McGill

McGill University Pension Plan

Annual Report

December 31, 2011

Members of the Pension ADMINISTRATION COMMITTEE

Professor Reuven Brenner	Representing Academic Staff
Mr. Étienne Brodeur	Independent Member
Ms. Lynne B. Gervais (Chair)	Representing the Principal & Chair of the Board
Ms. Kim Holden	Representing the Board of Governors
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

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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 232 of the Stephen Leacock Building, 855 Sherbrooke Street West, Montreal, Quebec on Friday, the 4th day of May, 2012 at 1:30 p.m. for the purposes of:

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

(b) acclaiming one Academic Staff representative, who is a member of the Plan as of December 31, 2011, and active employee of the University to the Pension Administration Committee;

(c) receiving the financial report of the McGill University Pension Plan for the year ended December 31, 2011 and the independent auditor's report thereon;

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

(e) receiving the investment performance report of the McGill University Pension Plan for the year ended December 31, 2011, including the:
  - Accumulation Fund;
  - Pensioner Fund; and

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

Attendance at the meeting shall be restricted to active and inactive 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, 2011
- 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 2012

Introduction to 40th 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, 2011.

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 2011

The following changes occurred in the membership of the PAC during the year. At the Annual Meeting held on May 6th, Ms. Kathleen Tobin was re-elected to a three-year term as Administrative and Support Staff representative. In June 2011, Ms. Cristiane Tinmouth, representing the Principal and Vice-Chancellor, was reappointed to a new three-year term.

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 the Office of Investments. During 2011, there were ten 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 Committee ("PIC")

The fundamental role of the PIC (formerly the Pension Investment Board) is to develop detailed investment policies and set investment strategy that is recommended to the PAC for approval.

The PIC is responsible for overseeing the implementation of investment policy. It consists of two non-voting members from the PAC, the Chair of the PAC as ex-officio and five 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.

The current members of the PIC are: Mr. Mark Smith, Chair; Professor Reuven Brenner (PAC); Mr. Stephen Cotsman; Ms. Lynne B. Gervais (Chair of PAC); Ms. Maureen Farrow; Mr. Russell Hiscock; Ms. Kim Holden (PAC); and Mr. Scott Taylor. PIC members, who are appointed by the PAC, serve a first term of three years, renewable for a second term of two years and are limited to a maximum of two consecutive terms.

In October and November 2011 respectively, Mr. Russell Hiscock and Mr. Stephen Cotsman were appointed to the PIC replacing Mr. Pierre Lajeunesse and Mr. Chilion Heward whose terms had ended.

The PAC and the PIC would like to express their sincere appreciation and thanks to Mr. Lajeunesse and Mr. Heward for their contributions to the PIC.

During 2011, there were four regular meetings of the PIC as well as four special meetings and three 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
- University contributions necessary to provide any supplementary pensions required to meet the provisions of the Defined Benefit Minimum Provision as well as to ensure adequate funding of the Pension Fund 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 October 2011, 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 investment objectives for the Equity Pool, Fixed Income Pool, SRI Pool, Money Market Pool, as well as the Balanced Account are disclosed in *Appendix V*.

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 PIC) on the basis of a continuing review of the economic, political and financial factors which influence investment markets.

As the performances of individual managers and markets move the assets of the Balanced Account away from its strategic asset allocation, the assets are rebalanced regularly to bring the Balanced Account back within the parameters of the strategic asset allocation. 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, 2011, was 61.0% to the Equity Pool and 39.0% to the Fixed Income Pool. Related benchmarks and the actual asset allocation of the Balanced Account at December 31, 2011 are also shown in *Schedule 1*.

The benchmarks for cash and cash equivalents, equity and fixed income asset classes were selected because all are publicly-traded and readily investable indices. The real estate benchmark is a widely-used industry benchmark. The private equity benchmark reflects the additional return that private equity is expected to achieve over and above the public equity markets. The absolute return strategies benchmark reflects the additional return the asset class is expected to achieve

Schedule 1

Balanced Account – Asset Allocation as at December 31, 2011

Asset Class	Benchmark	Current Policy Allocation (%)	Actual Balanced Account (%)	MIN%	MID%	MAX%
Equity Pool						
Cash & Cash Equivalents	DEX 30-Day T-Bill	0	0.4	0	0	10
Currency Forward Contracts	Not applicable	-	0.2	-	-	-
Canadian Equities	S&P/TSX Composite	27	23.4	22	27	32
US Equities	S&P 1500	13	12.5	8	13	18
Non-North American Equities	MSCI EAFE	5	6.4	3	5	7
	MSCI EM	8	6.4	5	8	11
Alternative Equities:						
Real Estate	REALpac/IPD Property	5	4.0	2	5	10
Private Equity	(2/3 S&P500 + 1/3 MSCI Europe) + 5%	2	4.6	0	2	5
Absolute Return Strategies[1]:	LIBOR + 5%	0	3.1	-	-	-
		60%	61.0%		60%	
Fixed Income Pool						
Cash & Cash Equivalents	DEX 30-Day T-Bill	2	0.1	0	2	20
Bonds	DEX Universe Bond	27	27.2	25	27	29
	DEX Real Return	6	8.2	4	6	8
	ML Global HY (hedged)	5	2.7	3	5	7
MAV II Notes	Not applicable	-	0.8	-	-	-
		40%	39.0%		40%	
Balanced Account		100%	100.0%		100%	

[1] Effective January 1, 2012, the MIN, MID and MAX percentages for absolute return strategies were set at 3%, 5% and 7% respectively.

in excess of the London Interbank Offered Rate ("LIBOR").

The actual asset allocations within the Accumulation Fund at any particular time will reflect the strategic asset allocation policy with respect to the Balanced Account and the separate asset allocation policies followed by members who utilize an investment strategy other than the Balanced Account.

The actual management and asset allocation structure of the Accumulation Fund as at December 31, 2011 are shown in *Schedule 2*.

Schedule 2

Accumulation Fund – Asset Allocation and Manager Structure – December 31, 2011

Asset Class	Manager	Amount (millions)	% of Pool Holdings
Equity Pool			
Cash & Cash Equivalents:	TD Asset Management	$ 4.2	0.7%
Currency Forward Contracts:	TD Asset Management	2.0	0.4%
Canadian Equities:	Jarislowsky Fraser	48.6	8.4%
	State Street Global Advisors	93.1	16.0%
	Pyramis Global Advisors	34.9	6.0%
	Van Berkom & Associates	46.2	7.9%
US Equities:	LSV Asset Management	16.2	2.8%
	State Street Global Advisors	102.4	17.6%
Non-North American Equities:	Hexavest	36.2	6.2%
	William Blair & Company	30.8	5.3%
	Aberdeen Asset Management	49.9	8.6%
	Internal	3.9	0.7%
Real Estate:	External	39.9	6.9%
Private Equity:	External	43.9	7.5%
Absolute Return Strategies:	External	29.2	5.0%
	Total Equity Pool:	**$ 581.4**	**100.0%**
Fixed Income Pool			
Cash & Cash Equivalents:	TD Asset Management	$ 1.0	0.3%
Real-Return Bonds:	Phillips, Hager & North	79.4	20.9%
High-Yield Bonds:	Phillips, Hager & North	26.7	7.0%
Short-Term Bonds:	Phillips, Hager & North	85.1	22.4%
Bonds:	Canso Investment Counsel	41.8	11.0%
	TD Asset Management	137.6	36.2%
MAV II Notes:	Internal	8.4	2.2%
	Total Fixed Income Pool:	**$ 380.0**	**100.0%**
SRI Pool	Guardian Ethical Management	**$ 13.7**	**100.0%**
Money Market Pool			
Cash & Cash Equivalents:	TD Asset Management	**$ 14.2**	**100.0%**
MAV II Notes:	Internal	**$ 2.7**	**n/a**
	Total Accumulation Fund:	**$ 992.0**	

Investment Management

The following investment manager changes were made in 2011:

In February, William Blair's mandate was transitioned from an EAFE Growth strategy to an International Growth strategy, which includes up to a 30% investment in emerging markets.

In March, Hexavest was given a mandate to invest in developed non-North American markets. The mandate was funded with assets that were previously managed on a temporary basis by State Street Global Advisors, a transitional manager.

In April, LSV Asset Management's US mandate was closed out with the proceeds invested in State Street Global Advisors US S&P 500 Passive Index strategy.

In August, TD Asset Management's Canadian equity mandate was replaced by a Canadian equity mandate managed by Pyramis Global Advisors. In the same month, Addenda Capital's corporate bond mandate was replaced by a corporate bond mandate granted to Canso Investment Counsel.

In October, Capital International's emerging markets mandate was closed out and the assets were transferred into the existing Aberdeen Asset Management mandate. In addition, a small internally managed allocation was made to emerging markets through the purchase of the iShares MSCI Emerging Market Equity exchanged traded fund.

In November, a new Absolute Return Strategies asset class was introduced. From November 1 to December 31, a total of US $29 Million was allocated to four new investment managers. An additional US $21 million is expected to be allocated to three additional investment managers in early 2012.

Performance

MARKET PERFORMANCE

Public market performance returns, when expressed in Canadian dollars, had mixed results in 2011. The S&P/TSX Composite Index returned -8.7% for the year. Five out of ten sectors recorded negative returns, with the Materials and Energy sectors accounting for more than 80% of the negative performance. The S&P/TSX SmallCap Index, the measure of small cap performance, was down 16.4% during the year. The DEX Universe Bond Index gained 9.7%, while the DEX Real-Return Bond Index gained 18.3% for the year.

The Canadian dollar depreciated 2.4% versus the US dollar during the year, after appreciating 5.4% in 2010. In Canadian dollar terms, the S&P 500 returned 4.6% for the year outperforming the Canadian market for the first time in the recent past. Non-North American markets represented by the MSCI EAFE Index and the MSCI EM Index finished the year, in Canadian dollar terms, with returns of -9.5% and -16.1%, 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, 2011. The applicable benchmark performance for each asset class is also noted in *Schedule 3*.

The Equity Pool returned -2.5% for the year in comparison to its composite benchmark of -4.8%. The Canadian equity performance of -7.4% was above the S&P/TSX Composite Index benchmark of -8.7%. The US equity performance of 3.7% was below the S&P 1500 benchmark performance of 4.3% for the year, while the non-North American equity performance of -12.2%, was ahead of its composite benchmark of -13.5%. The performance of alternative equity assets at 17.9% outperformed its composite benchmark of 11.3%.

The Fixed Income Pool returned 8.9% for the year, lagging the 9.7% return of its composite benchmark.

The Balanced Account's performance of 1.9% for the year outperformed its composite benchmark return of 0.9%.

The SRI Pool's performance of -1.7% in 2011 was below the -1.0% return of its benchmark, the GEM Balanced Benchmark.

The Money Market Pool returned 0.9% for the year, equalling the return of the DEX 30-Day T-Bill Index.

Accumulation Fund Performance[1] as at December 31, 2011

Asset Class	Annualized Rates of Return 1 year	5 years	10 years
Equity Pool:			
Cash & Cash Equivalents:	0.9%	1.3%	2.1%
Benchmark DEX 30-Day T-Bill:	0.9%	1.7%	2.2%
Canadian Equities:	-7.4%	1.7%	7.7%
Benchmark S&P/TSX Composite:	-8.7%	1.3%	7.0%
US Equities:	3.7%	-2.7%	-1.7%
Benchmark S&P 1500:	4.3%	-2.5%	-1.1%
Non-North American Equities:	-12.2%	-4.6%	3.0%
Benchmark 62% MSCI EM + 38% MSCI EAFE:	-13.5%	-5.0%	2.6%
Alternative Assets[2]:	17.9%	-1.6%	6.9%
Alternative Assets Benchmark[3]:	11.3%	n/a	n/a
Total Equity Pool:	**-2.5%**	**-0.1%**	**5.0%**
Composite Equity Pool Benchmark[4]:	-4.8%	-0.6%	4.5%
Fixed Income Pool:			
Cash & Cash Equivalents:	0.9%	-1.0%	1.0%
Benchmark DEX 30-Day T-Bill:	0.9%	1.7%	2.2%
Bonds:	9.4%	6.6%	7.7%
Composite Bond Benchmark[5]:	10.2%	6.7%	7.6%
Total Fixed Income Pool:	**8.9%**	**5.9%**	**7.0%**
Composite Fixed Income Pool Benchmark[6]:	9.7%	6.5%	7.3%
Balanced Account:	**1.9%**	**2.4%**	**6.1%**
Composite Balanced Account Benchmark[7]:	0.9%	2.1%	5.7%
Socially Responsible Investment Pool[8]:	**-1.7%**	**n/a**	**n/a**
GEM Balanced Benchmark:	-1.0%	n/a	n/a
Money Market Pool:	**0.9%**	**1.8%**	**2.4%**
Benchmark DEX 30-Day T-Bill:	0.9%	1.7%	2.2%

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: Includes Real Estate, Private Equity and, effective November 1, 2011, Absolute Return Strategies.

Note 3: Effective January 1, 2011, the policy allocation benchmark is 71% Real Estate Benchmark + 29% Private Equity Benchmark.

Note 4: Effective January 1, 2011, policy allocation benchmark is 45% S&P/TSX Composite Index + 22% S&P 1500 Index + 13% MSCI EM + 8% MSCI EAFE Index + 12% Alternative Assets Benchmark.

Note 5: Effective January 1, 2011, policy allocation benchmark is 71% DEX Universe Bond Index + 16% DEX Real-Return Bond Index + 13% ML Global HY (hedged).

Note 6: Effective January 1, 2011, policy allocation benchmark is 67.5% DEX Universe Bond Index + 15% DEX Real-Return Bond Index + 12.5% ML Global HY (hedged) + 5% DEX 30-Day T-Bill Index.

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

Note 8: Five and ten-year returns not applicable as the SRI Pool was only established in April 2008.

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, Balanced Account and Money Market Pool surpassed their respective long-term objectives as at December 31, 2011, measured over no less than ten years.

The Equity Pool fell short, primarily due to the large impact of the negative equity return in 2008.

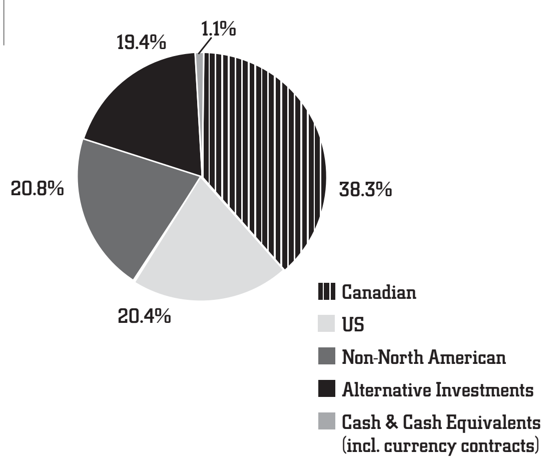
Long-Term Objectives

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:	3.2% 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:	-2.5%	6.3%	-0.1%	5.9%	5.0%	6.1%
Fixed Income Pool:	8.9%	4.3%	5.9%	3.9%	7.0%	4.1%
Balanced Account:	1.9%	5.5%	2.4%	5.1%	6.1%	5.3%
SRI Pool:	-1.7%	5.6%	n/a	n/a	n/a	n/a
Money Market Pool:	0.9%	0.9%	1.8%	1.7%	2.4%	2.2%
CPI for the period:	2.3%		1.9%		2.1%	

Summary of Equity Pool Investments



Investment Manager Performance

Schedule 4 shows the gross rates of market returns achieved by the investment managers and the alternative equity portfolios of the Accumulation Fund for the calendar year 2011 and, where applicable, over the five and ten-year periods ending December 31st, 2011. The benchmarks applicable to each manager and alternative equity portfolio are also noted in *Schedule 4*.

EQUITY POOL

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

CANADIAN EQUITY INVESTMENTS

The Equity Pool's holdings in Canadian equities ($222.8 million at year-end) are invested in Canadian equities through index and fully active strategies. For the year, Jarislowsky Fraser, Schedule 4

Manager Performances[1] as at December 31, 2011

Manager	Annualized Rates of Return 1 year	5 years	10 years
Canadian Equity Managers:			
Jarislowsky Fraser:	-6.8%	1.3%	n/a
Pyramis Global Advisors[2]:	n/a	n/a	n/a
Benchmark S&P/TSX Composite Index:	-8.7%	1.3%	n/a
State Street Global Advisors:	-9.1	n/a	n/a
Benchmark S&P/TSX 60:	-9.1	n/a	n/a
Van Berkom & Associates:	1.3%	6.7%	9.5%
Benchmark S&P/TSX SmallCap Index:	-16.4%	0.2%	5.6%
US Equity Managers:			
State Street Global Advisors:	4.7%	n/a	n/a
Benchmark S&P 500 LargeCap Index:	4.6%	n/a	n/a
LSV Asset Management:	-1.1%	-1.2%	n/a
Benchmark S&P 1000 Index:	1.5%	0.1%	n/a
Non-North American Equity Managers:			
Hexavest[2]:	n/a	n/a	n/a
Benchmark MSCI EAFE:	n/a	n/a	n/a
William Blair & Company:	-10.7%	-6.5	n/a
Benchmark MSCI EAFE + EM Index[3]:	-11.3%	-6.8	n/a
Aberdeen Asset Management Ltd.:	-7.7%	n/a	n/a
Internal[2]:	n/a	n/a	n/a
Benchmark MSCI EM Index:	-16.1%	n/a	n/a
Alternative Equity:			
Real Estate Portfolio:	16.7%	-2.3%	5.6%
Benchmark REALpac/IPD Property Index:	15.9%	2.6%	7.2%
Private Equity Portfolio:	18.9%	-1.1%	-1.8%
Benchmark[3,4]:	5.3%	-0.2%	6.2%
Absolute Return Strategies[2]:	n/a	n/a	n/a
Benchmark LIBOR + 5%:	n/a	n/a	n/a
Bond Managers:			
Phillips, Hager & North – High-Yield:	5.8%	8.3%	9.0%
Benchmark ML Global HY (hedged)[3]:	3.4%	3.4%	6.0%
Phillips, Hager & North – Real-Return:	17.1%	8.4%	10.4%
Benchmark DEX Real-Return Bond Index:	18.3%	9.0%	10.2%
Phillips, Hager & North – Short-Term:	4.2%	5.2%	n/a
Benchmark DEX Short-Term Bond Index:	4.7%	5.1%	n/a
Canso Investment Counsel[2]:	n/a	n/a	n/a
Benchmark DEX Universe Corporate Bond Index:	n/a	n/a	n/a
TD Asset Management - Bonds:	9.7%	6.2%	n/a
Benchmark DEX Universe Bond Index:	9.7%	6.4%	n/a
Socially Responsible Investment Manager:			
Guardian Ethical Management:	-1.7%	n/a	n/a
GEM Balanced Benchmark:	-1.0%	n/a	n/a
Money Market Manager:			
TD Asset Management:	0.9%	1.8%	2.4%
Benchmark DEX 30-Day T-Bill:	0.9%	1.7%	2.2%

Note 1: Returns have been determined by an independent performance measurement firm, are reported in Canadian dollars and are gross of fees.
Note 2: Mandate began in 2011, performance returns of less than a year are not reported.
Note 4: Effective January 1, 2009, benchmark is (2/3 S&P500 + 1/3 MSCI Europe) + 5%.

Ten Largest Canadian Publicly Traded Equity Holdings in the Equity Pool as at December 31, 2011

Security Name	Market Value (in millions)	% of Equity Pool	% of Balanced Account
Toronto Dominion Bank	$12.0	2.1%	1.3%
Royal Bank of Canada	$10.6	1.8%	1.1%
The Bank of Nova Scotia	$7.9	1.4%	0.8%
Suncor Energy	$7.0	1.2%	0.7%
Canadian National Railway	$6.6	1.1%	0.7%
Canadian Natural Resources	$6.6	1.1%	0.7%
Enbridge Inc.	$5.7	1.0%	0.6%
Potash Corporation of Saskatchewan	$5.6	1.0%	0.6%
Transcanada Corp.	$5.5	1.0%	0.6%
Barrick Gold Corp.	$5.2	0.9%	0.5%

employing a fully active investment approach, returned -6.8%, compared to the S&P/TSX Composite return of -8.7%. The performance of Van Berkom & Associates who actively manage a small cap mandate was 1.3% for the year, well above its S&P/TSX SmallCap Index benchmark performance of -16.4%. State Street Global Advisors' indexed mandate return of -9.1% equaled the S&P/TSX 60 Index return. Pyramis Global Advisors, with a broad Canadian equity mandate was hired in August 2011.

At December 31, 2011, approximately 42% of the Canadian equity portfolio was invested in an index strategy, versus 58% as at December 31, 2010. The entire Canadian equity portfolio was managed externally at year-end.

US EQUITY INVESTMENTS

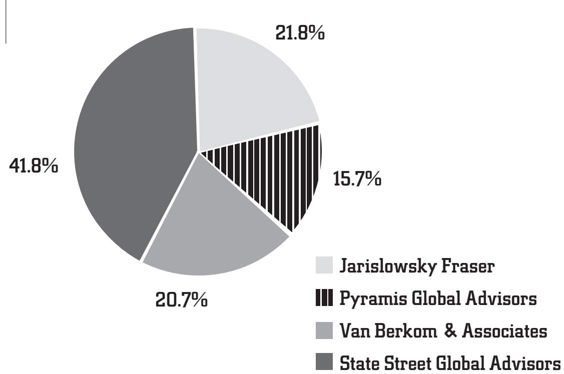
The Equity Pool's holdings in US equities ($118.6 million at year-end) were allocated to index and fully active strategies at year-end.

LSV Asset Management returned -1.1% for its small/midcap fully active value mandate versus the 1.5% return of its benchmark, the S&P1000. State Street Global Advisors following a largecap index mandate, returned 4.7% slightly above the S&P500 Index benchmark of 4.6%.

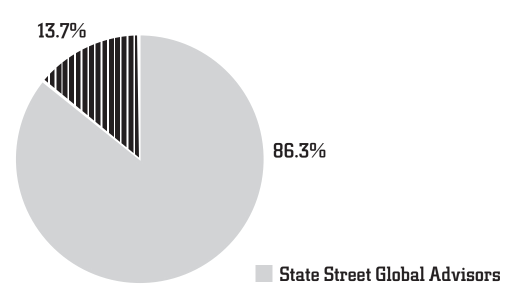
At December 31, 2011, approximately 86% of the US equity portfolio was invested in an index strategy versus 71% as at December 31, 2010.

The entire US equity portfolio was managed externally at year end.

Management Structure in Canadian Equities



Management Structure in US Equities



Ten Largest US Publicly Traded Equity Holdings in the Equity Pool as at December 31, 2011

Security Name	Market Value (in Cdn $ millions)	% of Equity Pool	% of Balanced Account
Exxon Mobil	$3.6	0.6%	0.4%
Apple	$3.4	0.6%	0.4%
IBM	$1.9	0.3%	0.2%
Chevron	$1.9	0.3%	0.2%
Microsoft	$1.7	0.3%	0.2%
General Electric	$1.7	0.3%	0.2%
Procter & Gamble	$1.6	0.3%	0.2%
AT & T Inc.	$1.6	0.3%	0.2%
Johnson & Johnson	$1.6	0.3%	0.2%
Pfizer	$1.5	0.3%	0.2%

NON-NORTH AMERICAN EQUITY INVESTMENTS

The Equity Pool's holdings in non-North American equities ($120.8 million at year-end) were allocated to active strategies in developed markets and to index and active strategies in emerging markets.

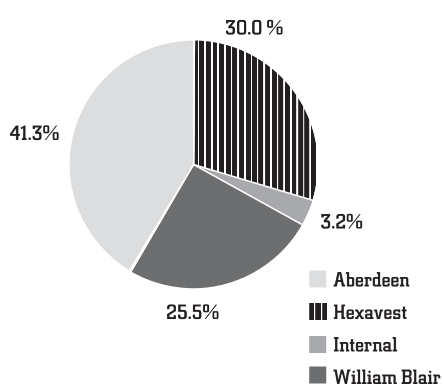
William Blair & Company, following an international growth mandate in developed and emerging markets, returned -10.7% for the year versus the benchmark return of -11.3%. With a return of -7.7% Aberdeen Asset Management outperformed the -16.1% return of its benchmark, the MSCI EAFE + EM Index.

The one-year returns for the Hexavest and internally-managed mandates were not presented as the mandates were granted during the year.

At December 31, 2011, approximately 3% of the non-North American equity portfolio was invested in an index strategy versus 28% as at December 31, 2010.

At December 31, 2011, 97% of the non-North American portfolio was managed externally versus 100% at the end of of 2010.

Management Structure in Non-North American Equities



Ten Largest Non-North American Publicly Traded Equity Holdings in the Equity Pool as at December 31, 2011

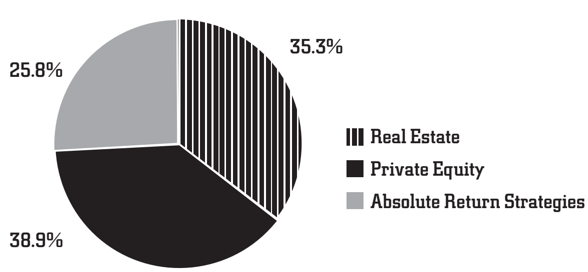
Security Name	Market Value (in Cdn $ millions)	% of Equity Pool	% of Balanced Account
China Mobile (China)	$2.1	0.4%	0.2%
Companhia Vale do Rio Doce (Brazil)	$2.0	0.3%	0.2%
Taiwan Semiconductor (Taiwan)	$1.9	0.3%	0.2%
Petroleo Brasileiro (Brazil)	$1.7	0.3%	0.2%
Banco Bradesco (Brazil)	$1.7	0.3%	0.2%
Fomento Economico Mexicano (Mexico)	$1.6	0.3%	0.2%
Standard Chartered (United Kingdom)	$1.6	0.3%	0.2%
Astra International (Indonesia)	$1.6	0.3%	0.2%
Petrochina (China)	$1.5	0.3%	0.2%
BHP Billiton (Australia)	$1.4	0.2%	0.1%

ALTERNATIVE EQUITY INVESTMENTS

The Equity Pool's holdings in alternative strategies ($113.0 million at year-end) are meant to provide diversification relative to the publicly-traded equity and fixed income markets. In 2011, a $29.6 million investment was made to four non-Canadian absolute return strategy managers investing in a variety of direct-investment strategies.

The real estate porfolio return of 16.7% was higher than the 15.9% return of its benchmark the REALpac/IPD Property Index. The real estate portfolio is entirely invested in privately-held Canadian real estate.

Management Structure in Alternative Equity Investments



The private equity portfolio returned 18.9% versus the 5.3% return of its benchmark which is a blend of the S&P500 and MSCI EAFE returns plus 5%.

The absolute return strategies were initiated gradually commencing November 1, 2011 and thus did not have a full year's performance to report.

FIXED INCOME POOL

The Fixed Income Pool's holdings ($380.0 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. The Fixed Income Pool's holdings are primarily Canadian securities denominated in Canadian dollars.

At December 31, 2011, the Fixed Income Pool held $8.4 million, which represents 2.2% 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.

Ten Largest Fixed Income Pool Holdings as at December 31, 2011

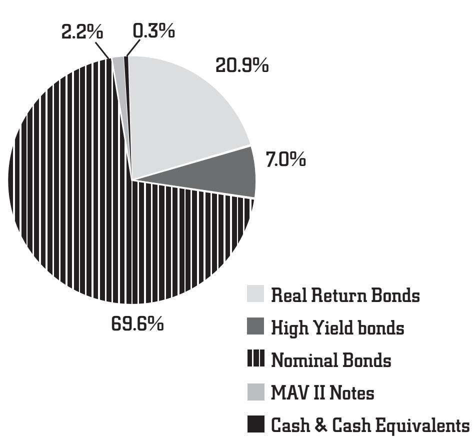
Security Name	Market Value (in Cdn $ millions)	% of Fixed Income Pool	% of Balanced Account
Gov't of Canada 4% 2031/12/01 Real Return	$46.0	12.1%	4.7%
Gov't of Canada 4.25% 2026/12/01 Real Return	$25.4	6.7%	2.6%
Canada Housing Trust 4.80% 2012/06/15	$10.4	2.8%	1.1%
Gov't of Canada 4.25% 2021/12/01	$7.7	2.0%	0.8%
Canada Housing Trust 2.75% 2016/06/15	$4.0	1.1%	0.4%
Toronto Dominion Bank 5.382% 2017/11/01	$3.7	1.0%	0.4%
Gov't of Canada 1.75% 2013/03/01	$3.1	0.8%	0.3%
Gov't of Canada 2.00% 2016/06/01	$2.4	0.6%	0.2%
Shaw Communications 6.75% 2039/11/09	$2.2	0.6%	0.2%
Cadillac Fairview Finance Trust 3.24% 2016/01/25	$2.2	0.6%	0.2%

TD Asset Management, which manages an indexed bond mandate, returned 9.7% for the year versus the DEX Universe Bond Index return of 9.7%. Phillips, Hager & North's mandate to manage a high-yield bond fund provided a 5.8% return versus the ML Global HY (hedged) Index return of 3.4%.

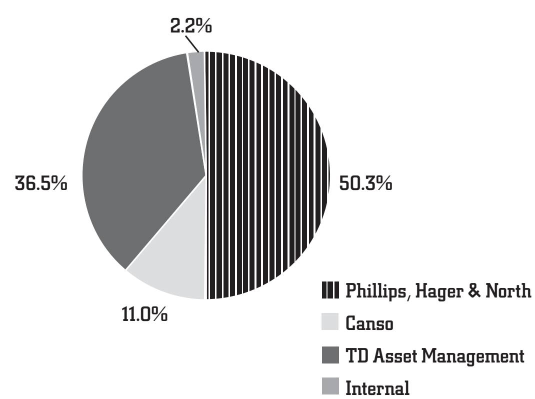
The return on real-return bonds of 17.1% under-performed the 18.3% return of its benchmark, the DEX Real-Return Bond Index. Philips, Hager & North's short-term bond mandate returned 4.2% versus the DEX Short-Term Bond index return of 4.7%.

Canso Investment Counsel was hired in August 2011 to manage a Canadian corporate bond mandate.

Summary of Fixed Income Pool Investments



Management Structure in Fixed Income Investments



Ten Largest Socially-Responsible Investment (SRI) Pool Holdings as at December 31, 2011

Security Name	Market Value (in Cdn $)	% of SRI Pool
Canada Housing Trust 3.35% 2020/12/15	$673,000	4.9%
Canada Housing Trust 3.24% 2014/09/15	$321,000	2.3%
Royal Bank of Canada	$286,000	2.1%
Goldcorp	$281,000	2.1%
Suncor Energy	$265,000	1.9%
Enbridge	$259,000	1.9%
RBC Capital Trust 4.87% 2031/12/15	$246,000	1.8%
Barrick Gold Corporation	$243,000	1.8%
Gov't of Canada 5.75% 2029/06/01	$231,000	1.7%
Canadian Natural Resources	$201,000	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, 2011, the SRI Pool had $13.7 million in assets.

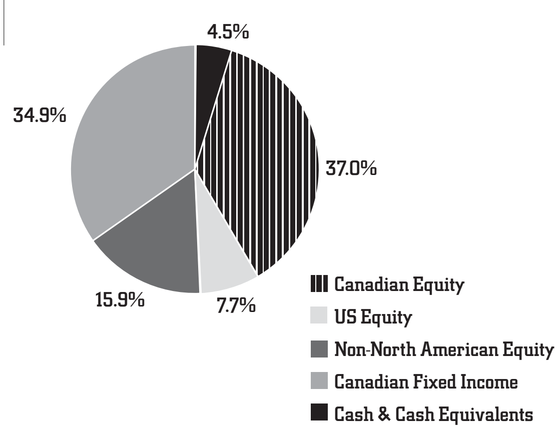
The SRI Pool invests in the Guardian Ethical Management ("GEM") Balanced Pool. GEM is a joint venture between Guardian Capital LP and The Ethical Funds Company, both established leaders in their respective fields of expertise. Guardian Capital LP focuses on investment management governed by a sustainable 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, 2011 are shown in the "Summary of SRI Pool Investments" chart.

Guardian Ethical Management, which has a "socially responsible" investment mandate, returned -1.7% for the year ending December 31, 2011 versus its benchmark return of -1.0%.

At December 31, 2011, the entire SRI Pool was managed externally by Guardian Ethical Management.

Summary of SRI Pool Investments



Money Market Pool Holdings as at December 31, 2011

Security Name	Market Value (in Cdn $ millions)	% of Money Market Pool
Gov't of Canada T-Bill 2012/05/01	$6.4	45.1%
Gov't of Canada T-Bill 2012/01/19	$1.2	8.2%
Gov't of Canada T-Bill 2012/05/01	$1.1	8.0%
Gov't of Canada T-Bill 2012/03/01	$0.9	6.2%
Gov't of Canada T-Bill 2012/03/15	$0.9	6.2%
Gov't of Canada T-Bill 2012/02/16	$0.8	5.8%
Gov't of Canada T-Bill 2012/02/12	$0.7	5.0%
Gov't of Canada T-Bill 2012/03/29	$0.7	5.0%
Gov't of Canada T-Bill 2012/04/12	$0.5	3.8%
Canadian Wheat Board 2012/01/17	$0.4	2.5%

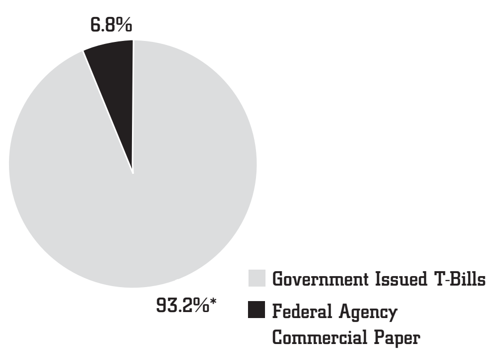
MONEY MARKET POOL

The Money Market Pool's holdings ($14.2 million at year-end) consisted of allocations to cash and cash equivalents. Cash equivalents may 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.

The Money Market Pool generated a return of 0.9% for the year versus the 0.9% generated by its benchmark, the DEX 30-Day T-Bill Index.

Summary of Money Market Pool Investments



*Includes 45.1% allocation to a reverse repurchase agreement with a Canadian Schedule A chartered bank which matures on May 1, 2012. 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.

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 the 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 22) and *IB* (on page 23) illustrate the historical progress of the unit values from inception of the Plan in 1972 until December 31, 2011. 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
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%
2010	9.44%	12.31%	6.05%	7.46%	0.19%
2011	**3.63%**	**1.38%**	**6.73%**	**0.20%**	**0.65%**
10-Year Annualized Rate of Return:	6.03%	5.37%	6.63%	n/a	2.33%

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 opted for an internal pension settlement prior to January 1, 2011. 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 2011, the PAC began the process of hiring a Liability-Driven Investment ("LDI") manager for a portion of the Pensioner Fund's assets. It is expected that the manager's mandate will begin in the spring of 2012. LDI is an investment strategy that seeks to better match the cash flows generated by the Pensioner Fund's assets to its pension payment obligations.

The mortgage loans 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.

At December 31, 2011, approximately 93% of the Pensioner Fund's portfolio was managed externally versus 82% in 2010.

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. Given its decision to exit the mortgage asset class, the PAC will redesign the asset allocation policy in 2012.

At December 31, 2011, the Pensioner Fund held $11.3 million, which represents 4.7% 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, and in June 2011 as part of the repatriation of the investment in units of the Accumulation Fund's Fixed Income Pool.

Schedule 6 compares the actual Pensioner Fund holdings to the policy allocation on the basis of market values as at December 31, 2011.

Schedule 6

Pensioner Fund – Asset Allocation Policy[1]

Asset Class	Manager	December 31, 2011 Amount (in millions)	% of Total Fund	MIN%	MID%	MAX%
Cash & Cash Equivalents	External	26.9	11.1	0	5	10
MAV II Notes	Internal	11.3	4.7	-	-	-
Bonds	External	81.1	33.7[1]	20	22.5	25
Real-Return Bonds	External	22.2	9.2	7	7.5	8
Mortgage Loans	Internal	4.5	1.9[1]	22	27	32
Real Estate	External	42.1	17.5	13	15	17
Equity	External	52.6	21.9	18	23	28
Total Pensioner Fund:		**$240.7**	**100.0%**		**100.0%**	

[1]In 2012, the Asset Allocation Policy will be redesigned to accommodate the changing structure of the Pensioner Fund.

Investment Management

The following investment manager changes were made in 2011 in the Pensioner Fund:

In June, the Pensioner Fund's investment in units of the Accumulation Fund's Fixed Income Pool was repatriated. As a result, the Pensioner Fund became directly invested in different fixed income strategies managed by TD Asset Management, Phillips, Hager & North and Addenda Capital. It also acquired its proportionate share of MAV notes as part of the repatriation.

In October, the Phillips, Hager & North High Yield mandate and the Addenda Capital bond mandate were replaced by a corporate bond mandate accorded to Canso Investment Counsel.

Performance

In October 2011, the PAC approved a change to the Pensioner Fund's long-term return objective from 6.50% to 6.25%.

In 2011, the Pensioner Fund had a gross market rate of return of 6.4% for the year, equal to the blended long-term objective. The performance was positively impacted by the real estate return of 17.3% and by the real-return bond return of 12.2% for the last six months of 2011.

The return on the mortgage portfolio was 2.1% while cash and cash equivalents returned 0.9%. The MAV II notes returned 0.8% while Canadian equity returned -1.6%.

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, 2011. The applicable benchmark performance for each asset class is also noted in *Schedule 7*.

Chart 2 on page 23 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, 2011

Asset Class	Annualized Rates of Return 1 year	3 years	5 years
Cash & Cash Equivalents:	0.9%	0.6%	-2.6%
Benchmark DEX T-Bills 30-Day:	0.9%	0.6%	1.7%
Canadian Equity:	-1.6%	14.4%	-0.2%
Benchmark S&P/TSX Composite:	-8.7%	13.2%	1.3%
Real Estate Porfolio:	17.3%	5.4%	7.8%
Benchmark REALpac/IPD Property Index:	15.9%	4.9%	9.0%
Mortgage Portfolio:	2.1%	2.4%	4.7%
Benchmark DEX Mortgages – 3 Year:	5.0%	6.6%	6.9%
MAV II Notes:	0.8%	n/a	n/a
Phillips, Hager & North[2] - Real Return:	n/a	n/a	n/a
Benchmark DEX Real-Return Bond Index:	n/a	n/a	n/a
Phillips, Hager & North[2] - Short Term:	n/a	n/a	n/a
Benchmark DEX Short-Term Bond Index:	n/a	n/a	n/a
Canso Investment Counsel[2]:	n/a	n/a	n/a
Benchmark DEX Universe Corporate Bond Index:	n/a	n/a	n/a
TD Asset Management[2] - Bonds:	n/a	n/a	n/a
Benchmark DEX Universe Bond Index:	n/a	n/a	n/a
TOTAL PENSIONER FUND:	**6.4%**	**7.0%**	**3.8%**

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

Note 2:Mandate began in 2011 and performance returns of less than 1 year are not reported.

Benefits and ADMINISTRATIVE MATTERS

Plan Amendments

In 2011, Amendment No. 24 with varying effective dates was announced.

Amendment No. 24 amended the Plan in order to comply with applicable legislation, to harmonize the Plan Document with current practices as well as to include other changes of an administrative nature.

The most significant changes introduced in Amendment No. 24 are:

- Effective January 1, 2012, required University and member contributions to the Plan will cease at the earlier of the member's Normal Retirement Date (month end coinciding with the member's 65th birthday) or the date a member ceases to be an active member of the Plan.
- Effective January 1, 2013, required member contributions for members aged 40-49 will increase by 2% and required member contributions for members aged 50-65 will increase by 3%.
- Effective January 1, 2014, subsequent to the results of actuarial valuations to the Plan, in situations where additional contributions are necessary to offset funding deficiencies, Part A members (those who joined or were eligible to join prior to January 1, 2009) will assume an equal share of the additional funding requirements.

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.

2011 Benefit Payments

During 2011, 366 individual benefit settlements were transacted under the Plan totalling $92,123,566. The types of settlement transactions processed and the benefit amounts paid out of the Plan during 2011 are summarized in *Schedule 8*.

In 2011, 131 members of the Plan retired in 2011. The new retirees who consented to have their names included in this Report are listed in *Appendix I*.

As at December 31, 2011, there were 1348 retired members and beneficiaries receiving pensions from the Pensioner Fund. Of these, 880 are in the Old Pool with an average age of 82.0 years and 468 are in the New Pool with an average age of 69.4 years. The total of such pensions payments amounted to $33,452,650 in 2011.

During the year, 63 deaths were recorded among members of the Plan, of which 6 were active members, 52 were retired members from the Old Pool and 5 were retired members from the New Pool (see *Appendix II*).

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

External Settlements Paid in 2011

	Number	Total Amount	Average Payment
Transfers to LIFs:	75	$38,664,540	$ 515,527
Transfers to LIRAs:	147	41,297,709	280,937
Death Benefits:	7	1,367,442	195,349
Annuity Purchases:	15	4,345,587	289,706
Lump-Sum Payments:	88	2,994,690	34,031
Transfers to other Pension Plans:	21	1,899,499	90,452
Marriage Breakdown Settlements:	3	1,362,491	454,164
Other[1]:	10	191,608	19,161
Total:	366	$92,123,566	$ 251,704

[1] Includes transfers to RRSPs and RIFs

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.

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

The December 31, 2009 actuarial valuation of the Pensioner Fund confirmed an excess of liabilities over assets of $65,841,000 on a solvency valuation basis. Consequently, no Annuity Dividends could be declared.

As a result of the significant deficit which existed in the Pensioner Fund, a separate annuity dividend valuation was not performed.

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, 2009 valuation report, established the financial position of the Plan.

The actuarial valuation of the Plan as a whole, established that a funding deficiency of $46,313,000 existed as at December 31, 2009.

The degree of solvency is described as the ratio of solvency assets to the solvency liabilities. As at December 31, 2009, 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, 2009 was 84.0%. 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 Executive Summary of the Actuarial Valuation as at December 31, 2009, as prepared by the Plan actuary, Eckler Inc., can be found in *Appendix IV*.

The next triennial actuarial valuation of the Plan must be performed by December 31, 2012.

Administration

The day-to-day administration of the Plan is performed by the staff of Pension Administration, the Office of 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 Aylmer & Sherbrooke Investments Inc.

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*.

Schedule 9

Fees as a Percentage of Average Net Assets

	2011	2010
ACCUMULATION FUND		
Balanced Account[1]	0.53%	0.54%
Equity Pool[1]	0.65%	0.68%
Fixed Income Pool	0.32%	0.30%
Socially Responsible Investment Pool	0.94%	0.94%
Money Market Pool	0.26%	0.26%
PENSIONER FUND[1]	0.55%	0.55%

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

CONTACT US

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

688 Sherbrooke Street West, Suite 1420
Montreal, Quebec H3A 3R1
Tel: 514-398-6250, Fax: (514) 398-6889

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

Staff Directory

Pension Administration

General Information
(514) 398-4747 (HRHR)

John D'Agata
Director – Pension Administration
514-398-6250

Karen Rasinger
Communications and Administrative Officer
514-398-6250

Joanne St-Denis, Pensions and Benefits Officer
514-398-2748

Celine Garrocho, Pensions and Benefits Officer
514-398-2098

Filomena Ferrara, Pension Coordinator
514-398-4747 (HRHR)

Office of Investments

General Information
514-398-6040

Dave Brochet, Director – Office of Investments
514-398-2648

Robert Hall, Senior Manager
Compliance & Reporting
514-398-1383

La version française de ce rapport est disponible sur demande.

CHART 1A

Accumulation Fund Unit Values Since Inception

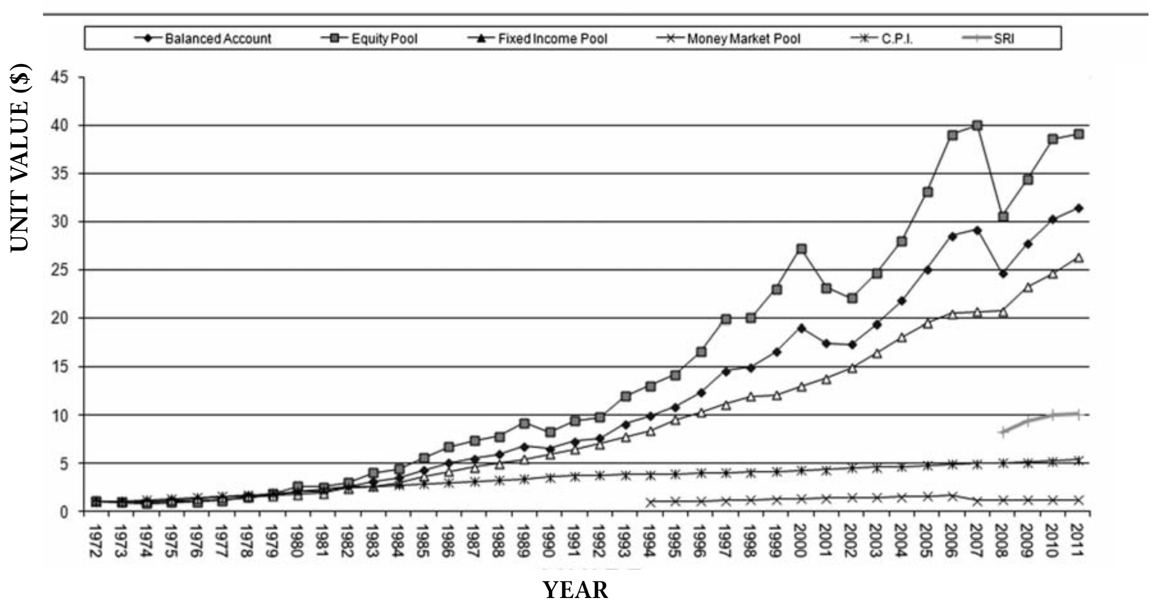


CHART 1B

Accumulation Fund Unit Values (logarithmic scale) Since Inception

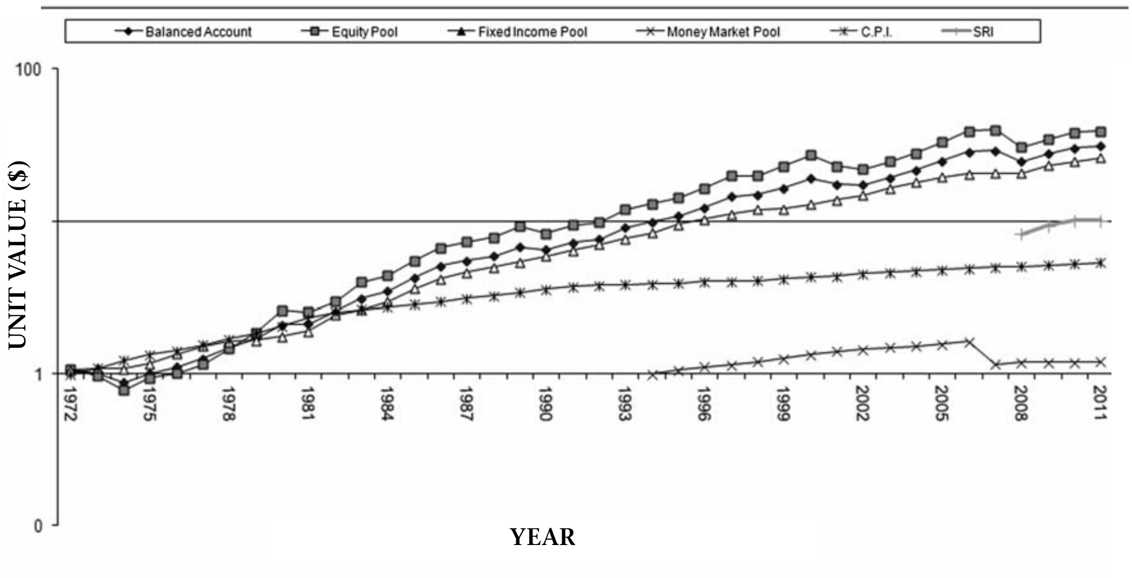
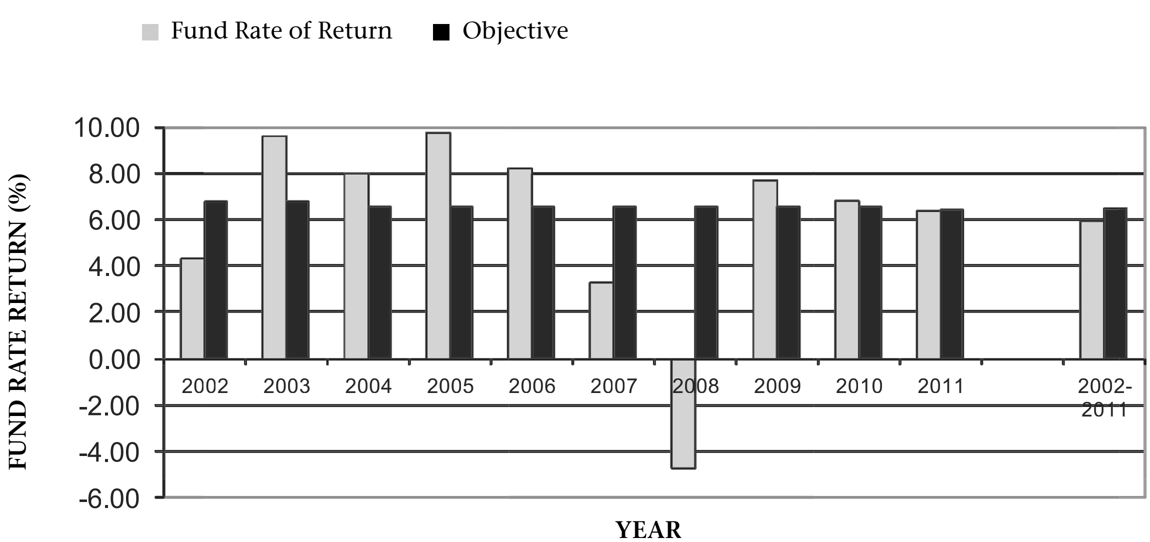


CHART 2

Pensioner Fund Performance History from 2002 to 2011



Current objective is 6.25%. From January 1, 2004 to August 31, 2011, the objective was 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

2011 RETIREMENTS

Name	Department or Faculty
Atkinson/Patricia H/Mrs.	Student Affairs
Baronowski/Donald/Dr.	History & Classical Studies
Barrett/Jean/Prof.	Physics
Benchimol/Sarita/Mrs.	Goodman Cancer Centre
Boulanger/Real/Mr.	Power House
Bourgon/Diane/Miss	Valacta
Bradley/Susan C/Ms.	Facilities Development
Cantor/Hector G/Mr.	Management
Cooper/David G/Dr.	Chemical Engineering
Dykes/Robert W/Prof.	Physical & Occupational Therapy
Everitt/M. Sandra/Mrs.	Physical & Occupational Therapy
Ferrara/Joseph/Mr.	University Services
Gallacher/James K/Mr.	Power House
Johnson/Marva/Mrs.	Food & Dining
Hansen/Birthe/Miss	Valacta
Hasegawa/Sumi/Mrs.	East Asian Studies
Henderson/James F/Mr.	Libraries
Leggee/Donna/Ms.	Dietetics & Human Nutrition
Limeburner/Mary E/Miss	Financial Services
Luk/Dorothy/Mrs.	Biology
Lussier-Brunet/Sylvie/Mrs.	University Services
MacGregor/Catherine R/Ms.	Information Systems Resources
MacLean/Eleanor/Miss	Libraries
Mastroberardino/Ornella/Mrs.	Building Services
McGilvray/Joan/Mrs.	McGill Queen's University Press
McGilvray/James A/Prof.	Philosophy
Miller/Pamela Joan/Mrs.	Libraries
Minorgan/D. Bruce/Prof.	Schulich School of Music
Mitchell-Hansen/Nina/Mrs.	Valacta
Montpetit/Gael/Ms.	Goodman Cancer Research Centre
Mushunski/Walter E/Dr.	Biochemistry
Nurse/Fay/Mrs.	Chemistry
O'Reilly/Muriel A/Mrs.	Valacta
Sicard/Jean Maurice/Mr.	Residences
Simpkins/Janice/Mrs.	Libraries
Stano/Rose Marie/Ms.	Anthropology
Takane/Yoshio/Dr.	Psychology
Tullio/Donata/Mrs.	Graduate & Postdoctoral Studies
Vallee/Cecile/Mrs.	Macdonald Campus
Wallis/Kendall/Mr.	Libraries
Watt/Douglas/Dr.	Physiology
Wienstein/Jen/Dr.	Italian Studies
Yaxley/Shirley Ann/Mrs.	Arts
Young/Katherine K/Prof.	Religious Studies

Appendix II
2011 DEATHS

Active Plan Members whose deaths occurred in 2011:

Name	Department or Faculty
Chellan/Danen/Mr.	Mechanical Engineering
Colman/David/Dr.	Neurology & Neurosurgery
Eberwein/Curtis Jay/Dr.	Economics
Hamoui/Anas/Prof.	Electrical & Computer Engineering
Krapec/Donna Danica/Ms.	Psychology
Mizener/Deborah A./Mrs.	University Teaching and Learning

Retired Plan Members whose deaths occurred in 2011:

Name	Department or Faculty
Abu-Hakima/Aida Arif/Dr.	Religious Studies
Adams/Charles Joseph/Prof.	Islamic Studies
Armstrong/Donald E/Prof.	Management
Arnold/Armin H/Prof.	German Studies
Bennett/Audrey/Mrs.	Psychology
Bird/John Brian/Prof.	Geography
Birnie/Joan/Mrs.	Chemistry
Borris/Pierrette/Mrs.	Macdonald Campus
Bounous/Gustavo/Dr.	Nutrition & Food Science Centre
Bourret/Jean-Marc/Mr.	Macdonald Campus
Bracken McFarland/Harry/Prof.	Philosophy
Bradley/Cleveland W/Prof.	Electrical Engineering
Brown/Margaret S/Mrs.	Medicine
Choksi/Jal/Prof.	Mathematics & Statistics
Chu/Florence Fuyung/Mrs.	Education
Consiglio/Pasquale/Mr.	Facilities Management
Contogouris/A.P/Prof.	Physics
Critchley/James Rigby/Mr.	Development & Alumni Relations
De Aguiar/Serafim C/Mr.	Residences
Dematos/Hernani/Mr.	Pharmacology & Therapeutics
Di Marino/Domenico/Mr.	Facilities Management
Drury/Thelma C/Mrs.	Animal Science
Frith/May Beatrice/Prof.	Education in Second Languages
Gaggi/Giovanni/Mr.	Montreal Neurological Institute
Grant/William Frederick/Prof.	Macdonald Campus
Gumbs/Lorna/Mrs.	Information Systems Resources
Hedgcock/Frederick T/Prof.	Physics
Jessop/Mercedes P/Mrs.	Pharmacology & Therapeutics
Jones/Henri C/Prof.	French Language & Literature
Joron/Guy E/Dr.	Medicine

Appendix II – Deaths (continued)

Name	**Department or Faculty**
Katschuriak/Liselotte/Mrs.	Psychiatry
Kinch/Robert A. H/Dr.	Obstetrics & Gynecology
Knowles/Sandra/Ms.	Nursing
Kollar/Catherine/Miss	Libraries
Lampsa/Laila/Mrs.	Management
Ludke/Inge/Mrs.	Art History
Macklem/Peter T/Dr.	Medicine
Magee/Emily M/Mrs.	Natural Resource Sciences
McCallum/Norah/Mrs.	Libraries
Medley/Dorothy/Miss	Libraries
Millar/Shirley/Mrs.	Cancer Centre
Parasuco-Forturella/Antonino/Mr.	Facilities Management
Pollak/Catherine/Mrs.	Pathology
Reid/Everett C/Prof.	Urology - RVH
Richard Jodoin/Rose Marie/Dr.	Health Services
Robertson/Caroline E/Miss	Montreal Neurological Institute
Sala/Helen/Miss	Montreal Neurological Institute
Skinner/Verna K/Mrs.	Engineering
Smith/Kathryn/Miss	Nutrition & Food Science Centre
Stansbury/Edward J/Dr.	Office of the Vice-Principal
Steinberg/Charles/Dr.	Management
Tanner/Charles/Prof.	Medicine
Thomas/Egerton A/Mr.	Medicine
Tokar/Maria K/ Mrs.	Libraries
Turner/Margaret/Mrs.	Natural Resource Sciences
Vickery/Vernon R/Prof.	Natural Resource Sciences
Williams/William M/Prof.	Mining & Materials

Appendix III
UNIT VALUE HISTORY

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

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

Appendix III – Unit Value History (continued)

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

2010	Balanced	Equity	Fixed	SRI	MMF
Jan:	27.9925	35.1812	23.1049	9.4469	1.1919
Feb:	27.5468	33.9080	23.4454	9.1742	1.1918
Mar:	27.9945	34.8452	23.4323	9.3701	1.1918
Apr:	28.5410	35.9659	23.3807	9.5375	1.1918
May:	28.7819	36.4000	23.4525	9.5888	1.1917
Jun:	28.0353	34.7846	23.5627	9.3351	1.1917
Jul:	27.7862	34.0024	23.8925	9.2101	1.1919
Aug:	28.5234	35.3850	23.9792	9.4233	1.1921
Sep:	28.6518	35.2457	24.4096	9.4983	1.1925
Oct:	29.7124	37.2280	24.6385	9.8056	1.1931
Nov:	30.2207	38.2701	24.7590	10.0093	1.1936
Dec:	30.2819	38.5385	24.5906	10.0590	1.1943

2011	Balanced	Equity	Fixed	SRI	MMF
Jan:	31.1035	40.1866	24.5805	10.2667	1.1949
Feb:	31.3358	40.6712	24.4686	10.3562	1.1957
Mar:	31.8950	41.6112	24.6412	10.5420	1.1964
Apr:	32.0751	41.9069	24.7040	10.5398	1.1972
May:	32.3290	42.1546	25.0129	10.5606	1.1978
Jun:	32.3476	41.9536	25.3029	10.5437	1.1986
Jul:	31.9769	41.2628	25.2718	10.3627	1.1994
Aug:	31.7965	40.4194	25.7409	10.2033	1.1998
Sep:	31.2198	39.1932	25.7702	10.0512	1.2005
Oct:	30.4366	37.3901	25.9824	9.7724	1.2011
Nov:	31.4336	39.3131	26.1067	10.0260	1.2015
Dec:	31.3803	39.0696	26.2454	10.0794	1.2021

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
EXECUTIVE SUMMARY OF THE ACTUARIAL VALUATION

Highlights of the Actuarial Valuation as at December 31, 2009

At the request of the Pension Administration Committee, we have performed an actuarial valuation of the McGill University Pension Plan as at December 31, 2009. The results of such valuation were presented in a formal report dated October 7, 2010, which has been filed with the government authorities. This document summarizes the process and results of this actuarial valuation.

The main objectives of the actuarial valuation are to determine the funded position of the Plan as at the valuation date, under both the funding and solvency bases, and to establish the contributions that are required to be made by the University to comply with the applicable legislation for the three-year period following the valuation date.

Funding valuation – Process and Results

For the funding valuation, the Plan's actuarial liabilities are first compared with the market value of assets as at the valuation date. For the defined contribution provisions ("DC Segment"), actuarial liabilities correspond, by definition, to accumulated contributions and no funding surplus/deficiency can exist thereon. Conversely, for the defined benefit provisions, i.e. defined benefit minimum provision under Part A ("DB Minimum Segment") and pensions in course of payment ("Pensioner Segment"), funding surplus/deficiency may exist. If a funding deficiency is revealed, it must be funded over a maximum period of 15 years by the University. In addition, the University must make contributions on account of current service; these contributions include those required under the DC provisions of the Plan and also those required on account of the DB Minimum Segment.

For the DB segments, actuarial liabilities and current service cost are a function of actuarial assumptions underlying the valuation process. A comprehensive review of actuarial assumptions was made in preparation for this valuation. The main assumptions used are: (a) a rate of interest of 5¾% per annum ("p.a."), net of expenses, to value liabilities for pensioners; (b) a rate of interest of 6½% p.a., net of expenses, coupled with a wage inflation allowance of 3¼ % p.a., to value liabilities on account of the DB Minimum Segment; (c) the mortality table known as the "UP1994@2020"; and (d) tables of retirement rates based on the actual experience of the Plan in the period 2000-2009, separately for Academics and Non-Academics Members.

The main results of the funding valuation are as follows:

- The actuarial liabilities were $1,279,986,000 as at December 31, 2009 (i.e. $957,866,000 under the DC Segment, $298,807,000 under the Pensioner Segment and $23,313,000 under the DB Minimum Segment). The market value of the Pension Fund was $1,233,673,000 and there was therefore
  a funding deficiency of $46,313,000 as at the valuation date.
- As at the date of the preceding valuation (i.e. December 31, 2006), there was a funding surplus of $33,597,000; the main factors which contributed to the deterioration of the funded position since the preceding valuation are the investment return of the Fund which was below the actuarial assumptions (negative effects of $50.4M), the changes made to actuarial assumptions (increase in liabilities of $29.6M) and an increase of $7.6M in the liabilities on account of the DB Minimum Segment.

- The minimum past service payments to be made by the University to amortize the funding deficiency over 15 years are calculated at $4,684,800 per annum; however, given temporary funding relief measures introduced under the Quebec pension legislation, the payments to be made in 2010 and 2011 could be reduced to 20% of the above level, i.e. $937,000.
- With respect to current service, University contributions with respect to the DB Minimum Segment are calculated at $1,549,100 for 2010; these contributions are in addition to those required under the DC Segment, which are estimated at $26,220,000 for 2010.

Solvency valuation – Process and Results

The solvency valuation simulates what would have been the funded position of the Plan as at the valuation date had the Plan been terminated as at that date. The actuarial assumptions are largely dictated by legislation. As at December 31, 2009, solvency liabilities were calculated at $1,348,138,000 while assets were $1,233,297,000, for a solvency deficiency of $114,841,000 and a solvency ratio of 91.5%.

The results of the solvency valuation do not have any direct impact on the funding requirements under the Plan; however, additional University contributions may be required for external settlements to be made in totality, such additional contributions representing the unfunded portion of the settlements under the solvency basis.

Minimum University contributions for 2010-2012

In view of the results of the actuarial valuation as at December 31, 2009, the minimum contributions required to be made by the University until the next valuation are as follows:

With respect to the DC Segment:

- Determined in accordance with the provisions of the Plan; based on earnings as at the valuation date, University contributions to the DC Segment are estimated at $26,220,000 per annum for 2010

With respect to the DB Segments:

	Year 2010	Year 2011	Year 2012
• University current service contributions in respect of the DB Minimum Segment	$1,549,100	$1,599,400	$1,651,400
• Minimum University contributions to amortize the funding deficiency	$937,000	$937,000	$4,684,800
• Total – DB Segments	$2,486,100	$2,536,400	$6,336,200

The next valuation is due no later than December 31, 2012.

Respectfully submitted,

Gilles Bouchard, FSA, FCIA, CFA

Dany Desgagnés, FSA, FCIA

Appendix V
GLOSSARY

Absolute Return Strategies: An investment strategy that seeks to earn a positive return by using a variety of investment management techniques.

Active Management: A management style whereby a manager selects individual investments with the goal of earning a return higher than a 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 equal to 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, usually maturing in under a year but frequently in as little as a month.

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

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

Currency Forward Contracts: A contract that locks in the price at which an entity will buy or sell a specified amount of a foreign currency at a future date.

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.

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.

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

Appendix V – Glossary (continued)

ETFs (Exchange-Traded Funds): A security that tracks an index or a basket of assets, but trades like a stock on an exchange.

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.

Funding Surplus: Means the amount, if any, by which the sum of the assets exceed the actuarial liabilities, as determined on a funding valuation basis.

Funding Deficiency: Means the amount, if any, by which the sum of the actuarial liabilities, as determined on a funding valuation basis, exceed the assets.

Funding 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%.

LIBOR (London Interbank Offer Rate): An interest rate at which banks borrow funds from other banks on the London market. LIBOR is the most widely used benchmark for short term interest rates in the world.

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 capitalization index that is designed to measure the equity market performance of 22 developed markets, excluding the US & Canada.

MSCI EM: The Morgan Stanley Capital Inc. Emerging Market Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of 21 emerging markets.

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 or after January 1, 2000 on the "new" rate basis.

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 January 1, 2012 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.

REALpac/EIM/IPD Property Index: Measures the return perfor-mance of directly-held Canadian commercial real estate.

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: 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/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 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 actuarial liabilities, as determined on a solvency basis, exceeds the sum of the 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.

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.

Independent Auditor's REPORT

To the Pension Administration Committee of the McGill University Pension Plan

We have audited the accompanying Financial Report of the McGill University Pension Plan, which comprises the statements of net assets available for benefits as at December 31, 2011 and December 31, 2010, and the statements of changes in net assets available for benefits for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information. The Financial Report has been prepared by management in accordance with the accounting framework for the preparation of a financial report mentioned in the Guide: Annual Information Return 2011 published by the Régie des rentes du Québec.

Management's Responsibility for the Financial Report

Management is responsible for fair presentation of this Financial Report in accordance with the Guide: Annual Information Return 2011 published by the Régie des rentes du Québec; and for such internal control as management determines is necessary to enable the preparation of a Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this Financial Report based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Report.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Financial Report presents fairly, in all material respects, the net assets available for benefits of the McGill University Pension Plan as at December 31, 2011 and December 31, 2010, and the changes in net assets available for benefits for the years ended December 31, 2011 and December 31, 2010 in accordance with the Guide: Annual Information Return 2011 published by the Régie des rentes du Québec.

Basis of Accounting and Restrictions on Use

Without modifying our opinion, we draw attention to Note 2 to the Financial Report, which describes the basis of accounting. The Financial Report is prepared to assist the trustee of the McGill University Pension Plan to meet the requirements of the Régie des rentes du Québec. As a result, the Financial Report may not be suitable for another purpose. Our report is intended solely for the trustee of the McGill University Pension Plan and the Régie des rentes du Québec and should not be used by parties other than the trustee of the McGill University Pension Plan or the Régie des rentes du Québec.

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

Montreal, Quebec
March 14th, 2012

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[1]Chartered accountant auditor permit No. 22220

Statement of Net Assets
AVAILABLE FOR BENEFITS

As at December 31, 2011 and December 31, 2010

Accumulation Fund

ASSETS	2011	2010
Investments (Note 3)	$981,862,621	$1,119,180,550
Cash	5,376,212	5,284,498
Currency contracts (Note 6)	2,247,507	2,433,110
Accrued investment income	2,596,226	2,473,753
Accounts receivable	677,944	60,628
McGill University contributions receivable	698,865	-
Due from Pensioner Fund (Note 5)	106,864	-
	993,566,239	1,129,432,539

LIABILITIES		
Currency contracts (Note 6)	218,884	-
Owing to former members	6,557,731	8,619,532
Due to Pensioner Fund (Note 5)	-	108,037,842
McGill University over-contributions	-	19,679
Accounts payable and accruals	1,595,623	1,560,504
	8,372,238	118,237,557
Net assets available for benefits	985,194,001	1,011,194,982

Pensioner Fund

ASSETS		
Investments (Note 3)	238,229,365	251,513,506
Cash	1,894,827	722,732
Currency contracts (Note 6)	4,304	-
Accrued investment income	588,105	223,311
Accounts receivable	268	-
Due from Accumulation Fund (Note 5)	-	4,031,707
Due from McGill University	9,003	22,426
	240,725,872	256,513,682

LIABILITIES		
Accounts payable and accruals	72,130	43,361
Due to Accumulation Fund (Note 5)	106,864	-
	178,994	43,361
Net assets available for benefits	240,546,878	256,470,321
Total net assets available for benefits	$1,225,740,879	$1,267,665,303

Statement of Changes in Net Assets AVAILABLE FOR BENEFITS

Years ended December 31, 2011 and December 31, 2010

Accumulation Fund

	2011	2010
Net assets available for benefits, January 1	$1,011,194,982	$966,094,020
INCREASE		
Investment income		
Interest - Cash and cash equivalents	249,545	177,231
Interest - Fixed income	16,758,563	19,582,959
Interest - MAV II notes	145,700	59,037
Dividends - Common stocks	17,039,786	11,492,647
Real estate	1,152,929	782,735
Private equity	459,341	250,128
Resource properties	-	144,990
	35,805,864	32,489,727
Members' regular contributions	15,835,532	15,728,194
Members' voluntary contributions	576,269	458,098
McGill University regular contributions	28,086,301	28,207,483
McGill University special contributions	4,596,662	3,607,398
Transfers from other registered plans	1,024,625	412,605
	50,119,389	48,413,778
Total increase in assets	85,925,253	80,903,505
DECREASE		
Administration expenses	2,364,159	2,412,969
Investment management fees	1,809,740	1,892,854
Transaction costs	185,264	187,609
Amounts transferred to Pensioner Fund	738,580	14,017,242
Benefit payments	90,313,099	90,008,540
Total decrease in assets	95,410,842	108,519,214
Current year change in fair value of investments	(16,515,392)	72,716,671
Change in net assets available for benefits	(26,000,981)	45,100,962
Net assets available for benefits, December 31	$985,194,001	$1,011,194,982

Statement of Changes in Net Assets
AVAILABLE FOR BENEFITS

Years ended December 31, 2011 and December 31, 2010

Pensioner Fund

	2011	2010
Net assets available for benefits, January 1	$256,470,321	$260,479,438
INCREASE		
Investment income		
Interest - Cash and cash equivalents	173,893	59,050
Interest - Mortgage loans	1,500,626	2,852,814
Interest - Fixed income	1,870,180	-
Interest - MAV II notes	116,252	35,276
Dividends - Common stocks	1,321,150	1,477,995
Real estate	1,760,509	1,066,751
Resource properties	-	120,178
	6,742,610	5,612,064
Amounts transferred from Accumulation Fund	738,580	14,017,242
Total increase in assets	7,481,190	19,629,306
DECREASE		
Administration expenses	622,506	715,248
Investment management fees	196,848	73,082
Pension payments	33,452,650	33,705,665
Total decrease in assets	34,272,004	34,493,995
Current year change in fair value of investments	10,867,371	10,855,572
Change in net assets available for benefits	(15,923,443)	(4,009,117)
Net assets available for benefits, December 31	$240,546,878	$256,470,321

Notes to the FINANCIAL REPORT

Years ended December 31, 2011 and December 31, 2010

1. Summary Description of the Plan

(A) GENERAL

The McGill University Pension Plan ("Plan") is a retirement benefit arrangement for eligible employees ("Member") 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, supplemented, as applicable, by a Defined Benefit Minimum Provision.

(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 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:

	University Regular Contributions as a 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.

The University is required to make additional contributions as may be necessary to fund the cost of the Defined Benefit Minimum Provision, as well as other payments as required by law.

(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) 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 the Member's pension account including, if applicable, the Defined Benefit Minimum Provision.

(E) DEATH BENEFITS

In the event of death before retirement, a lump sum death benefit equal to the accumulated value of the Member's pension account, including, if applicable, the Defined Benefit Minimum Provision, is paid to the beneficiary or beneficiaries entitled thereto.

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

(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").

Notes to the Financial Report

Years ended December 31, 2011 and December 31, 2010

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 defined contribution 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 defined contribution surplus or deficit in the 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 needs.

Any actuarial overfunding 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 underfunding arising from the Defined Benefit Minimum Provision or from actuarial valuation needs 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 Master Asset Vehicle II ("MAV II") notes and are included in the Accumulation Fund.

(G) PENSIONER FUND

The Pensioner Fund holds the assets required to secure the obligation for retired staff who opted for an internal pension settlement prior to January 1, 2011. Commencing January 1, 2011, Members can no longer opt for an internal settlement.

2. Significant Accounting Policies

BASIS OF PRESENTATION AND CHANGE IN ACCOUNTING FRAMEWORK

The Financial Report has been prepared by management in accordance with the accounting framework for the preparation of a Financial Report mentioned in Guide: Annual Information Return 2011 published by the Régie des rentes du Québec ("Régie"). The basis of accounting used in this Financial Report materially differs from Accounting Standards for Pension Plans because it excludes the actuarial liabilities of the Plan and its related disclosures.

The Plan adopted Section 4600, Pension Plans, of Part IV of the Canadian Institute of Chartered Accountants ("CICA") Handbook, effective January 1, 2011. Section 4600 is the underlying accounting standard to the framework prescribed by the Régie. Accounting Standards for Private Enterprises in Part II of the CICA Handbook have been chosen for accounting policies that do not relate to the Plan's investment portfolio, to the extent that those standards do not conflict with the requirements of Section 4600. This change in accounting policy has been applied retrospectively to all periods presented as required by Section 4600. The only impact of adopting the new framework was to modify certain disclosures.

The Plan has also early adopted IFRS 13, Fair Value Measurement, effective January 1, 2011. IFRS 13 is applied prospectively as of the beginning of the annual period in which it is initially applied. Investments as at December 31, 2011 have been valued using the closing price, whereas previously they were valued using the closing bid prices.

The Financial Report is prepared on a going concern basis and presents the aggregate financial position of the Plan as a separate financial reporting entity independent of the University.

The Financial Report includes the accounts of Aylmer & Sherbrooke Investments Inc., a wholly-owned subsidiary, which 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 Financial Report includes the following significant accounting policies:

2. Significant Accounting Policies (continued)

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) Cash equivalents are valued using the amortized cost approach which accrues for interest income.

(b) Currency contracts are valued using year-end foreign exchange rates.

(c) MAV II notes are valued using private third-party market quotes.

(d) Bond investments are valued using price or yield equivalent quotations supplied by third-party vendors.

(e) Common stock investments are valued at quoted market prices.

(f) 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.

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

(h) 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.

(i) Absolute return strategies are valued by the investment managers' fund administrator.

INCOME RECOGNITION

Investment income is recorded using the accrual method. Dividends and fund distributions are recorded when declared.

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.

USE OF ESTIMATES

The preparation of the Financial Report requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Financial Report and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

3. Investments

(A) TERMS AND CONDITIONS

The terms and conditions of the investments are described as follows:

Cash and Cash Equivalents

Cash equivalent investments, primarily securities issued or guaranteed by Canadian governments, have an average term to maturity of 19 days in the Accumulation Fund (2010 - 26 days) and 27 days in the Pensioner Fund (2010 - 28 days).

Bonds

In the Accumulation Fund, bonds, 56% of which are guaranteed by the federal or provincial governments (2010 - 56%), have a weighted average yield to maturity of 2.93% (2010 - 3.30%) and an average duration of 6.7 years (2010 - 7.3 years). In the Pensioner Fund, bonds, 56% of which are guaranteed by the federal or provincial governments (2010 - 56%), have a weighted average yield to maturity of 2.82% (2010 - 3.30%) and an average duration of 6.8 years (2010 - 7.3 years).

Notes to the Financial Report

Years ended December 31, 2011 and December 31, 2010

3. Investments (continued)

(A) TERMS AND CONDITIONS (continued)

Mortgage Loans

In the Pensioner Fund, mortgage loans, none of which are insured under the *National Housing Act* (2010 - 28.9%), have a weighted average term of 0.2 years (2010 - 0.7 years) and an average coupon rate of 7.40% (2010 - 7.25%). The mortgage portfolio is invested in Canada.

MAV II Notes

MAV II notes consist of holdings of long-term floating rate notes. Annual interest rates are based on the Bankers' Acceptance ("BA") rate less 50 basis points for the higher quality notes and BA rate plus 20% for the lower quality notes. In addition, there are "tracking notes" that pay interest based on the net rate of return generated by the underlying assets.

Common Stock

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

Real Estate

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

Private Equity

In the Accumulation Fund, private equity investments consist primarily of investments in non-Canadian private equity funds of funds.

Absolute Return Strategies

In the Accumulation Fund, absolute return strategies consist of non-Canadian managers employing a variety of different direct investment strategies.

(B) COMMITMENTS

There are commitments in the amount of $22.8 million (2010 - $34.4 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	2011	2010
Cash equivalents	$25,673,460	$22,856,279
Fixed income investments - Canadian		
Federal bonds	166,084,440	206,918,799
Provincial bonds	35,940,699	49,386,544
Municipal bonds	2,746,622	2,909,387
Corporate bonds	154,519,966	188,167,633
MAV II Notes	11,411,893	13,466,712
Fixed income investments - foreign		
Corporate bonds	1,018,250	-
	371,721,870	460,849,075
Equity investments		
Common stocks, Canadian	233,613,810	314,929,672
Common stocks, Foreign	237,840,949	247,041,431
Real estate	39,923,620	31,264,636
Private equity	43,911,611	42,239,457
Absolute return strategies	29,177,301	-
	584,467,291	635,475,196
	$981,862,621	**$1,119,180,550**

3. Investments (continued)

(C) FAIR VALUE (continued)

Pensioner Fund	**2011**	**2010**
Cash equivalents	$24,375,332	$9,621,363
Mortgage loans		
National Housing Act insured mortgages	-	10,646,809
Conventional mortgage loans	4,541,562	26,129,909
	4,541,562	36,776,718
Fixed income investments - Canadian		
Federal bonds	47,130,104	-
Provincial bonds	10,384,624	-
Municipal bonds	779,811	-
Corporate bonds	44,581,502	-
Accumulation Fund - Fixed Income Pool (Note 5)	-	104,006,135
MAV II notes	11,326,893	9,113,373
Fixed income investments - foreign		
Corporate bonds	432,760	-
	114,635,694	113,119,508
Equity investments		
Common stocks, Canadian	52,553,693	55,740,921
Real estate	42,123,084	36,254,996
	94,676,777	91,995,917
	$238,229,365	**$251,513,506**

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, 2011, $2.2 million of mortgage loans were past due. Management believes that the amounts are fully collectable.

(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 $24.1 million in the Accumulation Fund and by $7.0 million in the Pensioner Fund as at December 31, 2011 ($32.7 million and $7.6 million respectively as at December 31, 2010). To manage this risk, the duration of the Plan's fixed income securities are monitored and adjusted, as appropriate.

(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 2011 and 2010, currency forward contracts were used in order to hedge the effect of changes in the value of foreign currencies on foreign investments. Note 6 quantifies the currency forward contracts outstanding at December 31, 2011 and 2010.

4. Financial Instruments (continued)

(C) FOREIGN CURRENCY RISK (continued)

Diversification of assets is also used to manage foreign currency risk.

(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, 2011, a 10% change in equity prices would result in a $58.4 million change in the value of the equity investments in the Accumulation Fund and a $9.3 million change in the value of the equity investments in the Pensioner Fund ($63.5 million and $9.2 million respectively as at December 31, 2010). Investment diversification is used 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, classified according to the fair value hierarchy described above:

	Fair Value at December 31, 2011 according to the following levels			Total assets at fair value
Accumulation Fund	**Level 1**	**Level 2**	**Level 3**	
	$	**$**	**$**	**$**
Financial assets				
Cash	5,376,212	-	-	5,376,212
Cash equivalents	-	25,673,460	-	25,673,460
Currency contracts	-	2,247,507	-	2,247,507
Fixed income investments	-	360,309,977	-	360,309,977
MAV II notes	-	-	11,411,893	11,411,893
Common stocks	295,699,915	175,754,844[1]	-	471,454,759
Real estate	-	-	39,923,620	39,923,620
Private equity	-	-	43,911,611	43,911,611
Absolute return strategies	-	-	29,177,301	29,177,301
Total financial assets evaluated at fair value	**301,076,127**	**563,985,788**	**124,424,425**	**989,486,340**

[1] Trust units

4. Financial Instruments (continued)

(E) FAIR VALUE HIERARCHY (continued)

Accumulation Fund	**Fair Value at December 31, 2011 according to the following levels** Level 1	Level 2	Level 3	**Total liabilities at fair value**
	$	**$**	**$**	**$**
Financial liabilities				
Currency contracts	-	218,884	-	218,884
Total financial liabilities evaluated at fair value	**-**	**218,884**	**-**	**218,884**

Accumulation Fund	Fair Value at December 31, 2010 according to the following levels Level 1	Level 2	Level 3	Total assets at fair value
	$	$	$	$
Financial assets				
Cash	5,284,498	-	-	5,284,498
Cash equivalents	-	22,856,279	-	22,856,279
Currency contracts	-	2,433,110	-	2,433,110
Fixed income investments	-	447,382,363	-	447,382,363
MAV II notes	-	-	13,466,712	13,466,712
Common stocks	358,088,865	203,882,238[1]	-	561,971,103
Real estate	-	-	31,264,636	31,264,636
Private equity	-	-	42,239,457	42,239,457
Total financial assets evaluated at fair value	363,373,363	676,553,990	86,970,805	1,126,898,158

[1] Trust units

During 2011 and 2010, there has been no transfer of amounts between Level 1 and Level 2 or to or from Level 3.

Pensioner Fund	**Fair Value at December 31, 2011 according to the following levels** Level 1	Level 2	Level 3	**Total assets at fair value**
	$	**$**	**$**	**$**
Financial assets				
Cash	1,894,827	-	-	1,894,827
Cash equivalents	-	24,375,332	-	24,375,332
Currency contracts	-	4,304	-	4,304
Mortgage loans	-	4,541,562	-	4,541,562
Fixed income investments	-	103,308,801	-	103,308,801
MAV II notes	-	-	11,326,893	11,326,893
Common stocks	-	52,553,693[1]	-	52,553,693
Real estate	-	-	42,123,084	42,123,084
Total financial assets evaluated at fair value	**1,894,827**	**184,783,692**	**53,449,977**	**240,128,496**

[1]Trust units

Notes to the Financial Report

Years ended December 31, 2011 and December 31, 2010

4. Financial Instruments (continued)

(E) FAIR VALUE HIERARCHY (continued)

Pensioner Fund	Fair Value at December 31, 2010 according to the following levels Level 1	Level 2	Level 3	Total assets at fair value
	$	$	$	$
Financial assets				
Cash	722,732	-	-	722,732
Cash equivalents	-	9,621,363	-	9,621,363
Mortgage loans	-	36,776,718	-	36,776,718
Fixed income investments	-	104,006,135	-	104,006,135
MAV II notes	-	-	9,113,373	9,113,373
Common stocks	-	55,740,921[1]	-	55,740,921
Real estate	-	-	36,254,996	36,254,996
Total financial assets evaluated at fair value	722,732	206,145,137	45,368,369	252,236,238

[1] Trust units

During 2011 and 2010, there has been no transfer of amounts between Level 1 and Level 2 or to or from Level 3.

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

	Accumulation Fund	Pensioner Fund
Fair value, January 1, 2010	$77,753,740	$44,013,623
Purchases	11,269,006	1,781,635
Sales	(7,275,725)	(2,568,327)
Change in fair value	5,223,784	2,141,438
Fair value, December 31, 2010	$86,970,805	$45,368,369
Purchases	37,550,695	4,721,933
Sales	(13,372,302)	(2,619,338)
Change in fair value	13,275,227	5,979,013
Fair value, December 31, 2011	**$124,424,425**	**$53,449,977**

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

At December 31, 2011, $106,864 was the amount of the interfund account between the Accumulation Fund and the Pensioner Fund. The amount relates to an accrual for administrative expenses. At December 31, 2010, the Accumulation Fund had a liability of $108,037,842 to the Pensioner Fund.

An amount of $104,006,135 related to an investment made by the Pensioner Fund in units of the Accumulation Fund's Fixed Income Pool and an amount of $4,031,707 related to transfers into the Pensioner Fund were accrued at year-end. The investment was redeemed in 2011 and there were no such transfers to accrue at December 31, 2011.

Notes to the Financial Report

Years ended December 31, 2011 and December 31 ,2010

6. Currency Contracts

	Currency Contracts at December 31, 2011			
Accumulation Fund	**Average Exchange Rate**	**Nominal CDN$ Equivalent**	**Assets CDN$**	**Liabilities CDN$**
Currency Forwards:				
United States Dollar (short)	1.0437	$94,864,480	$2,148,613	
United States Dollar (long)	1.0438	6,192,642		($140,501)
Australian Dollar (long)	1.0237	1,748,449		(21,667)
Euro (short)	1.3569	3,734,405	87,067	
Hong Kong Dollar (long)	0.1342	2,157,721		(45,333)
Japanese Yen (short)	0.0134	480,116	4,652	
Japanese Yen (long)	0.0134	263,817		(1,440)
Norwegian Kroner (short)	0.1740	97,971	2,010	
Pound Sterling (short)	1.6105	263,817	4,327	
Pound Sterling (long)	1.6076	596,268		(8,703)
Singapore Dollar (long)	0.7970	96,100		(1,240)
Swedish Krona (short)	0.1482	116,262	57	
Swiss Franc (short)	1.0993	131,702	781	
Total		**$110,743,750**	**$2,247,507**	**($218,884)**

	Currency Contracts at December 31, 2010			
Accumulation Fund	**Average Exchange Rate**	**Nominal CDN$ Equivalent**	**Assets CDN$**	**Liabilities CDN$**
Currency Forwards:				
United States Dollar (short)	1.0437	$94,864,480	$2,433,110	-
Total		$94,864,480	$2,433,110	-

	Currency Contracts at December 31, 2011			
Pensioner Fund	**Average Exchange Rate**	**Nominal CDN$ Equivalent**	**Assets CDN$**	**Liabilities CDN$**
Currency Forwards:				
United States Dollar (short)	1.03026	$436,830	$4,304	-
Total		**$436,830**	**$4,304**	-

As described in Note 4 (c), the Plan hedges foreign currency risk by entering into currency forward contracts. At December 31, 2011, the Accumulation Fund had $110,743,750 (2010 - $94,864,480) of notional value outstanding, while the Pensioner Fund had $436,830 (2010 - nil) of notional value. The largest exposure is to the United States dollar. At December 31, 2011, a $0.01 appreciation (depreciation) of the Canadian dollar versus the US dollar would have resulted in an increase (decrease) in the fair value of these contracts of approximately $890,000 in the Accumulation Fund and approximately $4,000 in the Pensioner Fund.

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Pension Management, McGill University
688 Sherbrooke Street West, Suite 1420
Montreal, Quebec H3A 3R1

Tel: (514) 398-6250 Fax: (514) 398-6889
www.mcgill.ca/pensions