



ESG Strategy



British Columbia Investment Management Corporation

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ABOUT BCI

British Columbia Investment Management Corporation (BCI®) provides investment management services to British Columbia's public sector. Our role is to generate investment returns that will help our institutional clients build a financially secure future. With our global outlook, we seek investment opportunities that will meet our clients' risk and return requirements over time. This compels us to integrate long-term environmental, social, and governance (ESG) matters into our investment decisions and activities. We offer investment options across a range of asset classes: fixed income, public and private equity, real estate, mortgages, and infrastructure & renewable resources.

In a Snapshot



In providing investment management services to British Columbia's public sector, British Columbia Investment Management Corporation (BCI) partners with our 31 clients to generate investment returns that will help our clients provide a financially secure future to their members.

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

BCI provides our clients with the flexibility and efficiency of selecting the appropriate investment mix through our pooled funds that are diversified by asset class, region, and style. Like a mutual fund, a pooled fund combines our clients' contributions to invest in securities and other assets.

With a global outlook, we seek investment opportunities that will meet our clients' risk and return requirements over time. As part of the prudent investment management of our clients' funds, we aim to mitigate the long-term financial risks that environmental, social, and governance (ESG) matters present. It begins with the integration of ESG considerations into our investment analysis, decisions, and processes in a consistent manner across the corporation.

In 2006, BCI became a founding signatory to the Principles for Responsible Investment (PRI), and our approach aligns with the PRI principles for institutional investors. The principles are used to consider integrating ESG factors into investment processes and analysis, ownership activities, and interactions with other long-term investors.

Long-term sustainability is the driving force behind BCI's investment approach. We believe ESG matters make a difference and that companies that employ robust ESG practices are in a better position to generate long-term value. We also believe improving the sustainability and integrity of global capital markets creates favourable economic conditions that benefit our clients over the long term.



ESG refers to any environmental, social, or governance factor that could positively or negatively affect the risk or return of an investment, sector, or fund. These factors can be company-specific, like board independence, or systemic, like climate change.

ESG strategy We consider 'ESG strategy' to be synonymous with 'Responsible Investing' and 'Sustainable Investing' strategy. The *ESG Strategy* is an update to 2015's *An Overview of BCI's Approach to Responsible Investing*, introducing improvements to existing processes and cross-corporate consistency.

Our ESG Beliefs, Principles, & Governance

BCI's Investment Beliefs

Our investment beliefs provide a clear and transparent structure for how we work to achieve our clients' investment goals. Our investment beliefs influence our views on capital markets, our investment processes, the creation of investment strategies, and our overall approach to managing our clients' funds.

BCI's investment beliefs are:

- ✓ Having a strategic investment discipline is key
- ✓ ESG matters make a difference
- ✓ Skill matters
- ✓ Integrity counts

Our investment beliefs articulate our understanding of the relationship between ESG and financial markets. These beliefs set the basis for why we do what we do, guiding our team and business. Putting these into practice is key to delivering results.

We believe ESG matters make a difference because:

- ✓ Taking ESG matters into account enables investors to better understand, manage, and mitigate risks and take advantage of opportunities associated with long-term investments.
- ✓ Companies that employ robust ESG practices are in a better position to generate long-term value for investors than similar companies with less favourable practices.
- ✓ Improving the sustainability and integrity of global capital markets creates favourable economic conditions that benefit investors over the long term.

BCI's ESG Principles

Our ESG principles elaborate on what we do to put our beliefs into action. Together, they create consistency across asset classes and act as a compass that guides all aspects of our strategy.

We have established a set of seven principles to guide our approach.

- 1 The **investment objectives of our clients** are always at the forefront of our ESG activities.
- 2 We apply **consistent principles** across the corporation while **adapting our approaches to what is best** for each asset type.
- 3 We **manage ESG risks** and **seek opportunities** across **all time horizons**, while focusing on those ESG matters that are most **material to our clients' portfolios and individual investments**.
- 4 We use our position as a **universal owner** to **engage with companies, partners, and policymakers** in aligning interests with long-term investors and to advance responsible investing globally.
- 5 We **collaborate** with like-minded investors and organizations on ESG matters where our objectives are aligned.
- 6 We act with the same level of **integrity and transparency** that we expect from our partners and invested companies.
- 7 We **adapt our ESG strategy and approaches** and **continuously improve** based on our experiences and evolving responsible investing standards.

BCI's ESG Governance

BCI's ESG governance framework articulates the general approach and related roles and responsibilities for our commitment to responsible investing and implementation of our ESG strategy. It ensures that our board of directors and the CEO/CIO fulfill their respective responsibilities for the governance and oversight of investment risk under the *Public Sector Pension Plans Act* and the board mandate. Our investment risk framework integrates responsible investing, which considers ESG risk factors that may negatively impact long-term sustainable value. For details about the individual accountabilities of management and staff, the BCI board, and clients, please refer to the Appendix.

Our ESG Strategy

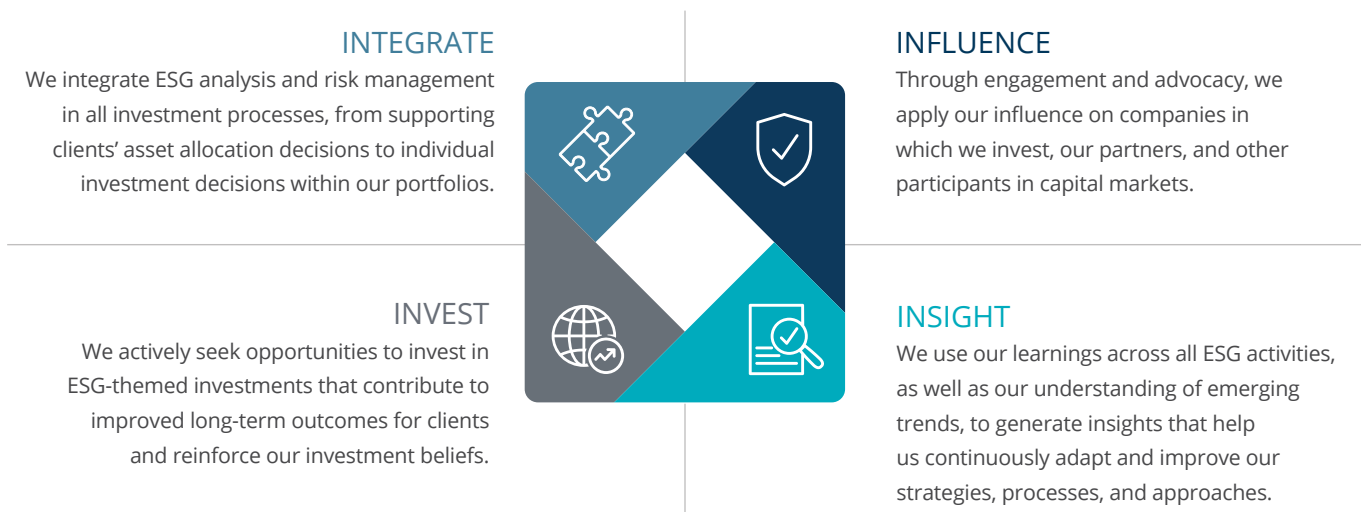
In BCI's *2018 Responsible Investing Annual Report*, we communicated our plan to embark on a journey to create a corporate-wide approach to ESG. Throughout 2018 and 2019, with collaboration among BCI's departments, and following engagement with our clients and approval from the executive management team, we finalized a strategy that provides an integrated and consistent approach across the corporation.

The strategy applies to all investment decision-making at the asset, pool, and total portfolio levels. Built upon our longstanding approach to responsible investing,

the ESG strategy comprises four key components: integrate, influence, invest, and insight.

We integrate ESG analysis and risk management in all investment processes, influence through engagement and advocacy, actively seek opportunities to invest in ESG-themed investments, and use our learnings to generate insights so we can adapt our strategies and approaches. Together, they represent all ESG activities taking place at BCI and our plans for the future. We have created an ESG working group to work together to implement this strategy.

Figure 1





Integrate

We integrate ESG analysis and risk management in all investment processes, from supporting clients' asset allocation decisions to individual investment decisions within our portfolios.

The purpose of integration is to incorporate material ESG data and information throughout the investment process at all levels of decision-making. It ensures that all relevant financial and ESG matters are understood and factored into each new investment decision.

Integrating ESG into the Investment Process

Asset Allocation

Our clients determine their personalized long-term strategic asset allocation based on their unique characteristics, circumstances, and risk tolerances. We evaluate model portfolios under various scenarios and assumptions to help our clients determine the best portfolio mix. These scenarios can include ESG risks.

For example, we include climate change scenario analysis as one of the lenses used to test the model portfolios. The evaluation shows areas that are more exposed to climate change risks, allowing clients to factor the information into their decision on asset mix.



Materiality The traditional concept of materiality in companies' financial statements is expanding to consider the risks and opportunities created by ESG.

We prioritize efforts on those ESG factors that are most material. For example, ESG factors that present the most significant potential impact on financial performance as well as the reputation of an investment, BCI, or our clients.

Asset Class

Each time we consider new investment strategies or products, we evaluate ESG risk characteristics to fully understand how it will impact net exposure to ESG risk or opportunities.

Individual Investment Decisions

We integrate ESG at each stage of the investment process, where deemed material, to ensure that we have an understanding of all financial and non-traditional information available.

1 PRE-INVESTMENT ANALYSIS

We determine ESG materiality using relevant frameworks and research;¹ we conduct an ESG risk and opportunity review and assess the ESG performance of the company/asset/manager.

2 INVESTMENT DECISION

Every investment memo that is delivered to our management investment committee will include the ESG risk summary and, where necessary, recommended mitigation actions.

3 ASSET MANAGEMENT

Once we decide to invest, we will transition identified material ESG risks and opportunities into a management plan; we will track material ESG key performance indicators for each investment/portfolio; and, where needed, we will create and act on an influence or engagement plan.

Total Portfolio

We are building an ESG risk and opportunity framework to track our exposure across asset classes and at the total portfolio level. It will ensure that BCI has a comprehensive understanding of our exposure to systemic ESG risks such as climate change.

Our total portfolio is the aggregate of all the investments BCI manages on behalf of our clients, across asset classes and pooled funds. Examining our investments from a total portfolio level allows us to identify broader ESG risks and trends potentially overlooked when looking at a particular asset, portfolio, or industry.

External Managers

We look for external managers and partners that have robust ESG practices, demonstrate a solid understanding of the issues, and can show where ESG fits in their investment processes.

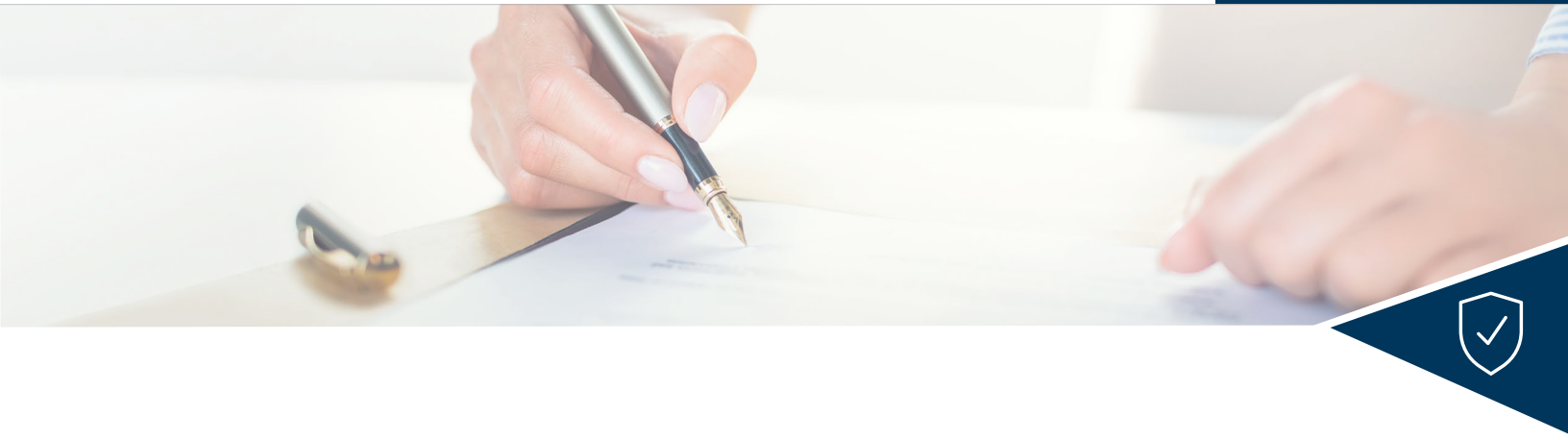
Our approach to evaluating managers on ESG is modified according to the asset class but based on common criteria and expectations.

We evaluate our investment managers on:

- ✓ Strength of their ESG / Responsible Investing policy
- ✓ Accountability and oversight
- ✓ Evidence of ESG integration in processes
- ✓ Dedicated staff, resources, and tools

We also request reporting from our partners and re-evaluate their processes regularly.

¹ The Sustainable Accounting Standards Board (SASB) framework is the primary framework BCI uses to determine materiality.



Influence

Through engagement and advocacy, BCI applies its influence on companies in which we invest, our partners, and other participants in capital markets. We do this to increase transparency surrounding ESG risks, improve companies' long-term performance, and promote the stability and integrity of capital markets.

Whether it is through voting rights, engagement activities, collaborative efforts, or board seats, BCI can affect market and corporate behaviour. Our strategy is to apply this influence to encourage companies to be transparent about their ESG risks, and to adopt good corporate governance and operational practices. This allows us to make informed investment decisions, improves companies' long-term performance, and is part of our role and responsibility as stewards of our clients' assets.

BCI's Influence Priorities

Corporate Level

While each asset class has focus areas that are unique to the sectors and companies in which they invest, there are systemic ESG issues relevant to the entire portfolio. These corporate-wide engagement priorities guide our activities that will benefit the capital markets and lead to better overall value creation for our clients. To determine which ESG issues should be a priority at the corporate level, we conducted a materiality assessment at the total portfolio level (Figure 2, next page).

We consider:

- ✓ Likelihood of the issue occurring
- ✓ Level of potential reputational and financial impacts
- ✓ Exposure to the issue across asset classes and investments

We combine these results with an assessment of the impact timeframe relevant to each ESG issue and the pervasiveness across sectors and geographies to establish our five corporate influence priorities (Figure 3, next page).

Where possible, BCI will influence companies and other market participants to improve management in each of these priority areas and seek the best long-term outcomes for our clients. These priorities will be re-evaluated regularly by repeating the materiality review process.

Figure 2

BCI ESG Materiality Assessment

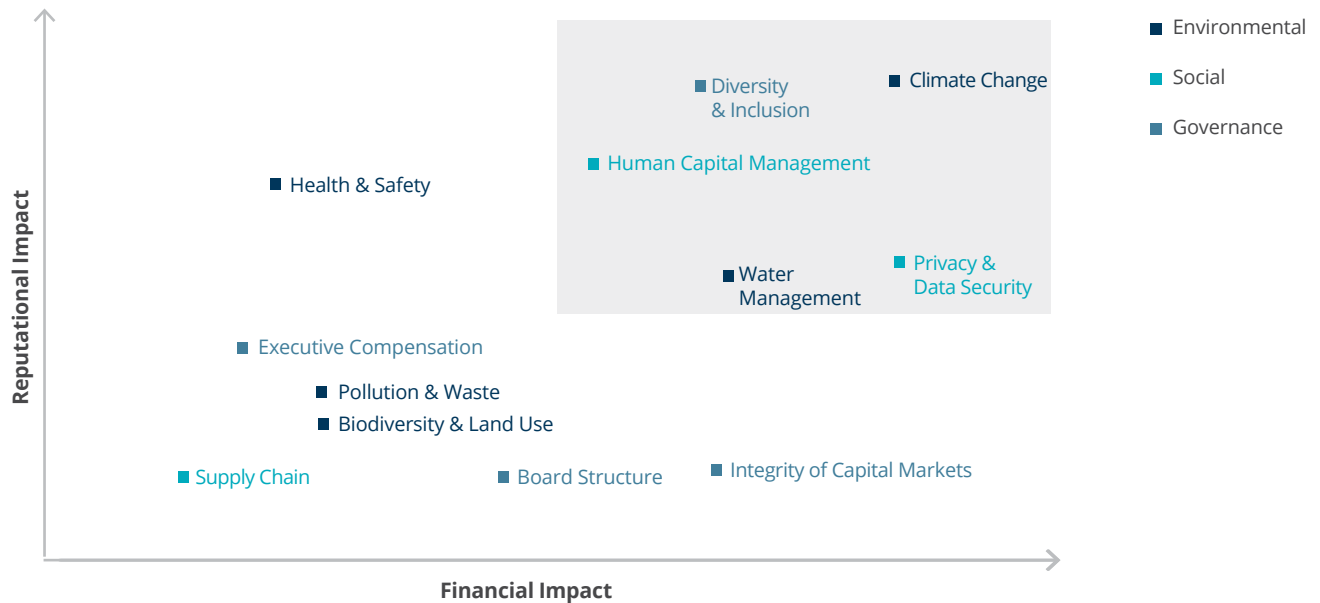


Figure 3

Our Corporate ESG Influence Priorities



Climate Change

Encourage transparency in climate-related disclosures, and consideration of the physical, regulatory, and transition risks related to climate change in business strategy.



Water Management

Encourage transparency and consideration of physical and regulatory risks related to operations in water-stressed regions, impacts on water quality, and poor water stewardship in business strategy.



Data Security & Privacy

Encourage adoption of best practices to manage risk of financial losses, disruption, and reputation damage resulting from failures of IT systems or failures in collection, handling, and storing of data.



Human Capital Management

Encourage policies and procedures that ensure worker health and safety, the protection of human rights, and alignment with labour standards.



Diversity & Inclusion

Encourage best practices to ensure fair treatment and equal access to opportunity. Encourage improved diversity on corporate boards and in senior management.

Asset Class Level

Asset classes determine which companies to influence through annual portfolio reviews and ESG performance assessments of the largest or most significant holdings. We detail priorities and objectives for the public markets portfolios in the *ESG Engagement in Public Markets* report.

Each asset class considers:

✓ Corporate and asset class-specific priorities

For example, separate from our corporate ESG priorities, executive compensation and board structure are high priorities for our public markets program. Our infrastructure & renewable resources program places additional focus on occupational health and safety, and pollution.

✓ Scope of influence

The effectiveness of our influence efforts depends on the type of investment, capital structures, or regional barriers.

How We Influence

Proxy Voting

- As a shareholder in public companies, BCI has the right to vote on various issues at company meetings.
- Our voting guidelines help direct our decisions and serve to advise our investee companies of our expectations related to ESG matters.
- Our voting guidelines and decisions are published on our website (BCI.ca).

Direct and Collaborative Engagement

- BCI will seek to directly engage with companies in constructive dialogue to encourage improvements, depending on our level of control and influence, where we identify an ESG risk that should be managed.

- BCI collaborates with like-minded investors to increase our capacity to influence companies and learn about best practices across industries.
- Through our asset management activities in private companies, where we hold board seats or otherwise have material shareholder influence, BCI uses its influence to ensure management teams are monitoring and managing ESG risks.

Policy Advocacy

- BCI selectively seeks opportunities to engage at the policy or market level. We use our influence to advocate or show support for public policy and regulatory changes that make responsible investing principles part of the regulatory framework and improve the investment environment for our clients.
- Either directly or through the organizations that we participate in, we can apply influence to address systemic risks, such as climate change, with the expectation that it will lead to greater stability and integrity within the capital markets.

External Managers

- We also use our influence to encourage our external investment managers to adopt responsible investment principles. Using the information gathered in our integration activities, we provide recommendations to our managers that address gaps we have identified in their ESG policies and processes.



Invest

BCI actively seeks opportunities to invest in ESG-themed investments that contribute to improved long-term outcomes for clients and reinforce our investment beliefs.

Investing in ESG-related strategies is not new to BCI or our clients. These strategies include products such as the Global Quantitative ESG Equity Fund for clients seeking to invest in ESG performance-led investments, the Global Thematic portfolio, as well as green bonds and green real estate.



Global Quantitative ESG Equity Fund

The Global Quantitative ESG Equity Fund, established in 2019, holds a diversified portfolio of stocks with exposure to desirable ESG characteristics and has the potential to add value over the MSCI World ex Canada Index benchmark.

The fund's quantitative stock selection model uses a blend of ESG measures from several different data vendors to identify the attractiveness of securities from an ESG perspective.

The signals in the model include traditional sources that provide subjective evaluations of ESG issues, and a new source that uses artificial intelligence to capture sentiment from thousands of textual sources.

The signals are combined to produce an aggregate score (expected return) for every stock. We build the portfolio to maximize risk-adjusted expected returns while accounting for transaction costs.

Goal of ESG Investments at BCI

We actively seek opportunities to invest in all types of markets and products that contribute to improving our clients' long-term wealth across all asset classes. ESG products are a growth area with increasing amounts of capital and funds raised in both public and private markets.

BCI does not pursue any new investment if it does not align with our clients' financial goals. However, benefits to the total portfolio can come in many forms. For ESG-related investments, we intend to research and target investments that:

- ✓ Counteract, diversify, or mitigate ESG risk
- ✓ Take advantage of excess returns that are not otherwise accessed through the balance of existing BCI investments

The Investment Landscape is Changing

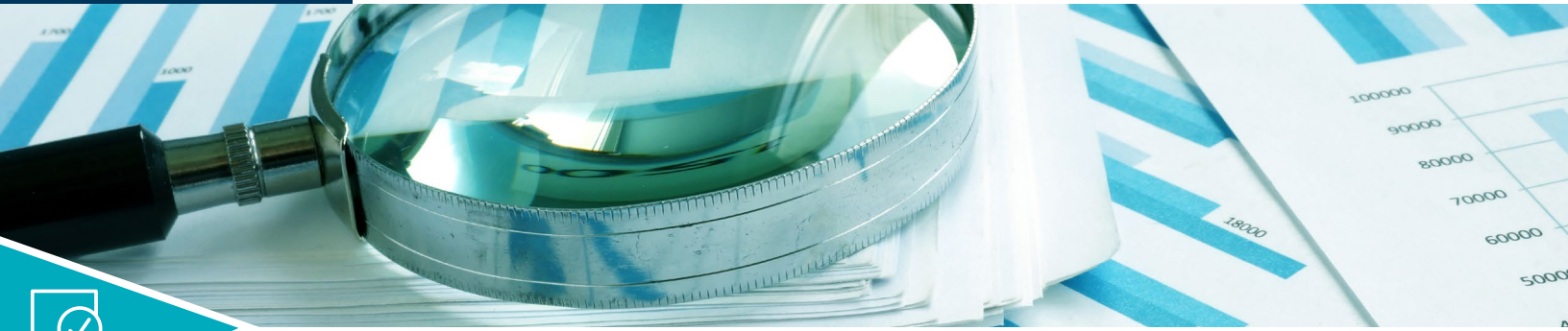
The types of ESG products and investment strategies available to investors is rapidly expanding as ESG trends are increasingly influencing the global economy and capital markets. Markets are changing as both environmental and social externalities are increasingly priced and must be considered when targeting long-term resilient investment opportunities.

Our fiduciary responsibility to our clients also makes it vital to stay on top of an evolving investment landscape. It allows us to distinguish which ESG-related strategies or investments represent a benefit to achieving clients' goals. Similarly, BCI will expand its efforts to research and develop new ways to deliver ESG investment opportunities to clients.

Investment products, strategies, and frameworks that are growing traction include:

- ✓ Portfolios constructed using the United Nations Sustainable Development Goals (UN SDG's) as a guiding framework
- ✓ Strategies that generate return and measure their investments' impact on the broader society and economy
- ✓ Venture capital investments that capitalize on new technology and business model innovation-driving solutions to ESG risks
- ✓ Green bonds, social bonds, and other alternative financing options that can create synergies across asset classes

We are also developing recommendations on how to broaden value-add ESG investments across BCI.



Insight

We use our learnings across all ESG activities, as well as our understanding of emerging trends, to generate and communicate insights that help us continuously adapt and improve our strategies, processes, and approaches.

All investment staff must align with BCI's approaches to deliver on the commitments outlined in our ESG strategy. We will learn from each other to continuously improve and stay ahead of emerging and material ESG matters.

Creating a Culture of ESG

To foster a culture of ESG at BCI, we will expand our communication beyond existing reporting frameworks. We also plan to develop a focused internal ESG education and training program encompassing a range of initiatives such as:

- ✓ Communication and training for investment staff on best practices for ESG integration and others that are relevant to their particular asset class/sector
- ✓ Including ESG considerations into orientation and development of new board members
- ✓ Collaborating with client groups to engage with subject matter experts on material ESG topics
- ✓ Improving how we leverage our partners to learn from their experiences and expertise internally
- ✓ Improving how we disseminate ESG-related information across BCI and our client groups

Learning From Each Other

ESG activities occur across the corporation, so there is a significant amount of information generated by our ESG professionals in public markets, portfolio managers, and the ESG strategy and risk team.

Pooling and sharing of information will allow us to be accountable, learn from each other's experiences, and implement improvements across the corporation.

The corporate ESG working group meets at least quarterly to share perspectives, experiences, and knowledge regarding ESG risks, opportunities, and trends.

Staying Ahead of Emerging ESG Trends

At the start of each fiscal year, we will compile a list of emerging ESG trends and topics to identify potential research areas and to pilot an annual ESG research agenda. The research will be carried out and we will collaborate to adapt the findings to all use cases across BCI.

We will place importance on topics that could:

- ✓ Have a higher magnitude and probability of affecting the financial performance of our investments
- ✓ Affect a higher proportion of BCI's investments
- ✓ Represent a reputation risk to BCI and our clients
- ✓ Impact the overall integrity and sustainability of capital markets over the long term

Disclosure and Reporting

BCI is committed to reporting to our clients and publicly disclosing our ESG initiatives. It includes reporting through our *ESG Annual Report*, newsletters, and our proxy voting database. As a signatory to the PRI, we take part in the annual PRI survey assessing our practices across asset classes in line with the PRI's six principles. Our reports, newsletters, *ESG Engagement in Public Markets*, *Proxy Voting Guidelines*, and our *PRI RI Transparency report* are available at [BCI.ca](https://www.bci.ca).

Conclusion

Together, the four pillars of our ESG strategy ensure that our approach is consistent across asset classes, grounded in common principles, and addresses issues most material to our clients' investments. Most importantly, it reflects the belief that BCI shares with our clients that ESG matters make a difference.

APPENDIX

BCI's ESG Governance

ESG activities at BCI are built on oversight, evaluation, and integration happening at multiple levels of the corporation. The accountabilities of clients, as well as BCI board, management, and staff are:

STAKEHOLDER	ACCOUNTABILITY
CLIENTS	<ul style="list-style-type: none"> • Responsible for making long-term strategic decisions such as the strategic asset allocation of their respective funds as governing fiduciaries. • Keep informed of the implications of ESG issues on their assets and investment returns over the long term. • Ensure BCI's management of ESG risks across the portfolio through monitoring and reporting.
BCI BOARD	<ul style="list-style-type: none"> • In accordance with section 20(5) of the <i>Public Sector Pension Plans Act</i>, the BCI board is not involved in the investment decisions of BCI. • Receives and reviews reporting related to ESG performance objectives and stewardship activities, such as BCI's annual <i>PRI Assessment Report</i>, <i>ESG Annual Report</i>, and approach to the Task Force on Climate-Related Financial Disclosures (TCFD). • Reviews and approves the ESG Governance Policy at least every three years.
CEO/CIO	<ul style="list-style-type: none"> • Sets the tone and influences a culture of ESG awareness and recognition within BCI; approves BCI's Investment Beliefs. • Considers ESG within the context of BCI's overarching vision and business plan; The CEO/CIO approves the ESG strategy. • Ensures adequate resources for ESG commitments.
BCI EXECUTIVE MANAGEMENT	<ul style="list-style-type: none"> • Sets the tone and influences a culture of ESG within BCI. • Contributes to and recommends adoption of BCI's ESG Strategy. • Ensures the ESG Strategy is aligned with the Policy, ESG investment beliefs & principles, and is effective in achieving clients' objectives.
BCI STAFF	<ul style="list-style-type: none"> • Responsible for the implementation of each ESG strategy pillar, measuring key performance indicators (KPIs), and providing reporting, using methods most suitable to the asset class. • Implement the ESG strategy, measuring KPIs and providing reporting at the total portfolio and client levels. • Ensure BCI's ESG strategy performance is reported in an effective way to client groups, including enabling clients to provide input on material reputational issues and inform our ESG strategy priorities.



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