

REAL ESTATE

All values as of December 31, 2020



Benefits of our real estate strategy

- Adds diversification to the Sun Life Par Account portfolio
- Gives participating policyholders access to opportunities not available to the average investor.
- Achieves higher returns relative to other asset classes and is a good hedge against inflation.

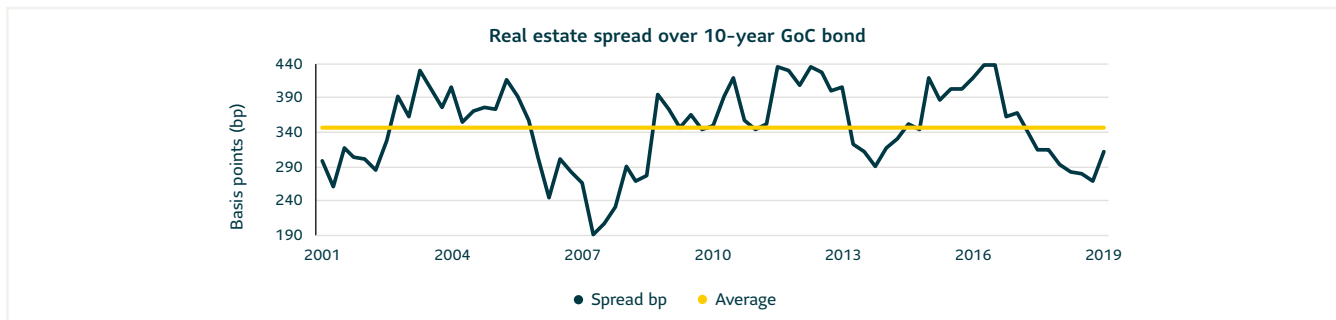
Sun Life acquires and manages high-quality real estate properties using limited amounts of leverage. Because the majority of our investments are in directly held properties – not REITs – our dedicated real estate investment team is able to locate undervalued properties with return potential. We inject additional investment to some properties to enhance value growth and increase rental rates. Real estate properties, unlike REITs, are illiquid but actually complement the long-term nature of our liabilities (i.e., insurance claims).

Bentall Green Oak (BGO)

BGO is a subsidiary of Sun Life Capital Management and is our dedicated real estate investment team. Recognized as an industry leader, BGO’s global reach and expertise provide access to investment opportunities that are inaccessible to most investors.

Historical returns

Historically, Sun Life’s real estate returns have been comparable to the benchmark index – the Investment Property Databank Canadian All Fund Universe – and have improved the overall yield of the Sun Life Par Account. The returns on these real estate assets have had an average spread of 346 basis points over the 10-year Government of Canada (GoC) bond rate since 2001.



The real estate holdings of the Sun Life Par Account

The Par portfolio’s directly held real estate assets amount to \$1.73B (12.2% of the Par Account) as of December 31, 2020. We also have an additional \$0.37B in limited partnerships and joint ventures, which hold pools of real estate with a small number of large investors. The total Par Account real estate exposure is 14.5%. The target asset allocation is between 12% and 22%. We tactically allocate our real estate holdings to the types and locations that offer the best risk-adjusted returns given the current environment.

We help. You grow.

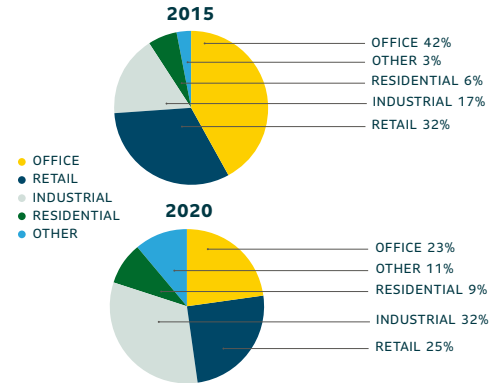




Property type

Sun Life identified a declining trend in the office space per employee over the past decade, even prior to COVID-19. To adapt, we repositioned our exposure in office and retail properties coupled with a tilt toward industrial properties.

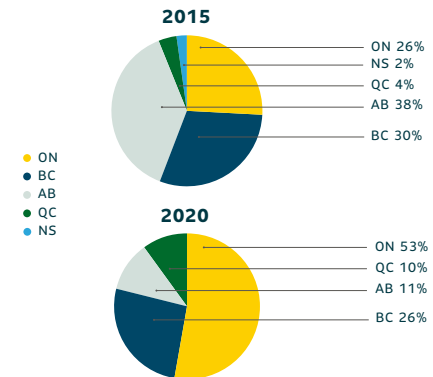
Since we made this move, office properties outside of major markets have seen a decrease in value, often alongside growing vacancies. On the other hand, the industrial sector has seen rapid growth because of increased federal investment in infrastructure and demand for manufactured resources.¹



Property location

Our assets are located in major markets across Canada. We identified Alberta as an outsized position with an uncertain economic outlook, so we reduced our exposure there. We've since captured new opportunities in Ontario and Quebec.

Since we made this move, oil demand plummeted during the COVID-19 pandemic. Oil is also being rapidly replaced with a desire for green energy alternatives. Because Alberta's property value is highly correlated with its oil supply², its outlook is becoming increasingly uncertain. Demand for office space has become concentrated to major markets and reflects the shift in property value and rental rates in those locations.³



For example

3 industrial buildings in Brampton, Ontario: Totalling 630,000 square feet, these well located properties are in close proximity to two major highways (the 401 and 407 exchange). They were built in the early 2000s and are fully leased to a diversified roster of tenants. The combined market value of the three assets as of Q4 2020 was \$140M. This is an increase of \$85M from their Q4 2015 valuation. This is an annualized return of 20%/year. This can be attributed to strong tailwinds in the broader industrial market, combined with active leasing strategies and strong capital management.

^{1,2} Alberta Economic Outlook, ATB Financial, October 2020, <https://www.atb.com/siteassets/pdf/company/insights/outlook/alberta-economic-outlook-october-2020.pdf>

³ Capital Investment in Canada's Provinces, Fraser Institute, July 2020, <https://www.fraserinstitute.org/sites/default/files/capital-investment-in-canadas-provinces.pdf>

Our dedicated real estate investment manager, Bentall Green Oak, uses their expertise and global reach to capture opportunities that are unobtainable to most investors. Taking a tactical approach, investing primarily in directly held property, BGO secures sound deals that match well against the long-term nature of our liabilities. By injecting further investment to increase property value and raise rental rates, our property investments have been a stable source of increased returns and diversification.

Talk to your Sales Representative about Sun Life's participating life insurance solutions today.

We help. You grow.

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