McGill

McGill University

Pension Plan

Annual Report

DECEMBER 31, 2019

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Bolded words throughout the annual report are defined in the Glossary.

2019 HIGHLIGHTS

INVESTMENT OPTIONS

$1.3B
OF ASSETS
14.0% RETURN IN 2019
5-YEAR ANNUALIZED RETURN: 7.6%
BALANCED ACCOUNT

$697.2M
OF ASSETS
20.4% RETURN IN 2019
5-YEAR ANNUALIZED RETURN: 8.8%
EQUITY POOL

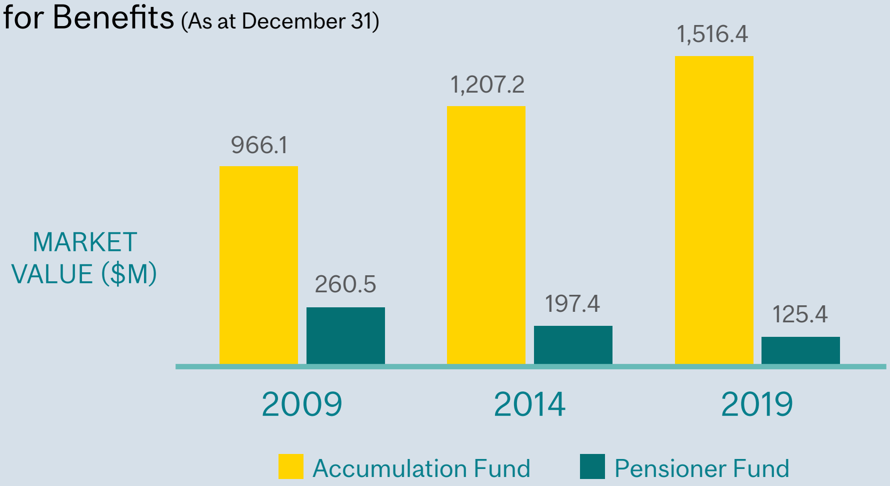
$41.1M
OF ASSETS
18.7% RETURN IN 2019
5-YEAR ANNUALIZED RETURN: 8.8%
SOCIALLY RESPONSIBLE INVESTMENT POOL

$455.1M
OF ASSETS
6.9% RETURN IN 2019
5-YEAR ANNUALIZED RETURN: 3.8%
FIXED INCOME POOL

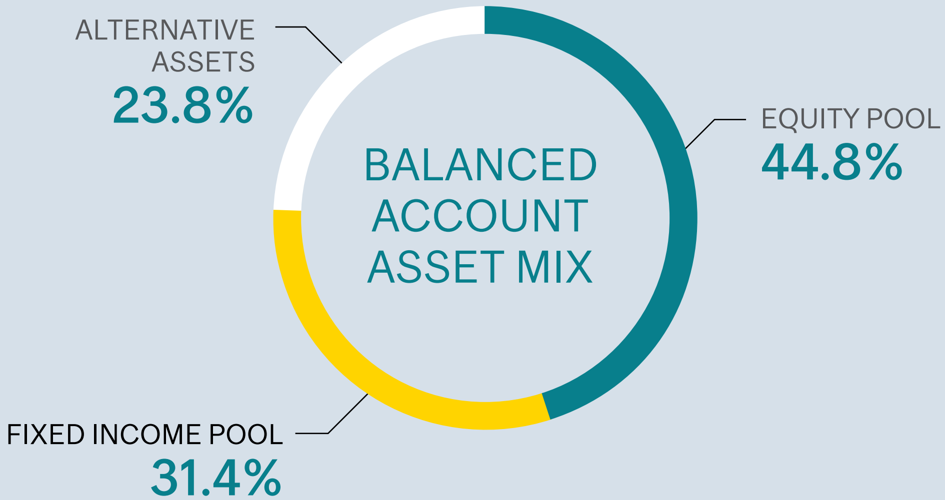
$24.5M
OF ASSETS
2.0% RETURN IN 2019
5-YEAR ANNUALIZED RETURN: 1.3%
MONEY MARKET POOL

$19.4M
OF ASSETS
10.6% TO 17.5% RETURN IN 2019
5-YEAR ANNUALIZED RETURN: 5.6% TO 8.4%
GLIDE PATH OPTIONS

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



82.5% OF ASSETS ARE INVESTED IN THE BALANCED ACCOUNT OPTION



Well-diversified $1.3 Billion in investments

2019 HIGHLIGHTS

MEMBERSHIP
AS AT DECEMBER 31, 2019

GROWTH IN PLAN MEMBERSHIP

Total membership includes **Active members**, **Deferred members** and **Pensioner members**.

Membership Statistics as of December 31

	2009	2014	2019
Active	5,869	5,738	6,545
Deferred	2,717	2,672	2,823
Pensioners	1,379	1,202	963
Total	9,965	9,612	10,331

Over the last 5 years, active membership has grown by 14%

PLAN MEMBERS AND ASSETS

6,545
ACTIVE MEMBERS

$1.1B in assets
47 member's average age
58% women
42% men

2,823
DEFERRED MEMBERS

$250.8M in assets
51 member's average age
50% women
50% men

963
MEMBERS IN PENSIONER FUND

533 in **Old Pool** with an average age of 88
430 in **New Pool** with an average age of 78
Closed fund since January 1, 2011

$7.8M Solvency Top-Up Contributions

740 settlements totalling $107.8M

124
RETIREMENTS

67 average age of new retirees

MESSAGE FROM THE PENSION ADMINISTRATION COMMITTEE

In 2019 the McGill University Pension Plan (the "Plan") had positive performance across all asset classes, translating into good returns for all investment options offered to members. In addition, the University's Pension Administration Office and the Pension Administration Committee ("PAC") have been working to provide improvements in the administrative options of the Plan, which are expected to be operational in 2020.

The goal of the PAC and the University is to maintain a well-managed and sustainable pension plan. The PAC delegates the responsibility for the investment strategy of the plan to the Pension Investment Committee ("PIC"). The PAC and the PIC continue to work together to manage the Plan so as to achieve its goals of financial stability, competitive rates of return and fair and reasonable contributions.

In addition to providing a socially responsible option to members, the PIC and the Office of Investments take into consideration environmental, social and governance ("ESG") factors in their selection of investment managers and strategies. We are pleased with the progress made in 2019 to increase the Plan's assets managed by managers integrating ESG risk factors into their investment process to 96 per cent.

Financial markets experienced a solid recovery in 2019 as several macro risks have faded, including the U.S.-China trade dispute and Brexit. The Balanced Account delivered a strong gross return of 14 per cent in 2019, recovering from a disappointing performance in 2018. As a result, the performance for the Balanced Account over the 1-, 2-, 3-, 5- and 10-year periods is much better than the long-term objective of inflation plus 3.7 per cent. The Equity Pool had the best performance for 2019 with a gross return of 20.4 per cent. Returns for each investment pool and its performance relative to its benchmark can be found on pages 17 to 23 of this report.

Consultation with members continued concerning Amendment #25, regarding changes to parts of the Plan, and we anticipate the Amendment will be presented to the Board of Governors for approval in 2020. As part of the Amendment #25, **Part A** members have been benefiting from a reduction in cost-sharing since September 2018. Other changes proposed include Part A members being able to take their Supplemental Retirement Benefit in the form of an annuity, and a variable benefit option that will allow members to receive Life Income Fund-type payments directly from the McGill University Pension Plan throughout their retirement years.

As detailed in the Plan Governance section (page 8) 2019 saw a few membership changes at the PAC and PIC. Ms. Tina Hobday (B.A.'88, LL.B'93) joined PAC as one of the representatives appointed by the Board of Governors, replacing Ms. Kim Holden. Ms. Holden served PAC and PIC for nine years, including several as vice-chair of PAC and one as interim chair. The PAC would like to extend its sincere thanks to Ms. Holden for her outstanding service to the McGill University Pension Plan.

Financial markets experienced a solid recovery in 2019

I would like to thank the members of the PAC and the PIC as well as 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.

Due to the Covid-19 pandemic, we wish to advise members of the McGill University Pension Plan that the Annual Meeting originally scheduled for Wednesday, May 6th, 2020 is being postponed. Once a new date is confirmed, it will be communicated to you. For any Pension Plan updates, please refer to our website: https://www.mcgill.ca/hr/pensions/mupp.

Professor Julia Scott, MBA, CPA, CA, CFA
Chair of the PAC

PLAN GOVERNANCE

Pension plan governance refers to the roles and responsibilities of the parties who administer and invest the assets of a pension plan as they fulfill 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, providing appropriate tools to encourage good decision making as well as procedures to ensure proper and timely execution, review and assessment of the pension plan's activities.

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: https://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 Board of Governors (the "Board") 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 2019, there were six 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 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 1, 2019, Professor Christopher Ragan was elected to a new three-year term in one of the Academic Staff positions while Ms. Rosemary Cooke was elected to a new three-year term in one of the Administrative & Support Staff positions. In June 2019, Ms. Kim Holden, appointed by the Board of Governors, resigned after almost 10 years of service on the PAC. She was replaced in June 2019 by Ms. Tina Hobday who was appointed by the Board of Governors for a three-year term. The PAC extends its thanks to Ms. Holden for her wise counsel and valuable contributions to the deliberations of the PAC as well as to the PIC.

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 2019, there were two regular meetings of the Audit Committee

The Audit Committee is composed of three PAC members

Audit Committee members are appointed by the PAC. In 2019, 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 (Chair of the PAC)
Senior Faculty Lecturer, Director GCPA Program
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 2021
Professor Christopher Ragan, PhD Director, Max Bell School of Public Policy Associate Professor of Economics	Elected by the Academic Staff Term ending May 2022
Ms. Rosemary Cooke, BCom Manager, Administration & Finance Faculty of Dentistry	Elected by the Administrative & Support Staff Term ending May 2022
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 (Chair of the PAC) Senior Faculty Lecturer, Director GCPA Program Desautels Faculty of Management	Elected by the Academic Staff Term ending May 2021
Ms. Diana Dutton, MBA Associate Vice-Principal Human Resources	Appointed by the Principal & the Chair of the Board Term ending March 2021
Mr. Myles Edwards, CFA Director and Senior Portfolio Manager-Fixed Income Intact Investment Management Inc.	Appointed by the Board of Governors Term ending April 2021
 **Ms. Tina Hobday** Lawyer, Partner Langlois lawyers, LLP	Appointed by the Board of Governors Term ending June 2022

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 2019, there were four regular meetings of the PIC

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.

In December 2019, Mr. Gilles Horrobin was replaced by Mr. François Quinty. The PIC thanks Mr. Horrobin for his five years of service.

Mr. Michael Boychuk, FCPA, FCA (Chair of the PIC) Corporate Director	Independent external member Second term ending June 2020
Mr. Nicolas Drapeau, CFA Vice-President, Private Markets Bimcor Inc.	Independent external member First term ending May 2021
Mr. Myles Edwards, CFA Director and Senior Portfolio Manager-Fixed Income Intact Investment Management Inc.	PAC member Term ending April 2021
Mr. Clifton Isings, CFA Chief Investment Officer and Vice-President CN Investment Division	Independent external member Second term ending November 2021
Mr. Pierre Lavigne, FSA, FCIA, CFA Independent Member	PAC member Term ending December 2021
Ms. Caroline Miller, MBA, CFA Senior Vice-President, Global Strategist BCA Research Inc.	Independent external member Second term ending September 2021
Mr. François Quinty, CFA Director Investment Management Via Rail Canada	Independant external member First term ending January 2023
Professor Julia Scott, MBA, CPA, CA, CFA Senior Faculty Lecturer, Director GCPA Program Desautels Faculty of Management	Chair of the PAC as ex-officio Term ending May 2021

PENSION ADMINISTRATION OFFICE AND OFFICE OF INVESTMENTS

The day-to-day management of the Plan is performed 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 Member secure 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, attaining the normal retirement date, 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: https://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 at least tri-annually. 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, 2017 valuation reported that the Plan has a going concern unfunded liability of $47.4 million and a going concern funded ratio of 97.0%. The prior valuation was performed as at December 31, 2015.

The University was required to make special contributions of $9,590,203 in 2019 to fund DB liabilities

The table below shows the change in the Plan's going concern funded ratio from 2015 to 2017:

GOING-CONCERN FUNDING POSITION	DECEMBER 31, 2017 $	DECEMBER 31, 2015 $
MARKET VALUE OF ASSETS	1,537,696,000	1,447,567,000
ACTUARIAL LIABILITIES	1,585,071,000	1,525,574,000
UNFUNDED LIABILITY	(47,375,000)	(78,007,000)
FUNDED RATIO	97.0%	94.9%

The improvement of the funded position is mainly due to investment returns being higher than expected since 2015 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. The degree of solvency is used in order to determine additional University contributions required for Part A members to access 100% of their holdings upon termination, retirement or reaching age 65. The results of the solvency valation 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 is now based only on the solvency assets and liabilities of the defined benefit minimum provision of the Plan, excluding all members' defined contribution balances.

Based on the solvency valuation as at December 31, 2018, the degree of solvency of the Plan was 62.5%.

The University's special contributions related to the Solvency Top-Up Contributions were $7,788,485 in 2019

The table below shows the change in the degree of solvency from 2017 to 2018:

SOLVENCY POSITION[1]	DECEMBER 31, 2018 $	DECEMBER 31, 2017 $
MARKET VALUE OF ASSETS	253,336,000	975,725,000
SOLVENCY LIABILITIES	405,466,000	1,133,514,000
SOLVENCY DEFICIENCY	(152,130,000)	(157,789,000)
DEGREE OF SOLVENCY	62.5%	86.1%

Note 1: For basis of valuation, refer to the Actuarial Valuation at page 26.

The methodology for calculating the degree of solvency changed in 2018 which explains the large variation in the degree of solvency ratio. However, as demonstrated in the table above, the actual financial position has not deteriorated. The solvency deficiency has actually decreased from $157,789,000 to $152,130,000 from 2017 to 2018. The change in methodology does not impact plan members as the University continues to provide funding in order to allow departing employees access to 100% of their account values at settlement.

Part A members - Special Contributions

Effective January 1, 2014, the Plan was amended to introduce cost sharing of deficits with Part A members. Since introduction, members' cost sharing contribution rate was 2.2% with the University's contribution towards the DC component reduced by an equivalent amount. As of September 2018, the rate was decreased to 1.9%. 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 2019

ACCUMULATION FUND	FROM MEMBERS $	FROM UNIVERSITY $
REGULAR CONTRIBUTIONS	29,582,236	31,259,670
SPECIAL CONTRIBUTIONS – DB COMPONENTS[1]		9,590,203
SOLVENCY TOP-UP CONTRIBUTIONS		7,788,485
PART A MEMBER-SPECIAL CONTRIBUTIONS	4,812,371	
VOLUNTARY CONTRIBUTIONS	1,453,372	
TOTAL	35,847,979	48,638,358

Note 1: Composed of $4,913,703 for current service cost and $4,676,500 for deficit amortization payments

BENEFITS AND PENSION PAYMENTS

Accumulation Fund

During 2019, 740 settlements were transacted totalling $107,877,084. The type of settlement transactions processed and the benefits paid out during the year are detailed below.

Settlements in 2019

ACCUMULATION FUND	NUMBER OF SETTLEMENTS	TOTAL AMOUNT $
RETIREMENT BENEFITS – EXTERNAL TRANSFER	252	47,232,279
RETIREMENT BENEFITS – TRANSFER TO MCGILL UNIVERSITY LIF/LIRA	117	34,733,296
TERMINATION BENEFITS	357	21,422,789
DEATH BENEFITS	14	4,488,720
TOTAL	740	107,877,084

Pensioner Fund

As at December 31, 2019 there were 963 pensioners and beneficiaries receiving pensions from the Pensioner Fund. The total of such pension payments amounted to $24,371,381 in 2019.

Annuity Dividends

When a funding surplus emerges 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

No amendments were made to the Plan in 2019. Four consultation sessions were held with members regarding proposed changes to the Plan, including:

<u>For all members:</u> the introduction of a variable benefits option to provide Life Income Fund type payments directly from the Plan.

<u>For Part A members:</u> the option to receive the Supplemental Retirement Benefit as a pension or maintain the transfer value thereof at 100% as well as the elimination of a reference to a specific member deficit cost-sharing rate in the Plan Document.

These changes, as well as all other changes, require approval by the Board of Governors, following which, they will be filed with the regulatory authorities as Amendment No. 25. The effective dates for any approved changes will be communicated to all Plan members once they are confirmed.

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 2019, the number of web logins grew to 60,658, which represents a 20% increase over the prior year. There were 114,881 web page views in 2019.

	2019	2018	COMPARED TO 2018
WEB SESSIONS (LOGINS)	60,658	50,399	+ 20%
WEB PAGE VIEWS	114,881	106,955	+7%

Account balances are updated on a daily basis, personal rates of return and fund performance tables are updated monthly. 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. https://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.

	2019	2018	COMPARED TO 2018
INVESTOR PROFILE QUESTIONNAIRE	3,664	6,327	-42%
RETIREMENT INCOME CALCULATOR	7,781	3,413	+128%

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 investments.

The number of asset allocation changes rose by 2% during the year compared to 2018.

	2019	2018	COMPARED TO 2018
ASSET ALLOCATION CHANGE	4,351	4,257	+ 2%

VIDEO CAPSULES

In 2019, the Pension Administration Office launched a series of videos capsules to help members under the Plan. These capsules can be viewed at: https://www.mcgill.ca/hr/pensions/mupp/watch-video-capsule.

INFORMATION SESSIONS

The Pension Administration Office offers information sessions to employees and members of the Plan. In 2019, 42 sessions were presented to 702 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/Payout Phase Information Session, Group Retirement Savings Plan Session and Group Life Income Fund Session. In 2019, there were also consultation sessions regarding Pension Plan Amendments.

Members can register to attend an information session through the McGill University Human Resources website at: https://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 option. Members can access Quarterly Profile Sheets through our website at: https://www.mcgill.ca/hr/pensions/mupp/invest/quarterly-profile-sheets.

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 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: https://www.mcgill.ca/hr/pensions/mupp/invest or can be viewed in the offices of the PAC, during normal business hours.

MANAGEMENT COMMENTARY
By the Office of Investments (February 2020)

In 2019, equity markets had an excellent year; global equities gained 26.2%, Canadian equities gained 22.9% and U.S. equities recorded an impressive gain of 31.5%. These are exceptional results, especially considering that the economy has seen growth for more than 10 years, the longest expansion cycle in history. These strong results came after a disappointing 2018 when most equity markets declined.

The bond market provided a respectable return of 6.9% in 2019 due to an overall decline in interest rates during the year. Further, the Fixed Income Pool's important allocation to corporate credit, which outperformed compared to government bonds, contributed to it's performance.

The Alternative Assets portfolio, comprised of real assets, diversifying assets and private investments, generated a net return of 9.8% in 2019. This performance was driven by the strong returns of the Plan's real asset funds (+13.9%), which include real estate and infrastructure funds. In 2019, the private investment portion of the portfolio earned a return of 5.0%, below the robust performance of 2017 and 2018 (20.3% and 17.4%, respectively). The lower performance in 2019 was primarily attributable to the earlier stage of several private investments, a period characterized by high initial expenses and low value creation. Although the alternative assets portfolio's return in 2019 was lower than the return of the Equity Pool (20.4%), their purpose in a balanced portfolio is to provide exposure to a broader array of investments in order to improve diversification and increase expected returns over a full market cycle.

Overall, in 2019, the Office of Investments is pleased with the 14% return of the Balanced Account but it should be noted that this level of performance is above reasonable long-term return expectations. The current investment environment is challenging for investors as markets are rewarding a more limited number of companies that are generating high levels of revenue growth with, at times, no emphasis on company profitability. With global growth expectations declining, investors appear to be chasing growth where it is available with less regard to overall company fundamentals. This dynamic is common during the later stages of a market cycle. Additionally, as bond markets barely offer inflation protection with long-term government bonds yielding less than 2%, investors are favoring equities, real assets and private investments which is pushing prices of riskier assets to new highs. Under these circumstances, hiring investment managers that favor high quality investments and place emphasis

on the price paid rather than only on expected growth is the strategy that has been pursued by management.

As interest rates continue to remain low and credit spreads close to their historical minimums, bonds are currently expensive. Moreover, the 30-year Canadian government bond yield is essentially the same as its 2-year counterpart, thus the incentive for owning bonds and especially long-term issues is minimal. In this context, although equities and alternative investments can be currently considered expensive, they still represent a more compelling investment opportunity over the mid to long-term horizon. This said, the Office of Investments is aware this strategy may succumb to heightened short-term volatility due to being in the latter stages of a market cycle. However, successful investing requires a long term view, patience and discipline.

As such, the Office of Investments remains committed to the Balanced Account's long-term strategy of maintaining a sizeable portion invested in equities. In addition, it is expected that the deployment in private investments and real assets funds, which are typically overlooked or inaccessible by retail investors, will continue. The inclusion of real assets, such as infrastructure and real estate, provide exposure to less economic cyclicality with asset lives spanning over decades. However, these investments may not keep up during periods of strong equity market performance but serve to improve the risk adjusted returns of the Balanced Account as we progress deeper into the late stages of the business cycle.

ACCUMULATION FUND

The Accumulation Fund includes assets of Part A and Part B members in addition to assets of the Supplemental Fund. 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 automatically invested in the Balanced Account

PERFORMANCE RELATIVE TO BENCHMARK

As at December 31, 2019 (gross of fees)

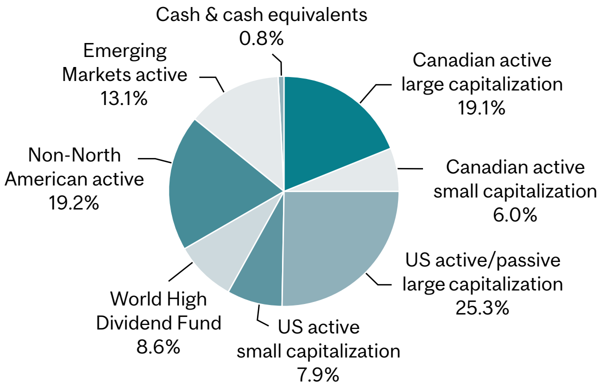
ASSET CLASSES	BENCHMARKS	ASSETS ($ Millions)	2019 RETURNS	BENCHMARK'S RETURNS	VALUE ADDED
SPECIFIC INVESTMENT STRATEGIES					
Equity Pool	22% S&P/TSX Composite 38% S&P 500 (50% USD Hedged) 29% MSCI EAFE 11% MSCI Emerging Markets	697.2	20.4%	22.5%	-2.1%
Fixed Income Pool	FTSE Canada Universe Bond	455.1	6.9%	6.9%	0.0%
Alternative Assets[1]	50% Real Assets Benchmark 25% Private Investments Benchmark 25% Diversifying Assets Benchmark	301.6	9.8%	7.7%	2.1%
Money Market Pool	FTSE Canada 30-Day T-Bill	24.5	2.0%	1.7%	0.3%
BALANCED INVESTMENT STRATEGIES					
Balanced Account	45% Equity Pool Benchmark 20% Alternative Assets Benchmark 35% Fixed Income Pool Benchmark	1,253.4	14.0%	14.0%	0.0%
Socially Responsible Investment Pool	20% S&P/TSX Capped Composite 40% MSCI World Total Return Net (C$) 40% FTSE Canada Universe Bond	41.1	18.7%	15.8%	2.9%
Glide Path Options		19.4	10.6% to 17.5%	10.9% to 18.7%	-1.2% to -0.3%

[1] Net of fees

ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

EQUITY POOL

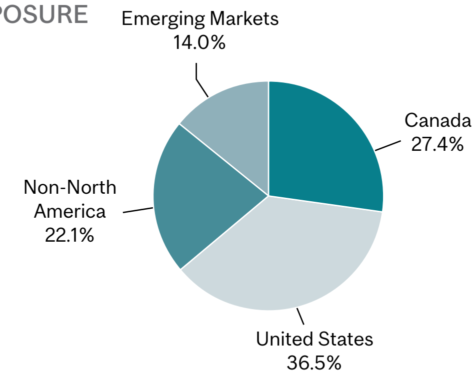
7 STRATEGIES



$697.2M

45.9% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in **basis points**

Management fees	41
Administration fees	23
TOTAL	64

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 **Consumer Price Index** (CPI) + 5.0%, being 6.7%

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return (gross of fees) of the Equity Pool was 10.2%, outperforming the long-term objective by 3.5%, as well as the benchmark by 0.2%.

Over the past five years, the Equity Pool delivered an annualized rate of return (gross of fees) of 8.8%, below the benchmark return of 9.8%, but above the long-term objective of 6.7%.

2019 PERFORMANCE

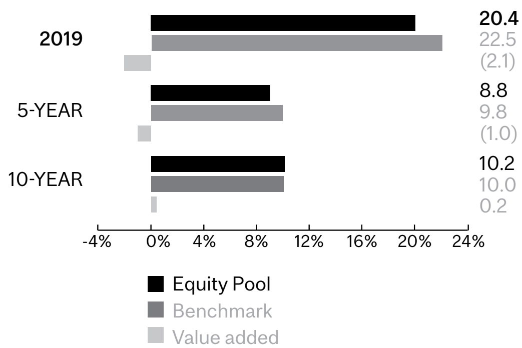
For the 12-month period ending on December 31, 2019, the Equity Pool returned 20.4% (gross of fees), an impressive return on an absolute basis, but not enough to beat the benchmark performance of 22.5% during the same period. Equity markets across the world have witnessed a stable year of continuous growth. This is in stark contrast with the market depression experienced during the last quarter of 2018, encouraged by a reversal of central banks' rate hike policies and the seemingly easing of trade conflicts. The Canadian (S&P/TSX) and global equity (MSCI World) indices returned 22.8% and 21.2% (in Canadian dollars), respectively, the highest yearly performance of global equities since 2013. The defensive nature of the Equity Pool's portfolio and its overweight to small capitalization equities hindered the portfolio's ability to outperform its benchmark in this remarkable growth year that has been 2019.

PORTFOLIO CHANGES

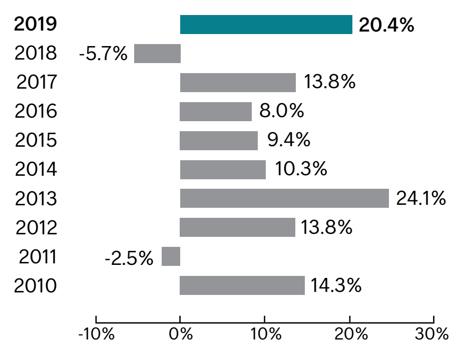
In 2019, a Canadian equity mandate was terminated and the following changes to the allocation have also been performed:

-reduced the target Canadian Equity allocation from 15% to 10%;
-increased the Global Equity allocation from 30% to 35%.

ANNUALIZED RETURNS vs BENCHMARK
(gross of fees)



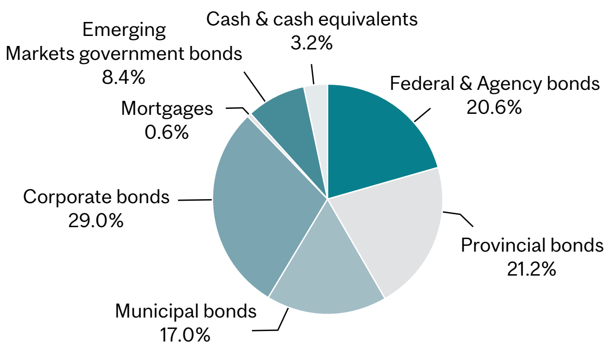
HISTORIC ANNUAL RETURNS
(gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

FIXED INCOME POOL

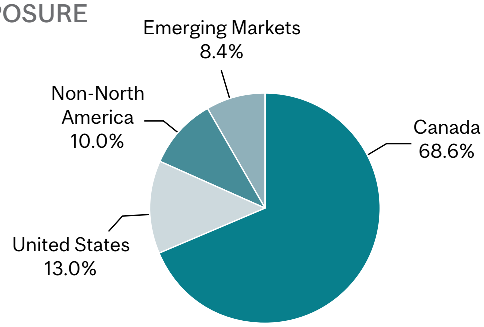
6 STRATEGIES



$455.1M

30.0% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	28
Administration fees	22
TOTAL	50

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%, being 3.2%.

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return (gross of fees) of the Fixed Income Pool was 4.9%, outperforming both the long-term objective and the benchmark by 1.7% and 0.4%, respectively.

Over the past five years, the Fixed Income Pool delivered an annualized rate of return (gross of fees) of 3.8%, leading the long-term objective and the benchmark, both of which returned 3.2% over the period.

2019 PERFORMANCE

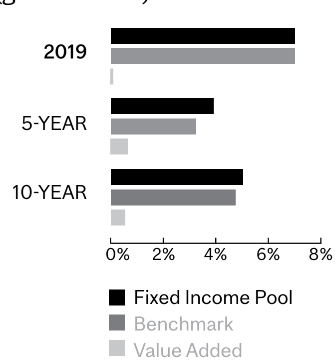
For the 12-month period ending on December 31, 2019, the Fixed Income Pool provided a return of 6.9% (gross of fees), the same performance generated by the benchmark this year. The shorter duration has been a headwind for the portfolio during most of the year in the face of declining rates. The reversal of this trend and the good performance of the international bond managers in the last quarter allowed the Fixed Income Pool to catch up to the benchmark's performance by the end of the fourth quarter.

PORTFOLIO CHANGES

Early in 2019, the global bond mandate was terminated and replaced by a global government bond mandate. In addition, the exposure to corporate bonds was reduced throughout the year.

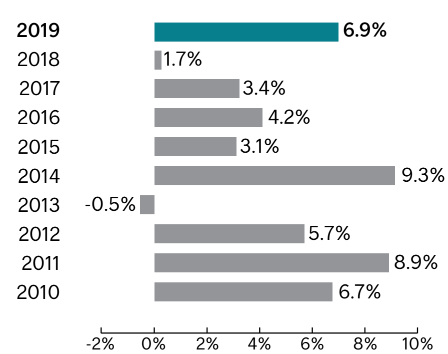
ANNUALIZED RETURNS vs BENCHMARK

(gross of fees)



HISTORIC ANNUAL RETURNS

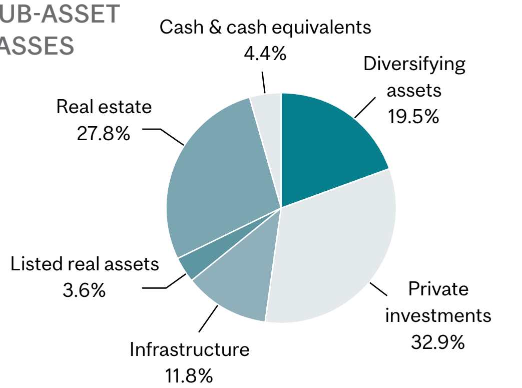
(gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

ALTERNATIVE ASSETS

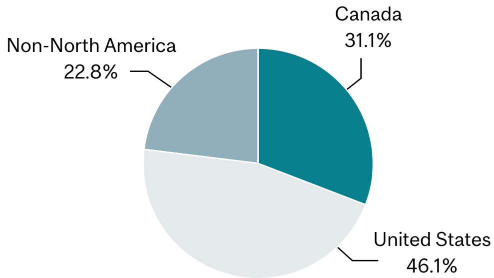
5 SUB-ASSET CLASSES



$301.6M

19.8% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	211
Administration fees	23
TOTAL	234

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%, being 6.2%.

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return of the Alternative Assets was 10.8% (net of fees), outperforming its long-term objective by 4.6% and the benchmark by 1.5%

Over the past five years, the Alternative Assets delivered an annualized rate of return of 8.9% (net of fees), well above the long-term objective of 6.2% and over the benchmark return of 7.7%.

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

2019 PERFORMANCE

For the 12-month period ending on December 31, 2019, the Alternative Assets generated a return of 9.8% (net of fees), which is above the benchmark return of 7.7%. The net return of 13.9% generated by real asset strategies (real estate and infrastructure) has been the largest contributor to the result achieved by the Alternative Assets this year.

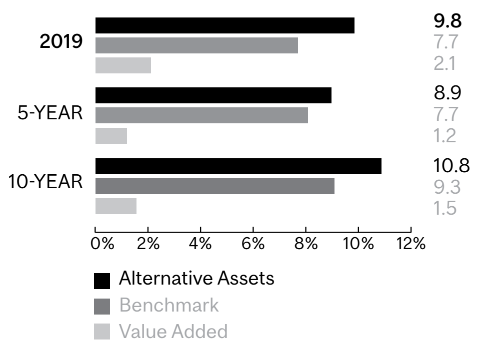
PORTFOLIO CHANGES

In 2019, further commitments were made into the private investments space, with two investments in private debt and one investment in private equity. Additional commitments were also made in real assets with one investment into a North American infrastructure fund and another into a Canadian real estate fund.

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.

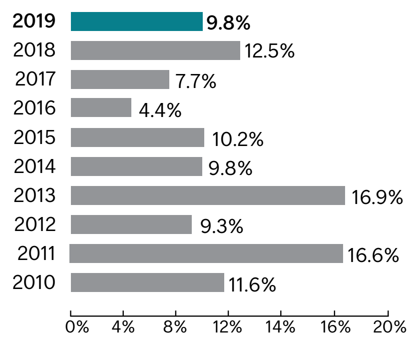
ANNUALIZED RETURNS vs BENCHMARK

(net of fees)*



HISTORIC ANNUAL RETURNS

(net of fees)*

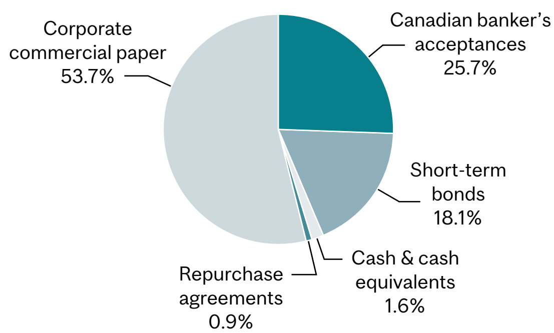


*net of fees, per industry standards

ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

MONEY MARKET

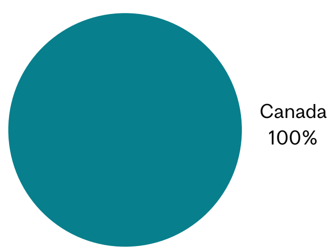
5 TYPES OF SECURITIES



$24.5M

1.6% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	7
Administration fees	11
TOTAL	18

INVESTMENT OBJECTIVE

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

The long-term objective is to outperform the return of the FTSE 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 (gross of fees) of the Money Market Pool was 1.1%, slightly lagging the long-term objective by 0.1%, but ahead of the benchmark by 0.2%.

Over the past five years, the Money Market Pool delivered an annualized rate of return of 1.3% (gross of fees), above the benchmark return of 0.9% and just ahead of the long-term objective of 1.2%.

2019 PERFORMANCE

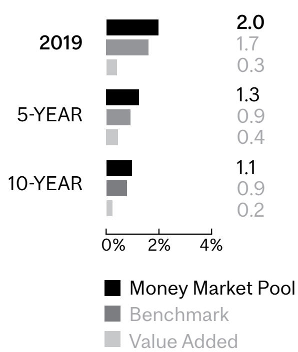
For the 12-month period ending on December 31, 2019, the Money Market Pool provided a return of 2.0% (gross of fees), outperforming its benchmark by 0.3%. The Overnight Policy Rate by the Bank of Canada remained unchanged at 1.75% for the full duration of this year, its highest point since 2008. Because of this, the Pool achieved its highest annual return of the last 11 years.

PORTFOLIO CHANGES

No changes occurred during 2019.

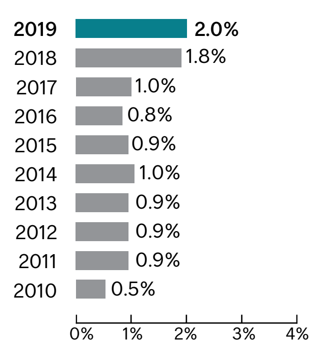
ANNUALIZED RETURNS vs BENCHMARK

(gross of fees)



HISTORIC ANNUAL RETURNS

(gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

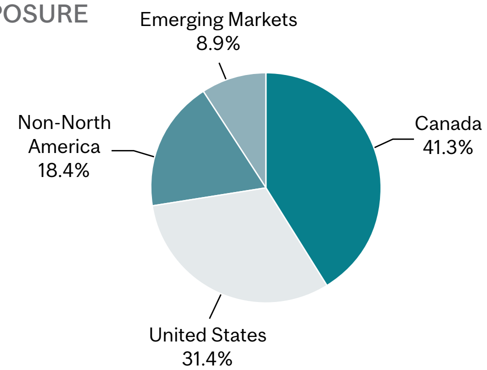
BALANCED ACCOUNT

3 ASSET CLASSES	DECEMBER 31, 2019	ACTUAL TARGET	MIN - MAX
Equity Pool	44.8%	45%	30% - 63%
Fixed Income Pool	31.4%	35%	25% - 55%
Alternative Assets	23.8%	20%	10% - 40%

$1,253.4M

82.5% 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 CPI + 3.7%, being 5.4%.

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return (gross of fees) of the Balanced Account was 8.9%, outperforming the long-term objective by 3.5% and the portfolio's benchmark by 1.1%.

Over the past five years, the Balanced Account delivered an annualized rate of return of 7.6% (gross of fees), outperforming both the long-term objective of 5.4% and the benchmark return of 6.8%.

2019 PERFORMANCE

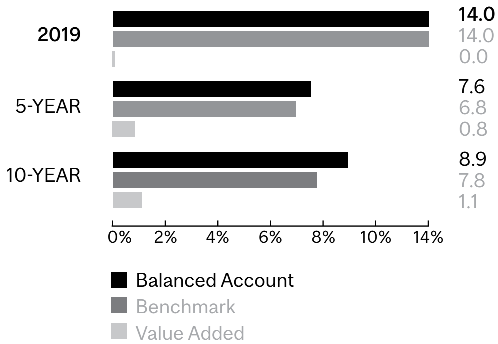
For the 12-month period ending on December 31, 2019, the Balanced Account provided a return of 14.0% (gross of fees) led by a strong equity market. This performance is in line with the Balanced Account benchmark performance. The Alternative Assets' managers have provided the highest contribution on a relative basis, especially in the Real Estate asset class. This outperformance from the Alternative Assets helped recoup the lag incurred by the managers in the Equity Pool and resulted in the Balanced Account finishing the year without falling behind the benchmark.

PORTFOLIO CHANGES

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

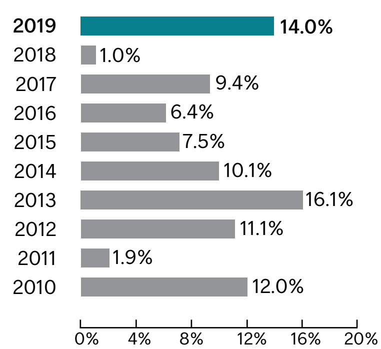
ANNUALIZED RETURNS vs BENCHMARK

(gross of fees)



HISTORIC ANNUAL RETURNS

(gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

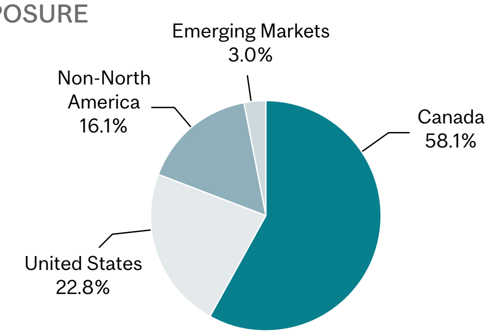
SOCIALLY RESPONSIBLE INVESTMENT POOL

3 RBC VISION FUNDS	DECEMBER 31, 2019	ACTUAL TARGET
Canadian Equity Fund	20.5%	20%
Global Equity Fund	42.3%	40%
Canadian Bond Fund	37.2%	40%

$41.1M

2.7% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	22
Administration fees	9
TOTAL	31

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%, being 5.3%.

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return (gross of fees) of the SRI Pool is 8.4%, well-above the long-term objective by 3.1%, as well as outperforming the benchmark return by 0.8%.

Over the past five years, the SRI Pool delivered an annualized rate of return of 8.8% (gross of fees), outperforming both the long-term return objective of 5.3% and the benchmark return of 6.9%.

2019 PERFORMANCE

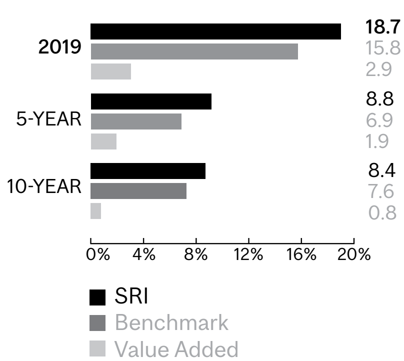
For the 12-month period ending on December 31, 2019, the SRI Pool returned 18.7% (gross of fees), largely outperforming the benchmark return of 15.8%. The allocation to unhedged global equities, representing 42% of the overall pool, has been the main contributor of value added in 2019. The high level of absolute return generated can be attributed to the good performance of the equity markets across the globe during the year.

PORTFOLIO CHANGES

No changes occurred during 2019.

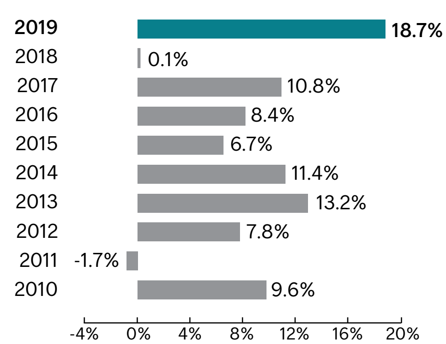
ANNUALIZED RETURNS vs BENCHMARK

(gross of fees)



HISTORIC ANNUAL RETURNS

(gross of fees)



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

$19.4M

1.3% OF ACCUMULATION FUND ASSETS

FEES in basis points

Management fees	50 (A) to 65 (F)
Administration fees	22 (A) to 23 (F)
TOTAL	72 (A) to 88 (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, to the Alternative Assets and to 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 options were introduced in 2014. Since inception, the 5-year annualized rate of return of the six different allocations ranged from 5.6% (A) to 8.4% (F).

2019 PERFORMANCE

For the 12-month period ending December 31, 2019, Glide Path options had a return ranging from 10.6% (A) to 17.5% (F).

PORTFOLIO CHANGES

During 2019, 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

	Allocation	A	B	C	D	E	F
HISTORIC ANNUAL RETURNS	2019	10.6%	12.1%	13.4%	14.8%	16.1%	17.5%
	Benchmark	10.9%	12.5%	14.0%	15.6%	17.2%	18.7%
	Value Added	-0.3%	-0.4%	-0.6%	-0.8%	-1.1%	-1.2%
	2018	0.9%	0.7%	0.0%	-0.8%	-1.5%	-2.2%
	2017	6.4%	7.7%	8.7%	9.8%	10.8%	11.8%
	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%
ANNUALIZED RETURN	5-year	5.6%	6.4%	6.9%	7.4%	7.9%	8.4%

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.

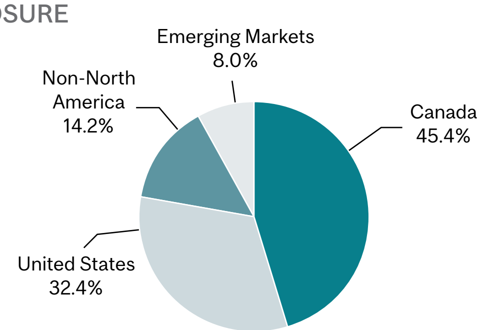
3 ASSET CLASSES

	DECEMBER, 31 2019	ACTUAL TARGET
Global Equity	52.0%	50%
Fixed Income	43.8%	50%
Real Estate	4.2%	0%

$126.8M

OF ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	45
Administration fees	20
TOTAL	65

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%, being 4.95%.

HISTORIC PERFORMANCE

Over the past 10 years, the annualized rate of return of the Pensioner Fund was 8.3%, outperforming the long-term objective by 3.35%.

Over the past five years, the Pensioner Fund delivered an annualized rate of return of 8.6%, significantly above the long-term objective of 4.95% and outperforming the benchmark return of 6.4%. The five-year performance has benefited from the 2017 increase in equity from 35% to 50%.

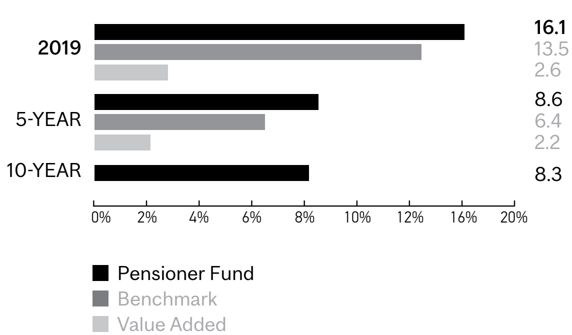
2019 PERFORMANCE

For the 12-month period ending on December 31, 2019, the Pensioner Fund provided a return of 16.1%, outperforming the benchmark return of 13.5%. The excellent performance of the global equity manager and the corporate bond manager both contributed to the outstanding value added generated by the fund this year.

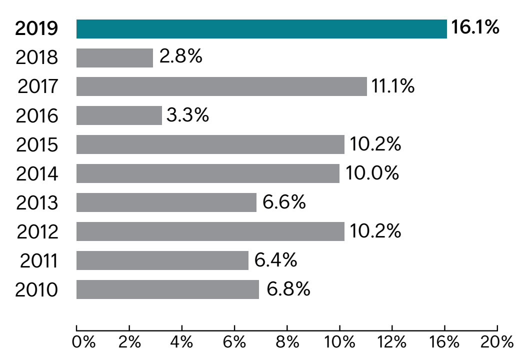
PORTFOLIO CHANGES

No changes occurred during 2019.

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 administrative services Compliance monitoring
Morneau Shepell	Record keeping Processing transactions Cash flow allocations to investment options Settlement package Host the Plan website
Eckler	Actuarial services
Deloitte	External auditor
Ernst & Young	Tax consultant

INVESTMENT MANAGERS (excluding Alternative Assets)

Equity Pool	Canadian Equity	Fidelity Investments Van Berkom & Associates
	US Equity	Wellington Management Van Berkom & Associates State Street Global Advisors
	Non-North American Equity	Hexavest William Blair & Company RBC Global Asset Management
	Global Dividend Equity	State Street Global Advisors
Fixed Income Pool	Canadian Bonds	Canso Investment Counsel RBC Global Asset Management
	Infrastructure Private Debt	AMP Capital
	Municipal & Provincial Bonds	Fiera Capital
	Global Government Bonds	Colchester Global Investors
	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, 2017

ECKLER

At the request of the University and Pension Administration Committee, we have performed a complete actuarial valuation of the McGill University Pension Plan as at December 31, 2017. The results of such valuation were presented in a formal report dated July 24, 2018, 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 DB Minimum Segment settlements based on the most recently calculated degree of solvency (62.5%) as part of the interim solvency valuation performed as at December 31, 2018 as per the *Quebec Supplemental Pension Plans Act*. Note that the degree of solvency methodology has been changed as at December 31, 2018 and is now based on the solvency assets and solvency liabilities of the DB segments only, excluding the DC Segment.

See Benefits and Administration section for the main results of the Solvency Valuation.

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, 2020 and needs to be filed with governmental authorities before the regulatory deadline of September 30, 2021. Furthermore, an interim valuation must be prepared as at December 31, 2019 to report on the solvency financial position of the Plan. The University is required to continue to contribute based on the December 31, 2017 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

MANAGEMENT'S LETTER OF RESPONSIBILITY

To the Pension Administration Committee of the McGill University Pension Plan

The financial report of the McGill University Pension Plan (the "Plan") has been prepared by management and approved by the Pension Administration Committee ("PAC").

Management is responsible for the preparation and fair presentation of the financial report in accordance with the financial reporting provisions set out in the 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* (Quebec). This responsibility includes selecting the appropriate accounting principles and methods and exercising an objective judgment when making decisions affecting the measurements of transactions.

In discharging its responsibilities for the integrity and fairness of the financial report, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of the financial report.

Ultimate responsibility for the financial report rests with the members of the PAC. The PAC oversees financial reporting through its Audit Committee. The Audit Committee, comprised of three individuals who are neither management nor employees of the Plan, reviews the financial report and recommends it for approval to the PAC. The Audit Committee fulfills its responsibilities by reviewing the financial information prepared by management and by discussing relevant matters with management and the external auditors. The Audit Committee is also responsible for recommending the appointment of the Plan's external auditors to the PAC. The Audit Committee meets regularly with management and the external auditors to review the scope and timing of the audit, to discuss any audit findings and recommendations for improvement, and to ensure it has appropriately discharged its responsibilities.

Deloitte LLP has been appointed by the PAC to audit the financial report and report directly to the Audit Committee; their report follows. The external auditors have full and free access to, and meet periodically with, both the Audit Committee and management to discuss their audit findings.

March 18, 2020

Senior Manager, Finance & Governance

Chief Investment Officer and Treasurer

INDEPENDENT AUDITOR'S REPORT

To the Pension Administration Committee of the McGill University Pension Plan

Opinion

We have audited the financial report of McGill University Pension Plan (the "Plan"), which comprises the statement of net assets available for benefits as at December 31, 2019, 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 (collectively referred to as the "financial report").

In our opinion, the accompanying financial report presents fairly, in all material respects, the net assets available for benefits of the Plan as at December 31, 2019, 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 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* (Quebec).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial report in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting

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 Plan to comply with the financial reporting requirements of Retraite Québec. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial report and our auditor's report thereon, in the McGill University Pension Plan Annual Report.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other informationidentified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the McGill University Pension Plan Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Report

Management is responsible for the preparation and fair presentation of the financial report in accordance with the financialreporting provisions set out in the 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* (Quebec), 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.

In preparing the financial report, management is responsible for assessing the Plan's ability to continue as a going concern,disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte[1]

Montréal, Québec
March 18, 2020

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

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31, 2019
(Tabular amounts expressed in thousands of dollars)

Accumulation Fund

ASSETS	2019	2018
Investments (Note 3)	$1,502,335	$1,351,973
Cash	9,427	8,143
Currency contracts (Note 4)	7,557	608
Cash margin and stock index futures (Note 6)	1,197	347
Accrued investment income	3,561	3,591
Accounts receivable	1,340	4,886
McGill University contributions receivable	764	1,897
	1,526,181	1,371,445
LIABILITIES		
Currency contracts (Note 4)	787	6,324
Accounts payable and accruals	2,334	1,822
Due to Pensioner Fund (Note 7)	17	14
Owing to former members	6,627	3,481
	9,765	11,641
Net assets available for benefits	**$1,516,416**	**$1,359,804**

Pensioner Fund

ASSETS	2019	2018
Investments (Note 3)	$125,454	$130,527
Cash	204	615
Currency contracts (Note 4)	48	–
Accrued investment income	786	1,149
Accounts receivable	1,076	1,254
Receivable from Accumulation Fund (Note 7)	17	14
	127,585	133,559
LIABILITIES		
Currency contracts (Note 4)	–	84
Accounts payable and accruals	407	83
Due to McGill University	1,814	1,920
	2,221	2,087
Net assets available for benefits	**$125,364**	**$131,472**
Total net assets available for benefits	**$1,641,780**	**$1,491,276**

The accompanying notes are an integral part of the financial report.

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31, 2019
(Tabular amounts expressed in thousands of dollars)

Accumulation Fund

	2019	2018
Net assets available for benefits, January 1	$1,359,804	$1,384,304
INCREASE		
Investment income (Note 5)	36,190	36,157
Realized gains	61,218	43,548
Members' regular contributions	29,582	26,927
Members' special contributions	4,812	5,314
Members' voluntary contributions	1,454	2,028
McGill University's regular contributions	31,260	28,506
McGill University's special contributions	17,379	20,866
Transfers from other registered plans	612	1,207
Total increase in net assets	182,507	164,553
DECREASE		
Administration expenses (Note 8)	3,261	3,006
Investment management fees	3,523	3,475
Transaction costs	346	425
Retirement benefits	47,232	38,317
Retirement benefits - McGill University LIF/RIF	34,733	23,536
Termination benefits	21,423	35,390
Death benefits	4,489	6,353
Total decrease in net assets	115,007	110,502
Change in unrealized fair value of investments (unrealized gains (losses))	89,112	(78,551)
Change in net assets available for benefits	**156,612**	**(24,500)**
Net assets available for benefits, December 31	**$1,516,416**	**$1,359,804**

Pensioner Fund

	2019	2018
Net assets available for benefits, January 1	$131,472	$153,392
INCREASE		
Investment income (Note 5)	2,749	3,647
Realized gains	3,279	6,392
Total increase in net assets	6,028	10,039
DECREASE		
Administration expenses (Note 8)	258	255
Investment management fees	121	124
Pension payments	24,371	25,562
Total decrease in net assets	24,750	25,941
Change in unrealized fair value of investments (unrealized gains (losses))	12,614	(6,018)
Change in net assets available for benefits	**(6,108)**	**(21,920)**
Net assets available for benefits, December 31	**$125,364**	**$131,472**
Total net assets available for benefits, December 31	**$1,641,780**	**$1,491,276**

The accompanying notes are an integral part of the financial report.

NOTES TO THE FINANCIAL REPORT

December 31, 2019
(Tabular amounts expressed in thousands of dollars)

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, augmented, as applicable for part A Members, by a Defined Benefit Minimum Supplement.

(B) FUNDING POLICY

Members are required to contribute to the Plan 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 Supplement 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 Component, as well as other payments as required by law.

Effective January 1, 2014, Part A Members began making special contributions to assist in the funding of the actuarial deficit. In September 2018, following the results of the valuation exercise performed as at December 31, 2017, members' cost sharing contributions, which offset the University's regular contributions in the Defined Contribution Component, were reduced from 2.2% of eligible earnings to 1.9%.

(C) RETIREMENT BENEFITS

A retirement benefit is payable when a Member reaches retirement age. The retirement benefit for each Member is equal to the accumulated value of the Member's pension account at retirement including, if applicable, the Defined Benefit Minimum Supplement.

Starting in 2015, Members can transfer eligible 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 equal to the accumulated value of the Member's pension account including, if applicable, the Defined Benefit Minimum Supplement.

(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 Supplement, 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, 2019
(Tabular amounts expressed in thousands of dollars)

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 Component, 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 Component 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 *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 - Accounting* ("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.

Investments as at December 31, 2019, have been valued using the closing price. If the closing price is below bid price or above ask price, the investments are valued using the mean 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, 2019
(Tabular amounts expressed in thousands of dollars)

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) Equity 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 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) Diversifying assets 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 fair 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.

CONTRIBUTIONS

Contributions are recorded on an accrual basis.

BENEFITS

Payments of retirement benefits, termination benefits and death benefits are recorded on an accrual basis.

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 diversifying assets. 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 52 days in the Accumulation Fund (2018 - 59 days) and 89 days in the Pensioner Fund (2018 - 119 days).

Fixed Income

In the Accumulation Fund, bonds, 33% of which are guaranteed by the federal or provincial governments (2018 - 33%), have a weighted average yield to maturity of 2.9% (2018 - 3.4%) and an average duration of 6 years (2018 - 6 years). In the Pensioner Fund, bonds, 30% of which are guaranteed by the federal or provincial governments (2018 - 31%), have a weighted average yield to maturity of 2.9% (2018 - 3.4%) and an average duration of 6.5 years (2018 - 6.5 years).

Equity Investments

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

NOTES TO THE FINANCIAL REPORT

December 31, 2019
(Tabular amounts expressed in thousands of dollars)

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, private debt funds and equity funds.

Diversifying Assets

In the Accumulation Fund, diversifying assets consist of investments in absolute return strategies focusing on relative value trading and long-short equities and hedge fund co-investments and secondaries.

(B) COMMITMENTS

In the Accumulation Fund, there are unfunded commitments in the amount of $142.5 million (2018 - $177.0 million) for diversifying assets, fixed income (private debt), 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. The credit risk is managed through diversification of issuers and by limiting allocation to non-investment grade issuers.

(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 and cross-currency swaps 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 contracts outstanding as at December 31, 2019 and 2018.

(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, 2019

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 $27.3 million (2018 - $24.3 million)	Decrease (increase) fair value of fixed income investments by $3.2 million (2018 - $3.7 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 $3.9 million (2018 - $2.9 million)	Increase (decrease) in the fair value of investments of approximately $535 thousand (2018 - $489 thousand)
	$0.01 appreciation (depreciation) of the Euro versus the Canadian dollar	Increase (decrease) in the fair value of investments of approximately $694 thousand (2018 - $650 thousand)	N/A
Foreign currency risk on forward contracts and cross-currency swaps	$0.01 appreciation (depreciation) of the United States dollar versus the Canadian dollar	Decrease (increase) in the fair value of forward contracts and cross-currency swaps of approximately $1.4 million (2018 - $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 and cross-currency swaps of approximately $319 thousand (2018 - $329 thousand)	N/A
Equity price risk	10% change in equity prices	$80.7 million change in the fair value of the private and listed equities (2018 - $70.1 million)	$6.6 million change in the fair value of the private and listed equities (2018 - $6.3 million)

NOTES TO THE FINANCIAL REPORT

December 31, 2019
(Tabular amounts expressed in thousands of dollars)

3. Investments and Financial Instruments (continued)

(H) INVESTMENT DETAIL

	Accumulation Fund		Pensioner Fund	
	2019	**2018**	**2019**	**2018**
Cash equivalents	$62,128	$58,573	$4,751	$6,192
Fixed income investments				
Canadian	309,872	286,889	39,702	47,320
Foreign	145,187	119,908	9,666	9,631
	455,059	406,797	49,368	56,951
Equity investments				
Canadian	278,311	268,846	61	41
Foreign	418,899	353,592	65,925	62,844
	697,210	622,438	65,986	62,885
Alternative Assets*				
Real assets	119,491	136,627	5,349	4,499
Listed real assets	10,717	16,093	-	-
Private investments	99,084	61,042	-	-
Diversifying assets	58,646	50,403	-	-
	287,938	264,165	5,349	4,499
Total Investments	**$1,502,335**	**$1,351,973**	**$125,454**	**$130,527**

* Alternative Assets held in foreign currencies represent 70.1% (74.6% in 2018) of the Accumulation Fund. There are no alternative assets held in foreign currencies in the Pensioner Fund in 2019 and 2018.

NOTES TO THE FINANCIAL REPORT

December 31, 2019
(Tabular amounts expressed in thousands of dollars)

3. Investments and Financial Instruments (continued)

(I) 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.

	Fair Value as at December 31, 2019			
Accumulation Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$62,128	$-	$-	$62,128
Fixed income investments	-	425,948	29,111	455,059
Equity investments	591,449	105,761	-	697,210
Alternative Assets	10,717	-	277,221	287,938
Total Investments	**$664,294**	**$531,709**	**$306,332**	**$1,502,335**
Other Financial Assets				
Evaluated at fair value	$1,197	$7,557	-	$8,754
Other Financial Liabilities				
Evaluated at fair value	-	$787	-	$787

	Fair Value as at December 31, 2018			
Accumulation Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$58,573	$-	$-	$58,573
Fixed income investments	-	384,358	22,439	406,797
Equity investments	530,381	92,057	-	622,438
Alternative Assets	16,093	-	248,072	264,165
Total Investments	**$605,047**	**$476,415**	**$270,511**	**$1,351,973**
Other Financial Assets				
Evaluated at fair value	$347	$608	-	$955
Other Financial Liabilities				
Evaluated at fair value	-	$6,324	-	$6,324

NOTES TO THE FINANCIAL REPORT

December 31, 2019
(Tabular amounts expressed in thousands of dollars)

3. Investments and Financial Instruments (continued)

(I) FAIR VALUE HIERARCHY (continued)

	Fair Value as at December 31, 2019			
Pensioner Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$4,751	$-	$-	$4,751
Fixed income investments	-	49,368	-	49,368
Equity investments	-	65,986	-	65,986
Alternative Assets	-	-	5,349	5,349
Total Investments	**$4,751**	**$115,354**	**$5,349**	**$125,454**
Other Financial Assets				
Evaluated at fair value	-	$48	-	$48

	Fair Value as at December 31, 2018			
Pensioner Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$6,192	$-	$-	$6,192
Fixed income investments	-	56,951	-	56,951
Equity investments	-	62,885	-	62,885
Alternative Assets	-	-	4,499	4,499
Total Investments	**$6,192**	**$119,836**	**$4,499**	**$130,527**
Other Financial Liabilities				
Evaluated at fair value	-	$84	-	$84

NOTES TO THE FINANCIAL REPORT

December 31, 2019
(Tabular amounts expressed in thousands of dollars)

3. Investments and Financial Instruments (continued)

(I) FAIR VALUE HIERARCHY (continued)

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

	Accumulation Fund	Pensioner Fund
Fair value, January 1, 2018	$257,919	$6,952
Purchases	83,040	-
Sales	(105,331)	(2,321)
Change in fair value	34,883	(132)
Fair value, December 31, 2018	**$270,511**	**$4,499**
Purchases	83,461	-
Sales	(58,384)	(48)
Change in fair value	10,744	898
Fair value, December 31, 2019	**$306,332**	**$5,349**

During 2019 and 2018, 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, 2019
(Tabular amounts expressed in thousands of dollars)

4. Currency Contracts

Accumulation Fund

		Currency Contracts as at December 31, 2019			
Long Position	**Short Position**	**Notional CDN$ Equivalent**	**Average Exchange Rate**	**Assets CDN$**	**Liabilities CDN$**
Canadian Dollar	US Dollar	259,603	1.3282	6,146	-
Canadian Dollar	Euro	47,150	1.4755	561	-
Canadian Dollar	Australian Dollar	3,153	0.9023	-	37
Canadian Dollar	Japanese Yen	6,367	0.0121	46	-
Euro	Canadian Dollar	6,888	0.6779	-	61
Australian Dollar	US Dollar	6,783	1.4530	156	-
US Dollar	Canadian Dollar	5,956	0.7598	-	89
US Dollar	Euro	4,551	1.1053	44	117
US Dollar	Singapore Dollar	3,200	0.7327	36	83
US Dollar	Japanese Yen	7,913	0.0092	203	200
Pound Sterling	US Dollar	5,234	0.7734	135	8
Swedish Krona	US Dollar	3,574	9.6063	94	-
Japanese Yen	Canadian Dollar	2,508	81.6552	-	55
Various currencies	Various currencies	13,930	-	136	137
Total		**$376,810**		**$7,557**	**$787**

Accumulation Fund		Currency Contracts as at December 31, 2018			
Long Position	**Short Position**	**Notional CDN$ Equivalent**	**Average Exchange Rate**	**Assets CDN$**	**Liabilities CDN$**
Canadian Dollar	US Dollar	211,746	1.3344	-	4,754
Canadian Dollar	Euro	52,585	1.5263	-	1,441
Canadian Dollar	Australian Dollar	4,701	0.9656	22	-
Canadian Dollar	Swiss Franc	1,590	1.3622	-	36
Japanese Yen	Canadian Dollar	5,579	84.1026	288	-
US Dollar	Canadian Dollar	5,086	0.7447	78	-
Pound Sterling	Canadian Dollar	2,455	0.5910	74	-
Euro	US Dollar	2,204	0.8682	25	28
Various currencies	Various currencies	7,262	-	121	65
Total		**$293,208**		**$608**	**$6,324**

NOTES TO THE FINANCIAL REPORT

December 31, 2019
(Tabular amounts expressed in thousands of dollars)

4. Currency Contracts (continued)

Pensioner Fund — Currency Contracts as at December 31, 2019

Long Position	Short Position	Notional CDN$ Equivalent	Average Exchange Rate	Assets CDN$	Liabilities CDN$
Canadian Dollar	US Dollar	3,568	1.3141	48	-
Total		**$3,568**	-	**$48**	-

Pensioner Fund — Currency Contracts as at December 31, 2018

Long Position	Short Position	Notional CDN$ Equivalent	Average Exchange Rate	Assets CDN$	Liabilities CDN$
Canadian Dollar	US Dollar	3,052	1.3359	-	84
US Dollar	Canadian Dollar	208	0.7335	-	-
Total		**$3,260**	-	-	**$84**

5. Investment Income

Accumulation Fund

	2019	2018
Cash & cash equivalents	$1,299	$875
Fixed income	10,776	8,671
Equity	17,389	16,119
Real assets	2,326	2,487
Private investments	4,221	3,166
Diversifying assets	-	4,658
Securities lending	179	181
Total	**$36,190**	**$36,157**

Pensioner Fund

	2019	2018
Cash & cash equivalents	$98	$61
Fixed income	2,244	2,651
Equity	400	621
Real assets	-	312
Securities lending	7	2
Total	**$2,749**	**$3,647**

6. 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.

NOTES TO THE FINANCIAL REPORT

December 31, 2019
(Tabular amounts expressed in thousands of dollars)

7. Receivable from/due to Accumulation and Pensioner Fund

As at December 31, 2019, $17,431 (2018 - $13,548) was the amount of the inter fund account between the Accumulation Fund and the Pensioner Fund. The amount relates to administrative expenses..

8. Administration Expenses

Administration expenses include the following:

Accumulation Fund	2019	2018
Salaries and benefits	$ 1,096	$ 1,039
Service provider record keeping fees	918	835
Custodial	317	320
Actuarial	76	30
GST/QST charge	114	107
Trustee	109	92
Performance measurement fees	102	104
Retraite Québec fees	92	91
Financial data providers	92	109
Liability insurance	85	83
Audit	62	59
Other expenses	198	137
Total	**$ 3,261**	**$ 3,006**

Pensioner Fund	2019	2018
Salaries and benefits	$97	$108
Service provider record keeping fees	69	58
Custodial	18	18
Actuarial	6	3
GST/QST charge	10	11
Trustee	9	10
Performance measurement fees	8	9
Retraite Québec fees	8	9
Liability insurance	9	9
Audit	5	6
Other expenses	19	14
Total	**$ 258**	**$ 255**

9. Comparative Figures

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

10. Subsequent Event

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic. Financial markets have been significantly affected in Canada and internationally. As of the date of the auditors' report, the Plan's investments have experienced a decline in fair value from the values used as at the reporting date of between 10% and 15%. As a result of this rapidly changing situation, the Plan cannot predict the impact that COVID-19 will have on the Plan's total net assets available for benefits in future periods.

GLOSSARY

Active Management A management style where by 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.

Basis Points A unit of measure representing one hundredth of one per cent.

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 has 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 all members' defined contribution balances.

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 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.

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 closed 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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NOTES

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mcgill.ca/hr/pensions/mupp