

MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)
GENERAL RATE APPLICATION
2014/15

Before Board Panel:

Karen Botting - Chair
Regis Gosselin - Board Chair
The Hon. Anita Neville - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
October 9, 2013
Pages 1256 to 1391



“When You Talk - We Listen!”



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1 --- Upon commencing at 9:35 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone, and welcome back to this week's set of
5 hearings. First I would like to -- we had an
6 announcement made to us recently. On -- and on behalf
7 of the panel I would like to congratulate Ms. McLaren,
8 the CEO of MPI, for her recent announcement of her
9 impending retirement. We wish you very well in your
10 retirement when it, of course, occurs. And also thank
11 you very much for your dedication to MPI. So thank
12 you very much.

13 Now, I'd like to turn the mic over to
14 Ms. Kalinowsky, who will introduce Mr. Gibson and some
15 undertakings. Thank you.

16 MS. KATHY KALINOWSKY: Yes, I'll --
17 I'll tackle the undertakings first, and then we can
18 get those out of the way. And then flow through into
19 the investment section, if that's okay.

20 I do have -- and have coordinated this
21 with the Board secretary, but I do have the DCAT
22 report which is a ninety-one (91) page document. So
23 we'll count that as MPI Exhibit number 31.

24

25 --- EXHIBIT NO. MPI-31: DCAT report

1 MS. KATHY KALINOWSKY: And similar to
2 that, we have the review by the external actuary on
3 the DCAT, which -- entitled, "External Review Report
4 on the DCAT Report on Basic Compulsory Automobile
5 Insurance." And it's by Joe Cheng. And we can mark
6 that Exhibit number 32.

7

8 --- EXHIBIT NO. MPI-32: External Review Report on
9 the DCAT Report on Basic
10 Compulsory Automobile
11 Insurance, authored by Joe
12 Cheng

13

14 MS. KATHY KALINOWSKY: And of course
15 in the news in the last -- I believe on Friday was the
16 issuance of the quarterly financial report, and that's
17 for six (6) months ended August 31st, 2013. That was
18 tabled in the legislature on -- on Friday afternoon
19 and was released shortly thereafter. So that can be
20 Exhibit number 33.

21

22 --- EXHIBIT NO. MPI-33: Quarterly financial report
23 ending August 31, 2013

24

25 MS. KATHY KALINOWSKY: Along with that

1 was a news release to put some of that in context,
2 which has also been circulated. And that should be
3 marked as Exhibit number 34.

4

5 --- EXHIBIT NO. MPI-34: News release

6

7 MS. KATHY KALINOWSKY: And we have yet
8 another colourful chart on interest rate forecasts,
9 and Ms. Reichert will speak to that later on. But
10 we'll be providing some context around that but why
11 don't we just mark it as Exhibit number 35 now.

12

13 --- EXHIBIT NO. MPI-35: Chart on interest rate
14 forecasts

15

16 MS. KATHY KALINOWSKY: And there are a
17 whole number of undertakings, and I'll just go through
18 those. But number 23 should be marked as number 36.

19

20 --- EXHIBIT NO. MPI-36: Response to Undertaking 23

21

22 MS. KATHY KALINOWSKY: Number 25
23 should be 37.

24

25 --- EXHIBIT NO. MPI-37: Response to Undertaking 25

1 MS. KATHY KALINOWSKY: Undertaking

2 number 27 should be 38.

3

4 --- EXHIBIT NO. MPI-38: Response to Undertaking 27

5

6 MS. KATHY KALINOWSKY: Undertaking

7 number 28 should be marked as Exhibit number 39 for

8 MPI.

9

10 --- EXHIBIT NO. MPI-39: Response to Undertaking 28

11

12 MS. KATHY KALINOWSKY: Undertaking

13 number 29 should be marked as Exhibit number 40.

14

15 --- EXHIBIT NO. MPI-40: Response to Undertaking 29

16

17 MS. KATHY KALINOWSKY: Undertaking

18 number 30 should be marked as MPI Exhibit 41.

19

20 --- EXHIBIT NO. MPI-41: Response to Undertaking 30

21

22 MS. KATHY KALINOWSKY: Undertaking 31

23 should be marked as MPI Exhibit 42.

24

25 --- EXHIBIT NO. MPI-42: Response Undertaking 31

1 MS. KATHY KALINOWSKY: Undertaking 32
2 from MPI should be marked as MPI Exhibit 43.

3

4 --- EXHIBIT NO. MPI-43: Response to Undertaking 32

5

6 MS. KATHY KALINOWSKY: Undertaking
7 Number 33 should be marked as MPI Exhibit 44.

8

9 --- EXHIBIT NO. MPI-44: Response to Undertaking 33

10

11 MS. KATHY KALINOWSKY: Undertaking 35
12 should be marked as MPI Exhibit 45. No, sorry that's
13 -- yes, that's correct. Undertaking 35 should be
14 marked as Exhibit 45.

15

16 --- EXHIBIT NO. MPI-45: Response to Undertaking 35

17

18 MS. KATHY KALINOWSKY: And that's --
19 the final one should be MPI Undertaking 36 should be
20 MPI Exhibit 46.

21

22 --- EXHIBIT NO. MPI-46: Response to Undertaking 36

23

24 MS. KATHY KALINOWSKY: And I realize
25 that of course that these are undertakings provided to

1 the cross-examination of Board counsel, CAC counsel,
2 and also counsel for CMMG. And of course I believe
3 the plan was at some point we'll reconvene the panel
4 so that there can be some questions on those.

5 There are still just a few undertakings
6 outstanding at this point. But we hope to get them in
7 by the end of today if not first thing tomorrow
8 morning. But hopefully that gives an opportunity for
9 the panel members and counsel and their advisors to go
10 through those undertakings and perhaps create some
11 questions that they might have in that regard.

12 Prior to embarking upon my cross-
13 examina -- or my direct examination of Mr. Gibson,
14 there is one (1) other document that I would like
15 marked as an exhibit. And that's the Investment
16 Committee terms of reference. And that was also
17 circulated to the Board secretary, and I believe it
18 was passed on to the different parties. And that is
19 the Investment Committee terms of reference; and
20 that's the Investment Committee of the board of
21 directors of MPI.

22 I'll be referring to it slightly with -
23 - in my direct examination with Mr. Gibson as to the
24 various roles. So if you just want to keep that handy
25 for the direct examination, that would be helpful. So

1 that would be marked as MPI Exhibit 47.

2

3 --- EXHIBIT NO. MPI-47: Investment Committee terms
4 of reference

5

6 MR. BYRON WILLIAMS: Madam -- excuse
7 me, Madam Chair. I'm not sure we're received that on
8 this side of the table. So if we could just have an
9 opportunity to re -- obtain it.

10 MS. KATHY KALINOWSKY: Sure. We'll
11 just pass those out. I -- I apologize for that.

12

13 (BRIEF PAUSE)

14

15 MS. KATHY KALINOWSKY: Now, last week
16 we ordered Chinese food one (1) day. And of course I
17 opened my fortune cookie. And it said something
18 unusual will happen at work next week. So of course
19 Ms. McLaren announced her retirement. So that's one
20 (1) -- one (1) aspect there.

21 And there is another thing that's
22 unusual that's happening this week. And that is that
23 Mr. Gary Gibson, the Assistant Deputy Minister of
24 Finance, is here testifying to the -- at the Public
25 Utilities Board. It's something that has never

1 occurred in the past, I believe, twenty-three (23)
2 years. And it's also -- I've contacted Hydro to see
3 whether any Deputy Minister or any senior government
4 official had ever testified in one of their hearings.
5 And Hydro said no; Centra said no.

6 I'm familiar with MTS from past history
7 and MTS said, no, they've never had anything like that
8 previously. And I contacted ICBC and they were --
9 they said, No, we've never had anybody from the
10 Province come in and testify, there. So we can indeed
11 say that this is something unusual.

12 So I have here on my right-hand side is
13 Mr. Gary Gibson, who is the Assistant Deputy Minister
14 of Finance in the Treasury Branch. And also behind
15 him is Mr. Garry Steski, who is the director of
16 Capital Markets for the Province of Manitoba in the
17 Department of Finance in the Treasury Branch also. So
18 he is here providing some back-row support to Mr.
19 Gibson.

20 Now I'll proceed with the direct
21 examination. And then after, of course, in accordance
22 with the outline of procedures, there'll be some room
23 for, of course, cross-examination by Board counsel, by
24 In -- the Intervenors. And of course, panel members
25 can ask questions, of course, as they -- they do and

1 are very welcome at any time. So with -- with that, I
2 believe first we need Mr. Gibson sworn or affirmed,
3 please.

4

5

GARY GIBSON, Affirmed

6

7 EXAMINATION-IN-CHIEF BY MS. KATHY KALINOWSKY:

8

MS. KATHY KALINOWSKY: Mr. Gibson, now
9 that you've affirmed as a witness, can you state your
10 educational background for the Board, including any
11 professional designations that you might have?

12

MR. GARY GIBSON: I have a certified
13 management accounting degree, along with approximately
14 twenty-one (21) years of investment and liability
15 management experience. I've been with the province
16 since 1992.

17

MS. KATHY KALINOWSKY: And, for the
18 record, what is the current position with the
19 government?

20

MR. GARY GIBSON: I am the Assistant
21 Deputy Minister of Finance, Treasury -- Treasury
22 Division.

23

MS. KATHY KALINOWSKY: And how many
24 years have you occupied that particular position?

25

MR. GARY GIBSON: I received that

1 position in 2005.

2 MS. KATHY KALINOWSKY: What kind of
3 investment experience do you have? You mentioned that
4 you had twenty-one (21) years. Over that twenty-one
5 (21) years, what have you garnered?

6 MR. GARY GIBSON: As I said, I have
7 both liability and investment experience. The
8 investment experience started with fixed income, as
9 most of our funds were entirely fixed income when I
10 arrived in 1992. That slowly started changing as the
11 -- excuse my hoarse throat; I've been a little under
12 the weather lately. As the MPI funds started changing
13 in the late 1980s, it was clear that we were going to
14 need a more diverse portfolio. Therefore, we started
15 doing work and research and obtaining experience in
16 equities, equity managers, and other asset classes.

17 MS. KATHY KALINOWSKY: So with respect
18 to the province, what do you do with the -- with
19 respect to the province's investments?

20 MR. GARY GIBSON: The province's
21 investments are totally fixed income and that is
22 because they are purely hedging fixed income
23 liabilities.

24 MS. KATHY KALINOWSKY: And do you
25 manage debt for the government?

1 MR. GARY GIBSON: Yes. We manage
2 approximately \$30 billion worth of gross debt, which
3 would include Manitoba Hydro. And we also manage our
4 annual borrowing program, which currently approximates
5 4.8 billion.

6 MS. KATHY KALINOWSKY: And with
7 respect to other investment experience that you have,
8 are you on any committees or boards?

9 MR. GARY GIBSON: As I stated earlier,
10 we manage Manitoba Hydro's liabilities. And -- and
11 when I say, "manage," I mean that we are responsible
12 to fund them. I will be clear that the interest rate
13 decisions, at the end of the day, are theirs. I also
14 sit on the Teacher's Retirement Allowance Fund
15 Investment Committee.

16 MS. KATHY KALINOWSKY: And is there
17 also something called the Risk Oversight Committee?

18 MR. GARY GIBSON: Yes. The Risk
19 Oversight Committee was set up approximately two (2)
20 years ago, which is -- you could think of it as a
21 board of directors that oversees Treasury Division and
22 their activities.

23 MS. KATHY KALINOWSKY: Who assists you
24 in carrying out your investment duties?

25 MR. GARY GIBSON: As you introduced

1 earlier, Gary Steski, who is the director of Capital
2 Markets. There is also an assistant director of
3 Capital Markets, a cash manager, and a financial ana -
4 - analyst that would help us all out with carrying out
5 our duties.

6 MS. KATHY KALINOWSKY: And what kind
7 of experience do you have in insurance, given that
8 this is an insurance rate hearing?

9 MR. GARY GIBSON: My experience in
10 insurance would be limited. That's not what I do for
11 a living, and I rely on the Corporation, through the
12 Investment Committee working group, to give us the
13 information that we need to help them out.

14 MS. KATHY KALINOWSKY: Thank you for
15 that. I want to move into a little bit of direct
16 examination with respect to performance of the
17 investment fund.

18 But over the past five (5) years, how
19 has the investment fund performed?

20 MR. GARY GIBSON: The investment fund
21 has performed very near its benchmark at 5.4 percent,
22 and within rounding the benchmark it was also 5.4
23 percent.

24 MS. KATHY KALINOWSKY: Okay. Well,
25 let's --

1 MR. REGIS GOSSELIN: I'm sorry, could
2 you repeat that, please?

3 MR. GARY GIBSON: Sorry.

4 MR. REGIS GOSSELIN: I just didn't
5 hear...

6 MR. GARY GIBSON: It has performed
7 very near to its benchmark, overall benchmark, at 5.4
8 percent.

9

10 CONTINUED BY MS. KATHY KALINOWSKY:

11 MS. KATHY KALINOWSKY: And that's the
12 overall performance of the fund. Let's break that
13 down into different asset classes. So let's talk
14 about bonds. Bonds, of course, are the biggest asset
15 class.

16 How have the bonds performed?

17 MR. GARY GIBSON: Fixed income has
18 performed at 5.5 percent over the last four (4) years,
19 which was fourth quartile, as since 2008 the markets
20 have been very choppy. And I will also say that over
21 the last fifteen (15) years fixed income has added
22 value of approximately thirty (30) -- thirty-five (35)
23 basis points over the last fifteen (15) years, which -
24 - and the reason I use that term is that's when we
25 first began benchmarking the fund.

1 MS. KATHY KALINOWSKY: And just to get
2 the record straight on that, that thirty-five (35)
3 basis points is annual, not cumulative over fifteen
4 (15) years.

5 MR. GARY GIBSON: No, that's annual.

6 MS. KATHY KALINOWSKY: Let's talk
7 about Canadian equities on an overall basis. Over the
8 past five (5) years, how have Canadian equities
9 performed?

10

11 (BRIEF PAUSE)

12

13 MR. GARY GIBSON: Now, this data is at
14 at -- as at June 2013, and I believe it's similar
15 going back to -- no, this is June 30th as well. The
16 return was 2.4 percent, which was 51st percentile,
17 which basically means they were one (1) spot off the
18 median manager. Oh, can I just...

19 And, sorry, I should also state that
20 that did out perform the benchmark by one point nine
21 (1.9) basis points -- 1.9 percent, sorry.

22 MS. KATHY KALINOWSKY: And with
23 respect to US equities over the past five (5) years,
24 how has that performed?

25 MR. GARY GIBSON: US equities

1 underperformed their benchmark at 4.7 percent versus
2 the benchmark of 7.7 percent over the five (5) year
3 period to June 30th, 2013. And that is why we have
4 taken steps to remove our managers in the US and go to
5 indexed funds.

6 MS. KATHY KALINOWSKY: And let's talk
7 about the real estate port -- portfolio. How has that
8 performed over the past five (5) years?

9 MR. GARY GIBSON: Real estate does not
10 go back five (5) years. Its total return for the last
11 four (4) years to June 2013 was 13.1 percent, which
12 outperformed the IDP benchmark by 2 percent. IDP
13 benchmark was 11.1 percent.

14 MS. KATHY KALINOWSKY: Thank you for
15 that. I'm going to move into the -- the area of MPI's
16 investments and particularly with respect to the
17 governance of the investments.

18 So let's start at the top, Mr. Gibson,
19 with the Minister. So who is responsible for and has
20 control over the investments of the Corporation?

21 MR. GARY GIBSON: Legislatively, the
22 Minister of Finance is responsible for these
23 investments under section -- I believe it's Section
24 12.1 of the MPI Act. However, as I say that, the two
25 (2) organizations attempt to manage this fund as a

1 joint project.

2 MS. KATHY KALINOWSKY: Now, the
3 Minister of Finance is a very busy person. Does he
4 delegate his res -- the responsibilities to anybody in
5 particular?

6 MR. GARY GIBSON: That would be
7 myself.

8 MS. KATHY KALINOWSKY: I'm going to
9 ask you to give me some examples of how the Minister
10 of Finance retains control over MPI's investments.

11 For instance, is the Minister briefed
12 on the investment portfolio at times?

13 MR. GARY GIBSON: Yes, there are
14 meetings between senior Treasury staff, Deputy
15 Ministers, and the Minister on a regular basis to
16 advise -- let me back up a bit. At least with a
17 regular basis with the Deputy Minister. I meet with
18 him every two (2) weeks, and this would be one (1) of
19 the subjects on the agenda.

20 We meet with the Minister as required,
21 which would be for more significant events, such as
22 the examples I would give you is if we were going to
23 hire or terminate an equity manager, we would not do
24 that without briefing the Minister first. If the
25 Corporation was changing their asset allocation model,

1 we would not do that with brief -- without briefing
2 the Minister.

3 MS. KATHY KALINOWSKY: Thanks. And I
4 don't want to ask anymore questions with respect to
5 the Minister's resp -- involvement in this,
6 recognizing, of course, cabinet confidences, and
7 ministerial confidences, and of course, your
8 confidence as -- as a senior civil servant. So let's
9 mo --

10 MR. GARY GIBSON: Sorry, I missed one
11 (1) point. The other thing I should make clear is
12 that on any significant issues, such as a change in
13 the asset allocation to the fund, we would actually
14 get the Minister to formally sign off on it.

15 MS. KATHY KALINOWSKY: Thank you for
16 that. Let's talk about your role as Assistant Deputy
17 Minister, then.

18 What is your role?

19 MR. GARY GIBSON: It has many facets.
20 The Minister has designated or delegated the right to
21 me to make decisions on investments and to help manage
22 this fund. Along with my group, I manage the Fixed-
23 income Investment Fund. I am co-chair of what we call
24 the Investment Committee working group, which I'll
25 refer to as just the working group, which is where

1 most of the strategic decisions are made for the
2 direction of this fund.

3 I also attend Investment Committee
4 meetings to ensure that the Investment Committee is up
5 to speed and knowledgeable about the performance of
6 the fund and the direction of the fund and the asset
7 classes that the fund is involved in. We're in
8 regular discussions with MPI employees on various
9 events, right up to the CEO level. Which -- I'm one
10 (1) of the people that is going to miss Marilyn a lot,
11 because we've got to know each other quite well.

12 We seek input from MPI on all
13 investments. You know, outside of the -- the only
14 investments that would not have active involvement
15 would be I do manage with my group the fixed income
16 portfolio independently of MPI, although they
17 obviously have input into the big picture of where
18 that portion of the fund is going.

19 So we work jointly with them to come up
20 with the best decisions we can for the fund on a
21 regular basis. And I guess you can almost, for lack
22 of a better explanation, think of me as a chief
23 investment officer, which is what they would be called
24 at a pension fund.

25

1 (BRIEF PAUSE)

2

3 MS. KATHY KALINOWSKY: You work within
4 the Department of Finance. It would be helpful for
5 members and counsel and others to pull out MPI Exhibit
6 number 47, which is the Investment Committee terms of
7 reference. And I've brought this forward because I
8 believe it has a helpful delineation of the roles of
9 each of the different actors in this.

10 If you could pull out MPI Exhibit
11 number 47, page 4, which is "Role of the Department."

12

13 (BRIEF PAUSE)

14

15 MS. KATHY KALINOWSKY: And the
16 'Department' here of course refers to the Department
17 of Finance, not finance within MPI, but the Provincial
18 Department of Finance. And I'll just read in:

19 "The role of the Department has been
20 determined by the Act and the
21 Minister as follows:

22 a) manage the investment of the fund
23 and implement investment direction
24 and decisions consistent with
25 approved investment policies and

1 strategies;
2 b) through participation on the
3 working group, develop proposed
4 investment policies and strategies,
5 and the parameters for the fund for
6 recommendation to the Minister and
7 the Board; and
8 c) appoint up to three (3) persons
9 as representatives to the working
10 group."

11 So, Mr. Gibson, you're familiar with
12 this. Would you affirm the accuracy of this?

13 MR. GARY GIBSON: Yes, it's accurate.

14 MS. KATHY KALINOWSKY: So who has
15 signing authority on MPI's investments?

16 MR. GARY GIBSON: There is three (3)
17 or four (4) different people in my group that has
18 signing authority, depending on the investment and how
19 the order in council is worded. But it is my
20 signature on the vast majority of all the documents.

21

22 (BRIEF PAUSE)

23

24 MS. KATHY KALINOWSKY: Who has defacto
25 responsibility for and control over MPI's investments?

1 MR. GARY GIBSON: The Assistant Deputy
2 Minister, Department of Finance Treasury Division,
3 which would be me at this point in time.

4 MS. KATHY KALINOWSKY: Thank you for
5 that. Let's move on to the Investment Committee of
6 the Board of Directors. And that would be located at
7 page 3.

8 MR. REGIS GOSSELIN: Ms. -- Ms.
9 Kalinowsky, would you mind repeating the previous
10 question, please? Just so I can hear it correctly.

11 MS. KATHY KALINOWSKY: Sure.

12 MR. REGIS GOSSELIN: Okay.

13

14 CONTINUED BY MS. KATHY KALINOWSKY:

15 MS. KATHY KALINOWSKY: Who has defacto
16 responsibility for and control over MPI's investments?

17 MR. GARY GIBSON: That would be the
18 Assistant Deputy Minister, Department of Finance
19 Treasury Division, which currently is myself.

20 MS. KATHY KALINOWSKY: Thank you. And
21 I'd like to move to page 3 of MPI Exhibit number 47,
22 and that's the role of the Investment Committee. And
23 within this context, the Investment Committee is the
24 Investment Committee of the board of directors of
25 Manitoba Public Insurance. So I'll read in number 8:

1 "Role of Investment Committee is to:
2 a) make recommendations to the Board
3 as to the investment policies and
4 strategies, and the parameters for
5 the fund for subsequent
6 consideration by the Minister;
7 b) provide oversight on and
8 monitoring of the investment
9 performance of the fund; and
10 c) determine the Corporation's
11 liability structure, including long-
12 term liabilities and payment
13 requirements in relation to its
14 existing and anticipated claims
15 experience, and insurance policies."

16 Could you confirm that this is
17 accurate, to the best of your knowledge?

18 MR. GARY GIBSON: Yes, it is.

19 MS. KATHY KALINOWSKY: So, Mr. Gibson,
20 you attend all of the Investment Committee meetings of
21 the MPI board of directors.

22 Why do you attend the meetings?

23 MR. GARY GIBSON: As I said earlier,
24 they would think of me as somewhat like a chief
25 investment officer. So it's important that I be there

1 to inform them on investment decisions and future
2 plans for the fund, and to discuss and seek input on
3 the policies and strategies that have been developed
4 at the working group level. We also review with them
5 the activities and performance of the fund at each
6 meeting.

7 MR. REGIS GOSSELIN: I'm sorry, I'm --
8 I'm busy trying to write and prepare questions. So
9 you attend all meeting of the Board of MPIC?

10 Did I hear correctly?

11 MR. GARY GIBSON: I try to attend all
12 meetings.

13 MR. REGIS GOSSELIN: Okay. But --

14 MR. GARY GIBSON: I can't say I get to
15 ever one (1).

16 MR. REGIS GOSSELIN: Okay.

17 MS. KATHY KALINOWSKY: Sorry,
18 clarification there.

19 MR. REGIS GOSSELIN: Okay.

20 MS. KATHY KALINOWSKY: You asked if he
21 attended all meetings of the board.

22 MR. REGIS GOSSELIN: Okay. But it's --

23 MS. KATHY KALINOWSKY: But I think you
24 -- and -- and, Mr. Gibson responded, "Yes." Perhaps
25 the question should be: Do you attend all meetings of

1 the Investment Committee of the board of directors?

2 MR. REGIS GOSSELIN: Okay. Okay.

3 Thank you for that clarification.

4 MR. GARY GIBSON: I attempt to attend
5 all meetings. That's not always possible. But I can
6 assure you that some of the senior staff around me are
7 at those meetings if I am not.

8 MR. REGIS GOSSELIN: I'm sorry, that -
9 - that Investment Committee meets how often?

10 MR. GARY GIBSON: Currently, it's four
11 (4) times a year.

12

13 CONTINUED BY MS. KATHY KALINOWSKY:

14 MS. KATHY KALINOWSKY: Let's talk
15 about the role of the Investment Committee working
16 group. I'll read in the role of the working group,
17 which is number 10 on this document, so it's on page
18 4:

19 "The working group
20 Investment Committee working group]
21 will be comprised of up to three (3)
22 persons appointed by the Deputy --
23 by the [sorry] Department of Finance
24 and the following MPI
25 representatives: vice president of

1 Finance, and chief financial
2 officer; director of Finance and
3 corporate controller; manager
4 investments; manager financial
5 services. The vice president of
6 Finance and CFO, and the Assistant
7 Deputy Minister of the treasury
8 division of finance will co-chair
9 the working group.

10 The role of the working group is to:
11 a) act as a liaison between the
12 Department and the Investment
13 Committee, b) develop strategies for
14 investment exposure for
15 consideration by the Investment
16 Committee and the Department, c)
17 support the Assistant Deputy
18 Minister in reviewing, screening,
19 and selecting investment managers,
20 d) monitor performance of investment
21 managers, e) prepare investment
22 policies and annual strategies, and
23 draft parameters for the fund for
24 review and approval by the
25 Investment Committee and the

1 Department."

2 Onto the next page:

3 "f) implement investment decis --
4 [or] investment policies and
5 direction with the prior approval
6 and concurrence of the Department,
7 and g) provide regular reports to
8 the Investment Committee and the
9 Department as they shall require."

10 So, once again, Mr. Gibson, would you
11 be able to affirm the accuracy of that?

12 MR. GARY GIBSON: That is accurate.

13 MS. KATHY KALINOWSKY: Now, we've run
14 through the members from MPI. There's three (3)
15 representatives from the Department of Finance. Can
16 you explain who those three (3) representatives are?

17 MR. GARY GIBSON: The three (3)
18 representatives are the Assistant Deputy Minister
19 treasury division, the director of capital finance,
20 and the director of treasury services. We also have a
21 member that is a director of risk management that is
22 not a full member of the committee but attends
23 meetings on a regular basis.

24 MS. KATHY KALINOWSKY: So can you give
25 the Board an idea as to what actually happens at an

1 Investment Committee working group meeting?

2 MR. GARY GIBSON: Normally, there
3 would be an update on investment performance. We
4 would review individual managers performance along all
5 asset classes. On an annual basis, we review any
6 investments that we feel might be impaired. We go
7 through portfolio compliance and evaluate whether
8 there's any asset classes that need to be re-balanced
9 if they happen to be getting out of the percentage
10 range that we set for them.

11 That is where we would consider whether
12 we were going to retain, or at some point ever have to
13 terminate an investment manager. We would consider
14 opportunities and investments in various asset classes
15 at those meetings. Excuse me.

16 MPI would also provide us with any
17 information or needs that they think is relevant to
18 investment activities. And the would advise us on any
19 operational needs, such as the need for cash or cash
20 flow over time.

21 MS. KATHY KALINOWSKY: Thank you.
22 What is the role of MPI then in managing its
23 investments?

24 MR. GARY GIBSON: Well, outside of the
25 fact that, as I stated earlier, the Minister

1 ultimately is responsible by legislation. MPI has the
2 co-chair on the committee. We very much try and run
3 the committee as a shared operation. And we work
4 collaboratively together with the two (2) groups to
5 dev -- to review and develop investment policy
6 statements, monitor investments, develop and deploy
7 strategies, and consider opportunities.

8 MPI also has an investment department,
9 which is a great resource for us, which does the vast
10 majority of the background work and research on any
11 managers and/or any investment strategies we are
12 considering. And MPI is responsible for the
13 forecasting of their investment income; we don't
14 really get involved in that.

15 MS. KATHY KALINOWSKY: And what kind
16 of control, then, does MPI have over its investments?

17 MR. GARY GIBSON: Ultimately, the
18 Minister, as I've said, controls the investments.
19 However, the two (2) groups work together hand-in-hand
20 to execute the strategy that is in the best interest
21 of the Corporation.

22 MS. KATHY KALINOWSKY: Let's talk
23 about the practical management of MPI's investment
24 funds.

25 MR. GARY GIBSON: M-hm.

1 MS. KATHY KALINOWSKY: We've
2 established the formal government's -- governance of
3 MPI's investment fund. Can you explain, then, in some
4 detail how actually the Department of Finance works
5 with MPI on managing the investments?

6 MR. GARY GIBSON: Well, I think that
7 is where the working group is so critical to what
8 we're doing here because, in general, the two (2)
9 groups work very much as a team. As the Department of
10 Finance does not have detailed knowledge of the
11 insurance industry, our knowledge comes in investment
12 and liability management. And we rely on the
13 Corporation and have many discussions about those
14 needs of the Corporation and how we can make sure that
15 we are cooperating to fulfill them.

16 As I said earlier, since '98, we
17 started diversifying the fund away from fixed income
18 and into other asset classes, as it was becoming clear
19 -- or let me rephrase that. The Corporation was
20 telling us it was becoming clear that the liability
21 base of the Corporation was changing over time.

22 So for investments other than bonds, as
23 I -- as I stated earlier, I manage -- me and my group
24 manage the bond fund. We collaborate on all other
25 investment strategies and asset classes.

1 For instance, to -- if we were going to
2 hire an equity manager, we would have the investment
3 group at MPI do the basic research. MPI would be the
4 organization that would retain any independent
5 consultants that we were going to use to help us with
6 that process. And, ultimately, the decision would be
7 made at the working group as to who we wanted to hire.

8 On the bond front, as I've said, it's
9 under my group's direction. And at the end of the
10 day, it's the Department of Finance that -- that makes
11 the decision of what we buy, what credits we buy, and
12 when we buy it. To make this clear, also, the
13 Department of Finance decides which municipal school
14 and/or hospital bonds go into this fund versus other
15 funds that we manage.

16 And this is -- I'm going to sound like
17 I'm rep -- repeating myself, but ultimately it's
18 myself and my group that make the decisions on what
19 we're going to purchase, and when we're going to
20 purchase it, and when we're going to sell something on
21 the fixed-income side.

22 MS. KATHY KALINOWSKY: Since 1971, the
23 inception of the Corporation, the MPIC Act requires
24 the Corporation to forward its monies to the Minister
25 of Finance for investment for the Corporation.

1 Does this actually happen?

2 MR. GARY GIBSON: Yes, it does. The
3 vast majority of excess funds are transferred to the
4 province on a daily basis. We have two (2) trust
5 accounts: one (1) is for general cash requirements of
6 the Corporation, and one (1) is for monies that are
7 available for investment. And, obviously, the
8 Corporation will control -- even though it's in our
9 trust account, it's their decision of what cash levels
10 that they feel need -- they -- feel they need to keep
11 the Corporation liquid. And the monies in the
12 investment account is then in the Department of
13 Finances's discretion as to how to deploy it.

14 MS. KATHY KALINOWSKY: In PUB Board
15 Order number 162/'11, the PUB recommended, and I'll
16 quote here:

17 "MPI engage only in those real
18 estate and infrastructure
19 investments that involve commercial
20 terms, meaning commercially
21 reasonable and arms-length
22 transactions."

23 End quote. Is this, i.e. the choice of
24 real estate and infrastructure investments, let alone
25 whether or not they're at arm's length or not, is that

1 something that's within the Corporation's control?

2 MR. GARY GIBSON: From a pure legal
3 perspective: no, they don't make their own decisions.
4 The Minister ultimately retains the responsibility
5 under legislation. However, as I've said many times,
6 we very much work as a team to make these things
7 happen.

8 MS. KATHY KALINOWSKY: What about
9 specific investments in equities; how are those
10 decisions made and who makes them?

11 MR. GARY GIBSON: We don't really make
12 specific decisions in equities unless it's an index.
13 And even when an -- an index there's probably a
14 manager on top of it. The Minister of Finance
15 delegated to me is the entity that hires the
16 investment managers and would terminate them if
17 required. It's the managers that we hire that select
18 what stocks they're going to buy and when, and what
19 stocks they're going to sell and when.

20 MS. KATHY KALINOWSKY: So just to put
21 this in some context then, let's say the Minister of
22 Finance would provide an investment manager with a
23 certain sum, let's say 25 million or \$50 million to
24 invest in equities, and then that investment manger,
25 being a private investment management company, would

1 make those specific decisions on which stocks and
2 equities to purchase?

3 MR. GARY GIBSON: Yes. The working
4 group would help select the manager, but it is the
5 Minister of Finance that hires the manager and the
6 contract would be in the Minister of Finance's name.
7 And I believe they're all signed by me.

8 MS. KATHY KALINOWSKY: Okay. We
9 talked about entering into the contract; then what
10 about terminating the contract?

11 Who terminates the investment manager
12 if, for instance, they're underperforming?

13 MR. GARY GIBSON: The letter would
14 always come under my signatures to-date, or whoever
15 the Assistant Deputy Minister happened to be at the
16 time.

17 MS. KATHY KALINOWSKY: Now, that was
18 with respect to equities; is the same process for the
19 real estate fund?

20 MR. GARY GIBSON: Yes, I believe that
21 would fit for all asset classes.

22 MS. KATHY KALINOWSKY: Well, of
23 course, the investment income forecast is -- and the --
24 -- the interest rate is a particular interest in this
25 general rate application. I want to ask you a couple

1 of questions here to just end off the direct
2 examination with respect to investment income
3 forecast.

4 Do you prepare MPI's forecast to
5 investment income?

6 MR. GARY GIBSON: No, I do not.

7 MS. KATHY KALINOWSKY: Do you have any
8 input into the forecast of MPI's investment income?

9 MR. GARY GIBSON: They will come and
10 ask for my and my group's opinion and it'll stop
11 there.

12 MS. KATHY KALINOWSKY: Let's talk
13 about the Province of Manitoba. Are you involved with
14 the Province's setting of the -- their interest rate
15 forecast?

16 MR. GARY GIBSON: Yes, I am.

17 MS. KATHY KALINOWSKY: So can you just
18 give, at a very high level to the Board members, a
19 brief description of how the Province does set their
20 interest rate forecast?

21 MR. GARY GIBSON: Historically, we
22 have taken the average of the large forecasters in
23 Canada, which would include the Conference Board and
24 the -- the major banks in Canada. We would take a
25 look at the average, we will take a look at the highs

1 and the lows, and then, at the end of the day, we will
2 impart our own judgment onto where we're going to
3 forecast the rates, given the risk tolerance that we
4 can withstand.

5

6 (BRIEF PAUSE)

7

8 MS. KATHY KALINOWSKY: So I know you -
9 - at a high level, you're familiar with MPI's interest
10 rate forecast. What do you think of it?

11 MR. GARY GIBSON: In my view, it's
12 prudent and reasonable.

13 MS. KATHY KALINOWSKY: And also, at a
14 high level, how does the province's interest rate
15 forecast compare to MPI, if you can give us a
16 directional indicator?

17 MR. GARY GIBSON: I don't believe it's
18 that dissimilar, because the MPI forecast does not
19 include provincial credit spreads, where our -- ours
20 does. And if you added them on, I don't think it
21 would be that much different.

22 MS. KATHY KALINOWSKY: Thank you.
23 Last week, or maybe it was two (2) weeks ago now, the
24 thrust of a cross-examination of the MPI's panel by
25 CAC counsel was, and I'll just paraphrase it very

1 roughly: But why would MPI think that it can do a
2 better job at forecasting interest rates than the five
3 (5) major banks?

4 Do you have any comments?

5 MR. GARY GIBSON: We don't think we
6 can do a better job than the Canadian banks. However,
7 that being said, the Canadian banks and most
8 forecasters in both Canada and the US have not been
9 that accurate over the last several years, if not the
10 last ten (10) years. And, therefore, we have to take
11 that into consideration when we're setting our
12 forecast -- and I'm speaking to the Province now --
13 because, ultimately, it is our role to meet budget
14 requirements.

15 MS. KATHY KALINOWSKY: And one (1)
16 final question. And last year I provided a direct
17 examination of Ms. McLaren at the general rate
18 application. I'm just going to read in one (1)
19 question -- but it's from page 170 of the transcript
20 of last year. And I'll read it into the record here,
21 and -- along with her response. So page 170, Ms.
22 Kathy Kalinowsky:

23 "So to finish up my direct
24 examination on the topic of
25 investments, would I be correct in

1 saying that it is unconditionally
2 true that the Minister of Finance
3 and his senior staff, particularly
4 the Assistant Deputy Minister, not
5 only are responsible for, but
6 actually control, make decisions on,
7 and actually invest the investment
8 monies of the Corporation as
9 prescribed by the MPIC Act?"

10 Ms. McLaren responded,

11 "Yes, that's true."

12 What is your response to that same
13 question?

14 MR. GARY GIBSON: Ultimately, we are
15 governed by the Act, which holds the Minister of
16 Finance responsible for these investments, who was
17 then delegated to -- to the Department of Finance
18 Treasury to execute that so, therefore, I would agree.

19 MS. KATHY KALINOWSKY: Thank you for
20 that response. That's my final of the direct
21 examination.

22 Recognizing the time now is now 10:25,
23 I didn't know if this would be an appropriate time for
24 a break, if that's satisfactory? Perhaps Board
25 counsel would probably appreciate reviewing some of

1 her notes, recognizing some of the issues may have
2 been already covered, or she might want to pursue
3 more.

4 THE CHAIRPERSON: Thank you very much,
5 Ms. Kalinowsky. Yes, it would be a good time to take
6 a break. And we'll come back by twenty (20) to 11:00.
7 Thank you.

8

9 --- Upon recessing at 10:24 a.m.

10 --- Upon resuming at 10:39 a.m.

11

12 THE CHAIRPERSON: Okay. Thank you
13 very much. We're ready to continue with our
14 proceedings. And I'm going to call upon Ms. Grammond
15 to do her cross-examination of Mr. Gibson.

16 MS. CANDACE GRAMMOND: Thank you,
17 madam chair.

18

19 CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

20 MS. CANDACE GRAMMOND: So, Mr. Gibson,
21 I just want to start with a couple of questions going
22 back to the background information that you went
23 through with Ms. Kalinowsky. So I heard you say
24 you've been in your current position since 2005, and
25 you've been with the Province since 1992.

1 Do I have that right?

2 MR. GARY GIBSON: Yes, you do.

3 MS. CANDACE GRAMMOND: So my question
4 is this: How long have you been involved in MPI's
5 investments? Has that been since 1992, or since 2005,
6 or somewhere in between?

7 MR. GARY GIBSON: Since 1992 in
8 various different levels. As I went through, I
9 started as the assistant director of capital finance,
10 moved up to the director of capital finance, and
11 basically was looking after it all by myself then, and
12 then moved to the ADM position.

13 MS. CANDACE GRAMMOND: So when we say
14 you've had twenty-one (21) years experience, you have
15 had some involvement with MPI, specifically,
16 throughout that time.

17 MR. GARY GIBSON: Yes, for the entire
18 time.

19 MS. CANDACE GRAMMOND: Thank you.
20 Now, I think you said that at present you're assisted
21 or supported by, I believe, Mr. Steski, as well as
22 three (3) others with respect to MPI investment
23 matters?

24 MR. GARY GIBSON: That's correct.

25 MS. CANDACE GRAMMOND: And who are the

1 three (3) others? Are those the individuals that you
2 referenced that sit on the working group, or are they
3 different individuals?

4 MR. GARY GIBSON: No, that would be
5 the -- now, I was referring more to the fixed income
6 side, I think, when I make that -- made that
7 statement. That would be the Assistant Director
8 Capital Finance, the cash manager, and the capital
9 markets analyst.

10

11 (BRIEF PAUSE)

12

13 MS. CANDACE GRAMMOND: Thank you.
14 Now, I assume, Mr. Gibson, that you're familiar with
15 the role of the PUB relative to MPI.

16 MR. GARY GIBSON: Somewhat. Certainly
17 not an expert.

18 MS. CANDACE GRAMMOND: That the PUB
19 sets the rates for the Basic Insurance Program that
20 MPI administers?

21 MR. GARY GIBSON: Yes, I'm certainly
22 aware of that.

23 MS. CANDACE GRAMMOND: Are the orders
24 issued by the PUB, or have the orders issued by the
25 PUB in the past, been discussed at the Investment

1 Committee working group as those orders relate to
2 investment issues?

3 MR. GARY GIBSON: I don't believe that
4 it has been discussed in specifics, although I am
5 aware that some of the rebates came from investment
6 performance.

7 MS. CANDACE GRAMMOND: So, if I
8 understand you correctly, it wouldn't necessarily be
9 the case that an order of the Board flowing from a GRA
10 like this one would necessarily be discussed at a
11 working group meeting.

12 MR. GARY GIBSON: I believe it would
13 be at a high level but for information purposes rather
14 than -- I'm not sure where you're referring to. They
15 would obviously make us aware of what was going on,
16 but I don't think it would be in the discussion tone
17 of: We need to change our investments because of it.

18 MS. CANDACE GRAMMOND: Ms. Kalinowsky
19 raised with you a recommendation that the Board made a
20 couple of years ago regarding real estate and
21 infrastructure, and you had responded that the
22 Minister has the responsibility, although the
23 Corporation works as part of the team.

24 Can you comment on, in your experience,
25 what weight has been attributed by the working group

1 to the PUB's comments or recommendations regarding
2 investments?

3 MR. GARY GIBSON: I'm not sure I
4 totally understand the question. The PUB's
5 recommendation was what?

6 MS. CANDACE GRAMMOND: Sure. Sorry.
7 I'm -- the -- the PUB, from time to time, in its
8 orders will comment on investment-related matters
9 relative to MPI; and Ms. Kalinowsky raised with you a
10 specific example of that from two (2) years ago where
11 the -- this Board made a recommendation about the
12 Corporation's real estate and infrastructure
13 investments. So perhaps using that as an example, or
14 commenting in a more general context, as you may
15 prefer, I'm just trying to get at whether you, or the
16 working group, attribute weight to the Board's
17 comments in its orders, relative to investments?

18 MR. GARY GIBSON: Yes, I believe we
19 would. And I believe we had real estate and
20 infrastructure built into our asset allocation since
21 2008. And they're difficult classes to get executed
22 quickly, so we're diligently working on getting them
23 executed.

24 MS. CANDACE GRAMMOND: Now, to discuss
25 the working group a little bit further, Mr. Gibson, I

1 know you gave evidence -- at least I -- I think what
2 you said, and -- and if I heard you incorrectly then
3 please tell me -- is that the Investment Committee of
4 the Board of MPI meets about four (4) times a year.

5 Can you tell us how often the
6 Investment Committee working group meets?

7 MR. GARY GIBSON: Approximately six
8 (6) times a year.

9 MS. CANDACE GRAMMOND: And that's --
10 the working group is the committee that you and Ms.
11 Reichert co-chair.

12 Is that right?

13 MR. GARY GIBSON: That's correct.

14

15 (BRIEF PAUSE)

16

17 MS. CANDACE GRAMMOND: Now, you've
18 commented on the fact that the bond portfolio of MPI
19 is managed by your and your group within the
20 Department of Finance.

21 Is that right?

22 MR. GARY GIBSON: That's correct.

23 MS. CANDACE GRAMMOND: And I think you
24 said that there is collaboration with respect to all
25 other investment classes. So what I just want to make

1 sure that I understand is, what, if anything, does the
2 working group discuss relative to the bonds, as
3 distinct from the other investments?

4 MR. GARY GIBSON: The working group
5 would discuss broader strategies such as duration and
6 ensuring the duration is kept within the band that is
7 allowed within the Investment Policy Statement. And I
8 believe it would stop there. The -- you know, I can't
9 -- we probably have some discussions around credit
10 policies from time-to-time, et cetera, but ultimately
11 the decision is the Department of Finances.

12 MS. CANDACE GRAMMOND: And with
13 respect to equities, if I understood you correctly,
14 the working group does discuss the hiring of -- of the
15 external managers, or the termination of external
16 managers, as the case may be?

17 MR. GARY GIBSON: That is correct.

18 MS. CANDACE GRAMMOND: And does the
19 working group also monitor the performance of the
20 external managers on an ongoing basis?

21 MR. GARY GIBSON: Yes, they would
22 review the monitoring. Most of the monitoring is
23 either done by an outside consultant or the investment
24 department at MPI, but it would come up to the working
25 group level for review.

1 MS. CANDACE GRAMMOND: And if a
2 situation arose where an external manager needed to be
3 changed, if I understand your evidence correctly, that
4 would be discussed within the working group?

5 MR. GARY GIBSON: That's correct.

6 MS. CANDACE GRAMMOND: And I know you
7 made a few references in your direct evidence to
8 working as a team, working hand-in-hand, it's a shared
9 operation, that kind of thing; can you tell us whether
10 you can recall an instance where no consensus could be
11 reached within the working group on a particular issue
12 and a -- relative to an equity manager?

13

14 (BRIEF PAUSE)

15

16 MR. GARY GIBSON: I'm -- I'm going to
17 go with "no".

18 MS. CANDACE GRAMMOND: So to the best
19 of your recollection on the issue of hiring or
20 terminating an external equity manager, to this point
21 the working group has always been able to reach a
22 consensus within it?

23 MR. GARY GIBSON: I don't like to say
24 'never', but in the vast, vast majority of the issues
25 they have come to consensus.

1 MS. CANDACE GRAMMOND: Can you tell us
2 -- and -- and I'm -- I'm going to ask you this kind of
3 question on a -- few different topics about the
4 working group and whether it can reach a consensus,
5 but I'll -- I'll ask you this in -- in the context
6 that we're speaking about right now: What -- what
7 would happen if the working group couldn't reach a
8 consensus? And, again, we can restrict it for the
9 moment to hiring or terminating an equity manager.

10 What would be the process if, for
11 whatever reason, through discussion, the working group
12 couldn't come to an agreement? How would that have to
13 be dealt with?

14 MR. GARY GIBSON: I can't really see
15 that happening. However, if we ever got to that point
16 in time I would expect that I would end up going back
17 and breaping -- briefing my Deputy Minister and
18 briefing my Minister and seeking further advice from
19 that group. And I mean the deputies and the Minister
20 is the group I'm referring to.

21 MS. CANDACE GRAMMOND: Thank you.
22 Now, with respect to the Corporation's real estate
23 investments, you spoke -- I -- what I took from your
24 earlier evidence was that the process is, in essence,
25 the same as it is for equities; that real estate

1 investments are discussed at the working group.

2 Is that right?

3 MR. GARY GIBSON: That's correct.

4 MS. CANDACE GRAMMOND: So does that
5 include making purchases of local real estate, like
6 for example, the Cityplace complex that the
7 Corporation owns?

8 MR. GARY GIBSON: Yes, that would've
9 been discussed by the working group because we knew
10 that some of the assets that were going to come with
11 that purchase were going to be treated as investments,
12 rather than corporate assets for the corporate use.

13 MS. CANDACE GRAMMOND: And what about
14 a real estate purchase that didn't involve an
15 investment component, per se? I take it, then, that
16 wouldn't be something that would be talked about at
17 the working group?

18 MR. GARY GIBSON: I would agree with
19 that. I imagine the Corporation is building claim
20 centres on an ongoing basis that we have no input
21 into.

22 MS. CANDACE GRAMMOND: And so for real
23 estate then, is it the same process as with respect to
24 equities, that the working group reaches a consensus
25 with respect to what should be done?

1 MR. GARY GIBSON: Yes, it would be the
2 same process where the investment department would do
3 the background research and then bring it up to the
4 working group, as we went through a process of
5 screening managers. And it would be a joint decision
6 on who to hire.

7 MS. CANDACE GRAMMOND: And when you
8 say, "on who to hire," you're talking about the
9 external manager for that investment?

10 MR. GARY GIBSON: Yes, external
11 manager.

12 MS. CANDACE GRAMMOND: Now, we've
13 heard evidence with respect to the fact that the
14 Corporation has sought expressions of interest
15 relative to the development of properties around the
16 MTS Centre.

17 Is that an endeavour that the working
18 group is involved in, or is that a corporate issue?

19 MR. GARY GIBSON: The working group is
20 involved in that process.

21 MS. CANDACE GRAMMOND: So would,
22 again, the process be to try to reach a consensus and
23 make -- make a decision from there?

24 MR. GARY GIBSON: Yes. Again, the
25 process would be the same, where we screen for

1 possible contenders to help us develop some of these
2 properties. That would have been done by the
3 investment department. And then that would have been
4 brought up to the working group for their
5 consideration.

6 MS. CANDACE GRAMMOND: And, again, if
7 -- if it occurred that no consensus could be reached
8 within the working group, your next step would be to
9 go back to the Assistant Deputy Minister and -- or,
10 sorry, the Deputy Minister and the Minister?

11 MR. GARY GIBSON: At -- at some point
12 in time, yes. If we could not reach consensus, that
13 would be the strategy I would use.

14 MS. CANDACE GRAMMOND: Thank you.
15 Now, we know, Mr. Gibson, that the Corporation has an
16 investment policy statement that's been referred to a
17 couple of times today that sets out various parameters
18 with respect to investments.

19 What is your role with respect to the
20 investment policy statement? And what I mean by that
21 is, reviewing it, updating, amending it, so forth.

22 MR. GARY GIBSON: Sorry for the cough.
23 We would be party to the process. The work of -- of
24 updating it would be done by the investment
25 department. But, again, it would be brought to the

1 investment working group for a review before it went
2 anywhere.

3 MS. CANDACE GRAMMOND: And up to this
4 point, have all of the changes that have been
5 implemented within the investment policy statement
6 been done by consensus within the working group?

7 MR. GARY GIBSON: Yes.

8 MS. CANDACE GRAMMOND: So there hasn't
9 been a point or an -- an occasion up to this point in
10 time where the working group couldn't reach a
11 consensus about what should -- should or should not be
12 in that investment policy statement.

13

14 (BRIEF PAUSE)

15

16 MR. GARY GIBSON: I would say, no,
17 we're not always in 100 percent agreement. But if --
18 if the word you're using is 'consensus' I would go,
19 yes, that we agree.

20 MS. CANDACE GRAMMOND: And is
21 consensus a fair word to use? Is that the basis on
22 which the working committee generally makes its
23 decisions?

24 MR. GARY GIBSON: I believe so 'cause
25 every member is not always in agreement to the same

1 extent as some other members might be. That's what
2 makes a committee.

3 MS. CANDACE GRAMMOND: So just to be
4 clear, when we use the word 'consensus', that doesn't
5 necessarily mean 'unanimous', but it certainly means
6 the vast majority are in agreement?

7 MR. GARY GIBSON: I would agree with
8 that.

9 MS. CANDACE GRAMMOND: That's what I
10 think it means too, so, good. Just -- just so we're
11 all on the same page. Okay. Just a couple of
12 questions, Mr. Gibson, about the composition of the
13 Corporation's investment portfolio.

14 The Board has had evidence over a
15 number of years with respect to that, and how the
16 allocations in different investment categories have
17 changed over time. We know that there was a report
18 prepared by Aon a number of years ago with respect to
19 the investment composition.

20 I assume that you're familiar with that
21 report?

22 MR. GARY GIBSON: I'm aware of it.

23 MS. CANDACE GRAMMOND: So can you tell
24 me a little bit about what your role was in connection
25 with that Aon report being obtained and implemented?

1 MR. GARY GIBSON: My role would have
2 been as a member of the working group. It was the
3 Corporation that tendered for the report. And I
4 believe the report also had some aspects to it of the
5 insurance business on the liability side and how their
6 liabilities were changing over time, which I am not
7 really involved in.

8 MS. CANDACE GRAMMOND: My recollection
9 is that Aon had initially reported a certain mix of
10 assets to the Corporation, and then through discussion
11 that mix was amended somewhat. Perhaps not
12 drastically but there were some changes between what
13 Aon had originally recommended as a mix and what
14 ultimately the Corporation implemented.

15 Were you a part of that discussion and
16 those changes?

17 MR. GARY GIBSON: I'm sure I would
18 have been party to those discussions.

19

20 (BRIEF PAUSE)

21

22 MS. CANDACE GRAMMOND: Now, we know
23 historically, and I think you may have mentioned it
24 even this morning, that the Corporation had 100
25 percent of its investments in bonds. And then I

1 believe it was in 1998 that a change was made to take
2 the Corporation out of 100 percent bonds.

3 Can you comment on your view of the cur
4 -- current mix within the portfolio, which is of
5 course still highly concentrated in bonds?

6 MR. GARY GIBSON: If I could just back
7 up a minute to follow up on your prior question about
8 the asset allocation.

9 You know, my involvement also included
10 getting our Deputy Minister -- and ultimately this is
11 -- that would have been a big enough change that we
12 would also get the Minister of Finance to sign off.

13 MS. CANDACE GRAMMOND: So you're
14 referring to the changes implemented pursuant to the
15 Aon report?

16 MR. GARY GIBSON: Correct.

17 MS. CANDACE GRAMMOND: Okay. So I
18 think your answer was that you're sure you would have
19 been involved, but then -- and now you're just adding
20 that you also would have had the Minister sign off on
21 that?

22 MR. GARY GIBSON: So could you repeat
23 the second question?

24 MS. CANDACE GRAMMOND: For sure. So
25 the preamble to the -- the second question was that

1 historically MPI had all of its investments in bonds,
2 100 percent. And my understanding is around 1998,
3 that changed and the Corporation started to invest
4 outside of bonds, although even today there's still a
5 high concentration of bonds, probably around 60
6 percent of the portfolio.

7 And so my question was: What is your
8 view of that mix, the current portfolio mix, for the
9 Corporation?

10 MR. GARY GIBSON: My view would be
11 that the current mix fits with the risk tolerance
12 levels of the Corporation.

13 MS. CANDACE GRAMMOND: What is your
14 view on reviewing the mix? Is that something that you
15 think should be done on a regular basis?

16 MR. GARY GIBSON: I'm not even sure
17 that's a good question for me. Yes, it should be done
18 from time to time, but I would think you would want
19 some kind of catalyst as to why you might think it
20 needed to be reviewed. And because I'm not an expert
21 on the insurance industry, I'm certainly not an expert
22 on the liability side of the insurance industry, which
23 is where I think part of that would be driven from.

24

25

(BRIEF PAUSE)

1 MS. CANDACE GRAMMOND: So thank you.

2 I -- I appreciate your answer, Mr. Gibson. Is doing a
3 review of the portfolio composition for the
4 Corporation something that's been discussed within the
5 last year or two (2) that you're aware of?

6 MR. GARY GIBSON: Not to my knowledge.

7

8 (BRIEF PAUSE)

9

10 MS. CANDACE GRAMMOND: Thank you. So
11 to get a handle on, then, the responsibilities of the
12 Corporation relative to the portfolio composition, is
13 it -- would it be fair to say that the Corporation
14 would be in a position to decide when another Aon
15 report, or some report like it, should be obtained?

16 MR. GARY GIBSON: Yes, that would be
17 within the Corporation's purview.

18 MS. CANDACE GRAMMOND: Thank you.
19 Now, Mr. Gibson, you referenced, I think, in your
20 direct evidence as well that the working group looks
21 at re-balancing the portfolio within the parameters
22 set out in the investment policy statement.

23 Is -- do I have that right?

24 MR. GARY GIBSON: Yes.

25 MS. CANDACE GRAMMOND: And so is that

1 something that is discussed at the six (6) yearly
2 meetings, or is there -- are you involved in
3 discussions on re-balancing in between those meetings?

4 MR. GARY GIBSON: It is mostly
5 discussed at the six (6) meetings. However, I can't
6 rule out that the investment department wouldn't be
7 pointing it out to us earlier if something was
8 starting to get out of track.

9 MS. CANDACE GRAMMOND: And if -- if
10 that were to happen, either in between meetings or at
11 a meeting, is the decision-making process about how to
12 re-balance the same as what we've been talking about,
13 that the working group discusses it and tries to reach
14 a consensus?

15 MR. GARY GIBSON: Yes. We would have
16 the investment department put a proposal together
17 which, if it was in meeting and we felt it needed to
18 be addressed, we could do it by conference call or a
19 special meeting.

20 MS. CANDACE GRAMMOND: And can you
21 recall a time where the working group was unable to
22 reach a consensus on a re-balancing issue?

23 MR. GARY GIBSON: No.

24 MS. CANDACE GRAMMOND: And if that did
25 happen, the same question that I asked you before:

1 What would be your next step?

2 MR. GARY GIBSON: I don't see that
3 happening. And to be honest, I don't have this off the
4 top of my head. But there is within some of our
5 policies there's a direction of how we re-balance. So
6 if we have signed off on that re-balancing, unless the
7 Corporation wanted to change that dramatically, I
8 can't imagine that I would be taking any other steps.

9 MS. CANDACE GRAMMOND: Thank you.
10 With respect to investment returns, Mr. Gibson, you
11 obviously gave direct evidence about the different
12 investment categories and how they've been performing
13 compared to benchmarks.

14 I gather that that is an analysis that
15 you also are involved in on a regular basis?

16 MR. GARY GIBSON: I'm involved in the
17 review, but the analysis is done by the MPI investment
18 department and/or an independent consultant.

19 MS. CANDACE GRAMMOND: So the results
20 of the analysis then are put forward to yourself and,
21 I assume, the working group?

22 MR. GARY GIBSON: That would be
23 correct.

24 MS. CANDACE GRAMMOND: So how often do
25 you receive those kind of analytical results

1 throughout the year?

2 Is it just at the meetings or is it in between as
3 well?

4 MR. GARY GIBSON: It's mostly at the
5 meetings.

6 MS. CANDACE GRAMMOND: So is it fair
7 to say that it could be in between the meetings if
8 there's something of note?

9 MR. GARY GIBSON: Yes. For example,
10 if it was becoming clear that one (1) manager was
11 underperforming, it may get brought up earlier.

12 MS. CANDACE GRAMMOND: And when we
13 talk about the actual analysis being done by the
14 investment department, that's MPI's investment
15 department, right?

16 MR. GARY GIBSON: Correct.

17 MS. CANDACE GRAMMOND: So as the --
18 you and the working group are reviewing returns on an
19 ongoing basis throughout the year, if as you say a
20 manager's underperforming, that could be too a
21 decision that needs to be made in that area.

22 Is that fair to say?

23 MR. GARY GIBSON: Yes.

24 MS. CANDACE GRAMMOND: And then that
25 decision, we've already talked about, would be made by

1 the working group as a whole?

2 MR. GARY GIBSON: That's correct.

3 MS. CANDACE GRAMMOND: So when the
4 working group receives the analyses done by MPI's
5 investment department for review does -- do any of the
6 members of the Department of Finance on the working
7 group do an independent analysis?

8 Or is it just a review of what's done
9 by MPI's Investment Department?

10 MR. GARY GIBSON: It's a review of
11 what's done.

12 MS. CANDACE GRAMMOND: So who is
13 ultimately responsible for the Corporation's
14 investment returns and whether they're performing
15 against benchmark?

16 MR. GARY GIBSON: That would be a
17 combination of the working group that is making many
18 of the decisions that would affect that. But
19 factually and ultimately the Minister of Finance is
20 responsible for the fund.

21 MS. CANDACE GRAMMOND: Thank you. Now
22 moving to a related area, can you tell me about the
23 monitoring of unrealized gains within the portfolio on
24 an ongoing basis, and who monitors that?

25 MR. GARY GIBSON: The Corporation

1 monitors that on an ongoing basis.

2 MS. CANDACE GRAMMOND: And do they do
3 the same thing with that information that they do
4 regarding re-balancing; they provide their analysis to
5 yourself and the working group?

6 MR. GARY GIBSON: Yes. That would
7 come to the working group for review.

8 MS. CANDACE GRAMMOND: And is that at
9 the six yearly meetings as well?

10 MR. GARY GIBSON: Yes.

11 MS. CANDACE GRAMMOND: So does the
12 Corporation then make recommendations to the working
13 group about when gains should be realized?

14 Or how does that happen?

15 MR. GARY GIBSON: Yes, they would
16 bring the information to the working group and make
17 recommendations of what to do with those unrealized
18 gains. However, I will say it's their job to run the
19 Corporation and make those decisions, not the
20 Department of Finance.

21

22 (BRIEF PAUSE)

23

24 MS. CANDACE GRAMMOND: I noticed you
25 were just having some discussions with Ms. Reichert

1 and Ms. McLaren. Do you have anything to add to your
2 evidence based on those discussions?

3 MR. GARY GIBSON: The only part I
4 would add is that unrealized gains and losses from
5 time to time is an accounting issue. And sometimes
6 they are out of our control; i.e., if a manger sells
7 an equity position, we don't micromanage our --
8 micromanage our managers where we would be going and -
9 - going -- telling them not to sell it because a
10 certain event might happen.

11 MS. CANDACE GRAMMOND: So when you say
12 it's taken, "out of our control," you mean the working
13 group?

14

15 (BRIEF PAUSE)

16

17 MR. GARY GIBSON: Yes, it would be in
18 the managers. We do not tell our managers what stocks
19 to buy and sell.

20

21 (BRIEF PAUSE)

22

23 MS. CANDACE GRAMMOND: Now, you gave a
24 bit of evidence earlier on interest rate forecasting.
25 And I think you had said that you didn't really get

1 involved in that. You didn't prepare the forecasts of
2 the Corporation.

3 Historically, have you had a role in
4 MPI strategies to mitigate changes in interest rates?

5

6 (BRIEF PAUSE)

7

8 MR. GARY GIBSON: Yes, I guess I've
9 had a role, because I am the fixed income manager.
10 And my role would be to the extent that I can either
11 shorten duration or lengthen duration, provided that I
12 stay within the parameters of what is given to me in
13 the investment policy statement.

14 MS. CANDACE GRAMMOND: So shorten or
15 lengthen the duration of bond investments?

16 MR. GARY GIBSON: Correct.

17 MS. CANDACE GRAMMOND: And can you
18 comment on whether your decision-making with respect
19 to bond investments changes typically, depending on
20 what interest rates are being forecasted?

21 MR. GARY GIBSON: Yes, if we thought -
22 - or if I thought rates were climbing, I would be
23 inclined to be to the lower side of the allowable
24 duration.

25 MS. CANDACE GRAMMOND: And what about

1 with respect to the levels of cash held by the
2 Corporation? Do you have control or input into the
3 levels of cash that MPI holds pending what you think
4 interest rates are going to do?

5 MR. GARY GIBSON: No, we do not.

6 MS. CANDACE GRAMMOND: So is that
7 something that the Corporation deals with?

8 MR. GARY GIBSON: Let me rephrase that
9 a bit. We do not get involved in the cash
10 requirements of the Corporation on an ongoing basis.
11 As I told you earlier, there is two (2) trust
12 accounts, and the money that is in the investment
13 trust account is my group's responsibility as to when
14 to -- to deploy it and take it out of the short end of
15 the market.

16 MS. CANDACE GRAMMOND: So what do you
17 rely on in terms of interest rate forecasts? Is it
18 the provincial forecast, bank forecasts, or something
19 else provided by -- to you by MPI?

20 MR. GARY GIBSON: MPI has no input in
21 our rate forecast at all. We rely on many things
22 which would be the forecasts of the major banks and
23 the likes of the conference board. We would also rely
24 on our own judgment as to what we think is going on in
25 the economy and what is likely to happen. We also

1 rely on the many various people that we deal with,
2 whether it be in a bond desk, deriv -- derivative
3 desk, syndicate desk, on a daily basis and get many,
4 many opinions of what people think is going on. And
5 then it's our job to roll it up together and -- and
6 come to a decision.

7 MS. CANDACE GRAMMOND: So what's your
8 view, in the here and now, on the movement of interest
9 rates in the future directionally? Do you think
10 they're going to continue to go up, or do you think
11 they're going to drop?

12 MR. GARY GIBSON: Rates have already
13 gone up quite a bit over the last six (6) months. It
14 would be my view that they are going to continue to
15 slowly go higher, subject to all the world events and
16 political crises that seem to be happening on a
17 regular basis.

18 MS. CANDACE GRAMMOND: Can you give us
19 an indication -- I know you said you think that
20 they'll slowly go higher, obviously, subject to world
21 events.

22 Can you give us an -- what's your view
23 on how much you think they might increase in the next,
24 say, six (6) months or a year?

25 MR. GARY GIBSON: Now you're asking me

1 to be a forecaster. You know, it depends on what's
2 going on. They could also go down. If we continue
3 this political gridlock in the US, I would suggest
4 that rates are going to go down in the near future.

5 If you wanted me to ask for an up
6 limit: When we did our budget we would have built in
7 about twenty-five (25) basis points across the board
8 on the yield curve of rates going up. Now, that
9 doesn't mean that rates can't go up more than that in
10 the long-end, but across the board, and what we
11 believe it is going to cost us to fund ourselves, we
12 used about twenty-five (25) basis points.

13 MS. CANDACE GRAMMOND: That's over
14 what time frame?

15 MR. GARY GIBSON: That would be April
16 1, 2014, to March 31st, 2015.

17 MS. CANDACE GRAMMOND: And when you
18 say "we" you're talking about the Province, right?

19 MR. GARY GIBSON: Yes.

20

21 (BRIEF PAUSE)

22

23 MS. CANDACE GRAMMOND: Now, as we
24 know, Mr. Gibson, the Corporation has put forward a
25 new interest rate forecasting methodology in this GRA;

1 and I know you said earlier that you have reviewed
2 that?

3 MR. GARY GIBSON: I have not
4 specifically reviewed that. I was asked for my input,
5 just as you did, about where my thoughts were on
6 interest rate direction.

7 MS. CANDACE GRAMMOND: Okay. I --
8 maybe I misheard you. I -- I thought I heard you say
9 that you thought that their approach was prudent and
10 reasonable. So I -- maybe I assumed by you saying
11 that that you had reviewed it.

12 MR. GARY GIBSON: I've seen the
13 results. I certainly did not dive into the -- the
14 methodology. And I looked at the results and compared
15 it to what we're doing and compared it to where it
16 fell in between the Conference Board and where the
17 banks were at, And that's what led me to the
18 conclusion it was prudent.

19 MS. CANDACE GRAMMOND: Okay. So your
20 opinion on the result of the methodology was that it
21 was prudent and reasonable, but you didn't review the
22 methodology specifically?

23 MR. GARY GIBSON: Correct.

24 MS. CANDACE GRAMMOND: Okay. Thank
25 you. And when you use the word 'prudent', does that

1 imply some conservatism, in your view, with respect to
2 those results?

3 MR. GARY GIBSON: That would not be my
4 definition.

5 MS. CANDACE GRAMMOND: What is your
6 definition?

7 MR. GARY GIBSON: Prudent, to me, is
8 coming up with a strategy that does not put the
9 Corporation at risk and follows the risk tolerance
10 levels that the Corporation has decided that they can
11 withstand.

12 MS. CANDACE GRAMMOND: And in your
13 view is the outcome of the forecasting consistent with
14 a best estimate?

15

16 (BRIEF PAUSE)

17

18 MR. GARY GIBSON: I don't want to call
19 it a best estimate, because it's a forecast at the end
20 of the day, and forecasts can be wrong.

21 MS. CANDACE GRAMMOND: Now, Ms.
22 Kalinowsky, maybe you can put in front of Mr. Gibson
23 MPI Exhibit 8, if you don't mind? And I'd ask the
24 panel to go there as well.

25 MPI Exhibit 8 was a chart that was put

1 into evidence, I think, on the very first day. It's
2 just a one (1) page coloured chart. So we'll just
3 take a minute while everyone finds that.

4

5 (BRIEF PAUSE)

6

7 MS. CANDACE GRAMMOND: Does the panel
8 have the exhibit? Yes?

9 Okay. Mr. Gibson, do you have Exhibit
10 8? It's a -- it's a coloured chart.

11 MR. GARY GIBSON: Yes, I do.

12 MS. CANDACE GRAMMOND: And have you
13 seen this document before?

14 MR. GARY GIBSON: I have.

15 MS. CANDACE GRAMMOND: Did you have a
16 role in preparing it?

17 MR. GARY GIBSON: I did not.

18 MS. CANDACE GRAMMOND: Now, my
19 understanding is that if we look at the red line; that
20 was, in essence, prepared by MPI as a possibility of
21 what may occur with interest rates over the time frame
22 specified. So if you just take a minute to look at
23 the -- the red line.

24

25 (BRIEF PAUSE)

1 MS. CANDACE GRAMMOND: Can you comment
2 on your view of the red line as compared with the
3 other lines that we see, which, of course, represent
4 the standard interest rate and the GRA interest
5 forecast -- interest rate forecast?

6 MR. GARY GIBSON: Well, as I've said
7 before, I've seen this chart and it strikes me as
8 reasonable. And, as I've said earlier, we're in an
9 environment where I believe rates are going slightly
10 higher, but there is so many things out in the world
11 that could change that very quickly.

12 MS. CANDACE GRAMMOND: What is your
13 outlook with respect to ten (10) year Government of
14 Canada bonds?

15 MR. GARY GIBSON: I believe they're
16 going to go slightly high over -- over time. The hard
17 part is to predict when. There's been many people
18 that have been forecasting for rates to go higher for
19 three (3) years now, and have been wrong. So that is
20 where the real tough question is.

21 But, I think, directionally, without
22 some world event, interest rates are going to be going
23 higher at some point.

24 MS. CANDACE GRAMMOND: Now I know, Mr.
25 Gibson, you testified that you didn't get into a

1 review of MPI's new forecasting methodology in -- in
2 any level of detail. My understanding is that one (1)
3 of the components of the forecasting is looking at a
4 five (5) year history rather than a ten (10) year
5 history.

6 Is that something that you're familiar
7 with, as part of their proposed methodology?

8 MR. GARY GIBSON: Yes, I believe they
9 made me aware of that.

10 MS. CANDACE GRAMMOND: And what's your
11 view of that decision?

12 MR. GARY GIBSON: My view would be
13 it's reasonable. And it's the Corporation's job at
14 the end of the day to make these decisions.

15 MS. CANDACE GRAMMOND: And do you have
16 an understanding of the impact of the proposed new
17 methodology upon MPI, and in particular Basic
18 insurance rates?

19 MR. GARY GIBSON: I have a general
20 understanding of -- of the effects of interest rates
21 going up versus going down, but not in a -- not enough
22 detail to have a conversation on it.

23 MS. CANDACE GRAMMOND: Thank you.
24 You've commented on your views with respect to
25 interest rates in the future. Can you comment on what

1 kind of strategies MPI may be able to implement to
2 take advantage of increasing rates, in the event that
3 that occurs?

4

5 (BRIEF PAUSE)

6

7 MR. GARY GIBSON: Well, there's a
8 couple of strategies: one (1) is keeping duration to
9 the lower end of the band, which would protect the
10 fund somewhat from rising interest rates; the other
11 strategy would be to stay on cash and wait for higher
12 rates. However, there is an investment policy
13 statement that they still need to fulfill the mandate.

14 MS. CANDACE GRAMMOND: Just a -- thank
15 you, Mr. Gibson. And just a follow-up question on one
16 (1) of our earlier exchanges.

17 I asked you about best estimate, and I
18 probably should have asked you: How would you define
19 that term: best estimate? What does that mean to you?

20 MR. GARY GIBSON: In hindsight, after
21 I answered that, we're probably talking about the same
22 thing. You're calling it 'best estimate'; I tried to
23 call it 'forecast'. But at the end of the day I guess
24 it is our best estimate of where we think, you know --
25 and we do it from the province's perspective, that

1 would be the best estimate of where we think we can
2 fund ourselves for the year.

3 MS. CANDACE GRAMMOND: Thank you.

4

5 (BRIEF PAUSE)

6

7 MS. CANDACE GRAMMOND: Mr. Gibson, I
8 just have one (1) more question on Exhibit 8, and then
9 I just have a few other questions and -- and then I'll
10 wrap up.

11 If we look at Exhibit 8, the chart, can
12 you comment with respect to the province's forecast,
13 roughly, which line we should be looking at? I mean -
14 - or which line is the Province's forecast closest to,
15 compared with the three (3) that we see here?

16

17 (BRIEF PAUSE)

18

19 MR. GARY GIBSON: There's nothing I'm
20 aware of that's on the public record. I think it does
21 fit with the Province's belief that rates are
22 directionally going up. Normally, we do not forecast
23 rates past a couple of years, as there's just been too
24 much inaccuracy in forecast going out that far. And
25 there's just too many economic items that can change

1 where you may be once you get outside of two years.

2

3

(BRIEF PAUSE)

4

5

MS. CANDACE GRAMMOND: So a couple of
6 things flowing from that, Mr. Gibson. You're -- are
7 you saying that you're not able to tell us which of
8 these lines the Province's forecast is closest to?

9

10

(BRIEF PAUSE)

11

12

MR. GARY GIBSON: In the short term I
13 would suggest that we're closer to the green line than
14 we are to the blue line. I don't really want to
15 comment more than a couple of years out, because
16 that's just so tough to predict what the economy is
17 going to look like two (2) years from now. And, as I
18 said, I think -- I think the green line is reasonable.

19

MS. CANDACE GRAMMOND: Thank you. The
20 other thing is I just, I noticed that you and Ms.
21 Kalinowsky were having a bit of a conversation before
22 you answered one (1) of the questions. Is that with
23 respect to the issue of what -- how much you can say
24 publicly about the Province's forecast, 'cause that
25 can be construed in different ways? So I just want to

1 air that on -- out on the record.

2 MR. GARY GIBSON: That would be part
3 of it, because obviously these are internal forecasts
4 that will not be made public until we get to the next
5 budget cycle, or the next budget day, which I...

6 MS. CANDACE GRAMMOND: Thank you.

7

8 (BRIEF PAUSE)

9

10 MS. CANDACE GRAMMOND: Thank you.

11 Just a couple more questions then. Just before we
12 leave the forecasting, you described in your direct
13 evidence that in -- investment forecasting for the
14 Province, your objective -- or is to -- is to meet
15 objectives.

16 Can you comment on what those
17 objectives are?

18 MR. GARY GIBSON: When I made that
19 statement it was in general, because our main
20 objective is to make sure we effectively fund the
21 Province, and to obtain or beat a public debt expense
22 target. And that is done by a combination of our
23 liability costs versus our investment income, as we do
24 have a sinking fund. And that fund is -- we don't
25 benchmark that -- that fund, because it is a totally

1 different fund than this one, and it is used mainly to
2 control our maturity profile rather than just strive
3 for investment return.

4 MS. CANDACE GRAMMOND: Can you comment
5 on, from a provincial standpoint and the work that you
6 do there, whether it's better to, in general terms, to
7 over-forecast or to under-forecast?

8

9 (BRIEF PAUSE)

10

11 MR. GARY GIBSON: I would say neither.
12 You would use your best judgment at the time to come
13 up with a forecast that you think you can obtain and -
14 - and is reasonable.

15 MS. CANDACE GRAMMOND: Thank you. So
16 we've heard evidence this year from the Corporation
17 with respect to what -- what -- we call it 'duration
18 matching'. And that is the matching of claims
19 liabilities to the marketable bond portfolio. And
20 we've heard this year that that gap has widened a
21 little bit from years before.

22 Did you have any input into that
23 approach, or would that be something that you would
24 rely on the Corporation for as an insurer?

25 MR. GARY GIBSON: There's probably two

1 (2) answers. One (1) is, you know, the Corporation
2 would define what they would use as duration for their
3 forecasting period. But at the end of the day, I
4 manage the fixed-income portfolio and, therefore, I
5 would impart some of my own knowledge and views onto
6 where I thought it was best positioned.

7 MS. CANDACE GRAMMOND: So it's some of
8 both; some of you having input, but some of you
9 relying on the Corporation as well?

10 MR. GARY GIBSON: That would be fair.

11 MS. CANDACE GRAMMOND: And we've heard
12 evidence from the Corporation that, at the moment, it
13 is comfortable with the extent of duration matching
14 that is in place, which is about 80, 84 percent,
15 something in that range. And the -- the evidence has
16 been given that in keeping the matching at that level,
17 there would be an opportunity to take advantage if
18 interest rates increase.

19 Is that something that you can comment
20 on?

21 MR. GARY GIBSON: That's really out of
22 my scope of expertise.

23 MS. CANDACE GRAMMOND: So do you have
24 a view on the Corporation being duration matched at
25 the 80 percent level compared with a hundred percent

1 level, for example?

2 MR. GARY GIBSON: No, I do not. I
3 don't view it as my job to run the Corporation.

4

5 (BRIEF PAUSE)

6

7 MS. CANDACE GRAMMOND: Mr. Gibson, are
8 you familiar with the economic outlook of Manitoba
9 Hydro for 2013?

10 MR. GARY GIBSON: No.

11 MS. CANDACE GRAMMOND: Thank you.
12 Madam Chair, those are my questions for Mr. Gibson.

13 MR. REGIS GOSSELIN: I have some
14 questions, please, if you don't mind. I just want to
15 clarify how this works in operational terms.
16 Specifically, there's a cash account, an investment
17 account. The decision to transfer money from the cash
18 account to the investment account is taken by MPIC?

19 MR. GARY GIBSON: It would be done by
20 Department of Finance. Like, the way --
21 operationally. If it was on the fixed income side it
22 would be at my group's direction. If we were making
23 an investment into an equity manager, then the working
24 group would have made the decision. We would have had
25 a discussion about what day it was going to happen. I

1 would execute the letter to the manager, and then the
2 Department of Finance would send the money.

3 MR. REGIS GOSSELIN: Okay. But I
4 guess what I was getting into was, so there is a cash
5 maximum that's allowed. And MPIC decides that it has
6 excess cash to meet its operational needs, and it
7 would advise you that it's transferring money over
8 into the investment account.

9 Is that how it works?

10 MR. GARY GIBSON: Sorry, I -- I guess
11 I misunderstood. Yes, that is solely MPI's decision
12 as to --

13 MR. REGIS GOSSELIN: As to what's
14 getting transferred?

15 MR. GARY GIBSON: -- when they
16 transfer money from --

17 MR. REGIS GOSSELIN: Okay.

18 MR. GARY GIBSON: -- normal cash
19 operations into the investment account.

20 MR. REGIS GOSSELIN: So they -- so
21 they transfer the money into the investment account
22 and they tell you, We would like that to be 'X'
23 duration.

24 Is that -- or who makes the duration
25 decision of the -- say, of a bond investment?

1 MR. GARY GIBSON: Ultimately, I do.
2 There would be ongoing discussions as to what we
3 thought -- think we lo -- at a higher level, what we
4 would want the portfolio to look like. But certainly
5 if they transferred money in today, into the
6 investment account, there would be no instructions
7 attached to it as to what duration to take it to.

8 MR. REGIS GOSSELIN: We heard evidence
9 -- before you were here, we heard evidence that
10 there's a -- there's a difference between the bond
11 duration investments -- that the invest -- the
12 duration of bond investments in the portfolio are
13 relative to the claims liabilities outstanding. So
14 there's -- you know, there's a difference between the
15 two (2). And -- and it sounds like that was a clear
16 strategy on the part of MPIC to -- to have that
17 difference.

18 Now, you would have been part of that
19 decision, or was that entirely within the framework of
20 MPIC's authority?

21 MR. GARY GIBSON: I would have been
22 party to some of the discussions. However, I manage
23 the bond portfolio and I had it positioned for rising
24 interest rates. And it is my job to ensure that I
25 keep the bond portfolio within the allowable ranges,

1 right, in the investment policy statement.

2 MR. REGIS GOSSELIN: Okay. I'm -- and
3 this -- and, you know, this is a question I guess I'm
4 going to be asking more -- more than just you, because
5 you probably weren't involved in it, but I'm looking
6 at the investment policy statement and -- which is
7 contained in Volume II of the Rate Application under
8 the investment section. And it -- it refers to the
9 maximum available allocation to cash and short-term
10 investments of 3 percent.

11 MS. KATHY KALINOWSKY: Sorry, do you
12 have a page number for that?

13 MR. REGIS GOSSELIN: It's page 19,
14 Investment Income Attachment A.

15

16 (BRIEF PAUSE)

17

18 MR. REGIS GOSSELIN: And then if you
19 look at -- if you look at the first part of that
20 section, page 2, it's showing a cash balance on a
21 percentage basis -- I'm looking at the second -- page
22 2, the second -- the bottom part of that table.
23 Investment income --

24 MS. KATHY KALINOWSKY: Sorry. Sorry,
25 I'm -- I'm -- I was looking at page 19 of the

1 investment policy statement.

2 MR. REGIS GOSSELIN: Right. We're
3 looking at that. So it's 3 percent is the maximum
4 that's allowed in cash and short-term investments.
5 And then if I look at the -- if I look at page 2 of
6 the investment income initial statement...

7

8 (BRIEF PAUSE)

9

10 MR. REGIS GOSSELIN: It's showing the
11 -- the cash allocation, a percentage basis showing 6.7
12 percent at the end of '12/'13, and showing three point
13 six (3.6) at the end of '13/'14. And I guess looking
14 at it very simplistically, it seems to be a
15 contravention of the investment policy.

16 And I -- I just want to know if that's
17 in fact a misinterpretation. And -- and if it isn't,
18 what is the process whereby the cash -- pardon me, the
19 investment allocation policy is being exceeded?

20 MR. GARY GIBSON: You are correct that
21 the -- the cash balance was outside of the balance.
22 There is a process through the working group to
23 address that, which we did. It was outside of the
24 bounds for more than one (1) reason. I had kept some
25 extra cash around, as I thought interest rates were

1 going higher.

2 It was also -- keep in mind, we're
3 trying to deploy our balance of our real estate
4 strategy and our infrastructure strategy. And,
5 therefore, we had all agreed that we would keep more
6 cash around and that would be part of the process. We
7 decided not to re-balance it as quickly as you might
8 think because we wanted this cash available for when
9 opportunities presented themselves.

10 MR. REGIS GOSSELIN: So advise me of
11 the process. You know, in that particular case the --
12 who would have signed off on that? I mean, who would
13 have signed off -- if -- I -- I'll give you my
14 background.

15 I'm from a -- you know, my experience
16 has been in the banking sector. And it is possible in
17 the banking sector that you exceed the allocation
18 limits that are available to you as a manager. It
19 happens. But there's a process that has to be
20 followed.

21 And I -- I just want to know what --
22 what is the formal process for decision making and
23 approvals when -- when we get into those kinds of
24 situations?

25 MR. GARY GIBSON: The formal process

1 would be that this would be discussed at the working
2 group on a regular basis. And the working group would
3 make a decision of whether we really felt it needed to
4 be re-balanced at that point in time. And that would
5 happen through part of the re-balancing process.

6 MR. REGIS GOSSELIN: So you -- would
7 you have had to go to the -- to the DM or the Minister
8 for that kind of a decision, or would that have been
9 handled -- is that within the realm of your authority
10 as a working group?

11 MR. GARY GIBSON: No, that would not
12 go to the -- the DM for approval. Obviously the DM
13 would be aware 'cause in my regular discussions with
14 him I would make him aware that we're trying to
15 execute these other asset allocation strategies. But
16 I wouldn't give him specifics on, This is the exact
17 amount of cash we have and -- and this is the
18 percentage.

19 MR. REGIS GOSSELIN: I guess one (1)
20 of the -- one (1) of the reasons we -- by the way,
21 thank you very much for agreeing to come appear before
22 us.

23 I think one (1) of the reasons we
24 wanted you to attend is -- is simply to deepen our
25 understanding of how the decisions are taken, and --

1 and the framework around which these decisions are
2 taken, and so on, because we are, you know, interested
3 in ensuring that the wisest and best decisions are
4 made.

5 Investment income is significant for
6 abating otherwise higher rates that would be required
7 to be paid by drivers. So it's important to us, and I
8 -- I think that we need to understand how that works.

9 But having said that, I'm kind of the
10 school of trust but verify -- I guess I -- I -- you
11 know, this -- this vehicle is not the best vehicle to
12 try to ensure that what you've described is -- is
13 working as it should. And I -- I guess a question I
14 have is:

15 In terms of -- of the operations of --
16 of the working group and the investment committee, and
17 so on, has that been subjected to audit recently,
18 either internally within a government or MPIC, or
19 externally by the provincial auditor?

20 MR. GARY GIBSON: I'm not aware that
21 that has been a specifi -- specific task of any
22 auditor but I can't speak for the Corporation on that
23 front. I know the auditor general audits us and my
24 department on a regular basis.

25 And this would be not specifically one

1 (1) of the areas that they would review but obviously
2 it would be under their purview, and they would look
3 at it on an annual basis. I'm not sure how deep they
4 would have gone into it.

5 MR. REGIS GOSSELIN: Just so I
6 understand now, the investments that are made by
7 Workers' Compensation, for example in Manitoba, which
8 has extensive investments, are they subject to your
9 jurisdiction as well?

10 MR. GARY GIBSON: No, they are not.

11 MR. REGIS GOSSELIN: And is that
12 because they are structured differently than MPIC or
13 is that -- can you enlighten me about -- about that?

14 MR. GARY GIBSON: I -- I don't really
15 know. I think their liabilities are likely to look a
16 little different, but at the end of the day all I'm
17 doing is following the legislation that is given to
18 me.

19

20 (BRIEF PAUSE)

21

22 THE CHAIRPERSON: Thank you very much.
23 Now, I'm going to call upon Mr. Williams to begin his
24 cross-examination.

25 MR. BYRON WILLIAMS: Yes, thank you,

1 madam chair, and I expect to begin and finish around
2 the twelve o'clock mark. So I don't expect to be very
3 long with this witness.

4

5 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

6 MR. BYRON WILLIAMS: Mr. Gibson,
7 certainly on behalf of my client we do want to thank
8 you for coming this morning. It's been very helpful.

9 Sir, in terms of the -- establishing
10 the actual criteria and mechanisms for assessing the
11 effectiveness of the investment policy, am I correct
12 in suggesting to you that that is done by the
13 investment committee in consultation with the MPI
14 Board? If you need a reference, Sir, you might go to
15 Tab 11 of the terms of reference.

16

17 (BRIEF PAUSE)

18

19 MR. GARY GIBSON: I believe that's
20 correct. The investment committee does review the
21 investment policy on an annual basis as it's reviewed.
22 And certainly when the allocation study was done back
23 in around 2007/2008 it definitely went through the
24 investment committee, the Board, my deputy, and the
25 Minister of Finance.

1 MR. BYRON WILLIAMS: And, Sir, just to
2 be more precise in terms of the establishing the
3 actual criteria and mechanisms for assessing the
4 effect -- effectiveness of investment policy, am I
5 correct in suggesting that is done by the investment
6 committee in consultation with the Board of MPI?

7 MR. GARY GIBSON: The policy is
8 developed by the working group and approved by the
9 working group and then reviewed by the investment
10 committee. The investment committee does not develop
11 it.

12 MR. BYRON WILLIAMS: Yes, Sir, but
13 what I'm asking is the criteria and mechanisms for
14 assessing its effectiveness, is that done by the
15 investment committee?

16 MR. GARY GIBSON: Yes I guess it is
17 because obviously we report to the investment
18 committee at each one (1) of their meetings on asset
19 allocation and return of the fund. So I would expect
20 that they would -- that gives them the right to weigh
21 in if they're not pleased with how it's going.

22 MR. BYRON WILLIAMS: When -- in terms
23 of the investment committee, Sir, do you have a vote
24 on the investment committee?

25 MR. GARY GIBSON: No I do not.

1 MR. BYRON WILLIAMS: And would the
2 department have any vote on the -- of the investment
3 committee?

4 MR. GARY GIBSON: No.

5 MR. BYRON WILLIAMS: And, sir, earlier
6 today you made reference to benchmarks. In terms of
7 benchmarks for assessing the performance of the
8 portfolio, who develops those benchmarks, sir?

9 MR. GARY GIBSON: The research for the
10 benchmarks is done by the investment department at
11 MPI, which would then go to the working group. But
12 I'm not sure I quite understand your question because
13 the benchmarks, for the most part, are defined
14 benchmarks, such as the TSX, Russell 1000, Russell
15 2000. So they would be defined benchmarks but the
16 strategy of what benchmark to use would be developed
17 by the research of the investment division of MPI and
18 then taken to the working group.

19 MR. BYRON WILLIAMS: Okay. Thank you
20 for that. Now am I correct, sir, in -- that in terms
21 of external advisors, the investment committee has the
22 power to engage to engage its -- its own external
23 advisors?

24 MR. GARY GIBSON: I believe you should
25 ask that question of the Corporation, not me.

1 MR. BYRON WILLIAMS: In that case I
2 probably will have a couple questions for the
3 Corporation on that. Sir, you spoke of, earlier today
4 in a conversation with my friend, Ms. Grammond, in
5 terms of monitoring of fund ma -- managers. And you
6 suggested that that would be done either by external
7 consultants or the investment department of MPI.

8 Do you remember that conversation?

9 MR. GARY GIBSON: I do.

10 MR. BYRON WILLIAMS: In terms of the
11 external consultants, would they be external
12 consultants retained by the Department or retained by
13 Manitoba Public Insurance?

14 MR. GARY GIBSON: They would be
15 retained by MPI.

16 MR. BYRON WILLIAMS: Sir, in terms of
17 the working group, am I correct in suggesting to you
18 that there are seven (7) members?

19 MR. GARY GIBSON: There are seven (7)
20 official members but there's a higher number than that
21 that actually attend the meetings for information.

22 MR. BYRON WILLIAMS: So by official
23 members you mean those who would have a vote?

24

25 (BRIEF PAUSE)

1 MR. GARY GIBSON: The official members
2 are as what was read into the record earlier. And I
3 must say that because we try and do this as a joint
4 effort and consensus, I can't ever recall having a
5 show of hands for a vote.

6 MR. BYRON WILLIAMS: Fair enough. So
7 the official members would then be the th -- three (3)
8 persons appointed by the Department of Finance and --
9 and four (4) individuals from MPI, sir?

10 MR. GARY GIBSON: That is correct.

11 MR. BYRON WILLIAMS: Sir, you had a
12 conversation with My Friend, Ms. Grammond, in terms of
13 real estate. And just so I understand more clearly,
14 in terms of the day-to-day management of the property
15 known as the -- the former Eaton Place, does the
16 Department have any say in the day-to-day management
17 of that property?

18 MR. GARY GIBSON: Are you referring to
19 the parking lots?

20 MR. BYRON WILLIAMS: And the building.

21 MR. GARY GIBSON: Okay. No, we don't
22 have -- we don't take an active day-to-day role in --
23 in managing any of those properties.

24 MR. BYRON WILLIAMS: Now, sir, some --
25 sometimes you use the word 'we', and I wasn't sure if

1 you were referring to the working group or the
2 Minister of Finance. So I'm going to ask you a couple
3 questions just to -- to try and hone in on that.

4 You talked about the development of the
5 provincial budget forecast. Do you recall that? In
6 terms of interest rates.

7 MR. GARY GIBSON: Yes.

8 MR. BYRON WILLIAMS: And in terms of
9 the ultimate responsibility for the provincial budget
10 interest rate forecast, you're not the person
11 ultimately responsible, are you, sir?

12 MR. GARY GIBSON: Depends how you
13 define 'ultimately'. It's going to come down on my
14 head if I'm way off, but ultimately I guess it's the
15 Minister of Finance that is responsible.

16 MR. BYRON WILLIAMS: It -- so
17 ultimately he's responsible and it's -- just to
18 rephrase that, ultimately it's the off -- elected
19 official who is responsible for that budget forecast
20 in terms of interest rates?

21 MR. GARY GIBSON: From a pure legal
22 sense I would expect you're right.

23 MR. BYRON WILLIAMS: And, ultimately,
24 that elected official would be accountable for his
25 decision or her decision to the electorate, agreed?

1 MR. GARY GIBSON: I feel like you're
2 getting out of my scope.

3 MR. BYRON WILLIAMS: You're a fairly
4 senior public official, sir, but we'll -- we'll leave
5 it at that.

6 MR. GARY GIBSON: Ultimately, they
7 could vote them out.

8 MR. BYRON WILLIAMS: Yeah. Thank you.
9 And, sir, earlier in your conversation with My Friend,
10 Ms. Grammond, you talked about, We are diligently work
11 -- working, I think, to -- to reach the real estate
12 target.

13 Do you recall a conversation about
14 that?

15 MR. GARY GIBSON: Yes, and
16 infrastructure is, I believe, what I said.

17 MR. BYRON WILLIAMS: Fair enough. And
18 in terms of 'we' in that case, who -- who is so
19 diligently working? Who -- who was the 'we' you were
20 referring to, sir?

21 MR. GARY GIBSON: That would be the
22 working group, the Department of Finance, and MPI
23 investment department, who is waiting for
24 opportunities for us to evaluate of how we may get
25 that deployed.

1 MR. BYRON WILLIAMS: Mr. Chair --

2 Madam Chair, I have no further questions for this
3 witness.

4 THE CHAIRPERSON: Okay. Thank you
5 very much. Would there be any -- any other business?

6 MS. CANDACE GRAMMOND: Ms. Kalinowsky
7 may have re-direct. I suppose we should also confirm,
8 for the record, that CAA doesn't have any questions?

9 MS. LIZ PETERS: No, we're good.
10 Thank you.

11 MS. CANDACE GRAMMOND: Yeah, so let's
12 have Ms. Kalinowsky do any re-direct that she may have
13 and then I think we can excuse Mr. Gibson.

14 THE CHAIRPERSON: Okay. Thank you.
15 Ms. Kalinowsky...?

16 MS. KATHY KALINOWSKY: If I could just
17 have one (1) or two (2) minutes to speak with Mr. --
18 Mr. Gibson and others, just for a moment, please,
19 first -- a break?

20 THE CHAIRPERSON: Okay.

21

22 (BRIEF PAUSE)

23

24 MS. KATHY KALINOWSKY: Thank you very
25 much. I've discussed and conferred with my client and

1 also, of course, with the witness, Mr. Gibson, and
2 have no questions for the re-direct. I just really
3 did want to thank him, in particular, for agreeing to
4 come and testify in front of the Public Utilities
5 Board.

6 THE CHAIRPERSON: Ms. Neville's
7 indicated she just had one (1) last question for you,
8 Mr. Gibson.

9 MS. ANITA NEVILLE: Mr. Gibson, thank
10 you very much for coming. And we were looking -- very
11 much looking forward to hearing from you today.

12 I'm listening to you and I'm listening
13 carefully. I am far from an expert in this area, but
14 I do know a little bit about governance. And I'm
15 listening to the decision making processes that are in
16 place and your -- you speak to the fact that much is
17 done by consensus, and there seems -- you've -- I
18 think you've just said there has never been a vote
19 taken, or never had to do it.

20 But I'm having difficulty understanding
21 who is ultimately -- pardon the vernacular that I'm
22 using -- but who is ultimately driving the bus on
23 this. Where does the ultimate decision making land on
24 the investment policy?

25 MR. GARY GIBSON: As I've said over

1 and over again, we very much try and work as a team to
2 develop these policies. But at the end of the day, it
3 is solely the Minister of Finance's responsibility,
4 and it's ingrained in legislation.

5 MS. ANITA NEVILLE: And on a day-to-
6 day, or week-to-week, or month-to-month basis, the
7 Minister of Finance is responsible for the decisions
8 that are made?

9 MR. GARY GIBSON: Legally, yes;
10 because at the end of the day he has delegated that
11 power to myself.

12 MS. ANITA NEVILLE: And practically?

13 MR. GARY GIBSON: I use his delegation
14 that he provided to me to make decisions. And, as I'm
15 sure you're aware, he's extremely busy, and I will go
16 back to him if I think the matter is significant
17 enough that it needs his attention.

18 MS. ANITA NEVILLE: That's all I have.

19 THE CHAIRPERSON: Okay. That will
20 conclude our morning hearings, and we'll return at
21 1:00. But before, I just want to, again, thank Mr.
22 Gibson very much for taking the time to come and speak
23 with the panel, and also Mr. Steski for joining him.
24 This has been very helpful. So thank you very much.

25 We'll return at one o'clock.

1 (WITNESS STANDS DOWN)

2

3 --- Upon recessing at 12:03 p.m.

4 --- Upon resuming at 1:11 p.m.

5

6 THE CHAIRPERSON: Good afternoon,
7 everyone, and welcome back from lunch. We have a new
8 presenter that's going to present before we proceed
9 with the rest of the hearings. And that's Mr.
10 DeLaurier, who's here as a claimant. And, Mr.
11 DeLaurier, would you like to make your presentation?

12

13 PRESENTATION BY MR. DELAURIER:

14 MR. DELAURIER: I guess. Okay. Well,
15 I've been in a few car accidents, like about six (6)
16 of them if not seven (7) within three (3) years, and I
17 haven't received a penny. And I got a constant
18 headache and my neck, I can only turn it this far.

19 And I want to get fixed up, but then my
20 adjuster -- I phoned it in and the adjuster says,
21 Well, we'll take -- I don't know exactly what it is.
22 Like, I'm not -- and after -- I'm sorry for jumping
23 around, but after my car accident, like I had -- I had
24 to start from scratch. Like I was a dummy. It was
25 just -- I had to learn things. If you don't believe

1 that, then you can talk to -- to my girlfriend.

2 That's who's taking care of me.

3 But I want to get fixed up. I want my
4 neck and my -- my shoulders, and my elbows, my knees,
5 my feet, my ankles, and my headaches. Like this is --
6 is -- MPI, what -- what are you they supposed to do?
7 They're -- they're supposed to take care of the people
8 that are paying all the time for insurance, and I
9 didn't get a dime.

10 And one (1) of my car accidents I was
11 in in the work van, working. I could have chose --
12 chose compensation or AutoPac. And they said, Well,
13 once you choose, that's it; make a decision, and
14 you're fine with that. So I choose AutoPac, and I
15 never received nothing.

16 So I'm a little bit upset here. This
17 has been going on for -- and I'm homeless right now.
18 What -- what I want to know -- what I really want to
19 know is what happened that day on my bicycle with my
20 dog, because I can remember, what I remember, but then
21 people say, Oh, like the psychiatrist -- or not a
22 psychiatrist or whatever, the mental health worker
23 said, You can never survive that.

24 Do you want to hear the story? Do you?

25 THE CHAIRPERSON: Mr. DeLaurier, we

1 have about five (5) more minutes, if you'd like to
2 tell the story as part of your --

3 MR. DELAURIER: Well --

4 THE CHAIRPERSON: -- testimony, that
5 would be fine. Thank you.

6 MR. DELAURIER: Okay. Well, I was
7 riding down Disraeli Bridge with my -- with my dog,
8 and then a car hit my back tire. And then I was
9 riding on top of the car. And then he gave it gas.
10 See, I want to know if this all happened or if this is
11 in my head. And then I fell off and then hit the curb
12 behind. I turned around and I put my feet up on his
13 bumper and he -- he was ramming me, up and down the
14 bridge.

15 And then the car that hit me was
16 stopped on top of the second hump, stopped there with
17 a flat tire, I guess, because he was pushing my bike.
18 And I -- and he pushed me -- and the car picked up
19 speed, picked up speed, and there was a car right
20 beside me on the side there blocking the view, I
21 guess. And then I -- he pushed me right into the
22 guy's bumper.

23 And then the guy from the car says, Get
24 up. And I didn't get up and then there's a witness
25 there who says, Well, I'm glad you didn't get up. And

1 then all of a sudden she says, What are all these
2 people doing here, all these other people doing here,
3 that weren't even witnesses or anything. See, I'd
4 like to talk to that lady because that's -- this has
5 all been a cover-up. I don't know why, but it's --
6 and the -- and the police weren't even on the scene.

7 And I'm so -- I suffer from burping all
8 the time and all sorts of things, like -- and I can't
9 even get social assistance. Like, I'm -- like I'm
10 basically screwed. There's -- there's a lot more I
11 could say, but I guess you guys are all busy, so.

12 THE CHAIRPERSON: We appreciate
13 hearing from you, Mr. DeLaurier. And as you know, in
14 these hearings we just hear evidence, but we are not
15 here to make any decisions. So we can't do the
16 decisions in regard to your particular case. But we
17 have heard the ev -- evidence and it is on the record.
18 So I would suggest that maybe you speak with Mr.
19 Hollis and he will maybe tell you some next steps.

20 MR. DELAURIER: I spoke with him. I
21 spoke with my adjuster. I spoke with all these
22 people. Basically, they got these people following
23 me, and like right now my head's not very straight.
24 And these guys from AutoPac are making it worse by
25 following me and -- and they can pay -- pay for the

1 investigators, but they -- I'm paying for insurance.

2 So right now, for the record, no more
3 insurance for me. It's pretty stupid, but how can I
4 afford it? And then when I get my licence, they
5 dinged me because it was too much because of all these
6 -- my accidents. I had two (2) accidents that were my
7 fault. The rest were not my fault, but my driver's
8 licence was a thousand bucks. And then they -- I
9 can't afford that. So I didn't pay it.

10 And then they dinged me, I don't know
11 much it was. And then they dinged me again because I
12 did the same thing. I forgot to cancel it. Because
13 why should -- if you don't pay for something, you
14 shouldn't have it. Why do you got to cancel it? Do
15 you under -- do you understand what I'm saying?

16 I've got other things, like -- like,
17 I've got a constant headache right now and, believe
18 me, I'm not fe -- I'm not faking it. And you might
19 see me walking, walking, walking, but I'm walking, and
20 I'm in pain. One (1) -- once I stop walking, then --
21 then it's hard for me to start walking again. So I
22 keep walking and walking and walking. And the doctor
23 says that I've got to keep walking, keep walking,
24 otherwise I tighten right up or something.

25 THE CHAIRPERSON: Thank you very much,

1 Mr. DeLaurier. And that -- your evidence --

2 MR. DELAURIER: I'll see you tomorrow.

3 THE CHAIRPERSON: Okay. Thank you.

4 Could you please turn off his mic? Okay. Now, I'd
5 like to call upon Ms. Kalinowsky. I believe you have
6 some undertakings to submit. Sorry.

7 MS. KATHY KALINOWSKY: Yes. Good
8 afternoon. There's two (2) further undertakings.
9 Undertaking number 3 should be marked MPI Exhibit
10 number 48.

11

12 --- EXHIBIT NO. MPI-48: Response to Undertaking 3

13

14 MS. KATHY KALINOWSKY: And then
15 Undertaking number 22 should be marked MPI Exhibit
16 number 49.

17

18 --- EXHIBIT NO. MPI-49: Response to Undertaking 22

19

20 MS. KATHY KALINOWSKY: I placed them
21 on the Board secretary's...

22 THE CHAIRPERSON: I'm sorry, we'll
23 just wait for a moment. We got interrupted there.

24

25 (BRIEF PAUSE)

1 THE CHAIRPERSON: My apologies, Ms.
2 Kalinowsky.

3 MS. KATHY KALINOWSKY: In case you
4 need the numbers again. Undertaking number 3 should
5 be marked as MPI Exhibit number 48. And that has an
6 attached chart to it. And then Undertaking 22 should
7 be marked as MPI Exhibit number 49. Thank you.

8 THE CHAIRPERSON: Thank you. Now I'd
9 like to call upon Ms. Grammond to do her cross-exam.

10

11 MPI PANEL, RESUMED:

12 MARILYN MCLAREN, Resumed

13 HEATHER REICHERT, Resumed

14 LUKE JOHNSTON, Resumed

15

16 CONTINUED CROSS-EXAMINATION BY MS. GRAMMOND

17 MS. CANDACE GRAMMOND: Thank you,
18 Madam Chair. So I just have a few questions for the
19 MPI panel about some of the undertakings and new
20 exhibits that we've had filed. So I'll start with
21 Undertaking 7; it's MPI Exhibit 27. I think it was
22 entered at the end of last week.

23 MR. LUKE JOHNSTON: Could you repeat
24 the reference please?

25 MS. CANDACE GRAMMOND: Sure.

1 Undertaking 7, which is MPI Exhibit 27.

2 MS. MARILYN MCLAREN: I've got that.

3 MS. CANDACE GRAMMOND: Thank you. Does
4 the panel have it? Yeah? No.

5

6 (BRIEF PAUSE)

7

8 THE CHAIRPERSON: Okay, we're ready.
9 Thank you.

10

11 CONTINUED BY MS. CANDACE GRAMMOND:

12 MS. CANDACE GRAMMOND: Thank you. So
13 this was an undertaking following on some of the
14 questions that we had asked about the Ward Group and
15 the benching.

16 MS. MARILYN MCLAREN: Yes.

17 MS. CANDACE GRAMMOND: And of course
18 we had -- or we have in evidence at SM-5.3 the letter
19 from the Ward Group setting out the benchmarks, and we
20 went through that. And so in the response to this
21 particular undertaking the Corporation has advised
22 that it had entered into a three (3) year contract
23 with the Ward Group.

24 And I gather that we are now in the
25 last year -- or that the Corporation's now in the last

1 year of that contract?

2 MS. MARILYN MCLAREN: In the middle of
3 it. We haven't received anything for the last year,
4 yes.

5 MS. CANDACE GRAMMOND: So in -- at
6 last year's GRA I don't think we had anything filed
7 from the Ward Group within the proceeding.

8 But MPI would've had something from
9 Ward Group with respect to benchmarking?

10 MS. MARILYN MCLAREN: Yeah, we would
11 have had the first year's large report.

12 MS. CANDACE GRAMMOND: And then this -
13 - in this proceeding we've got the filing flowing from
14 the second year.

15 And then is it fair to think that at
16 next year's GRA we'll have the third installation?

17 MS. MARILYN MCLAREN: Yes, that's
18 fair, definitely.

19 MS. CANDACE GRAMMOND: And can you
20 comment on whether the Corporation would intend to
21 renew or enter into another contract with Ward Group
22 after next year, or is that premature at this point?

23 MS. MARILYN MCLAREN: It probably
24 won't hurt our negot -- won't help our negotiating
25 any, but I -- I would expect that we would probably

1 enter into some sort of a continuation. You know, I
2 mean, if we got feedback from this Board that they saw
3 no value in the work that we've tabled so far, we
4 would certainly consider that. But I -- I would
5 expect that we would continue at least once more, I'm
6 thinking.

7 MS. CANDACE GRAMMOND: Thank you.

8 Those are my questions on that undertaking. I'm going
9 to go then to the second quarter report.

10 MR. REGIS GOSSELIN: Do you mind if I
11 ask a question at this point? I couldn't help but
12 noticing your lack of enthusiasm about the efficacy or
13 the effectiveness of a -- of the -- the comparison.

14 Is that a fair assessment? I mean, you
15 know, if -- if it's not of value to the Organization,
16 then why would we insist on it? You know, if it -- if
17 it's not of a practical value --

18 MS. MARILYN MCLAREN: No, no. I -- I
19 don't think it has no practical value. I think we
20 need to understand and, ideally, have some consensus
21 on -- on what value it does provide. I think it is
22 helpful, very helpful, for us when you can see the
23 linkage between what a report like that is telling us
24 and what Gartner is saying.

25 And that although we have higher IT

1 costs, our overall expenses in relation to the auto
2 insurance industry in Canada are lower, that overall,
3 you know, it's another way to confirm that our rates
4 are lower, premiums per employee, things like that.
5 So I think it has value.

6 I think -- you know, unless -- this is
7 not something that I've been really involved in very
8 much within the company. I think if the people, you
9 know, responsible for some of the other lines of
10 business and so on -- you know, it -- it's not
11 expensive. I would certainly see to continue it.

12 But I -- I might be more inclined to
13 say, Well, let's -- let's maybe take a snapshot once
14 every three (3) years to see if there's any
15 significant changes, if it is -- provides little value
16 other than as part of sort of this framework of
17 benchmarking that we would share in this forum.

18

19 CONTINUED BY MS. CANDACE GRAMMOND:

20 MS. CANDACE GRAMMOND: So the second
21 quarter report, MPI Exhibit 33. Will that be you, Ms.
22 Reichert?

23 MS. HEATHER REICHERT: Yes.

24 MS. CANDACE GRAMMOND: So page 6 of
25 the second quarter report, I'll ask that the panel go

1 there.

2

3

(BRIEF PAUSE)

4

5

MS. CANDACE GRAMMOND: So if we look
6 at page 6 of the second quarter report we see at the
7 first paragraph that the Corporation reported net
8 income of 41.9 million for the six (6) months ending
9 August 31st, 2013.

10

Is that right?

11

MS. HEATHER REICHERT: Correct.

12

MS. CANDACE GRAMMOND: And that
13 further down, the third line of that paragraph
14 indicates that 21.8 million of that is from Basic,
15 compared with 2.8 million in Basic last year in -- for
16 the same time frame.

17

Is that right?

18

MS. HEATHER REICHERT: Correct.

19

MS. CANDACE GRAMMOND: Now, I
20 understand based on what's written, that the major
21 reason for the increase over last year is the one (1)
22 time gain on the sale of the US equities portfolio
23 which occurred in the second quarter?

24

MS. HEATHER REICHERT: That is

25

correct.

1 MS. CANDACE GRAMMOND: And that's we
2 see at subparagraph (I), or 'I', underneath the first
3 paragraph on the page. We see there in reference to
4 the rise in investment income pri -- primarily
5 attributed to the gain on the sale of equities, but
6 then the last bit reads, "Offset by the decline in
7 realized and unrealized bonds."

8 Can you comment on how much that offset
9 was?

10 MS. HEATHER REICHERT: How much the
11 offset in bonds was between last year and this year?

12 MS. CANDACE GRAMMOND: How much the
13 offset in bonds was for this last quarter that gave
14 rise to, I gather, a reduction in what the investment
15 income otherwise would have been based on the equities
16 alone?

17 MS. HEATHER REICHERT: Sorry, yes, I -
18 - I understand. So the loss on the valuation of the
19 bonds due to the rising interest rates in the first
20 half of the year was approximately -- just one (1)
21 second. It was approximately \$46 million.

22 MS. CANDACE GRAMMOND: Thank you.
23 Now, if we go to page 10 of the second quarter report,
24 we have a condensed interim statement of changes in
25 equity, which I have a couple of questions on. So

1 page 10 of the second quarter report.

2 We see there that the retained earnings
3 in Basic as at August 31st, 2013, is 163.3 million?

4 MS. HEATHER REICHERT: That's correct.

5 MS. CANDACE GRAMMOND: And then in the
6 non-Basic line it looks about 204 million, with the --
7 the two (2) sums added together?

8 MS. HEATHER REICHERT: Correct.

9 MS. CANDACE GRAMMOND: So the
10 corporate retained earnings then are reflected at the
11 -- the right-hand column, 367.3 million?

12 MS. HEATHER REICHERT: That's correct.

13 MS. CANDACE GRAMMOND: And then if you
14 include the AOCI, or accumulated other comprehensive
15 income, the total equity is about 430.7 million?

16 MS. HEATHER REICHERT: Correct.

17 MS. CANDACE GRAMMOND: And we see,
18 looking at the AOCI column, that it's down by about
19 41.1 million from the first quarter.

20 Is that change in recognition of the
21 unrealized gains on the US equity portfolio?

22 MS. HEATHER REICHERT: Yes, that would
23 be -- that would be in there. The 55.6 million that
24 we realized on US equities forms a part of that forty-
25 one (41).

1 MS. CANDACE GRAMMOND: Thank you.

2 Now, we noted within this report, and I'm just finding
3 the correct page number reference.

4

5 (BRIEF PAUSE)

6

7 MS. CANDACE GRAMMOND: On page 7, so
8 if we just go back to page 7, we have the section of
9 the report that deals with the outlook -- outlook
10 period, the Corporation's view for the future.

11 And we see there commentary about the
12 pending rate application and -- and so forth, and what
13 the effect would be of that. There isn't though any
14 commentary on what the Corporation is forecasting for
15 net income for the current fiscal year. And we -- we
16 believe that that was reflected in the past in the
17 second quarter report.

18 So can you comment on that?

19 MS. HEATHER REICHERT: I am not sure -
20 - well, in -- in my very brief history with the
21 Corporation, I have not had a reflection of the
22 forecasted net income to the end of the year in the
23 quarterly reports, or -- or there might have been one
24 (1) -- one (1) or two (2).

25 Reason being, at six (6) months, and

1 given what has transpired in the first six (6) months
2 with the winter that we had, with the interest rates
3 being in the past volatile and just starting to
4 increase in the first six (6) months, it's extremely
5 difficult to try to accurately -- accurately predict
6 and forecast what the year-end results will be.

7 And so rather than trying to -- to put
8 in a number, we have chosen not to do that. And just
9 to comment on whether or not we are continuing to work
10 towards, which we are, our forecasted budget.

11 MS. CANDACE GRAMMOND: So the
12 Corporation's forecast of its operating results for
13 the current year 2013/'14 hasn't changed from what's
14 in the current Application?

15 MS. HEATHER REICHERT: No, it hasn't.

16 MS. CANDACE GRAMMOND: Can you give us
17 your view on whether the Corporation is on target to
18 meet that forecast, now that we're six (6) months in,
19 if you can?

20 MS. HEATHER REICHERT: At six (6)
21 months in we are slightly behind the -- the budget.
22 But again, given that -- with the increasing interest
23 rates, given the winter that's yet to come, and not
24 knowing what that weather will be, we are remaining
25 committed to making that forecast.

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: So, in your
4 view, the current, or the second quarter report,
5 doesn't impact the current forecast that's before the
6 Board?

7 MS. HEATHER REICHERT: No, it does
8 not.

9 MS. CANDACE GRAMMOND: Okay. I'm
10 going to ask you to go to PUB/MPI Pre-ask 2. So this
11 is MPI Exhibit 11-2. PUB/MPI Pre-ask 2, MPI Exhibit
12 11-2.

13

14 (BRIEF PAUSE)

15

16 MS. HEATHER REICHERT: So this is on
17 updated interest rate forecast?

18

19 (BRIEF PAUSE)

20

21 MS. CANDACE GRAMMOND: I may have
22 misspoken. It -- it is definitely PUB/MPI Pre-ask 2
23 that I'm looking at. But I said it was MPI Exhibit
24 11-2. It may be PUB Exhibit 11-2. So if I've -- if
25 I've steered people to the wrong document, I

1 apologize.

2

3

(BRIEF PAUSE)

4

5

MS. CANDACE GRAMMOND: So Pre-ask 2.

6 I'm going to ask you to go to the answer to Part C.

7 And so what -- what the Corporation was asked to do at

8 number C was to re-file Pro Forma 1 and Pro Forma 3

9 based on three (3) different rate application

10 outcomes: no change, 1 percent increase, and 1.8

11 percent increase, based on different interest rates

12 referenced in paragraphs A and B.

13

Do you have that, Ms. Reichert?

14

MS. HEATHER REICHERT: Yes, I do.

15

MS. CANDACE GRAMMOND: So if we go to

16 the attachments at Pre-ask 2C, with -- and we can look

17 at any one (1) of them, because I'm just going to talk

18 about the current year. So if we go to the page

19 numbered 1, that would work. So it says PUB/MPI Pre-

20 ask 2C, Part 1, in the upper right-hand corner. We

21 see there under the revised interest rate forecast, a

22 net income for the current year of 51.4 million.

23

Are you with me, Ms. Reichert?

24

MS. HEATHER REICHERT: Yes, I am.

25

MS. CANDACE GRAMMOND: That's at PF-1.

1 And then if we just turn the page over to PF-3, we see
2 revised retained earnings for the current year of
3 192.9 million. Yes?

4 MS. HEATHER REICHERT: Yes.

5 MS. CANDACE GRAMMOND: So is it fair
6 to say, then, that if the upward shift in interest
7 rates holds, the basic RSR would, by the end of this
8 current fiscal year, exceed the current DCAT target?

9 MS. HEATHER REICHERT: Can you restate
10 that, just -- or not restate it, but just repeat that
11 question, please?

12 MS. CANDACE GRAMMOND: Sure. Is it
13 fair to say, based on these revised projections, which
14 assume that higher interest rates will be forthcoming
15 or that the increase in recent interest rates will
16 hold, that by the end of the current fiscal year, so
17 by February of 2014, the RSR balance will be 192.9
18 million.

19 MS. HEATHER REICHERT: Because we know
20 what has actually occurred in the for -- first six (6)
21 months of 2013/'14, you need to look at the underlying
22 assumptions in the first six (6) months of these re-
23 done forecasts for '13/'14.

24 So I am fairly confident that this net
25 income that's projected here on page 1 that we're

1 looking at of 51.4 million, even if all the interest
2 rates were to hold to whatever they -- whatever the
3 underlying forecast is on these ones -- and I -- I
4 honestly would have to look 'cause there's a lot of
5 different numbers on this particular IR, they -- they
6 would have to hold.

7 But because of what I just explained in
8 the -- for the second quarter results for MPI, there
9 are other things that happened in the six (6) months
10 that did not give us the entire benefit of the
11 increasing interest rates. So things happened with
12 claims. Things happened with other equity positions,
13 other investments.

14 And so if I were -- so, simply put, no.
15 The 51.4 million, even if whatever the forecasted
16 interest rate was that was used to arrive at that were
17 to -- were to be bang on for the remaining six (6)
18 months of the year, we would not see this 51.4 million
19 in net income because the first six (6) months of this
20 forecast that's in front of you was not achieved by
21 MPI in the -- the -- I hope that helps.

22 MS. CANDACE GRAMMOND: I -- I think
23 so. Can you comment on what the number would be,
24 knowing what you know about the first six (6) months,
25 and if you assume that interest rates hold, what would

1 that fifty-one point four (51.4) be?

2 MS. HEATHER REICHERT: Just because
3 there's so many interest rate assumptions here, and we
4 did it for three (3) different ways on this particular
5 -- on this -- in this particular scenario, I would
6 take that as an undertaking and be able to get back to
7 you possibly even after the break. It's just a matter
8 of getting my head wrapped around all the differences.

9 MS. CANDACE GRAMMOND: That will be
10 fine. I'll take that undertaking. The undertaking is
11 to provide the updated net income number for the
12 current year assuming that interest rates hold and
13 taking into account the actual results for the first
14 six (6) months of the current year.

15

16 --- UNDERTAKING NO. 37: MPI to provide the updated
17 net income number for the
18 current year assuming that
19 interest rates hold and
20 taking into account the
21 actual results for the
22 first six (6) months of
23 the current year

24

25 CONTINUED BY MS. CANDACE GRAMMOND:

1 MS. CANDACE GRAMMOND: Okay. So those
2 are my questions with respect to the second quarter
3 report. I do have a question for you, Ms. McLaren,
4 that flows from Mr. Gibson's evidence this morning.
5 And I -- I've got to ask you about this.

6 Last year at the hearing, and I have
7 the -- the transcript references are pages 589 and
8 pages 590, you and I were talking about the Aon report
9 and whether that would be updated at some point. And
10 so I say to you -- this is page 589:

11 "We had asked a question about the
12 Corporation getting an updated Aon
13 report because, as I corrected
14 myself, it was from 2008. So we're
15 in that four (4) to five (5) year
16 time frame from when that report was
17 done, and the Corporation has
18 advised that the Department of
19 Finance considers it to be premature
20 to get an updated report at this
21 point. Can you comment on why that
22 view is held?"

23 And then you say:

24 "Sure. There was a really
25 significant change in the direction

1 for the Corporation's investments
2 that the assistant Deputy Minister
3 and Minister of Finance adopted
4 flowing from the 2008 report. Until
5 -- at that time remembering -- sort
6 of take a step back even earlier
7 than that, until 1998 the only
8 investments that the Corporation's
9 insurance funds had -- fund had were
10 bonds. So from 1998 to 2008, and a
11 little bit later than that, move
12 into the world of equities."

13 And then you say:

14 "The decision to go into the
15 alternative classes was, you know,
16 really quite different and the
17 allocation within the bond portfolio
18 was really quite different. So we
19 are continuing to move in those
20 directions and it would be, really,
21 in the view of Mr. Gibson too
22 preliminary -- too early at this
23 point, since we are still moving in
24 the direction of the work that we
25 did at that point."

1 And then you say:

2 "I mean, it takes time. It takes
3 time first to, you know, educate,
4 you know, the fund manager and his
5 staff on these various classes and
6 to decide ex -- how exactly they
7 choose to move into those classes.
8 Often there is regulation changes in
9 terms of the Financial
10 Administration Act for the province.
11 So it takes time. He continues to
12 have strong support for the
13 allocations, but that kind of flow
14 through that. But to repeat the
15 process at this point, he would just
16 see it as too soon."

17 And then I asked you if the Corporation
18 agreed with that view. You said, Yes. So here's what
19 -- what I just want to get my head around. When Mr.
20 Gibson testified this morning, he said that whether or
21 not there should be an updated Aon report is the
22 Corporation's decision, which isn't quite what you
23 said last year. So I just want to give you an
24 opportunity to comment on that.

25 MS. MARILYN MCLAREN: Sure. I guess

1 thinking -- thinking of him in the context that he,
2 you know, suggested this morning of a chief investment
3 officer. And -- and thinking about, you know, it
4 wasn't the Assistant Deputy Minister or the Minister
5 of Finance who necessarily, as -- as I understand it,
6 necessarily precipitated the discussion around moving
7 the construct of the portfolio to be something other
8 than a hundred percent bonds back in the late 1990s.

9 It was based on the evolution of the
10 Basic Compulsory insurance program, the addition --
11 the move to the no-fault program. And the
12 Corporation, understanding the implications of that
13 and understanding what some of the other approaches
14 may be, basically put that on the table, more so than
15 it came from the Defar -- Department of Finance.

16 I would see his comment that, you know,
17 it's really up to the Corporation in the same light as
18 that. If something was very different about our
19 business model, our business needs, and -- and we
20 thought we needed a different approach, it would be
21 our job to say so.

22 In terms of administering the fund and
23 -- and working collaboratively and living up to his
24 responsibilities as, sort of, the ADM CIO, that is
25 clearly working on something that is exactly what I

1 said last year, still a work in progress. So we have,
2 you know, virtually no private equity. We have
3 limited infrastructure. Still have room in real
4 estate, still working on those things.

5 MS. CANDACE GRAMMOND: Madam Chair,
6 those are the questions that I have for the panel at
7 this stage. I appreciate we still have a couple of
8 undertakings coming today, so obviously there may be
9 questions on those for down the road. But for the
10 moment, those are the questions that I have.

11 THE CHAIRPERSON: Thank you, Ms.
12 Grammond. Mr. Williams, do you have any further
13 examination?

14 MR. BYRON WILLIAMS: Just a few
15 questions. I would note that there's at least one (1)
16 undertaking that I'm still awaiting as well that I may
17 have some questions on.

18

19 RE-CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

20 MR. BYRON WILLIAMS: Perhaps the two
21 (2) exhibits I did want to refer to was -- were the
22 quarterly financial report, MPI Exhibit 35, and also
23 MPI-46 which is Undertaking 36.

24

25 (BRIEF PAUSE)

1 MR. BYRON WILLIAMS: So just to
2 repeat, MPI-35 which is the quarterly financial report
3 and also I believe MPI-46, which I think is
4 Undertaking 36. That's the pedestrian fatalities.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: I may have the
9 wrong number. Perhaps My Friend Ms. Kalinowsky can
10 help me on the record. So I'm looking at the
11 pedestrian fatalities, what's the proper number?

12 MS. KATHY KALINOWSKY: Sure. Sorry, I
13 was looking at the quarterly financial report, the
14 second quarter. That's MPI Exhibit number 33.

15

16 CONTINUED BY MR. BYRON WILLIAMS:

17 MR. BYRON WILLIAMS: A lot of paper
18 shuffling for about three (3) questions. I apologize
19 for that. Mr. Johnston, just in terms of the -- I --
20 I believe it's to you in terms of the second quarter
21 report.

22 Am I right in suggesting -- referring
23 you to page 6 of that report that the primary reason
24 the claims incurred decreased in the first six (6) --
25 six (6) months of this year compared to last year, was

1 a -- a decrease in bodily injury claims incurred.

2

3

(BRIEF PAUSE)

4

5 MR. BYRON WILLIAMS: As compared to
6 the previous year.

7

MR. LUKE JOHNSTON: Yes.

8

MR. BYRON WILLIAMS: And in essence,
9 it was a decrease of \$11.2 million, or 8.5 percent, in
10 bodily injury claims incurred, as compared to the
11 previous year at this point in time?

12

MR. LUKE JOHNSTON: Yes, that's
13 correct. That's the -- about the second paragraph
14 down in the current year versus, or in last year's
15 section.

16

MR. BYRON WILLIAMS: And in terms of
17 the bodily injury claims incurred, can you identify
18 which particular areas drove this decrease?

19

MR. REGIS GOSSELIN: Mr. Williams,
20 could you repeat the page please?

21

MR. BYRON WILLIAMS: Sorry, it's page
22 6.

23

MR. REGIS GOSSELIN: Thank you.

24

25 CONTINUED BY MR. BYRON WILLIAMS:

1 MR. BYRON WILLIAMS: And just, if you
2 go under current year and last year, under the second
3 paragraph you'll see the information.

4 MR. LUKE JOHNSTON: If your -- if
5 approximate terms are okay, the interest rate impact
6 alone on bodily injury was in the \$40 to \$45 million
7 range, in terms of reducing the costs, so stated with
8 PIPP claims.

9 MR. BYRON WILLIAMS: So that would be
10 the -- the biggest driver obviously, Mr. Johnston?

11 MR. LUKE JOHNSTON: Yes.

12 MR. BYRON WILLIAMS: Ms. McLaren, I
13 don't know if this goes to you or not, in terms of
14 Exhibit 46. That's pedestrian fatalities.

15 MS. MARILYN MCLAREN: I'll do my best.

16 MR. BYRON WILLIAMS: Well, I hope I've
17 done the math for you, Ms. McLaren, so you can accept
18 it subject to check.

19 But if I were to look at the -- at the
20 total pedestrian fatalities between 2006 and 2013,
21 presented on -- in response to this undertaking, would
22 you accept, subject to check, that it's roughly one
23 hundred and thirty-two (132) over this period?

24 MS. MARILYN MCLAREN: Yes.

25 MR. BYRON WILLIAMS: And focussing on

1 the sixty-five (65) plus area, Ms. McLaren, can we
2 agree that the -- in the 2007 year, that the eight (8)
3 fatalities in the sixty-five (65) plus share was the
4 single biggest number of fatalities for any particular
5 age group, in any particular year?

6 MS. MARILYN MCLAREN: That looks to be
7 true, yes.

8 MR. BYRON WILLIAMS: And subject to
9 check, can we agree that for the sixty-five (65) plus
10 demographic, thirty (30) -- there were in total, over
11 this period, thirty-four (34) fatalities?

12 MS. MARILYN MCLAREN: Yes.

13 MR. BYRON WILLIAMS: Roughly, we can
14 agree, 25 percent of the -- the total number of
15 fatalities, pedestrian fatalities, in this period?

16 MS. MARILYN MCLAREN: Yes.

17 MR. BYRON WILLIAMS: Okay. Thank you,
18 Madam Chair. I have no further questions.

19 THE CHAIRPERSON: Okay. Thank you.
20 Ms. Neville...?

21 MS. ANITA NEVILLE: My questions are
22 to you, Mr. Johnston. I was going through the -- the
23 record of earlier commentary. I wonder if you could -
24 - thank you, thank you.

25 I wonder if you could expand a little

1 bit on the fact that the standards used in your
2 projections do not comply with actuarial standards?

3 MR. LUKE JOHNSTON: The -- yeah, we
4 talked a little bit about -- about this topic when Ms.
5 Everard was asking questions.

6 The -- the main difference that I can
7 see right now is that we -- we are basically forcing
8 net income to be zero in the rating period. And the
9 most -- the biggest adjustment that's happening there
10 reflects investment income. So the -- the -- not
11 necessarily investment income associated with the
12 policies that you're issuing but rather the investment
13 income you're earning on all your assets in your
14 portfolio.

15 So when -- there's -- I can't remember
16 the IR but I think it was 1992, the norm -- the normal
17 process for determining rates would be similar to
18 taking a net present value of all your -- your inputs
19 and your -- your revenues and your expenses, and then
20 taking the -- the present value recognizing the time
21 value money, and then setting a rate on a break-even
22 basis in our case. Other insurers would add a profit
23 load to that.

24 When we did that process about twenty
25 (20) years ago we realized that there was also this

1 other fairly significant source of money coming in on
2 the investment income side, largely from the money you
3 had in retained earnings, and that setting rates
4 break-even on that present value basis wasn't going to
5 make you break even on a -- on a net income basis.
6 You're going to actually have -- be making more money
7 -- you're making positive net income.

8 So the decision at that time was to
9 basically not do the -- the present value calculation
10 but rather put in the investment income you're
11 actually going to get so that your net -- your net
12 income will break even, as we've been talking, like
13 over the rating period. So that's what was done --
14 done there.

15 The questions coming from the -- in
16 terms of standards of practice are -- are valid and we
17 -- we admitted that we're not doing the -- exactly
18 what is stated. But all other aspects that we can
19 tell are -- are per standards of practice. This was
20 just a adjustment we had to -- to make to meet our
21 mandate of break-even.

22 Does that -- does that help?

23 MS. ANITA NEVILLE: Sorry. I've lost
24 the IR here in all the paper. I just had it a few
25 minutes ago. You gave us a response to the IR -- here

1 it is.

2 MR. LUKE JOHNSTON: Is it under --
3 Undertaking 22, perhaps?

4 MS. ANITA NEVILLE: It's Undertaking
5 22, number 49. And I wonder if you could expand a
6 little bit on that because it -- it didn't tell me
7 enough.

8 MR. LUKE JOHNSTON: So I -- we
9 committed to doing the analysis of rates to follow
10 actuarial standards of practice. And I wanted to be a
11 little bit cautious because we haven't done it and I
12 didn't want to start making assumptions about what it
13 would look like.

14 But what I do know for sure is the --
15 the time value of money section, which I -- which I
16 included in the response, explains how you would
17 consider the investment return rate. And in that
18 quote it's -- in that quote from the standards of
19 practice it says:

20 "Among various possible sets of such
21 assets, the actuary would consider
22 default-free assets of appropriate
23 duration, fixed income assets of
24 appropriate duration, and assets
25 which are expected to be acquired."

1 The -- the details of that aren't --
2 aren't important but what I do know for sure is that
3 the returns -- investment returns on these assets
4 would be less than we're forecasting in our investment
5 income. And also the total investment income that we
6 earn on our entire investment portfolio would be a lot
7 larger than what we would earn on this particular
8 group of policies with the -- with the investment
9 return assumption calculated this way.

10 So I'm -- I'm very confident that this
11 would produce a lower investment income in our rates,
12 which would lead to a higher rate indication. We
13 would then have -- if we put that rate indication into
14 our pro formas like we do today, it would say we have
15 extra net income.

16 And -- and what I'm alluding to at the
17 -- at the bottom here is if we use the approach per
18 the standards we'd have basically the same problem we
19 had back in 1992. We'd be producing net income and
20 we'd have to decide what -- you know, what -- what to
21 do with it.

22 And at the bottom here it says:

23 "We would have to develop an
24 approach to create an offset to the
25 actuarial rate to achieve break-even

1 net income in the rating period."

2 Essentially, that's what we did when we
3 created the approach we have now. We -- we needed
4 that offset to produce break-even net income. So I
5 think it's a good exercise to do the -- the rates this
6 way and -- and look at it, but I -- I expect that we
7 might, basically, reach the same conclusion that we
8 did twenty (20) years ago.

9 MS. ANITA NEVILLE: Sorry, I'm not
10 very good at this. I'm just looking at wha -- whether
11 I've -- I've got the right piece here. All right. I
12 think -- I -- that's fine then, Mr. Johnston. Thank
13 you. I'm just going back through the testimony.
14 That's fine for now.

15 MR. LUKE JOHNSTON: You're welcome.

16 THE CHAIRPERSON: Okay. Thank you.
17 Ms. Peters, do you have any items?

18 MS. LIZ PETERS: No questions.

19 THE CHAIRPERSON: And, Mr. Oakes?

20 MR. RAYMOND OAKES: No, Madam
21 Chairperson.

22 THE CHAIRPERSON: Well, I'm assuming,
23 at two o'clock, we will be able to end the -- the pro
24 -- hearings for today, as we have no further questions
25 at this time. And we'll reconvene tomorrow at 9:30.

1 I believe we will be having the two (2) Mr. Robinsons
2 come and -- as witnesses. So thank you.

3

4 (PANEL RETIRES)

5

6 --- Upon adjourning at 2:02 p.m.

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10 Certified correct,

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16 Cheryl Lavigne, Ms.

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