Canada Post Pension Plan
2019 Report to Members

Summary Report

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 (DB) component and the defined contribution (DC) 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*.

Any mention in this Report of "VSP" refers to the Voluntary Savings Plan.

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.

DK19120

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.

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.

How the Plan Is Doing

DB

DB assets

$27.6 billion

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

Rate of return in 2019

14.7%

Benchmark

15.8%

DC

DC assets **$71.0** million

VSP assets **$12.9** million

Total assets **$83.9** million

Net investment assets as at December 31, 2019

Funded status estimated as at December 31, 2019

Solvency deficit to be funded
(three-year average)

$5.6 billion

82.9% funded

Going-concern surplus

$3.8 billion

117.0% funded

Solvency deficit market value
(wind-up basis)

$4.9 billion

84.9% funded

As a result of regulatory changes made in June 2017, Canada Post did not have to make additional special payments in 2019.

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 5 for the list of the DC fund investment rates of return.

Some Statistics of Interest

DB
Contributions in 2019

Members

$280.6 million[1]

Canada Post current service

$276.4 million

Canada Post special payments

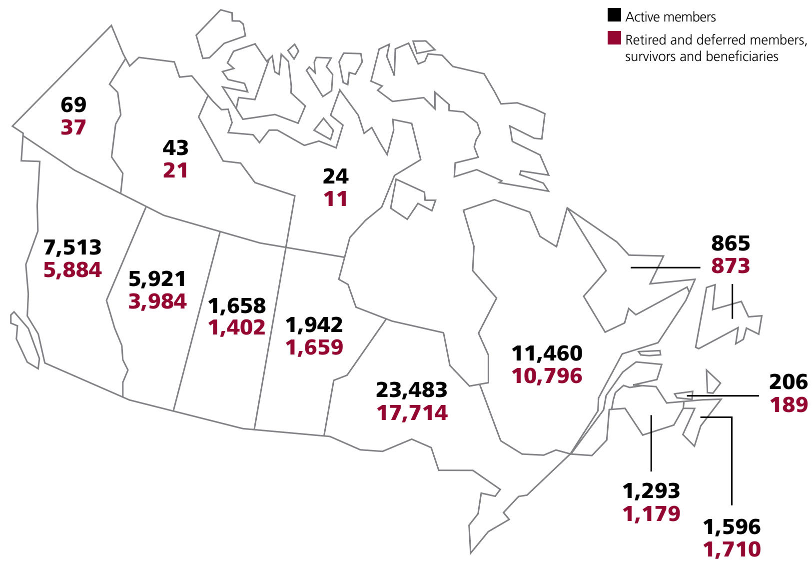
$44 million

Benefits paid in 2019

$1,049 million

1. Amount includes $4.3 million of elective service contributions.

DB/DC
Members across Canada – December 31, 2019



DB
Calls from members to Pension Centre

44,865

DC
Calls from members to the Sun Life Customer Care Centre

1,911

DB
Members' satisfaction score

4.3/5.0

DC
Members' satisfaction score

94%

DB
Unique visitors at cpcpension.com

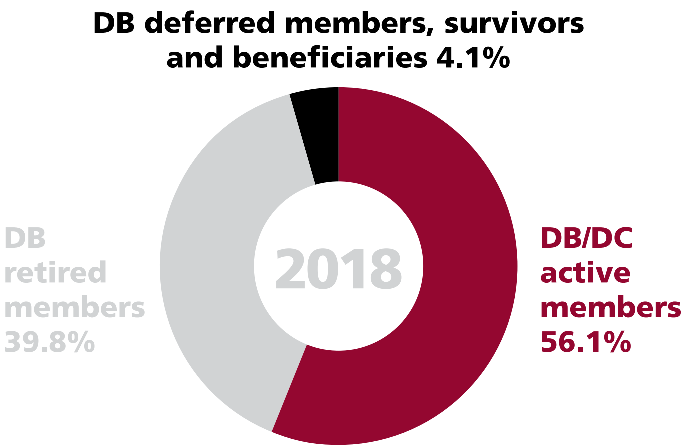
63,208

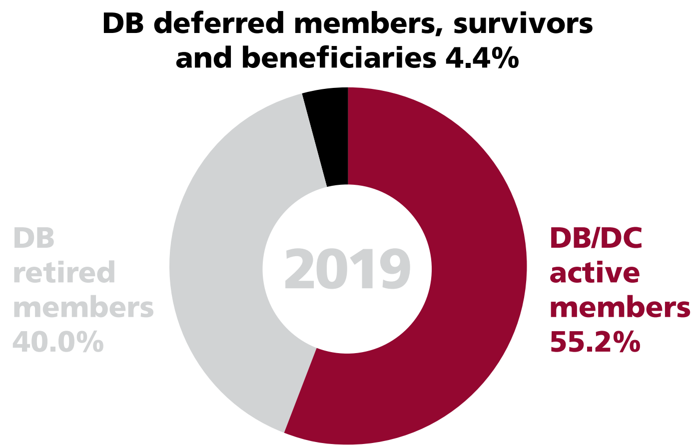
DC
Unique visitors at mysunlife.ca

1,601

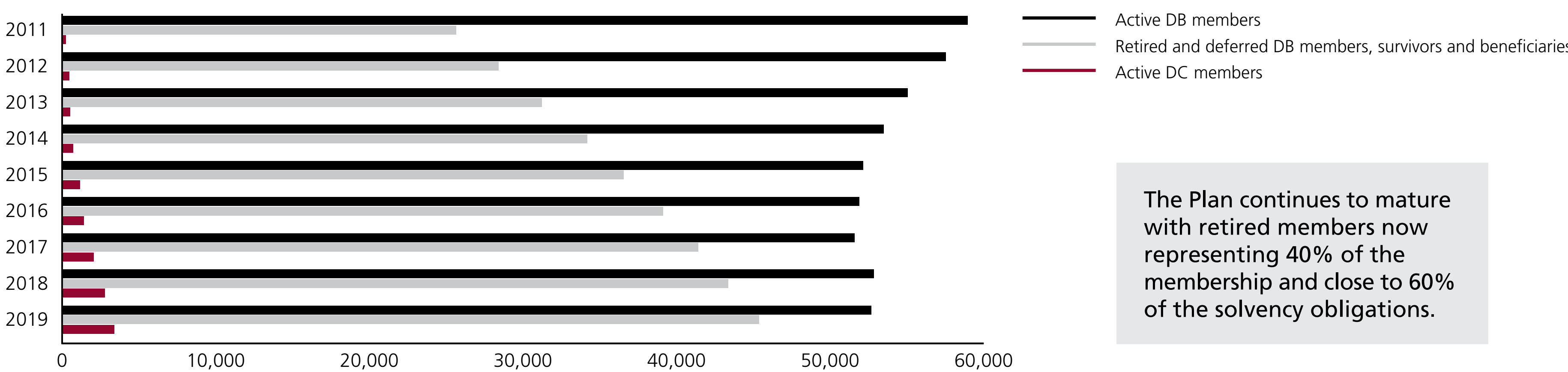
More Statistics of Interest

Membership snapshot





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 Investments – DC Component

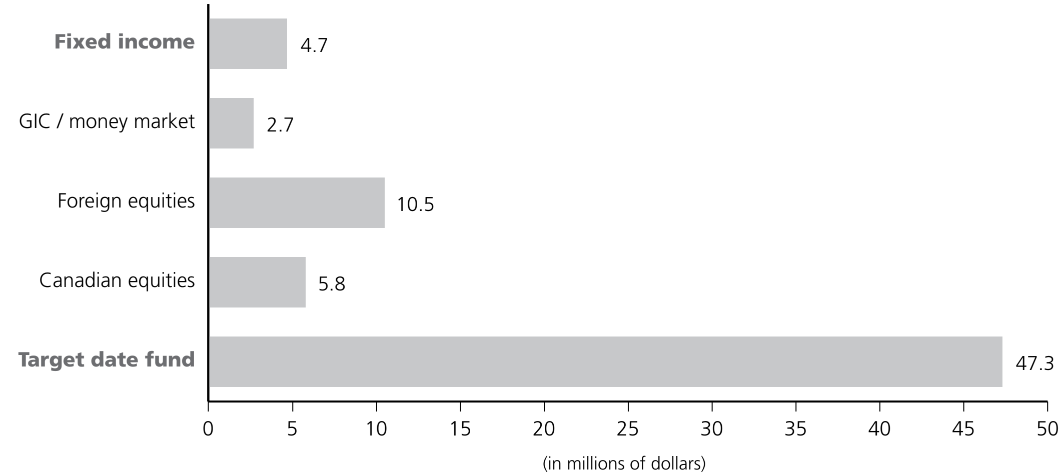
Rates of return

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%

Asset mix

As at December 31, 2019



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.

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.

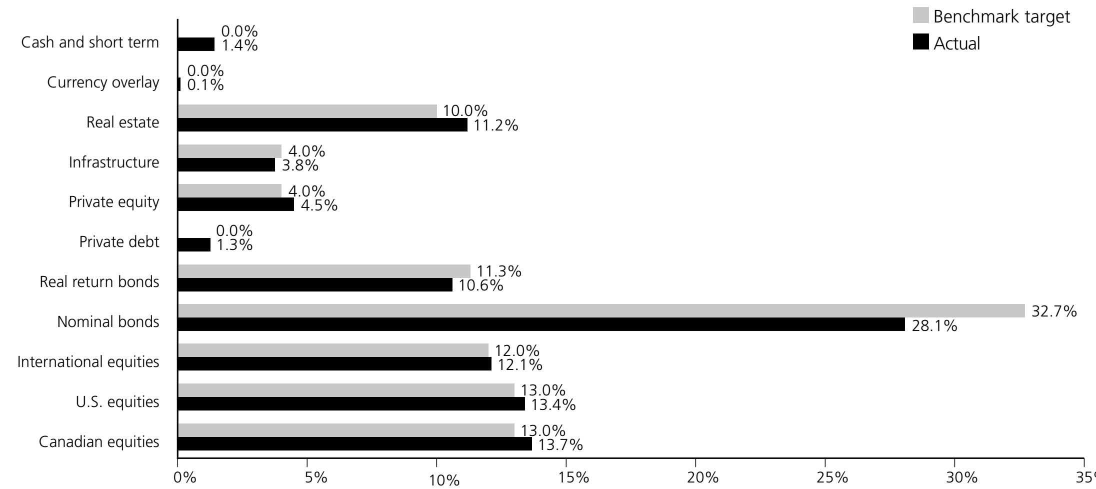
The Plan hired a Director, Environmental, Social and Governance (ESG) Investing to lead the development of the Pension Plan's ESG investing strategy and action plan. This includes formalizing our approach to integrating ESG factors and broader systemic issues, such as climate change and sustainable development,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

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%**

Asset mix



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

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.

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.

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.

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.

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.

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.

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.

For your information

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

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

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