McGill University Pension Plan

Annual Report

December 31, 2021

McGill

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

2021 HIGHLIGHTS

INVESTMENT OPTIONS

$1.5B
OF ASSETS
12.4% RETURN IN 2021
5-YEAR ANNUALIZED RETURN: 9.4%
BALANCED ACCOUNT

$887.3M
OF ASSETS
17.9% RETURN IN 2021
5-YEAR ANNUALIZED RETURN: 11.1%
EQUITY POOL

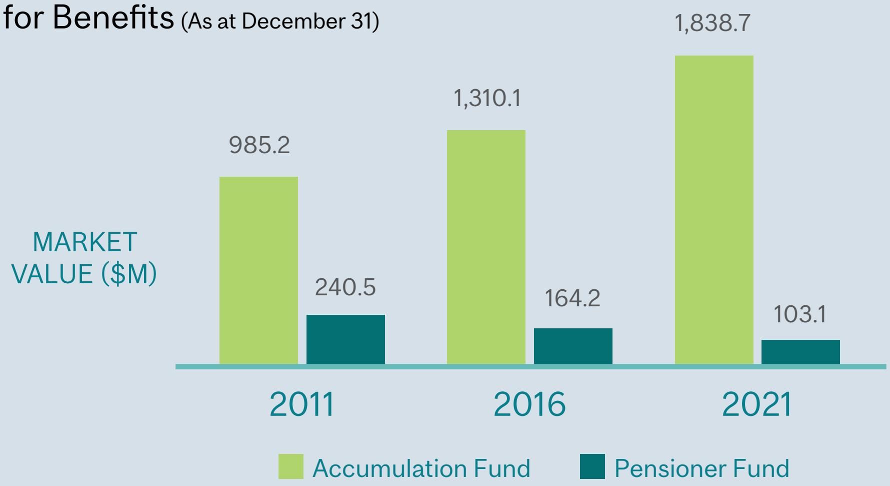
$485.2M
OF ASSETS
-1.3% RETURN IN 2021
5-YEAR ANNUALIZED RETURN: 4.2%
FIXED INCOME POOL

$69.6M
OF ASSETS
12.5% RETURN IN 2021
5-YEAR ANNUALIZED RETURN: 11.7%
SOCIALLY RESPONSIBLE INVESTMENT POOL

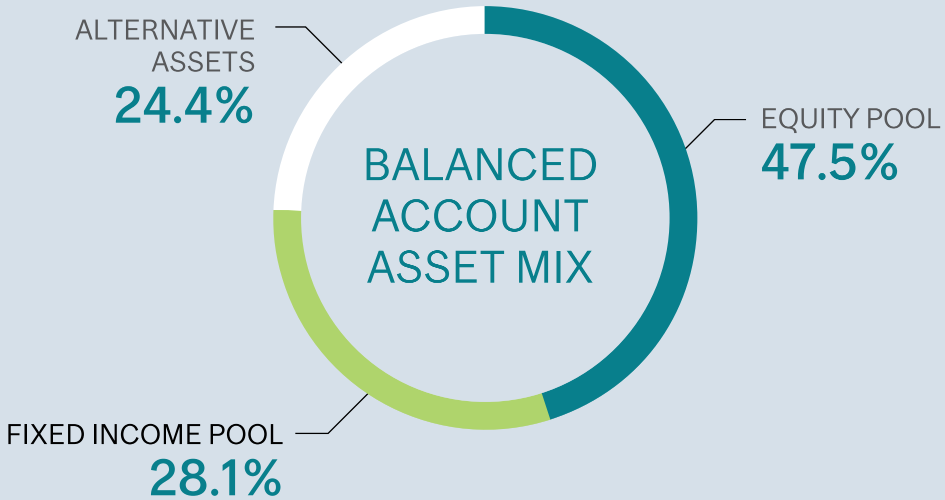
$27.0M
OF ASSETS
0.3% RETURN IN 2021
5-YEAR ANNUALIZED RETURN: 1.2%
MONEY MARKET POOL

$36.3M
OF ASSETS
RETURNS VARY ACCORDING TO MEMBER'S PROFILE
TARGET DATE PROFILES

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



80.4% OF ASSETS ARE INVESTED IN THE BALANCED ACCOUNT OPTION



Well-diversified $1.5 Billion in investments

2021 HIGHLIGHTS

MEMBERSHIP
AS AT DECEMBER 31, 2021

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

Membership Statistics as of December 31

	2011	2016	2021
Active	5,878	5,787	6,607
Deferred	2,983	2,870	2,741
Pensioners	1,348	1,112	861
Variable Benefit	0	0	104
Total	10,209	9,769	10,313

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

PLAN MEMBERS AND ASSETS

880
settlements totalling
$85.3M
IN BENEFITS
paid out by the plan
in 2021

6,607
ACTIVE MEMBERS

$1.3B in assets
48 years - member's average age
58% women
42% men

2,741
DEFERRED MEMBERS

$260.6M in assets
53 years - member's average age
52% women
48% men

861
MEMBERS IN PENSIONER FUND

84 years - member's average age

90
RETIREMENTS

64 years - average age of new retirees

104
VARIABLE BENEFIT MEMBERS

$60.0M in assets
70 years - member's average age

MESSAGE FROM THE PENSION ADMINISTRATION COMMITTEE

Despite the continuing pandemic in 2021 the McGill University Pension Plan ("Plan") provided another year of strong returns to members, along with the high level of service members have come to expect. The Plan's most popular option, the Balanced Account ("BA"), finished the year with a strong one-year return of 12.4% driven by high double-digit returns in the equity markets. The BA achieved 5-year and 10-year annualized returns of 9.4% and 9.8%, respectively, a solid performance considering the moderate level of risk of the option. The Plan's assets exceeded $1.9 billion in 2021, their highest level ever. Returns for each investment pool and its performance relative to its benchmark can be found on pages 18 to 27 of this report.

Two dominant themes in the financial markets in 2021 were responsible investing and the effects of inflation. Responsible investing centers on the integration of environmental, social and governance ("ESG") factors into investment decisions. The Plan is well advanced in its integration of responsible investing, with the Office of Investments ("OOI") and Pension Investment Committee ("PIC") continuing to incorporate ESG factors in their selection of managers and strategies. 99% of the Plan's assets are invested with managers who incorporate ESG factors in their selection of investments. This year we are providing increased disclosure of the carbon footprint of our Equity Pool (see page 16). Also, following up on the work begun in 2020, and in response to members' expressed interest in an investment pool that would exclude investments in fossil fuels, we are pleased to announce that the Plan now offers a Fossil Fuel Free ("FFF") investment pool. The FFF fund is a diversified option composed of equities and fixed income securities and is designed to exclude securities of companies that directly engage in the extraction, processing, and transportation of fossil fuels. Additional information is available on the Plan website, in emails sent to members, and on the Sun Life platform.

Looking ahead, higher rates of inflation in 2022 could well translate into lower valuations for equities and bonds. After an era of stellar performance for the equity markets (e.g., an average of 12% growth in the Equity Pool over the last 10 years), the next decade, which is expected to feature higher interest rates, could be more challenging.

The Pension Administration Committee ("PAC") works with the Pension Administration Office, PIC and the OOI to oversee the administration and performance of the Plan. I thank the members of those groups for their expertise and professionalism. There were no changes in the membership of PAC during 2021 but, as outlined in the Governance section (see page 10), the Chair of the PIC changed in 2021. Michael Boychuk's six-year term ended in March. His experience provided excellent guidance to the OOI throughout his term, and I am especially appreciative that he agreed to extend it by a year during the early phase of COVID-19 to allow for continuity during that turbulent time. Everyone at the PAC and PIC joins me in extending our sincere thanks to Mr. Boychuk for his many contributions. In January 2021, Paul Stinis joined the PIC and in March he assumed the role of PIC Chair. A McGill alumnus, he brings a wealth of pension, investment and governance experience to the PIC that will benefit plan members.

For the second year in a row the 2020 Annual General Meeting was held virtually, which again led to higher attendance than usual. We hope to return to in-person meetings next year but even if we do, we will retain a virtual component to reach as many members as possible. I very much hope to see you at the Annual General Meeting of Members at noon on Wednesday May 4, 2022.

Professor Julia Scott, MBA, FCPA, FCA, 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 upon request at the offices of the Pension Administration Committee located at 680 Sherbrooke Street West, Suite 1420, Montreal, Quebec, H3A 2M7. It can also be viewed online at: https://www.mcgill.ca/hr/pensions/mupp/committee.

MCGILL UNIVERSITY

McGill University ("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 ("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

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. 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 2021, 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 serve for a renewable three-year term.

In April 2021, Mr. Myles Edwards was reappointed by the Board of Governors and in May 2021, Ms. Diana Dutton was reappointed by the Principal and the Chair of the Board of Governors and Mr. Pierre Lavigne was reappointed as the Independent Member, all for new three-year terms. At the Annual meeting held virtually on May 5, 2021, Professor Julia Scott was re-elected for a new three-year term in one of the Academic Staff positions.

AUDIT COMMITTEE

The Audit Committee ensures the reliability of financial reporting, receives and reviews the draft audited financial statements of the Plan, including the auditor's report thereon, 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.

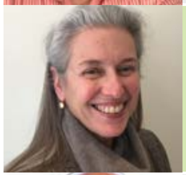
During 2021, there were two regular meetings of the Audit Committee

The Audit Committee is composed of three PAC members

Audit Committee members are appointed by the PAC. In 2021, 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
Mr. Pierre Lavigne, FSA, FCIA, CFA Pension Consultant
Professor Julia Scott, MBA, FCPA, FCA, CFA (Chair of the PAC) Senior Faculty Lecturer Desautels Faculty of Management

PENSION ADMINISTRATION COMMITTEE

	**Professor Julia Scott**, MBA, FCPA, FCA, CFA (Chair of the PAC) Senior Faculty Lecturer Desautels Faculty of Management	Elected by the Academic Staff Term ending May 2024
	**Ms. Rosemary Cooke**, BCom Retired - Faculty of Dentistry	Elected by the Administrative & Support Staff Term ending May 2022
	**Ms. Diana Dutton**, MBA Associate Vice-Principal Human Resources	Appointed by the Principal & the Chair of the Board Term ending May 2024
	**Mr. Myles Edwards**, CFA Director and Senior Portfolio Manager-Fixed Income Intact Investment Management Inc.	Appointed by the Board of Governors Term ending April 2024
	**Ms. Tina Hobday** Lawyer, Partner Langlois lawyers, LLP	Appointed by the Board of Governors Term ending June 2022
	**Mr. Pierre Lavigne**, FSA, FCIA, CFA Pension Consultant	Appointed by the Principal & the Chair of the Board Term ending December 2024
	**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. Nikoo Taghavi** Administrative Officer Department of Chemistry	Elected by the Administrative & Support Staff Term ending October 2023
	**Ms. Cristiane Tinmouth**, CPA, CA (Chair of the 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 2023

PENSION INVESTMENT COMMITTEE

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 the 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 2021, there were four regular meetings of the PIC

The PIC is composed of eight members

Three PAC members including the Chair of the PAC as ex-officio and five independent external members who are not part of McGill University administration or staff and who are not members of another decision-making body within the Plan governance structure. All PIC members are appointed by the PAC.

PIC independent external members serve a first term of three years, renewable for a second term of two years and are limited to a maximum of two consecutive terms.

Mr. Michael Boychuk's term as member of the PIC ended in March 2021. His role as Chair was replaced by Mr. Paul Stinis, who joined the PIC in January 2021.

PENSION INVESTMENT COMMITTEE

Paul Stinis (Chair of the PIC) Corporate Director	Independent external member First term ending January 2024
Mr. Nicolas Drapeau, CFA Vice-President, Private Markets Bimcor Inc.	Independent external member Second term ending May 2023
Mr. Myles Edwards, CFA Director and Senior Portfolio Manager-Fixed Income Intact Investment Management Inc.	PAC member Term ending April 2024
Mr. Clifton Isings, CFA Chief Investment Officer and Vice-President CN Investment Division	Independent external member Second term ending March 2022
Mr. Pierre Lavigne, FSA, FCIA, CFA Pension Consultant	PAC member Term ending December 2024
Ms. Caroline Miller, MBA, CFA Global Investment Strategist	Independent external member Second term ending March 2022
Mr. François Quinty, CFA Director Investment Management Via Rail Canada	Independendant external member First term ending January 2023
Professor Julia Scott, MBA, FCPA, FCA, CFA Senior Faculty Lecturer Desautels Faculty of Management	Chair of the PAC as ex-officio Term ending May 2024

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, record keeping, securities lending services, foreign exchange processing and settlement, asset valuation, performance measurement and compliance monitoring.

SUN LIFE

Sun Life is responsible for processing all member transactions as well as the transfers and cash flow allocations among available investment options. Sun Life also performs all calculations regarding settlements and prepares the settlement packages. They are also responsible for producing members' annual statements in accordance with legislative requirements.

NORMANDIN BEAUDRY

Normandin Beaudry is the record keeper for day-to-day administrative services for pensioners receiving an annuity from the Plan.

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 prior to January 1, 2009, 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**, **McGill Group Locked In Retirement Account** or the **Variable Benefit** option.

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, 2019 valuation reported that the Plan has a going-concern unfunded liability of $38.2 million and a going-concern funded ratio of 97.7%. The prior valuation was performed as at December 31, 2017.

The University was required to make special contributions of $9,358,641 in 2021 to fund DB liabilities

The table below shows the change in the Plan's going-cocern funded ratio from 2017 to 2019:

GOING-CONCERN FUNDING POSITION[1]	DECEMBER 31, 2019 $ in 000s	DECEMBER 31, 2017 $ in 000s
MARKET VALUE OF ASSETS	1,641,780	1,537,696
ACTUARIAL LIABILITIES	1,680,013	1,585,071
UNFUNDED LIABILITY	(38,233)	(47,375)
FUNDED RATIO	97.7%	97.0%

Note 1: Please refer to the Actuarial Valuation Letter on p.29 for further details on the Going-Concern Valuation.

The improvement in the funded position was mainly due to investment returns being higher than expected in 2018 and 2019 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 at the earlier of termination, retirement or reaching age 71. The results of the solvency valuation are then used to determine any additional University contributions, so called Solvency Top-Up Contributions.

The calculation of the degree of solvency under the Plan is 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, 2020, the degree of solvency of the Plan was 52.8%.

The University was required to make special contributions related to the Solvency Top-Up of $2,623,041 in 2021

The table below shows the change in the degree of solvency from 2019 to 2020:

SOLVENCY POSITION[1]	DECEMBER 31, 2020 $ in 000s	DECEMBER 31, 2019 $ in 000s
MARKET VALUE OF ASSETS	270,888	266,287
SOLVENCY LIABILITIES	513,384	486,305
SOLVENCY DEFICIENCY	(242,496)	(220,018)
DEGREE OF SOLVENCY	52.8%	54.8%

Note 1: Please refer to the Actuarial Valuation Letter on p.29 for further details on the Solvency Valuation.

Part A members - Special Contributions

Effective January 1, 2014, the Plan was amended to introduce cost sharing of deficits with Part A members. Since September 2018, members' cost sharing contribution rate is 1.9%. The Part A members' special contributions are invested in their individual accounts.

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

Contributions in 2021

ACCUMULATION FUND	FROM MEMBERS $ IN 000S	FROM UNIVERSITY $ IN 000S
REGULAR CONTRIBUTIONS	31,812	32,953
SPECIAL CONTRIBUTIONS – DB COMPONENTS[1]		9,359
SOLVENCY TOP-UP CONTRIBUTIONS		2,623
PART A MEMBER- SPECIAL CONTRIBUTIONS	4,341	
VOLUNTARY CONTRIBUTIONS	1,696	
TOTAL	37,849	44,935

Note 1: Composed of $5,585 thousand for current service cost and $3,774 thousand for deficit amortization payments

BENEFITS AND PENSION PAYMENTS

Accumulation Fund

During 2021, 880 settlements were transacted totalling $85,270,642. The type of settlement transactions processed and the benefits paid out during the year are detailed below.

Settlements in 2021

ACCUMULATION FUND	NUMBER OF SETTLEMENTS	TOTAL AMOUNT $ in 000s
RETIREMENT BENEFITS – EXTERNAL TRANSFER	161	39,704
RETIREMENT BENEFITS – TRANSFER TO MCGILL UNIVERSITY LIF/LIRA	51	16,953
VARIABLE BENEFITS	119	4,351
TERMINATION BENEFITS	524	18,536
DEATH BENEFITS	25	5,727
TOTAL	880	85,271

Pensioner Fund

As at December 31, 2021 there were 861 pensioners and beneficiaries receiving pensions from the Pensioner Fund. The total of such pension payments amounted to $21,666,779 in 2021.

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 eligible pensions currently in payment. Subsequent to changes in the Act, pension plans must establish a reserve when the plan is in a surplus position. As a result, the Plan must be 100% solvent and must have funded the reserve prior to using any surplus to fund an annuity dividend. Since the latest actuarial valuation confirmed a solvency deficiency, no annuity dividends could be declared.

PLAN AMENDMENTS

There were no amendments to the Plan in 2021.

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 1-888-444-2023.

YOUR ACCOUNT

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 take advantage of the many resources available to them in their retirement and financial planning efforts. Through the website http://mysunlife.ca, plan members are able to find out what type of investor they are with the Asset Allocation Tool. They can plan for retirement by using the Retirement Planner which also includes a decumulation phase illustration to help members estimate their future income.

Since the transition to Sun Life, members can now go mobile and check their balances using the my Sun Life mobile app. In addition to telephone support, members also have access to live support with the Chat live now feature through the website.

Members have been making use of these new tools and services in 2021:

FOR THE YEAR ENDED DECEMBER 31, 2021:	
ASSET ALLOCATION TOOL	411
RETIREMENT PLANNER	1,174
MOBILE APP USERS	641
MOBILE APP SESSIONS	28,140
CHAT LIVE NOW SESSIONS	307

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.

Members are strongly encouraged to review their holdings regularly and the investment options offered by the Plan to ensure their investments are aligned with their investment objectives and beliefs.

VIDEO CAPSULES

The Pension Administration Office prepared 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 to address their needs. Due to the pandemic, no sessions were held in 2021. The Pension Administration Office has continued working on providing recordings of two of the most attended sessions; the Settlement Option and Retirement Information Sessions. It is anticipated that the first recordings will be posted to the Plan's website in 2022.

Copies of the slides used in various sessions are available for viewing to members by accessing the McGill University Human Resources website at:
https://www.mcgill.ca/hr/pensions/mupp/sessions.

INVESTMENT REPORTS

Members have access to Morningstar® available via the Sun Life secure site.

Morningstar® is a provider of investment news and analysis. The Morningstar® investment profile sheets provide in-depth details about what each fund offers. They offer information on performance, the top ten underlying holdings, industry, risk profiles, and more.

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 reopened in September 2020 for members who elect to receive any **supplemental retirement benefit** as a pension.

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, ESG considerations 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/statement-investment-policy or can be viewed in the offices of the PAC, upon request.

MANAGEMENT COMMENTARY
By the Office of Investments

During 2021, the economy and equity markets continued their recovery, which had begun after the initial pandemic drawdown in March 2020. However, one trend changed during the year: inflation hit its highest level in the past 30 years, which suggests the loose monetary policies pursued by central banks since the onset of the pandemic will be coming to an end. The expectation of higher inflation translated to higher interest rates and the rise observed in 2021 led to the worst Canadian bond market performance since 1994 with a -2.5% return. At the same time, most equity markets rallied strongly, and the American and Canadian markets posted exceptional annual returns of 28.7% and 25.1%, respectively. Developed foreign markets offered a slightly lower return of 19.2%, resulting in a less impressive but solid 10.8% when converted back into Canadian dollars, while emerging equity markets stagnated with a -0.1% return.

The strong equity markets resulted in another good year for the well-diversified Equity Pool. The 2021 annual return of 17.9%, followed returns of 11.0% in 2020 and 20.4% in 2019, and provided an impressive capital appreciation over three years. On the other hand, the increase in interest rates had a negative impact on fixed income markets. The Fixed Income Pool reported a return of -1.3% in 2021. However, the active management of the Fixed Income Pool provided lower sensitivity to interest rates and a higher allocation to corporate credit, which allowed it to outperform the overall Canadian bond market.

The Alternative Assets portfolio, which includes real assets, diversifying assets and private investments, benefited from improving economic fundamentals and the general strength of the financial markets and closed the year with a net return of 18.8%. Alternative investments made by the Plan in recent years are now starting to bear fruit, enhancing the risk-adjusted returns of the Balanced Account and the Target Date Portfolios.

The Balanced Account, a combination of the Equity Pool, Fixed Income Pool and the Alternative Assets, is the most popular investment option of the Plan, holding 80.4% of members' assets. It earned a return of 12.4% over the year.

Looking back at the past two years, it should be acknowledged that the strong bull market generally observed in equities, real assets and private investments is not just the result of improving economic fundamentals and revenue growth but is also attributable to the willingness of investors to pay a higher price for riskier assets. Central banks have injected massive amounts of liquidity into the economy, and some has found its way into return-seeking investments. With bonds providing a relatively low expected return, especially with inflation increasing well above its targeted range, investors looking for sufficient returns are required to take more risk despite already high valuations.

Facing moderate economic growth, higher inflation and low, albeit rising, interest rates, investors will find it increasingly difficult to generate stable income-driven returns through the public markets alone. The OOI believes that alternative investments can offer good and uncorrelated returns generated away from the volatility of the public markets. Alternatives with inflationary pass-through mechanisms, such as real estate and infrastructure assets, should be well positioned to deliver attractive risk-adjusted returns. Certain environmental, social and governance integrated strategies can also generate value from structural changes driven by long-term sustainability trends.

Investors and regulators are applying more pressure on companies with respect to ESG issues. Those firms that have been proactive with ESG issues should fare better. Companies that have not yet started to address ESG issues may see a greater impact from previously not forecasted costs and stakeholder pressure for change. With 99% of the Plan's assets invested with managers who incorporate ESG issues in their investment process, we believe that our active management should provide added value.

The OOI's role is to keep the portfolios fully invested and navigate up-and-down cycles by trying to take advantage of investment opportunities while not compromising liquidity or taking undue risk. Management remains committed to adding value in each asset class and to optimally managing the Balanced Account, which favors equities over bonds and uses alternative investments such as private debt, real assets and absolute return strategies for their expected diversifying and return-enhancing effect.

SOURCE: GETTY IMAGES

THE PLAN & RESPONSIBLE INVESTING

The Plan is managed using a responsible investing approach. ESG considerations are integrated in investment processes such as investment due diligence and analysis and manager engagement. Indeed, when evaluating investment firms, priority is given to those that follow ESG criteria to evaluate companies in which they might want to invest.

The table below shows the percentage of the Plan's assets, as at December 31, 2021, that were invested with managers that have an ESG policy or are signatories of the **UN PRI.** Both elements show a strong commitment from managers to incorporate ESG issues into their decision-making processes and promote responsible investing among the industry.

Percentage of assets invested with managers which have an ESG policy or are signatories of the UN PRI

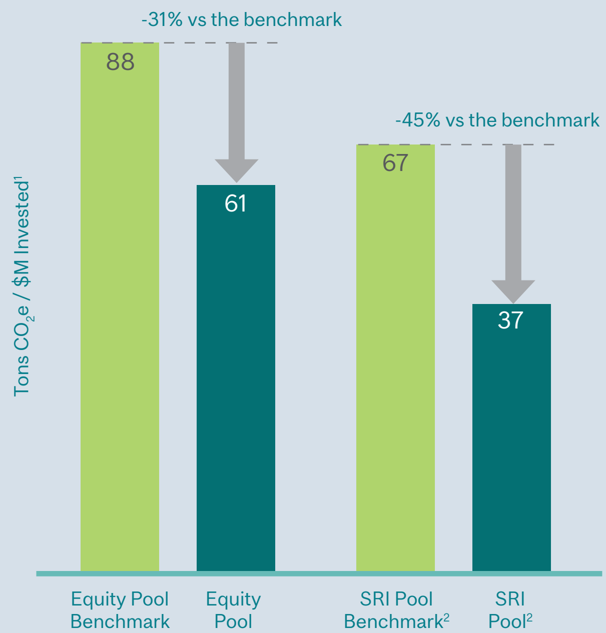
	2016[1]	2021
ACCUMULATION FUND	79%	99%
PENSIONER FUND	58%	98%

FIRST ASSESSMENT OF THE CARBON FOOTPRINT

In 2021, the Plan conducted its first assessment of the carbon footprint of the Equity Pool and the equities in the SRI Pool. The results as at December 31, 2021 are as follows: the Equity Pool emitted 31% less carbon emissions than its benchmark, and the SRI Pool equities emitted 45% less emissions than its equities benchmark. The carbon footprint was calculated on Scope 1 & 2 emissions of listed equities companies, using data from MSCI, a global provider of market indexes and ESG solutions. We will continue to monitor closely the Plan's carbon emissions going forward.

THE SCOPE DEFINITIONS ARE AS FOLLOWS[2]:

Scope 1	All direct emissions from sources owned or controlled by the company
Scope 2	Indirect greenhouse gas emissions from consumption of purchased electricity, heat or steam
Scope 3	Other indirect emissions (not included in scope 2) that occur in the value chain of the company



[1] Scope 1 & 2 emissions
[2] Listed equities only (63% of the SRI Pool)

Note: The carbon footprint is calculated by evaluating the portfolios' tons of CO_2e emissions per USD 1 million of dollar invested (herein defined as tCO_2e/$M invested, using data provided by MSCI). One should be very careful when comparing carbon footprints across portfolios from different organizations, as carbon accounting methodologies, types of assets covered and data providers may vary from one organization to another.

[1] 2016 was the first year that the Plan collected such data on its external managers.
[2] Greenhouse Gas Protocol Corporate Accounting and Reporting Standards

SOURCE: STONEPEAK

$80M IN IMPACT INVESTMENTS

Impact investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return. The impact investing market is growing and provides capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, new clean technologies and affordable and accessible basic services including housing, healthcare and education.

TYPES OF IMPACT INVESTMENTS CONSIDERED:

Listed equity: Investment through external equity managers who hold stock of companies that derive most of their revenues from sustainable solutions.

Alternatives: Exposure through private funds to water treatment, alternative energy, renewable energy infrastructure, sustainable real estate, etc.

Fixed Income: Investments in green bonds (financial instruments that are specifically marked to raise money for climate and environmental projects).

As at December 31, 2021, the Plan had close to $80M in impact investments including commitments.

NEW OPTION FOR MEMBERS: THE FOSSIL FUEL FREE (FFF) POOL

Context

In 2021, the OOI delivered virtual sessions to present the selection process and the selected Fossil Fuel Free option's risk-return characteristics as well as to highlight its differences with the currently available options. Following the results of a survey distributed to participants, the PAC determined there was sufficient interest to propose a FFF investment pool.

What is a FFF Fund?

This option represents a portfolio that invests in companies operating in various countries around the world and across a wide range of sectors but that specifically excludes securities of issuers that directly engage in the extraction, processing and transportation of fossil fuels such as coal, oil and natural gas. More precisely, it excludes companies deriving any revenues from arctic oil & gas exploration and extraction, oil & gas production (including transportation), and oil sands, shale energy and thermal coal extraction. Moreover, companies deriving more than 10% of revenues from oil & gas supporting products and services are also ineligible for investment, as well as companies that appear on the Carbon Underground 200™ List. Finally, companies that are significant owners of ineligible companies are also excluded from the investment universe.

In addition to excluding fossil fuels, the mandate integrates ESG considerations such as community, corporate governance, employee relations, environment, human rights and product and business practices.

LOOKING AHEAD

- Provide documentation to members on the new FFF Pool via the Sun Life platform.
- Continue to monitor the carbon footprint of the Equity Pool and equities in the SRI Pool, and monitor the carbon footprint of the equities in the FFF Pool for the first time.
- Take steps to further develop the integration of ESG considerations in the Plan's investment processes.

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 Balanced Account option and the Target Date profiles 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, 2021 (gross of fees)

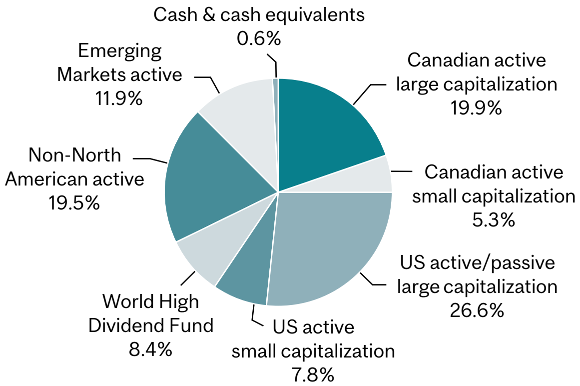
ASSET CLASSES	BENCHMARKS	ASSETS ($ Millions)	2021 RETURNS	BENCHMARK'S RETURNS	VALUE ADDED
SPECIFIC INVESTMENT STRATEGIES					
Equity Pool	22% S&P/TSX Composite 38% S&P 500 (50% USD Hedged) 29% MSCI EAFE 11% MSCI Emerging Markets	887.3	17.9%	18.6%	-0.7%
Fixed Income Pool	FTSE Canada Universe Bond	485.2	-1.3%	-2.5%	1.2%
Alternative Assets[1]	40% Real Assets Benchmark 40% Private Investments Benchmark 20% Diversifying Assets Benchmark	365.1	18.8%	10.1%	8.7%
Money Market Pool	FTSE Canada 30-Day T-Bill	27.0	0.3%	0.1%	0.2%
BALANCED INVESTMENT STRATEGIES					
Balanced Account	45% Equity Pool Benchmark 25% Alternative Assets Benchmark 30% Fixed Income Pool Benchmark	1,477.2	12.4%	9.9%	2.5%
Socially Responsible Investment Pool	20% S&P/TSX Capped Composite 40% MSCI World Total Return Net (C$) 40% FTSE Canada Universe Bond	69.6	12.5%	11.8%	0.7%
Target Date profiles		36.3	5.5% to 16.1%	4.0% to 15.2%	0.8% to 1.6%

[1] Net of fees

ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

EQUITY POOL

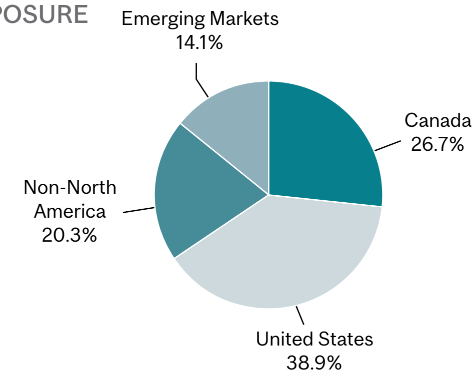
8 SUB-ASSET CLASSES



$887.3M

48.4% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in **basis points**

Management fees	43
Administration fees	23
TOTAL	66

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 6.8%.

HISTORICAL PERFORMANCE

Over the past 10 years, the annualized rate of return of the Equity Pool is 12.0% (gross of fees), outperforming the long-term objective by 5.2%, but slightly behind the benchmark return by 0.3%.

The 5-year annualized rate of return of the Equity Pool is 11.1% (gross of fees), below the benchmark return of 12.0%, but above the long-term return objective of 6.8%.

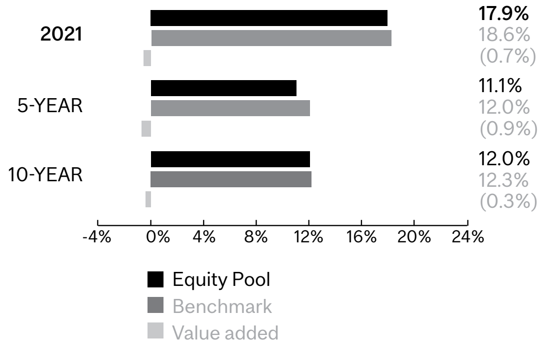
2021 PERFORMANCE

For the 12-month period ending on December 31, 2021, the Equity Pool returned 17.9% (gross of fees), slightly lagging the benchmark performance of 18.6%. The strong recovery of the equity markets witnessed last year extended into 2021, with the Canadian equity index and the global equity index (MSCI ACWI) ending the year with an exceptional 25.1% and 17.5% (in Canadian dollars), respectively. The relatively defensive positioning of the Equity Pool helped taper the volatility observed towards the end of the year, but also prevented the portfolio from outperforming its benchmark.

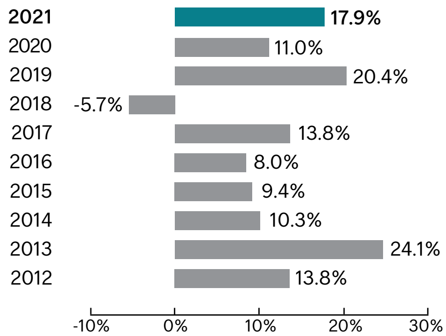
PORTFOLIO CHANGES

In 2021, a new manager was hired for a dedicated Chinese equity mandate. Simultaneously, the existing emerging markets mandate was modified to exclude this country. Accordingly, the allocation to China remained stable.

ANNUALIZED RETURNS vs BENCHMARK
(gross of fees)



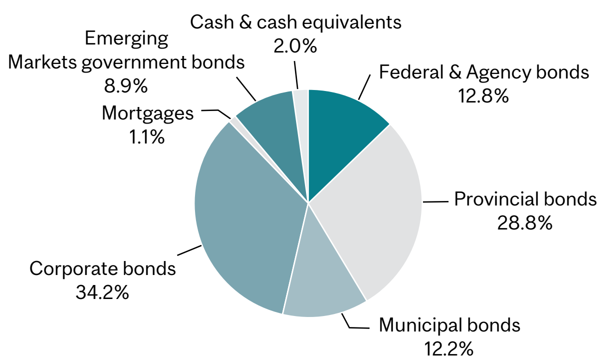
HISTORICAL ANNUAL RETURNS
(gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

FIXED INCOME POOL

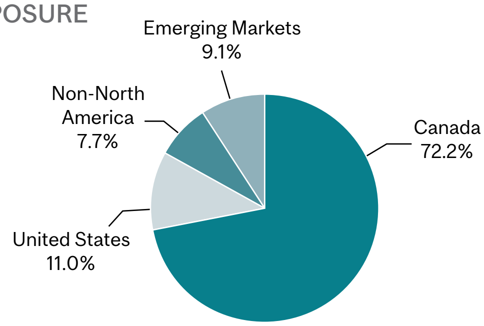
7 SUB-ASSET CLASSES



$485.2M

26.4% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	29
Administration fees	23
TOTAL	52

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 + 1.0%, being 2.8%.

HISTORICAL PERFORMANCE

Over the past 10 years, the annualized rate of return of the Fixed Income Pool is 4.3% (gross of fees), outperforming both the long-term return objective and the benchmark return by 1.5% and 1.0%, respectively.

The 5-year annualized rate of return of the Fixed Income Pool is 4.2% (gross of fees), outperforming the performance of the benchmark of 3.3% as well as the long-term objective of 2.8% over the same period.

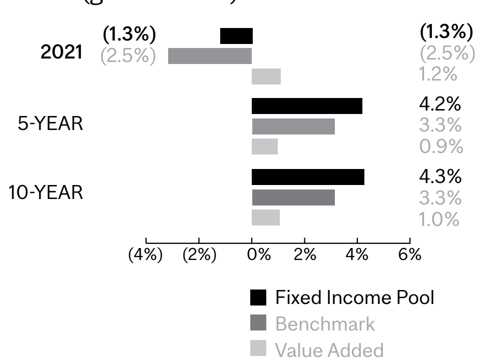
2021 PERFORMANCE

For the 12-month period ending on December 31, 2021, the Fixed Income Pool generated a return of -1.3% (gross of fees), above the performance of the benchmark of -2.5%. Contrary to last year, the shorter duration of the portfolio improved relative performance in 2021 as interest rates renewed with higher levels, fuelled by an inflation rate at its highest in the last 30 years. This shorter duration combined with the positive value generated by investment managers allowed the Fixed Income Pool to better protect capital than its benchmark during the year.

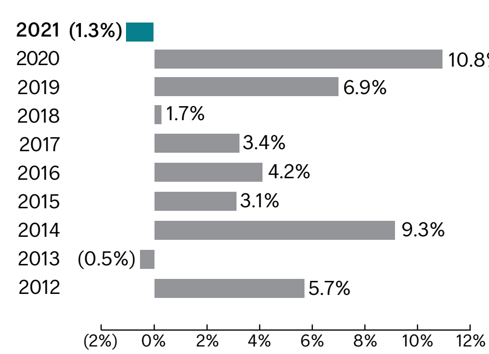
PORTFOLIO CHANGES

No changes occurred during 2021.

ANNUALIZED RETURNS vs BENCHMARK (gross of fees)



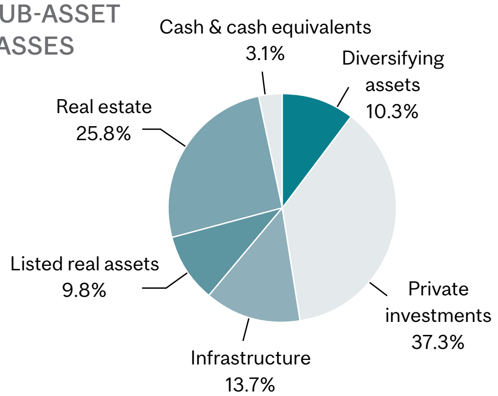
HISTORICAL ANNUAL RETURNS (gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

ALTERNATIVE ASSETS

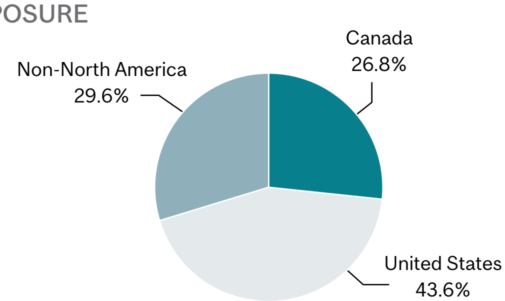
6 SUB-ASSET CLASSES



$365.1M

19.9% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	255
Administration fees	25
TOTAL	280

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 6.3%.

HISTORICAL PERFORMANCE

Over the past 10 years, the annualized rate of return of the Alternative Assets is 10.3% (net of fees), outperforming its long-term objective by 4.0% and the benchmark by 1.1%.

The 5-year annualized rate of return of the Alternative Assets is 10.6% (net of fees), surpassing both the long-term objective of 6.3% and the benchmark return of 7.6%.

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

2021 PERFORMANCE

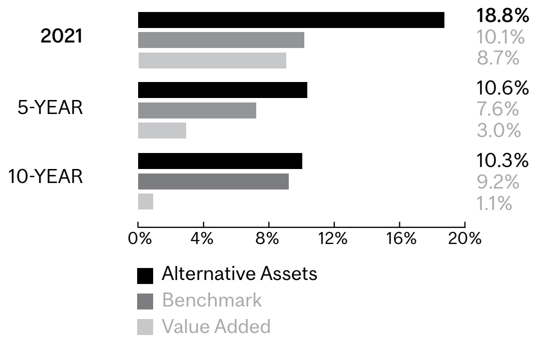
For the 12-month period ending on December 31, 2021, the Alternative Assets generated a return of 18.8% (net of fees), significantly above the benchmark return of 10.1%. During the year, the conservative valuations that were used by the managers to take into consideration the uncertainty brought by the pandemic in 2020 were gradually phased out in light of the generally improving economic conditions. Additionally, certain segments of the real estate and infrastructure portfolio further benefitted from rising residential markets and increase in demand for logistics infrastructures.

Management fees are higher for the Alternative Assets because these are private investments. For this reason, it is the only investment option for which returns are presented net of fees, as per the industry standard.

PORTFOLIO CHANGES

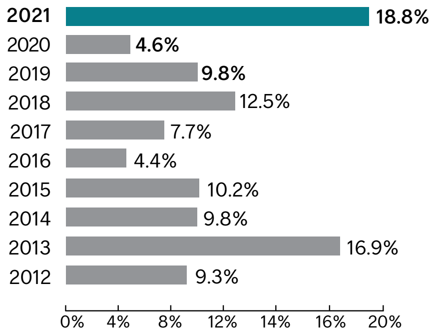
In 2021, further commitments were made into private investments and infrastructures, with two investments in private debt funds, one investment in a private equity fund and one investment in a renewable energy infrastructure fund. In addition, one hedge fund was terminated and a new investment into a hedge fund co-investment and secondaries strategy was added.

ANNUALIZED RETURNS vs BENCHMARK
(net of fees)*



*net of fees, per industry standards

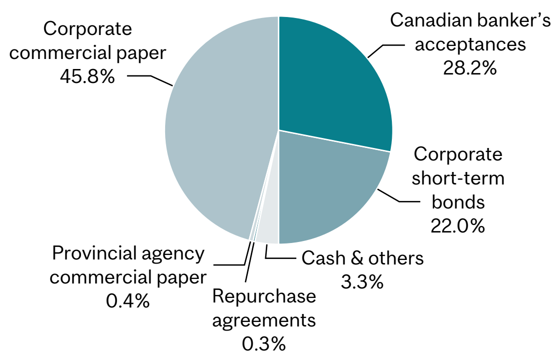
HISTORICAL ANNUAL RETURNS
(net of fees)*



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

MONEY MARKET

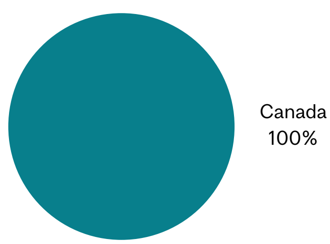
5 TYPES OF SECURITIES



$27.0M

1.5% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	9
Administration fees	11
TOTAL	20

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.

HISTORICAL PERFORMANCE

Over the past 10 years, the annualized rate of return of the Money Market Pool is 1.1% (gross of fees), leading both the long-term objective and the benchmark by 0.3%.

The 5-year annualized rate of return of the Money Market Pool is 1.2% (gross of fees), above the benchmark return of 0.9% and the long-term objective of 0.8%.

2021 PERFORMANCE

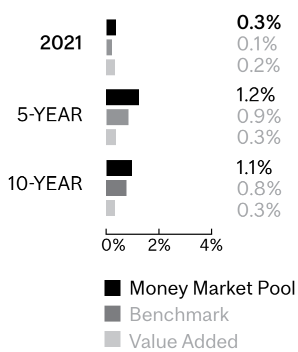
For the 12-month period ending on December 31, 2021, the Money Market Pool provided a return of 0.3% (gross of fees), outperforming its benchmark by 0.2%. The Bank of Canada maintained its historically low overnight interest rate policy in 2021 in an effort to support the economic recovery which in turn kept the return of the Money Market Pool near zero.

PORTFOLIO CHANGES

No changes occurred during 2021.

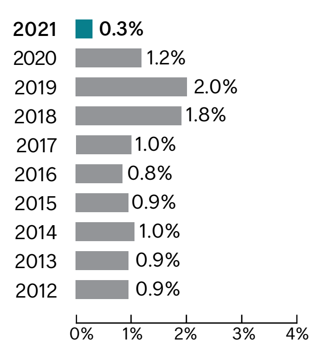
ANNUALIZED RETURNS vs BENCHMARK

(gross of fees)



HISTORICAL ANNUAL RETURNS

(gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

BALANCED ACCOUNT

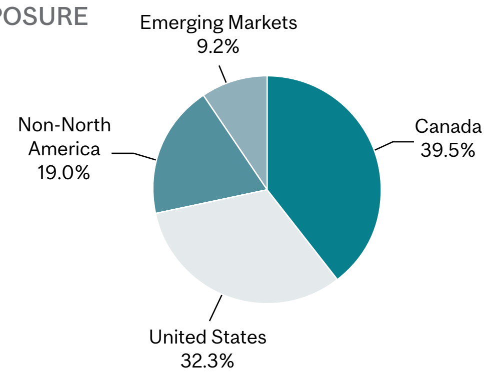
3 ASSET CLASSES

	DECEMBER 31, 2021	ACTUAL TARGET	MIN - MAX
Equity Pool	47.5%	45%	30% - 63%
Fixed Income Pool	28.1%	30%	20% - 50%
Alternative Assets	24.4%	25%	10% - 40%

$1,477.2M

80.4% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	88
Administration fees	24
TOTAL	112

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 5.5%.

HISTORICAL PERFORMANCE

Over the past 10 years, the annualized rate of return of the Balanced Account is 9.8% (gross of fees), outperforming the long-term return objective by 4.3% and the portfolio's benchmark by 1.2%.

The 5-year annualized rate of return of the Balanced Account is 9.4% (gross of fees), outperforming both the long-term return objective of 5.5% and the benchmark return of 8.3%.

2021 PERFORMANCE

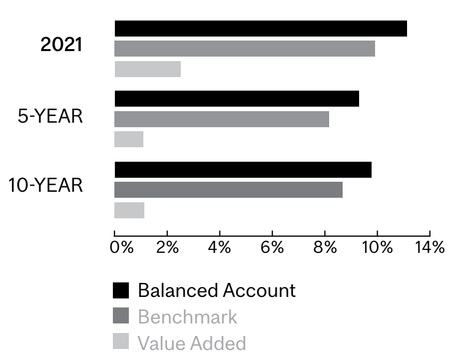
For the 12-month period ended on December 31, 2021, the Balanced Account provided a return of 12.4% (gross of fees) outperforming its benchmark by 2.5%. The decision to favour a higher allocation to equity while maintaining an underweight in fixed income securities in a rising rate environment, combined with the recovering alternative assets valuations and the excellent performance of the real estate and infrastructure portfolios were the main contributors of the Balanced Account's outperformance this year. Although the Fixed Income allocation recorded a negative absolute return in 2021 due to increasing interest rates, the negative effect was mitigated by the shorter duration positioning of the portfolio and the value added by managers, which in turn further helped the Balanced Account to outperform its benchmark this year.

PORTFOLIO CHANGES

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

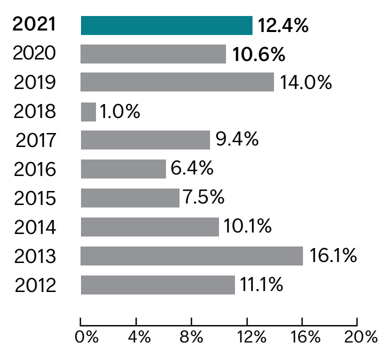
ANNUALIZED RETURNS vs BENCHMARK

(gross of fees)



HISTORICAL ANNUAL RETURNS

(gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

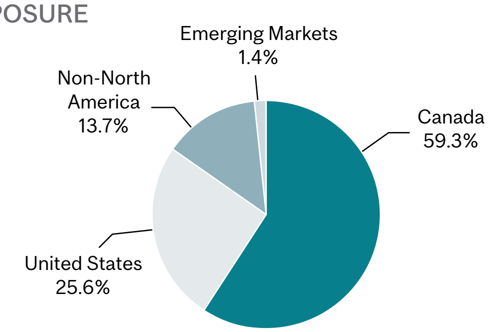
SOCIALLY RESPONSIBLE INVESTMENT POOL

3 RBC VISION FUNDS	DECEMBER 31, 2021	ACTUAL TARGET
Canadian Equity Fund	20.7%	20%
Global Equity Fund	41.1%	40%
Canadian Bond Fund	38.2%	40%

$69.6M

3.8% OF ACCUMULATION FUND ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	19
Administration fees	10
TOTAL	29

INVESTMENT OBJECTIVE

The 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 + 3.4%, being 5.2%.

HISTORICAL PERFORMANCE

Over the past 10 years, the annualized rate of return of the SRI Pool is 10.6% (gross of fees), outperforming the long-term return objective by 5.4% and the benchmark return by 1.8%.

The 5-year annualized rate of return of the SRI Pool is 11.7% (gross of fees), outperforming both the long-term return objective of 5.2% and the benchmark return of 8.8%.

2021 PERFORMANCE

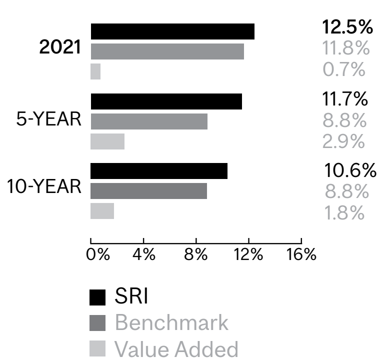
For the 12-month period ending on December 31, 2021, the SRI Pool returned 12.5% (gross of fees), outperforming its benchmark by 0.7%. Global equities remain the largest allocation of the portfolio, which supported the performance throughout the year as equity markets continued their sustained growth. In addition, the outperformance recorded in Canadian equities contributed to the good relative performance of the SRI Pool in 2021.

PORTFOLIO CHANGES

No changes occurred during 2021.

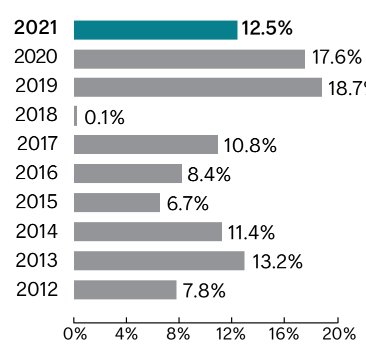
ANNUALIZED RETURNS vs BENCHMARK

(gross of fees)



HISTORICAL ANNUAL RETURNS

(gross of fees)



ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

TARGET DATE PROFILES

3 RISK PROFILES

Conservative
Moderate
Aggressive

3 ASSET CLASSES

Fixed Income Pool
Equity Pool
Alternative Assets

$36.3M

2.0% OF ACCUMULATION FUND ASSETS

INVESTMENT OBJECTIVE

The investment objective of the Target Date profiles is to optimize capital accumulation over the long-term through allocations to the Equity Pool, Fixed Income Pool and Alternative Assets based on the chosen risk profile and target retirement date of the Plan member.

Target Date considers all stages of plan members' lives. Farther away from retirement, the asset mix is tilted more aggressively for growth. Closer to retirement, the asset mix becomes more conservative to preserve gains and generate income.

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 chosen target of the individual Plan member.

HISTORICAL PERFORMANCE

Target Date Profiles were introduced in August 2020, replacing the previous Glide Path options.

2021 PERFORMANCE

For the 12-month period ending on December 31, 2021, the Target Date Profiles provided returns ranging from 5.5% to 16.1% (gross of fees) depending on the target retirement date and the risk profile of the funds. The performance of these funds includes value added ranging from 0.8% and 1.6%. For all profiles, the recovering alternative assets valuations, the excellent performance of the real estate and infrastructure portfolios and the good relative performance in fixed income were the main contributors of the value added in 2021.

PORTFOLIO CHANGES

During 2021, strategy changes occurred in the Target Date Profiles through changes in the Equity Pool and Alternative Assets.

ANALYSIS OF PERFORMANCE BY INVESTMENT OPTION

TARGET DATE PROFILES (cont'd)

The table below shows the gross returns for the Target Date profiles.

		Target Date	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060	2065
CONSERVATIVE RISK PROFILE	Allocation	Fixed Income Pool	-	65%	65%	50%	50%	40%	40%	30%	30%	20%	20%
		Equity Pool	-	25%	25%	35%	35%	45%	45%	55%	55%	65%	65%
		Alternative Assets	-	10%	10%	15%	15%	15%	15%	15%	15%	15%	15%
	Annual Return	2021	-	5.5%	5.5%	8.4%	8.4%	10.3%	10.3%	12.3%	12.3%	14.2%	14.2%
		Benchmark	-	4.0%	4.0%	6.8%	6.8%	8.9%	8.9%	11.0%	11.0%	13.1%	13.1%
		Value Added	-	1.5%	1.5%	1.6%	1.6%	1.4%	1.4%	1.3%	1.3%	1.1%	1.1%
	Fees in basis points	Management Fees	-	55	55	68	68	69	69	71	71	72	72
		Administration Fees	-	23	23	24	24	24	24	24	24	24	24
MODERATE RISK PROFILE	Allocation	Fixed Income Pool	65%	65%	50%	40%	40%	30%	30%	20%	20%	10%	10%
		Equity Pool	25%	25%	35%	45%	45%	55%	55%	65%	65%	75%	75%
		Alternative Assets	10%	10%	15%	15%	15%	15%	15%	15%	15%	15%	15%
	Annual Return	2021	5.5%	5.5%	8.4%	10.3%	10.3%	12.3%	12.3%	14.2%	14.2%	16.1%	16.1%
		Benchmark	4.5%	4.5%	6.8%	8.9%	8.9%	11.0%	11.0%	13.1%	13.1%	15.2%	15.2%
		Value Added	1.5%	1.5%	1.6%	1.4%	1.4%	1.3%	1.3%	1.1%	1.1%	0.9%	0.9%
	Fees in basis points	Management Fees	55	55	68	69	69	71	71	72	72	73	73
		Administration Fees	23	23	24	24	24	24	24	24	24	24	24
AGGRESSIVE RISK PROFILE	Allocation	Fixed Income Pool	50%	50%	40%	30%	30%	20%	20%	10%	10%	10%	10%
		Equity Pool	35%	35%	45%	55%	55%	65%	65%	75%	75%	75%	75%
		Alternative Assets	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
	Annual Return	2021	5.3%	5.3%	10.3%	12.3%	12.3%	14.2%	14.2%	16.1%	16.1%	16.1%	16.1%
		Benchmark	6.8%	6.8%	8.9%	11.0%	11.0%	13.1%	13.1%	15.2%	15.2%	15.2%	15.2%
		Value Added	1.6%	1.6%	1.4%	1.3%	1.3%	1.1%	1.1%	0.9%	0.9%	0.9%	0.9%
	Fees in basis points	Management Fees	68	68	69	71	71	72	72	73	73	73	73
		Administration Fees	24	24	24	24	24	24	24	24	24	24	24

PENSIONER FUND

The Pensioner Fund contains the assets required to finance the benefits of retired staff who opted for an internal pension settlement prior to January 1, 2011. The Pensioner Fund was reopened in September 2020 for members who elect to receive any supplemental retirement benefit as a pension.

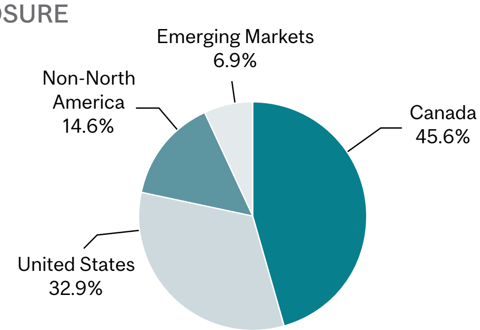
3 ASSET CLASSES

	DECEMBER, 31 2021	ACTUAL TARGET
Equity	51.7%	50%
Fixed Income	46.3%	50%
Real Estate	2.0%	0%

$105.4M

OF ASSETS

GEOGRAPHIC EXPOSURE



FEES in basis points

Management fees	47
Administration fees	18
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 + 3.0%, being 4.8%.

HISTORICAL PERFORMANCE

Over the past 10 years, the annualized rate of return of the Pensioner Fund is 9.1% (gross of fees), outperforming the long-term return objective by 4.3%.

The 5-year annualized rate of return of the Pensioner Fund is 10.2% (gross of fees), significantly above the long-term return objective of 4.8% and outperforming the benchmark return of 8.0%.

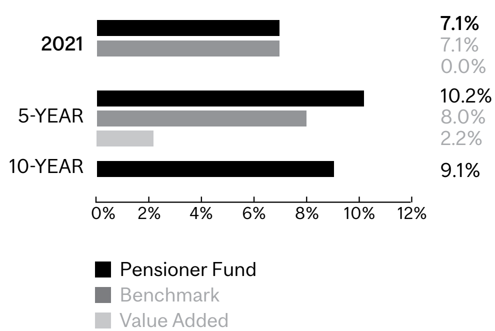
2021 PERFORMANCE

For the 12-month period ending on December 31, 2021, the Pensioner Fund generated a return of 7.1% (gross of fees), equalling the benchmark performance. While the equity allocation benefitted from strong growth this year, the underlying manager was not able to surpass it's index in 2021, as opposed to the last four years. Nonetheless, a strong performance by the corporate bond manager allowed the Pensioner Fund to generate a good return in excess of the aboslute return objective.

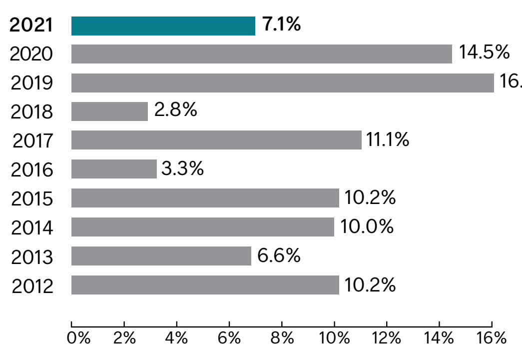
PORTFOLIO CHANGES

No changes occured during 2021.

ANNUALIZED RETURNS vs BENCHMARK
(gross of fees)



HISTORICAL 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
Sun Life	Record keeping Processing transactions Cash flow allocations to investment options Settlement package Host the Plan website
Normandin Beaudry	Record keeping for pensioners
Eckler	Actuarial services
Deloitte	External auditor
Ernst & Young	Tax consultant
Mercer	Investment consultant and manager database

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	William Blair & Company RBC Global Asset Management Mawer Investment Management Ninety One
	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	Equity	Vontobel
	Fixed Income	Canso Investment Counsel Manulife Investment Management

ACTUARIAL VALUATION AS AT DECEMBER 31, 2019

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, 2019. The results of such valuation were presented in a formal report dated December 23, 2020 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 as required under the *Quebec Supplemental Pension Plans Act*. The last interim valuation to report on the solvency financial position of the Plan was prepared as at December 31, 2020 and filed with Retraite Québec on July 20, 2021.

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, 2022 and needs to be filed with governmental authorities before the regulatory deadline of September 30, 2023. Furthermore, an interim valuation must be prepared as at December 31, 2021 to report on the solvency financial position of the Plan. The University is required to continue to contribute based on the December 31, 2019 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

Catherine Bourdages FSA, FCIA

FINANCIAL REPORT

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 ("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 16, 2022

Kendra Racine, CPA, CA
Senior Manager, Finance & Governance

Sophie Leblanc, CFA
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, 2021, 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, 2021, 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 information identified 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 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), 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 LLP[1]

Montreal, Quebec
March 16, 2022

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

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31, 2021
(Tabular amounts expressed in thousands of dollars)

Accumulation Fund

ASSETS	2021	2020
Investments (Note 3)	$1,820,045	$1,639,715
Cash	16,148	11,488
Currency contracts (Note 4)	5,063	5,223
Accrued investment income	3,542	3,283
Accounts receivable	649	682
McGill University contributions receivable	935	1,027
	1,846,382	1,661,418
LIABILITIES		
Currency contracts (Note 4)	818	2,376
Accounts payable and accruals	1,722	1,792
Due to Pensioner Fund (Note 6)	8	17
Owing to former members	5,179	3,912
	7,727	8,097
Net assets available for benefits	**$1,838,655**	**$1,653,321**

Pensioner Fund

ASSETS	2021	2020
Investments (Note 3)	$104,559	$118,301
Cash	529	346
Currency contracts (Note 4)	5	40
Accrued investment income	482	577
Accounts receivable	1	1
Receivable from Accumulation Fund (Note 6)	8	17
	105,584	119,282
LIABILITIES		
Accounts payable and accruals	58	70
Due to McGill University	2,384	1,708
	2,442	1,778
Net assets available for benefits	**$103,142**	**$117,504**
Total net assets available for benefits	**$1,941,797**	**$1,770,825**

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

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31, 2021
(Tabular amounts expressed in thousands of dollars)

Accumulation Fund

	2021	2020
Net assets available for benefits, January 1	$1,653,321	$1,516,416
INCREASE		
Investment income (Note 5)	39,616	36,495
Realized gains	131,437	46,204
Members' regular contributions	31,812	30,998
Members' special contributions	4,341	4,625
Members' voluntary contributions	1,696	1,629
McGill University's regular contributions	32,953	32,657
McGill University's special contributions	11,982	19,730
Transfers from other registered plans	835	1,156
Total increase in net assets	254,672	173,494
DECREASE		
Administration expenses (Note 7)	3,992	4,058
Investment management fees	5,513	3,642
Transaction costs	117	289
SRB transfers (Note 1(C))	553	-
Retirement benefits	39,704	50,504
Variable benefits	4,351	88
Retirement benefits - McGill University LIF/RIF	16,953	16,129
Termination benefits	18,536	23,400
Death benefits	5,727	4,969
Total decrease in net assets	95,446	103,079
Change in unrealized fair value of investments (unrealized gains)	26,108	66,490
Change in net assets available for benefits	**185,334**	**136,905**
Net assets available for benefits, December 31	**$1,838,655**	**$1,653,321**

Pensioner Fund

	2021	2020
Net assets available for benefits, January 1	$117,504	$125,364
INCREASE		
Investment income (Note 5)	1,991	2,214
Realized gains	9,160	10,604
SRB transfers (Note 1(C))	553	-
Total increase in net assets	11,704	12,818
DECREASE		
Administration expenses (Note 7)	201	277
Investment management fees	134	118
Pension payments	21,667	23,399
Total decrease in net assets	22,002	23,794
Change in unrealized fair value of investments (unrealized (losses) gains)	(4,064)	3,116
Change in net assets available for benefits	**(14,362)**	**(7,860)**
Net assets available for benefits, December 31	**$103,142**	**$117,504**
Total net assets available for benefits, December 31	**$1,941,797**	**$1,770,825**

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

NOTES TO THE FINANCIAL REPORT

December 31, 2021
(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	Tenure Stream Clinical 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	Tenure Stream Clinical 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. As of December 2020, following the results of the valuation exercise performed as at December 31, 2019, members' cost sharing contributions, which offset the University's regular contributions in the Defined Contribution Component, remain at 1.9% of eligible earnings.

(C) SUPPLEMENTAL RETIREMENT BENEFIT TRANSFERS

A supplemental retirement benefit ("SRB") transfer represents a transfer from the Accumulation Fund to the Pensioner Fund.

Starting in September 2020, Part A members have the option to receive any SRB value arising from the Defined Benefit Minimum Supplement in the form of a pension.

(D) 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.

(E) VARIABLE BENEFITS

A variable benefit is a decumulation phase settlement option that allows members the choice of receiving a life income type payment while remaining invested in the Plan.

Starting in September 2020, members who select the variable benefit option can schedule to receive monthly, quarterly or annual payments in addition to ad-hoc lump sum payments from their holdings in the Plan.

(F) 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.

NOTES TO THE FINANCIAL REPORT

December 31, 2021
(Tabular amounts expressed in thousands of dollars)

1. Summary Description of the Plan (continued)

(G) 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.

(H) 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 Target Date 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").

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.

(I) PENSIONER FUND

The Pensioner Fund holds the assets required to secure the obligation for retired staff who opt for an internal pension settlement prior to January 1, 2011.

The Pensioner Fund was reopened in September 2020 for members who elect to receive any supplemental retirement benefit as a pension.

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, 2021, 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, 2021
(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, termination, variable 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 69 days in the Accumulation Fund (2020 - 58 days) and 105 days in the Pensioner Fund (2020 - 92 days).

Fixed Income

In the Accumulation Fund, bonds, 38.0% of which are guaranteed by the federal or provincial governments (2020 - 31.0%), have a weighted average yield to maturity of 2.8% (2020 - 2.1%) and an average duration of 6.8 years (2020 - 6.9 years). In the Pensioner Fund, bonds, 40.7% of which are guaranteed by the federal or provincial governments (2020 - 33.0%), have a weighted average yield to maturity of 2.5% (2020 - 2.0%) and an average duration of 6.6 years (2020 - 7.0 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, 2021
(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 an absolute return strategy focusing on relative value trading and hedge fund co-investments and secondaries.

(B) COMMITMENTS

In the Accumulation Fund, there are unfunded commitments in the amount of $163.4 million (2020 - $137.7 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 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, 2021 and 2020.

(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, 2021

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 $34.3 million (2020 - $32.4 million)	Decrease (increase) fair value of fixed income investments by $3.0 million (2020 - $3.6 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 $5.0 million (2020 - $4.5 million)	Increase (decrease) in the fair value of investments of approximately $466 thousand (2020 - $536 thousand)
	$0.01 appreciation (depreciation) of the Euro versus the Canadian dollar	Increase (decrease) in the fair value of investments of approximately $692 thousand (2020 - $527 thousand)	N/A
Foreign currency risk on forward contracts	$0.01 appreciation (depreciation) of the United States dollar versus the Canadian dollar	Decrease (increase) in the fair value of forward contracts and cross-currency swaps of approximately $1.7 million (2020 - $2.0 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 $393 thousand (2020 - $303 thousand)	N/A
Equity price risk	10% change in equity prices	$108.6 million change in the fair value of the private and listed equities (2020 - $92.2 million)	$5.5 million change in the fair value of the private and listed equities (2020 - $6.2 million)

NOTES TO THE FINANCIAL REPORT

December 31, 2021
(Tabular amounts expressed in thousands of dollars)

3. Investments and Financial Instruments (continued)

(H) INVESTMENT DETAIL

	Accumulation Fund		Pensioner Fund	
	2021	**2020**	**2021**	**2020**
Cash equivalents				
Canadian	$40,057	$56,006	$2,324	$2,368
Foreign	11,371	18,574	1	318
	51,428	74,580	2,325	2,686
Fixed income investments				
Canadian	362,010	327,807	37,719	42,558
Foreign	139,249	141,764	7,811	8,645
	501,259	469,571	45,530	51,203
Equity investments				
Canadian	428,033	378,302	119	110
Foreign	485,689	413,764	54,495	61,993
	913,722	792,066	54,614	62,103
Alternative Assets*				
Real assets	144,147	119,598	2,090	2,309
Listed real assets	35,790	14,806	-	-
Private investments	136,102	114,680	-	-
Diversifying assets	37,597	54,414	-	-
	353,636	303,498	2,090	2,309
Total Investments	**$1,820,045**	**$1,639,715**	**$104,559**	**$118,301**

* In the Accumulation Fund, 73.1% (69.0% in 2020) of Alternative Assets are held in foreign currencies. There are no Alternative Assets held in foreign currencies in the Pensioner Fund in 2021 and 2020.

NOTES TO THE FINANCIAL REPORT

December 31, 2021
(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, 2021			
Accumulation Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$51,428	$-	$-	$51,428
Fixed income investments	-	479,920	21,339	501,259
Equity investments	625,189	288,533	-	913,722
Alternative Assets	35,791	-	317,845	353,636
Total Investments	**$712,408**	**$768,453**	**$339,184**	**$1,820,045**
Other Financial Assets				
Evaluated at fair value	-	$5,063	-	$5,063
Other Financial Liabilities				
Evaluated at fair value	-	$818	-	$818

	Fair Value as at December 31, 2020			
Accumulation Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$74,580	$-	$-	$74,580
Fixed income investments	-	443,161	26,410	469,571
Equity investments	553,520	238,546	-	792,066
Alternative Assets	14,806	-	288,692	303,498
Total Investments	**$642,906**	**$681,707**	**$315,102**	**$1,639,715**
Other Financial Assets				
Evaluated at fair value	-	$5,223	-	$5,223
Other Financial Liabilities				
Evaluated at fair value	-	$2,376	-	$2,376

NOTES TO THE FINANCIAL REPORT

December 31, 2021
(Tabular amounts expressed in thousands of dollars)

3. Investments and Financial Instruments (continued)

(I) FAIR VALUE HIERARCHY (continued)

	Fair Value as at December 31, 2021			
Pensioner Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$2,325	$-	$-	$2,325
Fixed income investments	-	45,530	-	45,530
Equity investments	-	54,614	-	54,614
Alternative Assets	-	-	2,090	2,090
Total Investments	**$2,325**	**$100,144**	**$2,090**	**$104,559**
Other Financial Assets				
Evaluated at fair value	-	$5	-	$5

	Fair Value as at December 31, 2020			
Pensioner Fund	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash equivalents	$2,686	$-	$-	$2,686
Fixed income investments	-	51,203	-	51,203
Equity investments	-	62,103	-	62,103
Alternative Assets	-	-	2,309	2,309
Total Investments	**$2,686**	**$113,306**	**$2,309**	**$118,301**
Other Financial Assets				
Evaluated at fair value	-	$40	-	$40

NOTES TO THE FINANCIAL REPORT

December 31, 2021
(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, 2020	$306,332	$5,349
Purchases	37,947	-
Sales	(36,131)	(3,309)
Change in fair value	6,954	269
Fair value, December 31, 2020	$315,102	$2,309
Purchases	30,884	-
Sales	(49,113)	(4)
Change in fair value	42,311	(215)
Fair value, December 31, 2021	**$339,184**	**$2,090**

During 2021 and 2020, 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, 2021
(Tabular amounts expressed in thousands of dollars)

4. Currency Contracts

Accumulation Fund

Currency Contracts as at December 31, 2021

Long Position	Short Position	Notional CDN$ Equivalent	Average Exchange Rate	Assets CDN$	Liabilities CDN$
Canadian Dollar	US Dollar	334,592	1.2789	4,079	-
Canadian Dollar	Euro	56,899	1.4450	296	21
US Dollar	Canadian Dollar	15,785	0.7806	-	221
US Dollar	Euro	8,686	1.1511	231	132
US Dollar	Japanese Yen	3,968	0.0089	168	60
US Dollar	Singapore Dollar	1,761	0.7417	38	38
Euro	US Dollar	4,313	0.8871	116	80
Pound Sterling	US Dollar	2,590	0.7445	42	21
Japanese Yen	US Dollar	1,980	113.5677	53	80
Various currencies	Various currencies	6,683	-	40	165
Total		**$437,257**		**$5,063**	**$818**

Accumulation Fund

Currency Contracts as at December 31, 2020

Long Position	Short Position	Notional CDN$ Equivalent	Average Exchange Rate	Assets CDN$	Liabilities CDN$
Canadian Dollar	US Dollar	323,366	1.2885	4,294	515
Canadian Dollar	Euro	51,513	1.5469	-	464
Euro	Canadian Dollar	4,650	0.6424	12	-
US Dollar	Canadian Dollar	20,995	0.7734	-	309
US Dollar	Euro	15,669	1.1951	78	451
US Dollar	Singapore Dollar	2,616	0.7346	17	93
US Dollar	Japanese Yen	7,407	0.0096	269	188
US Dollar	Pound Sterling	2,486	1.3238	-	80
Pound Sterling	US Dollar	4,764	0.7629	199	-
Euro	US Dollar	8,116	0.8236	123	61
Japanese Yen	US Dollar	3,737	103.8318	49	28
Various currencies	Various currencies	10,721	-	182	187
Total		**$456,040**		**$5,223**	**$2,376**

NOTES TO THE FINANCIAL REPORT

December 31, 2021
(Tabular amounts expressed in thousands of dollars)

4. Currency Contracts (continued)

Pensioner Fund

		Currency Contracts as at December 31, 2021			
Long Position	**Short Position**	**Notional CDN$ Equivalent**	**Average Exchange Rate**	**Assets CDN$**	**Liabilities CDN$**
Canadian Dollar	US Dollar	4,519	1.2647	5	-
Total		**$4,519**		**$5**	-

Pensioner Fund

		Currency Contracts as at December 31, 2020			
Long Position	**Short Position**	**Notional CDN$ Equivalent**	**Average Exchange Rate**	**Assets CDN$**	**Liabilities CDN$**
Canadian Dollar	US Dollar	6,861	1.2815	40	-
Total		**$6,861**		**$40**	-

5. Investment Income

Accumulation Fund

	2021	2020
Cash & cash equivalents	$418	$331
Fixed income	12,010	11,939
Equity	19,437	16,785
Real assets	3,348	2,949
Private investments	4,272	4,383
Securities lending	131	108
Total	**$39,616**	**$36,495**

Pensioner Fund

	2021	2020
Cash & cash equivalents	$22	$11
Fixed income	1,820	2,015
Equity	141	180
Securities lending	8	8
Total	**$1,991**	**$2,214**

NOTES TO THE FINANCIAL REPORT

December 31, 2021
(Tabular amounts expressed in thousands of dollars)

6. Receivable from/due to Accumulation and Pensioner Fund

As at December 31, 2021, $8 thousand (2020- $17 thousand) was the amount of the inter fund account between the Accumulation Fund and the Pensioner Fund. The amount relates to administrative expenses.

7. Administration Expenses

Administration expenses include the following:

Accumulation Fund	2021	2020
Service provider record keeping fees	$1,341	$1,262
Salaries and benefits	1,241	1,373
Custodial	302	351
GST/QST charge	232	127
Liability insurance	192	133
Financial data providers	108	132
Performance measurement fees	108	101
Retraite Québec fees	106	101
Trustee	93	92
Audit	74	71
Actuarial	54	151
Other expenses	141	164
Total	**$3,992**	**$4,058**

Pensioner Fund	2021	2020
Service provider record keeping fees	$54	$67
Salaries and benefits	70	109
Custodial	15	21
GST/QST charge	15	10
Liability insurance	12	9
Performance measurement fees	10	8
Retraite Québec fees	7	8
Trustee	6	8
Audit	4	5
Actuarial	3	12
Other expenses	5	20
Total	**$201**	**$277**

8. Subsequent Events

During the first two months of 2022, the Plan entered into interest rate derivatives with a total notional value of $300 million in order to hedge a portion of the Plan's interest rate risk.

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.

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.

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.

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 of 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.

Supplemental Retirement Benefit (SRBV) Represents an additional amount a member is entitled to if the transfer value of the DB Minimum pension is higher than the total value the member would have accumulated in their Defined Contribution account had it been invested 100% in the Balanced Account, adjusted for contributions related to stipends on a prorata basis (as applicable).

Target Date Profiles Evolving asset mix based on a member's target retirement date and risk tolerance. As a member approaches retirement, the asset mix becomes more conservative.

UN PRI Stands for United Nations Principles for Responsible Investment.There are six principles that offer a menu of possible actions for incorporating ESG issues in investment practices.

Variable Benefit Decumulation phase settlement option that allows members the option of receiving a life income type payment while remaining invested in the McGill University Pension Plan.

CONTACTS

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All general enquiries concerning the Plan should be referred to McGill University Savings Programs Call Centre 1-888-444-2023.

NOTES

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