

Introduction

2006-2007 was a very active year developing and delivering bcIMC’s responsible investing strategy. In this report, we summarize last year’s environmental, social and governance (ESG) initiatives.

For example, between April 2006 and March 2007, bcIMC cast proxy votes on a total of 5,290 resolutions at 1,374 company meetings. We also spent a considerable amount of time reviewing and updating our *Corporate Governance Principles and Proxy Voting Guidelines*. The new Guidelines, available on bcIMC’s website at www.bcimc.com/ResponsibleInvesting/Standards, are intended to communicate our current thinking in the areas of governance and corporate responsibility, and to give general direction to portfolio companies on how bcIMC may make voting or other company engagement decisions on these issues. Many new sections have been added but bcIMC’s longstanding focus on board accountability and protecting and building long-term company value remain unchanged.

In addition, we had almost 170 direct discussions with companies, covering issues like director “overboarding”, disclosure, cross-border voting, dividend policy, “pay for performance” executive compensation, climate change, and human rights. Our efforts generated positive results, most notably on company adoption of majority voting policies for director elections.

The year was also important for our collaborative efforts, working with other investors and industry organizations to address ESG issues across our investment portfolio. We joined a number of new coalitions; chief among these was the Carbon Disclosure Project (CDP) and the United Nations-led Principles for Responsible Investment (PRI). Both are global developments, representing investment institutions from around the world, managing trillions of dollars in assets. Clearly, bcIMC is not alone in becoming more active in our approach to environmental, social and governance matters.

We communicated our ESG views to a wide public policy audience, including the BC Securities Commission, the Crawford Panel on a Single Canadian Securities Regulator, the New York Stock Exchange (NYSE) and the US Securities and Exchange Commission (SEC). Principles versus rules-based regulation, executive compensation disclosure, income trust governance and secondary market civil liability legislation were some of the issues we provided input to, and we are pleased that capital market participants are increasingly recognizing bcIMC as a thought-leader.

As well as shareholder initiatives last year, bcIMC made rapid progress in integrating ESG-related considerations into other areas of our investment portfolio. We have made energy efficiency and conservation a standard practice in how we design, build, manage, and refurbish our clients’ real estate properties. We are also positioning our private placements portfolio to benefit from the supply side of the new clean energy trend by investing in emerging businesses that are involved with lower-carbon fuels, including renewable energies.

Contents

Proxy Voting	2
Direct Company Engagement	3
Working in Coalition	4
Policy Engagement	5
Investments	6



On behalf of our clients, bcIMC votes on all resolutions at the annual general meetings (AGMs) and extraordinary general meetings (EGMs) of the Canadian and U.S. companies which we invest. We also vote at the AGMs and EGMs of the most valuable international companies our clients own (the largest 75%, by market capitalization, of non-North American holdings). Voting is one of the primary ways in which we use clients' share ownership rights to encourage high standards of corporate governance and social and environmental responsibility and, thereby, enhance company financial performance and shareholder value.

In 2006-2007, we voted on a total of 5,290 resolutions at 1,374 company meetings. The following table summarizes our voting record for the year and each quarter, we publish a complete record of our proxy votes, including vote rationale, which can be found at www.bcimc.com/ResponsibleInvesting/Reporting.

Category	Number of Resolutions	Votes For		Votes Against	
Auditor	1,195	1,008	(84%)	187	(16%)
Board of Directors	1,475	1,050	(71%)	425	(29%)
Executive Compensation	841	262	(31%)	579	(69%)
Shareholder Rights (shareholder proposals, capital events e.g., mergers, takeovers)	1,572	1,101	(70%)	471	(30%)
Takeover Protection	38	24	(63%)	14	(27%)
Environmental and Social Responsibility	169	82	(49%)	87	(51%)
Total	5,290	1,763		3,527	

Our voting is guided by our own policies, such as the *Proxy Voting and Corporate Governance Guidelines* that were developed in consultation with our clients (the new 2007 version of the Guidelines is available at www.bcimc.com/ResponsibleInvesting/Standards), from law and regulation, and from widely-held principles such as the *OECD Guidelines for Multinational Enterprises* and the conventions of the International Labour Organization.

VOTE HIGHLIGHTS:

SUPPORTED Proposals at:

- 90 companies requesting boards adopt a majority vote standard for elections
- 46 companies to separate CEO and Chair roles and responsibilities
- 35 companies to repeal classified boards and allow annual director elections
- 35 companies to create tighter “pay-for-performance” linkages
- 20 companies to give shareholders a “say on executive pay”
- 16 companies requesting shareholders approve executive severance packages
- 28 companies to require greater political contribution transparency
- 17 companies to require enhanced environmental reporting
- 16 companies requesting labour and human rights policy development
- 6 companies that requested genetically modified food labelling

TURNED DOWN Proposals at:

- 30 companies to elect directors who served on many boards (“overboarded”)
- 24 companies to distribute unjustifiably low dividends to shareholders
- 176 companies, including Nortel, to reappoint auditor with potential conflicts
- 6 companies, including CN Rail, to reappoint Compensation Committee members who ratified excessive CEO compensation
- 348 companies to implement a dilutive equity-based compensation plan
- 22 companies, such as Sears Canada and Fairmont Hotels, to acquire or be acquired or to change corporate structure not in our clients' best interests
- 160 companies to issue new stock without a defined purpose, in a way that would be dilutive to current shareholders

Direct engagement with company directors and managers is another way bcIMC works to improve the governance and corporate responsibility of the companies clients own. We engage through one-on-one meetings, telephone conversations and correspondence, and these meetings do not simply improve our understanding of a company’s governance and social and environment policies – they are also a key part of our equity investment process given the importance our portfolio managers attach to the role of directors (setting strategy, approving compensation, overseeing risk management).

In 2006-2007, we engaged on a very broad set of corporate governance and corporate responsibility issues, as shown in the following table.

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

ENGAGEMENT HIGHLIGHTS:

Bombardier to Adopt Human Rights Policy

In private meetings and correspondence, we requested that Bombardier develop and publish a formal human rights policy. This request was made out of concern for the potential damage to Bombardier’s reputation and share value due to increased risk of responsibility or complicity in human rights abuses, particularly in view of Bombardier’s work in global markets known for corruption and questionable labour practices. In Bombardier’s January 31, 2007 Annual Report, we are pleased to note that the company has begun an internal process to better define and formalize their commitment to corporate responsibility, through which they expect to demonstrate renewed accountability to stakeholders.

50+ Companies to Adopt Majority Vote Policy for Director Elections

We directly communicated with companies such as Westjet, CNR, Fairfax Financial, National Bank, Telus, Finning, Cameco, CP Rail, Petro-Canada, and Talisman Energy about reforming their director election process from a plurality standard to a majority vote. These companies, and more than 50 other Canadian corporations, have reformed their policies as at March 31, 2007.

Dividend Payouts Increase

In correspondence and telephone conversations, we encouraged several foreign companies, including Philips Electronics (Netherlands), Munich Re (Germany), and Ryohin Keikaku (Japan), to increase their dividend payout ratio in the coming fiscal year, or to provide an adequate explanation for their retention of capital. We have begun to see higher dividend distributions from these companies in 2007.

bcIMC believes that it is important for investors to collaborate to promote good corporate performance on ESG issues. Working with other investors helps us:

- establish a coordinated view and deliver a united message to companies, regulators and other market participants.
- make engagement more efficient by ensuring we don't duplicate research and engagement activities.
- enable investors to engage with more companies, sectors and markets, and on more ESG issues, than would otherwise be the case.
- share experience and understanding on issues and companies.
- strengthen links within the investment community.

In 2006-2007, bcIMC played an active part in the following investor organizations to develop understanding and to drive corporate governance and corporate responsibility change:

Coalition Memberships	Since
Canadian Coalition for Good Governance (CCGG)	2003
International Corporate Governance Network (ICGN)	2004
Asian Corporate Governance Association (ACGA)	2005
Pension Investment Association of Canada (PIAC)	2001
Investor Network on Climate Risk (INCR)	2006
United Nations Environment Program Finance Initiative (UNEP FI)	2006
Responsible Property Investing Project (co-founder)	2006
Signatory Support	
Principles for Responsible Investment (PRI)	2006
Carbon Disclosure Project (CDP)	2006
Board and Advisory Panel Positions	
Canadian Coalition for Good Governance (bcIMC CEO/CIO Doug Pearce appointed Chair)	2006
National Corporate Social Responsibility (CSR) Report: CSR Governance - Conference Board of Canada research project	2006
Carbon Disclosure Project 5: Canada Report Advisory Group	2007

COALITION HIGHLIGHTS:

Best Practices Guidelines Developed by CCGG

bcIMC contributed to drafting several corporate governance policy and practice documents intended to give Canadian companies guidance on issues such as compensation disclosure, shareholder communication, break fees, majority voting and audit engagement letters.

Joint Investor Meetings

In 2006, we took a lead role in group discussions with Glamis Gold and Goldcorp regarding their environmental and social practices at their mine sites in Central America. Also attending the meetings were representatives from SHARE, Ethical Funds, and PSAC Staff Pension Fund.

Proxy Voting In Asia

bcIMC assisted the ACGA in publishing a report titled *Voting for Change – Bringing Proxy Voting Systems in Asia into the 21st Century*. The report ranks Asian proxy voting systems against international best practices/markets, and sets out action points for companies, investors, and regulators. bcIMC has begun engaging companies and regulators on the ACGA recommendations.

So far in this report, we have discussed and provided examples of our engagement with companies – whether voting at shareholder meetings, initiating direct discussions with directors and management, or participating in investor collaborations - to encourage higher standards of corporate governance and corporate responsibility performance. However, there are some situations where our ability to influence corporate actions is limited. This is particularly true where the issue of concern to investors has arisen due to a market or public policy failure, and where the most appropriate solution is likely to be the development of new laws or regulations to address the failure (the 2005 introduction of the Sarbanes-Oxley regulations to tighten corporate governance standards at U.S. companies is an example of this). In these situations, policymakers have a critical role to play. Therefore, bcIMC actively engages with lawmakers and regulatory bodies as an integral part of many of our responsible investing/ESG strategy.

In 2006-2007, we met or corresponded with government and regulatory agencies on a range of issues, and with industry associations researching policy issues, including:

Engaged With	Issue	Date
Comision Nation del Mercado de Valores (Spain’s stock market regulator)	New corporate governance code for Spain’s listed companies	April 2006
UK Secretary of State for Trade and Industry	ESG disclosure by UK companies	April 2006
US Securities and Exchange Commission (SEC)	Executive compensation disclosure by US companies	April 2006
Crawford Panel on Single Canadian Securities Regulator	New Canadian regulatory model	April 2006
Ontario Ministry of Government Services	Modernizing the Ontario Business Corporations Act	May 2006
BC Securities Commission	Controlled companies	June 2006
New York Stock Exchange	Proposed amendment to broker vote rule	July 2006
BC Ministry of Attorney General	BC civil liability legislation for secondary market	July 2006
Ontario Securities Commission (OSC)	Ruling on Sears Holdings tactics to acquire Sears Canada	August 2006
BC Securities Commission (BCSC)	Income trust governance/unit holder rights and protections	August 2006
BC Securities Commission (BCSC)	Principles vs rules-based securities regulation	September 2006
Local Government Officials - Mutual Aid Association of Japan	Investor coalition activities in Canada	September 2006
BC Securities Commission (BCSC)	Proposed soft dollar regulations	September 2006
BC Securities Commission (BCSC)	Proxy solicitation regulations	Dec 2005 March 2006 July 2006 March 2007

POLICY HIGHLIGHTS:

In December 2006, Canadian Securities Administrators, including the BCSC, introduced amendments to the definition of “proxy solicitation”. The amendment has the essential effect of facilitating shareholder communication and collaboration on domestic portfolio companies, and bcIMC is pleased to have helped facilitate this important investor achievement.

Given bcIMC’s increasing understanding of corporate governance and corporate responsibility issues, we try to ensure that we integrate our ESG knowledge across our organization to make the best investment decisions possible for our clients.

In 2006-2007, we strengthened our emphasis on integrating ESG issues into our investment analysis and decision-making in the following ways:

Public Equities
<ol style="list-style-type: none"> 1. In November 2006, we began offering our clients the ability to invest in a specialty equity fund called the U.S. Social Index Fund. The Fund, which is being managed by our in-house equity professionals, is loosely modeled on the S&P 500 Index but incorporates ESG principles in its investment process. 2. We began encouraging brokers to produce relevant analysis of the impact of ESG issues on public company valuation and performance. For example, we corresponded with the Chairs of Canada’s bank-owned brokerage firms to request that they consider preparing an equity research report assessing the climate change risks and opportunities for the TSX60. 3. We conducted specialty research on ESG themes. To illustrate, we initiated a research study of mining companies with operations in Africa to assess how they are responding to the HIV/AIDS epidemic. The research enabled us to better understand how the epidemic is affecting each company’s workforce and productivity, how they are responding to this social and operational risk, and the costs and benefits of their HIV/AIDS programs.
Private Placements
<p>We are positioning our private placements portfolio to benefit from the supply side of the new clean energy trend by investing in emerging businesses that are involved with lower-carbon fuels, including renewable energies. As an example, in 2006, bcIMC committed US \$30 million to a private equity fund focused on renewable energy infrastructure assets. Our infrastructure investment in wastewater treatment systems is another example.</p>
Real Estate
<p>We are making energy efficiency and conservation a standard practice in how we design, build, manage, and refurbish the properties in our clients’ real estate portfolio – these measures also generate carbon emissions reductions as a side benefit. To date, we are pleased that approximately 72 of our property investments have received green awards/certification through <i>LEED</i> (Leadership in Energy and Environmental Design) or through the Building Owners and Managers Association (BOMA) <i>Go Green</i> Environmental Program.</p>

INVESTMENT HIGHLIGHTS:

Within our clients’ domestic commercial real estate portfolio, over 13 million sq. ft. is certified Green. This includes office, industrial and retail properties.