McGill

McGill University Pension Plan

Report and Financial Statements

December 31, 2009

Members of the Pension ADMINISTRATION COMMITTEE

Mr. Étienne Brodeur	Independent Member
Professor Reuven Brenner	Representing Academic Staff
Ms. Lynne B. Gervais (Chair)	Representing the Principal & Chair of the Board
Ms. Kim Holden	Representing the Board of Governors (as of January 1, 2010)
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 (until December 31, 2009)

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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 4th day of May, 2010 at 12:00 noon for the purposes of:

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

(b) acclamation of one Academic Staff representative, who is a member of the Plan as of December 31, 2009, to the Pension Administration Committee;

(c) acclamation of one Administrative & Support Staff representative, who is a member of the Plan as of December 31, 2009, to the Pension Administration Committee;

(d) receiving the financial statements of the McGill University Pension Plan for the year ended December 31, 2009 and the Auditors' Report thereon;

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

(f) receiving the investment performance report of the McGill University Pension Plan for the year ended December 31, 2009, including the:
  - Accumulation Fund; and the
  - Pensioner Fund; and

(g) 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 University Identification Card
- Personal Statement of Holdings as of December 31, 2009
- 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 2010

Introduction to 38th 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, 2009.

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 2009

The following changes occurred in the membership of the PAC during the year. At the Annual Meeting held on May 5th, Professor Reuven Brenner was acclaimed to a three-year term as Academic Staff representative replacing Professor Antal Deutsch. In December 2009, Ms. Manon Vennat's term as Board of Governors representative ended. In January 2010, Ms. Kim Holden was appointed for a three-year term as Board of Governors representative. The PAC extends its thanks to Professor Deutsch and Ms. Vennat for their wise counsel and valuable contributions to the deliberations of the PAC.

Responsibilities

As trustees of the Pension Plan, 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 2009, there were eleven meetings of the full PAC and a number of informal working group meetings. An internal support staff 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 2009, Mr. Mark Smith was appointed to a five-year term.

The current members of the PIB are: Mr. Donald Walcot, Chair; Ms. Maureen Farrow; Mr. Chilion Heward; Mr. Pierre Lajeunesse; Mr. Mark Smith 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 2009, there were eight 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 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 July 2009, 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, and a Money Market 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 60% of the assets of the Balanced Account are allocated to the Equity Pool and 40% 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, 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, 2009, was 60.9% to the Equity Pool and 39.1% to the Fixed Income Pool. Related benchmarks and the actual asset allocation of the Balanced Account at December 31, 2009 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, an industry-recognized benchmark is used. The private equity benchmark reflects the additional return that private equity is expected to achieve over and above the public markets.

Schedule 1

Balanced Account – Asset Allocation Policy, Related Benchmarks and Actual Asset Allocation as at December 31, 2009

Asset Class	Benchmark	Current Policy Allocation (%)	Actual Balanced Account (%)	MIN%	MID%	MAX%
Equity Pool						
Cash & Cash Equivalents	DEX 30-Day T-Bill	0	0.0	0	0	10
Canadian Equities	S&P/TSX Composite	25	29.4	20	25	30
US Equities	S&P 1500 AllCap	13	10.6	8	13	18
Non-North American Equities	MSCI EAFE	5	7.5	3	5	7
	S&P/IFCI	8	5.3	5	8	11
Alternative Equities:						
Real Estate	Industry Specific	5	3.2	2	5	10
Private Equity	2/3 S&P500 + 1/3 MSCI Europe + 5%	2	3.9	0	2	5
Resource Properties	S&P/TSX Capped Energy Trust	2	1.0	1	2	4
		60%	60.9%		60%	
Fixed Income Pool						
Cash & Cash Equivalents	DEX 30-Day T-Bill	2	0.6	0	2	20
Bonds	DEX Universe Bond	23	25.4	21	23	25
	DEX Real Return	10	9.3	8	10	12
	ML Global HY (hedged)	5	2.8	3	5	7
MAV II Notes	Not applicable	-	1.0	-	-	-
		40%	39.1%		40%	
Balanced Account		100%	100.0%		100%	

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 ($97.8 million in Fixed Income Pool units at December 31, 2009).

The actual management and asset allocation structure of the Accumulation Fund as at December 31, 2009 are shown in *Schedule 2*.

Schedule 2

Accumulation Fund – Asset Allocation and Manager Structure – December 31, 2009

Asset Class	Manager	Amount (millions)	% of Pool Holdings
Equity Pool			
Cash & Cash Equivalents:	TD Asset Management	$ 1.8	0.3%
Canadian Equities:	Jarislowsky Fraser	109.8	19.0%
	TD Asset Management	143.7	24.9%
	Van Berkom & Associates	28.7	5.0%
US Equities:	Madison Square Investors	28.0	4.8%
	LSV Asset Management – LargeCap	27.2	4.7%
	LSV Asset Management – Small/MidCap	26.3	4.6%
	State Street Global Advisors	9.9	1.7%
	Internal - S&P 500 ETFs	9.0	1.6%
Non-North American Equities:	State Street Global Management	38.5	6.7%
	William Blair & Company	32.9	5.7%
	Capital International	33.0	5.7%
	Comgest Asset Management Ltd.	3.7	0.6%
	Aberdeen Asset Management Ltd.	13.3	2.3%
Real Estate:	External	27.3	4.7%
Private Equity:	External	35.8	6.2%
Resource Properties:	Internal	9.8	1.7%
Currency Overlay:	TD Asset Management	-1.0	-0.2%
	Total Equity Pool:	**$ 577.7**	**100.0%**
Fixed Income Pool			
Cash & Cash Equivalents:	TD Asset Management	$ 7.6	1.6%
Real-Return Bonds:	Phillips, Hager & North	112.0	23.9%
High-Yield Bonds:	Phillips, Hager & North	34.1	7.3%
Short-Term Bonds:	Phillips, Hager & North	112.6	24.0%
Bonds:	Addenda Capital	46.2	9.8%
	TD Asset Management	145.8	31.0%
MAV II Notes:	Internal	11.5	2.4%
	Total Fixed Income Pool:	**$ 469.8**	**100.0%**
SRI Pool	Guardian Ethical Management	**$ 11.5**	**100.0%**
Money Market Pool			
Cash & Cash Equivalents:	TD Asset Management	**$ 16.7**	**100.0%**
MAV II Notes:	Internal	**$ 3.0**	**100.0%**
	Total Accumulation Fund:	**$ 1,078.7**	

Investment Management

The following investment manager changes were made in 2009:

In June 2009, Addenda Capital's bond mandate was changed to a corporate bond mandate and TD Asset Management was given an additional mandate to invest in Canadian government bonds. In August 2009, TD Assset Management was also given a US dollar currency overlay mandate. This mandate was a result of the PAC's decision to hedge the US dollar currency exposure in the Accumulation Fund.

In December 2009, Brandes Investment Partners' EAFE mandate was replaced. State Street Global Markets was engaged to manage the portfolio on a transition basis until such time as a new EAFE manager is identified.

Performance

MARKET PERFORMANCE

The public markets returned to positive territory in 2009 following the negative returns of 2008. The S&P/TSX Composite Index returned 35.1% for the year. All sectors recorded positive returns, with the Financial and Energy sectors contributing the most to the positive performance. The S&P/TSX SmallCap Index, the measure of small-cap performance, was up 62.4% during the year. The DEX Universe Bond Index and the DEX Short-Term Bond Index gained 5.4% and 4.5%, respectively. The DEX Real-Return Bond Index returned 14.5% for the year.

The Canadian dollar appreciated 15.8% versus the US dollar during the year, recovering strongly from its 18.1% depreciation in 2008. In Canadian dollar terms, the S&P 500 returned 7.4% for the year. Overall returns in Canadian dollars for the S&P 1500, S&P 1000 and the S&P 400 indices were 8.1%, 13.4%, and 16.7%, respectively, reflecting the outperformance of small cap stocks during the year. Non-North American markets represented by the MSCI EAFE Index and the S&P/IFCI Index finished the year, in Canadian dollar terms, with returns of 12.5% and 53.7%, respectively.

FUND PERFORMANCE

Schedule 3 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, 2009. The applicable benchmark performance for each asset class is also noted in *Schedule 3*.

The Equity Pool returned 16.9% for the year in comparison to the composite benchmark of 23.1%. The Canadian equity performance of 30.2% was below the S&P/TSX Composite Index benchmark of 35.1%. The performance of alternative equity assets at -15.2% slightly underperformed its composite benchmark of 10.5%. The US equity performance of 12.4% was above the S&P 1500 benchmark performance of 8.1% for the year, while the non-North American equity performance of 19.1%, was behind that of its composite benchmark of 19.9%.

The Fixed Income Pool turned in a performance of 9.4% for the year, lagging the 9.8% return of its composite benchmark.

The Balanced Account's performance of 14.2% for the year underperformed its composite benchmark of 18.5%.

The SRI Pool's performance of 16.5% in 2009 was below the 18.5% return of its benchmark, the GEM Balanced Benchmark.

The Money Market Pool returned 0.4% for the year, equalling the 0.4% return of the DEX 30-Day T-Bill Index.

Schedule 3

Accumulation Fund Performance[1] as at December 31, 2009

Asset Class	Annualized Rates of Return 1 year	5 years	10 years
Equity Pool:			
Cash & Cash Equivalents:	0.6%	2.3%	3.1%
Benchmark DEX 30-Day T-Bill:	0.4%	3.0%	3.3%
Canadian Equities:	30.2%	7.9%	7.0%
Benchmark S&P/TSX Composite:	35.1%	7.7%	5.6%
US Equities:	12.4%	-2.4%	-2.3%
Benchmark S&P 1500:	8.1%	-2.0%	-3.6%
Non-North American Equities:	19.1%	3.8%	2.0%
Benchmark 62% S&P/IFCI + 38% MSCI EAFE:	19.9%	3.7%	0.7%
Alternative Assets[2]:	-15.2%	0.4%	6.3%
Alternative Assets Benchmark[3]:	10.5%	n/a	n/a
Total Equity Pool:	**16.9%**	**4.2%**	**3.9%**
Composite Equity Pool Benchmark[4]:	23.1%	4.8%	2.9%
Fixed Income Pool:			
Cash & Cash Equivalents:	0.4%	0.1%	1.9%
Benchmark DEX 30-Day T-Bill:	0.4%	3.0%	3.3%
Bonds:	10.1%	5.5%	7.5%
Composite Bond Benchmark[5]:	10.4%	4.8%	7.2%
Total Fixed Income Pool:	**9.4%**	**4.9%**	**6.8%**
Composite Fixed Income Pool Benchmark[6]:	9.8%	4.6%	6.8%
Balanced Account:	**14.2%**	**5.0%**	**5.3%**
Composite Balanced Account Benchmark[7]:	18.5%	5.1%	4.5%
Socially Responsible Investment Pool:	**16.5%**	**n/a**	**n/a**
GEM Balanced Benchmark:	18.5%	n/a	n/a
Money Market Pool:	**0.4%**	**2.9%**	**3.3%**
Benchmark DEX 30-Day T-Bill:	0.4%	3.0%	3.3%

Note 1: Returns have been determined by an independent performance measurement firm, are reported in Canadian dollars and are gross of fees. Different benchmark indices were used in the five- and ten-year periods, where applicable.

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

Note 3: Effective January 1, 2009, the policy allocation benchmark is 50% Real Estate Benchmark + 25% Private Equity Benchmark + 25% Resource Properties Benchmark.

Note 4: Effective October 1, 2009, policy allocation benchmark is 42% of S&P/TSX Composite Index + 22% of S&P 1500 Index + 13% S&P/IFCI + 8% of MSCI EAFE Index + 15% Alternative Assets Benchmark.

Note 5: Effective October 1, 2009, policy allocation benchmark is 60% of DEX Universe Bond Index + 27% of DEX Real-Return Bond Index + 13% of ML Global HY (hedged).

Note 6: Effective October 1, 2009, policy allocation benchmark is 58% of DEX Universe Bond Index + 25% DEX Real-Return Bond Index + 12% of ML Global HY (hedged) + 5% of DEX 30-Day T-Bill Index.

Note 7: Effective October 1, 2009, policy allocation benchmark is 60% of Composite Equity Pool Benchmark + 40% of Composite Fixed Income Pool Benchmark.

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 met or surpassed their respective long-term benchmarks as at December 31, 2009, measured over no less than ten years. Those of the Equity Pool and Balanced Account fell short, primarily due to the large impact of the negative equity returns in 2008.

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:	3.3% plus the annual change in the Canadian CPI.
Money Market Pool:	The return on the DEX 30-Day T-Bill Index, before fees.

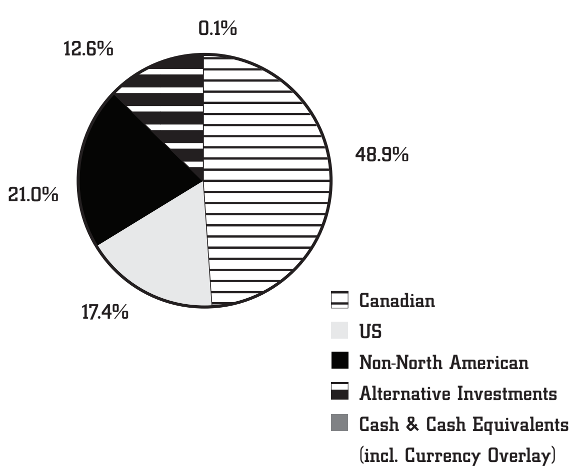
While the objectives above are meant to be long-term (no less than 10 years), the following table includes comparative performance over 1 and 5 years:

	1-year Return	Long-Term Objective	5-year Return	Long-Term Objective	10-year Return	Long-Term Objective
Equity Pool:	16.9%	5.3%	4.2%	5.7%	3.9%	6.1%
Fixed Income Pool:	9.4%	3.3%	4.9%	3.7%	6.8%	4.1%
Balanced Account:	14.2%	4.6%	5.0%	5.0%	5.3%	5.4%
SRI Pool:	16.5%	4.6%	n/a	n/a	n/a	n/a
Money Market Pool:	0.4%	0.4%	2.9%	3.0%	3.3%	3.3%
CPI for the period:	1.3%		1.7%		2.1%	

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 2009 and, where applicable, over the five and ten-year periods ending December 31st, 2009. The benchmarks applicable to each manager and alternative equity portfolio are also noted in *Schedule 4*.

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.

Schedule 4

Manager Performances[1] as at December 31, 2009

Manager	Annualized Rates of Return 1 year	5 years	10 years
Canadian Equity Managers:			
Jarislowsky Fraser:	26.7%	8.9%	n/a
TD Asset Management:	30.1%	8.0%	n/a
Benchmark S&P/TSX Composite Index[2]:	35.1%	7.7%	n/a
Van Berkom & Associates:	48.1%	5.5%	9.3%
Benchmark S&P/TSX SmallCap Index[2]:	62.4%	2.0%	5.5%
US Equity Managers:			
Madison Square Investors:	4.6%	n/a	n/a
LSV Asset Management:	8.0%	n/a	n/a
Benchmark S&P 500 LargeCap Index:	7.4%	n/a	n/a
LSV Asset Management:	26.9%	n/a	n/a
Benchmark S&P 1000 Index:	13.4%	n/a	n/a
State Street Global Advisors:	16.5%	0.6%	n/a
Benchmark S&P 400 MidCap Index:	16.7%	0.5%	n/a
Non-North American Equity Managers:			
William Blair & Company:	12.3%	n/a	n/a
Benchmark MSCI EAFE Index[2]:	12.5%	n/a	n/a
Capital International:	53.3%	16.4%	n/a
Aberdeen Asset Management Ltd.:	55.2%	n/a	n/a
Comgest Asset Management Ltd.:	40.1%	n/a	n/a
Benchmark S&P/IFCI Index:	53.7%	13.4%	n/a
Alternative Equity Managers:			
Real Estate Portfolio:	-13.2%	0.4%	3.6%
Industry Specific Benchmark:	-0.3%	5.5%	7.5%
Private Equity Portfolio:	-21.9%	-1.6%	-5.1%
Benchmark[2,3]:	15.4%	0.0%	-2.5%
Resource Property Portfolio:	9.0%	3.0%	19.2%
Benchmark S&P/TSX Capped Energy Trust[2]:	43.6%	9.5%	6.5%
Bond Managers:			
Phillips, Hager & North – High-Yield:	18.3%	8.0%	n/a
Benchmark ML Global HY (hedged)[2]:	47.5%	1.4%	n/a
Phillips, Hager & North – Real-Return:	13.0%	5.6%	n/a
Benchmark DEX Real-Return Bond Index:	14.5%	5.5%	n/a
Phillips, Hager & North – Short-Term:	7.5%	5.0%	n/a
Benchmark DEX Short-Term Bond Index:	4.5%	4.7%	n/a
Addenda Capital:	13.1%	5.8%	n/a
Benchmark DEX Universe Corporate Bond Index[2,4]:	9.7%	6.0%	n/a
TD Asset Management - Bonds:	5.3%	5.1%	n/a
Benchmark DEX Universe Bond Index:	5.4%	5.2%	n/a
TD Asset Management - Canadian Government Bonds[5]:	1.7%	n/a	n/a
Benchmark DEX Universe Bond Index[5]:	2.5%	n/a	n/a
Socially Responsible Investment Manager:			
Guardian Ethical Management:	16.5%	n/a	n/a
GEM Balanced Benchmark:	18.5%	n/a	n/a
Money Market Manager:			
TD Asset Management:	0.4%	n/a	n/a
Benchmark DEX 30-Day T-Bill:	0.4%	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: Different benchmark indices were used in the five- and ten-year periods, where applicable.
Note 3: Effective January 1, 2009, benchmark is (2/3 S&P500 + 1/3 MSCI Europe) + 5%.
Note 4: Effective June 1, 2009, benchmark is the DEX Universe Corporate Bond Index.
Note 5: Year-to-date return from July 1, 2009.

Ten Largest Canadian Publicly Traded Equity Holdings in the Equity Pool as at December 31, 2009

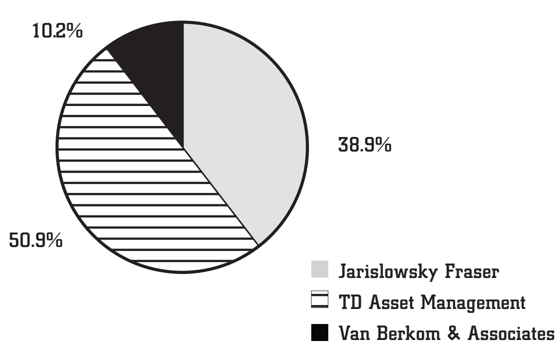
Security Name	Market Value (in millions)	% of Equity Pool	% of Balanced Account
Royal Bank of Canada	$15.0	2.6%	1.6%
The Bank of Nova Scotia	$12.3	2.1%	1.3%
Toronto Dominion Bank	$11.5	2.0%	1.2%
Suncor Energy Inc.	$9.1	1.6%	1.0%
Manulife Financial Corp.	$8.8	1.5%	0.9%
Research in Motion	$7.4	1.3%	0.8%
Potash Corporation of Saskatchewan	$7.0	1.2%	0.7%
Bank of Montreal	$6.7	1.2%	0.7%
Transcanada Corp.	$6.7	1.2%	0.7%
Enerplus Resources Fund	$6.5	1.1%	0.7%

CANADIAN EQUITY INVESTMENTS

The Equity Pool's holdings in Canadian equities ($282.2 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 30.1% and Jarislowsky Fraser, employing a fully active investment approach, returned 26.7%, compared to the S&P/TSX Composite return of 35.1%. The performance of Van Berkom & Associates who actively manage a smallcap mandate was 48.1% for the year, below its S&P/TSX SmallCap Index benchmark performance of 62.4%.

At December 31, 2009, approximately 51% of the Canadian equity portfolio was invested in an enhanced index strategy, versus 44% as at December 31, 2008. The entire Canadian equity portfolio was managed externally at year-end.

Management Structure in Canadian Equities



US EQUITY INVESTMENTS

The Equity Pool's holdings in US equities ($100.4 million at year-end) were allocated to enhanced index, index and fully active strategies at year-end.

Madison Square Investors (formerly New York Life Investment Management), which manages an enhanced large cap mandate, returned 4.6% versus the S&P 500 index benchmark return of 7.4%. The S&P MidCap index fund, managed by State Street Global Advisors, returned 16.5%

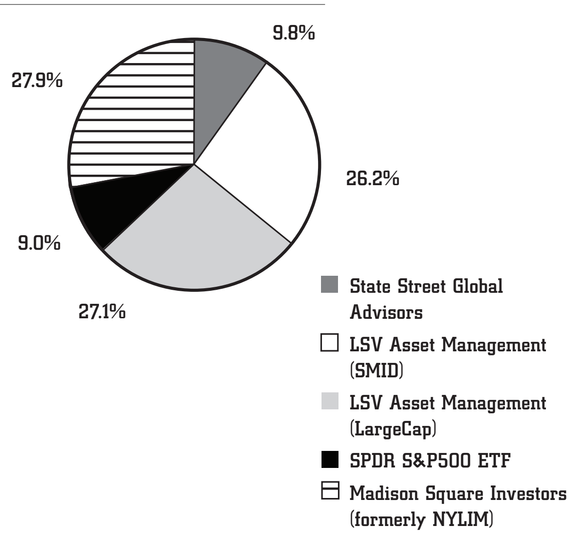
Ten Largest US Publicly Traded Equity Holdings in the Equity Pool as at December 31, 2009

Security Name	Market Value (in Cdn $ millions)	% of Equity Pool	% of Balanced Account
SPDR S&P500 Index	$8.9	1.5%	0.9%
Exxon Mobil Corp.	$1.7	0.3%	0.2%
Microsoft	$1.4	0.2%	0.1%
IBM	$1.3	0.2%	0.1%
AT & T	$1.2	0.2%	0.1%
Pfizer	$1.2	0.2%	0.1%
JP Morgan Chase & Co.	$1.0	0.2%	0.1%
Procter & Gamble	$1.0	0.2%	0.1%
Apple	$1.0	0.2%	0.1%
Chevron Corp.	$0.9	0.2%	0.1%

versus 16.7% for its benchmark. LSV Asset Management with two US equity mandates, returned 26.9% for its small/midcap fully active value mandate versus its benchmark, the S&P1000 which returned 13.4% for the year, and 8.0% for its enhanced large cap mandate versus the S&P500 index benchmark return of 7.4%.

At December 31, 2009, approximately 74% of the US equity portfolio was invested in an index or enhanced index strategy the same percentage at the end of December 2008. At December 31, 2009, 90% of the entire US equity portfolio was managed externally versus 100% at the end of 2008.

Management Structure in US Equities



NON-NORTH AMERICAN EQUITY INVESTMENTS

The Equity Pool's holdings in non-North American equities ($121.4 million at year-end) were allocated to active managers in both developed and emerging markets.

William Blair & Company, following a growth mandate in developed markets returned 12.3% for the year versus the benchmark return of 12.5%. The 53.3% return of the Capital International Emerging Markets Fund, invested solely in emerging market stocks, slightly underperformed the 53.7% return of its benchmark, the S&P/IFCI index while the 55.2% return of Aberdeen Asset Management outperformed the index. Comgest Asset Management returned 40.1% under-performing the S&P/IFCI Index. State Street Global Markets was hired in December 2009 and had returns similar to its index.

At December 31, 2009, the entire non-North American portfolio was managed externally as it was at the end of 2008.

Ten Largest Non-North American Publicly Traded Equity Holdings in the Equity Pool as at December 31, 2009

Security Name	Market Value (in Cdn $ millions)	% of Equity Pool	% of Balanced Account
Novartis (Switzerland)	$1.3	0.2%	0.1%
Telefonica (Spain)	$1.2	0.2%	0.1%
Standard Chartered (United Kingdom)	$1.2	0.2%	0.1%
Statoil ASA (Norway)	$1.2	0.2%	0.1%
BHP Billiton (Australia)	$1.1	0.2%	0.1%
Schneider Electric (France)	$1.1	0.2%	0.1%
QBE Insurance Group (Australia)	$1.1	0.2%	0.1%
Reckitt Benckiser Group (United Kingdom)	$1.1	0.2%	0.1%
ABB (Switzerland)	$1.0	0.2%	0.1%
Canon (Japan)	$1.0	0.2%	0.1%

ALTERNATIVE EQUITY INVESTMENTS

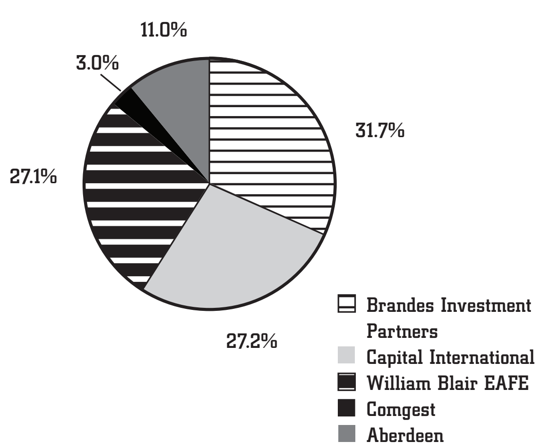
The Equity Pool's holdings in alternative strategies ($72.9 million at year-end) are meant to provide diversification relative to the publicly-traded equity and fixed income markets. In 2009, no new commitments were made.

The real estate porfolio return of -14.6% was lower than the -0.3% return of its industry-specific benchmark. The real estate portfolio includes privately-held Canadian real estate.

The private equity portfolio returned -21.9% versus 15.4% return of its benchmark which is comprised of (2/3 S&P500 + 1/3 MSCI EAFE) + 5%. The return in local currency, which excludes the impact of fluctuations in the value of the Canadian dollar, was approximately -6.0%.

Resource properties which are comprised of oil and gas royalty trust units provided a return of 9.0% versus the S&P/TSX Capped Energy Trust return of 43.6%.

Management Structure in Non-North American Equities



FIXED INCOME POOL

The Fixed Income Pool's holdings ($469.8 million at year-end) include allocations to bonds, corporate bonds, high-yield bonds, real-return bonds, short-term bonds, Master Asset Vehicle II ("MAV II") notes and cash and cash equivalents.

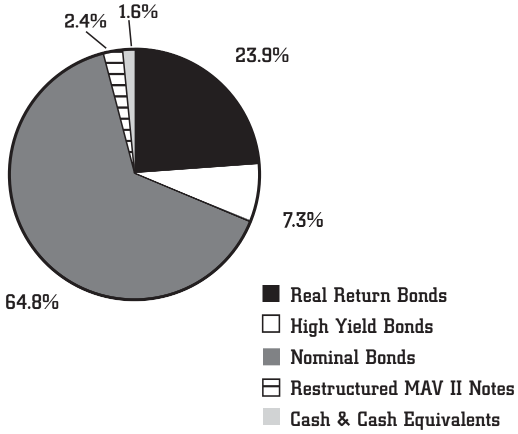
At December 31, 2009, the Fixed Income Pool held $11.5 million, which represents 2.4% of the Fixed Income Pool investments, in MAV II notes. The MAV II notes were received in January 2009 as part of the restructuring of non-bank asset-backed commercial paper holdings that the Plan held in December 2008. The MAV II holdings have limited liquidity.

Ten Largest Fixed Income Pool Holdings as at December 31, 2009

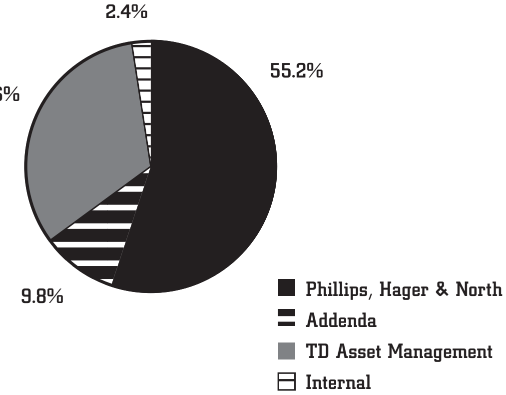
Security Name	Market Value (in Cdn $ millions)	% of Fixed Income Pool	% of Balanced Account
Gov't of Canada 4% 2031/12/01 Real Return	$62.6	13.3%	5.2%
Gov't of Canada 4.25% 2026/12/01 Real Return	$36.8	7.8%	3.1%
Canada Housing Trust 4.55% 2012/12/15	$27.2	5.8%	2.3%
Gov't of Canada 4.25% 2021/12/01 Real Return	$12.2	2.6%	1.0%
Canada Housing Trust 2.75% 2014/09/15	$9.7	2.1%	0.8%
Canada Housing Trust 3.15% 2014/06/16	$7.3	1.6%	0.6%
Canada Housing Trust 4.80% 2012/06/15	$7.3	1.5%	0.6%
MAV II Class A-2 floating rate	$5.9	1.3%	0.5%
The Bank of Nova Scotia 4.94% 2019/04/15	$5.4	1.1%	0.4%
MAV II Class A-1 floating rate	$5.0	1.1%	0.4%

TD Asset Management which manages both an indexed bond mandate and, since June 2009, a Canadian government bond mandate returned 5.3% and 1.7%, respectively for the periods under review versus the DEX Capital Universe Bond Index returns of 5.4% and 2.5% respectively for the same periods. Addenda Capital, following a DEX Universe Bond mandate up until June 2009 and a corporate bond mandate thereafter returned 13.1% for the year versus 9.7% for the blended index returns for the year. Phillips, Hager & North's mandate to manage a high-yield bond fund provided a 18.3% return versus the ML Global HY (hedged) Index return of 47.5%, its benchmark. The return on real-return bonds of 13.0% underperformed the 14.5% return of its benchmark, the DEX Real-Return Bond Index. Philips, Hager & North's short-term bond mandate returned 7.5% versus the DEX Short-Term Bond index return of 4.5%.

Summary of Fixed Income Pool Investments



Management Structure in Fixed Income Investments



Ten Largest Socially-Responsible Investment (SRI) Pool Holdings as at December 31, 2009

Security Name	Market Value (in Cdn $ millions)	% of SRI Pool
Canada Housing Trust 4.10% 2018/12/15	$0.4	3.2%
Suncor Energy	$0.3	2.2%
Royal Bank of Canada	$0.2	2.1%
Enbridge Inc.	$0.2	2.1%
Research in Motion	$0.2	1.9%
Canada Housing Trust 3.24% 2014/09/15	$0.2	1.8%
Goldcorp Inc.	$0.2	1.8%
Barrick Gold Corporation	$0.2	1.8%
Royal Bank of Canada 5.20% 2012/08/15	$0.2	1.6%
The Bank of Nova Scotia 4.99% 2013-18/03/27	$0.2	1.5%

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, 2009, the SRI Pool had $11.5 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.

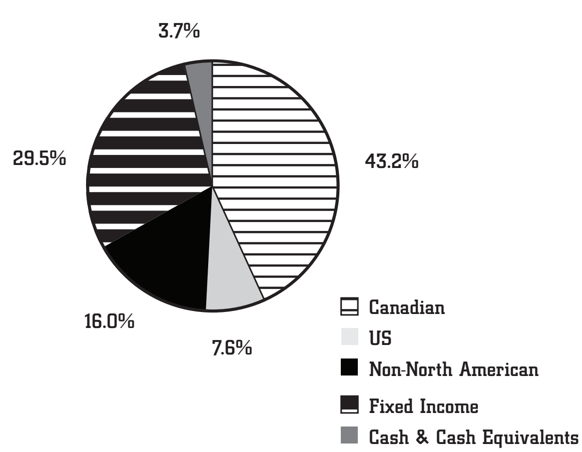
Guardian Capital LP focuses on investment management governed by a sustainable discipline, whereas The Ethical Funds Company focuses on ongoing shareholder engagement and the evaluation of environmental, social and governance performance of holdings and investment prospects.

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, 2009 are shown below.

Guardian Ethical Management, which has a "socially responsible" investment mandate, returned 16.5% for the year ending December 31, 2009 versus its benchmark return of 18.5%.

At December 31, 2009, the entire SRI Pool was managed externally.

Summary of SRI Pool Investments



Ten Largest Money Market Pool Holdings as at December 31, 2009

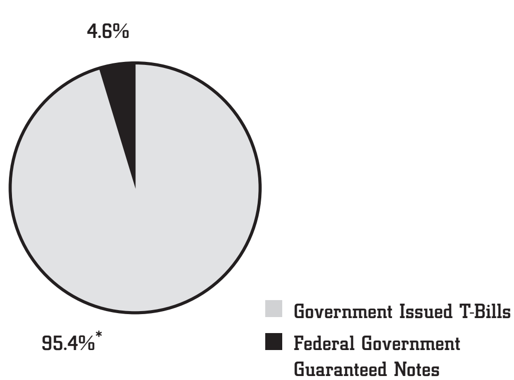
Security Name	Market Value (in Cdn $ millions)	% of Money Market Pool
Gov't of Canada T-Bill 2010/04/01	$7.8	46.7%
Gov't of Canada T-Bill 2010/01/07	$2.9	17.3%
Gov't of Canada T-Bill 2010/01/21	$2.2	13.1%
Canadian Wheat Board 2010/01/19	$0.8	4.6%
Gov't of Canada T-Bill 2010/02/04	$0.8	4.6%
Gov't of Canada T-Bill 2010/03/18	$0.8	4.6%
Gov't of Canada T-Bill 2010/03/04	$0.6	3.4%
Gov't of Canada T-Bill 2010/04/01	$0.4	2.3%
Gov't of Canada T-Bill 2010/02/18	$0.4	2.3%
Gov't of Canada T-Bill 2010/04/15	$0.2	1.1%

MONEY MARKET POOL

The Money Market Pool's holdings ($16.7 million at year-end) consisted of 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 46.7% allocation to a reverse repurchase agreement with a Canadian Schedule A chartered bank which matures on April 1, 2010. 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 0.4% for the year versus the 0.4% generated by its benchmark, the DEX 30-Day T-Bill Index.

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.

Effective January 31, 2009, the unit holdings for members in the Workout Asset Pool were exchanged for units in the Money Market Pool resulting in the closure of the Workout Asset Pool at that time.

For further information, please refer to the 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, their 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 (on page 23) and *IB* (on page 24) illustrate the historical progress of the unit values from inception of the Plan in 1972 until December 31, 2009. 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[1]

Year	Balanced Account	Equity Pool	Fixed Income Pool	Socially Responsible Investment Pool	Money Market Pool
2000	15.12%	18.28%	6.85%		5.87%
2001	-8.39%	-15.01%	6.80%		5.10%
2002	-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%
2008	-15.68%	-23.62%	0.32%	-17.90%[2]	2.78%
2009	**12.57%**	**12.26%**	**11.89%**	**14.01%**	**0.29%**
10-Year Annualized Rate of Return:	5.26%	4.07%	6.71%	n/a	3.34%

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: 8 months only – Socially Responsible Investment 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 2009, the PAC decreased the policy range for mortgages and increased the policy range for real estate in order to reflect the diminishing relative importance of mortgage investments in the portfolio.

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, 2009, approximately 74% of the Pensioner Fund's portfolio was managed externally versus 69% in 2008.

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, 2009, the Pensioner Fund held $9.9 million, which represents 3.8% of the Pensioner Fund investments, in Master Asset Vehicle II ("MAV II") notes. The MAV II notes were received in January 2009 as part of the restructuring of non-bank asset-backed commercial paper holdings that the Plan held in December 2008. The MAV II holdings have limited liquidity.

Schedule 6 compares the actual Pensioner Fund holdings to the policy allocation on the basis of market values as at December 31, 2009.

Investment Management

In 2009, there were no investment management changes made.

Schedule 6

Pensioner Fund – Asset Allocation Policy

		December 31, 2009				
Asset Class	**Manager**	**Amount (in millions)**	**% of Total Fund**	**MIN%**	**MID%**	**MAX%**
Cash & Cash Equivalents	External	15.2	5.9	0	5	10
Floating Rate MAV II Notes	Internal	9.9	3.8	-	-	-
Bonds[1]	External	74.5	28.9	17	20	23
Real-Return Bonds[1]	External	23.4	9.1	8	10	12
Mortgages	Internal	49.6	19.2	22	27	32
Real Estate	External	34.1	13.2	13	15	17
Equity	External	43.2	16.8	16	19	22
Resource Properties	Internal	8.0	3.1	2	4	6
Total Pensioner Fund:		**$257.9**	**100.0%**		**100%**	

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

Performance

In 2009, the Pensioner Fund had a gross market rate of return of 7.7% for the year. This was above the long-term return objective of 6.50%. The performance was positively impacted by the Canadian equity return of 34.5%, the fixed income return of 9.0%, and the resource property return of 8.8%.

The return on the mortgage portfolio was 3.1%; the return on cash and cash equivalents was 0.5%, and the return on the real estate portfolio was -10.7%.

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, 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, 2009. 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, 2009

Asset Class	Annualized Rates of Return 1 year	3 years	5 years
Canadian Equity:	34.5%	-3.9%	3.8%
Benchmark S&P/TSX Composite:	35.1%	-0.2%	7.7%
Real Estate Porfolio:	-10.7%	3.5%	9.4%
Industry-Specific Benchmark:	-0.3%	10.9%	10.6%
Resource Property Portfolio:	8.8%	-5.3%	3.5%
Benchmark S&P/TSX Capped Energy Trust[2]:	43.6%	2.6%	9.5%
Fixed Income[3]:	9.0%	4.4%	4.7%
Fixed Income Benchmark[4]:	9.8%	4.4%	4.6%
Mortgage Portfolio:	3.1%	6.4%	5.8%
Benchmark DEX Mortgages – 3 Year:	10.3%	8.3%	7.0%
Cash & Cash Equivalents:	0.5%	-4.1%	-1.2%
Benchmark DEX T-Bills 30-Day:	0.4%	2.7%	3.1%
TOTAL PENSIONER FUND:	**7.7%**	**2.0%**	**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: Effective October 1, 2009, policy allocation benchmark is 58% of DEX Universe Bond Index + 25% DEX Real-Return Bond Index + 12% of ML Global HY (hedged) + 5% of DEX 30-Day T-Bill Index.

Benefits and ADMINISTRATIVE MATTERS

Plan Amendments

There were no amendments to the Plan made in 2009.

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.

2009 Benefit Payments

During 2009, 89 plan members settled their pension accounts. Of these, 35 chose external settlements, 49 chose internal pension settlements and 5 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, 2009, there were 1379 retired members and beneficiaries receiving pensions from the Pensioner Fund. Of these, 959 are in the Old Pool with an average age of 80.4 years and 420 are in the New Pool with an average age of 67.9 years. The total of such pensions payments amounted to $33,452,905 in 2009.

During the year, 60 deaths were recorded among members of the Plan, of which 9 were active members, 47 were retired members from the Old Pool and 4 were retired members from the New Pool (see *Appendix II*). 253 individual benefit settlements were transacted under the Plan during the year for a total amount of $30,233,295. The types of settlement transactions processed and the benefit amounts paid out of the Plan during 2009 are summarized in *Schedule 8*.

In addition to these settlements, deferred annuity accounts were set up for 109 terminating members who reinvested holdings of $2,134,213 in the Pension Fund.

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. To view 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, please refer to our website: www.mcgill.ca/pensions/retirement/annuity.

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.

External Settlements Paid in 2009 (excluding retirement settlements)

	Number	Total Amount	Average Payment
Transfers to LIFs:	29	$17,597,855	$ 606,823
Transfers to LIRAs:	79	9,029,593	114,299
Death Benefits:	8	1,173,469	146,684
Annuity Purchases:	1	1,062,278	1,062,278
Lump-Sum Payments:	118	882,669	7,480
Transfers to other Pension Plans:	12	268,163	22,347
Other[1]:	3	115,371	38,457
Marriage Breakdown Settlements:	1	56,865	56,865
Cash Payments:	2	47,032	23,516
Total:	253	$30,233,295	$ 119,499

1 Includes transfers to RRSPs and RIFs

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.

Subsequent to changes in the *Supplemental Pension Plans Act*, pension plans must establish a reserve when the plan reveals surpluses. As a result of this change, the Plan must be 100% solvent and must have funded the reserve prior to using any surplus to fund a dividend, thus, severely decreasing the likelihood of future annuity dividend increases.

Annuity Dividend Valuation

A separate valuation of the Pensioner Fund is undertaken each year for Annuity Dividend purposes. The December 31, 2008 valuation of the Pensioner Fund for purposes of issuing an Annuity Dividend confirmed an excess of liabilities over assets of $47,853,100 for the "old pool" and $8,627,000 for the "new pool". Consequently, no Annuity Dividends could be declared.

The Executive Summary of the Annuity Dividend Valuation as at December 31, 2008, 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 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 PAC will advise all members who elected to purchase an internal annuity from the Plan, if surplus earnings emerge in the Pensioner Fund.

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 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 as at December 31, 2009. It is expected to be completed and filed with the regulatory authorities on or before September 30, 2010.

Administration

The day-to-day administration of the 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 9*.

Fees as a Percentage of Average Net Assets

	2009	2008
ACCUMULATION FUND		
Balanced Account	0.54%	0.60%
Equity Pool [1]	0.69%	0.43%
Fixed Income Pool	0.26%	0.25%
Socially Responsible Investment Pool	0.89%	0.88%
Money Market Pool	0.21%	0.21%
PENSIONER FUND [1]	0.46%	0.26%

Note 1: 2009 fees include private equity, real estate and pooled-fund fees, as applicable.

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

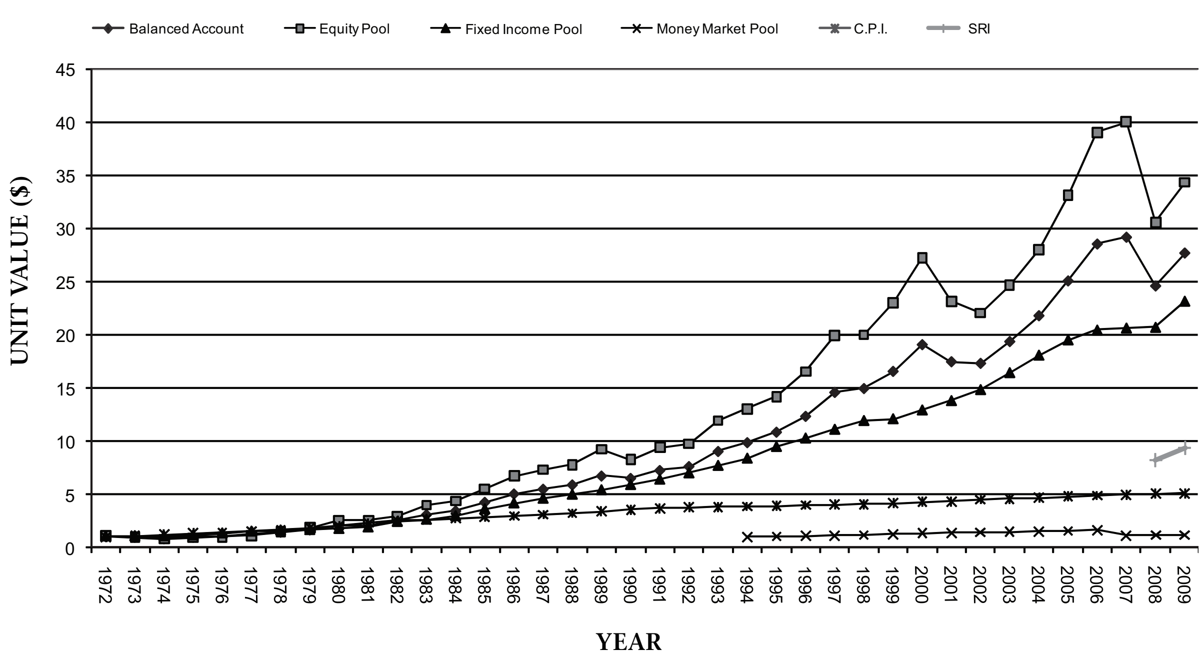


CHART 1B

Accumulation Fund Average Unit Values (logarithmic scale) Since Inception

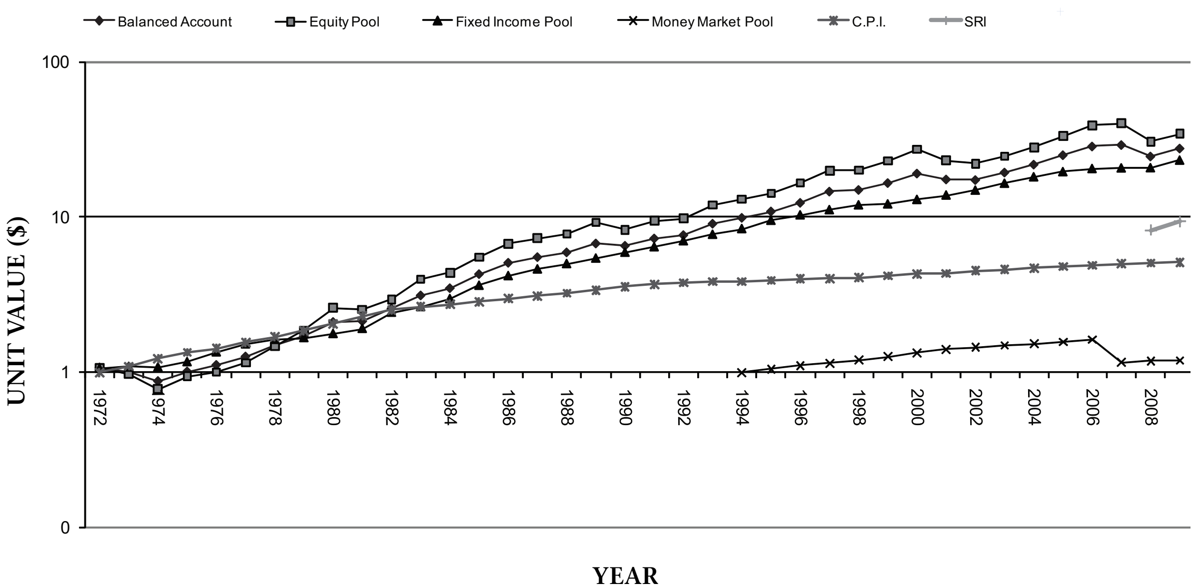
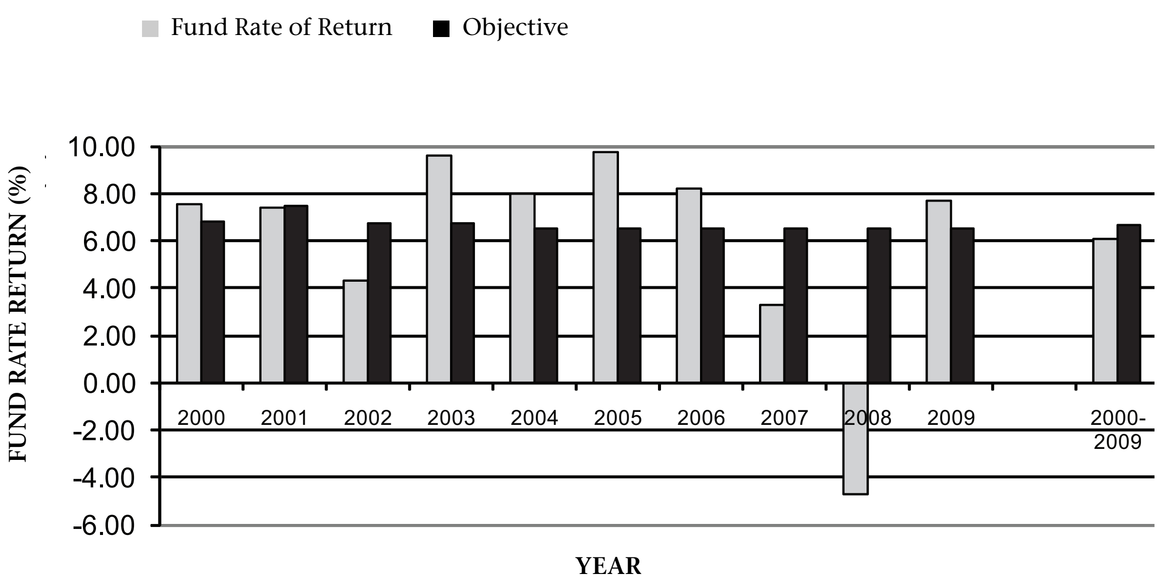


CHART 2

Pensioner Fund Performance History from 2000 to 2009



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
2009 RETIREMENTS

The following members of the Plan retired in 2009 and consented to have their names published in this report.

Name	Department or Faculty
Asimakopulos/Marika/Mrs.	Libraries - Macdonald Campus
Bilodeau/Michel L./Prof.	Mining & Materials Engineering
Bonnell/Robert B./Dr.	Bioresource Engineering
Comeau/Anne M./Miss	Biology
Coulombe/Herve/Mr.	Residences
Cumming/Heather/Miss	Libraries
Dang-Nguyen/Thi Vuong/Mrs.	Biology
Jean-Marie/Eric/Mr.	Facilities Management
Grantham/George W./Prof.	Economics
Lamontagne/Ginette/Ms.	Public Affairs
Maheu/Robert/Mr.	Vice-Principal's Office – Public Affairs
Naimark/Lenora/Ms.	Electron Microscopy Facility
Neculcea/Jeana/Mrs.	University Clinic – RVH
Ng-Kwai-Hang/Kwet Fane/Prof.	Animal Science
Prioletta/Cosmo/Mr.	Facilities Management
Rodrigues/Alberto/Mr.	Animal Resource Centre
Rowley/John Christopher/Prof.	Economics
Russell/Karl Peter/Prof.	Mathematics & Statistics
Smith/Nicole/Mrs.	Clinical Microbiology - RVH
Tartaglia/Giovanni	Facilities Management
Titman/Rodger D./Dr.	Natural Resource Sciences
Tremblay/Lise/Mrs.	Planning & Institutional Analysis
Young/Brian J./Prof.	History

Appendix II
2009 DEATHS

Active Plan Members whose deaths occurred in 2009:

Name	Department or Faculty
Baturova/Galina/Ms.	Human Resources
Cohen/Martin/Dr.	Graduate School of Library & Information Science
Cohen/Marilyn/Mrs.	Libraries
Kerr/Barbara/Miss	Law
Lund/James P./Dr.	Dentistry
MacLean/J. Dick/Dr.	Medicine - MGH
Morielli/Saverio/Mr.	Office of Technology Transfer
Thomassin/Vaughn/Mr.	Atmospheric & Oceanic Sciences
Worsley/Keith/Dr.	Neurology & Neurosurgery

Retired Plan Members whose deaths occurred in 2009:

Name	Department or Faculty
Abt/Seymour/Mr.	Management
Adams/Robert/Dr.	Management
Anastassiadis/Phoebus/Prof.	Food Science & Agricultural Chemistry
Barclay/William A./Mr.	Purchasing
Bisensang/Lucie/Mrs.	English & French Language Centre
Cihelka/Ann/Mrs.	Development Office
Coll/Leontine/Mrs.	Macdonald Campus
Collet/George Paul/Prof.	French
Cordeau/Elizabeth/Mrs.	Anesthesia
Cornell/Joan/Mrs.	Civil Engineering
Corrado/Carmela/Miss	Physical Plant
D’Amico/George/Mr.	Facilities Management
D’Anglejan/Bruno/Prof.	Earth & Planetary Sciences
Davidson/Doris M./Mrs.	Libraries
Decicco/Michel/Mr.	Physical Plant
De la Fosse/Therese/Mrs.	Montreal Neurological Hospital
Della Pergola/Edith/Mrs.	Schulich School of Music
Dowie/Edward/Mr.	Operations
Flower/Murial A./Mrs.	Libraries
Gaudreau/Jacqueline/Ms.	Microbiology & Immunology
Gillis/Andrey Marie/Ms.	Bookstore
Gutkowski/Jerzy Z./Mr.	Libraries
Hale/Jeanne Blanche/Mrs.	Law
Harkness/Mary Ellen/Ms.	University Clinic - RVH

Appendix II – Deaths (continued)

Name	Department or Faculty
Hutchison/Hazel M./Mrs.	Libraries
Inoue/Sadayuki/Dr.	Anatomy & Cell Biology
Jeffery/Martin/Prof.	Continuing Education
Johnstone Mamelak/Rose/Prof.	Biochemistry
Khan/Jamal/Mr.	Anatomy
Knowles/Roger/Prof.	Natural Resource Sciences
Lambert/Wallace E./Prof.	Psychology
Lancaster/Ernest D./Mr.	Electrical Operations
Lancaster/Gerald/Dr.	Pensioner
Maclejewska/Janina B./Miss	Microbiology
Maconochie/Alexander K./Prof.	Education
Martin/Brenda E./Ms.	Management
Mills/Robert H./Mr.	Physics
Obermeir/Hans/Mr.	Mechanical Engineering
Orr/Mayann/Mrs.	Education
Paterson/Margaret/Mrs.	Royal Victoria College
Perrin/Gabriel/Mr.	Macdonald Campus
Puzio/Piotr/Mr.	Animal Science
Robson/Helen Phyllis/Mrs.	Graduate Communications Program
Rogan/Frank/Mr.	Athletics
Staffa/Francesco/Mr.	Facilities Management
Talley/William/Dr.	Education Counseling Psychology
Taylor/Janet/Mrs.	Entomology
Treder/Gerda/Mrs.	Residences
Vermette/Cecilia/Mrs.	Continuing Education
Wolfe/Jeanne Mary/Prof.	School of Urban Planning
Zoltowska/Maria Theresa/Mrs.	Libraries

Appendix III
UNIT VALUE HISTORY

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

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

Appendix III – Unit Value History (continued)

2007	Balanced	Equity	Fixed	MMF
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
Oct:	29.4669	40.7507	20.5116	1.1480
Nov:	29.6986	41.2270	20.5254	1.1522
Dec:	29.1511	40.0191	20.6587	1.1563

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

2009	Balanced	Equity	Fixed	SRI	MMF
Jan:	24.6485	30.3348	21.2031	8.1818	1.1900
Feb:	23.9394	29.0803	21.0319	7.9014	1.1910
Mar:	23.0994	27.5722	21.0281	7.6886	1.1916
Apr:	24.0007	28.8149	21.6084	8.0344	1.1921
May:	24.8310	30.2356	21.6277	8.2647	1.1922
Jun:	25.5056	31.3181	21.8168	8.6042	1.1923
Jul:	25.9479	31.9037	22.1350	8.7478	1.1923
Aug:	26.2321	32.1733	22.4609	8.9184	1.1922
Sep:	26.6452	32.8343	22.6076	9.0652	1.1922
Oct:	27.3814	34.1120	22.7810	9.3231	1.1922
Nov:	26.9649	33.1577	22.9264	9.1134	1.1921
Dec:	27.6708	34.3147	23.1881	9.3607	1.1920

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.

Companies Creditors Arrangement Act: A federal law allowing insolvent corporations that owe their creditors to restructure their business and financial affairs.

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.

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. Applicable to members enrolled in the Plan or eligible to enroll in the Plan prior to January 1, 2009.

Currency Overlay: A financial trading strategy that manages foreign currency exposure and can be employed to limit the risk from adverse movements in exchange rates.

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.

Appendix IV – Glossary (continued)

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.

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.

Gross Rate of Return: Rate of return of a portfolio before deducting investment management and administrative 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 60% equity securities and 40% 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%.

Liquidity: The ability to buy or sell an asset quickly with a minimal price impact.

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

Master Asset Vehicle II Notes (MAV II): Longer-term notes which were issued as part of the restructuring of Canadian non-bank asset-backed commercial paper.

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 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.

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 December 31, 2008 and which is available for viewing by members at the offices of the Pension Administration Committee.

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-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, 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.

Unit Value: The value/cost of each unit in a particular investment pool. Unit values for all the pools are calculated on a fair-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 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 was closed on January 31, 2009.

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 of the McGill University Pension Plan

We have audited the statement of net assets available for benefits of the McGill University Pension Plan ("Plan") as at December 31, 2009 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, 2009 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 19, 2010

[1]Chartered accountant auditor permit no 22220

Statement of Net Assets AVAILABLE FOR BENEFITS

As at December 31, 2009

Accumulation Fund

ASSETS	2009	2008
Investments (Note 3)	$1,068,889,598	$955,364,297
Cash	8,777,737	1,143,219
Accrued investment income	2,028,115	1,814,187
Accounts receivable	502,844	1,667,255
Due from McGill University	-	262,090
	1,080,198,294	960,251,048
LIABILITIES		
Owing to former members for units redeemed	13,308,637	6,498,858
Due to Pensioner Fund (Note 5)	98,447,203	90,852,260
Due to McGill University	15,023	-
Accounts payable	1,510,995	629,705
Accrued expenses	822,416	907,364
	114,104,274	98,888,187
Net assets available for benefits	966,094,020	861,362,861

Pensioner Fund

ASSETS		
Investments (Note 3)	257,852,029	256,570,911
Cash	1,658,886	135,616
Accrued investment income	323,683	405,503
Accounts receivable	77	201
Due from Accumulation Fund (Note 5)	684,694	1,136,734
Due from McGill University	7,173	11,422
	260,526,542	258,260,387
LIABILITIES		
Accrued expenses	47,104	72,586
	47,104	72,586
Net assets available for benefits	260,479,438	258,187,801
Total net assets available for benefits	$1,226,573,458	$1,119,550,662

Statement of Changes in Net Assets AVAILABLE FOR BENEFITS

Year ended December 31, 2009

Accumulation Fund

	2009	2008
Net assets available for benefits, January 1	$861,362,861	$1,023,140,706
INCREASE		
Investment income		
Interest - short-term and cash	1,687,549	4,048,418
Interest - fixed income	15,938,868	15,330,118
Interest - floating rate notes	157,796	-
Dividends - common stocks	11,367,215	12,324,596
Real estate	694,334	799,308
Private equity	66,647	59,385
Resource properties	758,166	1,667,443
	30,670,575	34,229,268
Members' regular contributions	15,869,129	15,003,604
McGill University contributions	27,940,476	26,825,578
Transfers from other registered plans	838,770	833,872
	44,648,375	42,663,054
Total increase in assets	75,318,950	76,892,322
DECREASE		
Administration expenses	1,568,691	2,195,725
Investment management fees	1,833,724	2,134,440
Amounts transferred to Pensioner Fund	17,714,910	13,006,767
Units redeemed	36,842,551	33,181,894
Total decrease in assets	57,959,876	50,518,826
Current year change in fair value of investments	87,372,085	(188,151,341)
Change in net assets available for benefits	104,731,159	(161,777,845)
Net assets available for benefits, December 31	$966,094,020	$861,362,861

Statement of Changes in Net Assets AVAILABLE FOR BENEFITS

Year ended December 31, 2009

Pensioner Fund

	2009	2008
Net assets available for benefits, January 1	$258,187,801	$291,729,415
INCREASE		
Investment income		
Interest - short-term and cash	709,700	164,544
Interest - mortgages	3,753,698	4,247,518
Interest - fixed income	53,512	439,133
Interest - floating rate notes	94,924	-
Dividends - common stocks	1,407,643	1,658,465
Real estate	1,072,811	967,958
Resource properties	616,542	1,349,999
	7,708,830	8,827,617
Amounts transferred from Accumulation Fund	17,714,910	13,006,767
Total increase in assets	25,423,740	21,834,384
DECREASE		
Administration expenses	560,615	613,798
Investment management fees	78,641	88,952
Pension payments	33,452,905	33,209,175
Total decrease in assets	34,092,161	33,911,925
Current year change in fair value of investments	10,960,058	(21,464,073)
Change in net assets available for benefits	2,291,637	(33,541,614)
Net assets available for benefits, December 31	$260,479,438	$258,187,801

Notes to the FINANCIAL STATEMENTS

Year ended December 31, 2009

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%

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.

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 other payments as required by law. 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 including, if applicable, the Defined Benefit Minimum Provision.

(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 including, if applicable, the Defined Benefit Minimum Provision.

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 including, if applicable, the Defined Benefit Minimum Provision.

(F) ACCUMULATION FUND

The Accumulation Fund is composed of an Equity Pool, a Fixed Income Pool, a Socially-Responsible Investment Pool and a Money Market 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").

1. Summary Description of the Plan (continued)

F) ACCUMULATION FUND (continued)

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

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 in floating rate Master Asset Vehicle II ("MAV II") notes and are 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 *National Housing Act* insured mortgages as well as 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 year 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) MAV II notes are valued at management's best estimate of current fair values. Prior to January 12, 2009, this investment was referred to as non-bank asset-backed commercial paper ("non-bank ABCP"). At December 31, 2008, the Plan held investments in non-bank ABCP with a principal amount of $41,210,000 allocated as follows: $26,424,000 - Accumulation Fund and $14,786,000 - Pensioner Fund. On January 12, 2009, the non-bank ABCP was restructured under the *Companies' Creditors Arrangement Act* and the Plan received MAV II notes in exchange for its non-bank ABCP investments. At December 31, 2009, the Plan held MAV II notes with a principal amount of $36,649,124 allocated as follows: $22,428,356 - Accumulation Fund and $14,220,768 -

2. Significant Accounting Policies (continued)

INVESTMENTS (continued)

Pensioner Fund. The Plan has used a discounted cash flow approach to estimate a fair value for the MAV II notes using the best information currently available. This estimate is subject to measurement uncertainty and the fair value of the MAV II notes could differ from the actual fair value that will be realized.

(c) Bond investments and common stock 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 real estate.

(f) Private equity investments are valued at management's best estimate of current fair values. Management's estimate is primarily derived from the most recent financial statements pertaining to the Plan's private equity investments, adjusted for cash flows and foreign currency, as applicable.

(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 OF INVESTMENTS

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

CHANGE IN ACCOUNTING POLICIES

During the year, the Plan's management adopted new rules regarding credit risk and the fair value of financial assets and financial liabilities. These rules require that an entity's own credit risk (for financial liabilities) and the credit risk of the counterparty (for financial assets) be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of these rules did not have a significant impact on the financial statements.

The Plan's management also adopted the amendments to financial instruments disclosure rules. The additional information is provided in Note 4.

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 the investments are as follows:

Short-Term Investments

Short-term investments, primarily securities issued or guaranteed by the Canadian government, have an average term to maturity of 22 days in the Accumulation Fund (2008 - 30 days) and 23 days in the Pensioner Fund (2008 - 28 days).

Floating Rate MAV II Notes

Floating rate MAV II notes consist of holdings of long-term notes which have limited liquidity. The MAV II notes were issued as part of the restructuring referred to in Note 2(b).

Bonds

In the Accumulation Fund, bonds, 64% of which are guaranteed by the federal or provincial governments (2008 - 63%), have a weighted average yield to maturity of 2.28% (2008 - 4.63%) and an average duration of 6.4 years (2008 - 7.5 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, 25.2% of which are insured under the *National Housing Act* (2008 - 25.0%), have a weighted average term of 1.5 years (2008 - 2.2 years) and an average coupon rate of 7.39% (2008 - 7.40%). The mortgage portfolio is diversified throughout Canada.

3. Investments (continued)

(A) TERMS AND CONDITIONS (continued)

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

The Plan has commitments in the amount of $38.5 million (2008 - $66.9 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) FAIR VALUE

Accumulation Fund	**2009**	**2008**
Short-term investments	$35,277,458	$122,763,766
Fixed income investments		
Federal bonds	230,522,577	179,308,385
Provincial bonds	59,175,899	58,328,743
Municipal bonds	2,909,921	2,402,770
Corporate bonds	146,877,117	118,357,387
Floating rate MAV II notes (Note 2B and 3A)	14,659,568	17,178,476
	454,145,082	375,575,761
Equity investments		
Common stocks, Canadian	291,988,969	199,561,990
Common stocks, Foreign	214,683,851	174,386,813
Real estate	27,288,967	31,005,308
Private equity	35,805,205	42,392,094
Resource properties	9,700,066	9,678,565
	579,467,058	457,024,770
	$1,068,889,598	**$955,364,297**

3. Investments (continued)

(C) FAIR VALUE (continued)

Pensioner Fund	**2009**	**2008**
Short-term investments	$15,251,756	$15,703,646
Mortgages		
National Housing Act insured mortgages	12,493,025	15,068,505
Conventional mortgages	37,125,395	46,327,525
	49,618,420	61,396,030
Fixed income investments		
Accumulation Fund – Fixed Income Pool (Note 5)	97,762,509	89,715,526
Floating rate MAV II notes (Note 2B and 3A)	9,901,452	9,610,679
	107,663,961	99,326,205
Equity investments		
Common stocks, Canadian	43,171,053	34,286,085
Real estate	34,112,171	37,833,697
Resource properties	8,034,668	8,025,248
	85,317,892	80,145,030
	$257,852,029	**$256,570,911**

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, 2009, 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. Duration is a measure used to approximate the impact on the fair value of fixed income securities for a given change in interest rates. Using this measure, it is estimated that a 1% increase (decrease) in interest rates would decrease (increase) the fair value of fixed income investments by $28.1 million in the Accumulation Fund and by $6.3 million in the Pensioner Fund as at December 31, 2009. 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. In 2009, the Plan entered into currency forward contracts in order to hedge the effect of changes in the United States/Canadian dollar exchange rates on its US dollar-denominated investments in the Accumulation Fund.

As at December 31, 2009, a $0.01 appreciation (depreciation) of the Canadian dollar versus the US dollar would result in an increase (decrease) in the fair value of the forward contracts of approximately $1.2 million. At December 31, 2009, the fair value of the currency forward contracts payable was $1.0 million and is included in accounts payable at year-end. The Plan also employs diversification of assets to manage this risk.

4. Financial Instruments (continued)

(D) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of an investment will fluctuate as a result of changes in market price. As at December 31, 2009, a 10% change in equity prices would result in a $57.9 million change in the value of the equity investments in the Accumulation Fund and a $8.5 million change in the value of the equity investments in the Pensioner Fund. The Plan employs investment diversification to manage this risk.

(E) FAIR VALUE HIERARCHY

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each evaluation. The fair value hierarchy is made up of the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable data on the market each time such data exists. A financial instrument is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value.

The following table presents the financial instruments evaluated at fair value on a recurring basis at December 31, 2009, classified according to the fair value hierarchy described above:

	Fair Value at December 31, 2009 according to the following levels			Total assets at fair value
Accumulation Fund	**Level 1**	**Level 2**	**Level 3**	
	$	**$**	**$**	**$**
Financial assets				
Cash	8,777,737	-	-	8,777,737
Short-term investments	-	35,277,458	-	35,277,458
Fixed income investments	-	439,485,514	-	439,485,514
Floating rate MAV II notes	-	-	14,659,568	14,659,568
Common stocks	289,360,140	217,312,680	-	506,672,820
Real estate	-	-	27,288,967	27,288,967
Private equity	-	-	35,805,205	35,805,205
Resource properties	9,700,066	-	-	9,700,066
Total financial assets evaluated at fair value	**307,837,943**	**692,075,652**	**77,753,740**	**1,077,667,335**

During the year, there has been no transfer of amounts between Level 1 and Level 2 or to or from Level 3.

4. Financial Instruments (continued)

(E) FAIR VALUE HIERARCHY (continued)

Pensioner Fund	Fair Value at December 31, 2009 according to the following levels Level 1	Level 2	Level 3	Total assets at fair value
	$	$	$	$
Financial assets				
Cash	1,658,886	-	-	1,658,886
Short-term investments	-	15,251,756	-	15,251,756
Mortgages	-	49,618,420	-	49,618,420
Fixed income investments	-	97,762,509	-	97,762,509
Floating rate MAV II notes	-	-	9,901,452	9,901,452
Common stocks	-	43,171,053	-	43,171,053
Real estate	-	-	34,112,171	34,112,171
Resource properties	8,034,668	-	-	8,034,668
Total financial assets evaluated at fair value	**9,693,554**	**205,803,738**	**44,013,623**	**259,510,915**

During the year, there has been no transfer of amounts between Level 1 and Level 2 or to or from Level 3.

The following table reconciles the fair value of financial instruments classified as Level 3 from the beginning balance to the ending balance:

	Accumulation Fund	Pensioner Fund
Fair value, beginning of year	$90,575,878	$47,444,376
Purchases	6,933,237	2,454,834
Sales	(4,096,976)	(1,038,951)
Current year change in fair value	(15,658,399)	(4,846,636)
Fair value, end of year	**$77,753,740**	**$44,013,623**

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

Pensioner Fund	
Due from Accumulation Fund	$684,694
Investment, Accumulation Fund - Fixed Income Pool	$97,762,509
Accumulation Fund	
Due to Pensioner Fund	$98,447,203

The amount of $97,762,509 (2008 - $89,715,526) relates to an investment made by the Pensioner Fund in units of the Accumulation Fund's Fixed Income Pool. The amount of $684,694 (2008 - $1,136,734) relates to transfers into the Pensioner Fund that were accrued at year end.

6. Funding Valuation

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.

The December 31, 2009 triennial actuarial valuation is expected to be completed and filed with the regulatory authorities on or before September 30, 2010.

Rooted in your future

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