

# 2021 year in review

Canada Life combined open participating account



May 2022

## Active management in the participating account

### Breaking down our activity in 2021

Canada Life's combined open participating account assets are actively managed every day by teams of experienced investment professionals. These teams strive to maximize risk-adjusted returns for participating policyowners. With a focus on diversification across and within asset classes, these teams help add quality assets for the long term – and are not swayed by chasing short-term returns. Benefitting from the account's size and access to industry-leading asset managers, the participating account is well positioned to continue to deliver on its promises to policyowners for generations to come.

In 2021, the asset management teams were especially active, working hard to execute on the latest evolution in Canada Life's asset mix strategy. Throughout the year, these teams **delivered on our commitment** to reach our updated 30% target of our assets backing liabilities in non-fixed income investments. This included **repositioning more than \$2 billion** in U.S. and Canadian real estate, U.S. public equity and various private equity strategies.



## 2021 key stats

- ✓ Total assets including surplus in the participating account **grew more than \$4.3 billion** in 2021 to **\$49.5 billion** – maintaining Canada Life’s combined open participating account as the largest in the industry.
- ✓ Surplus grew by approximately \$270 million to more than \$3.1 billion.
- ✓ Total **policyowner dividends** of **\$1.26 billion** were distributed in 2021.
- ✓ Total **death claims** of **\$802 million** paid.
- ✓ **Private equity** commitments of **\$546 million**, committing to invest in nine mandates offered by industry-leading firms such as Northleaf Capital Partners and Sagard.
- ✓ Acquired **14** physical, directly owned **real estate properties** in nine urban locations throughout North America as part of our unique U.S. real estate strategy.
- ✓ Actively purchased or originated **\$5.9 billion in new fixed income assets** – including public bonds, mortgages and private placements.

## 2021 Canada Life participating account performance

Participating account asset class (%)	Including Surplus
 Public bonds and private placements	3.2%
 Mortgages	3.1%
 Non-fixed income	22.1%
 Participating account return <sup>1</sup>	7.5%

The participating account return contributes to the dividend scale interest rate<sup>2</sup> which is then used in calculating the investment component of the dividend scale. Insurance claims, expenses, taxes, policy terminations, and other factors also play a role in calculating dividends.

1. The participating account return is the return on the participating account assets for the open and closed Canada Life blocks that back the participating account liabilities and surplus, after investment expenses are deducted. Investment expenses may vary yearly due to changes in the total participating account asset mix, economies of scale and other factors. The participating account return is reported for the calendar year Jan. 1, to Dec. 31. The participating account return is a short-term indicator of investment performance. It is determined in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), effective Jan.1, 2011, with the exception of unrealized gains and losses on fixed income investments. These are excluded since mortgages and private placements in the participating account are generally held to maturity. Common stock and real estate returns are valued on a marked-to-market basis and realized and unrealized gains and losses are recognized as incurred. Realized gains and losses on bonds are recognized as incurred. Participating account return calculation methodologies vary across competitors and should not be assumed to be comparable.

2. The dividend scale interest rate is based on the smoothed investment return on the assets backing participating account liabilities. It does not include the return on assets backing the participating account surplus.



## Public bonds

The participating account's public bond holdings are managed by a specialized public bond team based in Winnipeg. They invest in high-quality, investment-grade-government and corporate bonds based on formally approved guidelines. Diversification is maintained across sectors, geographies and issuers.

In 2021, the public bond team continued to actively position the account to maximize risk-adjusted returns and maintain strong liquidity.

- ✓ Actively purchased \$1.6 billion and divested \$1.7 billion of publicly traded bonds.
- ✓ Invested across various bond term lengths, with **47.6% of purchases being at the nine- to 10-year term length.** More than 90% of corporate bonds issued in Canada during 2021 was at the one- to 10-year term length.
- ✓ Continued to increase the participating account's exposure to U.S. public bonds.

Overall, the participating account was a **net-seller of government bonds** and a **net-purchaser of corporate bonds** – continuing a multi-year trend shifting exposure towards BBB rated assets to enhance risk-adjusted yield opportunities.

### Continued shift from government bonds to corporate bonds

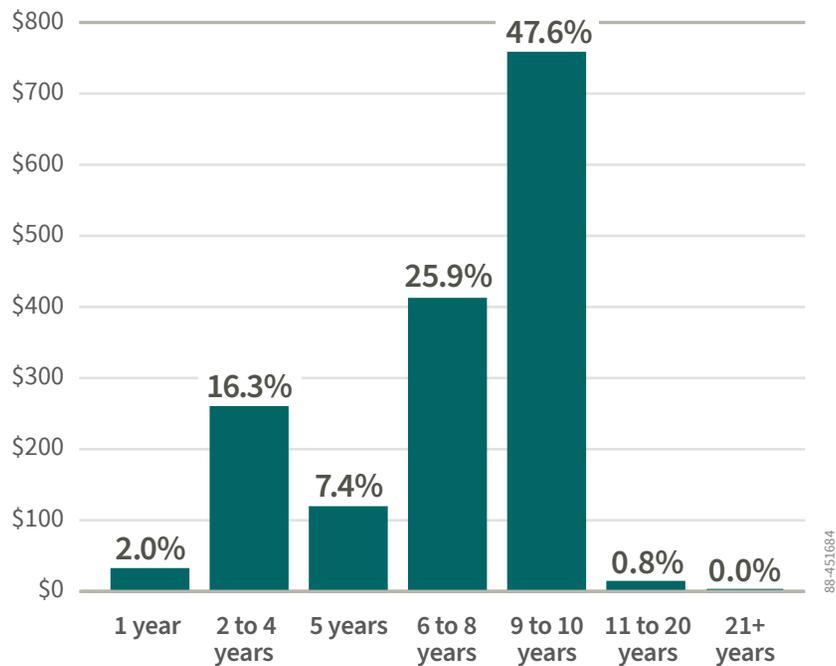
**Public bonds: net purchases and sales in 2021 (including surplus) (\$ millions)**



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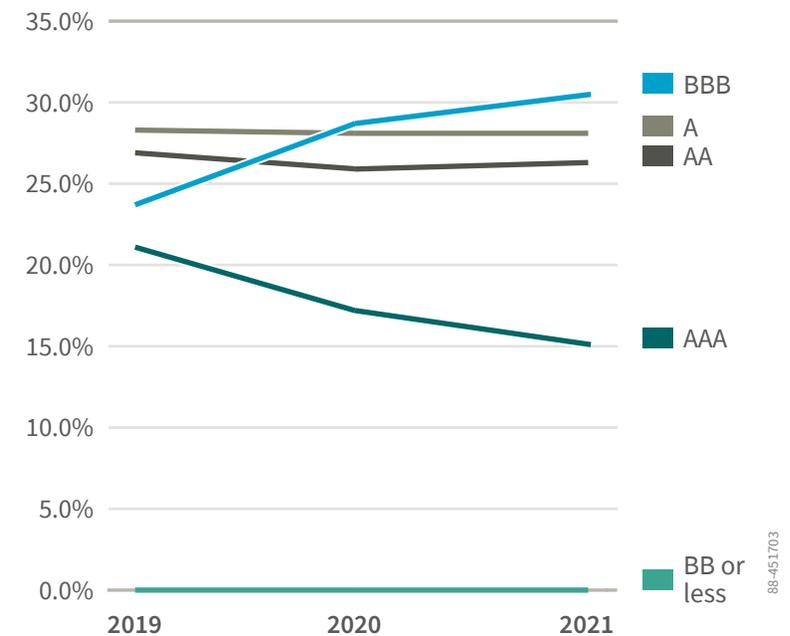
Public bond purchases in 2021 consistent with availability in Canadian market

Public bond term purchases in 2021 (\$ millions) (including surplus)



Investment grade focus remains in place with continued shift towards BBB public bonds

Public bonds asset quality mix (excluding surplus)





## Mortgages

### An investment team like no other

A specialized mortgage team with five regional offices in major centres across Canada manages the participating account's commercial mortgages. The team acquires high-quality mortgages that meet our underwriting standards and diversification criteria.

The residential mortgage program is managed internally, with originations generally sourced from referrals by advisors.

#### In 2021, the Commercial Mortgage team:

- ✓ **Originated \$1.8 billion** in commercial mortgages, with significant opportunities in the first half of 2021.
- ✓ Increased the participating account's exposure to industrial and multi-family residential mortgages, while reducing exposure to office mortgages.
- ✓ Grew the participating accounts holdings in Ontario, British Columbia and the U.S./U.K., while lowering exposure to Alberta.

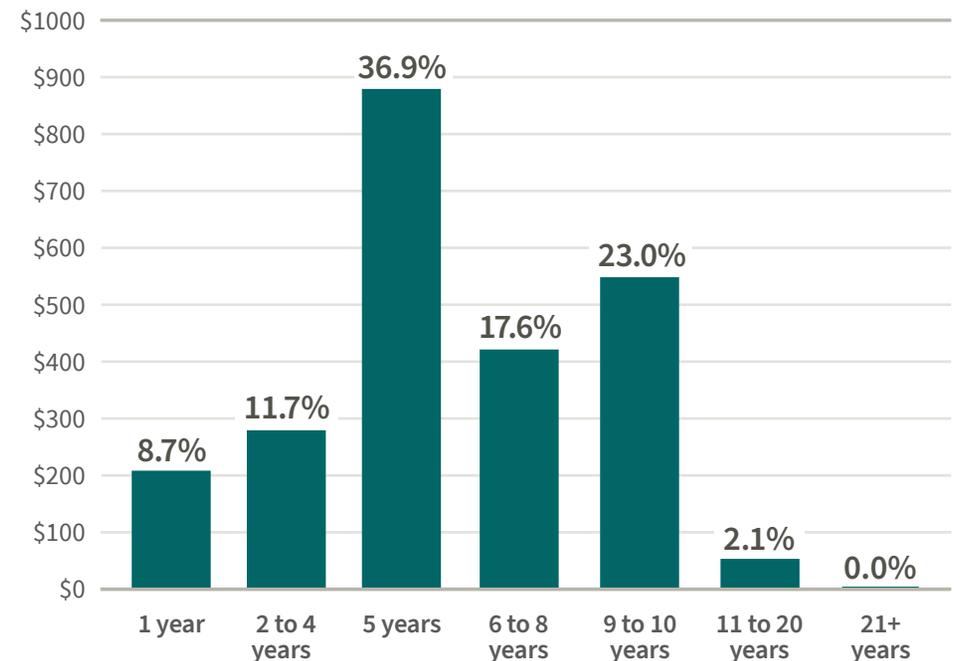
#### In 2021, the Residential Mortgage team:

- ✓ **Originated \$548 million** in residential mortgages, diversified across various urban locations in Canada.

Commercial mortgages originated for the participating account generated an excess yield of **150 basis points** over Government of Canada bonds in 2021 at the five-year term.

### Mortgages originated for the participating account in 2021 were focused mainly on the five- to 10-year term length

#### Mortgage term originations in 2021 (\$ millions) (including surplus)





## Private placements

A specialized global team manages a diversified portfolio of private placements for the participating account. Private placements are bond investments made through private agreements with various borrowers. These investments go through a disciplined credit process and are thoroughly researched, underwritten and actively managed. The goal is to provide a higher yield over comparably rated public market bonds, with an emphasis on maintaining credit quality.

In 2021, Great-West Lifeco announced the formation of a Global Private Debt team, with their head office located in Toronto. This newly formed team will allow the participating account to access a wider range of global private placement opportunities.

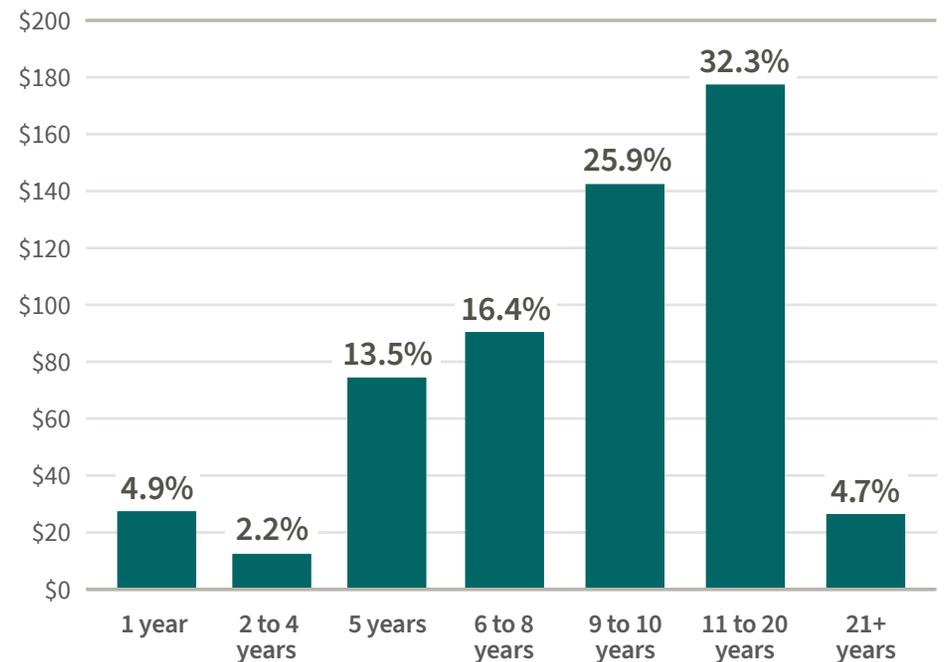
### In 2021, the private placement team:

- ✓ Originated **\$1.4 billion** of domestic and foreign private placement assets for the participating account.
- ✓ Increased our exposure to basic materials and transportation sectors, with continued focus on hydro, solar and wind power generation.
- ✓ Increased the participating account's foreign content, by continuing to invest in U.S. and U.K. private placements.
- ✓ Continued to originate across various term lengths, with **37% of originations being at the 11+ year term length. Longer term private placement holdings can generate increased yield given the illiquid nature of the asset.**

Domestic private placement originations generated an excess yield of **166 basis points** relative to Government of Canada bonds at the nine- to 10-year term length.

### Private placements with term lengths of 11+ years represented more than 37% of originations in 2021

#### Private placements term originations in 2021 (\$ millions) (including surplus)





## Public equities

Most public equity assets in the participating account are actively managed by experienced teams working to generate performance above relative benchmarks.

Actively managed public equity holdings are managed by Mackenzie Investments and Putnam Investments – both industry leading public asset management firms.

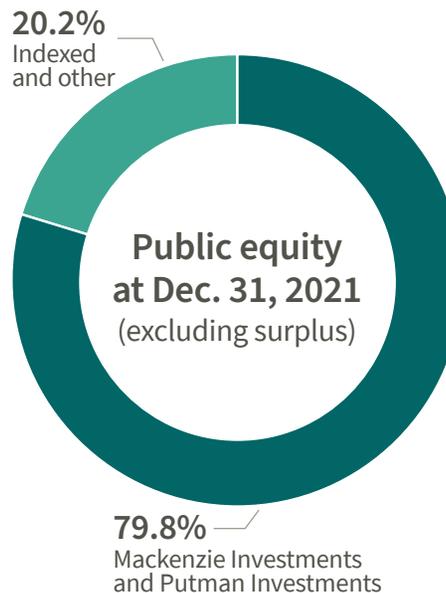
### In 2021:

- ✓ Canada Life worked diligently with Mackenzie Investments to re-position the participating account’s Canadian public equity holdings, following the transition of management of those assets at the beginning of the year. This included **adding new Mackenzie mandates and optimizing allocation weights to improve the overall risk-adjusted return expectation.**
- ✓ The participating account began also investing through Putnam Investments, an industry-leading U.S. asset management firm with \$202 billion in assets under management.
- ✓ As a result of the transition in management and exposure to a wider range of investable options, the account **increased its diversification of public equity holdings across both style and market capitalization.**
- ✓ The account continued to **grow its U.S. public equity** exposure, importantly diversifying across a greater range of high-quality companies, industries and economic drivers. The U.S. exposure **increased to 25.4%** of public equity holdings.

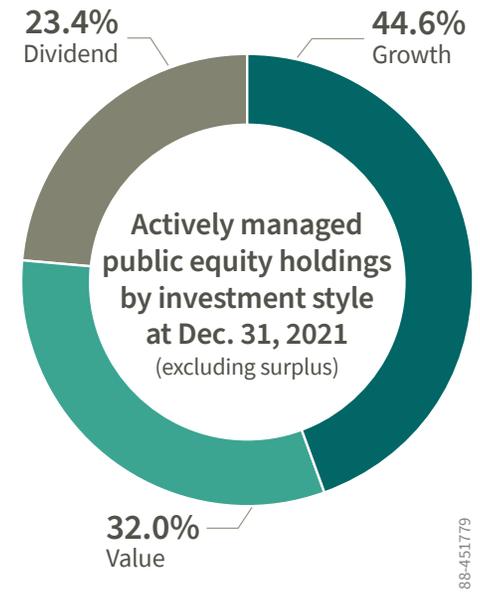
The Mackenzie Investments Canadian actively managed holdings outperformed the S&P/TSX Index by 138 basis points in 2021 driven by strong results from both value and dividend mandates.

The Canada Life combined open participating account public equity holdings are diversified across several investment styles.

The majority of Canada Life combined open participating account public equity holdings are actively managed by Mackenzie Investments and Putnam Investments.



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## Real estate

GWL Realty Advisors Inc. (GWLRA) and EverWest Real Estate Investors manage the participating account's direct real estate holdings.

Direct real estate holdings are focused on institutional grade income producing properties in Canadian and U.S. regions with strong economic bases and favourable growth potential. Holdings are well diversified across sectors. **Most direct properties are wholly owned by the Canada Life participating account, with minimal use of leverage.**

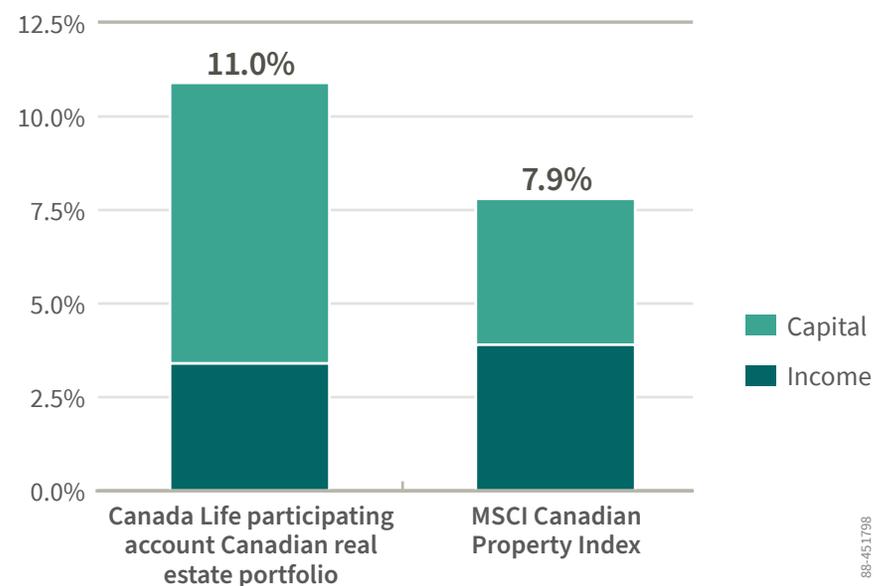
At times, the participating account may have exposure to indirect real estate holdings to enable portfolio management and rebalancing.

2021 was an extremely active year for the direct real estate teams, as they worked to increase the participating account's allocation to its 12% target level. **During the year, the teams:**

- ✓ Added more than **\$600 million in directly owned properties** to the account, bringing the number of assets to 76.
- ✓ Increased the account's exposure to industrial and multi-family residential properties.
- ✓ Continued to **grow in Canada by adding four properties**. This includes two Vancouver industrial investments, an Ottawa grocery-anchored asset and a Richmond Hill land parcel slated for future development.
- ✓ Actively added properties in the **U.S., adding nine properties** including several industrial properties, a multi-family residential building in Charlotte, N.C, and a New York City land parcel for future Industrial development.
- ✓ Continued to **execute on various ongoing multi-family residential developments** on track for completion, including the 455 Rene Levesque development project (Montreal, 2022) and Enfield Place (Toronto, 2024).

The directly owned real estate properties managed by GWL Realty Advisors and EverWest Real Estate Investors **out-performed the MSCI Canadian Property Index by 310 basis points** in 2021 driven by below-benchmark exposure to retail assets and above-average exposure to industrial assets.

### Canada Life participating account direct real estate performance relative to the MSCI Canadian Property Index in 2021



Historical average annual returns are geometric means. Performance is specific to directly-held real estate in the Canada Life participating account.

The purpose of this chart is to highlight the strong performance of Canada Life participating account Canadian real estate portfolio relative to the MSCI Canadian Property Index benchmark and should not be used to extrapolate the direct impact on the dividend scale or dividend scale interest rate.

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\$4.9 billion asset class value

More than 80% of the participating account's real estate exposure is through directly owned properties in both Canada and the U.S.



Example of U.S. asset acquired by the participating account in 2021

The Mint, Charlotte, NC  
(Photo courtesy of GWL Realty Advisors)



# Private equity

Private equity investments are overseen by an internal team based out of Denver, Colorado. Underlying private equity investments are managed by a select group of private equity firms based primarily in Canada and the U.S.

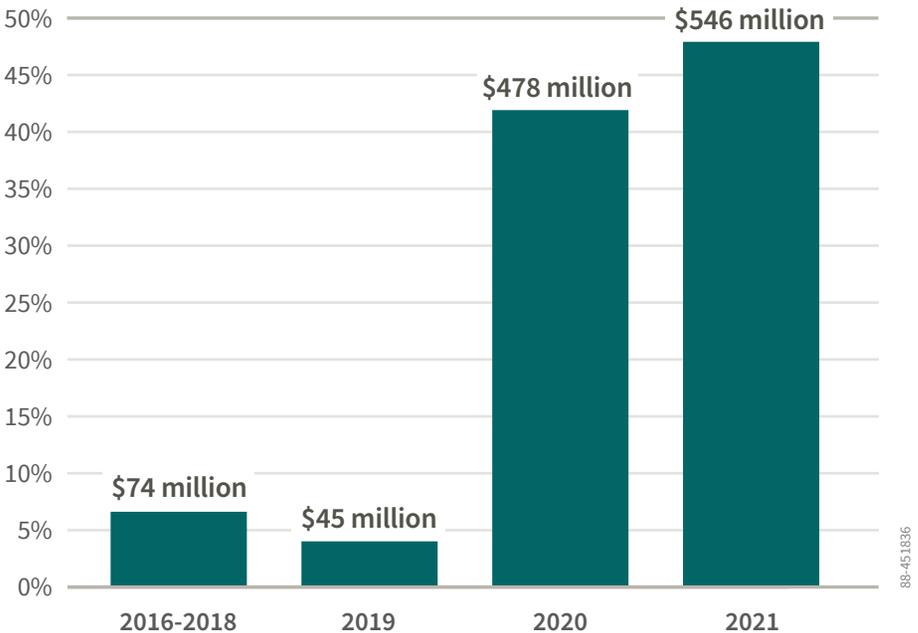
2021 remained a very active year for the participating account’s private equity team as they work to grow the account’s exposure to its 4% allocation target. **During the year, the team was busy investing through key partners in both Canada and the U.S. including:**

- ✓ Leveraging our ownership stake in Northleaf Capital Partners
- ✓ Accessing investment opportunities at Sagard through our ties to Power Corporation of Canada and our recently acquired ownership stake
- ✓ Investing with some of the largest and most well renowned private equity firms in the U.S.

In 2021 specifically, the Canada Life combined open participating account **committed more than half a billion (\$546 million CDN) across nine different private equity mandates** – bringing our total Canada Life combined open participating account private equity commitments to more than \$1.1 billion to date.

The participating account committed \$546M in 2021 across a range of private capital strategies including private equity/buyout, private credit and infrastructure equity.

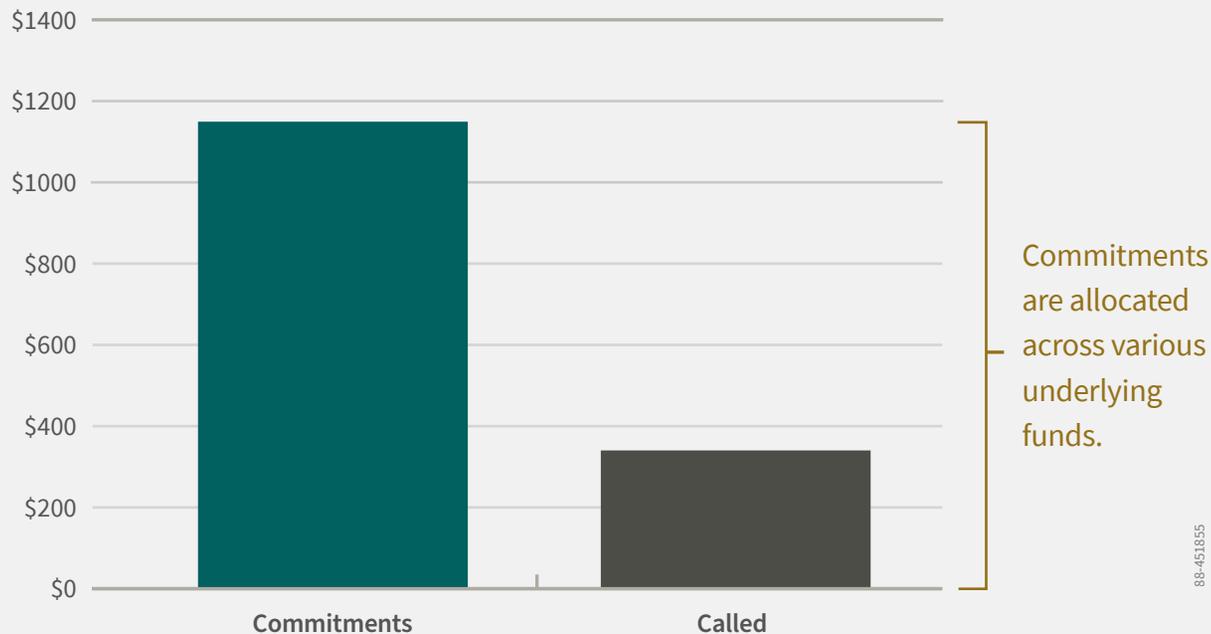
Private equity commitments by year



\$375 million asset class value

Of the \$1.1 billion committed by the participating account, **about 30% has been called\*** to-date by those fund managers.

**Private equity: commitments vs. called at Dec. 31, 2021**  
(excluding surplus) (\$ millions)



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For more information on our commercial real estate, commercial mortgages and private equity approach see [Investing with conviction.](#)

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\* A capital call is the act of collecting committed funds from limited partners.