Canada Post Pension Plan
2019 Report to Members

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

On behalf of the Board of Directors, I am pleased to share with you the Canada Post Pension Plan 2019 Report to Members. The Board has a duty to act in your best interest as members of the Canada Post Corporation Registered Pension Plan. To fulfill our duty, we follow leading governance principles and practices.

While it is a Crown corporation, Canada Post holds itself to the increasing expectations in both the private and public sectors in Canada around corporate responsibility. To this end, the Board has been overseeing a shift toward an environmental, social and governance (ESG) approach. Our intention is to adopt ESG principles in setting, designing and implementing Canada Post's pension investment strategy to drive long-term performance.

In 2019, Plan investments generated a return of 14.7% as a result of positive markets and the Plan's evolving investment strategy.

The Canada Post Pension Plan currently has a funded rate of 117% on a going-concern basis, meaning that it is able to cover its payments to Plan members, as expected. However, the Plan has a deficit when considered from a solvency point of view, meaning the payments that would be required to members in the unlikely event that Canada Post were to go out of business.

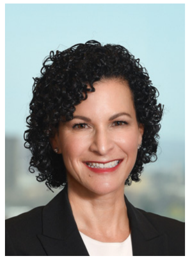
Normally, Canada Post would have to make payments to reduce this solvency deficit. But over the last few years, federal regulations relieved us from this obligation, allowing us to invest in the Corporation's future. The Board is very aware of the Plan's solvency deficit funding challenge, and that Canada Post is working with all stakeholders and its shareholder, the Government of Canada, to seek temporary relief from making these payments.

The Board also remains focused on overseeing new strategies, which are critical to our success and sustainability. It also recognizes the importance of building a more engaged workforce that is more involved in creating a more sustainable Canada Post. The Board endorses steps toward this shift, which will strengthen the Pension Plan for its members.

On behalf of the Directors of Canada Post's Board, I acknowledge and thank the 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 People and Safety Officer

Wayne Cheeseman
Chief Financial Officer



Susan Margles
Chief People and Safety Officer

We are pleased to report that on a going-concern basis, the defined benefit component of the Canada Post Registered Pension Plan has a $3.8 billion surplus, or is funded at 117%. Over the last 10 years, the Plan has grown $2.26 billion above the industry benchmark. These results and statistics indicate thoughtful and successful investing. While the defined benefit component's return on investments in 2019, at 14.7%, was slightly below the industry benchmark of 15.8%, the Plan's return was in the top 25% of large plans in Canada with more than $1 billion in assets.

The overall solvency deficit to be funded of $5.6 billion remains a concern. Under current federal regulations, Canada Post will be required to make special solvency payments in 2020, which would reduce the funds from which Canada Post plans to invest in its future. Accordingly, Canada Post is working with all stakeholders and its shareholder, the Government of Canada, to seek temporary relief from making these payments. It is also a concern that the Corporation's pension funding obligation continues to be quite large compared to the Corporation's revenue, profitability and cash flow.

In 2019, Canada Post contributed $276.4 million in current service cost to the defined benefit component of the Plan, while employees contributed $276.3 million excluding elective service contributions of $4.3 million (both figures include contributions that were part of pay equity for rural and suburban mail carriers).

Assets in the defined contribution (DC) component of the Plan grew from $46.4 million to $71 million, with $8.9 million of this growth coming from investment returns. We encourage members of the DC component to refer to their personalized DC statement to learn about their personal rate of return.

We would like to thank Doug Greaves, Vice-President, Pension Fund and Chief Investment Officer, who is retiring in April 2020, for his leadership and contributions.

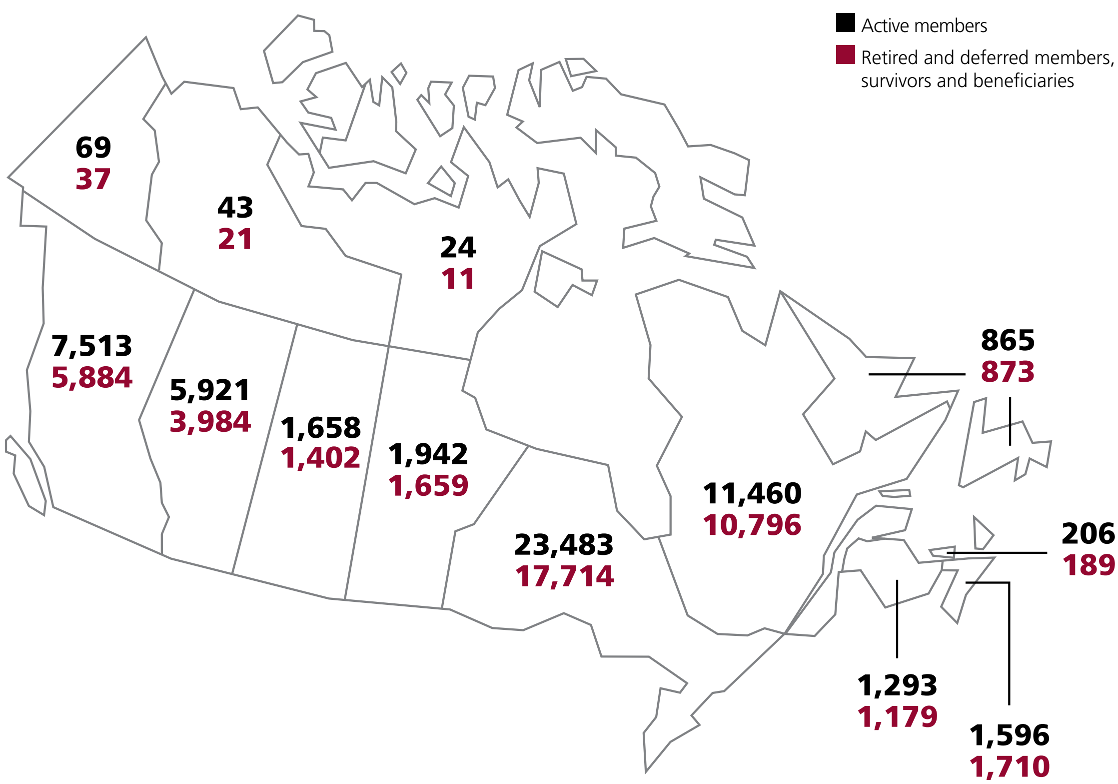
In closing, we also thank our employees and retirees for their service.

Membership Snapshot

	2015	2016	2017	2018	2019[1]
Active members	53,238	53,263	53,606	55,586	56,074
Percentage	59.1%	57.5%	56.3%	56.1%	55.2%
Retired members	33,448	35,707	37,644	39,395	41,157
Percentage	37.2%	38.6%	39.5%	39.8%	40.0%
Deferred members, survivors and beneficiaries	3,353	3,603	3,953	4,094	4,431
Percentage	3.7%	3.9%	4.2%	4.1%	4.4%
Total	**90,039**	**92,573**	**95,203**	**99,075**	**101,662**

1. For 2019, the information includes 98,050 members of the defined benefit (DB) component and 3,612 members of the defined contribution (DC) component of the Plan (3,389 active and 223 deferred members in the DC).

Members across Canada – December 31, 2019



Age of active and retired members – December 31, 2019

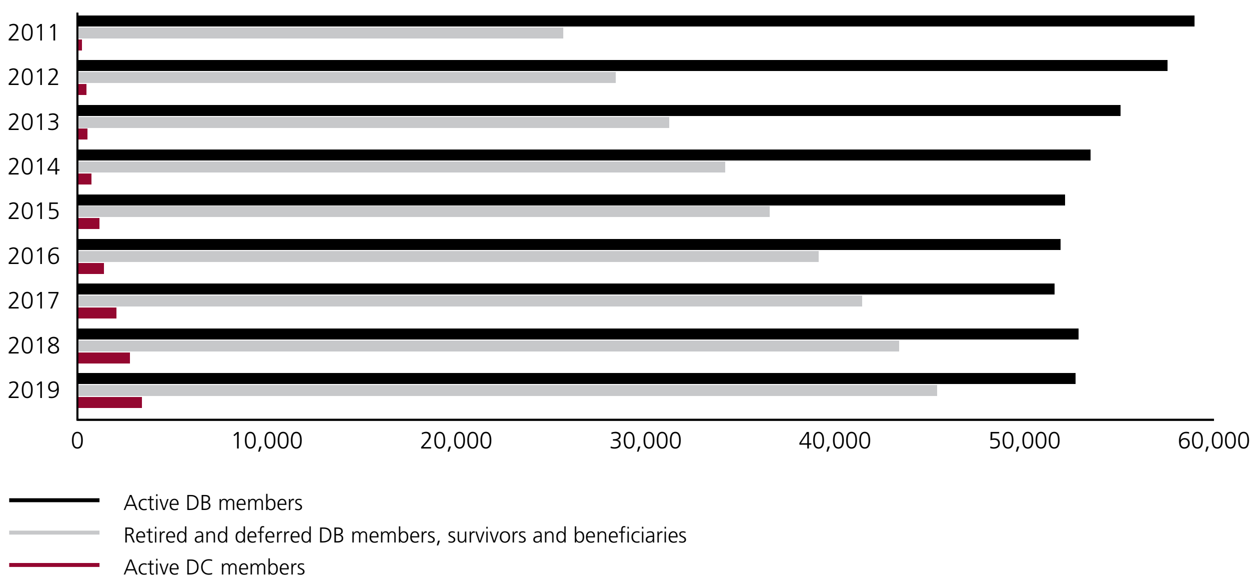
Age	Less than 30	30-39	40-49	50-59	60-69	70-79	More than 79
Active DB members	1,670	8,095	15,365	19,434	7,872	246	3
Active DC members	453	1,073	1,034	669	158	2	0
Retired DB members	1	20	150	3,783	23,481	12,824	948

Average age	2019	2018
Active DB members	49.7	49.6
Active DC members	41.6	41.6
DB members at retirement	59.0	61.0
Retired DB members	67.5	66.8

Did you know?

Over the next five years, 17,799 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 2019, Pension Policy prepared almost 93,977 annual personalized pension statements for DB active members, retirees, deferred members and survivors. Sun Life Financial issued 3,880 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.

84,574	**cpcpension.com** unique visitors
Total visits	63,208 unique visitors were recorded in 2019, compared to 64,757 in 2018

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**.

1,601	**mysunlife.ca** unique visitors
	Top three sections viewed were balance summary, transaction history and asset allocation
498	Members used the mobile app an average of five to six times 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.

44,865	Telephone calls from members to the Pension Centre
11,182	Telephone calls to members
3,174	Telephone calls from retirees to the RBC Investor Services Trust
67,142	Transactions completed for members by the Pension Centre
137,071	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**.

1,911	Telephone calls from members; top-three reasons for calls were account balance inquiries, termination/retirement, and transfers (in/out)
110	Messages answered
94%	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.

62	Pre-retirement seminars
1,836	Seminar participants
257	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**.

8	Sun Life webinars
176	Webinar registrations
301	On-demand webinar views

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, 2019

18%	Completed the Retirement Planner tool
14%	Completed the Asset Allocation tool
54%	Completed the Re-balancing tool

Defined Benefit (DB) Component – Overview of 2019

DB assets

$27.6 billion

Net investment **assets** as at December 31, 2019

Rate of return in 2019

14.7%

Benchmark

15.8%

Funded status estimated as at December 31, 2019

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

$5.6 billion

82.9% funded

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

$4.9 billion

84.9% funded

Going-concern surplus

$3.8 billion

117.0% funded

As a result of regulatory changes made in June 2017, Canada Post did not have to make additional special payments in 2019. For more information concerning funding relief, see page 27.

+ Contributions in 2019

Members

$280.6 million[2]

Canada Post current service

$276.4 million

Canada Post special payments

$44 million

– Benefits paid in 2019

$1,049 million

1. See page 26.
2. Amount includes $4.3 million of elective service contributions.

Calls from members to Pension Centre

44,865

Members' satisfaction score

4.3/5.0

Unique visitors at cpcpension.com

63,208

Defined Contribution (DC) Component – Overview of 2019

DC assets $71.0 million

VSP[1] assets $12.9 million

Total assets $83.9 million

Net investment assets as at December 31, 2019

1. Voluntary Savings Plan.

Range of rates of return in 2019

1.8% — 17.6%* — 25.2%

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 2019 returns of all the funds available in the DC component, from the lowest to the highest, with 17.6% being the average. See page 20 for the list of the DC fund investment rates of return.

As at December 31	2018	2019
Active members	2,747	3,494
Deferred members	125	223
DC assets	$46.4M	$71.0M
Canada Post contributions	$9.4M	$11.7M
Members' contributions	$5.6M	$7.1M
Investment income	($600K)	$8.9M
Withdrawals and expenses	($5.2M)	($3.1M)
Average contribution (% of pay)	**2018**	**2019**
Canada Post	6.2%	6.3%
Members	3.8%	3.9%
Voluntary Savings Plan (VSP)	**2018**	**2019**
Assets	$10.0M	$12.9M
Member contributions (including transfers-in)	$2.4M	$2.4M
VSP member average contribution (% of pay)	3.5%	3.9%
VSP members	611	736

Calls from members to the Sun Life Customer Care Centre

1,911

Members' satisfaction score

94%

Unique visitors at mysunlife.ca

1,601

Want to know how your investments did in 2019?

Refer to your Sun Life personalized statement dated December 31, 2019, 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** > Our company > About us > Corporate governance).

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, 2019

Board of Directors

Jessica L. McDonald ICD.D (Chair) [1,2,3]
Doug Ettinger
Lloyd Bryant [1,2]
Bernd Christmas [1,2]
Michèle Desjardins [3]
Mélanie Dunn [3]
Claude Germain [1,2]
Suromitra Sanatani LL.B, ICD.D [3]
Alain Sans Cartier [3,4]
Jim Sinclair [3]
Sharon Sparkes CPA, CA, MBA, ICD.D [1,2]

1. Member of the Pension Committee
2. Member of the Audit Committee
3. Member of the Human Resources and Compensation Committee
4. Retired effective December 5, 2019

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
Sharon Sparkes CPA, CA, MBA, ICD.D

Union representative
Isla Carmichael Ph.D, M.Ed, MA

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 members)
Peter Whitaker (retired members)

Union and association representatives
Madeleine Cléroux-Abass (CUPW)
Beverly Collins (CUPW)
Rona Eckert (CUPW)
Jean-Philippe Grenier (CUPW)
Jacqueline Gujarati (PSAC/UPCE)
Daniel Maheux (CPAA)
François Paradis CHRP, PPAC (PSAC/UPCE, APOC, CPAA)
Rick Williams (APOC)

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 2019, we communicated with members by producing the 2018 Report to Members, personalized pension statements for active members and retired DB members, and the *Pension Plan News* and *In touch* 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 2019, the Communications and Consultation Group (C&C Group) met four times. Unofficial meetings without quorum were held on June 20, July 17 and July 22, and an official meeting with quorum on October 16. The C&C Group, along with the Pension Advisory Council, met in July to review and share their input and differing opinions on the letter "Request for feedback on the Canada Post Pension Plan short-term solvency funding relief options" that was mailed to all Plan members in August. All comments were duly noted and considered in the Corporation's preparation of the final letter. The C&C Group held elections in 2019 for the representatives of retirees, survivors and deferred members, and for management and exempt DB members. 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 pension benefits offered)

Understanding the risk factors of a pension plan

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 while taking into account economic and demographic factors. The Plan has become more mature as Plan members age and the number of retirees increases. The 2019 asset-liability study was completed and approved by the Board of Directors. The study focused on finding strategies to deal with the volatility in liabilities, while maintaining the return on investments. In addition, it reviewed the previously approved 2015 study. The study's recommendations will guide the Plan's investment strategy for the next three years. It is a multi-step strategy guided by the Plans' solvency ratio.

The Plan's primary focus is to minimize the funding volatility between net investment assets and pension obligations using liability-driven investing while maintaining the return on investments. 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.

Funding volatility is minimized by better matching of the Plan's assets with the liabilities. The LDI strategy's **glide path** automatically shifts the target asset allocation when the solvency ratio increases to specified levels. The **fixed income** target allocation was increased. Long-duration **bonds**, i.e., with a duration of 14-15 years, were increased to better match the Plan's liabilities. Finally, the target allocation to **alternative assets**, i.e., private **equities**, real estate and infrastructure, was increased gradually to potentially enhance long-term returns, while diversifying risk.

If de-risking occurs too quickly, it will not allow the Plan's funded position to improve as interest rates normalize. Therefore, a five-phase dynamic investment de-risking glide path was approved 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. The Plan will undertake an asset-liability review in three years 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.

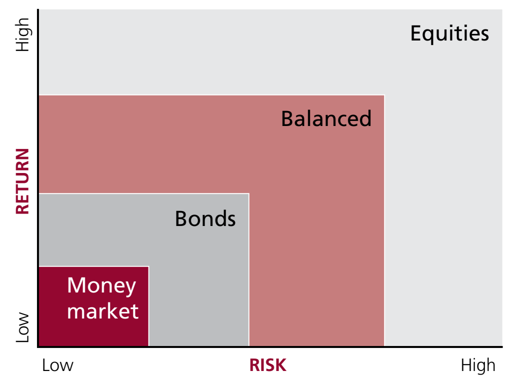
Different funds and investment approaches may be appropriate for different points in a member's career, since the options range from low risk/return to higher risk/return. Members of the DC Plan have access to Sun Life Financial's website, **mysunlife.ca**, which has tools and information to build their 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 2020

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.

Administration activities: Canada Post will continue to work on improving the member experience and ensure that its members have access to best in-class products and services at competitive pricing.

Our Investments – DB Component

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

It is my pleasure to report a strong absolute investment performance by the Canada Post Corporation Registered Pension Plan.

Net investment assets of the Plan totalled $27.6 billion at December 31, 2019, compared to $24.6 billion the previous year. The Plan delivered a return of 14.7% for 2019, which was below its benchmark return of 15.8% by 1.1%. The Plan's 2019 return placed it in the first quartile relative to its peers. Taking the past two calendar years together, the Plan had a return of 7.6%, which exceeded its benchmark by 1.0%.

In the midterm, the Plan's four-year average annual return was 8.4%, outperforming its benchmark by 1.3%. In the long term, the Plan's record of outperformance has continued. Over 10 years, the Plan's average annual return was 8.9%, 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 value above the benchmark return by $2,257 million over the last 10 years.

In 2019, most major asset classes had exceptionally strong absolute returns. Asset values rebounded in early 2019 from the tough fourth quarter in 2018 in which stock markets entered correction territory. Trade tensions created an uncertain business environment and caused volatility throughout the year. The U.S. Federal Reserve's pivot to interest rate cuts combined with strong economic data and the late year announcement of a preliminary U.S.-China trade agreement served to boost the markets higher as recession fears faded. Almost all of the Plan's asset classes had double-digit positive returns.

The Board approved the 2019 asset-liability study, which updated and streamlined the multi-step liability-driven investment strategy that will guide the Plan for the next three years. The 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. Asset returns and volatilities were updated and an improved liability proxy was utilized. A regular review of the strategy will take place in 2023.

Here are some activities that affected the Plan's net investment assets in 2019:

Volatility was abundant in 2019, fuelled by uncertainty about the path of interest rates in the United States and the U.S.-China trade negotiation tensions. Supported by generally positive economic data, the three interest rate cuts by the U.S. Federal Reserve and the announcement of a preliminary U.S.-China trade agreement fuelled near record stock and bond market gains. In this ultimately positive macroeconomic environment, active investment managers were playing catch-up all year long. This was reflected in the Plan's strong absolute return of 14.7%, which was below its benchmark return of 15.8%, despite the volatile year. All public market asset classes and alternative asset classes exhibited strong returns (refer to page 18).

Some of the market gains made by Canadian, U.S. and international equities, nominal bonds and infrastructure were harvested to fund the increased allocation to long bonds and inflation-linked bonds.

The Plan's updated asset-liability study was completed and approved by the Board of Directors in 2019. Using updated asset returns and volatilities and an improved liability proxy, the liability-driven investment strategy was updated. The Plan will continue its disciplined approach to de-risking and utilize the updated asset mix glide path. The Plan will have slightly more equities in each phase, which will improve returns and liquidity.

The Plan hired a Director, Environmental, Social and Governance (ESG) Investing to lead the development of the Pension Plan's ESG investing strategy and action plan. This includes formalizing our approach to integrating ESG factors and broader systemic issues, such as climate change and sustainable development, into our investment and ownership decisions. Effectively managing ESG issues is important in driving long-term pension investment performance.

Investment objectives

The asset-liability strategy is updated every three years. The 2019 study reviewed the 2015 strategy and proposed an updated asset-liability strategy, which was approved by the Board of Directors in late 2019.

The study concluded that the Plan was heading in the right direction with a disciplined approach to de-risking and utilizing the asset mix glide path. The updated asset-liability strategy continues to ensure that the Plan's asset mix better matches its liabilities that its interest rate risk is reduced over time.

The strategy ensures that the Plan continues to move along a glide path, or a series of phases, whereby asset mix changes occur when a predetermined funded status is reached. The asset mix glide path has more equities in each phase, which could bode well should we be going into a low-return environment. This will improve the liquidity of the Plan.

The strategy uses a more robust proxy for the Plan's liabilities and better represents the expected returns and volatilities.

As a recap, since 2015, the Plan has increased bond holdings and extended **bond durations**. 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. 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 fulfills 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 8.9%, 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. As of year-end 2019 the asset mix targets 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, 2019, was 58.6% in equities, real estate and infrastructure, and 41.4% in fixed income. The strong absolute returns in 2019 were attributable to the fund's above-target allocation to equities and real estate and allocation to infrastructure and long-term 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 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

2019 was a year of positive returns for every major asset class. Concerns about growth globally lead to more accommodative monetary policies worldwide, which in turn created a tailwind for fixed income and equities. Equities had their best performance since 2010.

Entering 2019, uncertainty about the path of U.S. interest rates, fears of a slowdown in global growth and trade negotiation tensions created volatility and hampered business investment. Equities sported attractive valuations after recession fears fuelled substantial declines in the fourth quarter of 2018. Equity markets rebounded in January after Chair Jerome Powell stated that the U.S. Federal Reserve was not on a pre-determined path of interest rate increases.

2019 was the year of accommodative central bank policy in many of the major economies. Major central banks were uneasy with prevailing economic conditions and took aggressive policy action. Expectations of a shift to more accommodative monetary policies led to a sizeable decline in long-term global interest rates and lifted asset values. The substantial amount of negative-yielding debt worldwide increased the demand for the positive-yielding debt in the U.S. and Canada.

The U.S. Federal Reserve's monetary policy took a dovish turn in Q3 and early Q4 with three interest rate cuts, the first such cut since 2008. Equity and bond returns surged higher each time. The European Central Bank (ECB) restarted quantitative easing. The ECB reduced interest rates further below zero and revived its bond-purchasing program.

Markets made additional gains with the news of a preliminary U.S.-China trade agreement in December that was signed in January 2020.

Oil was the best performing commodity. Despite heightened geopolitical tensions, the oil market was calm as the market was well supplied and inventories were high. Gold, a safe-haven asset, had its best annual performance since 2010. Industrial commodities were subdued as they were affected by the trade uncertainty and slowdown in growth.

Canada had modest **gross domestic product** (GDP) growth, at a lower rate than 2018. A healthy labour market, solid consumer demand and a recovering housing market were contributors. The unemployment rate was at a four-decade low. Inflation was lower than expected. Oil prices rebounded before subsiding somewhat. The Bank of Canada maintained policy rates at 1.75% after raising interest rates three times in 2018. The Canadian dollar appreciated modestly relative to the U.S. dollar and is expected to remain at these levels, which will benefit exports. The Canada-United States-Mexico Agreement (CUSMA), signed in 2018, must be ratified by all three countries in 2020 before it can take effect.

Modest economic growth in the U.S. came from consumer consumption, which was supported by the lowest unemployment rate in decades. Business investment was at a standstill as the trade negotiations unfolded during the year. New tariffs announced against a handful of countries meant that business investment will continue to be low to non-existent. Expectations are that the current low-inflation environment continues.

The Eurozone economy grew at its lowest rate in six years due to the impact of slowdowns in France and Italy and the impact of trade tensions on exports. On a positive note, unemployment was at its lowest since 2008. The ECB will continue to support the Eurozone with its very low interest rates, one of which is below zero, and its policy of quantitative easing, buying financial assets with newly created money.

The Bank of Japan kept its monetary policy on hold as a perceived lack of effectiveness of taking yet more action has kept the bank on hold, unless absolutely necessary. Meanwhile, the Japanese government has used fiscal policy by way of stimulus measures to keep its economy growing and support inflation.

China's GDP moderated as internal and external demand cooled. Private sector credit growth slowed as the financial de-risking continued with the unwinding of excessive leverage. The trade dispute with the United States continued to weigh on business and consumer spending and exports were affected by U.S. tariffs, even as China employed targeted stimulus measures. The preliminary trade deal signed in January 2020 with the U.S. will go some way to boost growth.

Overall, in 2019 public market and private market assets exhibited strong returns and benefited from monetary stimulus. In public markets, equities and Canadian universe bonds were the best performers. Canadian and U.S. large-cap equities, fuelled by the high growth tech sector, turned in the best performance since 2010. International stocks lagged their North American counterparts as they faced stronger headwinds from slowing economic fundamentals and trade uncertainty. Canadian and U.S. bonds were attractive compared to the negative yielding counterpart in other major markets and attracted overseas investors. The market anticipates modest growth and continued low inflation in the future.

Fund performance

The Plan earned a rate of return of 14.7% in 2019, compared to its benchmark return of 15.8%.

In the midterm, the four-year average annual return was 8.4%, and in the long term, the 10-year average annual return was 8.9%. This compares favourably with the fund's portfolio benchmarks of 7.1% and 7.7% for the same periods. The Plan's evolving investment strategy contributed to this investment success.

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

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 gains from asset sales, rental income and valuation increases. This asset class offers inflation protection and a predictable stream of income.

Outlook for 2020

Funded status volatility, the movement of investment returns and pension obligations will continue to be monitored closely. The asset-liability study was updated in 2019 and will be updated every three years.

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.

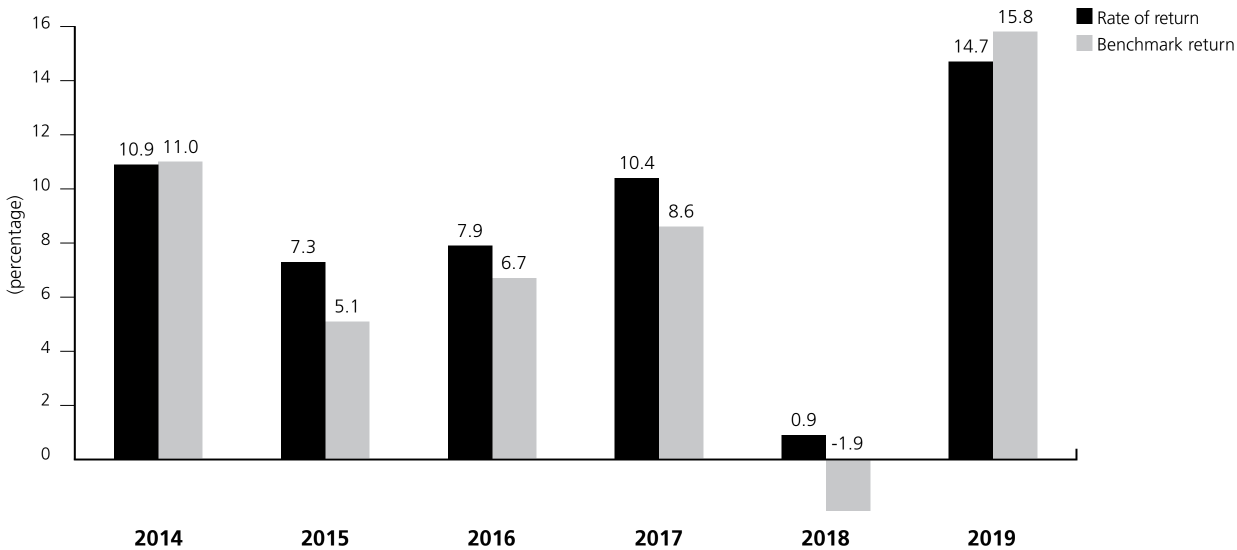
Developing our environmental, social and governance (ESG) investment strategy and action plan is a key priority for 2020. Effectively managing ESG issues is important in driving long-term pension investment performance.

In early 2020, the Plan becomes a signatory to the Principles of Responsible Investment, which are supported by the United Nations. The Plan will have access to resources and support as it commits to using sustainable investing to enhance returns and manage risks.

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, while taking into account economic and demographic changes. We will continue to implement strategies designed to increase returns without taking undue risks.

COVID-19, which was declared a pandemic in March 2020, and the related market volatility of market-driven discount rates and returns on pension plan assets could have a negative effect on the Plan's going-concern surplus in 2020. This negative effect could be significantly lower than expected as well as its impact on solvency payments for 2021 and thereafter, an impact which could be significantly higher than expected.

Rate of return against benchmark

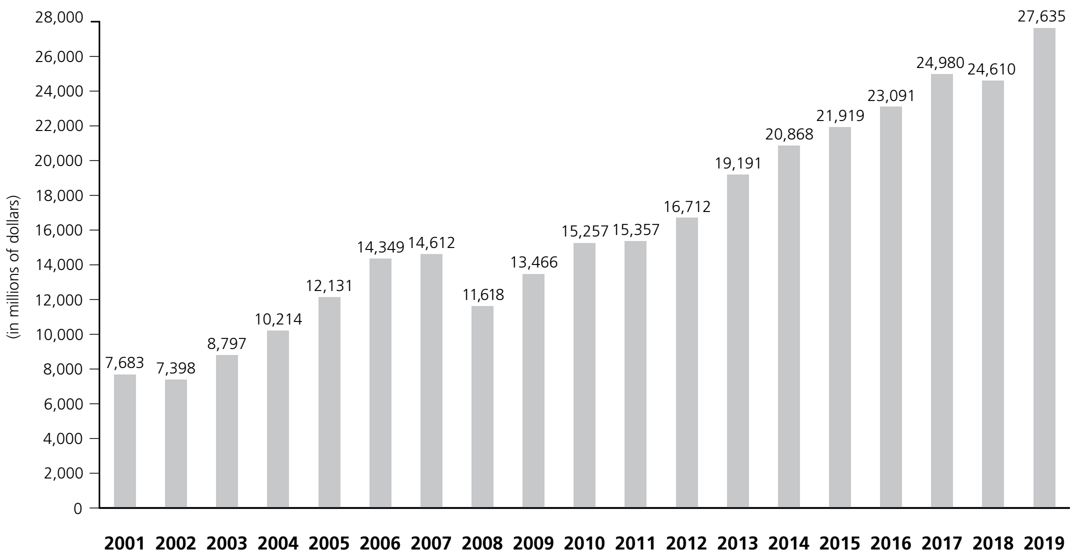


Rate of return

	Over the last 10 years	Over the last 5 years	In 2019
Our Plan	8.9%	8.1%	**14.7%**
Our benchmark	7.7%	6.7%	**15.8%**
Peer group return[1]	8.8%	8.0%	**13.6%**
Rate of return objective over time		6.7%	

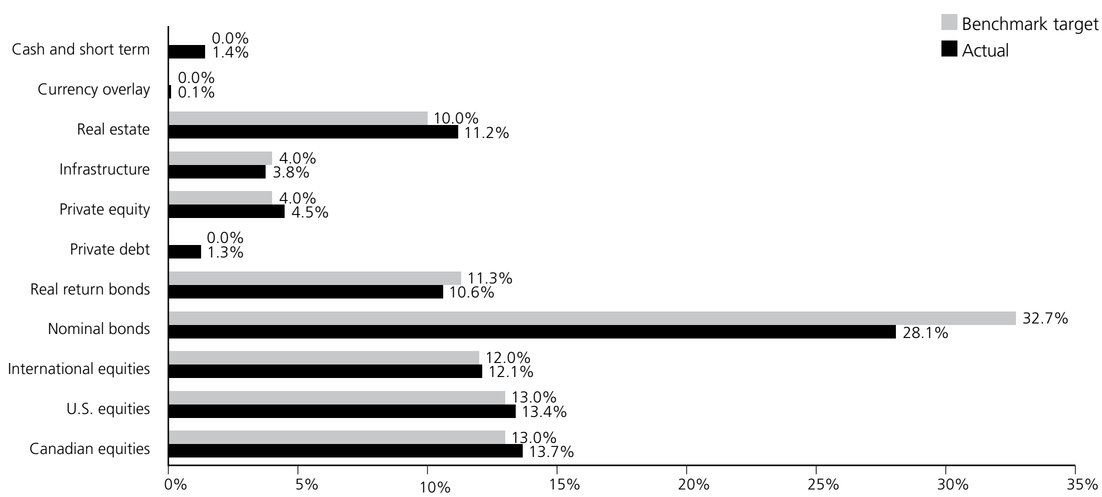
1. RBC Investor & Treasury Services based on the performance of large Canadian pension plans (more than $1 billion).

Net investment assets



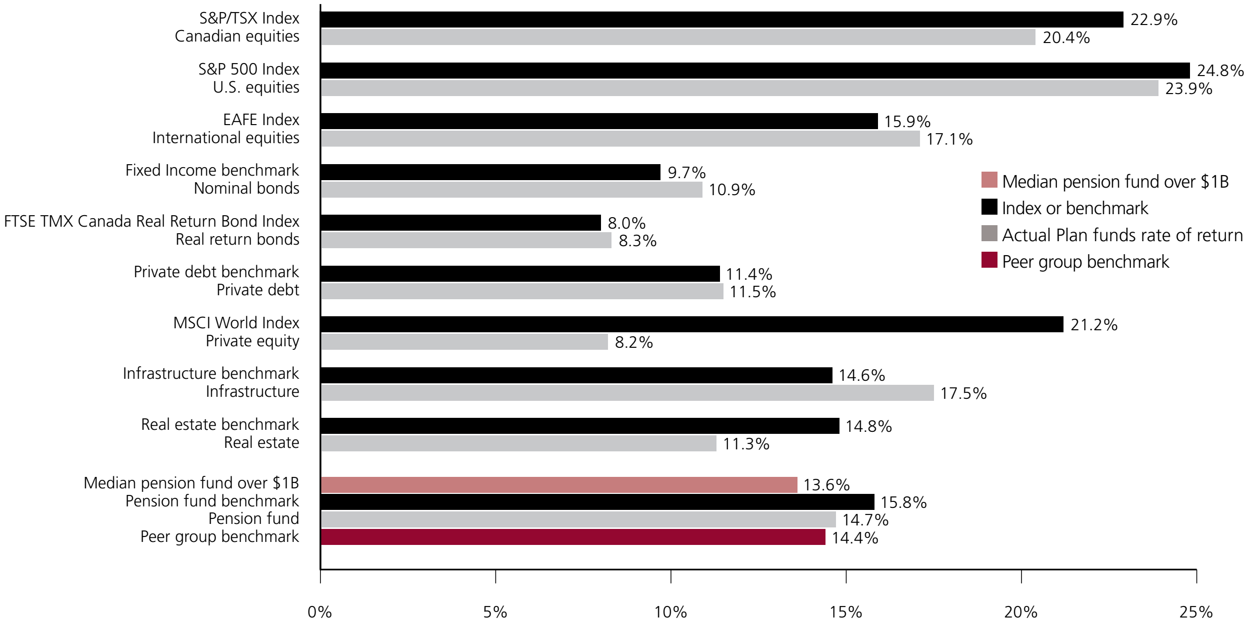
Net investment assets are defined as investments plus investment-related receivables, minus investment-related liabilities.

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

CEM Benchmarking Survey

Per $100 of average assets	2017	2018
Plan	$0.39	$0.41
Peer group	$0.50	$0.48
Benchmark	$0.45	$0.48
The Plan’s investment costs were $16.5 million below benchmark costs.		

Equity holdings greater than 0.25% of Plan assets

As at December 31, 2019 (in millions of dollars)

	Market value	Percentage of overall fund
Toronto Dominion Bank	$ 190.1	0.69%
Royal Bank of Canada	188.6	0.68
Bank of Nova Scotia	142.9	0.52
Manulife Financial Corp.	130.1	0.47
Microsoft Corp.	119.6	0.43
Apple Inc.	110.8	0.40
Enbridge Inc.	108.0	0.39
SPDR S&P 500 ETF Trust	100.2	0.36
Bank of Montreal	91.0	0.33
Canadian National Railway Co.	90.4	0.33
Suncor Energy Inc. New Common Stock	90.3	0.33
Alphabet Inc.	87.1	0.32
Brookfield Asset Management Inc. Class A Common Stock	85.7	0.31
Canadian Natural Resources Limited	84.6	0.31
BCE Inc. Common New Stock	80.8	0.29
Telus Corporation Common Stock	79.8	0.29
Canadian Imperial Bank of Commerce	79.7	0.29
TC Energy Corporation Common Stock	75.4	0.27
Rogers Communications Inc. Class B	69.4	0.25
	$2,004.5	**7.25%**

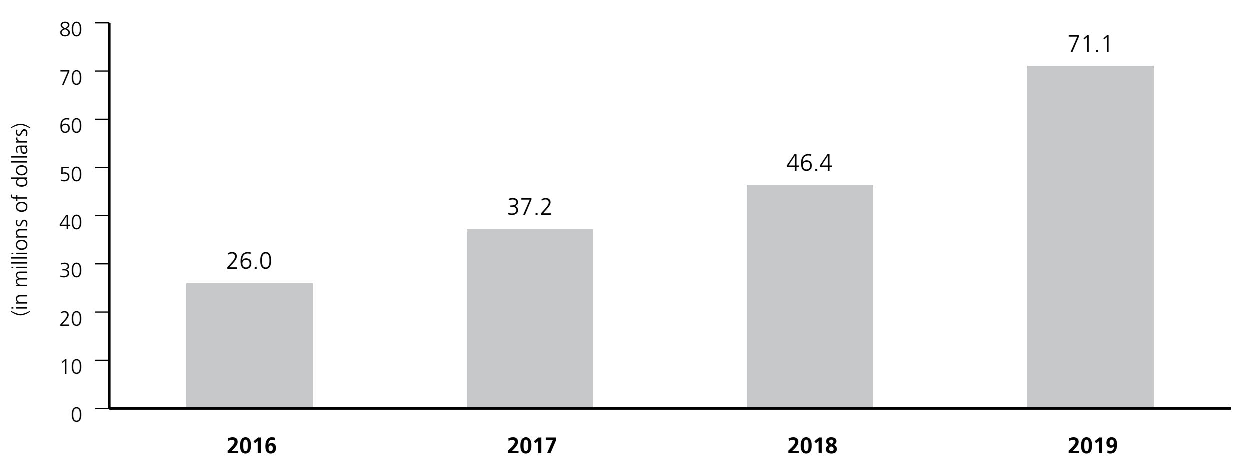
Our Investments – DC Component

Rates of return

As at December 31, 2019

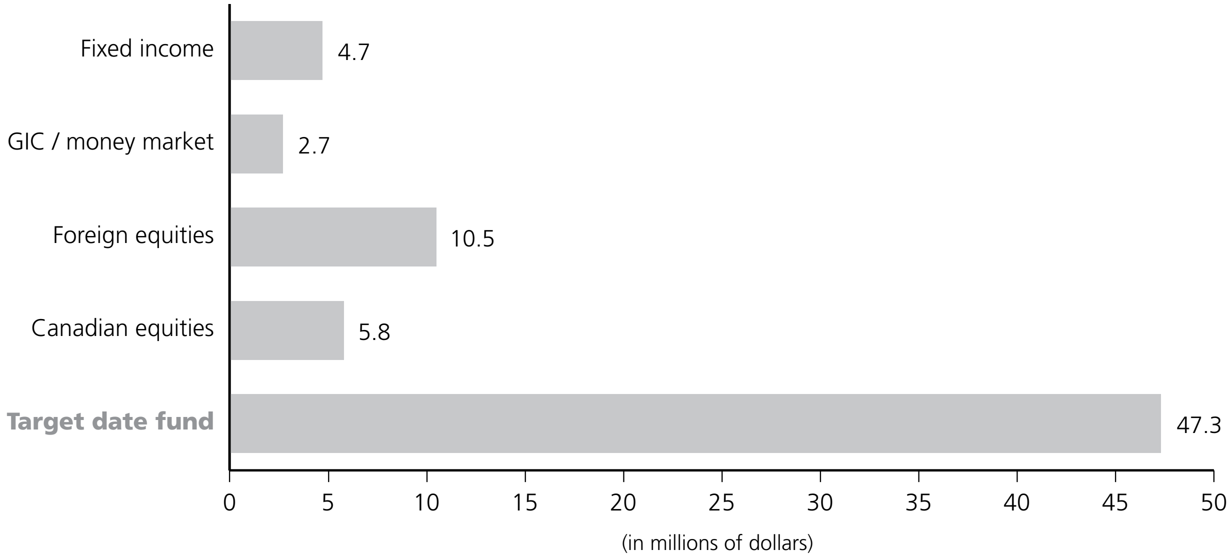
Fund	1 year	5 years	10 years
BlackRock LifePath® Index 2020	12.4%	5.9%	7.4%
BlackRock LifePath® Index 2025	14.2%	6.7%	8.1%
BlackRock LifePath® Index 2030	14.8%	7.2%	8.5%
BlackRock LifePath® Index 2035	17.4%	7.8%	8.9%
BlackRock LifePath® Index 2040	18.8%	8.5%	9.3%
BlackRock LifePath® Index 2045	20.1%	9.0%	9.6%
BlackRock LifePath® Index 2050	20.6%	9.2%	N/A
BlackRock LifePath® Index 2055	20.7%	N/A	N/A
BlackRock LifePath® Index 2060	20.6%	N/A	N/A
BlackRock LifePath® Index Retirement	12.2%	5.2%	6.2%
BlackRock U.S. Equity Index	24.8%	14.2%	16.0%
CC&L Group Canadian Equity	23.6%	6.7%	8.4%
MFS Global Equity	25.2%	12.5%	13.8%
MFS International Equity	22.5%	11.2%	10.1%
Sun Life Financial Money Market	1.8%	1.1%	1.1%
TDAM Canadian Bond Index	6.7%	3.1%	4.2%
TDAM Canadian Equity Index	22.9%	6.3%	6.9%

Investment assets

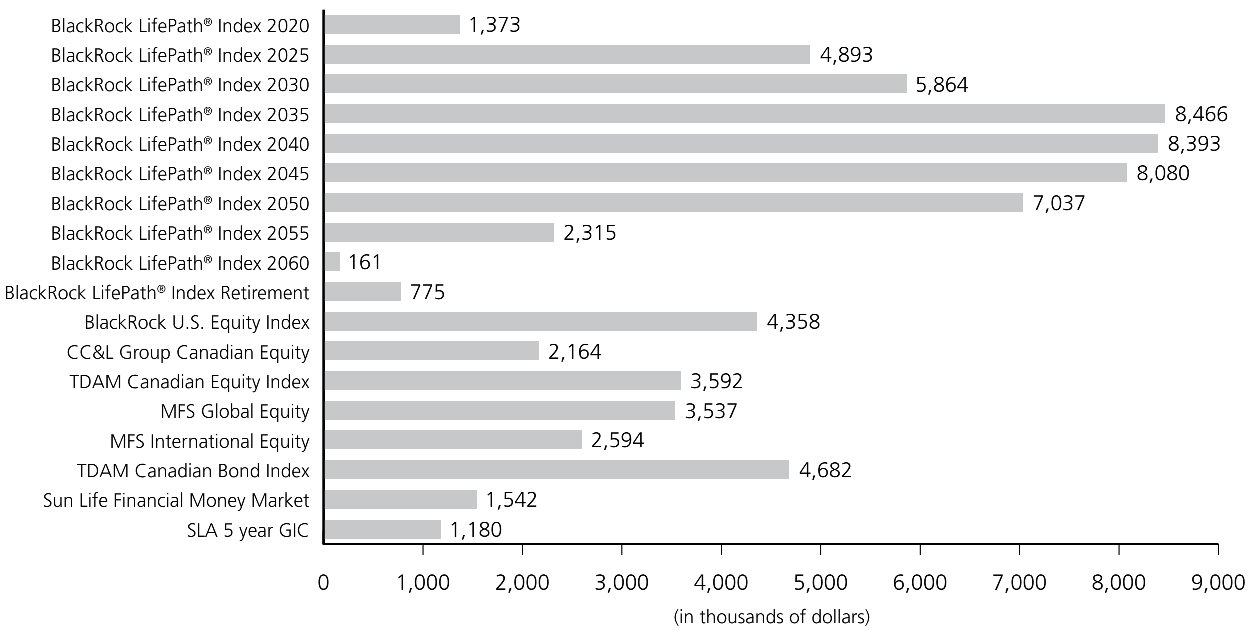


Asset mix

As at December 31, 2019



Detailed asset mix



Fund management fees

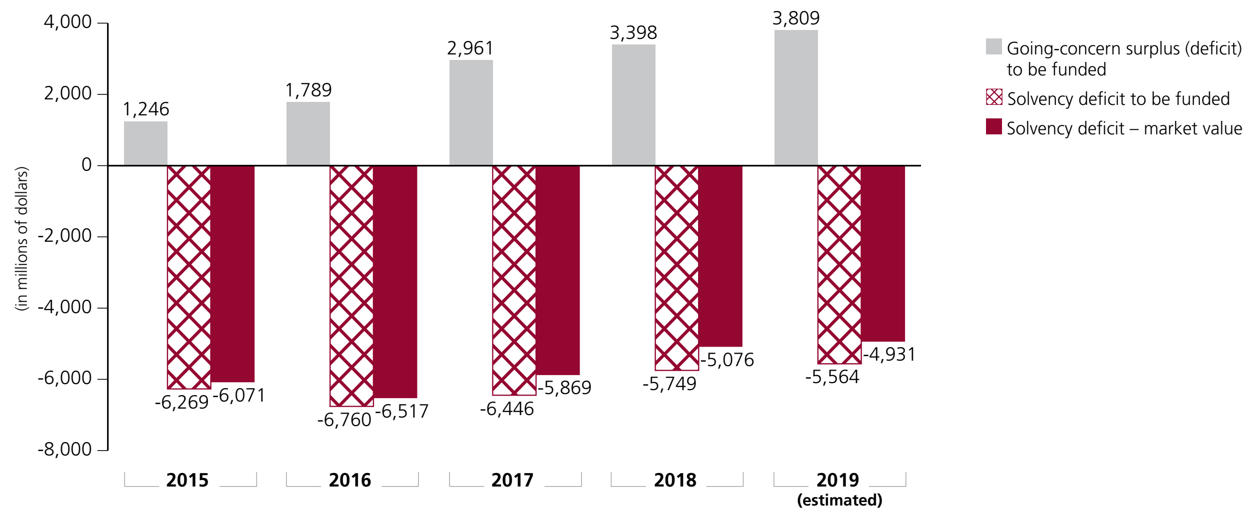
As at December 31, 2019

Fund	Annualized percentage
BlackRock LifePath® Index 2020	0.29%
BlackRock LifePath® Index 2025	0.34%
BlackRock LifePath® Index 2030	0.40%
BlackRock LifePath® Index 2035	0.45%
BlackRock LifePath® Index 2040	0.45%
BlackRock LifePath® Index 2045	0.46%
BlackRock LifePath® Index 2050	0.46%
BlackRock LifePath® Index 2055	0.47%
BlackRock LifePath® Index 2060	0.48%
BlackRock LifePath® Index Retirement	0.29%
BlackRock U.S. Equity Index	0.19%
CC&L Group Canadian Equity	0.34%
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%

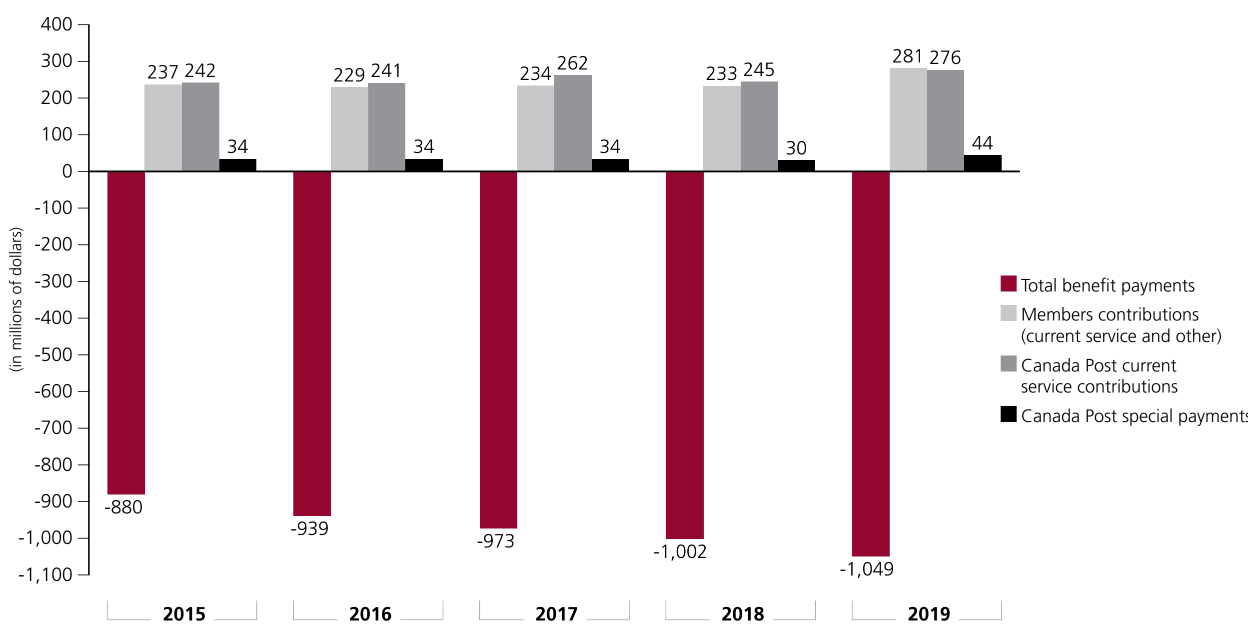
The **fund management fees** listed here cover the costs of operations and investment expertise. They are also subject to applicable sales tax, which is not included in the amounts listed above.

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.

In 2019, member contributions of $281 million included $4.3 million of elective service contributions.

Summary of Financial Statements

Net assets available for benefits

The Canada Post Corporation Registered Pension Plan posted a 14.7% return in 2019. The Plan ended the year with net assets available for benefits of $27,756 million (including $71 million in the DC component), an increase of $3,041 million from $24,715 million (including $46 million in the DC component) at the end of 2018.

Changes in net assets available for benefits

The $3,041 million increase in net assets available for benefits represented investment income of $3,608 million and contributions of $621 million, offset by pension benefit payments of $1,053 million and expenses of $135 million.

Investment income – comprising interest, dividend, as well as realized and unrealized gains and losses – was $3,608 million for 2019, compared to $243 million for 2018.

Plan contributions in 2019 were $621 million compared to $523 million in 2018, an increase of $98 million.

Pension benefit payments for 2019 were $1,053 million compared to $1,007 million in 2018, an increase of $46 million. This was mostly the result of a 4.28% increase in the number of retirees over 2019.

Changes in pension obligations

Pension obligations were $22,504 million (including $71 million in the DC component) compared to $21,574 million (including $46 million in the DC component) in 2018, an increase of $930 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)	2019			2018		
Accounting basis	DB	DC	Total	DB	DC	Total
Net assets	27,685	71	27,756	24,669	46	24,715
Pension obligations	22,433	71	22,504	21,528	46	21,574

Surplus (deficit)

The difference between assets available for benefit and pension obligations as at December 31, 2019, resulted in a surplus of $5,252 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 $3,809 million. The difference between the accounting surplus of $5,252 million and the estimated going-concern surplus of $3,809 million was an **actuarial asset value adjustment** (or **smoothing**) of $1,443 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)	**2019**	**2018**	**2017**	**2016**	**2015**
Assets					
Investments	$27,594	$24,662	$24,910	$23,075	$21,884
Investment related receivables	246	149	255	160	196
Contribution / other receivables	99	103	112	112	110
Total assets	**$27,939**	**$24,914**	**$25,277**	**$23,347**	**$22,190**
Liabilities					
Investment related liabilities	134	152	148	118	143
Accounts payable and accrued liabilities	49	47	47	37	42
Total liabilities	**$183**	**$199**	**$195**	**$155**	**$185**
Net assets available for benefits	**$27,756**	**$24,715**	**$25,082**	**$23,192**	**$22,005**
Pension obligations and surplus					
Pension obligations	$22,504	$21,574	$20,827	$20,301	$19,234
Surplus	5,252	3,141	4,255	2,891	2,771
Total pension obligations and surplus	**$27,756**	**$24,715**	**$25,082**	**$23,192**	**$22,005**

Changes in net assets available for benefits (in millions of dollars)	**2019**	**2018**	**2017**	**2016**	**2015**
Investment income	**$3,608**	**$243**	**$2,439**	**$1,721**	**$1,522**
Contributions – Sponsor					
Current service	288	254	269	246	246
Special payments	45	30	34	34	34
Contributions – Members					
Current service	284	234	234	226	229
Elective service	4	5	5	6	10
Total contributions	**$621**	**$523**	**$542**	**$512**	**$519**
Less					
Benefits					
Retirement and survivor pensions	968	928	887	847	800
Commuted value transfers and other	85	79	89	94	82
Total benefits	**$1,053**	**$1,007**	**$976**	**$941**	**$882**
Administration expenses					
Plan administration	25	25	23	21	21
Investment fees	110	101	92	84	78
Total administration expenses	**$135**	**$126**	**$115**	**$105**	**$99**
Increase (decrease) in net assets	**$3,041**	**$(367)**	**$1,890**	**$1,187**	**$1,060**

Changes in pension obligations (in millions of dollars)	**2019**	**2018**	**2017**	**2016**	**2015**
Interest on pension obligations	$1,166	$1,128	$1,101	$1,100	$1,067
Benefits accrued	577	502	511	474	466
Changes in actuarial assumptions	322	129	(4)	532	49
Net experience losses (gains)	(82)	(5)	(106)	(98)	(98)
Benefits paid	(1,053)	(1,007)	(976)	(941)	(882)
Net increase (decrease) in pension obligations	**$930**	**$747**	**$526**	**$1,067**	**$602**

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 2019 and provided results as at December 31, 2018.

Actuarial valuation results – Going concern

Going-concern funded status of the Plan as at December 31				
	2019 estimated		2018 actual	
	In millions of dollars	Funded ratio	In millions of dollars	Funded ratio
Going-concern assets (smoothed value)	26,242		24,845	
Going-concern obligations	22,433		21,447	
Going-concern surplus	3,809	117.0%	3,398	115.8%

Actuarial valuation results – Solvency

Solvency funded status of the Plan as at December 31				
	2019 estimated		2018 actual	
	In millions of dollars	Funded ratio	In millions of dollars	Funded ratio
Solvency assets (market value)	27,645		24,629	
Solvency obligations	32,576		29,705	
Solvency **deficit** (based on market value of Plan assets)	**(4,931)**	84.9%	**(5,076)**	82.9%
Solvency **deficit** to be funded (using three-year **average solvency ratio** method)	**(5,564)**	82.9%	**(5,749)**	80.6%

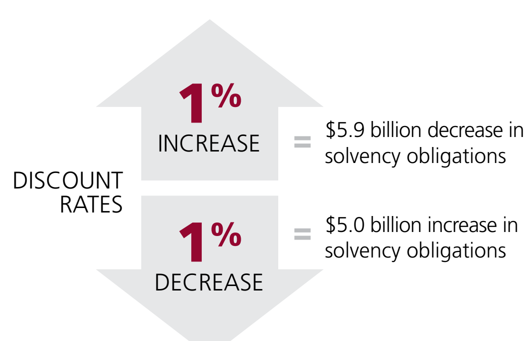
The solvency deficit using the market value of Plan assets decreased from $5,076 million at the end of 2018 to an estimated $4,931 million at the end of 2019. The decrease was mainly due to higher return than expected on assets and updated demographic assumptions from a 2019 experience study partially offset by a decrease in the discount rate.

The average solvency ratio over the three-year period used for the valuation increased in 2019, going from 80.6% to 82.9%. This resulted in the solvency deficit to be funded, decreasing from $5,749 million at the end of 2018 to an estimated $5,564 million at the end of 2019.

If the Plan had been terminated and wound up on December 31, 2018, there would not have been enough assets to pay 100% of the pension benefits.

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)	2019	2020[1]
Members	281	287
Canada Post regular contributions	276	339
Canada Post special payments[2]	44	33
Total contributions	**601**	**659**

Current service cost sharing[3] (regular contributions)	2019	2020[1]
Members	50%	47%
Canada Post	50%	53%

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

The special payments made by Canada Post in 2019 include $12 million relating to the Rural and Suburban Mail Carriers Plan Amendment with the balance being top-up payments. Estimated 2020 include top-up payments only (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*, were 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. As a result of these regulations, Canada Post did not have to make special solvency payments in 2019, but without temporary solvency relief, it expects to make estimated payments of $366 million in 2020. These payments pose a risk to the Corporation's cash flows in coming years. Securing temporary relief from making these payments is the Corporation's preferred short-term solution, and Canada Post is working with all stakeholders including its single shareholder, the Government of Canada, to explore short-term options.

Relief (in millions of dollars)	2013	2014	2015	2016	2017	2018	2019
Solvency relief under the *Pension Benefits Standards Act, 1985*	1,179	–	–	–	–	1,289	1,150
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 it 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's special payments required to fund the deficit would have been $1,194 million in 2019 (including $44 million in top-up payments). This would have brought total contributions from Canada Post to $1,470 million in 2019, or 53% 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 2019 funding valuation will be filed by June 2020.

	Estimated	Filed funding valuations[1]									
As at December 31 (in millions of dollars)	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Going concern – assuming the Plan continued in operation											
Market value of assets	$ 27,685	$ 24,669	$ 25,045	$ 23,166	$ 21,987	$ 20,932	$ 19,262	$ 16,775	$ 15,431	$ 15,376	$ 13,576
Asset smoothing adjustment	(1,443)	176	(1,322)	(1,124)	(1,541)	(1,832)	(1,527)	(352)	716	488	1,357
Smoothed value of assets	26,242	24,845	23,723	22,042	20,446	19,100	17,735	16,423	16,147	15,864	14,933
Funding target	22,433	21,447	20,762	20,253	19,200	18,600	18,031	16,342	16,551	16,039	14,365
Funding surplus (deficit)	$ 3,809	$ 3,398	$ 2,961	$ 1,789	$ 1,246	$ 500	$ (296)	$ 81	$ (404)	$ (175)	$ 568
Funded ratio	117.0%	115.8%	114.3%	108.8%	106.5%	102.7%	98.4%	100.5%	97.6%	98.9%	104.0%
Assumptions used for going-concern valuations											
Discount rate	5.20%	5.50%	5.50%	5.50%	5.80%	5.80%	5.80%	5.80%	5.80%	5.80%	6.20%
Inflation rate	2.00%	2.00%	2.00%	2.00%	2.25%	2.25%	2.25%	2.25%	2.50%	2.50%	2.50%
Real return rate (net of inflation)	3.20%	3.50%	3.50%	3.50%	3.55%	3.55%	3.55%	3.55%	3.30%	3.30%	3.70%
Solvency – assuming the Plan was terminated on the date of valuation											
Market value of assets (net of termination fees)	$ 27,645	$ 24,629	$ 25,005	$ 23,146	$ 21,967	$ 20,912	$ 19,250	$ 16,763	$ 15,419	$ 15,364	$ 13,573
Solvency obligations	32,576	29,705	30,874	29,663	28,038	27,790	24,266	23,279	22,014	19,056	16,777
Solvency – market value											
Surplus (deficit)	$ (4,931)	$ (5,076)	$ (5,869)	$ (6,517)	$ (6,071)	$ (6,878)	$ (5,016)	$ (6,516)	$ (6,595)	$ (3,692)	$ (3,204)
Solvency ratio	84.9%	82.9%	81.0%	78.0%	78.3%	75.3%	79.3%	72.0%	70.0%	80.6%	80.9%
Solvency – to be funded											
Surplus (deficit)	$ (5,564)	$ (5,749)	$ (6,446)	$ (6,760)	$ (6,269)	$ (6,801)	$ (6,345)	$ (5,890)	$ (4,689)	$ (3,204)	$ (1,847)
Solvency ratio	82.9%	80.6%	79.1%	77.2%	77.6%	75.5%	73.9%	74.7%	78.7%	83.2%	89.0%
Assumptions used for solvency valuations											
Discount rate (real return rates, net of inflation)											
For commuted values											
Rate for first 10 years[2]	1.20%	1.70%	1.40%	1.10%	1.30%	1.30%	1.70%	1.10%	1.30%	1.70%	2.10%
Rate after 10 years[2]	1.20%	1.80%	1.60%	1.30%	1.80%	1.60%	2.30%	1.30%	1.60%	2.30%	2.70%
For annuities	0.60%	1.30%	0.90%	1.10%	1.20%	1.10%	1.80%	1.50%	1.60%	2.20%	2.70%

1. A funding valuation for 2008 was not required by OSFI.
2. 15 years before 2005.

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

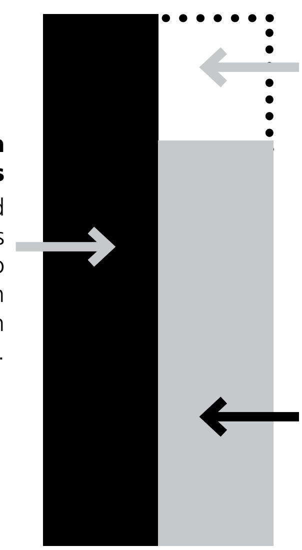
Funding relief does not reduce or eliminate Canada Post's obligation to fully fund the Plan and it remains responsible for funding any deficits.

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

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RBC Investor Services Trust
Questions about pension payments

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DC members

Canada Post AccessHR
Questions on eligibility, contributions, etc.

1-877-807-9090

Monday to Friday
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cpcpension.com

Sun Life Customer Care Centre
Questions about your investments and returns

1-866-733-8612

Monday to Friday
8 am to 8 pm (ET)

mysunlife.ca