Canada Post Pension Plan 2014

Report to Members

Total Compensation

Pension | Pay and Incentives | Benefits | Health and Well-Being

CANADA POST POSTES CANADA

Contents

Privacy of pension records
Canada Post Corporation is subject to the *Privacy Act* and complies with the Canada Post Employee Privacy Policy. Personal information, including pension information, is treated in a secure and confidential manner.

Note
For the purposes of this Report, "Plan," "Pension Plan" and "Canada Post Pension Plan" refer to the Canada Post Corporation Registered Pension Plan, which includes the defined benefit component and the defined contribution component, unless otherwise specified. Canada Post Corporation provides pension benefits to members through the Plan, which is registered under the *Pension Benefits Standards Act, 1985*.

This Report presents the financial position and results of the operations of the Plan on an accrual basis. The financial information presented is an unaudited extract of the financial statements. The complete audited financial statements, including notes, are available at **cpcpension.com** or by request.

Terms that appear in **bold grey** the first time they are used in the text are defined in the glossary at the back of the Report.

Messages from the Chairperson, the Chief Financial Officer and the Chief Human Resources Officer

Siân M. Matthews
Chairperson of the Board of Directors

As a member of the Board of Directors of Canada Post Corporation since 2007 and its newly appointed Chairperson, I am well sensitized to the Board's fiduciary duty to act in the best interests of members of the Canada Post Corporation Registered Pension Plan.

The Board exercises careful and professional oversight of the investment strategies and administration of the Pension Plan, which is governed in compliance with the *Pension Benefits Standards Act, 1985*, and according to principles established by the Canadian Association of Pension Supervisory Authorities. Board committee members have specific experience that applies to pension matters and ensure the Plan is well-governed, well-managed and closely monitored throughout the year.

The Board and I fully understand the importance of the Pension Plan for all employees. Administering the Plan on behalf of Plan members is our mandate and a responsibility Canada Post takes very seriously in its role as Plan administrator. Through sound management and a long-term vision, Canada Post will continue to fulfill its commitment and obligations to Plan members for current and future generations.

On behalf of the Board, I would like to thank Marc A. Courtois for his years of service as Chairperson of the Board. I would also like to thank A. Michel Lavigne, Chairperson of the Board's Pension Committee, and Douglas D. Greaves, Pension Fund and Chief Investment Officer, for their stewardship of the Plan. Finally, my thanks to the members of the Investment Advisory Committee and the Pension Advisory Council for their guidance and diligence on various aspects of the Plan.

I look forward to building a sustainable future for Canada Post, its employees and the Pension Plan.

Wayne Cheeseman
Chief Financial Officer

Scott G. McDonald
Chief Human Resources Officer

Canada Post recognizes that Plan members are relying on their pension for a secure retirement and is committed to acting in their best interests.

Challenges remain for the defined benefit component of the Plan, as demonstrated by the financial position at the end of 2014. In February 2014, the Government of Canada passed new regulations granting Canada Post relief from the need to make special payments into the Plan to cover deficits through 2017.

Canada Post management and the Board of Directors are taking appropriate measures to address the challenges facing the Plan. Canada Post is working with stakeholders, including bargaining agents and active and retired Plan members, to ensure it is financially sustainable. Funding relief is not a long-term solution.

At the same time, Canada Post continues to fulfill its fiduciary responsibility to Plan members with oversight by the Board of Directors and the Pension Committee. As administrator of the Plan, the Corporation follows best practices in administration, governance and strategic investments, and offers comprehensive services at competitive costs. In 2014, the pension fund achieved its third consecutive year of double digit returns, recording a gain of 10.9 per cent.

Also during the year, Canada Post as Plan administrator worked with bargaining agents and representatives of active and retired members to develop a communications and consultation framework to set out how Canada Post will inform and consult Plan members about the Plan's challenges. Through the Communication and Consultation Group, representatives of Plan members will provide input on how best to communicate and consult Plan members. They will be another channel for Plan members to ask questions, offer suggestions or raise concerns.

We hope that you will find this Report to Members to be a helpful and informative tool to learn about our administration of the Plan and better understand its current financial situation.

Defined Benefit Component – Overview of 2014

Assets

$20,868 million

Net investment assets as at December 31, 2014

Rate of return in 2014

10.9%

Benchmark[1]

11.0%

Funded status estimated as at December 31, 2014

Solvency deficit to be funded[2]
(3-year average)

$6.8 billion

75.5% funded

Going concern surplus

$481 million

102.6% funded

Solvency deficit market value[2]
(wind-up basis)

$6.9 billion

75.2% funded

The solvency position of defined benefit pension plans generally deteriorated in 2014, despite favourable investment returns, due to decreasing interest rates – see page 20 to know more.

In 2014,

Benefits paid

$851 million

Contributions to the Plan

Members:

$244 million

Canada Post:

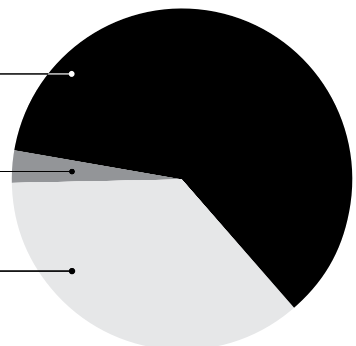
Current service
$251 million

Special payments
$41 million

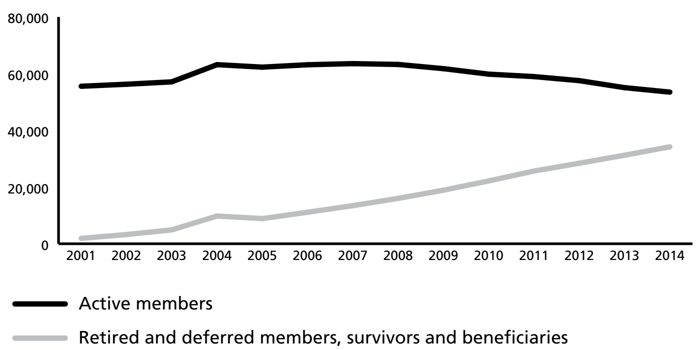
Without deficit funding relief, Canada Post would have had to contribute an additional $1.3 billion in 2014.

1. See glossary.
2. See page 24.

Membership in 2014



Changes in membership



The Plan continues to mature with retired members now representing 36% of the membership.

Plan members are living longer and spending more time on average in retirement – see page 21 to know more.

Member contacts

68,927

cpcpension.com visits

129,397

Members satisfaction score

4.4/5

Competitive costs

Investments

$0.32 per $100 of assets – lower than our peer group's average of $0.45

Administration

$138 per member – lower than our peer group's average of $196

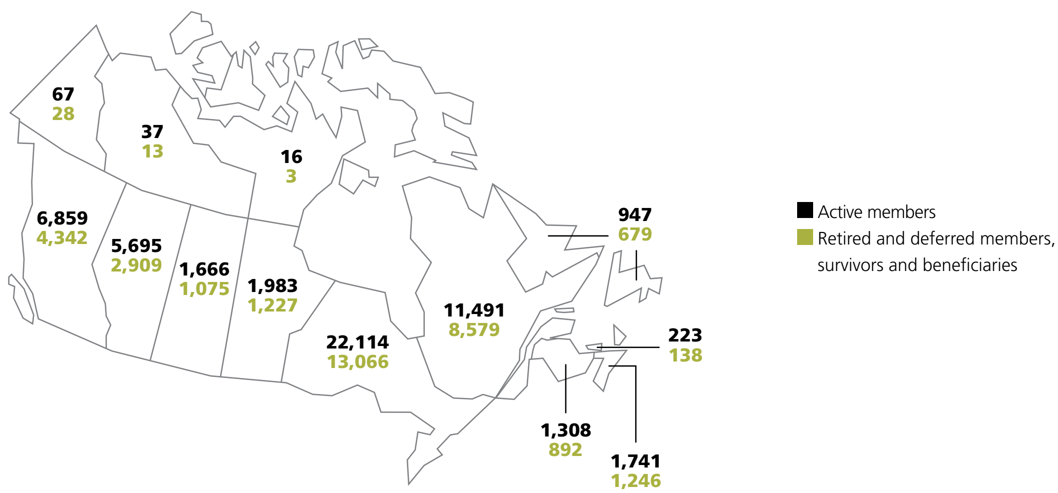
Source: 2013 CEM Benchmarking surveys

Membership Snapshot

	2010	2011	2012	2013	2014[1]
Active members	59,942	59,228	57,923	55,509	54,147
Percentage	73.0%	69.8%	67.1%	64.0%	61.2%
Retired members	20,330	23,635	26,236	28,715	31,219
Percentage	24.8%	27.8%	30.4%	33.1%	35.3%
Deferred members, survivors and beneficiaries	1,827	2,019	2,193	2,548	3,051
Percentage	2.2%	2.4%	2.5%	2.9%	3.5%
Total	**82,099**	**84,882**	**86,352**	**86,772**	**88,417**

1. For 2014, the information above includes 87,671 members of the defined benefit (DB) component of the Plan and 746 members of its defined contribution (DC) component.

Members across Canada, December 31, 2014



Age of active and retired members, December 31, 2014

Age	Less than 30	30-39	40-49	50-59	60-69	70-79	More than 79
Active DB members	1,263	8,755	15,753	21,596	5,983	132	0
Active DC members	112	257	206	82	8	0	0
Retired DB members	0	18	192	6,506	19,616	4,748	139

Average age	2014	2013
Active DB members	49.2	49
Active DC members	38	39
DB members at retirement	59.7	59.6
Retired DB members	64.3	63.8

Did you know?

Over the next five years, 17,559 active DB members will have reached pensionable age.

Our Services to Members

2014	2013	
57,705	58,254	Telephone calls from members to Pension Services
4,209	4,418	Telephone calls from retirees to RBC Investor Services Trust
11,222	9,671	Telephone calls to members
55,681	50,240	Transactions completed for members by Pension Services
129,397	113,826	Visits to **cpcpension.com**
198,824	212,469	Pension estimates using the online calculator
67	72	Pre-retirement seminars
2,075	2,514	Seminar participants
301	380	One-on-one consultations at seminars
4.4/5.0	4.4/5.0	Members satisfaction score
4.3/5.0	4.3/5.0	Target score

Results of the 2013 CEM Benchmarking survey

	Our Plan	Our peer group
Average administration cost per member	$138	$196
Service score	78	77

CEM compares the administrative practices of similar defined benefit pension plans and provides independent and objective results. These results are from the most recent survey.

Pension Centre

The Pension Centre is at the heart of member services, answering members' requests by telephone or mail and fulfilling transactions. The team provides services such as processing retirements, terminations and deaths as well as new retirees' pension payments; replacing personal identification numbers (PINs) for access to the online pension calculator; processing elective service purchases; updating retirees' life insurance beneficiaries; and collecting employee contributions for leaves of absence. We prepared more than 55,000 personalized pension statements for active members, and in 2015, we will begin to produce annual pension statements for retirees, deferred members and survivors.

cpcpension.com

cpcpension.com expanded in 2014 to include information about all the Canada Post pension programs: the defined benefit (DB) and defined contribution (DC) components of the Plan along with information about the Group Retirement Savings Plan (RSP) and the Voluntary Savings Plan (available to DC and Group RSP members only). The new **cpcpension.com** was designed with our members in mind. It offers a brand new look and easier navigation. Visit **cpcpension.com** to see for yourself and find answers to your pension questions.

Pre-retirement seminars

Pre-retirement seminars are offered to Plan members to help them get ready to embark on the retirement journey. They are by invitation only, for Plan members who are within five years of an unreduced pension. Topics include the Canada Post Pension Plan, post-retirement benefits, government programs, financial planning, wills and estate planning, and health and wellness. One-on-one consultations are also offered as part of the seminars. We consistently receive positive comments from members who have attended the seminars.

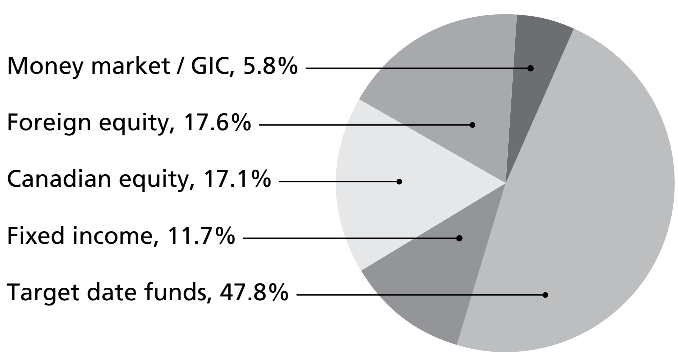
The Pension Services team is committed to prompt, proactive and compassionate service for all Plan members.

Defined Contribution Component – Overview of 2014

88% of the defined contribution (DC) members who contribute to the Plan are maximizing their contributions and benefiting fully from Canada Post's matching contributions. Are you one of them?

	2014	2013
Active DC members	665	451
Average contribution (% of pay)		
Canada Post	6%	7%
Members	3%	3%
(in millions) Assets as at December 31	$12.7	$8.4
Canada Post contributions	$2.9	$2.4
Member contributions	$1.4	$1.1
VSP members	131	
VSP member average contribution (% of pay)	4%	

Asset allocation as at December 31, 2014



Want to know how your investments did in 2014?

Refer to your Sun Life personalized statement dated December 31 received at home or go to your member website at **mysunlife.ca**

On average, the DC assets increased by 10.9% due to investment returns in 2014.

Returns earned by members will vary from this average, based on their personal asset allocation.

Did you know?

Fund management fees (FMFs) range from 0.19% to 0.75% in the Canada Post DC component. They are three times lower than average Canadian retail fees and may represent 20% more in retirement savings after 25 years.

Update on communications and services

- A selection of new funds was added to the Plan.
- Fund management fees (FMFs) were reduced by 20% on average and are reported more clearly on Plan members' accounts at **mysunlife.ca** and on semi-annual statements.
- The Voluntary Savings Plan (VSP) was launched in February.
- Since June 1, new PSAC/UPCE members join the DC component of the Plan.
- The contract with Sun Life Financial as the DC pension service provider was renewed.
- **cpcpension.com** was enhanced to include DC , Group RSP and VSP sections.

Tools for DC members

- Six new interactive webinars – Members at all stages in their career can learn about retirement and financial planning.
- Auto-rebalancing feature – Members have the option to rebalance their asset mix automatically.
- MoneyUp – A fun, game-inspired way to learn about investments and retirement savings.
- Retirement Planner – A tool to help members estimate their income at retirement and track against their goals. It suggests action plans to cover any gaps.

Plan Governance

Canada Post's vision is for all Pension Plan members to have a financially secure retirement, and its mission is to prudently administer and invest the Plan assets for the benefit of its members.

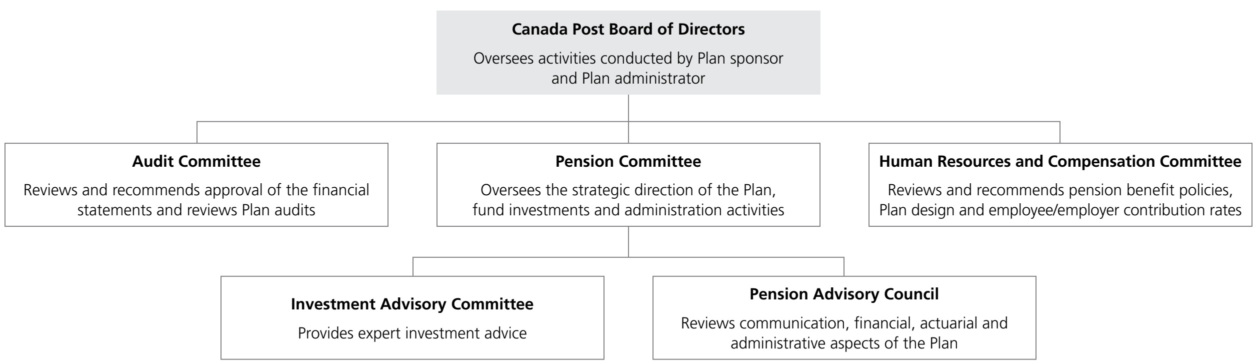
Canada Post has two distinct roles when it comes to the Pension Plan – as Plan sponsor responsible for the funding of the Plan and its design (benefits offered to Plan members), and as Plan administrator responsible for managing the Plan and investing the pension funds.

The Canada Post Board of Directors has the fiduciary duty to oversee the activities of both roles to ensure they are conducted responsibly and in the best interest of all Plan members. The Board fulfills this duty by making certain the employees charged with these activities are qualified professionals who apply good governance in administering the Plan and prudent investment practices, on a daily basis. In addition, the Board follows its Standards of Conduct (available at **canadapost.ca**), which describe specific ethical rules on matters such as conflict of interest, care, diligence and skill.

In support of the Board's fiduciary duty, a robust governance structure is in place for the defined benefit (DB) and defined contribution (DC) components of the Plan. The chart below presents an overview of the Board committees and their primary responsibilities. The membership of these committees is made up of selected Board members with specific expertise applicable to pension plan matters.

The Investment Advisory Committee and the Pension Advisory Council, whose membership includes representatives of the bargaining agents, advise, according to their mandate, the Pension Committee on investment and administrative matters.

For more information about their roles and duties, visit **cpcpension.com** under Governance.



Membership of the Canada Post Board of Directors and committees as at December 31, 2014

Board of Directors

Siân M. Matthews (Chairperson) ★ ▲ ●
Deepak Chopra
Thomas Cryer FCPA, FCA ★ ▲
A. Michel Lavigne FCPA, FCA ★ ▲
The Honourable Stewart McInnes Q.C. ●
Andrew B. Paterson ▲ ●
Iris Petten ●
Alain Sans Cartier ★
William H. Sheffield BSc., MBA, ICD.D ★ ●
Donald Woodley ●

★ Member of the Pension Committee
▲ Member of the Audit Committee
● Member of the Human Resources and Compensation Committee

APOC Association of Postal Officials of Canada
CPAA Canadian Postmasters and Assistants Association
CUPW Canadian Union of Postal Workers
PSAC Public Service Alliance of Canada
UPCE Union of Postal Communication Employees

Investment Advisory Committee

J. Lorne Braithwaite BComm, MBA (Chairperson)
Phillip H. Doherty BComm, MBA, CPA, CA
Douglas D. Greaves HBA, CFA, ICD.D
Richard L. Knowles CFA, HBA
A. Michel Lavigne FCPA, FCA

Union and association representatives
Isla Carmichael Ph.D, M.Ed, MA
Hugh Mackenzie MA, ICD.D

Pension Advisory Council

Canada Post representatives
Douglas D. Greaves HBA, CFA, ICD.D (Chairperson)
Steven Galezowski MBA, CPA, CA, CBV, CFA
Sylvane Lacroix Fournier CPA, CA
Tim McGurrin BA Cmn
Brad Smith EMBA, CEBS, H.R.C.C.C.

Elected representatives
Mary Bishop CPA, CA, CEBS (all retired members)
Micki McCune (all active members)
John Polak (management and exempt employees)
William (Bill) R. Price (all retired members)

Union and association representatives
Daryl Bean (PSAC/UPCE)
Gayle Bossenberry (CUPW)
Serge Champoux (CUPW)
Madeleine Cleroux (CUPW)
Terry Cotton (APOC)
George Kuehnbaum (CUPW)
Daniel Maheux (CPAA)
Mike Moeller (PSAC/UPCE, APOC, CPAA)

The biography of each member listed here is available at **cpcpension.com**.

Delegated duties and responsibilities of qualified professionals

The Pension Committee of the Board delegates the daily activities and functions of investment and administration of the Plan to the Canada Post Investment Division, Pension Finance and Pension Services teams. These teams are formed of qualified professionals who have the knowledge, skills, information resources and expertise to fulfill their specialized functions. They are experienced employees hired through a documented process.

Canada Post also hires external service providers with specialized expertise, such as actuarial and consulting firms, as required.

For more information on how the Plan is administered and supported, visit **cpcpension.com** under Governance overview.

Our good governance practices

Monitoring

This practice includes the quarterly review of investment performance and funded ratios, as applicable, using reference documents such as the Plan's statements of investment policies and procedures and funding objectives. Service performance, service provider contracts, investment manager performance and service level agreements are also monitored regularly.

Assessment

Governance practices are assessed annually using the questionnaires of the Canadian Association of Pension Supervisory Authorities (CAPSA). The Pension Committee reviews results to determine how successfully the Plan follows CAPSA governance principles and reports findings to the Board. CAPSA has established 11 governance principles that define good governance practices for pension plans in administration and prudent investment management. In accordance with CAPSA principles, the Board approved the Pension Plan Ethical Practices in 2014, which include a code of conduct and a conflict of interest policy specific to the Plan. Visit **cpcpension.com** under Governance documents to view the Canada Post pension plan Ethical Practices. Further information about CAPSA and its self-assessment questionnaires is available at **capsa-acor.org**.

Audit

Internal audit and independent external auditors conduct regular audits. In addition, the Office of the Superintendent of Financial Institutions (OSFI) can also carry out on-site governance reviews from time to time; the last one was conducted in 2010. An internal audit engagement was conducted to assess DB pension fund management practices. Internal Audit reported in late 2013 that overall current controls and processes to monitor pension fund investments are efficient and effective. Minor improvements were recommended and executed by management in 2014.

Risk management

The Board has established a risk management framework that defines the risk tolerance for the Plan in matters of administration and investment. The framework guides the development of strategies to meet overall objectives, and the investment performance is monitored as described above. For more information see page 9.

Communication

Communication with DC and DB members of the Plan occurs through a number of publications and initiatives. In 2014, legislative requirements to communicate with members were met with the 2013 Report to Members, personalized statements for DB and DC members, notification of Plan amendments and the *Pension Plan News* and *Intouch* newsletters. In July, a special newsletter was mailed by Canada Post, as Plan sponsor, to all DB members and retirees. It provided an update on the challenges facing the Plan, explained the impact of current regulations, and presented next steps for restructuring the Plan. DC members received communications about the tools provided by Sun Life Financial, the DC service provider. In December, the pension website **cpcpension.com** was enhanced to include information about all the Canada Post pension programs and to offer a new layout that is easier to navigate. Most of the publications noted here, as well as the Plan's audited financial statements, are available at **cpcpension.com**.

In August 2014, Canada Post, representatives of the bargaining agents, and active and retired Plan members finalized the communications and consultation framework. It sets out how Canada Post will inform and consult Plan members about the challenges facing the Plan. The Communications and Consultation Group (C&C Group), made up of appointed and elected representatives, will provide input on how best to communicate and consult Plan members, but will not negotiate or make decisions on their behalf or on options to change the Plan.

Risk Management Strategy

Funding risk

Funding risk is one of the main risks faced by the Plan. It is the risk that the Plan's investment **asset** growth and contribution rates will not be sufficient to cover the Plan's **pension obligations**, resulting in an unfunded liability. The most significant factors in funding risk are declining **discount rates** and investments failing to achieve expected returns.

The Plan's net funded position can change relatively quickly if there are changes in the value of the Plan's net investment assets or pension obligations. Such changes can result in a mismatch between the Plan's assets and its obligations. An asset liability study is under way to explore potential asset mixes with the goal of minimizing the volatility between net investment assets and pension obligations. In the study, we will conduct a stress test of a number of scenarios, such as an **inflation** shock and changes in interest rates, to understand how the funded status would respond to different market environments. The Plan's pension obligations are also affected by non-economic factors like changes in member demographics and longevity.

The Pension Risk Management Officer oversees compliance with the Board-approved statements of investment policies and procedures, which establish guidelines for prudent risk levels through diversification of asset classes and types, industry sectors, geographic/economic areas, management styles, liquidity and **market capitalization**. Unintended risks, such as large exposures or concentration in a particular industry sector, are clearly identified to the appropriate investment manager, as well as to the Chief Investment Officer and the Pension Committee.

The Board manages funding risk by monitoring and reviewing the funded ratio on a regular basis to ensure that funding objectives are suitable and that investment decisions are made in accordance with the Statement of Investment Policies and Procedures – DB component.

Investment risk

The Plan is subject to a variety of investment risks that could adversely affect its cash flows, financial position and income. Investment risks include equity risk through stock holdings as well as interest rate risk and credit risk within the fixed income portfolio. All investments made are subject to price risk and liquidity risk. Price risk or valuation risk is when the price paid for an asset is too high. The Investment Division team spends a lot of time on the financial metrics prior to making an investment to prevent overpaying. Liquidity risk is the inability to buy or sell an investment in a timely manner at a fair price. A large portion of total assets have daily liquidity and the Investment Division team monitors short-term funding needs on a weekly basis.

Investments are also made in foreign markets so there is exposure to currency risk, which is partially mitigated through tactical hedging strategies. Additional measures are taken to minimize the potential adverse effect of these risks and to optimize gains over the entire portfolio in order to fulfill the promise to Plan members of providing pension benefits, at a reasonable cost.

The risk management framework guides the development of investment strategies to meet overall objectives. Each asset class has its own risks and limits, such as limits on exposures, concentrations, leverage and counterparties. Each asset class and its associated risks are closely monitored by the Pension Risk Management Officer and the Investment Division team, and appropriate action is taken according to the Plan's policies.

Every quarter, investment risks are reviewed by the Pension Committee and the Investment Advisory Committee based on reports from the Investment Division team.

Statements of investment policies and procedures

The Pension Committee has established two statements of investment policies and procedures to effectively monitor and manage investment risk within the Plan.

The Statement of Investment Policies and Procedures – Defined Benefit component (SIPP-DB) is the governing document that provides guidance for investing the assets of the Plan. The SIPP-DB contains details on fund governance, Plan characteristics, liabilities, investment objectives, asset mix policy, permitted investments and constraints, as well as other requirements concerning the investment and administration of the Plan's DB assets.

The Statement of Investment Policies and Procedures – Capital Accumulation Plans (SIPP-CAP) is the governing document for the investment structure of the Capital Accumulation Plans (CAP) offered by Canada Post, including the DC component of the Plan. The SIPP-CAP covers fund governance, the investment structure and beliefs, as well as other requirements in the investment and administration of the CAP assets.

On an ongoing basis, Canada Post's professional investment team applies its expertise and knowledge to attain an asset mix designed to maximize growth opportunities, minimize risks and meet the requirements of the risk management framework and the SIPP-DB. The investment objectives set out in the SIPP-CAP are fulfilled as a part of the contractual obligations of the DC service provider, Sun Life Financial.

The SIPP-DB and the SIPP-CAP are reviewed and approved once a year by the Pension Committee. The **actuary** of the Plan and the members of the Pension Advisory Council (PAC) receive a copy of the updated SIPP-DB and SIPP-CAP after their approval.

Our Investments – DB Component

Douglas D. Greaves
Vice-President, Pension Fund and Chief Investment Officer

It is my pleasure to report another year of strong investment performance by the Canada Post Corporation Registered Pension Plan. The Plan delivered a return of 10.9% for 2014. This is the third consecutive year the Plan has achieved double-digit returns.

Net investment assets of the Plan totalled $20.9 billion at December 31, 2014, compared to $19.2 billion the previous year.

Since the financial crisis of 2008, the Plan's investment portfolio has generated positive returns for six consecutive years and earned an annualized **rate of return** of 10.6%, exceeding its long-term rate of return objective of 6.75%. The Plan's investment strategy and asset mix contributed to this investment success.

All asset classes had positive returns in 2014 with strong returns from U.S. and Canadian **equities**, alternative investment assets and fixed income assets. The impact of the investment gains on the funded status of the Pension Plan is discussed on page 20.

Here are some activities that affected the Plan's net investment assets in 2014:

- The Plan added to its alternative investment (private market) assets, namely real estate, private equity and infrastructure. This strategy helps cushion the Plan from capital market volatility. Private equity investments increased significantly in 2014 due to market gains and additional funding. Private equity and infrastructure assets were two of the best performing asset classes for the Plan in 2014.
- A larger proportion of the Canadian **bond** portfolio was moved from external to internal management, reducing costs and adding flexibility. Internally managed Canadian bond assets increased by over 150% from 2013 due to management insourcing, additional funding and market gains.
- The Plan continues to implement its diversification strategy and to add to its **alternative asset** classes. This diversification enables it to take advantage of future growth opportunities in equity markets and alternative assets, while holding an appropriate balance of fixed income assets based on the Plan's membership and long-term obligations.

Investment objectives

The Plan's investment objectives are to select the appropriate asset mix and risk level to achieve returns above the **benchmark** and meet the Plan's long-term funding needs. Sound investment decisions contribute to the sustainability and affordability of the Plan and support Canada Post as it fulfills the promise to Plan members of providing pension benefits, at a reasonable cost.

Over the long term, investment performance is evaluated against the Plan's funding objectives and against the rate of return needed for the Plan to meet its pension obligations to members over time, as determined by the actuarial valuation. Over the short term, the Plan relies on a benchmark portfolio to evaluate investment performance. The Plan's benchmark portfolio represents the performance of the market index for each of the asset classes in the Plan.

Asset mix

The Plan's asset mix is designed to maximize growth opportunities, minimize risks and meet the requirements of the risk management framework and the Statement of Investment Policies and Procedures for the DB component (SIPP-DB). The in-house investment team uses its knowledge and expertise to manage the portfolio in accordance with the guidance provided by the SIPP-DB.

The asset class mix is meant to provide the Plan with a long-term net rate of return of 4.5% above the estimated inflation rate of 2.25% for a total of 6.75%. It is estimated that this rate can support the Plan's investment objectives and the growth of its pension obligations. The Plan's current asset mix targets are 62.5% in equities, real estate and infrastructure, and 37.5% in fixed income.

At any given time, the asset mix may vary from the long-term targets. The SIPP-DB has minimum and maximum limits to allow for flexibility as market conditions change. The Plan's actual asset mix as at December 31, 2014, was 68.6% in equities, real estate and infrastructure, and 31.4% in fixed income. The strong returns in 2014 are attributable to the fund's above-target allocation to equities.

The performance of each asset class is measured against its own relevant benchmark. In 2014, the Plan held U.S. and Canadian equities in the upper range of its allocation for these types of investment. During the year, it reduced its positions, taking advantage of market gains. These gains were re-allocated to Canadian bonds, private equities, international (non-U.S.) small cap equities and U.S. small cap equities.

Market review and financial market performance

Global growth varied in 2014. The U.S. economy grew by 2.4% while parts of Europe flirted with recession. China's transition to a consumer-driven economy continued as its **gross domestic product (GDP)** grew by 7.4%. While the U.S. wound down its monetary stimulus plan, the central banks of Japan and the Eurozone increased monetary stimulus. Volatility, the degree to which the market's value fluctuates, surged in the latter part of 2014, driven by geopolitical events, worries about the U.S. Federal Reserve's decision on interest rates, falling demand for commodities and the impact of the U.S. dollar's strength.

In 2014 bond **yields** declined in developed markets, contrary to market expectations of an increase in interest rates. Strengthening U.S. economic conditions eased market concerns about the end of the U.S. Federal Reserve's bond-buying program. While capital markets expected the Federal Reserve to start raising interest rates in 2014, the Federal Reserve indicated it was in no hurry to do so.

Disappointing economic data from Japan and Europe prompted continued monetary stimulus and low interest rates in these regions. The Japanese government maintained its relaxed monetary policies to ignite growth, while making structural changes to its economy. The result of the December snap election indicates that these policies will carry on. For its part, the European Central Bank (ECB) increased the pace of its monetary easing in 2014, cutting interest rates to record lows. This culminated in January 2015 with the ECB's announcement of 1.1 trillion euro sovereign bond buying program, twice the expected size.

The decoupling of the U.S. economy from that of Japan and the Eurozone was apparent as the U.S. dollar appreciated against other developed and emerging market currencies. For the year, the Canadian dollar declined almost 9% relative to the U.S. dollar, while it appreciated modestly relative to the euro and the Japanese yen.

In early 2014, oil prices trended higher over concerns about potential disruptions to the crude oil supplies, before falling sharply in the fourth quarter due to a supply glut and weakening demand.

In the public markets, U.S. equities had the highest returns, followed by Canadian equities, fixed income, emerging markets as well as Europe, Australasia and Far East (EAFE) markets.

As 2014 drew to a close, investors shunned equities, commodity-exporting emerging markets and riskier fixed income asset classes and bought safe-haven government bonds.

Real return and nominal bond returns were positive because of the decline in bond yields, which dipped to levels not seen since mid-2011. High yield bonds and corporate bonds continued to offer attractive yields and had positive returns.

Fund performance

The Plan earned a rate of return of 10.9% in 2014, compared to its benchmark return of 11.0%. This is the third consecutive year the Plan has achieved double-digit returns. Since the financial crisis of 2008, the Plan's investment portfolio has generated positive returns for six consecutive years and earned an annualized rate of return of 10.6%, outperforming its benchmark of 9.9% for the period and exceeding its long-term rate of return objective of 6.75%.

The Plan's private equity, U.S. equity and infrastructure investments provided the best returns, followed by Canadian equities, bonds, real estate and international equities.

Private equity and infrastructure asset classes profited from asset valuation increases, income received and foreign currency gains on investments denominated in U.S. dollars and British pounds, as both currencies appreciated relative to the Canadian dollar.

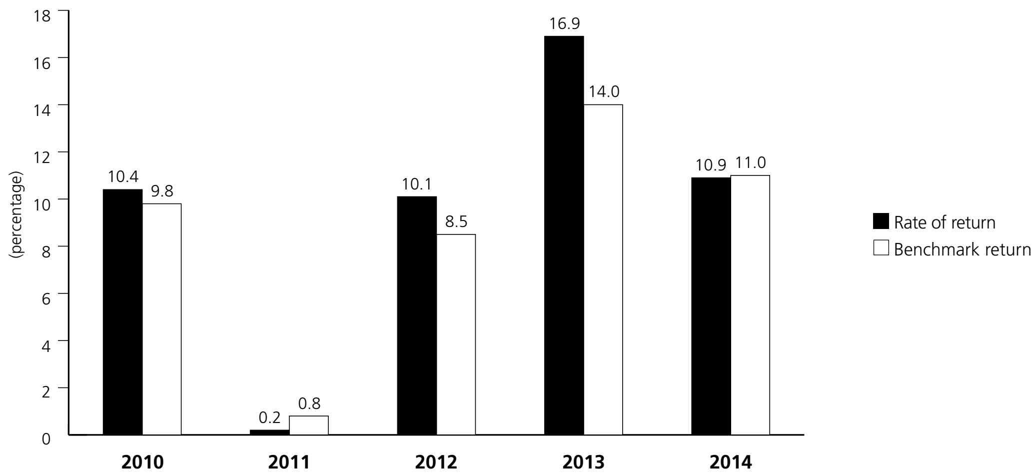
The real estate asset class benefited from the income stream it generates and small valuation increases. This asset class offers inflation protection and a predictable stream of income.

The Plan's 10.9% return in 2014 is below the median return of 12.1% experienced by the RBC Investor Services universe of large Canadian pension plans. However, the Plan's six-year compounded return of 10.6% is above the median return for the same period.

Outlook for 2015

- An asset-liability study is under way. The focus is to find strategies to deal with the volatility in liabilities, while maintaining the return on investments. The findings will be available next year. Upon approval by the Board of Directors, the study will guide the Plan's investment strategy for the next five to ten years.
- Investments in alternative assets will continue to grow. Reaching our target allocation will take time. The Investment Division team is very selective about the quality of assets and the purchase price of these investments.
- We will expand our geographic exposure by investing in U.S.-based real estate.
- We will bring more externally managed Canadian bond assets in-house.
- As needed, we will grow our team of investment professionals, adding to those hired over the past few years with expertise in private equities, infrastructure, real estate and fixed income.
- We will look at ways to improve returns and manage risks by exploring derivative strategies.
- We maintain our commitment to meeting the Plan's long-term funding objectives. Through appropriate asset allocation and risk mitigation, we aim to earn returns above the benchmark portfolio, taking into account economic and demographic changes. We will continue to implement strategies designed to increase returns without increasing risks.

Rate of return against benchmark

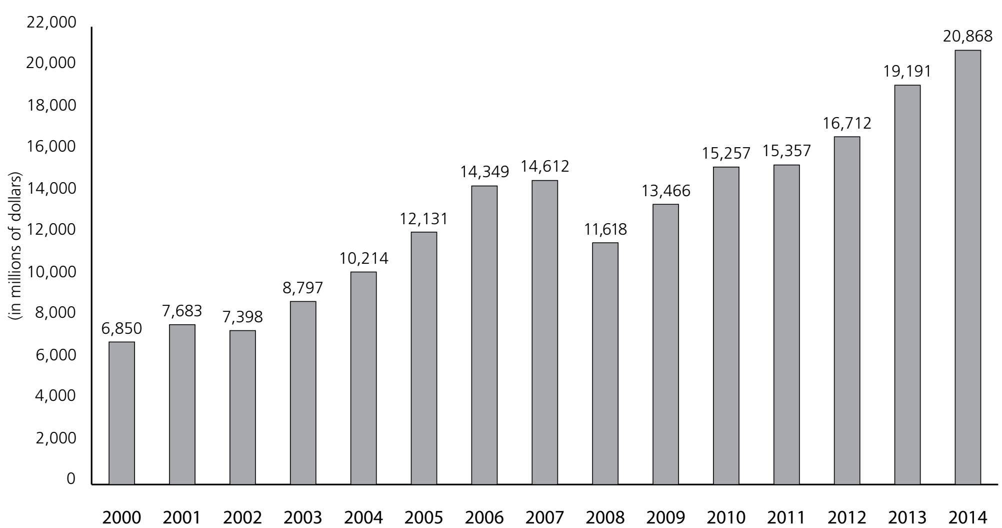


Rate of return

	Since Plan inception	In 2014
Our Plan	6.6%	**10.9%**
Our benchmark	5.0%	**11.0%**
Peer group benchmark[1]	6.6%	**12.1%**
Rate of return objective over time	6.75%	

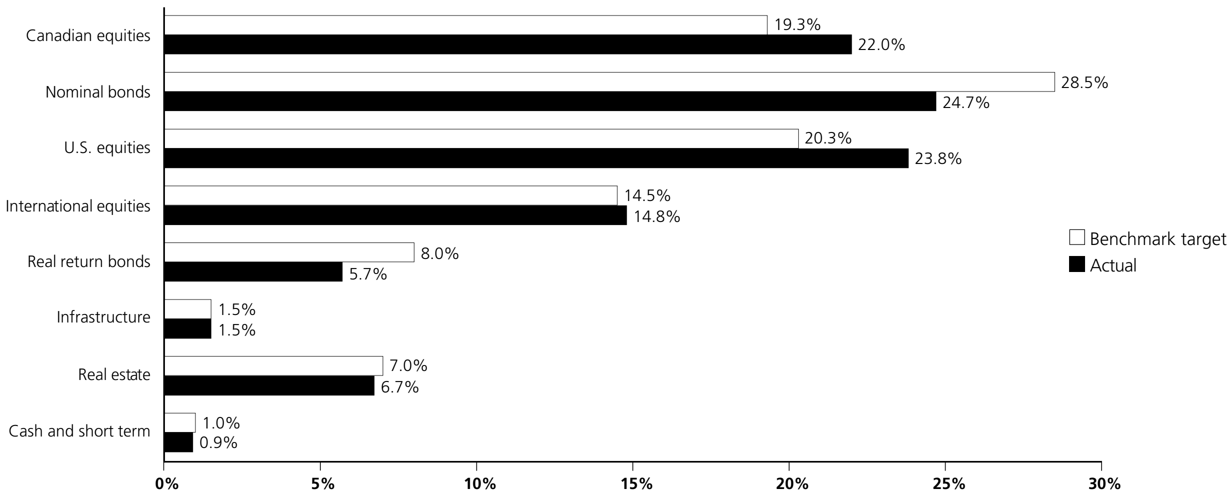
1. RBC Investor Services based on the performance of large Canadian pension plans (more than $1 billion).

Net investment assets



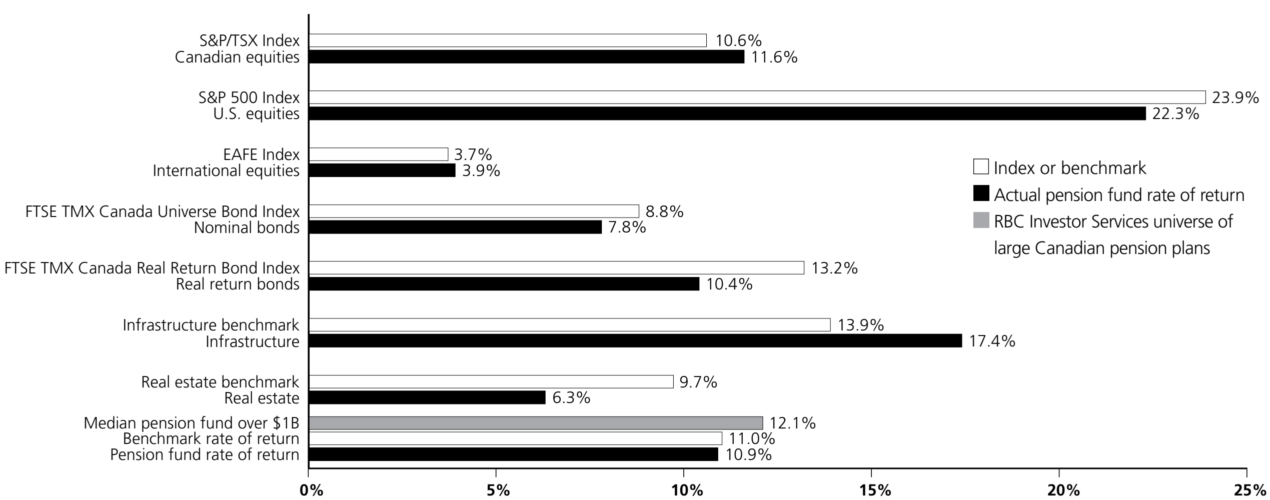
Net investment assets are defined as investments plus investment related receivables minus investment related liabilities. The amount for 2013 has been adjusted to show DB assets only.

Asset mix



International equities include emerging markets. Private equities are allocated between Canadian, U.S. and international equities. Numbers may not add up due to rounding.

Rates of return by asset class and total Plan



Private equities are included in Canadian equities, U.S. equities and international equities, as applicable. The real estate benchmark is 50% TSX Equity Index and 50% FTSE TMX Canada Universe Bond Index. The infrastructure benchmark is 50% FTSE TMX Canada Real Return Bond Index and 50% MSCI World Index. Numbers may not add up due to rounding.

Investment management costs

As measured by the 2013 CEM Benchmarking Survey	
	Per $100 of average assets
Plan	$0.32
Peer group	$0.45
The Plan’s investment costs were $7 million below benchmark costs.	

Equity holdings greater than 0.25% of Plan assets[1]

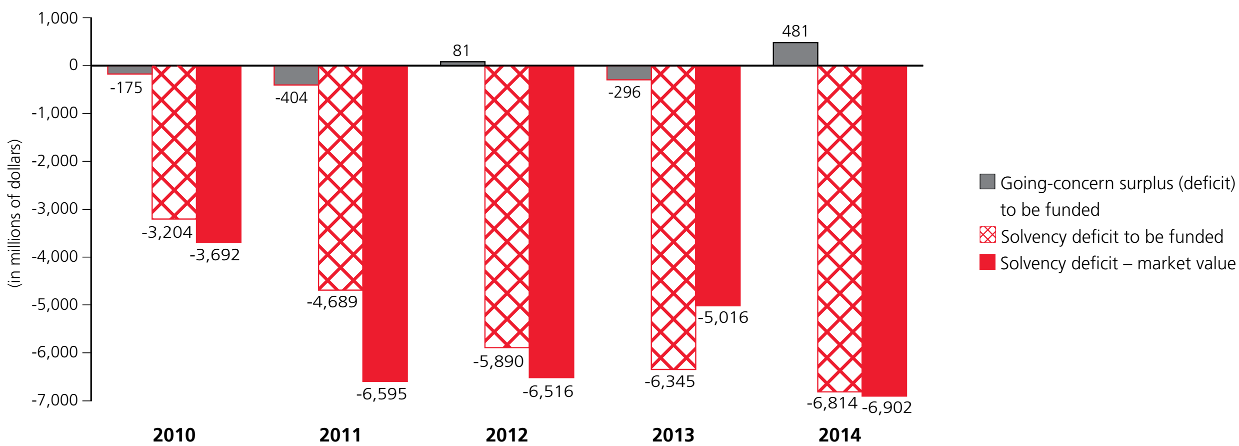
As at December 31, 2014 (in millions of dollars)

Royal Bank of Canada	$253	1.21%
Toronto Dominion Bank	241	1.15%
Bank of Nova Scotia	145	0.69%
Canadian National Railway Co.	142	0.68%
Suncor Energy Inc.	139	0.67%
Apple Inc.	135	0.65%
Manulife Financial Corp	125	0.60%
Canadian Natural Resources Ltd.	122	0.58%
Bank of Montreal	121	0.58%
Canadian Imperial Bank of Commerce	97	0.46%
Magna International Inc.	89	0.43%
Thomson Reuters Corp.	89	0.43%
Enbridge Inc.	84	0.40%
TransCanada Corp.	80	0.38%
Telus Corp.	77	0.37%
Valeant Pharmaceuticals International Inc.	72	0.34%
Sun Life Financial Inc.	68	0.33%
JPMorgan Chase & Co.	67	0.32%
Potash Corporation of Saskatchewan Inc.	59	0.28%
Cenovus Energy Inc.	59	0.28%
Citigroup Inc.	58	0.28%
BCE Inc.	53	0.25%
	$2,375	**11.36%**

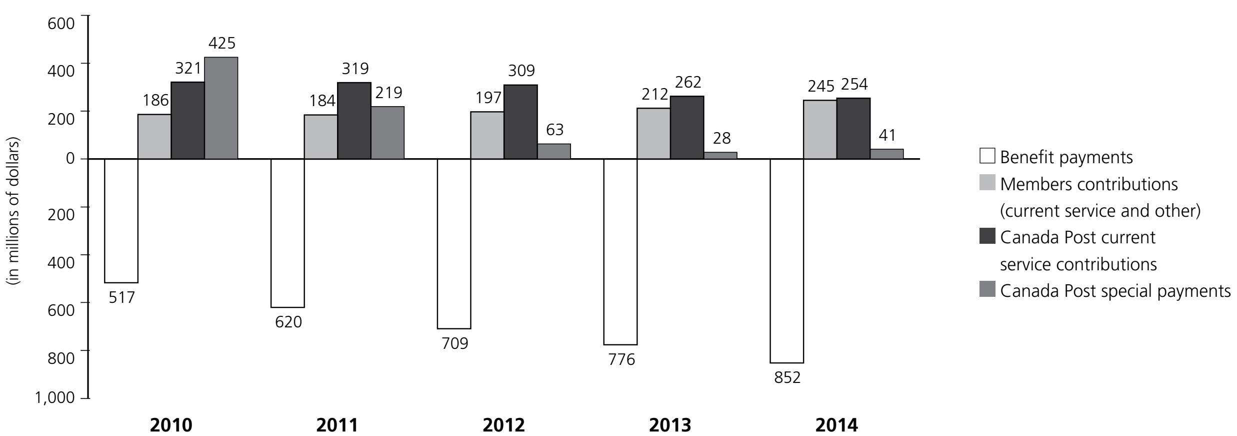
1. As a percentage of overall fund.

Financial Position Highlights

Plan's funded status



Contributions and benefit payments



Canada Post contributions represent amounts paid after taking into account deficit funding relief.

Summary of Financial Statements

Net assets available for benefits

The Canada Post Corporation Registered Pension Plan posted a 10.9% return in 2014. The Plan ended the year with net assets available for benefits of $20,945 million (including $13 million in the DC component), an increase of $1,675 million from $19,270 million (including $8 million in the DC component) at the end of 2013.

Changes in net assets available for benefits

The $1,675 million increase in net assets available for benefits represents investment income of $2,083 million and contributions of $540 million, offset by pension benefit payments of $852 million and expenses of $96 million.

Investment income – comprising interest, dividend, as well as realized and unrealized gains and losses – was $2,083 million for 2014, compared to $2,849 million for 2013. The return of 10.9% represented solid results in 2014. The Plan was slightly under its benchmark rate of return of 11.0%.

Plan contributions in 2014 were $540 million compared to $502 million in 2013, an increase of $38 million.

Pension benefit payments for 2014 were $852 million compared to $776 million in 2013, an increase of $76 million. This was mostly the result of a 9% increase in the number of retirees over 2013.

Changes in pension obligations

Pension obligations were $18,632 million (including $13 million in the DC component) compared to $18,039 million (including $8 million in the DC component) in 2013, an increase of $593 million. The increase was mainly due to the interest accrued on the pension obligations plus new benefits accrued offset by the benefits paid during 2014.

Surplus (deficit)

The difference between assets available for benefits and pension obligations as at December 31, 2014, resulted in a surplus of $2,313 million as disclosed in the financial statements, based on standards of the Chartered Professional Accountants of Canada (CPA Canada). The going-concern surplus as of the same date was estimated at $481 million. The difference between the accounting surplus of $2,313 million and the estimated going-concern surplus of $481 million was an **actuarial asset value adjustment (or smoothing)** of $1,832 million. The smoothed assets valuation method recognizes gains or losses on investments over a five-year period to minimize fluctuations due to market volatility. This actuarial adjustment is no longer permitted as a valuation methodology for accounting purposes under CPA Canada Section 4600 since 2011.

	Estimated impact (in millions of dollars)
Going-concern deficit at the end of 2013	**$(296)**
Gain on investments on smoothed value of assets[1]	661
Experience gains	64
Other factors	52
Estimated going-concern surplus at the end of 2014	**$481**

1. Gain on market-value investments (before smoothing adjustment) was $879 million.

The full set of audited financial statements, including notes, is available at **cpcpension.com** or by request.

Five-year financial review

Financial position (in millions of dollars)	**2014**	**2013**	**2012**	**2011**	**2010**[1]
Assets					
Investments	$20,824	$19,145	$16,690	$15,283	$15,200
Investment related receivables	212	193	173	118	103
Contribution / other receivables	112	102	108	107	123
Total assets	**21,148**	**19,440**	**16,971**	**15,508**	**15,426**
Liabilities					
Investment related liabilities	155	139	151	44	46
Accounts payable and accrued liabilities	48	31	45	33	22
Total liabilities	**203**	**170**	**196**	**77**	**68**
Net assets available for benefits	**$20,945**	**$19,270**	**$16,775**	**$15,431**	**$15,358**
Pension obligations and surplus (deficit)					
Pension obligations	$18,632	$18,039	$16,461	$16,570	$16,038
Surplus (deficit)	2,313	1,231	314	(1,139)	(680)
Total pension obligations and surplus (deficit)	**$20,945**	**$19,270**	**$16,775**	**$15,431**	**$15,358**

Changes in net assets available for benefits (in millions of dollars)	**2014**	**2013**	**2012**	**2011**	**2010**[1]
Investment income	**$2,083**	**$2,849**	**$1,556**	**$32**	**$1,444**
Contributions – Sponsor					
Current service	254	262	309	319	321
Special payments	41	28	63	219	425
Contributions – Members					
Current service	240	207	190	177	177
Past service and other	5	5	7	7	9
Total contributions	**540**	**502**	**569**	**722**	**932**
Less					
Benefits					
Retirement and survivor pensions	747	694	624	554	466
Commuted value transfers and other	105	82	85	66	51
Total benefits	**852**	**776**	**709**	**620**	**517**
Administration expenses					
Plan administration	19	17	16	15	13
Investment fees	77	63	56	46	41
Total administration expenses	**96**	**80**	**72**	**61**	**54**
Increase in net assets	**$1,675**	**$2,495**	**$1,344**	**$73**	**$1,805**

Changes in pension obligations (in millions of dollars)	**2014**	**2013**	**2012**	**2011**	**2010**[1]
Interest on pension obligations	$1,035	$939	$954	$928	$890
Benefits accrued	494	486	507	533	497
Changes in actuarial assumptions	(70)	1,069	(704)	(397)	853
Changes in plan provisions	–	–	–	67	–
Net experience losses (gains)	(14)	(140)	(157)	21	(52)
Benefits paid	(852)	(776)	(709)	(620)	(517)
Net increase (decrease) in pension obligations	**$593**	**$1,578**	**$(109)**	**$532**	**$1,671**

1. In preparing its first financial statements in accordance with CPA Canada Section 4600 and International Financial Reporting Standards (IFRS), the Plan adjusted amounts reported in 2010 in accordance with CPA Canada Section 4100.

Funding Valuation Summary – DB Component

Canada Post is required to file annual actuarial valuations of the Plan with the federal pension regulator, the Office of the Superintendent of Financial Institutions (OSFI). An actuarial valuation is a report on the health of the Plan. It presents the funded status of the Plan on a going-concern and solvency basis at a specific date.

Actuarial valuation as at December 31, 2013

In June 2014, we filed an actuarial valuation as at December 31, 2013, with OSFI. We reported a going-concern deficit of $296 million, for a funded ratio of 98.4%.

The solvency deficit to be funded based on the average of the last three years' solvency ratios was $6,345 million, for an average solvency ratio of 73.9%.

Based on market value, the deficit was $5,016 million, for a solvency ratio of 79.3%.

Estimated actuarial valuation as at December 31, 2014

The estimate of the financial position of the Plan, as at December 31, 2014, was a going-concern surplus of approximately $481 million, for a funded ratio of 102.6%.

The solvency deficit to be funded, using the three-year average solvency ratio method, was estimated at $6,814 million, for an average solvency ratio of 75.5%.

The solvency deficit using the market value of Plan assets was estimated at $6,902 million, for a solvency ratio of 75.2%.

The going-concern funded status improved in 2014 due to strong investment returns in 2014 and previous years.

Even though the average solvency ratio over the three-year period used for the valuation improved slightly in 2014, going from 73.9% to 75.5%, the solvency deficit to be funded grew further, from $6,345 million to an estimated $6,814 million because pension obligations increased.

Funded status estimated as at December 31, 2014

Solvency deficit to be funded
$6.8 billion – 75.5% funded

Solvency deficit – market value
$6.9 billion – 75.2% funded

Going-concern surplus
$481 million – 102.6% funded

The solvency deficit using the market value of Plan assets increased from $5,016 million at the end of 2013 to an estimated $6,902 million at the end of 2014. Strong investment returns in 2014, all recognized during the year at market value, were offset by the impact of a lower discount rate. The annual real (net of inflation) discount rate used to evaluate the liabilities of benefits to be paid from the pension fund decreased from 1.8% as of December 31, 2013, to 1.1% as of December 31, 2014.

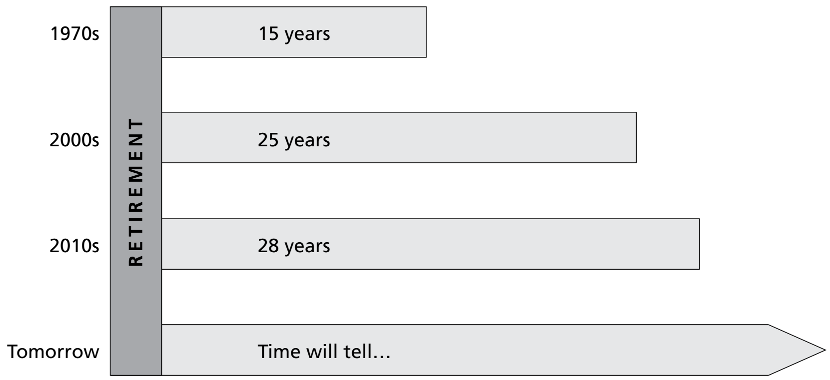
Change in solvency position

	Estimated impact (in millions of dollars)
Solvency deficit at the end of 2013	$(5,016)
Gain on investments	1,270
Decrease in discount rate	(3,007)
Other factors	(149)
Estimated solvency deficit at the end of 2014	**$(6,902)**

Factors affecting pension obligations

Members living longer and receiving their pension for longer requires that larger amounts of money be put aside to fund pensions. A rough rule of thumb is that every additional year of life expectancy adds **3.5%** to pension obligations.

Estimated years in retirement



Based on average retirement age and life expectancy of public sector employees in Canada.

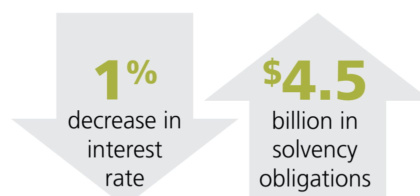
When interest rates are low, even more money needs to be put aside.

Long-term interest rates

Source: Bank of Canada – Interest rates on Government of Canada long-term bonds

For example, you would need to have about $1.2 million on average if you retire at age 60 to get a $50,000 annual pension similar to the one offered by our Plan at a 4% interest rate. This amount increases by over 15% to $1.4 million, when interest rates drop to 3%.

Multiply this amount by the number of members in our Plan, and you can see that a small change in discount rates has a significant impact on the overall pension obligations. A discount rate decrease would result in an increase in pension obligations on a solvency basis. Similarly, an increase in interest rates would result in a decrease in pension obligations.



Contributions

Contributions (in millions of dollars)	2014	2015[1]
Members	244	239
Canada Post regular contributions	251	244
Canada Post special payments[2]	41	42
Total contributions	**536**	**525**

Current service cost sharing[3] (regular contributions)	2014	2015[1]
Members	48%	49%
Canada Post	52%	51%

1. Estimate.
2. After applying deficit funding relief.
3. Excluding contributions for leave without pay and elective service.

The special payments made by Canada Post in 2014 and estimated to be made in 2015 are top-up payments (transfer deficiency). The top-up payments are required in order to pay the full **commuted value** when someone leaves the Plan because the solvency ratio is below 100%, and include additional top-up payments required by OSFI since 2014 given the deficit funding relief.

Deficit funding relief

Over the past few years, low solvency discount rates increased the Plan's solvency obligations and deficits significantly.

In 2011, the Government of Canada implemented changes to pension legislation to provide defined benefit plans subject to the *Pension Benefits Standards Act, 1985* (PBSA), including Crown corporations, with relief from the need to make special solvency payments if certain conditions were met. The total amount available under these solvency relief measures is limited to 15% of pension plan assets. Canada Post used these solvency relief measures from 2011 to 2013. As at December 31, 2013, the total amount of the relief used by Canada Post under these measures was $2.4 billion.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations*. They provide relief to Canada Post from the need to make special payments into the Plan for four years (2014-2017). For Canada Post, these regulations replace the solvency relief measures under the PBSA. This is a temporary relief period that recognizes the operational challenges facing Canada Post. Special payments are expected to resume in 2018 at the end of the relief period.

Relief (in millions of dollars)	2011	2012	2013	2014
Solvency relief under the *Pension Benefits Standards Act, 1985*	433	898	1,179	–
Relief under the *Canada Post Corporation Pension Plan Funding Regulations*	–	–	–	1,269

With deficit funding relief comes additional potential risk for the Plan and its members. There is a lower value of Plan assets than would be the case if Canada Post had the cash necessary to make the special payments. Therefore, there is a risk of some deterioration of the solvency and going-concern valuations over the relief period. The effect will depend on factors such as investment returns and interest rates. While the Plan is currently able to pay all benefits to members as they become due, and is projected to continue to be able to do so over the relief period, Canada Post needs to find long-term solutions to ensure that the Plan is sustainable and affordable for Plan members and the Corporation.

Regular pension contributions (current service) from Canada Post and from Plan members continue to be made during the relief period. In 2015, employer current service contributions are estimated at $244 million. The relief applies only to special payments to fund the deficit. Canada Post, as Plan sponsor, is responsible for addressing any deficit in the Plan and ensuring the Plan is sustainable.

During the temporary relief period, Canada Post, as Plan administrator, continues to file annual valuations with regulators to monitor the Plan's status. This status is communicated to all Plan members on at least an annual basis.

Without deficit funding relief, Canada Post special payments required to fund the deficit would have been $1,310 million in 2014 (including $41 million in top-up payments). This would have brought total contributions from Canada Post to $1,561 million in 2014, or 57% of pensionable payroll.

Funding valuation history

OSFI requires that a funding valuation be done on both a going-concern and solvency basis. Prior to 2010, a mandatory funding valuation had to be filed every three years, unless the plan was in a solvency deficit position. However, plan sponsors could voluntarily file earlier, if desired. Since 2010, it is required to file a funding valuation every year, unless the solvency funded status is greater than 120%. Canada Post's 2014 funding valuation will be filed by June 2015.

	Estimated	**Filed funding valuations**[1]									
As at December 31 (in millions of dollars)	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2007**	**2006**	**2005**	**2004**	**2003**
Going concern – assuming the Plan continued in operation											
Market value of assets	$20,932	$19,262	$16,775	$15,431	$15,376	$13,576	$14,666	$14,430	$12,211	$10,307	$8,918
Asset smoothing adjustment	(1,832)	(1,527)	(352)	716	488	1,357	(266)	(1,340)	(715)	(103)	325
Smoothed value of assets	19,100	17,735	16,423	16,147	15,864	14,933	14,400	13,090	11,496	10,204	9,243
Funding target	18,619	18,031	16,342	16,551	16,039	14,365	13,143	12,097	11,145	10,108	9,359
Funding surplus (deficit)	$481	$(296)	$81	$(404)	$(175)	$568	$1,257	$993	$351	$96	$(116)
Funded ratio	102.6%	98.4%	100.5%	97.6%	98.9%	104.0%	109.6%	108.2%	103.1%	100.9%	98.8%
Assumptions used for going-concern valuations											
Discount rate	5.8%	5.8%	5.8%	5.8%	5.8%	6.2%	6.0%	6.0%	6.0%	6.0%	6.0%
Inflation rate	2.25%	2.25%	2.25%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Real return rate (net of inflation)	3.55%	3.55%	3.55%	3.3%	3.3%	3.7%	3.5%	3.5%	3.5%	3.5%	3.5%
Solvency – assuming the Plan was terminated on the date of valuation											
Market value of assets (net of termination fees)	$20,920	$19,250	$16,763	$15,419	$15,364	$13,573	$14,664	$14,428	$12,209	$10,305	$8,916
Solvency obligations	27,822	24,266	23,279	22,014	19,056	16,777	14,215	14,145	13,410	11,338	9,425
Solvency – market value											
Surplus (deficit)	$(6,902)	$(5,016)	$(6,516)	$(6,595)	$(3,692)	$(3,204)	$449	$283	$(1,201)	$(1,033)	$(509)
Solvency ratio	75.2%	79.3%	72.0%	70.0%	80.6%	80.9%	103.2%	102.0%	91.0%	90.9%	94.6%
Solvency – to be funded											
Surplus (deficit)	$(6,814)	$(6,345)	$(5,890)	$(4,689)	$(3,204)	$(1,847)	$449	$283	$(1,201)	$(1,136)	$(184)
Solvency ratio	75.5%	73.9%	74.7%	78.7%	83.2%	89.0%	103.2%	102.0%	91.0%	90.0%	98.0%
Assumptions used for solvency valuations											
Discount rate (real return rates, net of inflation)											
For commuted values											
Rate for first 10 years[2]	1.30%	1.70%	1.10%	1.30%	1.70%	2.10%	2.50%	2.25%	2.00%	2.50%	3.25%
Rate after 10 years[2]	1.60%	2.30%	1.30%	1.60%	2.30%	2.70%	2.50%	2.25%	2.25%	3.25%	3.25%
For annuities	1.10%	1.80%	1.50%	1.60%	2.20%	2.70%	3.00%	2.50%	2.25%	2.50%	2.90%

1. OSFI did not require a funding valuation for 2008.
2. 15 years before 2005.

Questions and answers about actuarial valuation – DB component

What is an actuarial valuation and what does it determine?
An actuarial valuation is like a report card for the long-term financial health of a pension plan as of a specific date. An independent actuary is hired by the Canada Post Board of Directors to conduct an actuarial valuation. The valuation compares the plan assets to pension obligations to see whether there is a surplus or a deficit of funds to cover the value of accumulated pension benefits.

Pension obligations represent the cost of future pension benefits, based on plan members' pensionable earnings and pensionable service earned to the date of the calculation. To calculate pension obligations, the actuary makes assumptions about the future, such as expected inflation, rates of return on invested assets, salary increases, retirement age, life expectancy and several other factors.

OSFI requires that actuarial valuations be done on both a going-concern and solvency basis. These valuations use hypothetical situations to assess a pension plan and protect the interests of its members.

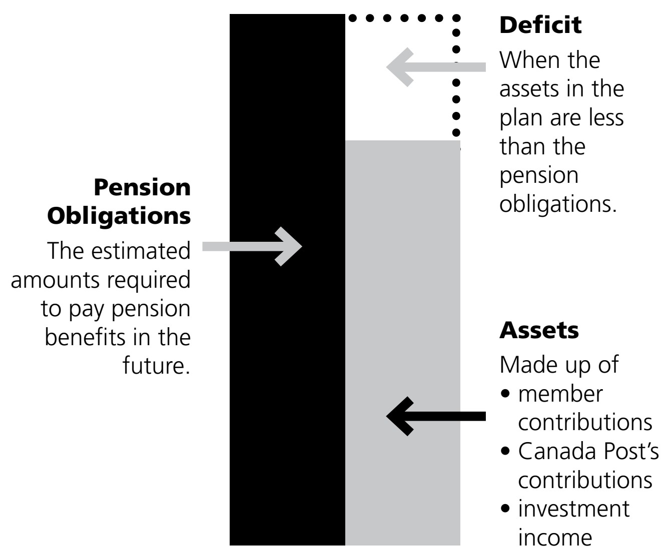
What is a going-concern valuation?
The going-concern valuation assumes that a pension plan continues in operation and is longer term in focus. It determines if there are enough assets in the plan for pension benefits to be paid in the future for accumulated service to date. It also assesses whether the level of contributions made by plan members and the plan sponsor is enough to cover the **current service cost**.

What is a solvency valuation?
The solvency valuation assumes a pension plan is terminated on the date of valuation. This test allows pension regulators to verify that, in such an unlikely situation, plan members would be paid the benefits fully owed to them to that point. It has a short-term view and the results are strongly affected by the market interest rate on that date. The solvency valuation is done on a market-value basis, which measures the worth of the plan's assets on the date of valuation and is used in the case of a wind-up of the plan. It is also done on a to-be-funded basis, which uses a three-year average solvency ratio method. This method lessens the effects of short-term market volatility and is used for funding purposes.

What happens if there are deficits?
If an actuarial valuation reports a solvency deficit – a shortfall of solvency plan assets to solvency obligations – the plan sponsor is required to make special payments into the plan, based on the solvency deficit to be funded, over five years or less to eliminate the deficit. The plan sponsor may also request to use solvency relief measures, if they are available.

If an actuarial valuation reports a going-concern deficit – a shortfall of going-concern plan assets to going-concern obligations – the plan sponsor is required to make special payments into the plan over 15 years or less to eliminate the deficit.

In a given year, plan sponsors must pay the amount necessary to cover the ongoing current service cost in excess of employee contributions. If there are deficits, the sponsor must also make special payments to reduce the deficits, as described above, unless solvency relief measures are used.



What are solvency relief measures?
Since 2011, solvency relief measures have been available to all defined benefit pension plans subject to the *Pension Benefits Standards Act, 1985*, including those of Crown corporations like Canada Post based on approval from the Minister of Finance and the Minister of Transport. The measures help pension plan sponsors meet their funding obligations with less sensitivity to short-term economic conditions. The maximum amount of relief cannot exceed 15% of the market value of the plan's assets at the end of the most recent plan year. Relief measures do not reduce or eliminate Canada Post's obligation to fully fund the Plan and it remains responsible for funding any deficits.

The Government of Canada introduced new regulations, what does this mean for Canada Post?
In February 2014, the Government of Canada adopted the *Canada Post Corporation Pension Plan Funding Regulations*. They provide relief to Canada Post from the need to make special payments into the Plan for four years (2014 to 2017).

Glossary

Actuarial asset value adjustment (or smoothing): Represents the difference between the actual return and the actuarial assumption for return on the plan's assets, which is then amortized over five years. Smoothing is an evaluation method commonly used by pension plans for going-concern valuations. It evens out highs (gains) and lows (losses) in investment returns. It helps stabilize results and avoid significant contribution changes up and down from one year to another, for employees and the employer. It is similar to budgeted payments for utility bills.

Actuarial assumptions: Factors used by an actuary in forecasting uncertain future events affecting pension cost. They involve such things as estimating interest and investment earnings, inflation, mortality rates and retirement patterns.

Actuary: A professional who is responsible for calculating the liabilities of pension plans and the costs of providing pension plan benefits. Under the *Pension Benefits Standards Act, 1985*, all actuarial reports must be prepared by a person who is a Fellow of the Canadian Institute of Actuaries.

Alternative assets: Holdings that are considered non-traditional assets, for example infrastructure and real estate. Alternative assets are less liquid than traditional investments and are better suited to longer investment horizons. They also offer inflation protection for indexed pension plans.

Asset: Item with monetary value, such as cash, stocks, bonds and real estate.

Benchmark: A point of reference used as a basis for evaluation or comparison. An index can be used as a benchmark against which the performance of a group of similar assets can be measured or compared.

Bond: Debt issued by a corporation or government, which provides a promise to the holder that the principal and a specified amount of interest will be repaid within a specific period of time. Investing in a bond is like lending money to a government or organization.

Commuted value: An estimated value of future pension benefits expressed in today's dollars. It is a calculation based on actuarial assumptions and market rates, which may fluctuate over time.

Current service cost: The additional pension obligation to be created over the coming year, as another year of credited service is added for current employees contributing to the plan.

Discount rates: Long-term interest rates used to calculate pension obligations.

Equities: Common and preferred stocks that represent a share in the ownership rights of a company and the right to collect dividends from profits. Private equities are equities that are not publicly traded.

Gross domestic product (GDP): The total market value of all goods and services produced in a country in a given year. It equals total consumer investment and government spending, plus the value of exports minus the value of import.

Inflation: Occurs when purchasing power declines due to an increase in the prices of goods and services.

Market capitalization: The total market value of all of a company's outstanding shares.

Pension obligations: The actuarial present value of pension benefits for service completed up to a particular date, calculated using actuarial assumptions.

Rate of return: The amount gained or lost on an investment over a period of time, normally as a percentage of initial investment. Real return is a return adjusted for inflation. Net return is a return adjusted for expenses.

Smoothing: See actuarial asset value adjustment (or smoothing).

Target date fund: A fund that has an asset mix chosen with a specific timeframe in mind, such as a retirement date. A target date fund automatically shifts toward a more conservative asset mix as the target maturity date of the fund approaches.

Yields: Interest (adjusted for amortization of discount or premium) or dividend income as related to the cost of an investment in bonds or shares.

To see the audited financial statements or to learn more about the Plan, visit cpcpension.com

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