

bcIMC's Business Plan

Implementing Vision 2025

2011–2012 to 2014–2015

**Adopted and Approved by the
bcIMC Board of Directors**

March 31, 2011



**Investment
Management
Corporation**



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Accountability Statement

The British Columbia Investment Management Corporation's (bcIMC) Business Plan for 2011–2012 to 2014–2015 was prepared by bcIMC's management under the direction of bcIMC's Board of Directors. It outlines a longer-term vision that enables bcIMC to deliver our mandate. Our performance will be measured against this plan and the dynamic nature of the global capital markets.

bcIMC does not fall under the *Budget Transparency and Accountability Act* (BTAA). However, as bcIMC is committed to transparency and accountability, this plan was prepared in voluntary compliance with the BTAA's spirit and intent.

bcIMC operates under a dual accountability model as set out in *the Public Sector Pension Plans Act*. The Board of Directors oversees the overall management of bcIMC, ensures that appropriate controls and accountabilities are in place, including business plans and annual reports, and approves policies for bcIMC's pooled investment portfolios. bcIMC's Chief Investment Officer is accountable to the Board for the efficiency and effectiveness of bcIMC's operations.

The Board of Directors is not responsible for setting client investment policies and asset mix policies - these responsibilities rest with our clients. The Chief Investment Officer is accountable to each client for the management and investment performance of funds placed with bcIMC.

Given this dual accountability structure, the Board of Directors and the Chief Investment Officer are jointly accountable for achieving the objectives set out in this business plan.



Sid Fattedad
Chair, bcIMC Board of Directors

March 31, 2011



Doug Pearce
**Chief Executive Officer and
Chief Investment Officer**
March 31, 2011

Background

bcIMC's core business is the delivery of investment management services that exceed our clients' investment objectives, return and service expectations. To achieve this, bcIMC must:

- Maintain a solid investment focus by delivering investment products and services that meet our clients' requirements;
- Maintain strong partnerships with our clients; and
- Manage an efficient and dynamic investment management firm within a competitive and complex environment.

This business plan is a result of a review of the corporate strategy undertaken in January 2011 by the bcIMC Board and management. Discussions were also held with our major pension plan clients between January and March 2011; client input was considered and incorporated into the plan.

The business plan outlines the change initiatives that will equip bcIMC to operate in the ever changing investment environment, as well as the ongoing programs that meet our clients' expectations. The plan:

- Sets out bcIMC's mandate and provides an overview of our clients and investment services;
- Clarifies our vision, mission, corporate values and the key components of our business;
- Outlines the trends within our external and internal environments that we need to consider in our long-term strategic planning;
- Communicates bcIMC's intentions for preparing for the future investment environment, while also maintaining and strengthening our ongoing corporate programs and activities;
- Outlines the measures that we will use to monitor the implementation of the business plan; and
- Links the business plan with bcIMC's operating budget.

Overview of bcIMC

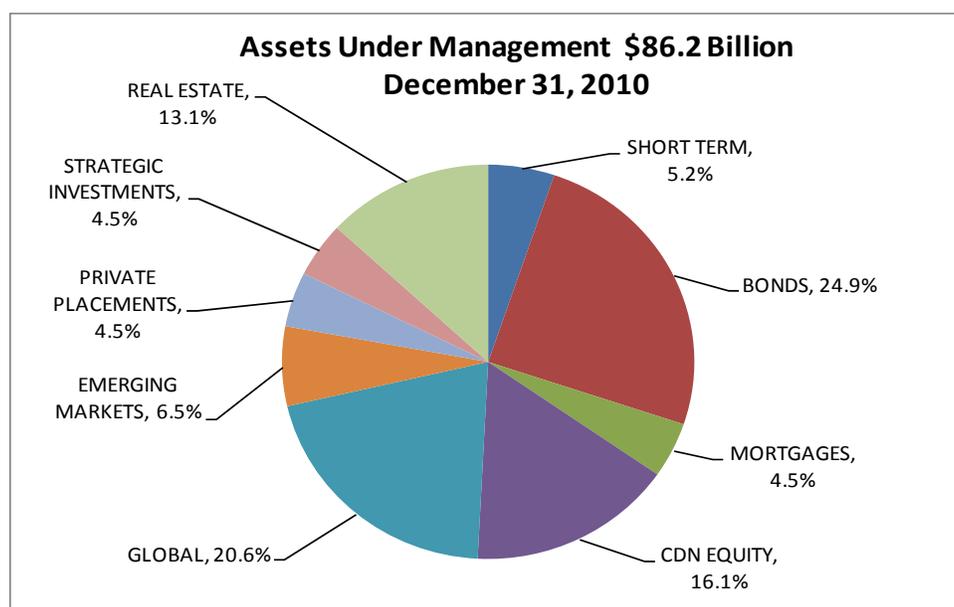
About bcIMC

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: fixed income, infrastructure, mortgages, private placements, public equities and real estate.

bcIMC is a trust company established by the *Public Sector Pension Plans Act*. We are governed by a seven-member board representative of clients. The chair is appointed by the B.C. Minister of Finance.

Assets under Management

bcIMC managed \$86.2 billion diversified across numerous asset classes as of December 31, 2010.



Our Clients

bcIMC manages the assets of various public sector pension funds, public sector insurance funds, the Province of British Columbia, provincial government bodies (Crown corporations and institutions) and publicly-administered trust funds. Clients have different investment needs and mandates range from money market accounts to diversified portfolios.

Pension plans are our largest client group, accounting for 79.7 per cent of the assets we manage. Pension funds have long-term investment horizons and generally positive cash flows. Trustees may take greater market and liquidity risk to enhance their long-term returns and reduce costs to plan sponsors.

Other clients include the WCB Accident Fund (18.8 per cent), sinking funds and government operating funds (3.7 per cent), public trusts (1.5 per cent) and government bodies (1.3 per cent). We manage their assets in line with their investment horizon. These clients have different return expectations; some emphasize capital protection, while others give importance to short-term performance, or liquidity.

bcIMC's Investment Services

bcIMC provides pension plan clients with comprehensive service levels, including investment management, risk management, trade settlement, cash-flow management, accounting and other specialized reporting, compliance, custodial, audit and client services. bcIMC is client-focused and has a skilled team of in-house professionals and external global advisors working on behalf of our clients. Our comprehensive portfolio of services (refer to Appendix 1) is tailored according to our clients' needs.

bcIMC's Strategic Context

bcIMC's 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 our clients' performance and service expectations.

bcIMC's 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

Our values shape our culture, define bcIMC's character and guide our approach to investing, our clients and our colleagues:

- 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

The Five Pillars are the key components of our business. They are integrated into our business planning process and provide the framework for the evaluation of corporate and staff performance.

- 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 allows the provision of high quality service and builds lifelong partnerships 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

In looking ahead, we have identified the major external drivers/forces and key internal drivers that will influence our business and operations.

External Drivers/Forces

Demographics

The global population is projected to be over nine billion by 2050¹ with Asia expected to remain the most populous area in the world. Mature regions are expected to have zero growth rates in 2015-2020; the population in new regions is expected to increase by 1.1 per cent.²

Consequently demand for goods and services in new countries will increase. Consumption patterns are expected to change and an increased standard of living will drive intensity of use. The increasing prosperity of new regions and the utilization of capital will influence global consumption trends, presenting investment opportunities and risks.

Mature regions (such as Canada and the U.S.) are aging and the dependency ratio in 2020 is expected to be 55 dependents/100 persons of working age (compared to 50 in 1980.)³ By comparison, Asia's dependency ratio in 2020 will be 48 dependents/100 persons of working age (compared to 72 in 1980.)⁴

Amongst our pension plan clients, the average age of active members is steadily rising. Member demographics play a role in determining the variability of a pension plan's liability. As the proportion of retired members increase within a plan, its basic benefits become increasingly fixed and well-defined. Aging may influence our clients' willingness to take market risk, affecting liquidity and cash flow requirements, and possibly impacting their investment expectations. While plan demographics is a strategic issue for the board of trustees of each pension plan, bcIMC should continue to raise their awareness of the impact an aging pension plan has on investment strategies and asset management.

¹ U.S. Census Bureau – 2011

² Projections sourced from UN Population data

³ UN Population division – 2006 revision

⁴ UN Population division – 2006 revision

New Global Leaders and Economic Drivers

Newly emerged and emerging economies are the new engines of world growth and their governments are becoming more influential in global institutions. India and China are strengthening economically and have a rising middle class characterized with higher consumption and significant rates of saving.

New countries offer fresh sources of capital and may present thematic investment opportunities. Looking longer term, resource-rich regions offer potential opportunities even though current conditions and systems may deter investment.

New Players within the Capital Markets

The rapid growth of new players (petrodollars, sovereign wealth funds, hedge funds, private equity) from 2000–2007 influenced the capital markets. After the financial crisis many of these players adjusted their investment strategies; however, their strong capital flows ensure that they will continue to be large providers of capital. Sovereign wealth funds are considered the dominant force within global markets and currently account for over U.S.\$3 trillion in assets, projected to reach U.S.\$10 trillion by 2020.⁵

These players are potential partners and competitors in our investment processes. To operate in an increasingly competitive environment, bcIMC needs to proactively seek opportunities, and be nimble in our investment pursuits, negotiations and decisions. We will continue to strengthen relationships with existing global partners. bcIMC will also build new relationships with like-minded organizations that share our values and investment beliefs and offer synergies to our partnerships. We are mindful that an increasingly competitive environment increases asset prices and will take the necessary measures to manage the risks related to this environment.

Environmental Issues

bcIMC believes that climate change is impacting capital markets and that this will continue into the mid- and long term. The cost of climate change on the physical environment, health and food security could exceed U.S.\$4 trillion,⁶ with the scale of impact varying by sector and region.

Many governments plan to introduce climate change legislation and policies ranging from taxes, carbon cap-and-trade, carbon-based import quotas, to renewable energy investments. These policy changes

⁵ EDHEC Risk - Asset-Liability Management Decisions for Sovereign Wealth Funds- October 2010

⁶ Mercer: Climate Change Scenarios – Implications for Strategic Asset Allocation: February 2011

could increase the cost of carbon emissions to global economies by as much as U.S.\$8 trillion,⁷ costs that the markets will absorb. This will reflect as higher costs for some companies and investments, affecting absolute and relative returns.

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 impact, may be exacerbated due to uncertainty about the policies.

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. Discussions on reforms to increase oversight of the global financial system and minimize future speculation continue.

Heightened compliance practices and increased disclosure are a probability. Governance issues (i.e. risk management practices; executive compensation; compliance programs) are more important since the 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 heightened since the crisis. Shareholders will look for opportunities to become involved with corporate governance matters. bcIMC will continue to assess the governance and risk management processes of investee companies and engage with companies on these issues.

Internal Drivers

Increasing Complexity of Client Mandates

bcIMC manages the assets on behalf of 38 clients with different return and service expectations. The diversification and divergence of client mandates contributes to a demand for customized service.

In seeking higher returns, clients are diversifying their investment strategies. Pension plans have long-term liabilities and are favouring illiquid assets that offer steady cash flows and inflation hedges.

⁷ Mercer: Climate Change Scenarios – Implications for Strategic Asset Allocation: February 2011

Regulatory changes have also encouraged clients to consider other investment strategies. Changes in our clients' governance models have contributed to changes in the investment mandate.

Maintaining our clients' trust is important and having a culture of client service is central to bcIMC's business. Client communication and relationship management is critical.

Increased Operational Complexity

Although the benchmarked "balanced fund" remains the main product choice, clients are requesting products that accommodate their individual risk-return appetites. Changes to client mandates and our product lines have increased investment and operational complexity in recent years.

Our global focus and preference for real assets (private equity; real estate; infrastructure) has increased operational complexity. Foreign regulations, tax-related legislation, and the reform of capital markets and securities law may impose new obligations. Risk management, accounting processes and systems have increased in complexity, placing additional demands on information technology and staff. Unnecessary systemic and procedural complexity should be identified and eliminated.

The Need to Balance Cost and Value-Add

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. While complex client mandates and an emphasis on real assets and global investing are contributing to higher costs, they will not significantly impact net-of-cost investment returns. By managing over \$86 billion, bcIMC continues to offer clients the benefits of economies of scale and more in-house asset management will mitigate some of the increased operating costs.⁸

bcIMC recognizes that continued investment success is largely dependent on attracting, retaining and developing the best staff to serve our clients. bcIMC's compensation philosophy and structure, which is regularly reviewed by the Board, ensures the alignment of staff interests with client objectives. It also allows bcIMC – as a global player that competes for investment opportunities – to compete for the best investment and management professionals.

⁸ For every 10 per cent increase in internal management, net value added increased by 4.1 basis points on average. CEM Insights, September 2010

Vision 2025's Strategic Initiatives and Measurements

bcIMC must meet our clients' investment and service expectations within a dynamic and complex environment. As an organization, we must prepare for future challenges while also maintaining our current operations. Our Vision 2025 includes two broad categories of initiatives that:

- Prepare for the future investment environment – long term in nature, these initiatives will enhance our ability to manage our clients' assets in a changing environment; and
- Maintain and strengthen our ongoing corporate programs and activities.

These categories are integrated into the objectives of the Five Pillars, the key components of our business.

Investment Returns (Pillar 1)

We aim to deliver investment performance and products which exceed our clients' return expectations and in so doing, ensure that we remain their manager of choice.

We will do this by:

- Increasingly focusing on global opportunities (especially within public equity and emerging markets) and by enhancing our product mix to allow for more global and thematic investing;
- Increasingly focus on real assets that are consistent with our clients' risk profiles and having the potential to deliver strong earnings over the longer-term;
- Increasing in-house asset management,⁹ with our primary focus being “bringing in” more of the public equity portfolio ; and
- Capitalizing on our in-house research capability to support bcIMC's investment focus.

Our performance in this area will be measured as follows:

- Total returns for pension funds under management should meet or exceed the:
 - total fund market benchmark return; and
 - total fund actuarial return that is used to assess the pension liabilities.¹⁰
- Pooled fund returns should meet or exceed industry recognized performance benchmarks.¹¹

⁹ For every 10 per cent increase in internal management of assets, net value added increased by 4.1 basis points on average (CEM Insights, September 2010)

¹⁰ bcIMC's performance in meeting clients' actuarial targets takes into account prevailing market conditions and client policies.

¹¹ Performance benchmarks are outlined in Appendix 2.

- By 2012, we will have assisted all major pension plan clients to revise their strategic asset allocation policies into a single global equity allocation and increase real asset allocation targets.
- We will meet our real asset policy weights by completing at least two significant transactions a year, targeting between \$1.5 billion to \$1.8 billion in real asset commitments.
- The mix of investment styles for the global equity platform will be 30 per cent indexed, 40 per cent enhanced, and 30 per cent active (of which 5 per cent will be managed in-house) by 2014.
- 70 per cent of total assets will be managed in-house by 2014, moving to 75 per cent by 2018.

Risk Management (Pillar 2)

We aim to identify and manage enterprise-wide and portfolio risks that affect investment outcomes and impact operational efficiency.

We will do this by:

- Continuing to review and enhance bcIMC's risk management framework and embedding it into our daily operations;
- Continually identifying and managing market and credit risks, while mitigating operational, legal, and environmental risks across bcIMC; and
- Reporting on risks and the management of risks.

Our performance in this area will be measured as follows:

- Receiving clean external audit opinions on corporate and pooled fund financial statements and the Section 5970 Report on Controls over the Investment System (internal control measures).
- Receiving internal audit opinions of bcIMC's internal controls and procedures.
- Regular reports to the bcIMC Board, which includes the quarterly reports on bcIMC's enterprise wide risks and the annual reports for each of the individual risk management frameworks.

Responsible Investing (Pillar 3)

We aim to integrate environmental, social, and governance issues into our investment analysis and decision-making processes, as well as our culture.

We will do this by:

- Continuing to embed responsible investing approaches into our investment strategies and processes by recognizing that the proper management of governance, environmental and social factors contributes to business growth and stability; and
- Developing specific products that allow clients to selectively participate in socially responsible and socially screened securities.

Our performance in this area will be measured by:

- bcIMC's ranking in the annual survey on the progress towards implementing the Principles for Responsible Investing conducted by the United Nations. bcIMC aims to be ranked in the 75th or higher percentile of at least four of the six UN Principles for Responsible Investing.¹²
- Management's opinion on the progress made in enhancing our responsible investing initiatives and activities, as well as embedding responsible investing in our culture, our investment analysis and decision-making processes.

Client Services (Pillar 4)

We strive for long-term partnerships with our clients by creating a culture of client-focused service and exceeding our clients' return and service expectations, ensuring we remain their manager of choice.

We will do this by:

- Reinforcing a culture of client service and embedding practices that strengthen the value of client service throughout our activities and performance metrics; and
- Offering product lines and processes that suit the investment objectives of our clients.

Our performance in this area will be measured by:

- Full retention of clients' funds (where commercially viable) – if a client leaves, they do so for reasons not related to bcIMC's service or performance; and

¹² Appendix 3 lists the six UN Principles for Responsible Investing.

- Receiving a 97 per cent rating (or higher) for overall client service in the 2011 Client Satisfaction Survey.

Building bcIMC (Pillar 5)

We aim to develop a results-oriented, innovative and knowledgeable team which is supported by efficient systems and technology and operates at a reasonable cost.

We will do this by:

- Creating an environment that is consistent with bcIMC's corporate culture, promotes collaboration, encourages professional development and in so doing retains existing employees and is attractive for future employees;
- Reviewing and seeking opportunities to improve operational and IT systems and processes; and
- Reviewing our operations to enhance our competitive cost base.

Our performance in this area will be measured by:

- Management's opinion of the status of bcIMC's corporate culture.
- Our ongoing ability to attract, retain and motivate an appropriately skilled staff group.
- The provision of continued and reliable information technology and infrastructure capable of supporting global investment activity.
- The actual cents per \$100 of assets under administration compared to the forecasted cents per \$100 of assets under administration.

Financial Outlook and Budget Alignment

Fund Growth

External manager, custodial fees, legal, audit and other external fees were over 70 per cent of total costs for 2010–2011. 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 concerning indexed vs. active and internal vs. 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

Real asset investment opportunities entail high pursuit and due diligence costs. As bcIMC pursues new investment strategies, we will spend more on supporting systems (i.e. risk quantification models). As this area becomes more important to bcIMC's clients, costs are expected to increase.

Given 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 (2011–2012) of the planning period.

bcIMC's fiscal 2010–2011 forecast and the fiscal 2011–2012 budget are indicated below:

	2010/11 Budget	2010/11 Budget (Basis Points)	January 2011 Forecast	January 2011 Forecast (Basis Points)	2011/12 Final Budget	2011/12 Final Budget (Basis Points)
Revenues	146,933	18.4	151,078	18.3	166,576	19.4
Expenses						
Internal Expenses	44,483	5.6	40,063	4.8	48,326	5.5
Direct Costs (note 1)	102,450	12.8	110,420	13.4	118,250	13.5
Total Expenses (note 2)	146,933	18.4	150,483	18.2	166,576	19.0
Net Excess of Cash (note 3)	-		595		-	
Average AUM (in \$ billions) (note 4)	80.0		82.7		87.5	

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 represents the partial recovery of compensation for errors and omissions related to the Realpool over-valuation. The recovery has been 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.

Appendix 1: bclMC's Portfolio of Services

Investment Management

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

Investment Management Administration

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

Corporate Engagement

- Capital markets advocacy
- Engagement
- Proxy voting

Investment Consulting

- Asset liability studies
- Economic and market analysis
- Investment advice
- Investment policy analysis
- Legal, regulatory, and policy compliance

Risk Management

- Credit reviews and monitoring
- Risk analysis and measurement

Investment Education

- New trustee orientation
- Trustee conferences
- Trustee seminars and events

Appendix 2: Portfolio Benchmarks

Fund Type	Pooled Investment Portfolio	Benchmark ¹³
Short Term	Short Term Fund 1	DEX 30 day Treasury Bill Index
	Short Term Fund 2	DEX 91 day Treasury Bill Index
	Short Term Fund 3	Citigroup 30 day Treasury Bill Index
	Short Term Bond Fund	DEX Short Term Government Bond Index
Mortgages	Fixed Term Mortgage Fund	DEX Short Term Bond Index + 100 Basis Points
	Construction Mortgage Fund	DEX One Year T-Bill Index + 100 Basis Points
	Mezzanine Mortgage Fund	DEX One Year T-Bill Index + 250 Basis Points
Bonds	Universe Bond Fund	DEX Universe Bond Index
	Global Government Bond Fund	JP Morgan Government Bond Index Global (Traded) Hedged C\$
	Real Return Bond Fund	DEX Real Return Bond Overall Index
Canadian Equity	Indexed Canadian Equity Fund	S&P/TSX Equity Index
	Enhanced Indexed Canadian Equity Fund	S&P/TSX Capped Equity Index
	Active Canadian Equity Fund	S&P/TSX Capped Equity Index
	Active Canadian Small Cap Equity Fund	S&P/TSX Small Cap Equity Index
Global Equity	Active Global Equity Fund	MSCI World Net Index
	Indexed U.S. Equity Fund	S&P 500 Total Return Index
	US Social Index Fund	MSCI KLD 400 Social Index
	Enhanced Indexed U.S. Equity Fund	Russell 1000 Index/S&P 500 Index
	Active U.S. Equity Fund	RUSSELL 1000 Total Return Index
	Active U.S. Small Cap Equity Fund	RUSSELL 2000 Total Return Index
	Combined European Equity	MSCI Europe Net Index
	Combined EAFE Equity	MSCI EAFE Net Index
New Economies Equity	Active Asian Equity Fund	MSCI All Country Asia Pacific ex Japan Net Index
	Active Emerging Markets Equity Fund	MSCI Emerging Markets Net Index
Real Estate	Realpool Domestic	CPI + 400 Basis Points
	Realpool International	CPI + 700 Basis Points
Private Placements	Private Placement Funds	MSCI All Country World Index + 200 Basis Points
Other	Strategic Investment & Infrastructure Fund	Nominal 8%

¹³Benchmark returns are provided by independent third parties. Benchmarks noted will be used over the three-year planning period, unless amended in accordance with the agreement of clients.

Appendix 3: Principles for Responsible Investing

The United Nations' Principles for Responsible Investment reflects the relevance of environmental, social, and corporate governance issues in investment strategies by promoting best practices in responsible investing.

bcIMC voluntarily commits to fulfilling the Principles where consistent with our investment strategy and day-to-day operations. The Principles¹⁴ are:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

¹⁴ Further information on the Principles for Responsible Investing can be found at <http://www.unpri.org/>

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