

RESULTS MATTER

The goal of this report is to describe how in the past 12 months, bcIMC has contributed to environmental, social and governance (ESG) improvements on a national and global scale. We believe that this reporting on our activities and performance allows us to demonstrate to our clients that investment risks and opportunities related to ESG issues have been identified and properly managed.

Disclosing our experience and views also enables bcIMC to show that our commitment to responsible investing is real and that across our organization, we are actively considering corporate governance and social and environmental issues as legitimate and valuable elements of our investment decision-making.

Here are a few highlights of our responsible investing accomplishments for the year:

- 185** → Number of companies that we had intensive discussion with on corporate governance issues (such as remuneration, risk management, and board structure) and environmental and social issues (such as climate change and human rights)
- 1,706** → Number of shareholder meetings we cast votes at
- 30%** → Percentage of those votes that were against management's recommendations to shareholders
- 12** → Number of Canadian companies we encouraged to disclose information about their climate risks and management systems for the first time
- 20** → Number of submissions we made on ESG policy matters to governments, regulatory bodies and industry associations
- 11** → Number of investor collaborations we participated in to aggregate significant shareholdings and spur companies to act on ESG disclosure / reform
- 6** → Number of presentations we delivered on various responsible investing and ESG issues
- 5** → Number of asset classes that we have now put responsible investment principles into practice

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It is in the interests of everyone that businesses are properly governed, create shareholder value over the long-term and make a positive contribution to society and the world in which we live. We hope that this annual report demonstrates bcIMC's commitment to responsible investing strategies that deliver value for our clients in the form of better investment returns and a more sustainable and healthy society. Please email corpgov@bcimc.com with your feedback.

CLIMATE CHANGE AND THE CARBON DISCLOSURE PROJECT

Carbon emissions disclosure is vital to investors like bcIMC, who need to understand the risks and opportunities companies may face through increased regulatory costs, energy costs, shifting consumer demand, and changing market opportunities due to climate change.

2008 marks the third time that bcIMC has supported the CDP information request. bcIMC is particularly committed to this initiative in relation to high-risk (i.e., heavy carbon emitting) Canadian companies. These include oil and gas companies active in Alberta's oil sands, given the higher production phase emissions of unconventional oil. For example, last year:

- Through dialogue and letters, we encouraged **12** companies to report to the CDP for the first time. Agrium, Atco and Canadian Utilities are among these new responders.
- We once again co-sponsored the CDP Canada report, prepared by The Conference Board of Canada. Of the 200 Canadian companies asked to respond to CDP in 2008, **55%** did so (compared to 45% in 2007 and 28% in our inaugural year), and **47%** disclosed financially-relevant information like energy costs and savings from emissions reductions, compared to only 14% the previous year.
- We wrote to **7** companies that did not respond to the 2008 CDP survey and described our investor concerns about climate risk and why disclosure is important. We encouraged their 2009 CDP participation or an explanation for not disclosing more climate risk management information. Husky and Canadian Oil Sands Trust have replied that they will complete the 2009 CDP survey.

WHAT IS THE CARBON DISCLOSURE PROJECT (CDP)?

- CDP is an independent, non-profit organization which challenges companies around the world to consider how climate change will impact business activities and the value of shares.
- The main objective is to pave the way for dialogue, substantiated by quality information, which will result in actions to combat climate change.
- CDP functions as a secretariat for about 385 institutional investors, with combined assets of approximately US\$57 trillion.
- On behalf of the investors, CDP requests listed companies to fill in a questionnaire regarding their emissions of greenhouse gases, how the company approaches the impact of climate change and the opportunities and challenges this represents.
- In 2008, 77% of the 500 largest companies around the globe completed the questionnaire. In total, more than 1,550 companies responded.
- The CDP houses the world's largest database for climate change reports issued by companies.

WHAT GETS MEASURED GETS MANAGED

bcIMC's goal in participating in the CDP is to encourage the companies our clients own to progress down the path of greenhouse gas (GHG) measurement and management, and to disclose this climate risk exposure and management information to investors. Supporting the CDP helps us contribute towards strategic decisions in companies because experience has shown that what gets measured gets managed. Measurement of greenhouse gas emissions, in itself, has a disciplinary impact. We firmly believe that those companies best positioned to tackle climate change challenges will generate better long-term investment returns for our clients.

ADVOCATING FOR HUMAN RIGHTS



President and Chair of the Commission on Human Rights, Eleanor Roosevelt, looking at the 1948 Universal Declaration of Human Rights in Spanish.

Credit: UN Photo.

VOTED FOR HUMAN AND LABOUR RIGHTS

Between April 1, 2008 and March 31, 2009, bcIMC voted on **149** shareholder proposals concerning social issues at **105** companies. The majority of these proposals called for the application of best practice standards/guidelines on human and labour rights, and improved disclosure and reporting by companies on their social responsibility and human rights performance.

Last year, with input from our clients, bcIMC developed our *Shareholder Engagement Guidelines and Priorities* which sets out our strategic priority areas for corporate engagement on ESG issues. One of bcIMC's strategic priority areas is encouraging companies to acknowledge human rights and confront human rights abuses where they operate.

Although 2008 was the 60th anniversary of the Universal Declaration of Human Rights, we are aware that abuse of basic human rights continues around the world. Companies may be implicated in that abuse, risking reputational damage and loss of social license to operate. Robust policies and management systems are essential to deal with any aspect of corporate risk, including human rights issues. That's why bcIMC urges companies to implement best practice frameworks/statements on human rights, such as the Universal Declaration on Human Rights, the UN Global Compact and the ILO core labour conventions.

Human rights issues were an important focus of our voting, private engagement and collaborative initiatives with companies in the past 12 months.

SUDAN

Sudan is a region of the world that presents financial opportunities for companies and their investors, however, it is a country ravaged by war and doing business in the region also brings with it many additional risks. Over the past two years, bcIMC has engaged with companies operating in Sudan (these are multinational companies which derive a small part of their global revenue from Sudan and which represent a minimal amount of the assets bcIMC manages) about the potential for their operations to cause or fuel conflict and the actions that they are taking to prevent conflict or contribute to peace building in Sudan. bcIMC is satisfied that the responses received to date indicate that many companies have no controversial operations in Sudan that are linked to the genocide in Darfur. We are continuing efforts to enter into a dialogue with the other companies by collaborating with other investors (bringing more capital to bear may spur company responses/action) and representatives from the UN.

UN GLOBAL COMPACT (UN GC)

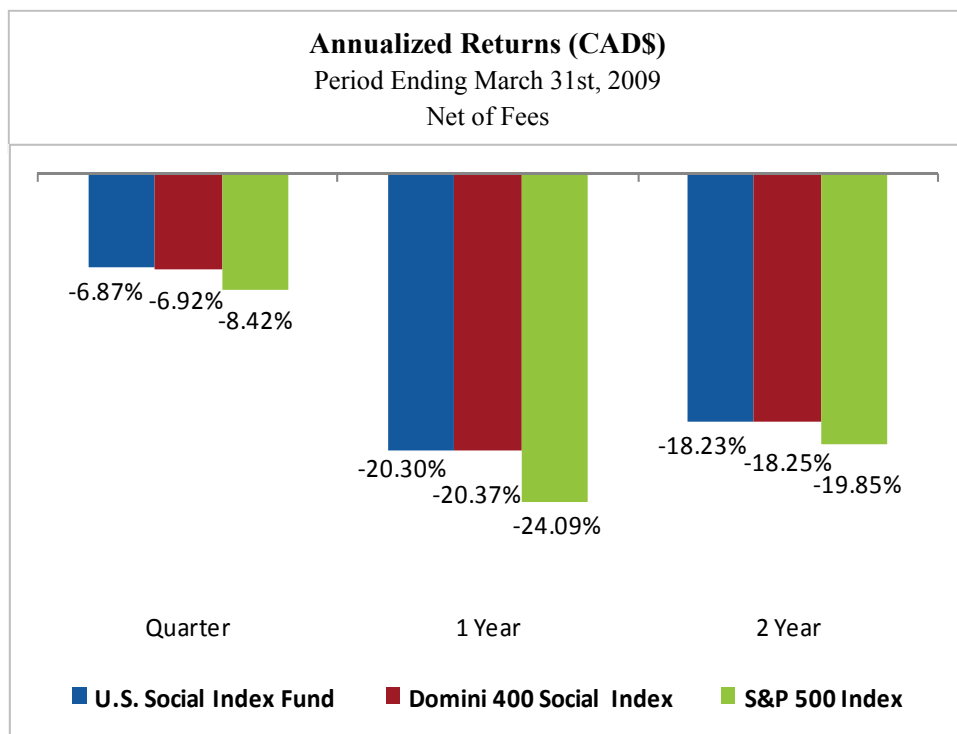
In 2008, we joined a collaborative initiative focused on the disclosure requirements of the UN Global Compact. The Compact is a set of 10 broad principles of corporate conduct around human rights, labour, environment and anti-corruption. The initiative, which included 20 investors from around the world with US\$2 trillion in assets under management, sent letters to 103 Global Compact signatories in more than 30 countries. Over 32% of the companies responded positively and agreed to submit disclosure on their ESG progress. Companies that do not report on progress will be de-listed from the UN GC. In early 2009, investors came together again on this issue and this time, the coalition consisted of 38 of the world's largest institutional investors managing assets of \$3 trillion. bcIMC joined the group for the second year running, and to date **26** target companies have enhanced their UN GC reports.

SUSTAINABILITY OUTPERFORMS IN 2008

bcIMC launched a socially screened portfolio, the U.S. Social Index Fund, in late 2006. The performance of this fund – particularly over the last year – demonstrates that sustainable investing can deliver returns that rival those of the mainstream stock market.

The U.S. Social Index Fund starts with all companies listed on the S&P 500 Index, and narrows down to 400 publicly-traded U.S. companies contained in the Domini 400 Social Index (DSI). The DSI uses negative screens to exclude companies which have exposure to tobacco, alcohol, gambling, nuclear power, and military weapons systems. As well, the DSI uses positive screens to include companies with desirable ESG traits such as strong community and employee relations, workforce diversity, and sustainable environmental practices.

Protecting and enhancing financial return is bcIMC’s top priority, and with the U.S. Social Index Fund, we provide our invested clients with the opportunity to align their social values with competitive long-term investment performance. While past performance is no guarantee of future results, we are pleased that since inception, our U.S. Social Index Fund outperformed the DSI (the Fund’s benchmark) and the broader S&P 500 Index.



**SECTOR CONTRIBUTION
DSI vs. S&P 500**

April 2008—March 2009

- the industry factor that made the largest positive contribution to the performance of the DSI relative to the S&P 500 was over exposure to the Industrials sector.
- the industry factor the made the largest negative contribution to the performance of the DSI relative to the S&P 500 was over exposure to the Energy sector.

**COMPANY CONTRIBUTION
DSI vs. S&P 500**

April 2008—March 2009

- the individual stock selection that made the largest positive contribution to the performance of the DSI relative to the S&P 500 was Johnson & Johnson.
- the individual stock selection that made the largest negative contribution to the performance of the DSI relative to the S&P 500 was Wells Fargo.
- the stock on the S&P 500 but not on the DSI that positively impacted the DSI most was General Electric.
- the stock on the S&P 500 but not on the DSI that negative impacted the DSI most was Exxon Mobil.

DEVELOPMENTS IN RESPONSIBLE INVESTING AND PRIVATE EQUITY

Private equity investors have acquired a reputation for taking over companies to strip them of their assets and long-term value for short-term profit. However, there is a growing consensus that badly run companies turned around and made more operationally efficient and financially sound through a private ownership model are in a better position to grow in sustainable ways – for example, profitable companies create jobs and long-term economic value.

In February 2009, to promote the argument that privately-owned businesses are not less sustainable or less responsible or accountable than publicly-held companies, a U.S. based private equity industry association called the Private Equity Council (PEC) developed a set of guidelines for responsible private equity investment.

bcIMC views these guidelines as a groundbreaking commitment by a new major asset class to integrate ESG into investment decision-making and ownership activities, and we are very pleased that **five** of our private equity partners, Apollo Global Management, Blackstone Group, Hellman & Friedman and Carlyle and TPG Capital, endorse the new guidelines as PEC members.

As shown on the left, the PEC guidelines call for consideration of environmental, health, safety, labor and governance issues, openness with stakeholders and respect for human rights by private companies and their shareowners.

RESPONSIBLE INVESTMENT GUIDELINES

Private Equity Council Members Will:

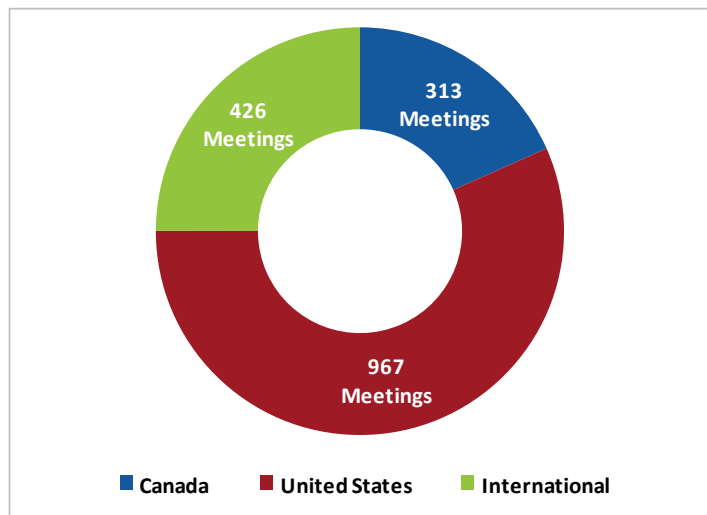
1. Consider environmental, public health, safety, and social issues associated with target companies when evaluating whether to invest in a particular company or entity, and during ownership.
2. Seek to be accessible to, and engage with, relevant stakeholders as appropriate.
3. Seek to grow and improve the companies in which they invest for long-term sustainability. To that end, Private Equity Council members will work through appropriate governance structures (e.g. board of directors) with portfolio companies with respect to environmental, public health, safety, and social issues, to improve performance and minimize adverse impacts in these areas.
4. Seek to use governance structures that provide appropriate levels of oversight in the areas of audit, risk management and potential conflicts of interest and to implement compensation and other policies that align the interests of owners and management.
5. Remain committed to compliance with applicable national, state, and local labor laws; support the payment of competitive wages and benefits to employees; provide a safe and healthy workplace; and respect the rights of employees to decide whether or not to join a union and engage in collective bargaining.
6. Maintain strict policies that prohibit bribery and other improper payments to public officials consistent with country laws and the OECD Anti-Bribery Convention.
7. Respect human rights of those affected by their investment activities and seek to confirm that their investments do not flow to companies that utilize child or forced labor or discriminatory policies.
8. Provide timely information to their limited partners on the matters addressed herein, and work to foster transparency about their activities.
9. Encourage their portfolio companies to advance these same principles in a way which is consistent with their fiduciary duties.



THE POWER OF THE VOTE

The board of directors is responsible for a company's long-term strategy, compensation and risk management, and last year shareholders saw the dramatic consequences of inadequate board oversight of these areas. Voting on the election of directors at annual general meetings (AGMs) is our main tool for influencing the boards of the thousands of companies our clients own.

bcIMC voted at **1,706** shareholder meetings in 2008-2009:



ACTIVE OWNERSHIP IN A TAKEOVER SITUATION

In December 2008, bcIMC wrote to the Toronto Stock Exchange and the Ontario Securities Commission seeking their authority to compel HudBay Minerals to convene a shareholder meeting. The purpose of the meeting would be to vote on HudBay's proposed acquisition of Lundin Mining, another Canadian firm - a transaction that, in bcIMC's view, was likely to be extremely detrimental to the company's financial performance and long-term shareholder value.

In January 2009, the OSC ruled that HudBay must present the issue to shareholders for their voting approval.

In February 2009, HudBay management and directors called a special shareholder meeting.

On March 25, 2009, shareholders roundly voted against the proposed HudBay-Lundin merger. In addition, an entirely new slate of HudBay directors was elected as shareholders like bcIMC voted to replace the current board and CEO who, following the failed takeover, were not perceived to be sufficiently focused on company success and shareholder accountability.

The case study to the above right illustrates the power of the vote and how shareholders can make a difference through active ownership.

Sometimes, however, shareholders do not have easy access to the board to hold them to account for their actions that have affected shareholder wealth. In many markets in which we are invested around the world, the rights of shareholders to vote against the director nominees put forward by the company itself are strictly limited.

ACCESS TO THE BOARD—AN ESSENTIAL SHAREHOLDER RIGHT

Last year, in personal meetings, correspondence and telephone discussions with 66 Canadian companies, bcIMC asked the firms to reconsider their practice of presenting all director nominees as a bundled 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. To date, the boards of **27** companies have agreed to abandon the practice of bundling their director election resolution.

COLLABORATION THROUGH THE UN

bcIMC is a member of the United Nations Environment Program Finance Initiative (UNEP FI) and we play an active role in several of its working groups and investor collaborations as described below. The UNEP FI mission is to develop and promote linkages between the environment, social considerations, and financial performance.

We invest significant time and resources to working with others in the investment industry on responsible investment issues because we are convinced that with the right partners, collaboration can make a real, substantive contribution to corporate performance and can be more effective than acting on our own.

These are some of the UN initiatives that we participated in last year to promote responsible investment and responsible corporate behaviour:

UNIVERSALLY-ACCEPTED PRINCIPLES ON CORPORATE RESPONSIBILITY

Late in 2008, we joined 52 other signatory investors representing about \$4.4 trillion in assets under management in writing to almost 9,000 companies to encourage them to endorse the principles on corporate social responsibility found in the UN Global Compact. The collaboration represents the largest recruitment drive ever undertaken regarding the UN Global Compact and the targeted companies are part of the MSCI All-World, The FTSE All-World and the S&P Emerging Markets indices. The collaboration is known as the “Seoul Initiative” because the idea for the project surfaced at last year’s Principles for Responsible Investment (PRI) conference in Seoul, South Korea.

The letter sent to the companies sets out our view that institutional investors are looking for investments that offer good, long-term returns, especially in a financial climate currently marked by uncertainty. We believe companies that take account of environmental, social and governance issues are more likely to offer these returns. Participation in the UN Global Compact sends a strong signal to investors that companies are both alert to the business implications of ESG issues, and taking active steps to incorporate them in their strategy and risk management. As a result of this engagement, **50** companies have so far joined the UN Global Compact including Hitachi, J.C. Penney and PepsiCo. A further **27** companies are considering joining soon.

RESPONSIBLE REAL ESTATE INVESTING

bcIMC participates in the UNEP FI Property Working Group to encourage “responsible property investment” practices within the investment industry. Responsible property investing (RPI) essentially means maximizing the positive and minimizing the negative social and environmental effects of real estate investing in a way that is cost effective and neutral or positive on returns (i.e., consistent with fiduciary responsibilities). Last year, the PWG published a major research report that highlights international best practice examples of responsible property investing. bcIMC contributed to the brief called *Building Responsible Property Portfolios* (available at www.unpri.org/property).

WATER SUSTAINABILITY

bcIMC joined 15 other investors in writing to 100 companies urging them to join the CEO Water Mandate. The CEO Water Mandate is a special initiative of the UN Global Compact to assist companies in developing and implementing water sustainability policies and practices. Population growth, urbanization and climate change are placing pressure on water quality and supply and water-intensive industries, such as oil and gas, forestry and food and beverage makers, are particularly likely to experience regulatory, reputation and business continuity risks. The letter sent to the companies states our investor belief that it is those companies that are best managing the risks and opportunities presented by limited global water availability that are more likely to be considered as viable long-term investments. To date, **seven** companies have joined the CEO Water Mandate and **11** more are expected to endorse the initiative soon.

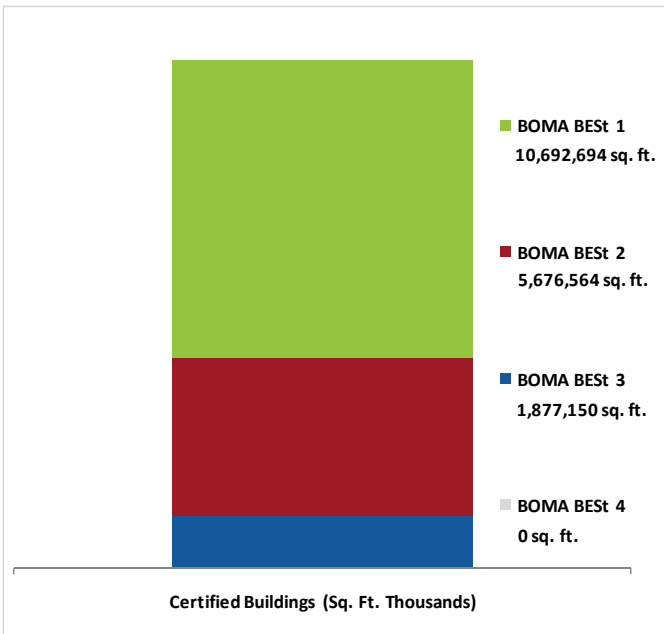
RESPONSIBLE REAL ESTATE INVESTING

bcIMC supports responsible property initiatives that lessen the impact on the environment, improve local communities, and enhance the value of the underlying real estate investment.

As at December 31, 2008, over **48%** of bcIMC’s domestic commercial real estate portfolio was certified under the **Building Owners and Managers Association Building Environmental Standards (BOMA BEST)**. Though not a goal in itself, this certification is evidence of bcIMC’s commitment to energy conservation and environmental stewardship in our commercial real estate assets.

WHAT IS BOMA BEST?

- As a national environmental certification program for existing commercial buildings, it provides a framework for good environmental management by building owners and managers.
- Evaluates the environmental performance of commercial buildings.
- Certified buildings go through an independent third-party verification process.
- Certification demonstrates a commitment by commercial property owners and managers to sound environmental practices and reducing their environmental footprint.
- More information can be found at: www.bomabest.com.



THE BOMA BEST PROGRAM HAS FOUR LEVELS OF CERTIFICATION

- Level 1:** certified buildings must perform an energy audit and a water audit, continually monitoring resource consumption and have a preventative maintenance program. Level 1 sets out the basic elements that are the foundation of good environmental management.
- Level 2:** certified buildings must have logged 12 months of consumption data to benchmark their performance and better understand what can be done to improve environmental performance.
- Level 3:** certified buildings typically have been managing with energy and environmental performance in mind for several years. Management in these buildings is forward-thinking in their pursuit of environmental initiatives.
- Level 4:** certified buildings are high performers with low energy consumption. The opportunity to implement new technologies and excellence in management and tracking are common for buildings that achieve this highest BOMA BEST ranking.

BOMA BEST certification is accessible to many types and sizes of buildings. A break down of bcIMC’s BOMA BEST certified commercial buildings by property type is as follows: Office **70.0%**; Retail **16.5%**; and Industrial **13.5%**.