



The following is a sample of bcIMC's engagement during the quarter on corporate governance issues, except for the "Proxy Votes" table which presents a complete Q1-10 record. We also prepare a full confidential report on our quarterly activities for our clients.

Proxy Votes					Vote Highlights
Issue Category	Number of Companies	Number of Issues	bcIMC Voted FOR	bcIMC Voted AGAINST	
Audit Process	128	145	125	20	<ul style="list-style-type: none"> <li>• <b>Bank of Montreal, Royal Bank, Laurentian Bank, TD Bank, CIBC (Canada)</b> – Voted <b>FOR</b> each bank's executive compensation program (i.e., cast an affirmative say on pay) because, on balance, the pay policies were reasonable. In particular, we looked for bonus alignment with financial performance and for pay practices/incentives that will not encourage excessive risk taking.</li> <li>• <b>Burlington Northern Santa Fe Railway (U.S.)</b> – Voted <b>FOR</b> the company's acquisition by Berkshire Hathaway, Warren Buffet's company. Important positive features to the proposed transaction were: the offer price premium, the positive market reaction and the flexibility afforded to BNSF shareholders to take cash or stock.</li> <li>• <b>Siemens (Germany)</b> – Voted <b>FOR</b> a shareholder proposal seeking the abolishment of variable compensation elements from supervisory board members' remuneration. Performance-based compensation for directors creates potential conflicts with the director's primary role as an independent representative of shareholders. The payments create a disincentive to speak out against management, thereby weakening the oversight function and allowing the corporation to take-on excessive risks.</li> </ul>
Board of Directors	140	164	129	35	
Capital Issues	46	76	54	22	
Executive Compensation	78	103	55	48	
M&A; Takeover Protection	20	20	18	2	
Shareholder Rights	47	71	46	25	

Direct Company Engagement		
Company	Issue	Best Practice Standard
<b>Yellow Pages Income Fund and 39 Other Income Trusts (Canada)</b>	High performance boards	In the coming months, income trusts will convert to corporations ahead of the new Canadian tax rules that will be effective January 2011. Upon conversion, the companies will come into bcIMC's investment universe (we largely use the "equity only" index as our benchmark for Canadian shareholdings so we do not own any income trust units currently). To prepare the trusts for this conversion, we wrote to encourage them to consider altering their current governance approach where necessary to align with the guidelines set out in a document called <b>Building High Performance Boards</b> . The guidelines, developed by the Canadian Coalition for Good Governance, are a "best practice" reference tool for boards of directors to understand/meet shareholder expectations about good governance.
<b>Home Capital Group (Canada)</b>	Risk management	In a meeting with management, we discussed the company's risk management policies/practices/plans. For example, the board will be expanding to add a director with extensive risk management experience.
<b>TD Bank and CIBC (Canada)</b>	Executive compensation	In a meeting with directors, we discussed changes in compensation policies/practices. For example, at CIBC, we had reservations about the strength of the bank's pay-for-performance linkages (e.g., bonus awards still significantly reliant on increases in equity market values that have limited correlation to corporate performance) and rising cost of management ratio (at other banks, the ratio is dropping).

## Investor Coalition Activity

Coalition	Activity
	<p>bcIMC is a member of the Canadian Coalition for Good Governance (CCGG). In March, the CCGG published a document containing 13 guidelines on <b>Building High Performance Boards</b> (available at <a href="http://www.ccg.ca">www.ccg.ca</a>). For example, the guidelines recommend:</p> <p>a) separating the role of Chair and CEO; b) ensuring that the goal of every director is to make integrity the hallmark of the company; c) establishing share ownership guidelines for directors; and d) engaging with shareholders within and outside the annual meeting.</p>
	<p>bcIMC is a member of the International Corporate Governance Network (ICGN). During the quarter, bcIMC participated in a member consultation to develop a set of principles intended to help investors judge if a corporate board is effectively overseeing risk management. The Guidance will be launched this fall. Also in Q1 2010, the ICGN published a guidance document called <b>Non-executive Director Remuneration Guidance and Policies</b>. The Guidelines (available at <a href="http://www.icgn.org">www.icgn.org</a>) are founded on three principles:</p> <ul style="list-style-type: none"> <li>• transparency, so investors can clearly understand the compensation program;</li> <li>• accountability, to ensure that boards properly represent the interests of shareowners; and</li> <li>• alignment, to ensure that boards understand and support the interests of shareowners.</li> </ul>

## Public Policy Engagement

Issue	Activity
<b>U.S. Financial Services Reform</b>	<p>In the wake of the financial crisis, important financial services reform legislation was put forward in March by Christopher Dodd, U.S. Senate Banking Committee Chairman. bcIMC is pleased to see “good governance” provisions in the bill such as say-on-pay requirements for companies, proxy access requiring companies to include director nominees from shareholders in their proxy statements, and majority voting for board nominees. We also support provisions for independent directors only to serve on companies’ Compensation Committees, and “clawback” provisions to take compensation back from executives in the event of inaccurate financial statements or fraud. In addition, bcIMC supports Dodd’s proposal to establish a new Office of Credit Rating Agencies at the Securities and Exchange Commission and the creation of a Financial Stability Oversight Council charged with identifying and addressing market systemic risks. A summary of the Dodd reforms are at <a href="http://banking.senate.gov/public/files/FinancialReformSummary231510FINAL.pdf">http://banking.senate.gov/public/files/FinancialReformSummary231510FINAL.pdf</a>.</p>
<b>Japan Corporate Governance Disclosure</b>	<p>In mid-March, bcIMC submitted comments to Japan’s Financial Services Agency regarding proposed new corporate governance disclosure rules. The new rules are now final and, Japanese companies must now disclose more details on:</p> <ul style="list-style-type: none"> <li>• how their governance structure ensures accountability to shareholders;</li> <li>• cross-shareholdings;</li> <li>• remuneration of directors; and</li> <li>• voting results of shareholder meetings.</li> </ul> <p>While we support the intention of the reforms, which is to enhance investor confidence, they are unlikely to produce significant results. Japan’s divergent position on corporate governance versus the global norm has meant that many global investors, including bcIMC, are looking to place capital in other markets where shareholder rights, transparency and accountability are more respected/valued. For example, Japanese companies were only recently required (December 2009) by the Tokyo Stock Exchange to have one independent director.</p>

The following is a sample of bcIMC's engagement during the quarter on issues of corporate responsibility, except for the "Proxy Votes" table which presents a complete Q1-10 record. We also prepare a full confidential report on our quarterly activities for our clients.

## Proxy Votes

Issue Category	Number of companies	Number of Issues	bcIMC Voted FOR	bcIMC Voted AGAINST
Environmental Responsibility	4	5	2	3
Social Responsibility	2	2	0	2



## Vote Highlights

- Viterra (Canada)** – Voted **FOR** a shareholder proposal requesting that the Board provide a public report describing its assessment of climate change and its rationale for not participating in the Carbon Disclosure Project (CDP). Over 77% of Canadian companies, by market capitalization, responded to the CDP last year, which represents 475 institutional investors and US\$55 trillion in assets. In addition, compared to its peers, Viterra's climate change initiatives and reporting is limited. This disclosure is essential for investors to assess the regulatory and physical risks companies face regarding their GHG emissions.
- Walt Disney (U.S.)** – Voted **AGAINST** a shareholder proposal requesting the company amend its Equal Employment Opportunity policy to expressly prohibit discrimination based on ex-gay status of employees. We were satisfied that Disney commits to providing equal opportunity for all employees based on a list of general characteristics and statutes, including specific reference to sexual orientation without specifying variations of each characteristic within the spectrum of sexual orientation.

## Direct Company Engagement

Company	Issue	Best Practice Standard
<b>ATCO, Canadian Utilities, Nexen, Teck Resources (Canada)</b>	GHG emissions	In discussions with each company, bcIMC questioned why certain sections of their respective 2009 Carbon Disclosure Project survey responses were incomplete (e.g., GHG emissions measurement, management strategies and reduction targets). This disclosure is essential for investors to assess the climate change-related risks (e.g., regulatory and physical risks) that companies are facing and addressing.
<b>Google (U.S.)</b>	Information censorship	Working through an external manager, bcIMC questioned the reputational and legal risks that Google faced by operating in markets where freedoms of expression are restricted (e.g., China). Recently, Google publicly expressed an unwillingness to continue operating under China's internet censorship regime. We inquired about the business impacts of Google's changing attitude toward China.

## Investor Coalition Activity

Coalition	Activity
	<p>During the quarter, bcIMC joined a coalition of global investors from 13 countries, managing over US\$2.1 trillion in assets, in calling for better corporate reporting on environmental, social and corporate governance (ESG) activities. The international investor coalition wrote to 86 major companies urging them to honour the reporting requirements of the United Nations Global Compact, the world's biggest voluntary corporate responsibility initiative. Each of the 86 "laggard" companies has previously joined the UN initiative but failed to produce the mandatory annual report on how it puts the initiative's ten principles into action. This is the third year that bcIMC has collaboratively engaged with UN Global Compact participant companies on the issue of transparency. In 2008, the engagement resulted in 33 per cent of "laggard" companies subsequently submitting their reports, in 2009 positive responses increased to 47.6 per cent (50 out of 105 companies). Our investor coalition also praised 44 companies for producing high-quality sustainability reports deemed useful for investors.</p>
	<p>The Carbon Disclosure Project (CDP), the huge \$55 trillion investor-backed initiative that monitors and encourages company disclosure on carbon dioxide emissions, has turned its sights to water reporting. bcIMC, along with 136 other financial organizations from around the world recently sent out questionnaires to more than 300 of the world's largest companies on their water use. The United Nations has forecast that by 2030 almost half of the world population will live in areas facing water stress or water scarcity. In our view, as water becomes an increasingly constrained resource, it also becomes an investment issue in terms of how water-related risks threaten corporations, both directly and within their supply chains. The CDP Water Disclosure initiative is an efficient way to prompt companies to report on water management and enable institutional investors like bcIMC to better understand the business risks and opportunities associated with water scarcity. A report by CDP, titled: <b><u>The Case for Water Disclosure</u></b>, is available at <a href="http://www.cdproject.net/water-disclosure">www.cdproject.net/water-disclosure</a>.</p>

## Public Policy Engagement

Issue	Activity
<b>Canadian Securities Administrators</b> (CSA)	<p>In late 2009, the Ontario Securities Commission (OSC) held consultations with various stakeholders, including bcIMC, regarding our environmental disclosure requirements (we indicated that we would value more comprehensive and comparable company information on environmental impacts and management strategies). The OSC then prepared a report and recommendations that were submitted to the Ontario Minister of Finance. Among the recommendations were for the OSC to issue new interpretive guidance that clarifies what publicly-traded companies should disclose to investors and the marketplace in terms of environmental risks.</p> <p>In March 2010, bcIMC corresponded with the other provincial securities commissions to encourage them to join the OSC initiative. We heard back from the CSA, confirming that the development of interpretive guidance on environmental and climate change disclosure will be a Canada-wide regulatory effort.</p> <p>The guidance is expected to be published by December 2010.</p>

## bcIMC'S FIXED INCOME DEPARTMENT—INTEGRATING CORPORATE GOVERNANCE IN CREDIT ANALYSIS

As a signatory to the United Nations Principles for Responsible Investment (PRI), bcIMC has committed to taking account of environmental, social and governance issues across our portfolio of investments. The six PRI principles are listed below. The first PRI principle says that signatories “will incorporate ESG issues into our investment analysis and decision-making processes.” Here we present an example of how bcIMC has integrated corporate governance factors into our fixed income investment process.

For bcIMC, over 20% of our assets (about \$16 billion) are in fixed income securities. Corporate bonds are a key component of our fixed income portfolio and we have a credit team, consisting of portfolio managers and senior analysts with expertise across the corporate bond market, covering investment grade securities in particular.

We recognize that a flawed corporate governance approach can have adverse consequences for bondholders as it can for shareholders. Therefore, bcIMC incorporates governance issues within our fixed income investment process by virtue of our approach to analysing credit risk. Extensive credit risk analysis is essential to evaluate the likelihood of future changes in a company's credit rating and the potential for a sudden change in its credit quality, both of which have significant influence upon the price of a bond.

The following are some governance practices that we monitor for their ability to undermine the credit worthiness of a company by affecting our receipt of scheduled interest payments and the repayment of our capital when a bond matures:

- **Ownership:** concentration of ownership; interests aligned with creditors
- **Key-person risk and succession:** too much control in the hands of too few; turnover risk
- **Board effectiveness:** independent-minded oversight of management; understanding of principal business risks
- **Compensation:** sizable payouts impact free cash flow; pay-for-performance linkage
- **Disclosure:** transparency of financial reporting and management controls

Considering corporate governance factors helps bcIMC have a thorough understanding of credit risk which results in better quality investment decision-making, as demonstrated in this CIBC case study:

*CIBC is a leading Canadian financial institution and, prior to 2007, bcIMC considered its business profile to be strong. Late that year, we became concerned about the CEO's apparent lack of experience in managing sophisticated credit instruments to which CIBC had a large exposure. While it was the CEO's job to manage CIBC's overall risk exposure to sub-prime debt across its businesses, it was the responsibility of the board of directors to be informed and satisfied that management was taking appropriate steps to control such exposure. Directors cannot be expected to understand every technical aspect of an underlying business, but they still must acquire and maintain sufficient knowledge to properly discharge their duty of care. Based upon our view that the CIBC board was failing in its risk monitoring duty, we decided to underweight CIBC bonds in our fixed income portfolio. Today, the bank has made a number of changes to its risk management and bcIMC has increased our holdings but we continue to monitor this credit closely.*



Principles  
for Responsible  
Investment

- 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.