MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2024/2025 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

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SCOTT GREENLAY, Sworn

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--- Upon commencing at 9:02 a.m.

PANEL CHAIRPERSON: Good morning, everyone. This morning we will be hearing testimony of the MPI Investments Panel and Addenda Capital.

Mr. Scarfone, would you introduce your panel, please, and then we'll have them sworn.

MR. STEVE SCARFONE: Yes. Thank you, Madam Chair. Just before doing so, I'd like to read into the record some further exhibits that MPIC has recently circulated. So we're continuing to work through the undertakings.

MPI Exhibit number 96 is the response to Undertaking number 18; MPI Exhibit number 97 is the response to Undertaking number 27; MPI Exhibit 98 is the response to Undertaking number 8; MPI Exhibit number 99 is the response to Undertaking number 12; MPI Exhibit 100 will be the Investments Panel presentation that you'll see this morning; and MPI Exhibit 101 is a response to Undertaking number 15.

--- EXHIBIT NO. MPI-96: Response to Undertaking 18

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MR. STEVE SCARFONE: I just wanted to update the Board as well about Undertaking number 3, which you may recall was MPI reaching out to Uber to get their position. And so we haven't received their response yet, but we intend to follow up, and hopefully we can get that undertaking answered this week.

And with that, I will in fact introduce to you the Investments Panel, and we also have with us this morning, joining us from Addenda Capital, three (3) representatives, so -- but let me begin with Ms. Low sitting to my immediate right, of course. She's already been sworn in. She's our chief actuary.

Beside Ms. Low is Glenn Bunston who's appeared before this Board many times. He is the director of asset liability management and investment management.

Beside Mr. Bunston is one (1) of the Addenda gentlemen, John Stilo. He's vice-president insurance and investments solutions, and beside him is Christian Robert, vice-president investment solutions and product management.

And in the back row, another gentleman from Addenda, Roger Mariamo. He is vice-president of client relationships. And beside him is Enes Jeina. He is MPI's senior investment analyst.

MPI INVESTMENT/ALM PANEL

CARA LOW, Resumed

GLENN BUNSTON, Affirmed

JOHN STILO, Sworn

CHRISTIAN ROBERT, Affirmed

MR. STEVE SCARFONE: Thank you. And, Madam Chair, Mr. Guerra alluded to this last week, I believe. So today we're under a tight schedule, so what we propose to do here today is have Ms. Low and Mr. Bunston make their presentation that's before you on the screen, and then immediately go into the Addenda presentation on the bond overlay strategy; and then, if necessary, have the gentlemen from

Addenda answer the questions that might be put to them. And if we have to have questions put to the -- the MPI witnesses perhaps tomorrow if we have to break to have Mr. Greenlay give his evidence this afternoon.

PANEL CHAIRPERSON: That's fine, Mr. Scarfone. Thank you.

MR. STEVE SCARFONE: Thank you.

EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: And -- and go ahead with your presentation, please.

MS. CARA LOW: Good morning. Good morning. Can you hear me? Yeah. Okay. So I'm just going to go through a couple of really high-level slides, and then I'm going to turn it over to Mr. Bunston. So if we could go to the next -- one (1) more slide.

Okay. So the objective of the Basic claims portfolio is to back policyholder claims and ensure sufficient funds are available when needed to pay out the claims. This means that risk management is the highest priority and yields are secondary.

The portfolio must maintain sufficient liquidity to ensure that funds are available when required.

Physical damage claims are usually settled within one (1) year and are funded by cash from payments that are coming in the door from premium dollars.

Short- and long-term investments are held to cover PIPP liabilities that vary in duration, and some of them can be very longtail benefits. The main risks of the -- of the Basic claims portfolio are interest rate risk and inflation risk.

Interest rate risk is mitigated through our moment matching strategy. Inflation risk will be mitigated through the addition of three (3) new investment classes. These classes are commercial mortgages, real estate, and inflation-linked securities through the bond overlay strategy that you're going to hear about today.

Recent rapid rise in interest rates tested our AON strategy and was found to be very affective. In the '22/'23 fiscal year, as interest rates rose, the market value of our bonds dropped by $120 million, as you can see in the chart.

This was offset by a higher interest rate so the liabilities were discounted at a higher discount interest rate dropping the liabilities by $104 million. This was very close to the budgeted amount, so, overall, it was a very effective strategy.

The other two (2) investment portfolios that attach the Basic line of business, is a Rate Stabilization Reserve portfolio and the Employee Feature Benefit portfolio.

The objective of the RSR portfolio is to ensure sufficient levels of capital are maintained for unexpected adverse events to ensure rate stability and predictability.

There are no associated liabilities with the RSR as it's our retained earnings. The objectives are to generate real return and to have moderate level of liquidity in case an adverse event occurs that we have the money readily available.

The objective of the EFB portfolio is to ensure money is available for pension and other employee obligations and to manage interest rate risk associated -- associated with these long-term liabilities.

So moving on to interest rate forecasting. There are three (3) places in the GRA that uses interest rate forecasting. The first is a new money yield used for AAP ratemaking. The other two (2) are within the pro formas for investment forecasting and discounting of liabilities.

As per the 2018 PUB Order, a naive interest rate forecast is used for rate setting. The Basic claims portfolio has 70 percent of the target weights assigned to fix income assets.

The naive interest rate forecast for these asset classes are used to determine the interest rate used for ratemaking using a duration of two point seven (2.7) years.

The addition of the commercial mortgages in this year's AAP rate indication added a significant lift to the expected yield which had a favourable impact to the AAP rates.

Also, the rise in interest rates from March 31st to August 31st was very favourable to the rate indication. Next slide, please.

For forecasting the investments within the pro formas, MPI continues to recommend the naive interest rate forecast. As seen in PUB-1-10, the deviation between the naive forecast and the actual interest rates over the last nineteen (19) years was eight (8) basis points.

This was lower than the other two (2) forecasting methodologies as the standard interest rate forecast had an average deviation of forty-four (44) basis points and the 50:50 methodology had a deviation of twenty-five (25) basis points.

Since the 2020 GRA, the bank forecast and the 50:50 forecast had smaller average deviations than the naive forecast but over a longer period of time, the naive forecast is much more accurate.

MPI takes the position that stability in forecasting is important and the cost of inaccurate interest rate forecasting in the past has been significant.

The forecasting methodology for investments has remained the same as in past GRAs but with three (3) exceptions. These three (3) exceptions came out of the Mercer review that was discussed last year.

The infrastructure benchmark is now CPI plus 5 percent instead of plus 4 percent. The bond spread over the ten (10) year government of Canada yields now revert to long-term assumptions, and the equity forecast is based on historical returns starting at 1991 rather than 1956. So those were the three (3) changes in methodology. Then the next slide.

AS we discussed on the Financial Forecasting Panel, under IFRS-17, MPI no longer uses a single discount rate for discounting liabilities. The new accounting standard uses a yield curve reflecting the characteristics of the liabilities rather than the assets.

We use a reference portfolio curve that removes both expected and unexpected credit risk. Currently, the curve includes commercial mortgages, as per our revised investment policy statement for April 1st of this fiscal year.

Although we don't have commercial mortgages in our portfolio yet, the plan is to have them on our books by year-end, this fiscal year-end.

With IFRS-17, the financial model does have a disconnect between the naive interest rates used in the investment forecasting and the forward rates used in liabilities.

MPI is currently in the -- submitting an undertaking that provides pro formas using naive forecasting using the August 31st yield curve. So that's just been finalized and you should see that later today.

I'm going to hand it over now.

MR. GLENN BUNSTON: Good morning. So I will now talk about the economic environment that we've been living through over the last eighteen (18) months. It's been highly unusual. And just to provide some context for that to you.

So interest rates were abnormally low during the period after the 2008 global financial crisis and up to 2020. Often referred to as the zero interest rate policy in order to stimulate the economy.

And analysts at the Bank of America found that interest rates during this period were the lowest in five thousand (5,000) years.

The increase in bond yields in the third quarter of 2023 was the largest increase since that that preceded the 1987 stock market crash. And over the last eighteen (18) months, we have seen the quickest and fastest central bank hiking cycle in history.

The last three (3) years have been the worst in the US bond market in two-hundred-and-thirty-six (236) years due to inflation rising to forty (40) year highs and massive increases in interest rates.

These changes bankrupted Silicon Valley Bank and three (3) other regional lenders in March of 2023 and caused fears of a -- of a systemic financial crisis but quick action by central banks and regulators averted that crisis.

Yields on US treasury bonds are at the

highest levels in sixteen (16) years. The highest since the financial crisis in 2008. And the end of the federal reserves quantitative easing program, which involved buying bonds to keep long-term interest rates low, has also caused long-term yields to rise.

The higher bond yields and inverted yield curve increased the odds of a recession.

Despite this, the International Monetary Fund wants central banks to keep interest rates high in order to ensure that inflation that does not return.

So on this slide here, we see the -- the hiking, the increases in interest rates, by the Bank of Canada and by the Federal Reserve.

So they've increased interest rates nine (9) times in the last eighteen (18) months from half a percent to 5 percent here in Canada.

And there have been no increases by the Bank of Canada since July of this year.

On the next slide, we see long-term interest rates. Both -- well, federal, provincial, and corporate bond yields increased in the previous fiscal year and have continued to rise.

At October 19th, the yield on a Government of Canada ten (10) year bond was 4.18

percent. So a sixty-two (62) basis point increase since August 31st.

This slide shows the rapid decrease in inflation from a high last June for Manitoba at 9.4 percent and falling to 2.1 percent in June of this year. Since then, inflation has increased to 3.2 percent in August and then dipped back down to 2.6 percent in September, just fifty (50) basis above the -- the low reached in June.

Next, I'll talk about the -- the impact that this had on our investment portfolio over the last year.

So rising interest rates caused bond prices to fall. Ms. Low pointed out that our fixed income portfolio fell by about $116 million last year, but our liabilities fell by a similar amount as well.

And the -- the inverted yield curve was seen for the last eighteen (18) months or more signals that a recession is highly likely. And in Canada, a recession has always occurred as a result of an inverted yield curve. In other words, there's 100 percent correlation between the two (2).

And you can see that the -- not surprisingly, the returns on our fixed income portfolios were negative last year.

Turning to the next slide. Our -- in terms of our equity portfolio, our portfolios outperformed their benchmarks last year by 7.8 percent in Canada and 4.9 percent for global equities.

Since then, equities have dropped slightly as the MSCI World Index is up 11.2 percent to September 30th, while the TSX Index is up 3.4, and the -- the Small Cap Index is up 1 percent.

A pause in interest rate hikes by central banks created hopes for an economic soft landing and there were -- we saw strong equity gains in US mega cap technology stocks, which was driven largely by excitement related to artificial intelligence.

The top seven (7) stocks in the S&P five hundred (500) accounted for 83 percent of the gains on a year-to-date basis.

On our private equity portfolio, the returns were modest last year as you can see here. And to June this year -- June 30th of this year, infrastructure has seen improving returns at 5.6 percent.

So we asked Mercer, during the asset liability management study, to review our benchmarking process. And their recommendation was that we -- as you can see here -- not -- not continue with pure comparisons at a total fund level. And instead, that we compare ourself to, what they call, a suitable benchmark and to peer investment managers.

And so, that means looking at the benchmarks that are set out in our investment policy statement and the weights for those, and evaluating our performance of each asset class relative to the benchmark for that asset class set out in the Investment Policy Statement.

And so we work with an external consultant that's -- a consultant that's called Element and they calculate our investment performance and compare it to the benchmark set out in our Investment Policy Statement.

And, on the next slide, you can see the -- that two (2) of our portfolios have outperformed their benchmarks last year. The Employee Future Benefits portfolio outperformed by eighty (80) basis points, while Basic claims outperformed by sixty (60) basis points and the RSR portfolio underperformed its benchmark by fifty (50) basis points.

So IFRS-9 was adopted by MPI on April 1st and as a result, we classified all of our investments as fair value through profit and loss.

And, this -- the biggest impact this had was on our -- our MUSH bond portfolio, the non-marketable bond portfolio, which was previously classified as held to maturity.

And, so it's -- it's now classified as fair value through profit and loss. And, so that has a small impact on our asset liability management strategy. Previously, the MUSH bonds were cash flow matched to a portion of the liabilities and that is no longer necessary.

So, they're -- they can be treated the same as any other fixed income instrument and matched the -- the duration and convexity of the total bond portfolio, including MUSH bonds, is now matched to the liability. So, it -- it allows the strategist to work a little bit more effectively.

In terms of implementing the new asset mix that was developed during the ALM study, liquid asset classes which includes equities and bonds were -- were re-balanced in -- in March and April.

We selected Mercer to assist with the manager's searches and have been actively working with them since August 31st. The searches are progressing well and, in fact, we have in-person presentations being held later this week with perspective commercial mortgage managers. And our goal is to have that -- the managers selected and, ideally, invested as much as possible by March 31st.

We've also developed long lists for managers of the three (3) other asset classes, which are Real Return Bonds, infrastructure and real estate.

And we've completed preliminary cost benefit analysis related to the bond overlay strategy and are currently working on refining that analysis.

The accounting work related to the bond overlay strategy is on hold right now due to the labour interruption and we would -- we will be discussing the -- the hedge ratio with our investment committee at their next meeting.

So, this slide shows the changes to our asset allocation. So, for the Basic claims portfolio, provincial bonds will be decreasing significantly, while corporate bonds will -- we have increased them already to their new target weight of 28 percent and we're conducting searches for mortgages and real estate, which are additions to the portfolio.

And in our other two (2) portfolios, you can see that both fixed income and equities will be reduced and alternatives will be increased. Again, alternatives includes real estate and infrastructure, once we have completed our manager search process.

So, this slide here, we're -- we've quantified the impact of the new asset allocation on the Minimum Capital Test ratio.

So, this is for our previous fiscal year, at March 31st of 2023. Both columns show the MCT ratio calculated under IFRS-4 to be consistent.

And so you can see that available capital is unchanged in both scenarios, but the new asset allocation has increased required capital. And that's because we have made allocations to growth asset classes.

So, as it says here on the screen, mortgages increased the required capital. They have a -- a capital allocation charge of 10 percent, but their higher yield is favourable to the rate indication.

In addition to that real estate increases required capital, as it has a 20 percent capital charge, but it will increase the expected return of the portfolio and better diversify the portfolio.

And then, in the RSR and -- and Employee Future Benefit portfolios, they have higher allocations to real estate and infrastructure, which also attract higher capital. So, higher return brings additional risk, which requires additional capital.

So, from our -- our previous ALM study, you know, we -- we learned that allocations to illiquid asset classes, which includes private debt, mortgages, real estate, and infrastructure, can take a significant amount of time to become fully invested and, in private debt, it took us almost two (2) years to become fully invested.

Our goal is to become fully invested in mortgages and real estate by March 31st and we are actively working towards that goal right now and we also realized that the -- the use of a real liability benchmark is -- is really critical to -- to capture the impact of inflation on the liabilities.

Turning now to the bond overlay strategy. As you know, inflation is a significant risk for MPI, as our -- our PIPP benefits are fully indexed to Manitoba CPI, and everybody is aware that, in -- in 2022, Manitoba inflation was -- was high, very high, at 8 percent, and is expected to remain above the Bank of Canada's 2 percent target, until at least 2025.

We do reserve for expected inflation, but we have no protection from unexpected inflation.

And, so, a strategy was proposed to our Investment Committee and was approved by them, in February of 2023, to address this issue, which is the bond overlay strategy.

And the goal is to hedge the impact of unexpected inflation, and the allocation to the strategy has not been determined at this point. So, the allocation to the strategy, in other words, the -- what we call the hedge ratio, will be discussed with the Investment Committee at their next meeting.

The hedge ratio would determine how much inflation protection is in place. And the impact of inflation over the last two (2) years was significant, at almost $119 million. So, our reserves had to be increased by $119 million because inflation exceeded our expectations, and this -- this could have been avoided, for a cost of $4.4 million, if the bond overlay strategy had been in place at the time, but Addenda will discuss the -- the risks related to this strategy and how they can be mitigated, during their presentation.

So, the benefits of the strategy are several. First of all, it allows us to not alter the current composition of our fixed income portfolio, which will ensure that the -- the yield and liquidity of the portfolio are not negatively impacted. And, so, that's important, because our current interest rate hedging strategy is working well and we want that to remain in place.

There also will be no impact to the discount rate, whereas the cash purchase of real return bonds would reduce the discount rate and increase the liabilities, on implementation.

And, finally, ease of implement -- implementation. So, the term of the inflation-linked bond that is purchased is not -- it doesn't matter and so, therefore, there is increased flexibility to be able to purchase inflation-linked bonds.

So, just addressing Addenda's attendance here today. So, in the ALM Study, Mercer recommended that we purchase real return bonds on a cash basis and Addenda has special insight into our investment strategy and, particularly, our interest rate risk management strategy, since they manage both our corporate bonds and a portion of our government bond portfolio, and they have assisted us in implementing the moment-matching strategy, which we use to manage our interest rate risk.

And, so, Addenda identified two (2) issues with buying real return bonds on a cash basis and recommended the bond overlay strategy to address those -- those issues.

So, in conclusion, interest rate risk continues to be well managed at MPI. You saw the impact. The net impact was within $1 million of -- of our budget and inflation risk will be addressed through the bond overlay strategy.

The new im -- asset mixes are partly implemented with the liquid asset classes being rebalanced and manager search is underway for the illiquid asset classes.

And, despite record increases in interest rates, the net impact of the Corporation has been small due to the effectiveness of the ALM strategy.

And, finally, the bond overlay strategy will hedge unexpected increases inflation, once in place. That concludes my presentation.

MR. STEVE SCARFONE: Thank you for that, Mr. Bunston and Ms. Low. Just a couple of follow-up questions before we hear from Mr. Stilo and Mr. Robert.

I wanted to ask you, Mr. Bunston, specifically, you've been coming here for a number of years now, making these presentations to the Board.

Based on what you just showed us, what's the take-away this year? Is it the interest rate risk and inflation risk or what's the -- the story, if I can put it that -- that way?

MR. GLENN BUNSTON: Well, I think it's both interest rate risk and inflation risk. As I mentioned at the outset of my presentation, we saw massive increases in interest rates, and we saw that negatively impact several financial institutions, and several of them didn't survive that huge increase in interest rates, partly due to poor asset-liability management practices.

And so at MPI, we have a very disciplined Asset-Liability Management Program, and it -- we saw that it was effective during this period that was unprecedented really in terms of the -- the speed and -- and amount of interest rate increases.

Secondly, inflation -- we've seen inflation decline but, you know, inflation is still expected to be above the Bank of Canada's target for some period, and -- and it could return. As you saw from the -- the International Monetary Fund is concerned about that and wants central banks to keep rates higher for longer to combat that.

So it's really a story of both

increasing interest rates and declining -- declining inflation.

MR. STEVE SCARFONE: Okay. Thank you for that. And you mentioned the inverse relationship between interest rates when they go up and bond prices fall, correct?

MR. GLENN BUNSTON: Yes, that's correct.

MR. STEVE SCARFONE: And that caused, as you said last year, a big loss in MPI's fixed income portfolio?

MR. GLENN BUNSTON: Yes. Our fixed income portfolio fell by about $116 million.

MR. STEVE SCARFONE: And I know just recently there was an announcement that the Bank of Canada wants to hold steady its key interest rate.

But if interest rates continue to go up, as they have over the next year or so, is the Corporation again forecasting a big loss to its fixed income portfolio?

MR. GLENN BUNSTON: We are not, and that's because we use what we call a naive interest rate. So that assumes that today's interest rate will continue in the future, and we don't take a position as to whether interest rates will rise or fall.

We've seen the central banks pause their interest rate increasing -- or interest rate hiking process since July, so it's hard to say where interest rates will -- will go in the future. And so we don't attempt to predict where they will go.

MR. STEVE SCARFONE: Okay. And how about as it concerns inflation and its impact on the fixed-income portfolio.

Does that have the same relationship on bond prices as interest rates does?

MR. GLENN BUNSTON: Generally. So fixed income instruments have an expectation of future inflation, and if inflation rises above that, then it tends to cause nominal interest rates to increase, which has a negative impact on bond prices.

MR. STEVE SCARFONE: And you mentioned that's addressed by the Corporation making use of a real liability benchmark in its strategy?

MR. GLENN BUNSTON: Yes. The real liability benchmark that was used in the asset-liability management study reflects the inflation sensitivity of the liabilities.

So it attempts to -- to capture the impact of inflation on the liabilities, and the result is an investment strategy that also reflects that, which is why Mercer recommended the purchase of real return bonds to help to offset the impact of inflation on the asset portfolio.

MR. STEVE SCARFONE: Thank you for that. And just a question about the capital slide that you had. I believe, Ms. Schubert, it was slide 26 of the presentation.

So we see there, as you've indicated, Mr. Bunston, that the new asset mix serves to increase the capital requirements of the Corporation, correct?

MR. GLENN BUNSTON: Yes, that's correct.

MR. STEVE SCARFONE: And we've also heard in this proceeding that under IFRS-17 the Corporation has loosely calculated the MCT to be one thirty-five point five (135.5), correct?

MR. GLENN BUNSTON: Yes, that's right.

MR. STEVE SCARFONE: Ms. Low, could you comment on when the investment mix is -- or the strategy is fully implemented -- that meaning by the end of March when the mortgages have been purchased and the real estate security's been purchased -- what impact, if any, that will have on that one thirty-five five (135.5)?

MS. CARA LOW: It will drop. It'll be

a net impact. So IFRS-17 is raising our MCT. The new investment mix will be offsetting. So by the end of this fiscal year, the two (2) will be offsetting each other.

MR. STEVE SCARFONE: And when those additional securities are purchased -- I understand of course that the managers have to be selected first -- will that impact to the capital requirements for Basic be immediate?

Will we see the MCT drop as soon as those securities are in the portfolio?

MS. CARA LOW: Correct. As soon -- soon as it's in the portfolio, then your required capital will go up, and eventually you're going -- and the expectation is you'll have higher returns. In the long term, your available capital will grow because of the investment yielding higher, but that's not an immediate impact.

MR. STEVE SCARFONE: Okay. Thank you. And, Ms. Low, concerning the new money yield, last year we heard evidence from the Corporation about a new methodology by which it calculates the new money yield, and that was done to reflect the duration of its property damage claims, correct?

MS. CARA LOW: Correct. We're using

the premium duration for new money yield for ratemaking 'cause it includes the short-tail physical damage claims that get paid by cash. And we continue to use a claims duration that is close to ten (10) years for forecasting in the pro formas.

MR. STEVE SCARFONE: And that methodology was made use of in this year's General Rate Application?

MS. CARA LOW: Correct.

MR. STEVE SCARFONE: And then lastly, can you just again -- I know you did in your presentation -- explain the difference or the impact on the investment portfolio by switching from a flat curve to a yield curve?

MS. CARA LOW: Over IFRS-17. So using IFRS-17, there's embedded forward rate, so there's no naive yield curve.

There are expectations for future changes in there, so we are doing the current undertaking -- that was Undertaking number 20 -- is being worked on where we remove the forward rates for future year -- years so that there's a naive view on both the liability side and the asset side 'cause right now there is a mismatch.

We're assuming that -- curves the

investment yields don't change past August 31st, 2023, on the asset side, but we do on the liability side. So we are adjusting for that, and you should see that later today.

MR. STEVE SCARFONE: Okay. Thank you for that. I do have a few questions about the strategy that's being used to address inflation, but perhaps before we do that, we can hear from the Addenda gentleman.

(BRIEF PAUSE)

MR. JOHN STILO: Thank you very much. My name's John Stilo, and with me is Christian Robert, from Addenda Capital. We'll be speaking about the inflation overlay strategy, and I'll be giving you a description of the some of the objectives, and also the mechanics of this strategy.

As Glenn already described, in his discussion, the genesis of this strategy was from the results of an ALM strategy -- or, sorry, a study conducted by an external consultant within which there was a recommendation to mitigate the risk of the -- of the Basic claims that are indexed to inflation through the use of real return bonds.

Addenda was engaged to explore possible solutions to mitigating those risks, and as we examined potential strategies, it became very clear that an optimal approach would not be without some constraints.

And so the formulation of the solution did have to account for some very important considerations, some of which Glenn has highlighted, but I will re -- restate them.

One (1) is to preserve the integrity of the existing interest rate risk management strategy. The next was to be very conscious of the resulting liquidity profile of the -- of the profile -- of the portfolio post the purchase or the inclusion of real return bond exposure, and to also be conscious of not motivating necessary changes to the IFRS discount curve.

So to the next slide, in order to better understand this proposed strategy, it's -- it's important to clarify what risk is actually being addressed here. And when we refer to inflation, there are typically two (2) components that we observe. One is expected inflation and the other is unexpected inflation.

Expected inflation, as you can imagine,

is investors' and economists' expectations for where future inflation might be. The unexpected component, of course, is the -- is the piece that defines the difference between where actual inflation ended up relative to those expectations.

So currently in the -- in MPI's liabilities, for those that are exposed to -- to inflation indexing, the protection that is in place right now is for reserving for a certain amount of expected inflation.

Now, to the extent that actual inflation proves to be different than that, there will be a loss as the reserves were not -- would not prove to be adequate to what the actual claims are paid on, which is the -- which is the performance of -- of actual inflation. And that can cause volatility to the -- to the amount of surplus that the -- the Company has.

Having assets that would compensate for actual inflation would prove beneficial in terms of helping to mitigate that risk. And, of course, real return bonds have a payout profile that do pay for actual inflation performance, and so they would become suitable candidates for a strategy that would address this risk. So to the next slide.

In order to obtain the desired exposure to real return bonds, Addenda explored two (2) approaches in the context of those previously mentioned constraints. Each of them has their own notable implications.

The first approach that we examined was a physical-only approach. So, in this case, what would be done is it would be cash purchases of real return bonds to be held in the Basic claims portfolio, so a very direct strategy for just the real return bonds and hold them in the portfolio.

Now, because there's no net new money being introduced as part of this strategy, that would require that those purchases be funded in some way. And what would happen is those purchases would be made by the sale of provincial bond holdings in order to fund them.

One (1) of the implications would be that provincial bonds typically yield more than real return bonds because of the additional credit spread that provincial bonds offer and, as a result, the overall yield of the portfolio would decline in replacing those provincial bonds with real return bonds.

Another observation would be that real

return bonds will have a different interest rate risk sensitivity profile than the -- than the existing provincial bonds, and so that could impact the ALM strategy that's currently in place, requiring some form of rebalancing at minimum, but it would also make it very difficult to manage that risk going forward with the use of real return bonds.

Another observation is that the domestic real return market is very small and liquid. And so, should we want to gain the same type of exposure through the larger US inflation-linked market, if we were to incorporate those types of instruments into the portfolio, there would be a necessity to hedge the currency risk that would result from -- from acquiring those in US dollars.

The second approach that we examined was the overlay strategy. This is the strategy that we are recommending. Now, this strategy still sources the desired exposure to inflation protection from real return bonds, but it comes at it from a different approach.

It gains that exposure through the use of repurchase agreements. I'll refer to them as repos from this point forward. And those will be used to assist in the financing of those transactions.

What would be done additionally is there would be a reverse repurchase agreement, which is a reverse of the -- of the repo strategy where we would be selling nominal bonds, nominal Federal Government bonds, in order to offset the infla -- or sorry -- the interest rate risk that the -- that the real return bonds carry.

The desire here is to make the strategy from an interest rate risk contribution standpoint neutral so it does not impact the -- the current ALM strategy profile.

The combined long and short positions that I -- that I mentioned, so long in the real return positions and short in the nominal, means that there's no substantial net leverage to the -- to the portfolio. So this is not a levered strategy.

Ultimately, what happens is those positions offsetting leave the exposure to the unexpected inflation component that's compensated for -- from the real return bonds. And that effectively then is overlaid over the existing portfolio.

What you end up with, essentially, is the construction of a provincial real return bond in order to not be forced to sell the provincial bond holdings that you currently have. But to be able to receive the inflation compensation dynamics that a real return bond has, you overlay that overtop and essentially have the construction of a provincial real return bond. To the next slide, please.

This -- this slide just demonstrates the allocations under each of the approaches. And the notable observations in this diagram are in the physical only portfolio. The 34 percent allocation to the physical bonds comes at the expense of the government bond holdings, which would be the provincial bond category, which leaves the strategy with only 3 percent in its provincial bond holdings.

And, of course, the consequence of that, as I mentioned, is a reduction in the yield. You can see in the comment just below the table, the estimated impact of that -- of those sales would be a reduction in the overall portfolio yield of about twenty-seven (27) basis points, and that's weighted by the 34 percent that we're showing there.

The other observation as well, too, of course, is that where the Provincial Government bonds are an essential part of the interest rate risk management strategy, a remaining 3 percent of the portfolio in that category of bonds would prove very difficult to continue to manage the interest rate risk strategy the way it's being done currently.

In the overlay strategy, you can see the two (2) positions of the repo and the reverse repo of those 34 percent allocations are offsetting each other. And the current composition in the portfolio with overlay is the -- is -- remain -- remains unchanged, so the current portfolio strategy remains intact. If we move to the next slide.

The mechanics of the overlay strategy, it's important to understand its performance in relation to the liabilities. And this is critical because the -- the idea behind the strategy is not for it to be net additive in terms of value. This is not a return seeking strategy. This is only a strategy to mitigate an existing risk in the liabilities.

To simplify it, the payoff dynamics, we want to look at a couple of very simple scenarios where actual inflation differs from the expectations. So, in the first scenario, where actual inflation proved to be higher than what was in the assumptions, the experience would be a loss in the liability portfolio as the reserving was not adequate for what was really experienced in the actual claims.

The other part would be, in the assets with the overlay in place, there would be an experience of a gain in that strategy due to the compensation for the -- for the actual experience of inflation, so offsetting.

Again, where the reverse would be true in this situation where actual inflation was -- was less than what was -- or sorry -- than what was expected, the reverse would happen in that the port -- or sorry -- the liabilities would experience a gain, and so there would be a release because the experience was better than what was expected and the asset side would -- would have a net loss on the -- on the strategy.

So the important observation here is -- is that the mitigation happens in both positive and negative deviations. So, you know, where -- if you did not have this in place and your inflation proved to be lower than what you had expected, there would be a gain, but, of course, in the strategy it offsets both those gains and -- and losses.

With regards to risk considerations, certainly, we need to be aware of the risks that we could introduce. And we want to be conscious of new risks that would be introduced by the strategy but also existing risks that could be compounded by components of the strategy.

In terms of the risks of the structure, there is definitely operational complexity in this. However, overall, that's viewed as being a relatively small risk that would come with the operational complexities of managing the number of repo positions that would -- would be used in order to implement the strategy. And additionally, there would be increased accounting requirements in order to maintain the reporting.

There is another risk that would be present, which would be the basis risk of the inflation measures, keeping in mind that the liabilities are indexed to Manitoba CPI while real returns and, if needed, the use of -- of treasury inflation protected securities both pay on national inflation measures.

Those, while they're highly corelated, are not always exact, and so there could be the introduction of -- of some basis risk that could not be mitigated as there is no product that -- that currently compensates directly for -- for Manitoba inflation.

The interest rate risk is certainly the largest risk, I believe, that MPI is exposed to. And we have assisted in the -- in the creation of -- of an

ALM strategy to help manage that, where that the risk sensitivities of the assets are matched to the interest rate risk sensitivities of the liabilities.

An overlay approach would not require a deconstruction of that current strategy. And because it would be positioned with -- with a duration neutral construction, there would be no additional contribution to interest rate risk, so the effectiveness of the current ALM strategy would remain intact.

And, of course, that was one (1) of the initial objectives that -- or sorry -- that was one (1) of the initial constraints that needed to be considered in the design of this strategy.

From a liquidity standpoint, the current portfolio, liquidity has been viewed to be very adequate. And, of course, without there being a change to the underlying portfolio as a result of this approach, the liquidity would not be any worse, it wouldn't be any -- it wouldn't be improved materially either, it would just remain where it is.

There certainly are observations that need to be made about potential for adverse funding market conditions. This would tend to be more around situations where there are more systematic risks in the marketplace that could prevent or impede the ability to roll some of the repurchase agreements as they are renewed on a very frequent basis. That could result in the inability to regain the exposures that we needed to maintain the strategy.

Really just putting you back to a position where the -- the inflation risk is not -- is not mitigated -- or sorry, the unexpected inflation risk is not mitigated over and above what's embedded in the liabilities for unexpected.

There's also risks of failure of a counter party. However, the mitigating factor here -- and that would be a counter party in the repo transaction. The mitigating risk is that in a repo, there is an exchange of the physical securities as well as the receipt of cash physically. Each party would maintain their holdings, as well as there is posting of collateral that goes on as -- as unrealized gain and loss amounts increase over the life of the -- of the repo agreement.

And also, there's a high frequency to the roles, which tends to keep that unrealized gain or loss portion at a small amount. So not a lot of outstanding impact.

On the next slide, with capital and

IFRS considerations, of course, any strategy related to an insurance company needs to account for the fact that we could be impacting regulatory capital requirements or potentially introducing some accounting implications that could have some adverse consequences to valuation and -- and income impacts.

As it was mentioned, the current IFRS accounting framework is the basis for the liability valuations. Under IFRS, we want to be aware of changes that could potentially impact motivations to change that discount for composition.

As mentioned, if they are not aligned the factors driving changes in the value of the liabilities relative to the -- to the changes in the -- in the assets would be proportioned differently. And you -- could result in -- in surplus volatility.

To the extent that it's desired that both be aligned, the physical approach as described would lead to an increased rate of federal bonds in the portfolio and, certainly, a change in the composition of the IFRS discount curve to reflect the same. And that would bring the yields of that discount curve down, resulting in an increase in the liabilities.

Again, the use of the overlay strategy

eliminates the necessity to make changes to the discount curve.

Contributions to capital with regards to the strategy would come from three (3) key places. It would be interest rate risk, credit risk, and currency risk.

As I mentioned, the strategy would be constructed to be duration neutral and, essentially, there would be no -- no impact on the interest rate risk margin due to no change to the interest rate risk sensitivity.

The repos would have a credit risk component to them. They would require capital relative to the size of the repo to the counter party. In this case, as the counter parties would typically be the large schedule one (1) banks in Canada. And typically the factor would be about a quarter (1/4) percent or three-quarters (3/4) percent, depending on the senior rating of that -- of that entity.

The last would be currency risk and that would be present in the use of TIPS. However, it would be fairly small as the repo transactions for tips would be offsetting. There is no currency risk within those strategies, except for the outstanding profit or loss that might be in place during the --

during the existence.

So that strategy would be typically -- that would be a very small amount that would be negligible contribution to risk. Unhedged currency typically comes in at a 10 percent capital charge.

As far as costs go, on the next slide, certainly acquiring the desired exposure to -- to inflation protection does not come without a cost. The cost here is related to the differencing in the financing charges for each portion of -- of the overlay, which is those two (2) repo transactions. One is -- one is borrowing at a rate. And the other component is lending.

And the offsetting costs -- or sorry, the offsetting rates of that results in a difference of about fifteen (15) basis points. And that typically has been a fairly stable relationship between the -- the difference in the -- in the borrowing and lending costs of those repo transactions.

That fifteen (15) basis points would be -- we've estimated it on the entire $600 million that was proposed, which is that 34 percent of the portfolio. That fifteen (15) basis points on a total portfolio cost basis would be about 5 percent --

sorry, five (5) basis points at the total portfolio level.

There would also be potentially a very small additional cost that would be related to the posting of collateral to support those -- to support those repo transactions and that would be through the use of repo-ing (phonetic) provincial bonds in the portfolio in order to purchase treasury bills to post as collateral. And the cost there would be a net of about five (5) basis points.

However, we -- we made the assumption that it would be about a five (5) basis point differential in the current cost of the -- of the cost to repo a federal -- sorry, a provincial bond to purchase a federal treasury bill. And, of course, we estimated that we would need potentially between 30 to $60 million of collateral at any point in time, which would be about point-two (.2) basis points in the -- in the cost of the strategy.

So I'll conclude here just by highlighting that there were a number of constraints in play -- sorry, necessary to be considered in order to achieve this objective. And the -- the proposed strategy certainly accomplishes all of those objectives and does gain access to the -- the desired inflation protection that was proposed in the initial ALM study.

MR. STEVE SCARFONE: Thank you, Mr. Stilo. So that concludes your presentation because I see we're on nine (9) of eleven (11). I'm just ...

MR. JOHN STILO: Yes.

MR. STEVE SCARFONE: Okay. Thank you so much. Thank you. Just some follow-up questions for you, sir.

So the -- the overlay strategy that -- that the Corporation has proposed -- and I expect the -- the advice back is that the Corporation intends to adopt the recommendations made by your company?

MR. JOHN STILO: Yes.

MR. STEVE SCARFONE: Thank you. Is it fair to say that these repurchase agreements are the foundation of the strategy?

MR. JOHN STILO: Yes.

MR. STEVE SCARFONE: As I understood the presentation, there essentially -- the repo agreements essentially involve a short-term collateral back loan?

MR. JOHN STILO: Correct. The -- the typical mechanics of the repo is an exchange of an asset for a financing, so, a borrowing of -- of funds.

And what would be used in the strategy would be the repo transactions in order to pay for the real return bonds that are being incorporated into the -- into the strategy.

MR. STEVE SCARFONE: And in that dynamic, MPIC would be the borrower?

MR. JOHN STILO: Yes.

MR. STEVE SCARFONE: And because -- I'm asking these questions, sir, because you mentioned that it's not a leveraged strategy in your view.

Correct?

MR. JOHN STILO: It is not leveraged on a net basis.

MR. STEVE SCARFONE: And what does that mean exactly? Like, on a fundamental level, if -- if someone is borrowing money to purchase securities, that's leveraging. Correct?

MR. JOHN STILO: Correct.

MR. STEVE SCARFONE: And how is this strategy different than that? But that -- your -- your earlier response, Not on a net basis.

MR. JOHN STILO: Yes. Because there's a second component which is the reverse repo strategy, where MPI would effectively be lending. And so, that lending component offsets the borrowing.

MR. STEVE SCARFONE: I see. Okay.

MR. JOHN STILO: On a net basis, there's no substantial leverage.

MR. STEVE SCARFONE: And sir, there isn't the normal risks associated with the leveraging strategy, with the bond overlay strategy?

MR. JOHN STILO: You would have an offsetting effect. In -- the offsetting effect in this particular mechanics is to offset the interest rate risk that exists in the real return bond long position. That would be offset by selling away that risk through the nominal bonds. And as a result, the net effect would be to leave you with the inflation compensation component.

Since the real return bond has the -- has both components of interest rate risk sensitivity as well as inflation, there's only the desire to have one (1) portion of that -- of that risk compensation. So the other is sold away.

MR. STEVE SCARFONE: Okay. Thank you for that. And the strategy, I heard you say, involves what you call the construction of a provincial real return bond, correct?

MR. JOHN STILO: That's correct.

MR. STEVE SCARFONE: Because these --

these bonds are normally issued by the federal government?

MR. JOHN STILO: That's correct.

MR. STEVE SCARFONE: And so, is that what the term 'synthetic' real return bond means?

MR. JOHN STILO: Yes. So just to -- to clarify, there have been provincial real return bonds issued. The outstanding amount is very small. Would make it almost impossible to implement that into this particular strategy.

So, those products do exist if they existed in -- if they existed in more abundance, they could potentially be used, but in the absence of there being an adequate amount to create a portfolio of them, we've effectively created a synthetic replication of that.

MR. STEVE SCARFONE: And so are these -- these synthetic bonds, are they real -- real return bonds? I mean, are they tangible assets 'cause I -- I mean if I give my girlfriend a synthetic fur coat, she would quite rightfully break up with me, I think.

Like, okay -- are -- are they real?

MR. JOHN STILO: So, all the components -- all the components are real. Yes, it -- the idea is that the bonds, the provincial bonds that are currently held in the -- in the portfolio are nominal bonds, real bonds, tangible bonds.

The part that has been added to them, through the construction of the strategy, is the inflation dynamics that are present in real return bonds.

So, we've taken a component from -- in another existing real instrument and, again, not to confuse the term "real" with the Real Return Bond, but an actual physical bonds.

The actual physical bonds exist. What we've done is taken a risk component of it and given it to another asset.

MR. STEVE SCARFONE: I see.

MR. JOHN STILO: All physical assets.

MR. STEVE SCARFONE: And -- and these bonds, sir, we -- 'cause we've heard in past proceedings, that the real return bonds don't offer a great return to the investor. Correct?

Compared to their other -- their bound counterparts that are in the portfolio?

(BRIEF PAUSE)

MR. JOHN STILO: So, it -- so with

respect to that observation, real yields will be lower than nominal yields, due to the absence of the expected inflation component in an outright comparison. So a nominal federal bond will have a yield higher than a real return bond, in observation, because that yield is quoted without the expected inflation component.

What we're observing, is the fact that the real return bonds that we want to employ in this strategy are federal bonds, which carry a lower yield than their equivalent provincial bond instruments due to the fact that provincial bonds pay us a credit spread.

So, the -- the observation is really around the -- if we were forced to implement with a physical-only solution, you would -- you would -- the consequence would be the -- the giving up of that credit spread. That would be the difference in those yields and returns.

MR. STEVE SCARFONE: Thank you for that. And we heard as part of Mr. Bunston's presentation, that although inflation is still above the Bank of Canada target, it's starting to drop.

And so what impact, if any, would that inflation rate returning to its 2 percent target have

on the effectiveness of this strategy?
MR. JOHN STILO: I think the observation in implementing the strategy is not to be concerned, necessarily, with where inflation will be. The idea behind the strategy is to mitigate the risk that it -- it will be something different than what you've planned for, positively or negatively.
So, the decision around that wouldn't necessarily be the observation of where inflation is or will be. It's more about, do you want to have the exposure to that -- to that change in inflation relative to what your -- your interest -- or your inflation expectation setting is.
MR. STEVE SCARFONE: Okay. And so based on that response, sir, I would expect that Addenda isn't of the view that perhaps the Corporation's a little late in the game in addressing the inflation risk that is before it?
MR. JOHN STILO: Again, it's a -- it's an interest, or sorry, it's an inflation risk management observation.
So, late to the game would -- would, I don't -- I don't know, in terms of the context of where market rates are, it's not a case of being late now or early, it's a case of whether you want that to

be exposed to that risk.

The -- the -- the current level -- the current level of inflation doesn't have a -- a bearing on that decision.

MR. STEVE SCARFONE: Okay. So, it -- it becomes an issue of either you're hedged or you're not?

MR. JOHN STILO: Correct.

MR. STEVE SCARFONE: And we also heard from Mr. Bunston about the impact of the ALM strategy and the investments therein on the capital requirements of the Corporation.

I'm wondering if there's any benefits to this strategy on Basic's capital position.

And, Ms. Low, you can answer as well, if -- if you'd like.

MS. CARA LOW: So, currently what we do is we reserve for expected inflation.

So, if you've been injured in an accident and you're receiving reclaim indemnity starting for April 1st, upon the anniversary of your claim date, you get raise -- like a raise in your salary from MPI, correct.

And then -- so we have this inflation reserve sitting there. The bond overlay strategy is for unexpected inflation.

Now in the five (5) year pro formas that we've submitted, the cost of the bond overlay strategy is in there. The one thing that we do not have in the five (5) year pro formas is a one-time benefit.

As when -- when we implement the bond overlay strategy, we can reduce that inflation reserve because we no longer have to reserve for expected -- say four (4) or 5 percent inflation, we would reserve for the difference between the nominal and the real yield.

So, there will be a one-time benefit. The reason we haven't included that in the pro formas, is one, we have to decide on a hedge ratio. So, a hedge ratio -- bond overlay strategy is like buying insurance. So, do we want to buy 100 percent insurance or 50 percent insurance, so until we decide on that hedge ratio, we don't know.

And we also don't know the timing and -- of the implementation. 'Cause a lot of the money being held right now in the inflation reserve is for the 2023 inflation that's going to coming into effect for April 1st of 2024.

So, depending on the timing, but as of

June 30th, 2023, we did a quick analysis last week, it would be a $30 million benefit, as the money would come from the inflation reserve down to the RSR.

So, we just want to make sure that everyone was aware there could be a one time benefit, but we reduce our inflation reserves, it flows into available capital and, of course, then that means that the MCT could go up.

But we don't know about the hedge ratio or the timing yet, so it's not in the pro formas.

MR. STEVE SCARFONE: Okay, thank you for that, Ms. Low. There was a lot there in that response.

So, it -- would this benefit -- it would be seen in the Rate Stabilization Reserve?

MS. CARA LOW: Correct. If you're thinking about a balance sheet, it would come down from your liabilities into your RSR, 'cause we would reduce the inflation reserve and if your RSR goes up, your MCT goes up.

MR. STEVE SCARFONE: Okay. Thank you. And -- and that amount is estimated at this early stage to be approximately $30 million?

MS. CARA LOW: As of June 30th, 2023, with 100 percent hedge ratio.

MR. STEVE SCARFONE: But the hedge ratio hasn't yet been determined and that would be done by the Board of Directors. Is that correct?

MS. CARA LOW: Investment Committee and then the Board, yes.

MR. STEVE SCARFONE: Mr. Stilo, you mentioned -- or you addressed in your presentation some of the costs associated with the strategy. And you said that there's the costs associated with the $600 million investment in the bond. Correct?

MR. JOHN STILO: Yes, that's correct.

MR. STEVE SCARFONE: Of five (5) basis points, I think I heard you say?

MR. JOHN STILO: On the total portfolio level, five (5) basis points.

MR. STEVE SCARFONE: And what does that translate into in dollars. Do you know, sir?

MR. JOHN STILO: Yes. I think, actually, I have -- about five (5) basis points would be on a $600 million exposure -- about three hundred (300) on total -- of five (5) -- sorry, that would be five (5) basis points on total assets. It would be fifteen (15) basis points on the $600 million.

MR. STEVE SCARFONE: Oh, so that's different then from what you said earlier, it's fifteen (15) basis points?

MR. JOHN STILO: No, it's fifteen (15) basis points. So, it's fifteen (15) basis points for the $600 million allocation which that $600 million, as a portion of the total portfolio, would be a net portfolio cost of five (5) basis points, which would be about $900,000.

MR. STEVE SCARFONE: Thank you. So, just short -- under a million dollars to implement the strategy, not including the collateral cost, correct?

MR. JOHN STILO: That's correct.

MR. STEVE SCARFONE: And do we know what that -- those costs are? You also said it's -- for the posting of collateral, it would be another five (5) basis points?

MR. JOHN STILO: Five (5) basis points at the transaction level of six hundred (600) million, at a total portfolio level, it's about point two (2) basis points.

MR. STEVE SCARFONE: Point two (2). You mentioned that. Okay. Thank you.

So a nominal cost. The -- the bigger cost is -- is the --

MR. JOHN STILO: Yes.

MR. STEVE SCARFONE: -- fifteen (15)

basis points on the overall?

MR. JOHN STILO: That's correct.

MR. STEVE SCARFONE: Yeah. Thank you. And, lastly, one of the goals, I think, of the repo agreement is, at least for the -- the party that's making use of the short-term loan is liquidity, you said, right, and that's important in this strategy?

MR. JOHN STILO: Liquidity of the -- liquidity of the whole --

MR. STEVE SCARFONE: Of the fixed income portfolio for Basic?

MR. JOHN STILO: Yes. Liquidity is important.

MR. STEVE SCARFONE: And why is the liquidity important for the Basic claim portfolio?

MR. JOHN STILO: The primary reason is for the management of the interest rate risk strategy. Provincial bonds are needed to make the adjustments to the changing interest rate characteristics of the liabilities and they're best effected through the use of provincial bonds, which are far more liquid.

MR. STEVE SCARFONE: Okay. So, it's not to -- not to pay the claims, but it's for the --- the interest rate risk component?

MR. JOHN STILO: There hasn't been a -

- yeah, a demonstrated requirement for -- for that, outside of the -- yeah --

MR. STEVE SCARFONE: Okay.

MR. JOHN STILO: -- the management of the interest rate risk. Yeah.

MR. GLENN BUNSTON: Could I just add -- the -- the $600 million allocation, that would equate to approximately a 50 percent hedge ratio and -- and, so, the hedge ratio, as you mentioned, hasn't been finalized and we do need to discuss that with our Investment Committee.

But, the $600 million was based off of the initial recommendation from Mercer, which was a 34 percent allocation to re -- real return bonds, which was on a cash basis.

Now, we're planning to -- recommending and planning to buy these and finance them through a repurchase agreement and, so, the -- but the allocation hasn't been determined yet.

MR. STEVE SCARFONE: Last question for you, Mr. Stilo, and -- and I appreciate what you've said earlier about you're either hedged or you're not hedged.

If the Corporation decides that it no longer wants to be hedged and inflation comes down and it looks like it's going to stay down, what is the exit strategy for this bond overlay and -- and how would the Corporation divest itself of these RRBs, if the market has gone soft?

MR. CHRISTIAN ROBERT: Well, look, as Mr. Stilo, the -- the thing here is whether you want (INDISCERNIBLE), so, whether you want insurance against the risk of unexpected inflation.

Now, by definition, if it's unexpected inflation, you don't know what that is and how to predict it. So, there's no real exit strategy. The only exit strategy is the day that you -- that MPI decides that they don't need to protect -- mitigate that risk any more.

Now, you talked about the entry point. Of course, you -- you want the insurance before you get a -- a claim, right, or something happen, but you don't know when that will happen. So, even if inflation was stable -- stable at nearly 2 percent, the bank's target, you would still have a risk of unexpected inflation, I mean, we saw it.

MR. STEVE SCARFONE: So, Addenda's recommending that the Corporation maintain the strategy indefinitely?

MR. CHRISTIAN ROBERT: Yes. This is

just like the interest rate strategy for mitigating interest rate risk.

MR. STEVE SCARFONE: So, I take that to mean that, no matter what inflation does in the future, if the Corporation adopts this strategy, that they're -- they're good?

MR. CHRISTIAN ROBERT: It is.

MR. STEVE SCARFONE: Yep. Okay. Thank you. Those are my questions, then, for the Panel.

PANEL CHAIRPERSON: Thank you, Mr. Scarfone. We'll continue with the questions to Addenda for the balance, as long as it takes and, then, return to the Investments Panel.

So, Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Yes. Thank you, Madam Chair.

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Good morning, Mr. Stilo and Mr. Robert. My name is Kathleen McCandless. I'm counsel to the Public Utilities Board. I expect that you'll be answering most of my questions, but some of them may be directed towards Mr. Bunston, as my questions on the bond overlay strategy are sort of weaved within other questions in MPI's filing having to do with real return bonds and -- and things of that nature. So, but I should -- I expect to be finished with the Addenda-specific areas of questioning, hopefully, by the morning break. Thank you.

So, just -- just some background, the benefit of real return bonds is that they provide inflation protection?

MR. JOHN STILO: Correct.

MS. KATHLEEN MCCANDLESS: The interest rates are adjusted, periodically, every six (6) months, to reflect changes in inflation?

MR. JOHN STILO: Which interest rates are you referring to?

MS. KATHLEEN MCCANDLESS: Okay. Within -- within these contracts. Within the contracts.

MR. JOHN STILO: Within the contract of the -- of the re -- of the repurchase agreement?

MS. KATHLEEN MCCANDLESS: Or the real return bond?

MR. JOHN STILO: The real return bonds -- sorry -- yes, the -- the real returns bonds pay interest on a semi-annual basis. Yes.

MS. KATHLEEN MCCANDLESS: Okay. They are scarce. There are only 13 issues in Canada. Perhaps, that Mr. Bunston knows that?

MR. GLENN BUNSTON: Yes. That's -- that's correct. There -- there are -- yeah, there -- I can tell you exactly how many there are.

MS. KATHLEEN MCCANDLESS: Is it eight (8) federal and five (5) provincial?

MR. GLENN BUNSTON: Yes. That's correct.

MS. KATHLEEN MCCANDLESS: How many real return bonds has Manitoba issued?

MR. JOHN STILO: One, as far as I know.

MS. KATHLEEN MCCANDLESS: And can MPI gain access to any of these real return bonds?

MR. CHRISTIAN ROBERT: No. They're closely held by the entities that want inflation protection and the higher yield they provide because of the credit spread. So, they are not traded.

MS. KATHLEEN MCCANDLESS: Thank you. This will, more likely, be directed to Mr. Bunston, because it's about the -- the reasons that MPI relies upon to adopt the bond overlay strategy. And I'd ask Kristen to go to Part 2, Comm. Appendix 3, page 22 of

197.

And, first, Mr. Bunston, can you just explain what document we're looking at here? I -- I believe it's recommendations made by the Investment Committee.

MR. GLENN BUNSTON: I believe this was a submission to the Investment Committee.

MS. KATHLEEN MCCANDLESS: From the Investment Committee Working Group?

MR. GLENN BUNSTON: A submission by MPI management to the Investment Committee Working Group or -- sorry, to the -- to the Investment Committee.

MS. KATHLEEN MCCANDLESS: Thank you, and this is the rationale for recommending a bond overlay strategy for Basic claims?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And, just to paraphrase some of what's -- what's on the screen here.

So, purchasing inflation-linked bonds on a cash basis would make the ongoing implementation of the Corporation's interest rate risk management strategy difficult?

MR. GLENN BUNSTON: Yes. That's

correct.

MS. KATHLEEN MCCANDLESS: And we've heard about the limited number of real return bonds being available?

MR. GLENN BUNSTON: Yes. They tend to be held -- held to maturity, typically, by institutions that require inflation protection.

MS. KATHLEEN MCCANDLESS: So, the selection of maturity dates is small?

MR. GLENN BUNSTON: Right. There's only eight (8) real return bonds issued by the federal government. So, there's only eight (8) maturity dates.

MS. KATHLEEN MCCANDLESS: And purchase of real return bonds would lower the yield of the portfolio and affect the determination of the claims discount rate?

MR. GLENN BUNSTON: If they were purchased on a cash basis, then, yes, the -- that would impact the -- the discount curve that's used to -- the cur -- the yield curve that's used to discount the liabilities.

MS. KATHLEEN MCCANDLESS: Obtaining exposure to inflation-linked bonds through the bond overlay strategy, then, would address the issues that

I've just reviewed?

MR. GLENN BUNSTON: Yes. That's correct. So, one of the benefits is that the -- the term of the inflation-linked bond that is purchased is -- is not relevant to the strategy, because they all provide the same inflation adjustment payment.

So, whether it's a five-year real return bond, a 10-year or a 20-year, it doesn't matter and, so, that gives us maximum flexibility, in terms of purchasing real return bonds.

So, if one becomes available, the term is irrelevant to us under the -- under the bond overlay strategy, and the other benefit is that we don't need to sell any of our existing bonds to finance the purchase of the real return bonds, and the benefit of that is the yield of our portfolio will be higher because we would have to sell provincial bonds to buy the federal real return bonds and provincial bonds have some credit risk and, as a result, they have a higher yield.

MS. KATHLEEN MCCANDLESS: Thank you. Now, on to the presentation from Addenda, and Mr. Stilo, Mr. Robert, just a few questions for follow-up, starting at slide 7, please.

So, here, there are four (4) headings

under Risk Considerations of the Overlay Strategy and, perhaps, could you just expand a little bit on what we see on the -- on the screen before us, in terms of the risks?

MR. JOHN STILO: Certainly. So, with regards to the structuring, the -- the concept of an overlay strategy has more parts to the -- to the implementation.

Purchasing real return bonds outright in physical form would be effectively the same as buying a nominal bond, which is happening everyday in the -- in the Basic claims portfolios.

Operationally, that is fairly simple, in terms of the -- the exchange. It's cash for physical security.

Within the -- within the overlay strategy, there would be a series of repurchase agreements which will require multiple entries for the -- for the posting of the -- of the physical bond and the receipt of cash.

There's different -- there's different accounting that will need to take place in order to record keep the -- the positions, and that will happen on a much more frequent basis as well, too, given the fact that the -- typically, the repo contracts are rolled in roughly about a three (3) week interval. So this would happen with more frequency, so there would be a higher frequency of recording and reporting.

MR. CHRISTIAN ROBERT: Yeah. The -- the overlay structures requires some agreements with four (4) banks, let's say. Let's assume we use four (4) banks. So this is a standard contract, defines all the terms, what's happening.

Now, if you -- if you buy -- if you only hold those real return bonds on a cash basis, hold to maturity, you go on the market, they are relatively liquid, but if you buy them, you hold them. That's it.

If you do the repo, you do the same operation initially. You go and buy those real return bonds, but then you enter to the financing component, which is the repo, and that is renewed every three (3) weeks.

So every three (3) weeks, the financing goes under a repo that you actually sell the bond and I agree to buy it back at a pre-determined price. So there's two (2) entries. So it's just accounting entries basically.

So the operational what we say complexity is because every time you roll those repos, let's say there's five (5) lines with three (3) banks, so that's fifteen (15) operations, fifteen (15) -- every time, every three (3) weeks you role the repos, you have that transaction there, but there's no cost. There's no bid-ask costs. There's no -- nothing incurred.

MS. KATHLEEN MCCANDLESS: Thank you. With respect to the fourth bullet, adverse funding market conditions, what could be the cost implications of adverse funding market conditions?

MR. CHRISTIAN ROBERT: Well, the -- you're bound by the contract with the bank to buy back the security, so to sell it back in the reverse repo, and they -- they have the opposite obligation, right?

So -- but if they decide -- if the bank for some reason decide that they don't give you the same line of credit, they don't open the same credit, or they decide that they don't want to enter into the next round of repos, then you have to find to do it with another bank.

So the risk is that eventually you either -- it's -- it's harder to find the bank to do it or there's fewer banks, but normally there's a way out of it. So that's for the counter-party.

MS. KATHLEEN MCCANDLESS: Thank you.

Has Addenda implemented a similar inflation bond overlay strategy in other circumstances?

MR. CHRISTIAN ROBERT: We haven't had to. We have clients that purchase or ask us to manage a portfolio of real return bond just because they don't have the same objective as MPI to at the same time manage interest rate risk where -- of liquidity, or they don't have -- they know the implication on the yield. They obviously have a lower yield, but they -- it's just decided that they will assume that cost.

So this is a custom solution for --

MS. KATHLEEN MCCANDLESS: Not --

MR. CHRISTIAN ROBERT: -- (INDISCERNIBLE) problem.

MS. KATHLEEN MCCANDLESS: It's a novel solution?

MR. CHRISTIAN ROBERT: The idea of putting things on -- on an overlay basis is not novel. We do it with other strategies, but not -- not inflation, per se.

MS. KATHLEEN MCCANDLESS: Thank you. If we could go to slide 10 -- and I'm looking at the second bullet on the right-hand side -- Addenda notes that:

"The overlay strategy preserves the

risk -- the integrity of the
existing interest rate risk
management strategy."

Can you just elaborate on what's meant by that statement?

MR. CHRISTIAN ROBERT: Currently, there's -- you saw different pieces of the Basic claims asset portfolio. There's provincial bonds, there's MUSH, there are -- there's corporate bonds, and there will be mortgages and things like that.

So the mandate we -- for managing interest rate is what we call the completion portfolio. So, we basically manage interest rate risk by not touching or influencing the management of the other pieces. By doing this, we need a certain amount of assets to be able to adjust the sensitivity of the assets to that of the liabilities.

Now, if you buy the real return bonds, 34 percent of portfolio with the 50 percent hedge ratio in real return bonds, it means that, for this completion portfolio, we don't just deal with the liquid provincial bonds that are easy to transact, also cheap, relatively cheap to buy and sell, to adjust those sensitivity over time.

We would have to deal with real return

bonds, and those are hard. They're expensive to buy, they're expensive to sell, and -- plus they are scarce. So it would impede a little bit the ability to hedge the interest rate risk to the same degree that we do now.

MS. KATHLEEN MCCANDLESS: Thank you. Mr. Stilo, you had mentioned that the strategy is duration neutral?

MR. JOHN STILO: Correct.

MS. KATHLEEN MCCANDLESS: In recent years, MPI has had variances in its asset-liability management due to convexity issues.

So assuming that's the case, would there be any convexity issues in this strategy?

MR. CHRISTIAN ROBERT: Not really.

MR. JOHN STILO: Not really.

MS. KATHLEEN MCCANDLESS: Is there any -- any detail that can be added to that?

MR. CHRISTIAN ROBERT: There's never any perfect hedging strategy. I'll agree with that. The real return bonds themselves, even if we -- there's more risk, interest rate risk and convexity duration, by holding the real return in cash hold only than there is in the overlay because on the one side, you have the long position -- you own the real return bond, you are exposed to it -- but you subtract the exposition to the nominal bond.

You ensure that you have similar maturity, similar duration on both side. Convexity would not necessarily be exactly the same, but it will be close, so it's offsetting each other.

What you're left with you have offset. You remove the impact on prices on both these pieces of change in interest rates, in one case the real, and in the other case the nominal.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. STEVE SCARFONE: Mr. Robert, could I just interrupt? Could you just bring your mic just a little bit closer 'cause I'm having difficulty --

MR. CHRISTIAN ROBERT: Yes.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Kristen, can you just go up one -- so to slide 9, please. Just some follow-up on the cost of implementation of the strategy.

And so at the -- in the references at the bottom, we see that there's an estimate of 34 percent exposure times cost of 15 basis points equal to 5 basis points at the total portfolio level?

MR. JOHN STILO: That's correct.

MS. KATHLEEN MCCANDLESS: And on slide 2, so -- and that was the roughly nine hundred thousand dollars ($900,000) that was mentioned --

MR. JOHN STILO: That's correct.

MS. KATHLEEN MCCANDLESS: Now on to the -- the strategy here. So at slide 2, we have the proposed $600 million in real return bond strategy within Basic claims portfolio.

Just trying to reconcile with some other information in the filing. So -- and, Kristen, I'm sorry, this is a surprise reference for you, but investments section, page 55 of 85.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Perfect. Thank you. And I'm looking down at INV 11.1.9, lines 13 to 16. It's noted that inflation-linked bonds have been added as a new asset category to provide a hedge against inflation and interest rate sensitive liabilities, and that they would be funded through a bond overlay strategy.

MPI notes here that it plans to allocate approximately $710 million to this strategy.

So I'm just trying to get a sense of the difference between the 600 million we saw and the 710 million in the filing.

MR. GLENN BUNSTON: Yes. Well, as we said earlier, the -- this will be addressed through what we call the hedge ratio, and that has not been determined yet. So in the filing, we used a $710 million allocation to the strategy, and the cost associated with that was included in our pro forma financial statements.

The $600 million that you see in Addenda's presentation was really just a round number we selected when we were working with Addenda.

So those costs, the fifteen (15) basis points, would just be grossed up to the -- whatever the final allocation ends up -- ends up being.

So the cost in the -- in the pro forma financial statements is based on the $710 million allocation, again, really just a placeholder because we had not determined and still have not determined the hedge -- final hedge ratio.

MS. KATHLEEN MCCANDLESS: Thank you. So on to that hedge ratio then, as at the time of the Information Requests, and we're looking at PUB/MPI-2-28 and the response to 'B'.

So as of last month, beginning of last month, I believe, MPI had said that it anticipated the selection process for a manager to start in September and to take three (3) to six (6) months to complete, and during that time, the inflation hedging policy would be developed?

MR. GLENN BUNSTON: Yes, that's what the response says.

MS. KATHLEEN MCCANDLESS: And is that still on track?

MR. GLENN BUNSTON: It is, yes. We're actively working with Mercer on several searches, and one (1) of them is for a manger of the bond overlay strategy.

And we are also working on the policy and also conducting a cost benefit analysis which will inform our recommendation to the Investment Committee regarding the -- the hedge ratio.

MS. KATHLEEN MCCANDLESS: The cost benefit analysis then, is that something that's already been developed or is it not yet ready?

MR. GLENN BUNSTON: It's in its early stages, and we're making refinements to it at this point.

MS. KATHLEEN MCCANDLESS: And when

does MPI expect to have that completed?

MR. GLENN BUNSTON: Well, we're aiming to have it completed before our next Investment Committee meeting which, at this point, is to be determined since our Board has recently changed.

MS. KATHLEEN MCCANDLESS: Thank you. And so with -- with the forthcoming inflation hedging policy, then the -- the ratio is still a question. It could be zero percent, 50 percent, a hundred percent?

MR. GLENN BUNSTON: Correct, yeah. So we have a draft inflation hedging policy that we've developed. It doesn't directly address the hedge ratio question. That's more based on the risk appetite of our Investment Committee and Board.

And so, until we meet with them, we won't really know what the risk appetite is related to the strategy. And we haven't finalized a recommendation yet, so that's still to be determined.

But the -- the policy is more around guiding the investment manager in terms of selection of securities and just how -- how they will implement the strategy, but the hedge ratio will be determined by our Investment Committee and by our Board.

MS. KATHLEEN MCCANDLESS: What would the dollar value be for a ratio of 100 percent?

MR. GLENN BUNSTON: We currently estimate that the allocation to the strategy four a hundred percent hedge ratio would be about $1.1 billion of real return bonds.

MS. KATHLEEN MCCANDLESS: Thank you. Now, could we go to page 26 of the investment -- investments Appendix 14. Oh, pardon me.

This -- this was a bond overlay strategy presentation from earlier this year?

MR. GLENN BUNSTON: Yes. This was a presentation that was developed and delivered internally to staff to educate them regarding the bond overlay strategy.

MS. KATHLEEN MCCANDLESS: And, again, this sets out the estimate of the costs to be incurred to put the strategy in place?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Has MPI included the administrative cost of the strategy but not modelled the benefits of implementing it at this time?

MR. GLENN BUNSTON: Well, the benefits would come about if inflation was to deviate from our expected inflation. And when we -- the modelling that we conduct for the General Rate Application, we use our future expectation of inflation.

And so, by definition, the strategy will provide benefits only if inflation differs from our expectations.

And so in the cost benefit analysis that we are working on right now, we did model scenarios where inflation exceeds our expectations by various amounts to try to capture the impact on both assets and liabilities and, therefore, to quantify the net impact to the Corporation if the strategy's in place and at various hedge ratios.

So that -- that's the analysis that we're currently working on that will assist us with making a recommendation to our Investment Committee and helping them to understand the payoff from the strategy under various scenarios.

MS. KATHLEEN MCCANDLESS: Thank you. Now, Kristen, could we go to PUB/MPI-1-123, question A. Here the Corporation was asked how the investment and an inflation link bond through the bond overlay strategy will be modelled in the financial forecast.

And if we go down to the response, MPI has yet to make changes to the financial model?

MR. GLENN BUNSTON: Yes. We've been working -- that's what the response here says. I can tell you that we have been working with our external consultant who developed -- assisted us in developing the financial model to incorporate this functionality into the model.

We -- we have developed outside of the model though the ability to calculate the payoff from the bond overlay strategy. And we've worked separately also with our actuaries to have them quantify the impact of various levels of inflation, so that's been done outside of the financial model at this point.

MS. KATHLEEN MCCANDLESS: And in the second paragraph of this response, right in the middle, it's noted that MPI is working with Addenda to develop a model which calculates the impact on assets at various levels of inflation.

So when does MPI expect to have the Addenda model changes?

MR. GLENN BUNSTON: Well, we've -- we've completed that work with Addenda in terms of developing this -- this model to calculate the -- the payoff from the strategy, the bond overlay strategy, at various levels of inflation; so that's been completed. And that's really what we're using for our cost benefit analysis.

MS. KATHLEEN MCCANDLESS: Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: All right. Thank you. Those are all my questions for the representatives from Addenda, so thank you very much. It looks about the appropriate time for the morning break, as well.

PANEL CHAIRPERSON: Yes. Thank you very much. It's 10:36. Could we please come back at ten (10) to 11:00. Thank you.

--- Upon recessing at 10:37 a.m.
--- Upon resuming at 10:56 a.m.

PANEL CHAIRPERSON: Thank you, everyone. Ms. Meek...?

MS. KATHLEEN MCCANDLESS: Madam Chair, I just have one brief follow-up to Ms. Low on the bond overlay strategy.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Ms. Low, you had -- I'll give you a minute. You had mentioned that there's a $30 million impact to implementing the bond overlay strategy?

MS. CARA LOW: It's going to be very dependent on the hedge ratio determined and the timing. Because if you happen to have high expected inflation in our inflation reserve, it's going to be a bigger impact.

So it's going to be very dependant on timing and what percent -- so 30 million was 100 percent hedge as of June 30th, 2023, and that's because we have a fair bit of inflation expected for 2023 that won't be paid out until we start April 1st with the higher payments of 2024.

MS. KATHLEEN MCCANDLESS: So is that an analysis that MPI has performed already to get to the 30 million?

MS. CARA LOW: We were doing some rough estimates just on Friday. So we have some rough estimates, yes.

MS. KATHLEEN MCCANDLESS: Is that something that can be provided?

(BRIEF PAUSE)

MR. STEVE SCARFONE: Yes, Ms.

McCandless, we can do that. Maybe just to clarify what the -- what the question or the undertaking would be.

I think it's to determine -- or to show how the Corporation determined the $30 million capital impact on implementation of the bond strategy?

MS. KATHLEEN MCCANDLESS: That is correct. So file that analysis, plus any assumptions that were built into the analysis.

And then, to the extent that they change pro formas 1, 2, and 3?

MR. STEVE SCARFONE: Yes. We can make that undertaking.

--- UNDERTAKING NO. 29: MPI to show how the Corporation determined the $30 million capital impact on implementation of the bond strategy, plus any assumptions that were built into the analysis. And then to the extend that they change pro formas 1, 2 and 3.

MS. KATHLEEN MCCANDLESS: Thank you.

PANEL CHAIRPERSON: Thank you.
Ms. Meek...?

MS. CHARLOTTE MEEK: Thank you, Madam Chair.

CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Good morning to the panel. My name is Charlotte Meek. I represent the Coalition of Manitoba Motorcycle Groups.

I'm going to start off with the Addenda presentation, if I could. Kristen, if you could pull that up? And if we could go to page 2 -- oh, you're already there. Perfect.

And the last bullet point on this page notes that one of the parameters was to keep the same methodology to calculate the IFRS discount curve.

Is that correct?

MR. JOHN STILO: That's correct.

MS. CHARLOTTE MEEK: Okay. And I think, in your presentation, you indicated that was an accounting constraint applied to your analysis.

Is that correct?

MR. JOHN STILO: That is correct.

MS. CHARLOTTE MEEK: Okay. And that

impacted the recommendations that you've made?
MR. JOHN STILO: Yes, it does.
MS. CHARLOTTE MEEK: Okay. And can you confirm that accountants can change their standards from time to time? Is that accurate?
MR. JOHN STILO: Yes.
MS. CHARLOTTE MEEK: And if MPI chose to implement a different accounting practice, that might impact the portfolio decisions that MPI would make in the future?
MR. JOHN STILO: Yes, it could.
MS. CHARLOTTE MEEK: Okay. And if we could go to page 3, please. And the second-last bullet point there says:

> "Surplus volatilities introduced when actual inflation is different from expected inflation."

Do you see that there?
MR. JOHN STILO: Yes, I do.
MS. CHARLOTTE MEEK: And the expected inflation that you're referring to here is the inflation pursuant to MPI's naive forecasting, is that correct?
MR. JOHN STILO: That's correct.
MS. CHARLOTTE MEEK: Okay. And then,

if we could go to this year's General Rate Application, part 11, Investments Chapter, appendix 14, please.

And so, this was the -- MPI's presentation to the investment committee. Is that correct?

MR. GLENN BUNSTON: Yes, it is. And can I just -- your previous question about the inflation forecast, you asked if it was a naive forecast?

MS. CHARLOTTE MEEK: Yes.

MR. GLENN BUNSTON: It's not a naive forecast. So we use consensus forecast from the Canadian chartered banks. And so, we use the -- the average of those banks' forecast.

So we don't take today's inflation rate and assume it's unchanged going forward, which is what a naive forecast would be.

MS. CHARLOTTE MEEK: I see. Thank you. Thank you for that clarification.

So -- so this presentation now that we have before us, this was the presentation to the investment committee regarding the bond overlay strategy. Is that correct?

MR. GLENN BUNSTON: Yes, I believe

that's correct.

MS. CHARLOTTE MEEK: Thank you. And if we could go to page 20, please.

So you've gone over this a little bit already today. But this is where MPI is outlining how purchasing real return bonds on a cash basis could have two (2) negative outcomes. Is that correct?

MR. GLENN BUNSTON: Yes.

MS. CHARLOTTE MEEK: Okay. And MPI outlines how purchasing on a cash basis could reduce the yield curve of the fixed income portfolio.

Is that correct?

MR. GLENN BUNSTON: Yes, that's correct.

MS. CHARLOTTE MEEK: Okay. And that is because, as you've indicated today, the Corporation would be forced to sell provincial bonds in order to purchase federal bonds, or RRBs, and -- which have a lower yield due to their lower credit risk.

Is that correct?

MR. GLENN BUNSTON: Correct.

MS. CHARLOTTE MEEK: And that exchange, selling provincial bonds for federal bonds, would cause an increase to the liabilities with no corresponding offset from the asset portfolio.

Is that correct?

MR. GLENN BUNSTON: Correct. Yes.

MS. CHARLOTTE MEEK: And MPI indicates here that it has estimated an increase in liabilities of approximately $60 million. Is that correct?

MR. GLENN BUNSTON: That was the estimate at the time, yes.

MS. CHARLOTTE MEEK: Okay. And would you agree that the adverse effect on the liability is an accounting effect only? It's not a real or economic effect?

MR. GLENN BUNSTON: Well, yes. IFRS-17 is an accounting standard. So yes.

MS. CHARLOTTE MEEK: Right. So the economic value of liabilities does not depend on the composition of the portfolio?

MR. GLENN BUNSTON: Yes, that's true.

MS. CHARLOTTE MEEK: Okay. And if MPI were to purchase equities by selling provincial bonds, that would also have some negative outcomes.

Would you agree with that?

(BRIEF PAUSE)

MR. GLENN BUNSTON: Could you

repeat the question, please?

MS. CHARLOTTE MEEK: I asked, if MPI were to purchase equities by selling provincial bonds, there would also be negative outcomes.

Similarly to the negative outcomes that you've outlined here, there might be negative outcomes of equities purchased by selling provincial bonds?

MR. GLENN BUNSTON: Well, equities generally have higher returns than fixed income instruments. And that would likely be reflected in the discount rates.

But they do bring other volatility to the investment portfolio that's not directly correlated with interest rates. And so, there would be some disconnect between the assets and liabilities from that perspective.

MS. CHARLOTTE MEEK: So there -- there would be negative outcomes if that process were proceeded with? I'm not trying to imply that it would be the same negative outcome, but there could be negative outcomes as well?

MS. CARA LOW: There would also be higher capital charges. Equities have a 30 percent capital charge, so it does tie up your capital.

MS. CHARLOTTE MEEK: Okay. Thank you.

And on this slide, MPI indicates the penalty for not using -- I'm going to say leverage -- I appreciate your comments today that you don't believe this is necessarily leverage -- but this process to purchase real return bonds would be thirty (30) basis points or the $60 million at that time.

Is that correct?

MR. JOHN STILO: I believe if you're referring to the paragraph -- the first bullet point under the third -- the first sub-bullet point, that thirty (30) basis points is the change in the yield of the portfolio. We've estimated it now to be about twenty-seven (27) basis points.

MS. CHARLOTTE MEEK: I see. Thank you. Yes. And I think if we go to your presentation, I think you made that point.

So if we could go back to the Addenda presentation, please, at slide 5. So I think that's what you're referring to there, sir?

MR. JOHN STILO: That's correct.

MS. CHARLOTTE MEEK: Thank you. Yes.

So you've indicated here:

"The physical portfolio is a lower exposure to provincial bonds, which lowers the total portfolio yield to

> twenty-seven (27) basis points."

And then, the note below there says:

> "Estimated at 34 percent exposure with assuming provincial credit spreads of approximately eighty (80) basis points."

Is that correct?

MR. JOHN STILO: That is correct.

MS. CHARLOTTE MEEK: Okay. And are you able to -- to give us an idea of what the comparable equity spread would be?

MR. JOHN STILO: So you'd be referring to an equity risk premium. Since there is no fixed return on equities, it's difficult to make that as a definite number.

MS. CHARLOTTE MEEK: Could you maybe tell us directionally?

MR. JOHN STILO: Well, it would -- it would relate to what you would assume your equity return would be. I believe there are uses of about 6 1/2 percent in terms of expected equity returns. That's over a long period of time. So, it would be in relation to potentially that -- that value.

MS. CHARLOTTE MEEK: Thank you. And again, appreciating Ms. Low's comments, the viability effect if equities were purchased, would be an accounting effect only again, not a real or economic effect. Is -- is that agreed?

MR. GLENN BUNSTON: Yes, it would be a -- an accounting effect.

MS. CHARLOTTE MEEK: Okay.

MR. JOHN STILO: Yeah. I -- I -- I think there is an economic impact, as well, too. You are un -- or -- in -- sorry, if I could clarify, is the question about the impact to the liability or the economic effect overall? 'Cause including those in the asset portfolio will absolutely have an economic effect.

MS. CHARLOTTE MEEK: Yes, the question is: The liability effect would be an accounting effect only, not a -- not necessarily, a real or economic effect?

MR. CHRISTIAN ROBERT: If I -- I may add something. In my opinion, there is an -- there is an economic effect.

If you change the asset mix and you change the expected return or the actual, eventually, the actual return is going to be different.

The accounting is only how you recognize your liabilities. How you -- you recognize those differences between the return on the assets and the return on the liabilities. This is how you -- you recognize these things.

So you -- even if you don't change your liabilities, because as you -- you heard correctly, you correct, it's a discount rate curved, you don't have to change it. You don't change it, but you change the assets.

But if you earn twenty-seven (27) basis points less on the asset, in ten (10) years, it's going to cost you something because the -- you discount the liabilities at a higher rate than what you earn on the asset.

So, there is an economic cost there. It's not because your liabilities don't change, but it doesn't cost anything. It change the asset.

Same thing, if you invest in equity, your expected return is higher, but the volatility is much higher too.

So, you end -- you may end up in a year where the equity market does poorly, in which case, it's the results on your surplus that will fluctuate much more, because you don't have interest rate hedging there, unless you use leverage. And -- and with an expected return.

So, maybe at the end of the -- a certain period, it's going to cost less, because your earnings would be higher, but the volatility will be higher too, volatility in surplus, volatility in premium.

MS. CHARLOTTE MEEK: Okay. Okay, those are my questions. Thank you.

PANEL CHAIRPERSON: Mr. Gabor...? Ms. Walter...? Ms. Nemec...?

BOARD MEMBER NEMEC: I'm going to try and ask these as well as I can, but excuse the -- the questions, 'cause I'm going to be thinking as I ask them.

My first question is in -- or I'll ask this question first: Cost benefit strategy is currently being conducted and I'm assuming the overlay strategy was approved back, I think, in February of 2023.

So, I'm assuming at that point, there must have been a cost benefit strategy or a -- some kind of pro formas, a sensitivity analysis that would have supported that -- that information would have been supported to make that decision.

So, I'm just wondering is the work that you're doing now for looking at the ratio --

forgetting the name of the ratio, the -- the percentage, I guess, that you're looking of -- hedge ratio, thank you, that's one of the decisions that still remains.

But, I'm assuming this is just a continuance of -- of an original kind of a document that you must have prepared.

MR. GLENN BUNSTON: Yes, the strategy, is -- was -- sorry, this is Mr. Bunston speaking. This strategy was approved by our investment committee in February of 2023.

We presented a recommendation to them at the time and Addenda attended and presented as well. And we described the strategy and -- at a high level and the benefits of the strategy and the issues that it addresses that we've talked about here.

But a cost benefit analysis was not presented at that time to the investment committee. And it was only recently completed.

BOARD MEMBER NEMEC: So, the direction that you were provided, or given, by the investment committee, was to continue going down this path, but come back before its implemented.

Can you just tell me, sort of -- I'm just trying to make sure I understand, sort of the direction and -- and what's the time line.

(BRIEF PAUSE)

MR. GLENN BUNSTON: So, in February, we recommended to the investment committee that we -- we adopt the bond overlay strategy and they approved that.

After that, in March, we came back to the investment committee with a -- a proposed investment policy statement that reflected the changes to the asset mix that were developed in the Asset Liability Management study that was completed with Mercer's assistance.

And one of their recommendations was that we purchase real return bonds. And their recommendation, in the ALM study, was a 34 percent allocation to real return bonds.

So, that was contained in the investment policy statement. So, there was analysis around that allocation, but the actual allocation is going to depend on the hedge ratio and so the investment policy statement likely will need to be revised to reflect whatever hedge ratio is ultimately approved by the investment committee.

So, to answer your question about the cost benefit analysis, it's only been recently that that has been -- it -- it's not complete. It's been started and we have some initial results, but we need to do some -- some more work on that and, like I said, we're working to complete that for the next investment committee meeting so we can have a fully informed discussion with the investment committee about the hedge ratio.

BOARD MEMBER NEMEC: Okay. Thank you. And, as far as that -- the cost benefit analysis, I think it was mentioned that the accounting rules have not been -- you haven't understood yet what the impact on -- I -- I don't know -- I don't know if it's part of IFRS-17 or it's a previous IFRS policy.

Will that be also incorporated into that analysis to ensure understanding impact on, not only the financial statements, but the MCT?

MR. GLENN BUNSTON: Yeah, when I said accounting, it's -- it's more around investment accounting and the practicalities of how to record the transactions in our investment accounting software.

BOARD MEMBER NEMEC: Okay.

MR. GLENN BUNSTON: And, so we need to work with our investment accounting team so they understand the strategy.

It has -- and Mr. Robert mentioned it, it will have many transactions and so it will -- there will be a significant amount of work for them to -- to account for the strategy.

But it's more -- it's more working with our investment accounting software vendor to make sure that the transactions are properly recorded in our system. It's not so much related to IFRS or accounting standards.

BOARD MEMBER NEMEC: Okay. And I guess what I'm thinking of is a lot of hedging has different applications for how you account for them in financial statements. So, managing that risk, whether it's a presentation issue, whether it's actually something that gets calculated and computed and -- and gets added to the financial statement.

So, I'm just wondering how that impacts equity long term. And that might -- I'm not sure if the gentlemen from Addenda have seen this in other organizations. 'Cause you mentioned there might not be another organization -- this is going to be a unique situation or solution.

(BRIEF PAUSE)

MR. CHRISTIAN ROBERT: I'll try to answer the question the best that -- my -- my understanding of your question. Let's say the hedging, just as you have your -- your liabilities increase or decrease, based on the level of interest rates. We're all familiar with that.

They also increase and decrease with the actual inflation versus what's already baked in the -- the actuarial assumption for those liabilities.

Now, the assets, on the other side, also influence what interest rates and their composition.

Now, with the accounting, is every time you have assets or liabilities going up 5 percent, say, if the assets are going up 4 percent, then, the 1 percent difference is, obviously, a loss there, that goes into your surplus and is, then, accounted for. There's no special accounting for inflation hedging versus interest rate hedging, in the sense that, at the end of the day, you only look at what is the growth on my assets versus the growth on my liabilities.

Now, when you look at what is the risk that those two (2) elements are not moving the same, are these risks -- the -- the composition of these risk up -- up until now was based on the interest rates, the impact the interest rates has on the assets versus the liabilities, and there's a strategy in place to manage that. So, they both move, at least with respect to interest rates, the same. Now, nothing is perfect, so, there is small leeway.

The risk -- the inflation risk was not addressed for the unexpected inflation. There's, obviously, an actuarial assumption, saying that inflation goes up every year. So, my claims increase with the indexing, but, if the actual inflation in any year is different than my expected increase in that year, then, this is a direct gain or loss, based on those value of liabilities.

Now, you can calculate that, but you don't need to account for it, to -- in the accounting, you don't see a special lines in URFS (sic) account statement. This is how much I lost or gained today, because of inflation was different than expected. This is just part of the total change in the financial position of the program.

Now, internally, you may want to know what is causing that change, so, you try to explain the different components of that. You do this analysis, but it's not an accounting per se. It doesn't flow through necessarily the accounting statement, but it's there. It can be determined.

On an exposed basis, you look at what my -- what was my expected inflation, what has been the actual inflation on my claims, what has been the profit or loss with the overlay position. For example, if you -- if you don't have a hedge, then it's straight a gain or loss on the liabilities. If you have a hedge, then you look at the off-setting, as Mr. Stilo mentioned. If -- normally, if you have a loss on the liability side, you will have a gain on the asset side. Then, you can look at the size of the two. Hopefully, they are very, very close. This is what you want.

If your hedge ratio is a hundred percent, they should be extremely close. If your hedge ratio is only 50 percent, then one will be half of the other and the decision to go to 50, 30, 100 is just how much protection you want to have because, as Mr. Stilo said, too, I -- I think, Mr. Bunston, a hedge goes both ways. You reduce the losses. You reduce the gains that you will otherwise have. This is what hedging is.

BOARD MEMBER NEMEC: Okay. Thank you. That -- that's helpful. I have a question about three-week renewals and I'll -- I think I understand the repurchase agreement, sort of, you have to buy one, you have to sell one, in a -- in a certain method.

But is it -- why is it a three-week renewal, is that just to maintain spreads and make sure nothing has changed or what -- where does the three (3) weeks come from or why does that make sense in the --

MR. CHRISTIAN ROBERT: In this context, and it has been the same for many years now, renewing those rolling, we say, in our jargon, those repos or reverse epos, more frequently, reduce the cost. It reduce the cost because, basically, you -- you have this agreement with the counter-party, the bank, that you -- you sell them something and you -- and you have the obligation to buy it back at a certain price, which is adjusted with the cost of financing but, also, the coupons that you're entitled to because it's as if you own the bonds, but you don't own the bond. You sold it, but you agree to buy it at a fixed price.

Now, if you do it over a long period, you can do repo over three (3) months, four (4) months, but there's more uncertainty as to what will be the market. So, the bank will charge you a higher price, a higher cost -- financing cost to do that and, there's no -- it doesn't cost more for MPI to roll three (3) times in a -- in a period of six (6) months or just one at the end of six (6) months.

There's no -- it's not like buying and selling bonds on the market, where you always pay, you know, the -- bid-ask spread. There's no bid-ask on rolling repos.

So, by doing more often, we get more certainty, better financing costs and, also, the biggest advantage might be because, in this agreement, you end up with either having an -- a gain or a loss at the end, when you roll. If you have a gain, the counter-party, it pay you money. If you have a loss, you pay them money.

Now, this -- until you roll, it's unrealized, and that may fluctuate and this is where the college (phonetic) roll comes into play because, if you, for example, you're in a position where there's gains, so, they -- the counter-party will owe you money, in all likelihood. If those gain exceed a threshold, typically, it's half a million dollar ($500,000), net, if it exceeds the threshold, you want the counter-party to put some money aside. So, if they fail to roll it or if -- for any reason, you get that money, this is the collateral.

So, if you roll every three (3) weeks, this unrealized gain or loss has -- will accumulate to a smaller amount, either -- either side, right? So, you don't have to post as much collateral.

BOARD MEMBER NEMEC: Just a follow-up question to the risk too and on a real return bond. So, when you're looking at the -- I think the denominator in the MCT calculation, where you have certain credit risks or interest rate risks associated with certain types of assets.

I'm assuming, when we see the next MCT calculation, that the credit risk may change because these will all be based on federal bonds versus provincial bonds and, so, that might have an impact also on the MCT?

MR. JOHN STILO: The -- the -- the difference or the contribution that the overlay would have to changing the capital requirements would be, primarily, around the counter-party risk exposure.

So, given the fact that the real return bond, itself, is a federal bond, the asset capital costs for federal and provincial bonds is zero. So, there is no cost for the asset, itself.

In the MCT requirements, it is the greater of the asset or the counter-party risk and, in this particular case, because you're dealing with a zero capital asset federal bond, it's related to the counter-party risk that you have with that transaction, which is like corporate credit.

But, typically, because it's under one year, in the scale of credit requirements, you're looking at fairly nominal capital requirement amounts for that, but it will -- it will, technically, increase, because you do have an exposure that is, theoretically, now credit. Yeah.

BOARD MEMBER NEMEC: Have you recommended this strategy -- and -- and I think that you mentioned that this strategy hasn't been implemented before, have you -- have you ever proposed it before and it hasn't been accepted or is this the first time you're proposing it and that it's made sense for the organization you're making the proposal to?

MR. CHRISTIAN ROBERT: Every strategy like this, most of the time, not every, but most of the time is relatively unique, because it has -- it is -- it has to do with the organization's objective.

So, buying real return bonds or doing

overlay to -- to manage a type of risk can be done. It just, in this particular set of considerations, that Mr. Stilo explained, where you have in place an interest rate risk management, you have in place a fairly extensive asset, but also multiple manager.

The province manage provincial bonds and we manage some in the completion. There's the corporate bonds, there's other class of assets. So it's relatively complex, and you don't want to disturb that because it's working well and it's producing -- expected to produce a level of income that keeps, you know, the price affordable for -- for the -- for everything.

So you want to maintain that. You want to maintain the stability. So the -- the -- from that point of view, it's a decision to hedge or not to hedge. If the decision is to remove some of the inflation risk, then you hedge.

Now, after that, it's what's the best way to hedge it. And because of those constraint or those consideration, to do it on an overlay basis is the most eloquent solution to achieve that which is not necessarily the case for another entity that has -- don't have those same consideration or, for example, a pension plan that invests in real return bonds but also discounts its liability with real rates.

BOARD MEMBER NEMEC: Okay.

MR. CHRISTIAN ROBERT: But they don't -- but it's a totally different environment, totally different approach.

In this case, because there's IFRS, you have to use a nominal curve to -- to discount irregularities. Because of all these constraints, this is just the most eloquent, in our opinion, solution to do it and least -- least expensive.

BOARD MEMBER NEMEC: Okay. And maybe I'll -- I'll -- just my last question, and moving it into -- I believe you said there's four (4) banks that offer this type of repo.

Did -- did I hear that?

MR. CHRISTIAN ROBERT: Yes. We currently have agreements with four (4) banks. Like getting into general -- it's global -- global management repurchase agreement, GMRA. Those are standard contract. There's nothing to negotiate, but you still need to have the counter-party to approach them. They'll assess --

BOARD MEMBER NEMEC: So this is an existing market. It's been around --

MR. CHRISTIAN ROBERT: Yes. It's been

around.

BOARD MEMBER NEMEC: So inflation hasn't -- rising inflation hasn't scared people or organizations away from providing this hedging product.

MR. JOHN STILO: And there are more than four (4) potential counter-parties with the reference to the counter-parties that we're currently dealing with, yes.

MR. CHRISTIAN ROBERT: Normally we have four (4). We have an umbrella -- umbrella agreements with them, so our clients can come under our umbrella.

We still need to approach each of the four (4) counter-party, so initially, at implementation, there's this, this, this that has to be done. Or you could -- MPI could get into its own GMRA with different financial institution, but there's no real advantage for that. As I said, they are standard contracts.

BOARD MEMBER NEMEC: Okay. Thank -- thank you. Those are my questions.

PANEL CHAIRPERSON: Mr. Bass...?

BOARD MEMBER BASS: Thank you. Ms. Schubert, could you bring up the Addenda presentation, please, slide 7. Right. Okay.

Mr. Stilo, the very bottom sub-bullet, the failure of the counter-party one, and it kind of ties in with what we were just talking about.

Can you -- can you tell us -- like the four (4) banks that you've got, where did they exist in the spectrum? At one end we've got the Silicone Valley type bank, and at the other end we have Canadian chartered banks.

Where are the four (4) that you've got relationships with?

MR. JOHN STILO: Oh, they would be at the very high end of that -- of that --

BOARD MEMBER BASS: Of Canadian chartered banks?

MR. JOHN STILO: Yes. They are Canadian chartered banks, yeah.

BOARD MEMBER BASS: Thank you. And, Mr. Robert, Board counsel had asked you a question as to whether this was a novel solution, and you very eloquently described it as a custom solution but not novel.

So, how many -- can you give us a sense within the various investing -- institutional investing community, how many investors are using this sort of solution?

MR. CHRISTIAN ROBERT: No, I don't have this information. I -- I couldn't -- I don't -- it's not -- I'm not aware of any public source to find out. You can see if -- sometimes large public pension plan have hedging inflation in place, but they don't necessarily describe how they do it.

BOARD MEMBER BASS: Okay. But in your experience at Addenda perhaps --

MR. CHRISTIAN ROBERT: Yeah.

BOARD MEMBER BASS: -- give me some sort of universe that you want to describe.

Are we talking about a handful, or are we talking about hundreds?

MR. CHRISTIAN ROBERT: Well, in any -- not just at Addenda. It would be a handful. Inflation hasn't been on top of people's mind for many years.

BOARD MEMBER BASS: So it's -- would it be fair to say that it's a rather unique custom solution if not that many people are using it?

MR. CHRISTIAN ROBERT: 'Unique' is a strong word, but rather, yes.

BOARD MEMBER BASS: Okay.

MR. CHRISTIAN ROBERT: It would be

rather unique is a correct description.

BOARD MEMBER BASS: And just picking up on your comment about inflation not being around that long, so the people -- the investors who are using it, it hasn't been used that much 'cause it hasn't been that long a time?

MR. CHRISTIAN ROBERT: Most -- most of the time, re-written bonds are just owned outright, held to maturity.

BOARD MEMBER BASS: Okay. And if we go back to the early 1980s when we had rampant inflation, was this sort of solution used at that time?

MR. CHRISTIAN ROBERT: It was used by a number of large public pension plans that had indexing, but you probably know that there's fewer and fewer define benefit pension plan, for example, and even fewer plan that have indexing any more, so it's less of a -- became less of an issue.

BOARD MEMBER BASS: Okay. Thank you.

PANEL CHAIRPERSON: Thank you. Mr. Scarfone...?

MR. STEVE SCARFONE: Thank you, Madam Chair. A couple of questions on re-direct.

RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Mr. Bunston, Board counsel Ms. McCandless asked you about the hedge ratio and the value of the contemplated bonds if the Corporation was to select 100 percent hedge.

Do you recall that?

MR. GLENN BUNSTON: Yes, I do.

MR. STEVE SCARFONE: And that number, as I wrote it down, is 1.1 billion?

MR. GLENN BUNSTON: That's right.

MR. STEVE SCARFONE: And so you'll recall, Mr. Bunston, 'cause you've been here long enough to know, that under the previous ALM -- so not the one that was prepared by Mercer last year, but I think it was in 2017, correct?

MR. GLENN BUNSTON: Yes. That was the prior ALM, yes.

MR. STEVE SCARFONE: And the Corporation decided against inflation protection under that strategy?

MR. GLENN BUNSTON: Yes, that's correct.

MR. STEVE SCARFONE: And so just -- could you say why the Corporation has changed its mind, I guess, with respect to that? What factors were considered in adopting this strategy being recommended by Addenda?

MR. GLENN BUNSTON: Well, at the time of the previous ALM study in 2017, we felt that inflation risk and the risk of unexpected inflation being significantly higher than our expectations was -- was relatively low.

And that was based on the fact that inflation had been very close to 2 percent really since the Bank of Canada had started targeting inflation. And so it was deemed to be a -- a low risk. And when we looked at our -- our financial conditions testing and reporting, it was deemed a low risk there as well.

So then, of course, the pandemic happened and the supply chain effects of that and the -- the war in Ukraine. And so, you know, inflation, as everybody knows, went to forty (40) year highs, and that had a significant cost on -- on the Corporation.

As I stated in my presentation, we had to increase our reserves by almost $120 million because inflation exceeded our expectations. And so we saw that the -- the impact of unexpected inflation was large, and -- and so the benefit of this strategy is that provides protection from that -- those unexpected increases in inflation.

And as Mr. Robert stated, it's -- by definition, you can't forecast unexpected inflation. So it's -- it's very difficult to put the -- put the strategy on or take it off without having the ability to accurately forecast where inflation will go in the future. And so that's -- that's why we're recommending this strategy.

MR. STEVE SCARFONE: Thank you. And as Mr. Robert also indicated, when you're hedging, you're reducing your losses, but you're also reducing the gains.

And so these bonds will land in the Basic claims portfolio?

MR. GLENN BUNSTON: Yes, they'll be in the Basic claims portfolio, but again we will be purchasing real return bonds, but along those bonds we'll also be simultaneously short an equivalent amount of nominal federal bonds.

And so the two (2) will offset each other, and leaving us with the inflation adjustment payment on the real return bonds only.

MR. STEVE SCARFONE: And the impact on the investment income for Basic?

MR. GLENN BUNSTON: It won't have any

impact on investment income.

As I said, the -- the investment management fees and the -- the cost of the repos has been included in our financial statements, in our pro forma financial statements, but the -- the gains or losses have not been included, and that's because we would -- in our pro forma financial statements, they're based on inflation being at our expected level of inflation.

And this strategy provides payoffs, positive or negative, only when inflation differs from our expectations.

MR. STEVE SCARFONE: And lastly, is the Corporation applying the strategy to the employee future benefits portfolio, or the RSR?

MR. GLENN BUNSTON: No, we're not proposing to include a bond overlay strategy in any portfolio other than Basic claims.

MR. STEVE SCARFONE: I lied. It wasn't my last question. Sir, you're on the Investment Committee Working Group?

MR. GLENN BUNSTON: Yes.

MR. STEVE SCARFONE: And so this strategy was put to the Investment Committee?

MR. GLENN BUNSTON: It was presented

to the Investment Committee in February, yes.
MR. STEVE SCARFONE: Which is comprised of members of the Board of Directors?
MR. GLENN BUNSTON: Yes.
MR. STEVE SCARFONE: Which has recently changed, correct, last week?
MR. GLENN BUNSTON: Yes, that's correct.
MR. STEVE SCARFONE: So there'll be a new Investment Committee?
MR. GLENN BUNSTON: Yes.
MR. STEVE SCARFONE: And are you tasked with having to explain this to the new Investment Committee?
MR. GLENN BUNSTON: Yes, I expect that I will have to provide them with an explanation of the strategy and why we've -- why it was previously proposed and approved.
MR. STEVE SCARFONE: Okay. Any concerns with respect to that? And I'm not asking you to pull out your crystal ball, but with a new composition on that Investment Committee, do you have any concerns that the new committee might have a different take on -- on the strategy?
MR. GLENN BUNSTON: It's certainly

possible, but I think we'll present to them the case that we presented to the Investment Committee previously and -- that the previous Investment Committee approved.

I do know there is one (1) member of the -- of the Board who is a investment professional who -- who manages a fixed income portfolio here in Winnipeg, so I think that individual will be well placed to understand the strategy.

So we'll have to educate them, but I'm confident we can do that.

MR. STEVE SCARFONE: Thank you. And then one (1) for Mr. Stilo.

Sir, in terms of the hedge ratio that the Corporation ultimately selects, what is the difference in the length of implementation at a 50 percent hedge ratio versus a hundred percent hedge ratio?

MR. JOHN STILO: Yeah. So, in the case of either a physical application or the overlay application, it's all dependent on the ability to acquire the real return bonds.

The 50 percent ratio that we were working with in -- in the presentations, we estimated the potential acquisition of about $60 million of real return bonds per week. Sorry. The rate of acquisition was 60 million per week, and that would roughly take us ten (10) weeks, so between -- between two (2) and three (3) months to -- to acquire.

If you use that same basis of assumption, then it would take twice as long to do that, which could take you north of half a year to actually implement a full -- if it was a full application at 1.1 billion or 1.2 billion -- sorry, the -- forgive me, the -- the number exactly is escaping me, but that would be probably twice that, yeah.

MR. STEVE SCARFONE: Okay. Thank you. Those are my questions. And --

MR. JOHN STILO: Sorry. Just one (1) -- one follow-up to that.

There is the possibility, as we mentioned, if we needed to source additional liquidity, would be to go to the US TIPS market, which -- which could be done, understanding what -- what risks that may introduce, which would be the basis risk between the US CPI and -- and the Manitoba CPI.

But that could accelerate the -- the implementation given that that market is significantly deeper, you know, well over -- I think it's about almost $2 trillion across fifty (50) issues.

But that -- right now, the focus was on -- on acquiring Canadian real return bonds, but we did describe that as being one (1) of the potential options, and it could accelerate that -- that implementation.

MR. STEVE SCARFONE: And are you still able to construct those bonds, those US bonds, in the same manner that you would the -- the ones that are issued by the Canadian government?

MR. JOHN STILO: Absolutely, yes.

MR. STEVE SCARFONE: Okay. Thank you. Those are all my questions.

PANEL CHAIRPERSON: Thank you, Mr. Scarfone. And I would like to thank the representatives of Addenda for their testimony here this morning.

We will now continue on with the cross-examination of the Investments Panel. So if you want to excuse your witness, that's fine with me.

MR. STEVE SCARFONE: Sorry, I missed that last part, Madam Chair, if I wanted to do what?

PANEL CHAIRPERSON: If you want to excuse the representatives --

MR. STEVE SCARFONE: Oh, excuse the

witnesses. Yes. Yes.

(JOHN STILO STANDS DOWN)
(CHRISTIAN ROBERT STANDS DOWN)

PANEL CHAIRPERSON: Thank you for that. In consulting with PUB counsel, Ms. McCandless will continue now with cross of the Investments Panel. And then after lunch we will start with the CAC witness, Mr. Greenlay, who is only available today, and then carry on following that, which may include tomorrow morning.

Ms. Scarfone...?

MR. STEVE SCARFONE: Thank you, Madam Chair. And I -- I was discussing with My Friend, Mr. Klassen, that during the course of MPI's cross-examination of Mr. Greenlay a number of confidential documents will be put to him.

And so I thought that perhaps we would reserve those. And if other counsel, particularly Ms. McCandless, has any, we would go in camera at the end of the day for -- to resume the cross-examination.

PANEL CHAIRPERSON: That's fine. Sure. Thank you very much. Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you.

And I can advise I don't have any CSI documents to put to Mr. Greenlay, so -- so it'll likely just be MPI in that respect.

CONTINUED CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So I will go back to Mr. Bunston and you, Ms. Low. And I'm going to start with the portfolio composition. Kristen, can you pull up MPI Exhibit 10. Thank you.

So this is the MPI 2022 annual report. And I'm just looking at page 46. Scroll down. I think it's 40 -- yeah, where it says, "PDF page 46." Thank you. Okay.

So what we see here are the -- the cash, cash equivalents, and investments for the Corporation overall as at March 31, 2023?

MR. GLENN BUNSTON: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And looking at the investments line, we see total carrying value of $3.4 billion?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And cash and cash equivalents at the top on the right-hand side of

$142.3 million?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Investment property, looking down the second last line, of $13.4 million?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And total assets of 3.56 billion?

MR. GLENN BUNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And now, Kristen, could we go to figure INV 2. Thank you.

And this isolates the investment portfolio asset values for Basic?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And this includes the claims liability portfolio and a portion of the employee benefits portfolio?

MR. GLENN BUNSTON: Yes, as well as the -- the Rate Stabilization Reserve portfolio.

MS. KATHLEEN MCCANDLESS: Thank you. And we've heard that -- that there are new asset mixes now as a result of the Mercer ALM study from 2022?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Now, if we go to 2022/'23, total assets, line 13, we see the overall Basic investment portfolio is $2.84 billion?

MR. GLENN BUNSTON: At March 31st of 2023, yes.

MS. KATHLEEN MCCANDLESS: Okay. And that's roughly 77 percent of the overall corporate investment portfolio that we just looked at?

MR. GLENN BUNSTON: Yes, that sounds about right.

MS. KATHLEEN MCCANDLESS: And so, is that related to the prior year's actual balance?

MR. GLENN BUNSTON: The value there, the $2.8 billion, is the actual market value at March 31st of 2023.

MS. KATHLEEN MCCANDLESS: Can we just scroll down to the asterisk at the bottom of this. Okay.

So line 29 says:

"Investment balances reflect March 31, 2022 actuals."

MR. GLENN BUNSTON: That's the double asterisk. So we need to just scroll up to the top.

Yeah, that was a typo. That should say March 31st of 2023.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. And then, can we go to MPI Exhibit 13. And this is the Basic annual report for 2022/'23. Page 11. Just a small point for clarification.

We see here investments, as at March 31, 2023, of 2.786 billion?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So a slight difference from what we saw on INV-2, roughly $54,000?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And do you know the reason for that slight difference?

MR. GLENN BUNSTON: Well, I believe that some of the cash and cash equivalent should be included in the investments. So it would have been included in the 2.84 billion.

And so that 102 million you see at the top, some of that would have been included, I believe, in the previous page that we looked at.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. Now, could we go to PUB/MPI-1-36. Thank you. And figure INV-46. Thank you.

So the figure here represents the composition of the Basic claims investment portfolio. And for 2022/23, we see total assets of 2.129 billion?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATHLEEN MCCANDLESS: The Basic

claims portfolio is designed to mitigate interest -- interest rate risk, so, it's 100 percent fixed income with no growth assets?

MR. GLENN BUNSTON: That was true at March 31st of 2023, yes.

MS. KATHLEEN MCCANDLESS: Thank you. And as at that time, we see, for 2022/'23, it was invested in cash of 2 percent?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Fifty-two (52) percent -- pardon me. I'm looking at the wrong line here.

Provincial bonds of 52 percent?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Okay. And cash short-term investments of 2 percent and corporate bonds of 24 percent?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And 21 percent in MUSH bonds; municipals, universities, schools, and hospitals?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: So this schedule, obviously, doesn't reflect any investment in real return bonds?

MR. GLENN BUNSTON: It does. The real return bonds are included in the provincial bond line. So that provincial bonds -- it -- really government bonds. So it includes all bonds issued by any type of government.

They're mostly provincial bonds, but we -- the real return bonds would have been included in that line.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. So if we go to PUB/MPI-1-33 and appendix 1, there's a footnote that makes reference to real return bonds, I believe. Appendix 1. Thank you.

There's a note here that states:

> "From December 2022 to March 2023, provincials include real return bonds that were acquired in December 2022."

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And subject to check, the amount of the real return bonds included in the portfolio was 84.4 million?

MR. GLENN BUNSTON: That was the value of the real return bonds that were purchased on the purchase date in December of 2022. Yes.

MS. KATHLEEN MCCANDLESS: Thank you. Now, if we go back to PUB/MPI-1-36. And page 1 of figure INV-45.

We see for 2022/'23, line 8, the Basic claims portfolio incurred a loss of $34.4 million?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATHLEEN MCCANDLESS: And that is real -- attributable to both unrealized and realized losses during the year?

MR. GLENN BUNSTON: Yes. It's largely due to, what's labelled as, gains during the period or profit and loss.

MS. KATHLEEN MCCANDLESS: And that's that $109.1 million?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. So the -- is this attributable to increases in interest rates?

MR. GLENN BUNSTON: Yes, it is.

MS. KATHLEEN MCCANDLESS: Because they have an impact on the value of the fixed income investments?

MR. GLENN BUNSTON: They have an inverse impact on the market value of bonds, yes.

MS. KATHLEEN MCCANDLESS: Thank you. Then if we go to figure INV-46 again. And now, looking at 2023/'24, line 7, total assets, the forecast for the bond portfolio -- or for the investment portfolio would be $1.99 billion?

MR. GLENN BUNSTON: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And this forecast reflects changes to the mix as a result of the Mercer ALM study 2022 recommendations?

MR. GLENN BUNSTON: It does. As you can see, there's allocations there to real estate investments and commercial mortgages. And the assumption is they're fully funded there.

MS. KATHLEEN MCCANDLESS: Correct. So that's where we see the 38 percent allocation to provincial bonds at line 10?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And the corporate bonds increased to 28 percent?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And MUSH down to 19 percent?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then, there's a new asset class of real estate investments at line 13 of 10 percent?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And again, a new asset class, commercial mortgages, at 5 percent?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So given the investment in real return bonds in December 2022, where do we see the reflection of the RRB investments either directly or through the bond overlay strategy in the Basic claims asset allocation here?

(BRIEF PAUSE)

MR. GLENN BUNSTON: Could you repeat the question, please?

MS. KATHLEEN MCCANDLESS: Yes. Where do we see the reflection of the real return bond investments, whether directly or through the bond overlay strategy, in the assets listed here?

MR. GLENN BUNSTON: So income from the bond overlay strategy would not be reflected in the -- in projected investment income because that -- to the -- there would only be income from the bond overlay strategy to the extent that actual inflation differed from our inflation expectations, which is the consensus forecast from the Canadian chartered banks.

In terms of the actual bonds that are

held in the portfolio, those would be in the provincial bond category. Again, that's a catch-all for -- it's really government bonds that are mostly provincial bonds.

And the assumption we've made is that the yield on the real -- the $84 million of real return bonds that we own is equivalent to the yield on nominal federal bonds of the same term or duration.

So the actual -- the actual income received from a real return bond would be the -- the real yield, which is quite low. But then it's adjusted for changes in inflation.

And so, the addition of the real yield and the inflation compensation will give you a nominal yield that's very close to the equivalent nominal federal bond.

So because the allocation was quite low and our expectation is that that's a temporary allocation, we had assumed they had the same yield as a nominal federal bond.

MS. KATHLEEN MCCANDLESS: So, does MPI intend to keep the $84.4 million in real return bonds?

MR. GLENN BUNSTON: The intention is for the -- those real return bonds to be rolled into the bond overlay strategy.

So, we'll -- we'll use a repo transaction. We will borrow against them, we'll receive cash and we'll buy provincial bonds to essentially replace the provincial bonds that were sold to fund the purchase of those real return bonds.

So, it would be, as though, they were -- they were bought through the bond overlay strategy.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. Another Mercer recommendation was to have a Basic short term liability portfolio?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And that was contemplated to represent about 9 percent of the fixed income investments?

MS. CARA LOW: Subject to check.

MS. KATHLEEN MCCANDLESS: That recommendation for the short-term policy was not accepted by the investment committee, by the Board?

MS. CARA LOW: MPI management removed in the final proposal that went to the Board and they accepted the -- they approved the final proposal.

MS. KATHLEEN MCCANDLESS: Thank you. And MPI's not forecasting any cash or short term -- short-term investments in their Basic claims portfolio going forward?

MR. GLENN BUNSTON: Yeah, that's -- that's correct. Our target weight for cash is zero (0) within the Basic claims portfolio.

MS. KATHLEEN MCCANDLESS: Thank you. So maybe just for illustration purposes, we'll have a look at the investment policy statement and the targets from last year, before the implementation of the ALM recommendations and this year.

And, so, Kristen, could we please pull up the investment policy statement from the filing this year and from the 2023 GRA.

So first 2023 GRA, INV Appendix 1. So, this is this year's and we can pull that up at page 20. And then last year's would be 2023. Perfect. Thank you. And are you able to do those side by side? Thank you very much.

Okay. So, on the right-hand side of the screen, we see the investment policy statement asset allocation from last year and then on the left-hand side, we see the updated allocations. Yes?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Okay. So, last year's target had 0 percent in cash and cash equivalents, 60 percent in provincial bonds, 20 percent in corporate bonds, and 20 percent in non-marketable bonds?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATHLEEN MCCANDLESS: And, this year, after March 31, 2023, the target is 0 percent in cash and cash equivalence, 37 percent in provincial bonds, 28 percent in corporate bonds and 20 percent in non-marketable bonds?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And as we saw, there's a new asset class of commercial mortgages at 5 percent there.

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then, looking to the very bottom, there is a target of 10 percent of alternative investments in Canadian real estate?

MR. GLENN BUNSTON: That's it -- yes, that's right.

MS. KATHLEEN MCCANDLESS: So, now Basic is not 100 percent fixed income allocation.

MR. GLENN BUNSTON: Correct. There's a 10 percent allocation to real estate, which is a non-fixed income asset class.

MS. KATHLEEN MCCANDLESS: Right. And then we see here, under the heading 'Overlay', 34 percent through targeted investments in the real return bonds under the overlay strategy?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Will the return of the inflation protected bonds replace the returns of a similar amount of displaced portfolio bonds held in the portfolio notionally?

MR. GLENN BUNSTON: No, it will not. Because the real return bonds, or TIPS that are purchased will be financed through the re-purchase agreements, which as Addenda mentioned earlier, is essentially a financing strategy which means that we will not need to liquidate any of the bonds in the portfolio to -- to finance those -- the -- the purchase of the inflation linked bonds.

MS. KATHLEEN MCCANDLESS: Thank you. Now, moving to investment income, and I'm looking at PUB/MPI-1-38, figure 1. I think that's Appendix 1, pardon me, figure -- figure 1.

So, here shows the -- this figure shows the comparison between market and book value. And it's noted that at no point between March 31, 2022 and March 31, 2023 did the market value increase above book value?

MR. GLENN BUNSTON: Yes, that's what

the response says.

MS. KATHLEEN MCCANDLESS: The impairment writedown, when we see line 7 on the right-hand side of the figure was, $26.1 million?

MR. GLENN BUNSTON: Yes. That's right.

MS. KATHLEEN MCCANDLESS: And that consisted of a writedown of various fixed income investments?

MR. GLENN BUNSTON: Correct. Sorry, except for line item 6, Centerstone Ventures, that's a -- a venture capital investment.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. And, if you need a reference, I can take you there, but subject to check, Basic's share of the overall Corporate investment loss realized was $18.7 million in 2022/'23?

MR. GLENN BUNSTON: Do you have a reference for that?

MS. KATHLEEN MCCANDLESS: PUB/MPI-1-30A - Appendix 1.

MR. GLENN BUNSTON: Yes, I see at line 38, looks like Basic's portion of the investment writedown was $18.7 million.

MS. KATHLEEN MCCANDLESS: Thank you.

The writedown relates to a sustained twelve (12) month decline in fair market value of the investments and then against the book value?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Does the impairment relate to a market decline in the fair value of the fixed securities due to rising interest rates?

MR. GLENN BUNSTON: It does, yes.

MS. KATHLEEN MCCANDLESS: In no instance are any of these fixed income securities impairment based on solvency or inability to pay?

MR. GLENN BUNSTON: No, it's solely based on the impairment rules that we have established, which are very black and white.

And the rules are around the security prices being impaired for a prolonged period, in this case, which we define as twelve (12) months so it's -- doesn't mean that -- we are still receiving interest payments and it's not a reflection of the credit worthiness of the borrower, it's simply the fact that interest rates have risen and remained high. And, therefore, the market value of the bond is below the book value.

MS. KATHLEEN MCCANDLESS: Thank you.

Going forward, given elections made under IFRS-17, all financial investments are being designated as fair value through profit and loss.

MR. GLENN BUNSTON: Yes. That's correct.

MS. KATHLEEN MCCANDLESS: And so, going forward, this type of impairment adjustment will not be required? Is that fair? Because all of the assets will be marked to market on each evaluation date and the change in value will be reflected in that income?

MR. GLENN BUNSTON: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Thank you. Madam Chair, I do have a fair bit more. I could maybe get through one (1) more area of questioning before the lunch break and that probably leaves me with forty-five (45) minutes to an hour tomorrow morning.

PANEL CHAIRPERSON: Okay. If you want to deal with that one (1) area and then we'll break for lunch. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So, this is

-- with respect to interest rate forecasting and investment income -- thank you.

So, MUSH bonds are marked to market?

MR. GLENN BUNSTON: They are as of April 1st of 2023, yes.

MS. KATHLEEN MCCANDLESS: And, MPI Exhibit No. 81, is the response to PUB pre-ask 6.

And, here, with respect to the -- the MUSH, in the -- in the updated yield rate based on the asset allocation approach, MPI did not change the -- the yield on MUSH bonds?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And market is only updated once a year? That's noted at 'A'?

MR. GLENN BUNSTON: Yeah, so that's our assumption for the -- the yield on the MUSH bond portfolio which is -- comes from our investment accounting area.

MS. KATHLEEN MCCANDLESS: So, how is it possible, for financial reporting purposes, for it only to be updated once a year, when for financial reporting purposes, MPI requires quarterly financial statements?

MR. GLENN BUNSTON: Yeah. So the process for marking -- to market the MUSH bond portfolio is that we receive prices from the Province of Manitoba, which is the manager for the MUSH bond portfolio. They send this to us on a monthly basis, and we use those to calculate the market value of the portfolio.

The yield of the portfolio, though, is -- is based on our investment accounting system and the cashflows that it projects from the bond portfolio. So that process is undertaken annually ahead of the -- the General Rate Application process.

But the Province of Manitoba does publish on a monthly basis the yield for newly-issued MUSH bonds, so we do have that yield curve which is what is used to mark them to market.

So we -- we can use that to estimate the yield of the portfolio, but to get the -- this yield here, which is a more accurate yield, it's -- again, it comes from our investment accounting system which calculates the -- the interest paid on the -- the MUSH bond portfolio.

MS. KATHLEEN MCCANDLESS: Thank you. So I take it then that the -- as with last year, MPI is able to adjust the value throughout the year based on changes in market yields?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATHLEEN MCCANDLESS: And so how much has the yield changed since March as provincial bonds have increased in yield substantially?

(BRIEF PAUSE)

MR. GLENN BUNSTON: So according to the -- the yield for newly-issued MUSH bonds that the province publishes at the end of each month from March 31st of this year to September 30th, the increase at the ten (10) year term was about 150 basis points.

MS. KATHLEEN MCCANDLESS: Okay. So that's the most recent?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: So would it be possible then to get an undertaking to update MPI Exhibit 81 based on the most recent MUSH yield, including an update to the rate indication?

(BRIEF PAUSE)

MR. STEVE SCARFONE: Just discussing -- discussing, Ms. McCandless, the -- the resources at this stage of the hearing to accept that undertaking. But -- and Ms. Low has a comment with respect to how the impact -- or the impact to the rate indication. So go ahead, and then maybe restate the -- the request.

MS. CARA LOW: Well, the new money yield that's used for AAP ratemaking does not include the MUSH bonds, but we're assuming that you're talking about an alternative scenario perhaps being included in the MUSH bonds?

MS. KATHLEEN MCCANDLESS: Yes.

MS. CARA LOW: And so just updating the valuation of the MUSH bonds and then putting that for the AAP rate indication?

MS. KATHLEEN MCCANDLESS: I believe so. So that would be just updating MPI-81 plus updating the rate indication. And it could be based on the yield at August 31.

MR. STEVE SCARFONE: Yes, we'll take that undertaking.

--- UNDERTAKING NO. MPI-30: MPI to update Exhibit MPI-81 and rate indication based on the yield at August 31

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. I'm just going to have a couple more questions, if -- with the -- the Panel's indulgence. And could we please go to MPI Exhibit number 69. That's the response to Pre-ask 7.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And we are looking at the investment yield for 2024/'25 to 2027/'28. Keep scrolling.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Perfect. Thank you. So Figure 7 has the investment yield calculation for 2024/'25 through to 2027/'28.

And at line 5, we see 5.05 percent, 5.26 percent, 5.30 percent, and 5.32 percent, respectively?

MR. GLENN BUNSTON: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Does MPI have any insight into why the investment yield appears to be increasing over time given the naive assumption on interest rates? And why are they higher than the 4.62 percent that was calculated in Pre-ask 6?

(BRIEF PAUSE)

MR. GLENN BUNSTON: So this is fixed income, but at the end of this year we'll have real estate investments in the portfolio, as well, and so there will be some growth from the -- the real estate investments. Their assumed return is based on the CPI plus four (4), so there will be some variability there.

But other than that, it's fixed income instruments, yes.

MS. KATHLEEN MCCANDLESS: Would it be possible, by way of undertaking to provide RI-10, PF-1, PF-2, and PF-3, using an expected investment yield net of investment expenses of 5.16 percent? And that's the -- the average of the two (2) test years in Figure 7.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Yes, Ms. McCandless.

MS. KATHLEEN MCCANDLESS: Okay. Do -- do we need to repeat that on the record or -- I think it was fairly clear, so.

MR. STEVE SCARFONE: It was fairly clear, yeah.

MS. KATHLEEN MCCANDLESS: Okay.

MR. STEVE SCARFONE: We were just discussing, a) its relevance, and b) whether we could get it done in time, committing Mr. Dunstone to that without him agreeing.

MS. KATHLEEN MCCANDLESS: Okay.

MR. STEVE SCARFONE: But we've said yes.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. So perhaps for the court reporter's benefit, I'll just reiterate what the undertaking was.

It was to provide an updated RI-10, PF-1, PF-2, and PF-3, using an expected investment yield net of investment expenses of 5.16 percent, -- pardon me -- now I'm dictating into my phone, as I do when I'm drafting letters -- equal to the average of the two (2) test years, so 2024/'24 and 2025/'26. Thanks.

--- UNDERTAKING NO. 31: MPI to provide an updated RI-10, PF-1, PF-2, and PF-

3, using an expected
investment yield net of
investment expenses of 5.16
percent, equal to the
average of the two (2) test
years, 2024/'24 and
2025/'26.

MR. STEVE SCARFONE: Thank you for that.

MS. KATHLEEN MCCANDLESS: And thank you for the indulgence.

PANEL CHAIRPERSON: Period. Thank you. It's almost twenty (20) after 12:00. Ms. Dilay, Mr. Klassen, can you indicate when Mr. Greenlay will be available?

MS. KATRINE DILAY: Madam Chair, I understand he is present, and so whenever the Board would like to start.

PANEL CHAIRPERSON: Okay. Well, maybe in the interests of trying to ensure that we're concluded with Mr. Greenlay this afternoon, come back at 1:15. Thank you.

MR. STEVE SCARFONE: Madam Chair, I'm wondering perhaps if we could just have a few extra minutes. I understand that the NOVA Panel is assembling to discuss some things with respect to Mr. Greenlay's report. And my cross-examination -- I don't know how long the CAC will be -- my cross-examination is likely to be about thirty (30) minutes.

PANEL CHAIRPERSON: Okay. Ms. Dilay...?

MS. KATRINE DILAY: Including the qualification process, we're estimating about an hour for the qualifications, and then his presentation.

PANEL CHAIRPERSON: And what time would you like to come back, Mr. Scarfone?

MR. STEVE SCARFONE: So -- so even 1:30 would be helpful.

PANEL CHAIRPERSON: Okay. 1:30 it is then. We'll see everybody then. Thank you.

MR. STEVE SCARFONE: Thank you.

--- Upon recessing at 12:20 p.m.

--- Upon resuming at 1:33 p.m.

PANEL CHAIRPERSON: Good afternoon. Ms. Dilay, would you move forward qualifying your expert.

MS. KATRINE DILAY: Yes. Thank you,

Madam Chair.

So, as you've indicated, given that Mr. Greenlay has not yet been qualified, we would first propose to take a few minutes to go through his qualifications, as well as the area of expertise in which CAC (Manitoba) propose that he be qualified as an expert. And I understand MPI and perhaps others may also have questions on -- on his qualifications.

Once Mr. Greenlay is qualified, we would then ask that he be sworn in, and then he can go through his presentation at that time.

PANEL CHAIRPERSON: Thank you.

MS. KATRINE DILAY: Ms. Schubert, I -- I did not give you advanced notice, but if it's possible, could we pull up Exhibit CAC-6 which is Mr. Greenlay's report, and specifically page 24 of that document which is his CV. Thank you.

CAC (MANITOBA) PANEL:

SCOTT GREENLAY

EXAMINATION-IN-CHIEF BY MS. KATRINE DILAY (QUAL.):

MS. KATRINE DILAY: And so, Mr. Greenlay, I'll just ask you a few questions to confirm your qualifications.

Ms. Schubert, if we could go down to the last paragraph on this page.

Mr. Greenlay, in terms of your academic background, you hold a bachelor of science degree in computer science?

MR. SCOTT GREENLAY: Is it working? There we go. Yes, I do.

MS. KATRINE DILAY: And you received a Master's degree in business administration?

MR. SCOTT GREENLAY: That's correct.

MS. KATRINE DILAY: And, Ms. Schubert, if we could then turn to page 26 of this document. So this is still Mr. Greenlay's CV.

And going to earlier roles in your career, is that correct?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: So, if we look at the first item here, from 1985 to 1992 you worked for the Government of Canada, specifically the Department of Health and Welfare Canada, as it was then known?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: Including in various roles in IT management up to chief informatics officer, correct?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And you were responsible for the information technology function within this federal department?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And just talking a little bit about some of the projects you worked on, that would include the healthcare technology systems for the over one hundred (100) clinics and hospitals operated by the department?

MR. SCOTT GREENLAY: That's correct.

MS. KATRINE DILAY: And during your time with the Government of Canada, you also worked on a systems modernization project for the Canada Pension Plan?

MR. SCOTT GREENLAY: Numerous, yes.

MS. KATRINE DILAY: Numerous projects?

MR. SCOTT GREENLAY: Yeah.

MS. KATRINE DILAY: And again, during your time with the Federal Government you worked on updating the food and drug recall systems, including implementing and updated database?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And it would be fair to say that the budgets for the projects we just talked about for the Department of Health And Welfare

Canada were larger than MPI's Project NOVA?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And then if we could go to page 25, and starting at the bottom of this page, to continue on the -- the various roles you've had in your career.

So if we look at the bottom, from 1992 to 1995, you worked for the Province of Manitoba as director of the Resource Information Services branch?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And this was a new technology branch for the province, correct?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And so your role here included establishing the mandate for this new branch and overseeing strategy and operations for delivering technology services?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And the branch's mandate was to include all technology services, and also Crown land information systems?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And in this role your branch developed the payroll system and the accounts payable system which were government wide systems, correct?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And during your time with the Province of Manitoba, you were also founding director, along with three (3) technology directors, and you acted as chair of the system's council?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And the purpose of the system's council was to share technology strategies and ideas between government departments with the objective of having a common approach to technology at the province?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: Then if we could go up a couple items on the same page, focussing on the line item 'Greenridge Business Systems', you were a manager -- sorry, a managing partner for Greenridge Business Systems?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And you worked there from 1996 to 2011?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And you managed this -- this consulting firm from its inception to becoming a nationally technology consulting firm, working with public and private sector clients across Canada and the United States?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And recognizing that you are bound by certain confidentiality obligation from this work, it would be fair to say that your work during this time included many modernization initiatives?

MR. SCOTT GREENLAY: Absolutely.

MS. KATRINE DILAY: And your work included using leading edge tools around agile development?

MR. SCOTT GREENLAY: That was the start of it, yes.

MS. KATRINE DILAY: And during this time, you led the systems modernization of an international retailer?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: During this time, you worked on multiple modernization initiatives, including core systems, for the public sector?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And during this time, for a large private sector insurance company, you worked on modernizing their systems and redoing their long-term disability systems?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: And just moving up one (1) line in terms of time line, from 2011 to 2000 -- and, Ms. Schubert, if we could actually go up a little bit to show -- perfect. Thank you.

So from 2011 to 2019 you worked for MNP LLP, correct --

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: -- in various functions, including as national director technology consulting?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And in that role, you were responsible for the delivery of technology consulting services to many Canadian business and governments as well as organizations in the United States, Africa, and Europe?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And with a large team you led the delivery of services, which included strategy, governance, digital transformation, cyber-security, risk, analytics, software development, privacy, audit, and operations?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: So, Ms. Greenlay, in terms of your overall experience and based on the experience we have just reviewed, it's fair to say that you have extensive experience providing IT transformation guidance to many types of private, publically traded, and government organizations?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And specifically, your industry expertise includes experience in the insurance, financial services, healthcare, professional services, retain, logistics, government, nonprofit organizations, telecommunications, social services, national resources, and manufacturing sectors --

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: -- correct?

MR. SCOTT GREENLAY: Yeah.

MS. KATRINE DILAY: And based on the roles that you have held, your experience covers all aspect of technology and includes significant experience in strategy, new technology adoption, reorganization, software development and deployment, vendor management, security, IT operations, as well as support?

MR. SCOTT GREENLAY: Yes. I would like to clarify. Technology's an extremely broad area, so I wouldn't want to say I know it all, but as far as most technologies in use in Canada, for sure.

MS. KATRINE DILAY: And you have overseen complex multi-country, multi-million dollar, multi-year projects?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: You have coordinated national and international projects ranging from -- from over twelve thousand (1,200) end users with hundreds of offices to small local projects?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And you have overseen a variety of projects, including research and development projects, custom software development, large system implementation, and infrastructure projects?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And, Mr. Greenlay, in terms of the roles you currently hold, you -- you confirm that you're currently an external audit committee member of the Board of Directors of the Workers' Compensation Board of Manitoba?

MR. SCOTT GREENLAY: That's correct.

MS. KATRINE DILAY: And in that role you are an external appointee with the role to provide external advice on technology specifically, correct?

MR. SCOTT GREENLAY: Correct. I've just been appointed to the Digital Transformation Committee, as well.

MS. KATRINE DILAY: For the Workers' Compensation Board?

And, Ms. Schubert, if we could go to page 26 again in this document.

Just one (1) last question on your CV, Ms. Greenlay. If we go to the very bottom under 'Award', you received the Governor General's medal in recognition of significant contribution to the citizens of Canada?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And you were nominated for that medal by the leadership of the Department of Health Canada in recognition of your work on technology for the department?

MR. SCOTT GREENLAY: That's correct.

MS. KATRINE DILAY: And so, Madam Chair, and -- and Board members, we would propose that Mr. Greenlay be qualified as an expert in information technology strategy and project planning, project execution, project management, and project rescue, including oversight of systems, transformation projects, and technology business cases.

PANEL CHAIRPERSON: Thank you, Ms. Dilay. Mr. Scarfone...?

MR. STEVE SCARFONE: Thank you, Madam Chair.

CROSS-EXAMINATION BY MR. STEVE SCARFONE (QUAL.):

MR. STEVE SCARFONE: Good afternoon, Mr. Greenlay. My name's Steve Scarfone and I'm counsel for Manitoba Public Insurance. I just have a couple questions for you, not with the substance of your report but on the qualifications that my friend, Ms. Dilay, just went through.

So, sir, to start with -- and you've touched upon it in your paper somewhat -- Manitoba Public Insurance, my client, has a duel role in this province, in that it provides both insurance services to Manitobans along with driver licensing services. You're aware of that?

MR. SCOTT GREENLAY: Yes. Yeah.

MR. STEVE SCARFONE: And, sir, Ms. Dilay, when going through your qualifications, went through a number of private companies that you've been employed with over the years, correct?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And the last government organization, if I marked it correctly, was employment with the Province of Manitoba?

MR. SCOTT GREENLAY: Correct.

MR. STEVE SCARFONE: And that was in 1992 and '95?

MR. SCOTT GREENLAY: Yeah. I've worked with numerous governments though since then, just not as an employee.

MR. STEVE SCARFONE: Yes. And we'll get to that.

But as an employee with the Province of Manitoba back in 1992, was it in your role as what she described as IT transformation strategist?

MR. SCOTT GREENLAY: No, my role was director of information technology.

MR. STEVE SCARFONE: Okay, applying your computer science background?

MR. SCOTT GREENLAY: And business, yes.

MR. STEVE SCARFONE: And, sir, when you left the Province of Manitoba you went to a number of private organizations. Have you, in that capacity, provided consulting services to any government agencies or Crown corporations?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And who are those agencies, sir?

MR. SCOTT GREENLAY: There are restrictions on who I can name.

MR. STEVE SCARFONE: Okay.

MR. SCOTT GREENLAY: Usually when signing a consulting agreement with a government organization, they actually ask that I consult with them ahead of time to refer to them. But I can say, generally, certainly the Government of Manitoba --

MR. STEVE SCARFONE: Okay.

MR. SCOTT GREENLAY: -- Crowns with the Government of Manitoba, the Government of Saskatchewan, Government of Alberta, Government of British Columbia, Crown corporations in Saskatchewan, Alberta, British Columbia, the Ontario Government, Ontario Crowns, the Government of Canada, numerous agencies with Government of Canada, the Government of Botswana, one (1) of their largest digital transformation projects in their history, and if you need more details, I can get requests -- I can request permission for them to --

MR. STEVE SCARFONE: Well, we won't get your permission -- we won't get their permission today, so, I think for the purposes of this line of questioning, I've noted here the Government of Saskatchewan and the Government of British Columbia.

MR. SCOTT GREENLAY: Yes. As well as Manitoba, Alberta --

MR. STEVE SCARFONE: And without that permission, you're not able to say if that particular agency was SGI or ICBC, correct?

MR. SCOTT GREENLAY: I -- I would need their permission.

MR. STEVE SCARFONE: Yes.

MR. SCOTT GREENLAY: And -- and I'd also have to review the consulting agreements, because many of these organizations now actually ask that you not refer to them by name.

MR. STEVE SCARFONE: Okay. And the reason I ask, sir, 'cause we've heard evidence in this proceeding, that Manitoba Public Insurance is unique amongst insurers in Canada, particularly as it relates to private insurance -- insurance companies, in that, they offer, as I've said earlier, both insurance services and driver licensing services.

Would you agree with that?

MR. SCOTT GREENLAY: I -- I would say that the business of MPI is -- I'm -- I'm more an expert in the area of technology as it pertains to companies like MPI, and from a technology perspective, it's unlikely that there is much unique about that organization, as it compares to SGI and ICBC, as I know them. It may be the actual procedural systems they're administering are slightly different, but the technologies that are in play, are largely similar.

MR. STEVE SCARFONE: Thank you for that. And -- and so, do I take that response to mean, sir, that you're not aware of any private insurance companies that offer the same services that Manitoba Public Insurance does?

MR. SCOTT GREENLAY: I haven't even considered that, so off the top of my head I don't know.

MR. STEVE SCARFONE: Okay. And as it concerns Crown corporations like Manitoba Public Insurance, I take your answer to mean that you're aware of perhaps two (2) in this country that are similar to MPI, that being ICBC and SGI?

MR. SCOTT GREENLAY: Yeah, and also, possibly the organization in Quebec, as well.

MR. STEVE SCARFONE: SAAQ, I think, is the acronym.

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: Yes.

MR. SCOTT GREENLAY: Depends what language we're in.

MR. STEVE SCARFONE: But I didn't hear that particular jurisdiction in the list that you provided earlier. So your expertise, sir -- experience, would be limited to the Crown corporations in Manitoba and perhaps a -- a Crown corporation in Saskatchewan and British Columbia?

MR. SCOTT GREENLAY: Well, I would be doing the Province of Quebec a little bit of a disservice; certainly provided services to Quebec. But as far as Crowns in Quebec, no.

MR. STEVE SCARFONE: Okay. And, sir, we've also --

MR. SCOTT GREENLAY: Yeah, but, sorry, but Crowns across the country, with the exception of Quebec; Ontario, Manitoba, Saskatchewan, Alberta and British Columbia Crowns in all of those jurisdictions.

MR. STEVE SCARFONE: Okay. Thank you. And we've also heard evidence, sir, that, at least as it concerns Saskatchewan and SGI, that in terms of their transformation, their technology transformation, they're just embarking upon that process right now.

Are you aware of that?

MR. SCOTT GREENLAY: I am not.

MR. STEVE SCARFONE: Okay, but --

MR. SCOTT GREENLAY: I believe ICBC, in fact, has gone through a number of digital transformations. We use different language as time goes on. We wouldn't have called this digital transformation ten (10) years ago (AUDIO CUTS OUT) reinventions of their core business systems for --

MR. STEVE SCARFONE: We're you providing online services to the customers?

MR. SCOTT GREENLAY: Online services, their internal methodologies, similar to what MPI is going through; redesigning their business processes. These -- these are all substantial transformation initiatives.

The terminology of digital transformation came into vogue about four (4) years ago. And, so now we see people calling them digital transformation initiatives, but previously there would have been many other titles. But ICBC has done quite a bit actually.

MR. STEVE SCARFONE: Okay. Thank you.

But my question, and I appreciate that response, but with respect to Saskatchewan, at least, you're not aware of anyone having gone through -- or about to embark upon a digital transformation?

MR. SCOTT GREENLAY: No, I haven't dealt with SGI in the past three (3) years.

MR. STEVE SCARFONE: Okay. Thank you.

And, Kristen, if we could pull up -- oh, sorry, this may be on the confidential record, so I can't -- I can't pull that one up right now. But I can pull up PUB-120, please.

And this -- this particular document, sir, is a -- a response to what's called an 'Information Request'. And if we go to the last page of that particular document, Ms. Schubert.

You'll see there before you on the screen, sir, and I'll just confirm with you, of course, that a large portion of your report that you're going to provide opinion evidence on, if qualified, deals with Project NOVA, correct?

MR. SCOTT GREENLAY: Project NOVA and Program NOVA. I believe those terms get used --

MR. STEVE SCARFONE: Interchangeably.

MR. SCOTT GREENLAY: -- interchangeably, but yes. I'm -- I -- and there is a section where I dealt with IT spending in general.

MR. STEVE SCARFONE: And the benchmarking, as well?

MR. SCOTT GREENLAY: Correct.

MR. STEVE SCARFONE: But you would agree with me that the large portion of -- of your report deals with the -- Project NOVA, as I'll call it.

MR. SCOTT GREENLAY: Project NOVA and, in general, the approach to working with initiatives of size and -- it's -- it's about technology.

MR. STEVE SCARFONE: Okay.

MR. SCOTT GREENLAY: That's all.

MR. STEVE SCARFONE: And -- and the reason that I put this document before you, sir, is to make you aware, if you're not already, that my client, Manitoba Public Insurance, has a number of lines of business here. You're aware of that?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: Each of which are shown there. The -- the main one being the Basic line of business, correct?

MR. SCOTT GREENLAY: Correct.

MR. STEVE SCARFONE: But you'll also see there the competitive line of business called

'Extension'?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And Special Risk Extension?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And then, finally, a driver -- driver and vehicle administration.

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And if you move over across to 2022/2023 actuals -- do you see that, sir?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: You'll see that the -- a cost for NOVA by line of business amount to approximately $52 and a half million?

MR. SCOTT GREENLAY: Correct.

MR. STEVE SCARFONE: And that nearly $20 and a half million has been allocated to the driver and vehicle licensing arm of business?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And you'll agree with me, sir, that there is an interplay during your review of the Program NOVA, if you'd like to call it that, an interplay between the Basic line of business and the DVA line of business?

MR. SCOTT GREENLAY: As I understand it, yes.

MR. STEVE SCARFONE: And that, sir, would be unique to your experience, in that you primarily dealt with a transformation or digital projects that deal in -- almost exclusively with insurance companies?

MR. SCOTT GREENLAY: Actually, in fact, when DVA was moved from the Province of Manitoba to MPI --

MR. STEVE SCARFONE: Yes.

MR. SCOTT GREENLAY: -- my friend was involved with that activity and I was personally involved as well.

MR. STEVE SCARFONE: In 2004?

MR. SCOTT GREENLAY: Includ -- including support. Yes.

MR. STEVE SCARFONE: In -- are you talking about when the -- or when the Corporation overtook or --

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: -- provided those services on behalf of the government?

MR. SCOTT GREENLAY: And then post, we

provided technical support to that system, when it came over to MPI, so --

MR. STEVE SCARFONE: Okay, but --

MR. SCOTT GREENLAY: -- I would have to say I have familiarity with that. And certainly when I was reading the materials provided in the GRA was aware of the DVA side.

But a lot of what NOVA is, is cross-line of business, so, to me, this is dealing with the fundamental challenge we all have in technologies, is: How do we allocate costs to the lines of businesses we serve?

MR. STEVE SCARFONE: Yes.

MR. SCOTT GREENLAY: It's always somewhat subjective, to be very honest.

MR. STEVE SCARFONE: And -- and in 2004, of course, the Corporation wasn't undergoing a digital transformation, correct?

MR. SCOTT GREENLAY: It -- it was not.

MR. STEVE SCARFONE: No. And so the question to you, sir, was -- with the exception of that experience --

MR. SCOTT GREENLAY: Yeah. Sure.

MR. STEVE SCARFONE: -- you have no particular experience in providing advice on transformation projects for a company that deals both with driver licensing services and insurance products.

MR. SCOTT GREENLAY: Actually, with the Government of Canada, we were involved with the -- in very similar activities to licensing, dealing with the Aboriginal populations and the issuance of credentials for the purposes of collecting benefits, other Manitoba Health, in terms of the --

MR. STEVE SCARFONE: Let me stop you there though on the Government of Manitoba.

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: That was for -- for driver licensing, correct?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: Not insurance products?

MR. SCOTT GREENLAY: Sorry, with Manitoba Public Insurance?

MR. STEVE SCARFONE: No, with the Government of Manitoba.

So, the question that I'm asking you, sir --

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: -- is in that dual role --

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: -- that MPIC plays --

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: -- and -- and it's unique in the industry, you haven't had in your past dealings with a company that provides both those services undergoing a digital transformation?

MR. SCOTT GREENLAY: So, for example, even Health and Welfare Canada, where I worked, we were going under digital transformation initiatives. We provided insurance to Canadians through employment insurance, as its referred to. We provided licensing services to every drug manufacturer in the country. So, I'd say, I have very applicable insurance and licensing experience.

MR. STEVE SCARFONE: That particular retainer, there was license -- driver licensing services involved?

MR. SCOTT GREENLAY: No, not driver licensing --

MR. STEVE SCARFONE: No.

MR. SCOTT GREENLAY: -- drug manufacture licensing.

MR. STEVE SCARFONE: Sir, this is

going to go a lot easier, if you listen to the questions.

MR. SCOTT GREENLAY: Okay.

MR. STEVE SCARFONE: Okay. So what I'm asking you is, in your experience --

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: -- you haven't yet provided any advice to a company that provides both licensing and insurance products to its customers.

MR. SCOTT GREENLAY: Okay. But --

MR. STEVE SCARFONE: (INDISCERNIBLE) transformation --

MR. SCOTT GREENLAY: I did provide advice to MPI, actually before I retired, Ben Graham.

MR. STEVE SCARFONE: When we were undergoing the transformation?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And what year was that, sir?

MR. SCOTT GREENLAY: Just when I retired.

MR. STEVE SCARFONE: What year was that?

MR. SCOTT GREENLAY: It was three (3)

years ago. Started Project NOVA.

MR. STEVE SCARFONE: 2020?

MR. SCOTT GREENLAY: I think it was later than that. You know, I'd have to double-check. It'd be, yeah, 20 -- 2019.

MR. STEVE SCARFONE: So if I'm understanding your evidence, sir, in 2019 you provided advice to Manitoba Public Insurance?

MR. SCOTT GREENLAY: Yeah. Repeated meetings with Ben Graham.

MR. STEVE SCARFONE: And that was with respect to Project NOVA?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: Or at the time it was called 'Legacy Systems Modernization', correct?

MR. SCOTT GREENLAY: Yeah. It was at the conservation stage where we were competing with Deloitte to actually do the work that Deloitte did. So we had numerous meetings about that.

MR. STEVE SCARFONE: So your company bid on the tender --

MR. SCOTT GREENLAY: Correct.

MR. STEVE SCARFONE: -- that Deloitte ultimately --

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: -- was awarded?

MR. SCOTT GREENLAY: Correct.

MR. STEVE SCARFONE: And I understand, sir, that your company also bid on the tender for PricewaterhouseCoopers?

MR. SCOTT GREENLAY: That was done, yes.

MR. STEVE SCARFONE: And again that wasn't awarded. It went to Pricewaterhouse, correct?

MR. SCOTT GREENLAY: Yeah. That would have been just when I was retiring. In fact, I don't think the -- their decision was made when I retired, so.

MR. STEVE SCARFONE: Sir, if you can page -- or turn to page 3 of your report.

And this statement of independence, the bane of the lawyer's existence, it appears in all of these reports now because of our Supreme Court. But you will see there that it reads that you have a duty -- in fact, three (3) duties -- the first of which is to be fair, objective, and non-partisan, correct?

MR. SCOTT GREENLAY: Correct.

MR. STEVE SCARFONE: And given what you've just indicated, that you submitted a bid on two (2) MPI contracts, are you confident that you can meet that requirement of being non-partisan in providing your opinion evidence?

MR. SCOTT GREENLAY: I believe I can -- and have.

SUBMISSIONS BY MR. STEVE SCARFONE (QUAL.):

MR. STEVE SCARFONE: Madam Chair, unless there's any questions on re-direct -- I didn't think so. Madam Chair, what I'm proposing is that I'm not taking particular issue with how Ms. Dilay would like to qualify her witness, but what I would suggest, based on the line of questioning, is that Mr. Greenlay not be allowed to opine on the interplay between the DVA line of business and the insurance arm where NOVA is concerned.

PANEL CHAIRPERSON: Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: No position -- or no questions on behalf of the Board. But perhaps Ms. Dilay should have an opportunity to respond.

PANEL CHAIRPERSON: Yes. Ms. Dilay...?

MS. KATRINE DILAY: Just one (1) minute, Madam Chair.

(BRIEF PAUSE)

PANEL CHAIRPERSON: Ms. Dilay...?

SUBMISSIONS BY MS. KATRINE DILAY (QUAL.):

MS. KATRINE DILAY: Madam Chair, we're -- we're unclear exactly what Mr. Scarfone is referring to in terms of Mr. Greenlay's evidence. It addresses Project NOVA as a whole.

In our view, the cross-examination of Mr. Scarfone actually highlighted the depth of experience that Mr. Greenlay has with complex organizations across Canada, including where there's multiple lines of business.

So our position would be the -- the area of qualification that we proposed earlier.

PANEL CHAIRPERSON: Thank you. If everyone could provide the Board with a few minutes, what we will do is adjourn and make a decision with regard to the qualification and your position, Mr. Scarfone. Thank you.

--- Upon recessing at 2:01 p.m.

--- Upon resuming at 2:06 p.m.

PANEL CHAIRPERSON: Thank you everyone.

CONTINUED SUBMISSIONS BY MR. STEVEN SCARFONE (QUAL.):

MR. STEVE SCARFONE: Madam Chair, just before you begin --

PANEL CHAIRPERSON: Yes?

MR. STEVE SCARFONE: -- and I hate to interrupt and, perhaps, have you recess again, but I have instructions to also advance a submission that, given that Mr. Greenlay has bid on and was unsuccessful on getting contracts in relation to Project NOVA, the Corporation has a real concern about his ability to be non-partisan, and it raises a -- a reasonable apprehension of bias, and, so, the Corporation has taken the position that he should not be so qualified.

PANEL CHAIRPERSON: Well, I think that that will, in fact, require that we recess again, in order to consider that position.

BOARD CHAIR GABOR: Sorry, you want us to recess and, then, have you come -- we're going to come back and, then, you're going to argue that or you -- that's your -- that is --

MR. STEVE SCARFONE: That is our

submission.

BOARD CHAIR GABOR: That's the totality of your argument?

MR. STEVE SCARFONE: That's the totality of the argument, based on the evidence that was adduced during the cross-examination on qualifications, yes.

MS. KATRINE DILAY: CAC, may I have a - a position to advance.

(BRIEF PAUSE)

SUBMISSIONS BY MS. KATRINE DILAY (QUAL.)(REPLY):

MS. KATRINE DILAY: Madam Chair, just some brief comments in response.

Mr. Greenlay has, of course, in his document, as well as in his retainer with the Manitoba Branch of the Consumers' Association of Canada, indicated his independence and his duty to provide evidence to the Public Utilities Board in a matter which is fair, objective, and non-partisan. While providing his testimony before this Board, he will be sworn or affirmed.

In terms of practical -- the practicalities of the industry, Mr. Greenlay's company bid on this work, likely bid on a lot of other work that they also either got or didn't. Mr. Greenlay has now retired from that specific company, and just -- yeah, practically speaking, it -- it -- it may be actually hard to find a consultant who would not have bid on some kind of work related to MPI.

Those are some practical considerations. Thank you, Madam Chair.

PANEL CHAIRPERSON: Thank you.

CONTINUED SUBMISSIONS BY MR. STEVE SCARFONE (QUAL.):

MR. STEVE SCARFONE: Madam Chair, just by way of reply very quickly, I appreciate the comments of Ms. Dilay, but it seems to me, given the role that Mr. Greenlay wants to play in this proceeding on a very important topic, we would have expected that those bids that he made on Project NOVA would have been transparent and been made aware in advance of his appearance here today.

PANEL CHAIRPERSON: Thank you.

--- Upon recessing at 2:10 p.m.

--- Upon resuming at 2:20 p.m.

DECISION (QUALIFICATION):

PANEL CHAIRPERSON: Thank you. The Board's decision is to qualify Mr. Greenlay as an expert in the areas as proposed by counsel for CAC with regard to the duty to be fair, impartial and objective as the Supreme Court opined in White Burgess in 2015.

The burden is on -- the requirement is for Mr. Greenlay to confirm that he will be fair impartial and objective, and then the burden is on MPI is to establish on a balance of probabilities that there is a real concern that the expert is unable to unwilling to comply with that duty to be fair, objective, and non-partisan.

MPI has not met the burden. I note that MPI will have the opportunity to cross-examination Mr. Greenlay and make submissions regarding the weight to be attached to his evidence.

So, Ms. Dilay, would you please proceed.

MS. KATRINE DILAY: Thank you, Madam Chair. So Mr. Greenlay has prepared a presentation today, but before he begins his presentation, we would ask that he be sworn or affirmed.

SCOTT GREENLAY, Sworn

EXAMINATION-IN-CHIEF BY MS. KATRINE DILAY:

MS. KATRINE DILAY: Thank you. And so, Mr. Greenlay, you -- in terms of the evidence you've prepared for this proceeding, you can confirm you prepared the report filed as Exhibit CAC-6, which was entitled 'An Independent Commentary on Technology at MPI, Intervener Evidence'?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And this report was dated September 20th, 2023, correct?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And you also prepared responses to Information Requests from the Public Utilities Board, correct?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And you also have a presentation for this afternoon that's before us today?

MR. SCOTT GREENLAY: Yes.

MS. KATRINE DILAY: And we would ask that this presentation be marked as Exhibit CAC-10.

--- EXHIBIT NO. CAC-10: Presentation by Scott Greenlay

CONTINUED BY MS. KATRINE DILAY:

MS. KATRINE DILAY: And you can confirm that this material, including the report, the responses to Information Requests, and the -- the presentation, was prepared under your care and control?

MR. SCOTT GREENLAY: Correct.

MS. KATRINE DILAY: Thank you, Mr. Greenlay. You can go ahead with your presentation.

MR. SCOTT GREENLAY: Okay. Thank you. I was going to try to use some humour to make this somewhat light-hearted, but it's raining outside and I will still do my best to make this a little bit interesting. Sometimes technology can be a little bit on the boring side.

I would also welcome any questions while I'm making the presentation.

In terms of what I'd like to do today is just review the current situational analysis that I've done; some additional observations I've made as a result of sitting in on the hearings; discuss key industry implications for MPI, NOVA, and the Public Utilities Board; speak to the recommendations that were made in my report; and then deal with any questions in regards to the presentation and cross-examination.

Is that fair and reasonable? Yes? Okay. Next slide. Here we go.

So we're into -- sorry, I just have -- I'm used to running my own slides, so just bear with me for a minute. There we go.

So NOVA is -- by PricewaterhouseCoopers' own statement, it's the largest initiative MPI has ever undertaken. It's more complex than other industry transformations, and in additional, Eric Herbelin, the former CEO, mentioned that MPI has taken on a program that appears to be too ambitious where the Organization stands its capabilities.

I think the key points out of this, which I think is an excellent start to the discussion today, is that NOVA is more complex in the opinion of a world renown consulting organization, PwC, than other organizations undertake; and that from the CEO's -- past CEO's perspective, it was too ambitious versus the organizational capabilities.

The important of the call was that the way Project and Program NOVA were designed, it does feature releases. And because it features releases, there is an opportunity with releases at each milestone to decide whether you want to continue with the project, whether you wish to pause the project, or adjust the project. And I'm going to talk about that throughout this presentation 'cause I think it's important. Next slide.

So first and foremost, Manitoba Public Insurance is a Crown corporation, and this is a very important perspective from a technology view because it informs us as to what is and should be affordable and applicable to this organization.

MPI is protected by -- from competition in the Basic insurance area by legislation. It is afforded considerable liability protection through legislation. It services a captive marketplace, and it is owned and accountable to the public.

It is not a property and casualty company in the highly competitive world of insurance, and what I mean by saying that is that they don't have out-innovate, out-compete other companies that are providing the same services.

A lot of money that we spend on technology initiatives, particularly digital transformation initiatives, is about out-innovating and out-winning in effect your competition. Next slide, please.

Benchmark is a fantastic practice, and I'm -- I'm so pleased to see that it's in use here. And I do want to make very clear that I've worked in both the public sector and the private sector, and I'm a big fan of the importance of judicious technology investments in public organizations.

It's tough when you work in technology to say the right amount of investment, and we're always fighting that battle. And that's where benchmarking can be very helpful, and I think it's a great practice, but it's important to choose who you benchmark against carefully.

And I -- I have concerns about the appropriateness of using strictly a property and casualty benchmark when you're looking at the expenditures and the maturity of technology at MPI.

And the reason for that is that, if you're going to look at the expense side of the benchmarking equation, which was done in the documents that I read in the GRA 2024 submissions, you also need to consider the revenue side.

So if you're going to use State Farm, Allstate, Intact, and GEICO as your benchmarks and reference model for your expenditures, you also have to consider the revenue model because that, too, is an informed part of the benchmark.

In other words, if you're going to use the expense side of the benchmarks, you also have to consider the premium side of the revenue of those models you're bench -- of those companies you're benchmarking against. And that's an important consideration.

That's why one (1) of the considerations to at least inform leadership of MPI, the public, and the Board, this Board, is that it would be worthwhile to see what Crown corporations are spending and the public sector is spending in this area.

Crown corporations and public sector organizations in this country are involved in insurance. They're involved in licensing. Some of the largest insurance organizations in this country are actually public.

So there is information in looking at the benchmarks of those organizations, and I think it would be very worthwhile and informative to leadership, the board, and this Board to have that information provided by Gartner and Aon and whatever other organizations out there so that you can see what those expenditures are, what those maturity levels are, and compare MPI against those.

The danger again when you only pick the P&C industry is you're not including the revenue side. How does GEICO and Allstate and State Farm's premiums compare to MPI's? Because if you're going to compare the expenditure side of the benchmark, you have to consider the revenue side.

They have a completely different revenue model and different revenue benchmarks, so to justify their expenditures internally, they take that into account. We're not doing that when we only look at the expense side of the benchmarks.

So I -- I would really strongly urge and recommend that the benchmarks going forward include the public sector, and in fact I think the public sector will be a more informed benchmark based on my readings with the GRA process to date and my understanding of working with similar organizations in the country. Next slide, please.

Next -- the next topic is really talking about establishing value for money, and -- and this is where one (1) of the mechanisms that we use, particularly in the public sector, is the process of tendering. It's also used by most private-sector organizations because we're always asking: How do we get good value for money?

And the analogy I would like to use for -- for the audience here is, you know, when I go into a car dealership and buy a car, it's very similar to what we're doing when we're buying new technology systems.

And it's important to have rigour in that process. When you go to purchase something, you need to think a little bit about your requirements and you need to have a strong understanding what those requirements -- otherwise, you get bias and influence by the vendor.

So the tendering process imposes that rigour, requires any organization, such as MPI, to go ahead and define those requirements ahead of time. It requires MPI to consider tenders and proposals from vendors against those requirements. And then it provides the traceability and the monitoring capability for that organization as it goes forward.

The second really important thing to consider when establishing value for money is the use of financial measures. When you're establishing value for money, one (1) of the things that we do, especially when it has to do with monopolies or organizations have exclusivity in a marketplace, is how to you make sure that there's a return on investment for ratepayers, and there are mechanisms in place for that.

One (1) of the most common is -- is the Net Present Value mechanism, and I've spent some -- quite some time talking about that in my report.

But the whole problem when you're running a Crown corporation is how do you know that you are making a prudent investment because the reality is organizations like MPI, Manitoba Liquor and Lotteries and so forth have the ability to collect revenue based not only on what the market protection in the legislation provides, but also what their level of expenditure is, so what's a reasonable level of expenditure? And that's really the big challenge for any organizations that's similar to MPI.

Without cost pressure, the cost pressure that's afforded by Net Present Value tests, payback tests, and investment tests, what is the right level of expenditure?

If I'm going into a car dealership and money's no object, do I buy the cheapest car that can afford me the basic levels of transportation, or do I go for the polished glorious Lamborghini that looks really nice, and that's a big challenge.

So without cost pressure, we have a tendency, particularly in the tech industry, to go higher. Next slide, please.

The other thing to consider is that large projects are always challenging, particularly in technology. The construction industry has been doing large -- or sorry -- large project since the pyramids; they're pretty good at it. Their tools don't change much.

Unfortunately, technology's really only been around since the '70s in mainstream, and it started in the late '40s. Our methodologies are new. And unlike the construction industry, our tools are changing every day. And because of that, we are constantly running into difficulties in trying to estimate projects and contain projects to make the -- what we call the iron triangle. And I think we heard that in testimony last week, which is scope, money, and time.

NOVA is unlike anything MPI has ever done before, and it results -- as a result an immense challenge. Tech project failure in our industry is such a problem that we have spent considerable energy in the industry trying to understand it.

And, in fact, the crux of my later part

of my career has been an area of which I affectionately call Project Rescue, where these types of projects start to take on a life of their own and they go off the rails.

Presented in my evidence I included an appendix from the Standish Corporation. And the reason for that is Standish is rather famous for the work and analysis that they've done in the areas of Project Failure and while projects are failing.

When I started by bachelor's degree in computer science there was a front page -- one of the chapters it said in quotes "Technology projects fail 80 percent of the time."

Fast forward to where we are today. We still have a horrible track record when it comes to failing in terms of scope, money, and time. And so Standish has been looking at that. And the report that I shared with you is the one that's publically available at no cost. They do publish this report every year, so we can certainly get -- if -- if that's the concern, we can certainly get a 2022 report, but their message stays very much the same.

The key points from this report are that smaller projects are better in the fact that they typically are faster to time, have less risk, and have a track record of success. They're just less complicated.

The other thing that Standish has learned over time, the longer a project is in play the more likely it is to fail. Complexity is also a major reason why projects fail. And to that point, in the report that Standish provided, they talk about some important factors, six (6) of them, executive involvement and sponsorship.

I might point out that during PwC's tenure there were repeated reports by PwC where they discuss concerns about executive involvement and -- and want of that sponsorship. I did refer to some of those in my report.

The second factor that Standish talks about is user engagement. And -- and this is why, for example, we -- we need to ensure that the staff at MPI are available to work on such a complex project.

When you have over two hundred (200) consultants involved, which I believe is the current level of expenditure with R-2 of NOVA, imagine the amount of staff time that's required. And you need the staff to be available to interact with the consultants, to interact with the vendors.

And it's just -- it's so large, in

MPI's case, it's a bit overwhelming. You need to have mature and skilled staff. You need to have a standard architecture. These things MPI's working on. They're certainly adopting standard architectures, which is fantastic.

They've talked about trying to supplement the lack of skill and maturity in their staff by bringing contractors.

And then the other two (2) factors that Standish talks about is -- is having a balance of an -- internal/external resources so you don't overwhelm the organization and making sure that the staff that are onboard have adequate time to focus on the project.

So the reason why I mentioned those is part of what I'm trying to do here today is not only provide evidence; I think it is important that MPI succeed in whatever initiatives it's taking. And I'm trying to be as proactive as possible, but I do think there's some important trajectory changes that are required. Next slide, please.

So MPI, facing its lack of experience, did from the offset follow a best practice. They brought in an exterior vendor. Sorry, my slide is not updating here. And I think that -- that was a fantastic move.

It is, however, important to not only use that vendor but also heed their advice. I did refer to in my report that PwC repeatedly raised some concerns regarding complexity, capacity and -- sorry -- complexity capability and capacity. I'll be talking about that the next slide.

And one (1) of the most concerning and puzzling things that occurred on this journey of Program NOVA was the release of PwC even though NOVA was in flight.

And that lack of a governance vendor, given that from the offset MPI acknowledged that they lacked the experience, is concerning. And if that lack of experience was no longer the case, then it would cause me to question why are they bringing a new governance vendor now.

But if that was the case, why did Project NOVA and Program NOVA continue without the benefit of the governance vendor? In last week's testimony, I believe it was the CITO that referred to the fact that they're looking to the governance vendor to provide benchmarking.

Well, there's been no governance vendor since October of last year; that's twelve (12) months without the guidance, without the benchmarking, and that raises serious concerns to me. Next slide, please.

These are -- these are the issues that repeatedly were brought up by PwC, issues of complexity, capacity, and capability. Another consideration is there's over forty (40) other projects in play which I understood through the GRA process MPI is considering pausing, and I'd like to talk about that a little bit later in my report and testimony.

But a project of this size and complexity and this many variables in play, it would be difficult for any organization to succeed. And, in fact, in my experience, one (1) of the reasons why consultants come in is -- what we try to do is break this apart. And one (1) of the first things we often do is we reduce scope.

And I was surprised in my readings that when Project NOVA, and it's -- the Legacy modernization system, and then becoming Program NOVA, I could not find evidence that the vendors were come -- brought in with the mandate to find a way to bring the scope and costs under control, but rather were justifying additional cost and additional time line.

And if we look at what's happened with Release 1 and Release 2, we've had staff turnover. Release 1 and Release 2 are both late, and quality concerns and budget concerns. And so these are all symptoms and indicators of what PwC repeatedly agrees, which were the issues of complexity, capacity, and capability. Next slide, please.

And I do not think it's fair to judge MPI without understanding that every organization has a finite capability to handle change. Change is -- and there's a reason why I chose the graphical high blood pressure. Every organization has a limitation and if we look at MPI, consider the scope of what's changing.

All the core systems. The underlying technology. The methodologies that are used for delivery of technology and even the methodologies for business cases.

The sheer number of variables at play, would be concerning and difficult for any organization to successfully (INDISCERNIBLE). Next slide, please.

We have seen key staff turnovers. Three (3) CEOs, Chief Operating Officer, numerous NOVA personnel, the governance vendor, and every time somebody leaves, there is institutional knowledge lost, which includes commitments made to and from vendors. These are occurring on a daily minute-by-minute basis and every time you have turnover, some of that is lost.

And in the vendor world, I can tell you having formerly been a vendor, this is often to the advantage of the vendor. It often results in challenges of cost escalation and -- and scope creep.

And, so, it's very hard to navigate these. And -- and I think that's another consideration for NOVA which is, first of all, why has there been such a high level of staff turnovers when consideration, but the impact on Project and Program NOVA is substantial and is -- is going to result in increase costs, scope creep and difficulty in holding the account -- the vendors to account. Next slide please.

I apologize for the voice, by the way. We -- we have in time and time again, seen that with technology projects of this size, that there is a tendency towards what's called completion bias.

We -- we set off on a course, and we tend to get dedicated to that course. It's -- it's somewhat human nature. I included, in my report, one of many studies in this regard, but MPI seems to be falling into this common track, sorry, common tromp.

When -- when I look at the factors that were discussed in last year's GRA process and the caution expressed by leaders outside OPS -- organizations such as PUB and even the minister, it's surprising that it continues in its current form and process.

And, when I look at the statement of works for Avasant, McKinsey and even the past work of Deloitte, I'm left with the puzzling question, why didn't MPI seek to reduce scope and return to the project to a level of affordability that matched its capabilities and didn't overwhelm the organization?

And I've not been able to find a satisfactory answer to that question. Next slide, please.

In terms of technology security or often referred to as cyber security, this is something that haunts the entire industry.

And leaders at boards, in the public and throughout most organizations struggle with what's the appropriate level of investment. And it is very difficult to answer this question, because the reality is, I'll quote the former CEO of Shadowbox out of California, when he stated:

"You could spend your entire IT
budget on cyber security and still
be hacked."

And that is the reality. And so how does an executive and board decide what the appropriate level is.

And so, we have a fantastic system, called the NIST rating scales. That's the National Institute of Standards and Technology, and it's quite helpful. MPI did use it and we -- again, I refer to this in the report. And they are -- they've in -- indicated they're stretching it for a 4.2 goal, which is great -- but the question I ask, is why is it 4.2?

There are already well over the public sector benchmark and they're within industry norms, within the -- even the insurance industry if we're going to accept that as the benchmark.

Why 4.2 and it would be good to have that information, but then the next question is, what's the cost to the organization of 4.2 versus 4.0 versus 3.8? It's an important, again, because of their situation as a monopolistic Crown, what's the appropriate investment? Where's the test? We don't -- recognizing NPVs and paybacks, what is the appropriate amount of investment?

And there is a constant balance in cyber security between risk and affordability. And this is something that -- when I -- when I look forward at what this 4.2 mean for future PUB reviews, it's concerning.

Again, because if we look at where they're already at today and where they're -- rather in the public sector are at, it seems ambitious and it seems costly. And that's an important consideration. Next slide, please.

It -- it's not surprising that MPI is heavily dependent on vendors and to be successful the -- MPI has to be an expert at vendor management.

It was concerning to see that Gartner made some observations about the maturity in this regard. It is surprising that Deloitte's original work on the original business case would vary so greatly from what costs they were experiencing.

I did ask in my questioning in this realm, is what was the statement of work for Deloitte? And it would have been very reasonable for MPI to go back to Deloitte, say why are we so off?

Deloitte's the largest technology consulting organization in the world. Insurance companies across the world use their services.

They're pretty good at understanding what it cost to put in new systems and, specifically, the systems MPI was considering.

I have various concerns in my report about the McKinsey state -- statement of work development and I -- I think if MPI's going to continue to use vendors, which they obviously are, they must be excellent in this area. Next slide, please.

In terms of IT spending, Gartner report shows that MPI is above its peers. The peers that Gartner are using are the P&C industry, sorry, Property and Casualty industry.

I think it's important for the Board to understand that those peers already are involved with digital transformation projects and so those benchmarks that Gartner shared, already include digital transformation initiatives.

In the report, MPI makes reference to excluding Project NOVA from the benchmark and -- and having a non-Project NOVA comparison. And, I think, that it would be very worthwhile and important to understand that their peers are constantly doing research and development, product innovation, replacing outdated technologies and doing so on -- if

-- if you read the press and -- and what these -- these folks are going through, on a large scale basis.

So, my concern is that benchmark that Gartner was sharing where MPI was slightly above, if you recall in the documents. But, then when you include NOVA, it's even higher, some of this -- that it is quite probable that NOVA's already extremely expensive compared to the peers. Next slide, please.

I'd like to just talk a little bit about the hearings to date. I -- vitality is something I really wanted to talk about.

Just a few facts. First of all, the minute you install technology, it starts to get dated. Our industry is constantly in a state of innovation, but it's also in a -- constantly in a state of obsolescence.

A commentary about, first of all, being obsolete and Powerbuilder obsolete, I think it's important to understand that as of 2021, 70 percent of the large corporations in Canada and the United States are using Cobol for mission critical systems.

In fact, 83 of banking systems still use Cobol. 93 percent of us when we ever use an ATM card, are interacting with the Cobol system.

Last year, alone, I'm sorry, 2021, 1.5

billion lines of Cobol were estimated to have been written.

PowerBuilder is still a recent and prevalent technology. It's owned by one of the largest technology companies in the world, SAP, who continues to make investments.

So to say these technologies are dead, and not maintainable, is not true. The reality is, we could continue to use these technologies long into the future.

So, when we look at the justification for a Legacy modernization initiative, and much of what appeared to be the initial vision of Project NOVA, the question that comes to my mind is what was the return on investment for the shareholder and the ratepayers?

Because, somehow, we have to get an idea of how much can we afford towards replacing our Cobol and PowerBuilder code.

And the analogy I like to use is if I'm driving an old car, my 1972 Chevrolet Nova, it doesn't feature a fuel injected engine. It has a two (2) speed transmission and by all accounts, doesn't have cruise control. It still runs. I can still get gas for it, I can still get parts for it. So, if I was to say, well, the technology is outdated, yes, it is, but it still provides the service.

What -- do I need a new car? Well sure, but I would have to look at the trade-offs of purchasing a new car in terms of cost and investment. I might -- if I didn't have to worry about a Net Present Value or payback, I might find myself driving a brand new BMW which would be fantastic.

But this is the challenge that -- that I see with the questions, and I heard it last week, is that we'll worry about financial criteria, except for vitality projects. I couldn't disagree more.

If things are so bad that your car needs replacement at all costs, as a shareholder, as a Board, as the Public Utilities Board, you have to ask the question of what -- at what cost, because you need to make a decision. If it isn't going to pay back for the Corporation in any way, what can the Corporation afford?

And there has to be a back and forth between the technology group and the governing bodies about what they can afford. And, so, when Project NOVA, after the initial business case, was substantially off its original cost parameters, what I couldn't see was evidence of that back and forth with the vendors, within the organization of, wait a minute, how do we get it back under control, how do we get it back to where it pays for itself?

Now, I wasn't in the room, and I'm sure Counsel's going to bring that up, I -- I wasn't, but I -- what I read with the materials was a disturbing lack of that what do we do to reduce costs, what do we do to reduce scope?

And, so, you know, I -- I would recommend that vitality projects must be from a Public Utilities Board and from the governance organization of MPI, they have to be subject to financial criteria because, if they don't pay for themselves, there's a very important discussion that needs to occur at the leadership level about what can we afford, what's the investment we can make? Next slide, please.

MPI 2.0, I've got to admit, when I listened to the testimony last week, I -- I was quite confused, because I'm not sure if it's been amended or not, but would I would say is that I did see MPI 2.0 represent scope creep and wasn't talked about at the initial stages of Project NOVA.

We saw evidence, which is referred to in my report, that there wasn't team buy-in. Surprisingly, for a visionary statement like MPI 2.0, I was surprised that the Board didn't approve it. Typically, with visionary statements like that, there are, however, I think it's important for us all to understand that there needs to be -- if it has been abandoned -- and, again, I don't -- I'm confused, because the business plan shown in the GRA was dated July 2023. It still refers to MPI 2.0.

It does appear that there hasn't been adequate vetting within the organization. I saw evidence of projects that refer to doing things that are important for MPI 2.0. So, it looks like the team knows about it, but it does beg the question of -- I -- I -- I find the whole area somewhat confusing and I suspect the staff do as well, but is Program NOVA including elements of MPI 2.0?

It certainly looks like it and I think it's important for us to consider that because, if we're not doing MPI 2.0, it's important that that be communicated with staff. Next slide, please.

Let's talk about some of the implications for Project NOVA and Program NOVA. Size does matter. Sorry. I was trying to be humorous a little bit when I was writing this report. I talked about the Standish Group and I'm going to quote directly from their own material. In many cases, larger projects never return value to the organization. Smaller projects are substantially more successful and large, complex projects, like Program NOVA, have a very poor track record.

Standish talks about less than 2 percent being successful. It is absolutely critical that NOVA be broken into a smaller project. It increases the probability of success and it deals with the issues of complexity and it gives us faster time to tangible value. We know the smaller team sizes tend to be successful and we are dealing with the whole factor of human nature. Next slide, please.

Another -- another item that I saw when I was reading materials that I thought was mentioned -- important to mention is that MPI needs to determine whether it is competing with the Allstates of the world or whether it's a monopoly, operating within the Province of Manitoba around Basic insurance services, providing lots of protection, and is supposed to be a low cost provider.

And, if I may, those two (2) perspectives, do you need to be a leading edge innovator because, in our industry, technology, innovation and the research and development required for innovation is expensive.

Many organizations -- I'll pick on the one across the way here, Canada Life, pride themselves in being a low cost insurance provider. That's their modus operanda -- modus operandi, and this is where, I think, MPI, it, to me, it's a little worrisome, 'cause, when I read the MPI 2.0 statements, when I read the aspirational statements that were made in the McKinsey documents, it occurs to me that it looks like we're trying to be a leading edge innovator and that is not, probably, what the ratepayers of Manitoba want, but that's not my area of expertise.

So, I'm just going to say: Are we supposed to be a leading edge innovator or is this about being a low cost provider of insurance services in Manitoba? And next slide, please.

And I wanted to emphasize that the change from a positive NPV to a negative, what that means, is these are very different perspectives. I've sit on Boards. I've sit on and advised executives. When a project goes from being a positive NPV to a negative NPV, it means it goes from being something that pays for itself that -- to something that, now, is an investment decision.

What other initiatives won't the Corporation be able to achieve because of Program

NOVA? What monies will be burdened on the shareholder or the ratepayers, as a result of a project that doesn't pay for itself?

That's very different from where Program and Project NOVA started, which was, hey, it's going to pay back, it actually has a positive NPV. And this is where I -- it -- I think should give the PUB significant concern because it, effectively, went from a project, where it's paying for itself to a project where it's a substantial investment, and I can't, as an expert in the area of technology, say that I'm confident that it's a prudent investment, for the reasons I've outlined before.

There are other ways to deal with old technology than simply saying we have to replace it all. There are other ways to deal with cyber security than saying we have to be at 4.2. Our industry has a number -- oh -- too close -- sorry. Next slide, please.

So, I did want to just run through the recommendations. Number One was to pause, de-risk, and re-scope. There is a natural breakpoint coming up on NOVA, Release 3. It was broken into a release purse and the -- and the idea here and the premise would be that NOVA should be broken down into smaller components. I think that it would be worthwhile and important for MPI to re-think it's operating realities. Is it supposed to be a leading edge innovator in insurance technology and insurance services or is it a low-cost provider?

Break NOVA into these smaller initiatives, re-introduce the financial measures, so that each project and smaller initiative could be measured on its value to MPI and its return on investment to the shareholder, as well as implications for ratepayers, reconsider projects in light of decision that includes financial measures. So, that includes the whole gambit.

There's 40 other projects right now that, through GRA process, MPI was indicating they're going to put on hold. What if some of those are the ones that are going to drive huge value to the bottom line? What if some of those are going to provide new services or better services that are valuable to the ratepayers?

If they remove projects that are of low value, get help, they -- they may not have the capability internally to do this. Right now, I have concerns, but they could use a third party to assist them with this. They need to review regularly where their projects are and there should be accountability.

I talked at length about every time a new system is brought on line, it would be important and valuable to track what was its project or -- sorry -- lifespan supposed to be, what was its approved CapEx and OpEx expenditures, what are the actuals, and, then, have an explanation of their variance.

More and more with technology projects, we see corporations struggling with this and I think it would be valuable to, going forward, for the PUB to ask MPI to report on individual system expenditures versus approved budgets and also to say, hey, it was supposed to be for five (5) years, this system, and, then, we would replace it, where are we, because you will want to know if half of their systems are at Year 10 and they're supposed to be replaced at Year 5 versus half of the systems are, you know, a good five (5) years before replacement.

So, I -- I think that would be a valuable change in the accountability and reporting process for the Public Utilities Board. Next slide, please.

And I --I know we're a little bit shorter on time here, but I think it's important for MPI to reframe itself on where it needs to be, in terms of innovation and modernization, given that the protections it's afforded as a Crown Corporation in Manitoba, and they don't need to be a GEICO or Allstate or do they? I -- I mean, that's -- that's up to the Board to decide and -- and the shareholder consider what they -- I spoke to about with Canada Life and I think that it's very probable and likely that they should be considering themselves a low-cost provider with -- due to the protections afforded. Next slide, please.

Improving processes. Sorry, I'm just going backwards here. There have been significant project scope changes. There is going to be a real challenge with the governance changeover moving from one vendor to another, and considerable effort and work will be required by MPI to ensure that there's not additional scope creep and budget creep as a result of this changeover.

I believe there could be more work done by MPI to ensure that MPI drives the requirements and that there is effective accountability traking -- tracking and tracing.

And finally, long-term reporting and accountability systems I spoke to briefly in the last slide, I meant to talk to it here. But that idea of tracking the life cycle of where each individual technology is at, and to track the CapEx/OpEx expenditures versus budget. And the informative part is the variance reporting against that. The next slide, please.

On the IT spending perspective, I spoke at length about this, but it's important to pick appropriate peer group, and that if you're going to choose a peer group where you're going to look at them as your -- as your comparator for expenses, then you have to have an informed discussion about the revenue side of that peer group. And I think that's where the private P&C model has a problem for MPI, because otherwise we're looking at the same implications in terms of what those competitors charge their marketplace.

I have a daughter who's twenty-four (24) years old and lives in Toronto. I can tell you that I would be terrified if she had to pay the going rates for private insurers in Ontario for her car if she lived back here in Manitoba. Thankfully, she wouldn't if she lived here. I keep on telling her that. Maybe she'll move back here. The next slide, please.

On cyber-security, I think the

important points are here is budget doesn't mean safety. It's so important to choose an appropriate level of spend. The NIST ratings are useful, but the peer group really probably should be the public sector. And next slide.

Last but not least, I would like to conclude by saying it is critical that MPI invest in its IT. My message here today isn't about that. I'm more concerned that by over-investing and showing some level of we have to do this at all costs, it -- it leaves a legacy that's going to make it difficult for new technology renewals, not only at MPI, but other Crowns.

I believe NOVA is too complex and too big for this organization. I believe the information that I've shared in my report indicates it is. Release 1 or Release 2 tracks to date over-budget and over-time, and without substantial change, we're going into Release 3 which hasn't actually been detail scoped yet which means we are -- if we continue with this idea of vitality at all costs, we're going to see cost escalations and timeline increases. Forget about labour disruptions.

We really are going to -- again, until some level of accountability till a financial investment measure is made, what's the right price for Release 3? And that gives me great cause and pause -- sorry, great pause and worry.

And with that, I'd like to say -- next slide, please -- that concludes my presentation, and I'm open to discussion questions and cross-examination. Thank you for your time.

PANEL CHAIRPERSON: Thank you, Mr. Greenlay. Ms. Dilay...?

MS. KATRINE DILAY: Thank you, Madam Chair. I don't have any further questions for Mr. Greenlay on direct.

PANEL CHAIRPERSON: Mr. Scarfone...?

MR. STEVE SCARFONE: Thank you, Madam Chair.

CROSS-EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thank you for that presentation, Mr. Greenlay. Let me begin by saying, based on what I heard you say, I commend you for having conducted what sounds like a review of the materials that are before this Board in the 2024 GRA. I want to explore that a little bit with you.

MR. SCOTT GREENLAY: Sure.

MR. STEVE SCARFONE: Sir, you've also

mentioned some evidence at the outset of our presentation that Mr. Herbelin, our former CEO, provided last year, correct?

MR. SCOTT GREENLAY: I think the document I was quoting from was in this GRA submission, but I think it was last year --

MR. STEVE SCARFONE: Last year.

MR. SCOTT GREENLAY: -- that he made the quote, yeah.

MR. STEVE SCARFONE: Thank you for that.

And so do I take that to mean, sir, that in your preparation for your testimony here today and in preparing your report for this Board, you would have reviewed at least portions of the 2024 General Rate Application including the Project NOVA chapter?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And perhaps the information technology chapter?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And coupled with that, as part of this process, there are Information Requests that are filed by various parties, including the Public Utilities Board, that relate to Project NOVA?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: Are you aware of that?

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: And you would have provided -- or, sorry, reviewed those Information Requests as part of your preparation?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: Okay. Thank you. And then lastly, sir -- and I think the answer to this is also yes -- but the NOVA panel that gave evidence last week, did you listen in on that proceeding or did you review the transcript or both?

MR. SCOTT GREENLAY: I -- I did sit in -- remotely observed the proceeding, yes.

MR. STEVE SCARFONE: And did you review the transcript of that evidence?

MR. SCOTT GREENLAY: I have not completely reviewed the transcript, but the majority of it, yes.

MR. STEVE SCARFONE: Okay. Thank you. And so the -- those particular documents and that review would form the large part of your preparation for your presentation here today.

Is that fair?

MR. SCOTT GREENLAY: So just to make sure I understood the question, so the -- the documents for the GRA process as well as the discussion last week with the panel, yes, that was --

MR. STEVE SCARFONE: And the Information Requests.

MR. SCOTT GREENLAY: That -- that, and my own experience in the industry, correct.

MR. STEVE SCARFONE: Okay. But as it concerns the evidence that's been put to this Board, it's those --

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: -- earlier things that we've mentioned?

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: Okay. Thank you. And you'll be aware, sir, that the Corporation has this digital transformation before it and the Board since 2018, approximately?

MR. SCOTT GREENLAY: Yeah. I -- I don't have the exact date on the top of my head, but...

MR. STEVE SCARFONE: And, sir, you would know then, at least colloquially, that it was once named Legacy Systems Modernization, correct?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And then, under the leadership of Mr. Graham, that was changed to Project NOVA -- or Program NOVA, if you --

MR. SCOTT GREENLAY: I -- I wasn't sure who changed it, but sure, yes, it did get changed.

MR. STEVE SCARFONE: Thank you. And so in trying to understand the basis for the opinions that are in your report and the recommendation, is it fair to say, sir, that although there's some context with respect to earlier evidence filed in GRAs, it really is a snapshot in time over the past year or so?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And, Kristen, could we please go to the transcript from October 7, 2019, please.

(BRIEF PAUSE)

MR. STEVE SCARFONE: And this, sir, just for some context, is the evidence that was before this Board, as the date indicates, on October 7, 2019.

And if you can scroll up, please, Kristen, so we can see who is speaking.

There you'll see our former president, Mr. Benjamin Graham, speaking about NOVA, correct?

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: You see there that he begins by saying that:

"Legacy Systems Modernization to me wasn't the appropriate term."

Do you see that?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And if you scroll down, please, you'll see -- and I think nobody's taken issue with this -- oh, we've just lost it. If we can go up. Thank you.

"It is the single largest initiative in MPI history." Do you see that, sir?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And down somewhat. "Our business case..."

Yeah. Thank you. Oh, I think you've scrolled -- Ms. Schubert. Keep going up. Thank you.

"Our business case and our accountability, as well as being transparent with the PUB, was witnessed earlier."

And you'll see that the business case

was there presented for approval to this Board, correct?

MR. SCOTT GREENLAY: Sorry. I'm not quite sure -- you wanted me just to comment on what I'm reading here?

MR. STEVE SCARFONE: Yes.

MR. SCOTT GREENLAY: Oh.

MR. STEVE SCARFONE: -- and that he's making reference to the initial --

MR. SCOTT GREENLAY: Oh.

MR. STEVE SCARFONE: -- business case --

MR. SCOTT GREENLAY: Sure, yes.

MR. STEVE SCARFONE: -- which you've also made reference to in -- in your report --

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: -- and slide deck here today, correct?

MR. SCOTT GREENLAY: Yeah. Actually they provided me with a copy of it is -- through the GRA process this year.

MR. STEVE SCARFONE: And that was a -- that was a -- a business case that was prepared when the project was still called Legacy Systems --

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: -- Modernization --

MR. SCOTT GREENLAY: That's correct.

MR. STEVE SCARFONE: -- correct?

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: And keep scrolling down, please, Ms. Schubert. Yeah, keep going, please. Thank you. At -- to page 200. Thank you. And keep scrolling down, please. Thank you. I should have had the line items for you, but I didn't. So stop there, please.

And so you'll see there that the Legacy Systems Modernization, as Mr. Graham indicates, was a byproduct of upgrading Legacy Systems and remapping business processes. And he goes on to say there, and perhaps kind -- kind of tongue in cheek, but he -- he indicates rather famously now that:

> "I do use the analogy that we run the three hundred and a half billion dollar corporation on an Atari, and it's time for an upgrade."

Do you see that, sir?

MR. SCOTT GREENLAY: I do.

MR. STEVE SCARFONE: And just keep strolling -- scrolling down for me, Ms. Schubert.

Now, sir, I want to ask you questions about what is in your report, and -- and Mr. Graham touches on it.

Ms. Schubert, can you scroll back up to where you were, please. Keep going, please.

So we will see there that Mr. Graham says NOVA is about expanding customer choice. And initial customer feedback demonstrates that the customers demonstrate to us that they want to transact online. And, sir, in your report, you -- if you have it handy...

And, Ms. Schubert, it's CAC number 6, at page 5. Thank you. The second last paragraph. You'll see there, sir, that "he", meaning yourself:

> "Champions the idea that technological investment is crucial for enhancing services to Canadians, and underscores the importance of future effective and efficient service delivery."

So that, sir, is what you maintained, is important to Canadians, correct?

MR. SCOTT GREENLAY: Absolutely.

MR. STEVE SCARFONE: And that that would also, I would suggest to you, sir, include being able to transact online with your insurance company?

MR. SCOTT GREENLAY: Absolutely. I'd love to do that.

MR. STEVE SCARFONE: And -- and, indeed, sir, we -- we do that on a daily basis with our banks, correct?

MR. SCOTT GREENLAY: We do.

MR. STEVE SCARFONE: In fact, you can renew your mortgage online at this point with certain institutions?

MR. SCOTT GREENLAY: That's -- that's what I hear.

MR. STEVE SCARFONE: Yes. Right now, sir, are you aware of customers able to renew their insurance with Manitoba Public Insurance?

MR. SCOTT GREENLAY: Well, actually, I do renew --

MR. STEVE SCARFONE: Online I mean.

MR. SCOTT GREENLAY: I do renew my insurance online.

MR. STEVE SCARFONE: With Manitoba Public Insurance?

MR. SCOTT GREENLAY: Actually, through my broker. I sign some documents saying I can do it all electronically and --

MR. STEVE SCARFONE: But you, sir, cannot log into an account and --

MR. SCOTT GREENLAY: No.

MR. STEVE SCARFONE: -- renew your insurance with Manitoba Public Insurance --

MR. SCOTT GREENLAY: You're -- you're absolutely correct.

MR. STEVE SCARFONE: -- correct?

MR. SCOTT GREENLAY: Yeah, absolutely. Sorry, I'm not trying to be belligerent, but I've actually been pretty thrilled that they let me now at least use email to renew my insurance.

MR. STEVE SCARFONE: And, sir, you've also indicated in your report -- and, again, it's with respect to the Legacy Systems Modernization business case -- that it showed a positive net present value?

MR. SCOTT GREENLAY: Correct.

MR. STEVE SCARFONE: And at page 6 of your report, you speak to the business case as -- 'foundational' is the word you use, correct?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And at page 10 of your report, sir, again, in reference to the business case for Legacy Systems Modernization, you indicate there that the business case for NOVA -- the original

business case for NOVA was meticulously developed.
Do you recall those words?
MR. SCOTT GREENLAY: Yes.
MR. STEVE SCARFONE: And that particular business case, as you pointed out, showed a positive return on investment?
MR. SCOTT GREENLAY: Yes.
MR. STEVE SCARFONE: In other words, a positive net present value?
MR. SCOTT GREENLAY: Yes.
MR. STEVE SCARFONE: And you -- you, as you indicated, sir, spend some time in your report on that measure: Net Present Value?
MR. SCOTT GREENLAY: Yes. About the importance of a Net Present Value is one (1) of the financial measures for technology projects, yes.
MR. STEVE SCARFONE: And it's a measurement, sir, of the time value of money?
MR. SCOTT GREENLAY: That's correct.
MR. STEVE SCARFONE: And a negative NPV is a bad thing and a positive NPV is a good thing, correct?
MR. SCOTT GREENLAY: That's a little simplistic. I think a negative NPV means it no longer pays for itself in -- in terms of the time value of

money, but then becomes an investment decision for the Corporation.

MR. STEVE SCARFONE: Thank you.

MR. SCOTT GREENLAY: I was just trying to make that point in that presentation earlier, too. Sorry.

MR. STEVE SCARFONE: And if you look to page 11 of your report, sir --

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: -- you'll see there in the second full paragraph:

> "It's worth noting that while the public sector has extensively deliberated on the importance of financial considerations and acknowledges that in some instances financial aspects aren't paramount"

As highlighted in the reference there.

> "In such cases, significant intangible benefits are recognized."

Do you see that?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And those intangible benefits, sir, as alluded to, would include health improvements, public safety, and other advantages that general pertain to the well-being of society at large?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And so I'll suggest to you, sir, that that's a recognition that there are some digital transformation projects and other large capital projects that might show a negative NPV but still have some benefit to the consumer.

Do you agree with that?

MR. SCOTT GREENLAY: I would agree, except I would say that, in this case they would call it the -- the citizens, right. These are generally done for public good initiatives.

MR. STEVE SCARFONE: Okay. Thank you for that clarification.

But you don't stop there, sir. You do indicate, "However --

MR. SCOTT GREENLAY: M-hm.

MR. STEVE SCARFONE:

"-- when it comes to Crown corporations, the net present value is regarded as the gold standard, similar to its standing in most corporations."

There I think you're making reference to private corporations, correct?

MR. SCOTT GREENLAY: And publically traded, yes.

MR. STEVE SCARFONE: Okay.

> "-- with abundant -- abundant evidence supporting its relevance."

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And that is -- and that statement ends with a footnote?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And that footnote, sir, if we scroll down, is in reference to an article that you make use of for this paper, correct?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And it's called 'A Literature Review on the Net Present Value Valuation Method'?

MR. SCOTT GREENLAY: yes.

MR. STEVE SCARFONE: And, sir -- can we pull that article up, Ms. Schubert.

Sir, you would have reviewed this carefully before preparing your paper --

MR. SCOTT GREENLAY: I have.

MR. STEVE SCARFONE: -- and finalizing it?

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: And, sir, when you say, as I indicated and read to you earlier:

> "When it comes to Crown corporations, the net present value is regarded as the gold standard."

MR. SCOTT GREENLAY: Right.

MR. STEVE SCARFONE: And then you footnote this article, sir?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: There's no reference in this article in my review of it, and you can correct me if I'm wrong, to NPV as it relates to Crown corporations?

MR. SCOTT GREENLAY: Correct.

MR. STEVE SCARFONE: And there's no reference to being used as the gold standard. Would you agree with that?

MR. SCOTT GREENLAY: Yes. Yeah, absolutely. Those would be my terms, based on my experience in working with Crown corporations across Canada.

MR. STEVE SCARFONE: Okay. Thank you

for that.
MR. SCOTT GREENLAY: My -- my -- the reference was really about NPV use by Corporations, so.
MR. STEVE SCARFONE: But you made a conscious decision, sir, to footnote the article?
MR. SCOTT GREENLAY: Yes. I felt that if you wanted to read more about why we really like the NPV method, it would be useful.
MR. STEVE SCARFONE: Okay. So what you're saying here, sir, is when you make the statement, "When it comes to Crown corporations --
MR. SCOTT GREENLAY: Yes.
MR. STEVE SCARFONE:

> "-- the NPV is regarded as the gold standard, similar to its standing in most corporations with abundant evidence supporting its relevance."

Footnote.
MR. SCOTT GREENLAY: M-hm.
MR. STEVE SCARFONE: What you're saying here today has nothing to do with that sentence that you put in your paper?
MR. SCOTT GREENLAY: I don't think that's quite what I'm saying.

MR. STEVE SCARFONE: Okay.

MR. SCOTT GREENLAY: I'm saying that when it comes to private corporations, NPV is what is used. Gold standard's a terminology meaning that's kind of the best practice. Crown corporations are somewhat unique to British empire style countries. This article wasn't talking about just Crowns.

But my understanding, having worked with Crown corporations, is one (1) of the reasons why they're created is so they can act like corporations, ergo, the comparison to using NPVs.

But, yes, I did not -- they did not say this; I said this.

MR. STEVE SCARFONE: Okay. And --

MR. SCOTT GREENLAY: What's important here in terms of reference was the -- the literature view on all the different organizations that are using NPV for their decision making.

MR. STEVE SCARFONE: And, in fact, sir, that article makes no reference at all to Crown corporations?

MR. SCOTT GREENLAY: No, it doesn't.

MR. STEVE SCARFONE: So it has no application to Crowns?

MR. SCOTT GREENLAY: No, I would

disagree. A Crown corporation is a corporation by its very intent in legislation; that's why we create them.

MR. STEVE SCARFONE: Ms. Schubert, can you go back to the article, please, a literature review on the net present valuation method. Oh, thank you.

And if you scroll down, you'll see there, sir, after the introduction, that the paper describes the net present value method theory.

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And scroll down further, Ms. Schubert, please. It's only a three and a half (3 1/2) page article.

And you'll see there at number 3, that the paper talks about the advantages of net present value, correct?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And it says, firstly, secondly, thirdly, fourthly -- it provides fifth -- five (5) reasons.

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And then it talks about the disadvantages of net present value. Would you agree with that?

MR. SCOTT GREENLAY: Absolutely.

MR. STEVE SCARFONE: And, again, firstly, secondly, thirdly, a bunch of reasons there, correct, sir?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And notwithstanding that, sir, when you footnoted it, you left, I would suggest to you, the impression with this Board, that this article would say that it's the gold standard for Crown Corporations.

MR. SCOTT GREENLAY: That was not my intent. I would have quoted it in quotes if I had. Which I did repeatedly through my evidence.

MR. STEVE SCARFONE: Sir, I'm going to remind of your duty again, as an expert witness, it includes the duty to be fair --

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: -- correct?

MR. SCOTT GREENLAY: Yeah, absolutely.

MR. STEVE SCARFONE: And you maintained that footnoting in the manner that you did, as I've just described, is being fair to this panel?

MR. SCOTT GREENLAY: I believe so.

MR. STEVE SCARFONE: Ms. Schubert, at that same article, at page 828, and just scroll up to

the -- to the top there, please.
And there, sir, where it reads "thirdly", do you see that?
MR. SCOTT GREENLAY: Yes.
MR. STEVE SCARFONE: In that paragraph about two-thirds (2/3s) of the way down and again, this is -- this is under the disadvantages --
MR. SCOTT GREENLAY: Yeah.
MR. STEVE SCARFONE: -- of net present value.
MR. SCOTT GREENLAY: M-hm.
MR. STEVE SCARFONE: It reads:

> "In real life projects that can be readily and affordably altered in response to large changes in these elements, will add more to the firm's value than its net present value suggests."

Do you see that, sir?
MR. SCOTT GREENLAY: Absolutely.
MR. STEVE SCARFONE: And so it in fact is suggesting that they're -- it may not be the best measure when assessing the viability of any particular --
MR. SCOTT GREENLAY: Well, I -- I

would say that actually what the author is getting here, is there's more than financial benefit, and that's what the author is trying to say.

So, NPV is strictly a financial tool, but there are other, you know, intangible benefits that need to be considered when you're making a decision. That's why when considering projects like Project NOVA, or Program NOVA, there should be consideration for all the different reasons doing it.

But the financial criteria, and particularly because it's a Crown, and it's hard to say well when it -- when it went into the negative NPV space, that's the flag that says, Wait a minute, what are we doing? We've changed it from being, Hey, it pays for itself -- 'cause I -- I -- you know, involvement with other Boards, it's an easy decision when something pays for itself; it becomes a different discussion. When it becomes a Wait a minute, we're having to make an investment decision here.

So that's all I'm -- I've been trying to say in this regard. And I'm not trying to be flippant here, but that -- that's -- that's the point I'm trying to -- but absolutely, there's more to the benefit to an organization when they undertake an initiative, than just its financial payback. Again, apologize for the voice.

MR. STEVE SCARFONE: So, in your paper, sir -- and I don't want to belabour this too much -- but where you indicate that NPV is the gold standard for Crown Corporations -- we now have confirmed it -- that's your opinion, correct? That's not taken from the article?

MR. SCOTT GREENLAY: That -- the term 'gold standard's' mine.

MR. STEVE SCARFONE: Yes. And the -- and it --

MR. SCOTT GREENLAY: I -- I guess I could have found in the article here and used an exact quote, but then I would have put it in quotations.

MR. STEVE SCARFONE: Let's be clear, not just the gold standard, but the applicability to Crown Corporations and the gold standard.

Those are your words, correct?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: Thank you. And so what is it in that sentence, sir, that you footnoted that you're taking from this article?

MR. SCOTT GREENLAY: Abundance evidence supporting the use of NPV.

MR. STEVE SCARFONE: That is the --

that's the portion that you'd like us to consider --

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: -- when we read this article?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: Ms. Schubert, could you, please, pull up the transcript from October 19, 2022. Thank you. At page 203.

And this, sir, is the transcript from the General Rate Application last year. And if you just scroll up quickly, you will see that it's a response by our then president, Mr. Herbelin. Ms. McCandless, Board Counsel, was asking questions about the net present value and its negative 188 million.

Do you see that, sir?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And if you scroll down, please.

You'll see there that Mr. Herbelin indicates one (1) -- he talks about two (2) elements -- but one (1) is the replacement of the technology --

MR. SCOTT GREENLAY: M-hm

MR. STEVE SCARFONE: -- which he indicates, for which NPV is absolutely the wrong metric.

The question at stake here is, do we want to have an independent Crown Corporation called MPI operating and servicing Manitobans or do we not?

Do you see that, sir?

MR. SCOTT GREENLAY: I do.

MR. STEVE SCARFONE: It's a question of survival.

Would you agree with me, sir, that this speaks to what you referenced earlier, as a vitality project?

MR. SCOTT GREENLAY: It -- you know I -- I'm not sure I can draw direct line there. This -- this is a very dramatic statement he's making. I think it's quite different than what the gentlemen last week were talking about, where they were talking about replacing outdated technologies.

This talks to survival. I...

MR. STEVE SCARFONE: And -- and based on what you've indicated in your report, sir, about net present value, I would take it from those comments, sir, that you would quarrel with Mr. Herbelin on this point?

MR. SCOTT GREENLAY: I don't know if I'd quarrel with him because, you know, again, I'm just looking at an excerpt from a testimony a year ago, I'm sure that he would agree that NPV is a valuable tool for -- like he saying it's the wrong metric. I think, what he might be saying is a little bit different than it's the wrong tool.

As I said, when it went negative, that's when the different decision process needed to take place. It became an investment decision, instead of a Gee, this pays for itself and it's prudent.

So -- but the -- the -- the one (1) thing the NPV informs us here is the degree to which it's become an investment which is important for sure.

So, it's -- so I don't know if you would, in fairness. But I think to your point what you're trying to say is he's saying there's other considerations beyond NPV at this point and that MPI isn't going to survive if they don't, I guess, modernize, is what he's getting at. I haven't got this transcript that -- in front of me, beyond this little excerpt.

But it's talking about question of survival; that seems unfair to MPI.

MR. STEVE SCARFONE: Well -- and -- and it may be, sir, but he was our president and chief executive officer. And I want to put to you another colourful quote from him from the transcript.

Ms. Schubert, from October 19, 2022 at page 310. And there, if you scroll just a -- a bit up please, Ms. Schubert. And keep going, please. Thank you.

Yeah, there's a question on the net present value again. And if you scroll up, you'll see that it's -- it's from one of the Board members --

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: -- Board Chair Gabor. And he will -- he is saying:

"I'm going to put you in a tough spot. This is a critical piece of architecture for MPI, and from your testimony it sounds like this must be built. You're too far down the road to do anything else. I guess the question is Net Present Value has become irrelevant.

You're saying it's not the right way to look at it. It sounds like, I would say, cost will be irrelevant, but cost will be less relevant."

And Mr. Herbelin agrees with that statement and talks about the importance of moving forward with the project, regardless of the Net

Present Value.

Do you see that, sir?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: And so again, when you make reference to the return on investment and the importance of that, you're doing it largely based on the original business case that was filed for Legacy Systems modernization, correct?

You can't be doing it for the re-baselining because that shows a negative NPV.

MR. SCOTT GREENLAY: Right. Right. What I'm saying, just to be clear, is that the -- the return to the Corporation needs to be constantly considered, if that makes sense.

MR. STEVE SCARFONE: Yes.

MR. SCOTT GREENLAY: Okay.

MR. STEVE SCARFONE: And when you took about a meticulously prepared business case for LSM, sir, and -- and in fairness to you, the reason I asked for the snapshot, because there has been evidence before this Board in other proceedings, that when that business case was prepared, there were a number of unknowns --

MR. SCOTT GREENLAY: Sure.

MR. STEVE SCARFONE: -- that were

still to be determined, including request for proposals, correct?

MR. SCOTT GREENLAY: Absolutely.

MR. STEVE SCARFONE: And selection of vendors?

MR. SCOTT GREENLAY: Which is why they brought Deloitte in in the first place, to tell them the market information. Deloitte's a very informed company. They described what it is they wanted to do, and Deloitte helped them put a price tag on it.

In fact, Deloitte reviewed all the numbers as well --

MR. STEVE SCARFONE: But --

MR. SCOTT GREENLAY: -- which is why, you know, again, just, in terms of vendor accountability, what's puzzling to me, when things start coming so far off, where was the discussion with Deloitte, 'cause something's obviously changed, right.

Like, if you ask me to come in and give you an estimate on building a technology system, I say it'll cost you $10 and, then, you go to market, and I'm an experienced consultant, you brought in because of that, I go -- you go to market and it comes back, it's $30, wouldn't your first question be, hey, Scott, why is this so different than what we talked about?

How could we get it back to $10, 'cause that's what I convinced my Board and the PUB that I wanted to spend?

MR. STEVE SCARFONE: And, so, on that, sir --

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: -- the $10 --

MR. SCOTT GREENLAY: Yeah.

MR. STEVE SCARFONE: -- there hadn't been vendors selected. Correct?

MR. SCOTT GREENLAY: That's correct.

MR. STEVE SCARFONE: There hadn't been contracts signed?

MR. SCOTT GREENLAY: No.

MR. STEVE SCARFONE: And, certainly, the bidding process hadn't even commenced. Correct?

MR. SCOTT GREENLAY: No, but we have very good ideas in industry what vendors are charging. We talk about it all the time. It's well understood and we know what the going rates are for labour. We know what the going rates are for systems. We know what the licensing fees are.

It's -- it's -- it would be very reasonable that the consultants were engaged for MPI would have that information available, ensure that with the MPI leadership.

MR. STEVE SCARFONE: And -- and I saw that, sir, I think, in your report, there is some reference being made to holding the vendors accountable?

MR. SCOTT GREENLAY: Sure. Yeah. Absolutely, and, by that, what I meant was the question process you and I just went through on the $10 versus $30.

MR. STEVE SCARFONE: Sorry. Can you repeat that?

MR. SCOTT GREENLAY: The -- the -- what I was explaining to you about when we talked about the $10 and, then, it comes in at $30, it would be reasonable for you to say to your original vendor, me, Scott, why are we so far apart? You told me $10. Why is it $30?

And that's -- that's where I get -- was getting to with the vendor accountability and I couldn't see evidence of that having occurred and, in fact, in the further engagements that were taking place with McKinsey, what's puzzling to me is why didn't Part 1 of the very important criteria to McKinsey be, look, we need to get this project back under cost control. So, that -- is that helpful?

MR. STEVE SCARFONE: And, Ms.

Schubert, could you please pull up the transcript from October 16, 2019?

(BRIEF PAUSE)

MR. STEVE SCARFONE: That one is the October 7th. Oh. There it is. Thank you very much.

At page 1,517, you'll see, then, so, just for context, sir, we're -- we're jumping around a bit, but we're back in 2019, when the Legacy System's modernization business case was first before this Board. Correct?

MR. SCOTT GREENLAY: Okay.

MR. STEVE SCARFONE: And Ms. McCandless is having a question and answer with Mr. Bunko, our, then, Chief Information Technology Officer, and she says there:

"So, given the uncertainty related to, [I think she meant costs, I don't know, but, it could mean COT] delivery and controls, can MPI be confident that the Project NOVA, the budget is reasonable?"

Mr. Bunko's response and, again, this is back in 2019, with that business case having been advanced:

"That I think there is a lot left and, certainly, from the software that we need to buy, the interactions of our system integrators, as to their expectations versus ours. I would still be cautious, in that there is a fair bit of information that we need to know yet, before I could pass judgment on the viability of that current budget."

Do you see that, sir?

MR. SCOTT GREENLAY: Yeah. Absolutely.

MR. STEVE SCARFONE: And, sir, I take your comments to my earlier questions to mean that we should have -- when I say, we, MPI -- notwithstanding Mr. Bunko's comments there, should have learned from Deloitte what those uncertainties were.

MR. SCOTT GREENLAY: Certainly some of them. There is always uncertainty at this stage in a project, but what we heard in testimony last week is that's the reason why MPA (sic) has a 50 percent contingency at this stage and that would have been a reasonable assumption.

But the other part of this is, when you do go to market, picking back on my car analogy, there's a big difference between buying a Chevy and a Lamborghini, and that's where the challenges start to come in. Why -- why are we 300 percent over what we initially thought? That seems rather dramatic.

MR. STEVE SCARFONE: And, again, I don't want to repeat what I've asked you earlier, sir, but, even in the paper that you cite in your own report, there is reference to real life projects that are large changes, as in elements, can occur during the course of any digital transformation. Correct?

MR. SCOTT GREENLAY: Yes.

MR. STEVE SCARFONE: Madam Chair, I know that we're 3:30 and there is a component of my cross-examination that will be in camera.

PANEL CHAIRPERSON: And are you moving into that now?

MR. STEVE SCARFONE: I think I am. Yes. I think I'd like to put some documents to Mr. Greenlay that are on the confidential module.

PANEL CHAIRPERSON: Well, then, this would be an appropriate time to break.

MS. KATHLEEN MCCANDLESS: I have about

20 minutes of cross-examination. Practically, it's -- I'm assuming it's better for Ms. Schubert if we finish the public portion and, then, move into in camera to end the day. So, are you at the end of all of your public cross-examination?

MR. STEVE SCARFONE: Yes.

PANEL CHAIRPERSON: Okay. Fine. Then, if you would proceed with your questions on the public record. Then, we'll break, go on the confidential -- yeah. So, your questions and, then, Board questions on the public record and, then, we'll go on the --

MS. KATHLEEN MCCANDLESS: And any re-examination from CAC counsel on the public record. We normally recess at 4:00. I don't think we're going to be able to accomplish that today. So, I haven't had a chance to canvass the rest of the room, in terms of how late they -- everyone's able to stay today.

PANEL CHAIRPERSON: I'm not sure we have much of a choice, given that the witness is available only for today.

So, I think that, you know, subject to some very significant issue, we're going to have to go until we're finished.

MS. KATHLEEN MCCANDLESS: Thank you.

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Good afternoon, Mr. Greenlay.

MR. SCOTT GREENLAY: Hello.

MS. KATHLEEN MCCANDLESS: I'm Kathleen McCandless. I'm Counsel to the Board. To my right is Todd Andres, my co-Counsel. To my immediate left is Sunil Bridgelall and Marc Caron, to his left, who are IT advisors to the Board.

So, first, just to understand your source material for your report, I understand you looked at the information from the 2024 General Rate Application, both public and in the confidential module?

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: In terms of sources from previous General Rate Applications, can you give me a sense, at a high level, what it is that you refer to, if anything?

MR. SCOTT GREENLAY: Actually, I didn't refer to the previous GRA because I was told to destroy those materials. So, anything that would have -- well, can't destroy my memory, but anything that I would have referred to would have been on the public record side. So then, like, there's still stuff on the website from previous GRAs, right?

MS. KATHLEEN MCCANDLESS: And, so, you looked at public information from previous General -- okay -- and -- and which ones?

MR. SCOTT GREENLAY: Predominantly 2023. There was, I think, one other item that was referred to earlier, but I can't recall off the top of my head.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. SCOTT GREENLAY: Sorry. I did not read these transcripts. So, I find them a really hard read.

MS. KATHLEEN MCCANDLESS: With respect to page 21 of your presentation, I don't think we need to go there, but it had the heading Project Size Matters.

Is it your view that smaller projects are better?

MR. SCOTT GREENLAY: So, I think 'better' is a very subjective word. Smaller projects tend to be more we get them done on time, we get them done more within budget, they're easier on the people side of the equation. So, to me, maybe that's better, right?

There are some things that we just can't do in small projects but, generally, there is a tendency, when a project starts, to start creating it and adding things to it, and it's a human tendency that happens time and time again in technology projects.

I'm sure your advisors are very familiar with this and we often call it scope creep but, hey, we're already doing re -- new digitization initiative, let's also change out that database. Let's also change out that browsing technology. So, they -- they tend to take on a life of their own. Whereas, if we keep them small and fast, not so much.

MS. KATHLEEN MCCANDLESS: MPI uses SAFE?

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: And SAFe relies on projects to be broken down into smaller sizes?

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: Given the size of this modernization project or NOVA, is it your view that MPI's use of SAFe was an appropriate methodology to deliver IT projects generally and Project NOVA?

MR. SCOTT GREENLAY: This is my opinion, I guess, as an expert witness. Given the amount of stress and the amount of sheer number of system changes in play, I don't think it was wise to also change the underlying methodology used by the internal team at the same time. That was additional pressure that wasn't needed.

There was already Agile in run -- in play at MPI. When you're already changing so many variables, this wouldn't have been in my mind the right time to bring in SAFe.

MS. KATHLEEN MCCANDLESS: Thank you. With respect to your reference to large projects, could you put some parameters around that? So how would you define a large project in terms of time and cost?

MR. SCOTT GREENLAY: That's a great question. I -- it really depends on the organization. Like to a small company, a million dollar project's a big project. To MPI, you know, it looks like anything over 50 million's considered a large project.

MS. KATHLEEN MCCANDLESS: Thank you. Now moving to your report -- that's CAC-6 -- and starting at section 5.2 which is on page 11 -- thank you -- the second line under 5.2, you note that:

"While MPI's primary function is to
offer insurance services to
Manitobans, it does not specialize
in executing large-scale
transformation projects or operating
expansive projects."

Yes?

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: And so while MPI doesn't specialize in large-scale projects, would you agree that MPI did recognize that, and as such brought on specialized resources from industry?

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: And would that in turn have minimized project risk?

MR. SCOTT GREENLAY: It certainly helps.

MS. KATHLEEN MCCANDLESS: The reference to the Standish report --

MR. SCOTT GREENLAY: Sorry. If I may, though, on that particular point, that's why the departure of PwC in flight on NOVA is so disturbing.

MS. KATHLEEN MCCANDLESS: Thank you. Using the Standish report as a reference -- and you -- you did make reference to this in your report as well

-- or your presentation, pardon me -- large-scale projects have a low success rate?

MR. SCOTT GREENLAY: Correct.

MS. KATHLEEN MCCANDLESS: And if we scroll onto the next page, the first paragraph about the middle there, you note that:

> "MPI lacks the experience needed to navigate a sophisticated initiative like NOVA."

Yes?

MR. SCOTT GREENLAY: Yes, sorry.

MS. KATHLEEN MCCANDLESS: And later in your report, but I don't know that we need to go there, you -- you note that MPI had planned to use experienced consultants.

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: Is MPI's strategy to leverage experienced consultants warranted for this type of an initiative?

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: If MPI had relied solely on internal staff to deliver Project NOVA, in your view would the overall budget be greater than the 2022 re-baseline?

MR. SCOTT GREENLAY: I'm not sure I'm

qualified to answer that question, to be honest with you. There -- there would be so many factors. It's really hard to answer that. I'm sorry.

MS. KATHLEEN MCCANDLESS: Fine. In terms of time frame to complete the project, are you able to opine on whether or not --

MR. SCOTT GREENLAY: It would have taken longer, for sure --

MS. KATHLEEN MCCANDLESS: -- using --

MR. SCOTT GREENLAY: -- yes.

MS. KATHLEEN MCCANDLESS: -- using internal staff rather than relying on consultants?

MR. SCOTT GREENLAY: Yeah, because those internal staff typically have operational load on them already.

MS. KATHLEEN MCCANDLESS: Thank you. Now, with reference to scope creep, and looking at page 15 of the report you note right there at -- at 5.5.4 that:

> "NOVA started as a Legacy Modernization initiative. It's scope then expanded to a digital transformation initiative, and now is moving to include concepts from MPI 2.0."

So just to confirm, by 'scope expansion', you're referring to scope changes from the original Legacy Systems Modernization Project to Project NOVA?

MR. SCOTT GREENLAY: Program (sic) and Program NOVA, yes.

MS. KATHLEEN MCCANDLESS: And at a high level, what would you consider to be the -- the items that would have been part of that significant scope expansion from Legacy Systems to NOVA?

MR. SCOTT GREENLAY: I think I tried to list those.

(BRIEF PAUSE)

MR. SCOTT GREENLAY: Yeah. Sorry. It might have been in an IR response. I don't have that in front of me. Apologies.

I had itemized them in a response, so I don't have it off the top of my head.

MS. KATHLEEN MCCANDLESS: That's fine. We'll leave it for now. I'm sure we'll be able to find that.

Now, page 15, again you note here under 5.5.4 that:

"This significant scope expansion
typically warrants a new business
case, ensuring a rigorous evaluation
of costs and benefits."

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: And are you aware there were two (2) re-baselines, so one in 2021 and one in 2022?

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And do you consider either of those re-baselines a new business case?

MR. SCOTT GREENLAY: No.

MS. KATHLEEN MCCANDLESS: So I take it, in your view, there were gaps in those re-baselines that would not bring them to the level of a new business case.

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: So what would you have wanted to see to make that re-baseline more vigorous in either case?

MR. SCOTT GREENLAY: Well, to what counsel earlier today was getting to, if there -- if it's all about the intangible bene -- benefits, that needs to be explored fully. And in addition, it needs to be made very clear to leadership and the Board this has turned into an investment decision, and what does that mean we can't do as a result?

MS. KATHLEEN MCCANDLESS: Thank you. Now moving on to your comments about investments and technology security. And you again touched on the maturity.

MR. SCOTT GREENLAY: The NIST ratings, yes.

MS. KATHLEEN MCCANDLESS: And so the MPI Board has approved a goal to reach four point two (4.2), and MPI has a rating of two point four six (2.46), and we see that here on your report, while the industry average is two point seven five (2.75).

So in your view, is the goal of four point two (4.2) reasonable, given the industry average?

MR. SCOTT GREENLAY: It seems very ambitious. What I was trying to get at here was there needs to be a lot of discussion about what's the cost of going to four point two (4.2) versus reaching the insurance industry standard of two point seven five (2.75), what is the insurance industry aiming for next year, type of thing. There needs to be a lot more dialogue about that.

It seems ambitious, particularly -- involvement with other organizations I've seen recently, that it's great to have a goal, but there is a cost to that goal. And that's -- that's the part I was trying to emphasize here.

It needs to be -- it may very well be that the ratepayers are going to pay a substantial ticket for this, whereas maybe three point five (3.5) would have been less costly. And what -- it's important to I think have that dialogue with management because it's an informed discussion then. So what's the cost of getting there? What are our other options?

MS. KATHLEEN MCCANDLESS: So in your view, is four point two (4.2) excessive?

MR. SCOTT GREENLAY: Living where the insurance industry currently is at and the public sector is currently at, if they would say they want to be a four point two (4.2) by the end of this year, it seems very excessive. But I -- I would say it -- it's about the discussion.

I'm sorry. So I can't say four point two (4.2) is bad, right? It's just what does it cost to get there, and why are we going further than the public sector is -- 'cause we're already above, you know, what the public sector's at -- and why are we going further than what the insurance industry's at? That -- that's the -- to me, that discussion's missing.

MS. KATHLEEN MCCANDLESS: Thank you. In your view, is MPI spending the appropriate amount, or investing the appropriate amount, into technology security to achieve its goals?

MR. SCOTT GREENLAY: I'd have to take that away and look at it. I don't have the information through the GRA process to give you an opinion on that. Generally, that would be a consulting -- like you'd have to do a deep dive.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. SCOTT GREENLAY: You'd have to look at the -- the NIST; what were the rationales behind it; what it costs to remediate? I cannot -- I think KPMG did the NIST study. They would have included that usually in their detailed report, and I did not have a copy of that.

MS. KATHLEEN MCCANDLESS: Now, with respect to your comments on governance turnover and the challenges that can result from that, perhaps you could just expand somewhat on what you would consider those challenges to be.

MR. SCOTT GREENLAY: Well, as -- as -- I'll pick what most recent CEO -- based on my readings, he was a very strong individual. I think in the cross that you gave me -- sorry, I'm pointing to MPI's counsel -- you know, he quite an opinion and very strong emotional statements.

When I read the commentary about 2.0 and not having staff input, and I'm paraphrasing a bit here, you know, so this gentleman would have had a very strong directive. He -- it looks like brought in McKinsey to do very specific work. And with that, there would have been a lot of discussions and meetings and points where fairly he would have been able to say to McKinsey in their delivery of their services, No, we agreed you were going to do, right?

And all those verbal discussions, all that knowledge, is lost when that person departs. And we -- when we see that in NOVA throughout leadership members and key membership members, there's a huge impact on the project. And there's a tendency in those situations for the vendors to rightfully say, Well, all those verbal discussions I don't remember because they're not here anymore.

So that tends towards this cost escalation in -- in scope creep. And I've been on the other side of the table many times and, you know, here you're selfishly in the business of trying to make money on projects, there's always some give and take. And when you have turnover in key positions, generally, it's better for the vendor.

MS. KATHLEEN MCCANDLESS: Thank you. Moving to page 18 of your report at Section 5.8. Again, you touched on this in your presentation.

You make a point about MPI's decision not to use Crown corporation and public sector benchmarks?

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: And would you agree that in order to obtain the necessary benchmarking insights, there needs to be a minimal -- minimal sample of set benchmark companies comparable to MPI's state?

MR. SCOTT GREENLAY: It's helpful for sure, yeah.

MS. KATHLEEN MCCANDLESS: And, in your view, are there enough comparative organizations to achieve meaningful insights through bench -- benchmarking within that umbrella?

MR. SCOTT GREENLAY: Certainly within the public sector. And the -- the general area of

Crowns there -- there's less so because there's just less Crown corporations, so it's -- it's very much a British empire type of thing. But PUB sector certainly is, and Gartner's got a whack load of information in that area.

MS. KATHLEEN MCCANDLESS: And regarding the IT benchmarking peers that were used with Gartner, were the peers used in the benchmark at -- at a steady state? In other words, an operational or run state. Or were they in other phases, such as requirements build? Or do you know?

MR. SCOTT GREENLAY: We would need Gartner in the room to answer that. However, given the state of insurance technologies, it's one (1) of the more published areas. In articles and journals as it pertains to technology, there -- there's a lot of innovation going on.

MS. KATHLEEN MCCANDLESS: Now, moving on to the recommendation in your report at page 19, and specifically looking at 1A, your recommendation to pause, de-risk, and re-scope, and, essentially, that MPI should consider pressing pause on Release 3 and beyond immediately.

What would be the -- the impact financially at an employee level and organizationally to stop work in this situation?

MR. SCOTT GREENLAY: Well, I am -- now I'm speculating (INDISCERNIBLE) but in my experience, you've got now practically a brand-new Board, practically a new CEO, that's a lot of change, and this is a major project that touches all aspects of the business, I would say it's actually essentially now to pause.

You need to get back in touch with leadership. I would suspect, given the amount of scrutiny that's occurred around its escalations in terms of cost, that the scope of, you know, the Release 3 would be reduced and there would at least be pressure and accountability to bring R-3 in at or below budget because, again, if I look at the trajectory of R-1 and R-2, the budget keeps on going up, as does timelines.

So I -- I think scope would probably be reduced. There may be a reassessment -- hopefully, a reassessment of what do we really need to change out versus what can we live with. And so that to me would be the most likely outcome.

Whether or not the timelines would be affected -- so there's usually a triage done when you step back and do a reassessment. Generally, you're going to break it into 'must haves', 'nice to haves', and, 'gosh, don't really need'. There would actually be a simplification ideally that could occur.

MS. KATHLEEN MCCANDLESS: And just to clarify, your view is that R-2 and R-1 should be completed. And would that include the remediation that's necessary for a completion of R-1 and R-2?

MR. SCOTT GREENLAY: No. Remediation tends to go on for a long period of time. Actually, I heard last week for the first time R-1 really isn't released which was a bit of surprise to me.

But, yeah, remediation -- so that's -- that's fixing the -- the -- we call them 'severity issues'. I believe we heard last week that Sev-3 (phonetic) is what was on record.

So those aren't going to be deal breakers, but that -- that would be more normal maintenance activities to me. If it's released into its full use, and that's what was confusing to me, last week's testimony, it doesn't sound like R-1s completely in use.

MS. KATHLEEN MCCANDLESS: Thank you. Now slide 5 of your presentation.

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: So here you

made the comment that it's not in the competitive world of insurance for property and casualty. And so, based on that, in your view, MPI does not need to innovate or compete to that extent.

Is that fair?

MR. SCOTT GREENLAY: Yes.

MS. KATHLEEN MCCANDLESS: And while it does not need to operate in that competitive environment, does MPI have a duty to meet the needs of Manitobans and brokers who are stakeholders?

MR. SCOTT GREENLAY: And I might not be an expert in that area, to be honest with you. I would say, in general, all companies try to do that. There is a huge cost to being early to that game. There's literature, if you recall, a book called 'Crossing the Chasm' talks about this.

Gartner actually has a maturity technology grid that it talks -- technology gets cheaper as it gets more mature and more abundant. It's cheaper to get into the online business later in the life cycle of online systems rather than earlier. And that's where I was trying to get at here.

Somebody, like a GEICO or an Allstate, are competing to try to be the first person to offer online renewals, online -- when the accident occurs, you get the assessment right there, whereas I don't think MPI has to be that early on in that expensive point of the process.

MS. KATHLEEN MCCANDLESS: All right. Thank you very much, Mr. Greenlay. Those are all my questions.

MR. SCOTT GREENLAY: Okay. Thank you.

PANEL CHAIRPERSON: Thank you. Mr. Gabor...?

BOARD CHAIR GABOR: Sorry, Kristen, could you just -- I -- I just have one (1) area. CAC-6, the recommendation section that you just had up.

Mr. Greenlay, here -- here's where I'm a little confused. In your presentation -- in PowerPoint you refer to "pause R-3," and then on 1A you say:

> "Stop work on R-3, consider a pause of the initiative."

And in your testimony you said, to the effect, You -- you need to have discussions, and if -- when -- if they go ahead with R-3, they have to bring it in at or under budget.

MR. SCOTT GREENLAY: So would I -- sorry.

BOARD CHAIR GABOR: So -- so -- sorry,

so here's -- I'm just trying to figure out what the timing of this would be.

MR. SCOTT GREENLAY: Oh, I see.

BOARD CHAIR GABOR: You know, you have R-3 which I understand, I believe, is -- they're -- they're talking about pre-Discovery early next year.

Are we pausing now and having discussions? Are we proceeding with pre-Discovery? What are we doing with R-3?

MR. SCOTT GREENLAY: So it's a great question. I think the challenge is if we just keep going with R-3 with nothing changed, as we did with R-2 and R-1, in terms of the approach, in terms of the expectations of the financial measures, in terms of looking at all other forty (40) projects that are in play and saying which ones are a benefit. R-3 will continue, as the predecessors do, and it will come in over budget is my concern.

There is a track record that we've seen with R-1 and R-2 that the scope continues to be allowed to expand and/or budget allows to be expand, where is the -- there is a lack of a control pressured by you, or the Board, to say, No, no, R-3 has to come in at a reasonable return on investment, or we can make an investment but here's the level that we can afford.

My concern is that R-3 will come in over the current budgeted amount and over the current contingency amount.

BOARD CHAIR GABOR: So, is -- is it that you move forward and say, we're prepared to pay 'X' dollars --

MR. SCOTT GREENLAY: Yes.

BOARD CHAIR GABOR: -- you figure out what we do. Do we start pulling things back, do we start laying off people, do we do this and that -- is -- is that what your idea is?

MR. SCOTT GREENLAY: I -- I would suggest something has to be put in place to say there's a limit. Or, if it needs to go over that limit, there needs to be a process that's followed, because you're -- you're taking money from the Corporation's future projects or you're taking money out of the ratepayers pack -- pocket, as I understand the way it works.

BOARD CHAIR GABOR: So -- so there would need to be a major re-evaluation immediately to determine how you proceed?

MR. SCOTT GREENLAY: Otherwise, R-3 is going to come in over budget and over time.

BOARD CHAIR GABOR: That's my questions.

PANEL CHAIRPERSON: Ms. Boulter...?

BOARD MEMBER BOULTER: Speaking to you as a consultant, and I'm not, so I don't know about these things.

The contracts that are in place right now for all these people that are working on contract for MPI, are there cont -- clauses in their contracts that if MPI says, okay, we're not going forward with this at all, do they still get paid or do they still get paid a certain percentage or do they get paid a dollar amount that would have been agreed upon?

MR. SCOTT GREENLAY: So, I don't have all those contracts in front of me --

BOARD MEMBER BOULTER: No, I understand.

MR. SCOTT GREENLAY: -- in my experience working with Crowns and public sector organizations, they usually have exit clauses.

If the vendor has spent effort, money, whatever, they -- they deserve to get compensated for that. There's usually a clause that says they get paid for the work to date, at a minimum, but I don't have those contracts in front of me.

But, you know, again, vendors -- even if the contract says there's a penalty, if vendors want to do business with you in the future, they'll typically come to the table to negotiate.

BOARD MEMBER BOULTER: Okay. No, I understand that they get paid for the work done. I -- I do know that much about contracts --

MR. SCOTT GREENLAY: -- yeah --

BOARD MEMBER BOULTER: -- I'm just worried if they said stop today, if there would be a clause generally in the contract that says, okay, there's another year, you never got to start or anything, but we're going to give you 10 percent.

You know, so -- something like that. Like is MPI on the hook if they stopped everything today?

MR. SCOTT GREENLAY: Yeah, unfortunately, I don't have enough information. I can only speak to generally --

BOARD MEMBER BOULTER: Okay.

MR. SCOTT GREENLAY: -- what we see.

BOARD MEMBER BOULTER: Okay.

MR. SCOTT GREENLAY: And, generally, there are -- there are termination clauses.

BOARD MEMBER BOULTER: Okay.

MR. SCOTT GREENLAY: And, generally, they -- if, you know, again -- depending on whether or not labour's been expended, they don't have a substantial financial penalty.

BOARD MEMBER BOULTER: Okay. That -- that's sort of what I wanted to know.

And we keep hearing that the date is moving for completion and it's sort of fuzzy as to what's been actually completed and totally signed off as being, yeah, this is what we want.

So, I'm not hearing a clear picture in my head of how much has been done, how much is ready to go, and that end date is 'X', like, that keeps moving on us.

So, do you have any idea, from what you've read, of how far along they are?

MR. SCOTT GREENLAY: I -- I've seen the same materials that you have and I -- I understand the frustration.

Like, literally, when we're getting status reports on projects, that's what we use to say, hey, where are they at.

The -- the rubber meets the road, if you actually talk to the people who are supposed to be using those systems and -- and see where that's at.

I don't have that information. I'd like -- I -- for example, it wasn't a surprise to me last week when MPI spoke to Release 1, not being what I would call fully released. I -- I thought it was, from my review of the documents.

But to -- to answer your question, it would be the status reports that tell you that. It's specific to each initiative.

BOARD MEMBER BOULTER: Okay, my last question. Is, that I really liked your car analogy, that's something I can really relate to.

But, is this whole thing a Lamborghini with a whole bunch of really smashing trailers attached to it or is this like a really efficient Nissan? What are they -- what are they going after here?

MR. SCOTT GREENLAY: Well, in my experience, in working for the public sector for almost half of my career and working with the public sector organizations for the remainder of it, this significant scale of investment is unusual.

I -- I think it's ambitious and given the number of things that have happened to date, is -- concerns me.

It -- it did appear if we go back to my

IR response that we referred to, where I -- it looked like things got added to the list as NOVA went forward, including changing out methodologies, changing out the way -- there -- there's just too much.

And that's what gives me -- I mean, I spent a lot of time working on this report for you and coming here today and it's because I am alarmed and concerned about this project and Program NOVA.

And in my years and my reputation as a consultant, this project scares me. I -- I really am concerned about it. It appears that it's too much and I don't see the rigour about taking that step back to say what could we take out of scope.

And, as consultants, you gentlemen would know this as well, but, you know, like that's one of the typical discussions when you're running a company or when you're in a Crown, or when you're in a government, is sure we'd like to do it all, but wait -- wait a minute. We're so over our costs, what can we do? And that's the rigour that worries me.

BOARD MEMBER BOULTER: Thank you very much. That's all my questions.

MR. SCOTT GREENLAY: Okay.

PANEL CHAIRPERSON: Ms. Nemec...?

BOARD MEMBER NEMEC: I also had the question about the Lamborghini and -- and to get a -- an idea of where you thought that was, thank you for asking that.

I did want to ask -- I think, I can't remember if it's in your documents but I think PwC said the more -- pardon me, that this was more complex than NOVA, was more complex than other industry transformations.

Just wondering, the project has been flattened. Do you agree with that phased approach, that flattening and that extending of -- of the project, just Part A?

MR. SCOTT GREENLAY: Yeah, okay. I think what they were trying to do there was deal with -- it -- there was a real capacity issue when you review the PwC reports. It was overwhelming MPI.

So, I don't think they had a lot of choice. Flattening was -- would have been one thing to do, the other thing would have been to reduce scope which is somewhat achieved by flattening, 'cause you're taking certain things and doing them later.

My question was, and is, did -- was there a step back to really say, do we need to do all of this? And the challenge is if I have enough money to go buy a Lamborghini, I will.

Where's the pressure to say, you can only afford less. And that -- that's where I'm really struggling with this.

BOARD MEMBER NEMEC: Okay, 'cause I do agree with the -- with the --

MR. SCOTT GREENLAY: With the flattening --

BOARD MEMBER NEMEC: -- flattening --

MR. SCOTT GREENLAY: -- yes, absolutely.

BOARD MEMBER NEMEC: -- and I understand your point --

MR. SCOTT GREENLAY: Yeah.

BOARD MEMBER NEMEC: -- to -- on the other. When you talk about scope creep, in -- in -- in the transformation of the project, are you mostly talking from when it was the Legacy System -- Management System to the new -- the re -- the two hundred and ninety thousand (290,000), like was there a --

MR. SCOTT GREENLAY: Yeah.

BOARD MEMBER NEMEC: -- we're you talking -- specifically in that time frame of what -- where you -- where you are talking about scope creep.

MR. SCOTT GREENLAY: Yes.

BOARD MEMBER NEMEC: Was that when --

MR. SCOTT GREENLAY: That's correct. And in fact I -- I wish I had my IR here in front of me, but we talked specifically about it.

Yeah, it's in PUB/CAC-20. Yeah.

BOARD MEMBER NEMEC: And you mentioned in the IR, you have a list of where you -- had recognized that scope creep.

MR. SCOTT GREENLAY: Yes.

BOARD MEMBER NEMEC: Is that correct?

MR. SCOTT GREENLAY: Yeah, I -- yeah, you have it on screen too.

BOARD MEMBER NEMEC: Yeah. So, when you talk about, sort of pausing --

MR. SCOTT GREENLAY: M-hm

BOARD MEMBER NEMEC: -- and Release 3, pausing, so I'm assuming, going through pre-Discovery, so as part of that pre-Discovery or Discovery and I'm not sure what goes into what phase of -- of Discovery.

Is that where -- that's -- well, that the organization should look at the budget at that -- that perspective -- at that point and then also look at scope. Re -- redefine scope. What can we be successful? What can -- should be put off? What is -

- sort of the, I don't know if you use Nissan, or whatever the -- it wasn't the Lamborghini, is that where you saying that that would be the stage of the pause?

MR. SCOTT GREENLAY: Yes.

BOARD MEMBER NEMEC: Or are you talking about a bigger pause than that?

MR. SCOTT GREENLAY: That -- I think the -- like there's no doubt there's components in R-3 that there is need for. That, you know, it's not unusual for initiatives of this size to get refocused because, for example, competitor pressures which we don't have here but, gee, the markets are down, we need to cut costs, you know, project 'X' is underway, folks, we're going to have to (INDISCERNIBLE) we need you to come in more attainably towards something that gives us some kind of return on investment. These -- these are normal discussions.

The other thing is the staff capacity issues. How much change has been pushed on the staff? Yes, we heard last week about, you know, work stoppage, but just the sheer amount of change, what can we do to reduce the stress on staff? Would be another discussion that needs to take place as you look at R-3. So, yeah.

But, yeah, I think this is the point in time where you can do it. It was part of the design of the -- the re -- re-imagining of the releases for NOVA. So, it makes sense to do it and it -- it doesn't mean that you can't do some of these other initiatives. It just means that priorities have to be set.

BOARD MEMBER NEMEC: And when -- one of the things you -- you mean, in the Standish Report, technology fails 80 percent of the time and I'm wondering what the definition of failure is, you know, is that just --

MR. SCOTT GREENLAY: I was -- yes, please. Thank you for that question. It's really important, as it -- "fail" is actually an emotionally charged term.

Really, what it means is you've heard us talk about that iron triangle: on time, on budget, on scope. So, if you don't hit those, that's considered failure. So, it's really about degrees, but the -- the -- the issues for us are we see bigger projects tend to have a larger amount of difficulty in those three (3) areas, but, particularly, in this one, what -- where we're -- I'm concerned about is the -- the budget creep and, now, time-line creep too.

BOARD MEMBER NEMEC: Do you think there's still a bill -- from what the definition of the project is -- there is still more risk of creep versus --

MR. SCOTT GREENLAY: R-3?

BOARD MEMBER NEMEC: -- lack of reducing the initial expectations or scope?

MR. SCOTT GREENLAY: From what I've been able to read, R-3 is, by far, the biggest release. It has the most touchpoints within the business and, so, in looking at the trajectory of R-1 and R-2, I actually think R-3 is really facing some big challenges and, so, I -- I -- they haven't really scoped R-3.

Pre-Discovery and Discovery is technology speak for, we don't really know what we want yet. We have a broad idea and, then, the issue I have with R-1 and R-2 continue to go over budget is where's that accountability on one of those three (3) measures? Okay, maybe we can give you some latitude on time. Maybe we can give you latitude on scope, but, surely, where do we, as the owners of this company, get to say wait a minute, financially, that's enough?

BOARD MEMBER NEMEC: Can you -- are

you saying that R-1 and R-2 reason for over-budget is for scope creep?

MR. SCOTT GREENLAY: I -- I -- there's probably quite a few factors for that --

BOARD MEMBER NEMEC: So, can --

MR. SCOTT GREENLAY: -- but I don't. Yeah. I don't --

BOARD MEMBER NEMEC: You don't know that.

MR. SCOTT GREENLAY: I don't know.

BOARD MEMBER NEMEC: But, are you -- you're not saying -- I just want to make sure --

MR. SCOTT GREENLAY: Yeah.

BOARD MEMBER NEMEC: -- it's not something you're saying. Okay. Thank you.

My last question is I -- I googled the -- while we were doing this -- the definition of "digital transformation," 'cause I wanted to understand and -- and I think you've said that in the -- there are companies in the insurance agency that were used for benchmarking that are already going through digital transformation.

I'm assuming, and I guess I would like your opinion, is digital transformation something that all organizations, whether you are a Crown

Corporation, have to look at pursuing?

MR. SCOTT GREENLAY: Absolutely. I think the Chair referred to it, but it's this idea of interacting using technology, where you traditionally maybe walked into a business and interacted. I'm sorry. I think it was actually the counsel for MPI that we talked about, but this is -- it's this idea of interacting electronically at a -- at its, you know, macro level. That's really what digital transformation is about and all of us are doing that.

The question is the pace, right? Many organizations, I'll pick on retail sector, where margins are tighter, they have more containment on what they can afford to invest, they're much slower to adopt certain types of digital transformation initiatives and that's why, you know, they're having a hard time competing with organizations like Amazon that came in as digital organizations.

So, the same thing applies in insurance. Some of them are very, you know, again, picking on the folks south of the border. You're already doing on line with your phone assessments of a traffic accident, right, and, so, that's all part of digital transformation. Going from the very manual, we walk to a place, we handle paper to everything being done with technology is kind of where this "digital transformation" term is -- is heading and -- and what it means. The question is: What can we afford?

BOARD MEMBER NEMEC: Do you have to do digital transformation at the same time as you do a Legacy System upgrade?

MR. SCOTT GREENLAY: No. You don't. You -- you can choose to stage them. I think what they were trying to do with the Legacy is they're saying we might as well -- if we're going to re-tool, let's re-tool to be able to handle the digital transformation, which is a responsible approach and makes sense.

BOARD MEMBER NEMEC: Thank you.

PANEL CHAIRPERSON: Mr. Bass...? Mr. Greenlay, if the -- if MPI were to adopt your recommendation that there be a pause called on R-3 and if the senior executive were on board with that, how long, in your opinion, would it take them to do the re-evaluation necessary before they could continue with the Project NOVA?

MR. SCOTT GREENLAY: I've given this some thought, 'cause I thought somebody might ask that. It would be between three (3) and 12 months.

PANEL CHAIRPERSON: Thank you. Ms. Dilay...?

MS. KATRINE DILAY: Thank you, Madam Chair. We don't have any questions on re-direct.

PANEL CHAIRPERSON: Thank you. Then, at this point, we'll break to go on to the confidential record. Do you know how long you're going to be, in terms of your questioning? I guess we should canvass whether everybody is actually able to stay.

MR. STEVE SCARFONE: I only have a couple documents that were filed confidentially, Madam Chair. So, I would expect, maybe, 15 minutes.

PANEL CHAIRPERSON: Okay. So, if we were to come back at 4:30 and say that we would probably be concluding by five o'clock, is that acceptable for everybody in the room? Okay. Thank you. 4:30 please.

(WITNESS RETIRES)

--- Upon adjourning at 4:16 p.m.

Certified Correct,

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Wendy Woodworth, Ms.