McGill

McGILL UNIVERSITY

PENSION PLAN

ANNUAL REPORT

DECEMBER 31, 2017

TABLE OF CONTENTS

2017 HIGHLIGHTS

6 INVESTMENT OPTIONS

$1.2B
OF ASSETS
9.4% RETURN IN 2017
5-YEAR ANNUALIZED RETURN: 9.8%
BALANCED ACCOUNT

$649.4M
OF ASSETS
13.8% RETURN IN 2017
5-YEAR ANNUALIZED RETURN: 13.0%
EQUITY POOL

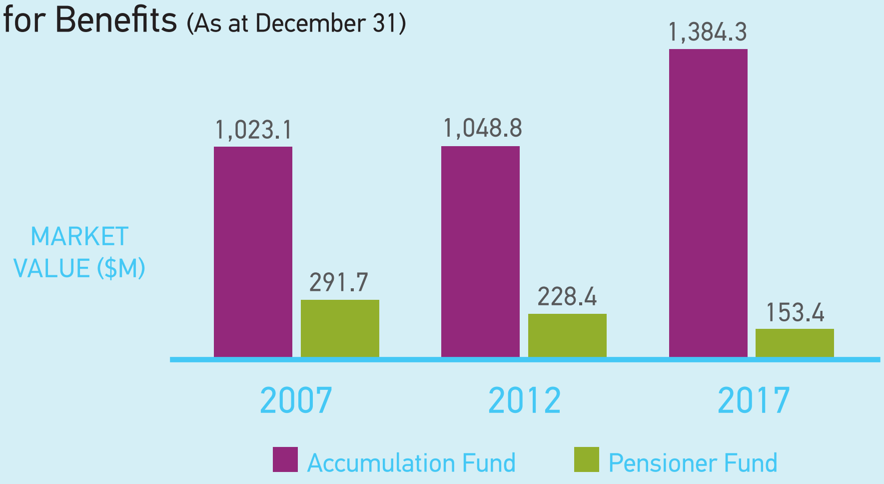
$32.7M
OF ASSETS
10.8% RETURN IN 2017
5-YEAR ANNUALIZED RETURN: 10.1%
SOCIALLY RESPONSIBLE INVESTMENT POOL

$393.2M
OF ASSETS
3.4% RETURN IN 2017
5-YEAR ANNUALIZED RETURN: 3.9%
FIXED INCOME POOL

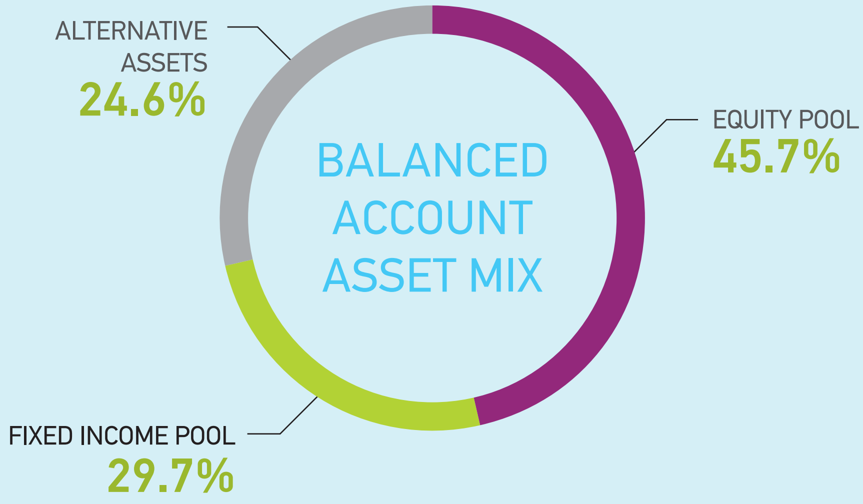
$19.6M
OF ASSETS
1.0% RETURN IN 2017
5-YEAR ANNUALIZED RETURN: 0.9%
MONEY MARKET POOL

$10.6M
OF ASSETS
6.4% - 11.8% RETURN IN 2017
4-YEAR ANNUALIZED RETURN: 6.6% - 9.5%
GLIDE PATH OPTIONS

McGill University Pension Plan Net Assets Available for Benefits (As at December 31)



84.1% OF ASSETS ARE INVESTED IN THE BALANCED ACCOUNT OPTION



Well-Diversified $1.2 Billion in Investments

2017 HIGHLIGHTS

MEMBERSHIP
AS AT DECEMBER 31, 2017

GROWTH IN PLAN MEMBERSHIP
Total membership includes Active members, Deferred members and Pensioner members.

Membership Statistics as of December 31

	2007	2012	2017
Active	5,387	5,877	6,579
Deferred	3,778	3,111	2,462
Pensioners	1,397	1,297	1,049
Total	10,562	10,285	10,090

Over the last 5 years, active membership has grown by 12%

6,579
ACTIVE MEMBERS
AS AT DECEMBER 31, 2017

46 member's average age
57% women
43% men

75
MEMBERS RETIRED
IN 2017

64 average age of new retirees
25 average years of service

$12,913,041 Solvency Top-Up Contributions

633 settlements in 2017 totalling $123,906,732

1,049
MEMBERS IN
PENSIONER FUND IN 2017

614 in Old Pool with an average age of 87 years
435 in New Pool with an average age of 76 years
Closed fund since January 1, 2011

MESSAGE FROM THE PENSION ADMINISTRATION COMMITTEE

The McGill University Pension Plan ("the Plan") is an important part of the University's total compensation package. As the Plan's sponsor, the University believes that maintaining a well-managed and sustainable pension plan is conducive to attracting and retaining talent.

The pension industry has faced a number of challenges in recent years. These include historically low interest rates and the increased life expectancy of members, both of which have resulted in larger pension deficits. Through these challenges, the University remains committed to helping our members succeed in reaching their financial goals. The University achieves this through the efficient administration of the Plan, significant employer contributions in order to deliver the pension promises, and the prudent investment of the Plan's assets in order to realize investment goals.

With the goal of providing best governance practices, oversight for the Plan is vested in the Pension Administration Committee ("PAC"). Certain responsibilities have been delegated by PAC to the Pension Investment Committee ("PIC"). The two committees work together, drawing on the skills and knowledge of their respective members, to manage the Plan with a focus on financial stability, competitive returns and appropriate contributions. The members are provided a number of investment options, which allow for choice in the construction of well-diversified portfolios. Options for members who prefer a more "hands-off" investment solution are also offered.

2017 was a year of change for our Committee. The PAC saw a long-serving member, Ms. Lynne B. Gervais, Associate Vice-Principal, Human Resources, retire from the University. As the Chair of the PAC from 2009 – 2017, Ms. Gervais was a dedicated and unwavering leader who made significant contributions to the Plan's sustainability during her tenure. It is with sincere gratitude that the PAC thanks Ms. Gervais for her wise counsel and her commitment to the best interests of the Plan and its members.

2017 also marked a year of excellent achievement in terms of investment returns; the Balanced Account earned an annual return of 9.4%. The PIC, led by Mr. Michael Boychuk, and comprised of other experienced, external professional members, remains committed to developing and maintaining appropriate investment strategies and diversification in order to achieve balanced, competitive investment returns.

The PAC wishes to thank the staff in the Pension Administration Office and the Office of Investments for their expertise, diligence, and consideration in delivering the kind of excellent service and performance pension members expect and deserve.

We hope to see you at the Annual General Meeting of members of the McGill University Pension Plan to be held in room 232 of the Stephen Leacock Building, 855 Sherbrooke Street West on Wednesday, May 2, 2018 at noon.

As always, the PAC remains committed to providing Plan members with a competitive and sustainable pension plan.

KIM HOLDEN, Interim Chair
On behalf of the Pension Administration Committee

PLAN GOVERNANCE

Pension plan governance refers to the roles and responsibilities of the parties involved in the administration and the investment of the assets of a pension plan to fulfil their fiduciary obligations. Good governance involves putting in place a structure to administer the pension plan in the best interests of the plan members and beneficiaries and involves providing appropriate tools to encourage good decision making as well as procedures to ensure proper and timely execution and regular review and assessment.

The Plan was established in 1972 and is registered under the *Quebec Supplemental Pension Plans Act* (the "Act") under Registration No. 22266 and with the Canada Revenue Agency under Registration No. 299586.

The text of the current Plan Document and all formal amendments may be examined during normal business hours at the offices of the Pension Administration Committee located at 688 Sherbrooke Street West, Suite 1420, Montreal, Quebec, H3A 3R1. It can also be viewed online at: http://www.mcgill.ca/hr/pensions/mupp/committee.

MCGILL UNIVERSITY

McGill University (the "University") is the sponsor of the Plan. The University approves the Plan text and formal amendments and remits required contributions to the Plan. The University may supplement, modify, amend or terminate the Plan under certain conditions as set forth in the Plan Document or in any respect which may be required in order to maintain the Plan as a registered pension plan.

PENSION ADMINISTRATION COMMITTEE ("PAC")

The PAC is responsible for the administration of the Plan and the investment of its assets. The PAC has designed and implemented a governance structure in order to appropriately meet its responsibilities.

The PAC has fiduciary responsibility for ensuring that investments are made in a prudent manner and in accordance with the demographic profile and financial needs of its members. As such, it has delegated some of its responsibilities with respect to the investment of the assets to the Pension Investment Committee ("PIC"). The PAC appoints members to the PIC, ensures that such delegates have the proper knowledge and skills to fulfill their mandate, and monitors their activities.

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 Act 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 the Pension Administration Office and the Office of Investments.

During 2017, there were seven PAC meetings and a number of informal working group meetings

The PAC is composed of nine members

Four members are elected by the members of the Plan (two by the Administration & Support Staff and two by the Academic Staff). Two are designated by the Board of Governors (the "Board") and two are designated by the Principal and the Chair of the Board. One independent member is appointed by the Board acting upon the recommendation of the PAC. Members are elected for a renewable three year-term.

At the annual meeting held on May 3, 2017, Mr. Simon Fulleringer was elected to a new three-year term in one of the Administrative & Support Staff positions. Following the retirement of Ms. Lynne B. Gervais, the position she held as one of the two members designated by the Principal and the Chair of the Board remains vacant at year-end. Ms. Kim Holden, graciously assumed the role of Interim Chair of the PAC.

AUDIT COMMITTEE

The Audit Committee ensures the reliability of financial reporting, receives and reviews the draft audited financial statements of the Plan, reports their findings back to the PAC, makes recommendations to the PAC as to the approval of the financial statements and conducts such other business as may be required. It also recommends the appointment of the external auditor and receives the auditor's report.

During 2017, there were three regular meetings of the Audit Committee

The Audit Committee is composed of three PAC members

Audit Committee members are appointed by the PAC. In 2017, no changes occurred in the membership of the Audit Committee.

Ms. Cristiane Tinmouth, CPA, CA (Chair of Audit Committee) Associate Vice-Principal, Financial Services Office of the Vice-Principal, Administration and Finance
Professor Julia Scott, MBA, CPA, CA, CFA Senior Faculty Lecturer Desautels Faculty of Management
Mr. Pierre Lavigne, FSA, FCIA, CFA Independent Member

PENSION ADMINISTRATION COMMITTEE *(from left to right)*

PHOTO: OWEN EGAN

Mr. Pierre Lavigne, FSA, FCIA, CFA Independent Member	Appointed by the Principal & the Chair of the Board Term ending December 2018
Professor Christopher Ragan, PhD Director, Max Bell School of Public Policy Associate Professor of Economics	Elected by the Academic Staff Term ending May 2019
Ms. Rosemary Cooke, BCom Manager, Administration & Finance Faculty of Dentistry	Elected by the Administrative & Support Staff Term ending May 2019
Ms. Cristiane Tinmouth, CPA, CA (Chair of Audit Committee) Associate Vice-Principal, Financial Services Office of the Vice-Principal, Administration and Finance	Appointed by the Principal & the Chair of the Board Term ending May 2020
Mr. Simon Fulleringer, B.Sc IT Services Process Manager IT Architecture and Strategy	Elected by the Administrative & Support Staff Term ending May 2020
Professor Julia Scott, MBA, CPA, CA, CFA Senior Faculty Lecturer, Director GCPA Program Desautels Faculty of Management	Elected by the Academic Staff Term ending May 2018
Mr. Michael Keenan Chief Investment Officer Bimcor Inc.	Appointed by the Board of Governors Term ending March 2018
Ms. Kim Holden, CFA (Interim Chair of the PAC) Portfolio Manager (retired)	Appointed by the Board of Governors Term ending December 2018
Vacant	Appointed by the Principal & the Chair of the Board

PENSION INVESTMENT COMMITTEE ("PIC")

The PIC is responsible for the investment of the Plan's assets and for monitoring investment activities in accordance with the Statement of Investment Policy ("SIP") approved by the PAC and applicable legislation. The PIC is also responsible for recommending changes to the SIP, for approving manager structure and for overseeing the day-to-day management of the assets. From time to time, the PIC will be involved in the selection, termination and monitoring of investment managers, custodian and investment advisors. Monitoring of investment returns and compliance of managers is also a function of PIC members.

During 2017, there were four regular meetings of the PIC and one conference call

The PIC is composed of eight members

Three PAC members, which include 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 Plan governance structure. All PIC members are appointed by the PAC.

PIC independent external members 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.

Mr. Michael Boychuk, FCPA, FCA (Chair of the PIC) Corporate Director	Independent external member First term ending June 2018
Ms. Kim Holden, CFA (Interim Chair of the PAC) Portfolio Manager (retired)	Chair of the PAC as ex-officio Term ending December 2018
Mr. Gilles Horrobin Chief Investment Officer Société de Transport de Montréal Pension Funds	Independent external member Second term ending January 2020
Mr. Clifton Isings Vice President-Investments CN Investment Division	Independent external member First term ending November 2019
Mr. Pierre Lavigne, FSA, FCIA, CFA Independent Member	PAC member Term ending December 2018
Mr. François Lemarchand, M.Sc, C.Dir Corporate Director	Independent external member Second term ending March 2018
Ms. Caroline Miller, MBA, CFA Senior Vice President, Global Strategist BCA Research Inc.	Independent external member First term ending September 2019
Vacant	PAC member

PENSION ADMINISTRATION OFFICE AND OFFICE OF INVESTMENTS

The day-to-day management of the Plan is performed by the Plan's record keeper, Morneau Shepell, and by the staff of the Pension Administration Office and the Office of Investments on the basis of policies and procedures established and monitored by the PAC.

CIBC MELLON GLOBAL SECURITIES SERVICE

CIBC Mellon services include custody, recordkeeping, securities lending services, foreign exchange processing and settlement, asset valuation, performance measurement and compliance monitoring. CIBC Mellon is also responsible for issuing payments to members.

MORNEAU SHEPELL

Morneau Shepell, the host of the Plan website, is also the Plan's record keeper and is responsible for processing all member transactions as well as the transfers and cash flow allocations among available investment options. Morneau Shepell also performs all calculations, and prepares settlement packages related to termination, retirement and death. They are also responsible for producing members' annual statements in accordance with legislative requirements.

BENEFITS AND ADMINISTRATION

PLAN OVERVIEW

The Plan consists of two parts (Part A and Part B) distinguished by the date of eligibility of joining the Plan. For members who joined or were eligible to join the Plan on December 31, 2008, the Plan is a hybrid plan (Part A). Part A includes a defined contribution ("DC") plan whereby members and the University contribute a certain amount per pay. Members choose how to invest their contributions from a range of investment options. To protect against the investment risks inherent in a DC plan, a defined benefit ("DB") minimum component also exists which provides a guarantee that the pension payable will at least be equal to the amount calculated under the DB formula. The DB formula takes into account the member's credited service and highest average earnings.

For members who joined on or after January 1, 2009, the Plan is a DC plan and referred to as Part B. Members and the University each contribute a certain amount per pay. Members choose how to invest their contributions from a range of investment options.

When the time comes to settle, members can transfer and convert their pension account balances into a retirement income with a financial institution or make use of the settlement options offered by the University which include the McGill Group Life Income Fund and McGill Group Locked In Retirement Account.

To learn more about the applicable provisions, refer to the brochures available online at: http://www.mcgill.ca/hr/pensions/mupp

CONTRIBUTIONS TO THE PLAN

The active members' and the University's regular contributions to Parts A and B of the Plan are invested prior to retirement in the Accumulation Fund in one or several investment options available under the Plan at the discretion of each individual member.

University Special Contributions

In addition to regular contributions, the University is required to make additional contributions. These are determined by the funded status of the Plan in order to fund the DB minimum component for Part A members and pension payments under the Pensioner Fund, as required by applicable legislation. These additional contributions are invested in the Balanced Account investment option and are accumulated in the Supplemental Fund.

In order to determine the University's special contributions, actuarial valuations are performed. The actuarial valuation focuses on two fundamental aspects of the funded status of the Plan: going concern and solvency. These measure the sufficiency of the Plan's assets to meet the Plan's liabilities from two different perspectives.

1. Going-Concern Valuation

The going-concern valuation assumes the Plan will continue indefinitely. The calculation determines the amount that the University is required to contribute for Part A members to accrue for a year of service and to amortize the Plan deficit, if any.

The December 31, 2015 valuation reported that the Plan has an unfunded liabilities on a going concern basis of $78 million and a going concern funded ratio of 94.9%.

The University was required to make special contributions of $12,426,096 in 2017 to fund DB liabilities

The table below shows the change in the Plan's going concern funded ratio from 2012 to 2015:

GOING-CONCERN FUNDING POSITION	DECEMBER 31, 2015 $	DECEMBER 31, 2012 $
MARKET VALUE OF ASSETS	1,447,567,000	1,281,942,000
ACTUARIAL LIABILITIES	1,525,574,000	1,379,148,000
UNFUNDED LIABILITY	(78,007,000)	(97,206,000)
FUNDED RATIO	94.9%	93.0%

The improvement of the funded position is mainly due to investment returns being higher than expected since 2012 and significant contributions made by the University in regard to Solvency Top-Up Contributions.

2. Solvency Valuation

The solvency valuation determines the financial position of the Plan at the valuation date, had the Plan been terminated on that date. This calculation is performed because the University settles DB benefits at a level of 100% when Part A members terminate employment, retire or reach age 65. The results of the solvency valuation are then used to determine any additional University contributions, so called Solvency Top-Up Contributions.

The calculation of the degree of solvency under the Plan excludes Part B members' defined contribution balances and Part A members who are not entitled to any benefit under the DB minimum provision of the Plan.

Based on the interim solvency valuation as at December 31, 2016, the degree of solvency of the Plan was 81.0%.

The University's special contributions related to the Solvency Top-Up Contributions were $12,913,041 in 2017

The table below shows the change in the degree of solvency from 2015 to 2016:

SOLVENCY POSITION	DECEMBER 31, 2016[1] $	DECEMBER 31, 2015 $
MARKET VALUE OF ASSETS	982,713,000	954,334,300
SOLVENCY LIABILITIES	1,213,653,000	1,180,728,300
SOLVENCY DEFICIENCY	(230,940,000)	(226,394,000)
DEGREE OF SOLVENCY	81.0%	80.8%

Note 1: As per Bill 29, an annual notice on the financial position of the Plan on a solvency basis must be prepared annually between required triennial valuation dates.

The degree of solvency remained stable from 2015 to 2016 as a result of the net impact of higher than expected investment returns combined with a decrease in interest rates during the year.

Part A members - Special Contributions
Effective January 1, 2014, the Plan was amended to introduce cost sharing of deficits with Part A members. The Part A active members have seen their regular contributions increase by 2.2% and the University's regular contributions reduced by the same amount. The Part A members' special contributions are invested in their individual account.

The contributions made by the members and the University during the year are detailed below.

Contributions in 2017

ACCUMULATION FUND	FROM MEMBERS $	FROM UNIVERSITY $
REGULAR CONTRIBUTIONS	26,334,604	26,368,152
SPECIAL CONTRIBUTIONS – DB COMPONENTS[1]		12,426,096
SOLVENCY TOP-UP CONTRIBUTIONS		12,913,041
PART A MEMBER-SPECIAL CONTRIBUTIONS	5,728,087	
VOLUNTARY CONTRIBUTIONS	1,219,478	
TOTAL	33,282,169	51,707,289

Note 1: Composed of $4,725,700 for current service cost and $7,700,396 for deficit amortization payments

BENEFITS AND PENSION PAYMENTS

Accumulation Fund

During 2017, 633 settlements were transacted totalling $123,906,732. The type of settlement transactions processed and the benefits paid out during the year are detailed below.

Settlements in 2017

ACCUMULATION FUND	NUMBER OF SETTLEMENTS	TOTAL AMOUNT $
RETIREMENT BENEFITS – EXTERNAL TRANSFER	195	46,017,479
RETIREMENT BENEFITS – TRANSFER TO MCGILL UNIVERSITY LIF/LIRA	57	26,511,250
TERMINATION BENEFITS	367	49,929,655
DEATH BENEFITS	14	1,448,348
TOTAL	633	123,906,732

Pensioner Fund

As at December 31, 2017 there were 1,049 pensioners and beneficiaries receiving pensions from the Pensioner Fund. The total of such pension payments amounted to $26,752,384 in 2017.

Annuity Dividends
When Funding Surplus emerge in the Pensioner Fund, this amount can be set aside to provide increases in the form of Annuity Dividends to pensions currently in payment. Subsequent to changes in the Act, pension plans must establish a reserve when the plan is in a surplus position. As a result, the Plan must be 100% solvent and must have funded the reserve prior to using any surplus to fund an annuity dividend. Since the latest actuarial valuation confirmed a solvency deficiency, no annuity dividends could be declared.

PLAN AMENDMENTS

There were no amendments made to the Plan in 2017.

SERVING MEMBERS

Various services are provided to members to assist them in reaching their financial goals. Different tools are available through the Plan website and information can be obtained by calling the McGill University Savings Programs Call Centre.

All general enquiries concerning the Plan should be referred to McGill University Savings Programs Call Centre 1-855-687-2111 (Canada and US) or 1-416-390-2613 (Overseas).

PLAN WEBSITE

Use of the McGill University Savings Programs website is increasing each year. In 2017, the number of web logins grew to 47,086, which represents 21% increase over the prior year, while the number of web page views rose by 27% to 168,611 over the same period.

	2017	2016	COMPARED TO 2016
WEB SESSIONS (LOGINS)	47,086	38,900	+ 21%
WEB PAGE VIEWS	168,611	132,340	+ 27%

Account balances are updated on a daily basis, personal rates of return are updated monthly and fund performance tables are updated quarterly. Contributions, withdrawals and investment allocation changes are processed twice a month, on the 15th of the month (or preceding business day) and the last business day of the month. Account values are updated within 5 business days following the processing dates noted above.

Using existing McGill username and password, members can access their account and view their current balances and asset mix decisions.
http://www.mcgill.ca/hr/pensions/mupp/mupp-login

Members are encouraged to revisit the Retirement Income Calculator tool and complete the Investor Profile Questionnaire, at least once each year or following a life event, in order to determine whether or not their asset mix matches their investor profile. These tools are made available to members to assist them in achieving their retirement goals and objectives.

These online tools are becoming more and more popular and 2017 saw a significant increase in their usage.

	2017	2016	COMPARED TO 2016
INVESTOR PROFILE QUESTIONNAIRE	5,496	2,604	+ 111%
RETIREMENT INCOME CALCULATOR	3,259	2,747	+ 19%

Several different investment options are designed to help members construct and maintain a well-diversified investment portfolio. Members may change their asset allocation for their current balances and/or future investment.

The number of asset allocation changes rose by 143% to nearly 4,000 during the year compared to 2016.

	2017	2016	COMPARED TO 2016
CHANGE ASSET ALLOCATION	3,998	1,644	+ 143%

INFORMATION SESSIONS

The Pension Administration Office offers information sessions to employees and members of the Plan. In 2017, 38 sessions were presented to 568 members. Different information sessions are available which address members' needs in regards to their pension plan. Available sessions include the General Information Session, Retirement Information Session, Settlement Option Information Session, Decumulation Information Session, Group Life Income Fund Session and the Group Retirement Savings Plan Session.

Members can register to attend an information session through the McGill University - Human Resources website at : http://www.mcgill.ca/hr/pensions/mupp/sessions or by leaving a message at (514) 398-8484 (voicemail only).

INVESTMENT REPORTS

On a quarterly basis, the Office of Investments prepares Profile Sheets summarizing investment option performance and asset allocation by investment options. Members can access Quarterly Profile Sheets through our website at; http://www.mcgill.ca/hr/pensions/mupp/invest/quarterly-profile-sheets.

RETIREMENTS AND DEATHS IN 2017

Member retirements and deaths which occurred in 2017 can be found on the Plan's website at: http://www.mcgill.ca/hr/pensions/mupp/invest/reports.

INVESTMENT MANAGEMENT

The assets of the Plan are invested in two separate funds, the Accumulation Fund and the Pensioner Fund, in accordance with the liability segments of the Plan and in accordance with the SIP.

Accumulation Fund – Assets of Part A and Part B members and assets of the Supplemental Fund are invested in the Accumulation Fund.

The Supplemental Fund represents the sum of all special contributions from the University into the Plan: the Solvency Top-Up Contributions as well as the funding related to actuarial valuation requirements less contributions paid out related to the defined benefit minimum component.

Pensioner Fund – Assets of retired members who have opted for an internal settlement. The Pensioner Fund was closed to new members on January 1, 2011.

SIP – The PAC has adopted a comprehensive SIP which addresses such issues as investment objectives, risk tolerance, asset allocation, diversification, currency hedging, expected rates of return, liquidity requirements, permitted investments and other issues relevant to the investment process. This establishes a framework within which the PIC and the Office of Investments select the investment managers and strategies into segregated accounts, pooled funds and private funds.

The majority of the Plan's investments are actively managed by external investment managers with a range of investment mandates. Portfolio managers are responsible for individual security selection within their mandates.

The SIP is reviewed on a regular basis and updated when necessary to ensure that it continues to meet legal requirements and best practices to the benefit of the membership. A copy of the SIP can be found on the Plan's website at: http://www.mcgill.ca/hr/pensions/mupp/invest or can be viewed in the offices of the PAC, during normal business hours.

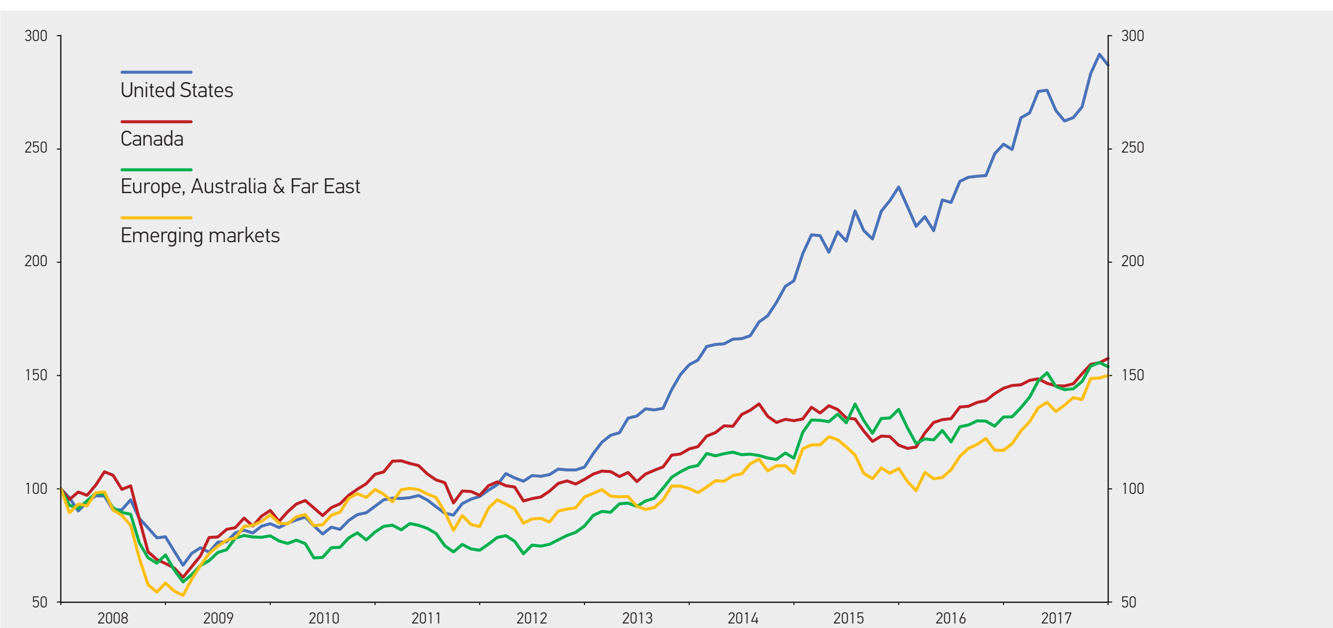
MANAGEMENT COMMENTARY

Equities

Almost all equity markets continued their upward trend in 2017 which provided another very good year of returns for investors. Despite surrounding geopolitical turmoil, markets experienced historically low volatility. Strong economic indicators and low unemployment fuelled investors' confidence and allowed the MSCI EAFE index (international equities) and the S&P 500 Index (US equities) to appreciate by 16.8% and 13.8% respectively in Canadian dollars.

Emerging market equities performed consistently well throughout 2017 and outperformed the broader global index in all four quarters. Emerging market returns were driven by ongoing growth, the stellar performance of IT stocks and stable outlooks for major emerging market economies. Meanwhile, Canadian equities were slightly out of favor and the S&P/TSX Composite returned 9.1%. The graph below shows the performance of stock markets since the financial crisis of 2008 with several consecutive years of strong performance.

Performance of Stock Markets (in CAD) - 10 years from 2008 to 2017



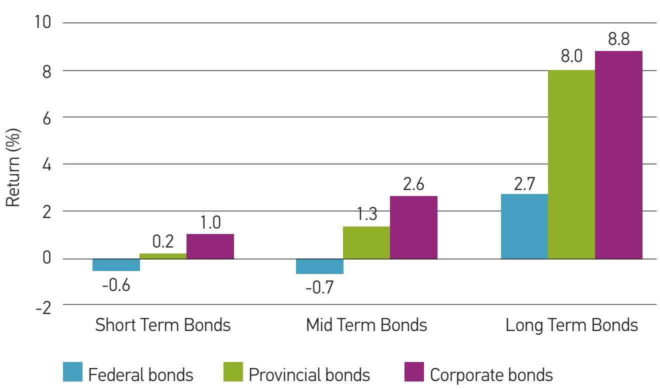
Source: Bloomberg

The Equity Pool's relatively high allocation to non-Canadian equities greatly contributed to the very respectable return of 13.8% earned in 2017. Small capitalization stocks were out of favor during the year, especially in the Canadian market. However, the Plan's small capitalization Canadian equity manager performed strongly. With the relative high quality and defensive bias of most of the Plan's equity managers, the Equity Pool did not fully participate in the uptrend of the equity markets and it lagged the Pool's benchmark by 1.4%.

Fixed Income

Canadian bond performance provided mixed results during the year as shown in the graph below. Canadian bond yields at the shorter end of the yield curve ended the year marginally higher providing negative to flat investment returns. On the other hand, the outperformance of longer maturity bonds was a dominant theme in the market over the last couple of months and it caused a persistent flattening of the yield curve in 2017. The credit spread compression resulted in strong positive returns for provincial and corporate bonds during the year. With credit spreads near their tightest levels since the 2008 financial crisis, corporate bond valuations no longer offered particularly compelling prospects at year end.

FTSE TMX Canada Bond Index Sector Returns 2017



Source: FTSE / TMX

The Fixed Income Pool's relatively shorter duration negatively affected the performance of the Pool compared to pension plans with a long duration benchmark. However, the credit spread compression resulted in positive returns during the year for the Fixed Income Pool which returned 3.4%. The overweight in provincial, municipal and corporate bonds greatly contributed to the Pool's outperformance relative to the benchmark. The view that credit spreads are now compressed coupled with our concerns over corporate fundamentals and valuations led us to reduce our credit allocation at the end of the year.

Alternative Assets

The Alternative Assets sector provided a wide range of returns in 2017; from strong private investment returns to weaker results in absolute return strategies. Real assets, composed of real estate and infrastructure, had another strong year, especially in Europe.

The Plan's Alternative Assets returned 7.7% in 2017 (net of fees) which outperformed the results in Fixed Income but lagged the Equity Pool's returns. The private investment funds were good contributors to the Alternative Assets' results with the best performance coming from a European buyout fund. Due to limited opportunities in the Canadian real estate sector, the portfolio made its first real estate allocation in Europe. Supported by the strong Euro currency, our infrastructure, real estate and private equity assets in Europe delivered the best performance. On the other hand, the absolute return strategies were disappointing.

In 2017, the assets held in real estate increased by 32%. This increase was funded by a significant reduction (-20%) of the absolute return strategies allocation.

ACCUMULATION FUND

The Accumulation Fund comprises assets of the Supplemental Fund in addition to the assets of Part A and Part B members prior to their retirement. Its structure offers a wide range of investment strategies and allows members to create specific investment allocations that best respond to their financial needs. The Accumulation Fund consists of an Equity Pool, a Fixed Income Pool, Alternative Assets, a Money Market Pool and a Socially Responsible Investment Pool. Members also have the option of two balanced investment strategies, the Balanced Account option and the Glide Path options that consist of diverse allocations to the Equity Pool, Alternative Assets and the Fixed Income Pool.

The Balanced Account is the default investment option of the Plan. Members who do not select an investment option are invested automatically in the Balanced Account

PERFORMANCE RELATIVE TO BENCHMARK

As at December 31, 2017 (gross of fees)

ASSET CLASSES	BENCHMARKS	ASSETS ($ Millions)	2017 RETURNS	BENCHMARK'S RETURNS	VALUE ADDED
SPECIFIC INVESTMENT STRATEGIES					
Equity Pool	33.3% S&P/TSX Composite 33.3% S&P 500 (50% hedged) 33.3% MSCI ACWI ex US net	649.4	13.8%	15.2%	-1.4%
Fixed Income Pool	FTSE TMX Canada Universe Bond	393.2	3.4%	2.5%	0.9%
Alternative Assets[1]	40% Real Assets Benchmark 25% Private Investment Benchmark 35% Absolute Return Strategies Benchmark	288.0	7.7%	6.3%	1.4%
Money Market Pool	FTSE TMX Canada 30-Day T-Bill	19.6	1.0%	0.6%	0.4%
BALANCED INVESTMENT STRATEGIES					
Balanced Account[2]	45% Equity Pool Benchmark 20% Alternative Assets Benchmark 35% Fixed Income Pool Benchmark	1,163.3	9.4%	8.9%	0.5%
Socially Responsible Investment Pool	20% S&P/TSX Capped Composite Index 40% MSCI World Total Return Net Index (C$) 40% FTSE TMX Canada Universe Bond Index	32.7	10.8%	8.0%	2.8%
Glide Path Options		10.6	6.4% to 11.8%	6.1% to 12.6%	0.3% to -0.8%

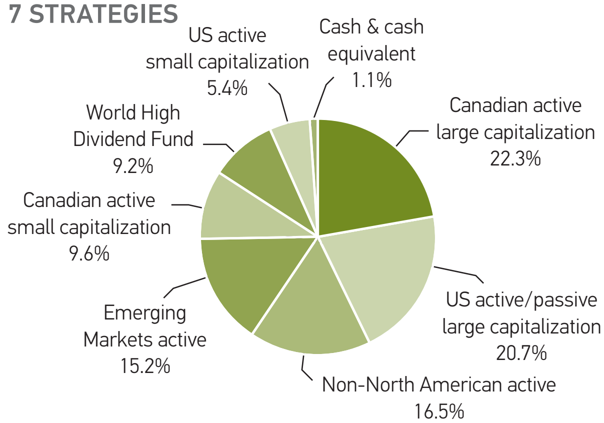
[1] Net of fees

[2] Gross of fees, except for absolute return strategies

ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

EQUITY POOL

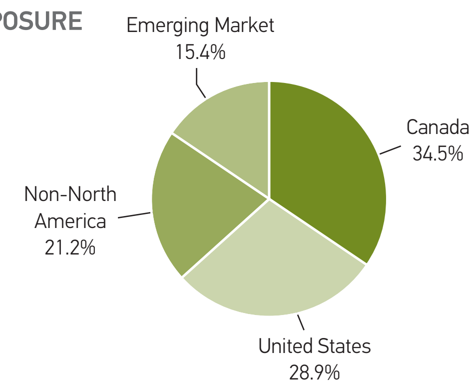
7 STRATEGIES



$649.4M

47.0% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	44
Administration fees	24
TOTAL	68

INVESTMENT OBJECTIVE

The Equity Pool's investment objective is to provide long-term capital appreciation and income by investing in a diversified portfolio of Canadian and foreign listed equity securities.

The annualized long-term objective measured over a 10-year period is the annual change in the Canadian CPI + 5.0%.

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return of the Equity Pool was 7.6%, outperforming the long-term objective (CPI + 5.0%) by 1.0% and adding 0.6% of value compared to its benchmark.

Over the past five years, the Equity Pool delivered an annualized rate of return of 13.0%, slightly below the benchmark return of 13.5%, but well above the long-term objective of 6.6%.

2017 PERFORMANCE

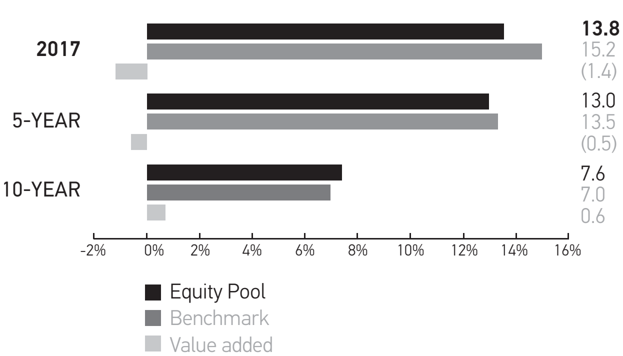
For the 12-month period ending December 31, 2017, the Equity Pool provided a generous return of 13.8%, but lagged its benchmark by 1.4%. Although the sizable position in emerging market equities had a positive contribution, the relatively defensive positioning of most of the managers did not allow the portfolio to fully participate in the market upward rally.

PORTFOLIO CHANGES

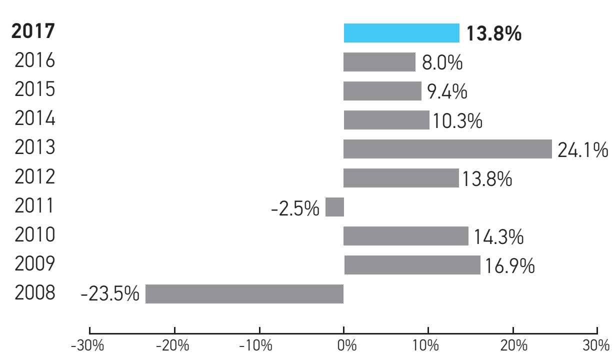
During 2017, only one change occurred in the Equity Pool, a new small capitalization U.S. equity strategy was added.

Starting in 2016, Alternative Assets were segregated from the Equity Pool. The Equity Pool's annualized and historic annual returns include Alternative Assets until 2016.

ANNUALIZED RETURNS vs BENCHMARK
(gross of fees)



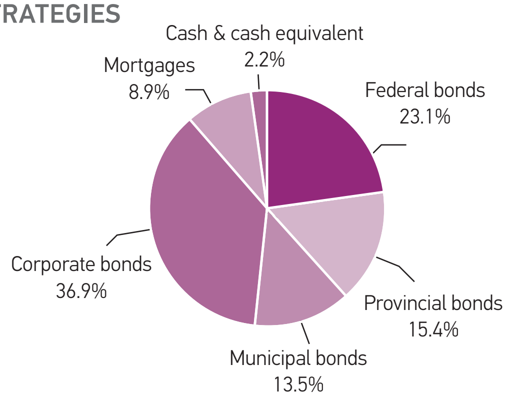
HISTORIC ANNUAL RETURNS
(gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

FIXED INCOME POOL

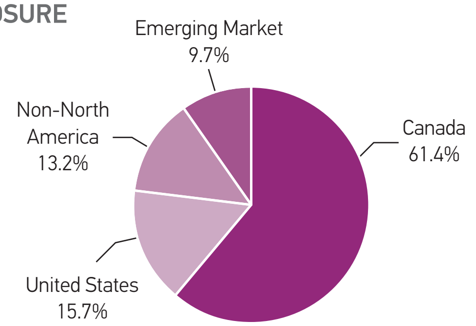
5 STRATEGIES



$393.2M

28.4% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	29
Administration fees	22
TOTAL	51

INVESTMENT OBJECTIVE

The Fixed Income Pool's investment objective is to provide a predictable source of income with low investment return volatility by investing in a diversified portfolio of Canadian and Global fixed income securities.

The annualized long-term objective measured over a 10-year period is the annual change in the Canadian CPI + 1.5%.

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return of the Fixed Income Pool was 5.2%, outperforming the long-term objective (CPI + 1.5%) by 2.1% while also adding 0.4% of value to its benchmark.

Over the past five years, the Fixed Income Pool delivered an annualized rate of return of 3.9%, a full 1.0% above the benchmark return and also outperforming the long-term objective of 3.1%.

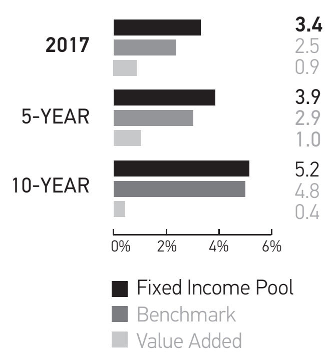
2017 PERFORMANCE

For the 12-month period ending December 31, 2017, the Fixed Income Pool provided a fair return of 3.4%, which remains above both the long-term objective of 3.1% and the benchmark return of 2.5%. The overweight in corporate bonds, coupled to a bias towards provincial and municipal Canadian issuers explains most of the outperformance relative to the benchmark.

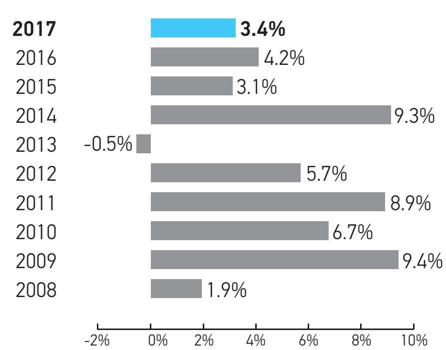
PORTFOLIO CHANGES

During the course of the year, two new strategies were added to the Fixed Income Pool, an Emerging Market government bond strategy and an infrastructure private debt strategy. The long-term government bond strategy was terminated and a municipal & provincial strategy was implemented.

ANNUALIZED RETURNS vs BENCHMARK
(gross of fees)



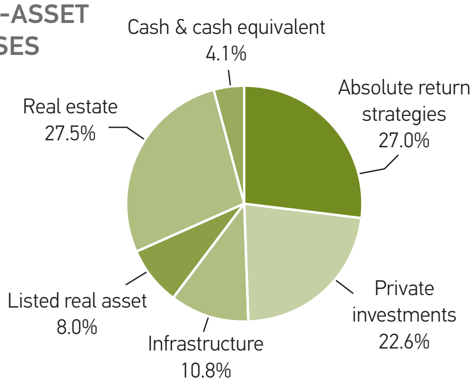
HISTORIC ANNUAL RETURNS
(gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

ALTERNATIVE ASSETS

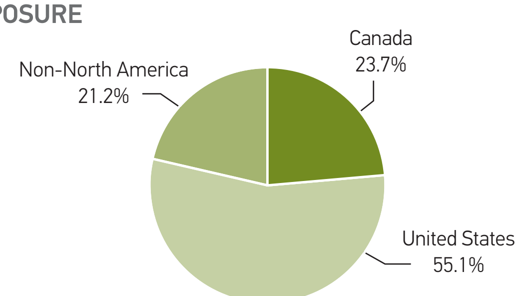
5 SUB-ASSET CLASSES



$288.0M

20.8% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	197
Administration fees	22
TOTAL	219

INVESTMENT OBJECTIVE

The Alternative Assets' investment objective is to provide long-term capital appreciation and income with a focus on capital preservation, by investing in a diversified portfolio of alternative assets.

The annualized long-term objective measured over a 10-year period is the annual change in the Canadian CPI + 4.5%.

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return of the Alternative Assets was 4.9% (net of fees), underperforming both the long-term objective of 6.1% (CPI + 4.5%) and the asset-class benchmark return of 7.6%.

Over the past five years, the Alternative Assets delivered an annualized rate of return of 9.7% (net of fees), well above the long-term objective of 6.1%, but still below the benchmark return of 10.4%.

It is worth mentioning that the Alternative Assets benchmarks is not replicable nor investable.

2017 PERFORMANCE

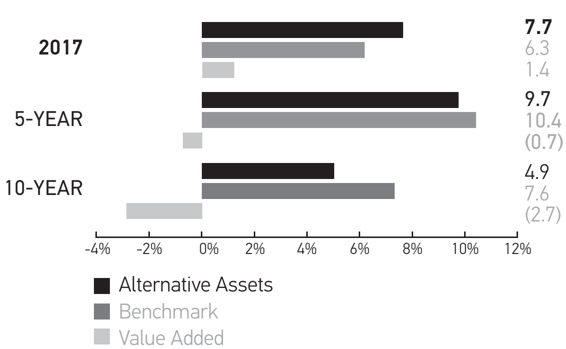
For the 12-month period ending December 31, 2017, the Alternative Assets provided a return of 7.7% (net of fees), which is above both the long-term objective of 6.1% and the benchmark return of 6.3%. The excellent net performance of private investments (20.3%) and real assets (10.9%) helped to mitigate a disappointing year for the absolute return strategies (-2.2%).

PORTFOLIO CHANGES

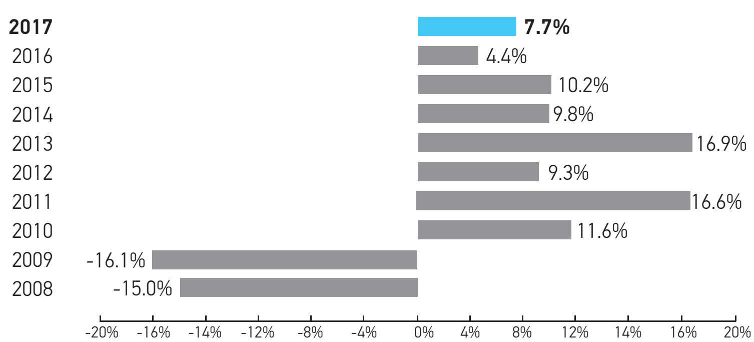
In 2017, two new funds were added to the Alternative Assets, a US private debt fund and an European real estate fund. One absolute return strategy was terminated and a real estate property was sold.

Starting in 2016, Alternative Assets were segregated from the Equity Pool. They are now only available via the Balanced Account option and Glide Path options.

ANNUALIZED RETURNS vs BENCHMARK
(net of fees)*



HISTORIC ANNUAL RETURNS
(net of fees)*

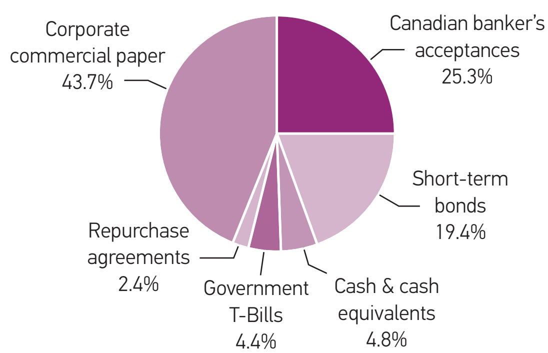


*net of fees, per industry standards

ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

MONEY MARKET POOL

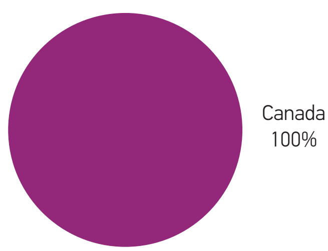
6 TYPES OF SECURITIES



$19.6M

1.4% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	7
Administration fees	16
TOTAL	23

INVESTMENT OBJECTIVE

The Money Market Pool's (MMP) investment objective is to provide stable returns and maintain capital and liquidity.

The long-term objective is to outperform the return of the FTSE TMX 30-Day T-Bill Index, calculated as an average annual compound rate of return for the last three consecutive years.

The assets are invested in the TD Emerald Canadian Short-term Investment Fund and the TD Emerald Canadian Treasury Management Fund.

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return of the MMP was 1.0%, outperforming the long-term objective by 0.4%.

Over the past five years, the MMP delivered an annualized rate of return of 0.9%, slightly above the benchmark return of 0.7% and the long-term objective of 0.6%.

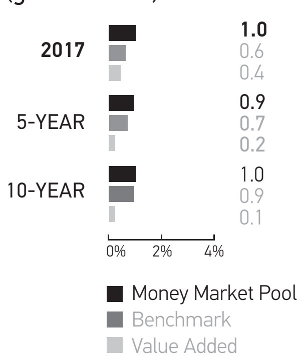
2017 PERFORMANCE

For the 12-month period ending December 31, 2017, the Money Market Pool provided a return of 1.0%, outperforming its benchmark by 0.4%.

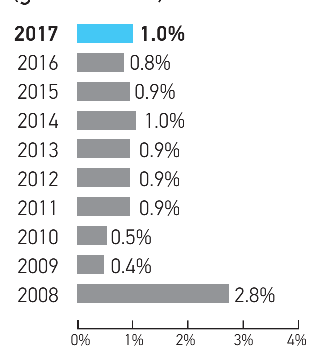
PORTFOLIO CHANGES

No changes occurred during 2017.

ANNUALIZED RETURNS vs BENCHMARK
(gross of fees)



HISTORIC ANNUAL RETURNS
(gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

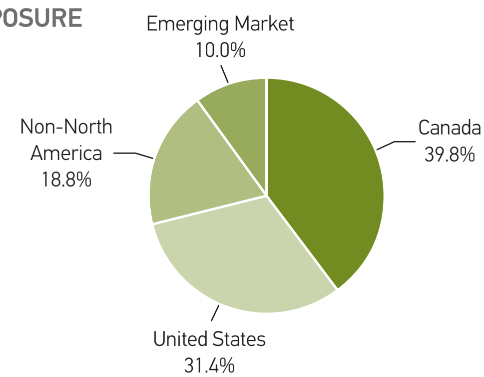
BALANCED ACCOUNT

3 ASSET CLASSES	2017	ACTUAL TARGET	MIN - MAX
Equity Pool	45.7%	45%	30% - 63%
Fixed Income Pool	29.7%	35%	25% - 55%
Alternative Assets	24.6%	20%	10% - 40%

$1,163.3M

84.1% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	77
Administration fees	23
TOTAL	100

INVESTMENT OBJECTIVE

The Balanced Account's investment objective is to optimize capital accumulation over the long-term through allocations to the Equity Pool, Fixed Income Pool and Alternative Assets, as determined by the Pension Administration Committee.

The annualized long-term objective measured over a 10-year period is the annual change in the Canadian Consumer Price Index (CPI) + 3.7%.

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return of the Balanced Account was 7.0%, outperforming the long-term objective (CPI + 3.7%) by 1.7% and the portfolio's benchmark by 0.9%.

Over the past five years, the Balanced Account delivered an annualized rate of return of 9.8%, well above the long-term objective of 5.3% and also outperforming the portfolio's benchmark by 0.8%.

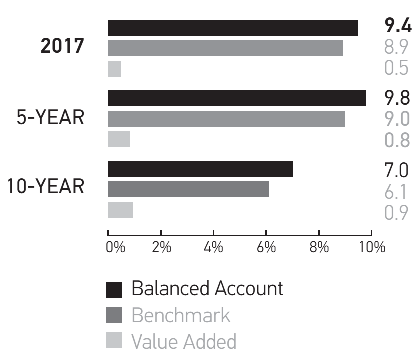
2017 PERFORMANCE

For the 12-month period ending December 31, 2017, the Balanced Account provided a return of 9.4%, outperforming its benchmark by 0.5%. The main drivers of overperformance are: 1) the good relative performance of the Fixed Income Pool; 2) the Alternative Assets strong return notably private investments; and 3) the underweight of the Fixed Income Pool in favor of Alternative Assets.

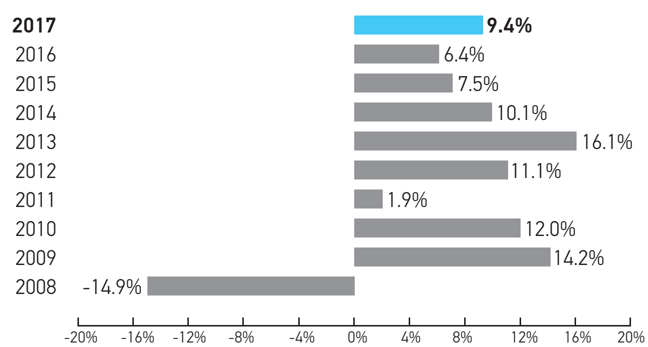
PORTFOLIO CHANGES

During the course of the year, strategy changes occurred in the Balanced Account through changes in the Equity Pool, Fixed Income Pool and Alternative Assets.

ANNUALIZED RETURNS vs BENCHMARK
(gross of fees)*



HISTORIC ANNUAL RETURNS
(gross of fees)*



*gross of fees except for absolute return strategies

ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

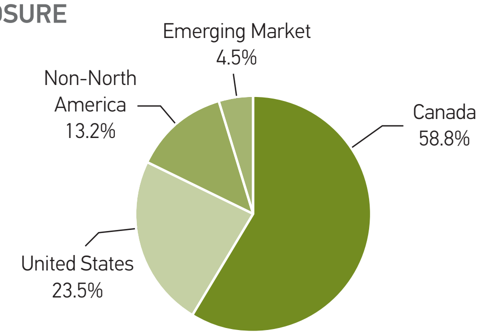
SOCIALLY RESPONSIBLE INVESTMENT POOL

3 RBC VISION FUNDS	2017	ACTUAL TARGET	2016
Canadian Equity Fund	20.8%	20%	31.1%
Global Equity Fund	41.2%	40%	30.8%
Canadian Bond Fund	38.0%	40%	38.1%

$32.7M

2.4% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	21
Administration fees	13
TOTAL	34

INVESTMENT OBJECTIVE

The Socially Responsible Investment ("SRI") Pool's objective is to optimize capital accumulation over the long-term, while following an investment framework that incorporates issues related to socially responsible investing.

The annualized long-term objective measured over a 10-year period is the annual change in the Canadian CPI + 3.6%.

HISTORIC PERFORMANCE

The SRI Pool was introduced as an investment option in April 2008. Since inception, the annualized rate of return of the Pool is 6.2%, outperforming the long-term objective (CPI + 3.6%) by 1.0%.

Over the past five years, the SRI Pool delivered an annualized rate of return of 10.1%, well above the long-term objective of 5.2% and outperforming the portfolio's benchmark by 1.2%.

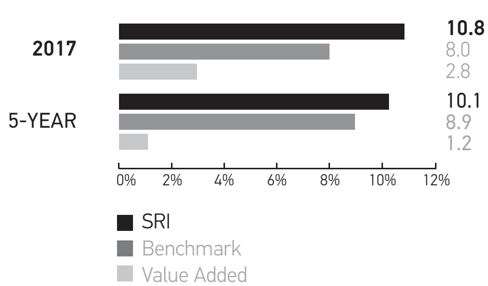
2017 PERFORMANCE

For the 12-month period ending December 31, 2017, the SRI Pool provided a return of 10.8%, significantly outperforming the benchmark return of 8.0%. This good relative performance is mainly attributable to a good performance in global equities and favorable asset mix decisions.

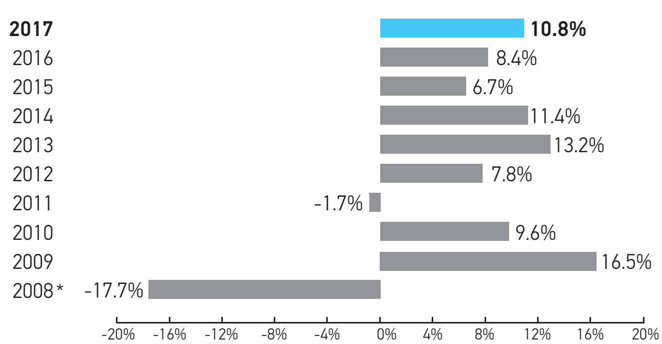
PORTFOLIO CHANGES

Since June 2017, the SRI Pool is invested in a customized portfolio using RBC Vision Funds and provides a new target asset mix with a reduction in the allocation to Canadian equities in favor of Global equities.

ANNUALIZED RETURNS vs BENCHMARK
(gross of fees)



HISTORIC ANNUAL RETURNS
(gross of fees)



*SRI Pool was introduced in April 2008 – 8 months of returns

ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

GLIDE PATH OPTIONS

3 RISK PROFILES
Conservative
Moderate
Aggressive

3 ASSET CLASSES
Fixed Income Pool
Equity Pool
Alternative Assets

6 AGE BANDS

6 ALLOCATIONS A to F

$10.6M

0.8% OF ACCUMULATION FUND ASSETS

FEES in basis points

Management fees	50 (A) to 65 (F)
Administration fees	23 (A) to 24 (F)
TOTAL	73 (A) to 89 (F)

INVESTMENT OBJECTIVE

The investment objective of the Glide Paths is to optimize capital accumulation over the long-term through allocations to the Equity Pool, the Alternative Assets and the Fixed Income Pool based on the chosen risk profile and age of the Plan member.

Glide Path considers all stages of plan members' lives. The farther away from retirement, the more aggressive is the asset mix for growth (the most aggressive option is F). The closer to retirement, the more conservative is the asset mix to preserve gains and generate income (the most conservative option is A).

The expected rate of return for each risk profile will be a blend of the expectations specified above, determined in accordance with the specific asset allocation strategy of the risk profile and the age of the individual Plan member.

HISTORIC PERFORMANCE

Glide Path were introduced in 2014. Since inception, the 4-year annualized rate of return of the six different allocations ranged from 6.6% (A) to 9.5% (F).

2017 PERFORMANCE

For the 12-month period ending December 31, 2017, Glide Path options had a return ranging from 6.4% (A) to 11.8% (F).

PORTFOLIO CHANGES

During the course of the year, strategy changes occurred in the Glide Path options through changes in the Equity Pool, Alternative Assets and Fixed Income Pool.

	FUNDS/ AGE BANDS	Age 66 and above	Age 60 to 65	Age 50 to 59	Age 40 to 49	Age 30 to 39	Below age 30
CONSERVATIVE RISK PROFILE	Fixed Income Pool	65%	65%	50%	40%	30%	20%
	Equity Pool	25%	25%	35%	45%	55%	65%
	Alternative Assets	10%	10%	15%	15%	15%	15%
	Allocation	A	A	B	C	D	E
MODERATE RISK PROFILE	Fixed Income Pool	65%	50%	40%	30%	20%	10%
	Equity Pool	25%	35%	45%	55%	65%	75%
	Alternative Assets	10%	15%	15%	15%	15%	15%
	Allocation	A	B	C	D	E	F
AGGRESSIVE RISK PROFILE	Fixed Income Pool	50%	40%	30%	20%	10%	10%
	Equity Pool	35%	45%	55%	65%	75%	75%
	Alternative Assets	15%	15%	15%	15%	15%	15%
	Allocation	B	C	D	E	F	F
HISTORIC ANNUAL RETURNS	Allocation	A	B	C	D	E	F
	2017	**6.4%**	**7.7%**	**8.7%**	**9.8%**	**10.8%**	**11.8%**
	Benchmark	**6.1%**	**7.5%**	**8.8%**	**10.1%**	**11.3%**	**12.6%**
	Value Added	**0.3%**	**0.2%**	**-0.1%**	**-0.3%**	**-0.5%**	**-0.8%**
	2016	5.2%	5.6%	5.9%	6.3%	6.7%	7.1%
	2015	5.3%	6.3%	6.9%	7.5%	8.1%	8.8%
	2014	9.7%	9.8%	9.9%	10.0%	10.1%	10.2%
ANNUALIZED RETURN	4-year	6.6%	7.3%	7.8%	8.4%	8.9%	9.5%

PENSIONER FUND

The Pensioner Fund contains the assets required to finance the benefits for retired staff who opted for an internal pension settlement prior to January 1, 2011. The Pensioner Fund is a closed fund.

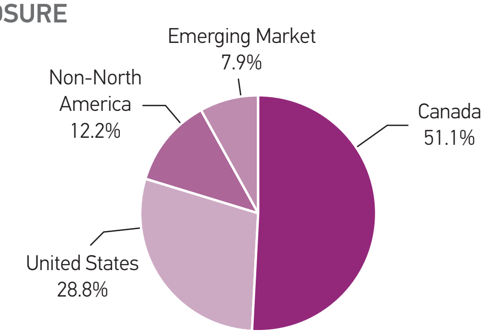
3 ASSET CLASSES

	2017	ACTUAL TARGET	2016
Global Equity	47.3%	50%	34.6%
Fixed Income	48.2%	50%	56.1%
Real Estate	4.5%	0%	9.3%

$154.9M

OF ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	40
Administration fees	18
TOTAL	58

INVESTMENT OBJECTIVE

The Pensioner Fund's investment objective is to optimize the performance of the fund over the long term, to provide enhancements of pension amounts in accordance with the Plan Document, if possible, and to minimize actuarial deficiencies.

The long-term objective measured over a 10-year period is the annual change in the Canadian CPI index + 3.25%.

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return of the Pensioner Fund was 6.7%, outperforming the long-term objective (CPI + 3.25%) by 1.85%.

Over the past five years, the Pensioner Fund delivered an annualized rate of return of 8.2%, significantly above the long-term objective of 4.85% and outperforming the benchmark portfolio by 1.7%.

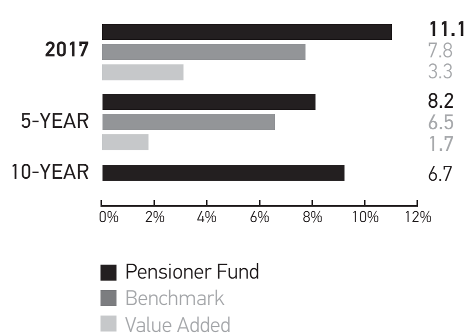
2017 PERFORMANCE

For the 12-month period ending December 31, 2017, the Pensioner Fund provided a return of 11.1%, well above the benchmark return of 7.8%. This excellent performance is mainly attributable to the overweight in equities versus fixed income and to the excellent relative and absolute performance of the global equity manager who recorded a performance of 21.8% in 2017.

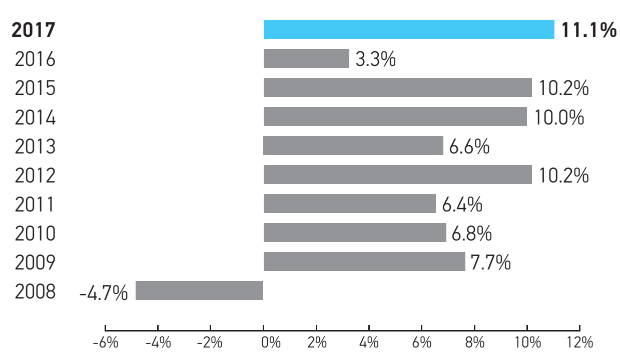
PORTFOLIO CHANGES

In 2017, the SIP of the Pensioner Fund was modified and now provides a new target asset mix with a reduction in the allocation of fixed income in favor of global equities.

ANNUALIZED RETURNS vs BENCHMARK
(gross of fees)



HISTORIC ANNUAL RETURNS
(gross of fees)



EXTERNAL ADVISORS AND INVESTMENT MANAGERS

EXTERNAL ADVISORS

CIBC Mellon Global Securities Service	Custody Services Performance Measurement Private Investment Accounting Compliance Monitoring
Morneau Shepell	Record Keeping Processing transactions Cash flow allocations to investments options Settlement package Host the Plan website
Cambridge Associates	Absolute Return Strategy Advisor
Deloitte	External Auditor
Eckler	Actuarial Services

INVESTMENT MANAGERS (excluding Alternative Assets)

Equity Pool	Canadian Equity	Fidelity Investments QV Investors Van Berkom & Associates
	US Equity	Wellington Management Van Berkom & Associates State Street Global Advisors
	Non-North American Equity	Hexavest William Blair & Company Aberdeen Standard Investments
	Global Dividend Equity	State Street Global Advisors
Fixed Income Pool	Corporate Bonds	Canso Investment Counsel RBC Global Asset Management
	Infrastructure Private Debt	AMP Capital
	Municipal & Provincial Bonds	Fiera Capital
	Global Bonds	Goldman Sachs Asset Management
	Emerging Market Government Bonds	Colchester Global Investors
Money Market Pool	Canadian Short-term Investments	TD Asset Management
Socially Responsible Investment Pool	Canadian Equity Global Equity Canadian Bonds	RBC Global Asset Management
Pensioner Fund	Global Equity	Vontobel
	Fixed Income Securities	Canso Investment Counsel Manulife Investments

ACTUARIAL VALUATION AS AT DECEMBER 31, 2015 AND INTERIM SOLVENCY VALUATION AS AT DECEMBER 31, 2016

Eckler
CONSULTANTS + ACTUARIES

At the request of the Pension Administration Committee, we have performed a complete actuarial valuation of the McGill University Pension Plan as at December 31, 2015. The results of such valuation were presented in a formal report dated June 23, 2016, which has been filed with the government authorities. Furthermore, as per Bill 29, an Annual notice on the financial position of the Plan on a solvency basis must now be prepared annually between required triennial valuation dates. As such, we have performed an interim valuation of the financial position of the Plan on a solvency basis as at December 31, 2016. The results of such valuation were presented in a formal report dated April 27, 2017, which has been filed with the government authorities. The main objectives of the actuarial valuation are to determine the funded position of the Plan as at the valuation date, under both the Going-Concern Funding Position and Solvency Position, 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.

Going - Concern Funding Valuation

For the Going-Concern 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 with interest and no funding surplus/deficiency can exist thereon. Conversely, for the defined benefit provisions, i.e. minimum pension provisions under Part A ("DB Minimum Segment") and pensions in course of payment ("Pensioner Segment"), a 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. Actuarial assumptions will be reviewed as part of the next complete required actuarial valuation to ensure they are still appropriate.

See Benefits and Administration section of the Annual Report for the main results of the Going – Concern Funding Valuation.

Solvency Valuation

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 prescribed by legislation. The results of the solvency valuation do not have any direct impact on the funding requirements under the Plan; however, additional University contributions are required for external settlements to be made in totality, such additional contributions representing the unfunded portion of the settlements based on the degree of solvency (81.0%) as per the Quebec Supplemental Pension Plans Act.

See Benefits and Administration section of the Annual Report for the main results of the interim Solvency Valuation as at December 31, 2016.

Actuarial Opinion

In our opinion:

(a) the data on which the valuations are based are sufficient and reliable for the purposes of the valuations;

(b) the assumptions are, in aggregate, appropriate for the purposes of the valuations;

(c) the methods employed in the valuations are appropriate for the purposes of the valuations; and

(d) the assumptions and methods employed to determine the solvency position of the Plan are consistent with the requirements of the Quebec *Supplemental Pension Plans Act.*

Notwithstanding the foregoing opinion, emerging experience, differing from the assumptions, will result in gains or losses which will be revealed in future valuations.

The next required complete actuarial valuation is due no later than December 31, 2018 and needs to be filed with governmental authorities before the regulatory deadline of September 30, 2019. Furthermore, an interim valuation must be prepared as at December 31, 2017 to report on the solvency financial position of the Plan. The University is required to continue to contribute based on the December 31, 2015 actuarial valuation report until a new complete actuarial valuation report is filed, at which time the University will adjust its contributions to reflect the new funding requirements revealed under this new valuation.

Respectfully submitted,

Jean-Francois Gariépy, FSA, FCIA

Dany Desgagnés, FSA, FCIA

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 statement of net assets available for benefits as at December 31, 2017, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial report has been prepared by management based on the financial reporting provisions described in the 2017 *Guide to the Annual Information Return* published by Retraite Québec relating to the preparation of a financial report under Section 161 of the *Supplemental Pension Plans Act* (Québec).

Management's Responsibility for the Financial Report

Management is responsible for the preparation and fair presentation of this financial report based on the financial reporting provisions set out in the 2017 *Guide to the Annual Information Return* published by Retraite Québec relating to the preparation of a financial report under Section 161 of the *Supplemental Pension Plans Act* (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 audit. We conducted our audit 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 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, 2017, and the changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions set out in the 2017 *Guide to the Annual Information Return* published by Retraite Québec relating to the preparation of a financial report under Section 161 of the *Supplemental Pension Plans Act* (Québec).

Basis of Accounting

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 Pension Administration Committee of the McGill University Pension Plan to meet the requirements of Retraite Québec. As a result, the financial report may not be suitable for another purpose.

Montreal, Quebec
March 21, 2018

Deloitte LLP[1]

[1]CPA Auditor, CA, public accountancy permit No. A125888

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31, 2017

Accumulation Fund

ASSETS	**2017**	**2016**
Investments (Note 3)	$1,360,326,878	$1,288,498,006
Cash	14,513,235	8,709,775
Currency contracts (Note 4)	5,655,494	459,527
Cash margin and stock index futures (Note 7)	329,520	562,799
Accrued investment income	3,461,823	3,369,934
Accounts receivable	3,830,773	15,547,792
McGill University contributions receivable	1,978,505	1,808,220
	1,390,096,228	1,318,956,053
LIABILITIES		
Currency contracts (Note 4)	397,399	2,311,466
Accounts payable and accruals	2,292,455	4,876,963
Due to Pensioner Fund (Note 6)	11,376	38,350
Owing to former members	3,090,853	1,678,133
	5,792,083	8,904,912
Net assets available for benefits	**$1,384,304,145**	**$1,310,051,141**

Pensioner Fund

ASSETS		
Investments (Note 3)	$152,006,045	$163,132,980
Cash	2,213,373	699,871
Currency contracts (Note 4)	77,956	–
Accrued investment income	1,162,418	1,430,164
Accounts receivable	2,513	1,320
Receivable from Accumulation Fund (Note 6)	11,376	38,350
	155,473,681	165,302,685
LIABILITIES		
Currency contracts (Note 4)	–	10,101
Accounts payable and accruals	58,807	165,839
Due to McGill University	2,022,437	958,113
	2,081,244	1,134,053
Net assets available for benefits	**153,392,437**	**164,168,632**
Total net assets available for benefits	**$1,537,696,582**	**$1,474,219,773**

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31, 2017

Accumulation Fund

	2017	2016
Net assets available for benefits, January 1	$1,310,051,141	$1,260,279,332
INCREASE		
Investment income (Note 5)	31,106,575	28,851,009
Realized gains	67,549,019	49,966,793
Members' regular contributions	26,334,604	25,128,862
Members' special contributions	5,728,087	5,945,316
Members' voluntary contributions	1,219,478	993,663
McGill University regular contributions	26,368,152	24,796,005
McGill University special contributions	25,339,137	30,810,774
Transfers from other registered plans	417,526	236,270
Total increase in net assets	184,062,578	166,728,692
DECREASE		
Administration expenses (Note 8)	3,044,759	3,016,744
Investment management fees	4,041,983	3,410,387
Retirement benefits	46,017,479	56,293,542
Retirement benefits - McGill University LIF/RIF	26,511,250	23,964,791
Termination benefits	49,929,655	26,018,530
Death benefits	1,448,348	2,223,655
Transaction costs	428,821	415,293
Total decrease in net assets	131,422,295	115,342,942
Change in unrealized fair value of investments (unrealized gains (losses))	21,612,721	(1,613,941)
Change in net assets available for benefits	**74,253,004**	**49,771,809**
Net assets available for benefits, December 31	**$1,384,304,145**	**$1,310,051,141**

Pensioner Fund

	2017	2016
Net assets available for benefits, January 1	$164,168,632	$187,288,406
INCREASE		
Investment income (Note 5)	4,293,653	5,204,651
Realized gains	5,402,453	1,416,147
Total increase in net assets	9,696,106	6,620,798
DECREASE		
Administration expenses (Note 8)	283,115	275,933
Investment management fees	151,993	159,959
Pension payments	26,752,384	28,225,995
Total decrease in net assets	27,187,492	28,661,887
Change in unrealized fair value of investments (unrealized gains (losses))	6,715,191	(1,078,685)
Change in net assets available for benefits	**(10,776,195)**	**(23,119,774)**
Net assets available for benefits, December 31	**$153,392,437**	**$164,168,632**
Total net assets available for benefits, December 31	**$1,537,696,582**	**$1,474,219,773**

NOTES TO THE FINANCIAL REPORT

December 31, 2017

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 Plan is a Registered Pension Plan Trust as defined in the Income Tax Act and is not subject to income taxes. 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

Members are required to contribute to the Plan equal to a percentage 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 ("QPP") contribution.

	Members Regular Contributions as a Percentage of Basic Earnings	
Members' age at end of preceding month	Regular Members	GFT-U Members
39 or less	5.0%	5.5%
40 to 49	7.0%	7.5%
50 to 65	8.0%	8.5%

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 QPP:

	University Regular Contributions as a Percentage of Basic Earnings	
Members' age at end of preceding month	Regular Members	GFT-U Members
39 or less	5.0%	5.8%
40 to 49	7.5%	8.3%
50 to 65	10.0%	10.8%

For those Members enrolled in the Plan or eligible to enroll in the Plan prior to January 1, 2009 ("Part A Members"), there is a Defined Benefit Minimum Provision determined according to the 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.

Effective January 1, 2014, Part A Members began making special contributions, an additional 2.2% to fund the actuarial deficit.

(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.

Starting in 2015, Members can transfer their pension holdings into a Life Income Fund (LIF) or Retirement Income Fund (RIF) sponsored by McGill University.

(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, Alternative Assets, a Fixed Income Pool, a Socially-Responsible Investment Pool and a Money Market Pool. A Balanced Account and Glide Path Options are also available, composed of allocations to the Equity Pool, Alternative Assets and the Fixed Income Pool in proportions determined from time to time by the Pension Administration Committee ("PAC").

NOTES TO THE FINANCIAL REPORT

December 31, 2017

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 related to the Defined Benefit Minimum Provision, as well as the University's funding related to actuarial valuation needs.

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

Any balance 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.

Effective January 1, 2014, Part A Members began sharing up to 50% of the cost of funding the actuarial deficit.

In the event of a Plan termination, any actuarial deficit arising from the Defined Benefit Minimum Provision or from actuarial valuation needs is the responsibility of the University.

(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 ACCOUNTING FRAMEWORK

The financial report has been prepared by management in accordance with the financial reporting provisions described in the 2017 *Guide to the Annual Information Return* published by Retraite Québec. The basis of accounting used in this financial report materially differs from Canadian accounting standards for pension plans because it excludes the pension obligations of the Plan and its related disclosures.

The Plan applies Section 4600, Pension Plans, of Part IV of the CPA Canada Handbook ("the Handbook"). Section 4600 is the underlying accounting standard to the framework prescribed by Retraite Québec. Canadian accounting standards for private enterprises in Part II of the 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.

The Plan also applies International Financial Reporting Standards (IFRS)-13, Fair Value Measurement. Investments as at December 31, 2017, have been valued using the closing price if the closing price is between bid price and ask price.

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 following significant accounting policies:

INVESTMENTS

Investments are recorded as of the trade date and are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

NOTES TO THE FINANCIAL REPORT

December 31, 2017

2. Significant Accounting Policies (continued)

INVESTMENTS (continued)

The fair value of investments is determined as follows:

(a) Currency contracts are valued using year-end foreign exchange rates, volatility and time to maturity.

(b) Stock index futures are valued at the stock exchange's settlement price.

(c) Fixed income investments are valued using price or yield equivalent quotations supplied by third-party vendors.

(d) Common stocks investments are valued at quoted market prices.

(e) Real assets investment valuations are based on periodic appraisals for privately-held real assets. Listed real asset investments are valued at quoted market prices.

(f) Private investments valuations are calculated by an independent measurement firm. Current fair value estimates are primarily derived from the most recent financial statements pertaining to the Plan's private investments, adjusted for cash flows and foreign currency, as applicable.

(g) Absolute return strategies are valued depending on the underlying assets (currency contracts, fixed income, common stocks derivatives and real assets).

INCOME RECOGNITION

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

FOREIGN EXCHANGE

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange in effect on the dates of the transactions. At each reporting date, the market value of foreign currency denominated assets and liabilities is translated using the rates of exchange at that date. The resulting gains and losses from changes in these rates are recorded as part of the current year change in unrealized fair value of investments in the Statement of Changes in Net Assets Available for Benefits.

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. Key components of the financial report requiring the use of estimates include fair value of real assets investments, private investments and absolute return strategies. Actual results could differ from these estimates.

3. Investments and Financial Instruments

(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 37 days in the Accumulation Fund (2016 - 53 days) and 30 days in the Pensioner Fund (2016 - 34 days).

Fixed Income

In the Accumulation Fund, bonds, 41% of which are guaranteed by the federal or provincial governments (2016 - 40%), have a weighted average yield to maturity of 3.2% (2016 - 2.3%) and an average duration of 6.2 years (2016 - 6.9 years). In the Pensioner Fund, bonds, 33% of which are guaranteed by the federal or provincial governments (2016 - 39%), have a weighted average yield to maturity of 2.9% (2016 - 3.2%) and an average duration of 6.7 years (2016 - 6.2 years).

Common Stock

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

NOTES TO THE FINANCIAL REPORT

December 31, 2017

3. Investments and Financial Instruments (continued)

(A) TERMS AND CONDITIONS (continued)

Real Assets

Real assets consist of real estate and infrastructure investments.

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

In the Accumulation Fund, infrastructure investments consist of funds that invest directly in European and US infrastructure assets.

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

Listed Real Assets

In the Accumulation Fund, listed real assets are marketable securities and are diversified globally.

Private Investments

In the Accumulation Fund, private investments consist of investments in private equity funds of funds, direct private debt funds and direct equity funds.

Absolute Return Strategies

In the Accumulation Fund, absolute return strategies consist of investments in event-driven, relative value credit, long/short and trading oriented strategies.

(B) COMMITMENTS

In the Accumulation Fund, there are unfunded commitments in the amount of $116.8 million (2016 - $98.7 million) to fund private investments, real estate and infrastructure investments. It is anticipated that these commitments will be met in the normal course of operations.

(C) CREDIT RISK

Credit risk arises from the potential for a bond issuer to default on its contractual obligations to the Plan. Fixed income investments are recorded at fair value. This represents the maximum credit risk exposure of the Plan.

(D) LIQUIDITY RISK

Liquidity risk refers to the risk that the Plan does not have sufficient cash to meet its liabilities, commitments, benefit payments and any other expected or unexpected cash flow requirements. The liquidity position of the Plan is analyzed regularly to ensure the Plan has sufficient liquid assets such as cash, cash equivalent securities and government bonds. The Plan also maintains a portfolio of highly marketable assets that can be sold on a timely basis as protection against any unforeseen interruption to the payment requirements of the Plan.

(E) INTEREST RATE RISK

Interest rate risk refers to the impact of interest rate changes on the Plan's financial position. It impacts the liabilities of the Plan as a result of the Defined Benefit Minimum Provision, as well as the liabilities of the Pensioner Fund.

Interest rate changes directly impact the fair value of fixed income securities held in the Plan and partially compensate the effect on the pension liabilities.

Duration is a measure used to approximate the impact on the fair value of fixed income securities for a given change in interest rates. To manage this risk, the duration of the Plan's fixed income securities are monitored and adjusted, as appropriate.

(F) 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. Currency forward contracts are used in order to hedge the effect of changes in the value of foreign currencies on foreign investments. The Plan's largest foreign currency exposure is to the United States dollar. Diversification of assets is also used to manage foreign currency risk.

Note 4 quantifies the currency forward contracts outstanding at December 31, 2017 and 2016.

(G) 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. Asset class and sub-asset class diversification is used to manage this risk.

NOTES TO THE FINANCIAL REPORT

December 31, 2017

3. Investments and Financial Instruments (continued)

EFFECT OF THE VARIATIONS OF INTEREST RATE, FOREIGN CURRENCY AND EQUITY PRICE RISK

Type of risk	Variation	Effect on Accumulation Fund	Effect on Pensioner Fund
Interest rate risk	1% increase (decrease)	Decrease (increase) fair value of fixed income investments by $24.7 million (2016 - $24.4 million)	Decrease (increase) fair value of fixed income investments by $4.6 million (2016 - $5.3 million)
Foreign currency risk on investments	$0.01 appreciation (depreciation) of the United States dollar versus the Canadian dollar	Increase (decrease) in the fair value of investments of approximately $3 million (2016 - $3 million)	Increase (decrease) in the fair value of investments of approximately $585 thousand (2016 - $433 thousand)
	$0.01 appreciation (depreciation) of the Euro versus the Canadian dollar	Increase (decrease) in the fair value of investments of approximately $632 thousand (2016 - $528 thousand)	N/A
Foreign currency risk on forward contracts	$0.01 appreciation (depreciation) of the United States dollar versus the Canadian dollar	Decrease (increase) in the fair value of forward contracts of approximately $1.5 million (2016 - $1.5 million)	N/A
	$0.01 appreciation (depreciation) of the Euro versus the Canadian dollar	Decrease (increase) in the fair value of forward contracts of approximately $311 thousand (2016 - $nil)	N/A
Equity price risk	10% change in equity prices	$73.2 million change in the fair value of the private and listed equities (2016 - $70.2 million)	$7.3 million change in the fair value of the private and listed equities (2016 - $5.7 million)

(H) 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.

NOTES TO THE FINANCIAL REPORT

December 31, 2017

3. Investments and Financial Instruments (continued)

(H) FAIR VALUE HIERARCHY (continued)

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, 2017			
Accumulation Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets				
Cash equivalents	44,298,753	-	-	44,298,753
Fixed income investments - Canadian				
Federal bonds	-	94,623,828	-	94,623,828
Provincial bonds	-	64,417,413	-	64,417,413
Municipal bonds	-	52,657,453	-	52,657,453
Corporate bonds	-	115,814,375	-	115,814,375
Fixed income investments - foreign				
Federal bonds	-	1,888,325	-	1,888,325
Corporate bonds	-	24,911,513	-	24,911,513
Mortgages	-	34,975,768	-	34,975,768
Private debt	-	-	7,211,218	7,211,218
	-	389,288,675	7,211,218	396,499,893
Equity investments				
Common stocks - Canadian	312,936,931	-	-	312,936,931
Common stocks - foreign	274,316,564	-	-	274,316,564
Pooled funds - foreign	-	58,668,180	-	58,668,180
	587,253,495	58,668,180	-	645,921,675
Alternative assets				
Real assets	-	-	112,777,151	112,777,151
Listed real assets	22,899,164	-	-	22,899,164
Private investments	-	-	62,929,767	62,929,767
Absolute return strategies	-	-	75,000,475	75,000,475
	22,899,164	-	250,707,393	273,606,557
Total Investments	**654,451,412**	**447,956,855**	**257,918,611**	**1,360,326,878**
Other Financial Assets				
Currency contracts	-	5,655,494	-	5,655,494
Cash margin and stock index futures	329,520	-	-	329,520
	329,520	5,655,494	-	5,985,014
Total financial assets evaluated at fair value	**654,780,932**	**453,612,348**	**257,918,612**	**1,366,311,892**
Financial liabilities				
Currency contracts	-	397,399	-	397,399
Total financial liabilities evaluated at fair value	**-**	**397,399**	**-**	**397,399**

NOTES TO THE FINANCIAL REPORT

December 31, 2017

3. Investments and Financial Instruments (continued)

(H) FAIR VALUE HIERARCHY (continued)

	Fair Value at December 31, 2016			
Accumulation Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets				
Cash equivalents	53,499,287	-	-	53,499,287
Fixed income investments - Canadian				
Federal bonds	-	36,012,655	-	36,012,655
Provincial bonds	-	61,042,265	-	61,042,265
Municipal bonds	-	49,821,584	-	49,821,584
Corporate bonds	-	105,439,305	-	105,439,305
Mortgages	-	438,082	-	438,082
Fixed income investments - foreign				
Federal bonds	-	45,236,544	-	45,236,544
Corporate bonds	-	21,116,110	-	21,116,110
Mortgages	-	34,537,999	-	34,537,999
	-	353,644,544	-	353,644,544
Equity investments				
Common stocks - Canadian	290,639,718	-	-	290,639,718
Common stocks - foreign	255,541,844	-	-	255,541,844
Pooled funds - foreign	-	76,182,526	-	76,182,526
	546,181,562	76,182,526	-	622,364,088
Alternative assets				
Real assets	-	-	78,601,369	78,601,369
Listed real assets	21,464,915	-	-	21,464,915
Private investments	-	-	57,858,291	57,858,291
Absolute return strategies	-	-	101,065,512	101,065,512
	21,464,915	-	237,525,172	258,990,087
Total Investments	**621,145,764**	**429,827,070**	**237,525,172**	**1,288,498,006**
Other Financial Assets				
Currency contracts	-	459,527	-	459,527
Cash margin and stock index futures	456,264	106,535	-	562,799
	456,264	566,062	-	1,022,326
Total financial assets evaluated at fair value	**621,602,028**	**430,393,132**	**237,525,172**	**1,289,520,332**
Financial liabilities				
Currency contracts	-	2,311,466	-	2,311,466
Total financial liabilities evaluated at fair value	**-**	**2,311,466**	**-**	**2,311,466**

NOTES TO THE FINANCIAL REPORT

December 31, 2017

3. Investments and Financial Instruments (continued)

(H) FAIR VALUE HIERARCHY (continued)

	Fair Value at December 31, 2017			
Pensioner Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets				
Cash equivalents	2,286,687	-	-	2,286,687
Fixed income investments - Canadian				
Federal bonds	-	2,060,009	-	2,060,009
Provincial bonds	-	20,672,122	-	20,672,122
Municipal bonds	-	1,122,580		1,122,580
Corporate bonds	-	43,008,302	-	43,008,302
Fixed income investments - foreign				
Corporate bonds	-	2,524,194	-	2,524,194
	-	69,387,207	-	69,387,207
Equity investments				
Pooled funds - Canadian	-	57,521	-	57,521
Pooled funds - foreign	-	73,322,200	-	73,322,200
	-	73,379,721	-	73,379,721
Alternative assets				
Real assets	-	-	6,952,430	6,952,430
Total Investments	**2,286,687**	**142,766,928**	**6,952,430**	**152,006,045**
Other Financial Assests				
Currency contracts	-	77,956	-	77,956
Total financial assets evaluated at fair value	**2,286,687**	**142,844,884**	**6,952,430**	**152,084,001**

NOTES TO THE FINANCIAL REPORT

December 31, 2017

3. Investments and Financial Instruments (continued)

(H) FAIR VALUE HIERARCHY (continued)

	Fair Value at December 31, 2016			
Pensioner Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets				
Cash equivalents	5,466,850	-	-	5,466,850
Fixed income investments - Canadian				
Federal bonds	-	1,730,133	-	1,730,133
Provincial bonds	-	31,235,696	-	31,235,696
Corporate bonds	-	47,678,230	-	47,678,230
Fixed income investments - foreign				
Corporate bonds	-	4,618,573	-	4,618,573
	-	85,262,632	-	85,262,632
Equity investments				
Pooled funds - Canadian	-	120,569	-	120,569
Pooled funds - foreign	-	56,916,664	-	56,916,664
	-	57,037,233	-	57,037,233
Alternative assets				
Real assets	-	-	15,366,265	15,366,265
Total Investments	**5,466,850**	**142,299,865**	**15,366,265**	**163,132,980**
Total financial assets evaluated at fair value	**5,466,850**	**142,299,865**	**15,366,265**	**163,132,980**
Financial liabilities				
Currency contracts	-	10,101	-	10,101
Total financial liabilities evaluated at fair value	**-**	**10,101**	**-**	**10,101**

During 2017 and 2016, there has been no transfer of amounts between Level 1 and Level 2 or to or from Level 3.

NOTES TO THE FINANCIAL REPORT

December 31, 2017

3. Investments and Financial Instruments (continued)

(H) FAIR VALUE HIERARCHY (continued)

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, 2016	$226,391,040	$22,213,845
Purchases	42,131,661	-
Sales	(41,734,332)	(8,297,389)
Change in fair value	10,736,803	1,449,809
Fair value, December 31, 2016	**$237,525,172**	**$15,366,265**
Purchases	67,401,763	-
Sales	(57,810,692)	(9,123,110)
Change in fair value	10,802,369	709,275
Fair value, December 31, 2017	**$257,918,612**	**$6,952,430**

4. Currency Contracts

Accumulation Fund — **Currency Contracts at December 31, 2017**

Long Position	Short Position	Notional CDN$ Equivalent	Average Exchange Rate	Assets CDN$	Liabilities CDN$
Canadian Dollar	US Dollar	213,191,108	1.2807	4,685,224	(7,727)
Canadian Dollar	Euro	47,803,189	1.5328	875,166	(26,638)
Canadian Dollar	Australian Dollar	4,162,483	0.9697	-	(39,610)
Canadian Dollar	Japanese Yen	1,942,833	0.0114	37,763	(16)
Japanese Yen	Canadian Dollar	8,597,391	88.001	-	(157,034)
US Dollar	Canadian Dollar	5,081,520	0.7822	-	(70,862)
Euro	Canadian Dollar	2,474,325	0.6582	-	(14,950)
Pound Sterling	Canadian Dollar	2,181,929	0.5821	-	(25,966)
Various currencies	Various currencies	7,006,823	-	57,341	(54,596)
Total		**$292,441,601**		**$5,655,494**	**($397,399)**

Accumulation Fund — **Currency Contracts at December 31, 2016**

Long Position	Short Position	Notional CDN$ Equivalent	Average Exchange Rate	Assets CDN$	Liabilities CDN$
Canadian Dollar	US Dollar	212,284,100	1.3316	-	(1,769,602)
Canadian Dollar	Japanese Yen	5,788,344	0.0115	74	-
Canadian Dollar	Euro	3,927,218	1.4089	-	(60,265)
US Dollar	Canadian Dollar	5,696,362	0.7624	122,504	(60 547)
US Dollar	Euro	5,163,429	1.0459	-	(62,733)
US Dollar	Hong Kong Dollar	3,271,197	0.1289	79,962	-
Hong Kong Dollar	Canadian Dollar	4,533,659	5.9169	103,554	(83,774)
Euro	US Dollar	4,752,552	0.9408	63,822	(83,536)
Various currencies	Various currencies	14,290,096	-	89,611	(191,009)
Total		**$259,706,957**		**$459,527**	**($2,311,466)**

NOTES TO THE FINANCIAL REPORT

December 31, 2017

4. Currency Contracts (continued)

Pensioner Fund — Currency Contracts at December 31, 2017

Long Position	Short Position	Notional CDN$ Equivalent	Average Exchange Rate	Assets CDN$	Liabilities CDN$
Canadian Dollar	US Dollar	2,707,844	1.2888	77,956	-
Total		**$2,707,844**	**-**	**$77,956**	**-**

Pensioner Fund — Currency Contracts at December 31, 2016

Long Position	Short Position	Notional CDN$ Equivalent	Average Exchange Rate	Assets CDN$	Liabilities CDN$
Canadian Dollar	US Dollar	3,583,192	1.3360	-	(10,101)
Total		**$3,583,192**		**-**	**($10,101)**

5. Investment Income

Accumulation Fund

	2017	2016
Cash & cash equivalents	1,438,568	738,057
Fixed income	8,541,278	9,708,831
Equity	16,498,168	16,023,335
Real assets	1,261,051	603,490
Private equity	3,016,091	1,338,204
Absolute return strategies	-	433,875
Securities lending	351,419	5,217
Total	**$31,106,575**	**$28,851,009**

Pensioner Fund

	2017	2016
Cash & cash equivalents	88,846	26,680
Fixed income	3,353,824	3,936,855
Equity	522,148	668,953
Real assets	328,835	572,163
Total	**$4,293,653**	**$5,204,651**

6. Receivable/Due to Accumulation and Pensioner Fund

As at December 31, 2017, $11,376 (2016 - $38,350) was the amount of the interfund account between the Accumulation Fund and the Pensioner Fund. The amount relates to administrative expenses.

NOTES TO THE FINANCIAL REPORT

December 31, 2017

7. Cash Margin and Stock Index Futures

The Plan enters into stock index futures contracts in order to efficiently and cost effectively gain market exposure to certain non-North American equity markets. The Plan is required to post cash margin as collateral in order to meet the requirements of the stock exchanges.

8. Administration Expenses

Administration expenses include the following:

Accumulation Fund	2017	2016
Service provider record keeping fees	$ 919,157	$ 1,014,417
Salaries and benefits	959,666	871,913
Custodial	319,155	276,123
Financial data providers	123,188	109,748
Actuarial	62,120	131,323
Performance measurement fees	98,903	107,044
Trustee	101,210	102,040
Liability insurance	89,615	96,584
Retraite Québec fees	86,578	84,177
Audit	62,851	47,498
GST/QST charge	96,170	46,339
Other expenses	126,146	129,538
Total	**$ 3,044,759**	**$ 3,016,744**

Pensioner Fund	2017	2016
Service provider record keeping fees	$ 59,912	$ 54,518
Salaries and benefits	112,467	119,348
Custodial	23,559	15,649
Actuarial	7,280	17,976
Performance measurement fees	7,757	8,106
Trustee	11,861	13,966
Liability insurance	10,502	13,221
Retraite Québec fees	10,146	11,522
Audit	7,366	6,502
GST/QST charge	11,270	6,343
Other expenses	20,995	8,782
Total	**$ 283,115**	**$ 275,933**

9. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year’s presentation.

GLOSSARY

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

Active Member Refers to a McGill employee contributing to the Plan.

Benchmark A standard against which rates of return can be compared to measure value added against market indices.

Consumer Price Index (CPI) An indicator provided by Statistics Canada that measures the price of a representative basket of goods and services. Inflation is the annual rate of change of the CPI.

Currency Hedging The act of entering into a financial contract in order to protect against changes in currency exchange rates.

Deferred Member Member no longer contributing and have not yet elected a settlement option from the Plan.

Defined Benefit Minimum Component Based on a formula that takes into account the plan member's credited service and highest 60-consecutive months of earnings. Applicable to members who joined or were eligible to join the Plan on December 31, 2008

Degree of Solvency Ratio of total solvency assets to total solvency liabilities at the valuation date, excluding Part B members' defined contribution balances and Part A members who are not entitled to any benefit under the DB minimum provision of the Plan.

Going Concern Surplus Means the amount, if any, by which the sum of the going concern assets exceed the going concern liabilities.

Going Concern Deficiency Means the amount, if any, by which the sum of the going concern liabilities exceed the going concern assets.

Glide Paths Evolving asset mix based on a member's age and risk tolerance. As a member approaches retirement, the asset mix becomes more conservative.

Going-Concern Valuation Assumes the Plan will remain in effect indefinitely and is, therefore, based on long-term actuarial assumptions and methods.

Hybrid Plan A pension plan that includes elements of both defined contribution and defined benefit provisions. Part A of the Plan is a hybrid plan arrangement.

McGill Group Life Income Fund (LIF) Decumulation phase settlement option offered by the University for the direct transfer of locked-in pension account balances from the Plan or LIRA.

McGill Group Locked In Retirement Account (LIRA) Accumulation phase settlement option offered by the University for the direct transfer of locked-in pension account balances from the Plan.

New Pool Represents plan members who purchased their pensions on or after January 1, 2000 on the "new" rate basis.

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

Part A Refers to the hybrid part of the Plan for employees who joined or were eligible to join on December 31, 2008.

Part B Refers to the defined contribution part of the Plan for employees who joined the Plan on or after January 1, 2009.

Pensioner Fund Assets of retired members or beneficiaries who have opted for an internal settlement. The Pensioner Fund is a close fund since January 1, 2011.

Pensioner Member Retired member or beneficiary receiving pension payments from the Pensioner Fund.

Plan Document The text of the McGill University Pension Plan.

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.

Solvency Top-Up Contribution Additional contributions required by the University to allow settlement DB benefits at a level of 100% when Part A members terminate employment, retire or reach age 65.

Supplemental Fund Represents the sum of all special contributions from the University into the Plan: the Solvency Top-Up Contributions as well as the funding related to actuarial valuation requirements less contributions paid out related to the defined benefit minimum component.

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