CANADA POST
PENSION PLAN

REPORT TO MEMBERS

2018

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" 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

The Board of Directors have a duty to you and other active or retired employees who are counting on a pension benefit. To fulfill our duty, we follow leading governance principles and practices to ensure that the Canada Post Registered Pension Plan's administration and investments are done in your best interest.

Overall, 2018 was a stable year for the Plan. Investments generated a return of 0.9%, as a result of difficult market conditions in the fourth quarter (a combination of poor global stock markets and low bond market returns). In fact, most pension funds in Canada earned a negative rate of return in 2018.

On a going-concern basis, the Plan's defined benefit component is in a surplus position. It had an estimated $3.3 billion in surplus, and was funded at 115%. A going-concern basis assumes, for accounting purposes, that the business will continue its operations. It determines if there are enough assets in the Plan for pension benefits to be paid in the future for accumulated service to date. The surplus is a reassuring indicator that the Plan is well-managed.

The solvency calculation of a pension fund determines whether enough assets would be available to fully fund every member's pension if the fund wound up because the business stopped operating. Due to a solvency deficit to be funded of $5.7 billion, based on the December 31, 2018 estimated valuation, the defined benefit component is funded at 80.7% on a solvency basis. Over the last few years, federal regulations relieved us of the obligation to make special payments to reduce the solvency deficit. Going forward, we will continue to keep Plan members informed about the status of the Plan's health.

As one of Canada's largest single employer-sponsored pension plans, the Plan comes with huge responsibilities. On behalf of the entire Board, I thank the Board's Pension Committee and its Chair, Sharon Sparkes, and Douglas D. Greaves, Vice-President, Pension Fund and Chief Investment Officer, for their stewardship. We are also grateful to the Investment Advisory Committee and the Pension Advisory Council for their guidance.

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

Wayne Cheeseman
Chief Financial Officer

Ann Therese MacEachern
Chief Human Resources Officer

Last year was difficult for Canada Post, and unfortunately it ended with a financial loss. This outcome was primarily due to the costs associated with resolving pay equity for our rural and suburban mail carriers, as well as our difficult labour situation in the autumn. However, our Parcels business continued to grow, which confirms both Canada Post's continued relevance and the strength of our core strategy.

We will work hard at every level of the organization to recover in 2019, and address our strategic challenges. This is important to every Plan member, because the foundation of a strong plan is a strong sponsor – Canada Post. In 2018, Canada Post contributed $245 million in current service cost to the defined benefit component of the Plan, while employees contributed $233 million.

We compare the performance of the Plan's assets to industry benchmarks. In 2018, active management of the defined benefit component of the Plan added $706 million in value above the benchmark. Over the last 10 years, the Plan has grown $2.6 billion above the benchmark. This increase demonstrates how thoughtfully and successfully the Plan's assets are invested, and underscores the importance of our investment strategies to the overall health of the Plan.

The size and volatility of the Corporation's pension funding obligation are quite large compared to the Corporation's revenue and ability to generate a profit, which remains a concern.

As for the defined contribution (DC) component of the Plan, assets grew from $37.2 million to $46.4 million. If you have a defined contribution pension, we encourage you to refer to your personalized DC statement to learn about your personal rate of return.

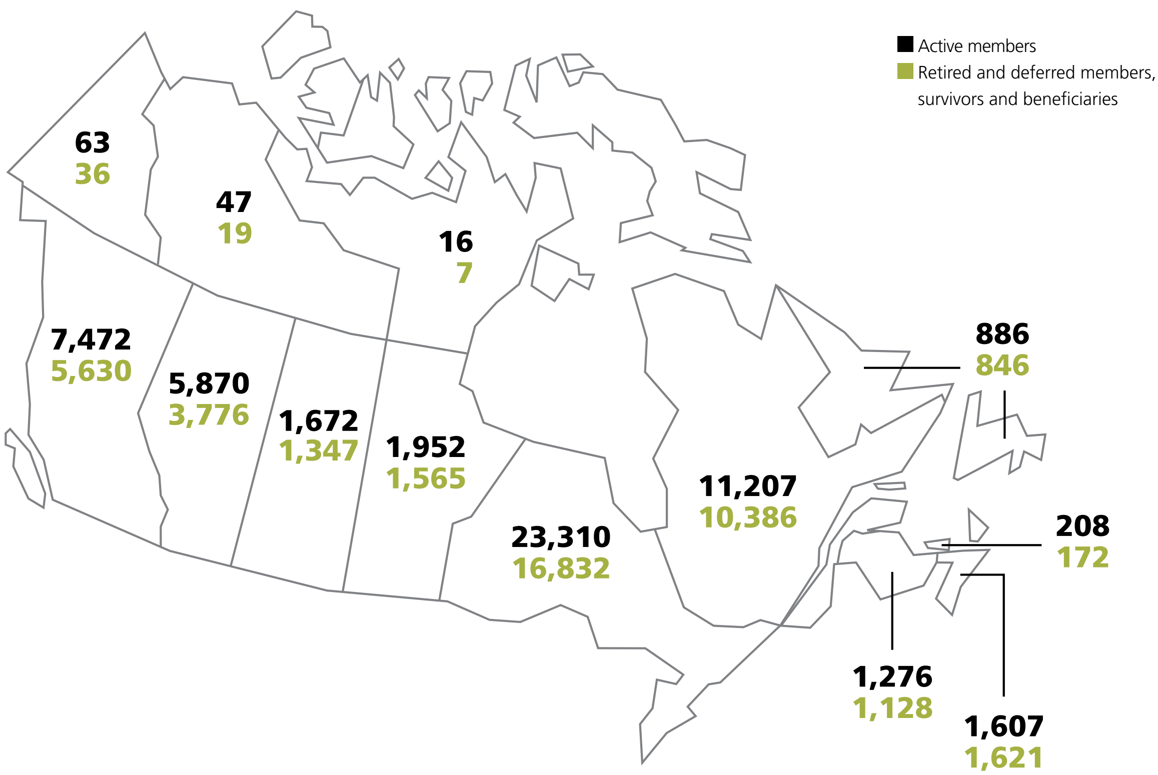
We thank all current employees for their service and all retired employees for their past service to Canadians.

Membership Snapshot

	2014	2015	2016	2017	2018[1]
Active members	54,147	53,238	53,263	53,606	55,586
Percentage	61.2%	59.1%	57.5%	56.3%	56.1%
Retired members	31,219	33,448	35,707	37,644	39,395
Percentage	35.3%	37.2%	38.6%	39.5%	39.8%
Deferred members, survivors and beneficiaries	3,051	3,353	3,603	3,953	4,094
Percentage	3.5%	3.7%	3.9%	4.2%	4.1%
Total	**88,417**	**90,039**	**92,573**	**95,203**	**99,075**

1. For 2018, the information includes 96,203 members of the defined benefit (DB) component and 2,872 members of the defined contribution (DC) component of the Plan (2,747 active and 125 deferred members in the DC).

Members across Canada – December 31, 2018



Age of active and retired members – December 31, 2018

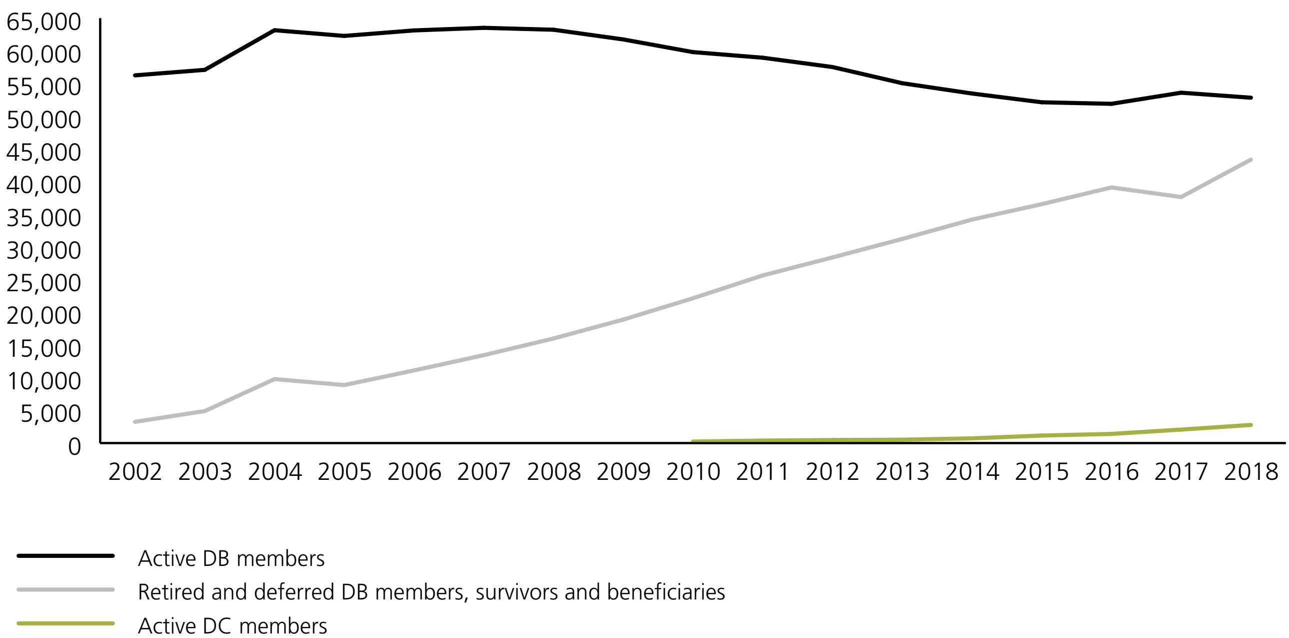
Age	Less than 30	30-39	40-49	50-59	60-69	70-79	More than 79
Active DB members	1,573	8,370	15,306	19,995	7,356	237	2
Active DC members	391	854	821	540	139	2	0
Retired DB members	1	22	169	4,276	23,331	10,882	714

Average age	2018	2017
Active DB members	49.6	49.7
Active DC members	41.6	40.0
DB members at retirement	61.0	60.6
Retired DB members	66.8	66.2

Did you know?

Over the next five years, 17,594 active DB members will reach 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 2018, Pension Services prepared almost 90,388 annual personalized pension statements for DB active members, retirees, deferred members and survivors. Sun Life Financial issued 3,626 statements for DC members.

cpcpension.com

cpcpension.com 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.

87,336 total visits	**cpcpension.com** visits 64,757 unique visitors were recorded in 2018, compared to 56,915 in 2017

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**. They can also find this information on the **my Sun Life mobile app**.

1,137	**mysunlife.ca** visits Top three sections viewed were account balances, transaction histories and asset allocation
200	Members used the mobile app, averaging five 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 completing transactions. The team provides services related to issues such as marriage breakdown, processing of retirements, terminations and deaths as well as new retirees' pension payments, processing of elective service purchases, updating of retirees' life insurance beneficiaries and collecting of employee contributions for leaves of absence. In addition, the RBC Investor Services Trust provides to retired members services related to the payment of their DB pension benefits.

47,246	Telephone calls from members to the Pension Centre
13,822	Telephone calls to members
4,106	Telephone calls from retirees to the RBC Investor Services Trust
45,675	Transactions completed for members by the Pension Centre
113,663	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**.

541	Telephone calls from members; top-three reasons for calls were account balance inquiries, termination/retirement, and transfers (in/out)
60	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 the seminars.

64	Pre-retirement seminars
2,619	Seminar participants
318	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**.

35	Webinars
222	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.

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, 2018

413	Completed the Retirement Planner tool
320	Completed the Asset Allocation tool
419	Completed the Re-balancing tool

Defined Benefit (DB) Component – Overview of 2018

DB assets

$24.6 billion

Net investment **assets** as at December 31, 2018

Rate of return in 2018

0.9%

Benchmark

-1.9%

Funded status estimated as at December 31, 2018

Solvency deficit to be funded[1]
(three-year average)

$5.7 billion

80.7% funded

Going-concern surplus

$3.3 billion

115% funded

Solvency deficit market value[1]
(wind-up basis)

$5.0 billion

83% funded

As a result of regulatory changes made in June 2017, Canada Post did not have to make additional special payments in 2018. For more information concerning funding relief, see page 27.

Contributions in 2018

Members

$233 million

Canada Post current service

$245 million

Canada Post special payments

$30 million

Benefits paid in 2018

$1,002 million

1. See page 26.

Calls from members to Pension Centre

47,246

Members' satisfaction score

4.3/5.0

Unique visitors at cpcpension.com

64,757

Defined Contribution (DC) Component – Overview of 2018

DC assets $46.4 million

VSP assets $10.0 million

Total assets $56.4 million

Net investment assets as at December 31, 2018

Range of rates of return in 2018

-9.2% -1.5%* 3.8%

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

*The numbers shown above represent the range of the 2018 returns of all the funds available in the DC component, from the lowest to the highest, with -1.5% being the average. See page 20 for the list of the DC funds investments rates of return.

As at December 31	2018	2017
Active members	2,747	2,028
Deferred members	125	184
DC assets	$46.4M	$37.2M
Canada Post contributions	$9.4M	$7.0M
Members' contributions	$5.6M	$4.1M
Investment income	($600K)	$2.8M
Withdrawals and expenses	($5.2M)	($2.9M)
Average contribution (% of pay)		
Canada Post	6.2%	6.2%
Members	3.8%	3.8%
Voluntary Savings Plan (VSP)		
Assets	$10M	$4.2M
Member contributions	$2.4M	$1.5M
VSP member average contribution (% of pay)	3.5%	3.8%
VSP members	611	418

Calls from members to the Sun Life Customer Care Centre

541

Members' satisfaction score

97%

Unique visitors at mysunlife.ca

1,137

Want to know how your investments did in 2018?

Refer to your Sun Life personalized statement dated December 31, 2018, 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 the 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, 2018

Board of Directors

Jessica L. McDonald ICD.D (Chair) ★ ▲ ●
Lloyd Bryant ★ ▲
Bernd Christmas ★ ▲
Michèle Desjardins ●
Mélanie Dunn ●
Claude Germain ★ ▲
Suromitra Sanatani ●
Alain Sans Cartier ●
Jim Sinclair ●
Sharon Sparkes CPA, CA, MBA, ICD.D ★ ▲

★ 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

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
Sharon Sparkes CPA, CA, MBA, ICD.D

Union 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)
Chantal Séguin Flamand BBA, PPAC (management and exempt employees)
Peter Whitaker (retired members)

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

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

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 Policy 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 2018, we communicated with members by producing the 2017 Report to Members, personalized pension statements for active members and retired DB members, and the *Pension Plan News* and *Intouch* newsletters. 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 2018, the Communications and Consultation Group (C&C Group) had one official meeting 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	Investment policy	Benefits policy
(contributions from employer and employees)	(return enhancement and/or risk reduction strategies and risk transfer strategies such as longevity insurance and buying annuities)	(level and type of pension 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 has undertaken an asset-liability review that will 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.

Benefits policy and 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.

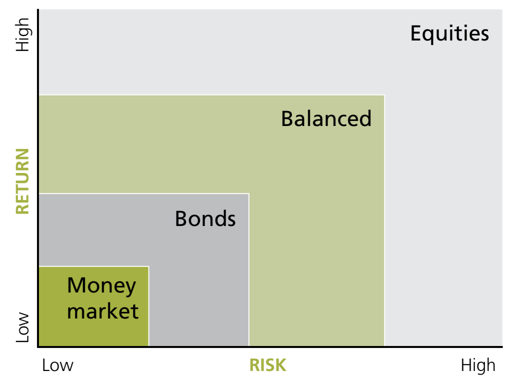
Different funds and investment approaches may be appropriate for different points in a member's career, since the options range from low risk/return to higher risk/return. Members of the DC Plan have access to Sun Life Financial's website, **mysunlife.ca**, which has tools and information to build their 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 2019

Governance activities: Canada Post will implement recommendations from a 2018 governance activities review for the CAP, which is composed of the DC component of the Pension Plan and the Voluntary Savings Plan.

Governance structure: Canada Post will review recommended strategies to strengthen plan governance for the CAP.

Investment structure and fund evaluation: Canada Post will continue to review the investment structure of the CAP, 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 a strong value-added investment performance by the Canada Post Corporation Registered Pension Plan.

Net investment assets of the Plan totalled $24.6 billion at December 31, 2018, compared to $24.9 billion the previous year. The Plan delivered a return of 0.9% for 2018, which exceeded its benchmark return by 2.8%.

In the midterm, the Plan's four-year average annual return was 6.6%, outperforming its benchmark by 2.0%. In the long term, the Plan's record of outperformance has continued. Over 10 years, the Plan's average annual return was 9.0%, meaning the Plan outperformed both its benchmark of 7.7% and the Plan's return objective over time of 6.5%. The Plan's evolving investment strategy contributed to this investment success. By actively managing our portfolio, we have added $706 million in value above the Plan's benchmark return in 2018. The value added above the benchmark return was $2,574 million over the last 10 years.

In 2018, private equity, infrastructure, real estate, U.S. equities and Canadian fixed income all had positive returns. 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 and third steps were taken in 2017 and 2018. 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 regular review of the strategy began in 2018.

Here are some activities that affected the Plan's net investment assets in 2018:
As a result of difficult market conditions in the fourth quarter of 2018 and overall volatile markets, the Plan recorded a fourth quarter loss on investments of 2.9%. However, strong gains by the alternative asset classes, private equity, infrastructure and real estate (of 25.1%, 19.4% and 13.9% respectively) allowed the Plan to earn a positive return and add value above its benchmark return in a year of volatile markets.
Some of the market gains made during the first half of the year by Canadian, U.S. and international equities were harvested to fund the increased allocation to long bonds and inflation-linked bonds.
As part of the third step 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.
Managing assets internally reduces costs and increases flexibility.

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. Subsequent steps were taken in 2017 and 2018. This has led to a better match of assets to liabilities. Additional investments in alternative investment holdings continue to be made gradually to reduce the volatility of returns. The long bond, inflation-linked bond and alternative assets allocations have been increased, while universe bonds and equity allocations have been reduced. As anticipated, the adoption of the strategy has reduced 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 fulfill the promise to Plan members of providing pension benefits at a reasonable cost.

In the long term, the Plan's record of outperformance has continued. Over 10 years, the Plan's average annual return was 9.0%, meaning the Plan outperformed both its benchmark of 7.7% and the Plan's return objective over time of 6.5%. 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 and ranges were adjusted with the implementation of each step in the strategy's glide path. The third step had asset mix targets of 56% in equities, real estate and infrastructure and 44% 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, 2018, was 58.7% in equities, real estate and infrastructure, and 41.3% in fixed income. The positive returns in 2018 were partly attributable to the fund's above-target allocation to alternative assets and sizeable allocation to nominal Canadian fixed income assets.

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 in the first three quarters of the year. These gains were re-allocated to long bonds, inflation-linked bonds, real estate, infrastructure and private equity. 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 2018 the world's economies experienced positive though slowing growth. Central banks were gradually unwinding the accommodative monetary policies in place since the financial crises of the past decade. Economic and corporate profit growth were strong, though downside risks rose. Inflation grew modestly. The impact of rising trade protectionism, which slows global growth and reduces demand for exports, was felt across the globe in the second half of 2018. International trade moderated, the price of oil rose then fell and the U.S. dollar rose modestly. The effects of government stimulus, including tax cuts, faded. Volatility returned in 2018 after being absent in the previous year, driven by the repricing of assets as the U.S. Federal Reserve Bank raised its key interest rate four times and by the accompanying expectation of lower corporate earnings in the future.

Economic growth in the United States came from robust private consumption, tax cuts and fiscal spending increases. A strong labour market boosted consumer sentiment and led to the lowest unemployment rate since the 1960s. Inflation growth was modest and lower than anticipated. Corporate earnings growth was substantial in 2018 due to corporate tax cuts, low interest rates, low labour costs and fiscal stimulus, and it is expected to decrease in 2019 as these effects fade and trade tensions rise. As a result, the markets repriced assets in the fourth quarter. The U.S. central bank continued on its path of interest rate normalization through tightening credit with four increases to its key interest rate in 2018 and the gradual reduction of its balance sheet by not reinvesting in maturing bonds. Early in 2019 the U.S. Federal Reserve Chair, Jerome Powell, eased market concerns about federal overtightening after he indicated the central bank would monitor the effects of interest rates and tighter financial conditions and that further rate hikes were not predetermined.

Eurozone **gross domestic product (GDP)** grew at its slowest rate since 2014. Lower sentiment due to global trade tensions dampened business investment, while rising inflation weighed on household spending. Exports contracted, reflecting lower global trade flows and geopolitical uncertainty. The European Central Bank stopped its bond buying program, but it will continue to reinvest the proceeds from maturing bonds. No interest rate increases are planned until after the summer of 2019.

Growth continued to be slow in the U.K. The lowest unemployment rate in decades and above target inflation were balanced against sluggish income growth, which constrained private consumption. Business investment was lower than expected due to the ongoing economic and political uncertainty around Britain's exit from the European Union and the lower pound sterling. The Bank of England raised interest rates once in 2018 and another single raise in 2019 is anticipated.

Japan experienced moderate economic expansion as high corporate confidence and a tight labour market drove business investment. Job creation and stronger wage gains underpinned healthy consumer demand. Sustained growth combined with higher oil prices is expected to boost inflation. Monetary policy will remain expansionary until the Bank of Japan's 2% inflation target is reached.

China's GDP slowed as expected as the government crackdown on riskier lending pushed up borrowing costs and slowed credit growth. The trade dispute with the United States weighed on business and consumer spending and exports were affected by U.S. tariffs. China has since rolled out stimulus measures. Rising U.S. interest rates, a strengthening U.S. dollar and international trade tensions had an impact on emerging markets. The countries that maintained fiscal discipline and prudent monetary policy were able to weather the challenging environment. Going forward some regions are expected to see economic activity pick up as the U.S. dollar weakens and oil prices stabilize.

Canada had strong GDP growth, though at a slightly lower rate than the prior strong year. Unemployment remained low which boosted consumer demand. Inflation edged up. An oil price slump and higher interest rates were headwinds. The Bank of Canada raised interest rates three times. The Canadian dollar depreciated relative to the U.S. dollar and is expected to remain at these lower levels, which will benefit exports. Uncertainty surrounding trade with our largest trading partner subsided when the Canada-United States-Mexico Agreement (CUSMA) was signed in late 2018. All three countries must ratify it before it takes effect.

Trade and geopolitical tensions, higher U.S. interest rates, a stronger U.S. dollar and lower demand from China weighed on industrial commodities in 2018. Going forward, low inventories, a weaker U.S. dollar and stimulus from China would boost demand. Increased oil production from OPEC ahead of delayed sanctions on Iran and surprisingly strong U.S. production led to an oversupplied global oil market and lower oil prices. Oil supply cuts from OPEC, Russia and Canada will help balance the market.

Overall, non-public assets such as real estate, private equity and infrastructures performed the best in 2018. In public markets, U.S. equities and Canadian universe bonds were the best performers. U.S. Treasury bond **yields** increased steadily on the expectation of further interest rate increases before dropping in late 2018. The yield curve has continued to flatten because the U.S. Federal Reserve has been raising short-term interest rates. The market anticipates slower growth and low inflation in the future due to tighter monetary policy (higher interest rates) and a demand slowdown due to trade tensions.

Fund performance

The Plan earned a rate of return of 0.9% in 2018, compared to its benchmark return of -1.9%.

In the midterm, the four-year average annual return was 6.6%, and in the long term, the 10-year average annual return was 9.0%. This compares favourably with the fund's portfolio benchmarks of 4.6% and 7.7% for the same periods. The Plan's evolving investment strategy contributed to this investment success.

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

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

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.

Outlook for 2019

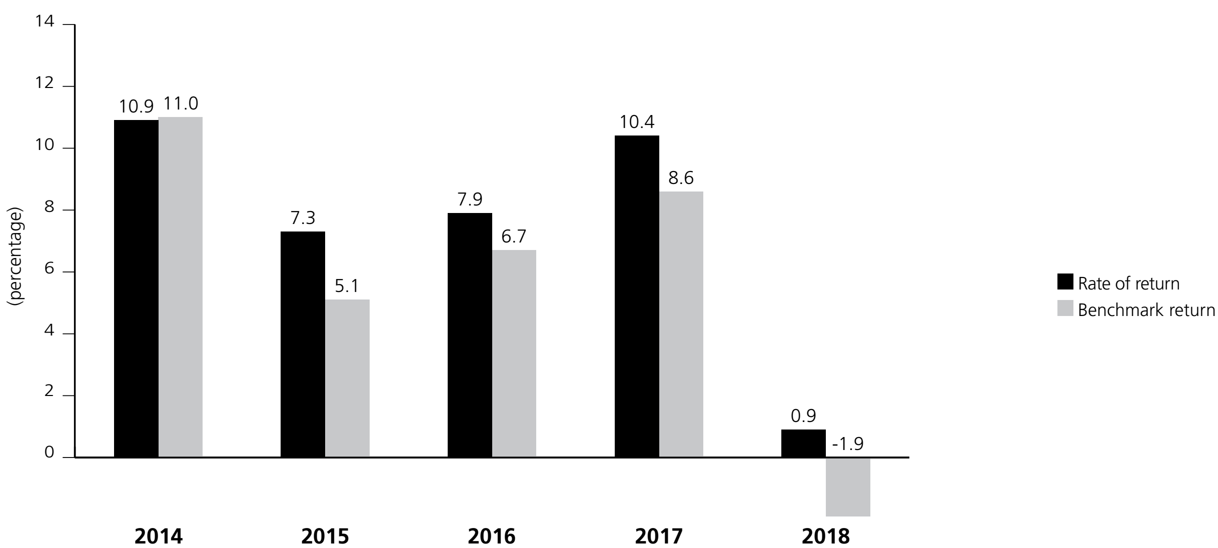
Funded status volatility, the movement of investment returns and pension obligations will continue to be monitored closely. The asset-liability study and glide path are to be updated every three years or when a funded ratio of 90% is reached. A review of the asset-liability study began in 2018.

Investments in alternative assets will continue to grow. 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 and U.S. real estate.

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

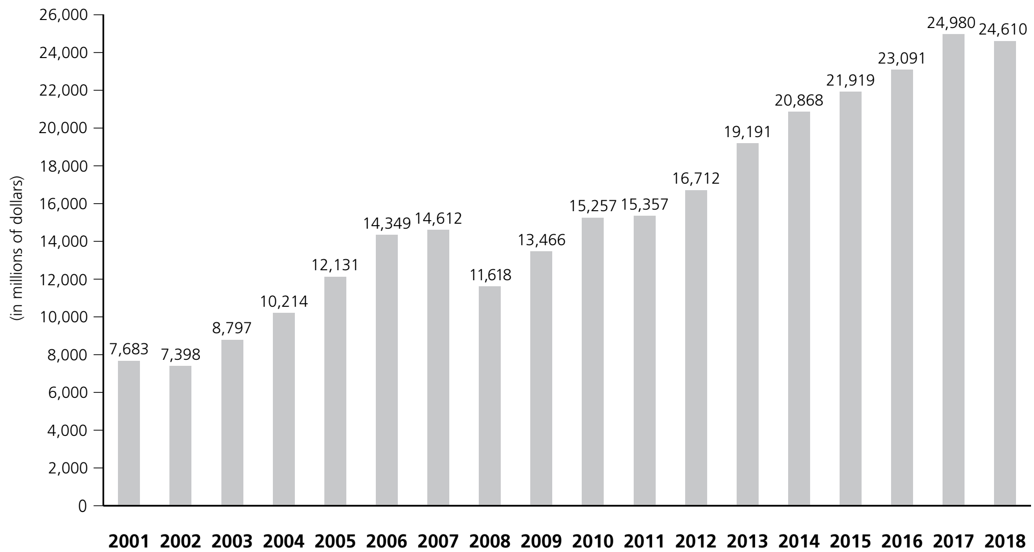


Rate of return

	Over the last 10 years	Over the last 5 years	In 2018
Our Plan	9.0%	7.4%	**0.9%**
Our benchmark	7.7%	5.8%	**-1.9%**
Peer group benchmark[1]	8.9%	7.2%	**-0.1%**
Rate of return objective over time		6.5%	

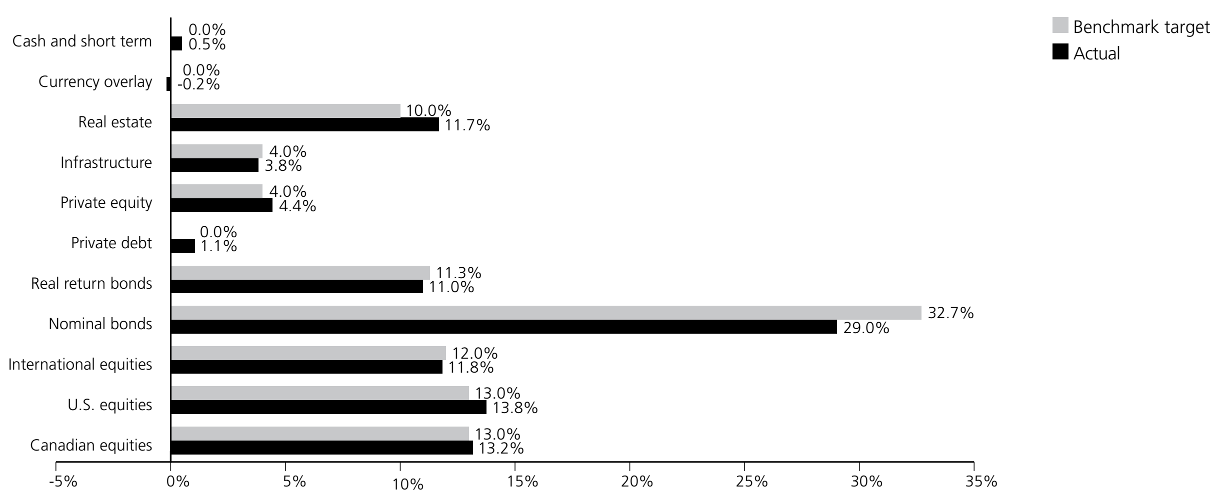
1. RBC Investor & Treasury Services based on the performance of large Canadian pension plans (more than $1 billion).

Net investment assets



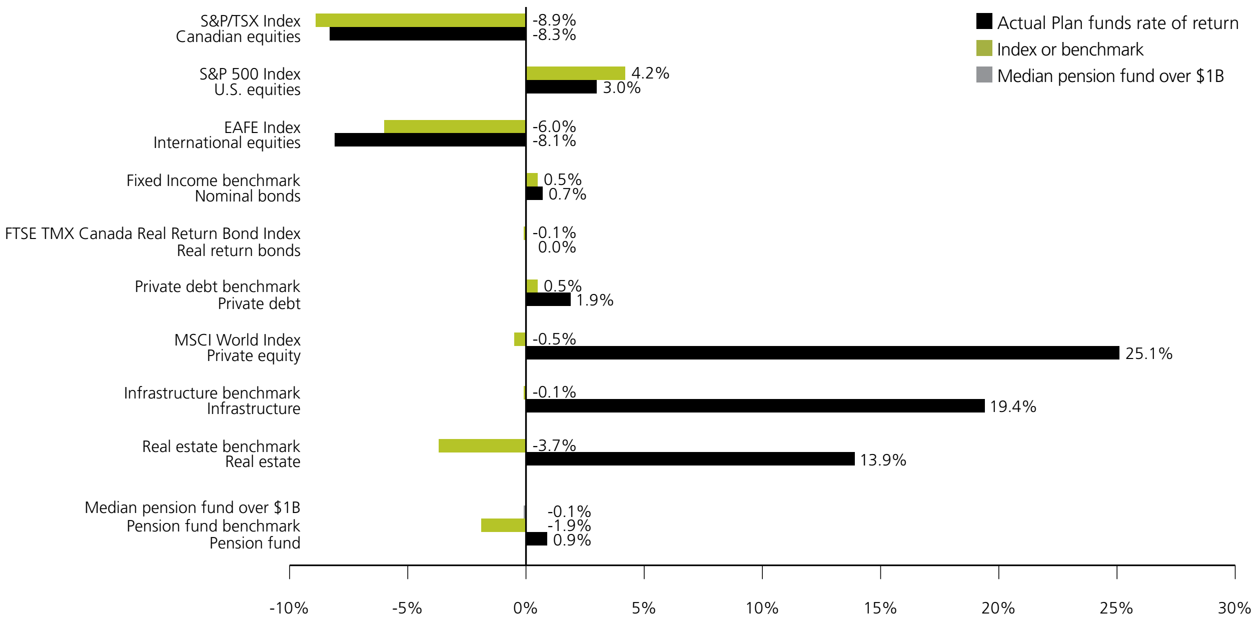
Net investment assets are defined as investments plus investment-related receivables, minus investment-related liabilities.

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 fixed income benchmark is 30.2% FTSE TMX Canada Universe Bond Index, 44.1% FTSE TMX Long Bond Index and 25.7% FTSE TMW Canada Real Return Bond Index. 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

CEM Benchmarking Survey		
Per $100 of average assets		
	2016	**2017**
Plan	$0.36	$0.39
Peer group	$0.41	$0.50
Benchmark	$0.42	$0.45
The Plan's investment costs were $14.7 million below benchmark costs.		

Equity holdings greater than 0.25% of Plan assets

As at December 31, 2018 (in millions of dollars)

	Market value	Percentage of overall fund
Toronto Dominion Bank	$ 189.4	0.77%
Royal Bank of Canada	173.9	0.71
Bank of Nova Scotia	127.4	0.52
Microsoft Corp.	94.7	0.38
Bank of Montreal	88.3	0.36
Alphabet Inc.	85.1	0.35
Enbridge Inc.	83.4	0.34
Canadian National Railway Co.	79.9	0.32
BCE Inc.	78.3	0.32
Apple Inc.	74.7	0.30
Amazon.com Inc.	71.1	0.29
Suncor Energy Inc.	70.7	0.29
Telus Corp.	70.3	0.29
Canadian Imperial Bank of Commerce	69.3	0.28
Rogers Communications Inc. Class B	69.1	0.28
Thomson Reuters Corp.	68.4	0.28
Manulife Financial Corp.	68.4	0.28
Canadian Natural Resources Ltd.	68.0	0.28
	$1,630.3	**6.62%**

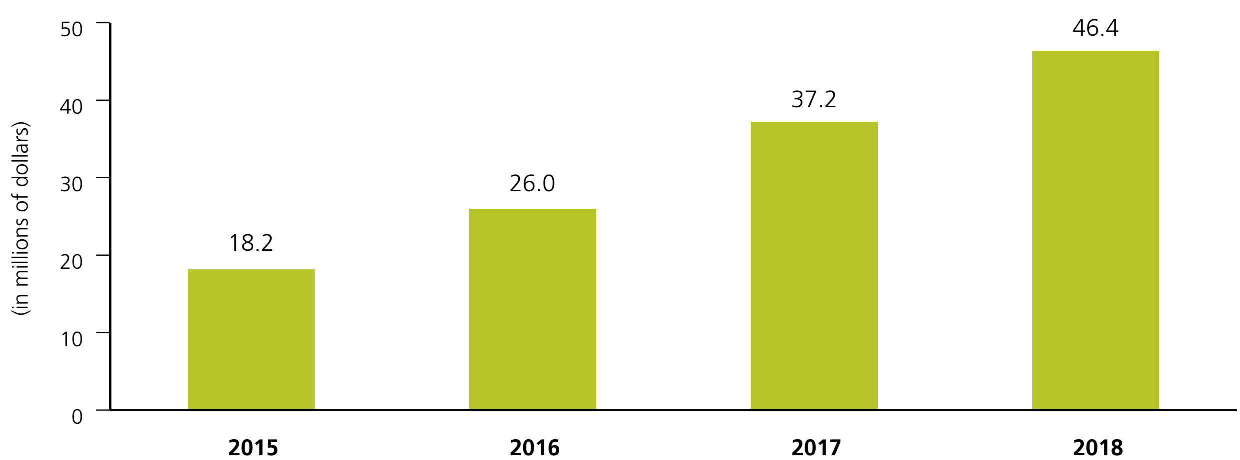
Our Investments – DC Component

Rates of return

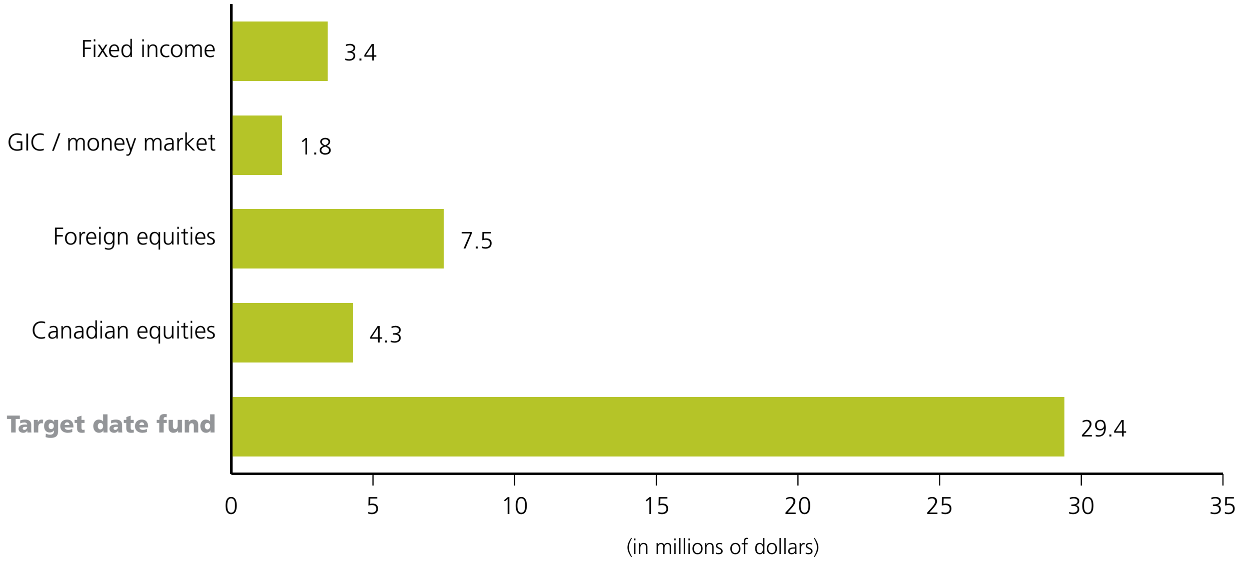
As at December 31, 2018

Fund	1 year	5 years	10 years
BlackRock LifePath® Index 2020	-0.3%	6.0%	7.8%
BlackRock LifePath® Index 2025	-0.6%	6.5%	8.3%
BlackRock LifePath® Index 2030	-0.9%	6.8%	8.6%
BlackRock LifePath® Index 2035	-1.2%	7.2%	9.0%
BlackRock LifePath® Index 2040	-1.4%	7.6%	9.3%
BlackRock LifePath® Index 2045	-1.6%	8.0%	9.7%
BlackRock LifePath® Index 2050	-1.6%	8.2%	N/A
BlackRock LifePath® Index 2055	-1.6%	N/A	N/A
BlackRock LifePath® Index Retirement	-0.3%	4.7%	6.3%
BlackRock U.S. Equity Index	3.8%	13.7%	14.2%
CC&L Group Canadian Equity	-9.2%	4.6%	9.3%
MFS Global Equity	-0.9%	10.4%	12.4%
MFS International Equity	-2.1%	7.6%	9.2%
Sun Life Financial Money Market	1.5%	0.9%	0.9%
TDAM Canadian Bond Index	1.4%	3.5%	4.0%
TDAM Canadian Equity Index	-8.8%	4.0%	7.8%

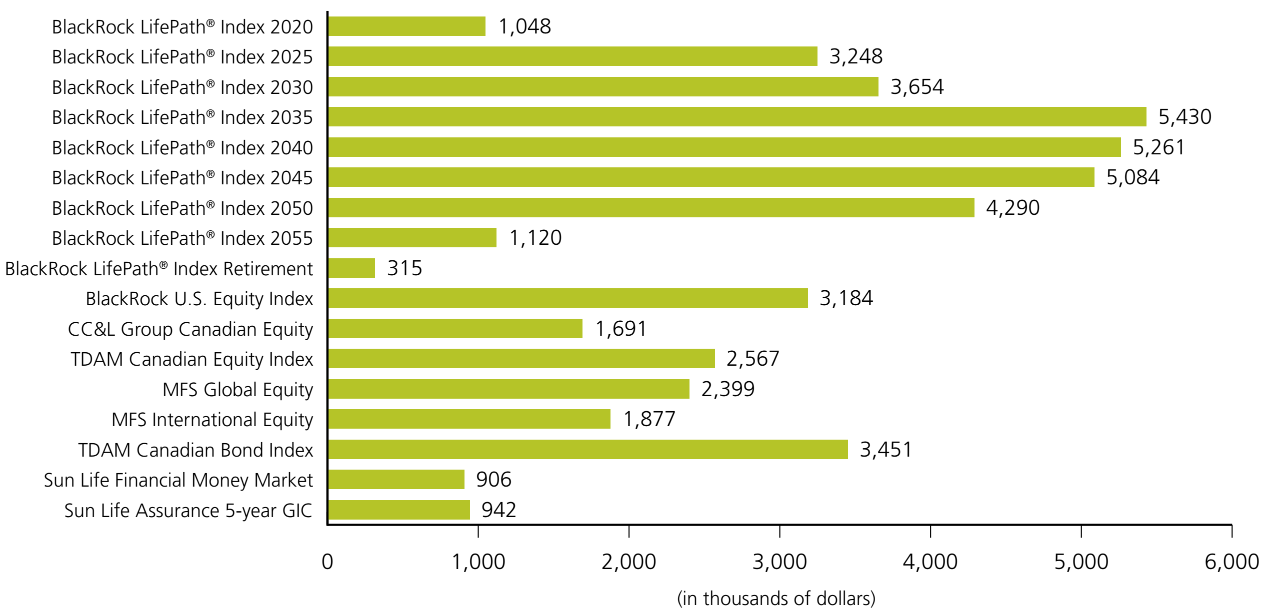
Investment assets



Asset mix



Detailed asset mix



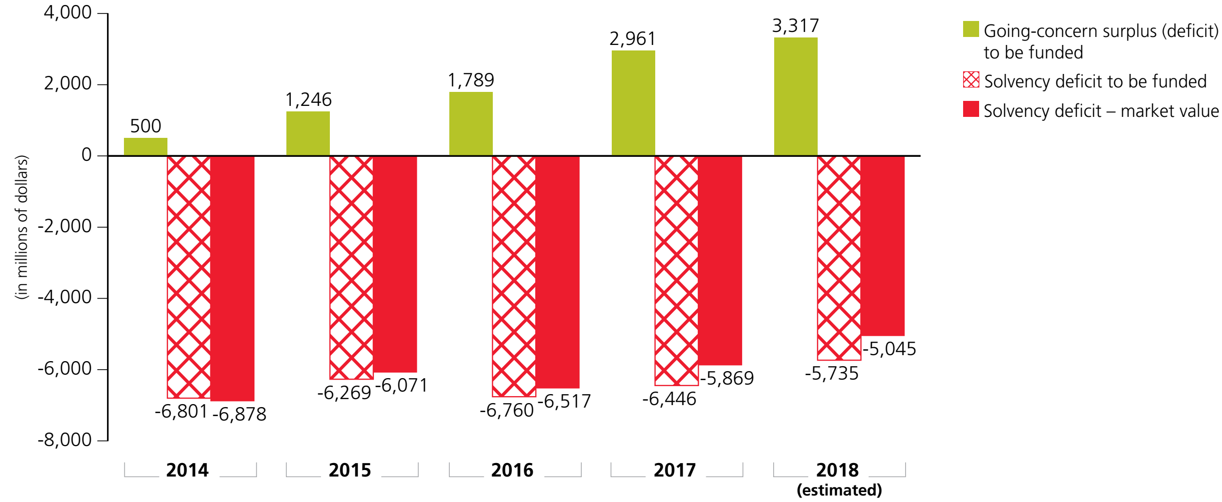
Fund management fees

Fund	Annualized percentage
BlackRock LifePath® Index 2020	0.30%
BlackRock LifePath® Index 2025	0.36%
BlackRock LifePath® Index 2030	0.41%
BlackRock LifePath® Index 2035	0.46%
BlackRock LifePath® Index 2040	0.46%
BlackRock LifePath® Index 2045	0.46%
BlackRock LifePath® Index 2050	0.47%
BlackRock LifePath® Index 2055	0.49%
BlackRock LifePath® Index 2060	0.47%
BlackRock LifePath® Index Retirement	0.30%
BlackRock U.S. Equity Index	0.19%
CC&L Group Canadian Equity	0.35%
MFS Global Equity	0.59%
MFS International Equity	0.61%
Sun Life Financial Money Market	0.19%
TDAM Canadian Bond Index	0.19%
TDAM Canadian Equity Index	0.20%

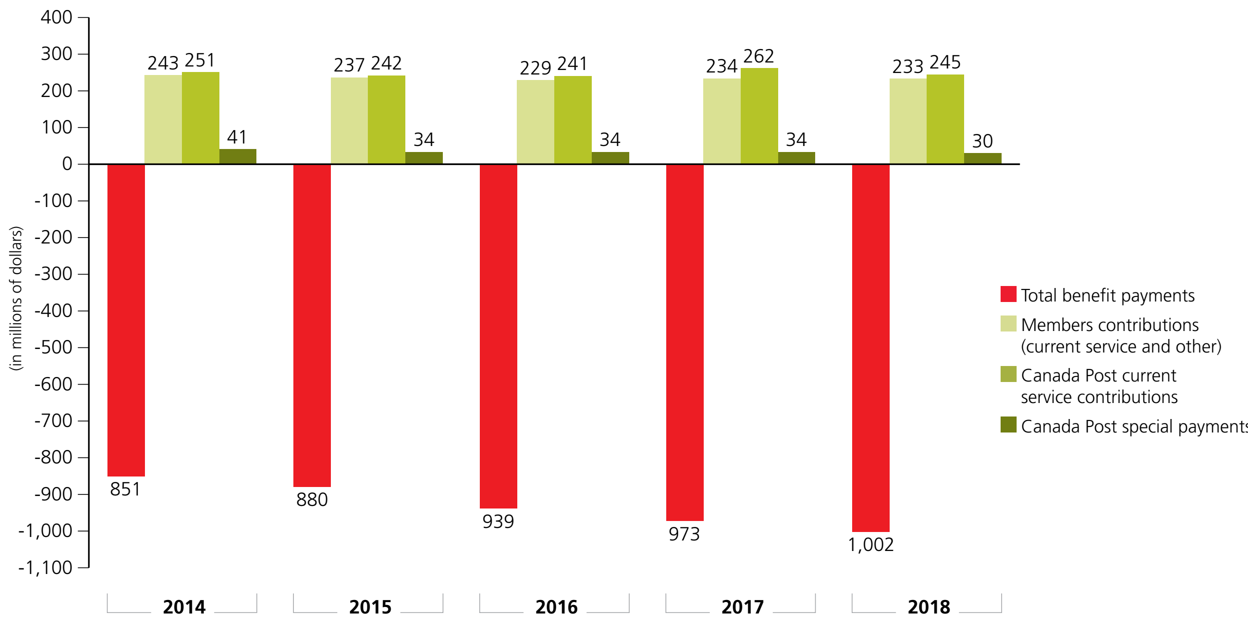
The **fund management fees** listed cover the costs of operations and investment expertise. They are also subject to applicable sales tax, which is not included in the amounts listed above.

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 0.9% return in 2018. The Plan ended the year with net assets available for benefits of $24,715 million (including $46 million in the DC component), a decrease of $367 million from $25,082 million (including $37 million in the DC component) at the end of 2017.

Changes in net assets available for benefits

The $367 million decrease in net assets available for benefits represented investment income of $243 million and contributions of $523 million, offset by pension benefit payments of $1,007 million and expenses of $126 million.

Investment income – comprising interest, dividend, as well as realized and unrealized gains and losses – was $243 million for 2018, compared to $2,439 million for 2017.

Plan contributions in 2018 were $523 million compared to $542 million in 2017, a decrease of $19 million.

Pension benefit payments for 2018 were $1,007 million compared to $976 million in 2017, an increase of $31 million. This was mostly the result of a 4.44% increase in the number of retirees over 2017.

Changes in pension obligations

Pension obligations were $21,574 million (including $46 million in the DC component) compared to $20,827 million (including $37 million in the DC component) in 2017, an increase of $747 million.

The increase was mainly due to interest accrued on the pension obligations, new benefits accrued and changes in **actuarial assumptions** partially offset by benefits paid and experience gains.

(in millions of dollars)	2018			2017		
Accounting basis	DB	DC	Total	DB	DC	Total
Net assets	24,669	46	24,715	25,045	37	25,082
Pension obligations	21,528	46	21,574	20,790	37	20,827

Surplus (deficit)

The difference between assets available for benefit and pension obligations as at December 31, 2018, resulted in a surplus of $3,141 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 $3,317 million. The difference between the accounting surplus of $3,141 million and the estimated going-concern surplus of $3,317 million was an **actuarial asset value adjustment** (or **smoothing**) of $176 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)	2018	2017	2016	2015	2014
Assets					
Investments	$24,662	$24,910	$23,075	$21,884	$20,824
Investment related receivables	149	255	160	196	212
Contribution / other receivables	103	112	112	110	112
Total assets	**24,914**	**25,277**	**23,347**	**22,190**	**21,148**
Liabilities					
Investment related liabilities	152	148	118	143	155
Accounts payable and accrued liabilities	47	47	37	42	48
Total liabilities	**199**	**195**	**155**	**185**	**203**
Net assets available for benefits	**$24,715**	**$25,082**	**$23,192**	**$22,005**	**$20,945**
Pension obligations and surplus					
Pension obligations	$21,574	$20,827	$20,301	$19,234	$18,632
Surplus	3,141	4,255	2,891	2,771	2,313
Total pension obligations and surplus	**$24,715**	**$25,082**	**$23,192**	**$22,005**	**$20,945**

Changes in net assets available for benefits (in millions of dollars)	2018	2017	2016	2015	2014
Investment income	**$243**	**$2,439**	**$1,721**	**$1,522**	**$2,083**
Contributions – Sponsor					
Current service	254	269	246	246	254
Special payments	30	34	34	34	41
Contributions – Members					
Current service	234	234	226	229	240
Elective service and other	5	5	6	10	5
Total contributions	**523**	**542**	**512**	**519**	**540**
Less					
Benefits					
Retirement and survivor pensions	928	887	847	800	747
Commuted value transfers and other	79	89	94	82	105
Total benefits	**1,007**	**976**	**941**	**882**	**852**
Administration expenses					
Plan administration	25	23	21	21	19
Investment fees	101	92	84	78	77
Total administration expenses	**126**	**115**	**105**	**99**	**96**
Increase in net assets	**$(367)**	**$1,890**	**$1,187**	**$1,060**	**$1,675**

Changes in pension obligations (in millions of dollars)	2018	2017	2016	2015	2014
Interest on pension obligations	$1,128	$1,101	$1,100	$1,067	$1,035
Benefits accrued	502	511	474	466	494
Changes in actuarial assumptions	129	(4)	532	49	(70)
Net experience losses (gains)	(5)	(106)	(98)	(98)	(14)
Benefits paid	(1,007)	(976)	(941)	(882)	(852)
Net increase (decrease) in pension obligations	**$747**	**$526**	**$1,067**	**$602**	**$593**

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 2018 and provided results as at December 31, 2017.

Actuarial valuation results – Going concern

Going-concern funded status of the Plan as at December 31				
	2018 estimated		2017 actual	
	in millions of dollars	funded ratio	in millions of dollars	funded ratio
Going-concern assets (smoothed value)	24,845		23,723	
Going-concern obligations	21,528		20,762	
Going-concern surplus	3,317	115.4%	2,961	114.3%

The financial position of the Plan saw improvements in 2018, mainly due to recognition of investment gains from previous years in the smoothed value of assets partially offset by lower return than expected on assets.

Actuarial valuation results – Solvency

Solvency funded status of the Plan as at December 31				
	2018 estimated		2017 actual	
	in millions of dollars	funded ratio	in millions of dollars	funded ratio
Solvency assets (market value)	24,629		25,005	
Solvency obligations	29,674		30,874	
Solvency deficit (based on market value of Plan assets)	(5,045)	83.0%	(5,869)	81.0%
Solvency deficit to be funded (using three-year **average solvency ratio** method)	(5,735)	80.7%	(6,446)	79.1%

The solvency deficit using the market value of Plan assets decreased from $5,869 million at the end of 2017 to an estimated $5,045 million at the end of 2018. The decrease was mainly due an increase in the annuity discount rate from 0.9% to 1.3% partially offset by a lower return than expected on assets.

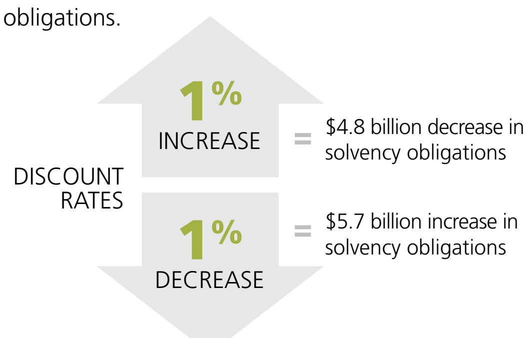
The average solvency ratio over the three-year period used for the valuation increased in 2018, going from 79.1% to 80.7%. This resulted in the solvency deficit to be funded, decreasing from $6,446 million at the end of 2017 to an estimated $5,735 million at the end of 2018.

If the Plan had been terminated and wound up on December 31, 2017, 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)	2018	2019[1]
Members	233	259
Canada Post regular contributions	245	264
Canada Post special payments[2]	30	30
Total contributions	**508**	**553**

Current service cost sharing[3] (regular contributions)	2018	2019[1]
Members	48%	49.5%
Canada Post	52%	50.5%

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

The special payments made by Canada Post in 2018 and estimated to be made in 2019 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 preceding 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. This relief measure was used in 2018. Special payments are expected to resume at the end of this relief. See page 29 to know more.

Relief (in millions of dollars)	2012	2013	2014	2015	2016	2017	2018
Solvency relief under the *Pension Benefits Standards Act, 1985*	898	1,179	–	–	–	–	1,289
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 $1,319 million in 2018 (including $30 million in top-up payments). This would have brought total contributions from Canada Post to $1,563 million in 2018, or 58% 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 2018 funding valuation will be filed by June 2019.

	Estimated	Filed funding valuations[1]									
As at December 31 (in millions of dollars)	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2007**
Going concern – assuming the Plan continued in operation											
Market value of assets	$ 24,669	$ 25,045	$ 23,166	$ 21,987	$ 20,932	$ 19,262	$ 16,775	$ 15,431	$ 15,376	$ 13,576	$ 14,666
Asset smoothing adjustment	176	(1,322)	(1,124)	(1,541)	(1,832)	(1,527)	(352)	716	488	1,357	(266)
Smoothed value of assets	24,845	23,723	22,042	20,446	19,100	17,735	16,423	16,147	15,864	14,933	14,400
Funding target	21,528	20,762	20,253	19,200	18,600	18,031	16,342	16,551	16,039	14,365	13,143
Funding surplus (deficit)	$ 3,317	$ 2,961	$ 1,789	$ 1,246	$ 500	$ (296)	$ 81	$ (404)	$ (175)	$ 568	$ 1,257
Funded ratio	115.4%	114.3%	108.8%	106.5%	102.7%	98.4%	100.5%	97.6%	98.9%	104.0%	109.6%
Assumptions used for going-concern valuations											
Discount rate	5.50%	5.50%	5.50%	5.80%	5.80%	5.80%	5.80%	5.80%	5.80%	6.20%	6.00%
Inflation rate	2.00%	2.00%	2.00%	2.25%	2.25%	2.25%	2.25%	2.50%	2.50%	2.50%	2.50%
Real return rate (net of inflation)	3.50%	3.50%	3.50%	3.55%	3.55%	3.55%	3.55%	3.30%	3.30%	3.70%	3.50%
Solvency – assuming the Plan was terminated on the date of valuation											
Market value of assets (net of termination fees)	$ 24,629	$ 25,005	$ 23,146	$ 21,967	$ 20,912	$ 19,250	$ 16,763	$ 15,419	$ 15,364	$ 13,573	$ 14,664
Solvency obligations	29,674	30,874	29,663	28,038	27,790	24,266	23,279	22,014	19,056	16,777	14,215
Solvency – market value											
Surplus (deficit)	$ (5,045)	$ (5,869)	$ (6,517)	$ (6,071)	$ (6,878)	$ (5,016)	$ (6,516)	$ (6,595)	$ (3,692)	$ (3,204)	$ 449
Solvency ratio	83.0%	81.0%	78.0%	78.3%	75.3%	79.3%	72.0%	70.0%	80.6%	80.9%	103.2%
Solvency – to be funded											
Surplus (deficit)	$ (5,735)	$ (6,446)	$ (6,760)	$ (6,269)	$ (6,801)	$ (6,345)	$ (5,890)	$ (4,689)	$ (3,204)	$ (1,847)	$ 449
Solvency ratio	80.7%	79.1%	77.2%	77.6%	75.5%	73.9%	74.7%	78.7%	83.2%	89.0%	103.2%
Assumptions used for solvency valuations											
Discount rate (real return rates, net of inflation)											
For commuted values											
Rate for first 10 years	1.70%	1.40%	1.10%	1.30%	1.30%	1.70%	1.10%	1.30%	1.70%	2.10%	2.50%
Rate after 10 years	1.80%	1.60%	1.30%	1.80%	1.60%	2.30%	1.30%	1.60%	2.30%	2.70%	2.50%
For annuities	1.30%	0.90%	1.10%	1.20%	1.10%	1.80%	1.50%	1.60%	2.20%	2.70%	3.00%

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 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 Public Services and Procurement and Accessibility. The measures help pension plan sponsors meet their funding obligations with less sensitivity to short-term economic conditions.

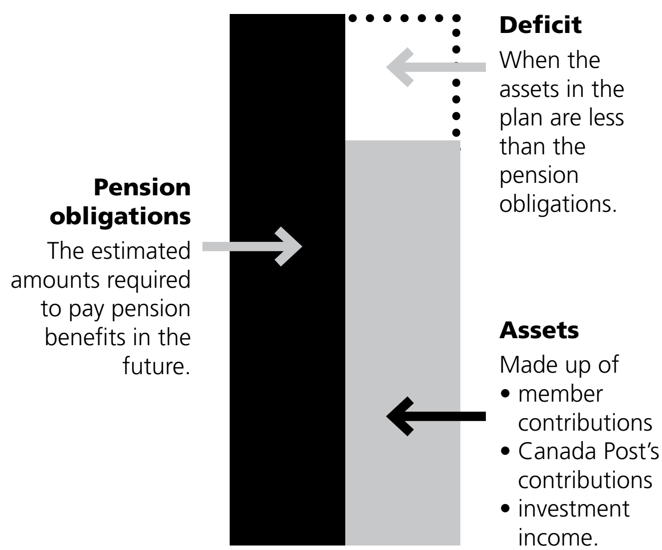
Funding relief does not reduce or eliminate Canada Post's obligation to fully fund the Plan and it remains responsible for funding any deficits.

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 benefit 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 benefit 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, private equity, 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 plan (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 fee: 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 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

DB members

Canada Post Pension Centre
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

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)

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The 2018 Report to Members (36 pages) is published online only, and its summary (12 pages) is printed on 14,833 lb of recycled paper Rolland 100. In comparison, the 2017 Report to Members (32 pages; no summary) was printed on 31,503 lb of recycled paper Rolland Opaque 30%. By printing only the summary of the 2018 Report to Members, its environmental footprint is much smaller than the footprint of the 2017 Report to Members: we saved 178 trees and reduced forest disturbance on 2.8 acres.