

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

# All Weather Fund Financial Statements

DECEMBER 2016



INVESTING RESPONSIBLY FOR RESULTS



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**BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION**  
**POOLED INVESTMENT PORTFOLIO**

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**All Weather Fund**

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**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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**British Columbia Investment Management Corporation  
All Weather Fund**

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

British Columbia Investment Management Corporation (bcIMC) manages Pooled Investment Portfolios on behalf of governing fiduciaries such as pension fund trustees and other public sector clients. This report contains the financial statements for the All Weather Fund (Fund) for the year ended December 31, 2016.

The financial statements of the Fund have been prepared by management of bcIMC and approved by the Chief Investment Officer/Chief Executive Officer. The financial statements have been prepared in accordance with International Financial Reporting Standards. The significant accounting policies used in the preparation of these statements are disclosed in note 3 to the financial statements. The statements include certain amounts that are based on management's judgement and best estimates.

bcIMC's Board has established an Audit Committee. The Committee's mandate includes making recommendations on the appointment of the external auditor for the Pooled Investment Portfolio, reviewing the external audit plan; reviewing bcIMC's Service Organization Controls Report for the Investment System of British Columbia Investment Management Corporation, and receiving the annual audited financial statements of the Fund. The Committee reviews the recommendations of the internal and external auditors with respect to internal controls and the responses of management to those recommendations, and also meets with management and the internal and external auditors to review annual audit plans.

bcIMC maintains systems of internal control and supporting processes to provide reasonable assurance that assets are safeguarded; that transactions are appropriately authorized and recorded; and that there are no material misstatements in the financial statements. bcIMC's internal control framework includes: a strong corporate governance structure; a code of conduct that includes conflict of interest guidelines; an organizational structure that provides for appropriate segregation of duties and accountability for performance; an enterprise-wide risk management framework that identifies, monitors and reports on key risks; and Board-approved Pooled Investment Portfolio Policies and client-approved investment mandates. bcIMC's system of internal control is supported by external auditors who review and evaluate internal controls and report directly to the Audit Committee.

bcIMC's external auditors, KPMG LLP, have full and unrestricted access to the Audit Committee and bcIMC management. KPMG LLP discusses with management and the Committee the results of their audit of the Fund's financial statements and related findings with respect to such audits. The Fund's financial statements are audited by KPMG LLP in accordance with Canadian generally accepted auditing standards. KPMG LLP has performed such tests and other procedures as they considered necessary to express an opinion on the Fund's financial statements.

[S] Gordon J. Fyfe

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Gordon J. Fyfe  
Chief Executive Officer / Chief Investment Officer

[S] Lawrence E. Davis

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Lawrence E. Davis  
Senior Vice President, Finance

Victoria, British Columbia  
June 19, 2017



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Canada  
Telephone (604) 691-3000  
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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of the All Weather Fund

We have audited the accompanying financial statements of the All Weather Fund, which comprise the statement of financial position as at December 31, 2016, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *The Manager's Responsibility for the Financial Statements*

The Manager is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

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



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the All Weather Fund as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Chartered Professional Accountants

June 19, 2017  
Vancouver, Canada

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
POOLED INVESTMENT PORTFOLIO

**ALL WEATHER FUND**

**Statement of Financial Position**

(all amounts in thousands *except number of units*)

	Note	December 31, 2016	December 31, 2015
<b>Assets</b>			
Investments		\$ 2,018,631	\$ 1,899,332
<b>Liabilities</b>			
bcIMC funds management fees payable	4	111	82
Other accounts payable		-	5
		<u>111</u>	<u>87</u>
<b>Net assets attributable to holders of redeemable units</b>		<u>\$ 2,018,520</u>	<u>\$ 1,899,245</u>
<i>Number of redeemable units outstanding</i>	5	1,649.933	1,649.063
<b>Net assets attributable to holders of redeemable units per unit</b>		<u>\$ 1,223</u>	<u>\$ 1,152</u>
<i>Contingent Liability</i>	6		

**Statement of Comprehensive Income**

(all amounts in thousands)

	Note	Year Ended December 31, 2016	Year Ended December 31, 2015
<b>Revenue:</b>			
Interest income		\$ 2	\$ 1
Change in fair value of investments:	7		
Net realized loss		-	(144,145)
Net change in unrealized appreciation		119,370	176,229
Total Revenue		<u>119,372</u>	<u>32,085</u>
<b>Expenses:</b>			
bcIMC funds management fees	4	1,116	963
Administrative fees		1	14
Total operating expenses		<u>1,117</u>	<u>977</u>
<b>Increase in net assets attributable to holders of redeemable units</b>		<u>\$ 118,255</u>	<u>\$ 31,108</u>

[S] Gordon J. Fyfe

Gordon J. Fyfe  
Chief Executive Officer  
Chief Investment Officer

See accompanying Notes to the Financial Statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
POOLED INVESTMENT PORTFOLIO

**ALL WEATHER FUND**

<b>Statement of Changes in Net Assets Attributable to Holders of Redeemable Units</b> (all amounts in thousands)		
	Year Ended December 31, 2016	Year Ended December 31, 2015
Balance, beginning of year	\$ 1,899,245	\$ 1,329,444
Increase in net assets attributable to holders of redeemable units	118,255	31,108
Redeemable unit transactions:		
Proceeds from units issued	1,020	561,693
Amounts paid for units redeemed	-	(23,000)
Net increase from redeemable unit transactions	1,020	538,693
<b>Balance, end of year</b>	<b>\$ 2,018,520</b>	<b>\$ 1,899,245</b>

<b>Statement of Cash Flows</b> (all amounts in thousands)		
	Year Ended December 31, 2016	Year Ended December 31, 2015
<b>Operating activities:</b>		
Increase in net assets attributable to holders of redeemable units	\$ 118,255	\$ 31,108
Adjustments for:		
Interest income	(2)	(1)
Net realized loss from investments	-	144,145
Net change in unrealized appreciation from investments	(119,370)	(176,229)
Proceeds from sale of investments	1,094	896
Amounts paid for purchase of investments	(1,023)	(394,497)
Settlement of foreign currency contracts	-	(144,145)
bcIMC funds management fees payable	29	34
Other accounts payable	(5)	(5)
Interest received	2	1
	(1,020)	(538,693)
<b>Financing activities:</b>		
Proceeds from issue of redeemable units	1,020	561,693
Payments on redemption of redeemable units	-	(23,000)
	1,020	538,693
Net increase in cash	-	-
<b>Cash, beginning and end of year</b>	<b>\$ -</b>	<b>\$ -</b>

See accompanying Notes to the Financial Statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
POOLED INVESTMENT PORTFOLIO

**ALL WEATHER FUND**

**Schedule of Investments**

as at December 31

(all amounts in thousands)

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
<b>Investment Fund Investments:</b>	\$ 2,018,201	\$ 1,592,535	\$ 1,898,830	\$ 1,592,535
<b>Money Market Investments:</b>				
Units in bclMC Pooled				
Investment Portfolio				
Fund ST1	430	431	502	502
<b>Total Investments</b>	<b>\$ 2,018,631</b>	<b>\$ 1,592,966</b>	<b>\$ 1,899,332</b>	<b>\$ 1,593,037</b>

*See accompanying Notes to the Financial Statements.*



BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
ALL WEATHER FUND  
NOTES TO THE FINANCIAL STATEMENTS  
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**1. The Portfolio**

British Columbia Investment Management Corporation ("bcIMC") was established under the *Public Sector Pension Plans Act* as a trust company authorized to carry on trust business and investment management services. The address of bcIMC's registered office is at 300 - 2950 Jutland Road, Victoria, British Columbia, Canada. These financial statements have been prepared by bcIMC and are the responsibility of bcIMC management.

Under the *Public Sector Pension Plans Act* and the *Pooled Investment Portfolios Regulation*, B.C. Reg. 447/99 (the "Regulations"), bcIMC may establish and operate pooled investment portfolios "... in which money from trust funds, special funds or other funds, other public money and the money of government bodies and designated institutions may be combined in common for the purpose of investment by means of investment units of participation in a pooled investment portfolio." In addition, pooled investment portfolios previously established under the *Financial Administration Act* and the *Pooled Investment Portfolios Regulation*, B.C. Reg. 84/86, were continued under the *Pooled Investment Portfolios Regulation*, B.C. Reg. 447/99, to be held in trust by bcIMC and invested by the Chief Investment Officer of bcIMC.

The All Weather Fund ("the Fund") was established on September 1, 2013. The Fund provides investment in a long term strategic allocation fund that attempts to balance its risk exposure across fundamental economic environments. The Fund holds shares of All Weather Portfolio Limited, whose assets are externally managed by Bridgewater Associates, LLC with oversight from bcIMC. Investments made by All Weather Portfolio Limited are made based on their risk profile to create a risk balanced portfolio weighted between various fundamental economic environments, in order to provide higher long term risk adjusted returns regardless of economic conditions. The external manager passively manages the assets, utilizing risk parity and diversifying assets by asset type, geographic location, investment size, and investment risk.

The benchmark of the Fund is a nominal rate of return of 6.5% in U.S. dollar terms. The objective of the Fund is to meet or exceed the benchmark return, net of all investment expenses incurred over the longer term.

The Fund can hold the following securities:

- Class B non-voting participating shares of All Weather Portfolio Limited or other similar assets managed by Bridgewater or its affiliates,
- units of bcIMC's Pooled Investment Portfolios: Canadian Money Market Fund ST1, Canadian Money Market Fund ST2 and U.S. Dollar Money Market Fund ST3,
- forward contracts for currency conversions and/or currency hedging, and
- units in the Floating Rate Funds.

**2. Basis of preparation**

a) Statement of compliance

These financial statements of the Fund have been prepared in compliance with International Financial Reporting Standards ("IFRS"). These financial statements were authorized for issue by the Chief Executive Officer / Chief Investment Officer on June 19, 2017.

b) Basis of measurement

The financial statements have been prepared on a historical cost basis except for investments and derivatives, which are measured at fair value.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
ALL WEATHER FUND  
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**2. Basis of preparation (continued)**

c) Functional and presentation currency

These financial statements are presented in Canadian dollars which is the Fund's functional currency.

d) Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Financial results as determined by actual events could differ from those estimates and assumptions, and the difference could be material.

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

**3. Significant accounting policies**

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

(a) Financial instruments

(i) Recognition and measurement

Financial instruments are required to be classified into one of the following categories: held-for-trading, designated at fair value through profit or loss ("FVTPL"), available-for-sale, loans and receivables, assets held-to-maturity, and other financial liabilities. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as held-for-trading or fair value through profit or loss in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities held for trading or at fair value through profit or loss are recognized initially on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position only when the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Fund has not classified any of its financial instruments as available-for-sale or assets held to maturity.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
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**3. Significant accounting policies (continued)**

(ii) Held-for-trading and fair value through profit and loss

Financial instruments classified as held-for-trading or FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the Statement of Comprehensive Income in the period in which they occur. The Fund's derivative financial assets and derivative financial liabilities are classified as held-for-trading. The Fund's investments are designated as FVTPL.

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, bclMC determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Valuation techniques also include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of bclMC, be inaccurate, unreliable or not readily available, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of loans and receivables is at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate. The Fund classifies cash as a loans and receivables.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(iv) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Fund's other financial liabilities are comprised of other accounts payable and bclMC funds management fees payable.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
ALL WEATHER FUND  
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**3. Significant accounting policies (continued)**

(b) Redeemable units

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. In accordance with the Regulations, the Fund is required to distribute, to unitholders of the Fund's redeemable units, the taxable income and taxable capital gains of the Fund at least annually. Accordingly, such units are classified as financial liabilities at FVTPL and measured at redemption amount. Distributions to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of bclMC.

(c) Issue and redemption of units

Participation in the Fund is expressed in units. The initial value of a unit of the Fund on inception is \$1 million. For each subsequent unit issuance and redemption, the unit value is determined by dividing the fair value of the net assets of the portfolio by the total number of units outstanding. Where the Fund invests in another fund, the unit issuances and redemptions are transacted on the same basis as client transactions. All unit transactions are recorded on a trade date basis. The Fund was open-ended throughout the year where the number of units available for issue was unlimited and the proportion of units issued or redeemed by each client on a particular valuation date depended on changes to their desired asset allocation.

(d) Foreign exchange

The financial statements of the Fund are denominated in Canadian dollars. Foreign denominated investments and other foreign denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as revenue and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign currency gains and losses are recognized in the Statement of Comprehensive Income.

(e) Revenue recognition

Interest income is recognized on an accrual basis using the effective interest method. Dividend income is recognized on the date that the right to receive payment is established. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments. Commissions, stock exchange fees and other identifiable transaction costs that are directly attributable to the acquisition or disposal of an investment are expensed as incurred.

(f) Income taxes

The Fund qualifies as an inter-vivos trust under section 108(1) of the *Income Tax Act (Canada)*. All of the Funds's net income for tax purposes and net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Income taxes associated with any of the Fund's underlying investments are accounted for in determining the fair value of the respective investments.

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**3. Significant accounting policies (continued)**

(g) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2016, and have not been applied in preparing these financial statements. None of these will have a significant effect on the financial statements of the Fund, with the possible exception of IFRS 9, *Financial Instruments*.

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

IFRS 9 comes into force for annual periods beginning on or after January 1, 2018. Management is currently in the process of evaluating the potential effect of this standard.

**4. Related party transactions**

Third party costs that are attributable to the Fund are charged to the Fund. Other costs initially borne by bcIMC are recovered from the Fund by bcIMC charging management fees, which are calculated on a cost recovery basis. bcIMC funds management fees and corresponding payable are disclosed in the Fund's Statement of Comprehensive Income and Statement of Financial Position, respectively.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
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**5. Redeemable units**

The Fund is authorized to issue an unlimited number of units. Units issued and outstanding represent the capital of the Fund. The Fund is not subject to any internally or externally imposed restrictions on its capital. bclMC manages the capital of the Fund in accordance with the Fund's investment objectives, including managing the redeemable units to ensure a stable base to maximize returns to all investors, and managing liquidity in order to meet redemptions. The following is a summary of the changes in redeemable units outstanding during the year ended:

	<b>ALL WEATHER FUND</b>	
	<b>2016</b>	<b>2015</b>
Outstanding, beginning of year	1,649.063	1,185.008
Issued for cash	0.870	483.689
Redeemed	-	(19.634)
Outstanding, end of year	<u>1,649.933</u>	<u>1,649.063</u>

**6. Contingent Liability**

As a crown agent and pursuant to its enabling legislation, bclMC is immune from taxation, including in respect of assets it holds in pooled investment portfolios. The Government of Canada has contested bclMC's immunity from the imposition of goods and services tax or harmonized sales tax ("HST/GST"), in respect of costs recovered by bclMC from assets it holds in its pooled investment portfolios. In November 2015, the Minister of National Revenue issued HST/GST re-assessments for the period July 1, 2010 to March 31, 2013. bclMC has filed a Notice of Objection to this re-assessment. In September 2016, the BC Supreme Court issued a ruling on a petition filed by bclMC, holding that the pools were entitled to Crown immunity and therefore immune from HST/GST with respect to costs recovered by bclMC, but also that bclMC was bound by the provisions of the Reciprocal Tax Agreement and the Comprehensive Integrated Tax Coordination Agreement (jointly "Agreements") entered into between the Province of British Columbia and Canada. The decision has been appealed by the federal government with respect to crown immunity and cross appealed by bclMC with respect to whether bclMC is bound by the Agreements. Management is of the opinion that the Court will not deny bclMC the ability to rely on its statutory crown immunity and that, as a consequence, ultimately no net HST/GST liability will arise. Consequently, management has not accrued any liability for such tax. However, if the Court determines that HST/GST applies to bclMC in respect of costs recovered by it from assets held in Pooled Investment Portfolios, management estimates the maximum cumulative HST/GST owing at less than 1 basis point for the Fund.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
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**7. Net gain (loss) from financial instruments at fair value through profit or loss**

(in \$000s)	Net Gain (Loss) from Financial instruments Held for Trading – Derivative Financial Instruments	Net Gain (Loss) from Financial Assets Designated at Fair Value Through Profit or Loss – Investments	Total Net Gain (Loss) from Financial Assets Designated at Fair Value Through Profit or Loss	Net Gain (Loss) from Financial Assets Designated at Fair Value Through Profit or Loss		
				Realized	Unrealized	Total
2016	-	119,370	119,370	-	119,370	119,370
2015	(123,230)	155,314	32,084	(144,145)	176,229	32,084

**8. Withholding tax expense**

The Fund is not subject to withholding tax on its investments, and did not pay any withholding taxes in 2015 or 2016.

**9. Financial risk management**

(a) Risk management framework

The Fund has its own investment objectives. The Fund's overall risk management program seeks to minimize the potentially adverse effect of risk on the Fund's financial performance in a manner consistent with the Fund's investment objectives. In the normal course of business, the Fund is exposed to financial risks including credit risk, liquidity risk, and market risk (including interest rate risk, currency risk and other price risk).

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION  
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**9. Financial risk management (continued)**

**(b) Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund.

The majority of the Fund's financial assets and liabilities are held in securities that are not subject to credit risk.

The Fund's activities may also give rise to settlement risk. Settlement risk is the risk of loss due to failure of an entity to honour its obligations to deliver cash, securities, or other assets prior to the settlement of the transaction as contractually agreed. All investment transactions are settled or paid upon delivery with approved brokers. The risk of default is mitigated since the delivery of securities sold is made simultaneously with the broker receiving payment. Payment is made on a purchase once the securities have been received by the broker. The trade fails if either party fails to meet its obligations.

The Fund also has indirect exposure to credit risk through its investment in shares of All Weather Portfolio Limited, whose underlying investments are susceptible to credit risk. Such indirect exposure is managed by the external manager in conjunction with investment level decisions.

**(c) Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. bcIMC's approach to managing liquidity risk is to ensure, as far as possible, that the Fund has sufficient liquidity to meet its liabilities when due. The Fund is exposed to the liquidity risk associated with the requirement to redeem units. Units of the Fund may only be acquired by eligible clients or client groups in accordance with the Fund's purchasing limits that may be established by the Chief Investment Officer (CIO). In order to protect the interest of all clients, the CIO may also establish redemption limits for the Fund. The purchase and redemption limits may vary depending on market circumstances, client demand, and the liquidity of the underlying investments.

The Fund's cash position is monitored on a daily basis. In general, investments in cash and bcIMC Money Market Funds are expected to be highly liquid. bcIMC management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. The Fund's liquidity position is monitored daily by taking into consideration future forecasted cash flows. This ensures that sufficient cash reserves are available to meet forecasted cash outflows.

The Fund's non-derivative liabilities are due within 3 months of the year-end of the Fund.



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**9. Financial risk management (continued)**

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Fund's income or the fair value of its holdings of financial instruments. The Fund's strategy for the management of market risk is driven by the Fund's investment objective.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in market interest rates.

The majority of the Fund's financial assets and liabilities are non-interest bearing, accordingly, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing market interest rates. The Fund has indirect exposure to interest rate risk through its investment in shares of All Weather Portfolio Limited, whose underlying investments are susceptible to interest rate risk. Such indirect exposure is managed by the external manager in conjunction with their investment level decisions.

(ii) Currency risk

Currency risk is the risk that the value of financial instruments denominated in currencies other than the functional currency of the Fund will fluctuate due to changes in foreign exchange rates.

The Fund is exposed to currency risk through holding of investments, investment receivables and investment liabilities. The Fund may use foreign currency contracts to hedge foreign currency exposure on the investment in All Weather Portfolio Limited shares through the buying and selling of currencies through the spot market, forward contracts, futures contracts, and/or options in order to achieve the desired currency exposure.

The Fund holds net assets denominated in U.S. currency totaling \$2,018,200,000 CAD (2015 - \$1,898,830,000 CAD), which represents 99.98% (2015 - 99.98%) of the net asset value of the Fund. As at December 31, 2016, if the Canadian dollar had strengthened/ weakened by 1 percent in relation to the U.S. currency, holding all other variables constant, net assets would have decreased/increased, respectively, by \$20,182,000 (2015 - \$18,988,000). In practice, actual trading results may differ from the above sensitivity analysis and the difference could be material. The Fund also has indirect exposure to currency risk through its investment in shares of All Weather Portfolio Limited, whose underlying investments are susceptible to currency risk. Such indirect exposure is managed by the external manager in conjunction with their investment level decisions.

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**9. Financial risk management (continued)**

(iii) Other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer or factors affecting all instruments traded in the market.

All equity financial instruments are subject to other price risk and a potential loss of capital. The maximum risk is determined by the market value of the financial instruments. The Fund may not sell short, borrow securities, or purchase securities on margin, which limits the potential loss of capital. bclMC management monitors active price risk on a monthly basis. Tracking error and beta statistics for the Fund is compiled to review that the level of risk is consistent with the Fund's objective.

The Fund is subject to other price risk through its investment in shares of All Weather Portfolio Limited. The external manager utilizes risk parity and asset diversification to moderate this risk. The expected impact on the net assets of the Fund of a 10% increase/decrease in the value of the All Weather Portfolio Limited over the next year, would be an increase/decrease, respectively, of \$201,820,000 (2015 - \$189,883,000), representing 10% (2015 - 10%) of the Fund's net assets. This forecast is based on the Fund's actual holdings, and assuming all other variables are held constant. Actual results may differ from the above sensitivity analysis and the difference could be material.

The shares of All Weather Portfolio Limited are exposed to the U.S. market. The Fund has indirect exposure to other regions through the underlying investments of All Weather Portfolio Limited.

**10. Fair value of financial instruments**

(a) Fair value hierarchy

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1 inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 inputs that are unobservable.

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**10. Fair value of financial instruments (continued)**

(a) Fair value hierarchy

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the Statement of Financial Position.

All fair value measurements noted in the tables below are recurring.

	December 31, 2016		
	Level 1 (Quoted Price in Active Market)	Level 2 (Significant Observable Inputs)	Total
(in 000s)			
Money Market Funds	\$ 430	\$ -	\$ 430
Investment Fund Investment	2,018,201	-	2,018,201
Total Investments	\$ 2,018,631	\$ -	\$ 2,018,631

  

	December 31, 2015		
	Level 1 (Quoted Price in Active Market)	Level 2 (Significant Observable Inputs)	Total
(in 000s)			
Money Market Funds	\$ 502	\$ -	\$ 502
Investment Fund Investment	1,898,830	-	1,898,830
Total Investments	\$ 1,899,332	\$ -	\$ 1,899,332

The carrying amount of the Fund's net assets attributable to holders of redeemable units approximates fair value as they are measured at redemption amount and would be classified as Level 2 in the fair value hierarchy. During 2016 and 2015, there were no significant transfers between the three levels in the hierarchy.

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**10. Fair value of financial instruments (continued)**

**(b) Valuation models**

The objective of valuation techniques is to arrive at a fair value measurement that reasonably reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Fund uses widely recognized valuation methods for determining the fair value of common and more simple financial instruments such as foreign currency contracts and money market instruments that use only observable market data which requires little management judgment and estimation. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates, money market prices, and foreign currency exchange rates in estimating valuations of foreign currency contracts.

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

**(c) Valuation framework**

When third party information, such as broker quotes or pricing services, is used to measure fair value, management assesses and documents the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Fund for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

**(d) Financial instruments not measured at fair value**

The carrying value of bclMC funds management fees payable and other accounts payable approximates their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments.

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**11. Structured Entities**

A structured entity is an entity that has been designed so that voting or other similar rights are not the dominant factor in determining who controls the entity. The Fund holds interests in structured entities. These structured entities are comprised of investee funds organized as unit trusts. These investee funds have been constituted to manage assets on behalf of third party investors and are financed through the issue of units to these investors. Accordingly, the Fund's interests in these entities is reflected through the holdings of units issued by the investee funds. During 2016 and 2015, the Fund did not provide additional financial or other support to these structured entities, other than through its investment in units of these entities. Furthermore, these structured entities are not subject to restrictions over operations or redemptions, other than certain investment related restrictions in accordance with maintaining these investment objectives. The tables below sets out the interests held by the Fund in these structured entities:

December 31, 2016			
	Number of Investee Funds	Total Net Assets of Investee Funds (in 000s)	Carrying amount included in Investments in the Statement of Financial Position (in 000s)
Investee funds administered by bclMC	1	\$ 557,706	\$ 430
Investee funds administered by Bridgewater Associates	1	31,214,584	2,018,201
	2	\$ 31,772,290	\$ 2,018,631

  

December 31, 2015			
	Number of Investee Funds	Total Net Assets of Investee Funds (in 000s)	Carrying amount included in Investments in the Statement of Financial Position (in 000s)
Investee funds administered by bclMC	1	\$ 2,750,037	\$ 502
Investee funds administered by Bridgewater Associates	1	34,834,881	1,898,830
	2	\$ 37,584,918	\$ 1,899,332

**12. Income taxes**

The Fund had non-capital losses of \$2,590,000 as at December 31, 2016 (2015 - \$1,475,000). Non-capital losses may be carried forward up to 20 years to reduce future taxable income. The non-capital losses expire between 2033 and 2036.



**BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION**

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