

McGILL UNIVERSITY

REPORT ON ENDOWMENT PERFORMANCE 2007-08

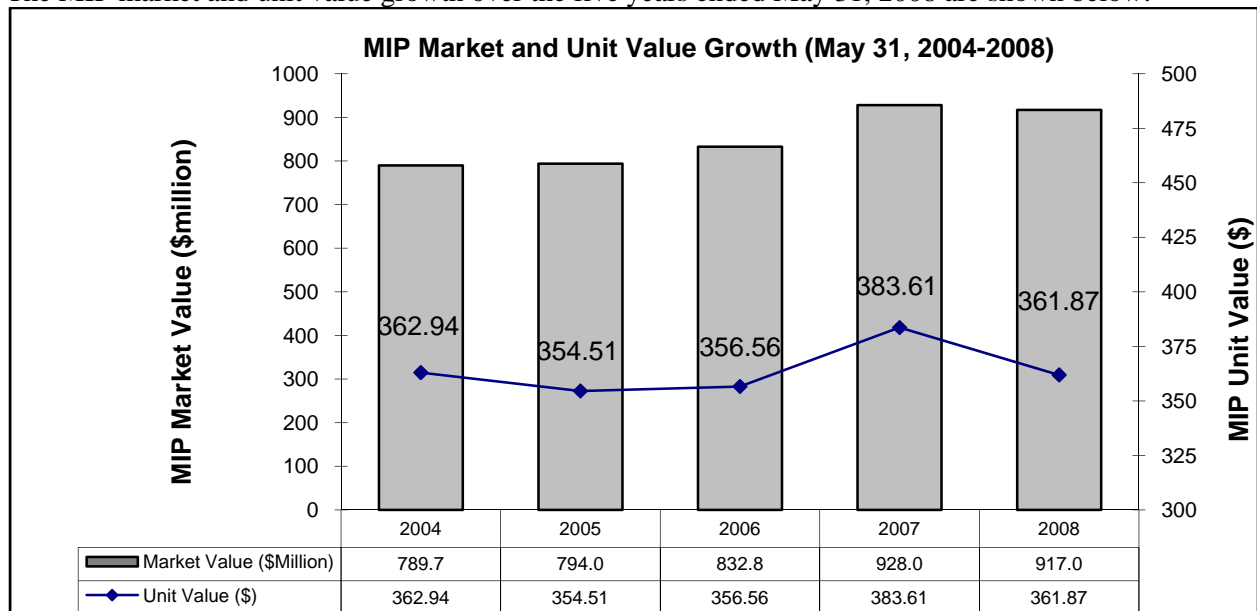
The McGill endowment is comprised of (i) bequests and donations received by the University, for the most part with specific designations, and to be held in perpetuity (ii) those assets designated by the Board of Governors to be endowed and (iii) those assets of certain McGill units and affiliated entities which have been allocated to the McGill Investment Pool (“MIP”) as an investment vehicle. The endowment is managed by the McGill Treasury department under the direction of the Investment Committee, a committee of the Board of Governors.

The overall objective of the endowment is to obtain a total return (yield plus capital appreciation) necessary to provide a dependable and optimal source of income for endowment beneficiaries, to cover the annual operating costs of the endowment and to preserve (in real dollar terms) the capital of the endowment within the social and ethical norms of the University.

The endowment fund is managed as the MIP which was formed in 1970. The use of a unitized pool allows for the investment of a critical mass of assets thus providing for broad diversification and economies of scale that have over the years resulted in positive performance, reduced volatility and low investment management fees. Currently, the MIP which had a market value of \$917.0 million as at May 31, 2008, the end of the University’s fiscal year, consists of investments for McGill endowments and accounts managed on behalf of McGill units and affiliated entities.

MIP Market and Unit Value

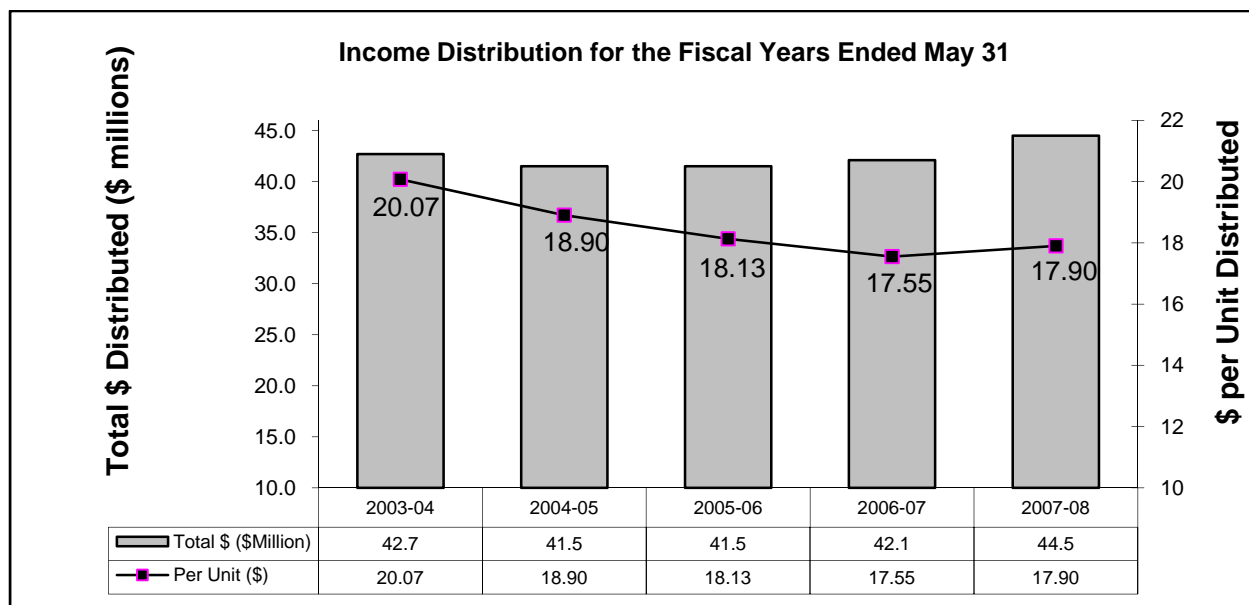
The MIP market and unit value growth over the five years ended May 31, 2008 are shown below:



Change in market value for the year ended May 31, 2008

	(\$ millions)
Unrealized market gain (loss)	(66.4)
Gain on sale of investments	22.1
Investment income	<u>45.1</u>
Total increase in assets	0.8
Endowment income distribution and management fee	(51.8)
Temporary contribution to campaign development costs	<u>(2.0)</u>
Total amount withdrawn	(53.8)
Gifts/bequests	32.7
Net capitalization	<u>9.3</u>
Total net capital contributions	42.0
Net change in market value during the year	<u>(11.0)</u>
Market value of the MIP, beginning of the year	928.0
Market value of the MIP, end of the year	917.0

Income Distribution



For the year ended May 31, 2008, \$44.5 million in income was distributed to the University's endowment beneficiaries. Income is distributed monthly and adjusted quarterly for capital additions and withdrawals.

The 2007-08 distribution rate per unit is based on 5% of the average market value of the endowment of the previous three years calculated at May 31. This practice is used to minimize the impact of market fluctuations on the endowment fund and is consistent with practices adopted at other leading North American universities. It is based on the distribution of an appropriate and prudent level of income to all unit holders.

The income distribution rate for 2007-08 was \$17.90 per unit and will be \$18.24 for the 2008-09 fiscal year based on the unit value averages at the end of May 2007, 2006 and 2005. As of October 2008, the income to be distributed in the 2009-10 fiscal year is expected to be \$18.37 per unit.

For 2007-08, the management fee was 0.9% of the average market value of the previous three years. The management fee covers the endowment fund's administrative costs, investment management fees and custodial fees as well as a contribution to the University's indirect costs. The management fee will be calculated in the same manner for the 2008-09 fiscal year. There was also a special temporary contribution of 0.2% for campaign development costs. This temporary contribution was eliminated effective June 1, 2008.

Governance and Investment Management

The Investment Committee, a committee of the Board of Governors, oversees the investment of the MIP assets. The McGill Treasury Department is responsible for implementing the Investment Committee's decisions.

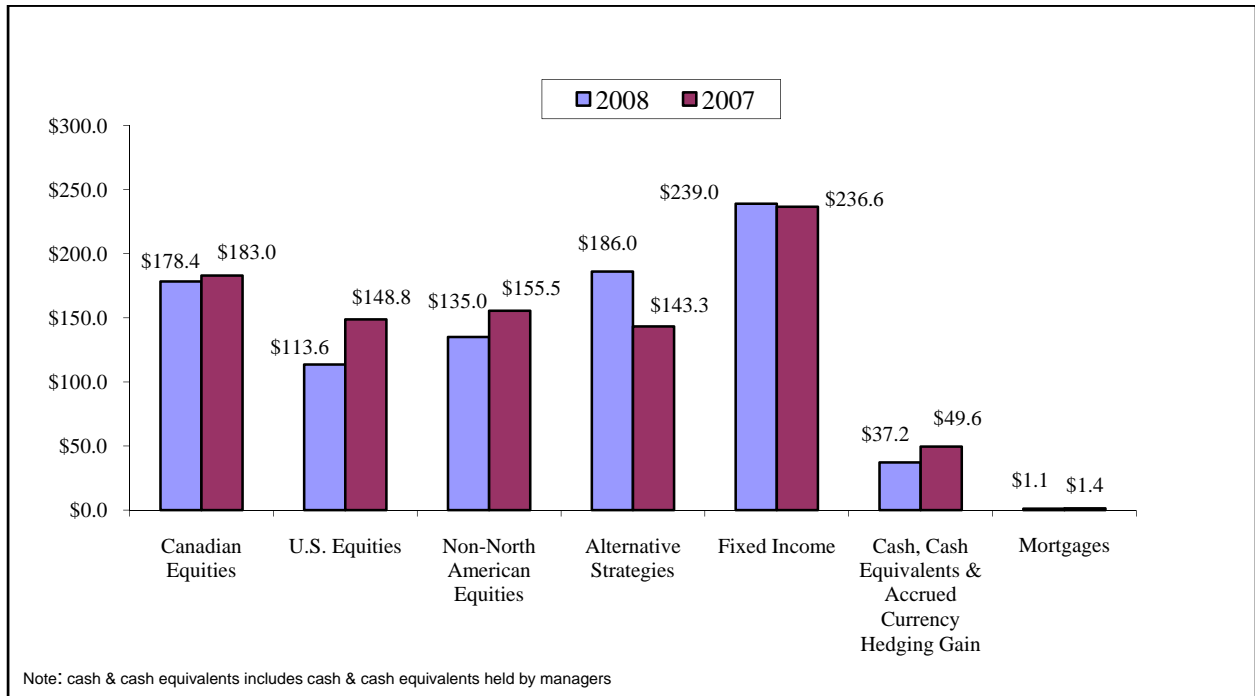
As at June 30, 2008, approximately 94% of the University's endowment investments were managed by external investment managers. These managers and their respective mandates were:

- **Phillips, Hager & North** (Canadian equity and fixed income)
- **Jarislowsky, Fraser** (Canadian and U.S. equity)
- **Acuity and MFC Global** (Canadian income trusts)
- **Formula Growth** (U.S. growth equity)
- **State Street** (U.S. mid-cap index equity)
- **LSV Asset Management** (U.S. small/mid-cap equity)
- **Brandes and William Blair & Company** (non-North American equity for both developed and emerging markets)
- **Capital International** (emerging markets equity)
- **TD Asset Management** (Canadian bond index and a passive currency hedging program)
- **Commonfund** (two hedge funds of funds)
- **Private equity** (seven private equity funds of funds, investing on a combined basis in North American and European buyout, venture capital and global secondary funds and one Canadian venture capital limited partnership)
- **Real estate** (two limited partnerships investing in Canadian real estate, one fund investing in global real estate investment trusts and real estate securities and one U.S. open-ended real estate fund)

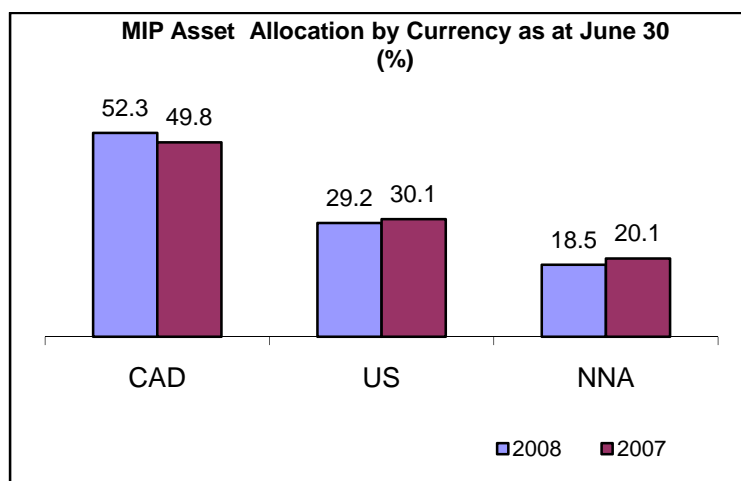
The Treasury department manages 6% of the MIP internally. It holds securities in an account pending liquidation or allocation to an external investment manager, in addition to managing cash and cash equivalents and a currency hedging reserve.

Asset Distribution

The distribution of the MIP assets, at June 30, is shown below:



Ongoing portfolio rebalancing initiatives and market movements resulted in changes to the asset distribution during the year. There were increases in the exposure to Alternative Strategies and Fixed Income and decreases in the exposure to Canadian equities, U.S. equities, non-North American equities and cash and cash equivalents.



The currency allocation for total investments at June 30 is shown in the accompanying chart. The 2.5 percentage point increase in Canadian exposure and the corresponding decrease in U.S. and non-North-American exposure reflect market movements during the year as well as ongoing rebalancing activities.

Performance Measurement – 2007-2008

Performance measurement of the MIP is carried out quarterly on a calendar year basis by an independent performance measurement service. Investment rates of return are stated on a total return basis which is capital appreciation, both realized and unrealized, plus income received and accrued. The following table indicates the performance of the total fund and all external managers (excluding RIAL-Holding, staff mortgages and the currency hedging program) over various time periods ended June 30, 2008 with a comparison to the median return of the Canadian universe (composed of pension funds, foundations and endowments, and public funds), the BNY Mellon Endowments and Foundations Universe (comprised of 15 participants), the absolute return objective, a composite of the returns of four selected Canadian university endowment funds and the MIP's composite benchmark.

	Annualized Returns			
	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>	<u>10 years</u>
Total Fund (MIP)	-1.7%	5.6%	7.3%	5.3%
Total External Managers	-3.0%	5.3%	7.2%	5.3%
Median – BNY Mellon Canadian Master Trust Universe	-2.4%	6.4%	9.1%	6.4%
Median – BNY Mellon Foundations & Endowments Universe	-2.0%	6.2%	8.8%	n/a
Absolute Return Objective (5.9% + CPI)	9.0%	8.5%	8.3%	8.3%
Composite of the returns of four selected Canadian university endowment funds	-4.4%	6.6%	8.9%	5.9%
Composite benchmark (policy weights times related index returns)	-3.5%	5.0%	7.1%	3.9%