BCI

PRINCIPAL CREDIT FUND

Pooled Fund Financial Statements

DECEMBER 2022

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

British Columbia Investment Management Corporation (BCI) manages the Principal Credit Fund (the "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, 2022.

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 material 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 Audit Committee's mandate includes making recommendations on the appointment of the external auditor for the Fund, reviewing the external audit plan; reviewing BCI's System and Organization Controls Report for the Investment System of British Columbia Investment Management Corporation, and reviewing the annual audited financial statements of the Fund. The Audit 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 Fund Policies and client-approved investment mandates. BCI's system of internal control is supported by external auditors who review and evaluate internal controls and report directly to the Audit Committee.

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

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

[S] Umar Malik
Umar Malik
Senior Vice President, Finance & CFO

Victoria, British Columbia
June 23, 2023

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITOR'S REPORT

To the unitholders of the Principal Credit Fund managed by British Columbia Investment Management Corporation

Opinion

We have audited the financial statements of the Principal Credit Fund (the "Fund"), which comprise:

- the statement of financial position as at December 31, 2022
- the statement of comprehensive income (loss) for the year then ended
- the statement of changes in net assets attributable to holders of redeemable units for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 auditor's 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 the Manager and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, the Manager 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 the Manager 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 the 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 Manager's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.

- Conclude on the appropriateness of the Manager'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.
- 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.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
June 23, 2023

PRINCIPAL CREDIT FUND

Statement of Financial Position

(Expressed in thousands of dollars, except numbers of units)

As at December 31, 2022, with comparative information for 2021

Assets	NOTES	2022	2021
Receivable from sale of investments		$ —	$ 21
Interest receivable		74,453	22,673
Derivative assets:			
Forwards		62,357	45,919
Investments		12,888,012	7,484,943
Total assets		13,024,822	7,553,556
Liabilities			
BCI cost recoveries payable	4	1,717	1,011
Other accounts payable		257	267
Payable to BCI segregated fund	4	82,873	33,102
Derivative liabilities:			
Forwards		517,828	3,249
		602,675	37,629
Net assets attributable to holders of redeemable units		**$ 12,422,147**	**$ 7,515,927**
Number of redeemable units outstanding	5	10,095.400	6,263.550
Net assets attributable to holders of redeemable units per unit		**$ 1,230**	**$ 1,200**

Unfunded committed capital 6

[S] Gordon J. Fyfe

Gordon J. Fyfe
Chief Executive Officer
Chief Investment Officer

PRINCIPAL CREDIT FUND

Statement of Comprehensive Income (Loss)

(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

Revenue	NOTES	2022	2021
Interest income		$ 230,565	$ 70,773
Other income	11	3,497	5,024
Foreign exchange gain (loss)		5,092	(450)
Change in fair value of investments and derivatives:			
Net realized gain (loss)		(106,598)	92,207
Net change in unrealized appreciation		187,184	257,874
Total revenue		319,740	425,428
Expenses			
BCI cost recoveries	4	16,390	12,399
Administrative fees		311	58
Interest expense		—	1,795
Pursuit costs		2,855	816
Total operating expenses		19,556	15,068
Increase in net assets attributable to holders of redeemable units before distributions		300,184	410,360
Distributions to holders of redeemable units		(311,061)	(171,528)
Increase (decrease) in net assets attributable to holders of redeemable units		**$ (10,877)**	**$ 238,832**

PRINCIPAL CREDIT FUND

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

(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

	2022	2021
Balance, beginning of year	$ 7,515,927	$ 5,468,759
Increase (decrease) in net assets attributable to holders of redeemable units	(10,877)	238,832
Redeemable unit transactions:		
Proceeds from units issued	4,996,799	1,946,038
Reinvestment of distributions	311,061	171,528
Amounts paid for units redeemed	(390,763)	(309,230)
Net increase from redeemable unit transactions	4,917,097	1,808,336
Balance, end of year	**$ 12,422,147**	**$ 7,515,927**

PRINCIPAL CREDIT FUND

Statement of Cash Flows

(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

Operating activities	2022	2021
Increase (decrease) in net assets attributable to holders of redeemable units	$ (10,877)	$ 238,832
Adjustments for:		
Foreign exchange (gain) loss	(5,092)	450
Interest income	(230,565)	(70,773)
Net realized (gain) loss from investments and derivatives	106,598	(92,207)
Net change in unrealized appreciation of investments and derivatives	(187,184)	(257,874)
Amortization of premiums and discounts	(18)	(6)
Non cash distributions	311,061	171,528
BCI cost recoveries payable	706	655
Other accounts payable	(10)	(507)
Interest received	178,785	54,958
Payable to BCI segregated fund	49,771	21,926
Net purchase of investments and derivatives	(4,824,303)	(1,703,340)
	(4,611,128)	(1,636,358)
Financing activities		
Proceeds from issuance of redeemable units	4,996,799	1,946,038
Payments on redemption of redeemable units	(390,763)	(309,230)
	4,606,036	1,636,808
Net increase (decrease) in cash	(5,092)	450
Effect of exchange rate changes on cash	5,092	(450)
Cash, beginning and end of year	**$ —**	**$ —**

PRINCIPAL CREDIT FUND

Schedule of Investments

(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

	NOTES	2022		2021	
		Fair Value	Cost	Fair Value	Cost
Private Debt Investments [1]		$ 11,638,761	$ 10,548,952	$ 7,402,831	$ 6,964,673
Money Market Investments					
Units in BCI Pooled Investment Portfolio					
Fund ST1		30,379	30,296	7,719	7,728
Fund ST3		161,010	161,107	74,393	75,528
		191,389	191,403	82,112	83,256
Investment Related Receivables					
Loans to Fixed Income program	4	1,057,862	1,025,318	—	—
Total Investments		**$ 12,888,012**	**$ 11,765,673**	**$ 7,484,943**	**$ 7,047,929**

[1] The private debt investments are held through private corporations, limited partnerships and trusts.

PRINCIPAL CREDIT FUND

Derivative Assets and Liabilities

(Expressed in thousands of dollars)

Year ended December 31, 2022, with comparative information for 2021

	2022			2021		
		Fair Value			Fair Value	
	Notional Value [a]	Derivative Assets [b]	Derivative Liabilities	Notional Value [a]	Derivative Assets [b]	Derivative Liabilities
Currency derivatives						
OTC						
Forwards	$ 12,787,473	$ 62,357	$ (517,828)	$ 2,050,467	$ 45,919	$ (3,249)
Total	**$ 12,787,473**	**$ 62,357**	**$ (517,828)**	**$ 2,050,467**	**$ 45,919**	**$ (3,249)**

The terms of maturity based on notional value for the derivatives were as follows at December 31:

	2022	2021
Less than 1 year	$ 12,787,473	$ 2,050,467
Total	**$ 12,787,473**	**$ 2,050,467**

(a) Notional value represents the net absolute value of the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows and is therefore not recorded in the financial statements. Notional amounts do not necessarily indicate the amounts of future cash flows or the current fair value of the derivative contracts and, therefore do not necessarily indicate the Fund's exposure to credit or market risk.

(b) The fair value of derivative contracts recorded as an asset represents the credit risk or loss to which the Fund is potentially exposed should counterparties fail to perform under the derivative contract.

1. THE PORTFOLIOS

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

Under the *Act* and the *Pooled Investment Portfolios Regulation*, B.C. Reg. 447/99 (the "Regulations"), BCI may establish and operate Funds ".... 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, Funds previously established under the *Financial Administration Act* and the *Pooled Investment Portfolios Regulation*, B.C. Reg. 84/86, were continued under the Regulations, to be held in trust by BCI and invested by the Chief Investment Officer ("CIO") of BCI.

The Principal Credit Fund ("the Fund") was established on April 1, 2018.

2. BASIS OF PREPARATION

(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 June 23, 2023.

(b) Accounting for 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.

(c) Basis of measurement

These financial statements have been prepared on a historical cost basis except for investments, derivative financial instruments, and redeemable units 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, income and expenses. In determining the fair value of some of its investments, BCI reviews and assesses external managers' and/or external appraisers' 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. This information relates to the determination of fair value of investments with significant unobservable inputs.

3. MATERIAL 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 expired.

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 intend 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 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 in the period in which they occur.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

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

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

(iv) Classification of financial assets and liabilities

The following table summarizes the classification of the Funds' financial assets and liabilities:

FINANCIAL ASSET OR LIABILITY	CLASSIFICATION
Investments	FVTPL
Derivative financial instruments	FVTPL
Payable to BCI segregated find	FVTPL
Redeemable units	FVTPL
Cash	Amortized cost
Receivable from sale of investments	Amortized cost
Interest receivable	Amortized cost
Other accounts payable	Amortized cost
BCI cost recoveries payable	Amortized cost

(b) Redeemable Units

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

(c) Issues 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 was open participation throughout the year where the number of units available for issue was unlimited and the proportion of units issued or redeemed by each client on a particular valuation date depended on changes to their desired asset allocation.

(d) Foreign exchange

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.

(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 using the average cost basis of the respective investments.

(f) Fees and commission expense

Commissions, stock exchange fees and other identifiable transaction costs that are directly attributable to the acquisition or disposal of an investment are expensed as incurred. Pursuit costs are charged to net income of the Fund in the period incurred.

(g) Income taxes

The Fund is immune from income taxation in Canada under the Constitution Act. 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 pursuant to the Regulations. Income taxes associated with any of the Fund’s underlying investments are accounted for in determining the fair value of the respective investments.

(h) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations as listed below are not yet effective for the year ended December 31, 2022, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Fund.

Effective on January 1, 2023:

- IFRS 17 - Insurance contracts
- Amendments to IFRS 17
- Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of accounting estimates (Amendments to IAS 8)
- Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12 Income Taxes
- Initial Application of IFRS 17 and IFRS 9 - Comparative information (Amendments to IFRS 17)

Effective on January 1, 2024:

- Classification of liabilities as current or non-current (Amendments to IAS 1)
- Lease liability in a sale and leaseback (Amendments to IFRS 16)
- Non-current liabilities with covenants (Amendments to IAS 1)

(All amounts expressed in thousands of dollars, unless otherwise noted)

4. RELATED PARTY TRANSACTIONS

The Fund's related parties include BCI, QuadReal Property Group Limited Partnership and affiliates ("QuadReal"), the Province of British Columbia and related entities, investments where the Fund has a controlling interest or significant influence, entities with common ownership, and other related entities for which the Fund provides investment management services. QuadReal is an independently operated company, owned by BCI, which manages the Mortgage and Real Estate Programs pursuant to an Asset Management Agreement as agreed between BCI and QuadReal. The Fund had the following transactions with related parties during the year.

Investments

The Funds enter into investment transactions with related parties in the normal course of business. The terms of the respective purchases and sales are equivalent to those prevailing in an arm's length transaction, with each Fund's interests represented by different BCI personnel.

Where one Fund invests in another Fund, the unit issuances and redemptions are transacted on a basis equivalent to those in an arm's length transaction.

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 corresponding payable are disclosed in the Statement of Comprehensive Income and Statement of Financial Position.

Payable to BCI Segregated Fund

In January 2020, the Principal Credit Fund entered into an agreement with a segregated client account whereby the Principal Credit Fund received funding from the segregated client account to purchase and hold securities on its behalf. As the segregated client account is also managed by BCI, it has been classified as a related party. At maturity of the agreement in January 2022, the Fund provided the required return based on the agreement to the segregated client account. The agreement was renewed with the counterparty with the same terms and has a maturity date of January 2023. Neither party has earned or paid the counterparty any fees or interest in connection with either transaction.

The fair value of the payable to the segregated client account of $82,873 (2021 - $33,102) has been recorded on the Statement of Financial Position.

Loans to Fixed Income program

During the year ended December 31, 2022, the Fund extended fixed term financing to the below entities managed by BCI which are classified as related parties. These transactions are governed by BCI's *Internal Transaction Directive*. The amounts in the table represent outstanding amounts as at December 31, 2022.

Borrowing entity	Initial principal financing commitment		December 31, 2022
Tarpon IMC LLC[1]	Up to $891,000 USD	$	590,533
Thetis IMC LLC[1]	Up to $720,000 USD		279,615
Thetis IMC LLC[1]	Up to $480,000 USD		187,714
Total Loans to Fixed Income program		$	1,057,862

Internal lending transactions between pools are not secured in that specific assets are not pledged by the borrowing pool to secure its obligations; however, the obligations of the borrowing pools are supported by assurances from BCI's Strategic Asset Allocation Department that client assets will be reallocated to the borrowing pool as necessary to ensure satisfaction of payment obligations at the end of the financing term.

[1]The borrowing entity is a segregated client account within the Fixed Income program. The Facilities earn a floating rate of return that is linked to the USD LIBOR 3-month plus 4.65-5.23% and matures in October 2031.

(All amounts expressed in thousands of dollars, unless otherwise noted)

5. REDEEMABLE UNITS

The Fund is authorized to issue an unlimited number of units. Units issued and outstanding represent the capital of the Fund. The Fund is not subject to any internally or externally imposed restrictions on its capital. BCI manages the capital of the Fund in accordance with the Fund's investment objectives, including managing the redeemable units to ensure a stable base to maximize returns to all investors, and managing liquidity in order to meet redemptions. The following is a summary of the changes in redeemable units outstanding during the year ended December 31:

	2022	2021
Outstanding, beginning of year	6,263.55	4,870.983
Issued for cash	4,156.373	1,669.255
Issued on reinvestment of distributions	256.023	147.696
Consolidation of units	(256.023)	(147.696)
Redeemed	(324.523)	(276.688)
Outstanding, end of year	**10,095.400**	**6,263.550**

6. UNFUNDED COMMITTED CAPITAL

Unfunded capital commitments represent total commitments minus net contributions outstanding as of the reporting date. Net contributions equals contributions less any recallable capital distributions. Recallable capital are distributions or previously contributed capital that has been returned, that may be recalled at some future date. Thus, due to changes in recallable capital, unfunded commitments may change at different reporting dates.

Furthermore, commitments to unlisted private equity investee funds and direct private equity investments are typically made in foreign denominated currencies, but reported in Canadian dollars. Unfunded commitments are translated at the spot rate and net contributions are translated at historical exchange rates. Therefore, due to foreign exchange movements, unfunded commitments will vary on the reporting date.

As at December 31, the Fund's contractual undiscounted cash commitments that can be called on demand are as follows:

		2022		2021
Direct Private Debt Investments	$	37,696	$	13,626
Unlisted Private Debt Investee Fund		4,524,046		2,962,991
Total unfunded committed capital	**$**	**4,561,742**	**$**	**2,976,617**

7. FINANCIAL RISK MANAGEMENT

(a) Risk management framework

The investment objective of the Fund is to exceed the returns relative to the Fund's benchmark, the S&P/LSTA U.S. Leveraged Loan 100 Index (the "Index") by 72 basis points per annum, net of all investment expenses incurred. The primary purpose for investing in the Fund is to capture illiquidity premium in the fixed income market.

The Fund can hold the following securities:

- Senior debt;
- Subordinated debt, and other fixed income investments, such as but not limited to: Mezzanine debt, private debt, asset backed debt, collateralized loan obligations, partnership interests, publicly traded shares of private debt pools/fixed income securities, other debt instruments, and/or externally managed funds;
- Equity and/or warrants associated with debt investments and/or fund manager companies and subsidiaries;

(All amounts expressed in thousands of dollars, unless otherwise noted)

- Derivative instruments for the purposes of synthetic indexing, risk control, lowering transaction costs, and/or liquidity management;
- Units in the Canadian Money Market Fund (ST1), Canadian Money Market Fund (ST2), US Dollar Money Market Fund (ST3), US Dollar Money Market Fund (ST4), and/or government debt securities, and other BCI short-term fixed income pooled funds for cash management purposes, and
- Units in BCI Floating Rate Funds.

The following restrictions apply to the Fund:

- Investments are limited to companies whose countries are classified as a developed or emerging market by the Index;
- The Fund may not sell a security, other than a derivative instrument, which it does not own (i.e. a short sale), borrow securities;
- Leverage in the form of short-term borrowing is only permitted for the purpose of bridge financing until a Pool Opening date within one year;
- In meeting its fiduciary duty to all Unitholders, no private debt investments will be sold solely to meet a redemption request;
- at inception, counterparties to all derivative contracts are restricted to financial institutions that are rated A- or higher by Standard & Pool's or have an equivalent rating from another credit rating agency.

The Fund holds its private debt investments through private corporations, trusts and limited partnerships. The corporations, trusts and limited partnerships hold the following net assets:

	2022		2021	
	Total	**% of Total**	**Total**	**% of Total**
Cash	$ 1,307	0.0 %	$ 485	0.0 %
Net investment-related receivables	50,150	0.4	17,091	0.2
Direct private debt investments	6,307,456	54.2	4,153,492	56.2
Unlisted private debt investee funds	5,206,173	44.7	3,186,243	43.0
BCI money market funds	13,028	0.1	45,520	0.6
Corporate bonds	60,647	0.6	—	0.0
Total	**$ 11,638,761**	**100.0 %**	**$ 7,402,831**	**100.0 %**

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 underlying investments held by the Fund have been considered.

(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 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.

The Fund holds private debt investments which are subject to credit risk. The following table outlines the direct private debt investments held and the related credit rating. The remainder of the Fund's investments are in unlisted private debt investee funds. Due to the private nature of the debt investments held by these investee funds, they are not subject to rating by a rating agency.

(All amounts expressed in thousands of dollars, unless otherwise noted)

As at December 31, the Fund invested in debt instruments with the following security or issuer credit ratings.

INVESTMENTS BY CREDIT RATING	**2022**		**2021**	
	Total	**% of Total**	**Total**	**% of Total**
BBB	$ —	0.0 %	$ 41,091	1.0 %
BB	287,174	4.6	91,386	2.2
B	2,192,740	34.8	872,024	21.0
CCC	499,624	7.9	306,436	7.4
CC	—	0.0	9,523	0.2
Not rated	3,327,918	52.7	2,833,032	68.2
Total	**$ 6,307,456**	**100.0 %**	**$ 4,153,492**	**100.0 %**

To avoid undue credit risk, BCI management has established specific investment criteria, such as minimum credit ratings for investees and counterparties. Counterparty risk represents the credit risk from current potential and future exposure related to transactions. In order to minimize counterparty risk, counterparties are required to provide adequate collateral and meet minimum credit rating requirements. BCI management frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies and assesses debt investments for impairment, including significant changes in credit risk.

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

The Fund invests in foreign currency contracts which inherently have counterparty risk. The credit risk of each counterparty is monitored through the evaluation of the credit quality of each counterparty that transactions with the Fund. Collateral management is centralized by BCI and collateral is held and pledged on a net basis with each counterparty generally at a value equal to the underlying derivative financial instrument. The credit risk exposure of foreign currency instruments, by credit rating category, without taking account of any collateral held at December 31 is as follows:

DERIVATIVES BY CREDIT RATING	**2022**			**2021**		
		Fair Value			**Fair Value**	
	Notional Value	**Derivative Assets**	**Derivative Liabilities**	**Notional Value**	**Derivative Assets**	**Derivative Liabilities**
AAA/AA	$ 4,117,475	$ 22,659	$ (177,039)	$ 951,806	$ 27,747	$ (452)
A	8,669,998	39,698	(340,789)	1,098,661	18,172	(2,797)
Total Derivatives	**$ 12,787,473**	**$ 62,357**	**$ (517,828)**	**$ 2,050,467**	**$ 45,919**	**$ (3,249)**

(c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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

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. Units of the Fund may only be acquired by eligible clients or client groups in accordance with the Fund's purchasing limit 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.

(All amounts expressed in thousands of dollars, unless otherwise noted)

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

The following were the contractual maturities of derivative financial assets and derivative financial liabilities as at December 31:

	2022				
	Carrying value	**Less than 1 year**	**1 to 2 years**	**Over 2 years**	**Total**
Derivative assets	$ 62,357	$ 62,357	$ —	$ —	$ 62,357
Derivative liabilities	(517,828)	(517,828)	—	—	(517,828)
	$ (455,471)	**$ (455,471)**	**$ —**	**$ —**	**$ (455,471)**

	2021				
	Carrying value	**Less than 1 year**	**1 to 2 years**	**Over 2 years**	**Total**
Derivative assets	$ 45,919	$ 45,919	$ —	$ —	$ 45,919
Derivative liabilities	(3,249)	(3,249)	—	—	(3,249)
	$ 42,670	**$ 42,670**	**$ —**	**$ —**	**$ 42,670**

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

(d) Market risk

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

(i) Interest rate risk

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

Money market investments and private debt investments are subject to interest rate risk. The Fund has established duration bands based on its relevant benchmark to avoid undue active interest rate risk. Money market funds invest in short-term investments and have low interest rate risk. The Fund has indirect interest rate risk exposure through unlisted private debt investee funds.

The Fund's directly held private debt instruments are comprised of variable rate debt instruments, and three fixed rate debt instruments, with maturities ranging up to 16 years (2021: 1.0 to 17.0 years). Lending rates are generally based on LIBOR plus a risk and liquidity premium. As a result, the Fund is not exposed to significant interest rate fair value risk. As at December 31, the Fund invested in the following debt instruments:

	2022			2021		
	Carrying Value	**Interest Rate**	**Maturity Date**	**Carrying Value**	**Interest Rate**	**Maturity Date**
Fixed rate debt	$ 284,086	9.0% to 14.0%	2023 to 2030	$ 75,800	12.0 %	2030
Variable-rate debt	6,023,370	2.8% to 14.0%	2023 to 2038	4,077,692	2.8% to 14.0%	2022 to 2038

(All amounts expressed in thousands of dollars, unless otherwise noted)

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks has been taking place globally. The reform aimed to replace some interbank offered rates ("IBORs") with Risk-Free Rates ("RFRs") for certain products (referred to as "IBOR reform"). The Fund's exposure to IBOR reform is through its investments in debt that are being replaced or reformed as part of this market-wide initiative.

The main risks to which the Fund has been exposed as a result of IBOR reform are operational resulting from, for example, communicating with counterparties, amending contracts or existing fallback clauses, updating systems and processes that use IBOR curves and the revision of operational controls related to the reform. Financial risk is predominantly limited to interest rate risk.

BCI established a working group which includes stakeholders from key impacted departments to monitor and manage the Fund's transition to RFRs. The working group evaluates the extent to which operational systems are impacted by the IBOR reform, updates and provides guidance on the transition to relevant stakeholders, and promotes awareness of changes to relevant stakeholders. To date, BCI has successfully adapted internal systems and processes and continues to monitor market and regulatory developments to ensure ongoing organizational readiness.

For derivative financial instruments, the Fund has adhered to the International Swaps and Derivatives Association ("ISDA") Fallbacks Protocol that took effect January 25, 2021, which provides an efficient mechanism to switch to Alternative Benchmark Rates ("ABRs") as IBORs become unavailable.

The following table presents the fair value of non-derivative financial instruments and the notional value of derivative financial instruments referencing IBORs subject to IBOR reform that have yet to transition to ABRs and maturing after the date of permanent cessation as at December 31, 2022:

Pooled Investment Portfolios	Non-derivative financial assets	Derivative financial assets (notional)
Principal Credit Fund	1,180,676	—

(ii) Currency risk

At December 31, the carrying value of the Fund's net financial assets and financial liabilities held in individual foreign currencies expressed in Canadian dollars and as a percentage of its net assets were as follows. The table includes foreign currency contracts.

CURRENCY	2022				2021			
	Net Investments and Investment-Related Receivables	Net Foreign Currency Contracts Receivables /(Payables)	Net Exposure	% of Total Net Assets	Net Investments and Investment-Related Receivables	Net Foreign Currency Contracts Receivable/ (Payable)	Net Exposure	% of Total Net Assets
British Pound Sterling	$ 131,309	$ (122,012)	$ 9,297	0.1 %	$ 128,371	$ (118,688)	$ 9,683	0.1 %
Euro	2,320,073	(2,172,142)	147,931	1.2	980,612	(940,321)	40,291	0.5
United States Dollar	9,190,384	(9,878,675)	(688,291)	(5.5)	5,456,104	1,977,345	7,433,449	98.9
Net Foreign Exchange Exposure	**$ 11,641,766**	**$(12,172,829)**	**$(531,063)**	**(4.2)%**	**$ 6,565,087**	**$ 918,336**	**$7,483,423**	**99.5 %**

As at December 31, 2022, 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 $(5,311) (2021 - $74,834), representing —% of the Fund's net assets (2021 - 1.0%). In practice, the actual trading results may differ from the above sensitivity analysis and the difference could be material.

As at December 31, the Fund had additional exposure to currency risk through its future unfunded commitments in individual foreign currencies expressed in Canadian dollars as follows.

(All amounts expressed in thousands of dollars, unless otherwise noted)

CURRENCY		2022		2021
British Pound Sterling		2,413		—
Euro	$	95,441	$	315,302
United States Dollar		4,241,290		2,545,702
Net foreign currency exposure through unfunded capital commitments	**$**	**4,339,144**	**$**	**2,861,004**

As at December 31, 2022, if the Canadian dollar had strengthened/weakened by 1% in relation to all other currencies, holding all other variables constant, future unfunded commitments would have decreased/increased, by $43,391 (2021 - $28,610). In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

The unfunded committed capital related to the Fund is described in note 6 of the financial statements.

(iii) Other price risk

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

All financial instruments are subject to other price risk and a potential loss of capital. The maximum risk is determined by the market value of the financial instruments. There are established investment criteria for the Fund related to diversification of investments and investment mandates for external managers to avoid undue market risk.

Direct investments in the Fund are diversified across industry sectors. Sectors to which the Fund had exposure as at December 31 are as follows:

INDUSTRY SECTOR		2022			2021	
		Total	% of Total		Total	% of Total
Education	$	101,478	0.9 %	$	125,210	1.7 %
Energy		329,489	2.8		303,105	4.1
Materials		361,642	3.1		331,036	4.5
Industrials		670,943	5.8		646,062	8.8
Consumer Discretionary		668,574	5.8		372,450	5.1
Consumer Staples		159,098	1.4		27,032	0.4
Health Care		1,183,413	10.2		519,721	7.1
Financials		761,500	6.6		268,303	3.7
Information Technology		873,371	7.5		624,491	8.5
Services		202,752	1.8		187,017	2.5
Telecommunication Services		74,134	0.6		30,081	0.4
Utilities		62,690	0.5		—	0.0
Real Estate		68,843	0.6		64,730	0.9
Other		850,176	7.3		654,254	8.8
Total Direct Private Debt Investments and Corporate Bonds		6,368,103	54.9		4,153,492	56.5
Unlisted Private Debt Investee Funds in diversified industries		5,206,173	45.1		3,186,243	43.5
Total	**$**	**11,574,276**	**100.0 %**	**$**	**7,339,735**	**100.0 %**

As at December 31, the Fund's direct private debt investments, corporate bonds, and unlisted private debt investee funds are concentrated in the following geographic regions:

(All amounts expressed in thousands of dollars, unless otherwise noted)

GEOGRAPHIC REGION	2022		2021	
	Total	% of Total	Total	% of Total
Direct Private Debt Investments and Corporate Bonds				
Canada	$ 1,611,398	13.9 %	$ 1,242,182	16.9 %
Finland	37,461	0.3	—	0.0
Germany	75,690	0.7	—	0.0
Italy	69,604	0.6	—	0.0
New Zealand	45,146	0.4	44,173	0.6
Europe	—	0.0	111,024	1.5
Spain	90,872	0.8	—	0.0
Switzerland	38,301	0.3	—	0.0
United Kingdom	117,524	1.0	52,404	0.7
United States	4,282,107	36.9	2,703,709	36.8
Total Direct Private Debt Investments and Corporate Bonds	6,368,103	54.9 %	4,153,492	56.5
Unlisted Private Debt Investee Funds diversified globally	5,206,173	45.1	3,186,243	43.5
Total	**$ 11,574,276**	**100.0 %**	**$ 7,339,735**	**100.0 %**

As at December 31, 2022, 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 by approximately $1,288,801 (2021 - $748,494), representing 10.4% (2021 - 10.0%) of the Fund's net assets attributable to holders of redeemable units.

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

The COVID-19 pandemic, geopolitical tensions, and rising inflation and interest rates are continuing to disrupt global economic activity and create high levels of uncertainty and volatility on financial markets.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Valuation models

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

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

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

(b) Valuation framework

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

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

(c) Fair value hierarchy

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

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

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

- Level 1 inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2 inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 inputs that are unobservable.

(All amounts expressed in thousands of dollars, unless otherwise noted)

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.

	2022				2021			
	Level 1 ***(Quoted Price in Active Market)***	**Level 2** ***(Significant Observable Inputs)***	**Level 3** ***(Significant Unobservable Inputs)***	**Total**	**Level 1** ***(Quoted Price in Active Market)***	**Level 2** ***(Significant Observable Inputs)***	**Level 3** ***(Significant Unobservable Inputs)***	**Total**
Cash	$ —	$ 1,307	$ —	$ 1,307	$ —	$ 485	$ —	$ 485
Net investment-related receivables	—	50,150	—	50,150	—	17,091	—	17,091
Direct private debt investments	—	2,984,944	3,322,512	6,307,456	—	1,707,934	2,445,558	4,153,492
Unlisted Private Debt Investee Funds	—	—	5,206,173	5,206,173	—	—	3,186,243	3,186,243
BCI money market funds	204,417	—	—	204,417	127,632	—	—	127,632
Bonds	—	60,647	—	60,647	—	—	—	—
Loans to Related Parties	—	1,057,862	—	1,057,862	—	—	—	—
Total Investments	**$ 204,417**	**$ 4,154,910**	**$ 8,528,685**	**$12,888,012**	**$ 127,632**	**$ 1,725,510**	**$ 5,631,801**	**$ 7,484,943**
Forwards, net	—	(455,471)	—	(455,471)	—	42,670	—	42,670
Total	**$ 204,417**	**$ 3,699,439**	**$ 8,528,685**	**$12,432,541**	**$ 127,632**	**$ 1,768,180**	**$ 5,631,801**	**$ 7,527,613**

During 2022 and 2021, 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 2 in the fair value hierarchy.

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.

	2022		
	Direct Private Debt Investments	**Unlisted Private Debt Investee Funds**	**Total**
Opening balance, beginning of year	$ 2,445,558	$ 3,186,243	$ 5,631,801
Total gains recognized in profit or loss	231,605	393,212	624,817
Purchases	1,453,620	2,242,599	3,696,219
Transfers	(280,525)	—	(280,525)
Sales	(527,746)	(615,881)	(1,143,627)
Closing balance, end of year	**$ 3,322,512**	**$ 5,206,173**	**$ 8,528,685**
Total unrealized gains for the year included in profit or loss related to level 3 investments held at the reporting date	**$ 212,831**	**$ 350,285**	**$ 563,116**

(All amounts expressed in thousands of dollars, unless otherwise noted)

	2021		
	Direct Private Debt Investments	Unlisted Private Debt Investee Funds	Total
Opening balance, beginning of year	$ 1,110,608	$ 2,722,239	$ 3,832,847
Total gains recognized in profit or loss	117,823	123,874	241,697
Purchases	1,746,726	1,050,241	2,796,967
Transfers	53,156	—	53,156
Sales	(582,755)	(710,111)	(1,292,866)
Closing balance, end of year	**$ 2,445,558**	**$ 3,186,243**	**$ 5,631,801**
Total unrealized gains for the year included in profit or loss related to level 3 investments held at the reporting date	**$ 59,007**	**$ 106,647**	**$ 165,654**

During 2022, there were six instances of a transfer from Level 3 to Level 2 as a result of a change in valuation methodology. During 2021, there was one instance of a transfer from Level 2 to Level 3 as a result of a change in valuation methodology.

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 investments categorized as Level 3 in the fair value hierarchy as at:

	2022					
	Fair Value	Valuation Technique	Unobservable Input	Amount/ Range	Weighted Average	Sensitivity to Change in Significant Unobservable Input
Direct Private Debt Investments	$ 1,525,602	Net Asset Value	Net Asset Value	$ 1,525,602	N/A	The estimated fair value would increase (decrease) if the net asset value was higher (lower).
Direct Private Debt Investments	$ 114,170	Adjusted Net Asset Value	Adjusted Net Asset Value	$ 114,170	N/A	The estimated fair value would increase (decrease) if: - the net asset value was higher (lower); - the fair value adjustment was lower (higher).
Direct Private Debt Investments	$ 25,702	Market approach	EBITDA multiple	3.5x	N/A	The estimated fair value would increase (decrease) if the EBITDA multiple was higher (lower).
Direct Private Debt Investments	$ 1,657,038	Discounted Cash Flows	Discount rate	7.9% - 17.9%	11.6%	The estimated fair value would increase (decrease) if the discount rate was lower (higher).
Unlisted Private Debt Investee Funds	$ 4,813,806	Net Asset Value	Net Asset Value	$ 4,813,806	N/A	The estimated fair value would increase (decrease) if the net asset value was higher (lower).
Unlisted Private Debt Investee Funds	$ 392,367	Adjusted Net Asset Value	Adjusted Net Asset Value	$ 392,367	N/A	The estimated fair value would increase (decrease) if: - the net asset value was higher (lower); - the fair value adjustment was lower (higher).

(All amounts expressed in thousands of dollars, unless otherwise noted)

	2021					
	Fair Value	**Valuation Technique**	**Unobservable Input**	**Amount/ Range**	**Weighted Average**	**Sensitivity to Change in Significant Unobservable Input**
Direct Private Debt Investments	$ 892,572	Net Asset Value	Net Asset Value	$ 892,572	N/A	The estimated fair value would increase (decrease) if the net asset value was higher (lower).
Direct Private Debt Investments	$ 764,561	Transaction Price	N/A	N/A	N/A	N/A
Direct Private Debt Investments	$ 788,425	Discounted Cash Flows	Discount rate	5.4% - 14.0%	7.7%	The estimated fair value would increase (decrease) if the discount rate was lower (higher).
Unlisted Private Debt Investee Funds	$ 3,186,243	Net Asset Value	Net Asset Value	$ 3,186,243	N/A	The estimated fair value would increase (decrease) if the net asset value was higher (lower).

Significant unobservable inputs are developed as follows:

EBITDA multiples:

EBITDA multiples are selected from comparable public companies and transactions in private companies based on geographic location, industry, size, target markets, and other factors that management considers to be reasonable. The trading multiples for the comparable companies are determined by dividing the enterprise value of the company by its EBITDA. Multiples may be adjusted for considerations such as the lack of marketability and other differences between the comparable peer group and specific company.

Net Asset Value:

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

The unlisted private equity investee funds are subject to redemption restrictions and accordingly the Fund is unable to dispose of the investee until the maturity or wind up and liquidation of the respective investee. In such cases, it is the Fund's policy to categorize the investee as Level 3 within the fair value hierarchy.

Adjusted Net Asset Value:

Represents the adjusted net asset value of the unlisted private equity investee funds. BCI management values these funds primarily based on the latest available financial information provided by their general partners, adjusted based on judgment, on an investee by investee basis, through review of information received from underlying investees and other sources.

Discount Rate:

Represents the discount rate applied to the projected future cash flows of each investment. Discount rates and projected cash flows are based on various investment-specific and macroeconomic inputs and assumptions. Discount rates are adjusted to reflect the risk inherent in the projected cash flows.

Transaction Price:

When fair value is determined based on recent transaction information, this value is the most representative indication of fair value. Consequently, no sensitivity analysis has been performed.

Effects of Unobservable Input on Fair Value Measurement

The unlisted private equity investee funds are valued based on information received from external managers. The fair value of these investments fluctuates in response to changes in specific assumptions for that particular investee as determined by the external manager.

For certain direct private debt investments, BCI management engages third party independent valuators to estimate the fair market value. The valuators produce comprehensive reports for each applicable investment. The fair value of these investments fluctuates in response to changes in specific assumptions for the key unobservable inputs.

Although the Fund believes that 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 the holders of redeemable units.

The following table shows how net assets attributable to holders of redeemable units would change if the fair value of underlying investments was adjusted by 10%.

	2022	2021
Favourable	$ 852,869	$ 486,724
Unfavourable	(852,869)	(486,724)

(d) Financial instruments not measured at fair value

The carrying value of cash, interest receivable, receivable from sale of investments, BCI cost recoveries payable, and other accounts payable approximates their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because while prices are available, there is no active market for these instruments.

(All amounts expressed in thousands of dollars, unless otherwise noted)

9. INVOLVEMENT WITH STRUCTURED ENTITIES

The Fund holds interests in structured entities, both directly and indirectly (i.e. through intermediary holding corporations or limited partnerships, or both). 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. Structured entities have been set up to manage legal, tax and other risks that may arise in the course of administering the underlying investments.

Structured entities are comprised of investee funds administered by BCI which are organized as unit trusts; and investee funds administered by third party managers which are 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 the investors. Accordingly, the Fund's interest in these entities is reflected through the holding of trust units, partnership units or a partnership interest. The tables below set out the direct and indirect interests held by the Fund in structured entities:

	2022			2021		
Entity	**Number of Investee Funds**	**Total Net Assets of Investee Funds**	**Carrying amount included in Investments in the Statement of Financial Position**	**Number of Investee Funds**	**Total Net Assets of Investee Funds**	**Carrying amount included in Investments in the Statement of Financial Position**
Investee money market funds administered by BCI	2	$ 5,258,947	$ 204,417	2	$ 5,303,907	$ 127,632
Unlisted private debt investee funds administered by third party managers	17	7,198,629	5,206,173	9	4,131,280	3,186,243

The carrying amount of the investments held in these underlying funds represents the Fund's maximum exposure to loss. During 2022 and 2021, the Fund did not provide financial support to these structured entities and has no intention of providing financial or other support.

(All amounts expressed in thousands of dollars, unless otherwise noted)

10. TAXES

Net cumulative capital losses and non-capital losses for the Fund are as follows as of December 31, 2022:

	Net Capital Losses	Non Capital Losses
Principal Credit Fund	$ 222,979	$ —

Net capital losses are available to be carried forward indefinitely and applied against future net realized capital gains. Non-capital losses may be carried forward up to 20 years to reduce future taxable income.

11. RECIPROCAL TAX AGREEMENT ("RTA") RECOVERY

On March 10, 2021, the BC Ministry of Finance and the Department of Finance Canada agreed to amend Schedule A of the RTA to more explicitly acknowledge the Fund's entitlement to a rebate of the amounts paid in lieu of the goods and services tax ("GST") under the RTA between the B.C. and federal governments. Furthermore, Finance Canada has confirmed that prior year GST assessments will be vacated by the Canada Revenue Agency and no further GST assessments will be issued against BCI for past filing periods in respect of costs recovered from the Fund.

Therefore, the RTA accrued liability, which represented a liability for the years ended December 31, 2017 to the date of decision, with no offsetting receivable in respect of a rebate, was reversed and the resulting recovery was recorded in Other income. This recovery represents non-recurring income for the year ended December 31, 2021. The RTA recovery is $756 for the year ended December 31, 2021.

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION

Victoria, B.C. (Head Office)
750 Pandora Ave, Victoria, BC
V8W 0E4 CANADA

Vancouver, B.C.
1110-400 Burrard St, Vancouver, BC
V6C 3A6 CANADA

New York, U.S.
16B-767 Fifth Ave, New York, NY
10153 USA

London, U.K.
35 Portman Square, London
W1H 6LR UNITED KINGDOM