

Introduction

“Responsible investing” at bcIMC means working to protect and increase the financial value of our clients’ assets. bcIMC currently has two primary responsible investing strategies, which are summarized in this report.

Corporate engagement:

We take an active ownership approach to our clients’ public equity investments, encouraging positive environmental, social and governance (ESG) practices through our:

- voting decisions;
- direct company contact;
- comments to regulators and policymakers; and
- collaborative work with other shareholders.

Green investing:

We strive to:

- reduce the use of energy and resources in the real estate properties we develop and manage for our clients; and
- invest in companies in our private placements portfolio that are developing solutions to critical environmental issues. These are companies focused, for example, on alternative and renewable energy sources (biomass, wind, solar, hydro), waste water treatment, and waste management.

bcIMC employs these strategies because we believe that if we can engage with companies on their ESG practices, we improve their risk management, reputation and long-term ability to compete, and thus their overall value for shareholders like our clients. If we can improve the energy efficiency of commercial buildings, we reduce their operating costs and increase their attractiveness to tenants, which should help generate good returns for the property owners, our clients. If we can sponsor innovative technologies that optimize the use of energy and natural resources, we support future market leaders, which should provide the financial benefits our clients will need in the years ahead.

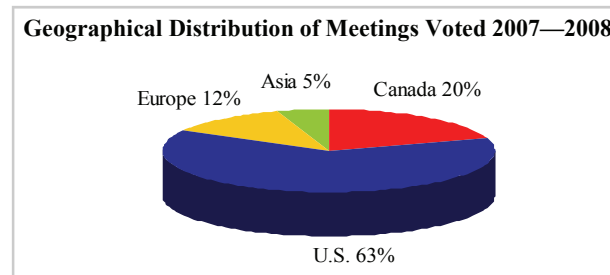
We welcome feedback on any of the topics in this annual report. Please feel free to email us at corpgov@bcimc.com.

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From April 1, 2007 to March 31, 2008, we voted at a total of 1,500 shareholder meetings around the world, analysing 5,900 resolutions (geographical breakdown is shown on the right). We voted against management resolutions almost 26% of the time, and the chart below describes the main reasons for these votes.

2007—2008 Votes “AGAINST” Management	
Executive Compensation	57% of the time
Share Issues	35% of the time
Board of Directors	32% of the time
Anti-Takeover Provisions	25% of the time
Mergers & Acquisitions	16% of the time



Although items on a shareholder meeting agenda are generally submitted by company management, shareholders can also submit resolutions. Close to 12% of the resolutions that bcIMC voted on in 2007-2008 were shareholder resolutions, and we voted in support of these resolutions 64% of the time. For example, bcIMC voted in favour of shareholder proposals for:

- separation of the chair and CEO roles;
- guidelines on how executive bonuses are to be dealt with in the event of changes in reported financial results (claw-back policy);
- guidelines on how human rights will be safeguarded, particularly for operations in countries where human rights have traditionally not been respected;
- reports on how companies are preparing for regulatory changes related to climate change; and
- disclosure of company policies and payments to political parties and lobby groups.

Our voting is based on *Corporate Governance Principles and Proxy Voting Guidelines* developed with our clients and disclosed in the ‘Responsible Investing’ section of bcIMC’s website (www.bcimc.com/ResponsibleInvesting). We also publish our voting record each quarter on our website. This voting record is derived from an internally developed database that provides a clear audit trail of the votes we cast. In the past year, bcIMC’s proxy voting database was modernized to make our vote recordkeeping more efficient.

VOTE HIGHLIGHT:

Pay For Performance

A significant portion of our clients’ portfolios are invested in line with specific indices (referred to as “index funds”), which reduces the scope for completely disinvesting from companies, or substantially changing a fund’s composition. Also, despite bcIMC’s size, our share holdings in each individual company can be quite small owing to how an index is constructed/diversified. This means that our vote at shareholder meetings will rarely be decisive in the outcome of a ballot. However, bcIMC is increasingly collaborating with other investors to bring about ESG change where necessary and these collective efforts compensate for the small size of each individual investor’s holdings. For example, in late March 2008, though bcIMC’s clients only held 0.7% of the Royal Philips Electronic’s votes, we were joined by another 56% of the Dutch firm’s shareholders to vote down a new compensation policy that would sever the tie between executive bonus payments and total shareholder return. This was a landmark event in Dutch corporate governance and illustrates how investors can strengthen their influence by working together.

In 2007-2008, bcIMC had direct discussions with more than 200 companies as part of our shareholder engagement work. In our communication with companies, we attach importance to identifying bcIMC as a long-term investor and to using respectful and encouraging dialogue to influence company performance on ESG issues. We strive to initiate contact with companies in a well-prepared and proactive manner, though there are times, usually when a major incident or announcement (such as a merger or acquisition) occurs, that we will engage with impacted companies reactively.

The following are some examples of bcIMC's direct company engagement last year:

ENGAGEMENT HIGHLIGHTS:

Proxy voting efficiency in Japan

In the spring, bcIMC began corresponding with 24 of the most valuable Japanese companies our clients own to encourage the firms to participate in an electronic proxy voting platform that would provide overseas investors with quicker access to shareholder meeting materials, more time to vote, and efficient electronic voting capability. By December, four of the targeted companies had accepted our suggestion to participate in the platform and we acknowledged these companies as leaders in a subsequent encouraging letter to the remaining firms. As of March 31, 2008, six more of our companies have signed onto the electronic voting service and participation is under review at two other firms. The voting service provider says that the contact and encouragement by bcIMC has been important in prioritising this issue at the companies.

More companies report on climate change risks and opportunities

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

Director election reform in Canada

During meetings with a variety of Canadian companies, bcIMC asked the firms to reconsider their practice of presenting director nominees as a bundled "slate" resolution at the annual shareholder meeting, which can reduce shareholder influence and prevent board change when necessary. We recommended that shareholders be given the opportunity to vote on each nominee individually. At least ten companies have announced that they will abandon the practice of slate resolutions, and we have received letters from a dozen more firms that the reform is under consideration by their respective boards.

Many large diversified investors have similar views on what constitutes good ESG practices, and bcIMC takes an active part in a number of global and regional networks to deliver a united message and to share resources for promoting these practices wherever appropriate.

bcIMC continues to be a member of the investor coalitions listed in the chart below.

Coalition Memberships	Since
Canadian Coalition for Good Governance (CCGG)	2003
International Corporate Governance Network (ICGN)	2004
Asian Corporate Governance Association (ACGA)	2005
Investor Network on Climate Risk (INCR)	2006
United Nations Environment Program Finance Initiative (UNEP FI)	2006
Carbon Disclosure Project (CDP)	2006

We are also a signatory to the UN’s Principles for Responsible Investment (PRI). The principles are based on the understanding that ESG issues can affect the performance of investment portfolios. By signing the six principles, bcIMC voluntarily commits to:

- include these issues in investment decision-making;
- collaborate on implementation of the principles;
- be active equity owners;
- promote ESG acceptance by others in the investment industry;
- request good ESG disclosure by companies; and
- report on their own work on ESG.

INVESTOR COALITION HIGHLIGHT:

UN Global Compact

One of the PRI principles encourages signatories to seek disclosure on ESG issues by the companies in which we invest. So, in early January, bcIMC joined 19 other investors representing more than \$2 trillion in assets from 10 countries in a collaboration regarding the UN Global Compact. Together, we wrote to 78 companies in more than 30 countries asking for current information on how they are upholding their commitment as a signatory to the ten Global Compact principles. The principles range from abolishing child labour to working against corruption to promoting greater environmental responsibility. We targeted these companies because they had not issued a report on their progress toward implementing the principles, which undermines the company’s perceived commitment to their ESG performance. We also wanted to protect the credibility of the Global Compact, an internationally recognized norm on corporate responsibility (about 2,900 companies and organizations in more than 100 countries are signatories to the Global Compact). To date, we are pleased that 20% of the “laggard” companies appear to have re-engaged with the Global Compact principles by issuing progress reports. Also noteworthy is the fact that Ban Ki-Moon, UN Secretary-General, has personally welcomed this initiative and thanked the participating investors for our support for the UN Global Compact.

An integral part of our shareholder engagement involves communicating our views on best ESG practice to regulatory authorities and other standard-setters in the markets in which we invest. Policy solutions become more critical when our individual and collaborative efforts to influence corporate actions are unsuccessful.

REGULATORY AND PUBLIC POLICY HIGHLIGHTS:

Allowing investor collaboration in Germany

Recently, bcIMC wrote to the German Ministry of Finance to give our views on the proposed new German Risk Reduction Act, particularly on the proposals relating to shareholders “acting in concert.” The proposed law would limit the ability of institutional investors to discuss corporate governance issues with each other and, where necessary, to try to make thoughtful and constructive changes at poorly governed companies. In our opinion, having engaged, informed investors is part of a well-functioning capital market. The bill was intensely debated in the German federal parliament through the fall and winter, and on April 19, 2008, the Ministry issued a revised bill featuring substantial improvements in terms of “acting in concert”. We are pleased by this successful lobby effort against the original plans of the German authorities that would have prevented legitimate and constructive collaboration between shareholders and the companies they own. The redrafted Risk Reduction Act should be signed by the German president in July 2008.

Improved compensation disclosure in Canada

Last year, bcIMC submitted comments to the Canadian Securities Administrators’ (CSA) proposing changes to executive and director compensation disclosure in Canada. We indicated our firm support for new CSA rules that would improve pay transparency to ensure that shareholder assets are used wisely in attracting and retaining key employees and effective board members. For example, we encouraged new rules to require more disclosure of executive pension, termination, and change of control benefits. This type of disclosure is very meaningful, and will avoid unpleasant surprises for investors. We provided a second round of comments in April 2008 on issues such as requiring disclosure of the company’s policy on compensation clawbacks in the event of a financial restatement, and disclosure of the names of competitors and peers used to create compensation benchmarks. CSA consideration of these additional comments is currently under review. We look forward to seeing much more detail on Canadian company executive and director compensation decisions beginning in 2009 as a result of sharing our “buy side” views with the securities commissions (regulators hope to have the new rules in effect in early 2009).

We also try to further public awareness and discussion on ESG by speaking at conferences and to the media about our investor standpoint. For example, last year we were invited to share our views in/at:

- 2008 Globe Conference
- BC Business Magazine
- BC Public Sector Pension Conference
- Business in Vancouver Magazine
- Canadian Responsible Investment Conference
- Carbon Disclosure Project 2007 Canada 200 Report
- Investment Executive Newspaper
- Pacific Pension Institute 2008 Winter Roundtable
- RBC Dexia “Feed Your Brain” Information Session

In addition to our public equity engagement activities, we also incorporate ESG considerations in our investment analysis and decision-making in other asset classes.

Real Estate

bcIMC has developed a “Responsible Property Investment” (RPI) philosophy and approach that recognizes and addresses the environmental risks and opportunities associated with the real estate investments we make and manage for our clients. Our formal commitment to RPI is based on the belief that by making energy efficiency and conservation a standard practice in how we design, build, manage, and refurbish real estate properties, we can add financial value/improve returns and limit risk. For example, more efficient use of energy and resources, like electricity, natural gas and water, can provide measurable financial benefits through cost savings. In addition, as the subject of climate change grows in importance and the world strives to reduce greenhouse gases, commercial building owner action on energy consumption should increase property appeal, tenant satisfaction, and rental and investment values over the medium and longer-term.

Private Placements

In response to widespread concerns about climate change and fossil fuel supply constraints, bcIMC is interested in investment opportunities in emerging/innovative companies in the clean energy (low-carbon) sector. Over the past two years, for example, we have made a dedicated effort to allocate private capital to companies and assets that are involved in generating renewable power from biomass, geothermal, wind, solar and hydroelectric.

As of March 31, 2008, bcIMC has made financial commitments to seven private equity funds that target investments in alternative and renewable energies:



Carlyle/Riverstone Renewable Energy Infrastructure Fund I

Renewable energy target: 100%
bcIMC commitment: US\$30 million



Renewable energy target: 5% - 25% per fund
bcIMC commitment: US\$250 million (3 funds)



Renewable energy target: 10%
bcIMC commitment: US\$110 million



Renewable energy target: 5% - 10%
bcIMC commitment: US\$100 million



Macquarie European Infrastructure Fund I

Renewable energy target: 10%
bcIMC commitment: €25 million