

**BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION**  
**POOLED INVESTMENT PORTFOLIOS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2000**

**1. The Portfolios**

The Financial Administration Act, section 43, subsection 1, authorizes the Minister of Finance and Corporate Relations to establish and operate pooled investment portfolios "... in which the 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."

Under section 41 of the Financial Administration Act and the enactment of the Public Sector Pension Plans Act, the British Columbia Investment Management Corporation (bcIMC) is authorized to exercise the investment powers, duties and functions of the Minister of Finance and Corporate Relations in respect of these funds, including the management of the pooled investment portfolios. bcIMC was established under the Public Sector Pension Plans Act as a trust company authorized to carry on trust business and investment management services. These financial statements have been prepared by bcIMC staff and are the responsibility of bcIMC management.

The portfolios consist of investments, authorized by Section 40, subsections 1, 4 and 6, and Section 43, subsection 8, of the Financial Administration Act.

The Canadian Corporate Bond Fund was established on July 25, 1991, and invests primarily in Canadian corporate debentures.

The Short Term Bond Fund was established on November 1, 1995, and invests primarily in bonds which are issued or guaranteed by the government of Canada or a provincial government. The bonds have a maturity date of less than ten years.

The Pension Bond Fund was established on January 1, 1995, and invests primarily in bonds issued or guaranteed by the government of Canada or a provincial government.

The Realpool Investment Fund was established on July 3, 1991, and invests primarily in diversified Canadian income-producing properties through wholly-owned corporations.

The Realpool International Fund 1999 was established on March 26, 1999, and invests primarily in non-Canadian real estate-related assets that may include externally managed funds, direct real estate holdings and private real estate companies. Investments will often be in illiquid investments with a combination of short and longer term investment horizons.

The Fixed Term Mortgage Fund was established on June 30, 1995, and invests primarily in Canadian commercial and multi-family mortgage products.

The Construction Mortgage Fund was established on December 1, 1995, and invests primarily in Canadian construction mortgages.

The Specialty Mortgage Fund was established on September 28, 1999, and invests primarily in Canadian mortgages in regions with strong and growing economies. Mortgages are purchased as both shared loans and loans where the fund is the sole investor.

The Private Placement Funds 1995, 1996, 1997, 1998, 1999, 1999A and 2000 were established on October 25, 1995, March 20, 1996, March 12, 1997, March 13, 1998, March 17, 1999, March 17, 1999 and January 18, 2000, respectively. Private placement investments are long term in nature, and are generally made in partnership with other investors, outside the structure of public markets. The partnerships invest primarily in debt and equity investments in domestic and international companies at various stages of development, and are generally related to venture capital, buy-out financing or expansion and development financing.

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**1. The Portfolios (Continued)**

The Asian Equity Fund was established on January 2, 1998, and invests primarily in the common shares of companies that comprise the Morgan Stanley Capital International Pacific Basin Index.

The European Equity Fund was established on January 2, 1998, and invests primarily in the common shares of companies that comprise the Morgan Stanley Capital International Europe Free Composite Index.

The International Equity Fund was established on January 2, 1998, and invests primarily in the common shares of companies that comprise the Morgan Stanley Capital International EAFE Composite Index.

Participation in each portfolio is expressed in units, each unit giving its holder a proportionate share in net assets. Unitholders may only acquire and redeem units on respective valuation dates. The value of a unit is \$1 million on establishment, and on subsequent valuation dates is determined by dividing the market value of the net assets of the portfolio by the total number of units outstanding.

The number of portfolio units available for issue is unlimited, except for the Realpool International Fund 1999, Specialty Mortgage Fund and Private Placement Funds. These are closed-end funds, which were limited in participation to a prescribed set of unitholders at the time the funds were established. Each unitholder owns a specific percentage of a fund.

**2. Principle of Consolidation**

The corporations of the Realpool Investment Fund are consolidated with the parent accounts after adjusting them to a basis consistent with the accounting policies described below. Inter-organization accounts and transactions are eliminated upon consolidation.

**3. Significant Accounting Policies**

a) Valuation of Investments

Short term investments are valued at market derived from external quotations. Securities listed on a stock exchange are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at the mean price between the latest bid and asked price. Securities not listed on any stock exchange, or which are traded over-the-counter, are valued in the same manner based on available public quotations from recognized dealers in such securities or at the price estimated by the fund manager to be the fair value.

Real estate properties are reported at appraised values and are required to be appraised no more frequently than every ten months and no less frequently than every 18 months by professionally qualified independent appraisers. All properties are valued at the end of each quarter by the investment analysis staff of the respective corporations. Historical cost information is maintained and is presented in the statement of investments. Accounting policies for historical costs are as follows: depreciation on buildings is provided on a straight-line basis over the expected life of the property not to exceed a 40 year period. Leasing and building improvement costs are capitalized and amortized over the period during which the costs are expected to be recovered. For development properties only, operating costs, certain indirect costs and property taxes are also capitalized. Investments in real estate co-ownership are accounted for by the proportionate consolidation method.

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**3. Significant Accounting Policies (Continued)**

Mortgages are valued by an independent external source.

Private placement investments made in partnership with other investors are valued by the external managers at their estimates of fair value. Fair value is defined as the expected realization if investments were disposed of in an orderly distribution over a reasonable period of time. These valuations are reviewed by management. Private placement investments made directly in private companies are valued at a price estimated by management to be the fair value. Private placement investments made directly in public companies are valued at their closing stock exchange sale price on the valuation date. Securities not traded on that date are valued at the mean price between the latest bid and asked price.

b) Measurement Uncertainty

Financial statements prepared in conformity with generally accepted accounting principles require management to make certain estimates and assumptions which can affect the reported balances. In determining the market value of some of its investments, particularly real estate and private placements, management relies on external appraisers' or fund managers' assumptions regarding investment industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. By nature, these asset valuations are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the reported market values may change by a material amount.

c) Investment Transactions and Income

Investment transactions are accounted for on the trade date basis, except for real estate, mortgages and private placements which are recorded on the closing date. Dividend income is recognized on the ex-dividend date, and interest income on the accrual basis. Rental income is recorded net of property-related expenses. Income on foreign investments is reported net of withholding tax expense. Realized gains and losses and unrealized appreciation or depreciation of investments are calculated based on cost for private placements, average cost for equities, depreciated cost for real estate, and amortized cost for money market securities, bonds and mortgages. The amortized cost is the cost of acquisition adjusted by amortization of discounts and premiums on a true constant yield basis over the terms of the investments for money market securities and bonds, and on a straight line basis for mortgages.

d) Issue and Redemption of Units

The issue and redemption of units are recorded on the trade date basis (see note 4).

e) Foreign Currency Translation

Assets, liabilities and commitments in foreign currencies except forward foreign currency contracts are translated into Canadian dollars at the fiscal year-end exchange rate. Forward foreign currency contracts are translated at prevailing forward foreign currency exchange rates at year-end. Purchases and sales of investments are translated at the rate prevailing on the respective dates of such transactions. Income is translated at the month-end rate. Realized and unrealized gains and losses include foreign currency translations.

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**4. Change in Accounting Policy**

In prior fiscal years, capital transactions traded and settled on the same business day. Beginning in January 2000, capital transactions settle three business days after the trade date. Accordingly, for capital transactions pending on December 31, 2000, the amounts receivable from issue of units or payable for redemption of units and the corresponding units transacted have been recorded on the Statement of Net Assets and the proceeds and redemptions have been recorded on the Statement of Changes in Net Assets.

**5. Risk Management**

In general, all pooled investment portfolios are exposed to price risk and credit risk. There are three types of price risk: currency risk, interest rate risk and market risk. Currency risk relates to the possibility that investments may change in value due to future changes in foreign exchange rates. Interest rate risk relates to the possibility that investments may change in value due to future changes in market interest rates. Market risk relates to the possibility that investments may change in value due to future changes in market prices. Credit risk relates to the possibility that a loss may occur if another party fails to discharge an obligation. In order to avoid undue investment risk, bcIMC has established specific investment criteria for each pooled investment portfolio, such as minimum credit ratings for investees and counterparties, and investment diversification requirements. There is no undisclosed exposure in the funds' investments.

**6. Other Assets**

Other assets include loans receivable totalling \$3,350,600 (1999: \$4,386,955) and accounts receivable and prepaid expenses totalling \$21,008,227 (1999: \$18,578,910).

**7. Mortgages and Other Payables**

As at December 31, 2000, the Realpool Investment Fund has mortgages, notes and loans payable bearing interest at rates ranging from 0.00% to 10.875% and mature at various dates to the year 2013. Principal repayments due are as follows:

2001	\$132,442,613
2002	78,431,137
2003	88,104,427
2004	52,086,831
2005 and subsequent	<u>123,462,781</u>
	<u>474,527,789</u>
Plus:	
Unamortized premium	2,215,795
Net unrealized increase in value	<u>528,748</u>
	<u>2,744,543</u>
Market value of mortgages, notes and loans payable	<u><u>\$477,272,332</u></u>

Other payables include accounts payable and accrued liabilities of \$79,837,456 (1999: \$59,059,312) and rent received in advance and deposits of \$16,172,212 (1999: \$13,509,507).

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**8. Recoverable Advances**

Recoverable advances in the Construction Mortgage Fund represent legal fees and operating costs advanced on two mortgages in default. Management expects to fully recover the outstanding principal, accrued interest, legal fees and operating costs from the borrower or the guarantor, the Canada Mortgage & Housing Corporation.

**9. Unrealized Gain on Foreign Currency Contracts**

For the European Equity Fund, there is a net unrealized gain of \$220,720 (1999: \$232,701) based on prevailing foreign currency exchange rates on December 31, 2000, for 11 (1999: 10) foreign currency contracts. These contracts settled in January 2001.

For the International Equity Fund, there is a net unrealized loss of \$540,890 (1999: \$1,743,040 gain) based on prevailing foreign currency exchange rates on December 31, 2000, for 8 (1999: 14) foreign currency contracts. These contracts settled in March 2001.

**10. Expenses**

Custodial fees are applicable to the bond funds and the equity funds. The mortgage funds pay mortgage servicing and brokerage fees. Management fees are paid by the real estate and the equity funds to external managers for providing investment management and advisory services. For the private placement funds, in most cases, management fees are expenses of the various partnership investments - not of the funds. Where management fees are incurred directly by the funds, they are reported on the financial statements. Brokerage fees are incorporated into the cost and proceeds of equity and bond transactions.

**11. Related Party Transactions**

All inter-portfolio transactions are conducted at market value.

Included in the investments of the Fixed Term Mortgage Fund are mortgages receivable from the Realpool Investment Fund with a market value of \$46,475,908 (1999: \$46,818,731).

External managers of the wholly-owned corporations of the Realpool Investment Fund were paid property management fees of \$11,024,042 (1999: \$6,929,472).

Third party costs that are attributable to a specific pooled investment portfolio are charged to that portfolio and shared on a pro-rata basis by the portfolio unitholders. Other costs are borne by bclMC. bclMC recovers these costs by charging the unitholders a management fee. This fee is calculated based on the market value of the unitholders' investment holdings administered by bclMC.

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**12. Commitments**

Wholly-owned corporations of the Realpool Investment Fund have property purchase commitments totalling \$215.0 million. The Realpool International Fund 1999 has commitments for investment contracts totalling \$121.4 million. The Fixed Term Mortgage Fund, the Construction Mortgage Fund and the Specialty Mortgage Fund have commitments for mortgage contracts totalling approximately \$21.7 million, \$301.7 million and \$0.4 million respectively. Private Placement Funds 1995, 1996, 1997, 1998, 1999, 1999A and 2000 have commitments for investment contracts totalling approximately \$12.3 million, \$20.6 million, \$208.5 million, \$153.8 million, \$265.4 million, \$72.2 million and \$353.8 million respectively.

**13. Subsequent Events and Contingencies**

On January 9, 2001, the Realpool Investment Fund closed a purchase of one office property. The purchase price of \$40.9 million was financed through a deposit of \$2.0 million and the assumption of a \$21.7 million mortgage. The remaining purchase price was financed through cash consideration obtained by the issuance of units in the Realpool Investment Fund.

A claim has been filed against a number of parties, one of which is a wholly-owned corporation of the Realpool Investment Fund, by former tenants of a multi-residential property owned by the wholly-owned corporation. The tenants have claimed damages of \$6,300,000 plus interest, GST and legal costs for breach of their tenancy agreement by the wholly-owned corporation. The outcome of the claim is not determinable at this time and accordingly, a provision for damages has not been recorded in the financial statements of the Realpool Investment Fund. Any settlement resulting from the resolution of the claim will be recorded in the year it occurs.

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**14. Units Outstanding**

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

	<b>CANADIAN CORPORATE BOND FUND</b>		<b>SHORT TERM BOND FUND</b>		<b>PENSION BOND FUND</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Outstanding, beginning of year	560.124	559.694	803.440	1,006.749	5,842.115	5,953.177
Issued	105.950	0.430	143.015	326.984	296.573	129.785
Redeemed	<u>(105.817)</u>	<u>-</u>	<u>(151.470)</u>	<u>(530.293)</u>	<u>(671.269)</u>	<u>(240.847)</u>
Outstanding, end of year	<u><u>560.257</u></u>	<u><u>560.124</u></u>	<u><u>794.985</u></u>	<u><u>803.440</u></u>	<u><u>5,467.419</u></u>	<u><u>5,842.115</u></u>
	<b>REALPOOL INVESTMENT FUND</b>		<b>REALPOOL INTERNATIONAL FUND 1999</b>		<b>FIXED TERM MORTGAGE FUND</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Outstanding, beginning of year	1,241.925	1,123.098	25.387	-	748.528	603.419
Issued	666.681	152.953	46.634	25.387	44.966	224.221
Redeemed	<u>(40.234)</u>	<u>(34.126)</u>	<u>-</u>	<u>-</u>	<u>(80.331)</u>	<u>(79.112)</u>
Outstanding, end of year	<u><u>1,868.372</u></u>	<u><u>1,241.925</u></u>	<u><u>72.021</u></u>	<u><u>25.387</u></u>	<u><u>713.163</u></u>	<u><u>748.528</u></u>
	<b>CONSTRUCTION MORTGAGE FUND</b>		<b>SPECIALTY MORTGAGE FUND</b>		<b>PRIVATE PLACEMENT FUND 1995</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Outstanding, beginning of year	199.448	163.738	2.000	-	46.418	49.342
Issued	42.090	68.464	12.345	2.000	4.522	5.772
Redeemed	<u>(59.820)</u>	<u>(32.754)</u>	<u>-</u>	<u>-</u>	<u>(15.040)</u>	<u>(8.696)</u>
Outstanding, end of year	<u><u>181.718</u></u>	<u><u>199.448</u></u>	<u><u>14.345</u></u>	<u><u>2.000</u></u>	<u><u>35.900</u></u>	<u><u>46.418</u></u>

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**14. Units Outstanding (Continued)**

	<b>PRIVATE PLACEMENT FUND 1996</b>		<b>PRIVATE PLACEMENT FUND 1997</b>		<b>PRIVATE PLACEMENT FUND 1998</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Outstanding, beginning of year	73.822	77.448	233.194	119.420	96.855	45.958
Issued	1.678	9.020	60.217	113.774	79.979	50.897
Redeemed	<u>(20.496)</u>	<u>(12.646)</u>	<u>(1.153)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Outstanding, end of year	<u>55.004</u>	<u>73.822</u>	<u>292.258</u>	<u>233.194</u>	<u>176.834</u>	<u>96.855</u>
	<b>PRIVATE PLACEMENT FUND 1999</b>		<b>PRIVATE PLACEMENT FUND 1999A</b>		<b>PRIVATE PLACEMENT FUND 2000</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>	<b>2000 (note 1)</b>	
Outstanding, beginning of year	133.004	-	56.963	-	-	
Issued	108.079	133.004	42.281	306.978	156.906	
Redeemed	<u>-</u>	<u>-</u>	<u>-</u>	<u>(250.015)</u>	<u>-</u>	
Outstanding, end of year	<u>241.083</u>	<u>133.004</u>	<u>99.244</u>	<u>56.963</u>	<u>156.906</u>	
	<b>ASIAN EQUITY FUND</b>		<b>EUROPEAN EQUITY FUND</b>		<b>INTERNATIONAL EQUITY FUND</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Outstanding, beginning of year	407.443	129.958	1,021.653	1,021.653	1,929.940	1,875.842
Issued	377.201	280.345	484.449	11.383	530.484	110.690
Redeemed	<u>(7.609)</u>	<u>(2.860)</u>	<u>(33.986)</u>	<u>(11.383)</u>	<u>(144.274)</u>	<u>(56.592)</u>
Outstanding, end of year	<u>777.035</u>	<u>407.443</u>	<u>1,472.116</u>	<u>1,021.653</u>	<u>2,316.150</u>	<u>1,929.940</u>