



Shareholder Activism

GLOBE 2008

**British Columbia
Investment Management Corporation**



It's a pleasure to be here speaking about the sustainability role of institutional investors.

As we each have only 10 minutes, I want to be concise in my remarks.

I want to clearly express why we think, as long-term owners of companies, we have a role, **indeed a leadership role**, in encouraging companies to make the necessary environmental, social and economic and governance contributions.

Who is bcIMC?

We are one of Canada's largest pension fund managers, responsible for \$85 billion portfolio of securities diversified across all major asset classes, industries and markets in the world.

Our investment activities help finance the pensions of almost 400,000 people in the province of British Columbia, including university and college instructors and staff, teachers, healthcare workers, firefighters, police officers, municipal employees and other public sector workers.

Institutional investors like bcIMC own a majority of the public equity in the world, and **owing to our large size** and share of that ownership, we recognize our leadership role.

What is our share ownership philosophy?

We believe we are **stewards of our clients' capital**. We must be diligent and responsible managers of the assets they have entrusted to our care, protecting those assets and improving them for the benefit of future beneficiaries.

As a pension fund manager, we tend to focus us on time horizons of 40, 50, 60 years so we are able to provide **significant and sustained capital** for businesses to build fundamental value.

We see ourselves as strategic partners to progressive management and boards of directors, and we must make them understand we are **not** a transient shareholder looking for short-term profits.

We are a **loyal ally** who provides steady share price support and encourages companies to become industry and market leaders by looking forward, beyond short-term earnings targets and stock price swings.

We will understand and accept when companies trade off near term earnings for **prudent, desirable long-term investment** which will enhance the long-term sustainability of the company.

Example: We engage with the heavy CO2 emitting companies that we own because want them to prepare for the coming global shift to a lower carbon economy. This shift will mitigate the disastrous economic consequences that are predicted, and which we believe will happen, as a result of climate change and will ensure the company's long-term competitive success. Although in the shorter-term, investment in R&D and new technologies to reduce carbon emissions may reduce earnings, we believe this sacrifice is prudent and necessary.

It is also important to note that, in exchange for our patient capital and long-term outlook, we expect **accountability and transparency** from companies.

What we believe

- (1) **The climate is changing**, and perhaps more rapidly than most people think.
- (2) Unchecked climate change will affect, and even disrupt, the operation of markets, societies, ecosystems and cultures. Some scenarios suggest that by 2040, the world could experience annual economic losses of US\$ 1 trillion (an amount approximately equivalent to the size of Canada's 2007 GDP)
- (3) **It is not too late**, and if we act now, the economic and societal costs will be much less than if we wait.

As I said a minute ago, we believe we are **stewards of our clients' capital**.

This notion of capital stewardship, in our view, seems to be strongly aligned with the excellent definition of sustainability that was developed in the 1980s by Norwegian Prime Minister Gro Harlem Brundtland: ***“Meeting the needs of the present without compromising the ability of future generations to meet their own needs.”***

So, where possible, we emphasize that companies should operate in ways that **secure long-term economic performance** by avoiding short-term activities that are environmentally wasteful or socially detrimental or ethically wrong.

How do we pursue change?

We don't have an "out of body" experience taking on popular, short-term issues outside our fiduciary duty or outside the sphere of our client interests. Rather, we carefully look for **points of intersection** between a company's bottom line, our clients' values, and society.

Example: Over the last two years, we've been in discussions with several mining companies in our portfolio regarding how they are assessing and mitigating HIV/AIDS-related risks in the African countries in which they operate. Our rationale for this activity is this: by addressing the AIDS pandemic in Africa, a mining company such as Barrick Gold or Xstrata or Rio Tinto will not only improve the standard of living on that continent, it will also improve the productivity of the African labour force on which its success depends, and it will reflect the core values of our pension beneficiaries, many of whom are healthcare workers.

We apply our active ownership efforts to a few **key** ESG priorities so that success is more likely.

Priority shareholder action issues for us right now are:

- (1) shareholder rights, which encompasses the right to vote, the right to elect board members and the right to full, timely company information so we can make informed investment decisions
- (2) the risks of climate change
- (3) the observance of core human rights

What does active ownership mean to us?

Some funds use a separate, specialized firm to provide an active ownership role but we believe there are important benefits to **bundling our shareholder engagement** with our investment decision-making.

On average each year, we start private and thoughtful dialogues with about 100 companies, and we are able to point to good results in the **number of commitments** we are receiving from companies to review and make changes to their ESG approach. [Engagement breakdown next page]

We also believe it is important to build ESG solutions in collaboration with governments, regulatory authorities, non-government organizations, and **most importantly, other investors**. In our view, the best solutions are ones that can involve and bring to bear the perspectives, capabilities and networks of a diversity of stakeholders and industry players. These solutions also tend to become better imbedded.

Example bclMC is a supporter of the Carbon Disclosure Project, a non-profit organization that currently works closely with approximately 400 institutional investors from around the world to research how public companies are approaching climate change and its impact on shareholder value. As well as signing onto the CDP's annual climate risk information request to the world's largest companies, we also recently approached the Canadian government to enlist their support for important CDP expansion projects such as developing global GHG reporting standards, and accelerating international scope - it is notable that in 2008, the \$200 billion Chinese Government sovereign wealth fund, the China Investment Corporation, joined the CDP as a signatory investor.

In 2006-2007, we engaged on a very broad set of corporate governance and corporate responsibility issues:

Engagement issue/theme	Number of discussions
Board policies (“overboarding”, attendance, majority vote policy, individual ballots, performance assessments, board tenure)	43
Environmental risk management (disclosure, policy, management strategy)	31
Exercise of voting rights (appropriate disclosure by foreign companies, efficient electronic voting capability in foreign markets)	29
Dividend policy	24
Employee relationships (health, safety, labour policy)	11
Executive Compensation (disclosure, “pay for performance” link)	11
Community relationships (consent to operate, health, safety, human rights policy)	7
Capital structure (controlling shareholder, dual class shares, M&A)	6
Takeover Protection (shareholder rights plan)	3
Board and committee structure (independence)	2
Auditor (independence, performance)	2
Total	169

What do we expect of companies?

We want companies (management and the board) to be **progressive leaders** in environmental, social and governance.

When focusing on the environment, we want companies to **reduce their environmental footprint** and absolute reductions of GHGs is required.

What can companies expect of us?

Gone are the days when shareholders can say that all boards of directors are inactive, inattentive or captives of management. The new reality is that progressive boards are engaged in an **unprecedented level of dialogue** with shareholders, and many show real interest in finding ways to open up channels of communication even further.

We applaud these **progressive companies** and urge others that are lagging to look at the **leaders**.

In our view, many company directors and managers have come a long way in recognizing that shareholders have a very **legitimate interest** in how the company is operating and governed.

The quid pro quo on the shareholder side is to be constructive and rationale owners who make decisions based on **knowledge and reason**.

Are we changing corporate behavior?

In addition to the engagement examples already mentioned, here are **two case studies** on successful ESG reforms we have encouraged:

bcIMC has been a member of the Canadian Coalition for Good Governance for several years and I currently Chair that organization. Working collaboratively, we have been able to advance issues like majority voting for director elections and compensation disclosure. In the past two years, almost 80 companies and trusts have voluntarily adopted a majority vote policy.

In early 2007, we contacted 26 companies that have particular importance in our Canadian public equity portfolio with a request that they participate in the 2007 Carbon Disclosure Project (CDP) survey. Although not a perfect score, we are pleased that 18 of the companies completed the questionnaire outlining their climate change risks and GHG management strategies, including 5 companies that had never responded to CDP information requests in the past. We are especially pleased by the disclosure of one Alberta-based oil exploration company that we had frequent, direct discussions with regarding their reluctance to assess and report on their climate change risks.

What issues are ahead for active ownership ?

We expect a company's **strategic direction** to be the subject of more shareholder engagement. Significant, long-term shareholders like bclMC have a clear interest in understanding the strategic direction of a company.

Improved dialogue between boards and management and shareholders will be particularly important in relation to long-term strategies that involve disproportionately higher costs over the short-term, such as investments in R&D to address climate change risks and opportunities.

Conclusion

We believe the environment and climate change in particular will have a significant impact on investors as a **new and increasing risk**.

We believe we have a **leadership role** in working with progressive management and boards of directors in reducing a company's environmental footprint.

Our **preferred approach** is direct dialogue with companies but we also support collaborative association with other like-minded investors

We encourage companies to take a longer-term view to spend the capital entrusted to them **wisely** and to **build sustainable value**.

We encourage companies to develop a longer-term plan to show leadership. Federally and internationally you may not find leadership but that shouldn't stop companies from being **courageous**.

In fact this concept was first expressed by Michelangelo who said ***"The greatest danger for most of us lies not in setting our aim too high and falling short, but in setting our aim too low and achieving our mark."***

Thank you and I look forward to taking questions at the end of the panel presentations