McGill

McGill University Pension Plan

Report and Financial Statements

December 31, 2008

Members of the Pension ADMINISTRATION COMMITTEE

Mr. Étienne Brodeur	Independent Member
Professor Antal Deutsch (Chair)	Representing Academic Staff
Ms. Lynne B. Gervais	Representing the Principal & Chair of the Board
Professor Gerald Ratzer	Representing Academic Staff
Mr. Warren Simpson	Representing the Board of Governors
Dr. Saul Ticktin	Representing Administrative & Support Staff
Ms. Cristiane Tinmouth	Representing the Principal & Chair of the Board
Ms. Kathleen Tobin	Representing Administrative & Support Staff
Ms. Manon Vennat	Representing the Board of Governors

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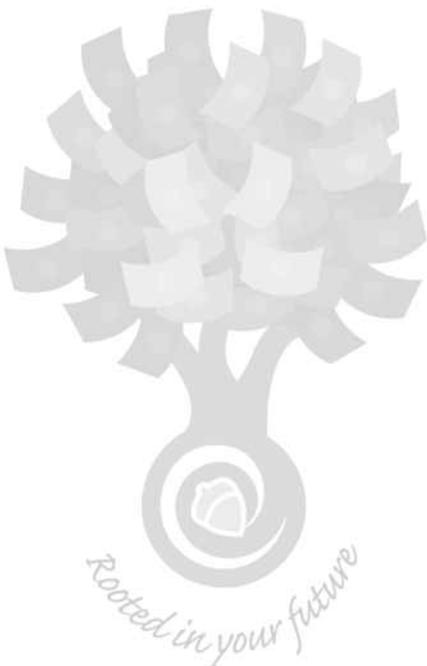


McGill University
PENSION PLAN

Notice of Annual Meeting of Pension Plan Members

The Annual Meeting of Members of the McGill University Pension Plan will be held in Room 132 of the Stephen Leacock Building, 855 Sherbrooke Street West, Montreal, Quebec on Tuesday, the 5th day of May, 2009 at 12:00 noon for the purposes of:

(a) tallying and announcing the voting results – continuance of voting procedures;

(b) electing one Academic Staff representative, who is member of the Plan as of December 31, 2008 and active employee of the University, to the Pension Administration Committee;

(c) receiving the financial statements of the McGill University Pension Plan for the year ended December 31, 2008 and the Auditors' Report thereon;

(d) receiving the stewardship report of the Pension Administration Committee;

(e) receiving the investment performance report of the McGill University Pension Plan for the year ended December 31, 2008, including the:
- Accumulation Fund;
- Pensioner Fund; and the
- impact of non-bank Asset-Backed Commercial Paper ("non-bank ABCP") on the holdings of the Pension Fund; and

(f) conducting such other business as shall be properly brought before the assembly.

Attendance at the meeting shall be restricted to active and non-active members of the plan, including beneficiaries. All attendees are requested to bring one of the following valid pieces of identification:

- McGill Identification Card
- Personal Statement of Holdings as of December 31, 2008
- Personal Mail Ballot/Proxy Form

If you have not executed and returned the personal Mail Ballot/Proxy Form issued in your name, you are requested to bring this document to the meeting with you for identification and voting purposes.

John D'Agata
Secretary, Pension Administration Committee
April 2009

Introduction to 37th ANNUAL REPORT

This Annual Report reviews and highlights the investment and administrative activities of the Pension Administration Committee (“PAC”) of the McGill University Pension Plan (“Plan”) for the fiscal year ended December 31st, 2008.

Structure

The Committee is composed of nine members, of which four are elected by the members of the Plan, two are designated by the Board of Governors and two are designated by the Principal and the Chair of the Board. One independent member is appointed by the Board of Governors acting upon the recommendation of the PAC.

PAC Membership Changes in 2008

The following changes occurred in the membership of the PAC during the year. At the Annual Meeting held on May 6th, Ms. Kathleen Tobin was elected as Administrative & Support Staff representative replacing Mr. Leo Kerklaan. In June 2008, Ms. Cristiane Tinmouth replaced Mr. Albert Caponi as the representative for the Principal and Chair of the Board of Governors. The PAC extends its thanks to Mr. Kerklaan and Mr. Caponi for their wise counsel and valuable contributions to the deliberations of the PAC.

Responsibilities

As trustees of the Pension Fund, the members of the PAC have fiduciary responsibility for ensuring that investments are made on a prudent basis and in accordance with the demographic profile of its members and the financial needs of the membership. The PAC is also responsible for all administrative matters pertaining to the provision of benefits as set forth in the Plan Document and acts within the framework of legislation and regulations issued under the *Supplemental Pension Plans Act of the Province of Quebec* and the *Income Tax Act of Canada*. These responsibilities are discharged through regular meetings of the PAC and through a network of external advisors, consultants and the staff of Pension Administration and Pension Investments. During 2008, there were twelve meetings of the full PAC and a number of informal working group meetings. An internal support staff of 16 acting under the direction and guidance of the PAC carry out the daily investment and administrative operations of the Plan.

Pension Investment Board (“PIB”)

The fundamental role of the PIB, created in 1999 by the PAC, is to develop detailed investment policies and set investment strategy that is recommended to the PAC for approval.

The PIB is responsible for overseeing the implementation of investment policy. It consists of four to six independent external members who are not part of McGill University administration or staff and who are not members of another decision-making body within the pension plan governance structure.

In September 2008, Mr. Carl Otto's term ended and he was replaced by Mr. Scott Taylor. The PAC and the PIB would like to express their sincere appreciation for the wise counsel and valuable contributions that Mr. Otto made as Chair of the PIB since its inception in 1999.

The current members of the PIB are: Mr. Donald Walcot, Chair; Ms. Maureen Farrow; Mr. Chilion Heward; Mr. Pierre Lajeunesse; and Mr. Scott Taylor. PIB members, who are appointed by the PAC, serve staggered terms of not more than five years and are limited to a maximum of two consecutive terms.

During 2008, there were seven regular meetings of the PIB as well as numerous teleconference calls.

Fund INVESTMENTS

The assets of the Pension Fund are invested in three separate investment portfolios in accordance with the three liability segments of the Pension Plan:

- assets in respect of active staff members are invested prior to retirement in the **Accumulation Fund**,
- assets in respect of retired members who have opted for an internal settlement are invested in the **Pensioner Fund**, and
- assets necessary to provide any supplementary pensions required to meet the provisions of the Defined Benefit Minimum Provision as well as previous contributions made by the University resulting from solvency deficits are invested in the **Supplemental Fund**.

The PAC has adopted a comprehensive Statement of Investment Policy which addresses such issues as investment objectives, risk tolerance, asset allocation, permissible asset classes, investment diversification, liquidity requirements, expected rates of return, valuation procedures and other issues relevant to the investment process, thereby establishing a framework within which all the investment managers must operate.

The policy is reviewed on a regular basis and updated when necessary to ensure that it continues to meet legal standards and the investment requirements of the membership. A copy of the policy, most recently updated in June 2008, can be found on our website at: http://www.mcgill.ca/pensions/investments/ or can be viewed in the offices of the PAC, during normal business hours.

The Accumulation FUND

The Accumulation Fund, consisting of an Equity Pool, a Fixed Income Pool, a Socially Responsible Investment (SRI) Pool, a Money Market Pool and a Workout Asset Pool, is the section of the Pension Fund in which the assets of active members are invested prior to retirement. This structure offers a wide range of possible financial strategies and will allow members to create the specific investment strategies that will best respond to their financial needs.

The PAC also maintains a Balanced Account that consists of allocations to the Equity Pool and the Fixed Income Pool. The current policy target provides that 65% of the assets of the Balanced Account are allocated to the Equity Pool and 35% are allocated to the Fixed Income Pool. The calculation of the Defined Benefit Minimum Provision, as applicable, is compared to the performance of the Balanced Account.

The PAC expects that the general policy of global equity diversification that is in effect will continue to be a cornerstone of the strategic asset allocation policy for the Equity Pool, the SRI Pool and the Balanced Account.

The investment objectives for the Equity Pool, Fixed Income Pool, SRI Pool, Money Market Pool and Workout Asset Pool, as well as the Balanced Account are disclosed in *Appendix IV*.

Asset Allocation

Plan members continue to allocate the majority of their assets to the Balanced Account. The strategic asset allocation for this Account is reviewed and adjusted periodically by the PAC (as recommended by the PIB) on the basis of a continuing review of the economic, political and financial factors which drive investment markets. As the performances of individual managers and markets move the assets of the Balanced Account away from the normal strategic positions, the assets are rebalanced regularly to bring the Balanced Account back within the parameters of the current strategic asset allocation position set by the PAC. Such rebalancing is achieved through directed cash flow or by actively transferring funds among managers when specified trigger points are reached.

Schedule 1 provides the current asset allocation policy of the Balanced Account. The actual allocation of the Balanced Account at December 31, 2008, was 64.9% to the Equity Pool and 35.1% to the Fixed Income Pool. Related benchmarks and the actual asset allocation of the Balanced Account at December 31, 2008 are also shown in *Schedule 1*.

The benchmarks for cash and cash equivalents, equity, fixed income and resource properties asset classes were selected because all are publicly-traded and readily investable indices. With respect to real estate, two industry-recognized benchmarks are used to create a composite benchmark. While no truly appropriate indices have been identified for private equity, the S&P/TSX

Schedule 1

Balanced Account – Asset Allocation Policy, Related Benchmarks and Actual Asset Allocation as at December 31, 2008

Asset Class	Benchmark	Current Policy Allocation (%)	Actual Balanced Account (%)	MIN%	MID%	MAX%
Equity Pool						
Cash & Cash Equivalents	DEX 91-Day T-Bill	0	10.4	0	0	10
Canadian Equities	S&P/TSX Composite	27	23.1	22	27	32
US Equities	S&P 1500 AllCap or	15	9.9	10	15	20
	S&P 500 LargeCap			(8)	(10)	(12)
	S&P 1000 Small/MidCap			(2)	(5)	(8)
Non-North American Equities	MSCI EAFE	12	8.3	9	12	15
	S&P/IFCI	3	3.2	1	3	5
Alternative Equities:						
Real Estate	Industry Composite	4	3.7	0	4	8
Private Equity	S&P/TSX Composite	2	5.1	0	2	4
Resource Properties	S&P/TSX Capped Energy Trust	2	1.2	0	2	4
		65%	64.9%		65%	
Fixed Income Pool						
Cash & Cash Equivalents	DEX 91-Day T-Bill	2	2.7	0	2	20
Bonds	DEX Universe Bond	18	20.5	16	18	20
	DEX Real Return	11	9.1	9	11	13
	ML Global HY (hedged)	4	2.8	3	4	5
		35%	35.1%		35%	
Balanced Account		100%	100.0%		100%	

Composite is used as a benchmark for this asset class.

The actual asset allocations in the Accumulation Fund at any particular time will reflect the strategic asset allocation policies with respect to the Balanced Account, the separate asset allocation policies followed by members who utilize an investment strategy other than the Balanced Account as well as the allocation by the Pensioner Fund to the Accumulation Fund ($89.7 million in Fixed Income Pool units at December 31, 2008).

The actual management and asset allocation structure of the Accumulation Fund as at December 31, 2008 are shown in *Schedule 2*.

Schedule 2

Accumulation Fund – Asset Allocation and Manager Structure – December 31, 2008

Asset Class	Manager	Amount (millions)	% of Pool Holdings
Equity Pool			
Cash & Cash Equivalents:	Internal/TD Asset Management	$ 86.9	16.0%
Canadian Equities:	Jarislowsky Fraser	88.9	16.4%
	TD Asset Management	84.0	15.5%
	Van Berkom & Associates	19.8	3.6%
US Equities:	New York Life Investment Management	26.9	5.0%
	LSV Asset Management – LargeCap	26.0	4.8%
	LSV Asset Management – Small/MidCap	21.4	4.0%
	State Street Global Advisors	8.6	1.6%
Non-North American Equities:	Brandes Investment Partners	39.3	7.3%
	William Blair & Company	30.1	5.6%
	Capital International	21.7	4.0%
	Comgest Asset Management Ltd.	2.7	0.5%
	Aberdeen Asset Management Ltd.	2.0	0.4%
Real Estate:	External	31.0	5.7%
Private Equity:	External	42.4	7.8%
Resource Properties:	Internal	9.8	1.8%
	Total Equity Pool:	**$ 541.5**	**100.0%**
Fixed Income Pool			
Cash & Cash Equivalents:	TD Asset Management	$ 15.1	3.9%
Non-bank ABCP:	Internal	14.2	3.6%
Real-Return Bonds:	Phillips, Hager & North	102.1	26.1%
High-Yield Bonds:	Phillips, Hager & North	31.1	7.9%
Short-Term Bonds:	Phillips, Hager & North	46.6	11.9%
Bonds:	Addenda Capital	102.4	26.1%
	TD Asset Management	80.1	20.5%
	Total Fixed Income Pool:	**$ 391.6**	**100.0%**
SRI Pool	Guardian Ethical Management	**$ 9.2**	**100.0%**
Money Market Pool (MMP):			
Cash & Cash Equivalents:	Internal/TD Asset Management	**$ 13.2**	**100.0%**
Workout Asset Pool			
Non-bank ABCP:	Internal	**$ 2.8**	**100.0%**
	Total Accumulation Fund:	**$ 958.3**	

Investment Management

The following investment manager changes were made in 2008:

In March 2008, the non-North American equity mandate of JPMorgan Asset Management was terminated. In April 2008, Guardian Ethical Management Inc. was hired to manage a "socially responsible investment" mandate for the SRI Pool. In July 2008, a commitment in the amount of $8 million was made to Redbourne Realty Fund II Inc., a Canadian real estate fund. Between October and December 2008, the fund's investment in the Fortis (formerly ABN AMRO) Global Real Estate Fund was liquidated.

Comgest Asset Management International Limited and Aberdeen Asset Management Inc. were hired to manage non-North American emerging markets mandates, in October and November 2008, respectively.

Performance

MARKET PERFORMANCE

After many years of positive performance, Canadian equities provided negative returns in 2008. The S&P/TSX Composite Index decreased by 33.0%. All sectors recorded negative returns, with the Financial and Energy sectors contributing the most to the negative performance. The S&P/TSX SmallCap Index, the measure of small-cap performance, was down 45.5% during the year. The DEX Universe Bond Index and the DEX Short-Term Bond Index gained 6.4% and 8.6%, respectively. Real-return bonds returned 0.7% for the year versus the 0.4% return of the DEX Real-Return Bond Index.

The Canadian dollar depreciated 18.1% versus the US dollar during the year. In Canadian dollar terms, the S&P 500 lost 21.2% for the year outperforming the S&P/TSX Composite Index for the first time in seven years. Overall returns in Canadian dollars for the S&P 1500, S&P 1000 and the S&P 400 indices were -21.0%, -21.9%, and -20.2%, respectively, reflecting the relative similarity in return for small, mid and large cap stocks during the year. Non-North American markets represented by the MSCI EAFE Index and the S&P/IFCI Index finished the year with returns of -28.8% and -42.1%, respectively.

FUND PERFORMANCE

Schedule 3 following shows the gross rates of market returns achieved by the various asset classes comprising each of the investment pools and by the Balanced Account for the one, five and ten year periods ended December 31, 2008. The applicable benchmark performance for each asset class is also noted in *Schedule 3*.

The Equity Pool returned -23.5% for the year in comparison to the composite benchmark of -28.2%. The Canadian equity performance of -28.7% was above the S&P/TSX Composite Index benchmark of -33.0%. The performance of alternative equity assets at -15.0% outperformed its S&P/TSX Composite Index benchmark. The US equity performance of -21.0% was almost equal to the S&P 1500 benchmark performance of -20.9% for the year, while the non-North American equity performance of -29.5%, was ahead of its composite benchmark of -31.6%.

The Fixed Income Pool turned in a performance of 1.9% for the year, lagging the 2.3% return of its composite benchmark.

The Balanced Account's performance of -14.9% for the year outperformed its composite benchmark of -18.5%.

The SRI Pool's performance of -17.7% since its inception, was ahead of the -19.6% return of its benchmark, the GEM Balanced Benchmark.

The Money Market Pool returned 2.8% for the year, slightly higher than the 2.6% return of the DEX 30-Day T-Bill Index.

Accumulation Fund Performance[1] as at December 31, 2008

	Annualized Rates of Return		
Asset Class	**1 year**	**5 years**	**10 years**
Equity Pool:			
Cash & Cash Equivalents:	2.9%	2.7%	3.5%
Benchmark DEX 91-Day T-Bill:	3.3%	3.3%	3.7%
Canadian Equities:	-28.7%	5.7%	5.6%
Benchmark S&P/TSX Composite:	-33.0%	4.2%	5.3%
US Equities:	-21.0%	-4.3%	-1.2%
Benchmark S&P 1500:	-20.9%	-2.8%	-3.1%
Non-North American Equities:	-29.5%	3.4%	3.4%
Benchmark 80% MSCI EAFE + 20% S&P/IFCI:	-31.6%	2.6%	0.7%
Alternative Equities[2]:	-15.0%	6.0%	9.1%
Benchmark S&P/TSX Composite[2a]:	-33.0%	4.2%	5.3%
Total Equity Pool:	**-23.5%**	**3.7%**	**4.0%**
Composite Equity Pool Benchmark[3]:	-28.2%	2.8%	3.2%
Fixed Income Pool:			
Cash & Cash Equivalents[4]:	-7.6%	0.5%	2.4%
Benchmark DEX 91-Day T-Bill:	3.3%	3.3%	3.7%
Bonds:	3.2%	5.7%	6.3%
Composite Bond Benchmark[5]:	2.2%	4.8%	5.9%
Total Fixed Income Pool:	**1.9%**	**5.0%**	**5.9%**
Composite Fixed Income Pool Benchmark[6]:	2.3%	4.7%	5.8%
Balanced Account:	**-14.9%**	**4.6%**	**5.1%**
Composite Balanced Account Benchmark[7]	-18.5%	3.8%	5.8%
Socially Responsible Investment Pool[8]:	**-17.7%**	**n/a**	**n/a**
GEM Balanced Benchmark[8]:	-19.6%	n/a	n/a
Money Market Pool:	**2.8%**	**3.3%**	**3.8%**
Benchmark DEX 30-Day T-Bill:	2.6%	3.1%	3.5%
Workout Asset Pool[4,9]:	**-27.7%**	**n/a**	**n/a**

Note 1: Returns have been determined by an independent performance measurement firm, are reported in Canadian dollars and are gross of fees.

Note 2: Total of Real Estate, Private Equity and Resource Property Portfolios.

Note 2a: This benchmark is currently being reviewed by the PIB.

Note 3: Current policy allocation benchmark is 50% of S&P/TSX Composite Index + 22% of S&P 1500 Index + 18% of EAFE Index + 6% of Real Estate Industry Composite + 4% of S&P/IFCI Index.

Note 4: The annualized returns include the write-downs to the non-bank ABCP held in the pool.

Note 5: Current benchmark is 57% of DEX Universe Bond Index + 33% of DEX Real-Return Bond Index + 10% of ML Global HY (hedged).

Note 6: Current policy allocation benchmark is 53% of DEX Universe Bond Index + 31.25% DEX Real-Return Bond Index + 9.5% of ML Global HY (hedged) + 6.25% of DEX 91-Day T-Bill Index.

Note 7: Current policy allocation benchmark is 65% of Composite Equity Pool Benchmark + 35% of Composite Fixed Income Pool Benchmark.

Note 8: Socially Responsible Investment Pool began in April 2008.

Note 9: Workout Asset Pool was established August 31, 2007. Since its inception, the return is -34.6%. For additional detail, see page 15.

The key to performance is meeting the long-term investment objectives that are specific to the Pension Fund.

As shown in the following table, the performances of the Fixed Income Pool and Money Market Pool surpassed their respective long-term benchmarks as at December 31, 2008, measured over no less than ten years. Those of the Equity Pool and Balanced Account fell short, primarily due to the impact of their one-year returns.

Long-Term Expected Rate of Return

Equity Pool:	4.0% plus the annual change in the Canadian Consumer Price Index (CPI).
Fixed Income Pool:	2.0% plus the annual change in the Canadian CPI.
Balanced Account:	3.3% plus the annual change in the Canadian CPI.
SRI Pool:	3.30% plus the annual change in the Canadian CPI.
Money Market Pool:	The return on the DEX 30-Day T-Bill Index, before fees.

While the objectives above are meant to be long-term (no less than 10 years), the following table includes comparative performance over 1 and 5 years:

	1-year Return	Long-Term Objective	5-year Return	Long-Term Objective	10-year Return	Long-Term Objective
Equity Pool:	-23.5%	5.2%	3.7%	5.9%	4.0%	6.2%
Fixed Income Pool:	1.9%	3.2%	5.0%	3.9%	5.9%	4.2%
Balanced Account:	-14.9%	4.5%	4.6%	5.2%	5.1%	5.5%
SRI Pool[1]:	n/a	n/a	n/a	n/a	n/a	n/a
Money Market Pool:	2.8%	2.6%	3.3%[2]	3.2%	3.8%[2]	3.6%
CPI for the period:	1.2%		1.9%		2.2%	

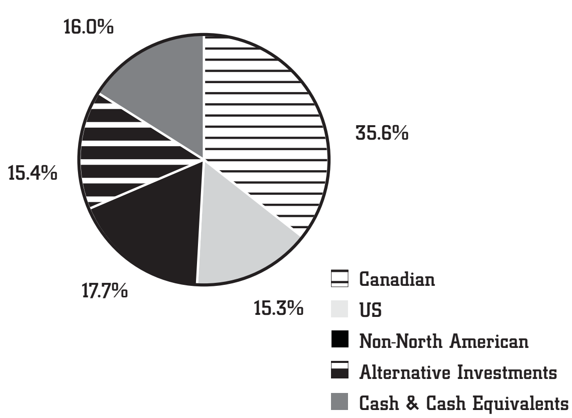
Note 1: SRI Pool began in April 2008.
Note 2: Excludes the impact of the Workout Asset Pool returns for 2007 and 2008.

Investment Manager Performance

Schedule 4 shows the gross rates of market returns achieved by the various specialist managers and alternative equity portfolios of the Accumulation Fund for the calendar year 2008 and, where applicable, over the five and ten-year periods ending December 31st, 2008. The benchmarks applicable to each manager and alternative equity portfolio are also noted in *Schedule 4*.

The shaded area of *Schedule 4* shows the gross rates of market returns and benchmarks applicable to the US and non-North American managers for the 2008 calendar year expressed in local currencies.

Summary of Equity Pool Investments



EQUITY POOL

The Equity Pool includes Canadian, US, and non-North American equities, investments in alternative strategies and cash and cash equivalents.

At December 31, 2008, the Equity Pool held $278,000, which represents 0.05% of the total Equity Pool, in non-bank asset-backed commercial paper (ABCP).

Manager Performances[1] as at December 31, 2008

Manager		Annualized Rates of Return 1 year	5 years	10 years
Canadian Equity Managers:				
Jarislowsky Fraser:		-23.8%	7.8%	n/a
TD Asset Management:		-32.0%	5.6%	n/a
Benchmark S&P/TSX Composite Index[2]:		-33.0%	4.2%	n/a
Van Berkom & Associates:		-33.4%	0.4%	5.5%
Benchmark S&P/TSX SmallCap Index[2]:		-45.5%	-6.3%	2.3%
US Equity Managers:				
New York Life Investment Management:	-36.2%	-20.2%	n/a	n/a
LSV Asset Management:	-37.1%	-21.3%	n/a	n/a
Benchmark S&P 500 LargeCap Index:	-37.0%	-21.2%	n/a	n/a
LSV Asset Management:	-36.5%	-21.9%	n/a	n/a
Benchmark S&P 1000 Index:	-34.7%	-18.3%	n/a	n/a
State Street Global Advisors:	-36.1%	-20.1%	n/a	n/a
Benchmark S&P 400 MidCap Index:	-36.2%	-20.2%	n/a	n/a
Non-North American Equity Managers:				
Brandes Investment Partners:	-36.2%	-21.5%	3.0%	n/a
Benchmark MSCI EAFE Index:	-39.9%	-28.8%	1.2%	n/a
William Blair & Company:	-43.5%	-31.3%	n/a	n/a
Benchmark MSCI EAFE Index[3]:	-40.7%	-30.2%	n/a	n/a
Capital International:	-44.8%	-37.5%	9.5%	n/a
Benchmark S&P/IFCI Index:	n/a	-42.1%	7.7%	n/a
Aberdeen Asset Management Ltd.:	0.1%[4]	1.2%[4]	n/a	n/a
Comgest Asset Management Ltd.:	1.0%[4]	0.6%[4]	n/a	n/a
Benchmark S&P/IFCI Index:	n/a	1.0%[4]	n/a	n/a
Alternative Equity Managers:				
Real Estate Portfolio:		-19.5%	4.2%	5.9%
Industry Specific Benchmark:		-9.1%	8.0%	8.9%
Private Equity Portfolio:		-8.2%[5]	4.0%	-1.6%
Benchmark S&P/TSX Composite Index:		-33.0%	4.2%	5.3%
Resource Property Portfolio:		-18.0%	5.7%	19.4%
Benchmark S&P/TSX Capped Energy Trust[2]:		-27.1%	4.7%	5.6%
Bond Managers:				
Phillips, Hager & North – High-Yield:		2.2%	6.4%	n/a
Benchmark ML Global HY (hedged)[2]:		-16.0%	-3.9%	n/a
Phillips, Hager & North – Real-Return:		0.7%	6.7%	n/a
Benchmark DEX Real-Return Bond Index:		0.4%	6.1%	n/a
Phillips, Hager & North – Short-Term:		7.6%	5.0%	n/a
Benchmark DEX Short-Term Bond Index:		8.6%	5.5%	n/a
Addenda Capital:		2.0%	4.7%	n/a
TD Asset Management:		6.1%	5.5%	n/a
Benchmark DEX Universe Bond Index:		6.4%	5.5%	n/a
Socially Responsible Investment Manager:				
Guardian Ethical Management[6]:		-17.7%	n/a	n/a
GEM Balanced Benchmark[6]:		-19.6%	n/a	n/a
Money Market Manager:				
TD Asset Management:		2.8%	n/a	n/a
Benchmark DEX 30-Day T-Bill:		2.6%	n/a	n/a

Note 1: Returns have been determined by an independent performance measurement firm, are reported in Canadian dollars and are gross of fees. The shaded returns are reported in local currencies.
Note 2: Different benchmark indices were used in the five- and ten-year periods, where applicable.
Note 3: MSCI EAFE & Emerging Markets (EM) Index until September 30, 2008; MSCI EAFE from October 1, 2008.
Note 4: Year-to-date return from November 1, 2008.
Note 5: For additional detail, see page 12.
Note 6: Year-to-date return from May 1, 2008.

Ten Largest Canadian Publicly Traded Equity Holdings in the Equity Pool as at December 31, 2008

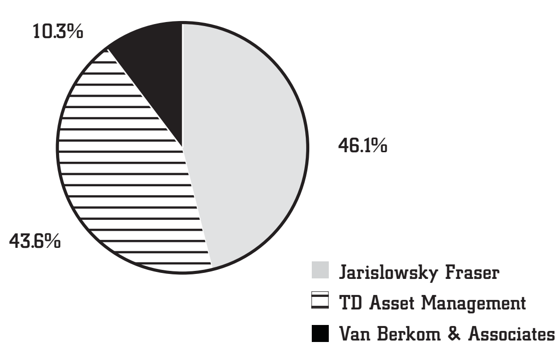
Security Name	Market Value (in millions)	% of Equity Pool	% of Balanced Account
Royal Bank of Canada	$10.1	1.9%	1.2%
Encana Corporation	$8.6	1.6%	1.0%
Manulife Financial Corporation	$7.4	1.4%	0.9%
The Bank of Nova Scotia	$7.0	1.3%	0.8%
Toronto Dominion Bank	$6.9	1.3%	0.8%
Enerplus Resources Fund	$5.5	1.0%	0.7%
Potash Corporation of Saskatchewan	$5.5	1.0%	0.7%
SNC - Lavalin Group Inc.	$5.1	0.9%	0.6%
Enbridge Inc.	$4.9	0.9%	0.6%
Suncor Energy Inc.	$4.8	0.9%	0.6%

CANADIAN EQUITY INVESTMENTS

The Equity Pool's holdings ($541.5 million at year-end) are invested in Canadian equities through both enhanced index and fully active strategies. For the year, TD Asset Management, which manages an enhanced index mandate returned -32.0% and Jarislowsky Fraser, employing a fully active investment approach, returned -23.8%, compared to the S&P/TSX Composite return of -33.0%. The performance of Van Berkom & Associates who actively manage a smallcap mandate was -33.4% for the year, above its S&P/TSX SmallCap Index benchmark performance of -45.5%.

At December 31, 2008, approximately 44% of the Canadian equity portfolio was invested in an enhanced index strategy, the same percentage as at December 31, 2007. The entire Canadian equity portfolio was managed externally at year-end.

Management Structure in Canadian Equities



Ten Largest US Publicly Traded Equity Holdings in the Equity Pool as at December 31, 2008

Security Name	Market Value (in Cdn $ millions)	% of Equity Pool	% of Balanced Account
Exxon Mobil	$3.0	0.6%	0.4%
Chevron Corporation	$1.2	0.2%	0.1%
AT & T	$1.2	0.2%	0.1%
Pfizer	$1.1	0.2%	0.1%
Procter & Gamble	$1.1	0.2%	0.1%
Microsoft	$1.1	0.2%	0.1%
IBM	$1.0	0.2%	0.1%
Johnson & Johnson	$1.0	0.2%	0.1%
Verizon Communications	$1.0	0.2%	0.1%
General Electric	$0.9	0.2%	0.1%

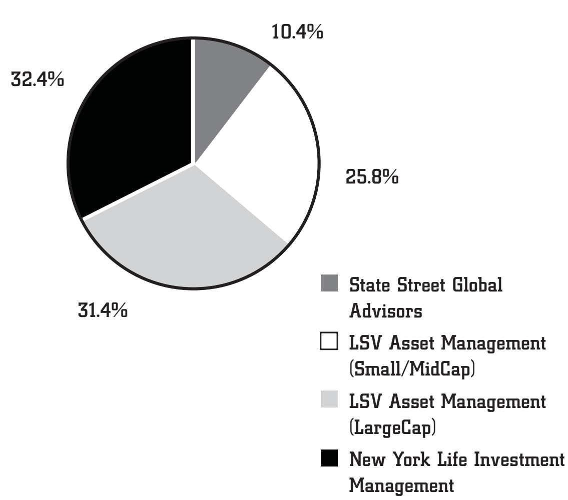
US EQUITY INVESTMENTS

The Equity Pool's holdings in US equities ($82.9 million at year-end) were allocated to enhanced index, index and fully active strategies at year-end.

New York Life Investment Management, which manages an enhanced large cap mandate, returned -20.2% versus the S&P 500 index benchmark return of -21.2%. The S&P MidCap index fund, managed by State Street Global Advisors, returned -20.1% versus -20.2% for its benchmark. LSV Asset Management with two US equity mandates, returned -21.9% for its small/midcap fully active value mandate versus its benchmark, the S&P1000 which returned -18.3% for the year, and -21.3% for its enhanced large cap mandate versus the S&P500 index benchmark return of -21.2%.

At December 31, 2008, approximately 74% of the US equity portfolio was invested in an index or enhanced index strategy versus 70% at the end of December 2007. At December 31, 2008, the entire US equity portfolio was managed externally as it was at the end of 2007.

Management Structure in US Equities



NON-NORTH AMERICAN EQUITY INVESTMENTS

The Equity Pool's holdings in non-North American equities ($95.8 million at year-end) were allocated to active managers in both developed and emerging markets.

Brandes Investment Partners, following a value style solely in developed markets, returned -21.5% compared to the benchmark MSCI EAFE return of -28.8% for the year. William Blair & Company, following a growth mandate in developed and emerging markets up until September 30th and solely in developed markets thereafter, returned -31.3% for the year versus the benchmark return of -30.2%. The -37.5% return of the Capital International Emerging Markets Fund, invested solely in emerging market stocks, outperformed

Ten Largest Non-North American Publicly Traded Equity Holdings in the Equity Pool as at December 31, 2008

Security Name	Market Value (in Cdn $ millions)	% of Equity Pool	% of Balanced Account
Sanofi-Aventis (France)	$1.7	0.3%	0.2%
Deutsche Telekom (Germany)	$1.6	0.3%	0.2%
Nippon Tel & Tel (Japan)	$1.5	0.3%	0.2%
Astrazeneca (United Kingdom)	$1.4	0.3%	0.2%
Glaxosmithkline (United Kingdom)	$1.4	0.3%	0.2%
Roche Holdings (Switzerland)	$1.3	0.2%	0.2%
Zurich Financial Services (Switzerland)	$1.2	0.2%	0.1%
Beiersdorf (Germany)	$1.2	0.2%	0.1%
France Telecom (France)	$1.2	0.2%	0.1%
Mitsui Sumitomo Insurance (Japan)	$1.1	0.2%	0.1%

the -42.1% return of its benchmark, the S&P/IFCI index. Comgest Asset Management and Aberdeen Asset Management, hired toward the end of the year, had returns similar to to those of the emerging markets S&P/IFCI benchmark.

At December 31, 2008, the entire non-North American portfolio was managed externally as it was at the end of 2007.

ALTERNATIVE EQUITY INVESTMENTS

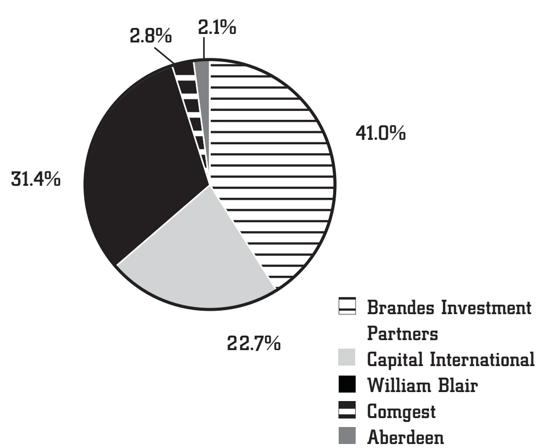
The Equity Pool's holdings in alternative strategies ($83.2 million at year-end) are meant to provide diversification relative to the publicly-traded equity and fixed income markets. In 2008, an $8 million commitment was made to Redbourne Realty Fund II Inc., a Canadian real estate fund and the fund's investment in the Fortis Global Real Estate Fund (formerly ABN AMRO Global Real Estate Fund) was liquidated.

The real estate porfolio return of -19.5% was lower than the -9.1% return of its composite benchmark. The real estate portfolio includes both privately-held real estate which returned -1.8% versus its industry specific benchmark of 3.2% and publicly-traded global real estate securities and REITs which returned -57.0% versus the -33.8% return of its benchmark, the GPR 250 Net.

The private equity portfolio returned -8.2% versus the S&P/TSX Composite return of -33.0%. The -8.2% return is based on the market values of portfolio holdings at September 30, 2008 adjusted downward at year-end following discussions with private equity managers. The return in local currency, which excludes the impact of fluctuations in the value of the Canadian dollar, was approximately -27.0%.

Resource properties which are comprised of oil and gas royalty trust units provided a return of -18.0% versus the S&P/TSX Capped Energy Trust return of -27.1%.

Management Structure in Non-North American Equities



Ten Largest Fixed Income Pool Holdings as at December 31, 2008

Security Name	Market Value (in Cdn $ millions)	% of Fixed Income Pool	% of Balanced Account
Gov't of Canada 4% 2031/12/01 Real Return	$56.8	14.5%	5.0%
Gov't of Canada 4.25% 2026/12/01 Real Return	$33.6	8.6%	3.0%
Gov't of Canada 4.25% 2021/12/01 Real Return	$11.3	2.9%	1.0%
Canada Housing Trust 4.80% 2012/06/15	$9.4	2.4%	0.8%
Financement Québec 1.715% 2013/09/16	$8.4	2.1%	0.7%
Province of Ontario 4.30% 2017/03/08	$7.1	1.8%	0.6%
Canada Mortgage Bonds 1.709% 2013/06/15	$5.2	1.3%	0.5%
Canada Mortgage Bonds 1.724% 2010/03/15	$4.6	1.2%	0.4%
Province of Ontario 4.75% 2013/06/02	$4.4	1.1%	0.4%
Canada Mortgage Bonds 1.714% 2010/09/15	$4.0	1.0%	0.4%

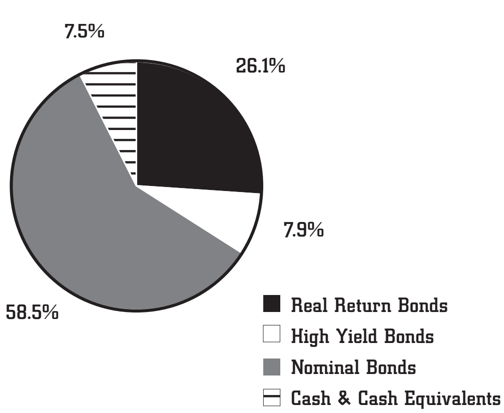
FIXED INCOME POOL

The Fixed Income Pool's holdings ($391.6 million at year-end) include allocations to bonds (managed against the DEX Capital Universe Bond Index), high-yield bonds, real-return bonds, short-term bonds and cash and cash equivalents.

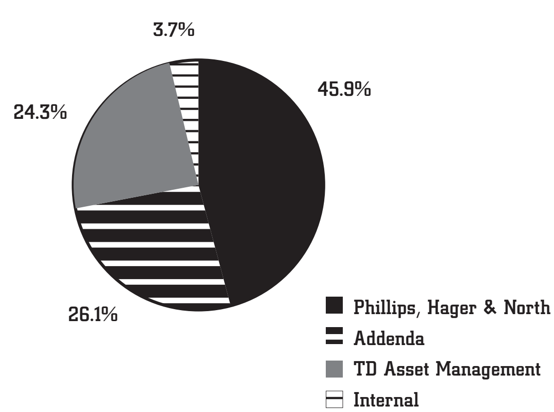
At December 31, 2008, the Fixed Income Pool held $21.8 million, which represents 5.6% of the total Fixed Income Pool, in non-bank ABCP which at that time was illiquid. As of year end, the PAC has applied a 35% liquidity discount to the value of such investments.

Addenda Capital, which manages an active bond mandate and TD Asset Management which manages an indexed bond mandate returned 2.0% and 6.1%, respectively versus the DEX Capital Universe Bond Index of 6.4%. Phillips, Hager & North's mandate to manage a high-yield bond fund provided a 2.2% return versus the ML Global HY (hedged) Index return of -16.0%, its benchmark. The return on real-return bonds of 0.7% surpassed the 0.4% return of its benchmark, the DEX Real-Return Bond Index. Philips, Hager & North's short-term bond mandate returned 7.6% versus the DEX Short-Term Bond index return of 8.6%.

Summary of Fixed Income Pool Investments



Management Structure in Fixed Income Investments



Ten Largest Socially-Responsible Investment (SRI) Pool Holdings as at December 31, 2008

Security Name	Market Value (in Cdn $ millions)	% of SRI Pool
Royal Bank of Canada 5.20% 2012/08/15	$0.2	2.3%
Gov't of Canada 5.75% 2029/06/01	$0.2	2.2%
Enbridge Inc.	$0.2	2.0%
Canada Housing Trust 4.00% 2012/06/15	$0.2	2.0%
The Bank of Nova Scotia 4.99% 2013-2018/03/27	$0.2	1.9%
Rogers Communications	$0.2	1.8%
Encana Corporation	$0.2	1.8%
Canada Housing Trust 3.95% 2013/06/15	$0.1	1.7%
Barrick Gold Corporation	$0.1	1.7%
Goldcorp Inc.	$0.1	1.6%

SOCIALLY-RESPONSIBLE INVESTMENT ("SRI") POOL

The SRI Pool was established on April 1, 2008. The SRI Pool has a minimum ongoing threshold of $8 million, set by the PAC, as a condition of maintaining this investment option under the Plan. At December 31, 2008, the SRI Pool had $9.2 million in assets.

The SRI Pool invests in the Guardian Ethical Management ("GEM") Balanced Pool. GEM is a joint venture between Guardian Capital LP and The Ethical Funds Company, both established leaders in their respective fields of expertise.

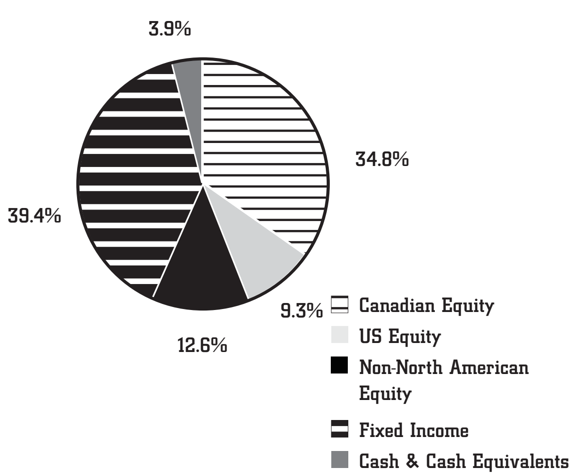
Guardian Capital LP focuses on investment management governed by a sustainable discipline, whereas The Ethical Funds Company focuses on ongoing shareholder engagement and the evaluation of environmental, social and governance performance of holdings and investment prospects.

The GEM Balanced Pool, and in turn the SRI Pool, invests in Canadian equities, US equities, non-North American equities, Canadian fixed income and cash and cash equivalents. The actual SRI Pool asset class allocations as at December 31, 2008 are shown below.

Guardian Ethical Management, which has a "socially responsible" investment mandate, returned -17.7% for the eight-months ending December 31, 2008 versus its benchmark return of -19.6%.

At December 31, 2008, the entire SRI Pool was managed externally.

Summary of SRI Pool Investments



Ten Largest Money Market Pool Holdings as at December 31, 2008

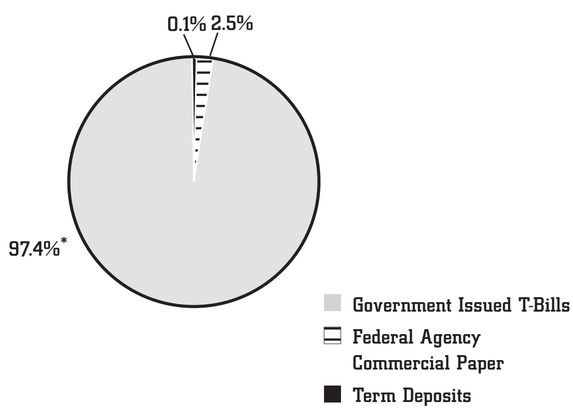
Security Name	Market Value (in Cdn $ millions)	% of Money Market Pool
Gov't of Canada T-Bill 2009/01/02	$ 3.7	28.2%
Gov't of Canada T-Bill 2009/01/22	$ 2.6	19.9%
Gov't of Canada T-Bill 2009/02/05	$ 1.8	13.7%
Gov't of Canada T-Bill 2009/01/08	$ 1.7	13.0%
Gov't of Canada T-Bill 2009/02/19	$ 1.0	7.4%
Gov't of Canada T-Bill 2009/03/05	$ 1.0	7.4%
Gov't of Canada T-Bill 2009/03/19	$ 0.9	7.1%
Canadian Wheat Board 2009/02/02	$ 0.3	2.5%
Gov't of Canada T-Bill 2009/05/14	$ 0.1	0.7%
CIBC Mellon Trust Co TD 2009/01/02	$0.04	0.1%

MONEY MARKET POOL

The Money Market Pool's holdings ($13.2 million at year-end) include allocations to cash and cash equivalents. Cash equivalents include Federal and Provincial Government issues, Banker's Acceptances and term deposits.

The externally-managed investments are invested in TD Asset Management's TD Emerald Government of Canada Fund.

Summary of Money Market Pool Investments



*Includes 28.2% allocation to reverse repurchase agreement with a Canadian Schedule A chartered bank which matured January 2, 2009. A reverse repurchase agreement is the immediate purchase of securities (i.e. Government of Canada T-Bills) and a simultaneous agreement to resell these securities at a later date and agreed upon price.

The Money Market Pool generated a return of 2.8% for the year versus the 2.6% generated by its benchmark, the DEX 30-Day T-Bill Index.

At December 31, 2008, the Money Market Pool did not hold non-bank ABCP as these holdings were transferred to the Workout Asset Pool on August 31, 2007.

WORKOUT ASSET POOL

The Workout Asset Pool was established in August 2007 to hold the non-bank asset-backed commercial paper (ABCP) which was initially held in the Money Market Pool at the time of the credit market disruptions in August 2007 which resulted in the inability of the issuers of such commercial paper to repay maturing issues.

At December 31, 2008, the Workout Asset Pool held $4.35 million in non-bank ABCP which at that time was illiquid. As of year-end, the PAC has applied a 35% liquidity discount to the value of such investments, reducing the value of the holdings to $2.8 million.

The Workout Asset Pool generated a return of -27.7% for the year ending December 31, 2008.

For further information, please refer to the Pension Plan's website at: www.mcgill.ca/pensions/communiques/.

Unit Values

Unit values are calculated on a single-month basis with a one-month lag (i.e. units valued at December, were based on the market value in effect in November). In addition, the unit values are net of all investment and administration expenses and fluctuate (subject to increase or decrease) based on prevailing market conditions. Consequently, the unit value returns can be quite different from the market performance returns set out in *Schedule 3*, which are reported gross of fees and on a calendar basis.

The annual rates of return achieved by investors in the various pools over the last 10 years, measured on the basis of unit values as at December 31st of each year, calculated as described above, are shown in *Schedule 5*.

The actual rate of return earned during the year by a member's account will, of course, vary according to the mix of investments chosen by the member. For members who have changed their asset mix strategies from time to time over the years, the long-term rate of return will also reflect the gains and/or losses that were achieved as a result of such changes. As noted earlier, only the performance of the Balanced Account is taken into account in the calculation of your Defined Benefit Minimum Provision, if applicable. If you have participated in any of the other investment pools, your Defined Benefit Minimum Provision will be adjusted to reflect the impact of the investment gains or losses achieved under those pools relative to the performance of the Balanced Account.

Charts 1A and *IB* on page 24 illustrate the historical progress of the unit values from inception of the Plan in 1972 until December 31, 2008. A listing of unit values for the past 10 years is shown in *Appendix III*.

Unit values and current performance numbers are updated monthly and can be viewed on our web site: www.mcgill.ca/pensions/unithistory.

Updates on the web

Schedule 5

Unit Values – Historic Performance

Year	Balanced Account	Equity Pool	Fixed Income Pool	Socially Responsible Investment Pool	Money Market Pool	Workout Asset Pool
1999	10.77%	15.22%	1.38%		5.16%	
2000	15.12%	18.28%	6.85%		5.87%	
2001	-8.39%	-15.01%	6.80%		5.10%	
2002[1]	-0.87%	-4.80%	7.51%		2.96%	
2003	11.80%	11.78%	10.77%		3.02%	
2004	12.53%	13.75%	10.01%		2.36%	
2005	14.97%	18.13%	7.96%		2.70%	
2006	13.81%	17.89%	4.73%		3.99%	
2007	2.23%	2.52%	0.94%		4.43%	-9.60%[2]
2008	**-15.68%**	**-23.62%**	**0.32%**	**-17.90%**[3]	**2.78%**	**-11.15%**
10-Year Annualized Rate of Return:	5.09%	4.34%	5.67%	n/a	3.83%	n/a

Note 1: Unit values are calculated on a monthly basis with a one-month lag. For market performance on a calendar-year basis please refer to *Schedule 3* on page 7.

Note 2: 4 months only – Workout Asset Pool was established in August 2007.

Note 3: 8 months only – Socially Responsible Investment (SRI) Pool was established in April 2008.

The Pensioner FUND

The Pensioner Fund is the section of the Pension Fund that contains the assets required to finance the benefits for retired staff who have opted for an internal pension settlement. The investment objective of the Pensioner Fund is to optimize the return of the fund over the long term in such a manner as to provide high security for pensions in progress, to provide enhancements of pension amounts in accordance with the Plan Document and to minimize the possibility of actuarial deficiencies. It seeks to achieve this objective by investing in a diversified portfolio of fixed income and equity investments.

Asset Allocation

During 2008, there were no asset allocation changes made.

The mortgage portfolio continued to decrease in value due to mortgage repayments. The mortgages are issued by Aylmer & Sherbrooke Investments Inc., a captive mortgage corporation wholly-owned by the McGill University Pension Plan. The corporation is accredited by the *Canada Mortgage and Housing Corporation* (CMHC). The mortgage portfolio is secured by Canadian real estate and is diversified on the basis of geography and type of product.

At December 31, 2008, approximately 69% of the Pensioner Fund's portfolio was managed externally versus 66% in 2007.

As the performances of individual managers and markets move the assets of the Pensioner Fund away from the strategic asset allocation policy established by the PAC, consideration is given to rebalancing the assets back to policy.

At December 31, 2008, the Pensioner Fund held $14.8 million, which represents 5.7% of the Pensioner Fund, in non-bank asset-backed commercial paper (ABCP) which at that time was illiquid. As of year-end, the PAC has applied a 35% liquidity discount to the value of such investments. For further information, please refer to the Pension Plan's website at the following link: www.mcgill.ca/pensions/communiques/.

Schedule 6 compares the actual Pensioner Fund holdings to the policy allocation on the basis of market values as at December 31, 2008.

Investment Management

In July 2008, an $8 million commitment was made to Redbourne Realty Fund II Inc., a Canadian real estate fund.

Schedule 6

Pensioner Fund – Asset Allocation Policy

Asset Class	Manager	December 31, 2008 Amount (in millions)	% of Total Fund	MIN%	MID%	MAX%
Cash & Cash Equivalents	Int/Ext.	15.7	6.1	0	5	10
Non-bank ABCP	Internal	9.6	3.7	-	-	-
Bonds[1]	External	66.3	25.9	17	20	23
Real-Return Bonds[1]	External	23.4	9.1	8	10	12
Mortgages	Internal	61.4	23.9	25	30	35
Real Estate	External	37.9	14.8	10	12	14
Equity	External	34.3	13.4	16	19	22
Resource Properties	Internal	8.0	3.1	2	4	6
Total Pensioner Fund:		**$256.6**	**100.0%**		**100%**	

[1] Exposure to bonds and real-return bonds is through the Accumulation Fund – Fixed Income Pool units.

Performance

In 2008, the Pensioner Fund had a gross market rate of return of -4.7% for the year. This was below the long-term return objective of 6.50%. The performance was positively impacted by the mortgage portfolio return of 9.9%, the real estate return of 2.1% and the fixed income return of 1.7%.

The return on cash and cash equivalents was -11.3%, the return on the resource property portfolio was -15.9% and the return on equity was -32.0%, reflective of the negative performance of Canadian equity markets in 2008.

The return on cash and cash equivalents was negatively impacted by the Pensioner Fund's holdings of non-bank ABCP.

Over the past five years, the diversification of the investments has allowed the fund to benefit from the relatively strong performances in the real estate, mortgage, resource property and fixed income portfolios.

Schedule 7 shows the gross rates of market returns achieved by the various asset classes for the one, three and five year periods ending December 31, 2008. The applicable benchmark performance for each asset class is also noted in *Schedule 7*.

Chart 2 on page 25 illustrates the historical performance of the Pensioner Fund for the past ten years as compared against the long-term objective.

Schedule 7

Pensioner Fund Performance[1], as at December 31, 2008

	Annualized Rates of Return		
Asset Class	**1 year**	**3 years**	**5 years**
Canadian Equity:	-32.0%	-8.0%	0.7%
Benchmark S&P/TSX Composite:	-33.0%	-4.8%	4.2%
Real Estate Porfolio:	2.1%	15.2%	13.5%
Industry-Specific Benchmark:	3.2%	9.6%	13.8%
Resource Property Portfolio:	-15.9%	-8.9%	5.7%
Benchmark S&P/TSX Capped Energy Trust[2]:	-27.1%	-4.1%	4.7%
Fixed Income[3]:	1.7%	2.3%	4.8%
Fixed Income Benchmark[4]:	2.3%	2.0%	4.7%
Mortgage Portfolio:	9.9%	7.5%	6.1%
Benchmark DEX Mortgages – 3 Year:	10.6%	6.7%	6.2%
Cash & Cash Equivalents:	-11.3%	-2.9%	-0.8%
Benchmark DEX T-Bills 91-Day:	3.3%	3.9%	3.3%
TOTAL PENSIONER FUND:	**-4.7%**	**2.1%**	**4.7%**

Note 1: Returns have been determined by an independent performance measurement firm, are reported in Canadian dollars and are gross of fees.

Note 2: Different benchmark indices were used in the three-and-five year periods, where applicable.

Note 3: Investment in units of the Accumulation Fund – Fixed Income Pool.

Note 4: Current policy allocation benchmark is 53% of DEX Universe Bond Index + 31.25% DEX Real-Return Bond Index + 9.5% of ML Global HY (hedged) + 6.25% of DEX 91-Day T-Bill Index.

Benefits and ADMINISTRATIVE MATTERS

Plan Amendments

Effective December 31, 2008, the Pension Plan was amended (Amendment No. 22) in order to comply with applicable legislation, to harmonize the Plan Document with current practices as well as other changes of an administrative nature.

The most significant changes introduced in Amendment No. 22 are:

For current members of the Plan and employees eligible to join the Plan as at December 31, 2008:

- The introduction of Additional Voluntary Contributions.
- The pro-rating of future credited service for those members who are not employed on a full-time basis.
- The ability to recognize additional modes of communication in accordance with procedures established by the PAC; this will allow for the introduction of online transactions in the future.
- The deletion of references regarding the available investment options within the Plan Document; this information has been consolidated on the Plan's website.
- The ability to provide compensation to the Independent Member of the PAC when deemed appropriate; this will allow for greater flexibility in attracting and retaining qualified external candidates to fulfill this role.

Changes only impacting employees ineligible to join the Plan as at December 31, 2008 or those employees hired after December 31, 2008:

- Throughout the document, various amendments have been made in order to reflect the following changes:
  - The elimination of the internal annuity option; and
  - The elimination of the minimum benefit provisions.

Members are reminded that the text of the current Plan Document and all formal amendments may be examined during normal business hours (Monday to Friday from 9:00 a.m. to 5:00 p.m.) at the offices of the Pension Administration Commitee located at: 688 Sherbrooke Street West, Suite 1420, Montreal, Quebec, H3A 3R1.

2008 Benefit Payments

During 2008, 75 plan members settled their pension accounts. Of these, 44 chose external settlements, 28 chose internal pension settlements (including 2 temporary annuity purchases) and 3 chose a combination of internal and external settlement options. The new retirees who consented to have their names included in this Report are listed in *Appendix I*. As at December 31, 2008, there were 1368 retired members and beneficiaries receiving pensions from the Pensioner Fund. Of these, 998 are in the Old Pool with an average age of 79.6 years and 370 are in the New Pool with an average age of 67.4 years. The total of such pensions payments amounted to $33,209,175 in 2008.

During the year, 65 deaths were recorded among members of the Plan, of which 11 were active members, 52 were retired members from the Old Pool and 2 were retired members from the New Pool (see *Appendix II*). 254 individual benefit settlements were transacted under the Plan during the year for a total amount of $32,040,580. The types of settlement transactions processed and the benefit amounts paid out of the Plan during 2008 are summarized in *Schedule 8*.

In addition to these settlements, deferred annuity accounts were set up for 146 terminating members who reinvested holdings of $4,888,910 in the pension fund.

External Settlements Paid in 2008 (excluding retirement settlements)

	Number	Total Amount	Average Payment
Transfers to LIFs:	27	$13,135,948	$486,517
Transfers to LIRAs:	77	14,255,531	185,137
Death Benefits:	7	1,413,356	201,908
Other[1]:	5	794,340	158,868
Marriage Breakdown Settlements:	4	264,431	66,108
Lump-Sum Payments:	121	1,788,519	14,781
Transfers to other Pension Plans:	10	342,694	34,269
Temporary Annuity Purchases:	2	44,290	22,145
Cash Payments:	1	1,471	1,471
Total:	254	$32,040,580	$126,144

[1]Includes transfers to RRSPs and RIFs

Annuity Dividends

Historically, Plan Annuity Rates have been set on the basis of assumptions with respect to interest earnings and mortality rates in order to include provision for potential increases in pensions. When surplus earnings emerge in the Pensioner Fund as a result of mortality experience or investment returns that are more favorable than the rates required to cover current pension costs; or when the present value of assets exceed the present value of liabilities as a result of changes in interest rates, these amounts can be set aside to provide increases in the form of “Annuity Dividends” to pensions currently in the course of payment. Annuity Dividends are granted on the advice of the Plan’s actuary and are subject to there being sufficient assets in the Pensioner Fund to cover the future cost of pensions purchased.

In 2000, the Pensioner Fund was notionally separated into two accounts. One account represents the assets and liabilities in respect of the pensioners who purchased their pensions on the “old” rate basis (prior to January 1, 2000); the other covers the pensioners who annuitize under the “new” rate basis. Separate dividend distributions apply to each group. The new annuity rates, which came into effect on January 1, 2000, are based on revised mortality and interest rate assumptions. *Schedule 9* shows the full history of the Annuity Dividends that have been granted since the inception of this program and the impact dividends have had on the benefits paid to the McGill pensioners over the years.

The amount and frequency of each Annuity Dividend is determined by the PAC following an annual actuarial valuation of the liabilities of the Pensioner Fund. All Annuity Dividends are calculated and paid on an actuarial basis that is designed to distribute the benefits evenly over the remaining lifetimes of all pensioners, within the respective pool. Each new dividend is allocated on a compounded basis in which the benefit is expressed as a percentage increase to be applied to the total of the initial base pension plus all past dividends granted.

Once an Annuity Dividend has been granted it forms part of the contractual lifetime benefit and the member’s pension can never be reduced below this amount in the future. Nevertheless, it is important to note that although past dividends are guaranteed, future dividend increases are entirely dependent on the ability of the Pensioner Fund to continue to generate surplus earnings; there can be no guarantee that this will be the case.

Schedule 9

Impact of Past Dividends – "Old Pool"

Year of Retirement	2008 Value of Initial Pension of $20,000	Dividends Granted "Old Pool"[1]	Cumulative Pension Increase	Cumulative Annual Average Inflation	Annual Average Inflation
1975	$ 41,895		109.48%	294.50%	10.81%
1976	$ 40 675	3.00%	103.37%	266.38%	7.67%
1977	$ 39 395	3.25%	96.97%	239.89%	7.80%
1978	$ 37 879	4.00%	89.40%	211.82%	9.00%
1979	$ 36 648	3.36%	83.24%	185.81%	9.10%
1980	$ 35 581	3.00%	77.90%	159.60%	10.10%
1981	$ 34 427	3.35%	72.14%	131.04%	12.36%
1982	$ 32 580	5.67%	62.90%	108.40%	10.86%
1983	$ 30 554	6.63%	52.77%	96.41%	6.11%
1984	$ 28 751	6.27%	43.76%	88.27%	4.32%
1985	$ 27 260	5.47%	36.30%	81.13%	3.94%
1986	$ 25 947	5.06%	29.74%	73.82%	4.21%
1987	$ 25 012	3.74%	25.06%	66.59%	4.34%
1988	$ 24 131	3.65%	20.66%	60.13%	4.03%
1989	$ 23 467	2.83%	17.34%	52.66%	4.90%
1990	$ 22 484	4.37%	12.42%	45.65%	4.81%
1991	$ 21 651	3.85%	8.25%	37.96%	5.57%
1992	$ 21 247	1.90%	6.24%	35.71%	1.66%
1993	$ 20 904	1.64%	4.52%	33.20%	1.88%
1994	$ 20 659	1.19%	3.29%	32.83%	0.28%
1995	$ 20 365	1.44%	1.83%	30.23%	2.00%
1996	$ 20 100	1.32%	0.50%	28.20%	1.58%
1997	$ 20 000	0.50%	0.00%	26.11%	1.66%
1998	$ 20 000	0.00%	0.00%	24.89%	0.98%
1999	$ 20 000	0.00%	0.00%	22.83%	1.68%
2000	$ 20 000	0.00%	0.00%	19.59%	2.71%
2001	$ 20 000	0.00%	0.00%	16.59%	2.57%
2002	$ 20 000	0.00%	0.00%	14.15%	2.14%
2003	$ 20 000	0.00%	0.00%	11.01%	2.83%
2004	$ 20 000	0.00%	0.00%	8.97%	1.87%
2005	$ 20 000	0.00%	0.00%	6.62%	2.20%
2006	$ 20 000	0.00%	0.00%	4.52%	2.01%
2007	$ 20 000	0.00%	0.00%	2.37%	2.10%
2008	$ 20 000	0.00%	0.00%	0.00%	2.37%

1 "Old Pool" represents those people who purchased their pensions on the "old" rate basis prior to January 1, 2000. No dividends have been granted in the "old pool" since 1997.

2 "New Pool" represents those people who purchased their pensions on the "new" rate basis from January 1, 2000 on. No dividends have been granted in the "new pool" since its inception in 2000.

Example: A pensioner who retired in 1993 with an initial pension of $20,000 per annum was receiving $20,904 per annum as of December 31, 2008. This represents a cumulative pension increase of 4.52% for a 15-year period in which cumulative inflation amounted to 33.20%.

Source: BNY Mellon

Annuity Dividend Valuation

A separate valuation of the Pensioner Fund is undertaken each year for Annuity Dividend purposes. The December 31, 2007 valuation of the Pensioner Fund for purposes of issuing an Annuity Dividend confirmed an excess of liabilities over assets of $36,339,500 for the “old pool” and $1,729,600 for the “new pool”. Consequently, no Annuity Dividends could be declared.

The Executive Summary of the Annuity Dividend Valuation as at December 31, 2007, as prepared by the Plan actuaries, Eckler Ltd., can be found on our web site at: http://www.mcgill.ca/pensions/dividends/summary.

Valuations for Annuity Dividend purposes are limited to the assets and liabilities of the Pensioner Fund. The assumptions used for Annuity Dividend valuation purposes may not be the same as those used for triennial valuation purposes. The assumptions used for triennial valuation purposes are largely prescribed by the *Régie des rentes du Québec* and the *Canadian Institute of Actuaries*. In addition, triennial valuations are based on the Pension Plan as a whole whereas valuations for Annuity Dividend purposes are restricted to the Pensioner Fund.

The adoption of revised mortality assumptions in 1999 significantly increased the liabilities of the Pensioner Fund which in turn resulted in a shortfall for Annuity Dividend purposes. The current shortfall can be largely attributed to this change in mortality assumptions recognizing that this action was necessary in order to reflect the increasing longevity of McGill University pensioners.

The December 31, 2008 valuation of the Pensioner Fund for Annuity Dividend purposes will be based on current mortality tables and an interest rate assumption based on market rates and asset valuation methods requiring smoothing of values over a three-year period. The Executive Summary of the Annuity Dividend Valuation as at December 31, 2008 will be posted to the website once it is available.

Actuarial Valuation of the Plan

The Plan is required to provide information and actuarial certification at least every three years. Plan actuaries, Eckler Ltd, in their December 31, 2006 valuation report, established the financial position of the Plan.

The actuarial valuation of the Pension Plan as a whole, established that a going-concern actuarial surplus of $33,597,000 existed as at December 31, 2006.

The degree of solvency is described as the ratio of solvency assets to the solvency liabilities. As at December 31, 2006, the degree of solvency, excluding the defined contribution balances for those members who would not have been entitled to receive any benefits under the defined benefit minimum provision of the Plan, had the Plan been terminated on December 31, 2006 was 97.0%. Under the *Supplemental Pension Plans Act*, as of January 2007, university and municipal pension plans are no longer required to make contributions to amortize solvency deficits.

The next triennial actuarial valuation of the Plan must be performed no later than December 31, 2009.

Administration

The day-to-day administration of the Pension Plan is performed by the staff of Pension Administration, Pension Investments as well as the staff of Aylmer & Sherbrooke Investments Inc. on the basis of policies and procedures established and monitored by the Pension Administration Committee and the Board of Directors of the Corporation.

The total fees for the investment options in the Accumulation Fund, as well as the total fees for the Pensioner Fund, are presented in *Schedule 10*.

Schedule 10

Fees as a Percentage of Average Net Assets

	2008	2007
ACCUMULATION FUND		
Balanced Account	0.60%[1]	0.33%
Equity Pool	0.43%	0.43%
Fixed Income Pool	0.25%	0.21%
Socially Responsible Investment Pool (established April 2008)	0.88%	n/a
Money Market Pool	0.21%	0.05%[2]
Workout Asset Pool	0.17%	0.00%[2]
PENSIONER FUND	0.26%	0.25%

Note 1: The process for allocating fees to the Balanced Account is being re-examined.
Note 2: Effective January 1, 2008, the fees will be approximately 0.20% for these two pools.

CONTACT US

The offices of the Pension Administration Committee, Pension Administration, and Investments and Aylmer & Sherbrooke Investments Inc. are located at:

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A copy of this annual report and other documents can also be accessed through our web site at http://www.mcgill.ca/pensions

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La version française de ce rapport est disponible sur demande.

CHART 1A

Accumulation Fund Average Unit Values Since Inception

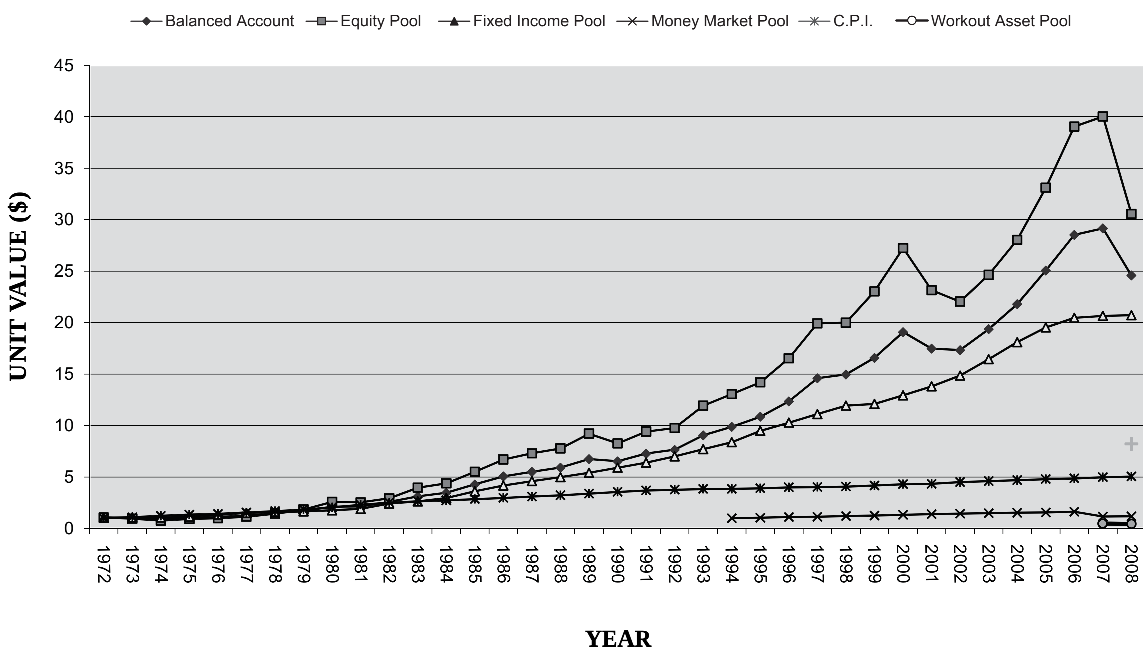


CHART 1B

Accumulation Fund Average Unit Values (logarithmic scale) Since Inception

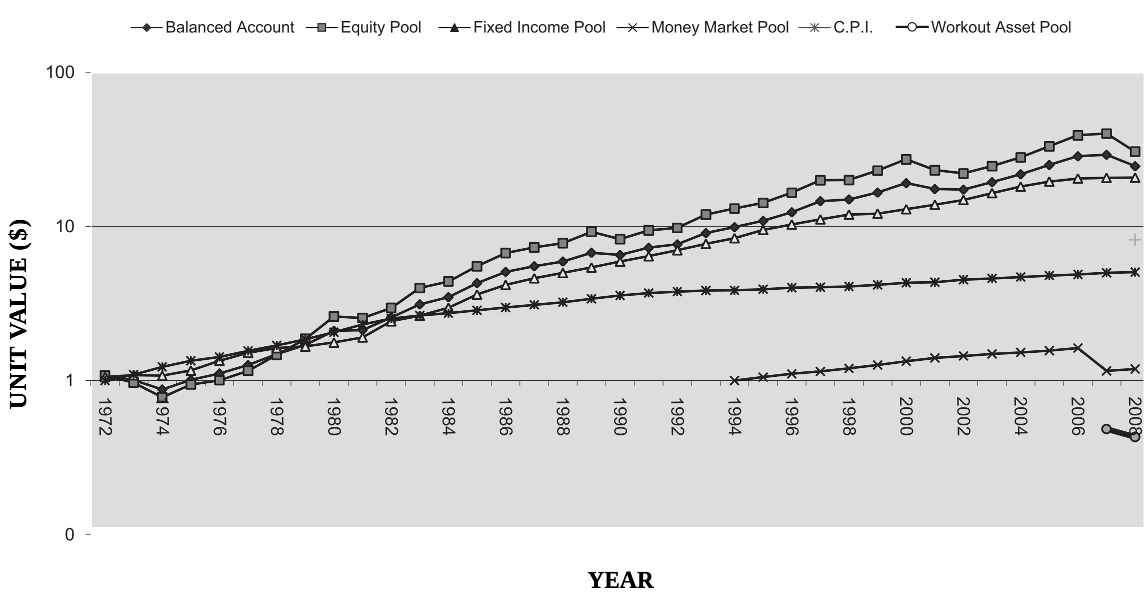
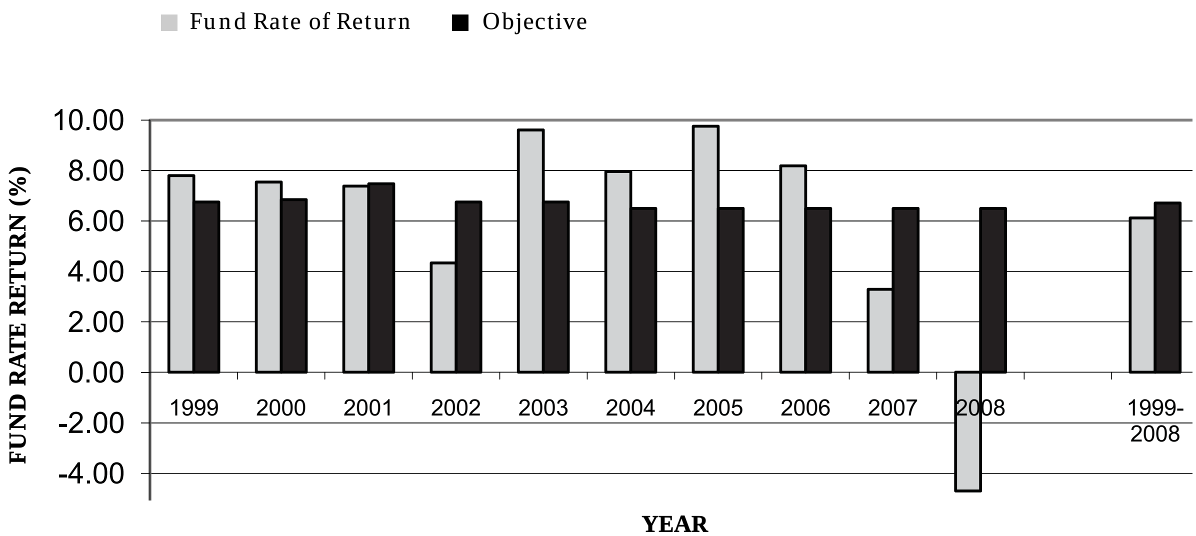


CHART 2

Pensioner Fund Performance History from 1999 to 2008



Current Objective is 6.50%. Prior to 2004, the primary objective was 6.75% and the secondary objective was 4.25% plus the increase in the Canadian Consumer Price Index.

Appendix I

2008 RETIREMENTS

The following members of the Plan retired in 2008 and consented to have their names published in this report.

Name	Department or Faculty
Mrs. Mona Bissada	Biology
Ms. Carol L. Cardinal	McGill-Queen's University Press
Professor Ronald Chase	Biology
Mr. André Demers	Macdonald Campus
Dr. Janet Donin	Educational Counseling & Psychology
Professor Myron J. Echenberg	History
Mr. Edwin F. Fernandez	Mining, Metals & Materials Engineering
Miss Barbara Joyce Finlay	Libraries
Mrs. Suzanne Higgins	Registrar's Office
Professor Pierre-Gabriel Jobin	Law
Mr. Eric Johnstone	School of Physical & Occupational Therapy
Ms. Anastassia Khouri	Libraries
Dr. Harriet V. Kuhnlein	School of Dietetics & Human Nutrition
Miss Frances M. J. Langton	Human Genetics
Ms. Claudette Yvonne Lapierre	Continuing Education
Professor John E. Leide	Graduate School of Library & Information Studies
Mrs. Joan Longo	Microbiology & Immunology
Dr. James C. MacDougall	Psychology
Mrs. Virginia Mann	Athletics
Mr. Narciso Mejia	Biochemistry
Mrs. Louise Mineau	Plant Science
Professor Monroe Newborn	School of Computer Science
Mrs. Janet S. O'Connor	Information Systems Resources
Mr. Richard Edward Owen	Information Systems Resources
Mr. Robert E. Peuckert	Medicine
Miss Beverly Ann Redmond	Medicine
Ms. Elsa Schotman	University Clinic - RVH
Professor Georg Schmidt	Mathematics & Statistics
Professor Josef Schmidt	German Studies
Ms. Blossom Shaffer	Centre for Research and Teaching on Women
Professor Lee A. Soderstrom	University Clinic - RVH
Mrs. Veronica Webster-John	Microbiology Lab - RVH

Appendix II

2008 DEATHS

Active Plan Members whose deaths occurred in 2008:

Name	Department or Faculty
Mrs. Brenda Bewick	Deferred Annuitant
Mrs. Kathleen Craig	Anatomy & Cell Biology
Dr. Geoffrey M. Davis	Pediatrics
Mr. Alan Ford	Linguistics
Ms. Josée Gadbois	Inventions & Patents
Dr. Annette Herscovics	McGill Cancer Centre
Professor Y. Gregory Kelebay	Integrated Studies in Education
Dr. Joe Kincheloe	Integrated Studies in Education
Dr. Peter Schneider	Centre for International Management
Mrs. Marisa Terrenzio	Integrated Studies in Education

Retired Plan Members whose deaths occurred in 2008:

Name	Department or Faculty
Mr. Mohammed Iqbal Alavi	Pathology
Mrs. Mary Eleanor Algie	Libraries
Professor Effie C. Astbury	Graduate School of Library Science
Mrs. Jeannette Ayotte	Anatomy & Cell Biology
Mr. Pasquale Biello	Facilities Management
Mr. Albert F. Banville	Management
Mr. Herby Berry	Plant Science - Macdonald Campus
Mrs. Ilse Berzins	Retiree
Professor L. Bernard Birch	Education
Mr. Donald Birnie	Facilities Development
Professor A. Clark Blackwood	Microbiology & Immunology
Mr. Saverino Caputo	Facilities Management
Dr. Pierre Chollet	Office of Inventions & Patents
Miss Alison G. Cole	Libraries
Professor Jan Comaj	Education
Mr. Rocco Di Benedetto	Facilities Management
Mr. Raphael Daniel	Facilities Management
Mr. Nicola Di Lalla	Facilities Management
Mrs. Jennie Epstein	Accounting
Dr. Barbara Esplin	Pharmacology & Therapeutics
Professor Arwel Evans	Mathematics & Statistics
Dr. Claus D. M. Fengler	Electrical Engineering
Mr. Percy Charles Ford	Facilities Management - Macdonald Campus
Mrs. T. Pauline Fox	Electrical Engineering
Mr. Alberto Furtado	Residences - Royal Victoria College

Appendix II – Deaths (continued)

Name	Department or Faculty
Professor Angus F. Graham	Biochemistry
Mr. Guy Harrison	Pathology
Mr. Eric Hurley	Education
Mr. Ivan L. Ivessa	Libraries
Mr. Garfield John Job	Facilities Management
Mrs. Patricia Lalonde	Pensioner
Mr. Giovanni Lancia	Facilities Management
Professor Peter Cory Landry	Physics
Miss Anita Levac	Diploma Program
Mrs. Margaret M. Lodge	Libraries - Macdonald Campus
Professor James D. MacArthur	Agriculture - Macdonald Campus
Mrs. Elizabeth Lyman-MacCormack	Registrar's Office
Mr. Roger Martel	Facilities Management - Macdonald Campus
Mr. Roger Meloche	Facilities Management - Macdonald Campus
Mrs. Marjorie Grace Menard	Administration - Macdonald Campus
Mrs. Eva Patti	Faculty Club - Macdonald Campus
Mrs. Barbara Ann Petrin	Montreal Neurological Institute
Mrs. Jeannine Proulx	Montreal Neurological Institute
Mr. Guy Richard	Facilities Management - Macdonald Campus
Mr. Philippe Robillard	Facilities Management - Macdonald Campus
Mr. Rolf Selbach	Instructional Communications Centre
Mr. Abal Sen	Geography
Ms. Lise St-Onge	Telecommunications Office
Professor A. Lloyd Thompson	Mechanical Engineering
Mrs. Kathleen Toccacelli	Engineering
Mrs. Chrysoula Tsesmes	Residences
Professor Jeremy D. B. Walker	Philosophy
Professor Martin Weber	Chemical Engineering
Mrs. Anni K. Zarudzka	Montreal Neurological Hospital

Appendix III

UNIT VALUE HISTORY

1998	Balanced	Equity	Fixed	MMF
Jan:	14.5018	19.7671	11.1748	1.1499
Feb:	14.5512	19.8363	11.2300	1.1537
Mar:	14.8598	20.3340	11.2957	1.1575
Apr:	15.2796	20.9892	11.3988	1.1614
May:	15.6893	21.6491	11.4616	1.1654
Jun:	15.8714	21.9150	11.5533	1.1697
Jul:	15.8155	21.7950	11.6212	1.1742
Aug:	15.6343	21.4562	11.6658	1.1791
Sep:	15.0895	20.4681	11.6402	1.1841
Oct:	14.7042	19.6825	11.7140	1.1893
Nov:	14.5704	19.3745	11.7887	1.1946
Dec:	14.9594	19.9910	11.9425	1.2001

1999	Balanced	Equity	Fixed	MMF
Jan:	15.3489	20.6891	12.0095	1.2055
Feb:	15.6247	21.1567	12.0986	1.2110
Mar:	15.6431	21.2020	12.0957	1.2163
Apr:	15.7308	21.3465	12.1235	1.2216
May	15.8995	21.6640	12.1434	1.2269
Jun:	16.1746	22.1693	12.1883	1.2322
Jul:	16.3831	22.5995	12.1703	1.2372
Aug:	16.4793	22.8354	12.1133	1.2422
Sep:	16.6038	23.0948	12.0985	1.2472
Oct:	16.5590	23.0043	12.1078	1.2521
Nov:	16.5147	22.9225	12.1078	1.2571
Dec:	16.5702	23.0345	12.1079	1.2620

2000	Balanced	Equity	Fixed	MMF
Jan:	16.9261	23.7529	12.0879	1.2670
Feb:	17.1845	24.2555	12.0953	1.2721
Mar:	17.5188	24.8386	12.1763	1.2769
Apr:	17.7909	25.2703	12.2904	1.2835
May:	18.1059	25.7994	12.3972	1.2903
Jun:	18.3413	26.2237	12.4464	1.2977
Jul:	18.6019	26.7027	12.5083	1.3037
Aug:	18.9056	27.2334	12.6050	1.3099
Sep:	19.3357	28.0186	12.7181	1.3164
Oct:	19.4782	28.2458	12.7917	1.3230
Nov:	19.4804	28.1845	12.8577	1.3296
Dec:	19.0751	27.2448	12.9375	1.3361

2001	Balanced	Equity	Fixed	MMF
Jan:	18.8967	26.7648	13.0438	1.3247
Feb:	18.9814	26.7963	13.1810	1.3492
Mar:	18.9467	26.6388	13.2801	1.3556
Apr:	18.6260	25.9294	13.3222	1.3618
May:	18.2869	25.2752	13.2766	1.3678
Jun:	18.3545	25.4481	13.2467	1.3737
Jul:	18.4196	25.5753	13.2618	1.3792
Aug:	18.3218	25.3015	13.3410	1.3846
Sep:	18.0483	24.6452	13.4471	1.3898
Oct:	17.6659	23.7933	13.5387	1.3950
Nov:	17.4360	23.1657	13.7199	1.3998
Dec:	17.4740	23.1558	13.8173	1.4043

2002	Balanced	Equity	Fixed	MMF
Jan:	17.9039	23.9697	13.8821	1.4084
Feb:	18.1813	24.5708	13.8499	1.4119
Mar:	18.3080	24.8314	13.8622	1.4148
Apr:	18.4354	25.0816	13.8672	1.4175
May:	18.5615	25.2771	13.9392	1.4200
Jun:	18.6226	25.3179	14.0373	1.4228
Jul:	18.3525	24.6474	14.2024	1.4257
Aug:	17.9165	23.6867	14.3101	1.4288
Sep:	17.3433	22.3001	14.6106	1.4355
Oct:	16.6620	20.7499	14.8441	1.4389
Nov:	16.8302	21.2061	14.6796	1.4424
Dec:	17.3226	22.0446	14.8556	1.4458

2003	Balanced	Equity	Fixed	MMF
Jan:	17.3540	21.8714	15.2290	1.4493
Feb:	17.0718	21.2949	15.2817	1.4528
Mar:	16.8962	20.7734	15.5348	1.4560
Apr:	16.6278	20.2884	15.5088	1.4596
May:	17.1724	21.1801	15.6604	1.4633
Jun:	17.7196	21.8669	16.1379	1.4673
Jul:	17.9044	22.2442	16.1165	1.4712
Aug:	18.4525	23.3308	15.9285	1.4752
Sep:	18.8098	23.9054	16.0383	1.4791
Oct:	18.7357	23.5706	16.3446	1.4826
Nov:	19.2127	24.4562	16.3156	1.4860
Dec:	19.3661	24.6410	16.4558	1.4894

2004	Balanced	Equity	Fixed	MMF
Jan:	20.1508	25.9145	16.7430	1.4929
Feb:	20.8050	26.8790	17.0751	1.4963
Mar:	21.3357	27.7052	17.2653	1.4993
Apr:	21.1602	27.2757	17.4522	1.5023
May:	21.0476	27.1537	17.3262	1.5051
Jun:	21.1630	27.2987	17.4264	1.5077
Jul:	21.3096	27.6035	17.4016	1.5103
Aug:	21.0888	27.0563	17.6022	1.5130
Sep:	21.0239	26.7810	17.8328	1.5158
Oct:	21.1753	27.0982	17.7827	1.5185
Nov:	21.3621	27.3258	17.9626	1.5215
Dec:	21.7925	28.0294	18.1028	1.5246

2005	Balanced	Equity	Fixed	MMF
Jan:	22.4656	29.1164	18.3652	1.5279
Feb:	22.7639	29.5178	18.5330	1.5313
Mar:	23.3901	30.6765	18.4840	1.5343
Apr:	23.0769	30.0532	18.5631	1.5376
May:	23.1344	29.9807	18.8019	1.5409
Jun:	23.6103	30.7015	19.0697	1.5443
Jul:	23.8824	31.1277	19.2146	1.5476
Aug:	24.6414	32.5791	19.1772	1.5510
Sep:	24.7339	32.5708	19.4491	1.5544
Oct:	25.1308	33.2706	19.5248	1.5579
Nov:	24.4788	32.1154	19.4273	1.5617
Dec:	25.0545	33.1110	19.5429	1.5657

Appendix III – Unit Value History (continued)

2006	Balanced	Equity	Fixed	MMF
Jan:	25.7284	34.2023	19.8134	1.5699
Feb:	26.4328	35.5417	19.7344	1.5743
Mar:	26.3327	35.2714	19.8369	1.5785
Apr:	27.0132	36.6001	19.7653	1.5834
May:	26.9609	36.6474	19.5790	1.5883
Jun:	26.1696	35.1219	19.5779	1.5936
Jul:	26.2878	35.4038	19.5484	1.5991
Aug:	26.7267	35.9556	19.8910	1.6049
Sep:	27.0561	36.3806	20.1818	1.6108
Oct:	27.0088	36.2247	20.2386	1.6165
Nov:	27.8154	37.7581	20.2863	1.6224
Dec:	28.5146	39.0342	20.4672	1.6281

2007	Balanced	Equity	Fixed	MMF	WAP
Jan:	29.0009	40.1696	20.2984	1.6341	
Feb:	29.5130	41.1199	20.3348	1.6400	
Mar:	29.6213	41.0314	20.5361	1.6454	
Apr:	29.6918	41.2720	20.5283	1.6514	
May:	29.8870	41.6067	20.6045	1.6572	
Jun:	30.0617	42.1974	20.3309	1.6633	
Jul:	29.7806	41.6921	20.2642	1.6692	
Aug:	29.5262	41.1179	20.3010	1.1395	
Sep:	29.3258	40.6423	20.3675	1.1438	0.5360
Oct:	29.4669	40.7507	20.5116	1.1480	0.5371
Nov:	29.6986	41.2270	20.5254	1.1522	0.4839
Dec:	29.1511	40.0191	20.6587	1.1563	0.4843

2008	Balanced	Equity	Fixed	SRI	MMF	WAP
Jan:	29.2701	40.0508	20.8448		1.1604	0.4847
Feb:	28.4734	38.3491	20.9358		1.1643	0.4851
Mar:	28.5605	38.3099	21.0553		1.1677	0.4311
Apr:	28.8644	38.6270	21.3085	10.0000	1.1710	0.4310
May:	29.4248	39.8404	21.2056	10.0000	1.1735	0.4310
Jun:	29.9795	40.7614	21.4163	10.1362	1.1758	0.4309
Jul:	29.3949	39.5961	21.5610	9.8906	1.1782	0.4308
Aug:	28.8688	38.4603	21.6171	9.6495	1.1805	0.4307
Sep:	29.3699	39.2365	21.7152	9.7252	1.1826	0.4306
Oct:	27.0325	35.2275	21.0550	8.9411	1.1850	0.4305
Nov:	25.0872	31.6132	20.6198	8.3603	1.1869	0.4304
Dec:	24.5816	30.5670	20.7240	8.2101	1.1885	0.4303

A complete listing of all unit values since the inception of the Plan in 1972
is available on our website at: www.mcgill.ca/pensions/unithistory

Appendix IV

GLOSSARY

Active Management: A management style whereby a manager selects individual investments with the goal of earning a higher return than its comparative benchmark.

Actuary: An independent professional who calculates pension plan liabilities and compares them to pension plan assets in order to determine the financial status of a pension plan.

Annualized Rate of Return: A rate of return expressed over one year, although the actual rates of return being annualized are for periods longer or shorter than one year.

Annuity: A series of payments of a fixed amount for a specified period of time.

Asset Allocation: The proportion of assets invested in different asset classes such as cash and equivalents, fixed-income securities and equities.

Asset-backed commercial paper (ABCP): ABCPs are issued by banks and non-bank financial companies and is backed by longer term assets such as car loans, mortgage loans, credit card balances and other interest-bearing assets.

Balanced Account: The investment option established by the Pension Administration Committee and which consists of allocations to the Equity and Fixed Income Pools in such proportions as shall be determined from time to time by the Committee.

Basis Point: One-hundredth of a percentage point. The difference between 5.25% and 5.50% is 25 basis points.

Benchmark: A standard against which rates of return can be measured, such as stock and bond market indices.

Bonds: Evidence of a debt on which the issuer promises to pay the holder a specified amount of interest for a specified length of time and to repay the indebtedness at maturity.

Commercial paper: Commercial paper is short-term debt issued, usually maturing in under a year but frequently in as little as a month.

Common shares: Securities representing ownership in a company, usually carrying voting privileges. Common shareholders share in growth through capital appreciation and may also be entitled to dividends, at the company's discretion.

Consumer Price Index (CPI): An inflationary indicator provided by Statistics Canada that measures the change in the price of a fixed basket of goods and services. The basket is supposed to reflect the average needs of a family.

Custodian: An independent organization, usually a trust company, entrusted with holding investments on behalf of the owner. The custodian maintains financial records for the investments and may per-orm other services for the owner as well.

Defined Benefit Minimum Provision: Based on a formula that takes into account the plan member's credited service and highest 60-consecutive months of earnings and applicable to members of the Plan including members eligible to join the Plan prior to January 1, 2009.

DEX 30 or 91-day Treasury Bills Index: Measures the performance attributable to 30 or 91-day Treasury Bills of the provincial and federal governments.

DEX Real-Return Bond Index: Measures the performance of Canadian real-return bonds.

DEX Universe Bond Index: Designed to be a broad measure of the Canadian investment-grade fixed income market. The Universe Index is divided into a variety of sub-indices (e.g. Short, Mid, Long) according to term and credit and also consists of four main credit or borrower categories: bonds issued by the Government of Canada (including Crown Corporations), Provincial bonds (including provincially-guaranteed securities), Municipal Bonds, and Corporate Bonds.

Diversification: A strategy to spread investment risk among different asset classes, different types of assets, among securities, among economic sectors, and among different countries.

Duration: A measure of the interest rate sensitivity of a bond's market price taking into consideration its coupon and maturity date.

Emerging Markets: Markets in developing countries as defined by the International Finance Corporation (IFC) on the basis of Gross National Product (GNP) per capita. Countries classified as low or middle-income by the World Bank are considered developing or emerging countries.

Enhanced Index Mandate: A form of active management whereby an investment manager aims to outperform the index by investing in securities included in the index, subject to investment restrictions, such as weighting limits of holdings in the portfolio.

Equity Pool: Those holdings of common and preferred shares and other such holdings which are generally considered to be equity securities. The Equity Pool may hold cash and cash equivalents from time to time.

Appendix IV – Glossary (continued)

Fixed Income Pool: Those holdings of bonds, debentures, mortgage loans, notes and other such holdings which are considered to be debt instruments. The Fixed Income Pool may hold cash and cash equivalents from time to time.

Going-concern actuarial surplus: Means the amount, if any, by which the sum of the going-concern assets exceed the going-concern liabilities; *going-concern valuation: assumes that the Plan will remain in effect indefinitely and is, therefore, based on long-term actuarial assumptions and methods.*

GPR 250 Net Index: – is a real estate benchmark consisting of the 250 most liquid property companies worldwide, and uses the tradable market capitalization of these companies as index weights.

Gross Rate of Return: Rate of return of a portfolio before deducting investment management fees.

High-Yield Bonds: A corporate bond that has been assigned a rating below investment grade by a rating agency reflecting lower credit quality of the issue.

Index Funds: An investment fund that closely replicates the composition of a particular market index (e.g. S&P 400 MidCap Index Fund).

Inflation: The term used to describe rising prices of goods and services within an economy. The purchasing power of the monetary unit declines when inflation is present.

Investment Objective – Balanced Account: To optimize capital accumulation over the long-term through allocations to the Equity and Fixed Income Pools with a target asset mix of 65% equity securities and 35% fixed income securities.

Investment Objective – Equity Pool: To provide long-term capital appreciation and dividend income by investing in a diversified portfolio of Canadian and foreign equity securities.

Investment Objective – Fixed Pool: To provide a predictable source of interest income, reduced volatility of investment returns and a hedge against deflation, by investing in a diversified portfolio of primarily Canadian fixed income securities. An allocation to real-return bonds will provide a hedge against inflation.

Investment Objective – Money Market Pool: To preserve capital, provide stable returns and maintain liquidity.

Investment Objective – SRI Pool: To optimize capital accumulation over the long-term in a "socially responsible" manner through allocations to equity and fixed income investments with a target asset mix of 65% equity securities and 35% fixed income securities including a maximum cash limit of 10%.

Investment Objective – Workout Asset Pool: To minimize the erosion of capital related to its investment holdings.

Liquidity: The ability to buy or sell an asset quickly.

Market Value: The price at which an investment can be bought or sold.

Merrill Lynch Global High Yield (Hedged) Index: Measures the performance of below investment grade Canadian and US dollar-denominated bonds (i.e. rated BBB and lower) of Canadian domiciled corporate issuers. The index is fully hedged to eliminate the impact of the US dollar on US dollar-denominated issues.

MSCI EAFE: The Morgan Stanley Capital Inc. EAFE® Index (Europe, Australasia, Far East) is a free float-adjusted (i.e. the equity of a company available to international investors) market value weighted index (stock price times the number of shares outstanding) that is designed to measure the market equity performance of 21 developed markets, excluding the US & Canada.

Money Market Pool: Those holdings of cash, short-term investments and other such securities with maturities less than a year which are generally considered to be money market instruments.

New Pool: Represents plan members who purchased their pensions on the “new” rate basis from January 1, 2000 on.

Non-North American Investments: Investments made in securities of companies generally domiciled outside of Canada or the United States.

Old Pool: Represents plan members who purchased their pensions on the “old” rate basis prior to January 1, 2000.

Pension Fund: Consists of employee and employer contributions into the Pension Plan plus the income, gains and/or losses derived from fund investments. In addition, the pension fund disburses all benefits provided by the Pension Plan and pays Pension Plan administration expenses.

Pension Plan: Shall mean the McGill University Pension Plan as described in the Plan Document, as amended from time to time. The Pension Plan has been established for the purpose of providing retirement, death and termination benefits for employees and their beneficiaries.

Plan Document: The text of the McGill University Pension Plan as amended to January 1, 2001 and which is available for viewing by members at the offices of the Pension Administration Committee.

Appendix IV – Glossary (continued)

Private Equity: Equity capital invested in a private company and which may include investments in venture capital, corporate buyouts and mezzanine financing.

Rate of Return: The income earned (i.e. yield) plus/minus any realized and unrealized capital gains/losses for a particular period, usually expressed as a percentage.

Realized Gains/Losses: Capital gains/losses that result when an appreciated/depreciated asset is sold.

Real Estate Investment Trust (REIT): A corporation or trust that uses the pooled capital of many investors to purchase and manage income property.

Real-Return Bonds: Evidence of a debt on which the issuer promises to pay the holder a periodic amount of interest for a specified length of time based on a real rate of interest and actual inflation. The bond's principal or indebtedness is repaid on maturity.

Rebalancing: An investment approach by which the investor or manager maintains an investment mix by reallocating funds periodically over time.

S&P 1500 (or SuperComposite 1500): An index combining the S&P 500, S&P 400 MidCap, and S&P 600 SmallCap indices to efficiently create a broad market portfolio representing approximately 90% of the market value of US publicly-traded equities.

S&P 500 LargeCap: A US index consisting of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

S&P 400 MidCap: A US index consisting of 400 domestic stocks chosen for market size, liquidity, and industry group representation. Like the S&P 500 index, it is also a market value weighted index. It is considered a proxy for measuring performance of the mid-size company segment of the US market.

S&P 1000 Small/MidCap: A combination of the S&P 600 SmallCap and S&P 400 MidCap indices, where the S&P 600 SmallCap represents approximately 30% and the S&P 400 MidCap represents approximately 70%.

S&P/IFCI: A market capitalization-weighted index measuring the equity performance of 27 emerging markets.

S&P/TSX Canadian SmallCap: An index of smaller Canadian companies that have been included in the S&P/TSX Composite index, but are not members of the S&P/TSX 60 or the S&P/TSX Canadian MidCap Indices.

S&P/TSX Capped Energy Trust: A sector-based index of income trusts in the Energy sector. The individual constituent Energy income trusts will have their relative weights capped at 25%.

S&P/TSX Composite: The principal broad market measure for Canadian equity markets including common stocks and income trust units.

Socially-Responsible Investment (SRI) Pool: Those equity and fixed income holdings and other such securities which are managed within a socially responsible investment framework. The SRI Pool may hold cash and cash equivalents from time to time.

Solvency deficiency: Means the amount by which the sum of the solvency liabilities exceeds the sum of the solvency assets. A solvency valuation is based on the assumption that the Plan is being terminated.

T-Bills: Treasury bills are short-term government debt, which do not pay interest but are sold at a discount to reflect short-term interest rates and mature at par value. The difference between the purchase price and the proceeds at maturity represents investment income.

Trust Units: Investments in business trusts, royalty trusts (oil and gas), or real estate investment trusts (REITs).

Unit Value: The value/cost of each unit in a particular investment pool. Unit values for all the pools are calculated on a market-value basis on the last business day of each month with a one-month lag. (e.g. the December unit values were based on the market values in effect on November 30th). Unit values are net of all investment and administrative expenses and fluctuate (subject to increase or decrease) on a monthly basis in accordance with prevailing market conditions.

Venture Capital: Financing provided to start-up companies and early and later stage businesses with high growth potential.

Workout Asset Pool: A new pool established August 31, 2007 to hold the non-bank asset-backed commercial paper which was initially held in the Money Market Pool at the time of the global credit market disruptions in August 2007. The Workout Asset Pool is a closed pool and is not open to new investments.

Yield: A ratio obtained by dividing the annual income (dividends, interest, rent) by the current market price of an investment, generally expressed as a percentage.

Auditors' REPORT

To the Pension Administration Committee
McGill University Pension Plan

We have audited the statement of net assets available for benefits of the McGill University Pension Plan as at December 31, 2008 and the statements of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management and the Pension Administration Committee. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at December 31, 2008 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.[1]

Montreal, Quebec
February 20, 2009

[1]Chartered accountant auditor permit no 22220

Statement of Net Assets
AVAILABLE FOR BENEFITS
As at December 31, 2008

Accumulation Fund

ASSETS	2008	2007
Investments (Note 3)	$ 955,364,297	$1,118,969,270
Cash	1,143,219	3,297,473
Accrued investment income	1,814,187	1,990,779
Accounts receivable	1,667,255	1,656,124
Due from McGill University	262,090	22,888
	960,251,048	1,125,936,534
LIABILITIES		
Owing to former members for units redeemed	6,498,858	5,320,839
Due to Pensioner Fund (Note 5)	90,852,260	92,956,775
Accounts payable	629,705	3,534,553
Accrued expenses	907,364	983,661
	98,888,187	102,795,828
Net assets available for benefits	861,362,861	1,023,140,706

Pensioner Fund

ASSETS	2008	2007
Investments (Note 3)	256,570,911	286,546,211
Cash	135,616	11,355
Accrued investment income	405,503	487,120
Accounts receivable	201	450
Due from Accumulation Fund (Note 5)	1,136,734	4,757,309
Due from McGill University	11,422	-
	258,260,387	291,802,445
LIABILITIES		
Due to McGill University	-	2,803
Accrued expenses	72,586	70,227
	72,586	73,030
Net assets available for benefits	258,187,801	291,729,415
Total net assets available for benefits	$1,119,550,662	$1,314,870,121

Statement of Changes in Net Assets AVAILABLE FOR BENEFITS

Year ended December 31, 2008

Accumulation Fund

	2008	2007
Net assets available for benefits, January 1	$1,023,140,706	$1,012,528,635
INCREASE		
Investment income		
Interest – short-term and cash	4,048,418	3,461,978
Interest – fixed income	15,330,118	16,048,173
Dividends – common stocks	12,324,596	11,736,244
Real estate	799,308	1,498,084
Private equity	59,385	350,911
Resource properties	1,667,443	1,642,950
	34,229,268	34,738,340
Members' regular contributions	15,003,604	14,267,838
University contributions	26,825,578	25,674,713
Transfers from other registered plans	833,872	3,079,870
	42,663,054	43,022,421
Total increase in assets	76,892,322	77,760,761
DECREASE		
Administration expenses	2,195,725	2,070,515
Investment management fees	2,134,440	2,519,644
Amounts transferred to Pensioner Fund	13,006,767	13,286,105
Units redeemed	33,181,894	28,049,222
Total decrease in assets	50,518,826	45,925,486
Current year change in fair value of investments	(188,151,341)	(21,223,204)
Change in net assets available for benefits	(161,777,845)	10,612,071
Net assets available for benefits, December 31	$861,362,861	$1,023,140,706

Statement of Changes in Net Assets AVAILABLE FOR BENEFITS

Year ended December 31, 2008

Pensioner Fund

	2008	2007
Net assets available for benefits, January 1	$291,729,415	$304,174,561
INCREASE		
Investment income		
Interest – short-term and cash	164,544	1,372,180
Interest – mortgages	4,247,518	4,747,710
Interest – fixed income	439,133	117,597
Dividends – common stocks	1,658,465	2,978,373
Real estate	967,958	1,421,297
Resource properties	1,349,999	1,320,678
	8,827,617	11,957,835
Amounts transferred from Accumulation Fund	13,006,767	13,286,105
Total increase in assets	21,834,384	25,243,940
DECREASE		
Administration expenses	613,798	614,383
Investment management fees	88,952	115,343
Pension payments	33,209,175	34,747,816
Total decrease in assets	33,911,925	35,477,542
Current year change in fair value of investments	(21,464,073)	(2,211,544)
Change in net assets available for benefits	(33,541,614)	(12,445,146)
Net assets available for benefits, December 31	$258,187,801	$291,729,415

Notes to the FINANCIAL STATEMENTS

Year ended December 31, 2008

1. Summary Description of the Plan

(A) GENERAL

The Plan provides retirement benefits for the staff of McGill University ("University"). The pension for each member is determined in accordance with the accumulated value of the member's pension account at retirement under a defined contribution arrangement.

(B) FUNDING POLICY

Geographic Full-Time University staff ("GFT-U") are required to contribute 5.5% of Basic Earnings, as defined in the Plan Document, less 1.8% of the portion of Basic Earnings that is subject to a Quebec Pension Plan contribution. All other members of the Plan are required to contribute 5% of Basic Earnings less 1.8% of the portion of Basic Earnings that is subject to a Quebec Pension Plan contribution.

The University is required to make regular monthly contributions to the Plan equal to a percentage of Basic Earnings determined according to the following table, less 1.8% of the portion of Basic Earnings subject to a required employer contribution to the Quebec Pension Plan:

	Percentage of Basic Earnings	
Members' age at end of preceding month	GFT-U Members	Other Members
39 or less	5.8%	5.0%
40 through 49	8.3%	7.5%
50 to 69	10.8%	10.0%

The University is required to make additional contributions as may be necessary to fund the cost of the Defined Benefit Minimum Provision of the Plan, as well as to ensure the solvency of the Plan. The determination of the value of the Defined Benefit Minimum Provision and the degree of solvency are based on a triennial actuarial valuation (see Note 6).

(C) RETIREMENT BENEFITS

The retirement benefit for each member is determined in accordance with the accumulated value of the member's pension account at retirement. For those members enrolled in the Plan or eligible to enroll in the Plan prior to January 1, 2009, there is a Defined Benefit Minimum Provision determined according to a highest average earnings formula. Any shortfall between the accumulated value and the Defined Benefit Minimum Provision is funded by the University out of the Supplemental Fund.

(D) DEATH BENEFITS

In the event of death before retirement, a lump sum death benefit equal to the total value of the member's pension account is paid to the beneficiary or beneficiaries entitled thereto.

In the event of death after retirement, the death benefit, if any, is determined according to the settlement option chosen at retirement.

(E) TERMINATION BENEFITS

A termination benefit is payable when a member ceases to be employed. The value of the termination benefit is determined in accordance with the accumulated value of a member's pension account.

(F) ACCUMULATION FUND

The Accumulation Fund is composed of an Equity Pool, a Fixed Income Pool, a Socially Responsible Investment Pool, a Money Market Pool and a Workout Asset Pool. A Balanced Account is also available, composed of allocations to the Equity Pool and the Fixed Income Pool in proportions determined from time to time by the Pension Administration Committee ("PAC").

This structure offers a wide range of possible investment strategies permitting members to create specific strategies that best respond to their individual financial needs.

1. Summary Description of the Plan

(F) ACCUMULATION FUND (continued)

All assets of the Accumulation Fund are allocated to individual accounts and all investment income, gains and losses are distributed accordingly. Assets are, by definition, equal to liabilities and there can be no surplus or deficit in the fund.

(G) SUPPLEMENTAL FUND

The Supplemental Fund holds University contributions arising from the Defined Benefit Minimum Provision, as well as the University's funding related to actuarial valuation deficiencies.

Any actuarial surplus existing in the Supplemental Fund is the property of the University to be applied in such fashion as the University shall determine, including but not limited to, the payment of University contributions otherwise required under the Plan.

Any actuarial deficit arising from the Defined Benefit Minimum Provision or from actuarial valuation deficiencies is the responsibility of the University, to be funded by University contributions.

The assets of the Supplemental Fund are invested in the Balanced Account and included in the Accumulation Fund.

(H) PENSIONER FUND

The Pensioner Fund holds the assets required to secure the obligation for retired staff who have opted for an internal pension settlement.

2. Significant Accounting Policies

BASIS OF PRESENTATION

These financial statements include the accounts of Aylmer & Sherbrooke Investments Inc., which is a wholly-owned subsidiary of the Plan. This company invests primarily in mortgages (see *Note 3D* on page 41 - *National Housing Act* insured and conventional mortgages). Aylmer & Sherbrooke Investments Inc. was incorporated in 1993 under the *Canada Business Corporations Act* to facilitate the origination and administration of mortgage investments for the Pensioner Fund. It is a tax-exempt pension investment corporation.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of current period change in fair value of investments. Actual results could differ from such estimates and assumptions.

INVESTMENTS

Investments are recorded as of the trade date and are carried at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair value of investments is determined as follows:

(a) Short-term investments are valued at quoted market prices.

(b) Non-bank asset backed commercial paper ("ABCP") is valued at management's best estimate of current fair values. The Plan holds investments in non-bank ABCP with a par value of $41,210,000 at December 31, 2008, allocated as follows: $26,424,000 - Accumulation Fund and $14,786,000 - Pensioner Fund. These investments have matured and have not been repaid due to liquidity problems in the non-bank ABCP market. There is a proposal to restructure the non-bank ABCP market that calls for the non-bank ABCP to be converted into medium-term notes with maturities that correspond to the maturities of the assets underlying the non-bank ABCP. Subsequent to year-end, the proposal was approved. The Plan has

2. Significant Accounting Policies (continued)

INVESTMENTS (continued)

used a discounted cash flow approach to estimate a fair value using the best information currently available. As a result, the Plan recognized a discount of $10,277,000 (2007 - $4,120,000) during the year, allocated as follows: $6,582,000 (2007 - $2,639,000) - Accumulation Fund and $3,695,000 (2007 - $1,481,000) - Pensioner Fund. This estimate is subject to measurement uncertainty and the fair value of the non-bank ABCP may differ from an actual fair value that will be realized.

(c) Bond investments and equity investments are valued at quoted market prices.

(d) Mortgage investments are valued at the present value of the future payments using current market yields of financial instruments of similar maturity and credit rating.

(e) Real estate investment valuations are based on periodic appraisals for privately-held investments.

(f) Private equity investments are valued at management's best estimate of current fair values.

(g) Resource property investments are valued at quoted market prices.

INCOME RECOGNITION

Investment income is recorded on the accrual basis.

CURRENT YEAR CHANGE IN FAIR VALUE

The current year change in fair value of investments comprises both realized and unrealized gains and losses.

CHANGE IN ACCOUNTING POLICIES

The Plan's management adopted the following recommenda-tions of the Canadian Institute of Chartered Accountants Handbook: Section 3862, Financial Instruments - Disclosures, Section 3863 - Financial instruments - Presentation and Section 1535, Capital Disclosures. Section 3862 requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The required disclosures are included in note 4. Section 3863 contains standards for presentation of financial instruments and non-financial derivatives. Section 1535 requires the disclosure of information about externally imposed capital requirements. The required disclosures are included in note 6. The adoption of these Sections had no impact on the financial statements other than disclosure.

3. Investments

(A) TERMS AND CONDITIONS

The Plan holds investments to fund the retirement benefits for members of the Plan. The terms and conditions of investments are as follows:

Short-Term Investments

Short-term investments, primarily securities issued by Canadian chartered banks, government agencies and Canadian corporations, have an average term to maturity of 30 days in the Accumulation Fund (2007 - 34 days) and 28 days in the Pensioner Fund (2007 - 41 days).

Non-Bank ABCP

The non-bank ABCP currently consists of holdings of illiquid non-bank ABCP issued by trusts. Under the restructuring proposal approved subsequent to year-end, the Plan received longer-term notes which have limited liquidity.

Bonds

In the Accumulation Fund, bonds, 63% of which are guaranteed by the federal and provincial governments (2007 - 66%), have a weighted average yield to maturity of 4.63% (2007 - 4.17%) and an average duration of 7.5 years (2007 - 8.3 years). In the Pensioner Fund, the yield to maturity and duration are identical to that of the Accumulation Fund, as it invests in units of the Accumulation Fund's Fixed Income Pool.

Mortgages

In the Pensioner Fund, mortgages, 25% of which are insured under the *National Housing Act*

3. Investments (continued)

(A) TERMS AND CONDITIONS (continued)

Mortgages (continued)

(2007 - 27%), have a weighted average term of 2.2 years (2007 - 3.0 years) and an average coupon rate of 7.40% (2007 - 7.41%). The mortgage portfolio is diversified throughout Canada.

Common Stock

In both the Accumulation Fund and Pensioner Fund, common stocks, including trust units, are diversified by issuer, industry and country.

Real Estate

In both the Accumulation Fund and Pensioner Fund, real estate consists of investments in pooled funds investing directly in land and buildings.

Private Equity

In the Accumulation Fund, private equity investments consist of investments in Canadian pension fund corporations, a U.S. limited partnership and six non-Canadian private equity funds of funds.

Resource Properties

In both the Accumulation Fund and Pensioner Fund, resource properties consist of investments in publicly-traded Canadian oil and gas trust units.

(B) COMMITMENTS

There are commitments in the amount of $66.9 million (2007 - $56.0 million) to fund private equity and real estate investments. It is anticipated that these commitments will be met in the normal course of operations.

(C) SECURITIES LENDING

Effective March 2008, the Plan ceased lending securities. Prior to this date, contracts were entered into whereby securities were loaned to a borrower for a fee, in accordance with the terms of a prearranged contract. At all times, the borrower had to maintain collateral coverage in the amount of 105% of the fair value of the securities on loan.

(D) FAIR VALUE

Accumulation Fund	2008	2007
Short-term investments	$ 122,763,766	$ 100,274,007
Fixed income investments		
Federal bonds	179,308,385	185,033,462
Provincial bonds	58,328,743	58,726,254
Municipal bonds	2,402,770	1,640,806
Corporate bonds	118,357,387	122,472,188
Non-bank ABCP (Note 2B and 3A)	17,178,476	23,760,241
	375,575,761	391,632,951
Equity investments		
Common stocks, Canadian	199,561,990	283,377,967
Common stocks, Foreign	174,386,813	249,127,247
Real estate	31,005,308	46,047,461
Private equity	42,392,094	35,208,728
Resource properties	9,678,565	13,300,909
	457,024,770	627,062,312
	$ 955,364,297	$1,118,969,270

3. Investments (continued)

(D) FAIR VALUE (continued)

Pensioner Fund		
Short-term investments	$ 15,703,646	$ 17,722,429
Mortgages		
National Housing Act insured mortgages	15,068,505	18,060,884
Conventional mortgages	46,327,525	47,855,743
	61,396,030	65,916,627
Fixed income investments		
Accumulation Fund – Fixed Income Pool (Note 5)	89,715,526	88,199,466
Non-bank ABCP (Note 2B and 3A)	9,610,679	13,305,947
	99,326,205	101,505,413
Equity investments		
Common stocks, Canadian	34,286,085	56,453,871
Real estate	37,833,697	34,216,093
Resource properties	8,025,248	10,731,778
	80,145,030	101,401,742
	$256,570,911	$286,546,211

4. Financial Instruments

(A) CREDIT RISK

Credit risk arises from the potential for a bond issuer or mortgagor to default on its contractual obligations to the Plan. Although the Plan policy permits investments in below investment grade securities, it provides limits on such investments. The credit risk of mortgagors is minimized by dealing with borrowers considered to be of high quality and by monitoring their credit risk. Investments are recorded at fair value. This represents the maximum credit risk exposure of the Plan. At December 31, 2008, no amounts due to the Plan are past due.

(B) INTEREST RATE RISK

Interest rate risk refers to the impact of interest rate changes on the Plan's financial position. Interest rate changes directly impact the fair value of fixed income securities held in the Plan. Interest rate changes will also have an indirect impact on the remaining assets in the Plan. The Plan employs investment diversification to manage this risk.

(C) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the value of a foreign currency denominated asset or liability will fluctuate due to changes in foreign exchange rates. The Plan employs diversification of assets to manage this risk.

(D) MARKET RISK

Market risk is the risk that the fair value of an investment will fluctuate as a result of changes in market price. The Plan employs diversification of assets to manage this risk.

5. Due from (to) Accumulation Fund (Pensioner Fund)

Pensioner Fund	
Due from Accumulation Fund	$ 1,136,734
Investment, Accumulation Fund - Fixed Income Pool	$89,715,526
Accumulation Fund	
Due to Pensioner Fund	$90,852,260

The amount of $89,715,526 (2007 - $88,199,466) relates to an investment made by the Pensioner Fund in units of the Accumulation Fund's Fixed Income Pool. The amount of $1,136,734 (2007 - $4,757,309) relates to transfers into the Pensioner Fund that were accrued at year end.

6. Funding Deficit

The most recent triennial actuarial valuation, which was carried out as at December 31, 2006 by Eckler Ltd., the Plan's actuary, confirmed a pension asset for actuarial valuation purposes of $1.3 billion and a going-concern actuarial surplus of $33,597,000.

7. Comparative Amounts

Certain comparative amounts were reclassified to conform to the current year's presentation.

Rooted in your future

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