methodology versus forward
7 rates.
8 And I was just curious as to what
9 Saskatchewan and B.C. are doing with those -- with one
10 (1) or two (2) of those methodologies?
11
12 (BRIEF PAUSE)
13
14 MR. GLENN BUNSTON: No, I can't say
15 that I know how they forecast interest rates at ICBC
16 or SGI. But certainly something we could take away
17 and bring back.
18 BOARD MEMBER NEMEC: That's all my
19 questions.
20 THE PANEL CHAIRPERSON: Thank you.
21 Mr. Bass...?
22 BOARD MEMBER BASS: Ms. Low, we were
23 looking today at a number of the similar pages. I
24 think it was on -- and, Kristen, I'm sorry -- it was
25 PUB-MPI-1-128, the efficient frontier. But I don't

1 know the page numbers. Yeah. That's a good one.
2 Because in the box down on the right-
3 hand side, near the -- the bottom, it says, "Compare
4 to current". And number 4 "MCTs are all higher."
5 Do you know what the level of MCT will
6 come with what the investment committee is going to be
7 considering on November 10th?
8 MS. CARA LOW: No, we haven't modelled
9 that. That is something we've talked about
10 internally. And you've got to be careful here too,
11 when it talks about the required capital, it's only
12 for investment risks. It's not for claims risks or
13 anything else. It's just for the investment risk.
14 BOARD MEMBER BASS: So you would be
15 unable to opine as to whether it's going to hit one-
16 twenty (120) or above?
17 MS. CARA LOW: Correct. We don't know
18 yet. We were waiting for the final recommendation.
19 We're going to have to model that, along with the
20 impact to IFR 17 and IFR 9 as well, so.
21 BOARD MEMBER BASS: Okay. Thank you.
22 THE PANEL CHAIRPERSON: Thank you.
23 Ms. Boulter...?
24 BOARD MEMBER BOULTER: No, Susan asked
25 my question.

1 THE PANEL CHAIRPERSON: Thank you very
2 much.
3 Mr. Scarfone, any redirect?
4 MR. STEVE SCARFONE: Yes. Thank you,
5 Madam Chair.
6
7 RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE:
8 MR. STEVE SCARFONE: Ms. Schubert,
9 could you pull up MPI Exhibit number 58, please. And
10 while you're doing that, I'll ask either Ms. Low or
11 Mr. Bunston some questions.
12 So you'll recall, earlier, Mr.
13 Watchman, Board counsel, was asking about the new
14 money yield that's been used in this proceeding?
15 MR. GLENN BUNSTON: Yes, I recall
16 that.
17 MR. STEVE SCARFONE: And so, for the
18 initial filing with the negative .9 percent rate
19 indication, it was a 3.43 percent new money yield?
20 MR. GLENN BUNSTON: Yes, that's
21 correct.
22 MR. STEVE SCARFONE: And then, in
23 October 12 update, that resulted in the negative .1
24 percent rate indication, it was 4.05, correct?
25 MR. GLENN BUNSTON: Yes, that's right.

1 MR. STEVE SCARFONE: And then, in the
2 exhibit that's before us, the -- the Board asked that
3 MPIC make use of a new money yield using an old
4 methodology of 4.24 percent. Correct?
5 MR. GLENN BUNSTON: Yes, that was
6 based on the -- an interest rate based on a ten (10)
7 year duration, I believe.
8 MR. STEVE SCARFONE: Yes. And -- and
9 I'll get to that shortly.
10 But instead, we heard Mr. Watchman
11 indicate that rather than the four-point-two-four
12 (4.24), the Corporation, in Exhibit 58, used four-
13 point-one-seven (4.17) new money yield.
14 Can you explain the reason for the
15 seven (7) basis points difference?
16 MR. GLENN BUNSTON: Yes. So the --
17 the new money yield is calculated as the weighted
18 average yield of the marketable bond portfolio.
19 And then, from that, we subtract the --
20 the estimated cost of investment management fees,
21 which is seven (7) basis points.
22 So the final new money yield is -- is
23 reduced by that seven (7) basis points. So four-point
24 -- 4 percent less seven (7) basis points results in
25 4.17 percent.

1 MR. STEVE SCARFONE: Okay. Thank you.
2 And that particular calculation resulted in a negative
3 0.3 percent rate indication?
4 MR. GLENN BUNSTON: Yes, that's
5 correct.
6 MR. STEVE SCARFONE: So I take that to
7 mean, Ms. Low, that the new money yield has an effect
8 on AAP rate making?
9 MS. CARA LOW: Yes, it does.
10 MR. STEVE SCARFONE: And the
11 Corporation maintains that the 4.05 percent that --
12 that used in the October 12 update is the correct one?
13 MS. CARA LOW: That is correct.
14 MR. STEVE SCARFONE: And just -- I
15 know that this has been canvassed, but it's an
16 important point.
17 Explain why the two (2) year duration
18 versus ten (10) year duration is an important factor
19 for you to consider?
20 MS. CARA LOW: The ten (10) year
21 duration is based on the balance sheet. So that's a
22 buildup of PIPP claims. So often, people will stay on
23 benefits for a long time. Not always. Some of them
24 recover and go back to work.
25 But when we're pricing, we're pricing

1 for the vast majority of it being short-tail claims.
2 So this is collision and comprehensive. So damage to
3 your cars. And a lot of money comes in the door
4 through premium on a daily basis, and it goes out the
5 door as we pay out claims.
6 So it never goes into the Basic claims
7 portfolio. So for example, if your car is damaged,
8 we're not going out and buying a ten (10) year bond
9 and waiting for ten (10) years to pay for your claim.
10 So we're not earning 4.24 percent.
11 MR. STEVE SCARFONE: Okay. Thank you
12 for that. Kristen, could you scroll up to the top of
13 this particular exhibit?
14 So there, you'll see the question that
15 was put to the Corporation by the Board. And if you
16 scroll down to page 2, please, you'll see that, in
17 preparing the response -- keep going, please. Thank
18 you.
19 You'll see that, in preparing the
20 response as it concerns the new money yield, it was
21 discovered, of course, that there was an over
22 statement of some investment income.
23 Does this impact the rate indication?
24 MS. CARA LOW: No, it does not.
25 MR. STEVE SCARFONE: And why doesn't

1 it?

2 MS. CARA LOW: That's a forecasted

3 income statement, which is separate from the rate

4 making AAP.

5

6 (BRIEF PAUSE)

7

8 MR. STEVE SCARFONE: Mr. Bunston, are

9 all the recommendations being made to the investment

10 committee based on the advice that MPI received from

11 Mercer?

12 MR. GLENN BUNSTON: Yes, they are.

13 MR. STEVE SCARFONE: Is there anything

14 that the Corporation that was -- relying upon that's

15 not been filed in this General Rate Application as it

16 concerns those recommendations?

17 MR. GLENN BUNSTON: No, there is not.

18 MR. STEVE SCARFONE: You recall, Mr.

19 Bunston, that Mr. Williams was asking you about the

20 2018 ALM study?

21 MR. GLENN BUNSTON: Yes, I recall

22 that.

23 MR. STEVE SCARFONE: And that the

24 Corporation had a choice of which liability benchmark

25 it was to use?

1 MR. GLENN BUNSTON: Yes, I recall
2 that.
3 MR. STEVE SCARFONE: And he suggested,
4 without sounding too much like Brian Mulroney, that
5 you had an option, sir, correct?
6 MR. GLENN BUNSTON: Correct.
7 MR. STEVE SCARFONE: And MPIC chose
8 the nominal liability benchmark.
9 MR. GLENN BUNSTON: Yes, we did.
10 MR. STEVE SCARFONE: And do you recall
11 at the time, what the long-term projected inflation
12 forecast was?
13 MR. GLENN BUNSTON: I believe it was 2
14 percent, or very close to 2 percent.
15 MR. STEVE SCARFONE: Thank you. And
16 you made reference to the eighteen (18)
17 recommendations of Mr. Viola?
18 MR. GLENN BUNSTON: Yes, I did.
19 MR. STEVE SCARFONE: And do you recall
20 the recommendation that the Corporation better include
21 real return bonds 'cause there was an unprecedented
22 world wide pandemic about to hit in 2019?
23 MR. GLENN BUNSTON: No, I don't recall
24 that recommendation.
25 MR. STEVE SCARFONE: And how did the

1 returns on real return bonds compare in a 2 percent
2 inflationary environment versus today's?
3 MR. GLENN BUNSTON: Well, the -- the
4 return to the investor is, again, the -- the real rate
5 plus the inflation adjustment, so the net return would
6 have been significantly lower at that time.
7 MR. STEVE SCARFONE: And so when Ms.
8 Meek showed you the performance, the compounded
9 returns, on the P2 Basic up to March 2022, those would
10 include larger returns than would have been the case
11 in 2019?
12 MR. GLENN BUNSTON: The inflation
13 adjustment has been significant over the last eight --
14 eighteen (18) months, so that would -- that would
15 positively impact the return to the investor, yes.
16 MR. STEVE SCARFONE: And what is the
17 primary reason, Mr. Bunston, just going back a little
18 bit, for the Corporation wanting to first hear from
19 the investment committee on a -- the ICWG
20 recommendations before making the public aware?
21 MR. GLENN BUNSTON: Well, it's the
22 investment committee's prerogative to accept or reject
23 the recommendation and they could ask us to -- to make
24 changes and to come back with a different
25 recommendation.

1 So, it's possible that the
2 recommendation may not be approved on November 10th
3 and that we may have to bring a different
4 recommendation to them at a future meet -- meeting
5 date.
6 MR. STEVE SCARFONE: Thank you. And -
7 - and just one (1) question for Mr. Lloyd, sir.
8 In providing its advice on the new ALM
9 study, you would have been aware that during the last
10 study the Corporation decided to segregate its
11 portfolios?
12 MR. NEIL LLOYD: That's correct.
13 MR. STEVE SCARFONE: Was that aspect
14 of the strategy re-examined or was it always assumed
15 that that was just the correct approach?
16 MR. NEIL LLOYD: But I believe we've
17 re-examined it, other than the discussion about
18 splitting the Basic into long and short.
19 MR. STEVE SCARFONE: Thank you. Those
20 are my questions on re-direct, Madam Chair.
21 THE PANEL CHAIRPERSON: Thank you, Mr.
22 Scarfone. And thank you very much to the panel who
23 has --
24 MR. STEVE SCARFONE: What -- there is
25 -- sorry, it's a little unorthodox, but I know that

1 Mr. Watchman had asked for some clarifications on a
2 couple things, some discrepancies.
3 And if it pleases the Board, Mr.
4 Bunston wants to speak to those, one of which was
5 discrepancy between his slide deck and a figure in --
6 I think it was pro forma 5, in Exhibit 58.
7 THE PANEL CHAIRPERSON: Sure, that
8 would be very helpful Mr. Bunston.
9 MR. GLENN BUNSTON: Yes, thank you.
10 So, to answer that question as to why there was a
11 discrepancy in the interest rate impact to investments
12 between my presentation this morning and PF-5.
13 My presentation presented numbers on a
14 corporate basis and PF-5 presented numbers on -- for
15 Basic claims. So $124 million was the impact to Basic
16 claims on interest rate impact and Corporate impact,
17 was $128 million.
18 And, I think there was another question
19 about the unrealized gain or loss on the non-
20 marketable bond portfolio at August 31st. And at that
21 time there was a $8.5 million unrealized loss on non-
22 marketable bonds.
23 So it had, at one point, been an
24 unrealized gain, but with the increase in interest
25 rates it's now an unrealized loss.

1 THE PANEL CHAIRPERSON: Thank you, Mr.
2 Bunston.
3 Thank you very much to the panel for
4 participating here today. I see that we are quite a
5 bit ahead on the schedule, so I wondered if counsel
6 could please discuss amongst themselves whether there
7 is a possibility that we'll be starting road safety
8 and loss prevention tomorrow. If there is, there are
9 some Interveners, I believe, who will need some
10 advance notice of that happening.
11 So, if you could have that conversation
12 then let us know tomorrow morning. We'd appreciate
13 it.
14 MS. KATHLEEN MCCANDLESS: And just,
15 Madam Chair, when we met to discuss the schedule
16 amongst all counsel, there were certain scheduling
17 considerations taken into account for certain
18 Interveners.
19 So I'm -- if we are able to start road
20 safety tomorrow, I'm not sure that will necessarily
21 work for Bike Winnipeg's Counsel. I -- I don't recall
22 specifically what Mr. Monnin's availability was, so.
23 THE PANEL CHAIRPERSON: Okay. Thanks.
24 Well, and certainly, I mean that's an important
25 consideration if people aren't available to move

1 things up, based on their planning, given the original
2 schedule, then we'll work around that. Thank you.
3
4 (PANEL STANDS DOWN)
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6 --- Upon adjourning at 3:12 p.m.
7
8 Certified Correct,
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11 ________________________
12 Wendy Woodworth, Ms.
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