Canada Post Pension Plan REPORT TO MEMBERS 2017

Total Compensation

Pension | Pay and Incentives | Benefits | Health and Wellness

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" and "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 federal *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. This Report and 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 are defined in the glossary at the back of the Report.

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Message from the Chair

Jessica L. McDonald
Chair of the Board of Directors and Interim President and CEO

As the new Chair, I wish to assure Pension Plan members that the Board of Directors and senior management all realize that active and retired employees are counting on the Plan to help them achieve a secure retirement. We are committed to Canada Post's meeting its obligations to Plan members.

Based on estimates as of December 31, 2017, the defined benefit component of the Plan was funded at 114.1% on a going-concern basis and 81.1% funded on a solvency basis.

By law, Canada Post must address the solvency deficit to be funded by making special payments into the Plan to gradually eliminate the deficit. In 2014, the Government of Canada provided Canada Post with relief from the need to make special payments for four years, which ended in 2017. In addition, regulatory changes that came into effect in late 2017 ease the burden of solvency deficit payments for federal plans like ours. As a result, Canada Post does not expect to have to make special payments in 2018, subject to market conditions. When special payments resume, they will put substantial pressure on our finances. To be sustainable, the Plan needs a solution beyond temporary relief from special payments.

Finally, I take this opportunity to thank on behalf of the Board, the Pension Committee and its Chair, A. Michel Lavigne, and Douglas D. Greaves, Vice-President, Pension Fund and Chief Investment Officer, for their stewardship. I would also like to thank the Investment Advisory Committee and the Pension Advisory Council for their guidance and diligence on various aspects of the Plan.

Message from the Chief Financial Officer and the Chief Human Resources Officer

Wayne Cheeseman
Chief Financial Officer

Scott G. McDonald
Chief Human Resources Officer

In 2017, once again, Canada Post continued to achieve encouraging results and remain profitable, thanks in large part to its thriving Parcels business. This is important to all Plan members, because the foundation of a strong Plan is a strong Plan sponsor – Canada Post.

The Plan continues to benefit from a prudent investment strategy and from responsible administration. Its active management of the Plan added $417 million in value above the benchmark in 2017. In fact, it added $1.6 billion of value above the benchmark over the last 10 years.

The liability-driven investment strategy we adopted in 2015 to minimize volatility in the Plan's financial situation continued to achieve its intended effect by better matching the Plan's assets with its liabilities.

The foundation of a strong Plan is a strong Plan sponsor.

The Plan continues to face long-term challenges, driven by such factors as longer life expectancy and several years of low discount rates. We reiterate our commitment to inform Plan members, consult and negotiate as required as we work toward securing the Plan's future.

The outcome of the Government of Canada's review of Canada Post did not directly address the pension challenge or propose a solution.

Canada Post intends to work with its bargaining agents to resolve the Plan's long-term challenges, securing the Plan's future for all Plan members.

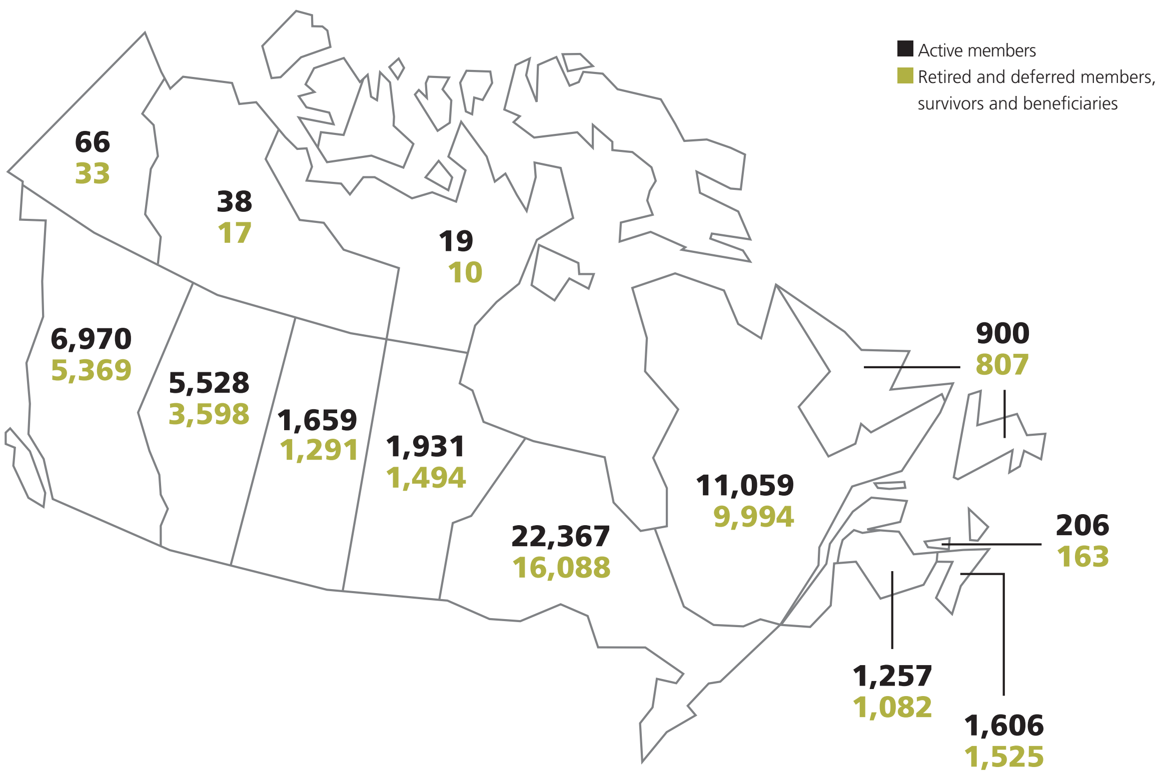
As for the defined contribution component, assets grew from $26 million to $37.2 million, while membership also grew by more than 600 individuals to a total of 2,028 participants. Because each member has an individual account with its own mix of investments, we encourage you to refer to your personalized DC statement sent to your home in June to learn about your personal rate of return.

Membership Snapshot

	2013	2014	2015	2016	2017[1]
Active members	55,509	54,147	53,238	53,263	53,606
Percentage	64.0%	61.2%	59.1%	57.5%	56.3%
Retired members	28,715	31,219	33,448	35,707	37,644
Percentage	33.1%	35.3%	37.2%	38.6%	39.5%
Deferred members, survivors and beneficiaries	2,548	3,051	3,353	3,603	3,953
Percentage	2.9%	3.5%	3.7%	3.9%	4.2%
Total	**86,772**	**88,417**	**90,039**	**92,573**	**95,203**

1. For 2017, the information includes 92,991 members of the defined benefit (DB) component and 2,212 members of the defined contribution (DC) component of the Plan (2,028 active and 184 deferred members in the DC).

Members across Canada – December 31, 2017



Age of active and retired members – December 31, 2017

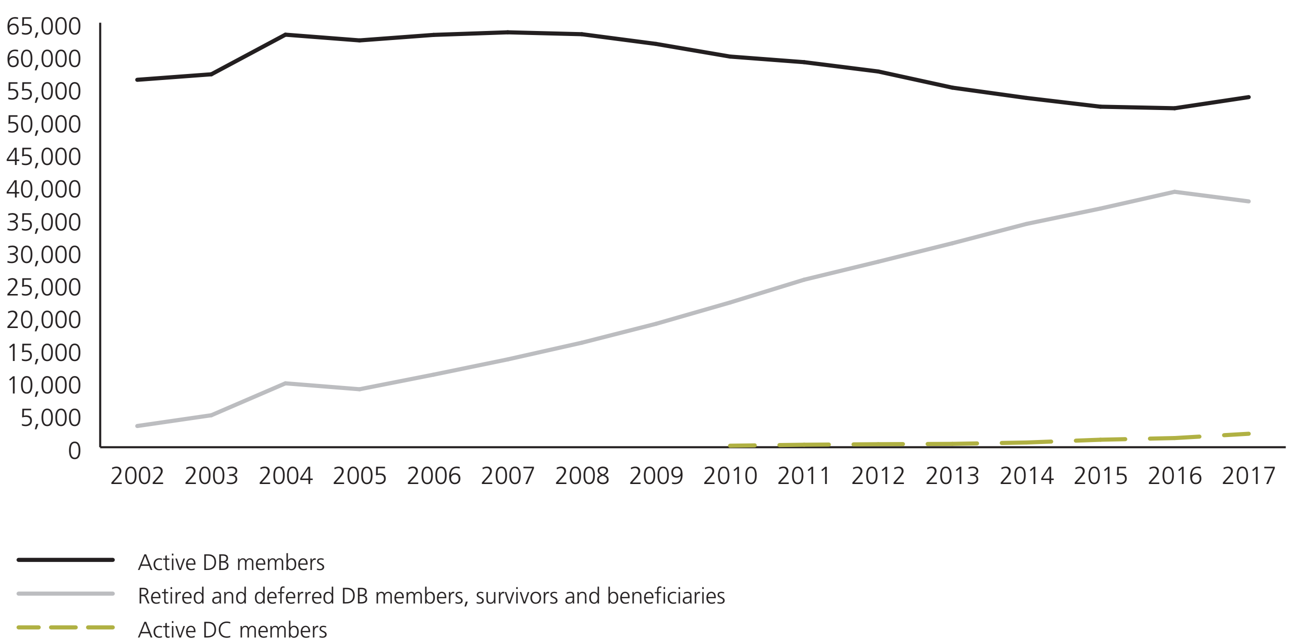
Age	Less than 30	30-39	40-49	50-59	60-69	70-79	More than 79
Active DB members	1,172	7,998	14,996	20,225	6,960	225	2
Active DC members	302	660	626	359	81	0	0
Retired DB members	2	22	182	4,800	22,964	9,153	521

Average age	2017	2016
Active DB members	49.7	49.6
Active DC members	40.0	39.0
DB members at retirement	60.6	60.3
Retired DB members	66.2	65.5

Did you know?

Over the next five years, 17,062 active DB members will have reached pensionable age.

Changes in membership



The Plan continues to mature with retired members now representing 40% of the membership and close to 60% of the solvency obligations.

Our Services to Members

Personalized Pension Statements

In 2017, Pension Services prepared almost 89,500 annual personalized pension statements for DB active members, retirees, deferred members and survivors. Additionally, 3,146 statements were issued by Sun Life Financial for DC members.

cpcpension.com

The **cpcpension.com** website provides information about all the Canada Post pension programs: the defined benefit and defined contribution components of the Plan as well as the Voluntary Savings Plan.

78,693 total visits	**cpcpension.com** visits 56,915 unique visitors were recorded in 2017 compared to 55,033 in 2016

mysunlife.ca

DC members have access to a plan member website **mysunlife.ca**. Members can view personal and workplace account balances, transaction history, statements and personal rates of return. Members can also view information on the **my Sun Life Mobile app**.

866	**mysunlife.ca** visits Top three sections viewed were account balances, transaction histories and investment performance
120	Members used the mobile app, averaging seven visits per month

Pension Centre for DB members

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, processing elective service purchases, updating retirees' life insurance beneficiaries and collecting employee contributions for leaves of absence. In addition, RBC Investor Services Trust provides to retired members services related to the payment of their DB pension benefits.

47,780	Telephone calls from members to the Pension Centre
11,277	Telephone calls to members
3,445	Telephone calls from retirees to RBC Investor Services Trust
48,287	Transactions completed for members by the Pension Centre
115,760	Pension estimates using the online calculator
4.3/5.0	Members' satisfaction score
4.3/5.0	Target score

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

Sun Life Financial Customer Care Centre for DC members

The representatives at the Sun Life Financial Customer Care Centre provide services such as helping members determine their investor profile, assist with selecting their investment options and completing the retirement planning tool. In addition, they answer secure online messages from members who log into their accounts at **mysunlife.ca**.

856	Telephone calls from members Top three reasons for calls were retirement/termination, withdrawals and transfers (in/out)
49	Messages answered
97%	Members' satisfaction score
95%	Target score

Pre-retirement seminars for DB members

In-person pre-retirement seminars are offered to DB members to help them get ready to embark on the retirement journey. These seminars are by invitation only for members who are within five years of an unreduced pension. Topics include the features of the Canada Post Pension Plan, post-retirement benefits, government programs, financial planning, wills and estate planning, and health and wellness. We have received many positive comments from members who have attended.

65	Pre-retirement seminars
2,993	Seminar participants
330	One-on-one consultations at seminars

Webinars for DC members

DC members have access to a series of free 60-minute live educational webinars offered by Sun Life Financial. These interactive webinars are designed to provide easy to understand information about financial and retirement planning for members at all stages in their careers. Visit **cpcpension.com** > DC > Retirement > Seminars and webinars to learn more about the topics, and register for an upcoming session at **sunlife.ca/mymoney**.

7	Webinars
141	Webinar registrations

Online tools for DC members

Discover my money tools and review your investments at mysunlife.ca

Are you on track to reach your retirement goals? Use the **Retirement Planner** tool to see if you are on track with your savings.

Want to find out which investment options are right for you? Use the **Asset Allocation** tool.

If you are a "Help me do it" or "Do it myself" investor, you may want to choose the automatic **Re-balancing** tool. By choosing this feature, your asset mix re-balances itself every quarter without your intervention.

As at December 31, 2017

270	Completed the Asset Allocation tool
384	Completed the Re-balancing tool
298	Completed the Retirement Planner tool

Defined Benefit (DB) Component – Overview of 2017

DB assets

$25 billion

Net investment **assets** as at December 31, 2017

Rate of return in 2017

10.4%

Benchmark[1]

8.6%

Funded status estimated as at December 31, 2017

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

$6.4 billion

79.2% funded

Going-concern surplus

$2.9 billion

114.1% funded

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

$5.8 billion

81.1% funded

The financial position of the Plan saw improvements in 2017, mainly due to its evolving liability-driven investment strategy as well as positive returns across all asset classes.

Contributions in 2017

Members

$234 million

Canada Post current service

$262 million

Canada Post special payments

$34 million

Benefits paid in 2017

$973 million

1. See glossary.
2. See page 29.

Calls from members to Pension Centre

47,780

Members' satisfaction score

4.3/5.0

Unique visitors at cpcpension.com

56,915

Defined Contribution (DC) Component – Overview of 2017

DC assets $37.2 million

VSP assets $ 4.2 million

Total assets $41.4 million

Net investment **assets** as at December 31, 2017

Range of rates of return in 2017

0.77% 9.52%* 21.01%

*The numbers shown above represent the range of the 2017 returns of all the funds available in the DC component, from the lowest to the highest, with 9.52% being the average. See page 20 for the list of the DC funds investments rates of return.

Benchmark: Members can refer to the investment performance section on **mysunlife.ca** to view fund reports including benchmarking information.

As at December 31	2017	2016
Active members	2,028	1,360
Deferred members	184	198
DC Assets	$37.2M	$26.0M
Canada Post contributions	$7.0M	$5.4M
Members' contributions	$4.1M	$3.1M
Investment income	$2.8M	$1.7M
Withdrawals and expenses	($2.9M)	($2.4M)
Average contribution (% of pay)		
Canada Post	6.2%	6.6%
Members	3.8%	3.8%
Voluntary Savings Plan (VSP)		
Assets	$4.2M	$2.7M
Member contributions	$1.5M	$1.4M
VSP member average contribution (% of pay)	3.8%	4.2%
VSP members	418	309

Calls from members to the Sun Life Customer Care Centre

856

Members' satisfaction score

97%

Unique visitors at mysunlife.ca

866

Want to know how your investments did in 2017?

Refer to your Sun Life personalized statement dated December 31, 2017, sent to your home or visit **mysunlife.ca**

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 the Plan for the benefit of its members.

Canada Post, as Plan sponsor, is responsible for the funding of the Plan and its design as it determines the benefits offered to Plan members. Canada Post is also the Plan administrator and is responsible for managing the Plan and investing the pension funds.

The Board of Directors of Canada Post oversees these activities to ensure they are conducted responsibly and in the best interest of all Plan members. In carrying out its responsibilities, the Board follows its Standards of Conduct, which contain ethical rules on matters such as conflict of interest, care, diligence and skill (available at **canadapost.ca** > Corporate > About Us > Corporate governance > Roles and responsibilities of the Board).

A robust governance structure was established by the Board for the Plan (below).

The committees that report directly to the Board are made up of selected Board members with expertise in pension plans. The Investment Advisory Committee and the Pension Advisory Council (PAC) include representatives of the bargaining agents and advise the Pension Committee on investment and administrative matters. The reports of the PAC meetings can be found at **cpcpension.com** > Governance > Pension Advisory Council > PAC meetings.

For more information, visit **cpcpension.com** under Governance.

Canada Post Board of Directors
Oversees activities conducted by Plan sponsor and Plan administrator.

Audit Committee
Reviews and recommends approval of the financial statements and reviews Plan audits.

Pension Committee
Oversees the strategic direction of the Plan, fund investments and administration activities.

Human Resources and Compensation Committee
Reviews and recommends pension benefit policies, Plan design and employee/employer contribution rates.

Investment Advisory Committee
Provides expert investment advice.

Pension Advisory Council
Reviews communication, financial, actuarial and administrative aspects of the Plan.

Membership of the Canada Post Board of Directors and committees as at December 31, 2017

Board of Directors

Jessica L. McDonald ICD.D (Chair) ★ ▲ ●
Deepak Chopra
Michèle Desjardins ●
A. Michel Lavigne FCPA, FCA ★ ▲
Andrew B. Paterson ▲ ●
Alain Sans Cartier ★ ●
William H. Sheffield BSc., MBA, ICD.D ★ ● ▲
Sharon Sparkes MBA, CPA, CA ★ ▲
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 Communications Employees

Member biographies are available at **cpcpension.com**.

Investment Advisory Committee

J. Lorne Braithwaite BComm, MBA (Chair)
Phillip H. Doherty BComm, MBA, FCPA, FCA
Douglas D. Greaves HBA, CFA, ICD.D
Richard L. Knowles HBA, CFA
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 (Chair)
Rindala El-Hage CPA, CA
Lou Greco MBA, CPA, CMA
Julie Philippe CHRP
Kateri Saumure BA Cmn

Elected representatives
Karen Kennedy (retired members)
Max LeBreton (all active members)
William (Bill) R. Price BA, MA (retired members)
David Taylor (management and exempt employees)
Peter Whitaker (retired members)

Union and association representatives
Daryl Bean (PSAC/UPCE)
Cameron Clay (APOC)
Madeleine Cleroux (CUPW)
Beverly Collins (CUPW)
Rona Eckert (CUPW)
Sylvain Lapointe (CUPW)
Daniel Maheux (CPAA)
François Paradis (PSAC/UPCE, APOC, CPAA)

Delegated duties and responsibilities to qualified professionals

The Pension Committee of the Board delegates the investment and administrative activities of the Plan to the Canada Post Investment Division, Pension Finance and Pension Services teams. These are teams of qualified professionals who have the knowledge, skills, information resources and expertise to fulfill their specialized functions. In addition to the internally managed investment mandates, the Pension Committee also selects reputable external investment managers to execute specific investment mandates in accordance with our statements of investment policies and procedures.

The Pension Committee also uses other 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

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. In addition, the Pension Committee consults with the Pension Risk Management Officer who provides advice on any potential risk exposures.

The risk management strategy appears on the next page.

Monitoring

This practice includes the quarterly review of investment performance and funded ratios. Investment compliance checklists, service performance, service provider contracts, investment managers (internal and external) and service level agreements are also monitored regularly.

Assessment

Effective governance and prudent investment 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's guidelines. See **capsa-acor.org**.

Audit

Regular audits are conducted by independent external auditors and by our internal auditors. In addition, the Office of the Superintendent of Financial Institutions (OSFI) can carry out on-site governance reviews from time to time.

Communication

Communication with DB and DC members of the Plan occurs through a number of publications and initiatives. In 2017, we communicated with members by producing the 2016 Report to Members, personalized pension statements for active members and retired DB members, and the *Pension Plan News* and *Intouch* newsletters, which included a notification of Plan amendments. DC members received additional communications from Sun Life Financial, the DC service provider. Most of the publications noted here, as well as the Plan's audited financial statements, are available at **cpcpension.com**.

In 2017, the Communications and Consultation Group (C&C Group) had two official meetings to review and discuss how to facilitate the exchange of information between the Corporation and the Plan members they represent. To stay informed and connected on the activities of the C&C Group, visit **cpcpension.com** > C&C Group. Plan members are invited to send their questions and concerns to the C&C Group at GroupeCCGroup@canadapost.ca.

Risk Management Strategy – DB component

There are many factors that can pose a risk to the health of a pension plan. The main ones are funding risk and investment risk.

There are three main levers available to pension plan sponsors to manage pension risks:

Funding policy
(contributions from employer and employees)

Investment policy
(return enhancement and/or risk reduction strategies and risk transfer strategies such as longevity insurance and buying annuities)

Benefits policy
(level and type of benefits offered)

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.

Currently, the most significant risk relates to interest rates. For indexed plans like the Canada Post Pension Plan – DB component, it is real interest rates, which are interest rates net of **inflation**. The sustained low level of interest rates in recent years has been among the most significant contributors to the growth in solvency deficits.

In addition to interest rate risk, investments carry market risk, arising from the fact that financial markets are unpredictable. As a consequence, returns are not guaranteed and, for some types of investments, can be quite volatile.

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.

Liability-driven investing (LDI): Asset-liability studies are conducted from time to time to guide the Plan's investment strategy, taking into account economic and demographic factors. The Plan has become more mature as Plan members age and the number of retirees increases. The asset-liability study completed in 2015 had a primary focus of minimizing the volatility between net investment assets and pension obligations. Liability-driven investing was introduced as a result. LDI is an investment strategy that manages the Plan's assets relative to its liabilities and is considered a form of risk reduction or de-risking.

The intent is to minimize funding volatility, which is done primarily by attempting to better match the Plan's assets with the liabilities. As part of the first step, the **fixed income** target allocation is increased. Long duration **bonds**, i.e., with a duration of 14-15 years, are also increased – better matching the Plan's liabilities. Finally, the target allocation to **alternative assets**, i.e., private **equities**, real estate and infrastructure, is increased gradually to potentially enhance long-term returns, while diversifying risk.

An upward movement in interest rates away from their historical lows allows for the continued movement along the **glide path** of the LDI strategy. However, if de-risking occurs too quickly, it will not allow the Plan's funded position to improve as interest rates normalize. Therefore, a 10-step dynamic investment de-risking glide path was established to make automatic shifts in asset allocations when the solvency ratio increases to specified levels. This approved approach will ensure a gradual movement toward the ultimate target asset mix and will enable the funded position to improve with rising interest rates. The Plan will perform an asset-liability study every three years (or when the funding ratio reaches a certain threshold) in order to assess and possibly adjust the investment strategy.

The Pension Committee 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 and in consideration of the Plan's demographics and long-term obligations.

The Pension Risk Management Officer oversees compliance with the statements of investment policies and procedures approved by the Pension Committee, 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.

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. Investments 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 and external investment managers meticulously review 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 statements of investment policies and procedures.

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

Other risks

The Plan faces other risks that are not of a financial nature, such as demographic factors including the longevity of pensioners (how long retirees are living compared to what was expected) and the rules surrounding the funding of pension plans that are under the jurisdiction of the *Pension Benefits Standards Act*, *1985*, and other applicable legislation and standards. We monitor pension industry trends and the developments in legislations to respond appropriately when changes occur.

Statement of Investment Policies and Procedures – DB

The Pension Committee has established a statement 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 DB assets of the Plan. The SIPP-DB details 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 SIPP-DB is reviewed and approved once a year by the Pension Committee. The **actuary** of the Plan and the members of the Pension Advisory Council receive a copy of the updated SIPP-DB after its approval. The SIPPs of the Plan are available at **cpcpension.com** under Governance documents.

Risk Management Strategy – DC component

DC Plan members have diverse demographics, diverse investment and financial experience, and diverse risk tolerance. The Corporation believes that the best way to address the diverse investment needs of DC Plan members is to offer a range of investment options including market-based options (investment funds) that cover the major asset classes and the risk/return spectrum appropriate for retirement funds.

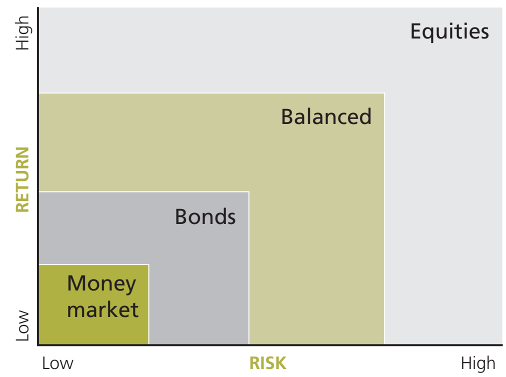
Different funds and investment approaches may be appropriate for different points in a member's career, since the options range from low risk/return to higher risk/return. Members of the DC Plan have access to Sun Life Financial's website, **mysunlife.ca**, which has tools and information to build their investor profile and investment strategy, and revise them as life goes on. The site also offers all the information they need about the investment funds offered and historical fund returns. It is the member's responsibility to use this information to make informed choices.

If investment returns are high, for funds such as fixed income or equity funds, members reap the rewards, and bear the risk. Segregated funds, in which member contributions are invested, are held separately from the assets of Sun Life Financial and, while fund values fluctuate, the money is always used for the members' benefit.

Certain funds offered under the DC component of the Pension Plan entail more risk than others. Members need to ask themselves if they are comfortable with the level of risk that comes with their asset allocation. Tools at **mysunlife.ca** will help members with their decisions.

Canada Post reviews the performance of the funds in the DC component of the Pension Plan at least semi-annually and assesses the **fund manager**'s performance against relevant qualitative and quantitative factors, periodically, but no less frequently than annually and may propose changes to the existing fund selection or add new funds, if required.

Understanding risk against return



Statement of Investment Policies and Procedures – CAP

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

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. 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-CAP is reviewed and approved once a year by the Pension Committee. The actuary of the Plan and the members of the Pension Advisory Council receive a copy of the updated SIPP-CAP after its approval. The SIPPs of the Plan are available at **cpcpension.com** under Governance documents.

Outlook for 2018

Governance activities review: Canada Post will conduct a review of plan governance for the capital accumulation plans, which is composed of the DC component of the Pension Plan and the Voluntary Savings Plan.

Investment structure and fund evaluation: Canada Post will conduct a review of the investment structure of the DC component of the Pension Plan, including a review and analysis of existing investment options.

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.

Net investment assets of the Plan totalled $24.9 billion at December 31, 2017, compared to $23.1 billion the previous year. The Plan delivered a return of 10.4% for 2017, which exceeded its benchmark return by 1.8%.

In the mid-term, the Plan's four-year average annual return was 9.1%, outperforming its benchmark by 1.3%. In the long term, the 10-year average annual return was 6.6%, above the benchmark by 0.7%. The Plan's evolving investment strategy contributed to this investment success. By actively managing our portfolio, we have added $417 million in value above the Plan's benchmark return in 2017. The value added above the benchmark return was $1,615 million over the last 10 years.

In 2017, all asset classes had positive returns, led by international equities, U.S. small cap equities, private equity, infrastructure and real estate assets. Refer to the graphs pages 16-18 of this report.

The 2015 asset-liability study focused on making the Plan more sustainable by gradually reducing the volatility between net investment assets and pension obligations, while maintaining the return on investments. The study recommended a multi-step liability-driven investment strategy that will guide the Plan for the next five to 10 years. Specifically, a glide path was developed based on predetermined funded status targets. The first step, taken in 2015, moved assets from equities to bonds, lengthened **bond duration** and continued to add to alternative (non-public) assets. The second step was taken in 2017. It included an increased allocation to long bonds and inflation linked bonds, a reduction in universe bonds and equities and an increase in alternative assets. A periodic review of the strategy is planned for 2018.

Here are some activities that affected the Plan's net investment assets in 2017:
All asset classes achieved positive returns. Some of the market gains made by Canadian, U.S. and international equities and universe bonds were harvested to fund the increased allocation to long bonds, inflation-linked bonds and alternative investments.
Due to strong market gains, U.S. and international equity assets increased by 14% and 25%, respectively, even as some gains were used to fund other asset classes.
The private equity assets **rate of return** was 15% due to valuation gains and gains from the sale of some portfolio businesses.
As part of its liability-driven investment strategy, the Plan continued to add to its alternative investment assets, namely real estate, infrastructure and private equity, maintaining a high rate of return. These assets help cushion the Plan from capital market volatility.
The expansion of the internal fixed income team was completed. Managing assets internally reduces costs and increases flexibility. Additional investments in private debt were made.

Investment objectives

With the maturing of the Plan, as the average age of Plan members increases and the number of retirees grows, the Plan adopted a liability-driven investment strategy, approved by the Board in 2015. The strategy ensures the Plan's asset mix better matches its liabilities and interest rate risk is reduced over time. The strategy moves along a glide path, or a series of steps, whereby asset mix changes will occur when a predetermined funded status is reached. The first step, completed in 2016, increased bond holdings and extended bond durations. This has led to a better match of assets to liabilities. Furthermore, additional investments in alternative investment holdings will continue to be made gradually to reduce the volatility of returns. The second step was made in 2017, the long bond, inflation-linked bond and alternative assets allocations were increased, while nominal bond and equity allocations were reduced. As anticipated, the adoption of the strategy has begun to reduce the Plan's funded status volatility.

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 – DB component (SIPP-DB), which includes the long-term liability-driven investment strategy. In accordance with the strategy, the Plan's asset mix targets were adjusted with the implementation of the second step in the strategy's glide path to 58% in equities, real estate and infrastructure, and 42% in fixed income.

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 2.0% for a total of 6.5%. It is estimated that this rate can support the Plan's investment objectives and the growth of its pension obligations.

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, 2017, was 61.7% in equities, real estate and infrastructure, and 38.3% in fixed income. The strong returns in 2017 are partly attributable to the fund's above-target allocation to equities.

The performance of each asset class is measured against its own relevant benchmark. During the year, the Plan reduced its U.S., Canadian and international equity positions, taking advantage of market gains. These gains were re-allocated to long bonds, inflation-linked bonds, real estate, infrastructure, private equity and private debt. The investment team uses its knowledge and expertise to manage the investment portfolio in accordance with the guidance provided by the SIPP-DB.

Market review and financial market performance

In 2017, much of the world's economies experienced accelerating growth as a result of continuing accommodative central bank monetary policies, government policies that either eased austerity or added fiscal stimulus and an improvement in global trade in an environment of low inflation. A weaker U.S. dollar boosted exporters, emerging and developing markets and commodity producers.

The United States exhibited strong economic growth, along with low unemployment and lower than expected inflation. In this strengthening environment, the U.S. Federal Reserve, the U.S. central bank, increased interest rates three times in the year. Further rate increases in 2018 have been well signalled. The stimulative effect of the tax reform, passed at the close of 2017, is expected to keep the U.S. on its current growth trajectory.

The Eurozone enjoyed its best year of economic growth in a decade with labour market recovery, growing exports and improving lending conditions. With this backdrop, the European Central Bank announced a reduction to its bond buying activities starting in 2018. Even as the U.K. continued to exhibit slowing growth due to Brexit uncertainties, inflation jumped and unemployment touched multi-decade lows. The Bank of England raised interest rates for the first time in over a decade. Japan's economy expanded based on rising capital expenditures and strong global demand for its manufacturing exports. Structural reforms to boost wages, productivity and growth continued.

China's **gross domestic product (GDP)** accelerated for the first time in seven years as the synchronized global growth increased demand for its exports. The Chinese government worked to curb credit growth and pollution in older industries. Emerging markets benefitted from higher commodity prices and strong global demand. Going forward, they face headwinds from tighter regulations and U.S. trade protectionism.

Canada enjoyed the best GDP growth and job growth in almost a decade as exports increased and business investment improved. The Bank of Canada increased interest rates twice. The extension of the oil supply reduction agreement between the Organization of Petroleum Exporting Countries (OPEC) and other oil-producing countries into 2018 stabilized prices, while increased economic activity was beneficial for prices. Industrial commodities grew by over 20% due to demand from China's property, infrastructure and manufacturing sectors. Precious metal prices increased modestly and, while geopolitical tensions and a weaker U.S. dollar provided support, the prospect of Canadian central bank interest rate hikes was a headwind.

The Canadian dollar appreciated relative to the U.S. dollar.

In public equity markets, emerging markets equities, international developed market equities and U.S. equities performed best.

High **yield** credit bonds performed well as the yield premium (spread) over sovereign bonds narrowed. Canadian bond yields moved lower early in the fourth quarter of 2017 before starting to rise at year-end as economic data improved. U.S. 2-year Treasury bond yields increased steadily on the expectation of further interest rate increases, while the longer dated (10-year and 30-year) U.S. Treasury bond yields fell as inflation was stubbornly muted. The expected effects of U.S. tax reform and the prospect of U.S. fiscal stimulus indicate higher growth, higher inflation and higher interest rates (tighter monetary policy) in the future.

Fund performance

The Plan earned a rate of return of 10.4% in 2017, compared to its benchmark return of 8.6%.

In the mid-term, the four-year average annual return was 9.1%, and in the long term, the 10-year average annual return was 6.6%. This compares favourably with the fund's portfolio benchmarks of 7.8% and 5.9% for the same periods. The Plan's evolving investment strategy contributed to this investment success.

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

The real estate asset class continued to generate sizeable valuation increases and gains from asset sales. This asset class offers inflation protection and a predictable stream of income.

Infrastructure profited from asset valuation increases and income received. Private equity benefited from valuation gains and profits from the exit of some portfolio investments.

Outlook for 2018

Funded status volatility, the movement of investment returns and pension obligations, will be monitored closely. The asset-liability study and glide path will be updated at every three years or when a funded ratio of 90% is reached. A review of the asset-liability study is planned for 2018.

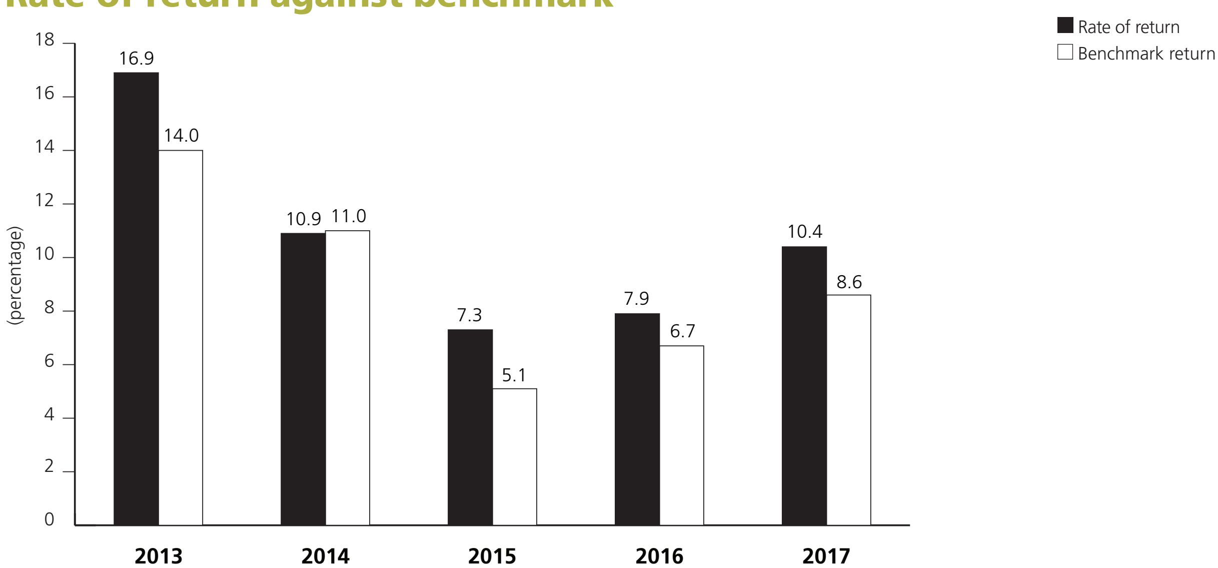
Investments in alternative assets will continue to grow. Reaching our target allocation will take time. The Investment Division team is very selective about the quality of assets and the purchase price of these investments.

We will continue to expand our geographic exposure by investing in European real estate and adding to U.S. real estate.

We will finalize a derivative strategy that should allow the Plan to improve returns and better manage risks. This strategy is subject to approval by Canada Post's Board of Directors.

We will maintain our commitment to meeting the Plan's long-term funding objectives. Through appropriate asset allocation and risk mitigation regarding our liabilities, 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 taking undue risks.

Rate of return against benchmark



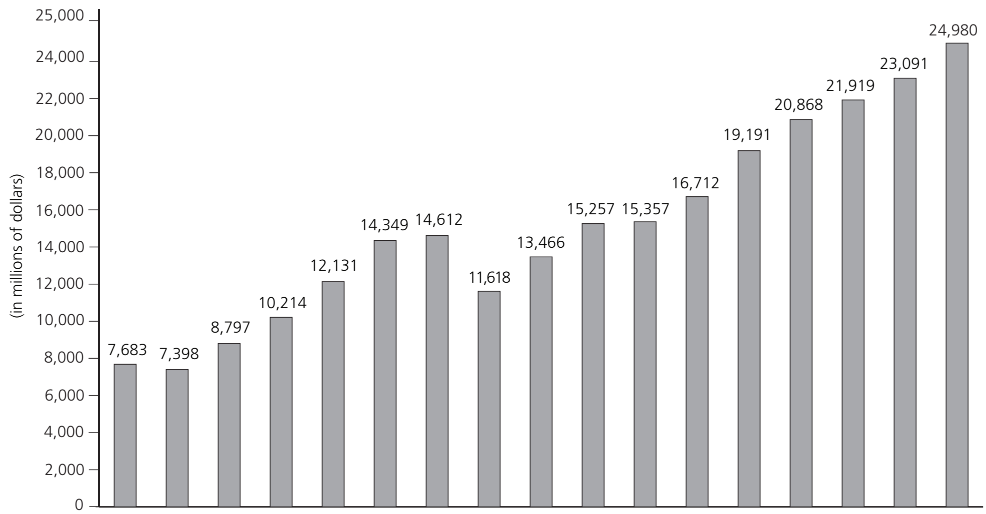
Rate of return

	Over the last 10 years	Over the last 5 years	In 2017
Our Plan	6.6%	10.6%	**10.4%**
Our benchmark	5.9%	9.0%	**8.6%**
Peer group benchmark[1]	6.9%	10.6%	**10.5%**
Rate of return objective over time	6.5%		

By actively managing our portfolio, we have added $417 million in value above the Plan's benchmark return in 2017. The value added above the benchmark return was $1,615 million over the last 10 years.

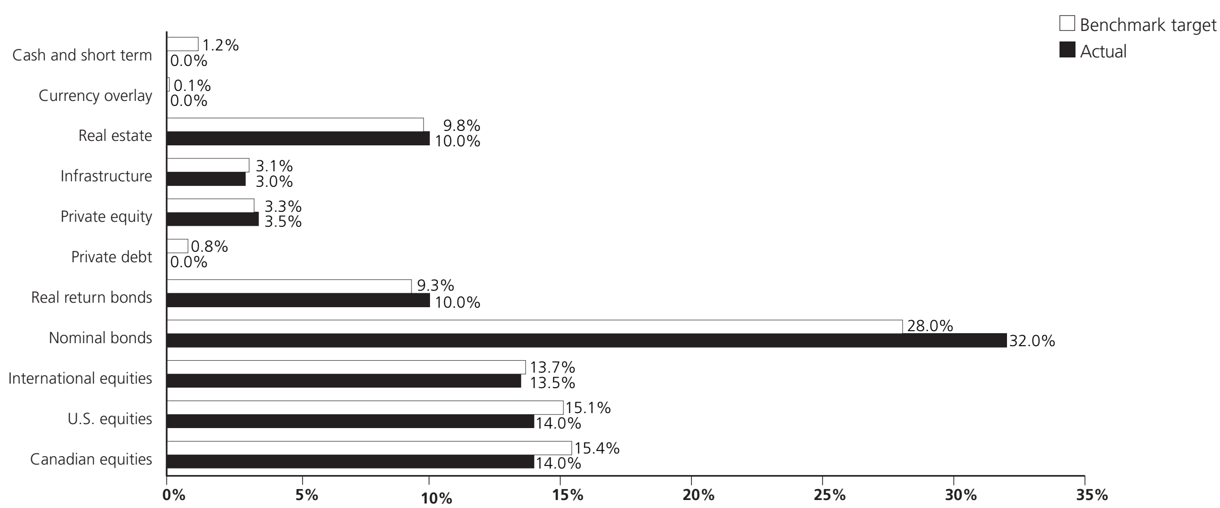
1. RBC Investor & Treasury Services based on the performance of large Canadian pension plans (more than $1 billion).

Net investment assets



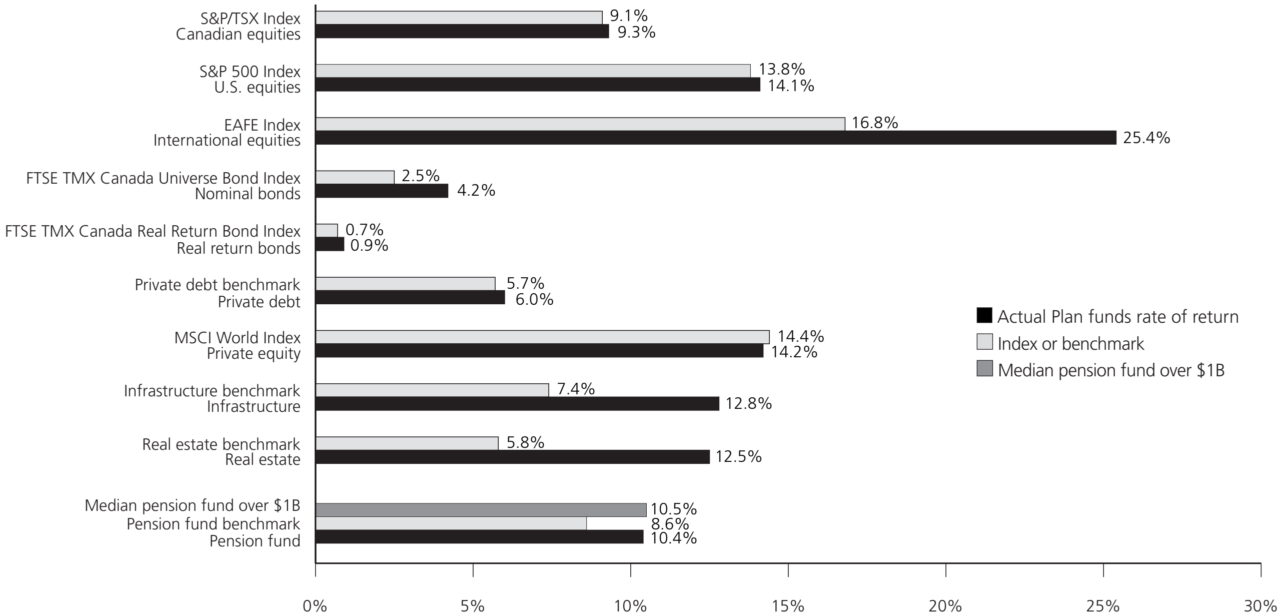
Net investment assets are defined as investments plus investment related receivables, minus investment related liabilities.

Asset mix



International equities include emerging markets. Numbers may not add up due to rounding.

Rates of return by asset class and total Plan



The real estate benchmark is 50% S&P/TSX Capped Composite 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.

Investment management costs

As measured by the 2016 CEM Benchmarking Survey	
	Per $100 of average assets
Plan	$0.36
Peer group	$0.41
The Plan's investment costs were $12.9 million below the benchmark costs.	

Equity holdings greater than 0.25% of Plan assets

As at December 31, 2017 (in millions of dollars)

	Market value	Percentage of overall fund
Toronto Dominion Bank	$ 241	0.97%
Royal Bank of Canada	230	0.92
Bank of Nova Scotia	174	0.70
Bank of Montreal	113	0.45
Manulife Financial Corp.	105	0.42
Canadian Natural Resources Ltd.	100	0.40
Enbridge Inc.	98	0.39
Apple Inc.	97	0.39
Suncor Energy Inc.	92	0.37
Microsoft Corp.	88	0.35
Canadian National Railway Co.	87	0.35
Canadian Imperial Bank of Commerce	83	0.33
BCE Inc.	81	0.33
Alphabet Inc.	77	0.31
Telus Corp.	71	0.28
TransCanada Corp.	68	0.27
Thomson Reuters Corp.	64	0.26
Rogers Communications Inc. Class B	63	0.25
	$1,910	**7.74%**

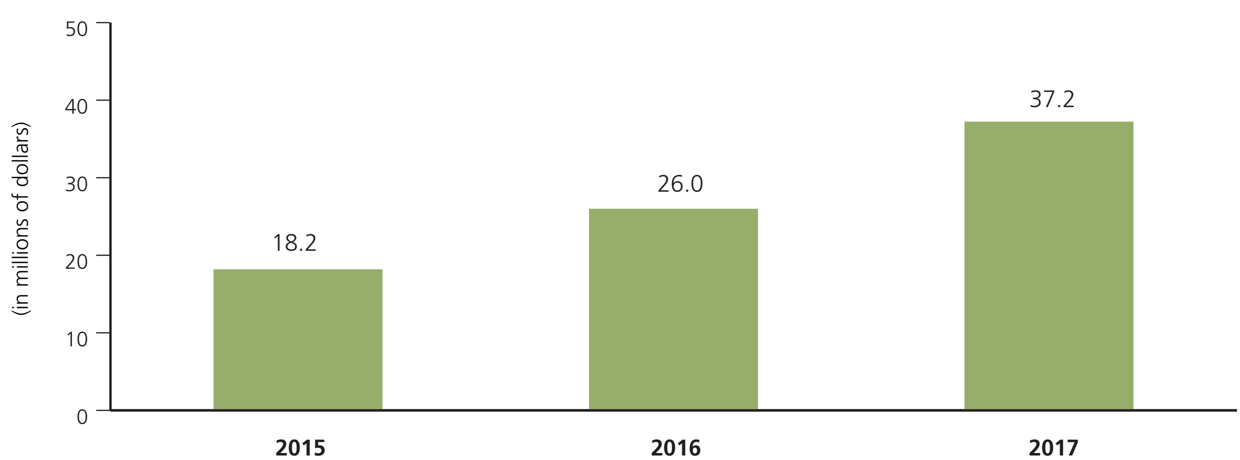
Our Investments – DC Component

Rates of return

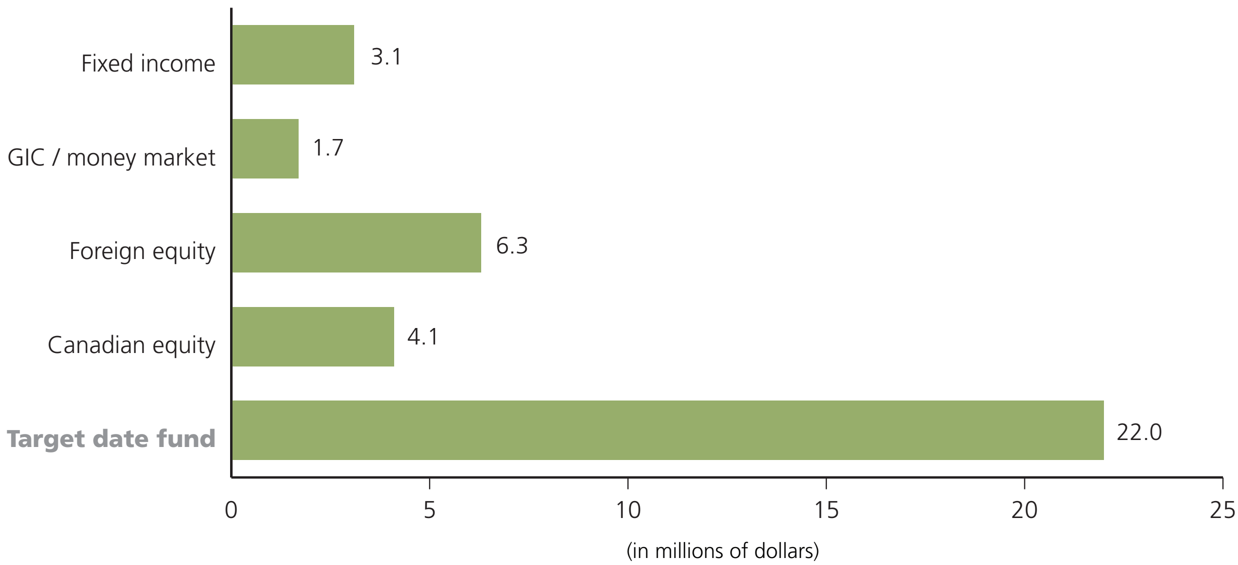
As at December 31, 2017

Fund	1 year	5 years	10 years
BlackRock LifePath® Index 2020	6.57%	7.82%	5.45%
BlackRock LifePath® Index 2025	7.55%	9.02%	5.71%
BlackRock LifePath® Index 2030	8.39%	9.90%	5.75%
BlackRock LifePath® Index 2035	9.19%	10.78%	5.88%
BlackRock LifePath® Index 2040	10.02%	11.65%	6.02%
BlackRock LifePath® Index 2045	10.70%	12.44%	N/A
BlackRock LifePath® Index 2050	11.02%	12.85%	N/A
BlackRock LifePath® Index 2055	11.06%	N/A	N/A
BlackRock LifePath® Index Retirement	5.71%	5.88%	5.21%
BlackRock U.S. Equity Index	13.77%	21.17%	11.08%
CC&L Group Canadian Equity	8.33%	10.91%	6.37%
MFS Global Equity	16.94%	17.93%	10.85%
MFS International Equity	21.01%	13.19%	7.26%
Sun Life Financial Money Market	0.77%	0.85%	1.14%
TDAM Canadian Bond Index	2.39%	2.88%	4.52%
TDAM Canadian Equity Index	9.05%	8.58%	4.63%

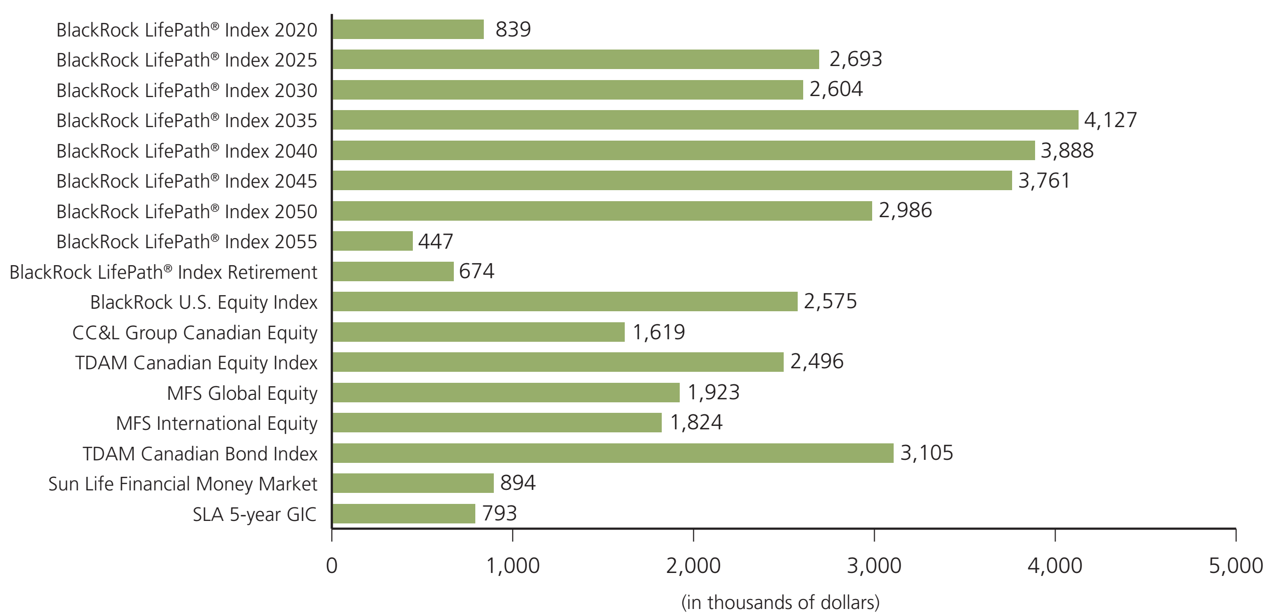
Investment assets



Asset mix



Detailed asset mix



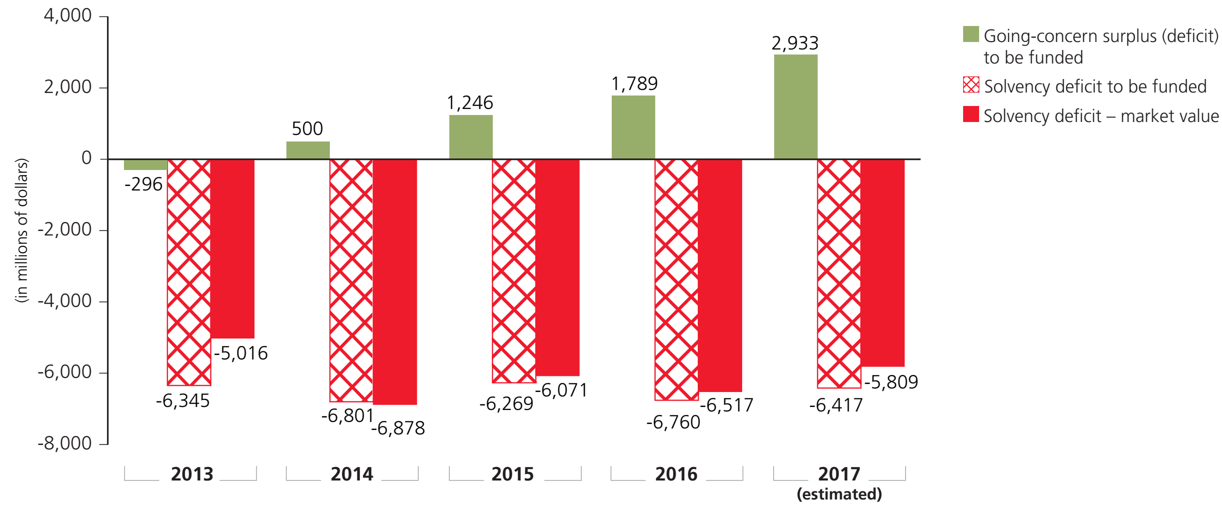
Fund management fees

Fund	Annualized percentage
BlackRock LifePath® Index 2020	0.35%
BlackRock LifePath® Index 2025	0.40%
BlackRock LifePath® Index 2030	0.46%
BlackRock LifePath® Index 2035	0.51%
BlackRock LifePath® Index 2040	0.51%
BlackRock LifePath® Index 2045	0.51%
BlackRock LifePath® Index 2050	0.51%
BlackRock LifePath® Index 2055	0.57%
BlackRock LifePath® Index Retirement	0.35%
BlackRock U.S. Equity Index	0.24%
CC&L Group Canadian Equity	0.40%
MFS Global Equity	0.65%
MFS International Equity	0.66%
Sun Life Financial Money Market	0.19%
TDAM Canadian Bond Index	0.24%
TDAM Canadian Equity Index	0.25%

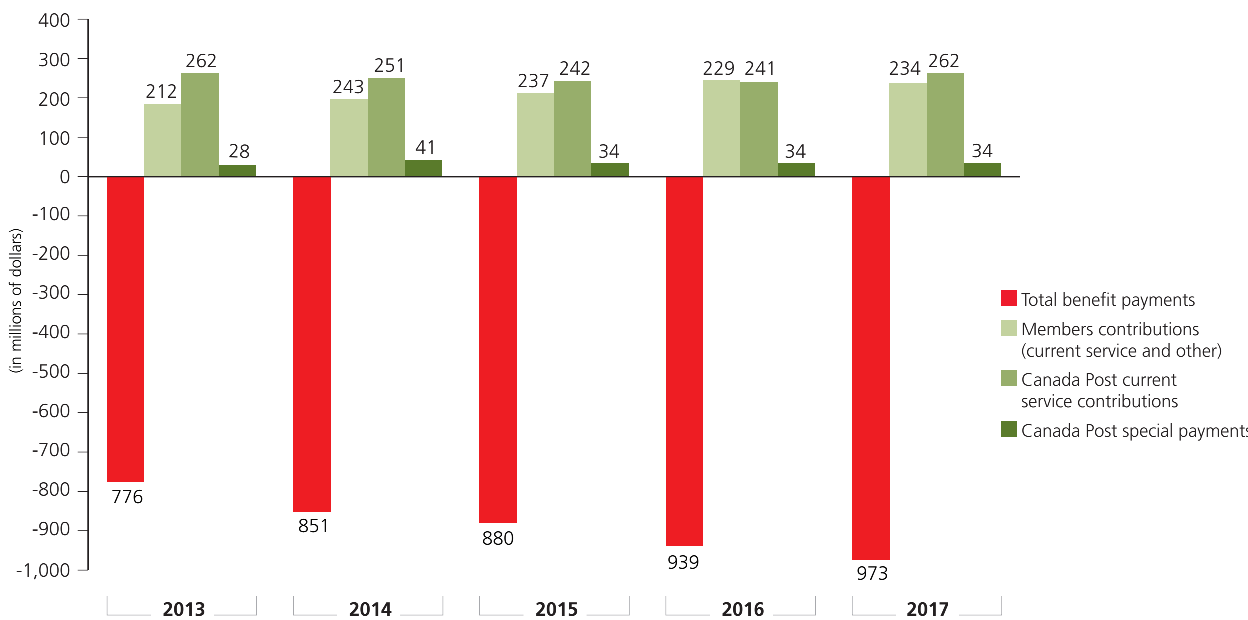
The **fund management fees** listed cover the costs of operations and investment expertise. They are also subject to applicable sales tax, which is not included in the amounts listed above.

Financial Position Highlights – DB Component

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 10.4% return in 2017. The Plan ended the year with net assets available for benefits of $25,082 million (including $37 million in the DC component), an increase of $1,890 million from $23,192 million (including $26 million in the DC component) at the end of 2016.

Changes in net assets available for benefits

The $1,890 million increase in net assets available for benefits represented investment income of $2,439 million and contributions of $542 million, offset by pension benefit payments of $976 million and expenses of $115 million.

Investment income – comprising interest, dividend, as well as realized and unrealized gains and losses – was $2,439 million for 2017, compared to $1,721 million for 2016.

Plan contributions in 2017 were $542 million compared to $512 million in 2016, an increase of $30 million.

Pension benefit payments for 2017 were $976 million compared to $941 million in 2016, an increase of $35 million. This was mostly the result of a 5.1% increase in the number of retirees over 2017.

Changes in pension obligations

Pension obligations were $20,827 million (including $37 million in the DC component) compared to $20,301 million (including $26 million in the DC component) in 2016, an increase of $526 million.

The increase is mainly due to interest accrued on the pension obligations and new benefits accrued partially offset by benefits paid and experience gains.

(in millions of dollars)	2017			2016		
Accounting basis	DB	DC	Total	DB	DC	Total
Net assets	25,045	37	25,082	23,166	26	23,192
Pension obligations	20,790	37	20,807	20,275	26	20,301

Surplus (deficit)

The difference between assets available for benefits and pension obligations as at December 31, 2017, resulted in a surplus of $4,255 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 is estimated at $2,933 million. The difference between the accounting surplus of $4,255 million and the estimated going-concern surplus of $2,933 million is an **actuarial asset value adjustment** (or **smoothing**) of $1,322 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.

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

Five-year financial review

Financial position (in millions of dollars)	2017	2016	2015	2014	2013
Assets					
Investments	$24,910	$23,075	$21,884	$20,824	$19,145
Investment related receivables	255	160	196	212	193
Contribution / other receivables	112	112	110	112	102
Total assets	**25,277**	**23,347**	**22,190**	**21,148**	**19,440**
Liabilities					
Investment related liabilities	148	118	143	155	139
Accounts payable and accrued liabilities	47	37	42	48	31
Total liabilities	**195**	**155**	**185**	**203**	**170**
Net assets available for benefits	**$25,080**	**$23,192**	**$22,005**	**$20,945**	**$19,270**
Pension obligations and surplus					
Pension obligations	$20,827	$20,301	$19,234	$18,632	$18,039
Surplus	4,255	2,891	2,771	2,313	1,231
Total pension obligations and surplus	**$25,082**	**$23,192**	**$22,005**	**$20,945**	**$19,270**

Changes in net assets available for benefits (in millions of dollars)	2017	2016	2015	2014	2013
Investment income	**$2,439**	**$1,721**	**$1,522**	**$2,083**	**$2,849**
Contributions – Sponsor					
Current service	269	246	246	254	262
Special payments	34	34	34	41	28
Contributions – Members					
Current service	234	226	229	240	207
Elective service and other	5	6	10	5	5
Total contributions	**542**	**512**	**519**	**540**	**502**
Less					
Benefits					
Retirement and survivor pensions	887	847	800	747	694
Commuted value transfers and other	89	94	82	105	82
Total benefits	**976**	**941**	**882**	**852**	**776**
Administration expenses					
Plan administration	23	21	21	19	17
Investment fees	92	84	78	77	63
Total administration expenses	**115**	**105**	**99**	**96**	**80**
Increase in net assets	**$1,890**	**$1,187**	**$1,060**	**$1,675**	**$2,495**

Changes in pension obligations (in millions of dollars)	2017	2016	2015	2014	2013
Interest on pension obligations	$1,115	$1,100	$1,067	$1,035	$939
Benefits accrued	497	474	466	494	486
Changes in **actuarial assumptions**	(4)	532	49	(70)	1,069
Net experience losses (gains)	(106)	(98)	(98)	(14)	(140)
Benefits paid	(976)	(941)	(882)	(852)	(776)
Net increase (decrease) in pension obligations	**526**	**$1,067**	**$602**	**$593**	**$1,578**

Funding Valuation Summary – DB Component

Canada Post is required to file annual actuarial valuations of the Plan on a going-concern and solvency basis 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. The latest actuarial valuation was filed in June 2017 and provided results as at December 31, 2016.

Actuarial valuation results – Going concern

Going-concern funded status of the Plan as at December 31				
	2017 estimated		2016 actual	
	in millions of dollars	funded ratio	in millions of dollars	funded ratio
Going-concern assets (smoothed value)	23,723		22,042	
Going-concern obligations	20,790		20,253	
Going-concern surplus	2,933	114.1%	1,789	108.8%

The financial position of the Plan saw improvements in 2017, mainly due to investment gains.

Actuarial valuation results – Solvency

Solvency funded status of the Plan as at December 31				
	2017 estimated		2016 actual	
	in millions of dollars	funded ratio	in millions of dollars	funded ratio
Solvency assets (market value)	25,005		23,146	
Solvency obligations	30,814		29,663	
Solvency deficit (based on market value of Plan assets)	(5,809)	81.1%	(6,517)	78.0%
Solvency deficit to be funded (using three-year **average solvency ratio** method)	(6,417)	79.2%	(6,760)	77.2%

The solvency deficit using the market value of Plan assets decreased from $6,517 million at the end of 2016 to an estimated $5,809 million at the end of 2017. The decrease was mainly due to investment returns, partially offset by the negative effect of a decrease in the discount rate from 1.1% to 0.9%

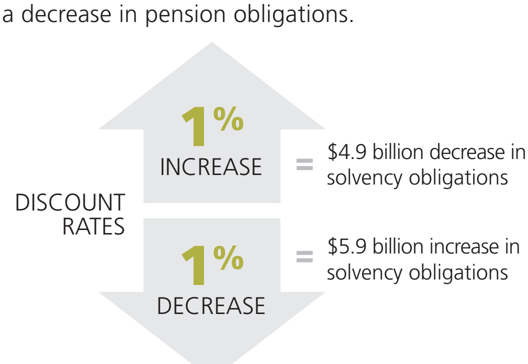
The average solvency ratio over the three-year period used for the valuation increased in 2017, going from 77.2% to 79.2%. This resulted in the solvency deficit to be funded, decreasing from $6,760 million at the end of 2016 to an estimated $6,417 million at the end of 2017.

If the Plan had been terminated and wound up on December 31, 2016, there would not have been enough assets to pay 100% of the pension benefits.

Members living longer and receiving their pension for longer requires that larger amounts of money be put aside to fund pensions.

When interest rates are low, more money needs to be put aside. 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 discount rates would result in a decrease in pension obligations.



Contributions

Contributions (in millions of dollars)	2017	2018[1]
Members	234	239
Canada Post regular contributions	262	258
Canada Post special payments[2]	34	35
Total contributions	**530**	**532**

Current service cost sharing[3] (regular contributions)	2017	2018[1]
Members	47%	48%
Canada Post	53%	52%

1. Estimate.
2. After applying deficit funding relief.
3. Excluding contributions for elective service.

The special payments made by Canada Post in 2017 and estimated to be made in 2018 are top-up payments (transfer deficiency). The top-up payments are required 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. From 2011 to 2013, Canada Post used solvency relief measures, as permitted by pension legislation for all federally regulated pension plans. Under these measures, the maximum amount of relief could not exceed 15% of the market value of the Plan's assets at the end of the proceeding year.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations*. They provided relief to Canada Post from the need to make special payments into the Plan for four years (2014 to 2017). For Canada Post, these regulations replaced the solvency relief measures available under the *Pension Benefits Standards Act*, *1985*. This was a temporary relief period that recognized the operational challenges facing Canada Post. On June 23, 2017, *The Pension Benefits Standards Regulations*, *1985,* was amended to change the solvency reduction limit applicable to the pension plans of Crown corporations from 15% of a plan's assets to 15% of a plan's solvency liabilities. Special payments are expected to resume at the end of this relief. See page 29 to know more.

Relief (in millions of dollars)	2011	2012	2013	2014	2015	2016	2017
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	1,360	1,254	1,352

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 this deficit funding relief. 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, 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 any funding relief, Canada Post special payments required to fund the deficit would have been $1,386 million in 2017 (including $34 million in top-up payments). This would have brought total contributions from Canada Post to $1,648 million in 2017, or 64% of the pensionable payroll.

Funding valuation history

OSFI requires that a funding valuation be done on 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 2017 funding valuation will be filed by June 2018.

	Estimated	Filed funding valuations[1]									
As at December 31 (in millions of dollars)	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2007**	**2006**
Going concern – assuming the Plan continued in operation											
Market value of assets	$ 25,045	$ 23,166	$ 21,987	$ 20,932	$ 19,262	$ 16,775	$ 15,431	$ 15,376	$ 13,576	$ 14,666	$ 14,430
Asset smoothing adjustment	(1,322)	(1,124)	(1,541)	(1,832)	(1,527)	(352)	716	488	1,357	(266)	(1,340)
Smoothed value of assets	23,723	22,042	20,446	19,100	17,735	16,423	16,147	15,864	14,933	14,400	13,090
Funding target	20,790	20,253	19,200	18,600	18,031	16,342	16,551	16,039	14,365	13,143	12,097
Funding surplus (deficit)	$ 2,933	$ 1,789	$ 1,246	$ 500	$ (296)	$ 81	$ (404)	$ (175)	$ 568	$ 1,257	$ 993
Funded ratio	114.1%	108.8%	106.5%	102.7%	98.4%	100.5%	97.6%	98.9%	104.0%	109.6%	108.2%
Assumptions used for going-concern valuations											
Discount rate	5.50%	5.50%	5.80%	5.80%	5.80%	5.80%	5.80%	5.80%	6.20%	6.00%	6.00%
Inflation rate	2.00%	2.00%	2.25%	2.25%	2.25%	2.25%	2.50%	2.50%	2.50%	2.50%	2.50%
Real return rate (net of inflation)	3.50%	3.50%	3.55%	3.55%	3.55%	3.55%	3.30%	3.30%	3.70%	3.50%	3.50%
Solvency – assuming the Plan was terminated on the date of valuation											
Market value of assets (net of termination fees)	$ 25,005	$ 23,146	$ 21,967	$ 20,912	$ 19,250	$ 16,763	$ 15,419	$ 15,364	$ 13,573	$ 14,664	$ 14,428
Solvency obligations	30,814	29,663	28,038	27,790	24,266	23,279	22,014	19,056	16,777	14,215	14,145
Solvency – market value											
Surplus (deficit)	$ (5,809)	$ (6,517)	$ (6,071)	$ (6,878)	$ (5,016)	$ (6,516)	$ (6,595)	$ (3,692)	$ (3,204)	$ 449	$ 283
Solvency ratio	81.1%	78.0%	78.3%	75.3%	79.3%	72.0%	70.0%	80.6%	80.9%	103.2%	102.0%
Solvency – to be funded											
Surplus (deficit)	$ (6,417)	$ (6,760)	$ (6,269)	$ (6,801)	$ (6,345)	$ (5,890)	$ (4,689)	$ (3,204)	$ (1,847)	$ 449	$ 283
Solvency ratio	79.2%	77.2%	77.6%	75.5%	73.9%	74.7%	78.7%	83.2%	89.0%	103.2%	102.0%
Assumptions used for solvency valuations											
Discount rate (real return rates, net of inflation)											
For commuted values											
Rate for first 10 years	1.40%	1.10%	1.30%	1.30%	1.70%	1.10%	1.30%	1.70%	2.10%	2.50%	2.25%
Rate after 10 years	1.60%	1.30%	1.80%	1.60%	2.30%	1.30%	1.60%	2.30%	2.70%	2.50%	2.25%
For annuities	0.90%	1.10%	1.20%	1.10%	1.80%	1.50%	1.60%	2.20%	2.70%	3.00%	2.50%

1. A funding valuation for 2008 was not required by OSFI.

Questions and answers about actuarial valuations – 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 a going-concern and solvency basis. These valuations use hypothetical situations to assess a pension plan and protect the interests of its members.

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 is deficit funding relief?

Since 2011, solvency relief measures have been available to all deficit 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 Public Services and Procurement. The measures help pension plan sponsors meet their funding obligations with less sensitivity to short-term economic conditions.

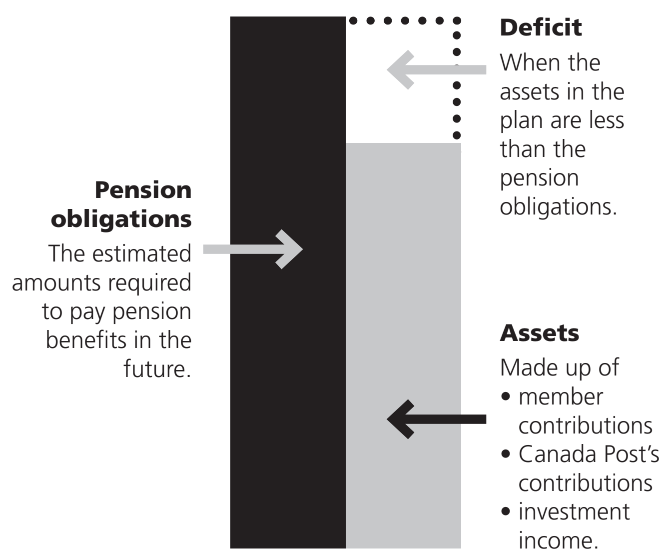
Funding relief does not reduce or eliminate Canada Post's obligation to fully fund the Plan and it remains responsible for funding any deficits.

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 the required contributions to be made by plan members and the plan sponsor 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.



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.

Average solvency ratio: A method of measuring solvency using the average of three years' results. This method lessens the effects of short-term market volatility and is used for funding purposes.

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.

Bond duration: An approximate measure of a bond's price sensitivity to changes in interest rates, expressed in years. It is the weighted average of the time to each coupon and principal payment.

Capital accumulation plans (CAP): Tax assisted investment or savings plan that permits the members of the CAP to make investment decisions among options offered within the plan.

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.

Fixed income: An asset class that provides returns in the form of regular interest payments and are generally considered less volatile than equities.

Fund management fees: A fee charged for managing an investment portfolio and for general administrative expenses.

Fund manager: A professional who is responsible for making investment decisions and carrying out investment activities in order to meet specified goals for the benefit of investors.

Glide path: A gradual, step-by-step asset allocation based on a predetermined funded status target. The approach is designed to gradually shift assets out of return-seeking assets that rely on equity exposure into liability-hedging long duration fixed income assets. The movement from one asset allocation to the next is activated by a trigger – the funded status of the plan until the desired asset allocation is achieved.

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.

Hedging: Reducing the risk of an investment by making an offsetting investment.

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 or **liabilities:** 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.

This report, the audited financial statements and more information about the Plan are available at cpcpension.com.

Do you have suggestions for this report or other pension publications? Send us an email at pension.services@canadapost.ca.

Information

For DB members

Canada Post Pension Services
Questions about the Plan

1-877-480-9220
1-866-370-2725 (TTY)
613-683-5908 (outside North America)

Monday to Friday
8 am to 6 pm (ET)

cpcpension.com

PENSION CENTRE
PO BOX 2073
MISSISSAUGA ON L5B 3C6

RBC Investor Services Trust
Questions about pension payments

1-800-876-4498

Monday to Friday
8 am to 8 pm (ET)

BENEFIT PAYMENT SERVICES
1 PLACE VILLE MARIE
5TH FLOOR EAST WING
MONTRÉAL QC H3B 1Z3

For DC members

Canada Post AccessHR
Questions on eligibility, contributions, etc.

1-877-807-9090

Monday to Friday
8 am to 6 pm (ET)

cpcpension.com

Sun Life Customer Care Center
Questions about your investments and returns

1-866-733-8612

Monday to Friday
8 am to 8 pm (ET)

mysunlife.ca