

# Q2

BULLETIN 2009

## GWL Real Estate Fund

**IN THE SECOND QUARTER OF 2009, THE FOCUS HAS BEEN ON BUILDING LIQUIDITY IN THE FUND IN ORDER TO LIFT THE TEMPORARY SUSPENSION ON WITHDRAWALS AND TRANSFERS OUT. SEVERAL COURSES OF ACTION CONTINUE TO BE PURSUED. THESE INCLUDE ONGOING REVIEWS OF THE ENTIRE PORTFOLIO TO IDENTIFY APPROPRIATE DISPOSITION CANDIDATES; NEGOTIATIONS FOR THE SALE OF SELECTED ASSETS AT FAIR VALUE; AND THE CONTINUED MANAGEMENT OF CAPITAL EXPENDITURES AND FINANCING.**

There are many challenges to overcome in order to meet the goal of lifting the temporary suspension on Fund redemptions. The recession, with its ensuing job losses, tight credit, continuing economic uncertainty and volatile equity markets, has resulted in a real estate market where buyers and sellers remain unsure of pricing. Accordingly, there have been few trades, especially for larger properties.

Across the country, sublease space continues to increase as companies downsize jobs and space. Markets such as Calgary, where companies took on excess space to prepare for growth, are now seeing expansion plans halted. Discounted rates for sublease space coupled with increasing vacancies continue to put pressure on rents. This combination also puts downward pressure on values.

To the end of the second quarter, job losses in manufacturing, warehousing and logistics were also joined by declines in finance, insurance and professional services. Unemployment rates are expected to increase and, as a result, consumer confidence remains low. The Fund Manager continues to monitor the weightings of certain tenancies in the portfolio and remains confident in the long-term prospects of the Fund's well-balanced mix of tenants. At the end of the second quarter, the Fund's vacancy rate was 6.8%, compared to 6.1% at the end of 2008.

The GWL Real Estate Fund has performed very well over time and continues to be an excellent component of a well-balanced portfolio. GWL Realty Advisors remains committed to excellence in the management of the Fund's well-diversified portfolio of high-quality assets.

### WHAT'S NEW?

There were no acquisitions in the second quarter of 2009. Activity was focused on the continuing disposition process and on development projects initiated in 2007 and 2008. In the second quarter, the Fund had three dispositions. The first was the sale of a 100% interest in 33 Banner, a 220-unit multi-family asset in Ottawa. This asset was acquired by the Fund in 1998 for \$10.4 million and was sold for \$22.4 million, which compares favourably to its most recent valuation of \$21.0 million.



PURDY'S WHARF, HALIFAX, NS

The Fund also disposed of a 100% interest in a 98,254 sf, Class B suburban office located in Mississauga, Ontario. The property was acquired in May 1997 for \$8.0 million and was sold for \$15.4 million, slightly below its most recent valuation of \$15.9 million. This disposition served a two-fold purpose: it worked towards creating liquidity in the Fund and reduced the portfolio's weighting in suburban office assets, which are currently facing increasing vacancy, rental rate and value risks.

The Fund continued to sell non-core Alberta assets in the second quarter with the disposition of a 70% interest in Golden Acres, a 57,510 sf retail asset located in Calgary. Acquired in June of 2006 for \$8.5 million, this asset was sold for \$7.3 million after being valued at \$7.3 million.

The Fund's net operating income for the first six months of 2009 was \$118.9 million, compared to \$99.0 million for the same period in 2008. This growth can be attributed to both proactive leasing and new acquisitions. However, as noted, continuing job losses and other recessionary pressures are putting downward pressure on occupancy levels and cash flow. Accordingly, this positive trend may not be sustained in the second half of the year.

The Fund's cash balance increased from \$50.1 million at the end of the first quarter to \$72.8 million at the end of Q2. Fund management will continue to rigorously manage capital spending and new leasing opportunities to further enhance income growth for the rest of the year with the goal of continuing to increase the Fund's cash balance. To the end of the second quarter, the Fund's total return was 2.3%, consisting of a 3.2% income return and a -0.9% capital return.

FUND  
FACTS

GWL REAL ESTATE FUND, ESTABLISHED IN 1981, IS CANADA'S LARGEST SEGREGATED REAL ESTATE FUND. THE FUND INVESTS IN A PORTFOLIO OF 168 HIGH-QUALITY, INCOME-PRODUCING PROPERTIES DIVERSIFIED BY TYPE AND LOCATION, WITH A GROSS VALUE OF OVER \$3.6 BILLION. THE FUND'S OBJECTIVE IS TO PROVIDE INVESTORS WITH STABLE INCOME RETURNS AND THE OPPORTUNITY FOR LONG-TERM CAPITAL APPRECIATION.

168 properties, gross market value \$3.6 billion at June 30, 2009

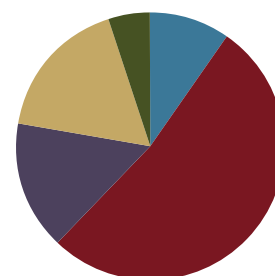
## &gt; by type

## VACANCY

	%
Retail	3.9
Office	7.0
Industrial	8.4
Residential	4.7
Total by type	6.8

DIVERSIFICATION  
(Gross)

Retail	9.5%
Office	52.6%
Industrial	15.5%
Residential	17.3%
Miscellaneous	5.1%



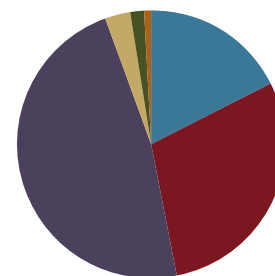
## &gt; by region

## VACANCY

	%
British Columbia	8.4
Alberta	4.2
Ontario	7.2
Quebec	11.2
Atlantic	2.2
U.S.	0.0
Total by region	6.8

DIVERSIFICATION  
(Gross)

British Columbia	17.5%
Alberta	29.3%
Ontario	47.5%
Quebec	3.2%
Atlantic	1.5%
U.S.	1.0%



## GROSS RETURN (BEFORE FEES)

	December 31					YTD
	2004	2005	2006	2007	2008	June '09
Income	7.1%	7.0%	6.5%	6.0%	5.7%	3.2%
Capital	1.0%	7.2%	11.6%	9.9%	(6.2%)	(0.9%)
Total	8.1%	14.2%	18.1%	15.9%	(0.5%)	2.3%
Total return to individuals (net of fees)*	5.2%	11.1%	14.9%	12.7%	(3.2%)	0.8%

## FUND GROWTH (\$ MILLIONS)

	December 31					YTD
	2004	2005	2006	2007	2008	June '09
Real estate	\$ 1,670	\$ 1,963	\$ 2,576	\$ 3,321	\$ 3,632	\$ 3,603
Cash	\$ 198	\$ 331	\$ 333	\$ 560	\$ 13	\$ 72.8
Short-term assets and liabilities	\$ 6	\$ (32)	\$ (44)	\$ (45)	\$ (57)	\$ (44)
Gross fund value	\$ 1,874	\$ 2,263	\$ 2,865	\$ 3,836	\$ 3,588	\$ 3,632
Net fund value	\$ 1,380	\$ 1,777	\$ 2,383	\$ 3,282	\$ 2,985	\$ 3,049
Debt/gross fund value	26.3%	21.5%	16.8%	14.4%	16.8%	16.1%

\*Fees may vary by client.