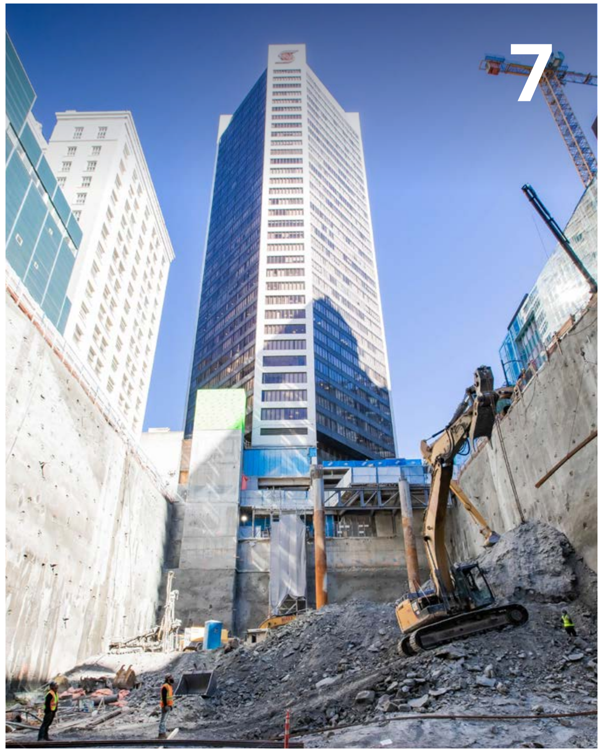
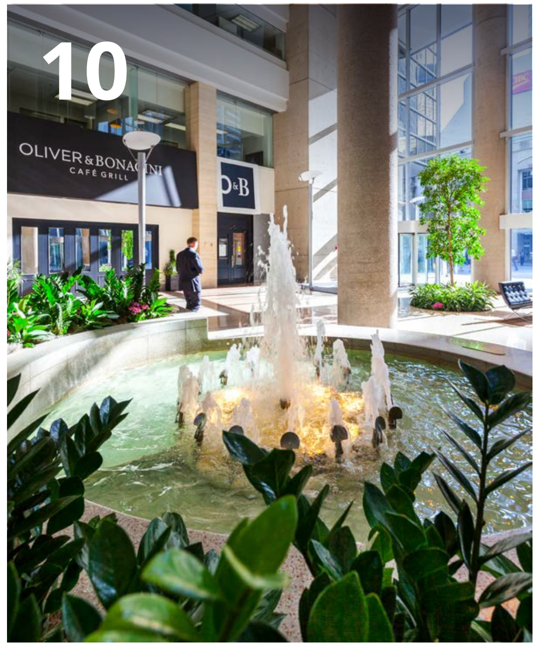

2019 Annual Report

# CANADIAN REAL ESTATE INVESTMENT FUND NO. 1

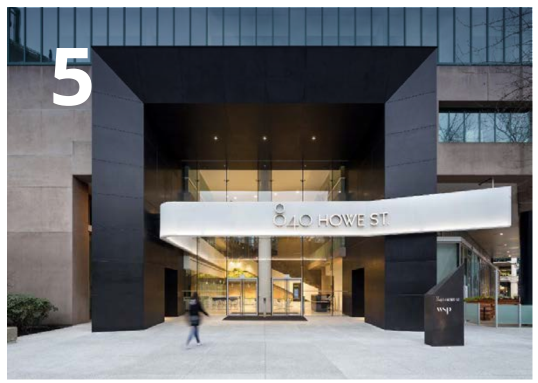
GWL REALTY ADVISORS

# 2019 CREIF Annual Report





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# Portfolio Manager's Report

The Great-West Life Canadian Real Estate Investment Fund No. 1 (CREIF) delivered a strong 9.1% return in 2019, driven by a balance of income and capital return. As the market moves deeper into this economic cycle, the Fund's adherence to a disciplined investment strategy remains paramount, prioritizing cash flow growth, diversification and capital preservation. These pillars underpin the Fund's objective of generating superior, risk-adjusted returns.

CREIF's income component has been the primary source of its performance dating back to the Fund's inception in 1981. The durability and resiliency of the contractual cash flow provided a 4.2% income return in 2019, an attractive source of stability. The Fund leveraged its portfolio of well-located, high-quality assets, as illustrated by its strong demand factor, with a 94.3% occupancy rate at year-end, a 60 basis point improvement from 2018 year-end.

The Fund generated a strong 4.9% capital return in 2019, its largest capital return since 2013 and three times the preceding five-year average. This performance allowed the Fund's real estate holdings to approach $6 billion at year-end 2019. The capital return was driven by the industrial and multi-family sectors, posting 14% and 8% increases respectively, and collectively delivering 64% of the total capital return relative to their 44% investment allocation.

The Fund successfully invested $227 million across three transactions in 2019. The year was highlighted by the Fund's acquisition of a $170 million interest in 1 Adelaide Street East in downtown Toronto, a Class 'A' office building with excellent locational attributes, including a direct underground connection to the PATH network and the TTC transit line. A second notable investment was the acquisition of Halton Hills Village in Georgetown, Ontario, a new generation grocery-anchored retail centre in the GTA, with 98% occupancy and a six-year weighted average lease term. Finally, as part of the Fund's continuing effort to opportunistically participate in development as a source of portfolio performance, CREIF acquired a fully zoned multi-family site in Ottawa, immediately across the street from Westboro Station on the planned O-Train line expansion (2025 scheduled completion).

A critical component of the Fund's investment strategy is the ongoing discipline of divesting of non-core assets as property-level business plans are executed and asset value is maximized. Management has targeted select dispositions in 2020, eager to rotate this capital into higher growth segments. These disposition activities will be focused around suburban office holdings, while net investment will prioritize the industrial and multi-family sectors given their strong defensive characteristics and their favourable market fundamentals, driven by the growing trends of e-commerce and logistics as well as ongoing urbanization and housing affordability challenges.

CREIF continues to tactically utilize its development capability to access best-in-class assets while realizing value creation for its investors. The Fund enters 2020 with three active development projects: Grenadier Square, Vancouver Centre II and 3389 Steeles Avenue East, each providing strategic long-term fund investments. As importantly, the Fund continues to progress with a variety of prospective development planning approvals, creating a future development pipeline that the Fund can activate as market conditions warrant or potentially monetize, subject to market conditions. While development is a measured component of the Fund's overall investment strategy (no more than 15% by policy), it will continue to materially contribute to the Fund's overall return profile, delivering superior risk-adjusted returns.

CREIF successfully reduced its average cost of capital in 2019. This included $156 million in incremental portfolio financing at a weighted average interest rate of 3.0%, including two attractive interest-only loans. The financing increased the portfolio's mortgage balance to $1.1 billion with a weighted average coupon rate of 3.4%, a 32 basis point decline year-over-year. With a 17.2% loan-to-value mortgage balance, the Fund is comfortably within its 35% loan-to-value limit, all on a non-recourse basis. Management's efforts to reduce the cost of capital, coupled with ongoing efforts related to cash management, helped to collectively create 40 basis points of fund-level performance above the real estate's 8.7% return.

> "The Fund generated a strong 4.9% capital return in 2019, its largest capital return since 2013 and three times the preceding five-year average."

Climate change has been established as a leading risk, and investors are increasingly attuned to the influence of environmental, social and governance (ESG) issues on performance. CREIF made its second Global Real Estate Sustainability Benchmark (GRESB) submission in 2019. GRESB is the recognized industry leader in assessing investors' adoption of ESG factors as part of their management practices. CREIF was awarded a Green Star rating with a score of 90 and a recognition in the top 4th percentile in the global diversified category (230 participants). Moving into 2020, fund management is prioritizing third-party analysis of the climate disaster risk profile of each of the Fund's assets under management.

Moving into its 40th year, the Fund continues to be well diversified, by both asset class and geography, with a portfolio of well-located assets, with strong occupancy and high-quality tenants. This combination of attributes has stood the Fund well since its inception, and we feel strongly about its merits as part of a well-diversified, long-term investment strategy.

## Update

On March 20, 2020, Canada Life announced the temporary suspension of any contributions to, and redemptions and transfers from, the Great-West Life Canadian Real Estate Investment Fund No. 1. The COVID-19 pandemic created significant global economic disruption and extreme financial market turbulence, limiting the ability to accurately quantify the impact of these conditions on property markets. This has created material valuation uncertainty related to real property owned by the Fund, which gives rise to a material risk that the Fund's unit values may not be valued accurately. The temporary suspension mitigates the risk that investors buy and sell units at a price that does not reflect market value. As always, the goal is to protect the long-term interest of the Fund and its investors.

Fund management is actively working to develop a process to return valuations as appropriate certainty returns. The temporary suspension will remain in place until an appropriate level of real property valuation certainty has been re-established, and we are comfortable with the Fund's liquidity positions.

Steven Marino
Senior Vice President, Portfolio Management

# 2019 Fund Overview

Established in 1981, the Canadian Real Estate Investment Fund No. 1 (CREIF) is one of Canada's largest open-ended real estate funds. The Fund's core objective is to provide secure, growing cash flow; a hedge against inflation; low volatility; diversification and the potential for capital appreciation.

**126**
**total properties**

**$5,937M**
**gross real estate value, up 12.8% YoY**

**32%**
**5-yr gross fund value growth**

**4.2%**
**2019 income return**

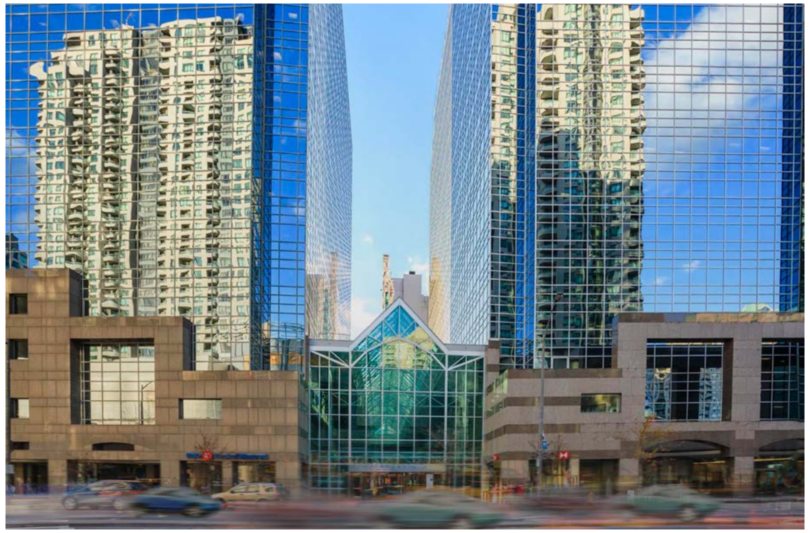
**4.9%**
**2019 capital return**

**9.1%**
**2019 total return**

**9.1%**
**10-yr annualized return**

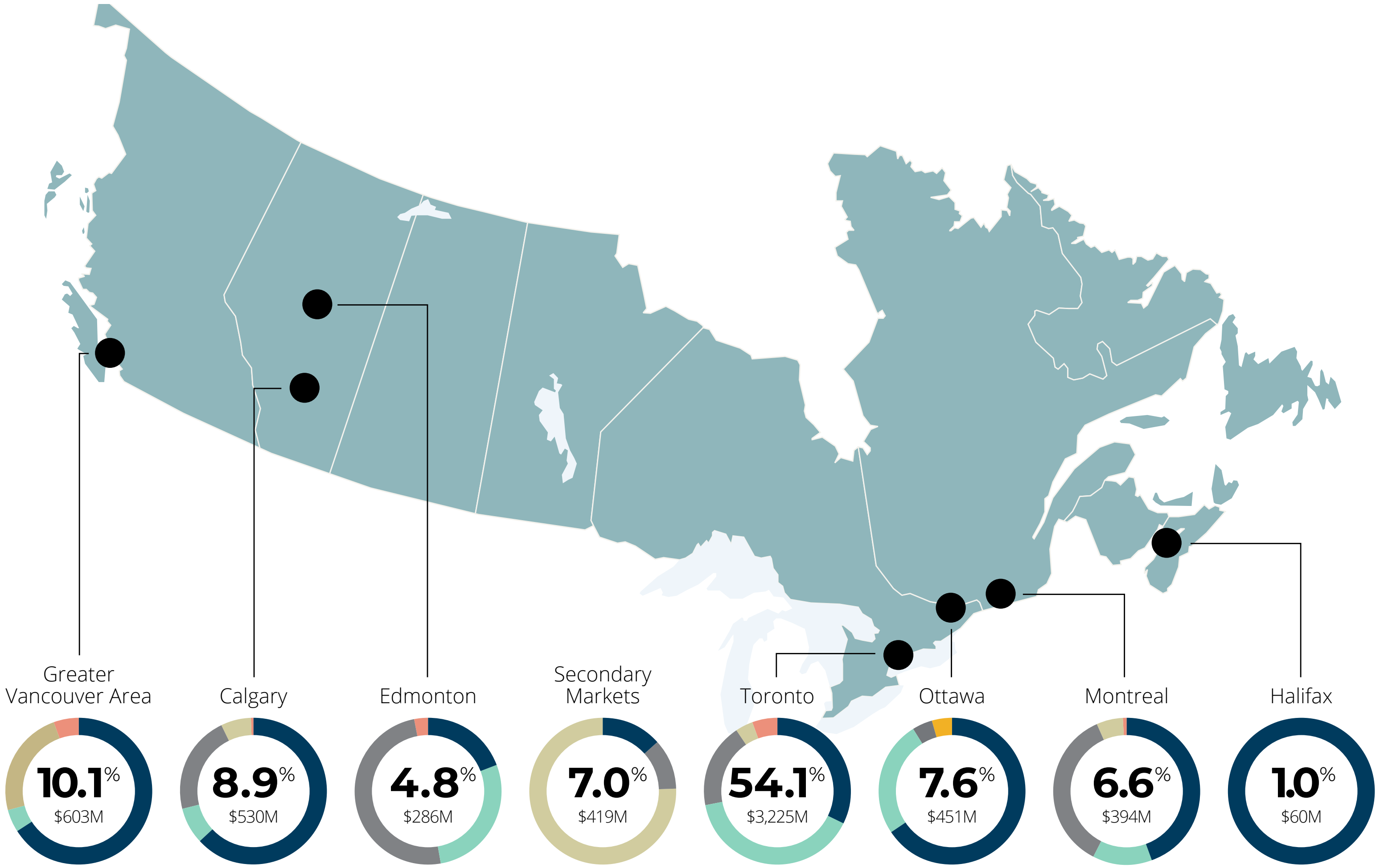
**$212M**
**addition in income-producing properties**

**94.3%**
**occupancy, up 60 bps YoY**

*Top: 840 Howe Street, Vancouver, BC*
*Bottom: 5150-5160 Yonge Street, Toronto, ON*

# Portfolio Diversification




**City and Asset Class Exposure**
(dollar amounts in millions)

Office Properties
**40.5%**
$2,417

Residential Properties
**26.9%**
$1,604

Industrial Properties
**17.5%**
$1,043

Retail Properties
**11.1%**
$661

Other
**4.0%**
$241



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# Development

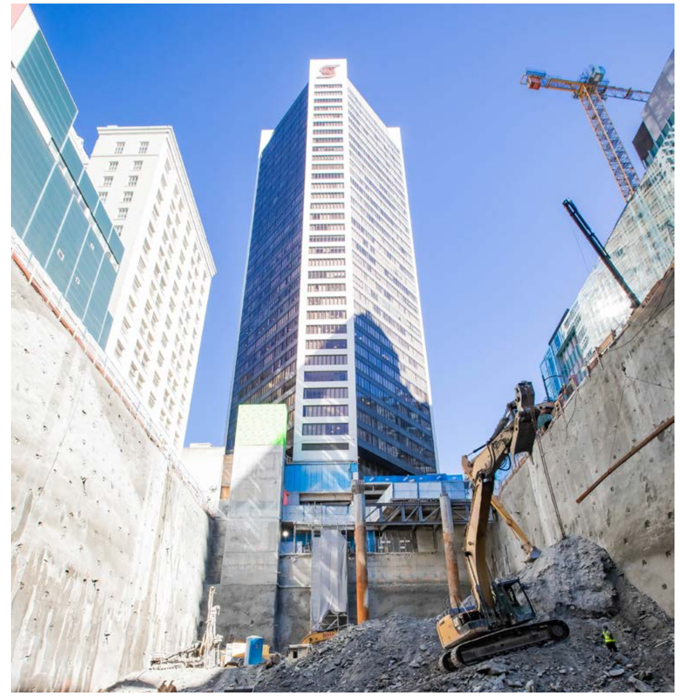
Development of new generation, income-producing assets forms a critical component of the Fund's strategy and overall portfolio construction. Projects at Grenadier Square and Vancouver Centre II are moving efficiently toward completion, while a series of future initiatives provide for a multi-year pipeline of opportunity looking ahead. Development will continue to play an important role in augmenting the quality and vintage of the portfolio while being a primary source of risk-adjusted return.

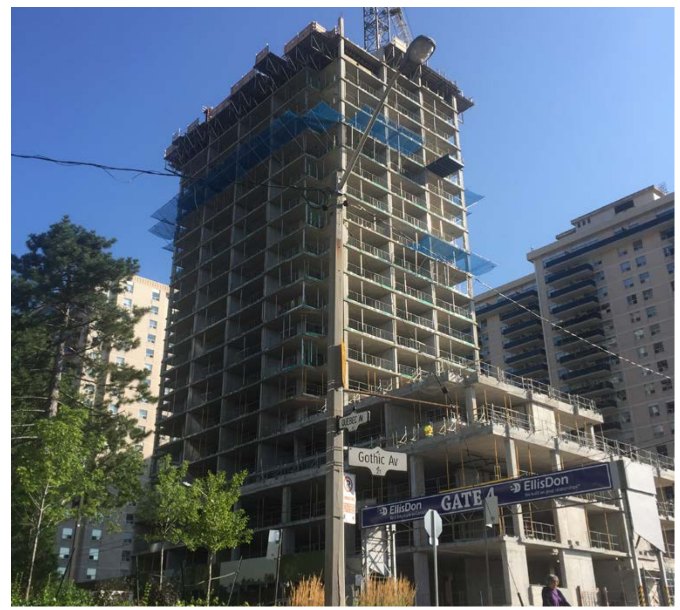
## Vancouver Centre II

Construction of this 370,000 square foot Class 'AAA' office tower is advancing well and is scheduled to be materially completed towards the end of 2021. The amenity-rich, thoughtfully designed and LEED® Platinum–planned office building is poised to become an iconic development at the epicentre of downtown Vancouver's developing tech node. At Vancouver Centre's second tower, occupants will benefit from exceptional underground connectivity to two SkyTrain stations and the amenity/service offerings of the Vancouver Centre and Pacific Centre malls. The property sits at a crossroads of Vancouver's traditional business core, urban residential communities, and primary shopping and entertainment districts, providing a true live/work/play environment. Its location along Seymour Street positions it within downtown's newly established eastern core—home to Amazon, Microsoft, Telus, Avigilon and other tech companies. The excavation and construction of the underground parking structure is now complete, and efforts going into 2020 will be focused on the tower. Pre-leasing at VCII has progressed well, and continued interest from other tenant prospects continues to bolster pre-development expectations.

## Grenadier Square

The Grenadier Square Redevelopment is located adjacent to Toronto's High Park and steps from the High Park subway station, and is nearing completion, with one tower and both amenity buildings slated for occupancy in Q3 2020 and the second tower in Q4 2020. The project, which will be branded "The Livmore High Park," consists of two new purpose-built 25-storey luxury rental buildings providing 528 new suites, including 16 new townhomes and the buildings of two new amenity pavilions totalling 22,000 square feet for the use of all tenants in the complex, including those inhabiting the legacy towers. Pre-leasing is projected to begin in late Q1 2020, with a robust marketing campaign that encompasses digital and social media, internet listing sites, signage and direct mail.






*Top: Vancouver Centre II, Vancouver, BC*
*Bottom: Grenadier Square, Toronto, ON*



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# Investment Activity

In January, the Fund added a 1.3 acre development site in the Westboro node of Ottawa, ON. The site was acquired for $66 psf of approved density and will ultimately be the home to 300+ units of transit-connected, amenity-rich, new-generation rental apartment product with retail at grade.

In February, the Fund acquired a 35% interest in a 650,000 square foot office and retail complex in downtown Toronto for approximately $170 million. The asset, better known as the Dynamic Funds Tower Complex, is located at the southeast corner of Yonge and Adelaide. It includes 1 Adelaide Street East, a 30-storey LEED® Gold certified office tower; 20 Victoria Street, a nine-storey boutique office building; and 85 Yonge Street, a three-storey retail building. The asset is currently 99% leased, with major tenants including Scotia Capital Inc. and OPTrust. The Class 'A', PATH-connected complex marked a significant acquisition for the Fund of a high-profile core property that is rarely available. At acquisition, financing representing 50% of the purchase price was placed on the asset. The 10-year loan facility was funded on an interest-only basis for the entire term at a coupon rate of 3.4%.

In December, the Fund acquired a 100% freehold interest in Halton Hills Village, a 111,728 square foot new generation grocery-anchored centre located in Halton Hills, Ontario, for $42.3 million. The property is 98% leased and will provide the portfolio with a secure income stream based on a weighted average lease term of approximately six years.


**$230M**
**in acquisitions over 2019**

*Top left: 320 McRae Avenue, Ottawa, ON*
*Top right: Halton Hills Village, Halton Hills, ON*
*Bottom right: 1 Adelaide Street East, Toronto, ON*



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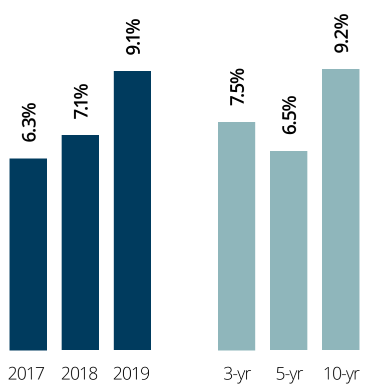
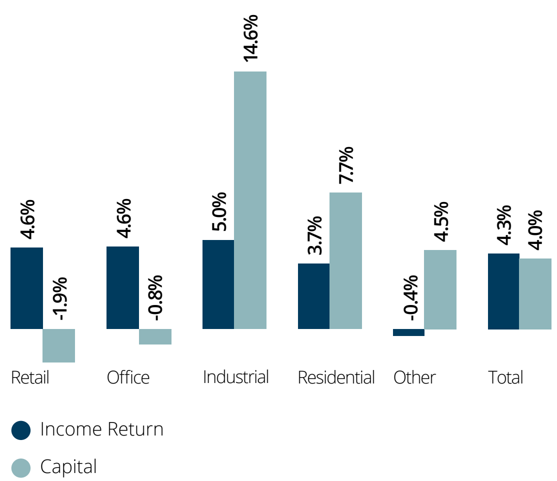
# Performance and Attribution

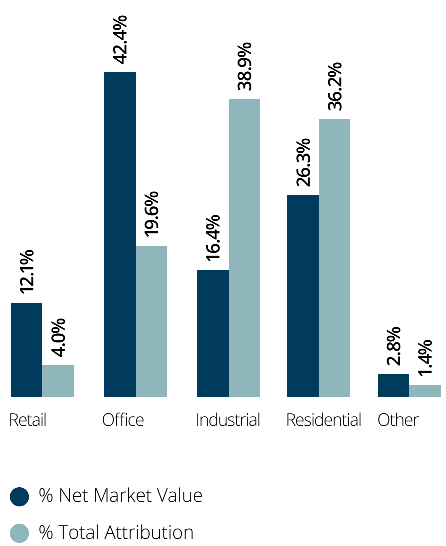
### *Total Return*



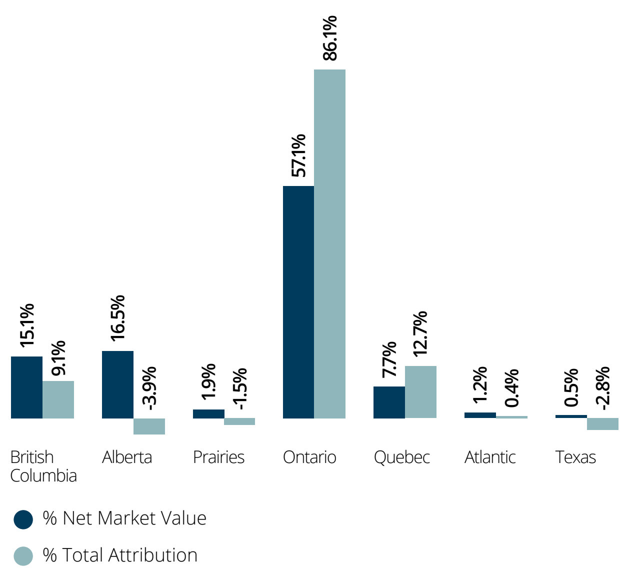

### *Performance by Asset Class*

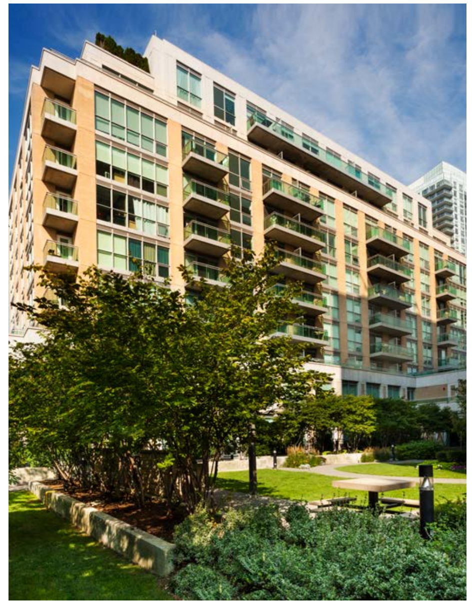



### *Fund Weighting & Attribution by Asset Class*




### *Fund Weighting & Attribution by Region*



**The industrial and multi-residential sectors attributed 66% of the total return, relative to their 40% market value allocation.**

*Top: 65 Lillian Street, Toronto, ON*
*Bottom: Laval Industrial Portfolio, Laval, QC*

# Occupancy

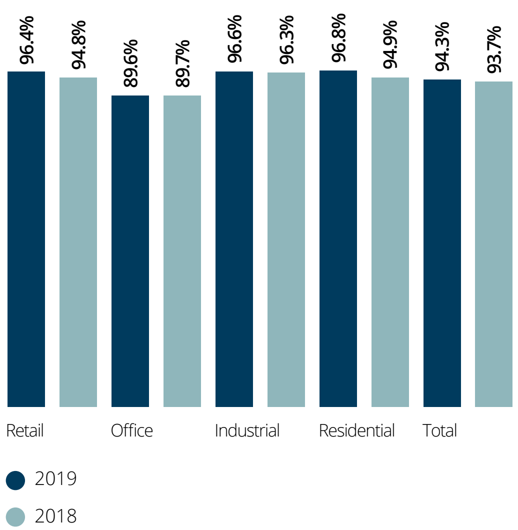
Income returns are reliant on a well-leased portfolio of assets that are managed with a focus on net operating income (NOI) growth. This component of return has been the cornerstone of the Fund's performance since inception, with 2019 proving to be no different in that regard. Portfolio occupancy concluded the year at a robust 94.3%, representing a 60 bps improvement from the end of 2018, and led to a 6% increase in NOI. Occupancy has been greater than 90% for 20 years running.

**16.6%** maximum single year roll over exposure

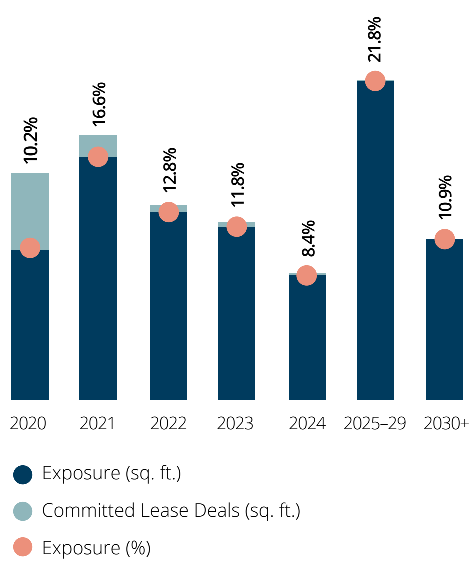
**33%** of portfolio with 2025+ lease maturities

**94.3%** occupancy, up 60 bps YOY

### *Summary by Asset Class*




### *Lease Expiry Profile*





*33 Yonge Street, Toronto, ON*

# Tenant Diversification

Strategic investment into a diverse set of asset classes and geographies are two significant components of the construction of a well-balanced portfolio. For a core real estate fund with the objective of providing consistent income returns, income diversification forms a third pillar. The sources of income for CREIF stem from over 1,000 unique commercial tenancies operating across a broad spectrum of industries in addition to 5,000+ individual residential leases.

### *Portfolio and Tenant Diversification*

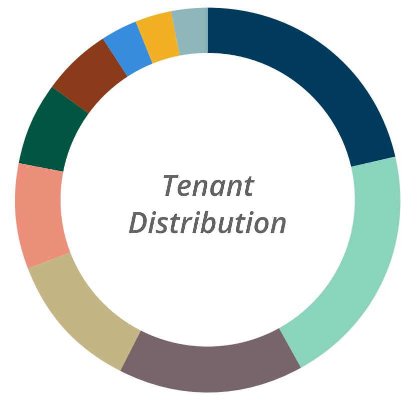
*Top 10 Tenants by Base Revenue at December 31, 2019*

| Rank | Tenant | Annual Base Rent ($) | % of Fund Base Rent | Occupied Area (share) (sf) | WALT (years)* |
|---|---|---|---|---|---|
| 1 | Federal & other Government Agencies | $25,359,532 | 12.0% | 1,303,342 | 3.5 |
| 2 | ConocoPhillips Canada | $8,014,852 | 3.8% | 258,544 | 5.0 |
| 3 | The Bank of Nova Scotia | $7,496,418 | 3.6% | 315,759 | 2.6 |
| 4 | Home Depot | $6,702,588 | 3.2% | 814,714 | 14.8 |
| 5 | Wal-Mart | $5,010,560 | 2.4% | 498,309 | 8.1 |
| 6 | Ritchie Bros. Auctioneers | $3,089,055 | 1.5% | 115,206 | 10.4 |
| 7 | CGI Group Inc. | $3,077,668 | 1.5% | 92,008 | 3.2 |
| 8 | Invesco Canada Ltd. | $2,880,743 | 1.4% | 149,649 | 2.5 |
| 9 | Toronto Transit Commission | $2,611,483 | 1.2% | 126,600 | 7.8 |
| 10 | TD Bank | $2,375,253 | 1.1% | 94,085 | 7.0 |
| | **Sub Total** | **$66,618,152** | **31.6%** | **3,768,215** | **7.0** |
| | Other | $119,139,468 | 56.5% | 11,361,231 | 6.9 |
| | **Total** | **$210,961,415** | **100.0%** | **15,129,446** | **6.9** |

* Weighted average lease term (WALT) is representative of the commercial (non-residential) portion of the portfolio
Note: Methodology to report top 10 tenants has been updated to account for aggregation of multiple tenancies (if applicable) under a single head tenant

### *Tenant Distribution*

| City and Asset Class Exposure | |
|---|---|
| Retail Trade | **19.8%** |
| Manufacturing | **18.8%** |
| Transportation & Warehousing | **14.3%** |
| Finance & Insurance | **10.8%** |
| Professional, Scientific & Technical Services | **8.1%** |
| Other | **6.5%** |
| Mining, Quarrying, Oil & Gas | **5.3%** |
| Admin, Support, Waste Management, Remediation | **2.9%** |
| Accommodation & Food Services | **2.8%** |
| Information and Cultural Industries | **2.6%** |



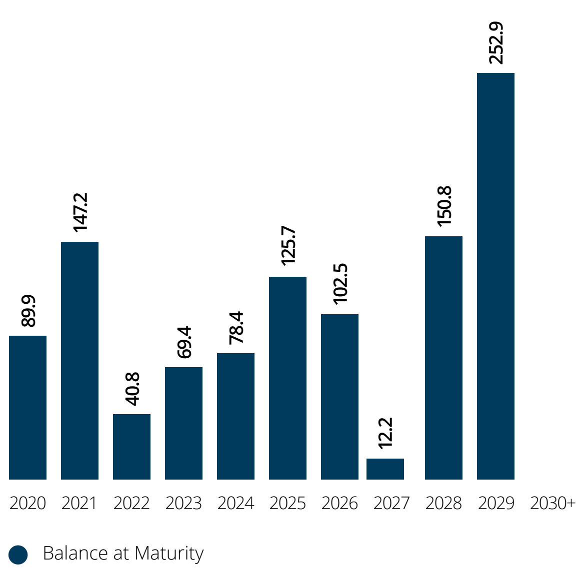

*Cresthaven Crossing, Ottawa, ON*

*Home Depot Distribution Centre, Calgary, AB*

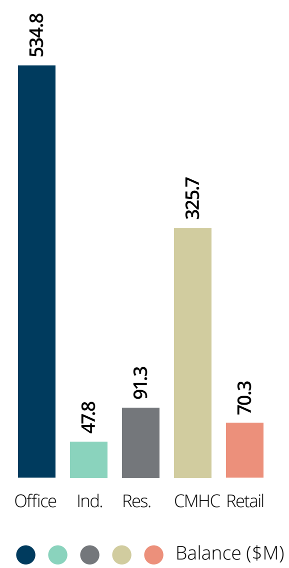
# Debt Profile

The strategic though conservative utilization of debt forms a key part of the Fund's core investment thesis. Unencumbered assets are identified by their ability to generate financing proceeds at the best overall market terms, with execution timed to ensure that appropriate levels of overall liquidity are maintained. With net new financing of $156 million over the course of 2019, the Fund's overall leverage position has increased by 120 bps while the weighted average interest rate was reduced by 32 bps to 3.4%. Leverage contributed a positive 116 bps return to overall Fund performance.

***Debt Balance Maturity Profile***




***Summary by Asset Class***




**Portfolio LTV of**
**17.2%**
**relative to 35% maximum**

**$1,069M**
**of outstanding fixed rate debt**

**69 months**
**weighted average duration**

**3.4%**
**weighted average coupon**

**87 bps**
**spread between CMHC and conventional debt**

**Over**
**$325M**
**in CMHC financing**

**37 mortgages**
**with average balance of $29M**

**2019 total leverage impact:**
**116 bps**

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# Research

**Below is an example of the proprietary work conducted by GWL Realty Advisors' in-house Research and Strategy team. The development of these approaches helps define portfolio strategy and puts the Fund at a distinct competitive advantage.**

With income a core driver of property performance, GWL Realty Advisors' Research and Strategy team continues to develop models to better predict market rental growth. The outcomes of this research ultimately form our "house views" on market fundamentals and support our investment and leasing strategies.

## Leading Industrial Demand Index

For the industrial sector, a focus has been quantifying supply-demand imbalances and their effect on rent growth. Research has shown that market vacancy rates alone do not drive rental increases; conversely, it is the level of property demand relative to supply that influences the direction of rents. Generally, the higher the expected demand imbalance, the higher the magnitude of rent growth.

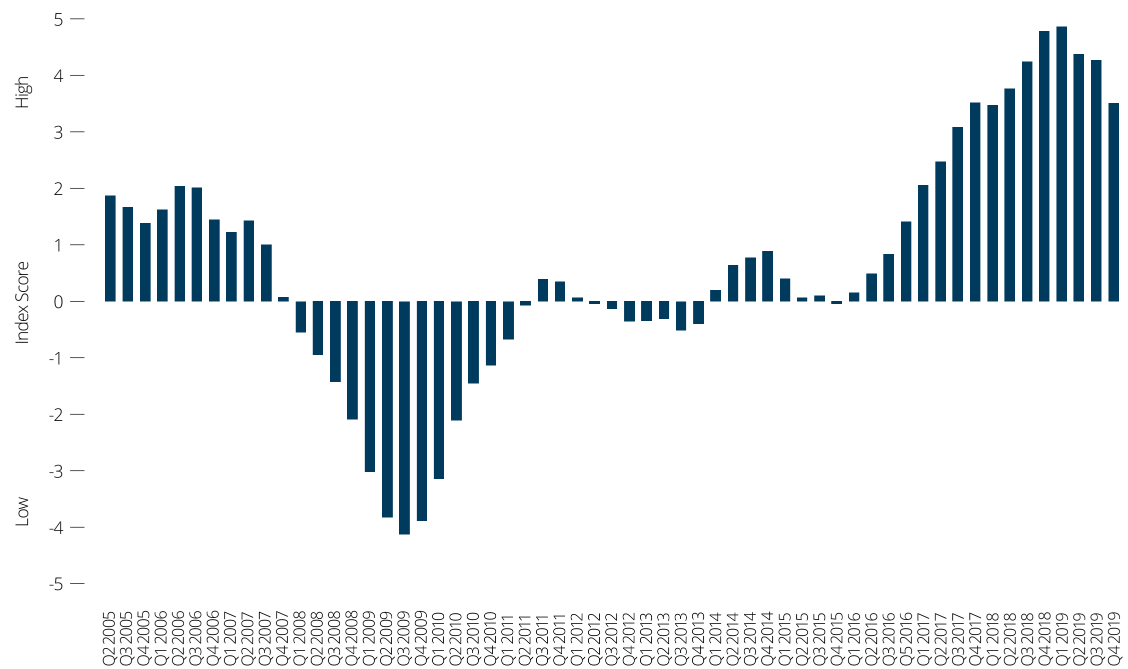
To visualize this, the team built an index that measures supply-demand conditions across major Canadian markets. Developed using a custom-weighted selection of industrial variables, the index proves to be a strong, statistically significant predictor of rent growth. Driving the models are both cyclical and structural factors, including retail sales, demand momentum, future supply and warehouse inventory levels. Structural factors are critical to the model and, for example, capture the rising influence of e-commerce on retail logistics.

The index shows the long-term stability and strength of the industrial sector, supported by the continued growth of e-commerce, but also underlying supply constraints that persist across major markets. The index results are distributed nationally on an ongoing basis with continued efforts to refine and improve the model.

The research team has also developed a similar tool for estimating purpose-built rental rate growth potential in markets with pent-up housing demand, specifically Toronto, Ottawa and Vancouver.

*GWLRA Leading Industrial Demand Index*

*National = 6-month moving average*




| | Vancouver | Edmonton | Calgary | Toronto | Montreal |
|---|---|---|---|---|---|
| **Share of market inventory: industrial space under construction** | **1.8%** | **0.7%** | **0.4%** | **0.9%** | **0.5%** |

Source: CBRE (excludes build-to-suit construction)

# Sustainability

## ESG Considerations

The Fund is committed to integrating sustainability into its investment and operating practices to generate superior, long-term, risk-adjusted returns. The Fund acknowledges that environmental, social and governance (ESG) factors have the potential to impact investment performance. The Fund manages ESG risks and opportunities by implementing practices that include their consideration, monitoring and disclosure in the execution of its investment strategies and operating practices.

The Fund Manager has adopted ESG objectives, which are integrated into the management and development of the Fund's assets. These ESG objectives are to:

**1**

**Operate efficient and healthy buildings to improve financial performance, lower operating costs and enhance tenant satisfaction.** The Fund's office and multi-residential assets decreased greenhouse gas (GHG) emissions by 18.3% between 2013 and 2019.

**2**

**Certify 100% of the eligible portfolio under a green building certification system.** In 2019, 94% of the Fund's portfolio was certified under BOMA BEST® or LEED® certifications.

**3**

**Make positive contributions in the communities where the Fund invests.** Throughout the development process, the Fund Manager collaborates with communities to ensure the long-term interests of the communities are achieved and value is added.

**4**

**Conduct business with honesty and integrity.** The Fund Manager ensures all employees attest compliance with its Code of Conduct and reinforces the importance of operating with integrity and trust through multi-faceted training programs.

## Managing ESG Factors

The Fund made its second submission into the Global Real Estate Sustainability Benchmark (GRESB) in 2019, improving upon its score from its first submission and earning a GRESB 5-Star rating for the second consecutive year.

The Fund placed in the top 4% of the global diversified category and in the top 10% globally of 964 participants. The Fund's manager, GWL Realty Advisors, also earned a GRESB 5-Star rating for the fifth consecutive year and placed in the top 10% of companies worldwide in 2019.

GRESB is the leading global ESG benchmark for real assets. GRESB, an investor-driven organization, provides decision-useful, standardized and validated ESG data to more than 70 institutional investors, representing over USD $17 trillion in institutional capital.

GRESB®

## Carbon Management

The Fund sees value in reducing its carbon footprint, realizing operational savings for tenants and owners, and helping to meet societal expectations for greenhouse gas reductions. Between 2013 and 2019, an estimated $2.6 million in utility costs were avoided through sustainability and conservation activities, along with a reduction of 13,286 tonnes of $CO_2e$, across the Fund's office and multi-residential portfolios.



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## Sustainability Performance, 2013–2019

Overall, from 2013 to 2019, the Fund's portfolio of office and residential assets continued to improve their sustainability performance by reducing:

**Greenhouse gas emissions by 18.3%, or 13,286 tonnes of $CO_2e$**
- equivalent to taking 2,870 cars off the road for one year[1]

**Energy consumption by 7.2%**
- equivalent to the annual energy use of 824 Canadian homes[2]

**Water consumption by 13.7%**
- equivalent to 64 Olympic-sized swimming pools[3]

**Waste to landfill by 11.0%**
- equivalent to 434 mid-sized cars[4]

The environmental data for our portfolios is externally assured by an independent third party under *ISAE 3410: Assurance Engagements on Greenhouse Gas Statements*, and is reported in-line with the World Resource Institute's (WRI) GHG Protocol Corporate Accounting and Reporting Standard, demonstrating our commitment to transparency and industry best practice to our investors.

## Certifications & Awards

The Fund's ongoing sustainability practices and related initiatives include the attainment of green building certifications and industry recognition through awards and other accolades. Since 2013, Fund assets have received 27 industry awards related to sustainability, operational excellence, development and/or tenant engagement.

**Highlight: 1350/1360 René-Lévesque (2019)**

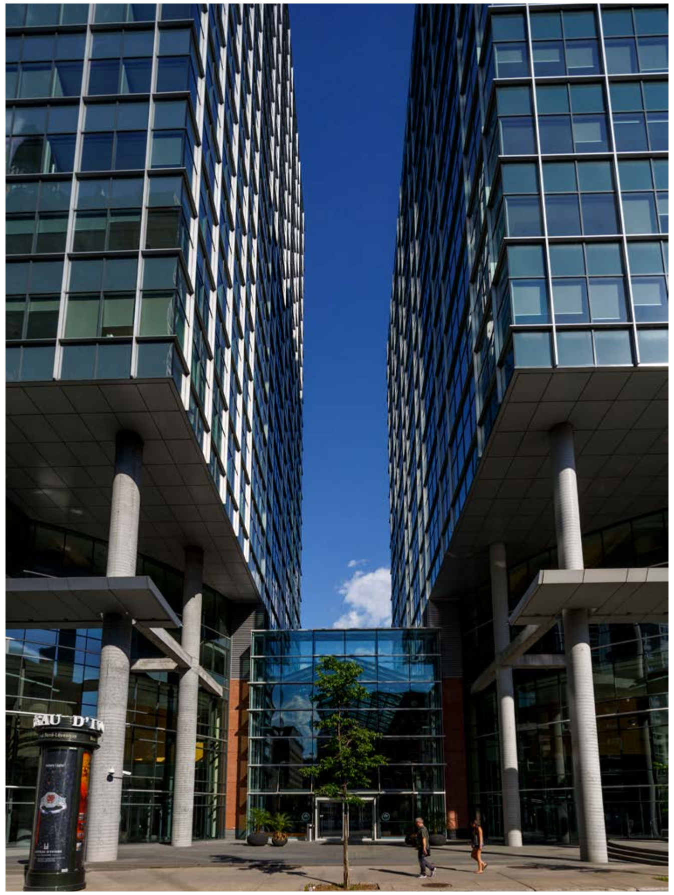
- The Building of the Year (TOBY) Award, >500,000 ft² – BOMA Quebec
- Recertified LEED EB:OM, moving from Silver to Gold Certification – CaGBC

In 2019, 94% of the Fund's eligible portfolio attained either BOMA BEST® or LEED® green building certifications, covering over 230 individual buildings.

BOMA BEST® Building Environmental Standards | Norme environnementale de l'immobilier

| Platinum | Gold | Silver | Bronze | Certified |
|---|---|---|---|---|
| 11% | 36% | 14% | 11% | 28% |

**BOMA BEST® Certifications by Level as at Year-End 2019**



*1350/1360 René-Lévesque (2019)*

Our Approach to Sustainability Reporting: The Sustainability section of this report is guided by our business, peer reviews and various sustainability standards and frameworks. Through the Fund Manager, GWL Realty Advisors, we looked broadly at our sustainability context to determine the topics that matter most to the Fund and our stakeholders. This included reference to the Global Real Estate Sustainability Benchmark (GRESB) survey, the GRI Standards (2016), and the GRI-G4 Construction and Real Estate Sector Supplement (CRESS). The important topics are defined within the Fund Manager's materiality matrix, which is used, in part, to inform the Sustainability content of this report.

1. U.S. EPA, GHG Equivalencies Calculator: https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator
2. Average energy use is 92.5 GJ/household/yr, from Statistics Canada, Households and the Environment Survey 2015: https://www.statcan.gc.ca/daily-quotidien/171201/dq171201f-eng.htm
3. The standard size of an Olympic-sized swimming pool is 2,500 m³.
4. The average curb weight of a mid-sized car is taken as ≈3,500 lb.



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Investment Activity
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Deloitte.

Deloitte LLP
360 Main Street
Suite 2300
Winnipeg MB R3C 3Z3
Canada

Tel: 204-942-0051
Fax: 204-947-9390
www.deloitte.ca

# Independent Auditor's Report

To the Contractholders of Canadian Real Estate Investment Fund No. 1 (the "Fund")

**Opinion**

We have audited the financial statements of the Fund, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, comprehensive income, changes in net assets attributable to contractholders and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively 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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") and the requirements of Part XII of the Canadian Life and Health Insurance Association Guideline G2.

**Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance and Management 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 GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

/s/ Deloitte LLP

Chartered Professional Accountants
Winnipeg, Manitoba
March 6, 2020



GWL REALTY ADVISORS

# 2019 Financial Statements

Fund Manager: GWL Realty Advisors Inc.

## Statement of Financial Position

| For the years ended (in Canadian $ thousands) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Cash and short-term deposits | **$ 283,341** | $ 259,516 |
| Investment income due and accrued | **518** | 521 |
| Due from The Great-West Life Assurance Company (note 9) | **—** | — |
| Due from brokers | **—** | — |
| Due from outside parties | **30,798** | 34,924 |
| Investments | | |
| Bonds | **203,405** | 235,761 |
| Investment properties | **5,937,347** | 5,264,500 |
| Total investments | **6,140,752** | 5,500,261 |
| **Total assets** | **$ 6,455,409** | $ 5,795,222 |
| **Liabilities** | | |
| Overdrafts | **$ —** | $ — |
| Due to The Great-West Life Assurance Company (note 9) | **2,345** | 1,714 |
| Due to brokers | **15** | 15 |
| Due to outside parties | **128,258** | 127,280 |
| Lease liabilities (note 3) | **86,694** | — |
| Mortgages on investment properties (note 4) | **1,074,780** | 919,279 |
| **Total liabilities excluding net assets attributable to contractholders** | **1,292,092** | 1,048,288 |
| **Net assets attributable to contractholders** | **$ 5,163,317** | $ 4,746,934 |

## Statement of Comprehensive Income

| For the years ended (in Canadian $ thousands) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Income** | | |
| Net gain (loss) on investments | **$ 234,149** | $ 122,354 |
| Investment properties income | **453,012** | 430,707 |
| Miscellaneous income (loss) | **210** | 199 |
| **Total income** | **687,371** | 553,260 |
| **Expenses** | | |
| Management fees (note 9) | **20,972** | 19,829 |
| Investment properties expenses | **250,321** | 239,464 |
| Transaction costs | **—** | — |
| Withholding taxes | **—** | — |
| Other | **2,288** | 2,147 |
| **Total expenses** | **273,581** | 261,440 |
| **Net increase (decrease) in net assets from operations attributable to contractholders** | **$ 413,790** | $ 291,820 |

## Statement of Changes in Net Assets Attributable to Contractholders

| For the years ended (in Canadian $ thousands) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Net assets attributable to contractholders – beginning of year** | **$ 4,746,934** | $ 4,491,913 |
| Contractholder deposits | **690,754** | 416,840 |
| Contractholder withdrawals | **(688,161)** | (453,639) |
| Increase (decrease) in net assets from operations attributable to contractholders | **413,790** | 291,820 |
| Change in net assets attributable to contractholders | **416,383** | 255,021 |
| **Net assets attributable to contractholders – end of year** | **$ 5,163,317** | $ 4,746,934 |

## Statement of Cash Flows

| For the years ended December 31 (in Canadian $ thousands) | 2019 | 2018 |
|---|---|---|
| **Net Inflow (Outflow) of Cash Related to the Following Activities** | | |
| **Operating Activities** | | |
| Increase (decrease) in net assets from operations attributable to contractholders | **$ 413,790** | $ 291,820 |
| Adjustments | | |
| Add back amortization of premium (discount) | **(4,289)** | (3,503) |
| Add back amortization of lease inducements | **14,918** | 12,848 |
| Add back interest expense on lease liabilities (note 3) | **2,116** | — |
| Less lease payments (note 3) | **(3,222)** | — |
| Realized (gains) losses | | |
| Bonds | **(489)** | 6,435 |
| Investment properties | **(2,397)** | 4,653 |
| Unrealized (gains) losses | | |
| Bonds | **(4,024)** | (13,978) |
| Investment properties | **(217,655)** | (108,656) |
| Gross proceeds of disposition | | |
| Bonds | **319,112** | 228,277 |
| Investment properties | **3,915** | 25,984 |
| Gross payments for purchases | | |
| Bonds | **(342,237)** | (122,016) |
| Investment properties | **(383,828)** | (250,715) |
| Change in investment income due and accrued | **3** | 126 |
| Change in due from/to The Great-West Life Assurance Company | **631** | (309) |
| Change in due from/to outside parties | **5,104** | (5,252) |
| Change in mortgages on investment properties | **155,501** | (15,676) |
| | **(43,051)** | 50,038 |

| For the years ended December 31 (in Canadian $ thousands) | 2019 | 2018 |
|---|---|---|
| **Financing Activities** | | |
| Contractholder deposits | **690,754** | 416,840 |
| Contractholder withdrawals | **(688,161)** | (453,639) |
| | **2,593** | (36,799) |
| **Net increase (decrease) in cash and short-term deposits** | **(40,458)** | 13,239 |
| **Cash and short-term deposits (less than 90 days), beginning of year** | **203,970** | 190,731 |
| **Cash and short-term deposits (less than 90 days), end of year** | **$ 163,512** | $ 203,970 |
| **Cash and short-term deposits comprises** | | |
| Cash and short-term deposits (less than 90 days) | **$ 163,512** | $ 203,970 |
| Cash and short-term deposits (90 days to less than a year) | **119,829** | 55,546 |
| **Cash and short-term deposits, end of year** | **$ 283,341** | $ 259,516 |
| **Supplementary cash flow information** | | |
| Interest income received | **$ 3,945** | $ 4,771 |
| Mortgage interest paid | **34,065** | 32,266 |

# Schedule of Investment Portfolio

| As at December 31, 2019 (in Canadian $ thousands, except number of units, shares or par value) | No. of Units, Shares or Par Value | Average Cost | Fair Value |
|---|---|---|---|
| **Canadian Bonds** | | | |
| Federal Government | | | |
| Canada Housing Trust No. 1 1.50% 12-15-2021 | 13,000,000 | 12,927 | 12,931 |
| Canada Housing Trust No. 1 2.35% 06-15-2023 | 12,000,000 | 12,223 | 12,177 |
| Canada Housing Trust No. 1 2.65% 03-15-2022 | 10,200,000 | 10,541 | 10,385 |
| Government of Canada 0.50% 03-01-2022 | 12,500,000 | 12,118 | 12,185 |
| Government of Canada 0.75% 03-01-2021 | 8,000,000 | 7,797 | 7,909 |
| Government of Canada 0.75% 09-01-2021 | 5,000,000 | 4,934 | 4,923 |
| Government of Canada 1.00% 09-01-2022 | 20,000,000 | 19,694 | 19,645 |
| Government of Canada 1.25% 11-01-2021 | 20,000,000 | 19,868 | 19,841 |
| Government of Canada 1.50% 06-01-2023 | 15,000,000 | 15,033 | 14,914 |
| Government of Canada 2.00% 09-01-2023 | 2,000,000 | 2,043 | 2,022 |
| Government of Canada 2.75% 06-01-2022 | 23,000,000 | 23,772 | 23,575 |
| Total Federal Government | | 140,950 | 140,507 |
| Provincial Governments | | | |
| Province of Ontario 4.20% 06-02-2020 | 5,000,000 | 5,169 | 5,050 |
| Province of Ontario Generic Coupon Strip 0.00% 12-02-2020 | 15,000,000 | 14,024 | 14,753 |
| Total Provincial Governments | | 19,193 | 19,803 |

| As at December 31, 2019 (in Canadian $ thousands, except number of units, shares or par value) | No. of Units, Shares or Par Value | Average Cost | Fair Value |
|---|---|---|---|
| Corporate – Non Convertible | | | |
| 801611 Ontario Ltd. 10.40% 10-31-2023* | 6,260,986 | 6,261 | 10,969 |
| 801611 Ontario Ltd. 5.00% 10-31-2023* | 5,617,159 | 5,617 | 10,823 |
| 801611 Ontario Ltd. 6.82% 10-31-2023* | 7,654,261 | 7,654 | 11,943 |
| 801611 Ontario Ltd. 9.36% 10-31-2023* | 5,035,661 | 5,036 | 9,360 |
| Total Corporate – Non Convertible | | 24,568 | 43,095 |
| **Total Canadian Bonds** | | 184,711 | 203,405 |
| **Total Bonds** | | 184,711 | 203,405 |

* The issuer of this security is a related company to the issuer of the fund.

# Schedule of Investment Portfolio

(in Canadian $ thousands, except net rentable area (N.R.A.))
As at December 31, 2019

## Investment Properties

| Building Name and Address | Percent of Ownership | Property Type | Date of Purchase | Total Cost | Fair Value | Date of Last Appraisal | N.R.A. (S.F.) | Percent Leased | Mortgages on Investment Properties | 2019 NOI |
|---|---|---|---|---|---|---|---|---|---|---|
| **British Columbia** | | | | | | | | | | |
| 840 Howe Street* Vancouver, British Columbia | 50.00% | Office | 1-Mar-97 | 26,678 | 83,150 | 31-Dec-19 | 105,326 | 99.04% | — | 2,957 |
| 650 West Georgia Street*[(1)] Vancouver, British Columbia | 25.00% | Office | 12-Dec-01 | 34,154 | 92,470 | 31-Dec-19 | 118,490 | 95.46% | — | 3,311 |
| 4750 Arbutus Street Vancouver, British Columbia | 50.00% | Residential | 10-Jan-02 | 12,141 | 29,700 | 1-Mar-19 | 39,386 | 97.00% | (7,690) | 1,061 |
| 4600 Jacombs Road Richmond, British Columbia | 50.00% | Office | 18-Sep-02 | 7,288 | 10,539 | 1-Oct-19 | 37,951 | 88.86% | — | 288 |
| 7200 Market Crossing Burnaby, British Columbia | 50.00% | Retail | 23-Oct-17 | 87,308 | 87,450 | 1-Nov-19 | 137,392 | 100.00% | — | 3,384 |
| 13811 & 13911 Wireless Way Richmond, British Columbia | 69.93% | Office | 1-Jun-06 | 29,379 | 30,140 | 1-Apr-19 | 105,118 | 100.00% | — | 1,351 |
| 14815 – 108th Avenue Surrey, British Columbia | 69.93% | Retail | 1-Jun-06 | 20,411 | 10,315 | 1-Oct-19 | 71,687 | 98.06% | — | 340 |
| 3200 Island Highway Nanaimo, British Columbia | 52.45% | Retail | 1-Jun-06 | 53,681 | 56,643 | 1-Jun-19 | 202,044 | 95.91% | (32,977) | 2,316 |
| 2401 Millstream Road Victoria, British Columbia | 70.00% | Retail | 2-Aug-07 | 70,384 | 63,980 | 1-Aug-19 | 184,896 | 87.85% | (24,334) | 2,623 |
| 7488 King George Highway Surrey, British Columbia | 70.00% | Retail | 16-Apr-08 | 31,617 | 44,870 | 1-Apr-19 | 101,263 | 98.23% | — | 1,785 |
| 9500 Glenlyon Parkway Burnaby, British Columbia | 70.00% | Office | 12-Aug-08 | 45,873 | 53,690 | 1-Apr-19 | 115,206 | 100.00% | — | 3,144 |
| 13700 and 13711 International Place, 13511, 13551, 13571, 13575, 13775, 13777 and 13800 Commerce Parkway Richmond, British Columbia | 70.00% | Office | 12-Aug-08 | 164,827 | 128,380 | 1-Sep-19 | 529,678 | 93.00% | — | 4,973 |
| 1500 & 1575 Banks Road Kelowna, British Columbia | 70.00% | Retail | 3-Nov-08 | 34,966 | 42,070 | 1-Aug-19 | 105,816 | 98.67% | — | 2,112 |





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| Building Name and Address | Percent of Ownership | Property Type | Date of Purchase | Total Cost | Fair Value | Date of Last Appraisal | N.R.A. (S.F.) | Percent Leased | Mortgages on Investment Properties | 2019 NOI |
|---|---|---|---|---|---|---|---|---|---|---|
| 2130 Louie Drive<br>West Kelowna, British Columbia | 100.00% | Retail | 15-Mar-17 | 64,705 | 57,900 | 1-Feb-19 | 256,821 | 96.45% | — | 2,501 |
| 753 Seymour Street*<br>Vancouver, British Columbia | 25.00% | PUD | 12-Dec-01 | 29,301 | 32,009 | 31-Dec-19 | n/a | n/a | — | (4) |
| **Alberta** | | | | | | | | | | |
| 4637 Macleod Trail S.W.<br>Calgary, Alberta | 100.00% | Residential | 1-Nov-96 | 18,003 | 42,500 | 1-Sep-19 | 172,838 | 95.92% | (13,595) | 1,665 |
| 300 5th Avenue S.E.*<br>Calgary, Alberta | 55.00% | Office | 17-Dec-96 | 31,156 | 46,860 | 31-Dec-19 | 234,307 | 58.35% | — | 1,666 |
| 11012 Jasper Avenue<br>Edmonton, Alberta | 100.00% | Residential | 30-Jun-97 | 25,246 | 53,245 | 1-Sep-19 | 182,798 | 94.51% | (30,857) | 1,745 |
| 10145 – 121st Street<br>Edmonton, Alberta | 100.00% | Residential | 18-Apr-98 | 13,306 | 27,700 | 1-Apr-19 | 101,533 | 93.04% | — | 917 |
| 605 – 5th Avenue S.W.*<br>Calgary, Alberta | 25.00% | Office | 12-Jun-00 | 28,849 | 25,950 | 31-Dec-19 | 129,762 | 42.84% | — | 1,775 |
| 530 – 8th Avenue S.W.<br>Calgary, Alberta | 75.00% | Office | 10-Jul-00 | 87,246 | 96,375 | 1-Mar-19 | 308,015 | 81.31% | — | 5,703 |
| 8403 Roper Road<br>Edmonton, Alberta | 100.00% | Industrial | 28-Dec-97 | 18,643 | 18,200 | 1-Mar-19 | 135,000 | 100.00% | (1,739) | 1,902 |
| 1300 – 8th Street SW<br>Calgary, Alberta | 100.00% | Office | 23-Nov-18 | 6,323 | 6,400 | 1-Nov-19 | 35,188 | 54.65% | — | 140 |
| 300 and 350 7th Avenue S.W.*<br>Calgary, Alberta | 37.50% | Office | 23-Sep-05 | 82,387 | 50,513 | 31-Dec-19 | 191,377 | 80.27% | — | 3,421 |
| 9940 – 106th Street N.W.<br>Edmonton, Alberta | 69.93% | Office | 21-Jun-06 | 21,635 | 31,678 | 1-Aug-19 | 124,114 | 96.15% | — | 2,343 |
| 9942 – 108th Street N.W.<br>Edmonton, Alberta | 69.93% | Office | 21-Jun-06 | 18,596 | 23,287 | 1-May-19 | 115,424 | 100.00% | — | 1,555 |
| 6703 68th Avenue N.W.<br>Edmonton, Alberta | 70.00% | Industrial | 15-Aug-07 | 59,366 | 54,600 | 1-Feb-19 | 394,762 | 92.63% | — | 3,088 |
| 5103 36th Street N.W. and portion of 3604 51st Avenue N.W.<br>Edmonton, Alberta | 50.00% | Land | 28-Feb-03 | 3,477 | 5,446 | 1-Nov-19 | n/a | n/a | — | (107) |
| 4035 – 53rd Avenue N.W.<br>Edmonton, Alberta | 50.00% | Industrial | 28-Feb-03 | 13,940 | 11,900 | 1-Nov-19 | 94,835 | 79.04% | — | 527 |
| 3603 – 53rd Avenue N.W.<br>Edmonton, Alberta | 50.00% | Land | 28-Feb-03 | 2,225 | 3,256 | 1-Nov-19 | n/a | n/a | — | (65) |
| 3604 – 51st Avenue N.W.<br>Edmonton, Alberta | 50.00% | Industrial | 28-Feb-03 | 5,502 | 6,400 | 1-Nov-19 | 39,004 | 100.00% | — | 360 |





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| Building Name and Address | Percent of Ownership | Property Type | Date of Purchase | Total Cost | Fair Value | Date of Last Appraisal | N.R.A. (S.F.) | Percent Leased | Mortgages on Investment Properties | 2019 NOI |
|---|---|---|---|---|---|---|---|---|---|---|
| 3806 – 51st Avenue N.W.<br>Edmonton, Alberta | 50.00% | Industrial | 28-Feb-03 | 5,039 | 5,350 | 1-Nov-19 | 36,099 | 64.69% | — | (21) |
| 401 – 9th Avenue S.W.*<br>Calgary, Alberta | 35.00% | Office | 13-Dec-07 | 155,096 | 108,710 | 1-Dec-19 | 375,730 | 91.98% | (41,474) | 9,318 |
| 7103 68th Avenue N.W.<br>Edmonton, Alberta | 70.00% | Industrial | 4-May-12 | 52,977 | 45,150 | 1-Feb-19 | 264,233 | 89.32% | — | 2,872 |
| 6301, 6315, 6325 106th Avenue S.E.<br>Calgary, Alberta | 70.00% | Industrial | 17-Dec-14 | 98,795 | 115,500 | 1-Apr-19 | 745,500 | 100.00% | — | 6,373 |
| 35, 65 & 69 Mackenzie Way S.W.<br>Airdrie, Alberta | 100.00% | Retail | 1-Mar-17 | 22,668 | 22,300 | 1-Feb-19 | 71,152 | 100.00% | — | 1,158 |
| 124 8th Street S.W.<br>Airdrie, Alberta | 100.00% | Land | 1-Mar-17 | 2,262 | 2,200 | 1-Feb-19 | n/a | n/a | — | (60) |
| 1216 – 8th Street S.W.<br>Calgary, Alberta | 100.00% | Retail | 23-Feb-18 | 12,719 | 12,339 | 1-May-19 | 8,224 | 28.10% | — | (117) |
| **Saskatchewan** | | | | | | | | | | |
| 225 Betts Avenue<br>Saskatoon, Saskatchewan | 70.00% | Retail | 24-Jul-12 | 60,528 | 54,180 | 1-Sep-19 | 177,178 | 100.00% | — | 3,063 |
| **Manitoba** | | | | | | | | | | |
| 200 Graham Avenue<br>Winnipeg, Manitoba | 100.00% | Office | 22-Dec-15 | 50,149 | 37,850 | 1-Nov-19 | 149,263 | 90.15% | — | 1,850 |
| **Ontario** | | | | | | | | | | |
| 185 Enfield Place<br>Mississauga, Ontario | 40.00% | Land | 13-Jul-87 | 1,998 | 4,700 | 1-Dec-19 | n/a | n/a | — | 42 |
| 2160 Lakeshore Road<br>Burlington, Ontario | 100.00% | Residential | 15-Jan-97 | 35,332 | 55,690 | 1-Jun-19 | 162,476 | 93.13% | — | 1,795 |
| 50 Prince Arthur Avenue<br>Toronto, Ontario | 100.00% | Residential | 15-Jul-97 | 44,507 | 109,000 | 1-Aug-19 | 165,620 | 98.66% | (20,613) | 3,291 |
| 255 Albert Street<br>Ottawa, Ontario | 100.00% | Office | 16-Jan-98 | 31,875 | 60,300 | 1-Jan-19 | 210,305 | 91.58% | — | 2,519 |
| 6 Silver Maple Court<br>Brampton, Ontario | 100.00% | Residential | 30-Apr-98 | 44,432 | 90,850 | 1-Oct-19 | 314,085 | 98.52% | (20,131) | 3,547 |
| 1551 Lycee Place<br>Ottawa, Ontario | 100.00% | Residential | 9-Apr-99 | 30,738 | 54,760 | 1-Apr-19 | 191,130 | 98.06% | (20,498) | 2,381 |
| 5140 Yonge Street<br>Toronto, Ontario | 100.00% | Office | 30-Aug-99 | 99,737 | 196,900 | 1-May-19 | 556,528 | 99.87% | (103,916) | 10,211 |
| 400 Walmer Road[1]<br>Toronto, Ontario | 65.00% | Residential | 27-Dec-00 | 149,104 | 151,877 | 1-Nov-19 | 358,348 | 95.06% | (674) | 4,554 |

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| Building Name and Address | Percent of Ownership | Property Type | Date of Purchase | Total Cost | Fair Value | Date of Last Appraisal | N.R.A. (S.F.) | Percent Leased | Mortgages on Investment Properties | 2019 NOI |
|---|---|---|---|---|---|---|---|---|---|---|
| 200 University Avenue<br>Toronto, Ontario | 50.00% | Office | 30-Nov-00 | 17,078 | 39,050 | 1-May-19 | 73,363 | 100.00% | — | 1,220 |
| 5166–5170 Lakeshore Road<br>Burlington, Ontario | 100.00% | Residential | 15-Jan-97 | 41,228 | 73,210 | 1-Jun-19 | 212,494 | 97.54% | (35,200) | 2,492 |
| 2220 Marine Drive<br>Oakville, Ontario | 50.00% | Residential | 26-Aug-02 | 14,199 | 26,400 | 1-Aug-19 | 74,163 | 97.99% | (9,204) | 917 |
| 269 Laurier Avenue West<br>Ottawa, Ontario | 50.00% | Office | 1-Jan-03 | 38,727 | 71,050 | 1-Mar-19 | 180,074 | 100.00% | (26,657) | 3,674 |
| 88 Redpath Avenue & 65 Lillian Street<br>Toronto, Ontario | 100.00% | Residential | 5-Aug-98 | 66,937 | 143,900 | 1-Jul-19 | 207,631 | 99.70% | (45,240) | 4,929 |
| 40 High Park Avenue and 77 Quebec Avenue<br>Toronto, Ontario | 75.00% | Residential | 25-Mar-03 | 83,292 | 164,250 | 1-Oct-19 | 313,033 | 95.90% | (35,952) | 5,142 |
| 640, 642, 644 Sheppard Avenue East<br>Toronto, Ontario | 75.00% | Residential | 25-Mar-03 | 56,004 | 114,075 | 1-May-19 | 264,722 | 97.64% | (51,839) | 3,813 |
| 2260 Argentia Road<br>Mississauga, Ontario | 98.75% | Industrial | 1-Jun-03 | 6,622 | 12,250 | 1-Jul-19 | 128,497 | 100.00% | — | 1,045 |
| 6665, 6675–6685 Millcreek Road<br>Mississauga, Ontario | 98.75% | Industrial | 1-Jun-03 | 6,314 | 11,100 | 1-Jul-19 | 118,268 | 100.00% | — | 947 |
| 6695 & 6705 Millcreek Road<br>Mississauga, Ontario | 98.75% | Industrial | 1-Jun-03 | 6,006 | 11,250 | 1-Jul-19 | 108,428 | 100.00% | — | 1,065 |
| 6715 & 6725 Millcreek Road<br>Mississauga, Ontario | 98.75% | Industrial | 1-Jun-03 | 5,579 | 9,600 | 1-Jul-19 | 93,611 | 100.00% | — | 860 |
| 33 Yonge Street<br>Toronto, Ontario | 50.00% | Office | 1-Jul-03 | 82,332 | 185,000 | 1-Jun-19 | 261,667 | 99.07% | (100,047) | 6,026 |
| 2250 Argentia Road<br>Mississauga, Ontario | 100.00% | Industrial | 1-Jun-03 | 3,112 | 6,500 | 1-Jul-19 | 31,910 | 100.00% | — | 270 |
| 7070 Mississauga Road*<br>Mississauga, Ontario | 25.00% | Office | 7-Aug-03 | 12,219 | 20,575 | 31-Dec-19 | 61,032 | 100.00% | — | 904 |
| 55 – 425 Superior Boulevard<br>Mississauga, Ontario | 35.00% | Industrial | 11-Oct-01 | 20,832 | 43,785 | 1-Aug-19 | 271,924 | 100.00% | (20,710) | 1,707 |
| 50 High Park Avenue and 55 Quebec Avenue<br>Toronto, Ontario | 75.00% | PUD | 25-Mar-03 | 131,948 | 161,629 | 31-Dec-19 | n/a | n/a | — | (145) |
| 1–2, 4–5 & 7 Paget, 2, 4, 6, 8 & 14 Kenview, 2 Castleview and 7925 & 7965 Goreway Drive<br>Brampton, Ontario | 35.00% | Industrial | 11-Oct-01 | 27,962 | 52,714 | 1-Oct-19 | 354,366 | 100.00% | — | 1,942 |
| 3485 Steeles Avenue<br>Brampton, Ontario | 35.00% | Industrial | 11-Oct-01 | 5,055 | 10,616 | 1-Oct-19 | 61,345 | 100.00% | — | 342 |





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| Building Name and Address | Percent of Ownership | Property Type | Date of Purchase | Total Cost | Fair Value | Date of Last Appraisal | N.R.A. (S.F.) | Percent Leased | Mortgages on Investment Properties | 2019 NOI |
|---|---|---|---|---|---|---|---|---|---|---|
| 3495 Steeles Avenue<br>Brampton, Ontario | 35.00% | Industrial | 11-Oct-01 | 5,640 | 9,720 | 1-Oct-19 | 56,121 | 100.00% | — | 332 |
| 3389 Steeles Avenue East<br>Brampton, Ontario | 35.00% | PUD | 11-Oct-01 | 2,867 | 2,864 | 1-Oct-19 | n/a | n/a | — | — |
| 2679 – 2831 Bristol Circle<br>Oakville, Ontario | 35.00% | Industrial | 11-Oct-01 | 18,253 | 33,110 | 1-Aug-19 | 230,980 | 94.72% | (16,372) | 1,557 |
| 3755, 3800 A & B Laird Road and 3500 & 3600 Ridgeway Drive<br>Mississauga, Ontario | 70.00% | Industrial | 21-Dec-16 | 63,122 | 62,860 | 1-Apr-19 | 351,840 | 89.43% | — | 2,999 |
| 361 - 375 Mountainview Road South<br>Georgetown, Ontario | 100.00% | Retail | 20-Dec-19 | 43,081 | 43,081 | Purchase | 111,744 | 98.07% | — | 79 |
| 1541 Lycee Place<br>Ottawa, Ontario | 50.00% | Residential | 7-Aug-02 | 19,367 | 30,415 | 1-Apr-19 | 122,109 | 98.57% | (8,967) | 1,294 |
| 1 Van Der Graaf Court<br>Brampton, Ontario | 50.00% | Industrial | 16-Feb-04 | 4,126 | 7,355 | 1-Jun-19 | 51,103 | 100.00% | — | 160 |
| 1 Woodslea Road<br>Brampton, Ontario | 50.00% | Industrial | 16-Feb-04 | 5,038 | 8,205 | 1-Jun-19 | 55,074 | 100.00% | — | 247 |
| 5 Intermodal Drive<br>Brampton, Ontario | 50.00% | Industrial | 28-May-04 | 3,375 | 6,900 | 1-Jun-19 | 43,554 | 100.00% | — | 264 |
| 2844 Bristol Circle<br>Oakville, Ontario | 35.00% | Industrial | 31-Jan-05 | 3,642 | 7,000 | 1-Aug-19 | 47,015 | 100.00% | (3,319) | 277 |
| 7030 Century Avenue<br>Mississauga, Ontario | 100.00% | Industrial | 18-Feb-05 | 8,291 | 6,350 | 1-Feb-19 | 67,953 | 84.53% | — | 358 |
| 415 – 419 Milner Avenue<br>Scarborough, Ontario | 100.00% | Industrial | 7-Dec-84 | 4,840 | 9,500 | 1-Feb-19 | 95,763 | 100.00% | — | 447 |
| 445 Milner Avenue<br>Scarborough, Ontario | 100.00% | Industrial | 7-Dec-84 | 2,631 | 4,440 | 1-Feb-19 | 42,165 | 86.18% | — | 251 |
| 455 Milner Avenue<br>Scarborough, Ontario | 100.00% | Industrial | 7-Dec-84 | 2,689 | 5,550 | 1-Feb-19 | 46,344 | 100.00% | — | 314 |
| 465 Milner Avenue<br>Scarborough, Ontario | 100.00% | Industrial | 7-Dec-84 | 3,471 | 7,000 | 1-Feb-19 | 57,127 | 100.00% | — | 443 |
| 50 – 70 Novopharm Court<br>Scarborough, Ontario | 100.00% | Industrial | 7-Dec-84 | 2,548 | 4,600 | 1-Feb-19 | 41,887 | 100.00% | — | 238 |
| 20–24 York Street[1]<br>Ottawa, Ontario | 50.00% | Residential | 27-Sep-05 | 19,883 | 30,080 | 1-Jan-19 | 47,327 | 97.50% | — | 1,090 |
| 35, 41–63, 65 and 95 High Park Avenue,<br>66 & 102–116 Pacific Avenue<br>Toronto, Ontario | 100.00% | Residential | 1-Mar-99 | 171,952 | 354,150 | 1-Mar-19 | 699,278 | 97.67% | (92,342) | 12,873 |





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| Building Name and Address | Percent of Ownership | Property Type | Date of Purchase | Total Cost | Fair Value | Date of Last Appraisal | N.R.A. (S.F.) | Percent Leased | Mortgages on Investment Properties | 2019 NOI |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 Adelaide Street East, 20 Victoria Street & 85 Yonge Street* Toronto, Ontario | 35.00% | Office | 27-Feb-19 | 172,641 | 172,752 | Purchase | 228,278 | 94.68% | (83,508) | 6,265 |
| One City Centre Drive Mississauga, Ontario | 40.00% | Office | 17-Aug-07 | 39,993 | 36,200 | 1-Mar-19 | 116,596 | 87.92% | — | 1,850 |
| One City Centre Drive Mississauga, Ontario | 40.00% | Land | 17-Aug-07 | 3,838 | 6,640 | 1-Mar-19 | n/a | n/a | — | — |
| 320 McRae Avenue Ottawa, Ontario | 100.00% | Land | 9-Jan-19 | 19,375 | 19,375 | Purchase | n/a | n/a | — | (269) |
| 99 Savannah Oaks Drive [(1)] Brantford, Ontario | 70.00% | Industrial | 21-Dec-07 | 29,673 | 29,973 | 1-Nov-19 | 369,298 | 100.00% | — | 1,308 |
| 8400 – 8450 Lawson Road Burlington, Ontario | 70.00% | Industrial | 21-Dec-07 | 19,733 | 22,960 | 1-Nov-19 | 165,075 | 100.00% | — | 1,052 |
| 800 – 900 Main Street East Milton, Ontario | 70.00% | Retail | 14-Mar-08 | 28,317 | 35,700 | 1-Apr-19 | 68,025 | 100.00% | — | 1,894 |
| 2100 Derry Road Mississauga, Ontario | 50.00% | Office | 22-Sep-06 | 17,301 | 16,600 | 1-Aug-19 | 53,469 | 92.22% | — | 772 |
| 2050 Derry Road Mississauga, Ontario | 50.00% | Office | 22-Sep-06 | 17,405 | 19,000 | 1-Aug-19 | 62,582 | 100.00% | — | 814 |
| 7025 Langer Drive Mississauga, Ontario | 50.00% | Office | 22-Sep-06 | 9,907 | 9,050 | 1-Aug-19 | 32,375 | 95.40% | — | 401 |
| 415 Thompson Drive Cambridge, Ontario | 100.00% | Industrial | 8-Feb-08 | 14,884 | 16,600 | 1-Jan-19 | 140,000 | 100.00% | (4,946) | 1,053 |
| 4 King Street West Toronto, Ontario | 70.00% | Office | 14-Mar-08 | 69,964 | 107,100 | 1-Feb-19 | 205,414 | 95.34% | (22,942) | 4,584 |
| 155 University Avenue Toronto, Ontario | 70.00% | Office | 14-Mar-08 | 43,160 | 72,800 | 1-Oct-19 | 131,624 | 100.00% | — | 2,786 |
| 145 – 167 Bell Boulevard Belleville, Ontario | 70.00% | Retail | 4-Jan-07 | 9,718 | 7,700 | 1-Jan-19 | 46,891 | 100.00% | — | 646 |
| 5150 – 5160 Yonge Street Toronto, Ontario | 70.00% | Office | 17-Oct-08 | 159,043 | 167,195 | 1-Nov-19 | 501,346 | 93.44% | — | 6,169 |
| 350 – 360 Cresthaven Drive Ottawa, Ontario | 100.00% | Retail | 1-Aug-18 | 20,600 | 20,400 | 1-Aug-19 | 48,387 | 100.00% | (12,442) | 1,071 |
| 2310 – 2330 Highway 2 Bowmanville, Ontario | 70.00% | Retail | 24-Jul-12 | 47,229 | 45,290 | 1-Nov-19 | 164,023 | 100.00% | — | 2,487 |
| 200 Kent Street Ottawa, Ontario | 100.00% | Office | 8-Aug-12 | 150,574 | 164,500 | 1-Jul-19 | 387,273 | 99.73% | (80,169) | 7,408 |





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| Building Name and Address | Percent of Ownership | Property Type | Date of Purchase | Total Cost | Fair Value | Date of Last Appraisal | N.R.A. (S.F.) | Percent Leased | Mortgages on Investment Properties | 2019 NOI |
|---|---|---|---|---|---|---|---|---|---|---|
| 3130, 3470, 3480, 3490, 3500, 3505, 3520, 3530, 3535, 3550, 3580, 3585, 3600 A & B, 3615 and 3620 A & B Laird Road Mississauga, Ontario | 70.00% | Industrial | 15-Oct-13 | 97,481 | 147,140 | 1-Jan-19 | 797,439 | 94.10% | — | 5,301 |
| 3200, 3250, 3300, 3330 and 3350 Ridgeway Drive Mississauga, Ontario | 70.00% | Industrial | 15-Oct-13 | 39,940 | 55,650 | 1-Apr-19 | 312,600 | 98.08% | — | 2,360 |
| **Quebec** | | | | | | | | | | |
| 4600 Poirer Boulevard St. Laurent, Quebec | 100.00% | Industrial | 14-Mar-02 | 6,239 | 11,500 | 1-Oct-19 | 104,560 | 100.00% | — | 439 |
| 9415-9495 Trans-Canada Highway St. Laurent, Quebec | 100.00% | Industrial | 14-Mar-02 | 5,053 | 8,900 | 1-Oct-19 | 88,951 | 91.47% | — | 359 |
| 9305-9405 Trans-Canada Highway St. Laurent, Quebec | 100.00% | Industrial | 14-Mar-02 | 7,009 | 11,400 | 1-Oct-19 | 113,256 | 100.00% | — | 372 |
| 6520-6620 Abrams Street St. Laurent, Quebec | 100.00% | Industrial | 14-Mar-02 | 11,674 | 19,500 | 1-Oct-19 | 189,889 | 94.72% | — | 776 |
| 2200 Trans-Canada Highway Pointe-Claire, Quebec | 100.00% | Industrial | 14-Mar-02 | 20,554 | 39,200 | 1-Oct-19 | 411,265 | 100.00% | — | 1,384 |
| 43 – 55 Cite Des Jeunes Boulevard Vaudreuil-Dorion, Quebec | 70.00% | Retail | 21-Jul-06 | 20,177 | 23,170 | 1-Jan-19 | 91,852 | 100.00% | — | 1,306 |
| 224 Joseph-Casavant Avenue Beauport, Quebec | 70.00% | Retail | 11-Jun-08 | 15,338 | 18,130 | 1-Aug-19 | 121,990 | 100.00% | — | 931 |
| 819 – 847 Rue Clemenceau Beauport, Quebec | 70.00% | Retail | 31-Jan-14 | 33,338 | 29,750 | 1-May-19 | 128,191 | 81.41% | — | 1,328 |
| 1350 Rene Levesque Boulevard* Montreal, Quebec | 35.00% | Office | 14-Dec-16 | 92,491 | 101,045 | 14-Dec-19 | 186,714 | 99.91% | (48,558) | 5,315 |
| 1360 Rene Levesque Boulevard* Montreal, Quebec | 35.00% | Office | 14-Dec-16 | 54,793 | 73,885 | 14-Dec-19 | 138,850 | 90.63% | (29,762) | 2,569 |
| 1025 Lucien L'Allier* Montreal, Quebec | 35.00% | Miscellaneous | 14-Dec-16 | 1,924 | 3,010 | 14-Dec-19 | n/a | n/a | — | (63) |
| 5999 Monkland Avenue Montreal, Quebec | 100.00% | Residential | 26-May-17 | 49,643 | 52,400 | 1-May-19 | 137,664 | 92.12% | (28,106) | 1,344 |
| 4075 Industriel Boulevard Laval, Quebec | 100.00% | Industrial | 2-Aug-18 | 6,594 | 7,090 | 1-Aug-19 | 50,712 | 100.00% | — | (11) |
| 5555 rue William-Price Laval, Quebec | 100.00% | Industrial | 2-Aug-18 | 9,675 | 9,240 | 1-Aug-19 | 75,000 | 100.00% | — | 429 |
| 4101–4117 Industriel Boulevard Laval, Quebec | 100.00% | Industrial | 2-Aug-18 | 6,996 | 6,820 | 1-Aug-19 | 54,236 | 72.72% | — | 242 |
| 4133–4137 Industriel Boulevard Laval, Quebec | 100.00% | Industrial | 2-Aug-18 | 8,392 | 8,290 | 1-Aug-19 | 61,483 | 100.00% | — | 387 |

| Building Name and Address | Percent of Ownership | Property Type | Date of Purchase | Total Cost | Fair Value | Date of Last Appraisal | N.R.A. (S.F.) | Percent Leased | Mortgages on Investment Properties | 2019 NOI |
|---|---|---|---|---|---|---|---|---|---|---|
| 4177–4201 Industriel Boulevard<br>Laval, Quebec | 100.00% | Industrial | 2-Aug-18 | 19,002 | 18,080 | 1-Aug-19 | 150,818 | 100.00% | — | 895 |
| **Atlantic** | | | | | | | | | | |
| 1959 Upper Water Street*<br>Halifax, Nova Scotia | 33.33% | Office | 14-Jun-83 | 23,195 | 28,231 | 31-Dec-19 | 109,009 | 93.40% | — | 1,945 |
| 1969 Upper Water Street*<br>Halifax, Nova Scotia | 33.33% | Office | 31-Dec-93 | 19,723 | 31,530 | 31-Dec-19 | 122,627 | 71.30% | — | 1,451 |
| Purdy's Wharf–The Wharf* Upper Water Street<br>Halifax, Nova Scotia | 33.33% | Miscellaneous | 30-Jun-90 | 182 | — | 31-Dec-19 | n/a | n/a | — | — |
| **United States** | | | | | | | | | | |
| 396 West Greens Road<br>Houston, Texas | 70.00% | Office | 21-Jun-06 | 30,580 | 6,447 | 1-Nov-19 | 132,913 | 9.21% | — | (1,442) |
| 8101 Sam Houston Parkway<br>Houston, Texas | 70.00% | Office | 21-Jun-06 | 20,640 | 11,698 | 1-Nov-19 | 95,760 | 73.50% | — | 907 |
| Current and prior year(s) sold property | | | | | | | | | | 15 |
| **Investment Properties – subtotal** | | | | 4,530,819 | 5,937,347 | | 19,536,249 | | (1,074,780) | 240,756 |
| **less: lease liabilities** | | | | (87,800) | (86,694) | | | | | |
| **less: mortgages on investment properties** | | | | (1,069,907) | (1,074,780) | | | | | |
| **Capitalization of loss on assumed mortgages** | | | | (4,949) | — | | | | | |
| **Total Investment Properties – net** | | | | 3,368,163 | 4,775,873 | | | | | |
| **Total Bonds** | | | | 184,711 | 203,405 | | | | | |
| **Total Investments – net** | | | | 3,552,874 | 4,979,278 | | | | | |

* Represents interest in a joint operation

(1) The investment properties presented below are subject to land leases where the Fund is the lessee and has recognized a right-of-use asset within investment properties and a lease liability. For further information refer to note 2 in the notes to the financial statements.

| Building Name and Address | Percent of Ownership | Property Type | Date of Purchase | Lease Liabilities |
|---|---|---|---|---|
| 650 West Georgia Street<br>Vancouver, British Columbia | 25.00% | Office | 12-Dec-01 | (596) |
| 400 Walmer Road<br>Toronto, Ontario | 65.00% | Residential | 27-Dec-00 | (74,413) |
| 20 - 24 York Street<br>Ottawa, Ontario | 50.00% | Residential | 27-Sep-05 | (2,831) |
| 99 Savannah Oaks Drive<br>Brantford, Ontario | 70.00% | Industrial | 21-Dec-07 | (8,854) |
| **Total** | | | | (86,694) |





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Development
Investment Activity
Performance and Attribution
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Debt Profile
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Sustainability
Financial Report

# Notes to the Schedule of Investment Portfolio

(in Canadian $ thousands)

## Introduction

The objective of the Canadian Real Estate Investment Fund No. 1 (the Fund) in managing risk is the creation and protection of contractholder value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Fund's continuing profitability. The Fund can be exposed to liquidity risk, market risk (which includes currency risk, interest rate risk and other price risk) and credit risk arising from the financial instruments it holds.

### *A. Risk Management*

The Fund's investment activities expose it to a variety of financial risks. The Schedule of Investment Portfolio presents the securities held by the Fund as at December 31, 2019, and groups the securities by asset type, geographic region and/or market segment. The following sections describe the significant risks that are relevant to the Fund.

To assist with managing risk, The Great-West Life Assurance Company (the Company) maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and other regulations.

### *B. Liquidity Risk*

As investments in real property are not actively traded, the Fund is exposed to liquidity risk due to the redemption of redeemable units by contractholders. To a lesser extent, mortgage liabilities also expose the Fund to liquidity risk. To manage liquidity, the Fund has the ability to incur additional mortgage indebtedness as long as the total borrowings do not exceed 35% of the total asset value of the Fund and provided the value of each mortgage assumed is not greater than 75% of the related property's value.

Some securities are illiquid due to legal restrictions on their resale, the nature of the investment, or simply a lack of interested buyers for a particular security or security type. Certain securities may become less liquid due to changes in market conditions, such as interest rate changes or market volatility, which could impair the ability of a Fund to sell such securities quickly.

There is no formal market for trading in real property and very few records are available to the public which give terms and conditions of real property transactions. It may take time to sell investment properties at a reasonable price. This could limit the Fund's ability to respond quickly to changes in economic or investment conditions. It could also affect the Fund's ability to pay contractholders who want to redeem their units. The Fund will maintain a sufficient balance of cash to satisfy regulatory requirements and be able to facilitate normal redemption requests in a timely manner.

In accordance with the Fund's policy, the Company monitors the Fund's liquidity position on a regular basis.

As at December 31, 2019, the approximate principal payments due on mortgages for the next five years ended and thereafter are as follows:

| Year ended | Principal payments due |
|---|---|
| December 31, 2020 | $ 110,482 |
| December 31, 2021 | 157,533 |
| December 31, 2022 | 53,965 |
| December 31, 2023 | 75,207 |
| December 31, 2024 | 91,087 |
| Thereafter | 581,633 |
| | 1,069,907 |
| Fair value adjustment | 4,873 |
| **Total** | **$ 1,074,780** |

### C. Currency Risk

Currency risk is the risk that financial instruments that are denominated or exchanged in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. The classifications used on the Schedule of Investment Portfolio for the financial instruments are based on the country of issue.

The table below indicates the foreign currencies to which the Fund had significant exposure as at December 31 in Canadian dollar terms, including the underlying principal amount of forward currency contracts, if any. The table also illustrates the potential impact to the Fund's net assets attributable to contractholders, all other variables held constant, as a result of a 1% change in these currencies relative to the Canadian dollar. In practice, the actual results may differ from this sensitivity analysis and the difference could be significant.

| | | | | 2019 |
|---|---|---|---|---|
| **Currency** | **Investments** | **Cash, Short-term Deposits and Overdrafts** | **Total*** | **Impact on Net Assets Attributable to Contractholders** |
| United States Dollar | $ 18,145 | $ 11,537 | $ 29,682 | $ 297 |
| **Total** | **$ 18,145** | **$ 11,537** | **$ 29,682** | **$ 297** |
| As Percent of Net Assets Attributable to Contractholders | | | **0.6%** | |

* Includes both monetary and non-monetary instruments

| | | | | 2018 |
|---|---|---|---|---|
| Currency | Investments | Cash, Short-term Deposits and Overdrafts | Total* | Impact on Net Assets Attributable to Contractholders |
| United States Dollar | $ 27,509 | $ 14,225 | $ 41,734 | $ 417 |
| **Total** | $ 27,509 | $ 14,225 | $ 41,734 | $ 417 |
| As Percent of Net Assets Attributable to Contractholders | | | 0.9% | |

* Includes both monetary and non-monetary instruments

### D. Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments such as bonds and mortgages on investment properties. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. Due to the nature of short-term fixed income securities with a remaining term-to-maturity of less than one year, these investments are not generally exposed to a significant risk that their value will fluctuate in response to changes in the prevailing levels of market interest rates. The risk is professionally managed at the security and fund level by the Company.

The table below summarizes the Fund's exposure to interest rate risk by remaining term-to-maturity.

| | | | | | 2019 |
|---|---|---|---|---|---|
| | **1 year or less*** | **Over 1 year to 5 years** | **Over 5 years to 10 years** | **Over 10 years** | **Total** |
| **Bonds** | **$ 19,803** | **$ 183,602** | **$ —** | **$ —** | **$ 203,405** |

| | | | | | 2018 |
|---|---|---|---|---|---|
| | 1 year or less* | Over 1 year to 5 years | Over 5 years to 10 years | Over 10 years | Total |
| Bonds | $ 35,301 | $ 200,460 | $ — | $ — | $ 235,761 |

* The Fund invests in bonds of a related company which are issued annually with a maturity of one year or less. As the bonds mature, they are renewed for a term of one year.

As at December 31, 2019, for bonds, had prevailing interest rates increased or decreased by 1% assuming a parallel shift in the yield curve, with all other variables held constant, net assets attributable to contractholders would have decreased or increased, respectively, by approximately $5,023 ($6,168 at December 31, 2018) or approximately 0.10% (0.13% at December 31, 2018). The Fund's sensitivity to interest rate changes was estimated using the weighted average duration of the bond portfolio. In practice, the actual results may differ and the difference could be significant.

As at December 31, 2019, for mortgages on investment properties, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, net assets attributable to contractholders would have decreased or increased, respectively, by approximately $50,944 ($31,416 at December 31, 2018) and approximately 0.99% (0.70% at December 31, 2018) of net asset value. In practice, the actual results may differ and the difference could be significant.

### *E. 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. The Fund's greatest concentration of credit risk is in debt securities, such as bonds. The fair value of debt instruments includes consideration of the creditworthiness of the debt issuer. The carrying amount of debt instruments represents the maximum credit risk exposure as at December 31, 2019. The amount of credit risk to any one issuer may be determined from the information reported in the Schedule of Investment Portfolio. The Fund may invest in short-term fixed income securities issued or guaranteed primarily by the Government of Canada or any Canadian provincial government, obligations of Canadian chartered banks or trust companies, and commercial paper with approved credit ratings. The risk of default on these short-term fixed income securities is considered low. The Company monitors credit risk and credit ratings on a regular basis. All new counterparties to financial instruments are subject to an approval process.

The Fund is also exposed to credit risk from outside parties, lease receivables and tenants. The fair value of investment properties considers the creditworthiness of these items, which had a negligible effect on fair value during 2019 and 2018 respectively. Credit risk arises from the possibility that tenants may be unable to fulfill their commitments defined in their lease agreements. The majority of the Fund's leases in place are referred to as net leases, which means that tenants pay the landlord base rent as well as reimburse the landlord for their share of operating costs and realty taxes. Most of the property operating costs and realty tax expenses are of a fixed nature, although there is a variable element as it relates to certain costs. Management mitigates credit risk by ensuring that the Fund's tenant mix is diversified and by limiting the Fund's exposure to any one tenant. The Fund also maintains a portfolio that is diversified by property type so that exposure to business sectors is reduced.

The change in fair values of financial liabilities as a result of the impact of changes in credit risks was not significant during 2019 or 2018.

All transactions in listed securities are settled and paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker.

Credit ratings disclosed below are obtained from independent rating agencies including DBRS, Standard & Poor's, Moody's Investors Service and Fitch Ratings. The lowest rating provided by the agencies is used.

Debt securities by credit rating are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Percent of Total Bonds (%) | Percent of Total Net Assets Attributable to Contractholders (%) | Percent of Total Bonds (%) | Percent of Total Net Assets Attributable to Contractholders (%) |
| AAA | **69.0** | **2.7** | 73.6 | 3.7 |
| AA | **7.3** | **0.3** | 6.1 | 0.3 |
| A | **2.5** | **0.1** | 4.3 | 0.2 |
| NR* | **21.2** | **0.8** | 16.0 | 0.8 |
| **Total** | **100.0** | **3.9** | 100.0 | 5.0 |

* Bonds disclosed as NR are mortgage backed securities or privately placed bonds or bonds that have not been rated by a rating agency.

### *F. Fair Value Classification*

The following table presents information about the Fund's financial assets and liabilities measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized by the Fund to determine such fair value:

| | 2019 Assets and Liabilities Measured at Fair Value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **ASSETS MEASURED AT FAIR VALUE** | | | | |
| Bonds | $ — | $ 160,310 | $ 43,095 | $ 203,405 |
| Investment properties | — | — | 5,937,347 | 5,937,347 |
| **Total assets measured at fair value** | $ — | $ 160,310 | $ 5,980,442 | $ 6,140,752 |
| **LIABILITIES MEASURED AT FAIR VALUE** | | | | |
| Mortgages on investment properties | $ — | $ 1,074,780 | $ — | $ 1,074,780 |
| **Net assets attributable to contractholders measured at fair value** | $ — | $ (914,470) | $ 5,980,442 | $ 5,065,972 |



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| | 2018 | | | |
|---|---|---|---|---|
| | Assets and Liabilities Measured at Fair Value | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| ASSETS MEASURED AT FAIR VALUE | | | | |
| Bonds | $ — | $ 197,955 | $ 37,806 | $ 235,761 |
| Investment properties | — | — | 5,264,500 | 5,264,500 |
| Total assets measured at fair value | $ — | $ 197,955 | $ 5,302,306 | $ 5,500,261 |
| LIABILITIES MEASURED AT FAIR VALUE | | | | |
| Mortgages on investment properties | $ — | $ 919,279 | $ — | $ 919,279 |
| Net assets attributable to contractholders measured at fair value | $ — | $ (721,324) | $ 5,302,306 | $ 4,580,982 |

There have not been any significant transfers in or out of Levels 1 or 2 during 2019 or 2018.

The following table presents additional information about the Fund's assets measured at fair value on a recurring basis and for which the Fund has utilized Level 3 inputs to determine fair value:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Bonds | Investment properties | Bonds | Investment properties [1] |
| **Balance, beginning of year** | **$ 37,806** | **$ 5,264,500** | $ 30,103 | $ 4,948,614 |
| Change in accounting policy (note 2) | **—** | **87,800** | — | — |
| Revised balance, beginning of year | **37,806** | **5,352,300** | 30,103 | 4,948,614 |
| Total gain (loss) included in net assets from operations attributable to contractholders | **5,289** | **220,052** | 7,703 | 104,003 |
| Purchases | **—** | **368,910** | — | 237,867 |
| Sales | **—** | **(3,915)** | — | (25,984) |
| Settlements | **—** | **—** | — | — |
| Transfers in to Level 3 | **—** | **—** | — | — |
| Transfers out of Level 3 | **—** | **—** | — | — |
| **Balance, end of year** | **$ 43,095** | **$ 5,937,347** | $ 37,806 | $ 5,264,500 |
| **Total gain (loss) for the year included in net gain (loss) on investments for Level 3 assets held at the end of year** | **$ 5,289** | **$ 219,228** | $ 7,703 | $ 109,429 |

[1] Certain comparative figures have been reclassified to conform to the current year's presentation.

### *G. Carrying Value of Investment Properties*

The carrying value of investment properties and changes in the carrying value of investment properties are as follows:

| | 2019 | 2018 [1] |
|---|---|---|
| **Balance, beginning of year** | **$ 5,264,500** | $ 4,948,614 |
| Change in accounting policy (note 2) | **87,800** | — |
| Revised balance, beginning of year | **5,352,300** | 4,948,614 |
| Additions | **368,910** | 237,867 |
| Change in fair value through profit or loss | **221,626** | 100,120 |
| Disposals | **(3,915)** | (25,984) |
| Foreign exchange rate changes | **(1,574)** | 3,883 |
| **Balance, end of year** | **$ 5,937,347** | $ 5,264,500 |

[1] Certain comparative figures have been reclassified to conform to the current year's presentation.

### *H. Significant Unobservable Inputs*

Investment property valuations are generally determined using property valuation models based on expected capitalization rates and models that discount expected future net cash flows. The determination of the fair value of investment property requires the use of estimates such as future cash flows (such as future leasing assumptions, rental rates, capital and operating expenditures) and discounts, reversionary and overall capitalization rates applicable to the asset based on current market rates.

The following sets out information about significant unobservable inputs used at year end in measuring assets categorized as Level 3 in the fair value hierarchy:

| | Inter-relationship between key unobservable inputs and fair value measurements | | | | | | |
|---|---|---|---|---|---|---|---|
| | Discount Rate[1] | | | Reversionary Rate[2] | | | Vacancy Rate[3] |
| Property Type | Min | Max | Weighted Average | Min | Max | Weighted Average | Weighted Average |
| Office | 5.3% | 10.5% | 6.1% | 4.5% | 8.5% | 5.4% | 10.4% |
| Industrial | 5.3% | 7.3% | 6.1% | 5.0% | 6.8% | 5.5% | 3.4% |
| Retail | 5.3% | 7.3% | 6.2% | 4.3% | 6.5% | 5.5% | 3.6% |
| Commercial | 5.3% | 10.5% | 6.1% | 4.3% | 8.5% | 5.4% | 6.3% |
| Residential[4] | 3.4% | 5.6% | 4.0% | n/a | n/a | n/a | 3.2% |
| **Total** | **3.4%** | **10.5%** | **5.5%** | **4.3%** | **8.5%** | **5.4%** | **5.7%** |

(1) A decrease in the discount rate would result in an increase in fair value. An increase in the discount rate would result in a decrease in fair value.

(2) The reversionary rate is the rate used to estimate the resale value of a property at the end of the holding period. A decrease in the reversionary rate would result in an increase in fair value. An increase in the reversionary rate would result in a decrease in fair value. Reversionary rates are not applicable to the residential assets as their valuation methodology is based on capitalization of the stabilized year one income.

(3) A decrease in the expected vacancy rate would generally result in an increase in fair value. An increase in the expected vacancy rate would generally result in a decrease in fair value.

(4) The discount rates disclosed for the residential assets represents the overall capitalization rate applied to the stabilized income of the asset.

## *I. Pledged Assets*

The Fund has investment properties which have been pledged as collateral to cover mortgages on investment properties. In circumstances where the Fund defaults, the counterparty is permitted to take the collateral and apply it against these liabilities. When the liabilities have been settled by the Fund, the pledged assets will be returned to the Fund. As of December 31, 2019, the Fund has pledged $2,316,545 ($2,745,763 at December 31, 2018).

## *J. Commitments*

As at December 31, 2019, the Fund has contractual obligations of $147,400 ($797,201 at December 31, 2018) to purchase, construct or develop investment properties for repairs, maintenance and enhancements.





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The following tables show selected key financial information about the Fund and are intended to help users of the financial statements understand the Fund's financial performance. Portfolio units are allocated to each category as described in note 5 and are not included on this page.

## Net Assets Attributable to Contractholders by Category

For the years ended December 31

| | Number of units outstanding | | | | | Net asset value (in $ thousands) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 | **2019** | 2018 | 2017 | 2016 | 2015 |
| Investment Only | **1,056,204** | 1,124,579 | 1,151,246 | 1,121,788 | 1,092,380 | **2,644,441** | 2,580,844 | 2,468,782 | 2,263,733 | 2,091,992 |
| Investment Only (AI) | **632,672** | 460,302 | 406,034 | 318,374 | 299,472 | **411,740** | 286,255 | 246,267 | 190,034 | 177,482 |
| Investment Only (AC/AL) | **2,805,374** | 2,639,342 | 2,466,452 | 2,451,122 | 2,116,639 | **944,883** | 814,577 | 711,074 | 664,769 | 544,613 |
| Individual No-Load (IA) | **728,643** | 785,466 | 914,595 | 1,088,081 | 1,289,912 | **254,946** | 259,397 | 290,449 | 335,472 | 389,386 |
| Individual Back-End Load (IB) | **427,484** | 502,889 | 579,320 | 691,367 | 834,123 | **156,859** | 174,158 | 193,060 | 223,210 | 263,109 |
| Managed Money (IC) | **49,425** | 54,954 | 60,565 | 69,289 | 79,645 | **37,061** | 38,397 | 40,188 | 44,026 | 48,869 |
| 75/75 guarantee policy | **7,150,974** | 5,931,054 | 5,058,972 | 4,562,642 | 5,084,865 | **124,544** | 97,508 | 80,044 | 69,949 | 76,169 |
| 75/100 guarantee policy | **3,616,139** | 3,336,827 | 3,025,245 | 3,258,000 | 3,781,799 | **62,196** | 54,225 | 47,360 | 49,462 | 56,152 |
| 100/100 guarantee policy | **303,351** | 231,193 | 224,952 | 248,736 | 337,684 | **4,962** | 3,589 | 3,379 | 3,639 | 4,853 |
| PS1 75/75 guarantee policy | **6,406,423** | 5,274,752 | 4,904,039 | 4,414,411 | 2,652,308 | **95,719** | 74,061 | 65,968 | 57,278 | 33,481 |
| PS1 75/100 guarantee policy | **2,982,152** | 2,633,732 | 2,245,141 | 1,911,211 | 606,451 | **44,011** | 36,583 | 29,926 | 24,613 | 7,611 |
| PS1 100/100 guarantee policy | **197,076** | 172,293 | 173,472 | 200,762 | 37,471 | **2,829** | 2,336 | 2,266 | 2,543 | 464 |
| PS2 75/75 guarantee policy | **5,029,714** | 5,054,929 | 4,904,635 | 4,266,462 | 3,458,517 | **91,101** | 83,896 | 76,040 | 62,225 | 47,854 |
| PS2 75/100 guarantee policy | **1,633,460** | 1,525,943 | 1,409,338 | 1,349,980 | 1,139,841 | **29,586** | 25,326 | 21,850 | 19,689 | 15,772 |
| PS2 100/100 guarantee policy | **49,312** | 24,387 | 31,128 | 38,717 | 39,560 | **893** | 405 | 483 | 565 | 547 |
| PS 75/75 guarantee policy | **1,674,244** | 543,251 | — | — | — | **18,391** | 5,574 | — | — | — |
| PS 75/100 guarantee policy | **284,880** | 87,501 | — | — | — | **3,122** | 896 | — | — | — |
| PPS 75/75 guarantee policy | **2,854,981** | 984,067 | — | — | — | **31,550** | 10,111 | — | — | — |
| PPS 75/100 guarantee policy | **49,583** | — | — | — | — | **546** | — | — | — | — |





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The following tables show selected key financial information about the Fund and are intended to help users of the financial statements understand the Fund's financial performance. Portfolio units are allocated to each category as described in note 5 and are not included on this page.

## Net Assets Attributable to Contractholders Per Unit (note 8)

For the years ended December 31

| | Net asset value per unit ($) | | | | | Increase (decrease) per unit ($) | |
|---|---|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 | **2019** | 2018 |
| Investment Only | **2,503.72** | 2,294.94 | 2,144.44 | 2,017.97 | 1,915.08 | **208.78** | 150.50 |
| Investment Only (AI) | **650.80** | 621.88 | 606.52 | 596.89 | 592.65 | **28.92** | 15.36 |
| Investment Only (AC/AL) | **336.81** | 308.63 | 288.30 | 271.21 | 257.30 | **28.18** | 20.33 |
| Individual No-Load (IA) | **349.89** | 330.25 | 317.57 | 308.32 | 301.87 | **19.64** | 12.68 |
| Individual Back-End Load (IB) | **366.93** | 346.32 | 333.25 | 322.85 | 315.43 | **20.61** | 13.07 |
| Managed Money (IC) | **749.85** | 698.72 | 663.56 | 635.39 | 613.59 | **51.13** | 35.16 |
| 75/75 guarantee policy | **17.42** | 16.44 | 15.82 | 15.33 | 14.98 | **0.98** | 0.62 |
| 75/100 guarantee policy | **17.20** | 16.25 | 15.65 | 15.18 | 14.85 | **0.95** | 0.60 |
| 100/100 guarantee policy | **16.36** | 15.52 | 15.02 | 14.63 | 14.37 | **0.84** | 0.50 |
| PS1 75/75 guarantee policy | **14.94** | 14.04 | 13.45 | 12.98 | 12.62 | **0.90** | 0.59 |
| PS1 75/100 guarantee policy | **14.76** | 13.89 | 13.33 | 12.88 | 12.55 | **0.87** | 0.56 |
| PS1 100/100 guarantee policy | **14.35** | 13.56 | 13.06 | 12.67 | 12.39 | **0.79** | 0.50 |
| PS2 75/75 guarantee policy | **18.11** | 16.60 | 15.50 | 14.58 | 13.84 | **1.51** | 1.10 |
| PS2 75/100 guarantee policy | **18.11** | 16.60 | 15.50 | 14.58 | 13.84 | **1.51** | 1.10 |
| PS2 100/100 guarantee policy | **18.11** | 16.60 | 15.50 | 14.58 | 13.84 | **1.51** | 1.10 |
| PS 75/75 guarantee policy | **10.98** | 10.26 | — | — | — | **0.72** | 0.26 |
| PS 75/100 guarantee policy | **10.96** | 10.25 | — | — | — | **0.71** | 0.25 |
| PPS 75/75 guarantee policy | **11.05** | 10.27 | — | — | — | **0.78** | 0.27 |
| PPS 75/100 guarantee policy | **11.02** | — | — | — | — | **0.75** | — |



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# Notes to Financial Statements

(in Canadian $ thousands)

## 1. The Fund

The Fund is offered by The Great-West Life Assurance Company.

The Company is the sole issuer of the insurance contracts providing for investment in the Fund. The assets of the Fund are owned by the Company and are segregated from the other assets of the Company. The Fund is not a separate legal entity. The Fund invests in a portfolio of assets to generate returns in the form of investment income and capital appreciation for the contractholders, who are the ultimate beneficiaries of the Fund. The Fund's investment activities are overseen by the Company.

The Company is a wholly owned subsidiary of Great-West Lifeco Inc. (Lifeco), a publicly listed company incorporated and domiciled in Canada. Lifeco is a member of the Power Corporation of Canada (Power Corporation) group of companies and is a subsidiary of Power Corporation.

The Fund's registered office is at 100 Osborne Street North, Winnipeg, Manitoba, Canada, R3C 1V3.

The financial statements of the Fund as at and for the year ended December 31, 2019 were approved for issue by the Company on March 6, 2020.

## 2. Summary of Significant Accounting Policies

The financial statements of the Fund have been prepared in compliance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Uniform accounting policies were applied in the preparation of the Fund's financial statements. These accounting policies are based on the IFRS and IFRS Interpretations Committee (IFRIC) interpretations issued and effective at December 31, 2019. The financial statements of the Fund have also been prepared in accordance with the requirements of Part XII of the Canadian Life and Health Insurance Association Guideline G2.

### *a) Changes in Accounting Policies*

Effective January 1, 2019, the Fund adopted IFRS 16, *Leases* (IFRS 16) which replaced International Accounting Standard 17, *Leases* (IAS 17). The standard prescribes new guidance for identifying leases as well as the accounting, measurement and presentation of leases by the lessee. Under IFRS 16, the Fund recognizes a right-of-use asset and a lease liability at the lease commencement date on the Statement of Financial Position.

The Fund has elected to apply a practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

The Fund has elected to adopt IFRS 16 using a modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

On initial application, the Fund has elected to measure the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any lease related balances relating to that lease recognized on the Statement of Financial Position immediately before the date of initial application. At January 1, 2019, right-of-use assets of $87,800 were recognized within investment properties and lease liabilities of $87,800 were recognized which had no net impact on opening net assets attributable to contractholders. When measuring lease liabilities, the Fund discounted lease payments using the interest rate implicit in the lease or its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2.43%.

The following table reconciles the Fund's operating lease obligations at December 31, 2018, as previously disclosed in the Fund's annual financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

| | | |
|---|---|---|
| Operating lease commitments at December 31, 2018 | $ | 145,556 |
| Discounting using weighted-average rate of 2.43% at January 1, 2019 | | (57,756) |
| **Lease liabilities recognized at January 1, 2019** | **$** | **87,800** |

### *b) Use of Estimates, Significant Accounting Judgments and Assumptions*

The preparation of the Fund's financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amount of assets and liabilities at the reporting date and the reported amount of revenues and expenses during the reporting period. The valuation of investments and investment properties is the most significant component of the financial statements subject to estimates. Although some variability is inherent in these judgments and assumptions, the Fund believes that the amounts recorded are reasonable.

When the fair values of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be derived from active markets, the fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this information is not available, estimation is required in establishing fair values. The estimates include consideration of liquidity and model inputs related to items such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the Statement of Financial Position and the level where the financial instruments are disclosed in the fair value hierarchy. Actual results could differ from these estimates.

In the process of applying the Fund's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

The Company is required to make significant judgments in order to determine the most appropriate classification in accordance with IFRS 9, *Financial Instruments*. The Company has assessed the Fund's business model, the manner in which all financial instruments are managed and the requirements of other accounting standards, and has concluded that fair value through profit and loss (FVTPL) provides the most appropriate measurement and presentation of the Fund's financial instruments.

The Fund participates in joint operations that allow the Fund to hold investment properties jointly with another party with the objective to generate rental income recorded in investment properties income and/or capital appreciation on the investment properties recorded in gain (loss) on investments. Joint control has been determined in accordance with the terms in the joint agreement, whereby decisions about the relevant activities, that significantly affect the returns of the arrangement, require the unanimous consent of the parties sharing control. The joint arrangements were classified as joint operations as the arrangements give both parties the right to the assets, revenues and assumed obligation for the liabilities and expenses. Most investment properties are owned jointly by related parties or related party segregated funds.

In the normal course of business the Fund regularly buys and sells investment properties. The Fund has concluded that the purchase and sale of these investment properties does not meet the conditions required to classify these transactions as business acquisitions; therefore all properties the Fund acquires to date are asset acquisitions.

The Fund has entered into commercial and residential property leases on its investment properties. The Fund has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and therefore accounts for the contracts as operating leases.

Entities that meet the definition of an investment entity within IFRS 10, *Consolidated Financial Statements* are required to measure their subsidiaries at FVTPL rather than consolidate them. The criteria that define an investment entity are as follows:

- An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

In the judgment of management, the Fund meets the definition of an investment entity. This conclusion will be reassessed on a periodic basis, if any changes in criteria or circumstances exist.

### *c) Fair Value Measurement and Classification*

The fair value of the Fund's assets and liabilities have been categorized based upon the following fair value hierarchy:

Level 1 – determined by reference to quoted prices in active markets for identical assets and liabilities;

Level 2 – determined using inputs other than the quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – determined using inputs that are not based on observable market data.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values for assets and liabilities are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3. Additional disclosures relating to transfers between levels and a reconciliation of beginning and ending balances in Level 3 are included in the notes to the Schedule of Investment Portfolio, where applicable.

Level 3 assets and liabilities are reviewed on a periodic basis by the Fund Manager. The Fund Manager considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognized as standard within the industry. The Fund Manager estimates the fair value of bonds not traded in active markets by referring to actively traded securities with similar attributes, dealer quotations, matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating, term, coupon rate and position in the capital structure of the issuer, as well as, yield curves, credit curves, prepayment rates and other relevant factors. For bonds that are not traded in active markets, valuations are adjusted to reflect illiquidity, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Transfers into Level 3 are due primarily to decreased observability of inputs in valuation methodologies. Transfers out of Level 3 are due primarily to increased observability of inputs in valuation methodologies as evidenced by corroboration of market prices with multiple pricing vendors.

The Fund's fair value hierarchy classification of its assets and liabilities is included in fair value measurements in the notes to the Schedule of Investment Portfolio.

Upon initial recognition, the Fund classifies and measures all financial assets and financial liabilities in the Statement of Financial Position at FVTPL. The financial assets and financial liabilities are recognized when the Fund becomes a party to the contractual requirements of the instrument. Financial instruments are derecognized when the right to receive cash flows from the instrument has expired or the Fund has transferred substantially all risks and rewards of ownership. As such, investment purchase and sale transactions are recorded as of the trade date. The Fund's policy is not to apply hedge accounting.

### *d) Bonds*

Bonds are recorded at fair value determined with reference to closing quoted market prices, where the last traded price falls within the day's bid-ask spread, primarily provided by third party independent pricing sources. Fair values are determined on the basis of the closing price for a security on the recognized exchange on which it is principally traded at each reporting date. In circumstances where the last traded price is not within the bid-ask spread, the Company determines the point when the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

The fair value of unlisted securities is established using quotations determined by a major dealer in a particular security. Should the quoted value for a security, in the opinion of the Fund Manager, be inaccurate, unreliable, or not readily available, the value of the security is estimated using valuation techniques. Valuation techniques include the market approach (using recent arm's-length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

### *e) Cash, Short-term Deposits and Overdrafts*

Cash, short-term deposits and overdrafts are comprised of cash on deposit, short-term deposits and overdrafts with terms to maturity of less than one year at acquisition. A reconciliation is included in the Statement of Cash Flows for the Fund for cash and short-term deposits maturing in less than 90 days and those maturing in more than 90 days but less than a year. Due to the nature of these assets being highly liquid and having short terms to maturity, these items are reported at fair value, which approximates their cost.

### *f) Investment Properties*

Investment properties comprise of completed real estate property and property under development (PUD) held to earn rental income (which is recorded in the Statement of Comprehensive Income as investment properties income) or for capital appreciation or both. The cost of investment properties is acquisition cost plus the cost of capital improvements. Included within investment properties are right-of-use assets recognized for land leases. Acquisition costs include land transfer taxes and professional fees for legal services. Initial direct and incremental costs incurred in negotiating an operating lease on investment properties are added to the carrying amount of the leased asset and recognized on a straight-line basis over the term of the lease. Properties under development include interest on both specific and general debt, property taxes and general and administrative expenses incurred directly in connection with the acquisition and development of properties.

When the Fund determines that the fair value of investment properties under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment properties under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier); thereafter, they are recorded at their most recent external or internal appraised value. Investment properties of the Fund are appraised annually by qualified external investment properties appraisers. Fund management may adjust individual property values periodically due to changing market conditions.

Right-of-use assets are initially measured based on the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and restoration costs, less any lease incentive received.

Subsequent to initial recognition, investment properties are measured at fair value. Fair values for investment properties are determined using independent qualified appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals. Gains or losses arising from changes in the fair values of investment properties are included in the Statement of Comprehensive Income in the period in which they arise.

Investment properties are derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the Statement of Comprehensive Income in the year of retirement or disposal. Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset.

Additional details on investment properties are included in the notes to the Schedule of Investment Portfolio.

Where the Fund is involved in joint operations, it recognizes its rights to the assets and revenue and obligations for the liabilities and expenses of the joint operation in accordance with the Fund's accounting policies.

For investment properties, the capitalization rate (cap rate) is a measure of a property's value to its income and is a key metric in the valuations prepared by investment properties appraisers. Cap rates are influenced by factors in the overall investment properties market in Canada, which is in turn influenced by supply and demand factors as well as the domestic economy.

Investment properties are subject to a degree of risk. They are affected by various factors including changes in both general and local market conditions, credit markets, competition in the environment, stability and creditworthiness of tenants, and various other factors.

Amortization of lease inducements represents initial direct costs incurred in negotiating and arranging operating leases and are amortized over the lease term on the same basis as the lease income. Initial direct leasing costs are amortized and charged to property operating expenses on a straight-line basis over the term of the related lease period. Payments to tenants that are enhancements to the property are referred to as tenant improvements. All other payments to tenants are referred to as tenant inducements. Both tenant improvements and tenant inducements are amortized on a straight-line basis over the term of the related lease period as a reduction of property rental income.

### *g) Lease Liabilities*

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Fund shall use its incremental borrowing rate. Generally, the Fund uses its incremental borrowing rate as its discount rate. Lease liabilities are measured at amortized cost using the effective interest method. Interest expense on lease liabilities is included within investment properties expenses.

### *h) Mortgages on Investment Properties*

Mortgages on investment properties are recorded at fair value. Fair value of mortgages have been determined using discounted future payments of principal and interest of the actual outstanding mortgages, discounted at the current market interest rates available to the Fund.

### *i) Classification of Units Issued by the Fund*

The units of the Fund are classified as financial liabilities under IFRS as the Fund is contractually obligated to repurchase or redeem them for cash or another financial asset when the units are disposed. The net assets attributable to contractholders are classified as FVTPL.

### *j) Recognition of Investments and Income*

Financial investment purchases and sales are recorded when the Fund becomes a party to the contractual provisions of the instrument on a trade date basis.

Financial assets and financial liabilities at FVTPL are recorded in the Statement of Financial Position at fair value.

The accrual basis of accounting is used to record all types of investment income earned and expenses incurred by the Fund.

The following are included in net gain (loss) on investments on the Statement of Comprehensive Income:

**Net gains (losses) from change in fair value on investment properties** – include fair value adjustments arising from external appraisals, valuation adjustment by management and gains (losses) on sale of investment properties.

**Realized gains (losses) on investments** – recorded upon the sale or maturity of an asset and determined using the average cost basis.

**Unrealized gains (losses) on investments** – calculated as the in-year change in fair value of the investment and determined using the average cost basis.

**Interest income on debt securities** – included in the change in fair value of such investments and recorded on the accrual basis.

After initial measurement, the Fund classifies and measures financial instruments as FVTPL at the reporting date. Changes in the fair value are recorded in net gain (loss) on investments in the Statement of Comprehensive Income.

#### Investment properties income

The Fund is the lessor of operating leases on investment properties. The Fund has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease. Investment properties income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease term in the Statement of Comprehensive Income, except for contingent rental income which is recognized as rental income in the period in which it is earned. Initial direct costs incurred in negotiating and arranging operating leases are recognized as an expense over the lease term on the same basis as the lease income.

#### Foreign currency

The financial statements have been presented in Canadian dollars, which is the currency of the primary economic environment in which the Fund is domiciled and is the Fund's functional currency.





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Foreign currency translations are calculated using the exchange rate in effect when the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gains or losses generated by foreign exchange are recorded in the Statement of Comprehensive Income within net gain (loss) on investments.

**Miscellaneous income (loss)**

Miscellaneous income (loss) generally includes the changes in foreign exchange rates between trade and settlement dates, foreign exchange rates on bank balances, securities lending income, derivative income, and management fee rebates.

### *k) Offsetting of Financial Instruments*

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

### *l) Amounts Due to/from Broker*

Amounts due to brokers are payables for securities purchased that have been contracted for, but not yet delivered, on the reporting date.

Amounts due from brokers include margin accounts and receivables for securities sold that have been contracted for, but not yet delivered, on the reporting date.

Amounts due to/from brokers are held at fair value which approximates their cost.

Amounts due to/from brokers are settled within a few business days of the reporting date. All securities are purchased and sold in regular way transactions.

### *m) Amounts Due to/from Outside Parties*

Due to/from outside parties mainly consists of net operating and commodity tax balances due to outside parties related to the ongoing operations of the Fund's real estate investments.

Amounts due to/from outside parties are held at fair value which approximates their cost.

### *n) Other Expenses*

Other expenses consist primarily of securities handling charges. All these expenses are paid to third parties. The accrual basis of accounting is used to record all types of expenses incurred by the Fund.

### *o) Income Allocation*

Net gain (loss) on investments, which includes interest income, realized gains and losses and unrealized gains and losses, accrues to each contractholder through the increase (decrease) of the net asset value (NAV) per unit with the exception of Category A units of specific clients. The net investment income of this category is allocated to the contractholders in the form of additional units.

### *p) Issue and Redemption of Units*

Units attributable to contractholders are redeemable at the contractholders' option at prices based on the Fund's NAV per unit at the time of redemption and are therefore classified as financial liabilities.

Units are issued and redeemed at their NAV per unit established as noted in the information folder of the Fund.

The Fund's obligation for net assets attributable to contractholders is presented at the redemption amount at the reporting date. The deposits and withdrawals of contractholders are adjusted for inter-fund transfers.

### *q) Transaction Costs*

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund are charged to expenses in the year.

Transaction costs, such as brokerage commissions, legal fees and land transfer tax incurred in the purchase and sale of investment properties by the Fund are added to the cost of the asset in the year.

### *r) Borrowing Costs*

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. The Fund has not capitalized any borrowing costs in 2019 or 2018. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## 3. Lease Liabilities

The carrying value of lease liabilities and changes in the carrying value of lease liabilities are as follows:

| | | |
|---|---|---|
| Lease liabilities recognized at January 1, 2019 | $ | 87,800 |
| Lease payments | | (3,222) |
| Interest expense | | 2,116 |
| **Carrying value, end of year** | **$** | **86,694** |

As at December 31, 2019, the approximate payments due on lease liabilities for the next five years ended and thereafter are as follows:

| Year ended | | Lease payments |
|---|---|---|
| December 31, 2020 | $ | 3,222 |
| December 31, 2021 | | 3,222 |
| December 31, 2022 | | 3,222 |
| December 31, 2023 | | 3,222 |
| December 31, 2024 | | 3,222 |
| Thereafter | | 125,823 |
| **Total undiscounted lease obligations as at December 31, 2019** | **$** | **141,933** |

## 4. Mortgages on Investment Properties

As of December 31, 2019, mortgages on investment properties are comprised of term mortgages which bear contractual interest rates ranging from 2.02% to 6.07% (2.02% to 6.07% at December 31, 2018), and a weighted average contractual interest rate of 3.54% (3.63% at December 31, 2018). Mortgages are secured by the real property investment and an assignment of leases and amounts due from property rentals. The terms of the mortgages are subject to renegotiations from 2020 to 2029.

## 5. Description of Units

The capital of the Fund is divided into categories of units as follows:

**Investment Only** units are available to:
- Canadian Group Registered, and
- Non-Registered Plans.

**Individual** units are available to individuals for investment in:
- Registered Retirement Savings Plans,
- Registered Savings Plans,
- Tax Free Savings Accounts, and
- Non-Registered Savings Plans through the purchase of the Flexible Accumulation Annuity and the Flexible Income Fund.

**Category I** units are available under these different options:
- Option A (Category A) is a no load Investment Fund option,
- Option B is a back end load investment option, and
- Option C is for high net worth investors.

In addition to the Individual units, units are available for:
- Option S1R 75/75 guarantee policy,
- Option S1HB Preferred Series 1 (PS1) 75/75 guarantee policy,
- Option S1HU Preferred Series 2 (PS2) 75/75 guarantee policy,
- Option S1RF Partner Series (PS) 75/75 guarantee policy,
- Option S1HF Preferred Partner Series (PPS) 75/75 guarantee policy,
- Option S2R 75/100 guarantee policy,
- Option S2HB PS1 75/100 guarantee policy,
- Option S2HU PS2 75/100 guarantee policy,
- Option S2RF PS 75/100 guarantee policy,
- Option S2HF PPS 75/100 guarantee policy,
- Option S3R 100/100 guarantee policy,
- Option S3HB PS1 100/100 guarantee policy,
- Option S3HU PS2 100/100 guarantee policy,
- Option S3RF PS 100/100 guarantee policy, and
- Option S3HF PPS 100/100 guarantee policy.

**Portfolio** units are those units owned by the Portfolio Funds. Each Portfolio fund is represented by a separate category.

The categories of units, and the various levels within each, are accounted for separately and any increases or decreases in net assets attributable to contractholders during the year are allocated proportionately to each category.

## 6. Capital Management

The Fund is not subject to externally imposed capital requirements and has no legal restrictions on the issue, repurchase or resale of redeemable units beyond those included in the Fund's offering document. Units are redeemed at the NAV per unit of a Fund on the redemption date. The capital received by a Fund is utilized within the respective investment mandate of the Fund.

## 7. Income Taxes

The Fund is deemed to be a Trust under the provisions of the *Income Tax Act* (Canada). Income of a segregated fund is deemed to be payable to the contractholders and therefore the segregated fund will not have taxable income. In addition, capital gains and losses are deemed to be those of the contractholders and not of the trust. Realized gains or losses may be reduced by the amount of gains or losses realized by contractholders on the redemption of their investment. As a result, no provision of income tax is required in the financial statements of the Fund.

Foreign investment income is subject to withholding tax deducted at the source of the income in some jurisdictions. Withholding tax is a generic term used for the amount of withholding tax deducted at the source of the income. The Fund presents the withholding tax separately from the net gain (loss) on investments in the Statement of Comprehensive Income.

## 8. Net Assets Attributable to Contractholders Per Unit

The presentation of unit values is broken down by contractholder category.

Net increase (decrease) in net assets from operations attributable to contractholders per unit per category is calculated by dividing the net increase (decrease) in net assets attributable to contractholders from operations as disclosed in the Statement of Comprehensive Income, by the weighted average number of units of each category outstanding during the year.

## 9. Related Party Transactions

Lifeco is the parent of the Company as well as a member of the Power Corporation group of companies. Through this relationship, the Company is related to IGM Financial Inc., a company in the financial services sector along with its subsidiaries IG Wealth Management and Mackenzie Inc.

The financial statements of the Fund may include transactions with the following related parties to the Company:

| Related party | Relationship | Incorporated in |
|---|---|---|
| GLC Asset Management Group Ltd. | Wholly owned subsidiary | Canada |
| London Life Insurance Company | Indirect wholly owned subsidiary | Canada |
| The Canada Life Assurance Company | Indirect wholly owned subsidiary | Canada |
| Setanta Asset Management Limited | Indirect wholly owned subsidiary | Ireland |
| Putnam Investments, LLC | Wholly owned subsidiary of Lifeco | United States |
| GWL Realty Advisors Inc. | Wholly owned subsidiary | Canada |
| Canada Life Investments | Indirect wholly owned subsidiary | United Kingdom |
| IGM Financial Inc. | Subsidiary of Power Corporation | Canada |
| 801611 Ontario Ltd. | Wholly owned subsidiary | Canada |

a) GWL Realty Advisors Inc. provides property and asset management services to the Fund in the normal course of business at market terms and conditions.

As at December 31, 2019, $22,322 ($24,596 at December 31, 2018) in fees were paid to GWL Realty Advisors Inc.

b) The Company provides management, advisory and administrative services to the Fund which includes the services of key management personnel. In respect of these services, the Fund is charged management and other fees that are at market terms and conditions. Management and other fees for Preferred Series 2 categories are charged directly to the contractholder by redeeming units from their policy. For the Managed Money category, advisory and management service fees are charged directly to the contractholder by redeeming units from their policy. Management and other fees are calculated at set rates applied against the net assets at each valuation date. Management fees and other fees charged to other categories are calculated at set rates applied against the net assets of the specific category at each valuation date.

c) A separate investment management fee is charged directly to the transaction account of each Category A contractholder by the Company in the normal course of business at market terms and conditions. Accordingly such fees are not included as an expense in these financial statements for Category A units. All management fees, in the Statement of Comprehensive Income, are paid to the Company.

d) The amounts shown as "Due from (to) The Great-West Life Assurance Company" represent outstanding management fees, uncleared deposits/withdrawals and investment activity as at the December 31 valuation date of the Fund.

e) The Fund holds bonds issued by 801611 Ontario Ltd., with a fair value as at December 31, 2019 of $43,095 ($37,806 at December 31, 2018).

As at December 31, 2019, the Company held investments in the Fund with a value of $149,066 ($136,723 at December 31, 2018). The Canada Life Assurance Company and The Canada Life Insurance Company of Canada, which is a wholly owned subsidiary of The Canada Life Assurance Company, held investments in the Fund with a value of $114,089 and $28,374 respectively ($206,243 and $26,008 respectively at December 31, 2018).

f) The Fund invests in assets or underlying funds managed by GLC Asset Management Group Ltd. All investment transactions with the corresponding underlying funds are at quoted market prices.

## 10. Subsequent Event

Effective January 1, 2020, the Company, London Insurance Group Inc. (a subsidiary of the Company), London Life Insurance Company (an indirect subsidiary of the Company), Canada Life Financial Corporation (a subsidiary of the Company), and The Canada Life Assurance Company (an indirect subsidiary of the Company), amalgamated (the Amalgamation) into one company: The Canada Life Assurance Company (the Amalgamated Company). The Amalgamated Company is incorporated and domiciled in Canada, has the same registered address as the Company, and is wholly owned by Lifeco. As a result of the Amalgamation, the Fund is now offered by the Amalgamated Company.

# Supplemental Information

(unaudited)

The following tables show selected key financial information about the Fund and are intended to help users of the financial statements understand the Fund's financial performance.

## Management Expense Ratio (%)[1]

| For the years ended December 31 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Individual No-Load (IA) | **3.06** | 3.08 | 3.29 | 3.27 | 3.27 |
| Individual Back-End Load (IB) | **3.07** | 3.07 | 3.06 | 3.05 | 3.05 |
| Managed Money (IC) | **1.74** | 1.74 | 1.85 | 1.84 | 1.84 |
| 75/75 guarantee policy | **3.06** | 3.07 | 3.06 | 3.05 | 3.05 |
| 75/100 guarantee policy | **3.16** | 3.17 | 3.16 | 3.15 | 3.15 |
| 100/100 guarantee policy | **3.61** | 3.62 | 3.62 | 3.61 | 3.60 |
| PS1 75/75 guarantee policy | **2.60** | 2.61 | 2.59 | 2.58 | 2.58 |
| PS1 75/100 guarantee policy | **2.77** | 2.77 | 2.76 | 2.75 | 2.75 |
| PS1 100/100 guarantee policy | **3.15** | 3.16 | 3.15 | 3.14 | 3.13 |
| PS 75/75 guarantee policy | **1.95** | 1.95 | — | — | — |
| PS 75/100 guarantee policy | **2.05** | 2.05 | — | — | — |
| PPS 75/75 guarantee policy | **1.49** | 1.49 | — | — | — |
| PPS 75/100 guarantee policy | **1.66** | — | — | — | — |

## Portfolio Turnover Rate (%)[2]

| For the years ended December 31 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Bonds | **5.90** | 3.65 | 5.17 | 9.38 | 5.51 |
| Investment properties | **0.08** | 0.62 | 0.48 | — | 3.36 |

(1) The management expense ratio has been calculated as the aggregate of all fees, taxes, charges and other expenses incurred during the year divided by the average daily net asset value of the segregated fund attributable to the particular fee option. All ratios shown are on an annual basis. In circumstances where the particular fund or fee option did not have twelve months' exposure the ratios have been annualized. Management expense ratios are calculated for Individual Customer, Wealth Solutions clients only. No management expense ratio is calculated for the Preferred Series 2 guarantee policy option as such fees are charged directly to the contractholder.

(2) The portfolio turnover rates presented in the financial statements reflects the Canadian Life and Health Insurance Association Inc. (CLHIA) Guideline G2, Individual Variable Insurance Contracts Relating to Segregated Funds 12.3(a)(iii). The portfolio turnover rates indicate how actively the portfolio investments have been bought or sold throughout the year. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year.



GWL REALTY ADVISORS

# Corporate Information

GWL Realty Advisors Inc. is a leading North American real estate advisor focused on growth and on delivering strong, long-term returns for our clients. We provide asset management, property management, development and customized real estate advisory services to pension funds and institutional clients. GWL Realty Advisors Inc. oversees a diverse portfolio of office, industrial, retail, residential and mixed-use assets as well as a dynamic pipeline of new development projects. In the United States, we provide real estate advisory services through our wholly owned subsidiary, EverWest Real Estate Investors, headquartered in Denver, Colorado.

## Senior Management

**Ralf Dost**
President

**Glenn Way**
Executive Vice President &
Chief Operating Officer

**Don Harrison**
Executive Vice President
Business Development & Client Services

**Tanyss Price**
Senior Vice President &
Chief Financial Officer

**Jeff Fleming**
Executive Vice President
Investments & Development

**Rob Kavanagh**
Senior Vice President
Asset Management,
Western Canada

**Steven Marino**
Senior Vice President
Portfolio Management

**Anne Morash**
Senior Vice President
Multi-Residential

## Office Locations

**Vancouver**
1600 – 650 West Georgia Street
Vancouver, BC V6B 4N7
Main Line: (604) 713-6450
Main Fax: (604) 683-3264

**Calgary**
530 8th Avenue SW
Suite 1900
Calgary, AB T2P 3S8
Main Line: (403) 777-0410
Main Fax: (403) 269-3266

**Edmonton**
10065 Jasper Avenue
Suite 1800
Edmonton, AB T5J 3B1
Main Line: (780) 944-1222
Main Fax: (780) 428-4047

**Winnipeg**
433 Main Street
Suites 700 & 800
Winnipeg, MB R3B 1B3
Main Line: (204) 926-5394
Main Fax: (204) 946-8849

**Mississauga**
One City Centre Drive
Suite 300
Mississauga, ON L5B 1M2
Main Line: (905) 275-6600
Main Fax: (905) 615-8128

**Toronto**
33 Yonge Street
Suite 1000
Toronto, ON M5E 1G4
Main Line: (416) 359-2929
Main Fax: (416) 359-3031

**Ottawa**
255 Albert Street
Suite 502
Ottawa, ON K1P 6A9
Main Line: (613) 238-2333
Main Fax: (613) 238-2006

**Montreal**
2001 Robert-Bourassa Boulevard
Suite 1820
Montreal, QC H3A 2A6
Main Line: (514) 350-7940
Main Fax: (514) 350-7954

**Halifax**
1949 Upper Water Street
Suite 220
Halifax, NS B3J 3N3
Main Line: (902) 421-1122
Main Fax: (902) 423-1894

**Corporate Head Office**

GWL Realty Advisors Inc.
33 Yonge Street, Suite 1000
Toronto, ON  M5E 1G4

GWL Realty Advisors
@gwlra
@gwlra

**gwlra.com**

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