



33 YONGE ST, TORONTO, ON



2315 COHEN, MONTREAL, QC



2220 MARINE DR, OAKVILLE, ON

Led by the capital appreciation component of return, the London Life Real Estate Fund had its strongest in-quarter performance since 2013, delivering a 2.7% gross return and boosting the year-to-date total to 3.7%. The Fund's second quarter highlights are summarized below:

**Investment Activity:** The Fund has secured three significant investments which are scheduled to close over the third quarter of 2018. Collectively, they will represent the addition of over \$185 million of gross real estate value, and will improve the overall asset mix and leasing profile for the portfolio. Details will follow in subsequent updates.

Late last year, management was successful in re-leasing 1141 Kennedy Road, a former 'Future Shop' building with 'GoodLife – Fit4Less' on a 15 year term. The asset was identified as a non-core holding, targeted for disposition and was sold in April for \$3.25 million.

**Financing Activity:** 2220 Marine Drive is a 149 unit, Class "A", multi-residential asset located on the shores of Lake Ontario in Oakville, ON. With favorable debt conditions present, and the outlook for continued monetary stimulus retraction from the Bank of Canada, management elected to leverage the asset with a new \$10 million CMHC insured mortgage, carrying an interest rate of 2.9%. The Fund loan-to-value ratio sits conservatively at 13.3%, well within the policy maximum of 35%.

Opportunities to add additional leverage to select assets are being actively considered.

**Leasing Activity:** 2315 Rue Cohen is a new generation, 32 foot clear height, single-tenant Industrial building comprising 110,751 square feet, located in the heart of the Saint-Laurent Industrial area in Montreal, QC. In light of a recent tenant departure, management moved swiftly to minimize downtime and secured a new 10 year tenancy for the property. The deal, which begins in November of 2018, will provide the Fund with predictable and stable cash flow over an extended horizon.

Portfolio vacancy ended the quarter at 6.7%, up 80 bps from the previous period. Vacancy reporting does not capture forward committed leasing, and thus worth noting that the quarter over quarter uptick is directly related to the transaction described above and its associated timing.

**Sustainability:** 33 Yonge Street in Toronto, ON, received a Commercial Real Estate Sustainability Trailblazer (CREST) Energy Management Leadership Award, as part of the Building Owners and Managers Association (BOMA)

of Toronto's Race2Reduce program. The award recognizes commercial real estate leaders that have demonstrated commitment to improve the energy efficiency and operational best practices in their buildings.

**Market Commentary:** Investment activity in the Canadian Commercial Real Estate industry remains robust. This is especially evident with respect to core institutional product in key markets across the country where fundamentals are very strong. The 100 basis point increase in the overnight rate since last summer has contributed to the narrowing spread between 10 year bond yields and average cap rates, though it is worth noting that through the last cycle the spread narrowed a further 120 bps before reversing course. Investors have come to appreciate that real estate, with its limited correlation to equity markets, is a key to overall portfolio diversification. This has continued to drive demand, and consequently pricing, within the asset class.

## 89 PROPERTIES, GROSS MARKET VALUE OF \$2.6 BILLION, AT JUNE 30, 2018

The London Life Real Estate Fund was established in 1998. The Fund invests in 89 high-quality, income-producing properties diversified by type and location, with a gross market value of over \$2.6 Billion. The Fund's objective is to provide investors with stable income returns and the opportunity for long-term capital appreciation.

### GROSS RETURN

	Annualized at Y/E			YTD
	10 Year	5 Year	3 Year	30-Jun
Income	5.0%	4.3%	4.3%	2.1%
Capital	1.9%	1.6%	0.7%	1.6%
Total	6.9%	5.9%	5.0%	3.7%

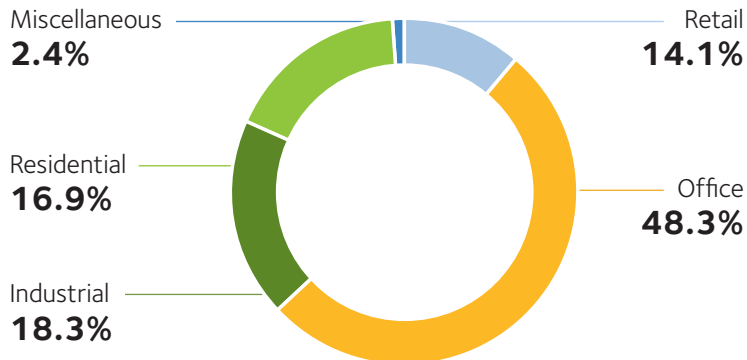
Note: Differences due to rounding of decimals

### FUND GROWTH (\$ Millions)

	2013	2014	2015	2016	2017	YTD 30-Jun
Real estate	\$ 1,971	\$ 2,050	\$ 2,247	\$ 2,374	\$ 2,521	\$ 2,584
Cash	\$ 522	\$ 566	\$ 398	\$ 285	\$ 379	\$ 392
Short term assets & liabilities	\$ (24)	\$ (14)	\$ (34)	\$ (25)	\$ (35)	\$ (38)
Gross fund value	\$ 2,469	\$ 2,602	\$ 2,611	\$ 2,635	\$ 2,865	\$ 2,938
Net fund value	\$ 2,044	\$ 2,188	\$ 2,215	\$ 2,324	\$ 2,444	\$ 2,547
Debt/gross fund value	17.2%	15.9%	15.2%	11.8%	14.7%	13.3%

Note: Differences due to rounding of decimals

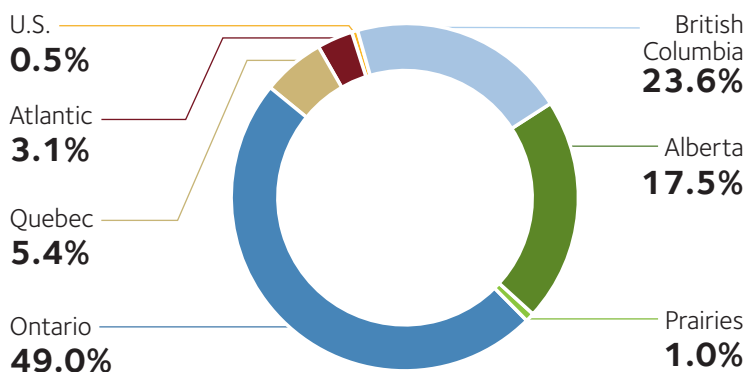
#### DIVERSIFICATION BY TYPE (Gross)



#### VACANCY

Retail	3.8%
Office	10.5%
Industrial	5.3%
Residential	2.9%
Total by type	6.7%

#### DIVERSIFICATION BY REGION (Gross)



#### VACANCY

British Columbia	5.7%
Alberta	8.4%
Prairies	0.0%
Ontario	2.6%
Quebec	31.4%
Atlantic	8.1%
U.S.	63.9%
Total by region	6.7%