



InBC Investment Risk Management Policy

September 29, 2022



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1 Summary

The *InBC Investment Corp. Act* (the “Act”) is the enabling legislation through which InBC Investment Corp. (“InBC”) conducts its investment activities. It stipulates the principles that InBC must adhere to when investing and managing assets entrusted to it by the Province of British Columbia (“the province”).

It assigns various responsibilities to the Board of Directors (the “Board”), the Chief Executive Officer (“CEO”), the Chief Investment Officer (“CIO”), and the Chief Financial Officer (“CFO”) in executing, monitoring, and reporting on the performance of InBC’s investments and ensuring InBC’s assets are managed in compliance with the Act.

In assigning these responsibilities, it establishes a structure within which InBC’s CIO can exercise the statutory authority when investing InBC’s assets, and against which the performance of the CIO may be assessed by the Board.

This Investment Risk Management Policy (the “Policy”) outlines the investment risk management framework that has been instituted to assist the Board in its oversight of investment risk at InBC.

2 Purpose

The purpose of this Policy is to establish the risk governance and risk management frameworks, and related roles and responsibilities, for the effective management of investment risk at InBC.

3 Scope

This Policy is applicable to all investment related activities of InBC except investments that are made under agreements that were in place before the *InBC Investment Corp. Act* came into force on May 20, 2021. These investments include infrastructure loans made by InBC as a participant in the Immigrant Investor Program, and venture capital investments held by the B.C. Renaissance Capital Fund Ltd., InBC’s wholly owned subsidiary.

4 Investment Risk Guiding Principles

The guiding principles below are intended to create an enterprise-wide risk-aware culture emanating from tone at the top and extending to all levels of the organization to ensure undue risks are avoided and calculated risks are taken in pursuit of investment objectives. All employees should apply the following principles as they engage in managing investment risks:

- 4.1 Investment risk management is embedded in all investment decisions and is the responsibility of all InBC employees.

- 4.2 Investment risks are managed to ensure investment alignment with the legislated purpose of InBC, mitigating adverse reputational impacts to the Province of BC.
- 4.3 Sufficient risk identification, assessment, measurement, and monitoring capabilities should be in place prior to capital deployment for investments.
- 4.4 Investment risk taking is independent of investment risk measurement to ensure objective assessment of risk.
- 4.5 Effective risk management processes are in place, commensurate with the level of inherent risk, within established risk tolerances.
- 4.6 Full transparency on all investment activities and investment risks is made available to the Board and its Audit, Investment, and Risk (“AIR”) Committee and InBC management Investment Review Committee (“IRC”).
- 4.7 Investment risk management is forward-looking and proactive, without overreliance on history, to ensure appropriate identification of material existing and emerging risks and likelihood of their impacts under normal or stressed market conditions.
- 4.8 Investment risk management integrates responsible investing, which considers alignment with impact objectives and environmental, social, and governance (“ESG”) risk factors that may negatively impact long term sustainable value.

5 Risk Governance Framework

Governing Documents

Policies, Directives and Procedures collectively form the governing documents for managing investment risk at InBC.

5.1 Policies

- (a) The Investment Policy Statement (“IPS”) describes InBC’s investment objectives, risk tolerance, constraints, and reporting requirements.
- (b) The Investment Risk Management Policy establishes the risk governance and risk management framework, and related roles and responsibilities, for the effective management of investment risk at InBC.

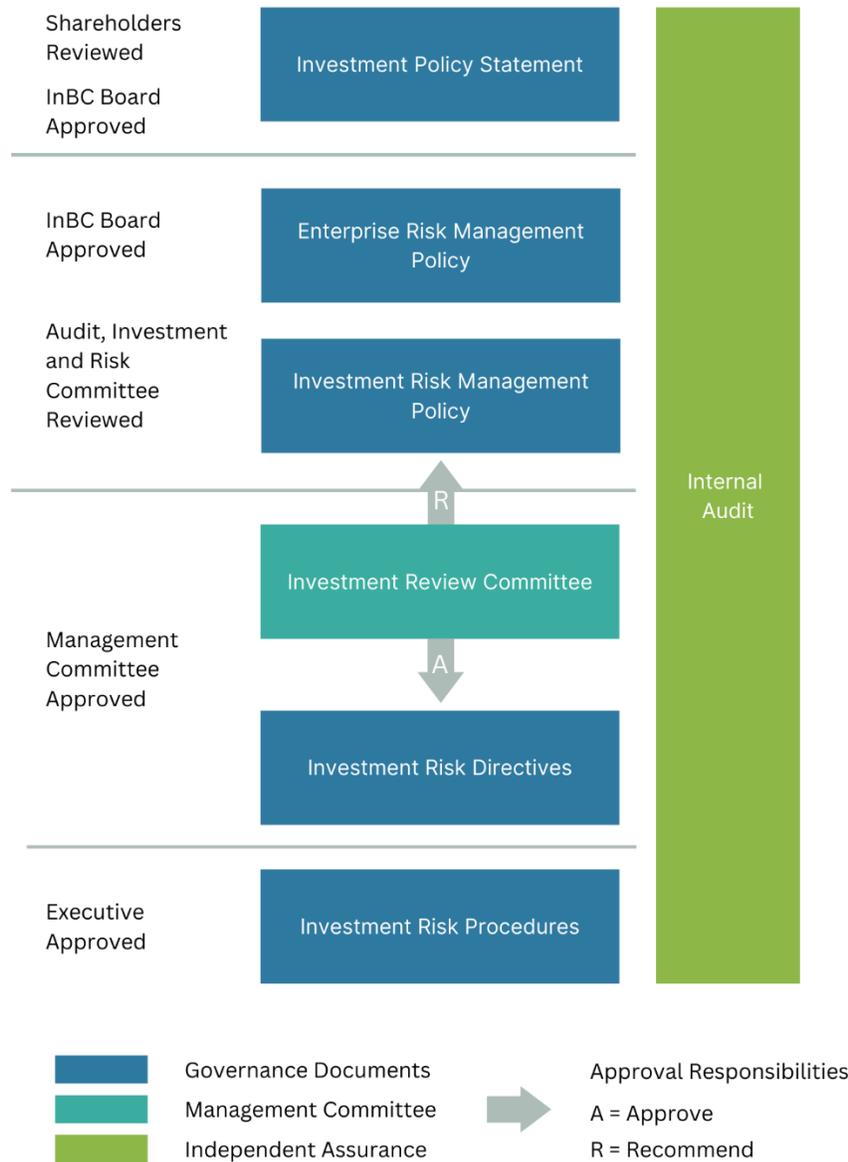
5.2 Directives establish the detailed frameworks for managing the risk activities and must adhere to all relevant Policies.

5.3 Procedures detail day-to-day risk management activities, processes, and controls. Risk Procedures must adhere to all relevant Policies and Directives.

The Investment Risk Management Policy and supporting Directives and Procedures are key elements of the wider enterprise risk governance framework illustrated below. This framework is designed to enhance the Board’s ability to execute its oversight of risk. The framework enables all risk-taking decisions to be made in-line with the established

Policies, Directives and Procedures, and it helps to achieve the Board’s mandate in line with the Board’s responsibilities under the Act.

Investment Risk Governance



Key Roles and Responsibilities

Key stakeholders throughout InBC are responsible for ensuring effective management of investment risks.

- 5.4 The shareholders of InBC are the Minister of Finance and the Minister of Jobs, Economic Recovery, and Innovation. The shareholders issue written communication to the Chair of the Board of Directors describing the social, economic, and environmental policy objectives of government they wish InBC’s investments to support.

- 5.5 The InBC Board, by way of the Audit, Investment, and Risk (“AIR”) Committee, oversees development of the risk management framework and approves InBC’s Policies, including the Investment Risk Management Policy. The AIR Committee reviews regular reports on the management of material risks to InBC and communicates these risks to the Board.
- 5.6 The CEO provides leadership for InBC and has overall responsibility to the Board for the general supervision and direction of InBC, including risk management. The CEO is responsible for ownership of the Investment Risk Management Policy and the Enterprise Risk Management Policy. As Chair of the IRC, the CEO supports the CIO in reviewing InBC’s investment decisions and investment risk but is not responsible for investment decision-making. The CEO is also the primary liaison between the Board and the CIO.
- 5.7 The CIO ensures that the level of investment risk assumed by InBC is commensurate with investment returns and aligned with policy objectives communicated by InBC’s shareholders. The CIO must also ensure investment activities comply with Policies, Directives, and Procedures.
- 5.8 The CFO is responsible for ownership of investment risk Directives and Procedures. This includes recommending appropriate levels of risk tolerance and monitoring risk exposures arising from investment activities. The CFO also supports the CIO in reviewing investment decisions as a member of the IRC but is not responsible for investment decision-making or investment management.
- 5.9 An external Advisory Circle jointly appointed by the CIO and CEO provides an additional layer of due diligence. The primary role of the Advisory Circle is to support the CIO by providing industry insights on market outlook and investment strategies and advising on potential areas of risk specific to an individual investment, and/or across the portfolio.
- 5.10 The Investment Review Committee composed of CEO, CIO, CFO, and senior investment team members is responsible for supporting the CIO in reviewing investment decisions and advising on potential areas of risk. The Investment Review Committee will provide recommendations to the CIO but will not have investment decision making authority.

Committees

5.11 Audit, Investment and Risk Committee (AIR Committee)

Under section 11(6) of the InBC Investment Corp. Act the Board: “may establish committees of the board to assist the board. The Board has established the Audit, Investment and Risk Committee to provide oversight responsibilities relating to financial planning and reporting, non-financial impact metrics, external audit, accounting systems and controls, and risk management. The AIR Committee is responsible for:

- (a) Supporting the Board with respect to risk management and understanding material risks to InBC
- (b) Overseeing the construction of a risk management framework
- (c) Receiving regular reports on the management of material risks to InBC
- (d) Reviewing and recommending for approval to the Board the Investment Policy Statement and providing and annually reviewing of the Investment Policy Statement
- (e) Reviewing reports on investments and investment activities, investment valuations, and portfolio performance.

5.12 Investment Review Committee (IRC)

The IRC committee, a management committee chaired by the CEO, is responsible for supporting the CIO in the oversight and management of risks and in reviewing investment decisions.

The IRC's mandate at InBC is twofold:

1. Investment Risk Oversight
 - a. Monitor investment risks across InBC, recognizing that these risks are distinct depending on the nature of the asset class.
 - b. Advise on potential areas of risk specific to an individual investment, and/or across the portfolio.
 - c. Approve investment risk Directives.
2. Investment Support
 - a. Provide advice to CIO on whether investment complies with IPS and Investment Risk Management Framework and by reviewing potential conflicts of interest.
 - b. Promote a culture of assessing investment risks across all stages in InBC Investment Process as outlined in IPS.

The Three Lines of Defense

InBC has segregated the roles and responsibilities pertaining to investment decision-making, risk management, risk measurement and oversight by adopting the Three Lines of Defense ("LOD") model.

5.13 First Line of Defense

The First LOD has primary responsibility for ownership and management of risks associated with investment activities. The CIO and Investment Team are responsible for InBC's First LOD risk management activities, including:

- (a) Assessing investment risks as part of the due diligence process and selecting investments consistent with InBC investment risk Policies and Directives.

- (b) Ensuring investment risks are effectively measured, monitored, and managed in accordance with InBC Directives.

5.14 The Second Line of Defense

The Second LOD provides independent oversight, measurement, assessment, and monitoring of investment risks, as well as the ability to effectively challenge the First LOD's identification and management of investment risks.

Within InBC, the following are the Second LOD risk management functions:

- (a) The IRC, chaired by the CEO, is a key player in the Second LOD and follows a partnership risk operating model. The IRC reviews compliance of existing and potential investments with investment risk Policies and Directives. It also advises on potential areas of risk specific to individual investments and across the portfolio.
- (b) The CFO is the owner of investment risk Directives and Procedures. The CFO recommends appropriate levels of risk tolerance for investment risks and monitors risk positions arising from investment activities.
- (c) The General Counsel is responsible for ensuring that Board approved policies comply with all applicable legislation, retaining the official record of Board approved policies and ensuring all such policies are reviewed periodically.

5.15 The Third Line of Defense

The Third LOD provides independent reasonable assurance over the First and Second LODs' risk management and oversight activities.

- (a) Internal Audit is responsible for assessing the adequacy and effectiveness of the risk governance and management frameworks.
- (b) Internal Audit is performed by a qualified, external agency and reports to the Audit, Investment and Risk Committee of the Board.

6 Investment Risk Management Framework

Investment Risk Defined

Investment risk is defined as the risk of potential losses on investments resulting from one or more investment-related events. InBC's Investment risk Directives and Procedures describe approaches to measure, monitor, and manage key investment risks.

6.1 Market Risk

Market risk is the risk of losses on investments resulting from fluctuations in market factors including interest rates, currency rates, and other price risks. InBC sets prudent thresholds for market risks and monitors them on a regular basis to ensure timely management of newly emerging risks. InBC uses derivatives to

hedge market risks where appropriate.

6.2 Credit Risk

Credit risk is the risk of non-performance of an obligor on whom InBC relies on to fulfill contractual or financial obligations. InBC uses sound tools to monitor credit risk such as credit ratings assigned, historical default and recovery rates, credit outlooks per sector, geography, and potential changes in the credit cycle. InBC manages credit risk by setting sound investment criteria (such as single fund and company commitment thresholds and ownership concentration thresholds), and regularly monitoring these criteria.

6.3 Liquidity Risk

InBC is exposed to two types of liquidity risk:

- (a) Market liquidity risk is the risk that an investment position cannot be unwound or offset in a timely fashion without enduring a significant loss attributable to market illiquidity. InBC's investments are in private funds and entities, resulting in less liquid positions. The CIO assesses market liquidity risk of investments in constructing the investment portfolio.
- (b) Funding liquidity risk is the risk of InBC having insufficient funds to meet its financing arrangements. Funding liquidity risk is managed to ensure that funding for capital calls, settlement, and other obligations is available in both non-stressed and stressed environments.

Liquidity risk is managed to not only minimize loss, but also to allow for rebalancing and for opportunistic deployment of capital during adverse market conditions. Liquidity risk is monitored regularly, and a contingency plan has been developed to ensure formalized processes are considered in the lead up to, or in an actual, liquidity crisis event.

6.4 Leverage Risk

InBC has approval from the Minister of Finance to borrow up to \$500 million through a Fiscal Agency Loan from the Ministry of Finance for the purposes of financing InBC's investments beyond which written approval of the Ministry of Finance is required.

InBC also uses derivatives to manage interest rate risk associated with its Fiscal Agency Loan. As a result of these financing arrangements, InBC's portfolio is leveraged.

InBC will not further leverage its portfolio through any arrangement beyond the arrangements in place with the Ministry of Finance, without prior written approval from the Minister of Finance.

InBC will not add additional sources of leverage to its portfolio either explicitly through borrowing, or implicitly through entering derivative arrangements.

6.5 Impact Alignment and Environmental, Social, Governance (ESG) Risk

Impact alignment risk is the risk that investments do not generate outputs and outcomes related to InBC's stated impact objectives. ESG risk is the risk that corporate behaviour of the investments in respect of environmental, social and governance issues will adversely impact the financial performance of investments. ESG screening is used to screen investment opportunities to mitigate negative ESG risk, and investments are continuously monitored against InBC's ESG investment criteria. InBC also assesses investments to ensure they produce qualitative and quantitative impact outcomes aligned with at least one of InBC's impact objectives on an ongoing basis.

6.6 Concentration Risk

Concentration risk is the risk of an investment portfolio being unduly exposed to potential loss events as a result of ineffective portfolio diversification. Concentration risks include, but are not limited to, geography, sector, investment partner or investment type. InBC mitigates the risk of concentration risk by monitoring risk thresholds for portfolio concentration and ownership concentration as established in the IPS.

In exceptional situations the Board may approve exceeding these risk thresholds, such as where the nature of security and guarantees are deemed sufficient, or the impact potential that is enabled as described by performance measures in the IPS.

Investment Risk Management Approach

InBC's approach to investment risk management follows sound industry practices through applying qualitative assessment and quantitative measurement. Investment risk management activities are divided into four components as illustrated below:



Risk Management Process Components	Description
1. Risk Identification and Assessment	Identifying and assessing new or increasing risk exposures in the investment portfolio.
2. Risk Measurement	Determining and applying the appropriate risk measurement methods for each type of investment risk. This may include developing models and assumptions. Where applicable, these models are validated by independent parties.
3. Risk Mitigation	Performing appropriate actions to manage identified and emerging risks of investments. This includes making investment decisions informed by qualitative and quantitative analysis and continuously enhancing approaches to better manage investment risks.
4. Risk Monitoring and Reporting	Monitoring investment risks and providing reporting and commentary to management, the board, and shareholders as required. In addition, regularly assessing the effectiveness of Investment Risk Directives and Procedures, to ensure all elements of this Investment Risk Management Policy are sufficiently supported.

Investment Risk Reporting and Escalation

The CIO is responsible for:

- a) Quarterly reporting to the AIR Committee on material risks to InBC’s investments, including investment risk thresholds and emerging risk considerations.
- b) Regular reporting to the IRC on investment risk thresholds and emerging risk considerations.

Board Risk Thresholds are set by the Board and identified in the IPS, ERM Policy, and Risk Appetite Statement. Management Risk Thresholds are set by the IRC and identified in Directives. Management Risk Thresholds are set at more stringent levels than Board Risk Thresholds to allow for “early warning indicators” of potential Board Risk Thresholds breaches.

Breaches of Management Risk Thresholds require the CIO to notify the IRC within two business days, and provide the following information:

- Documentation explaining why the breach occurred;
- Anticipated duration of the breach; and
- Action plan to resolve the situation.

A summary of any breaches of Management Risk Thresholds, along with remedial actions taken, should also be included in quarterly reporting to the AIR Committee.

Breaches of Board Risk Thresholds require the CIO to notify both the IRC and the AIR Committee within ten business days, providing the same information outlined above for breaches of Management Risk Thresholds. Best efforts should be made to restore risk levels within Board Risk Thresholds as quickly as possible. In exceptional circumstances the AIR Committee may agree to operate outside of Board Risk Thresholds for a period of time.

While the CIO has sole responsibility for investment decisions, the IRC and AIR Committee may provide guidance to the CIO to restore investment risks levels within Board and/or Management Risk Thresholds.

7 Definitions

Act	<i>InBC Investment Corporation Act</i> (British Columbia)
Advisory Circle	External advisory circle appointed by the CIO and CEO to provide industry insights on market outlook and investment strategies; advising on potential areas of risk specific to an individual investment, and/or across the portfolio and information pertaining to specific sectors, regions, and demographics. The Advisory Circle will not have any investment decision making authority.
Audit, Investment and Risk (AIR) Committee	InBC Board Committee that provides oversight responsibilities relating to financial planning and reporting, non-financial impact metrics, external audit, accounting systems and controls, and risk management.
Board	InBC Board of Directors
Board Risk Thresholds	Acceptable investment risk levels set by the Board in the Investment Policy Statement, Enterprise Risk Management Policy or Risk Appetite Statement.
Investment Risk Directives	Approved by the IRC, Investment Risk Directives establish the detailed frameworks for managing investment risk activities at InBC.
Enterprise Risk Management (ERM) Policy	Issued by the Board, this policy will ensure a consistent, scalable approach to risk management throughout InBC to support decision making and governance responsibilities.
Escalation	The process by which the detection of a breach in an approved risk threshold triggers actions and reporting to higher authorization levels (e.g., IRC, AIR Committee) and intra period reporting, in addition to regularly scheduled reporting.

Investment Policy Statement (IPS)	Issued by the Board, this policy stipulates the principles that InBC must adhere to when investing and managing assets entrusted to it by the Province of British Columbia.
Investment Review Committee (IRC)	Management committee responsible for supporting the CIO in reviewing investment decisions, advising on potential areas of risk specific to an individual investment, and/or across the portfolio, advising on whether an investment complies with the IPS and Investment Risk Management Framework and reviewing for potential conflicts of interest. The Investment Review Committee will provide a recommendation to the CIO, but will not have investment decision making authority. Chaired by CEO.
Management Risk Thresholds	Management thresholds for investment risk. Set by the IRC in Directives, Management Risk Thresholds are set at more stringent levels than Board Risk Thresholds to allow for “early warning indicators” of potential Board Risk Thresholds breaches.
Three Lines of Defense (LOD)	A model widely used in risk management, and endorsed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)

8 Related Documents

Act

InBC Investment Corp. Act, British Columbia

Policies

InBC Enterprise Risk Management Policy

InBC Board Governance Manual and Conflict of Interest Policy

InBC Conflict of Interest and Disclosure Policy

InBC ‘Ethical Wall’ Policy

Directives And Taxonomy

InBC Impact Alignment and ESG Risk Directive

InBC Liquidity Risk Directive

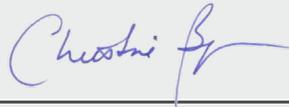
InBC Market and Credit Risk Directive

InBC Investment Risk Taxonomy

9 Approval

This Policy is hereby updated and authorized effective as of the date below

September 29, 2022



Date

Chair of the Board

Review History

Approval Authority	Board
Committee	Audit, Investment and Risk Committee of InBC Board
Last Review Date	
Next Review Date	

This Policy may be amended as necessary and is subject to review at least every two years. All proposed amendments to this Policy require Board approval.

Amendment History

DATE	VERSION NO.	SUMMARY OF AMENDMENTS
Sept 29, 2022	1	Original