

McGILL UNIVERSITY

REPORT ON ENDOWMENT PERFORMANCE 2014-15

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 Office of Investments under the direction of the Investment Committee (“Committee”).

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.

At April 30, 2015, the end of the University’s fiscal period, the MIP, with a market value of \$1.4 billion, consisted of investments for the McGill endowments and accounts managed on behalf of McGill units and affiliated entities.

MIP Market and Unit Value

The MIP market and unit value changes, over the fiscal periods ended April 30, 2011 to April 30, 2015, are shown below:

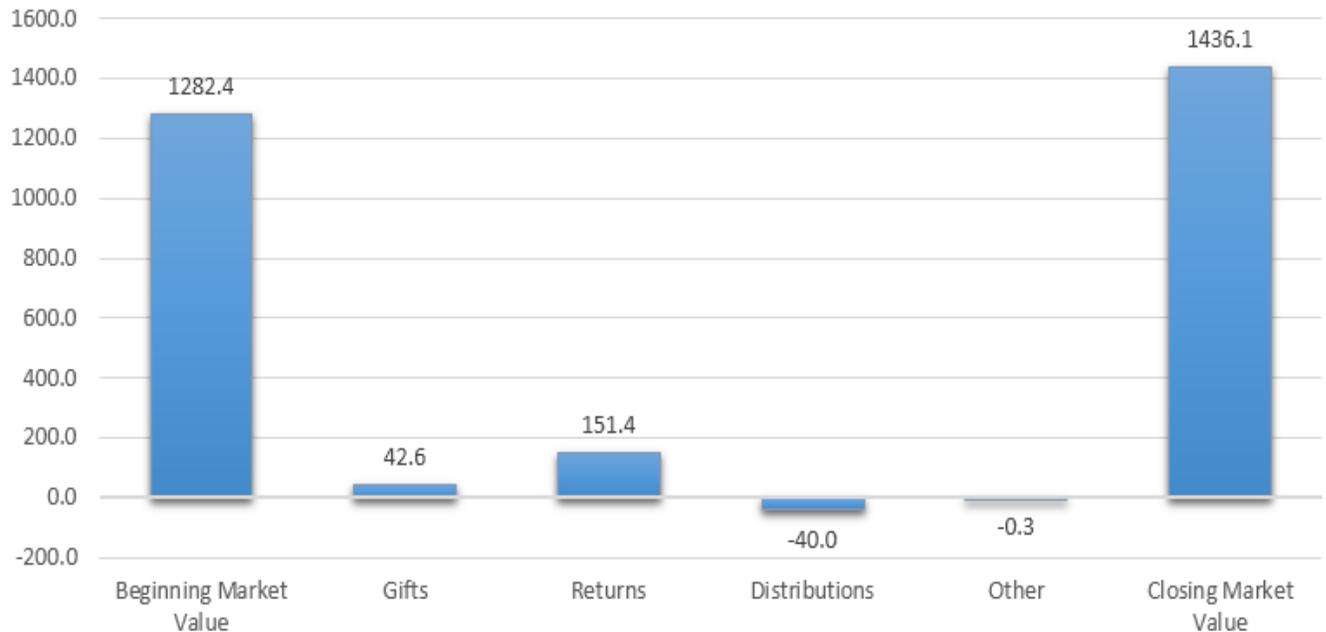
Graph 1: MIP Market Value and Unit Value Change (April 30, 2011 to April 30, 2015)



The unit value for the 12-months ended April 30, 2015 increased by 7.9% compared to an increase of inflation of 0.8% for a real return of 7.1%.

MIP Growth

Graph 2: Change in market value for the year ended April 30, 2015



Income Distribution and Management Fee

The 2014-15 distribution rate per unit was based on 4.25% of the average market value of the MIP at the end of each of the previous three fiscal periods. 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. For 2015-16, the 4.25% rate will be maintained plus an additional 0.25% distribution will be added to the income distribution rate, due to the MIP's recent exceptional performance. As in previous years, distribution rate per unit will be based on the average market value of the previous three fiscal periods ended April 30, 2014, April 30, 2013 and April 30, 2012 as approved by the Board of Governors.

For the year ended April 30, 2015, \$47.9 million in income was distributed to the University's endowment beneficiaries based on an annual distribution rate of \$13.65 per unit. For fiscal 2015-16 the annual income distribution amount per unit will be \$15.26.

For 2014-15, the management fee of .90% of the average market value of the previous three years amounted to \$9.1 million. The management fee covers the endowment fund's administrative costs, investment management fees, custodial expenses and the cost of other service providers as well as a contribution to the University's indirect costs. The management fee will be calculated in the same manner for the 2015-16 fiscal year, in that it will be based on the average market value of the previous three fiscal periods ended April 30, 2014, April 30, 2013 and April 30, 2012.

Governance and Investment Management

The Investment Committee, a committee of the Board of Governors (“Board”), oversees the investment of the MIP assets. The Office of Investments is responsible for implementing the Investment Committee’s decisions.

The Investment Committee is comprised of 10 members who, as at June 30, 2015 consisted of Joel Raby (Montreal), Chair; Suzanne Fortier (Montreal), Principal and Vice-Chancellor, ex-officio; Robert Rabinovitch (Montreal), Sam Altman (Montreal), Kathy Fazel (Montreal), Mark Hantho (New York), Gerald Sheff (Toronto), Arnold Steinberg (Montreal), Danny Ritter (Montreal) and Stuart Cobbett (Montreal), Chair of the Board, ex-officio. Marc Weinstein (Montreal), Vice-Principal (University Advancement), serves as Special Advisor. Members are appointed on the basis of their expertise and interest in investment, business and economics.

Pursuant to its Terms of Reference, the Committee is responsible for overseeing the management of the University’s investments in accordance with the Statement of Investment Policy. Included in the Committee’s functions are (i) providing advice to the Board in establishing policies related to investments and making recommendations thereon to the Board for approval, (ii) reviewing annually the appropriateness of the Statement of Investment Policy and making recommendations on proposed modifications to the Board (iii) recommending to the Board policies on the annual distribution rate for the income from the University’s endowment (iv) reviewing and approving the appointment and termination of investment managers and service providers, investment manager mandates and the performance of each fund manager and (v) monitoring compliance with the Statement of Investment Policy.

In June 2014 a Subcommittee of the Investment Committee was created with the mandate to act on issues which may arise between regular scheduled meetings. The Subcommittee is composed of the Chair of the Committee, a member of the Investment Committee, the Senior Steward and the Chief Investment Officer.

The Investment Committee and Subcommittee met five times during the fiscal year ended April 30, 2015. Overall attendance averaged 73%.

Decisions related to manager and consultant changes for the period ended April 30, 2015

During the year, a number of investment manager changes were undertaken under the direction of the Investment Committee.

Within the Fixed Income Asset Class, a new allocation was made to Global Government bond with the hire of Colchester Global Investors. Phillips, Hager & North’s mandate was modified to include investments in mortgages and in foreign bonds. TD Asset Management (TDAM’s) mandate in Canadian fixed income was terminated during the year and TDAM’s money market mandate was changed to allow investments in provincial and corporate debt instruments.

Allocation to U.S. Equities was increased during the year primarily through the reduction of European and Emerging Market holdings.

In addition to the above, Cambridge Associates, a hedge funds service provider was hired to replace Commonfund’s COMANCO.

As at June 30, 2015, approximately 84% of the University's endowment investments were managed by external investment managers. These managers and their respective mandates were:

- **Pyramis Global Advisors**, a Fidelity Investments Company (Canadian equity)
- **LSV Asset Management** (U.S. small/mid-cap equity)
- **Aberdeen Asset management** (emerging markets equity)
- **William Blair & Company** (non-North American equity for both developed and emerging markets)
- **Hexavest Inc.** (non-North American equity)
- **Comgest Asset Management**, a signatory to the United Nations "Principles for Responsible Investment" (one emerging markets equity mandate)
- **TD Asset Management** (Government of Canada T-bills and a passive currency hedging program)
- **Colchester Global Investors** (Global Government bonds)
- **Phillips, Hager & North** (Canadian fixed income)
- **Neuberger Berman** (U.S. high yield bonds)
- **Van Berkom** (one U.S. and one Canadian small-cap equity mandate)
- **Hedge Funds** (Eleven Hedge Funds in total: one fund of funds, primarily invested in long/short equity and ten direct funds investing in various strategies)
- **Private equity** (six private equity funds of funds, investing on a combined basis in North American and European buyout, venture capital and global secondary funds, two Canadian funds investing in securities of distressed and under-valued Canadian companies, two Canadian venture capital funds, and one fund investing primarily in U.S. corporate debt)
- **Commodities** (two North American natural resources funds of funds and three Canadian oil and gas funds)
- **Real estate** (four funds investing in Canadian real estate and one investing in U.S. real estate)

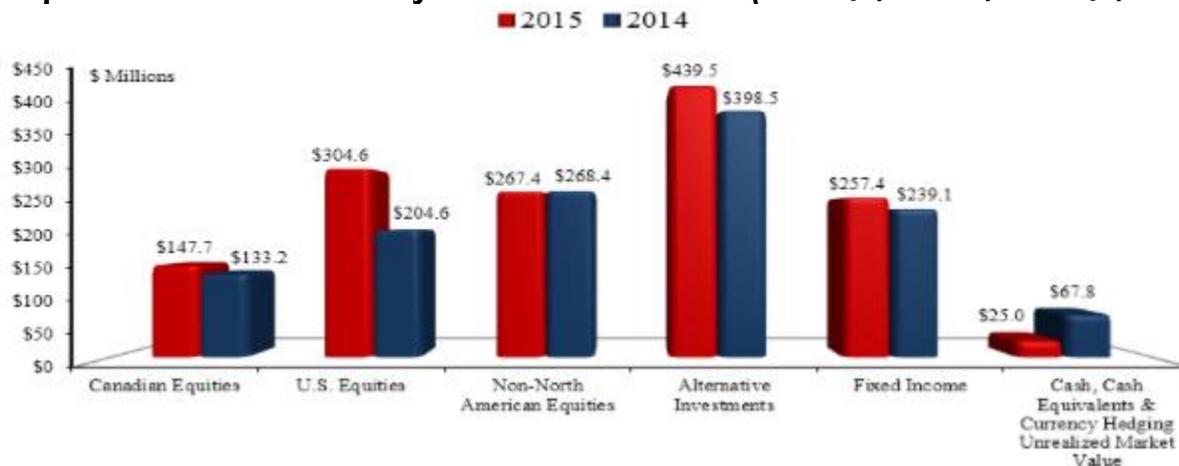
In addition to the above, two investment management mandates granted to Desautels Capital Management Inc., for global equity and for global fixed income, are managed by students in McGill University's Desautels Faculty of Management.

The Office of Investments manages approximately 16% of the MIP internally. It mostly holds exchange-traded funds.

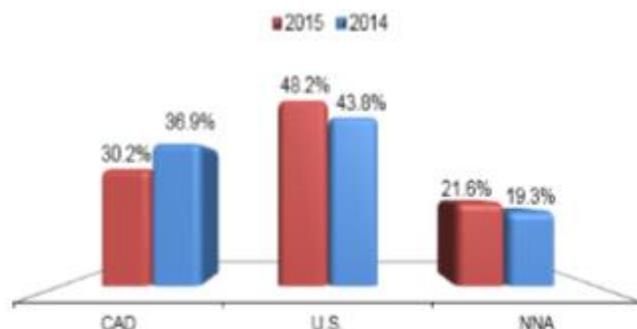
Asset Distribution

In accordance with performance measurement standards the following graph presents the asset allocation of the MIP portfolio at June 30, 2015 and at June 30, 2014:

Graph 3: MIP Asset Distribution by Asset Class as at June 30 (2015 - \$1,441.6 M; 2014 - \$1,311.6 M)



Graph 4: MIP Asset Allocation by Currency as at June 30



The currency allocation for total investments at June 30 is shown in the above chart.

Performance Measurement 2014-15

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. For the twelve months ended June 30, 2015, the MIP had a rate of return of 10.3%, compared to the Canadian Foundations and Endowments Universe's median fund return of 8.2%. The following table indicates the performance of the MIP as well as the median returns of the BNY Mellon Canadian Foundations and Endowments Universe, a composite of the returns of five comparable Canadian university endowment funds, the absolute return objective and the MIP's composite benchmark over a range of periods ended June 30, 2015:

	Annualized Returns			
	1 year	3 years	5 years	10 years
Total MIP	10.3%	14.6%	12.3%	6.8%
Absolute Return Objective	6.2%	6.7%	7.0%	7.3%
Composite benchmark (policy weights times related index returns)	11.5%	13.4%	11.5%	6.5%
Median – BNY Mellon Canadian Foundations & Endowments Universe	8.2%	13.3%	11.4%	6.7%
Composite of the returns of five comparable Canadian university endowment funds	10.3%	13.9%	11.2%	6.2%