COMMERCIAL REAL ESTATE

Improving portfolio risk/return

Real estate is the third largest asset class in the U.S. behind fixed income and equities; however, the overwhelming majority of that allocation has come from institutional investors with relatively little participation from individual investors. Institutional investors have long been drawn to this asset class due to its generally stable income returns, potential for capital appreciation, diversification benefits, and the hedge it often provides against inflation.

IN PARTNERSHIP WITH *SLC MANAGEMENT*

We believe there exists a compelling opportunity for individual investors to benefit from these same attractive attributes and potentially improve their long-term portfolio characteristics by increasing their allocation to real estate.

Investors can access real estate via the private markets (through direct or indirect ownership of physical properties) or via the public markets (through shares of real estate investment trusts). Access via the public markets typically introduces higher volatility as pricing tends to exhibit higher correlation to public equity markets. The two main categories of real estate are residential and commercial. Residential real estate typically includes homes ranging from single family houses to small multi-unit apartment buildings, while commercial real estate typically includes buildings with five or more units as well as office, industrial and retail properties. Commercial real estate makes up the majority of private market investments with investors typically looking for a combination of rental income as well as longer term capital appreciation.

Real Estate

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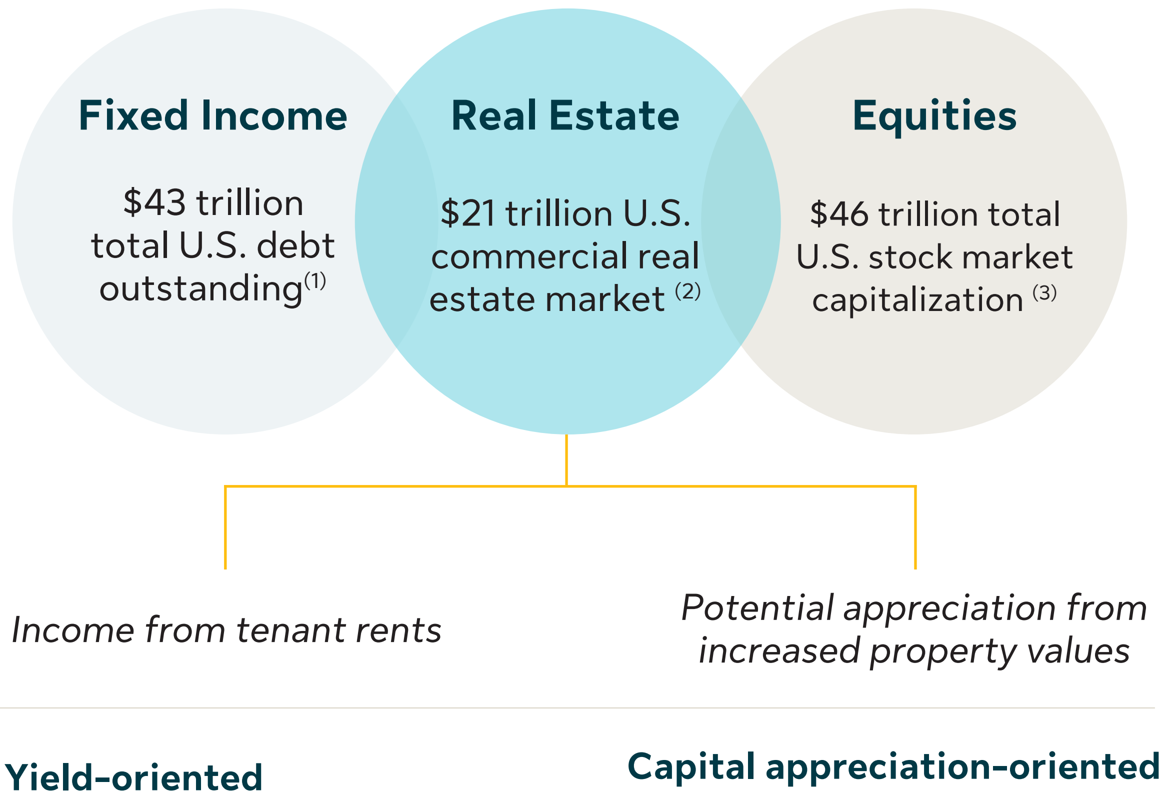
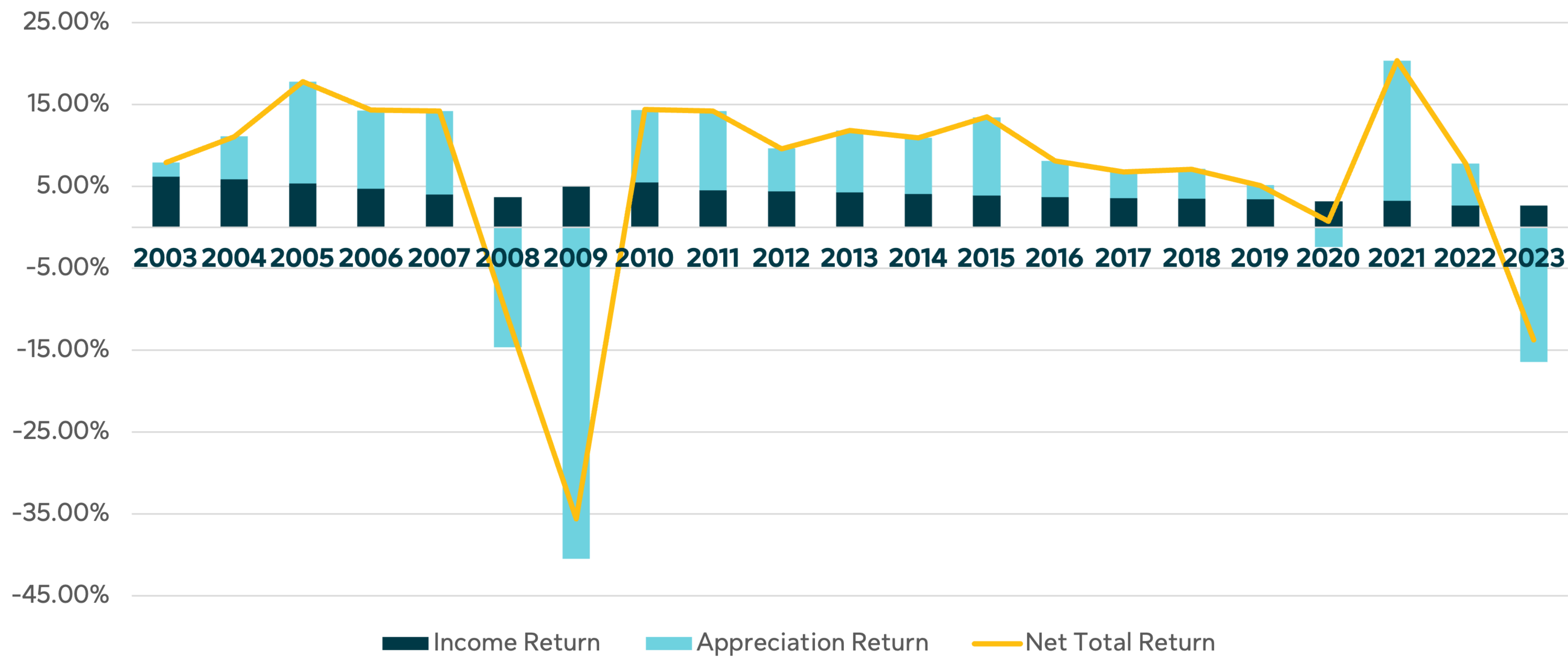


(1) Securities Industry and Financial Markets Association (SIFMA), June 2023
(2) Nareit, June 2021
(3) Securities Industry and Financial Markets Association (SIFMA), December 2023

Stable income-driven returns and capital appreciation

Commercial real estate investment opportunities range from mature properties typically offering high and predictable levels of cash flow to new construction with significant potential for capital appreciation, but little or no current cash flow. That said, most types of commercial real estate tend to generate income in the form of rent from tenant leases, and this income has generally led to high and stable returns for the asset class over the past 20 years.

Real Estate Components of Total Return

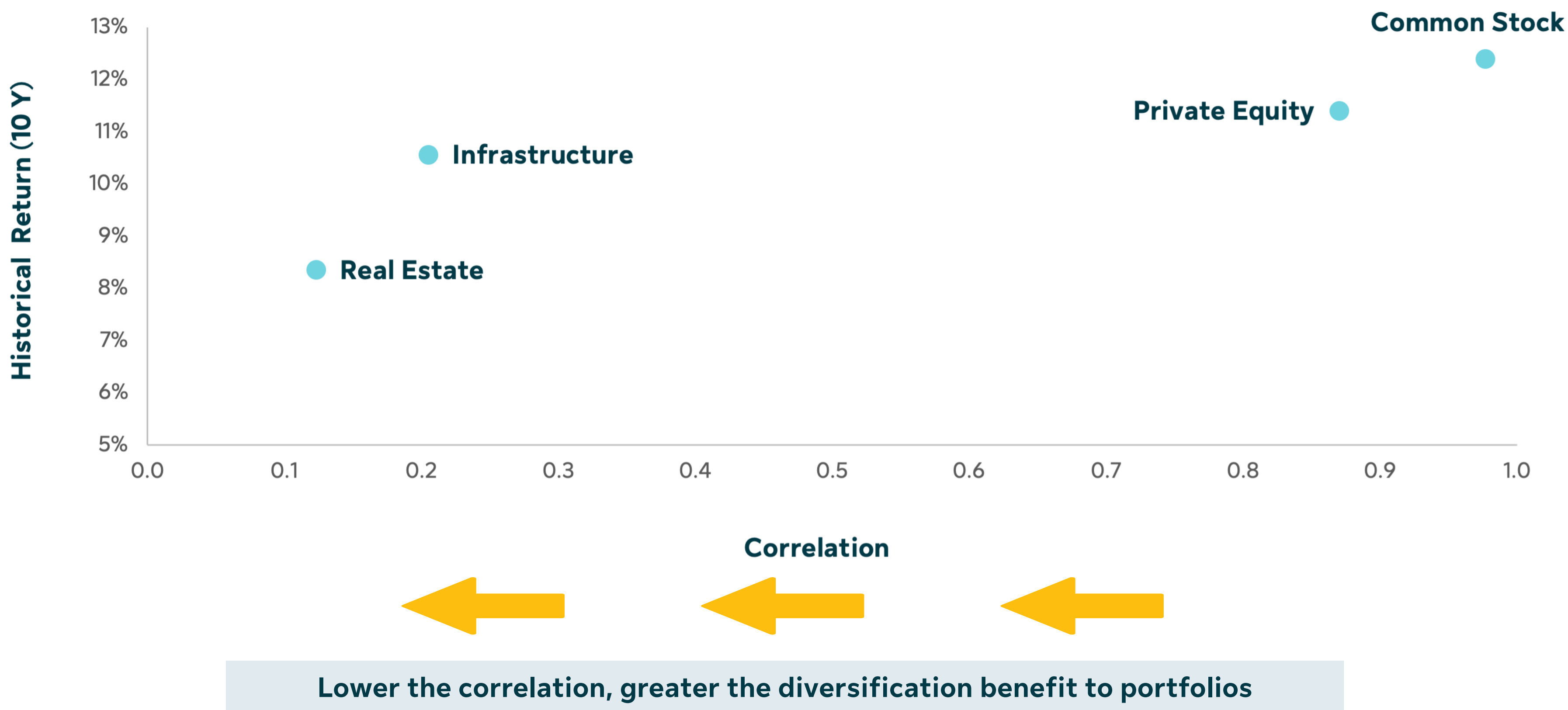


Source: National Council of Real Estate Investment Fiduciaries (NCREIF). Income Return represented by the cash flow generated by the property in the form of rental income or other operational income, divided by the initial investment amount; Appreciation Return represented by the capital gains or losses measured in the property's market value over time. **Past performance does not guarantee future results.** It is not possible to invest directly in an index. See disclosures for definitions and important additional information.

Diversification benefits

As well as the attractive return profile, commercial real estate has also exhibited a low historical correlation to publicly traded stocks and bonds. When added to a traditional 60/40 stock/bond portfolio, an allocation to commercial real estate can reduce overall portfolio volatility. The lower correlation is driven by several factors, including: **(1)** commercial real estate undergoes periodic property appraisals, often resulting in more stable evaluations, while stocks and bonds are continuously valued and **(2)** commercial real estate has displayed a high correlation to inflation whereas stocks and bonds can be more negatively impacted by rising inflation and the rate rises that typically accompany it.

Correlation to a Typical 60/40 equity/bond portfolio

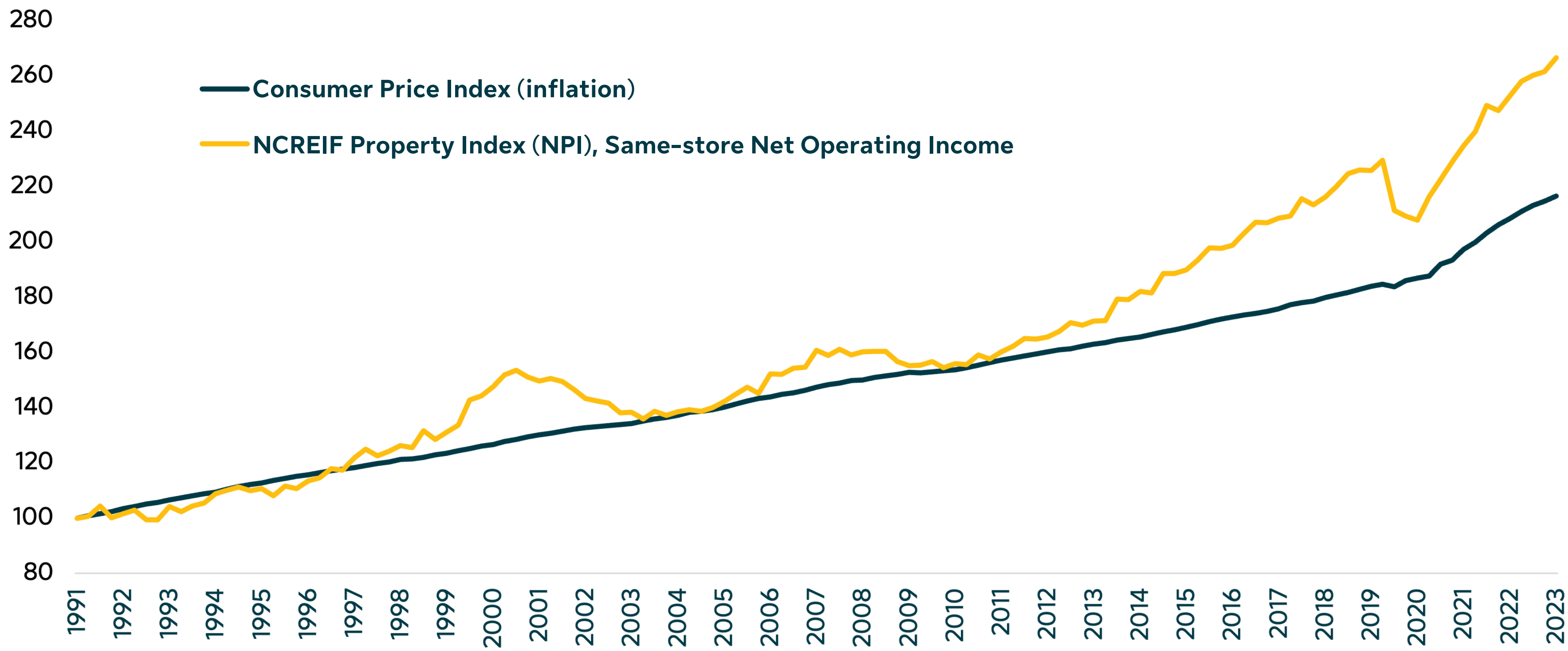


Source: Representative indexes: Common Stock: S&P 500 Index, Private Equity: S&P Listed Private Equity Index, Infrastructure: S&P Global Infrastructure Index, Commercial Real Estate: NCREIF ODCE Index. Typical 60/40 equity/bond portfolio comprised of 60% US Equities (S&P 500 Index) and 40% US Investment Grade Bonds (Bloomberg US Aggregate Bond Index). Correlation time period is from 1/31/2002 to 9/30/2023. See disclosures for definitions and important additional information. **Past performance does not guarantee future results.** It is not possible to invest directly in an index.

Hedge against inflation

Rents and property values typically rise in tandem with inflation, making commercial real estate a worthwhile hedge against inflation. This is because higher construction costs result in higher replacement costs, which typically lead to higher rents due to limited supply, as higher construction costs discourage new developments. This scarcity often enables building owners to charge more, particularly when new or renovated properties have higher market comparables. **Furthermore, lease structures frequently include periodic rent increases, as well as the ability to pass on rising operating costs to tenants, both of which are critical components for mitigating inflation. This helps make commercial real estate a useful inflation hedge.** In the past few decades, the National Real Estate Investment Index has much higher correlation to the inflation index compared to that of S&P 500 stock returns.

Commercial real estate income and inflation



Source: St. Louis Fed. Consumer Price Index (CPI) indexed to 100 on 12/31/1990. Cumulative results through 9/30/2023. **Past performance does not guarantee future results.**

CASE STUDY

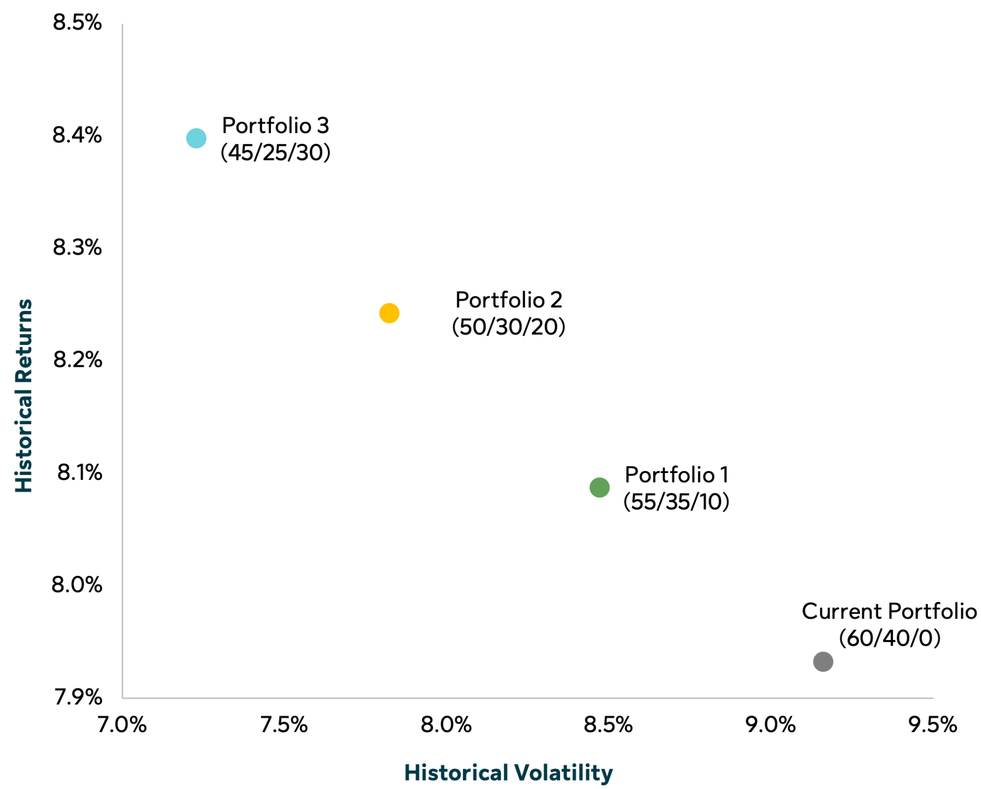
Adding Commercial Real Estate to a 60/40 equity/bond portfolio can improve returns while reducing overall volatility

To illustrate the benefit of adding commercial real estate to a traditional 60/40 equity/bond portfolio, the following case study shows the impact on overall historical portfolio risk and return at different allocations to commercial real estate.

- In **Portfolio 1**, the allocation to equities and bonds are reduced by 5% each in favor of a 10% allocation to commercial real estate.
- In **Portfolio 2**, we take an additional 5% out of both equities and bonds and increase the commercial real estate allocation to 20%.
- In **Portfolio 3**, we again take an additional 5% out of both equities and bonds and increase the commercial real estate allocation to 30%.

As we increased the allocation to commercial real estate, the historical return of the portfolio increased. In addition, because of the low correlation of the asset class to public equities and bonds, the portfolio's overall volatility was reduced. We believe today's opportunity for individual investors to improve portfolio return potential while reducing overall volatility is compelling.

	Equities	Bonds	Real Estate
Starting Portfolio	60.0%	40.0%	0.0%
Portfolio 1	55.0%	35.0%	10.0%
Portfolio 2	50.0%	30.0%	20.0%
Portfolio 3	45.0%	25.0%	30.0%



Source: Equities: S&P 500 Index, Bonds: Bloomberg US Aggregate Bond Index, Commercial Real Estate: NCREIF ODCE Index, from year end 2013 to year end 2023 (10 Years).
Past performance does not guarantee future results.

Additional considerations when investing in commercial real estate

Commercial real estate investments involve liquidity and information risks not present in public markets:

- Liquidity describes how easily and inexpensively assets can be acquired or divested when an investor chooses to change their exposure. Listed stocks, for example, can be traded seamlessly through public exchanges with up-to-date market prices, while commercial real estate valuations are more subjective and individual properties trade much less frequently. Investors typically receive compensation for this lower liquidity through additional return often referred to as the illiquidity premium.

- Private markets are less efficient and less transparent than public markets, which makes manager selection critical. Commercial real estate investors often need to make decisions with incomplete and imperfect information, so it is important to work with managers with a deep knowledge and expertise in the selected market.

Key takeaways

Commercial real estate is the **third largest asset class in the U.S.** behind stocks and bonds, with most of that investment coming from institutional investors. We believe there exists compelling opportunity for individual investors to benefit from this attractive asset class.

Cash flows from commercial real estate investments have been relatively stable throughout different economic conditions, leading to generally **consistent income return performance.**

Over the long-term, commercial real estate may **provide a hedge against inflation** since property values and rental income typically increase during periods of inflation.

Commercial real estate has exhibited low historical correlation to publicly traded stocks and bonds. As a result, adding the asset class to a 60/40 stock/bond portfolio has the potential to **reduce overall portfolio volatility** as well as improve returns.

About the SLC Management group of companies

SLC Management is a global institutional asset manager of Sun Life that offers institutional investors traditional, alternative and yield-oriented investment solutions across public and private fixed income markets, as well as global real estate equity and debt and infrastructure. We help our clients optimize their asset allocation profile and meet their long-term income and capital appreciation objectives by leveraging our insights and deep capabilities in fixed income, alternatives and real assets through our specialty managers including SLC Fixed Income, BGO, Crescent Capital Group, and InfraRed Capital Partners. Through Advisors Asset Management, our independent U.S. retail distribution firm, we can extend our alternatives solutions to high net worth investors.

As of December 31, 2023, SLC Management has assets under management of **US$283 billion/C$374 billion.** As of December 31, 2023, the brokerage and advised business at AAM represents approximately US$41.4 billion in assets. (Assets under supervision represent US$5.4 billion in UIT assets. The firm has US$32.1 billion in assets under administration that represents the non-proprietary assets for which AAM provides various levels of service, but not management. The firm's US$3.9 billion in assets under management represents AAM's proprietary separately managed account, mutual fund and ETF assets.) For more information, visit **www.slcmanagement.com**.

For more information visit **www.aamlive.com** or contact a financial professional to discuss potential opportunities in today's environment.

Disclosure

SOURCES:

[1] PitchBook North American real estate, comprising of core, core plus, value add, opportunistic, and distressed strategies
[2] World Bank, World Federation of Exchanges database.
[3] PitchBook: Quantitative Perspectives US Market Insights Q3 2022.

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RISKS: Alternative investments offer the potential for diversification, higher returns, and protection against inflation, however they come with their own set of risks and challenges.

Past performance is not a guarantee of future results. All investments are subject to risk, including the loss of the principal amount invested. There is no guarantee of downside protection and losses may occur, including the loss of the entire principal amount invested.

Diversification will not guarantee profitability or protection against loss.

Alternative investments may lack transparency as to share price, valuation and portfolio holdings. Complex tax structures often result in delayed tax reporting. Compared to mutual funds, private funds are subject to less regulation and often charge higher fees.

Bonds that are rated below investment grade are sometimes referred to as "high yield bonds" or "junk bonds." Below investment grade securities have predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. They may also be illiquid and difficult to value.

An investor may not have access to their investment for an extended period of time.

Market risk is prevalent since many of the companies invested in are unproven, which can lead to significant losses. Default risk is also higher with less established companies. Additional risks include limited operating history, uncertain distributions, inconsistent valuation of a portfolio, changing interest rates, leveraging of assets, reliance on the investment advisor, potential conflicts of interest, payment of substantial fees to the investment advisor and the dealer manager, potential illiquidity, and liquidation at more or less than the original amount invested. Performance may be volatile, and the NAV may fluctuate.

DEFINITIONS:

Correlation is a statistical measure of how two variables move in relation to each other with coefficients ranging from +1 to -1. A correlation coefficient of +1 implies that as one variable moves, the other will move in exact lockstep. Alternatively, a correlation coefficient of -1 implies that if one variable moves, the other moves in the same amount in the opposite direction. If the correlation is 0, the movements of the variables are completely random.

The **Bloomberg US Aggregate Bond Index** is an unmanaged, broad-based index composed of US dollar denominated, investment grade, fixed rate taxable bonds with at least $250 million par amount outstanding and at least one year to final maturity.

S&P 500 Index is an unmanaged market capitalization weighted index used to measure 500 companies chosen for market size, liquidity and industry grouping, among other factors.
The Morningstar LSTA US Leveraged Loan 100 Index is designed to measure the performance of the 100 largest facilities in the US leveraged loan market. Index constituents are market-value weighted, subject to a single loan facility weight cap of 2%.

Cliffwater Direct Lending Index (CDLI) seeks to measure the unlevered, gross of fees performance of U.S. middle market corporate loans, as represented by the underlying assets of Business Development Companies ("BDCs"), including both exchange-traded and unlisted BDCs, subject to certain Eligibility Criteria. The CDLI is an asset-weighted index that is calculated on a quarterly basis using financial statements and other information contained in the U.S. Securities and Exchange Commission ("SEC") filings of all eligible BDCs.

National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open End Diversified Core Equity is a capitalization-weighted index of gross-of-fee investment returns of 38 open-end commingled funds marketed as a being a diversified core investment strategy, primarily investing in private equity real estate.

The Consumer Price Index (CPI) is released by the Bureau of Labor Statistics as a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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