Canada Post Pension Plan

Report to Members 2020

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 Interim Chair

Suromitra Sanatani
Interim Chair of the Board of Directors

On behalf of the Board of Directors, I am pleased to share the 2020 Canada Post Pension Plan Report to Members. The Board oversees the Canada Post's activities as sponsor and administrator of the Canada Post Corporation Registered Pension Plan (the Plan). I assure you that we act in your best interest as members.

Canada Post follows leading governance principles and practices, and it has continued to implement an environmental, social and governance (ESG) approach. With its pension investment strategy, Canada Post is incorporating ESG issues, engaging with companies on those issues and advocating for policies and practices that support a more sustainable and inclusive future. For example, as of 2020's year end, the defined benefit (DB) component of the Plan has over $1 billion invested in buildings that have LEED™ or other certification for environmental sustainability.

In 2020, DB Plan investments generated a return of 9.4%, compared to a benchmark of 10.3%. This reflected the impact of COVID-19 on world economies and investment markets. However, over the past 10 years, the Plan's average annual return, at 8.8%, has outperformed the benchmark of 7.8%.

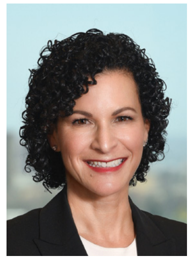
As at December 31, 2020, the DB Plan had a going-concern surplus of $3.8 billion, and the Plan had a funded ratio of 115.9 %, meaning that it can cover its payments to Plan members, as expected. However, the Plan has a solvency deficit to be funded of $6.3 billion on a three-year average basis. Normally, special payments would be required to address that deficit, but due to COVID-19's economic impact, the Government of Canada offered relief to federally regulated pension plans in 2020. Canada Post is working with stakeholders and its single shareholder, the Government of Canada, to explore temporary relief from special payments.

The best foundation for the Plan is a strong Plan sponsor – and Canada Post has a strong future. The Board has approved strategies to build a stronger Canada Post by investing in capacity and improved service, among other things. The sustained growth in online shopping, especially during COVID-19, underlines Canada Post's essential role in the economy. It will remain the country's parcel delivery leader.

In closing, I would like to thank the members of the Pension Committee of the Board, including its Chair, Bernd Christmas.

Message from the Interim Chief Financial Officer and the Chief People and Safety Officer

Barbara MacKenzie
Interim Chief Financial Officer



Susan Margles
Chief People and Safety Officer

On behalf of the senior management team, we are pleased to share this comprehensive and detailed report, whose purpose is to keep employees and retirees fully informed about the Canada Post Corporation Registered Pension Plan (the Plan).

A key measurement of the health of the Plan is its going-concern surplus. It stood at $3.8 billion, with a funded ratio of 115.9 %, as at December 31, 2020, for the defined benefit (DB) component of the Plan. This is a reassuring indicator that the fund has enough assets to issue pension payments to members of the DB component, as expected.

The DB component does have a funding deficit as a solvency valuation which continues to be quite large compared to the Corporation's revenue, profitability and cash flow. More information on the solvency valuation and funding relief is found on pages 28 and 29.

Investments in the DB Plan generated a return of 9.4% in 2020, slightly below the benchmark, while the average rate of return in 2020 in the defined contribution (DC) component of the Plan was 9.0%. We encourage members of the DC component to look at their personalized DC statement mailed to their home or visit **mysunlife.ca** to see their personal rate of return.

The impact of COVID-19 on financial markets demonstrated how important it is that members of the DC component ensure their contributions are invested according to their personal risk tolerance. They may want to start with the online tools at **mysunlife.ca**.

The DB and DC components of the Plan increased in assets during 2020. Assets in the DB Plan grew from $27.6 billion to $29.6 billion as at December 31, 2020. Canada Post's current service contributions to the DB Plan amounted to $301 million, while members contributed $281 million.

Assets in the DC component grew from $71 million in 2019 to $100.2 million as at December 31, 2020. Canada Post contributed $15.5 million and members contributed $9.2 million to the DC component in 2020.

We are grateful to the Investment Advisory Committee and the Pension Advisory Council for their guidance and to our employees and retirees for their service to Canadians.

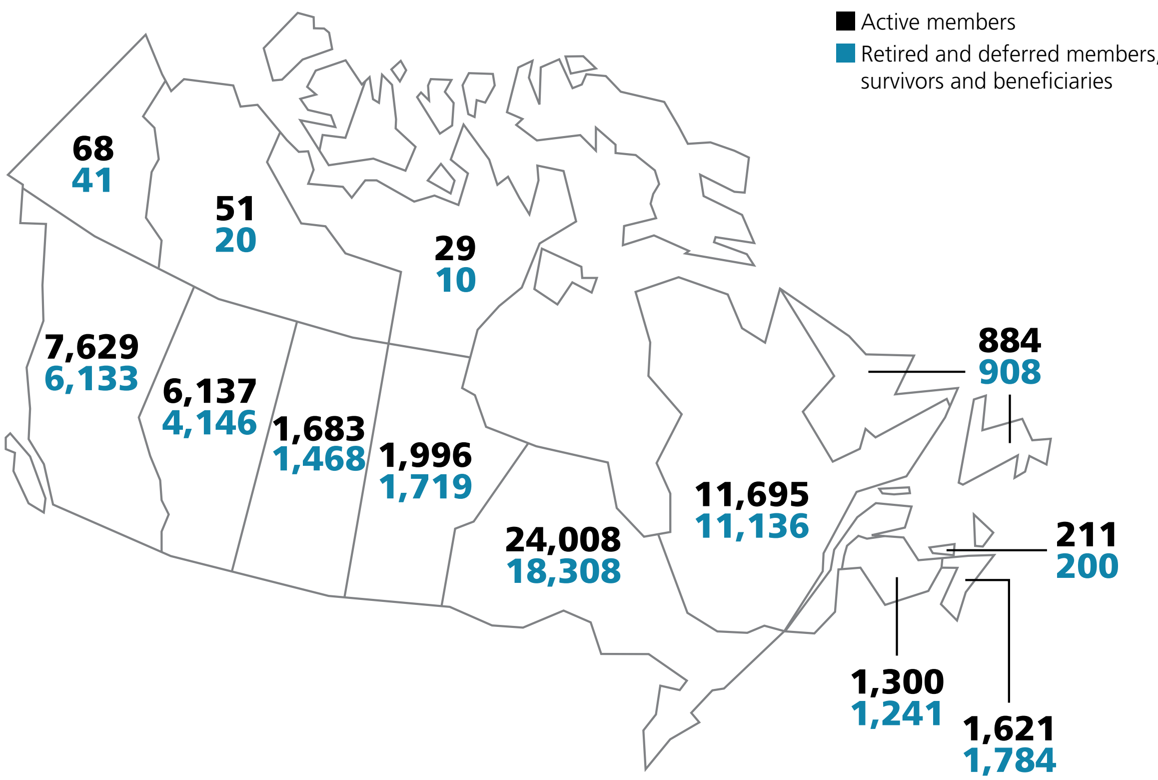
In closing, we thank Douglas D. Greaves, the recently retired Vice-President, Pension Fund and Chief Investment Officer, for his prudent stewardship. We also welcome Irshaad Ahmad, who will now play those vital roles, and thank Michael Butera for his guidance while he filled these positions in the interim.

Membership Snapshot

	2016	2017	2018	2019	2020[1]
Active members	53,263	53,606	55,586	56,074	57,312
Percentage	57.5%	56.3%	56.1%	55.2%	55.2%
Retired members	35,707	37,644	39,395	41,157	42,711
Percentage	38.6%	39.5%	39.8%	40.0%	40.0%
Deferred members, survivors and beneficiaries	3,603	3,953	4,094	4,431	4,759
Percentage	3.9%	4.2%	4.1%	4.4%	4.4%
Total	**92,573**	**95,203**	**99,075**	**101,662**	**104,782**

1. For 2020, the information includes 100,319 members of the defined benefit (DB) component and 4,463 members of the defined contribution (DC) component of the Plan (4,180 active and 283 deferred members in the DC).

Members across Canada – December 31, 2020



Age of active and retired members – December 31, 2020

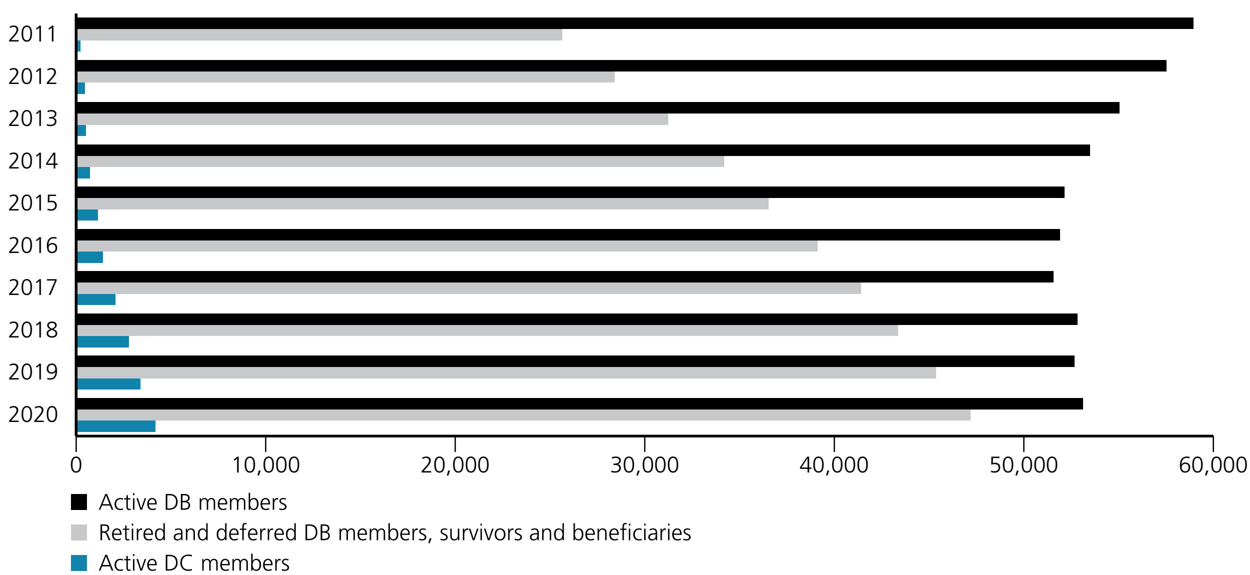
Age	Less than 30	30-39	40-49	50-59	60-69	70-79	More than 79
Active DB members	1,696	7,988	15,565	19,287	8,335	258	3
Active DC members	462	1,292	1,251	904	263	8	0
Retired DB members	1	22	133	3,333	23,217	14,675	1,330

Average age	2019	2020
Active DB members	49.7	49.8
Active DC members	41.6	42.5
DB members at retirement	59.0	59.1
Retired DB members	67.5	68.1

Did you know?

Over the next five years, 18,635 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 2020, Pension Policy prepared almost 98,050 annual personalized pension statements for DB active members, retirees, deferred members and survivors. Sun Life Financial issued 6,426 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.

101,636	**cpcpension.com** visits
63,356	Unique visitors were recorded in 2020, compared to 63,208 in 2019

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**.

2,267	**mysunlife.ca** visits
	Top three sections viewed were balance summary, detailed transaction history and summary of transaction history
680	Members used the mobile app an average of 3.2 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.

48,878	Telephone calls from members to the Pension Centre
11,011	Telephone calls to members
4,050	Telephone calls from retirees to the RBC Investor Services Trust
63,037	Transactions completed for members by the Pension Centre
142,232	Pension estimates using the online calculator
4.2/5.0	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 termination/retirement, withdrawals and I forgot my access ID and/or password
250	Messages answered
94%	Members' satisfaction score
95%	Target score

Pre-retirement webinar for DB members

Committed to providing retiring Plan members with a solution during COVID-19, Pension Policy and the Retirement Planning Institute worked on an online solution which became available in the fall of 2020. The pre-retirement webinar is offered to DB members to help them get ready to embark on the retirement journey. This webinar is by invitation only for members who are within 10 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.

1,331	Members attended the new webinar

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**.

12	Sun Life webinars
343	Webinar registrations
61	Registrations to the Canada Post specific webinar

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, 2020

16%	Completed the Retirement Planner tool
12%	Completed the Asset Allocation tool
37%	Completed the Re-balancing tool

Defined Benefit (DB) Component – Overview of 2020

DB assets

$29.6 billion

Net investment **assets** as at December 31, 2020

Rate of return in 2020

9.4%

Benchmark

10.3%

Funded status estimated as at December 31, 2020

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

$6.3 billion

82.8% funded

Going-concern surplus

$3.8 billion

115.9% funded

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

$7.1 billion

80.6% funded

Beyond the current relief level of 15% in the regulations in addition to the *Solvency Special Payment Relief Regulations*, Canada Post did not have to make additional special payments in 2020.[2]

Contributions in 2020

Members

$281 million[3]

Canada Post current service

$301 million

Canada Post special payments

$24 million

Benefits paid in 2020

$1,068 million

1. See page 28.
2. See page 29.
3. Amount includes $3.0 million of elective service contributions.

Calls from members to Pension Centre

48,878

Members' satisfaction score

4.2/5.0

Unique visitors at cpcpension.com

63,356

Defined Contribution (DC) Component – Overview of 2020

DC assets $100.2 million

VSP[1] assets $16.0 million

Total assets $116.2 million

Net investment assets as at December 31, 2020

1. Voluntary Savings Plan.

Range of rates of return in 2020

0.8% — 9.0%* — 16.3%

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 2020 returns of all the funds available in the DC component, from the lowest to the highest, with 9.0% being the average. See page 22 for the list of the DC fund investment rates of return.

As at December 31	2019	2020
Active members	3,494	4,180
Deferred members	223	283
DC assets	$71.0M	$100.2M
Canada Post contributions	$11.7M	$15.5M
Members' contributions	$7.1M	$9.2M
Investment income	$8.9M	$8.6M
Withdrawals and expenses	($3.1M)	($4.1M)
Average contribution (% of pay)	**2019**	**2020**
Canada Post	6.3%	6.3%
Members	3.9%	3.9%
Voluntary Savings Plan (VSP)	**2019**	**2020**
Assets	$12.9M	$16.0M
Member contributions (including transfers-in)	$2.4M	$3.0M
VSP member average contribution (% of pay)	3.9%	3.9%
VSP members	736	979

Calls from members to the Sun Life Customer Care Centre

1,911

Members' satisfaction score

94%

Visitors at mysunlife.ca

2,667

Want to know how your investments did in 2020?

Refer to your Sun Life personalized statement dated December 31, 2020, 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.

Membership of the Canada Post Board of Directors and committees as at December 31, 2020

Board of Directors

Suromitra Sanatani LL.B, ICD.D (interim chair)[1,2,3]
Doug Ettinger
Lloyd Bryant[1,2]
Bernd Christmas[1,2]
Michèle Desjardins[3]
Mélanie Dunn[3]
Claude Germain[1,2]
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

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)
Bernd Christmas
Phillip H. Doherty BComm, MBA, FCPA, FCA
Richard L. Knowles HBA, CFA

Union representatives
Isla Carmichael Ph.D, M.Ed, MA
Chris Roberts Ph.D

Pension Advisory Council

Canada Post representatives
Michael Butera (interim 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)
Chantal Séguin Flamand BBA, PPAC (management and exempt members)
David Taylor (retired members)
Peter Whitaker (retired members)

Union and association representatives
Jean-Charles Bédard (PSAC/UPCE)
Beverly Collins (CUPW)
Rona Eckert (CUPW)
Jean-Philippe Grenier (CUPW)
Dwayne Jones (CPAA)
François Paradis CHRP, PPAC (PSAC/UPCE, APOC, CPAA)
Sylvain Sicotte (CUPW)
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 page 11.

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 reviewed 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 2020, we communicated with members by producing the 2019 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 2020, the Communications and Consultation Group (C&C Group) met jointly with the Pension Advisory Council members on three occasions. The C&C Group held an election for the representative of management and exempt DB Plan 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**.

Environmental, Social and Governance (ESG) Framework

In January 2020, our Pension Plan became a signatory to the United Nations-supported Principles of Responsible Investment (PRI). During 2020, the Pension Investment team developed the foundation for a responsible investment strategy, focusing on three key pillars:

- **Integration** – We will work to incorporate ESG issues into our investment strategy, analysis and decision-making.
- **Engagement** – We will engage with companies on ESG issues and expect our asset managers to engage as well.
- **Advocacy** – We will advocate for policies and practices that support a more sustainable and inclusive future.

We have updated our Statements of Investment Policies and Procedures (SIPP) to clarify that ESG issues will be incorporated into our investment process to support long-term value creation. Any new investment mandates are now subject to an ESG due-diligence process. The defined benefit (DB) component of the Pension Plan has over $1 billion (or 69% of our commercial real estate portfolio) invested in buildings that have LEED[1] or BOMA BEST[2] ratings (environmental assessment and sustainable building certification programs for real estate). In our infrastructure portfolio, we have $221 million invested in renewable energy (18% of the portfolio), of which $127 million is in wind power, $43 million in hydroelectric power, $37 million is in solar power and $14 million in energy from waste.

For 2021, the Pension Investment team has two strategic focus areas based on the PRI:

- Develop a strategy to understand and manage climate change-related risks in the Pension Plan.
- Advocate diversity, equity and inclusion at Canada Post.

The following trademarks are the property of their respective owners:
1. LEED, Leadership in Energy and Environmental Design
2. BOMA BEST. Building Owners and Managers Association – Building Environmental Standards

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. These studies typically focus on finding strategies to deal with the volatility in liabilities, while maintaining the return on investments. The studies' recommendations will guide the Plan's investment strategy. It is a multi-phase 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 is increased as solvency levels go up. 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.

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 Investment Division team 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 legislation 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, varying levels of investment and financial experience, and different risk tolerances. 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.

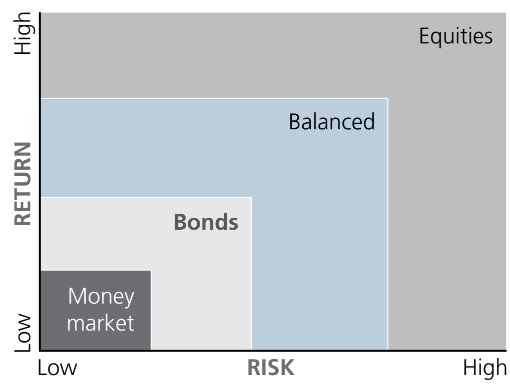
Different funds and investment approaches may be appropriate for different points in a member's career, since the options range from low risk/return to higher risk/return. Members of the DC Plan have access to Sun Life Financial's website, **mysunlife.ca**, which has tools and information to build their 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 2021

Investment structure and fund evaluation: Canada Post will continue to monitor 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.

Increasing member communication activities: Canada Post will continue to increase the number of email communications promoting information and tools available to members to assist them in managing their DC account and navigating and understanding the investment landscape.

Our Investments – DB Component

Michael A. Butera
Interim Vice-President, Pension Fund and Chief Investment Officer

2020 was a truly unique year as people worldwide faced the biggest global pandemic in over a century.

Despite extraordinary volatility in the markets, especially in March and April, 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 $29.6 billion at December 31, 2020, compared to $27.6 billion the previous year. The Plan delivered a return of 9.4% for 2020, which was below its benchmark return of 10.3%. The Plan's 2020 return placed it in the second quartile relative to its peers.

Taking the past four calendar years together, the Plan had a return of 8.7%, which exceeded its benchmark by 0.8%. In the long term, the Plan's record of outperformance has continued. Over 10 years, the Plan's average annual return was 8.8%, meaning the Plan outperformed its benchmark of 7.8% and its return objective over time of 6.1%. 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 $1,959 million over the last 10 years.

The Plan continued to execute the investment strategy outlined in the asset-liability study, which was approved by the Board in 2019. 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. Effective January 1, 2020, the Plan moved to phase one of its glide path. The Plan's policy benchmark increased fixed income by 1.1%, reduced Canadian equities by 0.8%, reduced U.S. equities by 3.3%, increased international equities by 2.6%, maintained real estate, increased infrastructure by 0.2% and increased private equity by 0.2%. 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. A regular review of the strategy will take place in 2023.

Here are some activities that affected the Plan's net investment assets in 2020:

Heading into 2020 the economy was in relatively stable condition and markets were not displaying specific or urgent signs of stress and imbalance. Starting in late January, as the spread of COVID-19 became apparent, governments around the world began to enact lockdown or stay-at-home orders to slow the spread of the disease and mitigate the strain on healthcare systems. By mid-March most countries were under some form of lockdown.

The uncertainties surrounding the nature and treatment of the virus and the sudden and substantial reduction in business activity lead to liquidity and solvency concerns. There was capital (credit and equity) market volatility – increased price fluctuations and dispersions, certain markets ceased generating transactions, or transactions became abnormally expensive as participants demanded a high-risk premium.

In March the Bank of Canada, along with central banks worldwide, took decisive and immediate actions to ensure liquidity in the capital markets. Targeted emergency lending facilities and substantial interest rate reductions, served to ensure liquidity in credit markets, encourage risk-taking in the capital markets and mitigate the economic impact of the shutdowns due to COVID-19.

These decisive monetary and fiscal policy decisions proved effective. This helped avoid a full-blown economic depression and set the stage for a strong rebound in April. By August the widely watched S&P 500 index had recovered to its pre-COVID-19 level. The earlier-than-expected COVID-19 vaccine announcements in November provided a sense of relief worldwide. The markets moved sharply upward as the increased mobility and re-opening of economies worldwide were in sight.

The market movements were reflected in the Plan's strong absolute return of 9.4%, which was below its benchmark return of 10.3%, despite the volatile year. All public market asset classes and alternative asset classes exhibited strong returns (page 18). The increase in the value of investment assets more than offset the increase in the Plan's liabilities that resulted from the central bank's interest rate cuts.

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

The Plan created an ESG Working Group with representation from all our asset classes to work with our Director, Environmental, Social and Governance (ESG) Investing to develop the Pension Plan's ESG investing strategy and action plan. The Director and the working group are working to formalize 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. A senior manager was hired in early 2021 to work with the Director.

Investment objectives

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

The Plan's asset-liability strategy is updated every three years. The strategy provides direction on how to maximize asset returns to meet pension promises, while minimizing fluctuations in the Plan's funded status and potential solvency payment obligations from the Plan sponsor. In late 2019, the Board of Directors approved the 2019 study that updated the asset-liability strategy by using a more robust proxy for the Plan's liabilities and better representations of expected returns and volatilities and streamlined the glide path. The study concluded that, with the updated strategy, the Plan was heading in the right direction with a disciplined approach to de-risking and utilizing the asset mix glide path. The Plan's Statement of Investment Policies and Procedures – DB Component (SIPP-DB) was updated after the Board's approval of the strategy and is updated whenever the Plan moves to the next phase in its glide path.

The asset-liability strategy ensures that the Plan's asset mix better matches its liabilities and that its interest rate risk is reduced over time. 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.

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 continue to be increased, while universe bonds and equity allocations have been reduced. The adoption of the strategy had reduced the Plan's funded status volatility.

In the long term, the Plan's record of outperformance relative to its benchmark portfolio has continued. The Plan's benchmark portfolio represents the performance of the market index for each of the asset classes in the Plan. Over 10 years, the Plan's average annual return was 8.8%, meaning the Plan outperformed its benchmark of 7.8% and its return objective over time of 6.5%. Over the short term, the Plan relies on a benchmark portfolio to evaluate investment performance.

Asset mix

The Plan's asset mix is designed to maximize growth opportunities, minimize risks and meet the requirements of risk management. In accordance with the strategy, the Plan's asset mix targets and ranges were adjusted with the implementation of each phase in the strategy's glide path. As of year-end 2020 the asset mix targets are 54.9% in equities, real estate and infrastructure and 45.1% 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, 2020, was 57.8% in equities, real estate and infrastructure, and 42.2% in fixed income and cash. The strong absolute returns in 2020 were attributable to the fund's allocation to long-term fixed-income assets, including inflation-linked bonds, and above-target allocation to equities and infrastructure, real estate and private equity.

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

Market review and financial market performance

2020 was an extraordinary year with unprecedented volatility in the markets. The year started on a positive note with a breakthrough trade agreement between China and the United States. In March, COVID-19 was spreading globally. The subsequent lockdown measures meant to slow its spread created a global economic crisis. At the same time oil prices collapsed due to reduced demand stemming from the lockdowns and a surprise increase in Saudi production in response to Russia's refusal to reduce oil production. From February 19 to March 23, the S&P 500 Index fell by 34%, the fastest decline in stock market history

Immediate, continued and unrivalled central bank actions and government fiscal support around the world signalled to capital market participants their commitment to the smooth functioning of markets and continued access to credit and capital. More than $28.5 trillion or 33% of world **GDP** was injected into the global economy in 2020. This helped to avoid a full-blown economic depression and set the stage for a strong rebound, beginning in April.

Markets rallied strongly in many asset classes. This momentum in November, when two pharmaceutical companies (Pfizer-BioNTech and Moderna) announced the outstanding effectiveness of their COVID-19 vaccines. Investors began to see that the end of the declared pandemic was in sight.

Precious metals, silver, palladium and gold, were the best-performing commodities, followed by base metals, copper, zinc and nickel. Oil prices recovered from their lows in 2020, but finished the year down by 20%. Silver had its best annual performance since 2010.

Overall, in 2020 public markets exhibited strong returns and benefited from unprecedented monetary stimulus. Private markets experienced more modest gains relative to their strong returns in the recent past. Precious metals, U.S. small and large cap equities, commodities and emerging market equities were the best performers. Canadian inflation-linked bonds and nominal bonds benefited from the Bank of Canada's aggressive interest rate cuts in responses to the economic aftershocks of COVID-19.

Global growth is expected to average just over 5% per year in 2021 and 2022, before slowing to just under 4% in 2023. Global financial markets and commodity prices have reacted positively to improving economic prospects. A broad-based decline in the U.S. exchange rate combined with stronger commodity prices have led to a further appreciation of the Canadian dollar.

Fund performance

The Plan earned a rate of return of 9.4% in 2020, compared to its benchmark return of 10.3%.

In the midterm, the four-year average annual return was 8.7%, and in the long term, the 10-year average annual return was 8.8%. This compares favourably with the fund's portfolio benchmarks of 8.0% and 7.8% for the same periods. The Plan's evolving investment strategy contributed to this investment success.

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

The internally managed Canadian fixed income mandates outperformed their respective benchmarks through industry selection, credit selection, **yield** curve management, and duration. In the case of the real return bonds portfolio, extending the duration of the portfolio significantly at an opportune time.

Private equity benefited from higher valuations and gains from the realizations of certain portfolio investments. Infrastructure profited from increased valuations as well as income distributions.

The real estate asset class continued to generate gains from sales of non-core assets. We recognized the COVID-19 challenges faced by every one of our portfolio's tenants and stayed engaged with them as they navigated their individual business issues and the various government programs for support. Rent collections were strong across the portfolio, thereby preserving the value of our assets. This asset class offers inflation protection and a predictable stream of income.

Outlook for 2021

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 is 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.

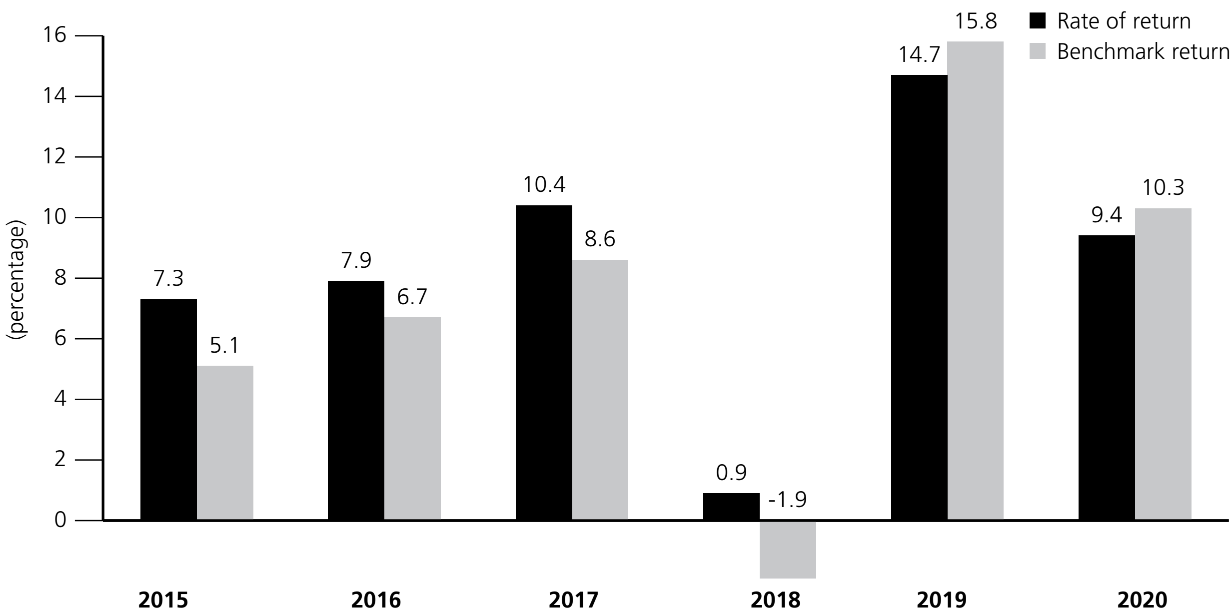
In 2021, the Plan will refine and execute our initial environmental, social and governance (ESG) three-year strategic plan. Strategic priorities in 2021 will focus on climate change and diversity, equity and inclusion. Core priorities for each asset class have been identified and prioritized. Frameworks, assessments and reporting processes will be formalized.

The Plan will voluntarily undertake the Principles of Responsible Investment (PRI) reporting in 2021. PRI reporting will be mandatory in 2022. In early 2020, the Plan became a signatory to the Principles of Responsible Investment, which are supported by the United Nations.

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.

The economic recovery from the COVID-19, while uneven, is under way and will accelerate as vaccine rollouts expand. Worldwide, the stated willingness of central banks to keep short-term interest rates low and of governments to provide continued fiscal support means a continued steepening of yield curves. A steepening yield curve is a sign of stronger economic growth and rising inflation expectations. This type of environment would have a positive effect on the Plan's solvency ratio and going-concern surplus in 2021.

Rate of return against benchmark

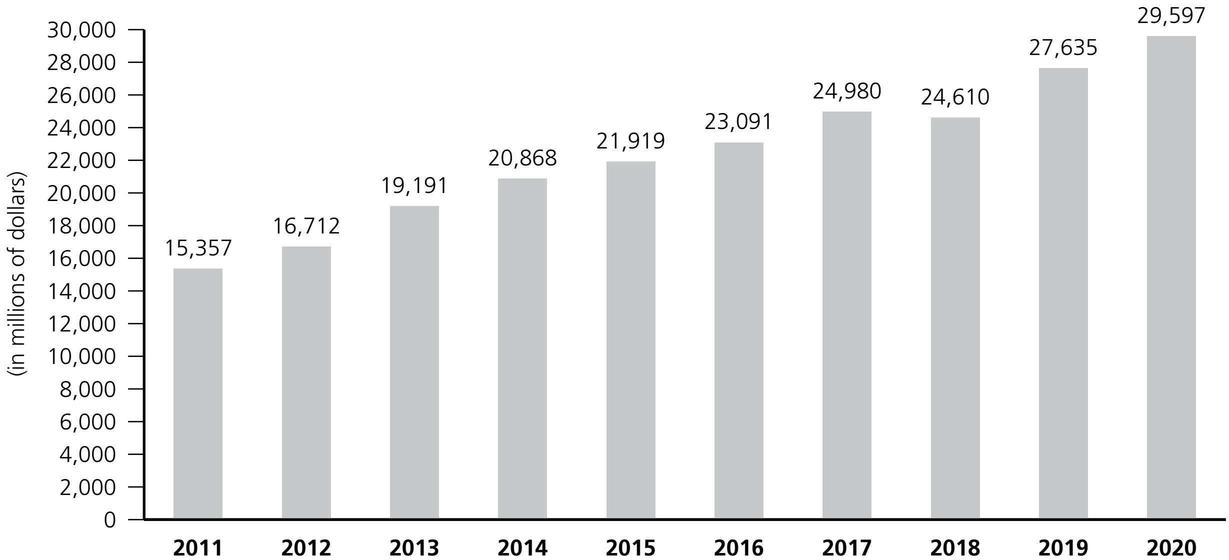


Rate of return

	Since Plan inception	Over the last 10 years	Over the last 5 years	2020	In 2019
Our Plan	7.1%	8.6%	8.8%	**9.4%**	14.7%
Our benchmark	5.7%	7.7%	7.8%	**10.3%**	15.8%
Peer group return[1]	7.0%	8.6%	8.7%	**9.4%**	13.6%
Rate of return objective over time			6.1%		

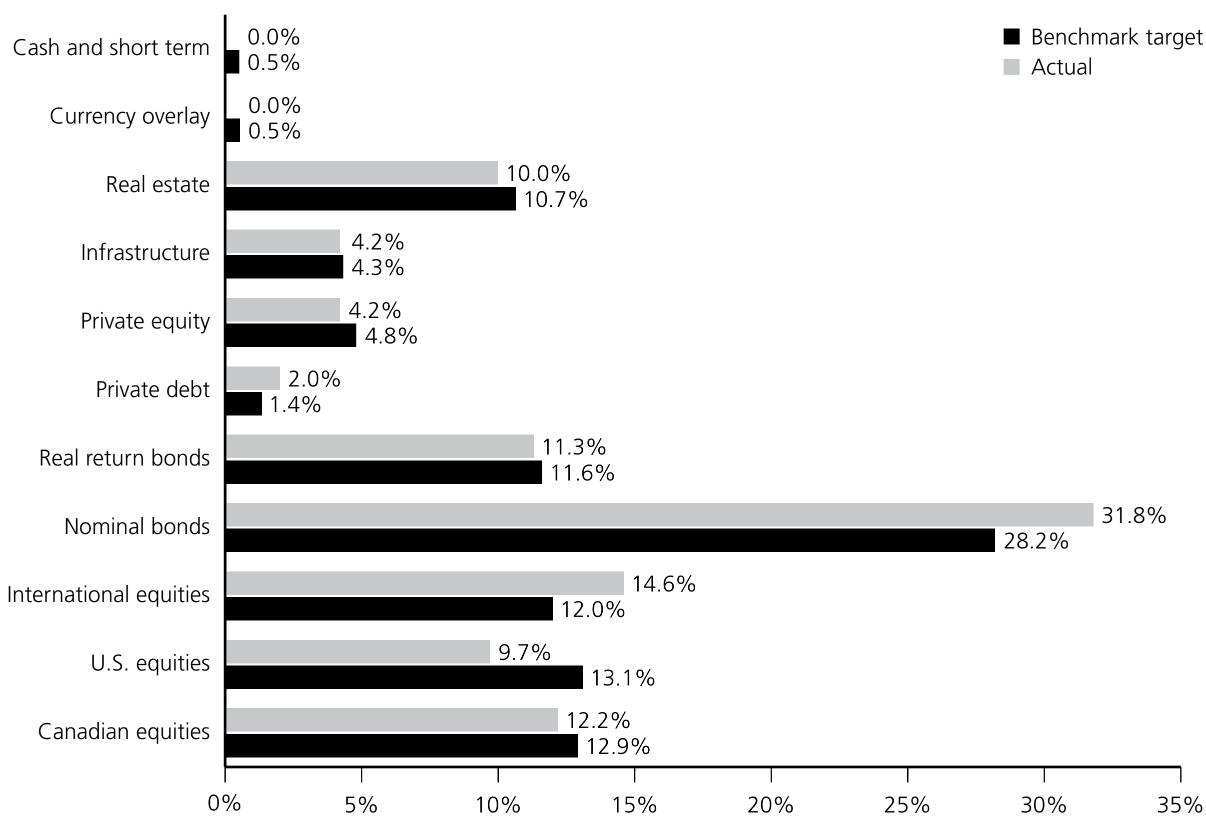
1. RBC Investor & Treasury Services based on the performance of large Canadian pension plans (more than $1 billion).

Net investment assets



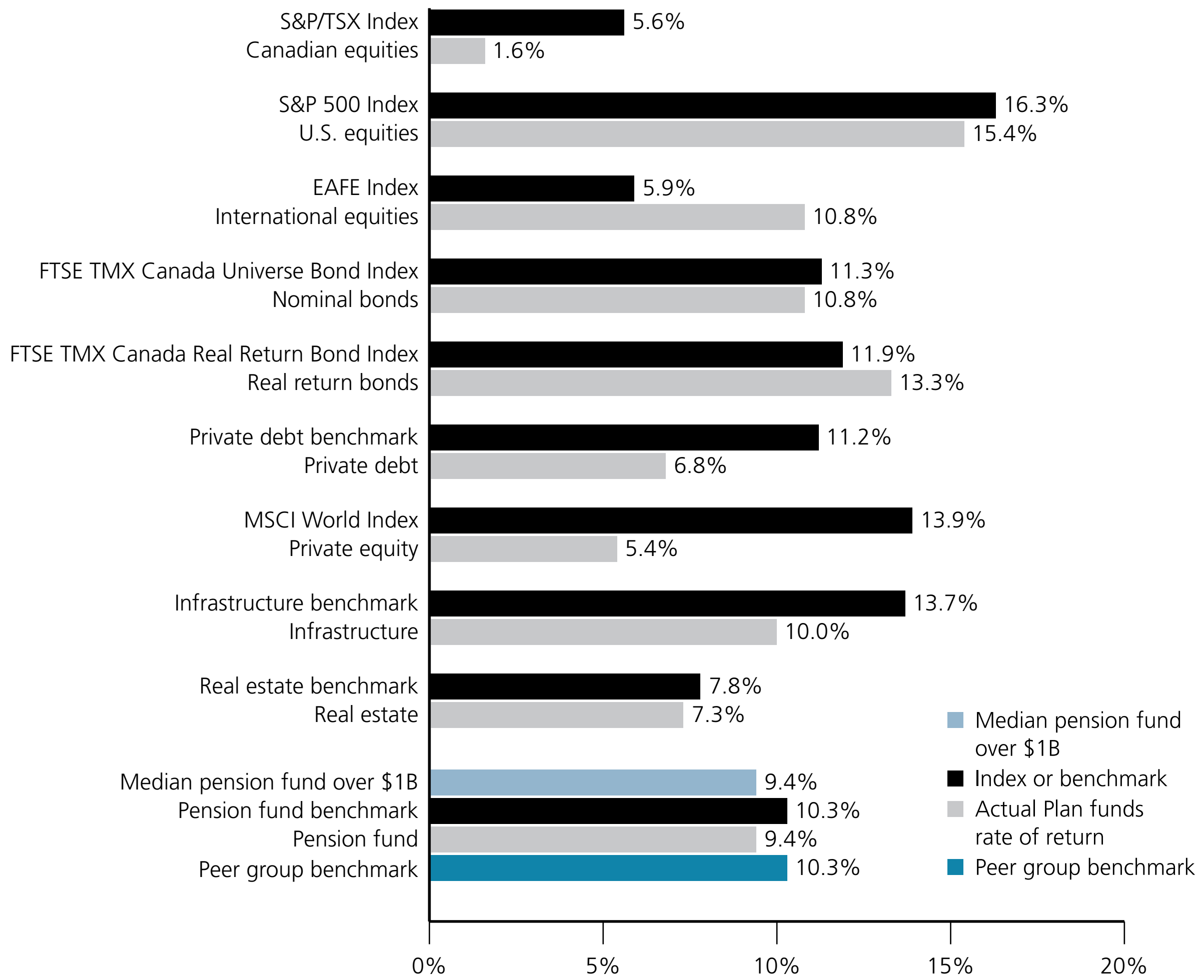
Net investment assets are defined as investments plus investment-related receivables, minus investment-related liabilities.

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	2019
Plan	$0.39	$0.41	$0.42
Peer group	$0.50	$0.48	$0.47
Benchmark	$0.45	$0.48	$0.46
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, 2020 (in millions of dollars)

	Market value	Percentage of overall fund
Toronto Dominion Bank	$173.9	0.59%
Apple Inc.	170.2	0.58
Microsoft Corp.	159.1	0.54
Bank of Nova Scotia	138.0	0.47
Royal Bank of Canada	137.6	0.46
Alphabet Inc. Capital Stock Class A	116.6	0.39
Manulife Financial Corp. Com	116.0	0.39
Amazon.com Inc.	110.2	0.37
Canadian National Railway Co.	107.9	0.36
Magna International Inc. Common	106.5	0.36
Shopify Inc. Class A Subordinate	102.2	0.35
Brookfield Asset Management Inc. Class A Common Stock	91.0	0.31
Samsung Electronic Co. Krw5000	87.3	0.30
Facebook Inc. Class A	83.8	0.28
Enbridge Inc.	83.5	0.28
Bank of Montreal	83.5	0.28
Telus Corporation Com	81.4	0.28
	$1,948.6	**6.58%**

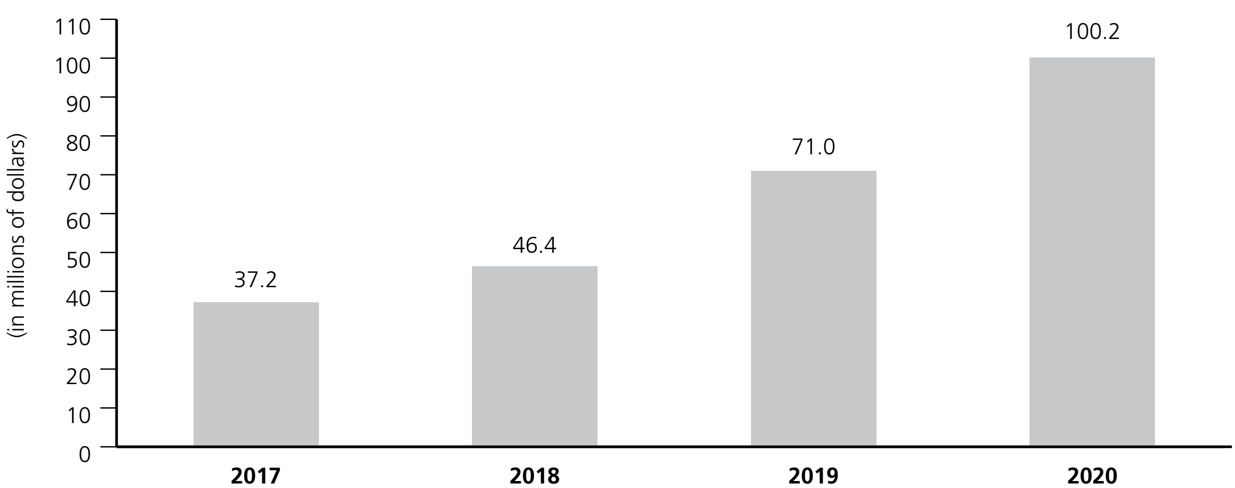
Our Investments – DC Component

Rates of return

As at December 31, 2020

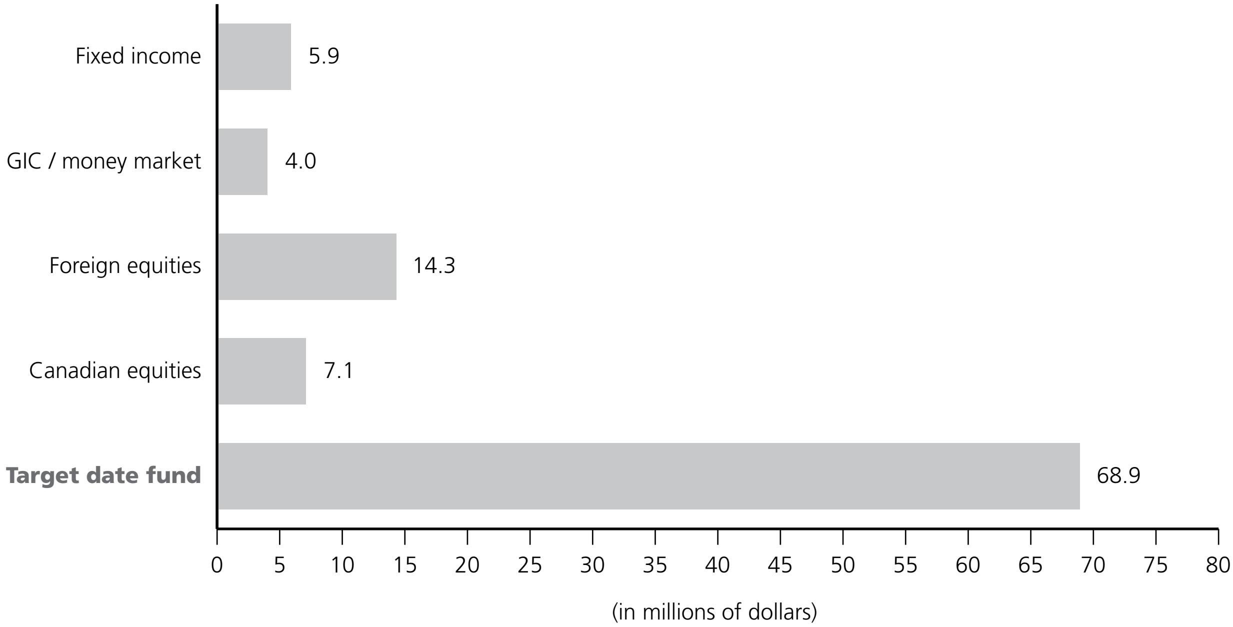
Fund	1 year	5 years	10 years
BlackRock LifePath® Index 2020	9.0%	6.6%	7.2%
BlackRock LifePath® Index 2025	8.8%	7.1%	7.9%
BlackRock LifePath® Index 2030	8.8%	7.6%	8.2%
BlackRock LifePath® Index 2035	8.9%	8.1%	8.6%
BlackRock LifePath® Index 2040	8.8%	8.6%	9.0%
BlackRock LifePath® Index 2045	8.9%	9.1%	9.4%
BlackRock LifePath® Index 2050	9.0%	9.3%	N/A
BlackRock LifePath® Index 2055	9.1%	9.3%	N/A
BlackRock LifePath® Index 2060	9.2%	N/A	N/A
BlackRock LifePath® Index Retirement	9.0%	6.1%	6.2%
BlackRock U.S. Equity Index	16.3%	13.2%	16.7%
CC&L Group Canadian Equity	11.5%	10.1%	7.6%
MFS Global Equity	11.9%	11.2%	14.3%
MFS International Equity	9.4%	9.2%	10.5%
Sun Life Financial Money Market	0.8%	1.1%	1.1%
TDAM Canadian Bond Index	8.4%	4.0%	4.4%
TDAM Canadian Equity Index	5.6%	9.3%	5.7%

Investment assets

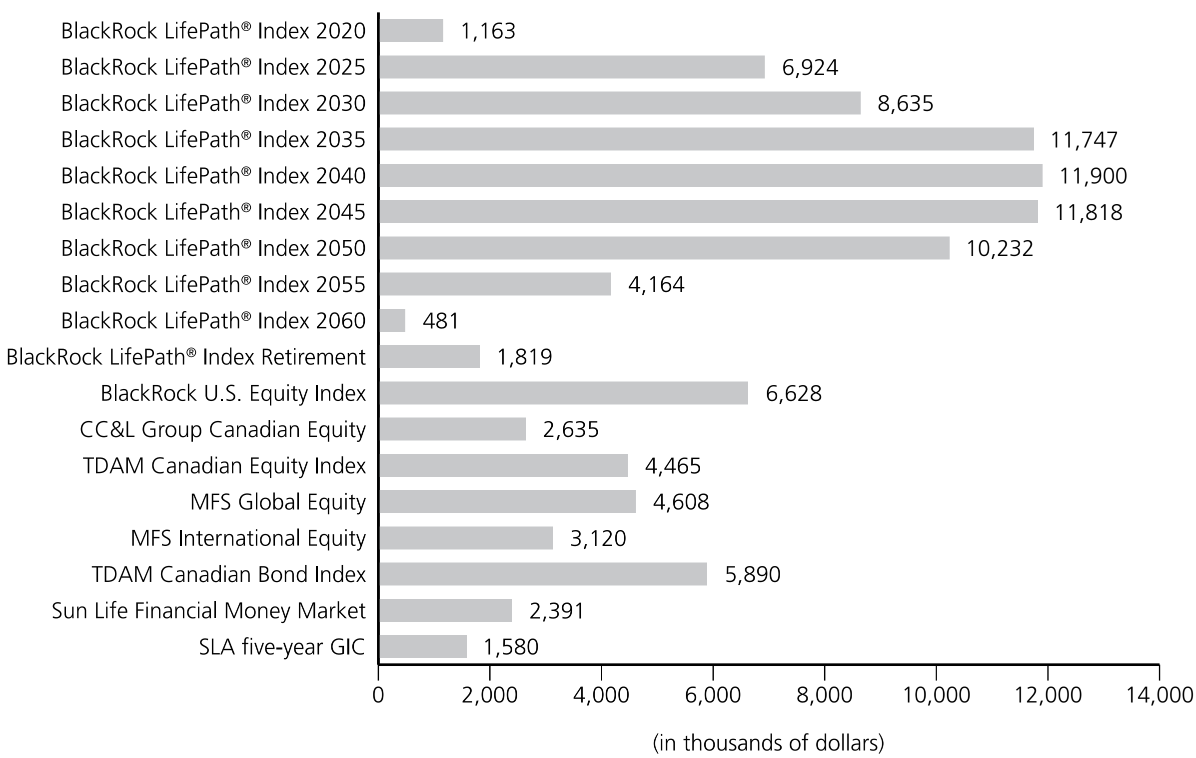


Asset mix

As at December 31, 2020



Detailed asset mix



Fund management fees

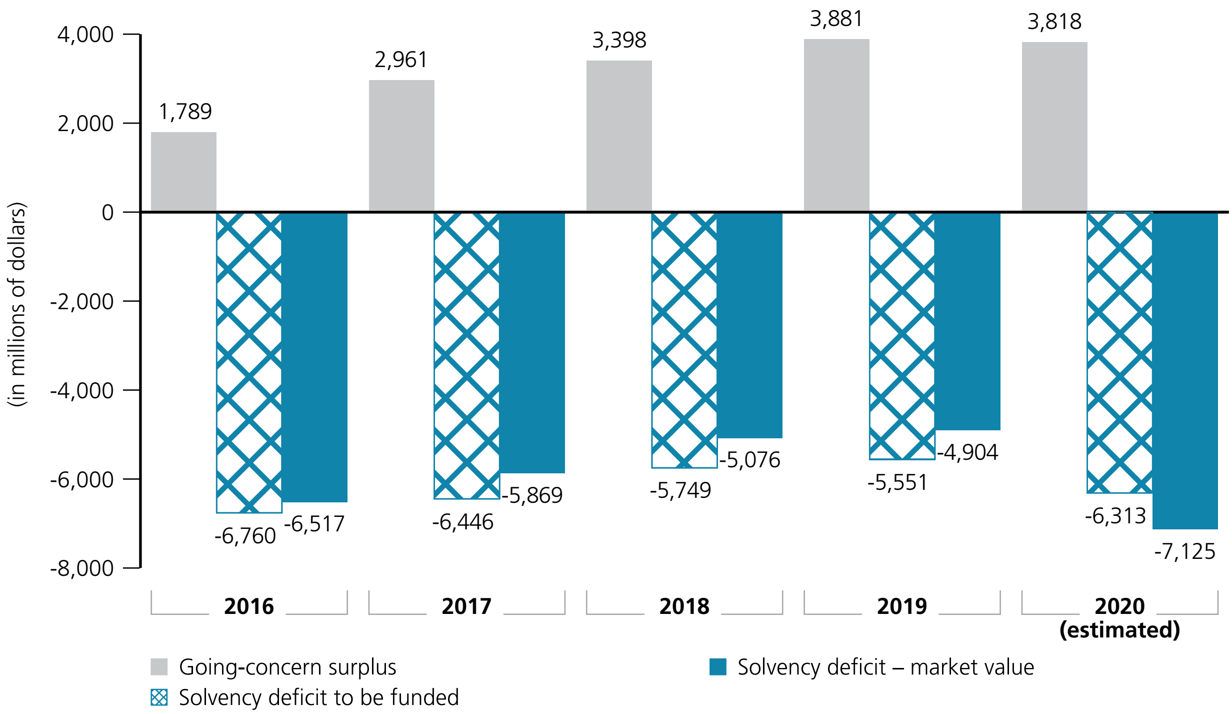
As at December 31, 2020

Fund	Annualized percentage
BlackRock LifePath® Index 2020	0.28%
BlackRock LifePath® Index 2025	0.29%
BlackRock LifePath® Index 2030	0.34%
BlackRock LifePath® Index 2035	0.40%
BlackRock LifePath® Index 2040	0.46%
BlackRock LifePath® Index 2045	0.46%
BlackRock LifePath® Index 2050	0.46%
BlackRock LifePath® Index 2055	0.47%
BlackRock LifePath® Index 2060	0.52%
BlackRock LifePath® Index Retirement	0.28%
BlackRock U.S. Equity Index	0.19%
CC&L Group Canadian Equity	0.34%
MFS Global Equity	0.60%
MFS International Equity	0.61%
Sun Life Financial Money Market	0.19%
TDAM Canadian Bond Index	0.19%
TDAM Canadian Equity Index	0.20%

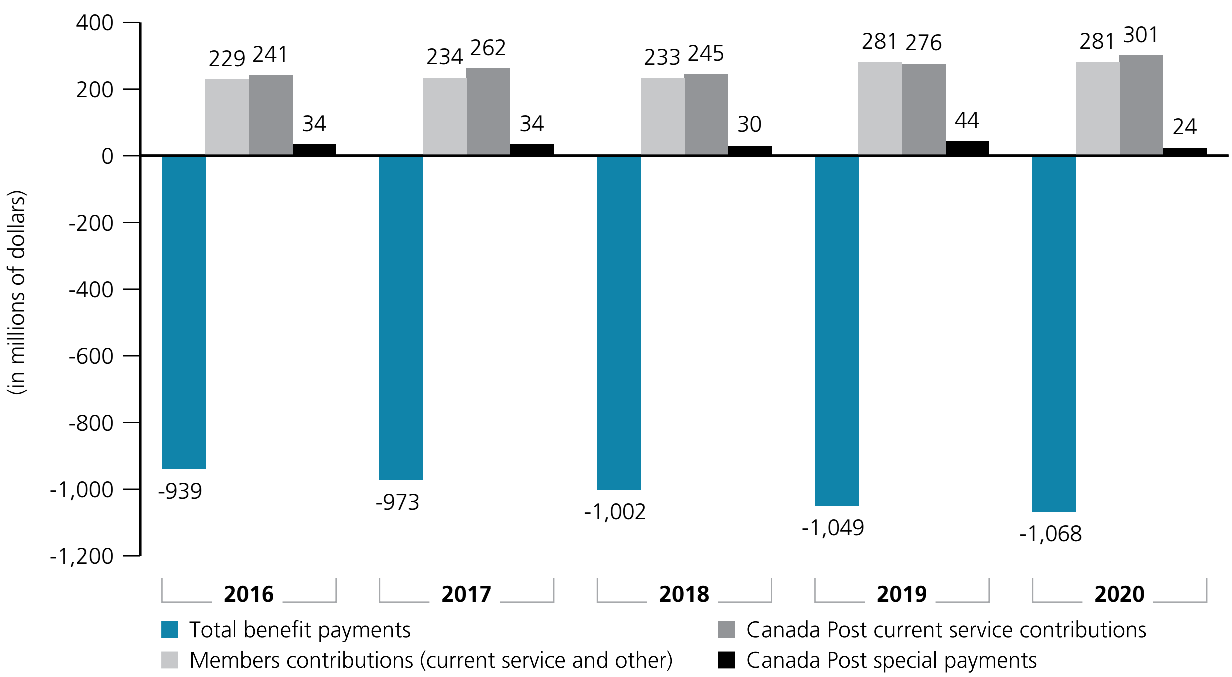
The **fund management fees** listed here cover the costs of operations and investment expertise. They are also subject to applicable sales tax, which is not included in the amounts listed above.

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 2020, member contributions of $281 million included $3 million of elective service contributions.

Summary of Financial Statements

Net assets available for benefits

The Canada Post Corporation Registered Pension Plan posted a 9.4% return in 2020. The Plan ended the year with net assets available for benefits of $29,757 million (including $101 million in the DC component), an increase of $2,001 million from $27,756 million (including $71 million in the DC component) at the end of 2019.

Changes in net assets available for benefits

The $2,001 million increase in net assets available for benefits represented investment income of $2,583 million and contributions of $633 million, offset by pension benefit payments of $1,072 million and expenses of $143 million.

Investment income – comprising interest, dividend, as well as realized and unrealized gains and losses – was $2,583 million for 2020, compared to $3,608 million for 2019.

Plan contributions in 2020 were $633 million compared to $621 million in 2019, an increase of $12 million.

Pension benefit payments for 2020 were $1,072 million compared to $1,053 million in 2019, an increase of $19 million. This was mostly the result of a 3.64% increase in the number of retirees over 2020.

Changes in pension obligations

Pension obligations were $24,149 million (including $101 million in the DC component) compared to $22,504 million (including $71 million in the DC component) in 2019, an increase of $1,645 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)	2020			2019		
Accounting basis	DB	DC	Total	DB	DC	Total
Net assets	29,656	101	29,757	27,685	71	27,756
Pension obligations	24,048	101	24,149	22,433	71	22,504

Surplus (deficit)

The difference between assets available for benefit and pension obligations as at December 31, 2020, resulted in a surplus of $5,608 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 $3,818 million. The difference between the accounting surplus of $5,608 million and the estimated going-concern surplus of $3,818 million was an **actuarial asset value adjustment** (or **smoothing**) of $1,790 million. The smoothed-asset 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)	**2020**	**2019**	**2018**	**2017**	**2016**
Assets					
Investments	$29,592	$27,594	$24,662	$24,910	$23,075
Investment related receivables	129	246	149	255	160
Contribution / other receivables	105	99	103	112	112
Total assets	**$29,826**	**$27,939**	**$24,914**	**$25,277**	**$23,347**
Liabilities					
Investment related liabilities	23	134	152	148	118
Accounts payable and accrued liabilities	46	49	47	47	37
Total liabilities	**$69**	**$183**	**$199**	**$195**	**$155**
Net assets available for benefits	**$29,757**	**$27,756**	**$24,715**	**$25,082**	**$23,192**
Pension obligations and surplus (deficit)					
Pension obligations	$24,149	$22,504	$21,574	$20,827	$20,301
Surplus (deficit)	5,608	5,252	3,141	4,255	2,891
Total pension obligations and surplus (deficit)	**$29,757**	**$27,756**	**$24,715**	**$25,082**	**$23,192**

Changes in net assets available for benefits (in millions of dollars)	**2020**	**2019**	**2018**	**2017**	**2016**
Investment income	**$2,583**	**$3,608**	**$243**	**$2,439**	**$1,721**
Contributions – Sponsor					
Current service	317	288	254	269	246
Special payments	25	45	30	34	34
Contributions – Members					
Current service	288	284	234	234	226
Past service and other	3	4	5	5	6
Total contributions	**$633**	**$621**	**$523**	**$542**	**$512**
Less					
Benefits					
Retirement and survivor pensions	1,005	968	928	887	847
Commuted value transfers and other	67	85	79	89	94
Total benefits	**$1,072**	**$1,053**	**$1,007**	**$976**	**$941**
Administration expenses					
Plan administration	27	25	25	23	21
Investment fees	116	110	101	92	84
Total administration expenses	**$143**	**$135**	**$126**	**$115**	**$105**
Increase (decrease) in net assets	**$2,001**	**$3,041**	**$(367)**	**$1,890**	**$1,187**

Changes in pension obligations (in millions of dollars)	**2020**	**2019**	**2018**	**2017**	**2016**
Interest on pension obligations	$1,149	$1,166	$1,128	$1,101	$1,100
Benefits accrued	586	577	502	511	474
Changes in actuarial assumptions	1,180	322	129	(4)	532
Net experience losses (gains)	(198)	(82)	(5)	(106)	(98)
Benefits paid	(1,072)	(1,053)	(1,007)	(976)	(941)
Net increase (decrease) in pension obligations	**$1,645**	**$930**	**$747**	**$526**	**$1,067**

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 May 2020 and provided results as at December 31, 2019.

Actuarial valuation results – Going concern

Going-concern funded status of the Plan as at December 31				
	2020 estimated		2019 actual	
	In millions of dollars	Funded ratio	In millions of dollars	Funded ratio
Going-concern assets (smoothed value)	27,866		26,242	
Going-concern obligations	24,048		22,361	
Going-concern surplus	3,818	115.9%	3,881	117.4%

Actuarial valuation results – Solvency

Solvency funded status of the Plan as at December 31				
	2020 estimated		2019 actual	
	In millions of dollars	Funded ratio	In millions of dollars	Funded ratio
Solvency assets (market value)	29,616		27,645	
Solvency obligations	36,741		32,548	
Solvency **deficit** (based on market value of Plan assets)	**(7,125)**	80.6%	**(4,903)**	84.9%
Solvency **deficit** to be funded (using three-year **average solvency ratio** method)	**(6,313)**	82.8%	**(5,551)**	82.9%

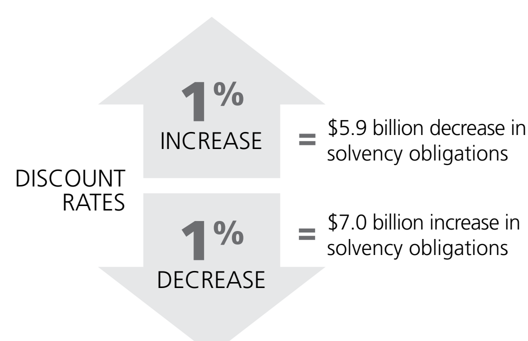
The solvency deficit using the market value of Plan assets increased from $4,903 million at the end of 2019 to an estimated $7,125 million at the end of 2020. The increase was mainly due to a lower discount rate partially offset by a higher return than expected on assets.

The average solvency ratio over the three-year period used for the valuation decreased in 2020, going from 82.9% to 82.8%. This resulted in the solvency deficit to be funded, increasing from $5,551 million at the end of 2019 to an estimated $6,313 million at the end of 2020.

If the Plan had been terminated and wound up on December 31, 2019, 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)	**2020**	**2021[1]**
Members	281	301
Canada Post regular contributions	301	340
Canada Post special payments[2]	24	26
Total contributions	**606**	**667**

Current service cost sharing[3] (regular contributions)	**2020**	**2021[1]**
Members	48%	47%
Canada Post	52%	53%

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

The special payments made by Canada Post in 2020 and estimated to be made in 2021 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 they include additional top-up payments required by the Office of Superintendent of Financial Institutions 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. Under these regulations, Canada Post would have had to make $368 million of solvency special payments for 2020 beyond the relief limit.

However, due to COVID-19 effects on the economy, the *Solvency Special Payment Relief Regulations* came into force in the second quarter of 2020, establishing a moratorium on solvency special payments for the remainder of the year for federally regulated, defined benefit pension plans. As a result, Canada Post did not have to make special payments for 2020, which would have totalled $1.1 billion (including special payments made to cover transfer deficiencies) without this relief. For 2021, Canada Post has notified and received no objections from the Minister of Finance and the Minister of Public Services and Procurement of its intent to reduce solvency special contributions for 2021. Under current regulations, Canada Post does not expect to make solvency special payments for 2021; however, market volatility could have a significant effect on payments for 2022 and thereafter. Beyond the current relief level of 15% in the regulations, the Corporation may require incremental borrowing or additional pension relief as these payments pose a risk to its cash flow in coming years. The Corporation has requested temporary relief from making future payments, and is working with relevant stakeholders including its shareholder, the Government of Canada, to explore options.

Relief (in millions of dollars)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Solvency relief under the *Pension Benefits Standards Act, 1985*	–	–	–	–	1,289	1,150	278
Relief under the *Canada Post Corporation Pension Plan Funding Regulations*	1,269	1,360	1,254	1,352	–	–	–
Solvency Special Payments Relief Regulations, 2020	–	–	–	–	–	–	833

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 $1,134 million in 2020 (including $24 million in top-up payments). This would have brought total contributions from Canada Post to $1,436 million in 2020, or 50% 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 2020 funding valuation will be filed by June 2021.

	Estimated	**Filed funding valuations[1]**									
As at December 31 (in millions of dollars)	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**
Going concern – assuming the Plan continued in operation											
Market value of assets	$ 29,656	$ 27,685	$ 24,669	$ 25,045	$ 23,166	$ 21,987	$ 20,932	$ 19,262	$ 16,775	$ 15,431	$ 15,376
Asset smoothing adjustment	(1,790)	(1,443)	176	(1,322)	(1,124)	(1,541)	(1,832)	(1,527)	(352)	716	488
Smoothed value of assets	27,866	26,242	24,845	23,723	22,042	20,446	19,100	17,735	16,423	16,147	15,864
Funding target	24,048	22,361	21,447	20,762	20,253	19,200	18,600	18,031	16,342	16,551	16,039
Funding surplus (deficit)	$ 3,818	$ 3,881	$ 3,398	$ 2,961	$ 1,789	$ 1,246	$ 500	$ (296)	$ 81	$ (404)	$ (175)
Funded ratio	115.9%	117.4%	115.8%	114.3%	108.8%	106.5%	102.7%	98.4%	100.5%	97.6%	98.9%
Assumptions used for going-concern valuations											
Discount rate	4.80%	5.20%	5.50%	5.50%	5.50%	5.80%	5.80%	5.80%	5.80%	5.80%	5.80%
Inflation rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.25%	2.25%	2.25%	2.25%	2.50%	2.50%
Real return rate (net of inflation)	2.80%	3.20%	3.50%	3.50%	3.50%	3.55%	3.55%	3.55%	3.55%	3.30%	3.30%
Solvency – assuming the Plan was terminated on the date of valuation											
Market value of assets (net of termination fees)	$ 29,616	$ 27,644	$ 24,629	$ 25,005	$ 23,146	$ 21,967	$ 20,912	$ 19,250	$ 16,763	$ 15,419	$ 15,364
Solvency obligations	36,741	32,548	29,705	30,874	29,663	28,038	27,790	24,266	23,279	22,014	19,056
Solvency – market value											
Surplus (deficit)	$ (7,125)	$ (4,904)	$ (5,076)	$ (5,869)	$ (6,517)	$ (6,071)	$ (6,878)	$ (5,016)	$ (6,516)	$ (6,595)	$ (3,692)
Solvency ratio	80.6%	84.9%	82.9%	81.0%	78.0%	78.3%	75.3%	79.3%	72.0%	70.0%	80.6%
Solvency – to be funded											
Surplus (deficit)	$ (6,313)	$ (5,551)	$ (5,749)	$ (6,446)	$ (6,760)	$ (6,269)	$ (6,801)	$ (6,345)	$ (5,890)	$ (4,689)	$ (3,204)
Solvency ratio	82.8%	83.0%	80.6%	79.1%	77.2%	77.6%	75.5%	73.9%	74.7%	78.7%	83.2%
Assumptions used for solvency valuations											
Discount rate (real return rates, net of inflation)											
For commuted values											
Rate for first 10 years[2]	0.70%	1.20%	1.70%	1.40%	1.10%	1.30%	1.30%	1.70%	1.10%	1.30%	1.70%
Rate after 10 years[2]	0.90%	1.20%	1.80%	1.60%	1.30%	1.80%	1.60%	2.30%	1.30%	1.60%	2.30%
For annuities	-0.10%	0.60%	1.30%	0.90%	1.10%	1.20%	1.10%	1.80%	1.50%	1.60%	2.20%

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.

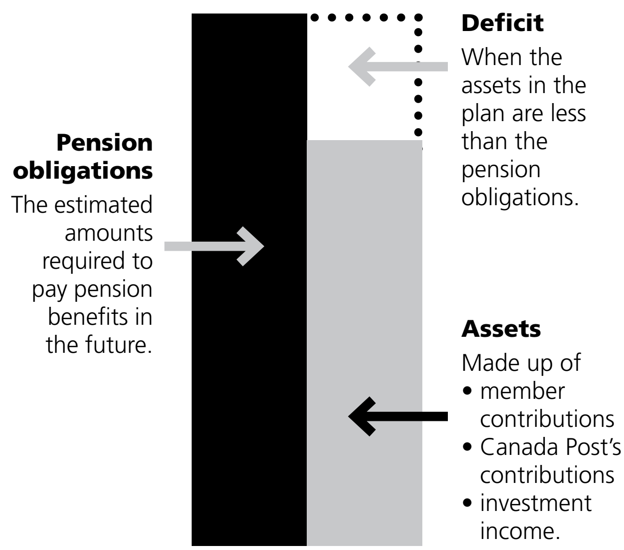
Funding relief does not reduce or eliminate Canada Post's obligation to fully fund the Plan and it remains responsible for funding any deficits.

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

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 Centre
Questions about your investments and returns

1-866-733-8612

Monday to Friday
8 am to 8 pm (ET)

mysunlife.ca

Members across Canada – December 31, 2020, data

Province	Active members	Retired and deferred members, survivors and beneficiaries
Yukon	68	41
Northwest Territories	51	20
Nunavut	29	10
British Columbia	7,629	6,133
Alberta	6,137	4,146
Saskatchewan	1,683	1,468
Manitoba	1,996	1,719
Ontario	24,008	18,308
Quebec	11,695	11,136
Newfoundland and Labrador	884	908
Prince Edward Island	211	200
New Brunswick	1,300	1,241
Nova Scotia	1,621	1,784

Back to "Members across Canada – December 31, 2020" graph, page 2

Changes in membership data

Member type	2012	2013	2014	2015	2016	2017	2018	2019	2020
Active DB members	57,533	55,058	53,482	52,141	51,903	51,578	52,839	52,685	53,132
Retired and deferred DB members, survivors and beneficiaries	28,402	31,228	34,189	36,548	39,112	41,413	43,364	45,365	47,187
Active DC members	464	513	721	1,149	1,402	2,063	2,773	3,389	4,180

Back to "Changes in membership" graph, page 3

Rate of return against benchmark data

Return type	2015	2016	2017	2018	2019	2020
Rate of return	7.3%	7.9%	10.4%	0.9%	14.7%	9.4%
Benchmark return	5.1%	6.7%	8.6%	-1.9%	15.8%	10.3%

Back to "Rate of return against benchmark" graph, page 18

Net investment assets data

Asset	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net investment assets (in millions of dollars)	15,257	15,357	16,712	19,191	20,868	21,919	23,091	24,980	24,610	27,635	29,597

Back to "Net investment assets" graph, page 19

Asset mix data (DB component)

Asset	Benchmark target	Actual
Cash and short term	0.0%	0.5%
Currency overlay	0.0%	0.5%
Real estate	10.0%	10.7%
Infrastructure	4.2%	4.3%
Private equity	4.2%	4.8%
Private debt	2.0%	1.4%
Real return bonds	11.3%	11.6%
Nominal bonds	31.8%	28.2%
International equities	14.6%	12.0%
U.S. equities	9.7%	13.1%
Canadian equities	12.2%	12.9%

Back to "Asset mix" graph (DB component), page 19

Rates of return by asset class and total Plan data

Asset	Index or benchmark	Actual Plan funds rate of return	Median pension fund over $1B	Peer group benchmark
S&P/TSX Index	5.6%	–	–	–
Canadian equities	–	20.4%	–	–
S&P 500 Index	16.3%	–	–	–
U.S. equities	–	15.4%	–	–
EAFE Index	5.9%	–	–	–
International equities	–	10.8%	–	–
FTSE TMX Canada Universe Bond Index	11.3%	–	–	–
Nominal bonds	–	10.8%	–	–
FTSE TMX Canada Real Return Bond Index	11.9%	–	–	–
Real return bonds	–	13.3%	–	–
Private debt benchmark	11.2%	–	–	–
Private debt	–	6.8%	–	–
MSCI World Index	13.9%	–	–	–
Private equity	–	5.4%	–	–
Infrastructure benchmark	13.7%	–	–	–
Infrastructure	–	10.0%	–	–
Real estate benchmark	7.8%	–	–	–
Real estate	–	7.3%	–	–
Median pension fund over $1B	–	–	9.4%	–
Pension fund benchmark	10.3%	–	–	–
Pension fund	–	9.4%	–	–
Peer group benchmark	–	–	–	10.3%

Back to “Rates of return by asset class and total Plan” graph, page 20

Investment assets data

Asset	2017	2018	2019	2020
Investment assets (in millions of dollars)	37.2	46.4	71	100.2

Back to “Investment assets” graph, page 22

Asset mix data (DC component)

Asset	Value (in millions of dollars)
Fixed income	5.9
GIC / money market	4.0
Foreign equities	14.3
Canadian equities	7.1
Target date fund	68.9

Back to "Asset mix" graph (DC component), page 23

Detailed asset mix data

Asset	Total (in thousands of dollars)
BlackRock LifePath® Index 2020	1,163
BlackRock LifePath® Index 2025	6,924
BlackRock LifePath® Index 2030	8,635
BlackRock LifePath® Index 2035	11,747
BlackRock LifePath® Index 2040	11,900
BlackRock LifePath® Index 2045	11,818
BlackRock LifePath® Index 2050	10,232
BlackRock LifePath® Index 2055	4,164
BlackRock LifePath® Index 2060	481
BlackRock LifePath® Index Retirement	1,819
BlackRock U.S. Equity Index	6,628
CC&L Group Canadian Equity	2,635
TDAM Canadian Equity Index	4,465
MFS Global Equity	4,608
MFS International Equity	3,120
TDAM Canadian Bond Index	5,890
Sun Life Financial Money Market	2,391
SLA five-year GIC	1,580

Back to "Detailed asset mix" graph, page 23

Plan’s funded status data

Status	2016	2017	2018	2019	2020 (estimated)
Going-concern surplus (in millions of dollars)	1,789	2,961	3,398	3,881	3,818
Solvency deficit to be funded (in millions of dollars)	-6,760	-6,446	-5,749	-5,551	-6,313
Solvency deficit – market value (in millions of dollars)	-6,517	-5,869	-5,076	-4,904	-7,125

Back to “Plan’s funded status” graph, page 25

Contributions and benefit payments data

Status	2016	2017	2018	2019	2020
Total benefit payments (in millions of dollars)	-939	-973	-1,002	-1,049	-1,068
Members contributions (current service and other) (in millions of dollars)	229	234	233	281	281
Canada Post current service contributions (in millions of dollars)	241	262	245	276	301
Canada Post special payments (in millions of dollars)	34	34	30	44	24

Back to “Contributions and benefit payments” graph, page 25