Realpool Investment Fund Financial Statements

DECEMBER 2018

British Columbia Investment Management Corporation

British Columbia Investment Management Corporation
Realpool Investment Fund

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

British Columbia Investment Management Corporation (BCI) manages the Realpool Investment Fund (Fund) on behalf of governing fiduciaries such as pension fund trustees and other public sector clients.

The 2018 financial statements of the Fund have been prepared by management of BCI 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 judgment and best estimates.

BCI's Board has established an Audit Committee. The Committee's mandate includes making recommendations on the appointment of the external auditor for the Realpool Investment Fund, reviewing the external audit plan, reviewing BCI's Service Organization Controls Report for the Investment System of British Columbia Investment Management Corporation, and reviewing the annual audited financial statements of the Realpool Investment 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.

BCI 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. BCI'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. BCI's system of internal control is supported by external auditors who review and evaluate internal controls and report directly to the Audit Committee.

The Fund's external auditors, Ernst & Young LLP ("EY"), have full and unrestricted access to the Audit Committee and BCI management. EY discusses with management and the Committee the results of their audit of the Fund's financial statements and related findings with respect to such audit. The Fund is audited by EY in accordance with Canadian generally accepted auditing standards. EY 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
Gordon J. Fyfe
Chief Executive Officer/Chief Investment Officer

[S] Lawrence E. Davis
Lawrence E. Davis
Senior Vice President, Finance

Victoria, British Columbia
April 4, 2019

Independent auditor's report

To the Unitholders of
Realpool Investment Fund

Opinion

We have audited the financial statements of **Realpool Investment Fund** [the "Fund"], which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable units and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants

Vancouver, Canada
April 4, 2019

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
REALPOOL INVESTMENT FUND

Statement of Financial Position
(all amounts in thousands *except number of units*)

	Note	December 31, 2018	December 31, 2017
Assets			
Cash		$ 119,727	$ 177,788
Receivable from issuance of redeemable units		-	95,000
Interest receivable		6	701
Investments at fair value through profit or loss	5, 9	17,309,661	15,501,404
		17,429,394	15,774,893
Liabilities			
Payable for redemption of units		575,000	-
External management fees payable		-	40
BCI cost recoveries payable	6	8,222	8,431
Other accounts payable		415	515
Total liabilities excluding net assets attributable to holders of redeemable units		583,637	8,986
Net assets attributable to holders of redeemable units		**$ 16,845,757**	**$ 15,765,907**
Number of redeemable units outstanding	7	*1,629.940*	*1,627.092*
Net assets attributable to holders of redeemable units per unit		**$ 10,335**	**$ 9,690**

[S] Gordon J. Fyfe
Gordon J. Fyfe
Chief Executive Officer
Chief Investment Officer

Statement of Comprehensive Income
(all amounts in thousands)

	Note	Year Ended December 31, 2018	Year Ended December 31, 2017
Revenue:			
Interest income		$ 86,081	$ 83,894
Income from money market funds		1,832	1,434
Change in fair value of investments:	9		
Net realized gain		292,074	286,519
Net change in unrealized appreciation		683,127	409,871
Total revenue		1,063,114	781,718
Expenses:			
BCI cost recoveries	6	6,819	15,268
Other management fees		-	666
Administrative and professional fees		1,538	3,242
Pursuit cost		7	115
Total operating expenses		8,364	19,291
Increase in net assets attributable to holders of redeemable units from operations excluding distributions		1,054,750	762,427
Distributions to holders of redeemable units		(410,064)	(487,721)
Increase in net assets attributable to holders of redeemable units		$ 644,686	$ 274,706

See accompanying notes to the financial statements.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
REALPOOL INVESTMENT FUND

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units
(all amounts in thousands)

	Year Ended December 31, 2018	Year Ended December 31, 2017
Balance, beginning of year	$ 15,765,907	$ 15,238,480
Increase in net assets attributable to holders of redeemable units	644,686	274,706
Redeemable unit transactions:		
Proceeds from units issued	700,100	155,000
Reinvestment of distributions	410,064	487,721
Amounts paid for units redeemed	(675,000)	(390,000)
Net increase from redeemable unit transactions	435,164	252,721
Balance, end of year	**$ 16,845,757**	**$ 15,765,907**

Statement of Cash Flows
(all amounts in thousands)

	Year Ended December 31, 2018	Year Ended December 31, 2017
Operating activities:		
Increase in net assets attributable to holders of redeemable units	$ 644,686	$ 274,706
Adjustments for:		
Interest income	(86,081)	(83,894)
Net realized gain from investments	(292,074)	(286,519)
Net change in unrealized appreciation from investments	(683,127)	(409,871)
Non-cash distributions	410,064	487,721
Proceeds from sale of investments	2,166,451	6,522,542
Amounts paid for purchase of investments	(2,999,507)	(6,075,559)
External management fees payable	(40)	40
BCI cost recoveries payable	(209)	7,121
Other accounts payable	(100)	(497)
Interest received	86,776	84,285
Dividends received	-	114
	(753,161)	520,189
Financing activities:		
Proceeds from issuance of redeemable units	795,100	60,000
Payments on redemption of redeemable units	(100,000)	(483,830)
	695,100	(423,830)
Net increase (decrease) in cash	(58,061)	96,359
Cash, beginning of year	177,788	81,429
Cash, end of year	**$ 119,727**	**$ 177,788**

See accompanying notes to the financial statements.

Schedule of Investments
(all amounts in thousands)

	December 31, 2018		December 31, 2017	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Real Estate Investments[1]:	$ 16,660,165	$ 9,577,126	$ 15,334,800	$ 8,935,265
Money Market Investments:				
Units in BCI Pooled Investment Portfolios:				
Fund ST1	649,496	649,996	24,716	24,741
Fund ST2	-	-	141,888	141,986
	649,496	649,996	166,604	166,727
Total Investments	$ 17,309,661	$ 10,227,122	$ 15,501,404	$ 9,101,992

[1] Real estate investments are held through private corporations, trusts, and limited partnerships funded by a combination of equity and debt *(note 5, note 8(a), and note 9(a))*

1. THE PORTFOLIO

British Columbia Investment Management Corporation (“BCI”) 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 BCI's registered office is at 750 Pandora Avenue, Victoria, British Columbia, Canada. These financial statements have been prepared by BCI and are the responsibility of BCI management.

Under the *Public Sector Pension Plans Act* and the *Pooled Investment Portfolios Regulation*, B.C. Reg. 447/99, BCI 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* (“Regulations”), B.C. Reg. 84/86, were continued under the *Pooled Investment Portfolios Regulation*, B.C. Reg. 447/99, to be held in trust by BCI and invested by the Chief Investment Officer of BCI.

The Realpool Investment Fund (the “Fund”) was established on July 3, 1991 and invests in diversified Canadian income-producing properties including institutional-grade Canadian office, industrial, residential, retail, hospitality, and mixed-use properties, as well as publicly traded equities and money market instruments.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”). The financial statements were authorized for issue by the Chief Executive Officer/Chief Investment Officer on April 4, 2019.

(b) Basis of consolidation

Real estate investments are held through subsidiaries of the Fund, which include private corporations, trusts, and limited partnerships funded by a combination of equity and debt. The Fund is an investment entity, and as such, does not consolidate the entities it controls. Instead, interests in subsidiaries are classified at fair value through profit and loss, and measured at fair value.

The Fund qualifies as an investment entity as it meets the following definition of an investment entity outlined in IFRS 10, *Consolidated Financial Statements* (IFRS 10):

- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services.
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measures and evaluates the performance of substantially all of its investments on a fair value basis.

No significant judgments or assumptions were made in determining that the Fund meets the definition of an investment entity as defined in IFRS 10.

(c) Basis of measurement

These financial statements have been prepared on a historical cost basis, except for investments held at fair value through profit or loss ("FVTPL"), which are measured at fair value.

2. BASIS OF PRESENTATION (continued)

(d) Functional and presentation currency

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

(e) 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. In determining the fair value of some of its investments, management reviews and assesses external managers' estimates and assumptions regarding investment industry performance and prospects, as well as general business and economic conditions that prevail or are expected to prevail. By nature, these asset valuations are subjective and do not necessarily result in precise determinations. 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. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year is included in note 9 and relate to the determination of fair value of investments with significant unobservable inputs.

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

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 FVTPL in which case transaction costs are expensed as incurred.

Financial assets and financial liabilities 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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(*i*) Recognition and measurement (continued)

A financial asset is measured at amortized cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows and sell financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition the Fund may irrevocably elect to measure financial assets that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL when doing so results in more relevant information.

Financial assets are not reclassified subsequent to their initial recognition, unless the Fund changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Fund has not classified any of its financial assets as FVOCI.

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL. These exceptions include financial liabilities that are mandatorily measured at fair value through profit or loss, such as derivative financial liabilities. The Fund may at initial recognition, irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

(*ii*) Fair value through profit and loss

Financial instruments classified as 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 investments and redeemable units 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 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 is determined using valuation techniques. Valuation techniques 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 management, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(*iii*) Amortized Cost:

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus or minus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Fund classifies cash and cash equivalents, receivable from issuance of redeemable units, interest receivable, payable for redemption of units, external management fees payable, BCI cost recoveries payable, and other accounts payable, as amortized cost.

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.

(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 holders 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 Net Asset Value ("NAV"). Distributions to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of BCI.

(c) Issuance and redemption of units

Participation in the Fund is expressed in units. The initial value of a unit on inception was $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 BCI 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.

(d) Income recognition

Interest income is recognized on an accrual basis using the effective interest method. 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. The year-over-year change in the difference between the fair value and the cost of the investments held at year end is recognized as a net change in unrealized appreciation. 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. Pursuit costs are charged to net income of the Fund in the period incurred.

(e) Income taxes

The Fund qualifies as an inter-vivos trust under the subsection 108(1) of the *Income Tax Act* (Canada). All of the Fund'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 of the Fund's underlying investments that are taxable entities are accounted for in determining the fair value of the respective investments.

4. CHANGE IN ACCOUNTING POLICY

The Fund has adopted IFRS 9 *Financial Instruments* ("IFRS 9") with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 specifies the accounting for financial instruments, including: classification and measurement, impairment and hedge accounting. The adoption of IFRS 9 have been applied retrospectively. The nature and effects of the key changes to the Fund's accounting policy are summarized below.

(i) Classification and measurement of financial assets and liabilities:
The adoption of IFRS 9 did not result in any measurement or classification differences in the Fund's financial assets and liabilities as at the transition date.

(ii) Impairment of financial assets:
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. As the Fund measures its financial assets at FVTPL or holds only short-term financial assets at amortized cost, the impairment requirements under the new standard do not impact these financial statements.

5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

The Fund manages the following types of investments and determines fair value as follows:

- Real estate investments

Real estate investments consist of equity and debt investments in 186 wholly-owned (2017 – 136) and 8 partially owned (2017 – 8) subsidiary entities which are corporations, limited partnerships and trusts (all established in Canada). These subsidiaries qualify as investments and are not consolidated in these financial statements but are instead reported at fair value.

The fair value of subsidiary entities (corporations, limited partnerships and trusts) is determined by the NAV of the entity, which is a sum of the fair value of the real estate properties and underlying entities, net of the fair value of issued mortgages and notes and the other short-term assets and liabilities. Fair value for the real estate properties and/or other entities held by the subsidiaries is primarily determined using discounted cash flows based on various factors such as operating income, discount rate and terminal capitalization rates, or market comparatives.

- Money market investments

The Fund holds units in BCI money market funds. The units of the money market funds are valued based on the sum of the fair value of the net assets of the fund.

(all amounts in thousands except units)

6. RELATED PARTY TRANSACTIONS

The Fund's related parties include BCI, the Province of British Columbia and related entities, investments where the Fund has a controlling interest or significant influence, and other related entities for which the Fund provides investment management services. The Fund had the following transactions with related parties during the year:

- The Fund incurred cost recoveries from BCI, including indirect costs initially paid by BCI. These costs were recovered from the Fund through cost recoveries charged by BCI. BCI cost recoveries and the corresponding payable are disclosed in the Fund's Statement of Comprehensive Income and Statement of Financial Position.

- In 2015, a subsidiary of the Fund entered into a joint venture arrangement (50% co-owner) for the construction of a new office development in Victoria, B.C. BCI entered into an arm's length lease to rent office space as the primary tenant of the building. The lease commenced on March 1, 2018, for an initial term of twenty years with 3 five-year renewal options. As at December 31, 2018, minimum lease revenue to be received by the joint venture is estimated at $203 million over nineteen years excluding GST and other non-contractual amounts.

7. REDEEMABLE UNITS

The Fund is authorized to issue an unlimited number of redeemable units. Redeemable 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. BCI 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:

	2018 (in number of units)	2017 (in number of units)
Outstanding, beginning of year	1,627.092	1,652.774
Issued	68.595	16.001
Issued on reinvestment of distributions	40.125	50.348
Consolidation of units	(40.125)	(50.348)
Redeemed	(65.747)	(41.683)
Outstanding, end of year	**1,629.940**	**1,627.092**

(all amounts in thousands except units)

8. FINANCIAL RISK MANAGEMENT

(a) Risk management framework

The investment objective of the Fund is to provide clients with exposure to a portfolio of Canadian real estate and real estate-related investments. The Fund's holdings are highly diversified by property type, geographic location, investment size, and investment risk. The Fund primarily concentrates on high-quality income-producing Canadian office, industrial, residential, retail, hospitality and mixed-use properties located in geographic regions that have strong and growing economies. The Fund's investment strategy is to be well diversified and to hold quality properties that will perform well across multiple economic cycles. Real estate investments are only made when there is a reasonable expectation that return objectives can be achieved over a ten-year horizon.

The Fund can invest in the following assets:

- eligible real estate investments for pension plans under the Pensions Benefits Standards Act (B.C.);
- real estate-related investments, including trust units, partnership interests, shares and debt;
- units in external real estate managers' pooled funds provided such holdings are permissible investments for the Fund;
- derivative instruments for the purposes of synthetic indexing, risk control, lowering transaction costs, and/or liquidity management; and
- BCI Canadian Money Market Funds ST1 and ST2; and/or government debt securities with a maximum term to maturity of one year, for cash management purposes.

The following restrictions apply to the Fund's use of debt financing:

- it may only be used in a prudent manner for real estate and real estate-related investment; and
- it may not be created if, as a result, the loan to value ratio of the Fund would exceed 35 percent.

As of December 31, 2018, the debt to market value ratio of the overall real estate portfolio was 20.62% (2017 - 21.65%).

BCI, as trustee of the Fund, has the power to vary the investments and assets of the Fund and reinvest proceeds realized from the investments of the Fund all within the bounds of the investment policies, rules and restrictions established for and governing the Fund.

The Fund's activities expose it to a variety of financial risks. For purposes of describing the financial risks of the Fund, the composition of the net assets held by the underlying corporations, trusts, limited partnerships, equities and money market funds and their investing activities have been considered. As at December 31, 2018, and December 31, 2017, the corporations, trusts and limited partnerships hold the following underlying net assets which make up the real estate assets of the Fund:

	December 31, 2018		December 31, 2017	
	Total	% of Total	Total	% of Total
Real estate properties	$ 20,473,282	122.9	$ 19,617,944	127.9
Direct private equity	505,485	3.0	455,287	3.0
Loan receivables	223,773	1.3	-	-
Mortgages	(1,949,535)	(11.7)	(1,412,458)	(9.2)
Notes payable	(2,337,928)	(14.0)	(3,065,900)	(20.0)
Other net assets	(254,912)	(1.5)	(260,073)	(1.7)
	$ 16,660,165	100.0	$ 15,334,800	100.0

(all amounts in thousands except units)

8. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to meet their obligations to Fund's subsidiary entities. The Fund's credit risk is limited to the recorded amount of these obligations. To mitigate this risk, the Fund has a diverse set of tenants in a variety of industries, and the Fund performs ongoing credit evaluations of its customers and establishes allowances for potential losses.

(c) Liquidity risk

Liquidity risk is the risk that the Fund will be unable to generate sufficient cash in a timely manner or at a reasonable price to meet commitments as they come due. The Fund is exposed to the liquidity risk associated with the requirement to redeem units. Redeemable 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.

(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.

(i) Interest rate risk

Interest rate risk is the risk that the market value or cash flows of interest-bearing investments will fluctuate due to changes in market interest rates. The variable interest rate notes and fixed rate notes of the Fund are receivable from the underlying corporations, limited partnerships and trusts, so the Fund is not subject to interest rate risk on these financial instruments.

The mortgages of the underlying non-consolidated subsidiary corporations, trusts and limited partnerships bear interest rates up to 6.96% (2017 - 6.96%) with a weighted average rate of 2.28% (2017 - 2.58%). They are due at various dates to 2043. Principal repayments on the mortgages are due as follows:

	Principal Repayments
2019	$ 50,893
2020	1,069,485
2021	765,674
2022	23,792
2023	2,792
2024 and thereafter	52,823
	$ 1,965,459

(all amounts in thousands except units)

8. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risk (continued)

(i) Interest rate risk (continued)

The notes payable of the underlying non-consolidated corporations are unsecured and have the following terms and interest rates:

Issue	Maturity date	Fixed Interest rate	2018 Fair Value	2017 Fair Value
Series 6	January 5, 2018	5.65%	$ -	$ 200,001
Series 8	March 7, 2019	2.96%	500,870	506,119
Series 10	June 29, 2022	3.51%	256,121	260,531
Series 11	August 2, 2018	2.79%	-	503,440
Series 12	June 3, 2021	2.10%	345,428	346,931
Series 13	June 3, 2025	2.84%	495,548	500,479
Series A	August 11, 2022	2.15%	244,628	245,857
Series B	March 31, 2027	3.00%	495,333	502,542
			$ 2,337,928	$ 3,065,900

As at December 31, 2018, if the interest rates increased/decreased by 1% with other variables held constant, the fair value of the mortgages and notes payable would decrease/increase by $90,000, respectively.

(ii) Real estate risk

The Fund has identified the following risks associated with the real estate portfolio:

- The cost of development projects may increase if there are delays in the planning process. The Fund uses advisers who are experts in the specific planning requirements in the project’s location in order to reduce the risks that may arise in the planning process.
- The exposure of the fair values of the Fund to market and occupier fundamentals.

(all amounts in thousands except units)

8. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risk (continued)

(iii) Other valuation risk

As at December 31, underlying real estate investment properties held by the Fund are diversified across the following property sectors:

	2018		2017	
Real estate properties	Total	% of Total	Total	% of Total
Retail	$ 1,948,098	9.6	$ 2,891,100	14.8
Office	8,402,370	41.0	8,268,525	42.1
Industrial	2,184,335	10.7	1,965,860	10.0
Residential	3,413,900	16.7	3,289,090	16.8
Retirement homes	273,200	1.3	264,700	1.3
Land lease communities	1,419,506	6.9	1,387,287	7.1
Development property	2,831,873	13.8	1,551,382	7.9
Total real estate properties	$ 20,473,282	100.0	$ 19,617,944	100.0

As at December 31, real estate investment properties held by the Fund are diversified across the following geographic regions in Canada:

	2018		2017	
Real estate properties	Total	% of Total	Total	% of Total
British Columbia	$ 5,878,491	28.7	$ 5,398,618	27.5
Alberta	5,163,380	25.2	5,219,479	26.6
Saskatchewan	36,700	0.2	36,220	0.2
Manitoba	269,890	1.3	276,410	1.4
Ontario	8,195,658	40.0	7,813,569	39.8
Quebec	659,493	3.2	602,398	3.1
New Brunswick	11,980	0.1	11,600	0.1
Nova Scotia	257,690	1.3	259,650	1.3
Total real estate properties	$ 20,473,282	100.0	$ 19,617,944	100.0

(all amounts in thousands except units)

9. FAIR VALUE MEASUREMENT

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

Level 1: Quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly unobservable.

The table below shows investments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. All fair value measurements are recurring.

	2018			
Type of investment	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Money market funds	$ -	$ 649,496	$ -	$ 649,496
Real estate investments	-	-	16,660,165	16,660,165
Total Investments	$ -	$ 649,496	$ 16,660,165	$ 17,309,661

	2017			
Type of investment	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Money market funds	$ -	$ 166,604	$ -	$ 166,604
Real estate investments	-	-	15,334,800	15,334,800
Total Investments	$ -	$ 166,604	$ 15,334,800	$ 15,501,404

During 2018 and 2017, there were no transfers between Levels 1, 2 or 3.

(all amounts in thousands except units)

9. FAIR VALUE MEASUREMENT (continued)

(a) Fair value hierarchy (continued)

The carrying amount of the redeemable units also approximates fair value as they are measured at the redemption amount and are classified as Level 2 in the fair value hierarchy.

The following tables show a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

2018

	Real estate investments
Opening balance, January 1, 2018	$ 15,334,800
Total gains recognized in profit or loss	292,193
Purchases	1,931,596
Sales	(1,581,927)
Total unrealized gains (losses) for the period included in profit or loss	683,503
Closing balance, December 31, 2018	$ 16,660,165

2017

	Real estate investments
Opening balance, January 1, 2017	$ 15,175,443
Total gains recognized in profit or loss	284,131
Purchases	3,563,965
Sales	(4,100,771)
Total unrealized gains (losses) for the period included in profit or loss	412,032
Closing balance, December 31, 2017	$ 15,334,800

9. FAIR VALUE MEASUREMENT (continued)

(b) Valuation models

The objective of valuation techniques is to arrive at a fair value measurement that 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 money market instruments that use only observable market data which requires little management judgment and estimation. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates, and money market prices.

Observable prices and model inputs are usually available in the market for equities. 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.

For more complex instruments, such as private equity and debt, the Fund uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Fund believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Fund and the counterparties where appropriate.

(c) Valuation framework

The Fund has an established framework with respect to the measurement of fair values and applies the following specific controls in relation to the determination of fair values:

- verification of observable pricing inputs;
- appraisal of domestic real estate properties once every ten to eighteen months by accredited independent appraisers;
- analysis and investigation of significant valuation movements for real estate investments; and
- review of unobservable inputs and valuation adjustments for real estate investments.

When third party information, such as broker quotes or pricing services, is used to measure fair value, then BCI management assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations are appropriate. 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.

9. FAIR VALUE MEASUREMENT (continued)

(d) Significant unobservable inputs used in measuring fair value

2018

	Fair Value	Valuation Technique	Unobservable Input	Sensitivity to Change in Significant Unobservable Input
Real estate investments	$16,660,165	Unadjusted Net Asset Value	Net Asset Value is compiled by the investment managers based on various unobservable inputs as applicable to each underlying investment.	The estimated fair value would increase (decrease) if the following changes were made to valuations of the underlying investments in the investees and unlisted private equity investee funds: - the discount rates were lower (higher); - the EV/EBITDA multiples were higher (lower); or - a change in the annual revenue growth rate is accompanied by a directionally similar change in the EBITDA margin.

2017

	Fair Value	Valuation Technique	Unobservable Input	Sensitivity to Change in Significant Unobservable Input
Real estate investments	$15,334,800	Unadjusted Net Asset Value	Net Asset Value is compiled by the investment managers based on various unobservable inputs as applicable to each underlying investment.	The estimated fair value would increase (decrease) if the following changes were made to valuations of the underlying investments in the investees and unlisted private equity investee funds: - the discount rates were lower (higher); - the EV/EBITDA multiples were higher (lower); or - a change in the annual revenue growth rate is accompanied by a directionally similar change in the EBITDA margin.

9. FAIR VALUE MEASUREMENT (continued)

Significant unobservable inputs are developed as follows:

(i) Enterprise Value ("EV") and earnings before interest, tax, depreciation and amortization ("EBITDA") multiples:

Represent amounts that market participants would use when pricing the investments. EV and EBITDA multiples are selected from comparable public companies based on geographic location, industry, size, target markets, and other factors that management considers to be reasonable. The traded multiples for the comparable companies are determined by dividing the EV of the company by its EBITDA and further discounted for considerations such as the lack of marketability and other differences between the comparable peer group and the specific company.

(ii) Discount rate:

Represents the discount rate applied to the expected future cash flows of each underlying real estate investment property or investments. BCI management assesses both the risk premium and the appropriate risk-free rate based on the economic environment in which the investee operates to determine the discount rate. The discount rate is adjusted for such matters as liquidity differences, credit and market factors. Cash flows used in the discounted cash flow model are based on projected cash flows or earnings of the respective underlying real estate property or investment.

(e) Effects of unobservable input on fair value measurement

Although the Fund believes its estimates of fair value in Level 3 are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value and net assets attributable to holders of redeemable units. The following table shows how the net assets attributable to holders of redeemable units would change if the valuation of the real estate investments were calculated by adjusting the respective net assets and debt by 10%.

	2018	2017
Favourable	$ 1,666,017	$ 1,533,480
Unfavourable	$ (1,666,017)	$ (1,533,480)

(f) Other financial instruments

The carrying value of cash and cash equivalents, receivable from issuance of redeemable units, interest receivable, other accounts payable, payable for the redemption of redeemable units, external management fees payable and BCI cost recoveries payable approximates their fair value given their short-term nature.

(all amounts in thousands except units)

10. INVOLVEMENT WITH SUBSIDIARIES AND ASSOCIATES

The Fund's investments are held primarily through 186 wholly owned and 8 partially owned subsidiary entities, all of which constitute structured entities. Structured entities are entities that have been designed so that voting or other similar rights are not the dominant factor in determining who controls the entity. These structured entities have been set up by BCI to manage credit and other risks that may arise in the course of administering the underlying investments.

During 2018 and 2017, the Fund provided financial support to subsidiaries or associates for investment and operation activities and has committed to providing financial support under loan arrangements or shareholders' resolutions as needed.

11. INVOLVEMENT WITH STRUCTURED ENTITIES

In addition to the entities described in note 10, the Fund holds interests in other structured entities which are comprised of three directly held trusts and a directly held investee money market fund. All of these entities are organized as unit trusts. The entities have been constituted to manage assets on behalf of third party investors and are financed through the issuance of units to investors. The table below sets out the interests held by the Fund in these other structured entities:

Entity	Number of Entities as at December 31, 2018	Total Net Assets of Entities December 31, 2018	Carrying Amount December 31, 2018	Number of Entities as at December 31, 2017	Total Net Assets of Entities December 31, 2017	Carrying Amount December 31, 2017
Investment in trusts	3	$ 368,997	$ 368,997	3	$ 425,330	$ 425,330
Investee in money market funds administered by BCI	1	1,699,706	649,496	2	6,195,002	166,604
		$ 2,068,703	$ 1,018,493		$ 6,620,332	$ 591,934

The carrying amount of the investments held in these underlying funds represents the Fund's maximum exposure to loss. The Fund has commitments to provide financial support to wholly owned subsidiaries to fund day-to-day operations and investment activity. During 2018, the Fund provided $27,347 (2017 - $127,695) in financial support to the structured entities for investment activities.

12. TAXES

The net capital losses carry forward for the Fund were $59 as at December 31, 2018 (2017 - $nil).

13. COMMITMENTS AND CONTINGENCIES

The Fund, its wholly owned corporations, limited partnerships and trusts have property purchase and development commitments of $1,223,998 (2017 - $354,791), commercial purchasing card lines of credit of $nil [2017 - $950], and have issued letters of credit totalling $97,593 [2017 - $86,492]. Certain investments of the Fund may, in the normal course of business activities, be involved in disputes with third parties. BCI management assesses the likelihood of loss relating to any disputes and has determined that such disputes would not have a material impact on the NAV of the Fund.

14. SUBSEQUENT EVENTS

Subsequent to year end, the Fund entered into an agreement in principal to transfer 45 investments, with a combined fair value in excess of $7 billion, into a 50% owned joint venture vehicle. The agreement is expected to formally close on July 31, 2019 and take three years to fully implement through a multi-stage vend-in process. The exchange value will be based on the last quarter end appraisal obtained prior to sale.