BCI

# Real Estate: Global Program - Pooled Fund Financial Statements

DECEMBER 2018

British Columbia Investment Management Corporation

Realpool Global Fund
Realpool Global – Mexico Fund

**British Columbia Investment Management Corporation**
**Realpool Global Fund**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

British Columbia Investment Management Corporation (BCI) manages the Realpool Global Fund (Fund) on behalf of governing fiduciaries such as pension fund trustees and other public sector clients. This report contains the financial statements for the year ended December 31, 2018.

The 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 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 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 systems of internal control are 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
July 3, 2019

# Independent auditor's report

To the Unitholders of
**Realpool Global Fund**

## Opinion

We have audited the financial statements of **Realpool Global Fund** [the "Fund"], which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income (loss), 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
July 3, 2019

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
REALPOOL GLOBAL FUND

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

| | Note | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash | | $ 41 | $ - |
| Accounts receivable | | - | 10,226 |
| Investments at fair value through profit or loss | 7, 8 | 1,542,041 | 848,640 |
| | | 1,542,082 | 858,866 |
| **Liabilities** | | | |
| Management fees payable | | - | 20 |
| BCI cost recoveries payable | 5 | 1,075 | 1,115 |
| Accounts payable | | 352 | 60 |
| | | 1,427 | 1,195 |
| **Net assets attributable to holders of redeemable units** | | **$ 1,540,655** | **$ 857,671** |
| *Number of redeemable units outstanding* | 6 | *843.423* | *517.567* |
| **Net assets attributable to holders of redeemable units per unit** | | **$ 1,827** | **$ 1,657** |
| *Commitments and Contingencies* | *13* | | |

[S] Gordon J. Fyfe

Gordon J. Fyfe
Chief Executive Officer
Chief Investment Officer

**Statement of Comprehensive Income/(Loss)**
(all amounts in thousands)

| | Note | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|---|
| **Revenue:** | | | |
| Interest income | | $ - | $ 108 |
| Investment income | | 1,113 | 4,706 |
| Foreign exchange gain (loss) | | (22) | 1 |
| Change in fair value of investments: | 8 | | |
| Net realized gain | | 11,458 | 141,771 |
| Net change in unrealized appreciation | | 134,776 | (70,576) |
| Total revenue | | 147,325 | 76,010 |
| **Expenses:** | | | |
| BCI cost recoveries | 5 | 1,517 | (489) |
| Management fees | | 19 | 20 |
| Administrative and professional fees | | 1,263 | 1,364 |
| Custodial fees | | 6 | 2 |
| Pursuit costs | | 2,445 | 725 |
| | | 5,250 | 1,622 |
| Increase in net assets attributable to holders of redeemable units from operations excluding distributions | | 142,075 | 74,388 |
| Distributions to holders of redeemable units | | (13,787) | (148,343) |
| **Increase (decrease) in net assets attributable to holders of redeemable units** | | **$ 128,288** | **$ (73,955)** |

*See accompanying notes to the financial statements.*

**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 | $ 857,671 | $ 1,207,827 |
| Increase (decrease) in net assets attributable to holders of redeemable units | 128,288 | (73,955) |
| Redeemable unit transactions: | | |
| Proceeds from units issued | 650,384 | 297,415 |
| Reinvestment of distributions | 13,787 | 148,343 |
| Amounts paid for units redeemed | (109,475) | (721,959) |
| Net increase (decrease) from redeemable unit transactions | 554,696 | (276,201) |
| **Balance, end of year** | **$ 1,540,655** | **$ 857,671** |

**Statement of Cash Flows**
(all amounts in thousands)

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| **Operating activities:** | | |
| Increase (decrease) in net assets attributable to holders of redeemable units | $ 128,288 | $ (73,955) |
| Adjustments for: | | |
| Interest income | - | (108) |
| Net realized gain from investments | (11,458) | (141,771) |
| Net change in unrealized appreciation of investments | (134,776) | 70,576 |
| Non cash distributions | 13,787 | 148,343 |
| Proceeds from sale of investments | 126,182 | 742,059 |
| Amounts paid for purchase of investments | (673,346) | (311,396) |
| Accounts receivable | 10,226 | (10,226) |
| Management fees payable | (20) | 20 |
| BCI cost recoveries payable | (40) | 875 |
| Accounts payable | 289 | 19 |
| Interest received | - | 108 |
| | (540,868) | 424,544 |
| **Financing activities:** | | |
| Proceeds from issuance of redeemable units | 650,384 | 297,415 |
| Payments on redemption of redeemable units | (109,475) | (721,959) |
| | 540,909 | (424,544) |
| Net increase in cash | 41 | - |
| Cash, beginning of year | - | - |
| **Cash, end of year** | **$ 41** | **$ -** |

*See accompanying notes to the financial statements.*

**Schedule of Investments**
as at December 31
(all amounts in thousands)

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| | Note | **Fair Value** | **Cost** | **Fair Value** | **Cost** |
| **Real Estate Investments[1]:** | 4, 7, 8 | $ 1,542,041 | $ 1,124,833 | $ 847,274 | $ 564,840 |
| **Money Market Investments:** | | | | | |
| Units in BCI pooled investment portfolios: | | | | | |
| Fund ST2 | | - | - | 1,360 | 1,361 |
| Fund ST3 | | - | - | 6 | 7 |
| | | - | - | 1,366 | 1,368 |
| ***Total Investments*** | | $ 1,542,041 | $ 1,124,833 | $ 848,640 | $ 566,208 |

[1] *The real estate investments are held through private corporations, limited partnerships, a pooled investment portfolio and a trust.*

*See accompanying notes to the financial statements.*

**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 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 (the "Regulations"), 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, 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 Global Fund was first established June 24, 2004 under the name of “2004 Realpool International Fund”. On January 2, 2014, the 2004 Realpool International Fund was renamed to “Realpool Global Fund” (the "Fund"). Real estate investments previously held in five other real estate investment funds managed by BCI were acquired by or assigned to the Realpool Global Fund as outlined in Note 11.

**2. BASIS OF PRESENTATION**

(a) Statement of compliance

These financial statements 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 July 3, 2019.

(b) Accounting for real estate investments

Real estate investments are held through subsidiaries of the Fund, which include private corporations, limited partnerships, a pooled investment portfolio and a trust funded by equity. The Fund is an investment entity, and as such, does not consolidate the entities it controls. Instead, interests in subsidiaries are classified as fair value through profit or 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, 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, 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 8 and relates 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

Financial instruments are required to be classified into one of the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). 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 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.

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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(a) Financial instruments (continued)

(i) Recognition and measurement (continued)

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 irrevocably elects to measure financial assets that otherwise meet 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. On initial recognition, the Fund irrevocably designates a financial liability as measured at FVTPL when doing so results in more relevant information.

(ii) Fair value through profit or 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/(Loss) in the period in which they occur. The Fund's investments and redeemable units are classified 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.

In an active market, fair value is best evidenced by an independent quoted price. In the absence of an active market, fair value is determined by valuation techniques that maximize the use of inputs observed from markets. See note 8 for more details about the determination of fair value.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(a) Financial instruments (continued)

(iii) Amortized Cost

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Fund classifies cash, management fees payable, BCI cost recoveries payable and 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 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 the redemption amount. Distributions to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of BCI.

(c) Issue and redemption of units

Participation in the Fund is expressed in units. The initial value of a unit 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 one 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 is an open participation fund where eligible clients may increase or reduce their proportionate ownership annually or on special opening dates.

(d) Foreign exchange

These financial statements 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 income 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/(Loss).

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(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, which for quoted equity securities is usually the ex-dividend date. 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. Unrealized gains (losses) reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Commissions 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.

(f) Income distribution

The Fund distributes taxable income and net taxable capital gains to unitholders at each year-end. Where the Fund is in a cumulative net loss position at the end of a year, such net losses are carried forward to be applied against the Fund's future net income.

(g) Income taxes

The Fund qualifies as an inter-vivos trust under section 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 associated with any of the Fund's underlying investments are accounted for in determining the fair value of the respective investments.

(h) 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 has 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 have a significant impact on these financial statements.

**4. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

(a) Real estate investments

The real estate investments consist of private corporations, limited partnerships, a trust, and a pooled investment portfolio. The fair value of these entities is determined by the Net Asset Value (fair value of the net assets) of the entities.

(b) Money market investments

The Fund held units in two BCI money market funds as at December 31, 2017. The units of the money market funds are valued based on the sum of the fair value of the net assets of the funds.

**5. 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:

(a) BCI cost recoveries

Third-party costs that are attributable to the Fund are charged to the Fund. Other costs initially borne by BCI are recovered from the Fund. BCI cost recoveries and the corresponding payable are disclosed in the Fund’s Statement of Comprehensive Income/(Loss) and Statement of Financial Position, respectively.

(b) Transfer of investments to commonly controlled entities

For the reporting periods ended December 31, 2018 and December 31, 2017, the Fund transferred the beneficial and legal ownership of certain investments to entities managed by BCI and owned by the same investors of the Fund. The Fund received $26,571,000 (2017 - $600,573,000) representing the estimated fair values at the date of transfer and recorded realized gains of $10,502,000 (2017 - $114,950,000) related to the transfer of investments in each respective year.

**6. 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. Clients may increase or decrease their participation in the Fund by purchasing or redeeming units on an opening date, which occurs on the first business day of the calendar year. The CIO may, without notice, establish a purchase and/or redemption limit for a particular opening date. Unit issuances and redemptions occurring on dates other than the opening date are allocated on a proportional basis.

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 | 517.567 | 822.907 |
| Issued | 394.361 | 207.749 |
| Issued on reinvestment of distributions | 7,543.000 | 89.512 |
| Consolidation of units | (7,543.000) | (89.512) |
| Redeemed | (68.505) | (513.089) |
| Outstanding, end of year | **843.423** | **517.567** |

**7. FINANCIAL RISK MANAGEMENT**

(a) Risk management framework

The investment objective of the Fund is to provide clients with exposure to a portfolio of global 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 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 the longer term.

The Fund may hold the following assets:

- Real estate properties;
- Real estate-related securities, including trust units, partnership interests, shares, debt instruments, and units in externally managed pooled investment portfolios;
- Derivative instruments for the purposes of synthetic indexing, risk control, lowering transactions costs, and/or liquidity management;
- Foreign exchange contracts for currency conversions and/or currency hedging; and
- Units in BCI's Canadian Money Market Fund (ST1), Canadian Money Market Fund (ST2), US Dollar Money Market Fund (ST3), government debt securities with a maximum term to maturity of 1 year, and other BCI short-term fixed income pooled funds, for cash management.

**7. FINANCIAL RISK MANAGEMENT (continued)**

(a) Risk management framework (continued)

The following restrictions apply to the Fund's investing activities:

- Debt financing may be used in a prudent manner. No debt will be assumed or created if, as a result, the debt to market value ratio of the Fund would exceed 55 percent;
- When entering into a new derivatives transaction, external counterparties must be financial institutions rated "A-" or higher by Standard & Poor's or have an equivalent rating from another credit rating agency; and
- Real estate investments must be eligible investments for pension plans under the *Pension Benefits Standards Act*, (B.C.).

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, limited partnerships, pooled investment portfolio and trust and their investing activities have been considered. As of December 31, the private corporations, limited partnerships, pooled investment portfolio and trust hold the following underlying net assets:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Total (in 000s) | % of Total | Total (in 000s) | % of Total |
| Direct real estate private equity | $ 935,029 | 60.6 | $ 436,793 | 51.6 |
| Unlisted real estate investee funds | 540,373 | 35.0 | 369,911 | 43.6 |
| Real estate investments | 1,475,402 | 95.6 | 806,704 | 95.2 |
| BCI money market funds | - | - | 40,095 | 4.7 |
| Cash | 76,543 | 5.0 | - | - |
| Net investment-related receivables/(payables) | (9,904) | (0.6) | 475 | 0.1 |
| Total net assets of entities | $ 1,542,041 | 100.0 | $ 847,274 | 100.0 |

**7. 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. It arises principally from debt securities held and also from derivative financial assets, cash and cash equivalents, and other receivables due to the Fund. The carrying value of these financial instruments as recorded in the Statement of Financial Position reflects the Fund's maximum exposure to credit risk.

To avoid undue credit risk, the Fund has established specific investment criteria, such as minimum credit ratings for investees and counterparties.

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 honor its obligations to deliver cash, securities, or other assets prior to the settlement of the transaction as contractually agreed. The risk of default is considered minimal since the Fund's private corporations, limited partnerships and pooled investment portfolios hold real estate and typically have a diversified tenant base. External managers conduct financial reviews to assess potential tenants' ability to meet future lease obligations.

(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 other assets as contractually agreed. BCI'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. 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.

The Fund's financial assets include direct real estate private equity investments, which are generally illiquid. In addition, the Fund holds investments in unlisted real estate investee funds. As a result, the Fund may not be able to liquidate some of its investments in these instruments in time to meet obligations when they become due. However, the CIO may obtain funding from the unitholders of the Fund through additional unit issuances to meet the Fund's ongoing liquidity requirements.

The Fund's remaining liabilities, including management fees payable, BCI cost recoveries payable and accounts payable are due within three months of the year end of the Fund.

(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.

**7. FINANCIAL RISK MANAGEMENT (continued)**

(d) Market risk (continued)

(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.

Most of the Fund's financial assets and liabilities are non-interest bearing or have a short term to maturity and changes in value for the private debt due to interest rate fluctuations would result in equal and offsetting changes in the value of a related equity investment. Accordingly, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing market interest rates.

(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 the holding of investments, investment receivables and investment liabilities in various currencies. The Fund may use foreign currency contracts to hedge some foreign currency exposure on investment-related receivables and liabilities and engage in 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. There were no foreign currency contracts at December 31, 2018 or December 31, 2017.

At the reporting dates, the carrying value of the Fund's net financial assets and financial liabilities held by the Fund's private corporations, limited partnerships, trust, and pooled investment portfolio in individual foreign currencies expressed in Canadian dollars and as a percentage of its net assets were as follows:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Total (in Cdn 000s) | % of Total Net Assets | Total (in Cdn 000s) | % of Total Net Assets |
| British Pound Sterling | $ 589,782 | 38.3 | $ 311,247 | 36.3 |
| Danish Krone | - | - | 23 | - |
| Euro | 53,484 | 3.5 | 30,769 | 3.6 |
| Japanese Yen | 45,713 | 3.0 | 23,669 | 2.8 |
| Singapore Dollar | 204,171 | 13.3 | - | - |
| United States Dollar | 584,811 | 38.0 | 411,438 | 48.0 |
| Total | $ 1,477,961 | 96.1 | $ 777,146 | 90.7 |

As at the reporting dates, if the Canadian dollar had strengthened/weakened by 1 percent in relation to all other currencies, holding all other variables constant, net assets would have decreased/increased by $14,780,000 CAD (2017 - $7,771,000 CAD), representing 1.0 % of the Fund's net assets (2017 – 0.9%).

**7. 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.

Other market price risk arises from the Fund's investments in direct real estate private equity and unlisted real estate investee funds, whose valuation is based on the valuation of underlying companies of those investee funds. The Fund invests in such financial assets in order to take advantage of their long-term growth opportunities. All investments present a risk of loss of capital. BCI management moderates this risk through careful selection of the investee funds within specified limits. All of the investee funds and their underlying investments are subject to the risks inherent in their industries. Moreover, established markets do not exist for these holdings, and they are therefore considered illiquid.

The Fund makes commitments to a diversified portfolio of direct real estate private equity and unlisted real estate investee funds, managed by managers with a strong track record. The Fund diversifies its portfolio of investee funds across managers, underlying industries, countries and investment stages.

BCI management follows a rigorous investment due diligence process prior to making any investment decisions. BCI management considers both qualitative and quantitative criteria in the areas of financial performance, business strategy, tax and legal compliance, such as financial information obtained through the underlying manager of the investee funds through on-site visits, interviews and questionnaires together with information gathered from external sources. Prior to entering into an investment agreement, gathered information is confirmed through reference checks or through BCI's standing data and experience.

Country/Region Risk

The Fund's foreign investments may be subject to potential volatility due to political, social, and financial instability with its local region. To mitigate country/region risk, the Fund diversifies investments amongst countries and seeks investments in other countries with stable legal, political, and financial systems. At the reporting dates, real estate investment properties held by the Fund's corporations, limited partnerships, pooled investment portfolio and trust were diversified across the following geographic regions:

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | | Total (in 000s) | % of Total | | Total (in 000's) | % of Total |
| North America | $ | 331,066 | 21.4 | $ | 372,322 | 43.9 |
| Europe | | 638,127 | 41.4 | | 342,039 | 40.4 |
| Asia | | 481,026 | 31.2 | | 42,351 | 5.0 |
| South America | | 91,822 | 6.0 | | 90,562 | 10.7 |
| Total real estate investments | $ | 1,542,041 | 100.0 | $ | 847,274 | 100.0 |

As at December 31, had the fair value of the investments increased or decreased by 10%, with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased, respectively by approximately $154,204,000 (2017 - $84,864,000) or 10% of net assets attributable to holders of redeemable units. Actual trading results may differ from the above sensitivity analysis and the difference could be material.

**8. 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 Fund 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 assets or liabilities.
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 unobservable.

The tables below analyze 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 below are recurring.

| | December 31, 2018 | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| Type of investment (in 000s) | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| Real estate investments | $ - | $ - | $ 1,542,041 | $ 1,542,041 | $ - | $ - | $ 847,274 | $ 847,274 |
| Money market investments | - | - | - | - | - | 1,366 | - | 1,366 |
| Total investments | $ - | $ - | $ 1,542,041 | $ 1,542,041 | $ - | $ 1,366 | $ 847,274 | $ 848,640 |

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

The carrying amount of the Fund’s net assets attributable to holders of redeemable units also approximates fair value as they are measured at redemption amount and are classified as Level 3 in the fair value hierarchy.

**8. FAIR VALUE MEASUREMENT (continued)**

(a) Fair value hierarchy (continued)

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

| Type of investment (in 000s) | 2018 Total | 2017 Total |
|---|---|---|
| Balance, beginning of year | $ 847,274 | 1,185,073 |
| Total gains (losses) recognized in profit or loss | 11,405 | 141,823 |
| Purchases | 647,095 | 289,880 |
| Sales | (98,509) | (698,925) |
| Total unrealized gains (losses) for the year included in profit or loss | 134,776 | (70,577) |
| Closing balance, end of year | $ 1,542,041 | $ 847,274 |

During 2018 and 2017, there were no significant transfers into or out of Level 3.

(b) Valuation framework

The Fund has an established framework with respect to the measurement of fair values. Where possible, for direct real estate private equity investments held by the Fund, external independent valuation specialists are engaged annually to assist in the determination of fair value. In those circumstances where the Fund is reliant on a third-party manager for the determination of fair value, BCI reviews the appropriateness of such valuations using audited financial statements of the underlying investments, where available, and other information from the underlying third-party manager or other sources. BCI will make adjustments to those valuations when deemed appropriate.

In addition, BCI applies the following specific procedures in relation to the determination of fair values:

- verification of observable pricing inputs;
- analysis and investigation of significant valuation movements; and
- review of unobservable inputs and valuation adjustments.

**8. FAIR VALUE MEASUREMENT (continued)**

(c) Significant unobservable inputs used in measuring fair value:

The following table sets out information about significant unobservable inputs used at year-end in measuring the fair value of real estate investments categorized as Level 3 in the fair value hierarchy as at December 31:

December 31, 2018

| Investments | Fair Value (in 000s) | Valuation Sources | Unobservable Input | Amount/Range | Sensitivity to Change in Significant Unobservable Input |
|---|---|---|---|---|---|
| Real estate investments | $ 1,189,707 | Unadjusted Net Asset Value | Net Asset Value | $ 1,189,707 | The estimated fair value would increase (decrease) if the net asset value of the real estate investments as provided by the third-party managers were higher (lower). |
| Real estate investments | $ 297,314 | Adjusted Net Asset Value | Net Asset Value | $ 297,314 | The estimated fair value would increase (decrease) if the net asset value of the real estate investments as provided by the third-party managers were higher (lower). |
| Real estate investments | $ 55,020 | Discounted Cash Flows | Discount Rate | 12.1 % | The estimated fair value would increase (decrease) if the discount rate were higher (lower). |

December 31, 2017

| Investments | Fair Value (in 000s) | Valuation Sources | Unobservable Input | Amount/Range | Sensitivity to Change in Significant Unobservable Input |
|---|---|---|---|---|---|
| Real estate investments | $ 604,674 | Unadjusted Net Asset Value | Net Asset Value | $ 604,674 | The estimated fair value would increase (decrease) if the net asset value of the real estate investments as provided by the third-party managers were higher (lower). |
| Real estate investments | $ 197,830 | Adjusted Net Asset Value | Net Asset Value | $ 197,830 | The estimated fair value would increase (decrease) if the net asset value of the real estate investments as provided by the third-party managers were higher (lower). |
| Real estate investments | $ 44,770 | Discounted Cash Flows | Discount Rate | 12.0 % | The estimated fair value would increase (decrease) if the discount rate were higher (lower). |

Significant unobservable inputs are developed as follows:

(1) Net Asset Value:

Represents the net asset value of the direct real estate private equity and unlisted real estate investee funds. BCI management values these investments primarily based on the latest available financial information provided by their general partners.

(2) Discount rate:

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

**8. FAIR VALUE MEASUREMENT (continued)**

(d) Effects of unobservable inputs on fair value measurement

The fair value of direct real estate private equity and unlisted real estate investee funds fluctuates in response to changes in specific assumptions for that particular investee as determined by the external manager.

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 10%.

| (in 000's) | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Favorable | $ 154,204 | $ 84,727 |
| Unfavorable | $ (154,204) | $ (84,727) |

(e) Financial instruments not measured at fair value

The carrying value of cash, accounts receivable, management fees payable, BCI cost recoveries payable, and 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.

**9. INVOLVEMENT WITH STRUCTURED ENTITIES**

The Fund's investments are held primarily through one pooled fund portfolio (as per assignment agreement outlined in note 11), 16 intermediary holding corporations, one limited partnership with 100% ownership interest, one limited partnership with an 80% ownership interest and one trust with an 84% ownership interest, all of which are 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 legal, tax and other risks that may arise in the course of administering the underlying investments. The carrying amount of these entities, approximately $1,537,920,000 (2017 - $843,612,000), is included within Investments in the Statement of Financial Position.

In addition, the Fund holds interests in other structured entities, both directly and indirectly (i.e. through intermediary holding corporations and limited partnerships). The other structured entities are comprised of directly held investee money market funds organized as unit trusts and indirectly held investee funds organized as limited partnerships. All of these investee funds have been constituted to manage assets on behalf of third-party investors and are financed through the issuance of units to investors or capital contributions made by investors. Accordingly, the Fund's interest in these entities is reflected through the holding of trust units, partnership units or a partnership interest.

**9. INVOLVEMENT WITH STRUCTURED ENTITIES (continued)**

The tables below set out the direct and indirect interests held by the Fund in these other structured entities:

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Number of Entities | Total Net Assets of Entities (in 000s) | Fair value held by the Fund (in 000s) | Number of Entities | Total Net Assets of Entities (in 000s) | Fair value held by the Fund (in 000s) |
| Investee money market funds administered by BCI | - | $ - | $ - | 2 | $ 5,482,111 | $ 1,366 |
| Unlisted real estate investee funds administered by third-party managers | 10 | $ 2,488,842 | $ 220,161 | 10 | $ 1,422,257 | $ 234,952 |

The carrying amount of the investments held in these underlying funds represents the Fund's maximum exposure to loss.

**10. TAXES**

Net cumulative capital losses were $3,999,000 as at December 31, 2018 and $4,026,000 as at December 31, 2017.

Net capital losses are available to be carried forward indefinitely and applied against future net realized capital gains.

**11. ACQUISITIONS AND ASSIGNMENT AGREEMENT**

(a) Acquisition of investments

On January 2, 2014 the real estate investments of Realpool International Fund 1999; 2001 Realpool International Fund; 2006A Realpool International Fund; and 2007 Realpool International Fund, were acquired by the Fund. The acquisition was funded through the issuance of additional units of the Fund. The 2005 Realpool International Fund was assigned to Realpool Global Fund via an assignment agreement as outlined in (b) below.

(b) Assignment agreement

On January 2, 2014 the Fund entered into an assignment agreement with the 2005 Realpool International Fund (2005 Fund) which, on a revocable basis, assigned to the Fund distributions receivable from the 2005 Fund. This agreement does not operate as a transfer of ownership or a disposition of the 2005 Fund and each of the clients' pension plans shall, at any time and from time to time, be entitled to exercise any and all rights associated with the 2005 Fund units and each shall remain registered legal and beneficial owners of the 2005 Fund units. In consideration for the assignment of the 2005 Fund receipts, BCI, as trustee for the Fund issued to various pension plans additional units of the Fund with a fair market value equal to the value of the 2005 Fund units. This agreement shall continue until such time as the Plans, or any one of them, determine to revoke such assignment pursuant to the terms of the agreement.

The following tables show the net assets and financial performance figures applicable to the 2005 Fund that are included in the Realpool Global Fund's Statement of Financial Position and Statement of Comprehensive Income/(Loss) figures:

| Statement of Financial Position (in 000s) | As at December 31, 2018 | As at December 31, 2017 |
|---|---|---|
| Real estate investments | $ 94,141 | $ 97,803 |
| Money market investments | | 15 |
| Other assets and liabilities | (52) | (56) |
| Net assets attributable to holders of redeemable units | $ 94,089 | $ 97,762 |

| Statement of Comprehensive Income/(Loss) (in 000s) | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Net change in unrealized gain (loss) | (6,399) | (6,307) |
| Increase (decrease) in net assets | $ (6,399) | $ (6,307) |

**12. INVOLVEMENT WITH SUBSIDIARIES AND ASSOCIATES**

The Fund holds through intermediary holding entities the following investments in which it has a majority interest or a position where it could otherwise exert significant influence on the operations of the investee. The Fund measures these investments at FVTPL. The tables below set out interests held by the Fund in these unconsolidated subsidiaries and associates:

| December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Entity | Nature and purpose of entity | Interest held | Relationship | Principal place of business | Country of incorporation / registration | Ownership interest % | Voting rights % |
| 22 Bishopsgate LP | Real estate development | Limited partnership interest | Associate | U.K. | U.K. | 20.0 | 20.0 |
| Brookfield Fairfield US Multifamily Value Add Fund II Dev PF LP | Multifamily apartment buildings | Limited partnership interest | Associate | U.S. | U.S. | 22.0 | 22.0 |
| QuadReal Property Group LP | Investment advisory and real estate services | Limited partnership interest - global units | Subsidiary | Canada | Canada | 84.0 | 84.0 |
| Realstar European Capital IV LP | Real estate assets | Limited partnership interest | Associate | U.K. | England and Wales | 87.1 | 87.1 |
| SLQR JV LP | Real estate assets | Limited partnership interest | Subsidiary | U.K. | U.K. | 81.8 | 81.8 |
| Virginia Street Development LLC | Real estate development | Common shares | Subsidiary | U.S. | U.S. | 80.0 | 80.0 |
| Gateway V Co-Investment (Reine)LP | Real estate assets | Limited partnership interest | Associate | Asia | Cayman Islands | 35.6 | 35.6 |
| GreenOak Asia II, LP | Real estate assets | Limited partnership interest | Subsidiary | Asia | Cayman Islands | 75.0 | 75.0 |
| Realstar European Capital Fund I LP | Real estate assets | Limited partnership interest | Associate | Europe | England | 20.0 | 20.0 |
| BlackRock Europe Property Fund II LP | Real estate related assets | Limited partnership interest | Associate | Europe | Bermuda | 33.2 | 33.2 |
| LaSalle German Retail Venture LP | Retail real estate | Limited partnership interest | Subsidiary | Germany | England | 77.6 | 77.6 |
| SIP Investment Holding Pte. Ltd. | Investment holding and real estate assets | Common shares | Associate | Asia | Singapore | 33.8 | 33.8 |
| Logos India Logistics Venture Pte. Ltd. | Logistics and warehouse property | Common shares | Associate | Asia | Singapore | 43.9 | 43.9 |
| Shenton Way S.A.S. | Real estate assets | Common shares | Subsidiary | Asia | Luxembourg | 85.5 | 85.5 |
| QR RHC Investments LP | Residential real estate development | Limited partnership interest | Subsidiary | Europe | England | 81.0 | 81.0 |
| Gateway V Co-Investment (Aqua) QR, LP | Real estate and real estate related assets | Limited partnership interest | Subsidiary | Asia | Cayman Islands | 78.2 | 78.2 |

**12. INVOLVEMENT WITH SUBSIDIARIES AND ASSOCIATES (continued)**

| December 31,2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Entity | Nature and purpose of entity | Interest held | Relationship | Principal place of business | Country of incorporation / registration | Ownership interest % | Voting rights % |
| 22 Bishopsgate LP | Real estate development | Limited partnership interest | Associate | U.K. | U.K. | 20.0 | 20.0 |
| Brookfield Fairfield US Multifamily Value Add Fund II Dev PF LP | Multifamily apartment buildings | Limited partnership interest | Associate | U.S. | U.S. | 10.0 | 10.0 |
| QuadReal Property Group LP | Investment advisory and real estate services | Limited partnership interest - global units | Subsidiary | Canada | Canada | 81.4 | 81.4 |
| Realstar European Capital IV LP | Real estate assets | Limited partnership interest | Associate | U.K. | England and Wales | 87.1 | 87.1 |
| SLQR JV LP | Real estate assets | Limited partnership interest | Associate | U.K. | U.K. | 81.8 | 81.8 |
| Virginia Street Development LLC | Real estate development | Common shares | Subsidiary | U.S. | U.S. | 80.0 | 80.0 |
| Gateway V Co-Investment LP | Real estate assets | Limited partnership interest | Associate | Asia | Cayman Islands | 35.6 | 35.6 |
| North Block Spring Street LLC | Real estate development | Common shares | Subsidiary | U.S. | U.S. | 80.0 | 80.0 |
| GreenOak Asia II, LP | Real estate assets | Limited partnership interest | Subsidiary | Asia | Cayman Islands | 66.0 | 66.0 |
| Realstar European Capital Fund I LP | Real estate assets | Limited partnership interest | Associate | Europe | England | 20.0 | 20.0 |
| BlackRock Europe Property Fund II LP | Real estate related assets | Limited partnership interest | Associate | Europe | Bermuda | 33.2 | 33.2 |
| BlackRock Europe Property Fund II (Alberta) LP | Real estate related assets | Limited partnership interest | Associate | Europe | Canada | 33.2 | 33.2 |
| LaSalle German Retail Venture LP | Retail real estate | Limited partnership interest | Subsidiary | Germany | England | 77.6 | 77.6 |

During 2018 and 2017, the Fund did not provide financial support to subsidiaries or associates and has no intention of providing financial or other support. Furthermore, the subsidiaries and associates listed in the table above are not subject to any significant restrictions on their ability to transfer funds to the Fund.

**13. COMMITMENTS AND CONTINGENCIES**

The Fund has entered into commitments related to the funding of investments. These commitments are generally payable on demand based on the funding needs of the investment subject to the terms and conditions of each agreement. As at December 31, 2018 the commitments for the Fund totalled $992.0 million (2017 - $673.0 million).

Certain investments of the Fund may, in the normal course of business activities, be involved in disputes with third parties. The Fund was not involved in any material disputes as at December 31, 2018.

**British Columbia Investment Management Corporation**
**Realpool Global - Mexico Fund**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

British Columbia Investment Management Corporation (BCI) manages the Realpool Global - Mexico Fund (Fund) on behalf of governing fiduciaries such as pension fund trustees and other public sector clients. This report contains the financial statements for the Fund for the year ended December 31, 2018.

The 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 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 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 systems of internal control are 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
July 3, 2019

# Independent auditor’s report

To the Unitholders of
**Realpool Global - Mexico Fund**

## Opinion

We have audited the financial statements of **Realpool Global - Mexico Fund** [the “Fund”], which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income (loss), 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
July 3, 2019

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
REALPOOL GLOBAL - MEXICO FUND

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

| | Note | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash | | $ 1 | $ - |
| Investments at fair value through profit or loss | 4 | 230,316 | 244,354 |
| | | 230,317 | 244,354 |
| **Liabilities** | | | |
| Management fees payable | | - | 1,708 |
| BCI cost recoveries payable | 5 | 222 | 174 |
| Accounts payable | | 4 | 5 |
| | | 226 | 1,887 |
| **Net assets attributable to holders of redeemable units** | | **$ 230,091** | **$ 242,467** |
| *Number of redeemable units outstanding* | 6 | *68.373* | *85.204* |
| **Net assets attributable to holders of redeemable units per unit** | | **$ 3,365** | **$ 2,846** |
| *Commitments and Contingencies* | *11* | | |

[S] Gordon J. Fyfe

Gordon J. Fyfe
Chief Executive Officer
Chief Investment Officer

**Statement of Comprehensive Income/(Loss)**
(all amounts in thousands)

| | Note | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|---|
| **Revenue:** | | | |
| Investment income | | $ 12,204 | $ 56,960 |
| Interest income | | 202 | 517 |
| Foreign exchange gain | | 554 | 323 |
| Change in fair value of investments: | 8 | | |
| Net realized gain | | 9,330 | 5,659 |
| Net change in unrealized appreciation of investments | | 18,132 | (86,868) |
| Total revenue | | 40,422 | (23,409) |
| **Expenses:** | | | |
| BCI cost recoveries | 5 | 71 | 367 |
| Management fees | | 1,175 | 1,708 |
| Administrative and professional fees | | 331 | 161 |
| Pursuit costs | | 784 | 17 |
| | | 2,361 | 2,253 |
| Increase (decrease) in net assets attributable to holders of redeemable units from operations excluding distributions | | 38,061 | (25,662) |
| Distributions to holders of redeemable units | | (17,870) | (65,301) |
| **Increase (decrease) in net assets attributable to holders of redeemable units** | | **$ 20,191** | **$ (90,963)** |

*See accompanying notes to the financial statements.*

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION
REALPOOL GLOBAL - MEXICO 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 | $ 242,467 | $ 345,238 |
| Increase (decrease) in net assets attributable to holders of redeemable units | 20,191 | (90,963) |
| Redeemable unit transactions: | | |
| Proceeds from units issued | 8,971 | 13,791 |
| Reinvestment of distributions | 17,870 | 65,301 |
| Amounts paid for units redeemed | (59,408) | (90,900) |
| Net decrease from redeemable unit transactions | (32,567) | (11,808) |
| **Balance, end of year** | **$ 230,091** | **$ 242,467** |

**Statement of Cash Flows**
(all amounts in thousands)

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| **Operating activities:** | | |
| Increase (decrease) in net assets attributable to holders of redeemable units | $ 20,191 | $ (90,963) |
| Adjustments for: | | |
| Investment income | (12,204) | (56,960) |
| Net realized gain from investments | (9,330) | (5,659) |
| Net change in unrealized appreciation of investments | (18,132) | 86,868 |
| Non cash distributions | 17,870 | 65,301 |
| Proceeds from sale of investments | 105,075 | 326,116 |
| Amounts paid for purchase of investments | (63,575) | (306,845) |
| Management fees payable | (1,708) | 1,708 |
| BCI cost recoveries payable | 48 | 174 |
| Accounts payable | (1) | (18) |
| Investment income received | 12,204 | 57,387 |
| | 50,438 | 77,109 |
| **Financing activities:** | | |
| Proceeds from issuance of redeemable units | 8,971 | 13,791 |
| Payments on redemption of redeemable units | (59,408) | (90,900) |
| | (50,437) | (77,109) |
| Net increase in cash | 1 | - |
| Cash, beginning of year | - | - |
| **Cash, end of year** | **$ 1** | **$ -** |

*See accompanying notes to the financial statements.*

**Schedule of Investments**
as at December 31
(all amounts in thousands)

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| | Note | **Fair Value** | **Cost** | **Fair Value** | **Cost** |
| **Real Estate Investments:** | 4, 7, 8 | | | | |
| Direct real estate private equity | | 175,090 | 165,419 | 206,812 | 200,796 |
| Unlisted real estate investee funds | | 55,226 | 45,356 | 34,575 | 39,178 |
| | | 230,316 | 210,775 | 241,387 | 239,974 |
| **Money Market Investments:** | | | | | |
| Units in BCI pooled investment portfolios: | | | | | |
| Fund ST2 | | - | - | 2,960 | 2,964 |
| Fund ST3 | | - | - | 7 | 7 |
| | | - | - | 2,967 | 2,971 |
| ***Total Investments*** | | $ 230,316 | $ 210,775 | $ 244,354 | $ 242,945 |

*See accompanying notes to the financial statements.*

**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 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 (the "Regulations"), 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, 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 Global Mexico Fund (the "Fund") was established on August 26, 2016.

**2. BASIS OF PRESENTATION**

(a) Statement of compliance

These financial statements 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 July 3, 2019.

(b) Prior period reclassification

Distributions from direct real estate private equity investments in 2017 have been reclassified from income to return of capital resulting in a decrease to interest income of $6.855 million and a corresponding increase in net change in unrealized appreciation.

(c) Accounting for real estate investments

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.

(d) Basis of measurement

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

**2. BASIS OF PRESENTATION (continued)**

(e) Functional and presentation currency

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

(f) 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, 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 8 and relates 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

Financial instruments are required to be classified into one of the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). 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 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.

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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(a) Financial instruments (continued)

(i) Recognition and measurement (continued)

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 irrevocably elects to measure financial assets that otherwise meet 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 FVTPL, such as derivative financial liabilities. On initial recognition, the Fund irrevocably designates a financial liability as measured at FVTPL when doing so results in more relevant information.

(ii) Fair value through profit or 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/(Loss) in the period in which they occur. The Fund's investments and redeemable units are classified 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. In an active market, fair value is best evidenced by an independent quoted price. In the absence of an inactive market, fair value is determined by valuation techniques that maximize the use of inputs observed from markets. 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. See note 8 for more details about the determination of fair value.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(a) Financial instruments (continued)

(iii) Amortized Cost

Financial assets and liabilities classified as amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method, less any impairment losses. The Fund classifies cash, management fees payable, BCI cost recoveries payable and 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 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 the redemption amount. Distributions to holders of redeemable units are recognized in comprehensive income when they are authorized and no longer at the discretion of BCI.

(c) Issue and redemption of units

Participation in the Fund is expressed in units. The initial value of a unit 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 one 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 is an open participation fund where eligible clients may increase or reduce their proportionate ownership annually or on special opening dates.

(d) Foreign exchange

These financial statements 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 income 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/(Loss).

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(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, which for quoted equity securities is usually the ex-dividend date. 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. Unrealized gains (losses) reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Commissions 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.

(f) Income distribution

The Fund distributes taxable income and net taxable capital gains to unitholders at each year-end. Where the Fund is in a cumulative net loss position at the end of a year, such net losses are carried forward to be applied against the Fund's future net income.

(g) Income taxes

The Fund qualifies as an inter-vivos trust under section 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 associated with any of the Fund's underlying investments are accounted for in determining the fair value of the respective investments.

(h) 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 has 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 have a significant impact on these financial statements.

**4. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

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

(a) Real estate investments

The real estate investments consist of direct private equity and unlisted investee funds that hold real estate properties. The fair value of the direct real estate private equity and unlisted real estate investee funds is determined by the sum of the fair value of the net assets of the entities.

(b) Money market investments

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

**5. 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:

BCI cost recoveries

Third-party costs that are attributable to the Fund are charged to the Fund. Other costs initially borne by BCI are recovered from the Fund. BCI cost recoveries and the corresponding payable are disclosed in the Fund’s Statement of Comprehensive Income/(Loss) and Statement of Financial Position, respectively.

**6. 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. Clients may increase or decrease their participation in the Fund by purchasing or redeeming units on an opening date, which occurs on the first business day of the calendar year. The CIO may, without notice, establish a purchase and/or redemption limit for a particular opening date. Unit issuances and redemptions occurring on dates other than the opening date are allocated on a proportional basis.

**6. REDEEMABLE UNITS (continued)**

The following is a summary of the changes in redeemable units outstanding during the year:

| | 2018 | 2017 |
|---|---|---|
| | (in number of units) | (in number of units) |
| Outstanding, beginning of year | 85.204 | 111.422 |
| Issued | 3.088 | 4.539 |
| Issued on reinvestment of distributions | 5.302 | 23.535 |
| Consolidation of units | (5.302) | (23.535) |
| Redeemed | (19.919) | (30.757) |
| Outstanding, end of year | **68.373** | **85.204** |

**7. FINANCIAL RISK MANAGEMENT**

(a) Risk management framework

The Fund is a portfolio within the global real estate program. The investment objective of portfolios in the global real estate program is to provide clients with exposure to a portfolio of global real estate and real estate-related investments. The Fund's holdings are highly diversified by property type, investment size, and investment risk. The Fund primarily concentrates on high quality income producing office, industrial, residential, retail, and mixed-use properties located in Mexico. The global real estate program'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 the longer term.

The Fund may hold the following assets:

- Real estate properties;
- Real estate-related securities, including trust units, partnership interests, shares, debt instruments, and units in externally managed pooled investment portfolios;
- Derivative instruments for the purposes of synthetic indexing, risk control, lowering transactions costs, and/or liquidity management;
- Foreign exchange contracts for currency conversions and/or currency hedging; and
- Units in BCI's Canadian Money Market Fund (ST1), Canadian Money Market Fund (ST2), US Dollar Money Market Fund (ST3), government debt securities with a maximum term to maturity of 1 year, and other BCI short-term fixed income pooled funds, for cash management.

**7. FINANCIAL RISK MANAGEMENT (continued)**

(a) Risk management framework (continued)

The following restrictions apply to the Fund's investing activities:

- Debt financing may be used in a prudent manner. No debt will be assumed or created if, as a result, the debt to market value ratio of the Fund would exceed 55 percent;
- When entering into a new derivatives transaction, external counterparties must be financial institutions rated "A-" or higher by Standard & Poor's or have an equivalent rating from another credit rating agency; and
- Real estate investments must be eligible investments for pension plans under the *Pension Benefits Standards Act*, (B.C.).

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, discussed below.

(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. It arises principally from debt securities held and also from derivative financial assets, cash and cash equivalents, and other receivables due to the Fund. The carrying value of these financial instruments as recorded in the Statement of Financial Position reflects the Fund's maximum exposure to credit risk.

To avoid undue credit risk, the Fund has established specific investment criteria, such as minimum credit ratings for investees and counterparties.

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 honor its obligations to deliver cash, securities, or other assets prior to the settlement of the transaction as contractually agreed. The risk of default is considered minimal since the Fund's private corporations, limited partnerships and pooled investment portfolios hold real estate and typically have a diversified tenant base. External managers conduct financial reviews to assess potential tenants' ability to meet future lease obligations.

(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 other assets as contractually agreed. BCI'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. 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.

**7. FINANCIAL RISK MANAGEMENT (continued)**

(c) Liquidity risk (continued)

The Fund's financial assets include unlisted equity investments, which are generally illiquid. In addition, the Fund holds investments in private real estate investee funds. As a result, the Fund may not be able to liquidate some of its investments in these instruments in time to meet obligations when they become due. However, the CIO may obtain funding from the unitholders of the Fund through additional unit issuances to meet the Fund's ongoing liquidity requirements.

The Fund's remaining liabilities, including management fees payable, BCI cost recoveries payable and accounts payable are due within three months of the year end of the Fund.

(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.

Most of the Fund's financial assets and liabilities are non-interest bearing or have a short term-to-maturity. Accordingly, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing market interest rates.

(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 in various currencies. The Fund may use foreign currency contracts to hedge some foreign currency exposure on investment-related receivables and liabilities and engage in 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. There were no foreign currency contracts at December 31, 2018 or December 31, 2017.

The Fund holds net financial assets denominated in U.S. currency totaling $230,316,000 CAD which represents 100.0% of the net asset value of the Fund (2017 - $241,394,000 CAD which represented 99.6% of the net asset value of the Fund). As at the reporting dates, if the Canadian dollar had strengthened/weakened by 1 percent in relation to all other currencies, holding all other variables constant, net assets would have decreased/increased, respectively, by $2,303,000 CAD (2017 - $2,414,000 CAD), representing 1.0% of the Fund's net assets (2017 – 1.0%). In practice, the actual trading results may differ from the above sensitivity analysis and the difference could be material.

**7. FINANCIAL RISK MANAGEMENT (continued)**

(d) Market risk (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.

Other market price risk arises from the Fund's investments in direct real estate private equity and unlisted real estate investee funds, whose valuation is based on the valuation of underlying entities. The Fund invests in such financial assets in order to take advantage of their long-term growth opportunities. All investments present a risk of loss of capital. BCI management moderates this risk through careful selection of the private equity entities and investee funds within specified limits. All of the investee funds and their underlying investments are subject to the risks inherent in their industries. Moreover, established markets do not exist for these holdings, and they are therefore considered illiquid.

The Fund makes commitments to a diversified portfolio of direct real estate private equity and unlisted real estate investee funds, managed by managers with a strong track record. The Fund diversifies its portfolio of investee funds across managers, underlying industries, countries and investment stages.

BCI management follows a rigorous investment due diligence process prior to making any investment decisions. BCI management considers both qualitative and quantitative criteria in the areas of financial performance, business strategy, tax and legal compliance, such as financial information obtained through the underlying manager of the investee funds through on-site visits, interviews and questionnaires together with information gathered from external sources. Prior to entering into an investment agreement, gathered information is confirmed through reference checks or through BCI's standing data and experience.

*Country/Region Risk*

The Fund's foreign investments may be subject to potential volatility due to political, social, and financial instability with its local region. At the reporting dates, the direct real estate private equity and unlisted real estate investee funds were invested in Mexico.

As at December 31, had the fair value of the investments increased or decreased by 10%, with all other variables held constant, net assets attributable to holders of redeemable units would have increased or decreased, respectively by approximately $23,032,000 (2017 - $24,139,000) or 10.0% (2017 – 10.0%) of net assets attributable to holders of redeemable units.

Actual trading results may differ from the above sensitivity analysis and the difference could be material.

**8. 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 Fund 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 financial assets and liabilities.
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 unobservable.

The tables below analyze 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 below are recurring.

| | December 31, 2018 | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| Type of investment (in 000s) | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| Direct real estate private equity | - | - | 175,090 | 175,090 | - | - | 206,812 | 206,812 |
| Unlisted real estate investee funds | - | - | 55,226 | 55,226 | - | - | 34,575 | 34,575 |
| Money market investments | - | - | - | - | - | 2,967 | - | 2,967 |
| Total investments | - | - | 230,316 | 230,316 | $ - | $ 2,967 | $ 241,387 | $ 244,354 |

During 2018 and 2017, there were no significant transfers between Level 1 and Level 2.

The carrying amount of the Fund's net assets attributable to holders of redeemable units also approximates fair value as they are measured at redemption amount and are classified as Level 3 in the fair value hierarchy.

**8. FAIR VALUE MEASUREMENT (continued)**

(a) Fair value hierarchy (continued)

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

| | 2018 | | | 2017 | | | |
|---|---|---|---|---|---|---|---|
| Type of investment (in 000s) | Direct real estate private equity | Unlisted real estate investee funds | Total | Direct private debt | Direct real estate private equity | Unlisted real estate investee funds | Total |
| Balance, beginning of year | $ 206,812 | $ 34,575 | $ 241,387 | $ 28,649 | $ 284,734 | $ 31,441 | $ 344,824 |
| Total gains recognized in profit or loss | 2,274 | - | 2,274 | 3,903 | - | - | 3,903 |
| Purchases | 4,707 | 6,178 | 10,885 | - | 6,855 | 6,379 | 13,234 |
| Sales | (43,031) | - | (43,031) | (26,855) | - | - | (26,855) |
| Total unrealized gains for the year included in profit or loss | 4,328 | 14,473 | 18,801 | (5,697) | (84,777) | (3,245) | (93,719) |
| Balance, end of year | $ 175,090 | $ 55,226 | $ 230,316 | $ - | $ 206,812 | $ 34,575 | $ 241,387 |

During 2018 and 2017, there were no significant transfers into or out of Level 3.

(b) Valuation framework

The Fund has an established framework with respect to the measurement of fair values. Where possible, for direct real estate private equity investments held by the Fund, external independent valuation specialists are engaged annually to assist in the determination of fair value. In those circumstances where the Fund is reliant on a third-party manager for the determination of fair value, BCI reviews the appropriateness of such valuations using audited financial statements of the underlying investments, where available, and other information from the underlying third-party manager or other sources. BCI will make adjustments to those valuations when deemed appropriate.

In addition, BCI applies the following specific procedures in relation to the determination of fair values:

- verification of observable pricing inputs;
- analysis and investigation of significant valuation movements; and
- review of unobservable inputs and valuation adjustments.

**8. FAIR VALUE MEASUREMENT (continued)**

(c) Significant unobservable inputs used in measuring fair value:

The following table sets out information about significant unobservable inputs used at year-end in measuring the fair value of direct real estate private equity investments and unlisted private debt investee funds categorized as Level 3 in the fair value hierarchy as at December 31:

| December 31, 2018 | | | | | |
|---|---|---|---|---|---|
| Investment | Fair Value (in 000s) | Valuation Sources | Unobservable Input | Amount/Range | Sensitivity to Change in Significant Unobservable Input |
| Direct real estate private equity | $ 175,090 | Value provided by investment partner | Value provided by investment partner | $ 175,090 | The estimated fair value would increase (decrease) if the value provided by investment partner was higher (lower). |
| Unlisted real estate investee funds | $ 55,226 | Unadjusted Net Asset Value | Net Asset Value | $ 55,226 | The estimated fair value would increase (decrease) if the net asset value of the unlisted real estate investee funds as provided by the third-party managers were higher (lower). |

| December 31, 2017 | | | | | |
|---|---|---|---|---|---|
| Investment | Fair Value (in 000s) | Valuation Sources | Unobservable Input | Amount/Range | Sensitivity to Change in Significant Unobservable Input |
| Direct real estate private equity | $206,812 | Adjusted Net Asset Value | Net Asset Value | $206,812 | The estimated fair value would increase (decrease) if the net asset value of the direct real estate private equity as provided by the third-party managers were higher (lower). |
| Unlisted real estate investee funds | $34,575 | Unadjusted Net Asset Value | Net Asset Value | $34,575 | The estimated fair value would increase (decrease) if the net asset value of the unlisted real estate investee funds as provided by the third-party managers were higher (lower). |

Significant unobservable inputs are developed as follows:

(1) Net Asset Value:

Represents the net asset value of the direct real estate private equity investments and unlisted private equity investee funds. BCI management values these investments primarily based on the latest available financial information provided by their general partners.

**8. FAIR VALUE MEASUREMENT (continued)**

(d) Effects of unobservable inputs on fair value measurement

The fair value of the direct real estate private equity and unlisted real estate investee funds fluctuates in response to changes in specific assumptions for that particular investee as determined by the external manager.

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 direct real estate private equity investments and unlisted real estate investee funds were calculated by adjusting the respective net assets by 10%.

| (in 000s) | 2018 | 2017 |
|---|---|---|
| Favourable | $ 23,032 | $ 24,139 |
| Unfavourable | $ (23,032) | $ (24,139) |

(e) Financial instruments not measured at fair value

The carrying value of cash, management fees payable, BCI cost recoveries payable, and 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.

**9. INVOLVEMENT WITH STRUCTURED ENTITIES**

The Fund's money market investments are held primarily through pooled fund portfolios which are considered 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 tax and other risks that may arise in the course of administering the underlying investments. At December 31, the carrying amount of the investments in these entities is $nil (2017 - $2,967,000), and is shown under Money Market Investments in the Schedule of Investments. The total net assets of these entities at December 31 was $nil (2017 - $5,482,000,000). The carrying amount of the investments represent the Fund's maximum exposure to loss.

**10. INVOLVEMENT WITH SUBSIDIARIES AND ASSOCIATES**

The Fund holds through intermediary holding corporations the following investments in which it has a controlling position or a position where it could otherwise exert significant influence on the operations of the investee. The Fund measures these investments at FVTPL. The tables below set out interests held by the Fund in these unconsolidated subsidiaries and associates:

| December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Entity | Nature and purpose of entity | Interest held | Relationship | Principal place of business | Country of incorporation / registration | Ownership interest % | Voting rights % |
| Operadora de Centros Comerciales Opcion, S.A. de C.V | Industrial real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 80.0 | 80.0 |
| Parques Logistico del Centro, S. de R.L. de C.V. | Industrial real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 80.0 | 80.0 |
| Hines CKD I Co-Invest, S. de R.L. de C.V. | Industrial real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 82.4 | 82.4 |
| Centro de Acopio Tepotzotlan, S.A. de C.V. | Industrial retail real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 80.0 | 80.0 |
| Monterrey San Jeronimo, S. de R.L. de C.V. | Office real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 80.0 | 80.0 |
| Corporacion Industrial Juarez, S. de R.L. de C.V. | Industrial retail real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 80.0 | 80.0 |

## 10. INVOLVEMENT WITH SUBSIDIARIES AND ASSOCIATES (continued)

| December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Entity | Nature and purpose of entity | Interest held | Relationship | Principal place of business | Country of incorporation / registration | Ownership interest % | Voting rights % |
| Operadora de Centros Comerciales Opcion, S.A. de C.V | Industrial real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 80.0 | 80.0 |
| Parques Logistico del Centro, S. de R.L. de C.V. | Industrial real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 80.0 | 80.0 |
| Hines CKD I Co-Invest, S. de R.L. de C.V. | Industrial real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 81.0 | 81.0 |
| Centro de Acopio Tepotzotlan, S.A. de C.V. | Industrial retail real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 80.0 | 80.0 |
| Monterrey San Jeronimo, S. de R.L. de C.V. | Office real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 80.0 | 80.0 |
| Corporacion Industrial Juarez, S. de R.L. de C.V. | Industrial retail real estate | Shareholder interest | Subsidiary | Mexico | Mexico | 80.0 | 80.0 |

During 2018 and 2017, the Fund did not provide financial support to subsidiaries or associates and has no intention of providing financial or other support. Furthermore, the subsidiaries and associates listed in the table above are not subject to any significant restrictions on their ability to transfer funds to the Fund.

## 11. COMMITMENTS AND CONTINGENCIES

The Fund has entered into commitments related to the funding of investments. These commitments are generally payable on demand based on the funding needs of the investment subject to the terms and conditions of each agreement. As at December 31, 2018 the commitments for the Realpool Mexico Fund totalled $249.9 million (2017 - $323.6 million)

Certain investments of the Fund may, in the normal course of business activities, be involved in disputes with third parties. The Fund was not involved in any material disputes as at December 31, 2018.