Canada Post Pension Plan
Report to Members 2020

Summary Report

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 (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.

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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 of the full report.

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.

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.

How the Plan Is Doing

Defined benefit (DB) component

DB assets

$29.6 billion

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

Rate of return in 2020

9.4%

Benchmark

10.3%

Defined contribution (DC) component

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

Funded status estimated as at December 31, 2020

Solvency deficit to be funded
(three-year average)

$6.3 billion

82.8% funded

Going-concern surplus

$3.8 billion

115.9% funded

Solvency deficit market value
(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.

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

Some Statistics of Interest

DB
Contributions in 2020

Members

$281 million[1]

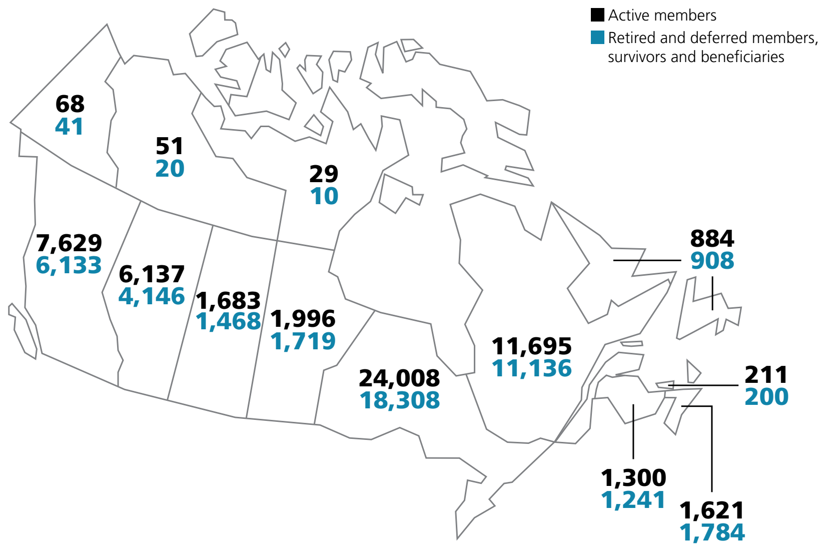
Canada Post current service

$301 million

Canada Post special payments

$24 million

DB/DC
Members across Canada – December 31, 2020



Benefits paid in 2020

$1,068 million

DB
Calls from members
to Pension Centre

48,878

DC
Calls from members to the
Sun Life Customer Care Centre

1,911

DB
Members' satisfaction score

4.2/5.0

DC
Members' satisfaction score

94%

DB
Unique visitors at cpcpension.com

63,356

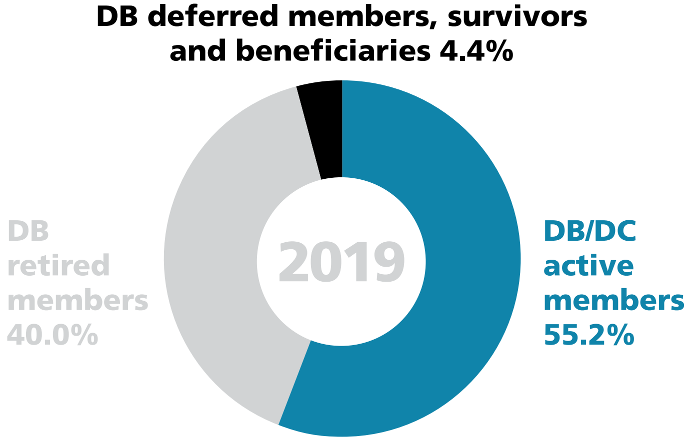
DC
Visitors at mysunlife.ca

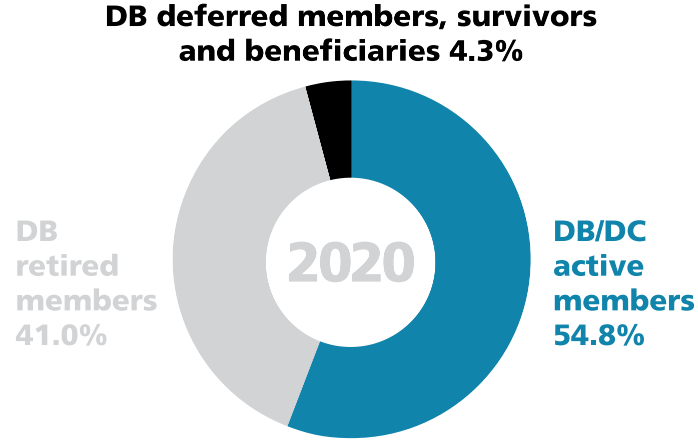
2,667

1. Amount includes $3.0 million of elective service contributions.

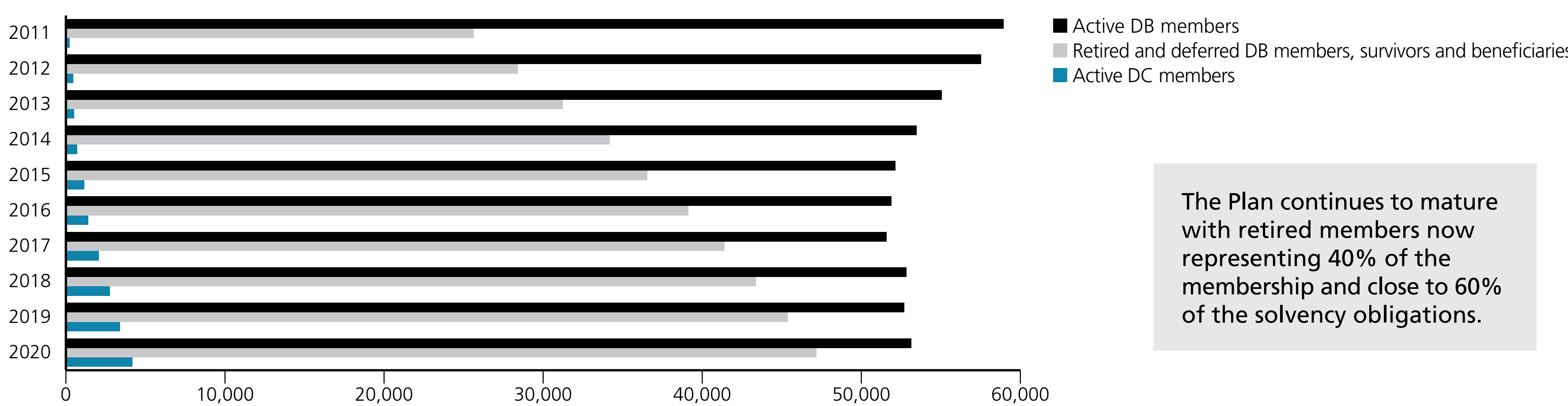
More Statistics of Interest

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

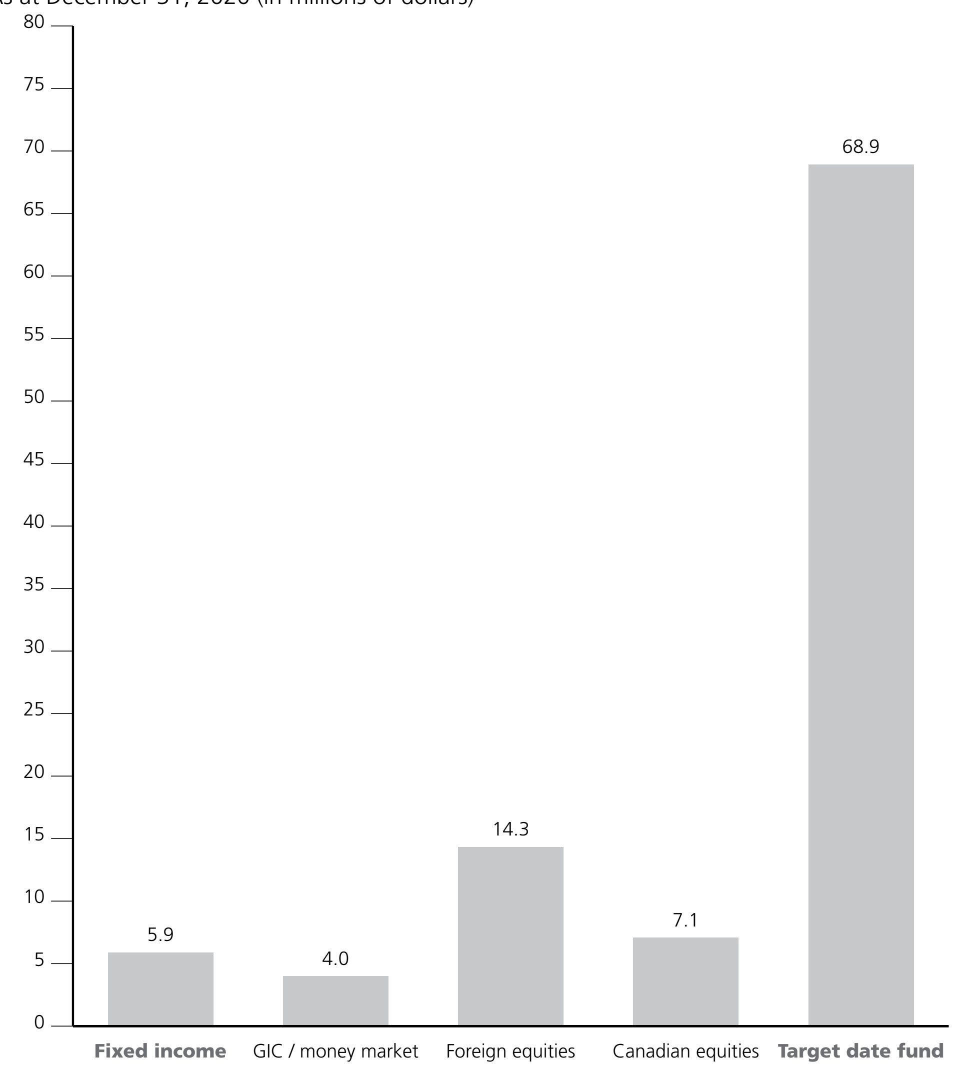
Rates of return

As at December 31, 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%

Asset mix

As at December 31, 2020 (in millions of dollars)



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 of full report). 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.

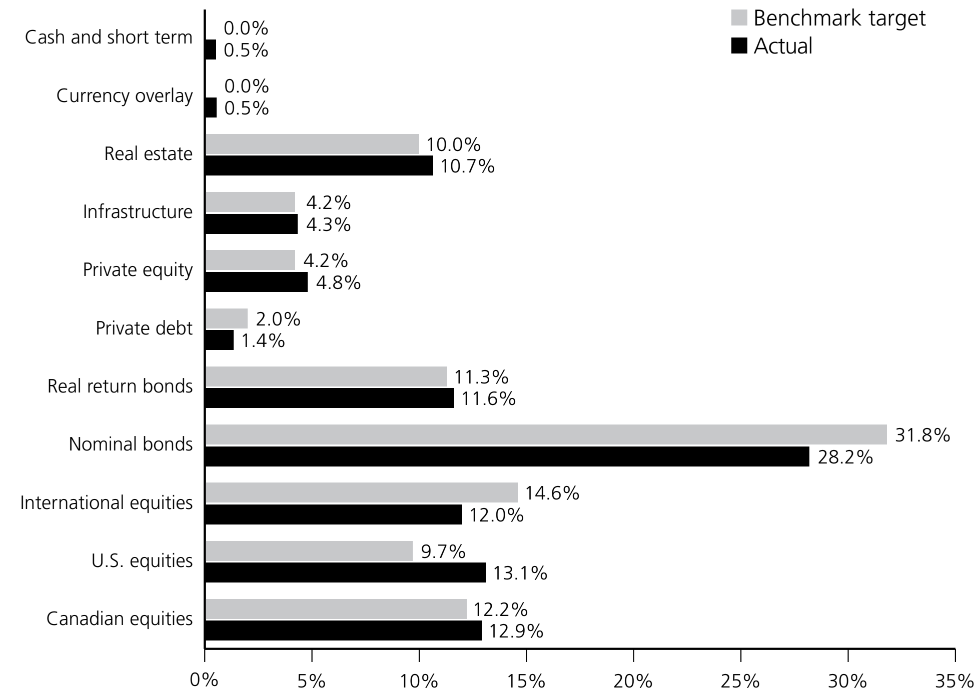
The Plan created an ESG Working Group with representation from all our asset classes to work with our Director, Environmental, Social and Governance (ESG) Investing to develop the Pension Plan's ESG investing strategy and action plan. The Director and the working group are working to formalize our approach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

Equity holdings greater than 0.25% of Plan assets

As at December 31, 2020 (in millions of dollars)

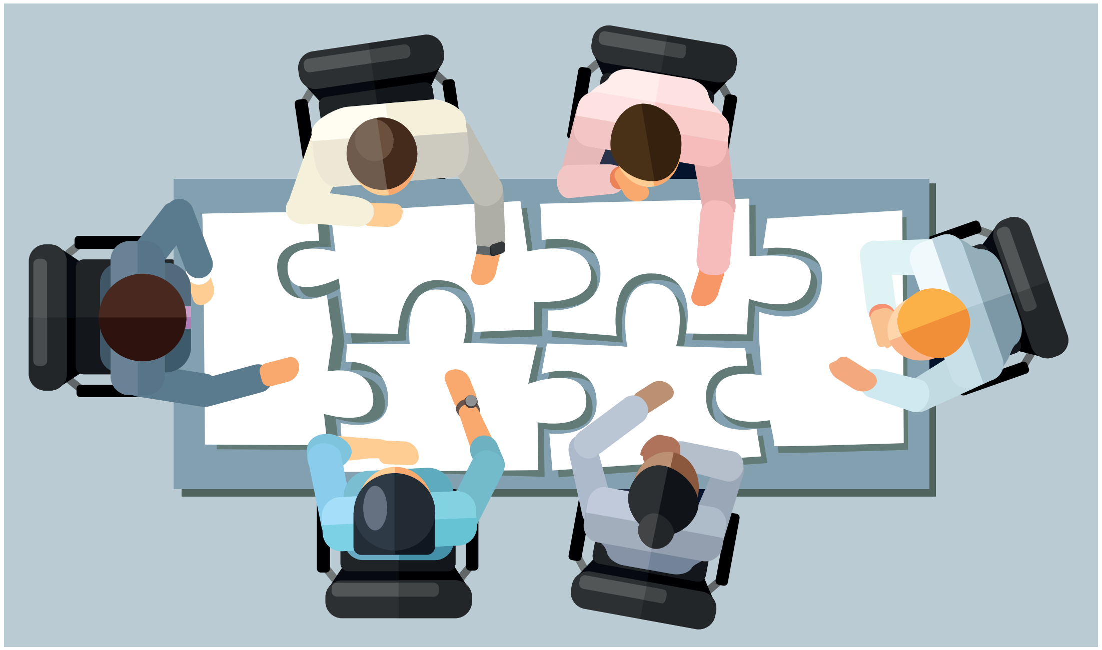
	Market value	Percentage of overall fund
Toronto Dominion Bank	$173.9	0.59%
Apple Inc.	170.2	0.58
Microsoft Corp.	159.1	0.54
Bank of Nova Scotia	138.0	0.47
Royal Bank of Canada	137.6	0.46
Alphabet Inc. Capital Stock Cl A	116.6	0.39
Manulife Financial Corp. Com	116.0	0.39
Amazon.com Inc.	110.2	0.37
Canadian 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. Cl 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%**

Asset mix



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

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

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.

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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