



BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

# Corporate Annual Report

2016-2017

INVESTING RESPONSIBLY FOR RESULTS



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## About bcIMC

With \$135.5 billion of managed assets, British Columbia Investment Management Corporation (bcIMC) is a leading provider of investment management services to British Columbia’s public sector. We generate the investment returns that help our institutional clients build a financially secure future. With our global outlook, we seek investment opportunities that convert savings into productive capital that will meet our clients’ risk and return requirements over time. We offer investment options across a range of asset classes: fixed income; mortgages; public and private equity; real estate; infrastructure; and renewable resources.

## 2016-2017 Investment Highlights

**Returned 12.4%** against a one-year combined benchmark of **11.7%**

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**Returned 10.1%** (annualized) against a four-year combined benchmark of **9.0%**

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**Returned 6.6%** (annualized) against a ten-year combined benchmark of **6.0%**

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**\$680 million** in added value to British Columbia public sector pension plans

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**\$5.7 billion** in added value over the ten-year period to British Columbia public sector pension plans

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Increased our managed net assets by **\$13.6 billion** – a year-over-year increase of **11.2%**

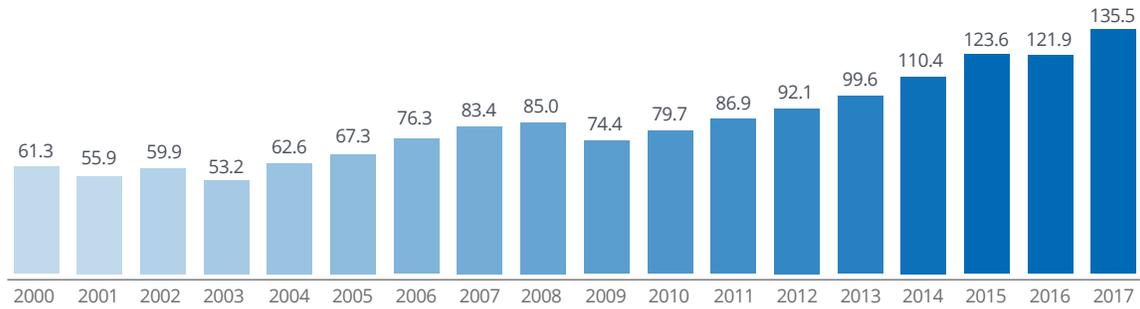
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Committed **\$9.9 billion** to illiquid assets

# bcIMC at a Glance

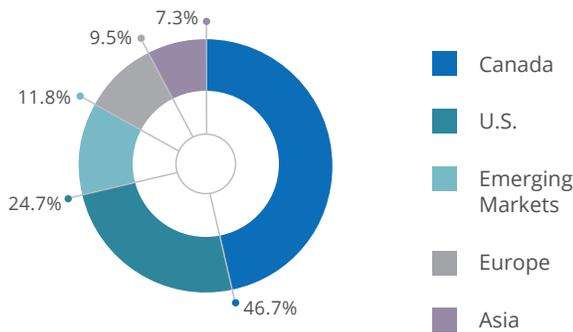
## TOTAL NET ASSETS UNDER MANAGEMENT (\$ billion)

For the year ended March 31



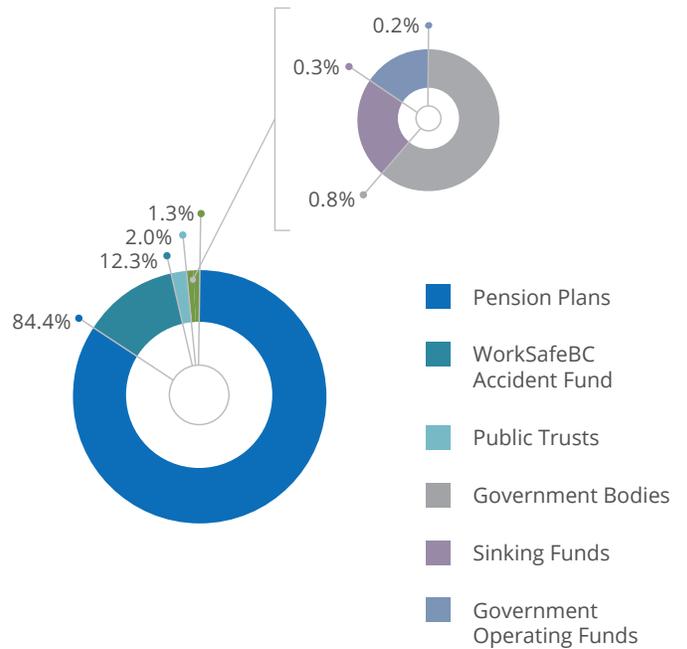
## REGIONAL ALLOCATION OF ASSETS UNDER MANAGEMENT

As at March 31, 2017<sup>1</sup>



## CLIENT PROFILE

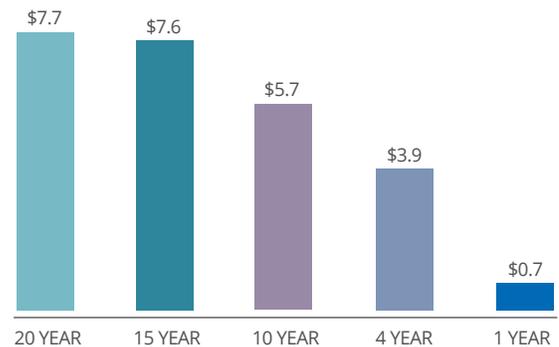
As at March 31, 2017<sup>1</sup>



<sup>1</sup> Percentages based on net assets

**bcIMC ANNUALIZED PENSION RETURNS**Returns for the periods ended March 31, 2017<sup>1</sup><sup>1</sup> Balanced portfolio returns are shown net of fees**CUMULATIVE VALUE ADDED BY bcIMC (\$ billion)**

Total pension portfolio return minus benchmark return for the periods ended March 31, 2017

**ASSETS UNDER MANAGEMENT**

For the year ended March 31, 2017 (by asset class)

	\$ BILLION	%
Public Equities	65.5	48.3
Fixed Income	26.0	19.2
Real Estate	18.2	13.5
Infrastructure	11.0	8.1
Private Equity	7.8	5.8
Mortgage	2.9	2.1
Other Strategies - All Weather	2.1	1.5
Renewable Resources	2.0	1.5
<b>Net Assets Under Management</b>	<b>135.5</b>	<b>100.0</b>

## Message from the Chair

bcIMC is adapting to the new investment landscape



I am honoured to be named the Chair of bcIMC's Board of Directors. Over the past few months I have spent time engaging with the Board, management, and clients. It was important for me to learn about the business; to understand how it operates; and to know what is top of mind for clients.

I have been very impressed with the professionalism of everyone involved in the business. The client boards are highly committed to their fiduciary duties to plan members and beneficiaries; and bcIMC is building a skilled team focused on growing long-term client wealth. We have a strong Board and an attuned management team equipped to successfully position bcIMC to manage more than \$200 billion within the next decade.

bcIMC has had a proud history of exceeding clients' return requirements. However the fundamental economic and business conditions that allowed investors to achieve strong returns no longer exist. Bonds that may have generated a 10 per cent return in the past are more likely to yield two per cent today, and stock market indices are generally trading at an all-time high. Investment competition in the established markets is robust and many individuals and corporations are looking to place capital in the markets. Consequently, returns are generally lower.

In response, bcIMC, in partnership with the clients has developed a comprehensive strategy that will position the corporation to be successful in these challenging times. The strategy sets out the priorities and initiatives that are fundamental to transforming bcIMC's investment model, underlying business, and cost drivers.

While fixed income and public securities form an important segment of all portfolios, clients are seeking more high-yield opportunities in private equity, real estate, mortgages, as well as long-term infrastructure. There is also a strong desire for bcIMC to invest using new approaches and tools, such as leverage and derivatives, to take advantage of market opportunities.

Additionally, management is looking at restructuring and refocusing our existing programs to use more sophisticated and risk-adjusted strategies, and in so doing, increasing the chance that these products reach their target rate of return.

To accomplish this, bclMC is investing to ensure that our skills and systems are in place to become an active asset manager that uses sophisticated and complex strategies, supported by a robust culture of investment risk management. These initiatives are directly related to meeting our clients' investment objectives.

While our strategy increases the probability of bclMC meeting clients' actuarial return requirement, these actions will increase our costs. To reduce this cost increase as much as possible, we plan to shift some of the assets from external managers to an in-house team that is fully committed and aligned to clients' needs.

To conclude, I want to acknowledge the many contributions of outgoing Chair, Rick Mahler, who held the position since 2011. During Rick's time on the Board, he was integral to recruiting and orienting Gordon J. Fyfe as bclMC's CEO/CIO, overseeing the initial stages of our transformation, and working with the rest of the Board to initiate a comprehensive compensation review. I also want to thank Ken Woods, whose term ended in December 2016, for his contributions to the board for the past six years. Ken was a valuable member of bclMC's audit committee since 2011 and served as Chair on the committee from 2012 to 2015.

As the incoming Chair, I would also like to thank my fellow Board members for welcoming me. They are as committed as I am to seeing bclMC's continued transformation and success over the years to come.

A handwritten signature in black ink, appearing to read 'Peter Milburn', with a long horizontal flourish extending to the right.

Peter Milburn

Chair of the bclMC Board of Directors

## Report from the CEO/CIO

### Changing our investment approach and business model



We saw an improved global macroeconomic environment and favourable market sentiment after a tumultuous start of the fiscal year for investors. Within this environment, bcIMC returned 12.4 per cent against a one-year benchmark of 11.7 per cent. Our pension plan clients benefitted from a strong year across our illiquid asset classes. This, coupled with tactical asset weighting decisions, contributed to the outperformance and generated \$680 million in added value.

Although one-year performance provides us with a short-term perspective, it is the longer term that matters. Our clients have long-term liabilities and the returns that we generate over the longer periods need to align with their return expectations. Over the four years, bcIMC returned 10.1 per cent against a benchmark of 9.0 per cent. This equates to \$3.9 billion in added

value. And looking over the 20-year period we have added \$7.7 billion.

Clients have entrusted their funds with us — we know that 75 cents of every dollar paid to pension plan members comes from our investment activity. It is our responsibility to look to the future and ensure that we can continue to meet and preferably exceed their actuarial returns ranging from 6.0 to 6.6 per cent. To date, over the one, four, and twenty-year periods we have surpassed their actuarial returns.

Although markets are extremely difficult to forecast, the fundamental drivers of returns strongly suggest that we are operating in a low return environment for the foreseeable future. Meeting our clients' actuarial targets using our historical strategies and pooled fund products may not be possible. We need to invest differently, increase the sophistication of our strategies, explore new markets, and renew our product line to ensure that we deliver their basic returns. This is the driving force of bcIMC's transformation.

Our plan refocuses bcIMC to become an in-house asset manager that uses sophisticated investment strategies and tools. In addition to deploying more capital into the illiquid markets, our industry-aligned strategies and products across the asset classes will allow clients to capitalize on opportunities within the global markets.

Our outlook, strategies, and approach are increasingly being driven by longer term considerations. As our clients have obligations that extend beyond 70 years, we invest in quality assets and stable companies with the potential to appreciate in value and provide reliable cash flows in the years to come.

Illiquidity pays a higher rate of return. As clients do not have an immediate need for cash to pay pensions, they are allocating funds into asset classes that are illiquid and longer term in nature. Our new investment approach will allow clients to continue to increase their allocations to private equity, mortgages, real estate, renewable resources, and infrastructure. We are also looking for longer term opportunities in the public markets.

bcIMC began this transformation in 2015 and although we have more work to do, we are already seeing the benefits. In fiscal 2017 we committed \$9.9 billion to illiquid assets — a record year for bcIMC. Expanding our illiquid teams' bench strength with investment professionals who have strong global networks and business relationships was a contributing factor.

Our private equity program committed \$4.0 billion in new capital. Acquisitions included equity stakes in Pilot Freight Services, a global third-party logistics provider and freight forwarding business; and Hayfin Capital Management, a European credit asset manager. Hayfin was also the first private equity investment completely sourced and negotiated internally — significantly reducing costs associated with external parties.

bcIMC's infrastructure program committed more than \$2.3 billion in new capital around the world. Our team capitalized on assets coming to the market as governments looked to raise funds to correct their balance sheets. We directly committed to Isagen, a Colombian power generation business; Glencore Agriculture, a global agriculture producer, trader, and distributor; and Asciano Limited, an Australian rail, port and logistics company.

We are required to work in our clients' best financial interests and it influences our strategies, asset selection, and operations. bcIMC's new investment model emphasizes a greater degree of active management over indexing strategies, and creating new and diversified sources of market return and active return to increase the probability of meeting our clients' actuarial rate of return.

We are reviewing our strategies and pooled fund products to capture opportunities within the global markets. For example, this year we funded our first U.S. mortgage, putting our plan into action to find mortgage investment opportunities outside of Canada. And our High Yield Bond Fund, in its second year of operation, diversified into the European credit markets — broadening its geographical and sector reach. Longer term initiatives include expanding our use of tools to improve efficiencies and execution costs such as financial futures and options; building a global active equity program; and exploring relationship investing. Transitioning to a new custodian in fiscal 2017 positions us to support new strategies and investment tools we will implement in the future.

Working for our clients' best financial interests also means looking at how we manage funds. Transforming our investment model involves expanding and strengthening our capability to source, negotiate, and manage investments in-house, rather than relying exclusively on external managers and deploying capital through their funds. This model provides us with greater control over the assets, permits us to actively manage the assets with the view of increasing its long-term value, and allows us to align investment interests with those of our clients. It is also a more cost effective approach over the longer-term.

QuadReal, bcIMC's real estate company established in 2016 and 100 per cent owned by us, is one way in which we are internalizing asset management. Moving from multiple external managers who oversaw our real estate assets and managed the properties to a consolidated company solely focused on our real estate portfolio allows us to streamline the decision-making process and asset management. bcIMC maintains strategic oversight of QuadReal; however, as with our other direct investments, we are not involved in their day-to-day operations.

An active in-house investment model depends on a robust approach to managing investment risk. It also requires hiring specialized expertise, repurposing technology, accessing information and using reporting capabilities that go hand-in-hand with managing assets internally, as well as aligning our processes with industry best practices.

While technology and processes are important, our success depends on our team. Attracting highly specialized skills and managing the talent is a critical component of our strategy. Talent management and our investment transformation is linked — moving the management of assets in-house and switching to more sophisticated investment strategies will only happen when executive management is confident that the skills and expertise are in place and positioned to successfully implement our new direction. bclMC follows a rigorous and in-depth recruiting and performance management process, emphasizing ongoing training to ensure staff are exposed to new techniques within their area of expertise.

I believe the best ideas come from a diversity of views sitting at the table. We are attracting expertise from all corners of the world including professionals from Africa, France, New Zealand, the Philippines, the U.K. and the U.S. bclMC added 74 members to our team — building up expertise in areas such as data governance, derivatives, internal controls, private equity, quantitative analysis, and tax. As well as adding new people, we promoted 40 staff members.

## Acknowledgements

In 2016-2017 we saw the retirement of Paul Flanagan, who led our fixed income & foreign exchange department for the past 11 years. We wish him all the best in this new chapter of his life. Chris Beauchemin, who has been with bclMC since 1989, stepped into the position as acting senior vice president, fixed income & foreign exchange. Jim Pittman joined and leads our private equity department and Lawrence Davis also joined to lead our finance department.

At the board level, we said farewell to our chair of six years, Rick Mahler, whose term ended in December 2016. Under Rick's leadership, the Board provided significant support to our transformation plan. Also completing his term on the Board was Ken Woods. I would like to thank them both for all of their contributions to bclMC over the years.

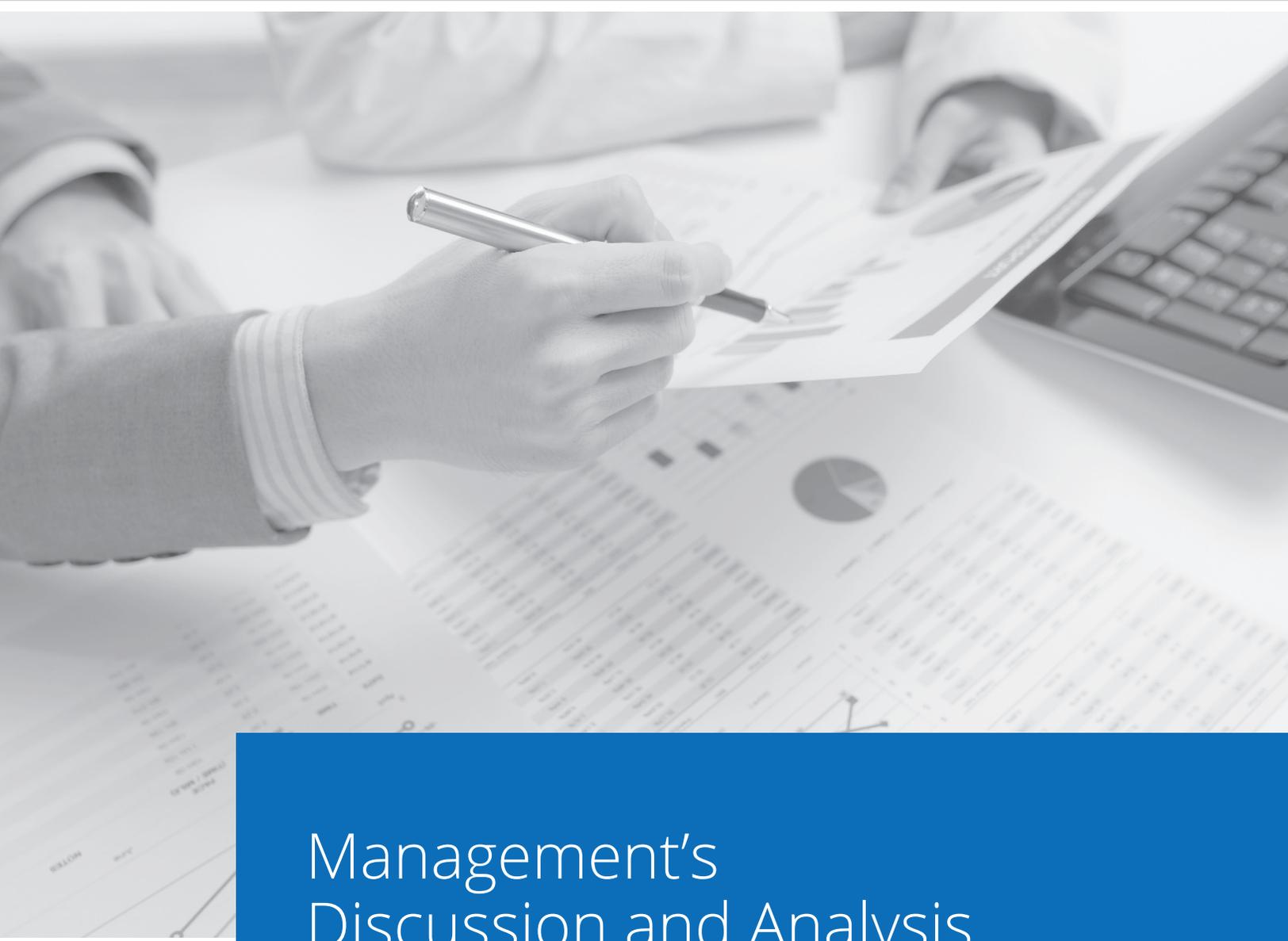
We also welcomed Peter Milburn as the new chair. Peter has spent considerable time meeting clients and understanding bclMC's strategic direction. I look forward to working with Peter and the rest of the board as we continue to guide bclMC through our transformation.

And finally, I'd like to thank our clients and staff. I, along with the rest of our executive management team, appreciate their ongoing support. The changes we are making are significant; however they are also sensible and strategic — and necessary to succeed going forward.



Gordon J. Fyfe

Chief Executive Officer / Chief Investment Officer



# Management's Discussion and Analysis

## bclMC in Brief

**OUR MANDATE** bclMC provides investment management services to British Columbia's public sector. We invest the funds not currently required by our clients to pay pensions and other benefits. bclMC is responsible for growing long-term client wealth while also protecting the value of their funds. We offer investment products across a wide range of asset classes.

**OUR INVESTMENT DISCIPLINE** We are legally and contractually required to invest our clients' funds in their best financial interest — that is our fiduciary responsibility.

We invest for the long-term, utilizing the scale of the assets under management to our advantage. Maintaining our discipline, while focusing on due diligence and diversification allows us to manage market risks. bclMC's objective is to invest in assets that provide reliable cash flows and will appreciate in value over the long term. We are transforming into an active asset manager that uses more sophisticated strategies to deliver the returns our clients seek.

bclMC brings more than capital to our investments. Our clients share our belief that responsible investing allows us to manage material environmental, social and governance risks, and improve long-term returns. We expect our portfolio companies to create long-term value and focus on stewardship.

As skills matter, we select the best-in-class investment managers and business partners.

**OUR INVESTMENT FUNDS** Our product line is diversified by asset class, region, and style. Like a mutual fund, the pooled fund combines our clients' contributions and is then invested in securities and other assets. This structure provides economies of scale, allowing clients to obtain a more diversified portfolio at a lower cost than would investing individually. bclMC holds all assets in trust; clients do not own the individual assets within bclMC's investment portfolios.

Investing is an intrinsically dynamic activity. As capital markets evolve, we adapt our product line to ensure clients benefit from new investment opportunities. This year we suspended the Active U.S. Equity Fund. bclMC's Board approved investment policies for two new funds — the Canadian Quantitative Active Equity Fund and the Global Quantitative Active Equity Fund. These are actively managed funds and are permitted to use

derivatives, shorting, and leverage. The Canadian Quantitative Active Equity Fund is benchmarked against the S&P/TSX Capped Composite Index and the Global Quantitative Active Equity Fund is benchmarked against the Morgan Stanley Capital International (MSCI) World ex-Canada Net Index. Funding is scheduled for 2017.

**OPERATING COSTS** The types of assets under management, changes to asset mix, and the specific investment strategy affects costs and client fees. Our pension plan and accident fund clients, accounting for almost 96.7 per cent of total assets managed, are moving into illiquid assets to increase the probability of generating their required actuarial rate of return. And by nature, these assets are more expensive to manage than publicly-traded stocks and bonds.

As returns are reported net of fees and expenses, costs matter. We are moving to a more economical model by managing a greater percentage of assets in-house. bclMC will gradually reduce our reliance on external managers.

Enabling a more active and in-house investment approach requires enhanced systems, processes, and specialized expertise. As a result, our operating model is transitioning and will be financially prudent, based on reasonable costs. Cost advantages arise from economies of scale provided by managing \$135.5 billion, pooling assets, and managing 63.5 per cent of assets in-house.

This year our operating costs were \$311.1 million or 24.2 cents per \$100 of assets under management (2015-2016: \$290.4 million or 23.7 cents per \$100). This consists of internal and external direct costs. Internal costs are directly paid by bclMC and include salaries, rent, and consulting fees and represent 39.2 per cent of costs in the fiscal year. External direct costs are directly paid by bclMC or pools to third parties to manage assets and include fees to asset managers, auditors, custodian, etc., representing 60.8 per cent in the fiscal year.

We operate on a cost recovery model and do not receive subsidies or financial aid from any third party. We are accountable to our clients for the costs involved in managing their funds.

## Our Clients

bcIMC began operations under the *Public Sector Pension Plans Act* in 2000 in order to provide investment to British Columbia's public sector. Our clients are not mandated to use bcIMC and have voluntarily chosen bcIMC as their investment manager.

Our largest client group, the public sector pension plans, make up approximately 84.4 per cent of the assets. Our investment activities help our clients secure the pensions of more than 554,000 plan members. Clients establish the investment framework and set the performance targets for their pension fund. They determine the asset allocation framework and the diversification of the portfolio. Some plans take greater market and liquidity risk to enhance long-term returns. Returns are important — for every \$100 a pension plan member receives in retirement benefits, on average \$75 is provided by bcIMC's investment activity.

Government bodies account for 13.1 per cent of our assets. We help finance the insurance and benefit funds for over 2.3 million workers in British Columbia. Publicly administered trust funds comprise 2.0 per cent of our assets. Some of these clients prioritize capital protection, while others look for liquidity and short-term performance. Sinking and government operating funds represent 0.5 per cent of our managed assets.

We invest in line with our clients' investment frameworks and policies, as well as applicable legislation and regulations. bcIMC is accountable to clients for both fund performance and management fees.

We focus on understanding our clients' different investment needs — whether managing pension funds on behalf of plan trustees, growing capital reserves for insurance funds, or generating income for trust funds. This includes learning about their risk and return objectives, liability profile and liquidity needs, and their investment horizon. bcIMC assists with developing strategies that take into account our clients' investment objective, risk appetite, and investment beliefs.

Meeting clients' needs extends beyond putting their funds to work. A team works closely with trustees to expand their knowledge and understanding of capital markets. bcIMC offers our major clients educational sessions that include webinars, orientation programs, multi-day training sessions, as well as an annual conference.

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**OUR VISION** We will be the responsible fund manager of choice for the British Columbia public sector, at the forefront of the industry and consistently exceeding the performance and service expectations of our clients.

**OUR MISSION** We are accountable to our clients to provide professional fund management for all asset classes, exercising the highest standards of prudence and fiduciary responsibility. We deliver to our clients the highest return for a given level of risk, at a reasonable cost, while recognizing our responsibility to the broader society through our governance, social and environmental related activities.

**OUR VALUES** We live and embrace the values of accountability, transparency, integrity, and team cohesiveness.

## 2016–2017 Key Corporate Accomplishments

### Expanding and Diversifying Investment Strategies

Conduct ongoing reviews of existing investment strategies – focusing on optimizing client returns

- ▶ Raised \$750 million in debt financing for real estate program
- ▶ Board approved policies for new funds: Canadian Quantitative Active Equity Fund; Global Quantitative Active Equity Fund

### Strengthening the Base

Continue building bench strength across portfolio management, asset management, risk management, information technology, investment operations, and finance

- ▶ Expanded team by 74 and added expertise in asset management, data governance, derivatives, illiquid assets, portfolio management, quantitative analysis, and tax

Further strengthen investment risk capabilities

- ▶ Introduced liquidity risk, macro country risk analysis, market risk, and risk reporting skills

Establish an integrated enterprise data management (EDM) function

- ▶ Completed 18 automated system to system data integrations

Update and enhance systems

- ▶ Transitioned to new custodian
- ▶ Introduced new private equity portfolio reporting system

### Internalizing Asset Management

Consolidate management of real estate portfolio

- ▶ Launched QuadReal Property Group, a real estate asset and property manager 100% owned by bcIMC

Increase internal management of actively managed public equity funds

- ▶ Transitioned \$2.8 billion of externally managed funds to bcIMC

Continue committing to direct investments in illiquid markets

- ▶ Committed \$9.9 billion across infrastructure, mortgages, private equity, and real estate

## 2017-2018 Key Corporate Objectives

### Expanding and Diversifying Investment Strategies

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Improve the probability of achieving our clients' actuarial rate of return

- ▶ Expand the use of tools to improve efficiencies and execution costs such as financial futures and options<sup>1</sup>
- ▶ Introduce quantitative active funds and wind down enhanced indexed equity funds
- ▶ Continue expansion of the High Yield Bond Fund

### Strengthening the Base

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Our team will include highly-skilled and talented investment professionals using quality data, supported by best-in-class technology, and following processes aligned with industry best practices

- ▶ Begin replacing investment management platform to reduce operational risk and increase efficiency<sup>1</sup>
- ▶ Move to new location to accommodate and facilitate new investment approach and expanded team<sup>1</sup>
- ▶ Continue building an investment risk program to support new active in-house asset management model
- ▶ Implement automated trade matching for public security trades
- ▶ Transition IT Infrastructure to a hosted, cloud-based model

### Internalizing Asset Management

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Transition away from external active management and fund-of-funds to more cost effective investment styles that include internal active management

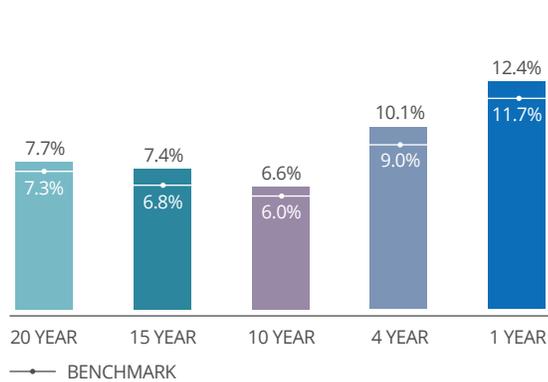
- ▶ Continue to move management of real estate assets and properties to QuadReal Property Group<sup>1</sup>

<sup>1</sup> Corporate focus areas

## Investment Returns

### bcIMC ANNUALIZED PENSION RETURNS

Returns for the periods ended March 31, 2017<sup>1</sup>



<sup>1</sup> Balanced portfolio returns are shown net of fees

Pension plan clients benefitted from solid performance of our illiquid asset investments, as well as strong public equity returns over the year. Tactical decisions to underweight fixed income in favour of public equities provided value-added returns. A key contributor was the outperformance of global equities relative to their benchmark; however this was offset by underperformance in Canadian and emerging equity markets. In a low return environment for fixed income, our decision to underweight nominal bonds added value and was further enhanced by outperformance relative to the benchmark. This was primarily driven by overweighting corporate credit and adding high yield bonds to our portfolio. Strong performance in our illiquid asset investments also provided value-add. Infrastructure, private equity, real estate, and renewable resources generally outperformed for the calendar year and delivered above-benchmark returns.

### CUMULATIVE VALUE ADDED BY bcIMC (\$ billion)

Total pension portfolio return minus benchmark return for the periods ended March 31, 2017



As pension plans have long-term financial obligations, we focus on generating long-term client wealth while protecting the value of the funds. Returns are important — for every \$100 a pension plan member receives in retirement benefits, on average \$75 is provided by bcIMC's investment activity. Over the four-year period, the annualized return was 10.1 per cent against a benchmark of 9.0 per cent, adding \$3.9 billion in value. For the 10-year period, the annualized return was 6.6 per cent against a benchmark of 6.0 per cent. bcIMC added almost \$5.7 billion in value over this period.

# Return Summary for the Combined Pension Plan Clients<sup>1</sup>

## ANNUALIZED RETURNS %

	15 YEAR	10 YEAR	5 YEAR	4 YEAR	1 YEAR	1 YEAR VALUE-ADDED <sup>2</sup> (\$M)
<b>Fixed Income</b>						
Short-Term	2.9	2.4	1.4	1.2	0.6	6.2
Benchmark	2.1	1.4	0.8	0.7	0.5	
Nominal Bonds	6.0	5.2	3.9	3.7	2.7	145.8
Benchmark	5.7	4.8	3.5	3.3	1.5	
Real Return Bonds	6.7	4.7	1.0	0.8	(1.1)	(17.2)
Benchmark	7.0	4.8	1.3	1.1	(0.5)	
<b>Mortgages</b>	6.1	5.5	4.6	4.4	3.7	40.6
Benchmark	4.7	4.2	3.0	2.9	2.1	
<b>Other Strategies — All Weather</b>					14.3	49.0
Benchmark					9.8	
<b>Public Equities</b>						
Canadian Public Equity	7.8	4.8	8.4	8.9	18.0	(85.1)
Benchmark	7.4	4.3	7.8	8.3	18.7	
Global Public Equity	5.9	6.0	16.0	16.4	19.0	182.1
Benchmark	6.0	6.5	16.2	16.7	18.4	
Emerging Markets Public Equity			7.9	8.1	17.8	(240.5)
Benchmark			6.8	7.6	20.9	
<b>Private Equity<sup>3</sup></b>	9.9	11.2	18.2	19.4	9.0	
Benchmark	14.5	13.1	17.6	18.1	6.1	
<b>Infrastructure<sup>3</sup></b>		11.1	10.3	10.5	9.6	
Benchmark		7.9	7.8	7.7	7.0	
<b>Renewable Resources<sup>3</sup></b>				9.7	7.7	
Benchmark				7.0	7.0	
<b>Real Estate</b>						
Domestic Real Estate	9.5	7.3	7.5	6.5	6.0	
Benchmark	5.8	5.6	5.3	5.4	5.6	
Global Real Estate <sup>3</sup>	5.6	3.5	10.8	12.6	9.0	
Benchmark	8.6	8.2	7.4	7.3	7.0	

Except as otherwise indicated, returns are time-weighted rates of return as at March 31, 2017. All returns are net of fees.

Investments are reported by programs within the asset classes as set out in the clients' Statement of Investment Policies & Procedures ("SIPP"). Benchmarks represent a weighted combination of multiple indices as specified in the clients' SIPP. The indices may vary over time.

<sup>1</sup> The Combined Pension Plan Client reflects the investments of bclMC's six largest Pension Clients, namely: BC Hydro Pension Plan; College Pension Plan; Municipal Pension Plan; Public Service Pension Plan; Teachers' Pension Plan; and WorkSafeBC Pension Plan.

<sup>2</sup> Value-added is calculated as the daily excess return multiplied by the daily opening market value, as such it is reported for Public Market assets only.

<sup>3</sup> The internal rate of return methodology is used to calculate returns for Private Equity, Infrastructure, Renewable Resources, and Global Real Estate. The returns and benchmarks are as at December 31, 2016.

## Capital Markets Overview

The year was a bit of a rollercoaster ride for investors. However, an improved global macroeconomic environment and favourable market sentiment from the U.S. election resulted in a somewhat surprisingly solid year for equity markets and risk assets in general.

The fundamental underpinnings of the global economy improved throughout the year, despite skepticism on the strength and sustainability of economic growth. The U.S. recovery continued unabated, China's fiscal stimulus supported domestic and global demand, and even continental Europe, which was challenged by structural economic and political issues, saw some improvement.

Canada, and Alberta in particular, suffered through a challenging year. Low oil prices and the wildfires in Fort McMurray, Alberta resulted in a decline in oil and economic output, not to mention social devastation. However, reconstruction efforts, improving energy prices, and strong domestic demand fueled by low interest rates led to an improved economic and equity market environment at the start of 2017.

Geopolitics played a central role throughout the year, specifically in Europe and the U.S. The U.K. referendum, commonly referred to as "Brexit", resulted in voters narrowly approving to exit from the European Union (EU). The outcome surprised investors — the British pound promptly fell over 11 per cent against the U.S. dollar, and U.K. equities declined by almost six per cent. Broadly, the rise of populist and extreme, anti-European political parties in a number of European elections has raised the possibility that the EU and the euro itself may be at risk.

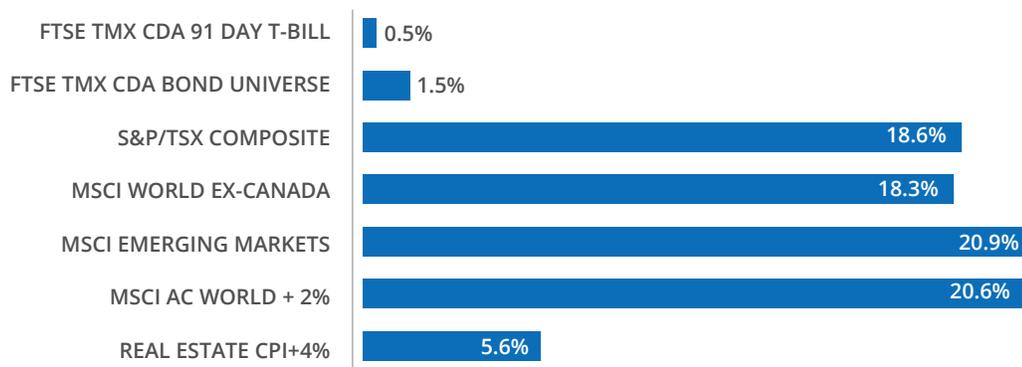
In the U.S., a divisive and hotly contested presidential election dominated headlines. Despite electoral polling suggesting otherwise, Donald Trump won the election. Generally, equity markets reacted positively on expectations of increased U.S. growth resulting from fiscal stimulus, pro-business tax reforms, and deregulation. However, U.S. bond markets interpreted these forces as reflationary and likely to lead to a faster pace of interest rate increases by the U.S. Federal Reserve. Following the election, on a global basis bond yields increased and some heavily-levered segments of equity markets declined.

Against this tumultuous backdrop, global developed markets outside of Canada and emerging equity markets saw solid returns with increases of 18.3 per cent and 20.9 per cent respectively.<sup>1</sup> Canadian bond market returns ended up being relatively low for the year. The Bank of Canada held rates at 0.5 per cent during fiscal 2017, which resulted in short-term money markets returning just 0.5 per cent. Canadian Universe Bonds — representing federal, provincial and local government bonds, as well as investment-grade corporate bonds, returned 1.5 per cent for the fiscal year, as longer term bond yields increased following the U.S. election.

Despite high valuations for risk assets, policy and geopolitical uncertainty, extremely low interest rates continued to create strong demand for private market assets such as infrastructure and real estate.

### CAPITAL MARKET INDEX RETURNS<sup>2</sup>

April 1, 2016–March 31, 2017



<sup>1</sup> All returns are fiscal year, and in Canadian dollar terms

<sup>2</sup> Index returns correspond to client benchmarks. They are on a fiscal year basis and in Canadian dollar terms. All index returns are total return, including dividend re-investment and net of withholding taxes where applicable. Source: FactSet, FTSE TMX Canada, S&P/TSX, MSCI

# Fixed Income

Offering clients a variety of fixed income investment strategies

## Total assets are \$26.0 billion

**PERFORMANCE ANALYSIS** Fixed income markets were impacted by geopolitical factors. Government bond yields hit record lows in the aftermath of Brexit. The U.S. presidential election sparked investor confidence, increasing inflation expectations and stabilizing yields. During this period, the Federal Reserve increased its target rate twice, while the Bank of Canada kept its rate unchanged.

In the Canadian bond market, corporate bonds performed very well, delivering strong returns as credit spreads narrowed significantly. Weak economic performance over the fiscal year drove down the value of the Canadian dollar against the U.S. dollar and Japanese yen. However, geopolitical factors strengthened the Canadian dollar against the euro and British pound.

The Central Bank rate policy continued to constrain Canadian money market funds. Our Short-Term Fund One, which invests in Canadian government debt securities, returned 0.5 per cent against a one-year benchmark of 0.5 per cent. Our Short-Term Fund Two, which holds Canadian federal, provincial, and municipal debt as well as corporate debt, returned 0.8 per cent against a one-year benchmark of 0.5 per cent. Over the

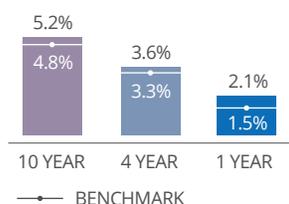
longer term, duration calls, yield curve positioning, and credit weightings allowed this fund to outperform its benchmark.

The Canadian Universe Bond Fund, which invests in highly liquid, quality government and investment-grade corporate debt, performed very well for the year. It returned 2.1 per cent against a one-year benchmark of 1.5 per cent. Strong returns from corporate credit drove performance. Longer term, the fund continues to provide solid performance, with four-year returns of 3.6 per cent against a benchmark of 3.3 per cent. Our actively managed High Yield Bond Fund primarily invests in non-investment grade corporate debt. Although it missed its benchmark by 1.1 percentage points due to defensive positioning early in the year, the fund's performance was very strong during its first full year of operation and returned 16.2 per cent. The returns from the recovery in the energy sector drove overall performance.

The Canadian Real Return Bond Fund, which holds government-issued or guaranteed debt with inflation-adjusted payments, underperformed its benchmark due to an overweight position in bonds that were not linked to inflation. For the one-year period, it returned (1.1) per cent, against a one-year benchmark of (0.5) per cent.

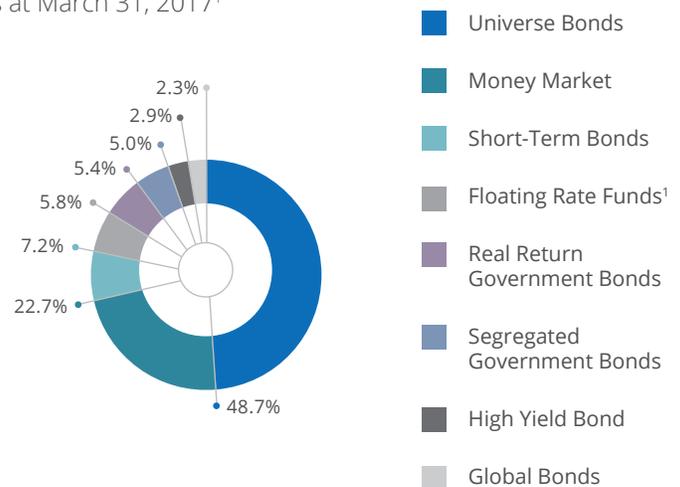
### CANADIAN UNIVERSE BOND FUND PERFORMANCE

Annualized returns for the periods ended March 31, 2017



### FIXED INCOME PORTFOLIO ASSETS

As at March 31, 2017<sup>1</sup>



<sup>1</sup> The fixed income & foreign exchange department manages funds for all asset classes. This amounted to \$1.8 billion in Money Market Funds and \$1.7 billion in Floating Rate Funds, as of March 31, 2017.

# Mortgages

Providing financing to commercial real estate in Canada and the U.S.

## Commitments totalled \$4.2 billion as of March 31, 2017

**PERFORMANCE ANALYSIS** Although the Government of Canada five-year bond rates increased slightly over the year, they remained at a historical low — continuing to challenge the ability to earn acceptable lending returns. Increased competition for limited opportunities within the Canadian markets contributed to the narrowing of mortgage spreads during the year.

Amid this competitive environment, bclMC committed more than \$1.4 billion. This included our entry into the U.S. mortgage market — a strategy that diversifies our mortgage program by region and investment style.

Our Fixed-Term Mortgage Fund, which primarily provides first secured financing for income-producing commercial real estate, outperformed its benchmark despite realizing a loan impairment of approximately \$10 million. The fund returned 2.6 per cent over a one-year period against a benchmark of 2.3 per cent. Due to the fund’s composition, the decrease in mortgage spreads positively affected returns. Over a 20-year period, the fund exceeded its benchmark by 0.7 percentage points.

### CONSTRUCTION MORTGAGE FUND PERFORMANCE

Annualized returns for the periods ended March 31, 2017

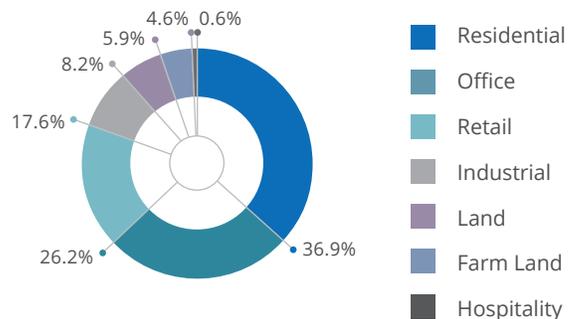


The Construction Mortgage Fund, which finances commercial developments, had another strong year. The fund returned 4.1 per cent against a benchmark of 1.5 per cent. Market interest rates; construction loan fees; and interest rate floors, which protect against a loss in value resulting from falling interest rates, contributed to returns. Over a 20-year period, performance remained positive, returning 5.9 per cent against a benchmark of 4.0 per cent.

Our Mezzanine Mortgage Fund finances high loan-to-value loans offered to commercial developers and property owners. The loans provide higher returns to compensate for the increased risk taken by our mortgage security. The fund returned 8.8 per cent against a one-year benchmark of 3.0 per cent. Strategic partnerships with external managers and successful construction projects contributed to performance. Over the 15-year period, the fund returned 9.0 per cent against a benchmark of 4.9 per cent. Although a higher risk profile, only one loan loss provision has occurred since the fund’s inception in 1999.

### MORTGAGE HOLDINGS BY PROPERTY TYPE

As at March 31, 2017



## Public Equities

A portfolio positioned to capture global growth and income opportunities

### A year-over-year increase of \$7.6 billion

**PERFORMANCE ANALYSIS** Political events in the U.S. and Europe, and potential conflict in North Korea, as well as ongoing strife in the Middle East characterized the year. However, these concerns were largely overshadowed by a more positive economic outlook, growing earnings, and supportive monetary policy. As a result, Canadian, Global Developed, and Emerging Markets were very strong for the year. bcIMC strategically remained overweight to equities, continuing to provide relative value-added performance for participating clients.

However, it was a difficult year for active managers throughout the industry. A combination of higher correlations among stocks and a trend towards low-cost passive management made it challenging to outperform benchmarks.

Over the longer term, our Active Canadian Equity Fund outperformed its benchmark, returning 10.5 per cent against a four-year benchmark of 8.3 per cent. Looking at the short term, the fund missed its one-year benchmark by 3.2 percentage points and returned 15.4 per cent. Similarly our Active Canadian Small Cap Equity Fund performed well over

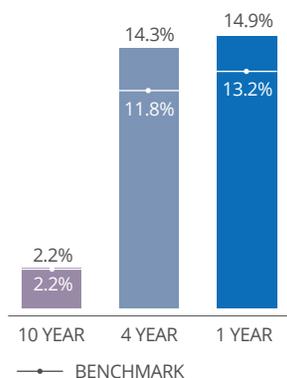
the longer term, returning 11.1 per cent against a four-year benchmark of 6.2 per cent; but missed its one-year benchmark by 8.7 percentage points.

The Active European Equity Fund outperformed its benchmark both on a short-term and long-term basis with 14.9 per cent against a one-year benchmark of 13.2 per cent and 14.3 per cent against a four-year benchmark of 11.8 per cent. The Active Asian Equity Fund had a strong year, returning 24.6 per cent against a benchmark of 21.9 per cent. Over the longer term the fund also outperformed its benchmark, returning 10.7 per cent against a four-year benchmark of 10.6 per cent. However, the Active Global Equity Fund performed poorly for the year, as well as over the longer term. We are currently reviewing the fund's structure and manager line-up to improve performance.

Our Active Emerging Markets Equity Fund exceeded its four-year benchmark and returned 8.2 per cent against a benchmark of 7.6 per cent. However, over the shorter term the fund underperformed, returning 17.3 per cent against a one-year benchmark of 20.9 per cent.

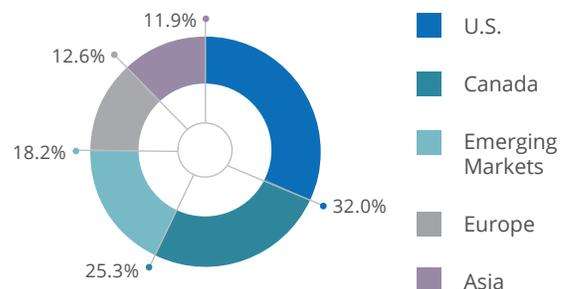
### ACTIVE EUROPEAN EQUITY FUND PERFORMANCE

Annualized returns for the periods ended March 31, 2017



### REGIONAL ALLOCATION OF PUBLIC EQUITIES

As at March 31, 2017



## Private Equity

Providing long-term private capital to companies with strong fundamentals and experienced management

### A year-over-year increase of \$1.0 billion

**PERFORMANCE ANALYSIS** Generally, global private equity markets were active; although both the total transaction value and deal volume were below the record activity over the last two years. Corporate buyers were active during the year and willing to pay top prices for companies. This, coupled with accommodating debt terms, contributed to a competitive and expensive environment.

During 2016, we committed approximately \$3.7 billion to ten new fund investments — including three commitments to previously established relationships and seven representing new strategic relationships. During the year we also began an extensive review of various fund investments to assess their strategic fit with our current investment strategy.

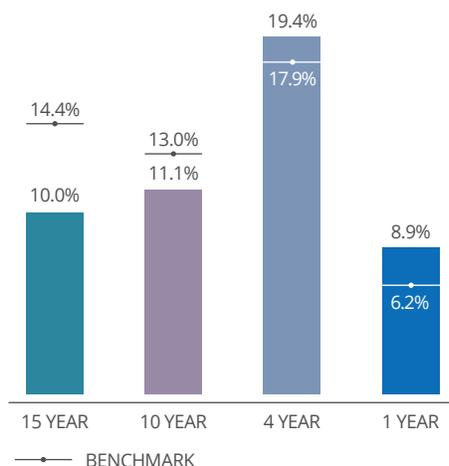
Additionally, we invested \$270 million on a co-investment basis in the U.K., the U.S., and Asia. The acquisitions added further

diversification by providing exposure to the financial sector, third-party transportation logistics solutions, and the industrial sector. As an active manager, our focus continues to be on increasing our co-investment activity.

Performance for the program remained solid — returning 8.9 per cent (unaudited) against a one-year benchmark of 6.2 per cent for the period ending December 31, 2016. Increased company valuations and distributions contributed to returns; however the Canadian dollar dragged performance for this period. On a four-year basis the program returned 19.4 per cent against a benchmark of 17.9 per cent. Strong valuations, company earnings, and a substantial positive foreign exchange impact drove returns. Over the longer term, the program continues to narrow the gap relative to its benchmark while outperforming overall global public equity indices. The stronger performance reflects the changes we initiated in 2010 to our investment strategy and portfolio of quality assets.

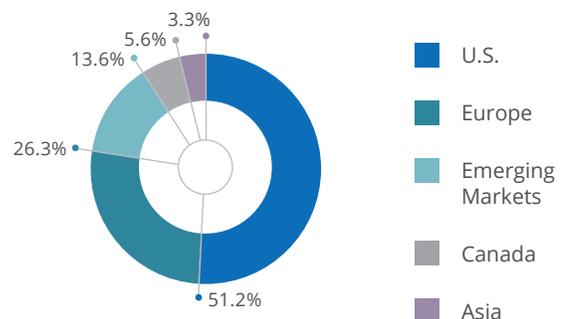
### PRIVATE EQUITY PROGRAM PERFORMANCE

Annualized returns for the periods ended December 31, 2016<sup>1</sup>



### REGIONAL DISTRIBUTION OF PRIVATE EQUITY PROGRAM

As at December 31, 2016<sup>1</sup>



<sup>1</sup> Assets in the private equity program are valued annually at December 31

## Infrastructure

Acquiring long-term equity positions in core infrastructure assets, possessing strong cash flows and long-term capital growth

### A year-over-year increase of \$3.9 billion

**PERFORMANCE ANALYSIS** We invest in privately-owned and managed infrastructure companies that operate in stable regulatory environments and provide reliable cash flows.

Competition for quality assets remained high. Low interest rates combined with demand from other institutional investors, increased the prices of assets, while driving down expected returns. Both the quantity and dollar value of total transactions reached a record high for global infrastructure markets in 2016. Within these markets, bcIMC capitalized on opportunities to purchase quality assets from governments and companies divesting their infrastructure holdings. Amid a very active year for acquisitions, bcIMC increased our global footprint by committing a record \$2.3 billion in new capital, investing approximately \$1.7 billion on a direct basis. Notable commitments included acquiring equity stakes in Glencore Agriculture Limited, a global agricultural commodity logistics network; and partnering with two separate consortiums to acquire newly created businesses as a result of Asciano Limited's

restructuring — Patrick Container Terminal, LINX Cargo Care, and Pacific National. Asciano Limited is an Australian rail, port, and logistics company.

The portfolio had another strong year with unaudited one-year returns of 9.7 per cent for the period ended December 31, 2016. In January 2016, we amended the benchmark to a 7 per cent nominal return from 8 per cent to expand our universe for investment opportunities and reflect the trend in current market return expectations. Significant distributions from several of our core utility holdings and increased valuations were the primary drivers for returns.

The program also had strong performance on a multi-year basis, exceeding its benchmark with unaudited four-year returns of 10.5 per cent and 10-year returns of 11.0 per cent. Strong distributions and portfolio appreciation drove returns. The program benefitted from a relatively weak Canadian dollar against the U.S. dollar, euro, and pound over 2013-2015. For the ten-year period, our direct investments outperformed our fund investments, further supporting our strategic objective to move toward more active, direct investing.

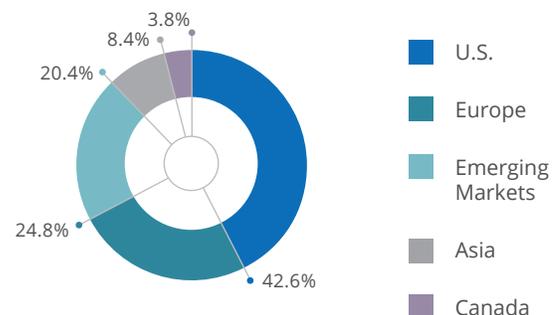
### INFRASTRUCTURE PROGRAM PERFORMANCE

Annualized returns for the periods ended December 31, 2016<sup>1</sup>



### REGIONAL DISTRIBUTION OF INFRASTRUCTURE PROGRAM

As at December 31, 2016<sup>1</sup>



<sup>1</sup> Assets in the infrastructure program are valued annually at December 31

# Real Estate

Focusing on the strategic ownership, operation, and development of global and Canadian real estate assets

## A year-over-year increase of \$0.7 billion

**PERFORMANCE ANALYSIS** Historically stable market fundamentals, low interest rates, and a relatively weak Canadian dollar created high demand for Canadian real estate from both domestic and foreign investors. Overall global real estate performance remained healthy with the U.S. and Australia providing strong returns. However, this was offset by emerging market weakness in Brazil and a significant slowdown in the U.K.

Our Canadian program committed \$1.0 billion in capital, which included the investment in and establishment of QuadReal Property Group. We launched QuadReal to manage and expand our domestic and global real estate program. The independent real estate asset and property management company is a direct investment. Our dispositions for the year included the sale of SilverBirch Hotels & Resorts portfolio, consisting of 26 properties across Canada.

To capitalize on low interest rates, we issued bonds to the Canadian markets and raised \$750 million in debt financing — \$500 million at a ten-year rate of 3.00 per cent and \$250 million at a 5.4-year rate of 2.15 per cent. The funds will finance ongoing real estate investment and development. We opportunistically

### REALPOOL DOMESTIC FUND PERFORMANCE

Annualized returns for the periods ended March 31, 2017



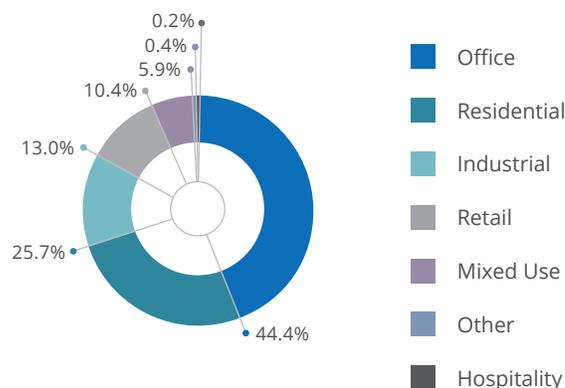
raise debt as a cost effective way of adding leverage to our portfolio. To date, we have raised over \$4.4 billion.

Over the 20-year period, the program exceeded its benchmark by 4.0 percentage points. Healthy capital markets and declining capitalization rates contributed to returns. We entered the domestic real estate market in the early nineties and have been building a portfolio of quality assets that appreciate over time and deliver strong, reliable long-term returns. Shorter term, returns continue to be mixed, returning 6.0 per cent against a one-year benchmark of 5.6 per cent. Despite low oil prices impacting market rents and occupancy in energy-producing regions, well-located properties in Toronto and Vancouver remain in high demand, increasing the valuations of these properties. Our long-term investment approach includes negotiating longer term leases to provide stable cash flows.

Within our global program, we committed \$1.2 billion as we expand and diversify our exposure. The program had a strong year, returning 9.0 per cent against a benchmark of 7.0 per cent as of December 31, 2016. Over the 10-year period, the program underperformed its benchmark by 4.8 percentage points. However, in recent years we are realizing the benefits of a change in investment approach that increased exposure to direct investments.

### DOMESTIC REAL ESTATE ASSETS BY PROPERTY TYPE

As at March 31, 2017<sup>1</sup>



<sup>1</sup> Gross assets for the domestic real estate program totalled \$20.7 billion as at March 31, 2017

# Renewable Resources

Building a diversified portfolio of real assets that produces stable income returns while achieving long-term capital returns

## A year-over-year increase of \$0.3 billion

**PERFORMANCE ANALYSIS** Our renewable resources program holds core investments focused in the timberlands and agricultural sector. As a real asset strategy, the fund complements clients' exposure to traditional stocks and bonds. We believe a growing global population will continue to drive opportunities in this space. However, given the nature of these assets, a long-term perspective is required when building a portfolio of quality holdings. Our program was created in 2013 when we transitioned existing timber and agricultural assets into the separate fund.

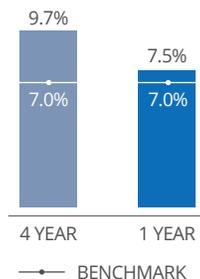
Overall, the fund performed well for the year. Unaudited returns were 7.5 per cent on a one-year basis for the period ended December 31, 2016. The agricultural component generated strong returns primarily due to substantial capital appreciation

of the integrated agri-business sector within our program. The effects of El Niño, producing record-high crop yields in the U.S. and low yields for South-American and Asian harvests, resulted in modest performance for our farmland holdings. The timber component generated positive returns, but lagged expectations. Active housing markets in both China and Japan, and a growing U.S. market, increased demand for Canadian lumber. However, during the calendar year, returns were impacted by a stronger Canadian dollar as lumber is priced in U.S. dollars.

The combined program exceeded its four-year benchmark with unaudited returns of 9.7 per cent. Distributions and portfolio appreciation, as well as a depreciating Canadian dollar over the longer time period contributed to its performance.

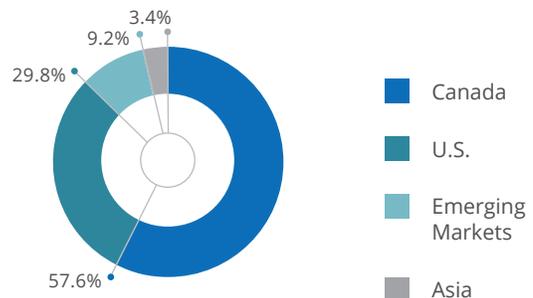
### RENEWABLE RESOURCES PROGRAM PERFORMANCE

Annualized return for the periods ended December 31, 2016<sup>1</sup>



### REGIONAL DISTRIBUTION OF RENEWABLE RESOURCES PROGRAM

As at December 31, 2016<sup>1</sup>



<sup>1</sup> Assets in the renewable resources program are valued annually at December 31

## Risk Management

Risk management is integral to bcIMC's fiduciary role in managing our clients' funds

Managing risk is the process by which bcIMC identifies, evaluates, controls, monitors, and communicates the risks and opportunities associated with our operations and investments.

Our clients expect to be compensated with higher returns for taking on additional investment risk. Risk management allows bcIMC to address uncertainty and manage associated risks and opportunities. Guiding principles inform our approach, which also requires communication and judgement. Within bcIMC, effective risk management calls for knowledge of capital markets and legislation, as well as an understanding of investment products, business practices, and internal controls.

Anticipating risk, taking appropriate steps to limit exposure or capitalize on the opportunities, and managing the results are essential to bcIMC's risk management. bcIMC aims to ensure that:

- ▶ funds under management are better protected
- ▶ our operations are sound
- ▶ trust in bcIMC remains unchallenged

**INTEGRATED RISK GOVERNANCE** In fiscal 2017, the bcIMC Board approved the establishment of an integrated risk governance framework that enhances the Board's ability to oversee enterprise, investment, and product-related risk management.

bcIMC's risk governance framework formalizes the roles and responsibilities of the enterprise risk management committee and the investment risk management committee struck in fiscal 2016. To ensure the integration of risk between the two committees, the chief operating officer and the senior vice president, investment risk, strategy & research are mandatory members of each committee.

Each committee is responsible for approving risk directives and the Board is responsible for approving the corporate policies. Senior vice presidents approve risk procedures, which must adhere to all relevant policies and directives. Collectively the policies, directives, and procedures that relate to risk form the governance framework for bcIMC's risk management.

**INVESTMENT RISK MANAGEMENT** As our investment strategies become more dynamic and global, and we begin to actively manage more assets in-house, we require new ways to identify, assess, and either mitigate or seize opportunity in potential investment risks. Our risk management processes are evolving with our investment strategies to maximize long-term, risk-adjusted returns and preserve our clients' capital.

Our new investment risk management framework consists of the following components:

- ▶ **Concentration Risk:** This is the risk of loss arising from exposure, either directly or indirectly, within or across different risk types such as region, issuer, sector, investment partner, or investment type. bcIMC limits risk by diversifying holdings within and across these exposures.
- ▶ **Credit and Counterparty Risk:** Credit risk is the potential for loss from the deterioration or outright default of an issuer or guarantor's ability to honour payment obligations. bcIMC uses sound credit risk measures to monitor credit quality across pooled funds, asset classes, and specific strategies.
 

Counterparty risk is the potential for loss from a counterparty not honouring its contractual obligations. bcIMC mitigates this risk by only engaging with high quality counterparties after we complete a thorough review of their creditworthiness. bcIMC uses approved brokers, dealers, and derivative counterparties for all trading.
- ▶ **ESG Risk:** This involves the risk of financial loss as a result of environmental, social, and governance (ESG) factors. bcIMC will measure and monitor ESG risk at different investment levels using best-in-class industry approaches and methodologies.
- ▶ **Liquidity Risk:** bcIMC is exposed to market and funding liquidity risks. Market liquidity risk is the risk that an investment position cannot be unwound or offset in a timely fashion without enduring a significant loss attributable to market liquidity. Funding liquidity risk

is the risk that a company will not be able to meet its payment obligations, both expected and unexpected, because of an inability to obtain funding. bcIMC manages liquidity risk by setting liquidity coverage ratio targets and diversifies sources and uses of liquidity by type, maturity, and counterparty.

- ▶ **Market Risk:** This is the potential for loss resulting from adverse movement in market prices or factors such as interest rates, exchange rates, or credit spreads. We will follow best-in-class industry practices to measure, manage and monitor market risk, and ensure that the risk is appropriate to each client and their expected return. We knowingly take on risk, assess the consequences of macro trends, and continually re-evaluate market conditions.

bcIMC is building a dedicated investment risk management function within the investment risk, strategy & research department (IRSR). They will support bcIMC's investment activities by working with clients, the bcIMC Board, and the asset classes to help inform key investment decisions. We continue to create a more robust approach to risk management and are strengthening our expertise in the measurement and reporting of investment risks. During the year we added six new positions to our investment risk team.

**ENTERPRISE RISK MANAGEMENT** Our clients expect bcIMC to have sound practices. During fiscal 2017, we completed the review of our enterprise risk management framework. In fiscal 2018 the Board will consider management's recommendations for a revised framework. Until Board approval, the existing framework addresses:

- ▶ **Environmental Risk:** Managing this risk begins with our pre-investment analysis of all opportunities. We work with accredited environmental consultants. Post-investment practices include maintaining environmental records and ensuring compliance with legislation. We review legislative changes for potential impacts on our investments.

- ▶ **Legal Risk:** bcIMC follows a principle-based approach to identifying and mitigating legal risk. Loss or dilution of legal rights can have negative financial consequences for our clients. Policies, such as those concerning anti-money laundering and insider trading, address legal compliance risks.
- ▶ **Operational Risk:** Refers to the risk of direct or indirect loss resulting from failed or inadequate internal processes, people or systems, or from external events.
- ▶ **Strategic Human Resources Risk:** This is managed through a framework that aligns the employment lifecycle with our business strategy. We mitigate risks through our recruiting practices, training, developing leadership, and managing succession planning.
- ▶ **Strategic Information Technology Risk:** Our management of information technology risk is aligned with industry best practices. These include the Information Systems Audit and Control Association's globally accepted framework Control Objectives for Information and Related Technology.
- ▶ **Strategic Risk:** Refers to a potential loss arising from strategic decisions made in the implementation of bcIMC's mandate and business objectives. It also includes the risk from ineffective direction setting or business strategies.

bcIMC voluntarily prepares a Service Organization Controls Report, providing clients with added assurance of our financial controls and safeguards. This report, prepared in accordance with the Canadian Standard for Assurance Engagements (CSAE 3416), details bcIMC's financial controls over the investment system, and is audited by our external auditors.

Our internal audit function conducts systematic reviews of our financial processes and procedures. Results are discussed with management and reported to the audit committee.

## Responsible Investing

Protecting and growing the financial value of the companies in our portfolio by taking environmental, social, and governance factors into account

Responsible investing is an essential part of the investment beliefs shared by bcIMC, the pension funds, and many of the other clients for which we invest. We believe that companies that do a good job of managing environmental, social, and governance (ESG) matters have less risk and perform better financially over the longer term.

Our primary mandate is to create long-term client wealth and protect the value of their funds. The majority of the funds we manage belong to pension plans. As pension funds have long-term obligations and seek a specified rate of return to fund these obligations, bcIMC is required to invest our clients' funds to generate the actuarial returns. bcIMC adheres to the applicable requirements of the *Pensions Benefits Standards Act* and other legislation, as well as the legal contracts established by our clients.

Assessing and managing investment risk is an integral part of how we meet our responsibility. As part of the prudent investment management of our clients' funds, we aim to actively manage the long-term risks that ESG matters present, both now and into the future.

We start by integrating ESG considerations into our investment analysis, decisions, and processes. And as an active owner, we monitor ESG factors and engage with companies to raise awareness that good corporate governance is the over-arching framework for effective management of risks. We also use our influence as a shareholder to encourage companies to manage and report on their ESG risks.

bcIMC became a founding signatory to the Principles for Responsible Investment (PRI) in 2006. Our approach is aligned with the PRI which provides a set of principles for institutional investors to consider as they integrate environmental, social, and governance factors into their investment processes and analysis, ownership activities, and interactions with other long-term investors.

### bcIMC'S RESPONSIBLE INVESTING PRINCIPLES

The following eight principles guide our approach:

1. As our primary responsibility is to ensure enduring long-term investment returns, environmental, social, and governance matters are addressed when these factors present material risk to an investment and/or the portfolio.
2. As significant ESG risks vary between asset classes, regions, sectors, and companies, we adapt our approach and strategy to what is appropriate for the investment.
3. Knowledge and reason, while looking out for our clients' investment return expectations, inform our responsible investing decisions and activities.
4. We encourage companies to identify practical and realistic solutions to ESG risks, and recognize that introducing good governance and operational practices takes time.
5. We must own a company to be able to influence its governance and operational practices. As a long-term owner, we have a responsibility to interact with companies about their governance structures, policies, and operations.
6. We believe that engaging is more effective in seeking to initiate change than divesting, and that aligning with like-minded investors and organizations is sometimes more effective than working in isolation.
7. As a significant investor, we have a duty to advance responsible investing within the investment industry.
8. As responsible investing continues to evolve, integrating ESG considerations into our investment approach is constantly under development; we shall continuously learn from our own practices and experience.

For more information on our responsible investing activities, please read our Responsible Investing Annual Report and newsletters on our website ([www.bcIMC.com](http://www.bcIMC.com)).



## Corporate Governance

Our Board of Directors, from left to right: Dennis Blatchford, Ken Tanner, Cheryl Yaremko, Peter Milburn, Karen Maynes, Ron McEachern

## Our Board of Directors

**COMPOSITION OF THE BOARD** The *Public Sector Pension Plans Act* (the Act) requires our Board to have seven directors as follows:

- ▶ One director appointed by the College Pension Board from among its members
- ▶ One director appointed by the Municipal Pension Board from among its members
- ▶ One director appointed by the Public Service Pension Board from among its members
- ▶ One director appointed by the Teachers' Pension Board from among its members
- ▶ Two directors, representative of other clients, appointed by B.C.'s Minister of Finance
- ▶ One other director appointed by B.C.'s Minister of Finance and designated to be the Chair of the Board

These nominating bodies are aware of our criteria relating to the knowledge, experience, and skill set we look for in bclMC directors.

Our largest clients, accounting for 84.4 per cent of bclMC's managed net assets, are represented on the Board.

Effective December 31, 2016, B.C.'s Minister of Finance appointed Peter Milburn Chair of bclMC's Board. He replaces Rick Mahler, who was a member of the Board since 2010 and served as Chair since 2011. Ken Woods, one of the two ministerial appoints representative of the other clients, term ended on December 31, 2016. As of March 31, 2017, this position remained vacant.

**BOARD INDEPENDENCE** All directors and the Board Chair are non-executive directors and independent of management.

### PETER MILBURN | Vancouver, British Columbia

Peter Milburn retired in 2016 after a 33-year long career with the provincial government. Most recently he fulfilled the role of deputy minister of finance and secretary to treasury board. In this role he oversaw three consecutive balanced budgets and over \$15 billion in capital expenditures. Prior to this appointment Peter held several senior positions with the ministry of transportation and infrastructure including deputy minister, chief operating officer, and executive project director for the Sea to Sky Highway Improvement Project. During his career he was appointed chair of the board for two crown corporations (Transportation Investment Corporation and BC Rail) and three hospital capital boards (Women and Children's Hospital Redevelopment, Interior Heart and Surgical Centre, and the Surrey Memorial Hospital Critical Care Tower). In addition he was the chief executive officer for the BC Transportation Finance Authority. Peter has a degree in Civil Engineering from the University of British Columbia.

bclMC Board and Committee Appointments			2016-2017 Attendance		
Director since December 31, 2016 Current term to December 31, 2019 Appointed by B.C.'s Minister of Finance Independent	Chair, bclMC Board of Directors (2016-Present)		2/2 <sup>1</sup>		100%
	Guest, Human Resources and Governance Committee		1/1		100%
bclMC Director Remuneration 2016-2017	Annual Retainer	Board Meeting Fee	Committee Chair Fee	Committee Meeting Fee	Total
	\$7,835.00	\$783.00	-	\$783.00	\$11,750.00 <sup>2</sup>

<sup>1</sup> Number of meetings during appointment period

<sup>2</sup> Includes remuneration for representing bclMC at other meetings

## DENNIS BLATCHFORD | Vancouver, British Columbia

Dennis is a founding member of the Municipal Pension Board of Trustees and chaired its governance committee from 2008 to 2011. He is currently the pension and benefits advocate for the Health Sciences Association of British Columbia. Previously Dennis was a director for the BC Federation of Labour and worked in the areas of health policy reform, human rights legislation, disability advocacy, and community relations. From 1998 to 2004, he was a trustee of the Canadian Blood Services Pension Plan.

bcIMC Board and Committee Appointments			2016-2017 Attendance		
Director since March 28, 2012 Current term to December 31, 2018 Appointed by the Municipal Pension Board of Trustees Independent	Director, bcIMC Board of Directors		9/10	90%	
	Member, Human Resources and Governance Committee (2012-Present)		3/3	100%	
bcIMC Director Remuneration 2016-2017	Annual Retainer	Board Meeting Fee	Committee Chair Fee	Committee Meeting Fee	Total
40 per cent of the remuneration is paid to the Health Sciences Association of British Columbia <sup>1</sup>	\$15,506.75	\$6,176.00	-	\$2,327.00	\$24,009.75
Other Board Directorships / Trusteeships During the Last Five Years					
	Term	Board Chair & Term		Committee Appointments	
Joint Health Science Benefits Trust (Trustee)	2015-Present	N	-	Policies Committee Healthcare Investment Unit Trust Board	
Municipal Pension Plan (Trustee)	2001-Present	N	-	Benefits Committee	
Nurses Bargaining Association: Retiree Benefits Program	2011-Present	N	-	Health Sciences Association Representative	
Shareholder Association for Research and Education	2010-Present	N	-	Pension Summit Planning Committee	

<sup>1</sup> \$14,405.85 was paid to Dennis Blatchford as an individual

## KAREN MAYNES | Maple Ridge, British Columbia

Now retired, Karen was the vice-president, finance and administration at Douglas College. She was nominated by the post-secondary employers' association and appointed to the College Pension Board of Trustees in 2005 by the provincial government. Karen is the past chair of the provincial senior finance and administration officers committee, and past post-secondary sector representative of the Institute of Chartered Accountants of BC Government Organizations' Accounting & Auditing Forum. She has also served on numerous Douglas College and provincial committees dealing with issues such as technology planning, faculty negotiations and data definitions and standards. Karen received her chartered accountant designation in 1987.

bcIMC Board and Committee Appointments			2016-2017 Attendance		
Director since September 18, 2014 Current term to August 31, 2019 Appointed by the College Pension Board of Trustees Independent	Director, bcIMC Board of Directors		10/10	100%	
	Member, Audit Committee (2014-Present)		7/7	100%	
	Guest, Human Resources and Governance Committee		1/1	100%	
bcIMC Director Remuneration 2016-2017	Annual Retainer	Board Meeting Fee	Committee Chair Fee	Committee Meeting Fee	Total
	\$15,506.75	\$7,742.00	-	\$5,426.00	\$29,446.75 <sup>1</sup>
Other Board Directorships / Trusteeships During the Last Five Years					
	Term	Board Chair & Term		Committee Appointments	
College Pension Plan (Trustee)	2006-Present	N	-	Benefits Committee Governance Committee Interplan Audit Committee Interplan Post-Retirement Group Benefits Committee	

<sup>1</sup> Includes remuneration for representing bcIMC at other meetings

## RON McEACHERN | North Saanich, British Columbia

Ron has worked in human resources and labour relations for more than 30 years. Prior to retiring in 2005, he was an associate deputy minister of employee relations in the BC Public Service Agency. Ron holds a BSc from the University of Victoria and has completed several certificate courses with International Foundation of Employee Benefit Plans in the Advanced Trustee Management Standards Program.

bcIMC Board and Committee Appointments		2016-2017 Attendance			
Director since April 1, 2007	Director, bcIMC Board of Directors	10/10	100%		
Current term to March 31, 2019					
Appointed by the Public Service Pension Board of Trustees	Chair, Human Resources and Governance Committee (2015-Present)	3/3	100%		
Independent	Member, Human Resources and Governance Committee (2007-2014)	-	-		
bcIMC Director Remuneration 2016-2017	Annual Retainer	Board Meeting Fee	Committee Chair Fee	Committee Meeting Fee	Total
	\$15,506.75	\$6,959.00	\$5,169.25	\$2,327.00	\$33,050.00 <sup>1</sup>

Other Board Directorships / Trusteeships During the Last Five Years				
	Term	Board Chair & Term		Committee Appointments
Public Service Pension Board (Trustee)	2002-Present	Y	2011-2016	Benefits Committee Communications Committee Governance Committee
Ron E. McEachern & Associates Ltd.	2004-Present	Y	2004-Present	-

<sup>1</sup> Includes remuneration for representing bcIMC at other meetings

## KEN TANNAR | Langley, British Columbia

Ken has taught in British Columbia for 33 years, most currently as a physics and senior math teacher in Surrey. He was appointed to The Teachers' Pension Plan Board of Trustees by the BC Teachers' Federation in 2008 and is currently the vice-chair. For the past twelve years, Ken has served on the BCTF's pensions committee and TPP's advisory committee, which is independent of the TPP. He has served as the past chair for both committees. Ken holds a Bachelor of Science from the University of British Columbia.

bcIMC Board and Committee Appointments		2016-2017 Attendance			
Director since January 1, 2015	Director, bcIMC Board of Directors	10/10	100%		
Current term to December 31, 2017					
Appointed by the Teachers' Pension Plan Board of Trustees	Member, Human Resources and Governance Committee (2015-Present)	3/3	100%		
Independent	Guest, Audit Committee	6/6	100%		
bcIMC Director Remuneration 2016-2017	Annual Retainer	Board Meeting Fee	Committee Chair Fee	Committee Meeting Fee	Total
Effective September 1, 2016, \$250 per meeting per diem of the remuneration is paid to the BC Teachers' Federation <sup>1</sup>	\$15,506.75	\$7,742.00	-	\$6,970.00	\$30,990.75 <sup>2</sup>
Other Board Directorships / Trusteeships During the Last Five Years					
	Term	Board Chair & Term		Committee Appointments	
BC Teachers' Federation	2005-Present	N	-	Pensions Committee (Past Chair) Teachers' Pension Plan Advisory Committee (Past Chair)	
Teachers' Pension Plan (Trustee)	2008-Present	N	-	Benefits and Communications Committee (Chair)	

<sup>1</sup> \$24,940.75 was paid to Ken Tannar as an individual

<sup>2</sup> Includes remuneration for representing bcIMC at other meetings

## CHERYL YAREMKO | Vancouver, British Columbia

Cheryl is BC Hydro's executive vice-president finance & business services and chief financial officer. Before joining BC Hydro, Cheryl was the chief financial officer for BC Railway Company. She has served on the boards of UBC Investment Management Trust, the National Board of Financial Executives International Canada, Ballet BC and InTransit BC. Cheryl is a Chartered Accountant and has a BComm (Honours) with a major in Finance from the University of British Columbia.

bcIMC Board and Committee Appointments			2016-2017 Attendance		
Director since December 31, 2012	Director, bcIMC Board of Directors		10/10	100%	
Current term to December 31, 2017	Chair, Audit Committee (2015-present)		6/7	86%	
Appointed by B.C.'s Minister of Finance Independent	Member, Audit Committee (2013-2015)		-	-	
bcIMC Director Remuneration 2016-2017	Annual Retainer	Board Meeting Fee	Committee Chair Fee	Committee Meeting Fee	Total
	\$15,506.75	\$7,742.00	\$5,169.25	\$4,654.00	\$33,072.00

Other Board Directorships / Trusteeships During the Last Five Years				
	Term	Board Chair & Term		Committee Appointments
Financial Executives International (BC Chapter)	2010-2012	N	-	Events Committee
Financial Executives International Canada (National Board)	2013-2015	N	-	Audit Committee
InTransit BC	2009-2012	N	-	-
UBC Investment Management Trust Inc.	2010-2015	N	-	Audit Committee (Chair) Investment Committee

## Our Corporate Governance

The board of directors is committed to demonstrating high governance standards in the oversight of bclMC's operations and accountability to clients

**THE GOVERNANCE FRAMEWORK** bclMC was established by the *Public Sector Pension Plans Act* (the Act) in 1999. The Board appoints the CEO/CIO, sets the remuneration, and reviews and monitors the CEO/CIO's performance. The Board also oversees bclMC's operations, and ensures proper reporting and accountability to our clients. The Board approves pooled fund investment policies, auditors, the business plan, and annual budget. Other responsibilities include establishing an employee classification system and compensation scale.

The bclMC Board Mandate clarifies the Board's duties and responsibilities and is available on our website.

Investment professionals under the supervision of the CEO/CIO make all investment decisions within the framework of the policies approved by the Board and established by bclMC's clients.

**ROLE AND ACCOUNTABILITY OF THE CHIEF INVESTMENT OFFICER** The Act defines bclMC's chief investment officer as the chief executive officer with responsibility for day-to-day operations. The CEO/CIO is accountable to the Board for the efficiency and effectiveness of the corporation in carrying out its mandate. The CEO/CIO is also responsible to each client regarding its individual investment policy, asset mix policy, and performance.

Among other responsibilities, the CEO/CIO hires staff and external managers, oversees the annual business plan and budget, and establishes directives and procedures to meet operational objectives. The CEO/CIO ensures that funds are managed in accordance with client instructions and recommends changes in investment strategies to clients.

**BOARD ACTIVITY AND COMMITTEES** The Board meets on a quarterly basis. Meetings are scheduled in advance. Additional meetings are arranged when issues arise that require immediate board attention. The Board has two standing committees:

- ▶ The Audit Committee, consisting of three directors, meets at least three times a year and oversees the audit programs, financial management controls, and financial reporting.
- ▶ The Human Resources and Governance Committee (HRGC), consisting of three directors, meets at least twice a year and reviews human resource strategies, compensation philosophy, succession management, performance incentive plans, employee classification systems, and board governance.

The CEO/CIO attends all board meetings (although the CEO/CIO cannot be a director).

**DIRECTOR ATTENDANCE** The Board met on 10 occasions, the Audit Committee on seven, and the HRGC on three. Directors who are not members of a committee may observe those meetings.

There was 100 per cent attendance for most of the meetings held in 2016-2017. Details for individual directors are included in their profiles on pages 28 to 31.

**DIRECTOR ORIENTATION PROGRAM** Senior management lead the orientation. New directors are briefed on the Board's role and responsibilities, our business plan, budget, investment and risk management activities and human resource policies. Details on key operational functions are also addressed.

**BOARD EVALUATION AND ASSESSMENT** Each year the directors complete a self-evaluation process that assesses the effectiveness of the Board in key areas and elicits suggestions for improvement. The Board discusses the results and identifies areas that require additional or new emphasis. The Chair of the HRGC administers the process.

**DIRECTOR REMUNERATION** The Act provides that bcIMC may pay directors remuneration that has been set by the Board and is consistent with the Province of British Columbia's Treasury Board guidelines. The Board is paid an annual retainer and per diem (meeting fee) for their service on the Board and its committees.

A director is also compensated for attending meetings or conferences as a representative of bcIMC. If a director receives remuneration from their employer for board or committee service, such fees are paid to their employer.

This year the Board reviewed and clarified the remuneration practices and criteria for determining the annual retainer and meeting fees. As of January 1, 2017, directors receive only one meeting fee per each twenty-four hour day (instead of a per diem for each meeting held within a twenty-four hour day). Members of the audit committee will be paid a preparation fee equal to a meeting rate for any audit committee meetings held on the same day as Board meetings.

For fiscal 2017, remuneration levels for the annual retainer and per diem are as follows:

Total remuneration for the Board was \$221,792.50 in 2016-2017 (2015-2016: \$227,530.50). Details for individual directors are included in their profiles. Remuneration for Rick Mahler, whose term as Board Chair ended in December 2016, was \$37,075.50. Remuneration for Ken Woods, whose term also ended in December 2016, was \$22,397.75.

**DIRECTOR CODE OF CONDUCT** The Code of Conduct (available on our website) outlines the minimum standard of conduct. Directors must make timely disclosure of direct or indirect interest, material or not, in any proposed or completed bcIMC contract, transaction, or investment. Directors must also abstain from voting on matters in which they have a personal interest.

**CONTINUING DIRECTOR EDUCATION** bcIMC budgets an amount to enable directors to benefit from courses and conferences offered by third parties. Guest speakers may also attend board meetings.

Directors are responsible for selecting educational opportunities. We encourage them to enrol in professional development courses and participate in industry-related seminars.

## JANUARY 1—DECEMBER 31, 2016

AS OF JANUARY 1, 2017<sup>1</sup>

POSITION	ANNUAL RETAINER	PER DIEM	ANNUAL RETAINER	PER DIEM
Board Chair	\$30,906	\$772	\$31,339	\$783
Director	\$15,453	\$772	\$15,669	\$783
Audit Committee Chair	\$5,151	\$772	\$5,223	\$783
HRGC Chair	\$5,151	\$772	\$5,223	\$783
Committee Member	-	\$772	-	\$783

<sup>1</sup> Annual adjustment to align with the average percentage that the British Columbia pension plans grant to retired members of the College Pension Plan, Municipal Pension Plan, Teachers' Pension Plan, and Public Service Pension Plan

## Compensation Discussion and Analysis

Generating the returns our clients rely on requires specialized skills in understanding global capital markets and investment management

bcIMC recruits and seeks to retain talented and motivated staff with the skills and expertise to provide leadership in a complex investment environment and to enable our transformation into an in-house asset manager. As we compete with our Canadian peers for the required expertise, bcIMC offers rewarding work opportunities, supports continued professional development, and pays competitive base salaries.

We are responsible for generating long-term client wealth while also protecting the value of our clients' funds. We are accountable to our clients for investment returns and the costs involved in managing their funds. We operate on a cost recovery model, and investment management fees are charged to the investment pools and clients.

**HRGC MANDATE** The human resources and governance committee (HRGC) assists the Board in ensuring that bcIMC retains a highly effective team and that human resource practices continue to align employee performance with client expectations. The HRGC monitors and makes recommendations to the Board on the following matters:

- ▶ trends and external market practices for compensation, benefits, and terms and conditions of employment
- ▶ bcIMC's job classification system and compensation scale
- ▶ comparators and competitive positioning of compensation
- ▶ salary and performance assessment of the CEO/CIO
- ▶ bcIMC's performance incentive plans
- ▶ oversight of risks associated with human resources activities
- ▶ employee Code of Conduct provisions

- ▶ bcIMC's succession planning
- ▶ professional development and training strategies
- ▶ new human resources strategies and supporting policies
- ▶ self-evaluation plans of the Board and its committees
- ▶ best practices and trends in board governance.

The HRGC consists of three directors, appointed by the Board, with diverse backgrounds and experience in business and human resources matters. Members are independent of management. Ron McEachern is the chair; Dennis Blatchford and Ken Tannar are committee members. The other directors may also attend committee meetings as guests. The CEO/CIO and senior vice president, human resources attend the meetings.

The HRGC meets at least twice a year. In 2016-2017, the committee met on three occasions, which included two in *camera sessions*.

### COMPENSATION CONSULTANTS AND EXTERNAL SOURCES

As part of the Board's governance responsibility, it conducts a comprehensive review of bcIMC's philosophy and compensation structure every three years.

In 2015-2016, the Board began a multi-year review of bcIMC's compensation philosophy and structure to ensure bcIMC could attract and retain the specialized skills and expertise required to transform into an in-house asset manager that uses sophisticated investment strategies.

The Board retained Tim Dillon & Associates (TDA) in fiscal 2016 to assist and advise them throughout the compensation review process. This decision was made independent from management.

The consultant was retained to:

- ▶ conduct custom compensation surveys
- ▶ audit job evaluation plan and process
- ▶ review salary range structure and compensation policy
- ▶ review annual and long-term incentive plans (AIP and LTIP), including: competitiveness and eligibility scope for both plans, and value driver weighting structure for annual incentive plan
- ▶ assess current benefits plan and cost-effectiveness
- ▶ advise on bcIMC's revision of compensation philosophy

For investment professional roles, the Board looked at similar and/or equivalent positions within bcIMC's peer group for the custom survey undertaken in fiscal 2016. This group consists of the Alberta Investment Management Corporation (AIMCo), Caisse de dépôt et placement du Québec (CDPQ), the Canada Pension Plan Investment Board (CPPIB), the Ontario Municipal Employees Retirement System (OMERS), the Ontario Teachers' Pension Plan (OTPP), and the Public Sector Pension Investment Board (PSPIB). The survey included positions ranging in seniority and responsibilities.

bcIMC's investment positions were further benchmarked against data from the Towers Watson Investment Management Compensation Survey. This is a formal survey that bcIMC participates in annually.

Non-investment professional roles were compared to equivalent positions within the B.C. public sector for the custom survey undertaken in fiscal 2016. This included BC Assessment Authority, BC Hydro, BC Lottery Corporation, BC Transit, Insurance Corporation of BC, and WorkSafeBC, and included positions across functions such as legal, finance, human

resources, and information technology. The positions were also benchmarked against surveys by Towers Watson, which included the Investment Management Compensation survey, the General Industry Executive Compensation survey and Middle Management, the Professional & Support survey, which included additional positions such as audit, communications, and facilities.

**COMPENSATION PHILOSOPHY AND STRUCTURE** The Board's philosophy is to pay median base salary levels complemented by performance incentive plans designed to align staff interests with our clients' return requirements (while discouraging undue risk-taking) and with bcIMC's strategic objectives.

Our compensation structure includes a base salary, benefits, and performance-based remuneration through an annual incentive plan (AIP) and a long-term incentive plan (LTIP) for senior roles. As a statutory corporation with one share with a par value of \$10, bcIMC does not issue share options to our staff.

A comprehensive review and assessment of bcIMC's compensation, philosophy, and structure began in fiscal 2016 and will continue in fiscal 2018. Adjustments to bcIMC's compensation structure and salary grade, effective April 1, 2016, were based on general guidelines that emphasize pay for performance. This enabled management to begin attracting the skill base required to move forward with bcIMC's business plan.

The Board retained Willis Towers Watson to assist and advise them on bcIMC's long-term incentive plan; and Tim Dillon & Associates to assist and advise them on our compensation philosophy. This review began in fiscal 2017 and will continue in fiscal 2018.

**JOB EVALUATION AND CLASSIFICATION PLAN** bcIMC's job evaluation and classification plan, effective April 1, 2016, is based on external benchmarking and a "job family" system. The plan brings greater internal consistency and measures knowledge, complexity, responsibility, and working relationships that are required of all positions. The plan consists of four job categories:

- ▶ **investment:** actively involved in the financial management and/or support of an asset portfolio or investment activities requiring an investment professional
- ▶ **management/leadership:** works at a high operational and/or strategic level where decisions generally have an effect on corporate policy and performance and leadership of employees represents a significant portion of overall responsibilities
- ▶ **professional/technical:** provides advanced knowledge in area of expertise to give technical direction and leadership for a process, system, and/or functional area to protect the company and minimize risk
- ▶ **enterprise support:** provides information and/or support for various operations and processes

**COMPENSATION STRUCTURE** This consists of a base salary, benefits, and performance-based remuneration through an annual incentive plan (AIP) and a long-term incentive plan (LTIP) for senior roles. The structure emphasizes a pay-for-performance structure as returns are important to our clients. For every \$100 a pension plan member receive in retirement benefits, on average \$75 is provided by bcIMC's investment activity.

**Base Salary:** Salary ranges are determined from the custom and published surveys. Salaries are evaluated annually and progression through a range is based on the employee's performance.

**Annual Incentive Plan:** To achieve the objectives set out in our business plan, we must attract, retain, and motivate skilled professionals. As bcIMC's compensation structure emphasizes pay for performance, all staff is evaluated on an annual basis. Assessments are based on the individual's accountabilities and their specific contribution to bcIMC's business plan.

All permanent employees are eligible to participate in the AIP. The plan provides staff the opportunity to receive additional compensation based on the achievements of the corporate objectives, investment performance, and individual efforts. Management and the CEO/CIO established the weighting structure (i.e. weighting assigned to each of the value drivers) of the AIP which was then approved by the Board. The changes to AIP became effective April 1, 2016. Payments under the new plan will be disbursed in fiscal 2018.

The AIP is comprised of three value drivers for the asset class departments and two value drivers for the non-asset class departments. The weighting assigned to each of the value drivers may differ by position depending on the role of the position and its impact on corporate performance.

## Asset Class Departments

**Driver 1: Total Fund Performance** — overall investment performance measured against industry or client-approved benchmarks. The value-added component is assessed net of investment management fees and expenses. This driver is intended to align overall investment performance with client expectations.

Payments are based on total fund performance with a 75 per cent weighting on multi-year total fund returns and 25 per cent weighting on annual liquid returns. This reinforces that long-term investment returns matter and ensures an alignment with bclMC's long-term investment horizon. Given the importance of returns, effective April 1, 2016, the Board increased the value-add component from 50 to 100 basis points on total fund.

**Driver 2: Asset Class Investment Performance** — performance measured against the asset class's respective market benchmarks with a 75 per cent weighting on multi-year asset class performance and a 25 per cent weighting on annual performance. A greater weighting of total incentive pay is placed on the results of department and portfolio returns.

The maximum value-added objectives are consistent with client mandates and bclMC's investment approach. These are designed to discourage excessive risk taking consistent with bclMC's investment philosophy of focussing on long-term results.

**Driver 3: Individual Contribution** — the employee's performance measured against the accountabilities assigned to their role as outlined in their individual scorecards. This is intended to encourage and reward high performance.

## Non-Asset Class Departments

**Driver 1: Total Fund Performance** — overall investment performance measured against industry or client-approved benchmarks. The value-added component is assessed net of investment management fees and expenses. This driver is intended to align overall investment performance with client expectations.

Payments are based on total fund performance with a 75 per cent weighting on multi-year total fund returns and 25 per cent weighting on annual liquid returns. This reinforces that long-term investment returns matter and ensures an alignment with bclMC's long-term investment horizon. Given the importance of returns, effective April 1, 2016, the Board increased the value-add component from 50 to 100 basis points on total fund.

The value-added objectives align with client mandates and bclMC's investment approach. These are designed to discourage excessive risk taking.

**Driver 2: Individual Contribution** — the employee's performance measured against the accountabilities assigned to their role as outlined in their individual scorecards. This is intended to encourage and reward high performance.

Although non-asset class departments participate in the total fund performance, more emphasis is placed on individual value-add (Driver 2).

**Long-Term Incentive Plan** — This plan is designed to enhance the retention, recruitment, and alignment of senior staff with the skills and experience that will enable bclMC's long-term success. The Board started a comprehensive review of LTIP in fiscal 2017 and will continue in fiscal 2018.

The Board shortened the vesting requirement from four to three years. The total award, disbursed over three years, has a maximum weighting of 100 per cent for each year. This became effective April 1, 2016 and was retroactively applied to those staff that qualified and were hired during fiscal 2014 or later. LTIP continues to be based on investment return performance (net of costs) over a four-year period, an alignment with bclMC's emphasis on long-term investing and returns.

**PERFORMANCE ASSESSMENT FOR 2016–2017** bcIMC's net assets under management were \$135.5 billion at the end of the fiscal year. The combined pension plan one-year annual return was 12.4 per cent compared to a combined market benchmark of 11.7 per cent. As a result, bcIMC's investment activities generated \$680 million in added value for our pension clients.

Clients benefitted from solid performance of our illiquid asset investments, as well as strong public equity returns over the year. Tactical decisions to underweight fixed income in favour of public equities provided value-added returns. A key contributor was the outperformance of global equities relative to their benchmark; however this was offset by underperformance in Canadian and emerging equity markets. In a low return environment for fixed income, our decision to underweight nominal bonds added value and was further enhanced by outperformance relative to the benchmark. This was primarily driven by overweighting corporate credit and adding high yield bonds to our portfolio. Strong performance in our illiquid asset investments also provided value-add. Infrastructure, private equity, real estate, and renewable resources generally outperformed for the calendar year and delivered above-benchmark returns.

As pension plans have long-term financial obligations, we focus on generating long-term client wealth while protecting the value of the funds. Returns are important — for every \$100 a pension plan member receives in retirement benefits, on average \$75 is provided by bcIMC's investment activity. Over the four-year period, the annualized return was 10.1 per cent against a benchmark of 9.0 per cent, adding \$3.9 billion in value. For the 10-year period, the annualized return was 6.6 per cent against a benchmark of 6.0 per cent. bcIMC added almost \$5.7 billion in value over this period.

The value-added performance is calculated as the clients' total portfolio return net of investment management fees and minus the benchmark return.

### LONG-TERM INCENTIVE PLAN CREDITS AND PAYMENTS

Over the April 2013 to March 2017 period, bcIMC's investment performance added value in each of the four years. The above benchmark performance in 2016–2017 generated a total award of 84.9 per cent, with 100 per cent being the maximum towards a current and future long-term incentive plan grant. The value-added performance (calculated as the clients' total portfolio return net of investment management fees and minus the benchmark return) in the four-year period is shown in the table below.

YEAR	bcIMC'S VALUE-ADDED PERFORMANCE (\$)	TOTAL AWARD (MAXIMUM OF 100%)
2013–2014	\$1.7 billion	96.7
2014–2015	\$1.4 billion	97.8
2015–2016	\$133 million	90.1
2016–2017	\$680 million	84.9

LTIP total awards and installments are derived from the past four years of returns. Payments are deferred and disbursed in three equal installments over three fiscal years<sup>1</sup>.

As the value-added performance was delivered in each of the four years, LTIP payments for 2016–2017 reflect 84.9 per cent of the maximum opportunity. Over the four-year period, bcIMC generated over \$3.9 billion in cumulative value-add.

<sup>1</sup> Under this plan, the LTIP total award for 2016–2017 will be disbursed to eligible staff in F2018, F2019, and F2020

**EXECUTIVE COMPENSATION** The total compensation of the five most highly remunerated officers in place at fiscal year end, with comparable amounts for 2015-2016 and 2014-2015, is disclosed in the Summary Compensation Table on page 40.

The AIP and LTIP payments for the chief executive officer / chief investment officer and the other named executive officers reflect the investment performance that exceeded our clients' combined market benchmark and generated \$680 million in additional value, net of costs. These payments also recognize their department's contribution to the returns and other business objectives, and their individual contribution. Total compensation for bcIMC's named executive officers was \$8.2 million in 2016-2017 (\$7.2 million in 2015-2016).

**TOTAL COMPENSATION** Total cost of salaries and benefits for our entire staff complement was \$84.0 million in 2016-2017 (6.5 cents per \$100 of net assets under management) compared to \$58.8 million in 2015-2016 (4.8 cents per \$100 of net assets under management). This year-over-year change primarily reflects the growth in bcIMC's staff complement as well as the year-over-year increase in performance-based pay resulting from adding \$680 million in value.

As of March 31, 2017, bcIMC's staff complement was 351 compared to 277 at the end of fiscal 2016. We added expertise in the areas of portfolio management, asset management, risk management, information technology, investment operations, and finance. bcIMC is transforming from a public market-oriented manager to an in-house asset manager that is strategic and risk aware. Our business plan refocuses bcIMC to become an in-house asset manager that uses sophisticated investment strategies and tools. In addition to deploying more capital into the illiquid markets, our industry-aligned strategies and products across asset classes will allow clients to capitalize on opportunities within the global markets and meet their actuarial return requirements.

## Summary Compensation Table

NAME AND PRINCIPAL POSITION	YEAR	BASE SALARY <sup>1</sup>	ANNUAL INCENTIVE <sup>2,3</sup>	LONG-TERM INCENTIVE PLAN <sup>2,3</sup>	PENSION CONTRIBUTIONS <sup>4</sup>	OTHER BENEFITS <sup>5</sup>	TOTAL COMPENSATION <sup>6</sup>
<b>Gordon J. Fyfe</b> Chief Executive Officer / Chief Investment Officer	2016-2017	\$571,200	\$1,218,619	\$723,280	\$64,167	\$135,893	\$2,713,159
	2015-2016	\$569,612	\$704,547	\$1,047,742	\$63,979	\$120,176	\$2,506,056
	2014-2015 <sup>7</sup>	\$407,832	\$784,056	\$821,688	\$47,890	\$108,233	\$2,169,699
<b>Lincoln Webb</b> Senior Vice President, Infrastructure & Renewable Resources	2016-2017	\$359,970	\$661,464	\$302,810	\$77,768	\$74,862	\$1,476,874
	2015-2016	\$357,064	\$420,433	\$407,164	\$40,747	\$63,446	\$1,288,854
	2014-2015	\$349,815	\$457,262	\$329,061	\$39,911	\$95,524	\$1,271,573
<b>Jim Pittman</b> Senior Vice President, Private Equity	2016-2017 <sup>8</sup>	\$353,077	\$647,064	\$306,252	\$42,047	\$59,154	\$1,407,593
	2015-2016	-	-	-	-	-	-
	2014-2015	-	-	-	-	-	-
<b>Paul Flanagan</b> Senior Vice President, Fixed Income & Foreign Exchange	2016-2017	\$312,120	\$449,515	\$513,302 <sup>9</sup>	\$35,849	\$73,757	\$1,384,543
	2015-2016	\$311,252	\$289,546	\$372,936	\$35,741	\$51,413	\$1,060,888
	2014-2015	\$288,747	\$380,867	\$271,502	\$32,767	\$44,915	\$1,018,798
<b>Dean Atkins</b> Senior Vice President, Mortgage & Real Estate Investments	2016-2017	\$314,945	\$519,278	\$264,296	\$57,266	\$106,373	\$1,262,157
	2015-2016	\$311,252	\$342,134	\$358,922	\$35,741	\$182,690	\$1,230,739
	2014-2015	\$277,340	\$428,832	\$260,482	\$31,989	\$53,502	\$1,052,145

<sup>1</sup> Base salaries are guided by the Board's compensation philosophy to pay market median among other large pension fund managers in Canada.

<sup>2</sup> The values of incentive payments are listed beside the performance year in which they were earned; actual disbursement occurs in the following fiscal year.

<sup>3</sup> The incentive plan value reflects performance over a four-year timeframe; actual disbursement occurs in the following fiscal year.

<sup>4</sup> These values represent the contributions paid by bcIMC on behalf of the named individuals to the Public Service Pension Plan and the Canada Pension Plan.

<sup>5</sup> These values include bcIMC-funded group health and welfare benefits and illness wage-loss provisions, parking, and contributions paid by bcIMC on behalf of the named individuals for legislated benefits such as Employment Insurance and Workers' Compensation. Vacation pay is calculated on incentive compensation in line with applicable employment standards.

<sup>6</sup> Values in this table constitute the total compensation earned by or paid on behalf of the identified individuals. All values are inclusive.

<sup>7</sup> Gordon J. Fyfe was appointed CEO/CIO effectively July 7, 2014.

<sup>8</sup> Jim Pittman joined bcIMC on April 4, 2016.

<sup>9</sup> As a retiring employee, Paul Flanagan is entitled to a single payment of \$513,302 for the vested value of LTIP. This payment will be made in 2017-2018.



# Corporate Financial Statements

## Management's Responsibility for Financial Statements



300-2950 Jutland Road,  
Victoria, BC V8T 5K2

Responsibility for the integrity and objectivity of the accompanying consolidated financial statements of the British Columbia Investment Management Corporation (the "Corporation") rests with management. The consolidated financial statements, which by necessity include some amounts that are based on management's best estimates and judgments, are prepared in accordance with International Financial Reporting Standards. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the significant accounting policies summarized in the consolidated financial statements and present fairly the Corporation's financial position, financial performance and cash flows.

Systems of internal control and supporting procedures are maintained to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records maintained. The internal accounting control process includes management's communication to employees of the Corporation's policies that govern ethical business conduct.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee, which is comprised entirely of independent directors. The Audit Committee reviews the consolidated financial statements of the Corporation and recommends them to the Board for approval. The consolidated financial statements have been reviewed and approved by the Corporation's Board of Directors.

KPMG LLP, an independent auditor, has performed an audit of the consolidated financial statements, and its report follows. KPMG LLP has full and unrestricted access to the Audit Committee to discuss their audit and related findings.

A handwritten signature in black ink, appearing to read 'Gordon J. Fyfe'.

**Gordon J. Fyfe**  
Chief Executive Officer /  
Chief Investment Officer

A handwritten signature in black ink, appearing to read 'Lawrence E. Davis'.

**Lawrence E. Davis**  
Senior Vice President, Finance

June 23, 2017

# Independent Auditor's Report



To the Shareholder of British Columbia Investment Management Corporation

We have audited the accompanying consolidated financial statements of British Columbia Investment Management Corporation, which comprise the consolidated statement of financial position as at March 31, 2017, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

**MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS** Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**AUDITOR'S RESPONSIBILITY** Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material

misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**OPINION** In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of British Columbia Investment Management Corporation as at March 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

**Chartered Professional Accountants**

June 23, 2017  
Vancouver, Canada

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Consolidated Statement of Financial Position

(Expressed in thousands of Canadian dollars)

As at March 31, 2017, with comparative information for 2016

ASSETS	NOTE	2017	2016
Current assets:			
Cash and cash equivalents	4	47,339	37,629
Trade and other receivables	5	56,592	53,103
Prepaid expenses		3,594	2,855
Total current assets		107,525	93,587
Property, plant and equipment	6	14,086	12,307
Total assets		121,611	105,894
LIABILITIES AND SHAREHOLDER'S EQUITY	NOTE	2017	2016
Current liabilities:			
Trade and other payables	7, 8	58,140	56,879
Current employee benefits	9	37,074	26,179
Total current liabilities		95,214	83,058
Long-term employee benefits	10	8,132	7,013
Total liabilities		103,346	90,071
Shareholder's equity:			
General reserve		1,711	1,779
Retained earnings		16,554	14,044
Total equity		18,265	15,823
Total liabilities and shareholder's equity		121,611	105,894

Operating leases (note 11)

Contingencies (note 12)

Derivatives (note 13)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:


Peter Milburn,  
Chair, Board of Directors

Cheryl Yaremko,  
Chair, Audit Committee

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

# Consolidated Statement of Income and Comprehensive Income

(Expressed in thousands of Canadian dollars)

Year ended March 31, 2017, with comparative information for 2016

REVENUE	NOTE	2017	2016
Recoveries of direct costs	14	189,175	203,090
Funds management fees		124,053	91,964
Investment income	15	308	346
		313,536	295,400
<b>EXPENSES</b>	<b>NOTE</b>	<b>2017</b>	<b>2016</b>
Direct costs	14	189,175	203,090
Salaries and benefits	8, 16	84,044	58,768
General and administrative	8, 17	23,425	17,444
Other	18	14,450	11,086
		311,094	290,388
Net income and comprehensive income		2,442	5,012

See accompanying notes to consolidated financial statements.

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Consolidated Statement of Changes in Equity

(Expressed in thousands of Canadian dollars)

Year ended March 31, 2017, with comparative information for 2016

	GENERAL RESERVE	RETAINED EARNINGS	TOTAL EQUITY
Balance, March 31, 2015	1,779	9,032	10,811
Net income	-	5,012	5,012
Balance, March 31, 2016	1,779	14,044	15,823
Transfer to (from) general reserve	(68)	68	-
Net income	-	2,442	2,442
Balance, March 31, 2016	1,711	16,554	18,265

See accompanying notes to consolidated financial statements.

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Consolidated Statement of Cash Flows

(Expressed in thousands of Canadian dollars)

Year ended March 31, 2017, with comparative information for 2016

	NOTE	2017	2016
Cash flows provided by (used in):			
Operations:			
Net income		2,442	5,012
Items not involving cash:			
Depreciation		3,985	3,332
Loss on write-off of property, plant and equipment		26	-
		6,453	8,344
Changes in non-cash items:			
Trade receivables		(3,489)	11,177
Prepaid expenses		(739)	(982)
Current liabilities		12,203	2,617
Long-term employee benefits		1,119	(1,879)
Net cash provided by operating activities		15,547	19,277
Investments:			
Furniture and equipment additions		(199)	(1,035)
Computers and related software additions		(1,505)	(2,360)
Leasehold improvement additions		(4,087)	(3,513)
Proceeds from disposal of property, plant and equipment		-	9
Net cash used by investing activities		(5,791)	(6,899)
Increase in cash and cash equivalents		9,756	12,378
Cash and cash equivalents, beginning of year		37,629	25,381
Effects of movements in exchange rates on cash and cash equivalents		(46)	(130)
Cash and cash equivalents, end of year	4	47,339	37,629

See accompanying notes to consolidated financial statements.

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

# Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)

Year ended March 31, 2017, with comparative information for 2016

### 1. REPORTING ENTITY:

The British Columbia Investment Management Corporation (the "Corporation" or "bcIMC") is a statutory corporation incorporated under section 16 of the *Public Sector Pension Plans Act*, SBC 1999 c44 (the "Act") domiciled in Canada. The address of the Corporation's office is Sawmill Point, 2950 Jutland Road, Victoria, BC. The consolidated financial statements of the Corporation include the Corporation and its subsidiaries.

In accordance with the Act, the Corporation invests the money or securities of various public sector pension funds, the Province of British Columbia (the "Province"), provincial government bodies (Crown corporations and institutions) and publicly-administered trust funds.

The estimated market value of assets managed by the Corporation as of March 31, 2017 was \$136 billion (2016 - \$122 billion). Of that, approximately \$114 billion (2016 - \$103 billion) is invested on behalf of pension funds and \$22 billion (2016 - \$19 billion) on behalf of various publicly-administered trust funds and clients. These assets are held by bcIMC as agent for investment for its clients and may consist of units in one or more pooled investment portfolios whose assets are managed and held by the Corporation as trustee. The Corporation annually prepares separate audited financial statements for each pooled investment portfolio with more than one unitholder. Neither assets held by the Corporation as trustee of the pooled investment portfolios, nor assets held by the Corporation as agent for investment for its clients, are consolidated in these financial statements.

### 2. BASIS OF PREPARATION:

**(A) STATEMENT OF COMPLIANCE:** The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were authorized for issue by the Board of Directors on June 23, 2017.

**(B) BASIS OF MEASUREMENT:** The consolidated financial statements have been prepared on the historical cost basis except long-term employee benefits which are measured at the present value of the expected future benefit.

**(C) FUNCTIONAL AND PRESENTATION CURRENCY:** These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented has been rounded to the nearest thousand dollars, unless otherwise indicated.

**(D) USE OF ESTIMATES AND JUDGMENTS:** The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### 3. SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

**(A) BASIS OF CONSOLIDATION:** Subsidiaries are consolidated in the Corporation's financial statements from the date that control commences until the date that control ceases.

The Corporation consolidates entities when all three of the following characteristics are present:

- ▶ Where the Corporation exerts power over the relevant activities of the entity. Power exists if the Corporation has decision making authority over those activities that significantly influence the entity's returns.
- ▶ Where the Corporation has exposure or rights to variability of returns of the entity. Exposure exists if the Corporation's returns vary as a result of the performance of the entity.
- ▶ Where there exists a linkage between power and returns as described above. A linkage exists when the Corporation can use its power over the activities of the entity to generate returns for itself.

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)  
Year ended March 31, 2017, with comparative information for 2016

In the normal course of operations, the Corporation utilizes subsidiary and structured entities to facilitate the management of investment assets:

**(i) Subsidiary entities:** The Corporation establishes subsidiary entities as part of its investment strategy. In all cases, the Corporation holds 100 per cent of the voting shares of these subsidiary entities. The Corporation has power over the relevant activities of these entities, is exposed to variability in returns from these entities, and uses its power to generate these returns. Accordingly, these entities are consolidated into the Corporation. However in all cases, these subsidiaries earn nominal income that is not material to the operations of the Corporation.

**(ii) Structured entities:** In the normal course of its operations, the Corporation establishes various structured entities, such as pooled investment portfolios and their subsidiary entities, through its role as investment manager. The Corporation's control over these entities is established either by regulation, or ownership of voting shares, or both. The Corporation has power over the relevant activities of the structured entities; however, in all cases, the Corporation has no exposure or rights to variability of returns in these structured entities. Accordingly, these entities do not meet the criteria for control and are not consolidated.

**(B) CASH AND CASH EQUIVALENTS:** Cash and cash equivalents include cash and money market funds with original maturities of three months or less. Cash and cash equivalents are held at amortized cost on the consolidated statement of financial position.

**(C) FINANCIAL INSTRUMENTS:** The Corporation initially recognizes loans and receivables and other liabilities on the date that they are originated. All other financial assets (including any assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or

it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability. The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Corporation classifies its non-derivative financial instruments as follows:

**(i) Loans and receivables:** Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Corporation's financial assets designated as loans and receivables are comprised of cash and cash equivalents and trade and other receivables.

**(ii) Other liabilities:** Other liabilities are recognized initially at fair value, net of transaction costs. Subsequently, other liabilities are measured at amortized cost using the effective interest method. The Corporation's financial liabilities designated as other liabilities are comprised of trade and other payables.

**(D) PREMISES AND EQUIPMENT:**

**(i) Measurement:** Items of premises and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of premises and equipment are determined by comparing the proceeds from disposal with the carrying amount of premises and equipment, and are recognized within profit or loss.

**BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION**

# Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)

Year ended March 31, 2017, with comparative information for 2016

**(ii) Depreciation:** Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of premises and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Furniture and equipment	10 years
Computers and related software	5 years

Leasehold improvements and interests are depreciated on a straight-line basis over the anticipated life of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(E) SHARE CAPITAL:** The capital of the Corporation is one share with a par value of ten dollars and is classified as equity. The share is issued to and registered in the name of the Minister of Finance and must be held by that Minister on behalf of the Government of British Columbia.

**(F) RESERVE:** The Corporation maintains a general reserve for future expenditures which may be appropriated from retained earnings at the discretion of the Board of Directors. The Board has authorized access to the general reserve for the purposes of certain employee compensation payments and for errors and omissions payments.

In accordance with the Act, the Corporation must recover its operating costs and capital expenditures. The Corporation's Board of Directors may approve recoveries greater than costs and expenditures to maintain or increase the Corporation's retained earnings and general reserve.

**(G) REVENUE:** The Corporation's revenues comprise operating costs and capital expenditures that are recovered from: amounts charged to pooled investment portfolios and client accounts for operating costs and capital expenditures necessarily incurred by the Corporation on behalf of the pooled investment portfolios and segregated assets it manages; amounts charged to clients for services provided to those clients by the Corporation; and, income accruing from investments made by the Corporation on its own behalf.

**(i) Direct costs recoveries and funds management fees:**

Amounts charged to the pooled investment portfolios and clients are accrued as the related costs and expenditures are incurred and as the services are provided. Fees are charged at a level that the Corporation estimates will allow it to recover all cash outlays and accrued expenses, including capital expenditures, and to maintain or increase retained earnings and general reserves.

**(ii) Investment income:** Investment income is recorded on an accrual basis and includes interest income on cash and cash equivalents.

**(H) EMPLOYEE BENEFITS:**

**(i) Defined benefit plans:** The Corporation and its employees contribute to the Public Service Pension Plan (the "Plan") which is a multi-employer defined benefit pension plan in accordance with the Act. The British Columbia Pension Corporation administers the Plan, including payment of pension benefits to employees to whom the Act applies. Due to insufficient information relating to the Corporation's share of the Plan's assets and liabilities, the Corporation accounts for the Plan as if it were a defined contribution plan. The Corporation's annual cost is represented by contributions required for the respective year.

The Plan operates under joint trusteeship between the employers and the Plan members, who share in the risks and rewards associated with the Plan's unfunded liability or surplus. The most recent actuarial valuation as of March 31, 2014 indicated that the Plan was 101 per cent funded.

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)  
Year ended March 31, 2017, with comparative information for 2016

**(ii) Long term incentive plan:** The Corporation provides a retention incentive to employees in senior staff positions through a long-term incentive plan ("LTIP"). Eligible staff are entitled to their first LTIP payment in their third year of employment with the Corporation. LTIP is accrued for eligible employees at an amount equal to one third of the estimated aggregate pay-out for the current year and each of the following two years. The estimated payments relating to current and previous years, which will be paid out in years beyond the next fiscal year, are recorded as a long-term liability.

**(iii) Long service retiring allowance:** Employees hired prior to October 31, 2007 are entitled to a long service retiring allowance ("LSRA") as provided for under their terms of employment. As employees render the services necessary to earn the benefit, the Corporation estimates and accrues the future obligation for retiring allowances.

**(I) LEASED ASSETS:**

**(i) Classification:** The Corporation classifies its leases according to whether the leases transfer substantially all the risks and benefits of ownership in the asset. The Corporation does not have any leases classified as finance leases where it assumes substantially all the risks and rewards of ownership. The Corporation has operating leases and they are not recognized in the statement of financial position.

**(ii) Lease payments:** Payments made under operating leases are recognized in net income on a straight-line basis over the term of the lease.

**(J) FOREIGN CURRENCY TRANSACTIONS:** Transactions denominated in foreign currencies are translated by applying the exchange rate prevailing on the date of the transaction. At each reporting date, all monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the closing exchange rate. Any resulting translation adjustments are recorded in net income or loss.

**(K) TAXATION:** As a corporation whose only share is owned by Her Majesty in right of a province, the Corporation is exempt from federal income taxes. As an agent of the government

of British Columbia, the Corporation is not liable to British Columbia taxation except as the government of British Columbia is liable for British Columbia taxation.

**(L) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED:** A number of new standards, amendments to standards and interpretations are not yet effective for the year ended March 31, 2017, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Corporation, except for IFRS 9, *Financial Instruments*, and IFRS 16, *Leases*.

**IFRS 9, Financial Instruments ("IFRS 9"):**

IFRS 9 deals with recognition, derecognition, classification and measurement of financial instruments and its requirements represent a significant change from the existing requirements in IAS 39, *Financial Instruments: Recognition and Measurement*, in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value.

The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale, and loans and receivables. The standard is effective for annual periods beginning on or after January 1, 2018. The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on April 1, 2018. Management is currently in the process of evaluating the potential effect of this standard.

**IFRS 16, Leases ("IFRS 16"):**

On January 13, 2016 the IASB issued IFRS 16. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. IFRS 16 will replace IAS 17, *Leases* ("IAS 17").

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)

Year ended March 31, 2017, with comparative information for 2016

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on April 1, 2019. Management is currently in the process of evaluating the potential effect of this standard.

## 4. CASH AND CASH EQUIVALENTS:

2017	CANADIAN	U.S.	TOTAL
Cash in bank	4,140	1,595	5,735
Short-term money market instruments	40,175	1,429	41,604
	44,315	3,024	47,339

2016	CANADIAN	U.S.	TOTAL
Cash in bank	4,454	624	5,078
Short-term money market instruments	27,227	5,324	32,551
	31,681	5,948	37,629

Short-term money market instruments consist of units in pooled investment portfolios managed by the Corporation, specifically the Canadian Money Market Fund ST2 and the US Money Market Fund ST3.

## 5. TRADE AND OTHER RECEIVABLES:

	2017	2016
Pooled fund receivables	45,826	41,125
Fees receivable	8,180	9,848
Other receivables	2,586	2,130
	56,592	53,103

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)  
Year ended March 31, 2017, with comparative information for 2016

**6. PREMISES AND EQUIPMENT:**

	FURNITURE & EQUIPMENT	COMPUTERS & RELATED SOFTWARE	LEASEHOLD IMPROVEMENTS & INTERESTS	TOTAL
Cost:				
Balance, April 1, 2015	2,017	4,194	5,165	11,376
Additions	1,035	2,360	3,513	6,908
Disposals	-	-	(171)	(171)
Balance, March 31, 2016	3,052	6,554	8,507	18,113
Additions	199	1,505	4,087	5,791
Disposals	(89)	(1,436)	(27)	(1,552)
Balance, March 31, 2017	3,162	6,623	12,567	22,352
Accumulated depreciation:				
Balance, April 1, 2015	94	2,147	395	2,636
Depreciation for the year	273	611	2,448	3,332
Disposals	-	-	(162)	(162)
Balance, March 31, 2016	367	2,758	2,681	5,806
Depreciation for the year	307	1,127	2,551	3,985
Disposals	(71)	(1,436)	(18)	(1,525)
Balance, March 31, 2017	603	2,449	5,214	8,266
Carrying amounts:				
March 31, 2016	2,685	3,796	5,826	12,307
March 31, 2017	2,559	4,174	7,353	14,086

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)

Year ended March 31, 2017, with comparative information for 2016

**7. TRADE AND OTHER PAYABLES:**

	2017	2016
Direct cost payable	39,044	34,867
Trade accounts payable	11,275	10,840
Other payables	7,821	11,172
	58,140	56,879

**8. RELATED PARTIES:**

The Corporation is related to all Province of British Columbia ministries, agencies and Crown corporations through common ownership. Transactions with these entities are in the normal course of operations and are recorded at the exchange amounts.

A portion of the Corporation's expenses is paid to related parties. These amounts, which are included in general and administrative expenses, are as follows:

	2017	2016
Systems operations	158	133
Office and business	19	9
	177	142

Related party transactions included in trade and other payables are as follows:

	2017	2016
Systems operations	31	44

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)  
Year ended March 31, 2017, with comparative information for 2016

Key management personnel compensation:

	2017	2016
Base salary	3,746	3,237
Annual incentive plan	4,825	3,380
Long-term incentive plan	2,980	2,968
Other benefits	626	636
Post employment benefits - pension contributions	652	373
	12,829	10,594

## 9. CURRENT EMPLOYEE BENEFITS:

	2017	2016
Regular employee benefits	3,336	2,552
Annual incentive plan/long term incentive plan	33,366	23,306
Long service retiring allowance	372	321
	37,074	26,179

## 10. LONG TERM EMPLOYEE BENEFITS:

2017	LTIP	LSRA	TOTAL
Accrued employee obligations	14,013	1,286	15,299
Less: short term portion included in current employee benefits	(6,795)	(372)	(7,167)
	7,218	914	8,132

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)

Year ended March 31, 2017, with comparative information for 2016

2016	LTIP	LSRA	TOTAL
Accrued employee obligations	13,842	1,231	15,073
Less: short term portion included in current employee benefits	(7,739)	(321)	(8,060)
	6,103	910	7,013

**11. OPERATING LEASES:**

The Corporation leases office space under various operating leases which expire in 2017, 2025, and 2038 subject to various renewal options contained within the lease agreements.

During the year ended March 31, 2016, the Corporation entered into an arm's length lease agreement to rent office space in a new downtown Victoria, BC head office building. The lease is expected to take effect in February 2018, following the completion of construction of the new building. The Corporation has three signed agreements to sub-lease the existing office space.

Subsequent to the execution of the lease, bcIMC Realty Corp. invested in the office development project, becoming a 50 per cent co-owner. bcIMC Realty Corp. is a related party to the Corporation as it is wholly owned by a pooled investment portfolio managed by the Corporation.

The initial term of the new building lease is for twenty years, with three renewal options of five years each.

Future minimum lease payments based on current estimates of total rentable area of the lease agreements for office space, are as follows:

	2017	2016
Less than 1 year	5,173	2,746
Between 1 and 5 years	50,969	38,750
More than 5 years	199,581	179,233
	255,723	220,729

The Corporation has sub-leased its current location to third parties effective February 2018, resulting in the following net future minimum lease payments:

2017	GROSS	SUB-LEASED	NET
Less than 1 year	5,173	92	5,081
Between 1 and 5 years	50,969	14,101	36,868
More than 5 years	199,581	11,216	188,365
	255,723	25,409	230,314

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

# Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)  
Year ended March 31, 2017, with comparative information for 2016

### 12. CONTINGENCIES:

As a crown agent and pursuant to its enabling legislation, bclMC is immune from taxation, including in respect of assets it holds in pooled investment portfolios. The Government of Canada has contested bclMC's immunity from the imposition of goods and services tax or harmonized sales tax ("HST/GST"), in respect of costs recovered by bclMC from assets it holds in pooled investment portfolios. In November 2015 the Minister of National Revenue issued HST/GST re-assessments for the period July 1, 2010 to March 31, 2013. bclMC has filed a Notice of Objection to this re-assessment. In September 2016, the BC Supreme Court issued a ruling on a petition filed by bclMC, holding that the pools were entitled to Crown immunity and therefore immune from HST/GST with respect to costs recovered by bclMC, but also that bclMC was bound by the provisions of the Reciprocal Tax Agreement and the Comprehensive Integrated Tax Coordination Agreement (jointly "Agreements") entered into

between the Province of British Columbia and Canada.

The decision has been appealed by the federal government with respect to crown immunity and cross appealed by bclMC with respect to whether bclMC is bound by the Agreements. Management is of the opinion that the Court will not deny bclMC the ability to rely on its statutory crown immunity and that, as a consequence, ultimately no net HST/GST liability will arise. Consequently, management has not accrued any liability for such tax. However, if the Court determines that HST/GST applies to bclMC in respect of costs recovered by it from assets held in pooled investment portfolios, management estimates the maximum cumulative HST/GST owing to be in the range of \$95,000,000 to \$110,000,000, including interest and penalties. This amount would be recoverable from the pooled investment portfolios.

### 13. DERIVATIVES:

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. Derivative financial instruments can be listed or traded over-the-counter ("OTC"). OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared ("OTC-cleared") by a central clearing party.

The Corporation enters into derivative transactions for the benefit of its clients and pooled investment portfolios to manage exposure to currency fluctuations, to enhance returns, or to replicate investments synthetically. As the Corporation does not have any beneficial interests in these derivative contracts, the contracts are not recognized in these financial statements.

However, as the contracting party under these agreements, in the event that a pool or client failed to satisfy the obligations under a derivative transaction, the Corporation is liable to settle the transactions with its counterparties. Management believes that such an event is highly unlikely as investment grade fixed income securities are generally maintained by the pool or fund sufficient to cover such contracts. In addition, counterparty risk is minimized through the use of credit support agreements for OTC products that require collateral for net receivable positions, which are settled daily.

As at March 31, 2017, the various forward currency, equity and fixed income contracts entered into on behalf of clients or pooled investment portfolios had an unrealized loss of \$30,323,000 on a notional value of \$11,003,758,000 (2016 - an unrealized gain of \$314,300,000 on a notional value of \$8,651,491,000).

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)

Year ended March 31, 2017, with comparative information for 2016

Notional values under the current agreements are as follows:

	2017	2016
OTC:		
Currencies:		
US dollar	6,223,401	5,696,492
Euro	748,705	1,558,304
British pound	751,497	679,131
Australian dollar	621,947	-
Japanese yen	232,845	224,483
Other currencies	72,499	176,488
Equities	1,879,580	211,639
Listed:		
Equities	33,814	95,784
Fixed income	439,470	9,170
	11,003,758	8,651,491

There were no OTC-cleared contracts outstanding at March 31, 2017 or March 31, 2016.

Notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

The outstanding derivative contracts were entered into with ten (2016 - nine) counterparties. The terms of the agreements provide for right of offset with each counterparty. Net counterparty receivables and payables at March 31 are:

	2017	2016
Receivables	65,109	325,101
Payables	(95,426)	(10,816)
	(30,317)	314,285

The Corporation held collateral of \$74,563,000 (2016 - \$9,170,000) to secure the receivable position. The counterparties for swap contracts are limited to those with at least an "AA-" credit rating.

All transactions mature within 1 year.

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)  
Year ended March 31, 2017, with comparative information for 2016

**14. DIRECT COSTS AND RELATED RECOVERIES:**

Direct costs related to providing funds management services on behalf of pooled investment portfolios or clients' segregated investments are recovered directly from those entities and clients. These direct costs are shown as expenses, and the recovery of these costs as revenue, in the consolidated statement of income and comprehensive income.

The breakdown of direct costs is as follows:

DIRECT COSTS	2017	2016
Investment	168,636	180,052
Custodial	9,299	12,788
Legal, audit, and other	11,240	10,250
	189,175	203,090

Direct costs do not include pursuit and divestiture costs associated with the costs of buying and selling certain illiquid investments held within the pooled investment portfolios. These costs are reflected in the applicable pooled investment portfolios. These costs for the year ended March 31, 2017 totaled \$24,095,000 (2016 - \$7,514,000).

**15. INVESTMENT INCOME:**

	2017	2016
Interest	25	19
Money market	283	327
	308	346

**16. SALARY AND BENEFITS:**

	2017	2016
Salaries	42,019	31,719
Benefits	7,666	5,622
Annual incentive plan	26,667	15,619
Long-term incentive plan	7,692	5,808
	84,044	58,768

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)

Year ended March 31, 2017, with comparative information for 2016

Benefits are comprised of:

	2017	2016
Medical and dental	1,535	1,356
Pension	3,994	2,911
Retirement allowance	55	133
Insurance and other	2,082	1,222
	7,666	5,622

## 17. GENERAL AND ADMINISTRATIVE COSTS:

	2017	2016
Systems operations (note 8)	13,750	9,937
Office and business (note 8)	5,293	3,657
Rent	3,668	3,136
Insurance	714	714
	23,425	17,444

## 18. OTHER EXPENSES:

	2017	2016
Professional services	6,085	4,928
Recruitment and training	3,879	2,322
Depreciation	3,985	3,332
Board costs	407	504
Errors and omissions	68	-
Write-off of property, plant and equipment	26	-
	14,450	11,086

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)  
Year ended March 31, 2017, with comparative information for 2016

**19. FAIR VALUE OF FINANCIAL INSTRUMENTS:**

The fair value of the Corporation's financial instruments which includes cash and cash equivalents, trade and other receivables, and trade and other payables, approximates their carrying value due to the short-term to maturity of these instruments.

Fair value measurements are classified into a three level hierarchy based on the significance of the inputs used in making the fair value measurements. Level 1 measurements are determined by reference to quoted prices in active markets for identical assets and liabilities. Level 2 measurements include

those measured using inputs that are based on observable market data, either directly or indirectly. Level 3 measurements are based on unobservable inputs.

The Corporation's financial assets and liabilities, which are measured at amortized cost are considered Level 2 because while observable prices are available, they are not quoted in an active market.

**20. FINANCIAL RISK MANAGEMENT:**

In the ordinary course of operations, the Corporation may be exposed to risk arising from its financial instruments as follows:

**(A) CREDIT RISK:** Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's cash equivalents and trade and other receivables.

The Corporation's cash equivalents consist of units in money market investment portfolios managed by the Corporation. The trade and other receivables relate primarily to fees and receivables from pooled investment portfolios managed by the Corporation and are generally short-term in nature.

Due to the Corporation's role as fund manager for the pooled investment portfolios and the highly liquid nature of the Corporation's cash equivalents, management does not believe the Corporation is exposed to significant credit risk.

**(B) LIQUIDITY RISK:** Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation operates on a cost recovery basis and recovers all of its expenses through the pooled investment portfolios and segregated client accounts it manages on a timely basis. Accordingly, management does not believe that the Corporation is exposed to significant liquidity risk.

The following table shows the contractual maturities of the Corporation's liabilities as at March 31:

MARCH 31, 2017	WITHIN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	TOTAL
Trade and other payables	58,140	-	-	-	58,140
Regular employee benefits	3,336	-	-	-	3,336
Annual incentive plan / LTIP	33,366	7,218	-	-	40,584
LSRA	372	186	413	315	1,286
	95,214	7,404	413	315	103,346

## BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

## Notes to Consolidated Financial Statements

(Tabular amounts expressed in thousands, unless otherwise indicated)

Year ended March 31, 2017, with comparative information for 2016

March 31, 2016	WITHIN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	TOTAL
Trade and other payables	56,879	-	-	-	56,879
Regular employee benefits	2,552	-	-	-	2,552
Annual incentive plan / LTIP	23,306	6,103	-	-	29,409
LSRA	321	143	422	345	1,231
	83,058	6,246	422	345	90,071

**(C) CURRENCY RISK:** Currency risk is the risk that the Corporation's financial instruments will fluctuate in value from changes in value of foreign currencies in relation to the Canadian dollar. The Corporation does not hold significant net financial assets nor have significant net financial obligations denominated in currencies other than Canadian dollars. Accordingly, management does not believe the Corporation is exposed to significant currency risk. Cash and cash equivalents denominated in US dollars are disclosed in note 4.

**(D) INTEREST RATE RISK:** Interest rate risk refers to the effect on the fair value or future cash flows of financial instruments of fluctuations in both long-term and short-term nominal and real interest rates. The Corporation's

cash equivalents are in units of money market investment portfolios that are interest rate sensitive; however, the underlying financial instruments re-price on a frequent basis. Other financial assets and liabilities have a short term to maturity. As investment earnings are not material, management does not believe the Corporation is exposed to significant interest rate risk.

**(E) OTHER PRICE RISK:** Other price risk is the risk that the fair value of the Corporation's financial instruments will fluctuate because of changes in market prices, other than those arising from currency risk or interest rate risk. Management does not believe the Corporation's financial instruments are exposed to significant other price risk.

**21. CAPITAL MANAGEMENT:**

The Corporation's capital consists of general reserve and retained earnings. From time to time, the Corporation's Board of Directors may approve recoveries greater than costs to maintain or increase the Corporation's retained earnings and general reserve.

# Our External Managers and Partners

## AUDITORS

- ▶ Ernst & Young LLP
- ▶ KPMG LLP

## FIXED INCOME

- ▶ Bridgewater
- ▶ Hayfin Capital Management

## GLOBAL CUSTODIAN

- ▶ Northern Trust

## INFRASTRUCTURE & RENEWABLE RESOURCES

- ▶ ArcLight Capital Partners, LLC
- ▶ Azimuth Capital Management
- ▶ Bonnefield Financial Inc.
- ▶ Brookfield Asset Management Inc.
- ▶ Energy Capital Partners
- ▶ First Reserve Corporation
- ▶ Highstar Capital
- ▶ Macquarie Infrastructure and Real Assets
- ▶ TIAA CREF Financial Services

## MORTGAGE

- ▶ CMLS Financial Ltd.
- ▶ Tricon Capital Group Inc.
- ▶ Murray & Company Limited
- ▶ RXR Realty
- ▶ First National Financial LP

## PRIVATE EQUITY

- ▶ Adams Street Partners, LLC
- ▶ Advent International Corporation
- ▶ AEA Investors LP
- ▶ Affinity Equity Partners
- ▶ Apax Partners
- ▶ Apollo Global Management, LLC
- ▶ Archer Capital
- ▶ AsiaVest Partners TCW/YFY (Taiwan) Ltd.
- ▶ Azimuth Capital Management
- ▶ Bain Capital, LLC
- ▶ Banyan Capital Partners
- ▶ BC Partners Limited
- ▶ Birch Hill Equity Partners Management Inc.
- ▶ The Blackstone Group L.P.
- ▶ Bridgepoint
- ▶ Brookfield Asset Management Inc.
- ▶ CAI Private Equity

- ▶ Callisto Capital LP
- ▶ Canaan Partners
- ▶ Cartesian Capital Group, LLC
- ▶ Castik Capital
- ▶ Castlake, L.P.
- ▶ Celtic House Venture Partners Inc.
- ▶ Cinven Partners LLP
- ▶ Clearspring Capital LP
- ▶ CVC Capital Partners
- ▶ FountainVest Partners
- ▶ Francisco Partners
- ▶ Fulcrum Capital Partners
- ▶ Gamut Capital Management
- ▶ Greenstone Venture Partners
- ▶ GTCR, LLC
- ▶ H&Q Asia Pacific
- ▶ HarbourVest Partners, LLC
- ▶ Hayfin Capital Management LLP
- ▶ Hellman & Friedman LLC
- ▶ IK Investment Partners
- ▶ India Value Fund Advisors
- ▶ Jasper Ridge Partners
- ▶ Leonard Green & Partners, L.P.
- ▶ Lone Star Funds
- ▶ MatlinPatterson Global Advisors LLC
- ▶ McKenna Gale Capital Inc.
- ▶ McLean Watson Capital
- ▶ MBK Partners
- ▶ Merit Capital Partners
- ▶ MWI & Partners Inc.
- ▶ Navis Capital Partners
- ▶ New Mountain Capital, LLC
- ▶ Newstone Capital Partners, LLC
- ▶ Northstar Advisors Pte. Ltd.
- ▶ Oaktree Capital Management, L.P.
- ▶ Orchid Asia Group Management, Ltd.
- ▶ Pacven Walden, Inc.
- ▶ PAI Partners SAS
- ▶ Pantheon Ventures (UK) LLP
- ▶ Parallel49 Equity
- ▶ Penfund
- ▶ PineBridge Investments
- ▶ Polaris Partners
- ▶ Richardson Capital Limited
- ▶ RRJ Capital
- ▶ Searchlight Capital Partners
- ▶ TA Associates Management, L.P.
- ▶ Tailwind Capital Group, LLC
- ▶ TorQuest Partners
- ▶ TPG Capital
- ▶ Trimble Hill Management Inc.
- ▶ TriWest Capital Partners

- ▶ Turkven
- ▶ Vanedge Capital
- ▶ Warburg Pincus LLC.
- ▶ Wayzata Investment Partners
- ▶ Wellspring Capital Management LLC
- ▶ Yaletown Venture Partners

## PUBLIC EQUITIES

- ▶ Aberdeen Asset Management PLC
- ▶ Acadian Asset Management Inc.
- ▶ Allianz Global Investors Asia Pacific Limited
- ▶ APS Asset Management Pte. Ltd.
- ▶ Connor, Clark & Lunn Investment Management Ltd.
- ▶ Corston-Smith Asset Management Sdn Bhd
- ▶ Fidelity Investments Canada ULC
- ▶ Frontier Capital Management Co., LLC
- ▶ J.P. Morgan Asset Management (Canada) Inc.
- ▶ Meritz Asset Management Co. Ltd.
- ▶ Moneda Asset Management
- ▶ Neuberger Berman Asia Limited
- ▶ Oechsle International Advisors, LLC
- ▶ Pier 21 Asset Management Inc./C Worldwide
- ▶ Quantum Advisors Private Limited, India
- ▶ Red Gate Asset Management Company Limited
- ▶ Schroder Investment Management (Hong Kong) Limited
- ▶ Van Berkomp and Associates Inc.
- ▶ Vontobel Asset Management, Inc.
- ▶ Walter Scott & Partners Limited
- ▶ Wellington Management Company LLP

## REAL ESTATE

- ▶ Apex Land LP
- ▶ Gables Residential
- ▶ GWL Realty Advisors Inc.
- ▶ Parkbridge Lifestyle Communities Inc.
- ▶ Realstar Group
- ▶ The Jawl Group
- ▶ QuadReal Property Group

## Our Executive Management Team

**Gordon J. Fyfe**

Chief Executive Officer / Chief Investment Officer

**Steve Barnett**

Chief Operating Officer (on secondment to QuadReal)

**Shauna Lukaitis**

Acting Chief Operating Officer

**Dean Atkins**

Senior Vice President, Mortgage & Real Estate Investments

**Chris Beauchemin**

Acting Senior Vice President, Fixed Income & Foreign Exchange

**Norine Hale**

Senior Vice President, Human Resources

**Lynn Hannah**

Senior Vice President, Consulting & Client Services

**Michelle Ostermann**

Senior Vice President, Investment Risk, Strategy & Research

**Jim Pittman**

Senior Vice President, Private Equity

**Bryan Thomson**

Senior Vice President, Public Equities

**Lincoln Webb**

Senior Vice President, Infrastructure & Renewable Resources

## ECO-AUDIT ENVIRONMENTAL BENEFITS STATEMENT

The bcIMC annual report is printed with vegetable-based inks, on paper that is made from 100 per cent post-consumer recycled content. The stock is manufactured with renewable, non-polluting, wind-generating electricity, and is sourced from certified suppliers that support the growth of responsible forest management. By using this environmentally friendly paper, bcIMC has saved the following resources:

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trees	water	solid waste	greenhouse gases	energy
<b>14</b>	<b>25,541</b>	<b>205</b>	<b>564</b>	<b>7</b>
fully grown	litres	kilograms	kilograms	million BTU

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*Environmental impact estimates were made using the Environmental Paper Network Calculator.  
For more information visit <http://calculator.environmentalpaper.org>*

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We welcome your comments and suggestions on our annual report.

Please contact: Gwen-Ann Chittenden  
Director, Communication and Government Relations  
Tel: 778-410-7156 | E-mail: [communication@bcimc.com](mailto:communication@bcimc.com)



**BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION**

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