

bcIMC Business Plan

2010/11-2013/14

Adopted and Approved by the
bcIMC Board of Directors

April 1, 2010



Investment
Management
Corporation



PRIVATE AND CONFIDENTIAL

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ACCOUNTABILITY STATEMENT

The British Columbia Investment Management Corporation's ("bcIMC") Business Plan ("the Plan") establishes specific business objectives that we will pursue over the next three to five years.

The Plan gives focus to a longer-term vision that will enable bcIMC to continue deliver our mandate to our clients. The Plan lays out our specific priorities for enhancing our products and services to our clients. It allows us to monitor our progress and to evaluate and respond to our changing business environment. It is also a communication tool that informs the organization of our key priorities and initiatives.

Accountability is shared between those who govern bcIMC – the Board of Directors ("the Board"), whose members are appointed by client trustee boards and the Minister of Finance – and those who manage bcIMC. Specifically, the Board ensures that appropriate controls and accountabilities are in place and oversees bcIMC's operations. bcIMC's Chief Executive Officer/Chief Investment Officer is responsible for the day-to-day duties related to the management of funds and bcIMC's operations. The preparation of the business plan and presentation to the Board for approval is the Chief Executive Officer/Chief Investment Officer's key responsibility.

The Board is legislatively prohibited from involvement with the investment decisions and the day-to-day management of funds. The responsibility for setting client investment and asset mix policies rests with bcIMC's clients. The Chief Investment Officer is accountable to each governing fiduciary (clients/ trustees) for the management and investment performance of funds placed with bcIMC.

Given this dual accountability structure the Board and the Chief Executive Officer/Chief Investment Officer share accountability for ensuring the effective and efficient operations of bcIMC while the Chief Executive Officer/ Chief Investment Officer is accountable for the investment functions. The Business Plan serves to guide the Board and the Chief Executive Officer/Chief Investment Officer.



Sid Fattedad

Chair, bcIMC Board of Directors

April 1, 2010



Doug Pearce

**Chief Executive Officer and
Chief Investment Officer**

April 1, 2010

EXECUTIVE SUMMARY

The worst was averted in 2009 as the global economy stabilized and began to grow during the second half of the year. Emerging markets led the way, while larger economies continue to be plagued by high unemployment caused by the credit crisis and the ensuing deep recession. Although growth has resumed, the level of activity remains well below previous peaks. Forecasters are divided on whether a sharp V-shaped recovery will quickly bring economic activity and employment back to normal levels, or whether the unique character of the financial crisis and the subsequent de-leveraging condemns the U.S. and Europe to a long, sluggish recovery.

With this economic uncertainty, markets have trended sideways with considerable volatility, reflecting a range of views about whether monetary easing and the removal of extraordinary measures will end prematurely or not soon enough, and whether inflation or deflation will be the main concern in two or three years. Large government deficits and sharply rising debt add to the concerns. bcIMC believes the markets are not back to normal, that recovery will be slow, and that investment returns will remain low.

The Business Plan identifies key outcomes that position bcIMC's investment activities and operations within an increasingly complex and challenging environment. These are long-term initiatives, with implementation scheduled over a number of horizons.

bcIMC's investment activity and product mix will become increasingly more global and with an added emphasis on real assets, enabling the pursuit of regional and thematic opportunities. As our investment focus broadens, we will enhance our risk management processes to take into account the associated market, political, and reputational risks. Corporate engagement with companies in bcIMC's investment portfolios will also become increasingly important.

Increased investment complexity comes with increased costs; more in-house asset management will significantly mitigate cost increases. The development of an in-house research capacity, supported by technology, is a key initiative to support in-house management of a global mandate.

As client expectations continue to evolve, advancements in and enhancing a culture of client servicing remains an integral component of bcIMC's business strategy.

Implementation of bcIMC's strategic direction requires a broadening and deepening of our in-house expertise. Management will focus on increased training for existing staff, which will also support bcIMC's succession plan, and recruiting new talent critical for the implementation of bcIMC's long-term strategy.

OVERVIEW OF bcIMC

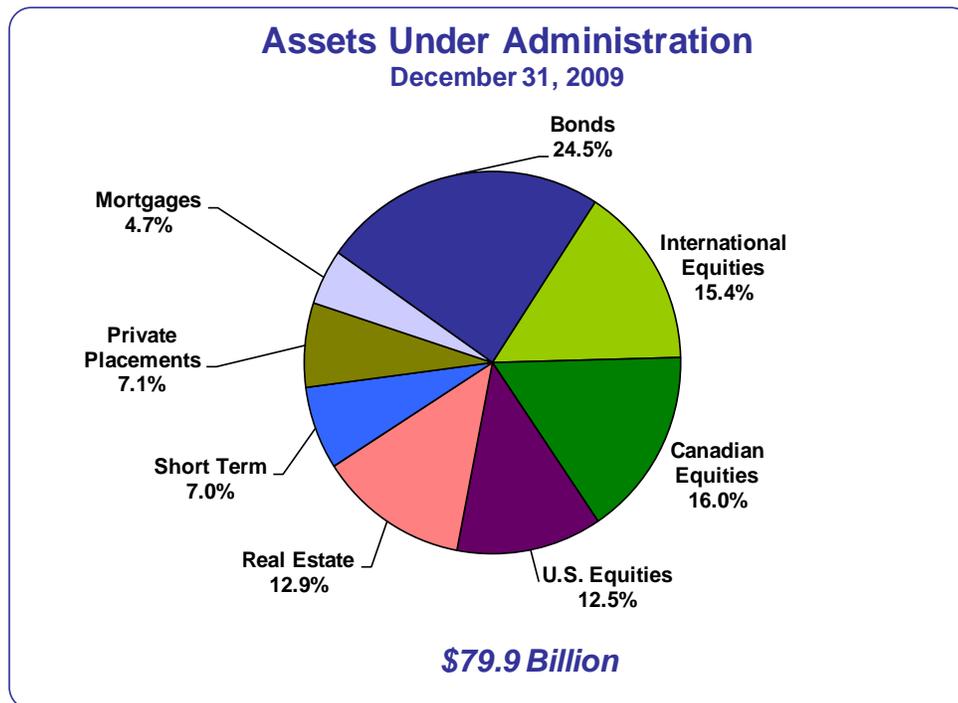
About bcIMC

Based in Victoria, British Columbia, bcIMC is among the largest Canadian institutional investors in the global capital markets. Investment services are offered to public sector clients in British Columbia. bcIMC has industry-leading investment expertise in all major asset classes: currencies, fixed income, infrastructure, mortgages, private equities, public equities, and real estate.

bcIMC is as a trust company established under the *Public Sector Pension Plans Act*. A seven-member board of directors representing clients and chaired by a representative nominated by the Minister of Finance governs bcIMC.

Assets under Administration

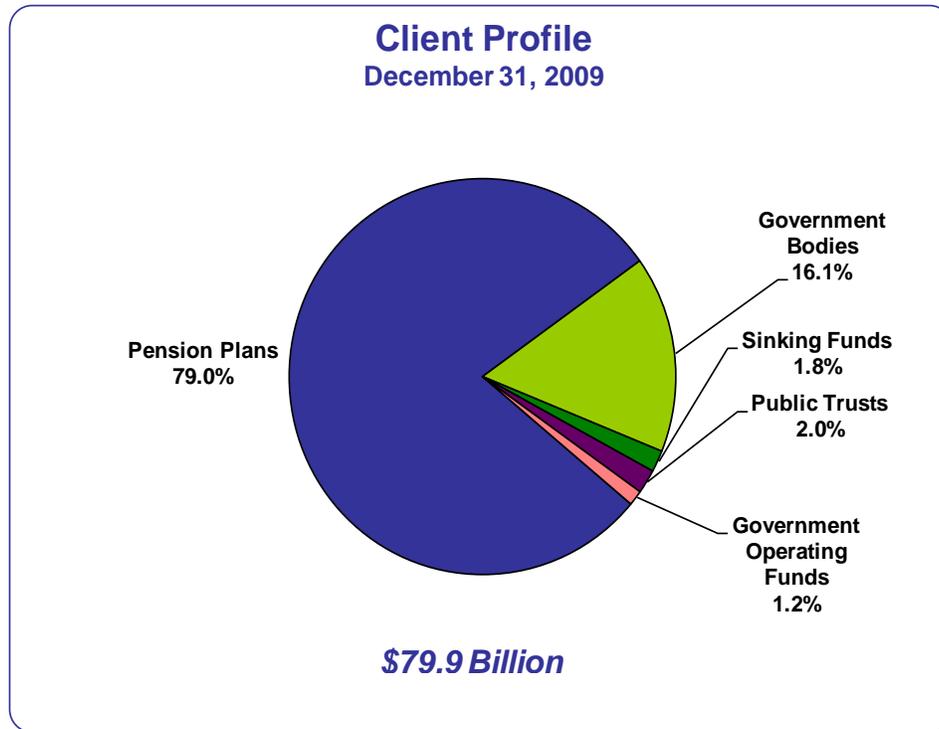
As of December 31, 2009, bcIMC managed \$79.9 billion diversified across numerous asset classes.



Our Clients

bcIMC has a skilled team of in-house professionals and external global advisors that provide investment management services to our clients within the British Columbia public sector. Our stakeholders are:

- clients, including the trustees and governing fiduciaries of public sector pension plans, the Province of British Columbia, and public sector entities to whom bcIMC is accountable for their funds' investment performance; and
- beneficiaries of managed trust funds. A significant majority of the assets under administration are trust funds and are managed in the best financial interests of the beneficiaries.



bcIMC's Investment Services

We offer a comprehensive portfolio of services:

Investment Management

- Portfolio management
- Asset mix management
- Currency hedging & overlay
- Trade execution
- Settlement & custody of securities
- Security lending
- Selection & management of external managers

Investment Management Administration

- Investment accounting & reporting
- Performance reporting
- Responsible investing reporting
- Cash management services

Risk Management

- Risk analysis & measurement
- Credit reviews & monitoring
- Legal, regulatory, & policy compliance

Investment Consulting

- Economic & market analysis
- Asset liability studies
- Investment policy analysis
- Investment advice

Corporate Engagement

- Proxy voting
- Engagement
- Reporting

Investment Education

- New trustee orientation
- Trustee conferences & events

STRATEGIC CONTEXT

Our Vision

We will be the responsible fund manager of choice for the British Columbia public sector, at the forefront of the industry and consistently exceeding the performance and service expectations of our clients.

Our Mission

We are accountable to our clients to provide professional fund management for all asset classes, exercising the highest standards of prudence and fiduciary responsibility. We deliver to our clients the highest return for a given level of risk, at a reasonable cost, while recognizing our responsibility to the broader society through our governance, social and environmental related activities.

Our Values

Respect: We treat others with courtesy, professionalism, and dignity.

Integrity: We act fairly and ethically in all our dealings.

Honesty: We are sincere and candid in our accountability to clients and other stakeholders.

Trust: We earn client confidence by acting with prudence, diligence, and transparency.

Our Five Pillars

Investment Returns: We aim to meet or exceed our clients' investment return expectations, subject to their tolerance for risk and net of costs.

Risk Management: We strive to continually identify and manage enterprise-wide risks that could affect investment outcomes and impact operational efficiency, as well as our reputation.

Responsible Investing: We aim to provide leadership in corporate governance and responsible investing.

Client Service: We strive to build a culture of client service throughout bcIMC that enables the provision of high quality service and builds a lifelong partnership with clients.

Building bcIMC: We strive to build a results-oriented, innovative and knowledgeable team, with efficient systems and technology, operating at reasonable cost and with sound governance.

ENVIRONMENTAL SCAN

External Drivers/Forces

Demographics

- By 2020, the world's population is projected to be **over seven billion** with Asia accounting for almost 56 per cent of the population¹.
- Population growth is slowing and by 2020, the population growth rate is **projected to drop to 0.5 per cent** from the current rate of 1.25 per cent². Developed regions are expected to have zero growth rates for the 2015-2020 period. The population within the emerging markets and less developed regions is expected to increase by 1.1 per cent. Frontier countries will grow by 2.1 per cent per annum³.
- **Canada and the U.S. are aging** and the dependency ratio is expected to be 55 dependents/100 persons of working age in 2020 (compared to 50 in 1980)⁴.
- **China and India** will have a **younger population**. Asia's dependency ratio in 2020 will be 48 dependents/100 persons of working age (compared to 72 in 1980)⁵.
- An **aging B.C. population** will increase the demand for health care and senior housing facilities. As baby-boomers retire, the recruitment and retention of qualified staff will challenge all employers.

Implications and Considerations for bcIMC

- As the populations of emerging countries increase, there will be an increasing demand for goods and services. Consumption patterns will change and increasing standards of living will drive intensity of use, for example, the consumption of protein in China is expected to be about 50 kg per capita, compared to 30kg in 2003⁶. The increasing prosperity of emerging markets and their utilization of capital will influence global consumption trends and present investment opportunities and risks.
- The average age of the active members of our pension plan clients is steadily rising. Aging will influence our clients' willingness to take market risk, influence liquidity and cash flow requirements, and may even influence our clients' investment strategies.

New Global Leaders and Economic Drivers

- Emerging markets are becoming the **new engines of world growth**. India and China are strengthening regions and have a rising middle class with high savings rates, which will eventually lead to higher consumption. These countries offer **new sources of capital** that may drive new investment themes. **Resource-rich regions** present future opportunities even though current conditions and systems may deter investment.

¹ US Census Bureau – International database, August 2006

² US Census Bureau

³ All projections sourced from UN Population data

⁴ UN Population division – 2006 revision

⁵ UN Population division – 2006 revision

⁶ Goldman Sachs March 2007

- The international system is becoming multi-polar. Emerging economies are more influential in global institutions (i.e. World Bank, International Monetary Fund), raising the potential for **new geopolitical considerations**.
- World growth is expected to be four per cent in 2010, well above the estimated 0.9 per cent decline in 2009. Emerging markets will continue to lead the way as they did in 2009.
- **Governments** have intervened to protect local economies from the effects of the global financial crisis. The U.S bailed out its banks and auto companies, China instructed its state banks to enhance lending, and the U.K. and Europe governments and banks rescued depositors in Icelandic banks.
- The poverty gap between the “haves” and the “have nots” is ground for **potential conflict**. Escalating food prices and scarcity of resources may lead to heightened levels of regional rivalry.

Implications and Considerations for bcIMC

- A global investment outlook, supported by a product mix that allows for the pursuit of regional and other investment themes, will be a key aspect of bcIMC’s investment focus.
- Global investing activity will involve the management of the market, political, and reputational risks associated with new markets – the anticipation and management of these risks requires greater expertise and knowledge.
- A global outlook will call for bcIMC to strengthen existing and build new strategic relationships with business partners that operate in global markets.
- An in-house team with the breadth and depth of skills necessary for global investing will continue to be developed and the management of global-related investment risks will continue to be enhanced.

New Players within the Capital Markets

- The rapid growth of “new players” (i.e. petrodollar assets, sovereign wealth funds, hedge funds, and private equity) from 2000-2007 has influenced the capital markets. Although the financial crisis caused some players to adjust their asset management strategies, their strong capital flow ensures that they will continue to be large providers of capital. Their combined financial assets in 2008 was estimated at U.S.\$12 trillion⁷ and are predicted to be in the U.S.\$19 to U.S.\$25 trillion range by 2013.
- Petrodollars and Asian sovereign wealth funds fared better than private equity and hedge funds during the financial crisis. Oil investors and Asian governments provided the world’s financial markets with about \$4.5 billion per day in new capital in 2008, up from \$2.5 billion in 2007⁸. Petrodollars and Asian sovereign wealth funds are likely to remain significant forces in global capital markets.
- Following the financial crisis, the hedge fund and private equity sectors have had to operate with less leverage. Going forward, these sectors may be subject to potentially more regulation.
- In a weak economic environment, there is an increased risk of protectionist policies that benefit one country at the expense of others. There is growing concern from the U.S about China’s unwillingness to reassess the value at which its currency is pegged. As a result, there is rising friction between China, and the U.S. and Europe, with suggestions for across-the-board tariffs on Chinese goods.

⁷ McKinsey Global Institute – The New Power Brokers, How oil, Asia, hedge funds, and private equity are faring in the financial crisis, 2009

⁸ McKinsey Global Institute – The New Power Brokers, How oil, Asia, hedge funds, and private equity are faring in the financial crisis, 2009

Implications and Considerations for bcIMC

- While some were humbled by the financial markets, the “new players” are potential competitors and partners in the competition for assets. bcIMC will need to distinguish our capital and position ourselves as an organization that offers more than investment dollars.
- Functioning in an increasingly competitive environment requires clear strategic decision-making processes and a nimble organization. In addition, a more pro-active approach in the identification of opportunities and the negotiation of investment transactions may be needed.
- bcIMC will need to build new relationships that bring synergies to our partnerships, and strengthen existing relationships with global partners. In instances where our values are not shared, bcIMC will apply discretion in the selection of new business partners.

Environmental Issues – A Growing Consideration

- Climate change is a permanent **threat** to the global economy and balancing development with the need to reduce greenhouse gas emissions (“GHG”) remains a challenge. The consequences of climate change may have repercussions in the near term.
- Many governments plan to introduce climate change legislation and policies that include mechanisms such as carbon cap-and-trade, carbon-based import quotas, taxes, and renewable energy investments. The failure of the Copenhagen summit to achieve consensus on action by emerging nations means that the U.S. is unlikely to take any serious action in the near term.
- Until there is clarity on the policy frameworks, environmental issues will offer highly uncertain future **investment risks and opportunities**. Risks, which include physical damage to assets caused by volatile and extreme weather conditions, future regulations, market price risk, litigation, reputation, higher costs, and operational risks, may be exacerbated due to uncertainty about the policies.
- Over the longer term, society and companies will face **increasing costs** in either mitigating their GHG emissions or purchasing offset credits. Increasing costs will reduce the returns from these companies.

Implications and Considerations for bcIMC

- bcIMC must assess the risk and determine the acceptable tolerance levels for environmental risk factors. Climate change other resource-related risks and opportunities may become more important.
- As a long-term investor, bcIMC favours companies with the fundamentals to prosper over the long-term. Environmental considerations will become integrated into our portfolio and investment strategies, products, risk management initiatives, and engagement activities.
- Environmental-related research will be an important component within our in-house research capability.
- bcIMC needs to be more aware of our own environmental footprint.

Reform of the Capital Markets

- The unprecedented market volatility, regulatory lapses, and industry scandals that dominated the financial crisis led to **questions** about the structure of the capital markets, its regulatory framework, industry oversight, and the use of certain financial instruments. It is likely that key reforms and regulations will be introduced to enhance oversight of the global financial system and to minimize future speculation and the creation of asset bubbles.

- Sectors such as credit rating agencies and hedge funds will be subject to **new regulations**. Heightened compliance practices and increased disclosure are a probability. Regulations governing short selling are likely to be introduced, and will likely challenge investors with short strategies.
- **Governance issues** (i.e. corporate integrity, executive compensation, compliance programs, risk management practices) have become more important since the financial crisis. Proposed legislative and regulatory changes may place increased demands on directors, change the operations of boards, and result in greater disclosure.
- **Shareholder activism** has also heightened since the financial crisis. Changes introduced by the Canadian and U.S. regulators have allowed for increased shareholder involvement while also minimizing interference with shareholder rights. Shareholders will continue to look for opportunities to become involved with corporate governance matters.

Implications and Considerations for bcIMC

- As a significant player within the Canadian investment industry, bcIMC must track the proposed changes, participate in capital market and pension industry reform, and contribute to discussions that question the conventional wisdom of certain financial tools.
- As the industry questions the merits of certain financial tools and processes, the consideration of the totality and interrelationships of bcIMC's investment risks will become more important.
- bcIMC must continue to assess the governance and internal risk management processes of investee companies and engage with company management on issues of concern.
- bcIMC may need to review our own disclosure and reporting practices in line with reform measures that may be introduced within the capital markets.

Internal Drivers

Increased Complexity of Client Mandates

- Service expectations and product needs are becoming more **complex and sophisticated**. As clients seek higher returns, investment strategies are becoming more diversified. Specialty mandates are more common and often involve the rebalancing of portfolios with external parties and managers.
- Continued changes in some **clients' governance models** may lead to more difference in mandates. With the customization of client mandates, our service levels and products may be altered.
- **Regulatory changes** are encouraging clients to consider other investment strategies. Proposed changes to accounting practices may affect disclosure practices and the way in which bcIMC and our clients prepare financial statements.
- Many of our clients are interested in **responsible investing** and may experience pressure from interest groups to divest from certain products. Clients expect regular reporting on our responsible investing initiatives and from time-to-time, may seek advice on certain topics.

Implications and Considerations for bcIMC

- Trust is a key component of investment management and enhancements to our client servicing is integral to bcIMC's strategy. Client communication and relationship management remains critical.
- Increased diversification and divergence of client investment strategies will lead to a greater demand for customized services.
- Pension plans are faced with the challenges of meeting their long-term liabilities and clients may favour illiquid investment opportunities that offer steady cash flows and inflation hedges. bcIMC will need to assist client realign their portfolios.
- bcIMC will continue to collaborate with clients in assessing the impact of regulatory and accounting changes on clients' assets. Our systems and processes may need to be adjusted.

Increased Complexity of Investment Products and Processes

- **Product needs** are changing. Although the benchmarked "balanced fund" remains the core product choice, clients are requesting new products that accommodate their individual risk-return appetites. Changes to client mandates and product lines will continue to increase in **complexity**.
- A global investment mandate and a greater participation to private equity, real estate, and strategic assets increase the complexity of investment management operations. Risk management, accounting processes, and other support systems will also increase in complexity, placing additional demands on staff and IT systems, potentially raising operational-related risks.
- Foreign regulations, tax-related legislation, and the reform of capital markets and securities law may impose **additional obligations and responsibilities** on investment managers. Applicable legislation and reform may require increased compliance monitoring and reporting, introduce new systems, increase the complexity of our processes, and even affect the scope of investment activity.
- The introduction of **International Financial Reporting Standards** will affect our accounting processes and financial reports, as well as the financial reports received in support of all investments.
- A global mandate requires **expertise and understanding** of the global capital markets. Sourcing this expertise within Canada and developing an internal research capability can be challenging.

Implications and Considerations for bcIMC

- Although costs increase in line with investment complexity, more in-house asset management will serve to mitigate some of the increased operating costs.
- A global mandate depends on solid business relationships, in-house expertise of global markets, risk management systems that consider global risks, and information technology that supports an expanded mandate. It also encourages the building of a culturally diverse and experienced team. As bcIMC relies on intellectual capital, the attraction and retention of experienced staff is an ongoing challenge.
- Where appropriate, working hours may be altered to accommodate the demands of global investing.
- We will monitor the proposed changes to Canadian and international legislative framework and assess the impact on our systems, procedures, compliance, and reporting requirements. Unnecessary complexity within our systems and procedures should be identified and reduced.

The Need to Balance Cost and Value-Add

- Drivers such as the increasing complexity of client service, a global investment mandate, diverse products, an increased focus on illiquid investment opportunities, and different investment styles will contribute to an escalation of bcIMC's costs.
- Although there will be a modest increase in costs, it will not have a significant impact on net-of-cost investment returns. However, by managing almost \$80 billion, bcIMC is able to offer clients the benefits of **economies of scale** and we will continue provide value-added service at a reasonable cost.

Implications and Considerations for bcIMC

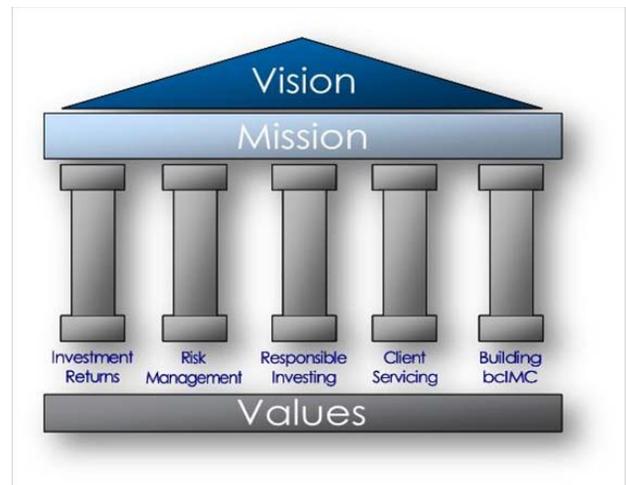
- bcIMC operates on a cost-recovery basis and while our focus is on net client returns, we are mindful of keeping a modest cost profile. With the current market volatility and economic conditions, cost containment is a priority.
- Although costs increase in line with investment complexity, more in-house asset management will serve to mitigate some of the increased operating costs.

STRATEGIC OUTCOMES AND INITIATIVES

The Business Plan identifies five key strategic outcomes that will allow bcIMC to operate within an increasingly complex and challenging environment. These outcomes are long-term in nature and will be implemented over a number of time horizons.

Each outcome depends on a number of supporting and inter-related initiatives (refer Appendix One). These initiatives are identified in accordance with bcIMC's Five Pillars that represent the key components of bcIMC's business, namely:

- Investment Returns;
- Risk Management;
- Responsible Investing;
- Client Servicing; and
- Building bcIMC.



Outcome 1: An Increased Investment Focus on Global and Real Assets

- bcIMC takes a long-term perspective on investment activity, as we believe that investing for the long-term provides better results. Our investment activity will increasingly focus on global assets, especially assets within emerging markets that match our clients risk profiles.
- bcIMC's product mix will become more global and allow for regional and thematic investments.
- We will enhance our risk management processes to include market, political, and reputational risks associated with global investing. Engagement with global companies will become more important.

- Client portfolios will progressively have greater exposure to real assets. Returns from these assets may offset inflationary effects and are a good match for defined-benefit pension plans. We will shift towards private markets and our portfolios will be less dependent on the developed equity markets.

Outcome 2: An Expanded Breadth and Depth of the bcIMC Team

- Our investment framework is dependent on in-house skills and expertise, and our corporate culture.
- bcIMC will continue to expand the breadth and depth of our in-house team by adding and enhancing our expertise in global investments, real assets, research, and in-house asset management.
- Leadership development and succession planning remains a key priority.

Outcome 3: Increased In-house Asset Management

- Increased investment complexity comes with increased costs; more in-house asset management will significantly mitigate cost increases.
- We aim to manage 75 per cent of assets in-house. The “bringing in” of more of the Public Equities portfolio will be our immediate focus.
- We will enhance our risk management processes to accommodate increased in-house asset management.
- We will continue to integrate responsible investing-related information into our investment and risk management processes, with the objective of contributing to a realization of the envisaged long-term return vs. risk profile.
- We will reduce unnecessary complexity in our investment products, in-house asset management procedures, and operating processes.

Outcome 4: An In-house Research Platform that Supports bcIMC’s Investment Focus

- Quality information is an integral component of in-house asset management and supports a global and real asset investment focus.
- The development of a fully functional internal research platform, supported by technology, which provides strategic, thematic, and company analysis research is a strategic priority.

Outcome 5: Introduction of an Integrated Client Service Platform

- The success of investment management is also dependent on our relationship with clients. Instilling a culture of client service and ensuring ongoing enhancements is a priority.
- We will continue to develop products and strategies that meet client investment return objectives and accommodate our clients’ liability requirements.
- Other initiatives include deepening our knowledge of clients, the greater involvement of asset managers in client meetings, and ongoing communication on bcIMC’s responsible investing initiatives.

FINANCIAL OUTLOOK AND BUDGET ALIGNMENT

Fund Growth

External manager, custodial fees, legal, audit and other external fees are over 70 per cent of total costs for 2009/10. The market value of assets under management largely drives the fees for external investment management and custodial services.

Asset Allocation

Decisions on asset allocation are based on underlying liabilities and risk vs. return objectives. If clients' asset allocation decisions result in a greater proportion of assets being allocated to more expensive asset classes, bcIMC's costs will increase.

Type of Management

Decisions regarding indexed versus active and internal versus external management are based largely on investment considerations, with cost implications being a secondary consideration. Therefore, bcIMC's costs will vary with the type of management chosen.

Allocation of Funds Among External Managers

Higher fees are usually paid to external fund managers with a record of accomplishment for producing superior performance and research material, or additional expertise and resources to clients. While fees are a consideration in manager selection, they are secondary to performance goals. Consequently, a shift in assets from one manager to another may be the prudent and appropriate course of action, even though the shift may result in higher costs.

Complexity and Sophistication

New investment opportunities, such as real assets and infrastructure investments entail high pursuit and due diligence costs. As bcIMC pursues new investment strategies, we will spend more on supporting systems, for example, in the development of risk quantification models. As this area becomes more important to bcIMC's clients, costs are expected to increase.

Because of the significance of these factors (particularly fund growth and asset allocation decisions made by bcIMC's clients), and the fact that they are largely beyond bcIMC's control, three year expenditure forecasts are subject to a high degree of change. As a result, financial projections are provided only for the first year (2010/11) of the planning period.

bcIMC's fiscal 2009/10 forecast and the fiscal 2010/11 budget are indicated on the following page.

	2009/10 Budget	2009/10 Budget (Basis Points)	January 2010 Forecast	January 2010 Forecast (Basis Points)	2010/11 Final Budget	2010/11 Final Budget (Basis Points)
Revenues	140,557	19.1	133,354	17.3	146,933	18.4
Expenses						
Internal Expenses	40,557	5.5	36,194	4.7	44,483	5.6
Direct Costs (note 1)	100,000	13.6	94,560	12.2	102,450	12.8
Total Expenses (note 2)	140,557	19.1	130,754	16.9	146,933	18.4
Net Excess of Cash (note 3)	-		2,600		-	
Average AUM (in \$ billions) (note 4)	73.8		77.3		80.0	

Notes:

1. To provide funds management services, bcIMC enters into contracts with third parties for investment management, custodial, legal and other services. Third party costs attributable to a specific pooled investment portfolio are charged to that portfolio and shared on a *pro rata* basis by the portfolio unit holders. These costs are referred to as direct costs.
2. Excludes depreciation and amortization expense.
3. One-time surplus in fiscal 2009/10, to be transferred to bcIMC's general reserve.
4. Average Assets Under Management - the average of assets under management at the beginning and end of the respective periods.

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