Investment Management Corporation

SERVICE PLAN

2003/04 – 2005/06

FEBRUARY 2003

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ACCOUNTABILITY STATEMENT

The 2003/04 – 2005/06 Service Plan for the British Columbia Investment Management Corporation ("bcIMC" or "the Corporation") was prepared by the Corporation's management under the direction of bcIMC's Board of Directors.

bcIMC does not fall under the provincial government's *Budget Transparency and Accountability Act* ("BTAA"). However, the Corporation believes in rigorous business planning and shares the provincial government's commitment to transparency and accountability. Accordingly, this Service Plan has been prepared in voluntary compliance with the spirit and intent of the BTAA. The Plan gives focus to a longer-term vision that enables the Corporation to deliver its mandate to its clients. The performance of the Corporation will be measured against both this Plan and the dynamic nature of the environment in which the Corporation operates.

bcIMC operates under a dual accountability model as set out in the *Public Sector Pension Plans Act,* under which the Corporation was established. The Board of Directors is responsible for overseeing the overall management of the Corporation, for ensuring appropriate controls and accountabilities are in place, including business plans and annual reports, and for approving policies for pooled investment portfolios managed by the Corporation. The Corporation's Chief Executive Officer is accountable to the Board of Directors for the efficiency and effectiveness of the Corporation in carrying out its mandate.

The Board of Directors is not responsible for the setting of client investment policies and asset mix policies – these responsibilities rest with the Corporation's clients. The Chief Investment Officer is responsible to each client with respect to the management and investment performance of funds placed with the Corporation.

Given this dual accountability structure, the Board of Directors and the Chief Investment Officer are jointly accountable for achieving the objectives set out in this Service Plan.

Chris Trumpy, Chair
Board of Directors

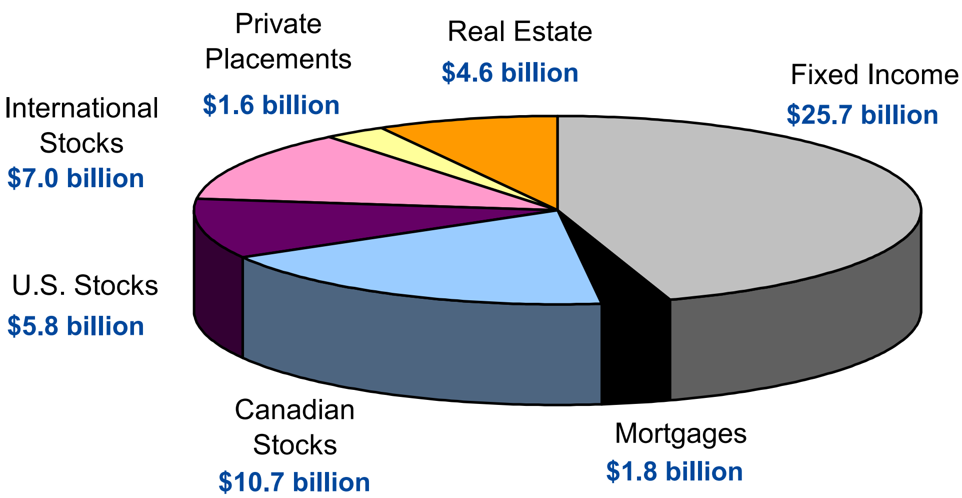
February 12, 2003

OVERVIEW

Description

The Corporation, with $57.2 billion in assets under administration, offers fully integrated investment services to institutional clients in British Columbia. Based in Victoria, B.C., bcIMC has industry-leading investment expertise in eight asset classes: Canadian, U.S. and international equities, money market, bonds, mortgages, real estate, and private placements.

The graphic below illustrates the diversification of assets under bcIMC's administration as at December 31, 2002.



Stakeholders

bcIMC has assembled a skilled team of in-house professionals and external global advisors focused on addressing the needs of our stakeholders. These stakeholders are:

- clients, including the trustees and governing fiduciaries of pension plans and other managed funds, to whom the Corporation is accountable for their funds' investment performance;
- the British Columbia provincial government, to which the Corporation is accountable as a government-owned Corporation; and
- trust beneficiaries, whose best financial interests bcIMC is accountable for in managing the vast majority of the Corporation's assets under administration (i.e., 94.9 per cent of bcIMC's assets under administration are held in trust funds).

Investment Services

The Corporation offers its clients comprehensive portfolio services, including:

- trade execution and settlement
- custody of securities
- portfolio management
- asset mix management
- consulting and investment advice
- hiring and monitoring of external investment managers
- economic and market analysis
- credit review and monitoring
- investment policy analysis
- investment accounting and reporting
- performance reporting
- cash management services
- security lending
- risk analysis and management
- legal, regulatory and policy compliance
- corporate governance
- trustee education

Mandate

bcIMC is an investment management corporation established under the *Public Sector Pension Plans Act,* with a mandate to provide investment management services to British Columbia public sector pension plans, the provincial government, government bodies and other publicly administered trust funds.

At December 31, 2002, the distribution of invested assets among bcIMC's client group was as follows:

Client Group	%
Pension Plans	70.5
Other Publicly Administered Trusts *	24.4
Provincial Government	3.8
Government Bodies	1.3

*Other Publicly Administered Trusts include:

WCB Accident Fund	13.2%
Sinking Funds	9.6%
Other Trusts	1.6%

The Corporation is not part of the provincial government's financial reporting entity and, therefore, is not part of either the provincial Budget or Public Accounts. The Corporation operates on a cost-recovery basis such that expenses are allocated to, and recovered from, pooled investment funds under management and clients with segregated assets.

STRATEGIC CONTEXT

Our Mission

The mission of the Corporation is to be:

Accountable to our clients,
providing professional fund management for all asset classes,
exercising the highest standards of prudence and fiduciary responsibility,
while returning to our clients the highest return for a given level of risk, at a reasonable cost.

Our Vision

Our vision is to be the fund manager of choice for the British Columbia public sector. To do this, we must remain at the forefront of industry best practices and consistently exceed the performance and service expectations of our clients.

Our Values

bcIMC and its employees share a number of high values that guide us in carrying out our mandate.

Respect	We treat others with courtesy, professionalism and dignity.
Integrity	We act fairly and ethically in all our dealings.
Honesty	We deliberately and without exception place our clients first.
Trust	We earn client confidence by acting with prudence, diligence and transparency.

Our Operating Principles

The core principles that guide bcIMC's operating behavior are as follows:

- **We encourage clear, open communication**.
  This helps build trust with clients, employees and the general public.
- **We simplify and clarify**.
  Investment management is a dynamic global business that is complex. Our job is to simplify and clarify this environment for our clients.
- **We look ahead**.
  There is value in understanding history, but to invest long-term the Corporation must look ahead into the future and help guide our clients.
- **We exceed expectations**.
  Our clients expect superior performance and best practices. We need to excel in all aspects of our business.
- **We are cost effective**.
  Cost effectiveness is part of our corporate culture, but not at the expense of prudently maximizing return and minimizing risk.
- **We value people**.
  Our true assets are our people, who demonstrate the values and goals of bcIMC and bring their knowledge and skills to bear on the goal of meeting the needs of our clients.

Our Investment Principles

The core principles that guide bcIMC's investment management behavior are as follows:

- **We set guidelines for our process**.
  Over-arching guidelines are one tool we use to maintain the integrity of our investment process. These guidelines are:

  diversification of assets which reduces market risks and provides clients with more stable rates of return;

  discipline which is important because investor sentiment can change quickly and a disciplined approach (for example, systematic rebalancing) is essential to prevent the portfolios from being whipsawed by market forces; and

  due diligence which requires that we strive to understand all of the risks and returns of both existing holdings and new opportunities in order to make prudent investment decisions.

- **We customize investment strategies**.
  Each of our clients' investment strategies is uniquely tailored to reflect their respective objectives, time horizon, risk tolerance, legal constraints and liquidity requirements.

- **We believe in style diversification**.
  We are a proponent of quantitative/index-style management techniques and, to present our clients with additional diversification opportunities, we also employ an active management approach using external managers and in-house expertise.

- **We prudently preserve capital and manage risk.**
  In providing investment advice and developing and implementing investment strategies, bcIMC has a fiduciary obligation to client funds. As such we must act prudently by exercising good judgment continuously across all areas of our organization, the core areas being investment operation services and investment management services.

Our Investment Performance

The following table sets out the annualized rates of return for the major pooled funds under management, as of December 31, 2002: See Appendix I for descriptions of the benchmarks.

POOLED FUND ANNUALIZED RETURNS (C$)
Periods Ending December 31, 2002

		10 Years		5 Years		1 Year	
		Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
SHORT TERM	Short Term Fund 1	4.8	4.5	4.4	4.2	2.4	2.4
	Short Term Fund 2	5.1	4.9	4.7	4.4	2.5	2.5
	Short Term U.S. Fund 3	7.1	6.5	6.8	6.1	0.9	0.8
	Short Term Bond Fund	-	-	6.6	6.5	6.0	6.2
MORTGAGES	Fixed Term Mortgage Fund	-	-	8.2	7.6	8.8	7.3
	Construction Mortgage Fund	-	-	7.2	6.1	5.5	4.1
	Specialty Mortgage Fund	-	-	-	-	8.5	5.7
BONDS	Indexed Government Bond Fund	-	-	7.0	6.9	8.8	8.8
	Pension Bond Fund	-	-	7.0	6.9	9.1	8.8
	Long Term Bond Fund	-	-	-	-	11.6	11.3
	Corporate Bond Fund	9.5	9.4	7.1	6.9	9.3	8.6
STOCKS	Indexed Canadian Equity Fund	9.1	9.1	1.9	1.3	(11.8)	(12.4)
	Active Canadian Equity Fund	10.6	9.6	4.2	2.2	(9.5)	(12.4)
	S&P 500 Fund	-	-	1.5	1.4	(22.7)	(22.7)
	U.S. Value Index Fund	-	-	-	-	(21.4)	(21.5)
	Enhanced Index U.S. Equity Fund	-	-	-	-	(23.8)	(22.3)
	Active U.S. Equity Fund	-	-	1.7	1.4	(23.3)	(22.3)
	European Equity Fund	-	-	(0.9)	(0.3)	(20.5)	(18.8)
	EAFE Fund	-	-	0.5	(0.9)	(15.5)	(16.5)
	Asian Equity Fund	-	-	1.0	(2.0)	(11.3)	(10.1)
REAL ESTATE	Realpool (at September 30, 2002)	8.8	5.9	9.4	6.3	6.2	6.4

Additional information:

a) Due to their illiquid nature, the year-by-year performance of bcIMC's private placement and international real estate pooled funds is excluded as year-by-year performance returns can be misleading. To be assessed correctly, performance of these assets must be measured over the life of their respective fund.

b) Where no fund or benchmark figure is provided, the fund or benchmark has been in existence for less than the annualized time period in question.

Environmental Scan and Key Strategic Issues

In looking ahead over the next three years, we have identified the major challenges, opportunities and trends that exist in the background of the Corporation's operations. Some are ongoing; others are expected to develop. Some have or will originate from across the globe; others have or will arise in our local and national environments. The following issues affect the planning context:

Market and Operating Environment

- Dominated by the U.S., the world economies are working off the excess capacity built during the technology and telecom stock bubble. The current bear market in global equities, as measured by the S&P 500 Index, is now the longest (in trading days) and deepest (as a per cent decline) since the 1929 crash. 10-year Canadian and US bond yields have reached lows not seen since 1960.

- Globalization of capital markets is leading to a number of consequences:

  - Diversification strategies are being challenged by high correlations between countries and, given the multinational reach of corporations, increasing sector correlations.
  - The domestic equity market is shrinking in size due to foreign purchases of Canadian companies making it harder for large fund managers to properly diversify in the Canadian public equity marketplace.
  - Markets are becoming more efficient making it difficult to achieve returns that exceed benchmark expectations.

- Important governance failures in corporations have led to the following legal and regulatory initiatives to support investor protection and market integrity:

  - The *Sarbanes-Oxley Act* of 2002 was signed into law by U.S. President Bush on July 30, 2002. This Act introduced comprehensive new rules to guide fair, ethical and responsible corporate behaviour. Canadian regulators are also considering ways to enhance market integrity and may opt to replicate either the U.S. "rules-based" approach to company oversight or a "principles-based" system. From an investor's perspective, prescribing detailed new governance rules could introduce new costs and additional process requirements to Canadian companies but offer little improvement on Canada's already rigorous market regulations.
  - Reforms are currently being examined by U.S. regulators to implement a research-sharing model that will give investors confidence that they are getting objective stock advice. The new model would free analysts from conflict with their employers' investment-banking business. Under this reform, the cost of independent research, which until now has been underwritten by investment-banking fees, would likely be absorbed by investors through higher trading commissions or direct payment.

- In addition to corporate governance developments in North American markets, we also anticipate that oversight practices will be reviewed, strengthened and expanded globally, easing the way for efficient proxy voting in equities worldwide.

- Over the next few years, investors will need to keep a watchful eye on several emerging issues:

  - The federal government has ratified the Kyoto Protocol requiring Canadian companies to severely reduce their greenhouse gas emissions. Investors must now assess the impact of the accord on particular industries/sectors, the investment climate, and economic conditions in general.
  - China has clearly indicated its intention to welcome foreign investors, which will eventually mean investment access to a large market with high growth potential.

- Two years of bear markets have reversed many of the pension surpluses created during the bull market of the 1990s. Since companies are compelled by law to make additional payments to their defined benefit plans should deficits occur, they will be faced with reporting pension expenses. Expenses are a drag on earnings and ultimately are reflected in lower stock prices. From an investor's perspective, this may require attention going forward should capital markets continue to languish over the longer term.

Investment Returns

- There are a variety of challenges and risks confronting global economies and an extended period of slow, sub-par economic growth may lie ahead. In this environment, returns across all asset classes are expected to be lower in coming years than in the second half of the 1990s.

- In North American equity markets, price/earnings multiples remain high and it is expected that a weak economy, coupled with the continued uncertainty over terrorism and corporate governance issues, will make revenue and earnings growth difficult to achieve.

- Non-North American equity market returns will continue to be influenced by market sentiment, which is cautious because of geopolitical factors as well as economic uncertainties.

- Declining inflation and interest rates have led to very strong investment returns in past years. Given the current level of interest rates and signs that inflation may be headed higher, it is expected that future fixed income returns will be more modest.

- Weak office and industrial real estate markets have exposed landlords to vacancies and expired leases which, going forward, may lead them to accept lower rental rates to attract and maintain tenants. Reduced real estate income streams could negatively affect returns on mortgage investments through the increased probability of mortgage defaults.

- Overshadowed by public equity market issues, private equity performance will be challenged by a difficult fund raising environment and cautious investor sentiment.

Information Technology

- As investment management activity becomes more sophisticated, driven by competitive pressures, eventual 7x24 market operations, and high volumes of transactions, the industry will increasingly rely on technology solutions to manage and process information. For example, bcIMC is currently implementing a Trade Order Management System to achieve straight-through trade processing.

- Powerful server clusters known as "data warehouses" are also emerging as important new tools to support the growing need for intensive processing of larger data volumes at various organizational levels. This technology allows intensive queries and analysis to be done on recent data without disruption to people who use the systems for real-time transactions. In the period ahead, bcIMC will investigate use of a data warehouse to enhance operational efficiencies.

- High cost and scarcity of skilled information technology (IT) people, combined with the need to implement business solutions rapidly, have driven the trend toward use of packaged software rather than custom-developed solutions. bcIMC's in-house IT employees will require specialized competencies in these packaged solutions to integrate them into the business and oversee their operation. Other employees will require strong project management skills and audit abilities as bcIMC becomes more reliant on software and support provided by outside organizations.

Risk Management

- A volatile, lower return environment will be a critical test for managers' risk-control procedures as a greater contribution from non-traditional investments is explored.

- Changing return patterns are putting client asset allocation models to the test and, where risk biases are appearing, investment strategy changes may be required.

- Robust risk measurement systems are becoming increasingly important as more attention is being paid to:
  - the volume and speed of capital flows around the world;
  - the use of derivative instruments; and
  - corporate governance failures.

- Technology will continue to provide risk reduction benefits to investment managers through pre-trade compliance functionality, less manual processing, and comprehensive value-at-risk monitoring.

Cost Structure

- Our costs will continue to draw close scrutiny from our clients. Our costs will need to be reasonable relative to our value added: we want to strike the correct balance between achieving high value-added for our clients and offering a competitive fee-for-service.

- Over the next three years bcIMC will continue to face cost pressures, predominantly arising from the increasing use of technology and advances in information management systems within the investment industry. bcIMC intends to be rigorous in managing these costs.

Clients

- Expectations are changing quickly among our clients. A traditionally benchmarked "balanced fund" remains the core product choice for most bcIMC clients but there is growing demand for an expanded product offering to satisfy a widening range of client risk-return profiles.

- The foreign property rule continues to constrain our clients' diversification strategies and limit their global investment opportunities to enhance portfolio return and reduce risk.

- In a bid to find an appropriate match for long-term liabilities outside the traditional venue of the capital markets, we anticipate that many of our clients will begin to look at new investment opportunities that do not necessarily offer liquidity, but provide steady cash flow, and a hedge against inflation with a minimum amount of volatility. This may trigger realignment of portfolios as clients' funds are transferred among the various "hard asset" products we offer, such as real estate, mortgages and infrastructure investments.

- Changes to British Columbia's *Financial Administration Act* will be implemented at the end of February 2003 and will remove legislative restrictions on the investment options available for the Provincial Government's funds. This will lead to minor adjustments in the investment strategies and should enhance the Province's risk adjusted returns.

- The demand for information, education and training on investment-related issues and policy advice will continue to grow as our clients look to us to for extra support and guidance in securing outcomes for beneficiaries in the challenging investment return environment ahead.

- The number of pension plan members approaching their retirement years is growing. A peak percentage of current contributors will reach eligibility for retirement in the years 2005-2009. An expanded retired membership coupled with the potential for continued realignment and adjustment of the public sector means modest growth for the Corporation's pension funds under administration.

- bcIMC's total fund approach differs from a typical investment management firm as we provide our clients with a seamless integration of investment operation and investment management services. We must ensure that our clients continue to recognize value in all of the services offered by bcIMC.

- bcIMC's large asset base offers our clients significant economies of scale. To sustain our size and continue to provide important efficiencies to our clients, bcIMC must:
  - stay focused on maintaining and enhancing the partner relationship we have already established with our clients, as evidenced by the positive results of a recent client satisfaction survey; and
  - examine and pursue opportunities for growth with new clients and new mandates on a diversified fund or asset class basis.

GOAL AND OBJECTIVES

bcIMC's goal is to be the fund manager of choice for the British Columbia public sector. To define our approach to achieving this goal, the Corporation has established several key business priorities or objectives. These are:

1. *to meet or exceed our clients' investment return expectations, subject to their tolerance for risk;*

2. *to effectively manage risk factors that could have an impact on operational efficiency or affect investment outcomes;*

3. *to develop and capitalize on the potential that exists in our employees to meet the dynamic needs of our Corporation and clients;*

4. *to maintain and enhance our systems infrastructure to ensure the Corporation has access to timely, reliable data and efficient technology solutions that support our business needs;*

5. *to share information, covering corporate operations and investment results, with stakeholder audiences on a timely basis using various channels and information tools; and*

6. *to maintain a competitive cost base that provides superior benefits to our clients.*

STRATEGIES AND PERFORMANCE MEASURES

The following tables set out the strategies that we will employ to achieve our business objectives. They also contain the performance measures we will use to monitor progress toward or achievement of our intended results:

Objective 1: To meet or exceed investment return expectations

***WE WILL*:**

- repeatedly examine, test and define our investment processes and approaches to remain an industry leader in investment management and operation services;
- continue to investigate technology-enhanced/automated research and analytical tools;
- broaden our product line of enhanced index pooled funds to include the U.S. and European public equity markets. The rationale of enhanced index funds is to achieve index plus (0.50% – 1.00%) returns by assuming a slightly higher risk profile than the underlying index (0.50% - 1.00% of tracking error);
- expand our program to include investments such as infrastructure; and
- enhance our global investment capability, particularly in higher growth economies such as China, by developing market knowledge, expanding our network of service partners and building local supplier relationships.

Results Expected: Value-added investment performance, given our clients' tolerance for risk.

Performance Measures:

1) Total returns for pension funds under management should meet or exceed:
   a) total fund market benchmark return; and
   b) total fund actuarial return that is used to assess the pension liabilities.
2) Asset class returns should meet or exceed industry recognized performance benchmarks as follows:

Pooled Investment Portfolio	Benchmark [1]
Short Term	
Short Term Fund 1	SCI 30 day T-Bill Index
Short Term Fund 2	SCI 91 day T-Bill Index
Short Term U.S. Fund 3	SSB 30 day T-Bill Index
Short Term Bond Fund	SCI Short Term Government Bond Index
Mortgages	
Fixed Term Mortgage Fund	SCI Short Term Bond Index + 1%
Construction Mortgage Fund	SCI One Year T-Bill Index + 1%
Specialty Mortgage Fund	SCI One Year T-Bill Index + 2.5%
Bonds	
Indexed Government Bond Fund	SCI Government Bond Index
Pension Bond Fund	SCI Government Bond Index
Long Term Bond Fund	SCI Long Term Government Bond Index
Corporate Bond Fund	SCI Corporate Bond Index
Canadian Stocks	
Indexed Canadian Equity Fund	S&P/TSX Composite Index
Enhanced Canadian Equity Fund	S&P/TSX Composite Index + 1%
Active Canadian Equity Fund	S&P/TSX Capped Index + 2%
U.S. Stocks	
S&P 500 Fund	S&P 500 Index
U.S. Equity Derivatives Fund	S&P 500 Index
U.S. Value Index Fund	S&P/Barra Value Index
Enhanced Indexed U.S. Equity Fund	RUSSELL 1000 Index + .75%
Active U.S. Equity Fund	RUSSELL 1000 and RUSSELL 2000 Indices
International Stocks	
European Equity Fund	MSCI Europe Net Index
European Equity Derivatives Fund	MSCI Europe Net Index
EAFE Fund	MSCI Europe, Australasia, Far East Net Index
International Equity Derivatives Fund	MSCI Europe, Australasia, Far East Net Index
Asian Equity Fund	MSCI Pacific Net Index
Real Estate	
Realpool Investment Fund	CPI + 4%
Private Placements	
Private Placement Funds	TSE 200 + 3% [2]
Other	
Infrastructure Fund	7.5% per annum
Currency Overlay Fund	1.5% per annum on notional value of program

Notes:

[1] Benchmarks are provided by independent third parties. Benchmarks noted will be used in each year of the three year planning period (2003/04 to 2005/06), unless amended in accordance with clients' agreement. See Appendix I for a description of the benchmarks.

[2] To be assessed correctly, private placements' performance must be measured over the life of the fund.

Objective 2: To manage operational and market risk factors

WE WILL:

- complete our review of all areas of operational risk to ensure the adequacy of internal controls and governance;
- move to a pre-trade versus post-trade compliance regime;
- undertake a market risk management project to identify, measure and enhance our management of all known market risks;
- investigate the costs and benefits to introducing a risk measurement system that will quantify and facilitate risk budgeting techniques;
- expand the scope and testing of our Business Continuation and Departmental Recovery Planning to ensure viability of critical functions under varying local and regional disaster scenarios; and
- explore supplier opportunities to enhance controls and automate processes in the delivery of custody and trade settlement services.

Results Expected: Funds under management are protected and the Corporation meets its fiduciary duty.

Performance Measures:

1) Prepare a comprehensive report assessing operational risks by Fall 2003.
2) Begin implementation of a pre-trade compliance function by Spring 2003.
3) Prepare a report on the market risk management project by Fall 2003.
4) Prepare a comprehensive, enterprise-wide risk management report by Spring 2004.
5) Issue a Request for Proposal (“RFP”) for custody and trade settlement services by March 31, 2003. Select a service provider and implement any necessary changes by November 15, 2003.

Objective 3: To develop and capitalize on the potential that exists in our employees

***WE WILL*:**

- extend support to employees seeking to obtain professional designations relevant to our business;
- encourage the continual professional development of staff by providing financial assistance for external training programs, workshops, conferences and seminars;
- support participation in industry associations so that employees gain expertise and leadership for the benefit of the investment industry, the Corporation and themselves;
- encourage delegation and cross training; and
- continue to present in-house training on investment management and professional development topics using both employee expertise and external resources.

Results Expected: Employee commitment, initiative, leadership and excellence.

Performance Measures:

1) Deliver to employees a minimum of six in-house training sessions on investment management and professional development topics by December 31, 2003.
2) Prepare an employee training and development framework by September 30, 2003 that addresses:
   - succession planning; and
   - career paths.

Objective 4: To maintain and enhance our systems infrastructure

***WE WILL*:**

- implement a Trade Order Management System to achieve straight-through trade processing;
- deliver desktop training to ensure the best use of automated office tools;
- implement a new Private Placement System to support analysis and reporting of private equity investments; and
- investigate implementation of a data warehouse that will allow queries and analysis to be done on corporate data without disruption to those who use the systems for real-time transactions.

Results Expected: Access to timely, reliable data and efficient technology solutions that support our business needs.

Performance Measures:

1) Begin implementation of a Trade Order Management System by Spring 2003.
2) Implement a new Private Placement System by December 31, 2003.
3) Investigate implementation of a data warehouse by March 31, 2004.

Objective 5: To share information, covering corporate operations and investment results, with internal and external audiences on a timely basis

***WE WILL*:**

- enhance the timeliness of client reporting;
- continue to undertake strategy reviews as requested by our clients in view of changing market expectations, risk exposures and opportunities for diversification;
- enhance our corporate governance monitoring and activist engagement in a manner that balances the issues appropriately;
- develop a bcIMC extranet web site for our board of directors;
- complete development of an intranet site for our employees; and
- when in our clients' best interests to do so, enhance our public information sharing practices by raising the level and expanding the methods of communication.

Results Expected: Clients, employees, the board of directors, and the public at large will be well informed on matters affecting them and the Corporation.

Performance Measures:

1) Review and implement changes to investment accounting processes by December 31, 2003 to provide timelier reporting to clients.
2) Revise the private placement and real estate valuation processes by April 30, 2003 to meet our clients' expectations for timelier reporting.
3) Launch an extranet site for the Corporation's board of directors by September 30, 2003.
4) Launch the employee intranet site by June 30, 2003.

Objective 6: To maintain a competitive cost base that provides superior benefits to our clients

***WE WILL*:**

- diligently evaluate the procurement of all goods and services to ensure that all purchases are necessary, appropriate and obtained at a competitive price;
- ensure all IT solutions are well-researched to provide the functionality required at the least possible cost; and
- review subscriptions to research, pricing and analytical tools on a corporate-wide level to ensure that bcIMC is receiving the best value-for-dollar.

Results Expected: Competitive fee structure.

Performance Measures:

The Corporation annually participates in a survey conducted by Cost Effectiveness Measurement Incorporated ("CEM"). bcIMC will maintain a cost structure at or below the average for our peer group as measured by the annual CEM survey.

FINANCIAL OUTLOOK

The Corporation is subject to a number of cost drivers, including the following:

a) **Fund growth** – several key investment costs (e.g., external manager fees) are variable and are determined by market value of assets under administration. Significantly, 75% of bcIMC's total costs are accounted for by external manager fees and safekeeping costs, both of which are driven by the value of assets under administration. As the market value of assets grows, expenditures will increase.

b) **Asset allocation** – different asset classes have different cost structures. For example, equities have higher management costs than fixed income assets. Decisions on asset allocation are based primarily on the nature of underlying liabilities and risk and return objectives. Costs are generally not considered in asset allocation decisions. If clients' asset allocation decisions result in a greater proportion of assets being allocated to more expensive asset classes, bcIMC's expenditures will increase.

c) **Type of management** – there are two decisions to be made in managing an asset class. The first is whether it will be managed on an indexed or active basis. The second is whether to manage the asset class internally or externally (i.e. engaging third party management firms). Indexing is less expensive than active management; internal management is less expensive than external. Decisions regarding indexed versus active, and internal versus external management are largely based on investment considerations, with cost implications largely being a secondary consideration. Therefore, bcIMC's costs will vary with the type of management chosen.

d) **Allocation of funds among external managers** – costs charged by external fund managers are not uniform. For example, small cap managers generally have higher fees than large cap managers, U.S. and non-North American managers typically have higher fees than Canadian managers, while some managers simply can command higher fees than others. This is due to such factors as a superior performance record, exceptional quality of research material, or additional expertise and resources made available to clients.

   Decisions on which managers to hire are based on a lengthy selection process, which focuses on four key factors: manager performance, investment process, philosophy (i.e. investment style), and people. Increasingly, risk control and compliance are important factors. While fees are a consideration in manager selection, they are largely secondary. Consequently, a shift in assets from one manager to another may be the prudent and appropriate course of action, even though the shift may result in higher costs.

e) **Complexity and sophistication** – new investment opportunities and products and changes to the marketplace (e.g., settlement, straight-through processing) require that bcIMC continue to invest in sophisticated analytical and management systems.

Because of the significance of these factors (particularly fund growth and asset allocation decisions made by bcIMC's clients), combined with the fact that they are largely beyond bcIMC's control, three year expenditure forecasts are subject to a high degree of change. As a result, financial projections are only provided for the first year (2003/04) of the planning period.

The Corporation's fiscal 2002/03 revenue and expenditure forecast and the fiscal 2003/04 budget are as follows:

	2002/03 Forecast (Nov 02) ($)	2003/04 Budget ($)
Revenues		
bcIMC internal cost recoveries	15,025,000	16,925,000
Recoveries of pooled investment portfolio direct costs (note 1)	61,296,000	61,712,000
Other	98,000	106,000
Total Revenues	76,419,000	78,743,000
Expenses		
Pooled investment portfolio direct costs (note 1)	61,296,000	61,712,000
Salaries & benefits	10,448,000	11,733,000
Professional services	543,400	625,000
System operations	1,589,000	2,215,900
Insurance	414,718	504,000
Office and business	1,049,114	961,700
Rent	478,768	495,000
Other	101,000	91,400
Total Expenses (note 2)	75,920,000	78,338,000
Net Income	499,000	405,000
Capital Expenditures	(499,000)	(405,000)
Net Excess / Outlay of Cash	0	0

Notes:

1 In order to provide funds management services, the Corporation enters into contracts with third parties for investment management, custodial, legal and other services. Third party costs that are attributable to a specific pooled investment portfolio are charged to that portfolio and shared on a pro-rata basis by the portfolio unit holders. These costs are referred to as pooled investment portfolio direct costs.

2 Excludes depreciation and amortization expense.

bcIMC is very conscientious with respect to its cost structure, as reflected by the Corporation's objective to maintain costs below the mean for its peer group. As well, the Corporation continues to examine alternative investment strategies that involve not only return enhancement and risk mitigation benefits, but which also include cost savings benefits.

PERFORMANCE BENCHMARKS

The information below provides a detailed description of the benchmarks that are listed under Objective 1, Performance Measure 2.

Short Term

Short Term Fund 1 – Scotia Capital Inc. 30-Day Treasury Bill Index
An index published monthly by Scotia Capital which maintains an average term to maturity of 30 days. This index assumes a monthly buy and hold strategy of Government of Canada 30-Day Treasury Bills.

Short Term Fund 2 – Scotia Capital Inc. 91-Day Treasury Bill Index
An index published monthly by Scotia Capital which maintains an average term to maturity of 91 days by selling and repurchasing a portfolio of Government of Canada Treasury Bills every two weeks.

Short Term U.S. Fund 3 – Salomon Smith Barney 30-Day Treasury Bill Index
An index published monthly by Salomon Smith Barney that purchases 1 month Treasury Bills at the beginning of each month. At the end of the month, all proceeds are reinvested at the new 1-month Treasury Bill rate.

Short Term Bond Fund – Scotia Capital Inc. Short Term Government Bond Index
An index published monthly by Scotia Capital based on a theoretical portfolio of short term government bonds that have a term to maturity of 1 - 5 years. The average term is approximately 3 years and the average duration is approximately 2.5 years.

Mortgages

Fixed Term Mortgage Fund – Scotia Capital Inc. Short Term Bond Index Plus 100 Basis Points
Return on the Fixed Term Mortgage Fund is compared to the Scotia Capital Short Term Bond Index plus 100 basis points. With an average term to maturity of 3.1 years, this index most closely approximates the expected term to maturity of the fund. The added 100 basis points reflect the illiquidity and higher credit risks of mortgages. The index includes bonds of the Government of Canada, provincial and municipal governments as well as AAA(minus) through BBB(minus) rated corporate issuers.

Construction Mortgage Fund – Scotia Capital Inc. One-Year Treasury-Bill Index Plus 100 Basis Points
Return on the Construction Mortgage Fund is compared to the Scotia Capital One Year Treasury Bill Index plus 100 basis points. With an average term to maturity of one year, this index most closely approximates the expected term to maturity of the fund. The added 100 basis points reflect the illiquidity and higher credit risks of mortgages.

Specialty Mortgage Fund – Scotia Capital Inc. One-Year T-Bill Index Plus 250 Basis Points
Return on the Specialty Mortgage Fund is compared to the Scotia Capital One Year Treasury Bill Index plus 250 basis points. The index has an average term to maturity of one year. The added 250 basis points reflect the illiquidity and higher credit risks of mortgages.

Bonds

Indexed Government Bond Fund – Scotia Capital Inc. Government Bond Index
An index published monthly by Scotia Capital based on a theoretical portfolio of diversified Canadian, Provincial, and Municipal bonds with term to maturity of more than 1 year. The average term is approximately 9 years and the average duration is approximately 5.5 years.

Pension Bond Fund – Scotia Capital Inc. Government Bond Index
An index published monthly by Scotia Capital based on a theoretical portfolio of diversified Canadian, Provincial, and Municipal bonds with term to maturity of more than 1 year. The average term is approximately 9 years and the average duration is approximately 5.5 years.

Corporate Bond Fund – Scotia Capital Inc. Corporate Bond Index
An index published monthly by Scotia Capital Markets based on a theoretical portfolio of BBB through AAA rated corporate bond issuers, which are weighted by amounts outstanding per issuer. The portfolio has an average duration of approximately 5.5 years.

Long Term Bond Fund – Scotia Capital Inc. Long Term Government Bond Index
An index published monthly by Scotia Capital Markets based on a theoretical portfolio of diversified Canadian government bonds with term to maturity of more than 10 years. The average term is approximately 21 years and the average duration is approximately 10 years.

Canadian Stocks

Indexed Canadian Equity Fund – Standard and Poor's/Toronto Stock Exchange(S&P/TSX) Composite Index
The S&P/TSX Composite Index covers Canadian-incorporated companies listed on the Toronto Stock Exchange. The S&P/TSX Composite Index is capitalization-weighted and returns are calculated on a total return basis with dividends reinvested.

Enhanced Canadian Equity Fund – S&P/TSX Composite Index Plus 100 Basis Points
The S&P/TSX Composite Index covers Canadian-incorporated companies listed on the Toronto Stock Exchange. The S&P/TSX Composite Index is capitalization-weighted and returns are calculated on a total return basis with dividends reinvested.

Active Canadian Equity Fund – S&P/TSX Capped Index Plus 200 Basis Points
The S&P/TSX Capped Index covers Canadian-incorporated companies listed on the S&P/TSX Composite Index. The S&P/TSX Capped Index limits the weight of a company in the Index to 10 percent. The companies are capitalization-weighted and returns are calculated on a total return basis with dividends reinvested.

U.S. Stocks

S&P 500 Fund – Standard and Poor's (S&P) 500 Index
The S&P 500 Index covers 500 industrial, utility, transportation, and financial companies of the U.S. markets (mostly New York Stock Exchange (NYSE) issue). The index represents about 85% of NYSE capitalization. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested.

U.S. Equity Derivatives Fund – S&P 500 Index
The S&P 500 Index covers 500 industrial, utility, transportation, and financial companies of the U.S. markets (mostly NYSE issue). The index represents about 85% of NYSE capitalization. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested.

U.S. Value Index Fund – S&P/Barra Value Index
The S&P/Barra Value Index includes companies in the S&P 500 that have value characteristics such as low price-to-book ratios.

Enhanced Indexed U.S. Equity Fund – RUSSELL 1000 Index Plus 75 Basis Points
The Enhanced Indexed U.S. Equity Fund excludes stocks within each economic sector of the Russell 1000 that are judged to be overvalued. The Russell 1000 Total-Return Index measures the performance of the largest U.S. companies in the Russell 3000 Index.

Active U.S. Equity Fund – RUSSELL 1000 Index and RUSSELL 2000 Index
The Russell 1000 Index and the Russell 2000 Index are total-return indices which include the largest 1000 (based on market capitalization) and the smallest 2000 (based on market capitalization) of the 3000 U.S. companies which make up the Russell 3000 Index.

International Stocks

European Equity Fund – Morgan Stanley Capital International (MSCI) EUROPE Net Index
The MSCI Europe Net Index is a total return index that includes dividends net of withholding taxes. It is comprised of approximately 550 securities listed on the exchanges of 16 European countries.

European Equity Derivatives Fund – MSCI Europe Net Index
The MSCI Europe Net Index is a total return index that includes dividends net of withholding taxes. It is comprised of approximately 550 securities listed on the exchanges of 16 European countries.

EAFE Fund – MSCI Europe, Australasia Far East (EAFE) Net Index
The MSCI EAFE Net Index is a total return index that includes dividends net of withholding taxes. It is comprised of approximately 1000 securities from 22 countries in Europe, Australasia, and the Far East.

International Equity Derivatives Fund – MSCI EAFE Net Index
The MSCI EAFE Net Index is a total return index that includes dividends net of withholding taxes. It is comprised of approximately 1000 securities from 22 countries in Europe, Australasia, and the Far East.

Asian Equity Fund – MSCI Pacific Basin Net Index
The MSCI Pacific Basin Net Index is a total return index that includes dividends net of withholding taxes. It is comprised of approximately 552 securities listed on the exchanges of five Pacific Rim countries.

Real Estate

Realpool – Consumer Price Index (CPI) Plus 400 Basis Points
Return on the Realpool Investment Fund is compared to the CPI plus 4%.

Private Placements

Private Placement Funds – S&P/TSX 200 Index + 300 Basis Points
Returns on Private Placement Funds are compared to the S&P/TSX 200 Index plus 3%.

Other

Infrastructure Fund – 7.5% per annum
The Infrastructure Fund (the Fund) is intended to match the underlying liability profile of the pension plans that invest in the Fund, therefore, the performance objective of the Fund is to meet or exceed 7.5% per cent per annum.

Currency Overlay Fund – 1.5% per annum
Performance objective is to earn an absolute return of 1.5% per annum on the notional value of the program.