

RESPONSIBLE INVESTMENT

**ACCESS TO INFORMATION
ACCESS TO OPPORTUNITY**



2013–2014

Alberta Investment Management Corporation, AIMCo, is one of Canada's largest and most diversified institutional investment managers with more than \$80 billion of assets under management.

We were established in 2008 as a Crown Corporation to provide investment management services to specified pension, endowment and government funds in Alberta.

Our 27 clients are focused on Responsible Investing and the impact of Responsible Investing from a variety of perspectives including investment risk and return.

WHAT IS RESPONSIBLE INVESTMENT?

Responsible Investment (RI) is focused on enhancing and protecting long-term shareholder and multiple stakeholder value by considering the impact of environmental, social and governance (ESG) factors on investment risk and performance, alongside traditional financial and economic analysis.

An institutional investor will typically pursue RI to further the goal of creating and protecting long-term, stable stakeholder value. The RI value proposition focuses on the "triple bottom line": economic, environmental and social assets and liabilities.

Table of Contents

| | | | |
|---------------------------------|---|-------------------------------------|----|
| Responsible Investment at AIMCo | 2 | Engagement Process | 10 |
| Responsible Investment Pillars | 4 | – Case Study: Bangladesh Engagement | 11 |
| Structure | 5 | Reporting and Communication | 14 |
| Investment Process | 6 | Advocacy and Collaboration | 15 |
| – Proxy Voting Year in Review | 7 | – Spotlight on Board Diversity | 16 |
| – Spotlight on Proxy Voting | 9 | Looking Ahead | 17 |



CEO MESSAGE



We are pleased to present this inaugural report outlining AIMCo's responsible investing accomplishments of the past year. Our theme, Access to Information – Access to Opportunity, captures the spirit of how we have integrated the principles of responsible

investment into our internal processes. We target attractive opportunities while addressing Environmental, Social and Governance factors.

AIMCo's clients include some of Canada's largest pension plans, the nation's largest endowment system and the day-to-day operating balances of the Province. The assets we manage are important to Albertans, and we invest to earn them a superior risk-adjusted rate of return, while factoring in sustainability risk.

We will further the principles of responsible investing through continuous monitoring, active participation and appropriate engagement. We expect transparency from our investee companies to explain how they think and what they do, and this report shows we are doing the same ourselves.

Leo de Bever

Chief Executive Officer
Alberta Investment Management Corporation (AIMCo),
Edmonton



RESPONSIBLE INVESTMENT AT AIMCo

OUR PHILOSOPHY

Sound investment decisions are grounded in the analysis of quality information. Consideration of ESG factors enables better investment decisions - especially where the market does not properly consider a company's triple bottom line (economic, environmental and social) value. We must proactively go beyond traditional information gathering and analysis to seek ESG factor-related information to enable us to better assess risk and value, and accordingly make better investment decisions on behalf of our clients.

Better investment decisions further our goal of creating and protecting long-term, stable stakeholder value. This is "*How we think*".

CORE RISKS

| ENVIRONMENT | SOCIAL | GOVERNANCE |
|-----------------------------------|-------------------------|---------------------------------------|
| CLIMATE CHANGE | HUMAN RIGHTS | BOARD QUALITY |
| BIODIVERSITY | WORKER & PRODUCT SAFETY | SHAREHOLDER RIGHTS |
| ENVIRONMENTAL RESOURCE MANAGEMENT | COMMUNITY RELATIONS | CORPORATE ACCOUNTABILITY |
| ECO-EFFICIENCY | CORRUPTION | COMPENSATION ALIGNED WITH PERFORMANCE |
| LEGAL & REGULATORY RISK | | |
| GEOPOLITICAL RISK | | |
| REPUTATIONAL RISK | | |

RESPONSIBLE INVESTMENT IMPLEMENTATION

AIMCo provides total fund investment management, with asset classes ranging from public equities and fixed income to private equities, mortgages and infrastructure. RI permeates all assets under management. AIMCo's in-house Responsible Investing team works alongside AIMCo's investment professionals to implement RI across our investment processes. The implementation of RI and the impact of ESG factors will vary by asset class, but our guiding philosophy remains the same: the consideration of ESG factors and related information enables better investment decisions and supports long-term, stable stakeholder value. This is "*What we do*".



SPOTLIGHT ON REAL ESTATE

Research shows that certified green buildings in Canada generate superior income and capital growth for their owners.¹ Energy, water and waste efficiency measures can reduce building operating costs, make properties more competitive and help keep occupancy levels high. Since 2010, AIMCo's Canadian real estate portfolio has saved tenants over \$9.5MM through increased efficiencies in power, gas, and water usage.



Eight Avenue Place – Calgary, AB
LEED® C&S Platinum certified (studioamd.com)

1 REALpac / IPD Canada Quarterly Green Property Index results ending Q1 2014

OUR FOUNDATION

AIMCo signed onto the United Nations Principles for Responsible Investment (PRI) in 2010, making a formal commitment to incorporate ESG factors into investment analysis and decision-making. At the core of PRI are six principles that guide over 1,200 signatories in the implementation of RI. AIMCo's board adopted an RI Policy in November, 2012. Our RI Policy closely aligns with the PRI principles and is publicly available on our website.

1

Incorporate ESG issues into investment analysis and decision-making processes.

2

Be active owners and incorporate ESG issues into our ownership policies and practices.

3

Seek appropriate disclosure on ESG issues by the entities in which we invest.

4

Promote acceptance and implementation of the Principles within the investment industry.

5

Work together to enhance our effectiveness in implementing the Principles.

6

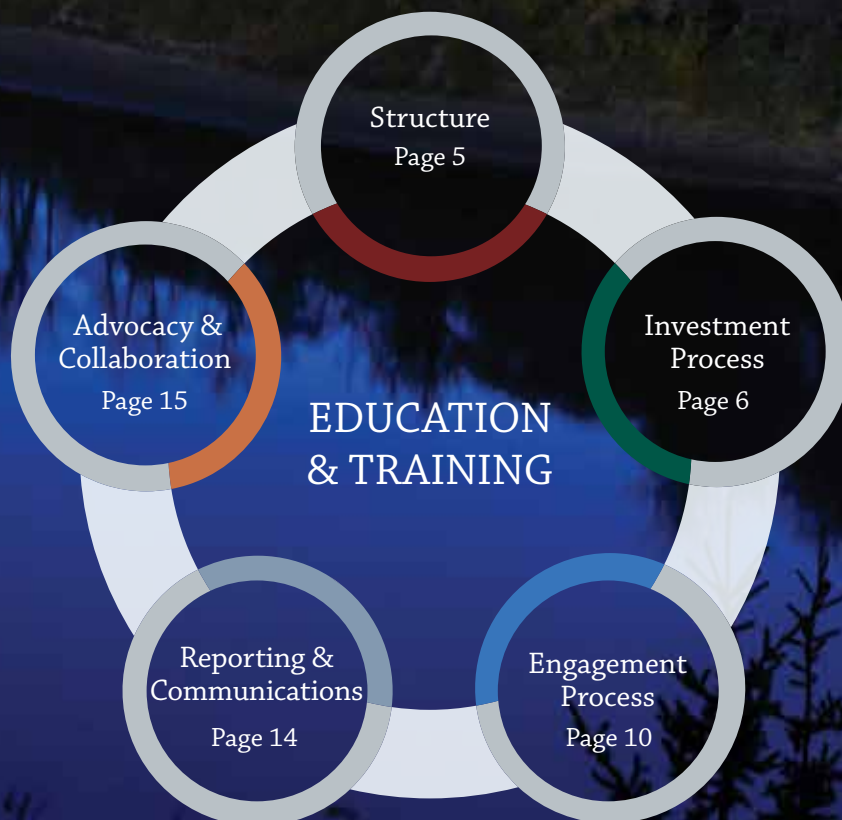
Report on our activities and progress towards implementing the Principles.

www.unpri.org/about-pri/the-six-principles/



RESPONSIBLE INVESTMENT PILLARS

AIMCo's RI pillars provide the structure and foundation for how we implement our philosophy with each pillar supporting one or more of the PRI principles:



AIMCo's RI structure supports our fiduciary duty as set out by the Alberta Investment Management Corporation Act.

Our RI Policy is approved by our Board and available on AIMCo's website. The focus of our RI Policy is to protect and enhance long term shareholder value for our clients. The RI Policy provides a baseline approach to the analysis of ESG risk and how to factor these risks into our investment decisions.

The AIMCo Responsible Investment Committee is chaired by our CEO and features cross-departmental representation, including our heads of public and private investing. The RI Committee is responsible for broad oversight of AIMCo's RI strategy, activities and procedures.

The AIMCo RI team is responsible for the day-to-day implementation of the RI Program and reports to our Chief Client Relations and Legal Officer.

AIMCo is also an active member of several RI associations, including International Corporate Governance Network (ICGN), Principles of Responsible Investment (PRI), Pension Investment Association of Canada (PIAC) and Responsible Investment Association (RIA).

Responsible Investment functions as an umbrella department reaching across the organization.



The integration of RI and ESG-factors into AIMCo's investment processes are key to the implementation of our RI philosophy.

While ESG integration occurs to varying degrees across all AIMCo-managed asset classes, a significant focus of our RI activity for this Pillar is proxy voting.

PROXY VOTING: MANAGING THE PORTFOLIO

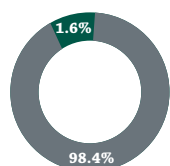
AIMCo votes on \$35B worth of publically traded shares at annual general meetings and special meetings on behalf of our clients. Given the size and geographic diversity of the public holdings, the vast majority of our voting is done electronically. Votes are cast on items proposed by two sources: (1) management; and (2) shareholders.

The proxy voting process is an important tool to maximize and protect stakeholder value. We take a very rigorous, hands-on, bespoke approach:

- **Proxy Voting Guidelines** – AIMCo has developed our own, principles based, bespoke Proxy Voting Guidelines in order to protect and enhance long-term shareholder value. The Proxy Voting Guidelines recommend voting resolutions across seven distinct voting categories: Director elections, Shareholder rights, Compensation, Audit, Capital Structure, Take-over Protection, and Reporting. We take voting recommendations from proxy service providers into account, but ultimately we make our own voting decisions, which may diverge from our proxy service providers.
- **Thorough, Robust Analysis** – Each and every ballot item is reviewed internally by AIMCo professionals.
- **Thoughtful, Considered Approach** – Proxy voting is not always black and white. Our bespoke Proxy Voting Guidelines provide a set of guiding principles, but our processes require the analysis to be contextual and responsive rather than formulaic.
- **Responsive** – Proxy voting issues and trends are always evolving. To ensure our practices are kept up to date, the RI team regularly brings the Proxy Voting Guidelines to our RI Committee for review and approval of evolutionary changes.

For more information, see www.aimco.alberta.ca/How-We-Think/Proxy-Voting

PROXY VOTING - YEAR IN REVIEW



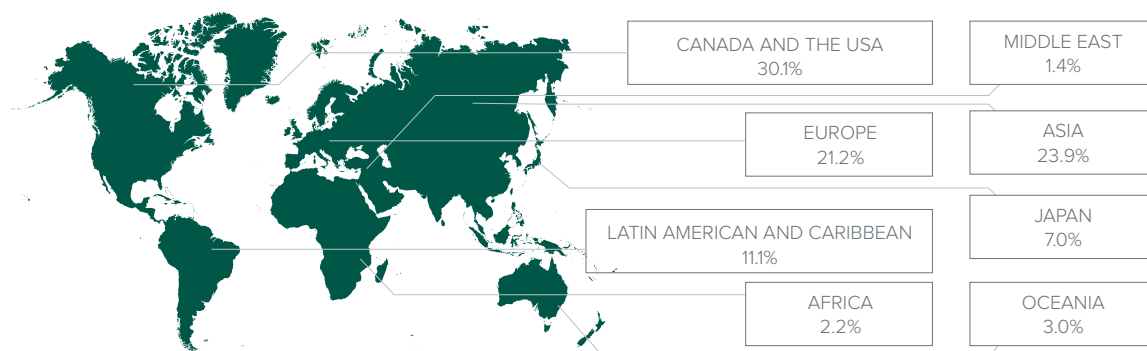
● % of meetings that were not voted upon due to issues such as share blocking*

● % of meetings that were voted upon

2,284 Meetings in our portfolio
For the period of July 1, 2013 to June 30, 2014

A GLOBAL PROGRAM

Our meetings were distributed around the world due to the far reaching nature of our investment program:



WE DON'T ALWAYS AGREE WITH MANAGEMENT
16.1% OF THE **23,170** PROPOSALS MADE BY MANAGEMENT, AIMCo DID NOT SUPPORT

WHY DO OUR OPINIONS DIFFER?

Our job is to ensure companies are being run in a manner that enhances shareholder value.

Here are some examples of how AIMCo voted on Management Proposals:

Note: Percentage voted against represents percentage within the proposal category

EXECUTIVE COMPENSATION.....AGAINST

- Compensation poorly tied to performance
- Golden handshakes
- No long term incentive program

25%

MERGERS & ACQUISITIONS.....AGAINST

- Potential conflicts of interest
- Insufficient information disclosed regarding valuation process

15%

DIRECTOR ELECTIONS.....AGAINST

- Independence issues
- Conflicts of interest
- Slate voting
- Poor attendance

16%

AUDIT / FINANCIALS.....AGAINST

- Non-audit fees exceed audit fees

7%

CHANGES TO COMPANY STATUTES.....AGAINST

- Excessive discretionary authorities
- Insufficient protection of minority shareholder rights

14%

CAPITAL MANAGEMENT.....AGAINST

- Plan is excessively dilutive to current shareholders
- Proposed leverage is excessive
- No reasonable rationale presented for new share issuance

19%

MEETING ADMINISTRATION.....AGAINST

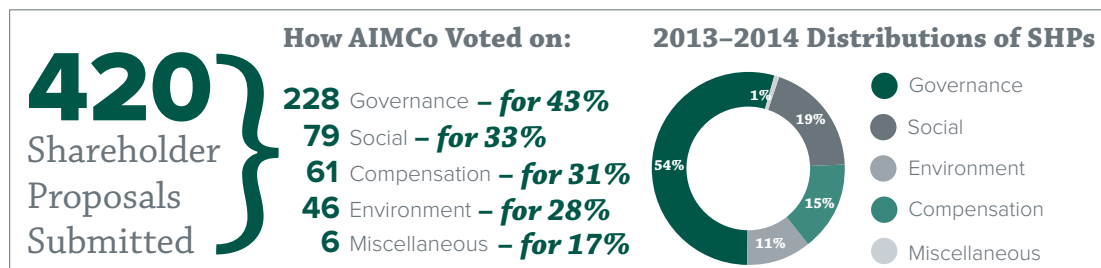
- Granting unfettered discretion to Board

23%

*Share blocking occurs when an issuer requires shares being voted on to be temporarily blocked from trading for a certain period around the meeting / voting date. AIMCo does not support share blocking mechanisms as they restrict trade activity and impede our portfolio management abilities.

SHAREHOLDER PROPOSALS

In addition to proposals made by management, shareholders may submit proposals for voting at the annual and special meetings. Because the rules and regulations for putting forth shareholder proposals vary widely depending upon the jurisdiction, we closely consider whether the shareholder proposal adds value to the company and enhances stakeholder value.



How we think

Some examples of how AIMCo voted on specific issues and the rationale guiding our analyses:

GOVERNANCE

Sub-topic: Majority Voting

Voted for 100% of related proposals

Notable companies: Google Inc.; Exxon Mobil Corp.; Kellogg Co.; Bristol-Myers Squibb Co.

Rationale: Implementing a majority vote standard increases board accountability and performance, enhancing shareholder rights.

ENVIRONMENT

Sub-topic: Environmental Reporting

Voted for 22% of related proposals

US companies from various sectors.

Rationale: AIMCo generally supports proposals requesting issuers to adopt ESG reporting. However, where companies already provide extensive disclosure, AIMCo will vote against proposals which are not an optimal use of the company's resources and do not clearly enhance shareholder value.

SOCIAL

Sub-topic: Compliance with International Human Rights Standards

Voted for 40% of related proposals

Notable companies: Kellogg Co., Kroger Co., Caterpillar Inc., Motorola Solutions Inc., Urban Outfitters Inc.

Rationale: AIMCo generally supports proposals requesting companies to report on ESG risk management. However, where companies already provide extensive disclosure AIMCo will vote against proposals which are not an optimal use of the company's resources and do not clearly enhance shareholder value.

COMPENSATION

Sub-topic: Executive Compensation

Voted for 25% of related proposals

Mainly US Fortune 500 Companies (IBM Corp., PepsiCo Inc., FedEx Corp.)

Rationale: AIMCo generally supports proposals which demonstrate alignment of executive compensation with performance. We also supported proposals that eliminated the use of single trigger change in control mechanisms, called 'golden parachutes' which are detrimental to shareholder value. Designing appropriate compensation packages remains a management responsibility, while shareholders vote on an Advisory Vote on Executive Compensation.



SPOTLIGHT ON PROXY VOTING: TIME WARNER CABLE

In 2014 the compensation committee of Time Warner Cable accelerated the vesting of Long Term Incentive grants and removed the performance-vesting conditions. The 2014 special program would serve to increase the already sizeable golden parachute packages for top executives in the event of a change in control. The size of such golden parachutes is especially relevant in this scenario given the fact that Time Warner Cable was in the process of merging with Comcast at the time of the vote. Upon closing of the merger, the employees would be eligible for severance packages with a significantly higher equity value. Removing the performance conditions undermines the purpose of equity awards (incentivizing retention and performance).

For these reasons, AIMCo voted **“AGAINST”** the say-on-pay proposal. Because of such problematic pay practices, AIMCo held the chair of the compensation committee accountable by voting **“AGAINST”** this director. AIMCo voted **“FOR”** the shareholder proposal which called for pro-rata vesting of equity awards upon a change in control; as such a practice would further align the interests of executives with shareholders.

Voting results were as follows: Over 30% of shareholders voted **“AGAINST”** the say-on-pay proposal, over 20% voted **“AGAINST”** the chair of the compensation committee, and approximately 30% voted **“FOR”** the shareholder proposal on pro-rata vesting.



Time Warner Center, New York

Boards of public companies are constantly under scrutiny and must move beyond business as usual to lead with greater transparency, accountability, and efficiency.



AIMCo's RI philosophy views engagement as a valuable tool to enhance stakeholder value.

Engagements reflect a process of relationship building and purposeful dialogue with a company to foster corporate accountability of ESG risks and promote shareholder value. AIMCo champions a “voice over exit” approach whenever possible – we engage with a company to effect positive change rather than simply divesting our clients of the applicable holdings.

AIMCo's engagement process is both tactical and strategic. It is pro-active in addressing key ESG focus areas, and it is also reactive to enable us to respond to pressing issues as they arise. The RI committee approves engagement focus areas annually in advance of the proxy season.

FOCUS AREAS FOR OUR ENGAGEMENTS

The key focus areas identified by the RI Committee for 2013 - 2014 were:

ENVIRONMENT

- Climate Change
- Environmental Impacts



SOCIAL

- Worker Safety
- Supply Chain Risk



GOVERNANCE

- Director Elections
- Shareholder Rights





CASE STUDY: BANGLADESH ENGAGEMENT

ISSUE OVERVIEW

On 24 April 2013, Rana Plaza, an eight-story building housing several garment factories collapsed in Savar, near Dhaka.

Sub-standard construction and over-crowding triggered the deadly collapse which killed over 1,100 people and injured 2,500 more.

Since 2005 Bangladesh has suffered the tragic loss of over 1,800 lives, with thousands more injured, due to factory fires (at Tazreen in 2012 and in Gazipur in 2013) and building collapses. These incidents reveal a pattern of unsafe building practices and dubious working conditions presenting operational, health, safety, legal and reputational risks across the global garment industry supply chain.

Although Rana Plaza workers reported severe cracks in the building one day prior to the collapse they were reassured by a factory manager it was safe to enter. In the wake of the Rana Plaza factory collapse, trade unions, labour rights organizations and concerned citizens called upon global retailers to intervene. Two separate multi-stakeholder initiatives were born – the Bangladesh Accord (Accord) and the Alliance for Bangladesh Worker Safety (Alliance.) The objectives of each are similar – to address factory and worker safety for garment workers in Bangladesh within the context of five-year, legally binding agreements. Collectively, signatories represent a majority of global retail brands, sourcing from almost half (2,000) of all garment factories in Bangladesh.





CASE STUDY: BANGLADESH ENGAGEMENT

We prefer to engage with companies to encourage them to adopt best practices rather than divest, as we lose the ability to influence corporate practices if we divest.

The purpose of this engagement was to initiate conversation and give companies an opportunity to address our concerns over time. After the Rana Plaza factory collapse, AIMCo's RI Committee determined that worker safety across the supply chain should be a focus area for engagement. We identified retailers which source garments from Bangladesh within our assets under management, and partnered with OPTrust in a collaborative engagement. Both institutions view worker safety and respect for human rights as a fundamental corporate responsibility.

KEY LEARNINGS

Collaborative engagement fosters synergy and enhanced accountability. Greater success, measured by response rate, was achieved overall for issuers we contacted jointly. Of the 28 issuers AIMCo reached out to, 16 were held by clients of AIMCo and by OPTrust. We received responses from 14 of the 16 companies owned in common, and from six of the 12 owned solely by clients of AIMCo. In-person meetings were conducted with five companies, while conference calls were held with several others; and communication is ongoing.

The population in Dhaka is highly concentrated due to a lack of habitable land, fostering unsafe building practices, and illegal additions. AIMCo's perspective is that retailers must act as 'educated players' and take appropriate measures to mitigate risks in jurisdictions with weak governance controls, which are susceptible to bribery and corruption. Traceability is a vital component of the audit process to control against unauthorized subcontracting, an overarching issue in Bangladesh. In a developing country such as Bangladesh, the focus should be on quality factory inspections rather than independent factory inspections, as the prevailing 'standard' of independence does not necessarily equate with quality.

AIMCo supports the Alliance and the Accord in their ultimate goal to ensure worker safety in Bangladesh, without supporting one agreement over the other. The Accord has the advantage of far greater membership and robust standards. We remain hopeful the Alliance and the Accord will collaborate on factory inspections in the future, and that other companies will join their ranks, bearing in mind that half of Bangladesh's garment factories are not covered by either agreement.



CASE STUDY: BANGLADESH ENGAGEMENT

OUTCOMES

Most companies we have engaged with have changed their global sourcing practices since Rana Plaza in order to increase transparency, accountability and control.

One company we engaged with signed onto the Accord two weeks after AIMCo urged their director of sustainability to do so.

Several stated they now have local company representatives or designated agents to oversee factory inspections and monitor factory capacity issues. One company we engaged with are instituting fire and emergency evacuation protocols and training. One revealed that although a factory had “passed” its fire safety test, none of the fire alarms at the factory were working during a follow-up factory visit, highlighting the need for regular spot-checks.

A well-known brand stated they finally have ‘look through’ so they can track which factories are producing their goods, which they could not do before. Some have reduced the total number of factories they operate out of to facilitate greater control, and/or are reducing the number of multiple-use factories they operate out of, where non-apparel items are also being made. One company decided to set up its own designated factory to tighten controls.

Loblaws has distinguished themselves by taking a leadership role, exemplifying best practices by making restitution to impacted families from Rana Plaza very early on, even if the impacted families had no connection to the workers who manufactured their Joe Fresh clothing lines. Leading companies are already extending their new Bangladesh sourcing model to other emerging market sourcing countries, which they will adapt to local conditions.

Successful engagements are
a journey conducted over time.



Reporting and communications are an ongoing focus of our RI implementation.

Transparency ensures that we are accountable to our clients and stakeholders for our actions, and that we act consistently and in accordance with their and our core values. As an organization, we hold ourselves up to the same level of robust corporate governance standards that we expect from investee companies. In publically sharing our RI philosophy, key metrics, engagement and advocacy initiatives we seek to positively influence behavior among our peers, investee companies and other participants within the RI landscape.

Our primary modes of reporting and communication are:

- The AIMCo Annual Report
- The AIMCo web site: (www.aimco.alberta.ca)
- The PRI Transparency Report (on our website)
- In-person client meetings
- The AIMCo Annual Responsible Investing Report
- Presentations at Conferences

AIMCo's Responsible Investment policy, proxy voting guidelines, engagement guidelines, voting records and voting rationale (updated in real time) are publicly available and posted on our website. A copy of the RI White Paper "*Responsible Investment 101*" can also be found on our corporate web site. www.aimco.alberta.ca/How-We-Think/Thought-Leadership



The PRI Survey

The PRI Survey assesses AIMCo on multiple criteria aligned with the PRI principles, such as the quality of our ESG investment disclosure, how we disclose our active ownership activities, our relations with service providers, ESG stakeholder communication and how we try to promote awareness of the PRI.

The PRI Transparency report which summarizes this assessment is available on our website.



We are an active member of the Canadian and international RI community. Within the scope of our mandate, AIMCo participates in public policy dialogue on items that influence ESG factors.

AIMCo participates in public policy dialogue by submitting reasoned commentary to regulatory, securities and other authorities on issues considered pertinent to our clients. These submissions consider the principles of good governance, best practices, implications for capital markets, financial and ESG reporting, and the protection of our clients' assets.

Several submissions are also collaborative efforts made jointly with institutional investor peers. Please see the following section *Spotlight on Board Diversity* for AIMCo's recent response to the Ontario Securities Commission's (OSC) proposals to address the low percentage of women on boards.

See our website at www.aimco.alberta.ca/How-We-Think/Advocacy for a list of recent submissions to regulatory, securities and other authorities.



SPOTLIGHT ON BOARD DIVERSITY

The Ontario Securities Commission (OSC) requested feedback on its proposals to address the low percentage of women on Canadian boards (approximately 11% for TSX registered companies). Board diversity fosters robust board composition, which correlates with improved financial performance.

Our RI team facilitated an internal, cross functional working group of senior managers, to consider the OSC proposals and draft an AIMCo response. We viewed the key drivers for the stagnant rate of change of women on public company boards in Canada to be a function of the slow progression of women up the corporate ladder, a lack of board terms, and a lack of concerted effort by boards to widen their recruitment processes.

We supported the majority of the OSC recommendations. However, their proposals may not go far enough. We suggested that companies report on the actual search criteria used in their board skills matrix.

AIMCo suggested the OSC adopt target time lines to demonstrate evidence of a rate of increase of women on the board across time, such as over a 5-year period. This strategy would encourage improvement, which is vitally important for industries where there has historically been low diversity.

We supported the OSC's recommendation to require disclosure of the number of women on the boards of all publically traded companies to positively effect change.

We advised that a phasing-in approach should be adopted, to allow companies time to adapt. We are mindful of maintaining the integrity and substance of the board appointment governance process rather than creating a mere "tick the box" requirement. Lastly, we support the recommendation that the final review or audit of recruitment processes by the OSC should be fully defensible with a thorough evaluation of what the company has done, and is going to do before deciding on any sanctions.



AIMCo is committed to actively protecting our clients' investments by seeking the best information possible to manage ESG risks. For further information on our responsible investing policy, guidelines and activities, please feel free visit AIMCo's web-site at www.aimco.alberta.ca.



Responsible Investment is an ongoing journey rather than a destination. It requires conscientious due diligence, communication, and the constant monitoring of global ESG issues and trends as they evolve.

Access to information gives us access to opportunity, leading to value for our clients.

Photography on the following pages generously supplied by Jeff Wallace, Senior Manager, Data Governance at AIMCo (Page 1, 2, 4, 10 - Environment, 17).

Produced by Kyle Loranger Design.

FSC/Recycled Designations



**ALBERTA INVESTMENT
MANAGEMENT CORPORATION**

HEAD OFFICE

1100 - 10830 Jasper Avenue
Edmonton, Alberta T5J 2B3, Canada

TORONTO OFFICE

First Canadian Place
100 King Street West, Suite 5120, P.O. Box 51
Toronto, Ontario M5X 1B1, Canada

LONDON OFFICE

1 Berkeley Street
London, UK W1J 8DJ

www.aimco.alberta.ca