



BCi

 QuadReal

# Realpool Global- Mexico Financial Statements

DECEMBER 2019

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

British Columbia Investment Management Corporation ("BCI") manages Pooled Investment Portfolios on behalf of governing fiduciaries such as pension fund trustees and other public sector clients. QuadReal Property Group Limited Partnership and affiliates ("QuadReal") manage the Mortgage and Real Estate programs pursuant to asset management agreements as agreed to between BCI and QuadReal. This report contains the financial statements for the following Pooled Investment Portfolio for the year ended December 31, 2019:

- Realpool Global – Mexico

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

BCI's Board has established an Audit Committee. The BCI Audit Committee's mandate includes oversight of the financial statements of the Pooled Investment Portfolio managed by QuadReal through a governance framework established with QuadReal's Board and Audit Committee. Through this governance framework, the BCI Committee mandate is executed through oversight from QuadReal's Audit Committee and includes making recommendations on the appointment of the external auditor for the Pooled Investment Portfolio, reviewing the external audit plan; reviewing BCI's Service Organization Controls Report for the Investment System of British Columbia Investment Management Corporation, including QuadReal related controls, and reviewing the annual audited financial statements of the Pooled Investment Portfolios. The BCI Committee and QuadReal 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 and QuadReal maintain a system 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 and QuadReal'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 adherence to BCI Board-approved Pooled Investment Portfolio Policies and client-approved investment mandates. BCI's and QuadReal's system of internal control is supported by external auditors who review and evaluate internal controls and report directly to the BCI and QuadReal Audit Committees.

The Pooled Investment Portfolio's external auditors, Ernst & Young LLP, have full and unrestricted access to the BCI and QuadReal Audit Committees and BCI and QuadReal management. Ernst & Young LLP discusses with management and the Committees the results of their audit of the Pooled Investment Portfolio financial statements and related findings with respect to such audit. The Pooled Investment Portfolio financial statements are audited by Ernst & Young LLP in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has performed such tests and other procedures as they considered necessary to express an opinion on the Pooled Investment Portfolio financial statements.

*Gordon J. Fyfe*

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Gordon J. Fyfe  
Chief Executive Officer, BCI  
Chief Investment Officer, BCI

*Dennis Lopez*

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Dennis Lopez  
Chief Executive Officer, QuadReal

*Tamara Lawson*

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Tamara Lawson  
Chief Financial Officer, QuadReal

June 24, 2020

# Independent auditor's report

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

## Opinion

We have audited the financial statements of **Realpool Global - Mexico** [the "Fund"], which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable units and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2019, 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.

Vancouver, Canada  
June 24, 2020

*Ernst & Young LLP*

Chartered Professional Accountants



# REALPOOL GLOBAL – MEXICO

(Expressed in thousands except number of units)

## Statement of Financial Position

December 31, 2019, with comparative information for 2018

	Notes	2019	2018
<b>Assets</b>			
Cash		\$ 6	\$ 1
Investments at fair value through profit or loss	7 & 8	234,030	230,316
Total assets		234,036	230,317
<b>Liabilities</b>			
Management fees payable		1,336	-
BCI and QuadReal cost recoveries payable	5	-	222
Accounts payable		472	4
Total liabilities excluding net assets attributable to the holders of redeemable units		1,808	226
<b>Net assets</b> attributable to holders of redeemable units		\$ 232,228	\$ 230,091
Number of redeemable units outstanding	6	64.630	68.373
<b>Net assets</b> attributable to holders of redeemable units per unit		\$ 3,593	\$ 3,365
Commitments, contingencies and subsequent events	10 & 11		

See accompanying notes to financial statements.

*Gordon J. Fyfe*

Gordon J. Fyfe  
Chief Executive Officer, BCI  
Chief Investment Officer, BCI

# REALPOOL GLOBAL – MEXICO

(Expressed in thousands except number of units)

## Statement of Comprehensive Income

Year ended December 31, 2019, with comparative information for 2018

	Notes	2019	2018
Revenue:			
Investment income		\$ 26,697	\$ 12,204
Interest income		13	202
Foreign exchange gain		96	554
Change in fair value of investments:	8		
Net realized gain		-	9,330
Net change in unrealized appreciation		(8,245)	18,132
		18,561	40,422
Expenses:			
BCI and QuadReal cost recoveries	5	245	71
Management fees		2,485	1,175
Administrative and professional fees		539	331
Pursuit costs		6	784
		3,275	2,361
Increase in net assets attributable to holders of redeemable units from operations excluding distributions		15,286	38,061
Distributions to holders of redeemable units		(10,368)	(17,870)
Increase in net assets attributable to holders of redeemable units		\$ 4,918	\$ 20,191

See accompanying notes to financial statements.

# REALPOOL GLOBAL – MEXICO

(Expressed in thousands except number of units)

## Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Balance, beginning of year	\$ 230,091	\$ 242,467
Increase in net assets attributable to holders of redeemable units	4,918	20,191
Redeemable unit transactions:		
Proceeds from units issued	21,838	8,971
Reinvestment of distributions	10,368	17,870
Amounts paid for units redeemed	(34,987)	(59,408)
Net decrease from redeemable unit transactions	(2,781)	(32,567)
Balance, end of year	\$ 232,228	\$ 230,091

See accompanying notes to financial statements.

# REALPOOL GLOBAL – MEXICO

(Expressed in thousands except number of units)

## Statement of Cash Flows

Year ended December 31, 2019, with comparative information for 2018

	2019	2018
Cash flows provided by (used in):		
Operations:		
Increase in net assets attributable to holders of redeemable units	\$ 4,918	\$ 20,191
Adjustments for:		
Net realized gain from investments	-	(9,330)
Net change in unrealized appreciation of investments	8,245	(18,132)
Non-cash distributions	10,368	17,870
Proceeds from sale of investments	460	105,075
Amounts paid for purchase of investments	(12,419)	(63,575)
Management fees payable	1,336	(1,708)
BCI and QuadReal cost recoveries payable	(222)	48
Accounts payable	468	(1)
	13,154	50,438
Financing:		
Proceeds from issuance of redeemable units	21,838	8,971
Payments on redemption of redeemable units	(34,987)	(59,408)
	(13,149)	(50,437)
Net increase in cash	5	1
Cash, beginning of year	1	-
Cash, end of year	\$ 6	\$ 1

See accompanying notes to financial statements.

# REALPOOL GLOBAL – MEXICO

(Expressed in thousands except number of units)

## Schedule of Investments

December 31, 2019, with comparative information for 2018

	2019		2018	
	Fair value	Cost	Fair value	Cost
Real Estate investments	\$ 234,030	\$ 213,796	\$ 230,316	\$ 210,775
Total investments	\$ 234,030	\$ 213,796	\$ 230,316	\$ 210,775

See accompanying notes to financial statements.

# REALPOOL GLOBAL – MEXICO

(Expressed in thousands except number of units)

Notes to Financial Statements

Year ended December 31, 2019

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## 1. The portfolio:

British Columbia Investment Management Corporation ("BCI") was established under the Public Sector Pension Plans Act as a trust company authorized to carry on trust business and investment management services. The address of BCI's registered office is at 750 Pandora Avenue, Victoria, British Columbia, Canada.

QuadReal Property Group Limited Partnership ("QuadReal") and affiliates manage Realpool Global - Mexico ("the Fund") pursuant to an Asset Management Agreement between BCI and QuadReal. These financial statements have been prepared by QuadReal. In 2018, the financial statements were prepared by BCI.

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

The Fund was established on August 26, 2016.

## 2. Basis of preparation:

### (a) Statement of compliance:

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"). The financial statements were authorized for issue by the BCI Chief Executive Officer/Chief Investment Officer on June 24, 2020.

### (b) 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; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

# REALPOOL GLOBAL - MEXICO

(Expressed in thousands except number of units)

Notes to Financial Statements

Year ended December 31, 2019

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## 2. Basis of preparation (continued):

### (b) Accounting for real estate investments (continued):

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 at fair value through profit or loss, which are measured at fair value.

### (d) Functional and presentation currency:

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

### (e) Use of estimates and judgment:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. In determining the fair value of some of its investments, management reviews and assesses external managers' estimates and assumptions regarding investment industry performance and prospects, as well as general business and economic conditions that prevail or are expected to prevail. By nature, these asset valuations are subjective and do not necessarily result in precise determinations. Financial results as determined by actual events could differ from those estimates and assumptions, and the difference could be material.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year is included in note 8 and relates to the determination of fair value of investments with significant unobservable inputs.

# REALPOOL GLOBAL - MEXICO

(Expressed in thousands except number of units)

Notes to Financial Statements

Year ended December 31, 2019

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### 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 a party to the contractual provisions of the instrument. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

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

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

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

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

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

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

# REALPOOL GLOBAL - MEXICO

(Expressed in thousands except number of units)

Notes to Financial Statements

Year ended December 31, 2019

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## 3. Significant accounting policies (continued):

### (a) Financial instruments (continued):

#### (i) Recognition and measurement (continued):

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 and loss:

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the Statement of Comprehensive Income in the period in which they occur. The Fund's investments are designated as FVTPL.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. 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.

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.

The fair value of financial assets and liabilities that are not traded in an active market, is determined using valuation techniques. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs.

# REALPOOL GLOBAL - MEXICO

(Expressed in thousands except number of units)

Notes to Financial Statements

Year ended December 31, 2019

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### 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 and QuadReal 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. The 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 QuadReal.

#### (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 Fund by the total number of units outstanding. 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.

# REALPOOL GLOBAL - MEXICO

(Expressed in thousands except number of units)

Notes to Financial Statements

Year ended December 31, 2019

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### 3. Significant accounting policies (continued):

(e) Income recognition:

Investment income is recognized on an accrual basis using the effective interest method. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments. The year-over-year change in the difference between the fair value and the cost of the investments held at year-end is recognized as a net change in unrealized appreciation of investments. Commissions, stock exchange fees and other identifiable transaction costs that are directly attributable to the acquisition or disposal on 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 is established in accordance with the Pooled Investment Portfolios Regulation and its assets are held in trust by BCI; it is immune from taxation by virtue of BCI being a provincial Crown agent.

(h) Cash:

Cash includes cash on hand and cash on deposit in bank accounts.

### 4. Investments at fair value through profit and loss:

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.

# REALPOOL GLOBAL - MEXICO

(Expressed in thousands except number of units)

Notes to Financial Statements

Year ended December 31, 2019

## 5. Related party transactions:

The Fund's related parties include QuadReal, 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 BCI and QuadReal provide investment management services. The Fund had the following transactions with related parties during the year.

BCI and QuadReal cost recoveries:

Third party costs that are attributable to the Fund are charged to the Fund. Other costs initially borne by BCI and QuadReal are recovered from the Fund. BCI and QuadReal cost recoveries and the corresponding payable are disclosed in the Fund's Statement of Comprehensive Income 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. QuadReal 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 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 for:

	2019	2018
	(in number of units)	(in number of units)
Outstanding, beginning of year	68.373	85.204
Issued	6.557	3.088
Issued on reinvestment of distributions	2.970	5.302
Consolidation of units	(2.970)	(5.302)
Redeemed	(10.300)	(19.919)
Outstanding, end of year	64.630	68.373

# REALPOOL GLOBAL - MEXICO

(Expressed in thousands except number of units)

Notes to Financial Statements

Year ended December 31, 2019

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## 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, 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 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.

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.

# REALPOOL GLOBAL - MEXICO

(Expressed in thousands except number of units)

Notes to Financial Statements

Year ended December 31, 2019

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## 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 cash, 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. QuadReal'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 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 unlisted equity 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 and QuadReal cost recoveries payable and accounts payable are due within three months of the year-end of the Fund.

# REALPOOL GLOBAL - MEXICO

(Expressed in thousands except number of units)

Notes to Financial Statements

Year ended December 31, 2019

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## 7. Financial risk management (continued):

### (d) Market risk:

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

#### (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, 2019 or December 31, 2018.

The Fund holds net financial assets denominated in U.S. currency totaling \$234,036 CAD which represents 100.8% of the net asset value of the Fund (December 31, 2018 – \$230,316 CAD which represented 100.0% of the net asset value of the Fund). As at December 31, 2019, if the Canadian dollar had strengthened/weakened by 1% in relation to all other currencies, holding all other variables constant, net assets would have decreased/increased by \$2,340 CAD (December 31, 2018 – \$2,303 CAD) representing 1% of the Fund's net assets (December 31, 2018 – 1%).

# REALPOOL GLOBAL - MEXICO

(Expressed in thousands except number of units)

Notes to Financial Statements

Year ended December 31, 2019

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## 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. QuadReal 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 private equity, private debt and unlisted private equity 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.

QuadReal management follows a rigorous investment due diligence process prior to making any investment decisions. QuadReal 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 QuadReal'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 within 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, 2019, 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 \$23,403 (December 31, 2018 – \$23,032) or 10.0% (December 31, 2018 – 10.0%) of net assets attributable to holders of redeemable units.

# REALPOOL GLOBAL - MEXICO

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Year ended December 31, 2019

## 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.

As at December 31, 2019, total investments of \$234,030 (December 31, 2018 - \$230,316) are classified as Level 3.

During 2019 and 2018, there were no transfers between Levels 1, 2 or 3.

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	December 31, 2019		
	Direct real estate private equity	Unlisted real estate investee funds	Total
Balance, beginning of year	\$ 175,090	\$ 55,226	\$ 230,316
Total gains recognized in profit or loss	-	-	-
Purchases	12,419	-	12,419
Sales	(460)	-	(460)
Total unrealized gains for the year included in profit or loss	(7,245)	(1,000)	(8,245)
Balance, end of year	\$ 179,804	\$ 54,226	\$ 234,030

# REALPOOL GLOBAL - MEXICO

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Year ended December 31, 2019

## 8. Fair value measurement (continued):

### (a) Fair value hierarchy (continued):

Type of investment	December 31, 2018		Total
	Direct real estate private equity	Unlisted real estate investee funds	
Balance, beginning of year	\$ 206,812	\$ 34,575	\$ 241,387
Total gains recognized in profit or loss	2,274	-	2,274
Purchases	4,707	6,178	10,885
Sales	(43,031)	-	(43,031)
Total unrealized gains for the year included in profit or loss	4,328	14,473	18,801
Balance, end of year	\$ 175,090	\$ 55,226	\$ 230,316

For the year ended December 31, 2019 and for the year ended December 31, 2018, 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, QuadReal 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. QuadReal will make adjustments to these valuations when deemed appropriate.

# REALPOOL GLOBAL - MEXICO

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## Notes to Financial Statements

Year ended December 31, 2019

### 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 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 the reporting dates:

December 31, 2019					
Investments	Fair value	Valuation source	Unobservable input	Amount/range	Sensitivity to change in significant unobservable input
Direct real estate private equity	\$ 179,804	Value provided by investment partners	Value provided by investment partners	\$ 179,804	The estimated fair value would increase (decrease) if the value provided by investment partner was higher (lower).
Unlisted real estate investee	\$ 54,226	Unadjusted Net asset value	Net Asset value	\$ 54,226	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, 2018					
Investments	Fair value	Valuation source	Unobservable input	Amount/range	Sensitivity to change in significant unobservable input
Direct real estate private equity	\$ 175,090	Value provided by investment partners	Value provided by investment partners	\$ 175,090	The estimated fair value would increase (decrease) if the value provided by investment partner was higher (lower).
Unlisted real estate investee	\$ 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).

Significant unobservable inputs are developed as follows:

(i) Net Asset Value:

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

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Year ended December 31, 2019

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## 8. Fair value measurement (continued):

### (d) Effects of unobservable inputs on fair value measurement:

The fair value of real estate 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%.

	2019	2018
Favorable	\$ 23,403	\$ 23,032
Unfavorable	(23,403)	(23,032)

### (e) Financial instruments not measured at fair value:

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

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Year ended December 31, 2019

## 9. Involvement with subsidiaries:

The Fund holds 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 table below sets out interests held by the Fund in these unconsolidated subsidiaries:

December 31, 2019							
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	85.8	85.8
Parques Logistico del Centro, S. de R.L. de C.V.	Industrial real estate	Shareholder interest	Subsidiary	Mexico	Mexico	85.8	85.8
HRGM 1, S. de R.L. de C.V.	Industrial real estate	Shareholder interest	Subsidiary	Mexico	Mexico	90.0	90.0
Centro de Acopio Tepotzotlan, S.A. de C.V.	Industrial retail real estate	Shareholder interest	Subsidiary	Mexico	Mexico	85.8	85.8
Monterrey San Jeronimo, S. de R.L. de C.V.	Office real estate	Shareholder interest	Subsidiary	Mexico	Mexico	85.8	85.8
Corporacion Industrial Juarez, S. de R.L. de C.V.	Industrial retail real estate	Shareholder interest	Subsidiary	Mexico	Mexico	85.8	85.8

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
HRGM 1, 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

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Year ended December 31, 2019

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## **9. Involvement with subsidiaries (continued):**

During 2019 and 2018, the Fund did not provide financial support to subsidiaries and has no intention of providing financial or other support. Furthermore, the subsidiaries listed in the table above are not subject to any significant restrictions on their ability to transfer funds to the Fund.

## **10. 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, 2019 the unfunded commitments totaled \$237.9 million (December 31, 2018 - \$249.9 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, 2019.

## **11. Subsequent events:**

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. COVID-19 and its negative impact on the global economy has resulted in a decline in the global financial market and significantly increased volatility. Given the extent of the crisis, it is difficult to estimate the duration of the increased volatility or the ultimate impact on the investment performance of the Fund.