CANADA POST PENSION PLAN

REPORT TO MEMBERS 2018

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.

DK18307

MESSAGE FROM THE CHAIR

Jessica L. McDonald
Chair of the Board of Directors

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

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

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

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

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

MESSAGE FROM THE CHIEF FINANCIAL OFFICER AND THE CHIEF HUMAN RESOURCES OFFICER

Wayne Cheeseman
Chief Financial Officer

Ann Therese MacEachern
Chief Human Resources Officer

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

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

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

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

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

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

OUTLOOK FOR 2019

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

INVESTMENTS IN ALTERNATIVE ASSETS will continue to grow. The Investment Division team is very selective about the quality of **assets** and the purchase price of these investments.

WE WILL CONTINUE TO EXPAND our geographic exposure by investing in European and U.S. real estate.

WE WILL MAINTAIN OUR COMMITMENT to meeting the Plan's long-term funding objectives. Through appropriate asset allocation and risk mitigation regarding our **liabilities**, we aim to earn returns above the **benchmark** portfolio, taking into account economic and demographic changes. We will continue to implement strategies designed to increase returns without taking undue risks.

HOW THE PLAN IS DOING

DB
DB ASSETS

$24.6 billion

Net investment assets as at December 31, 2018

DB
RATE OF RETURN IN 2018

0.9%

Benchmark

-1.9%

DC
DC ASSETS

$46.4 million

VSP ASSETS

$10.0 million

TOTAL ASSETS

$56.4 million

Net investment assets as at December 31, 2018

DB
FUNDED STATUS ESTIMATED AS AT DECEMBER 31, 2018

Solvency deficit to be funded
(three-year average)

$5.7 billion

80.7% funded

Going-concern surplus

$3.3 billion

115% funded

Solvency deficit market value
(wind-up basis)

$5.0 billion

83% funded

AS A RESULT OF REGULATORY CHANGES MADE IN JUNE 2017, CANADA POST DID NOT HAVE TO MAKE ADDITIONAL SPECIAL PAYMENTS IN 2018.

DC
RANGE OF RATES OF RETURN

-9.2% **-1.5%*** **3.8%**

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

*The numbers shown above represent the range of the 2018 returns of all the funds available in the DC component, from the lowest to the highest, with -1.5% being the average. See page 6 for the list of the DC funds investments rates of return.

SOME STATISTICS OF INTEREST

DB

+ Contributions in 2018

MEMBERS

$233 million

CANADA POST CURRENT SERVICE

$245 million

CANADA POST SPECIAL PAYMENTS

$30 million

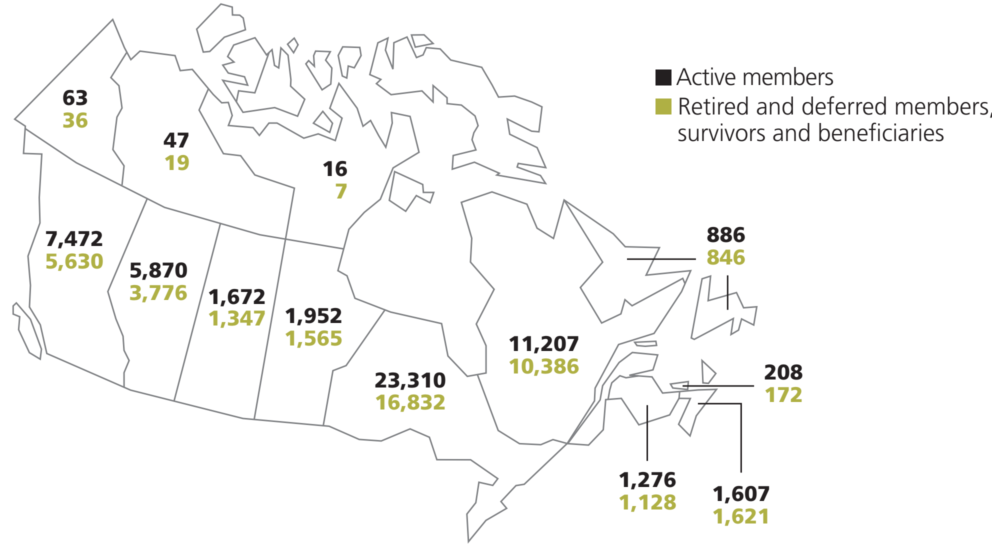
DB

− Benefits paid in 2018

$1,002 million

DB/DC

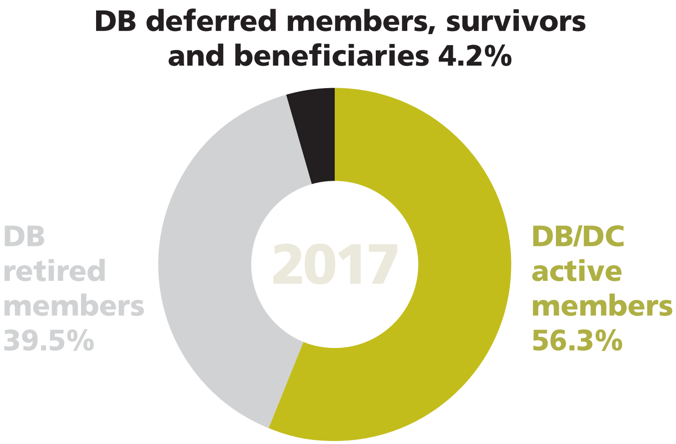
MEMBERS ACROSS CANADA

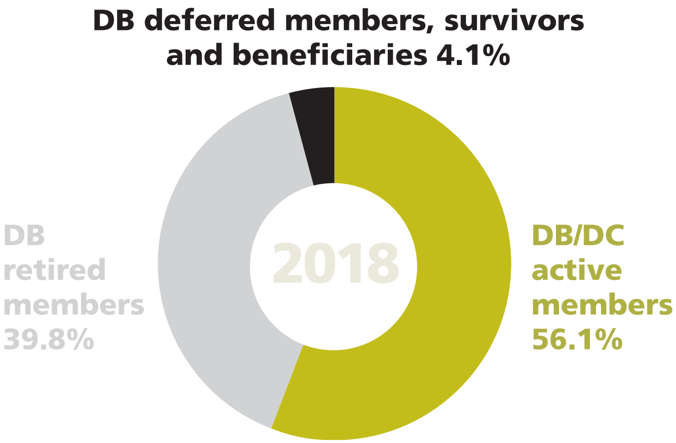


DB	DB	DB
Calls from members to Pension Centre 47,246	**Members' satisfaction score** 4.3/5.0	**Unique visitors at cpcpension.com** 64,757
DC	DC	DC
Calls from members to the Sun Life Customer Care Centre 541	**Members' satisfaction score** 97%	**Unique visitors at mysunlife.ca** 1,137

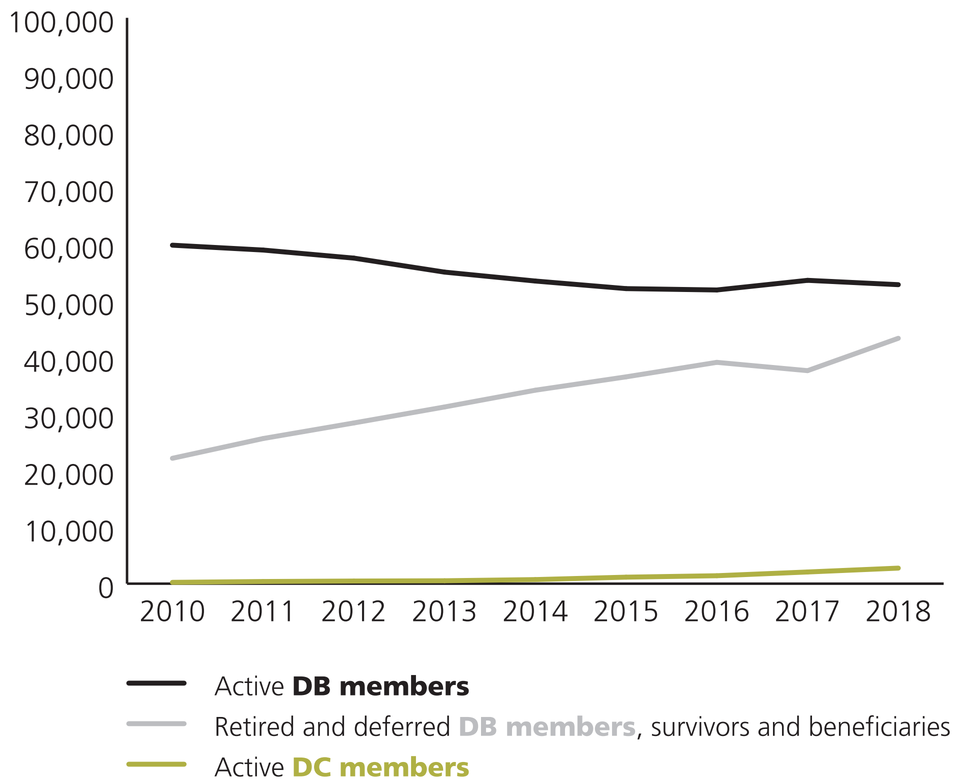
MORE STATISTICS OF INTEREST

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

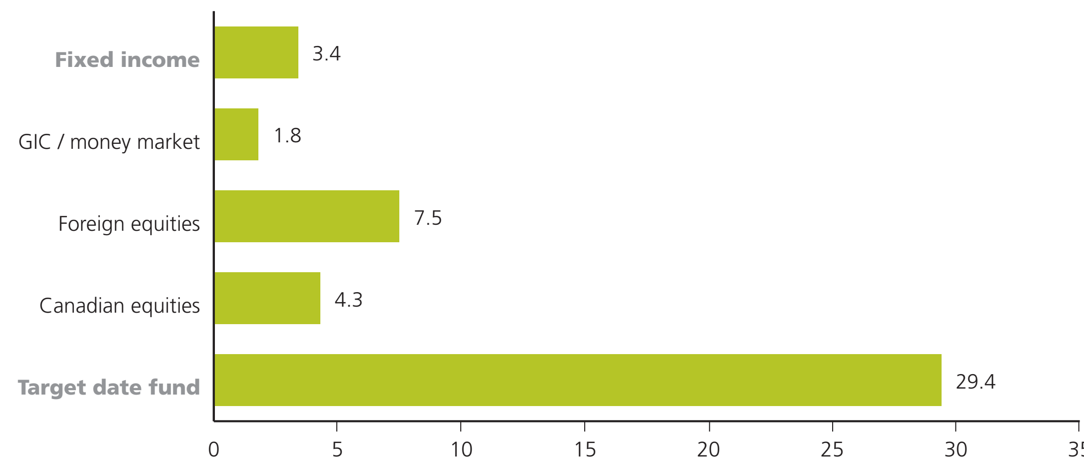
RATES OF RETURN

As at December 31, 2018

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

ASSET MIX

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



OUR INVESTMENTS – DB COMPONENT

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

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

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

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

In 2018, private equity, infrastructure, real estate, U.S. **equities** and Canadian fixed income all had positive returns.

The 2015 asset-liability study focused on making the Plan more sustainable by gradually reducing the volatility between net investment assets and **pension obligations**, while maintaining the return on investments. The study recommended a multi-step liability-driven investment strategy that will guide the Plan for the next five to 10 years. Specifically, a glide path was developed based on predetermined funded status targets. The first step, taken in 2015, moved assets from equities to **bonds**, lengthened **bond duration** and continued to add to alternative (non-public) assets. The second and third steps were taken in 2017 and 2018. It included an increased allocation to long bonds and inflation-linked bonds, a reduction in universe bonds and equities and an increase in alternative assets. A regular review of the strategy began in 2018.

ACTIVITIES THAT AFFECTED THE PLAN'S NET INVESTMENT ASSETS IN 2018

As a result of difficult market conditions in the fourth quarter of 2018 and overall volatile markets, the Plan recorded a fourth quarter loss on investments of 2.9%. However, strong gains by the alternative asset classes, private equity, infrastructure and real estate (of 25.1%, 19.4% and 13.9% respectively) allowed the Plan to earn a positive return and add value above its benchmark return in a year of volatile markets.

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

As part of the third step of its liability-driven investment strategy, the Plan continued to add to its alternative investment assets, namely real estate, infrastructure and private equity, maintaining a high **rate of return**. These assets help cushion the Plan from capital market volatility.

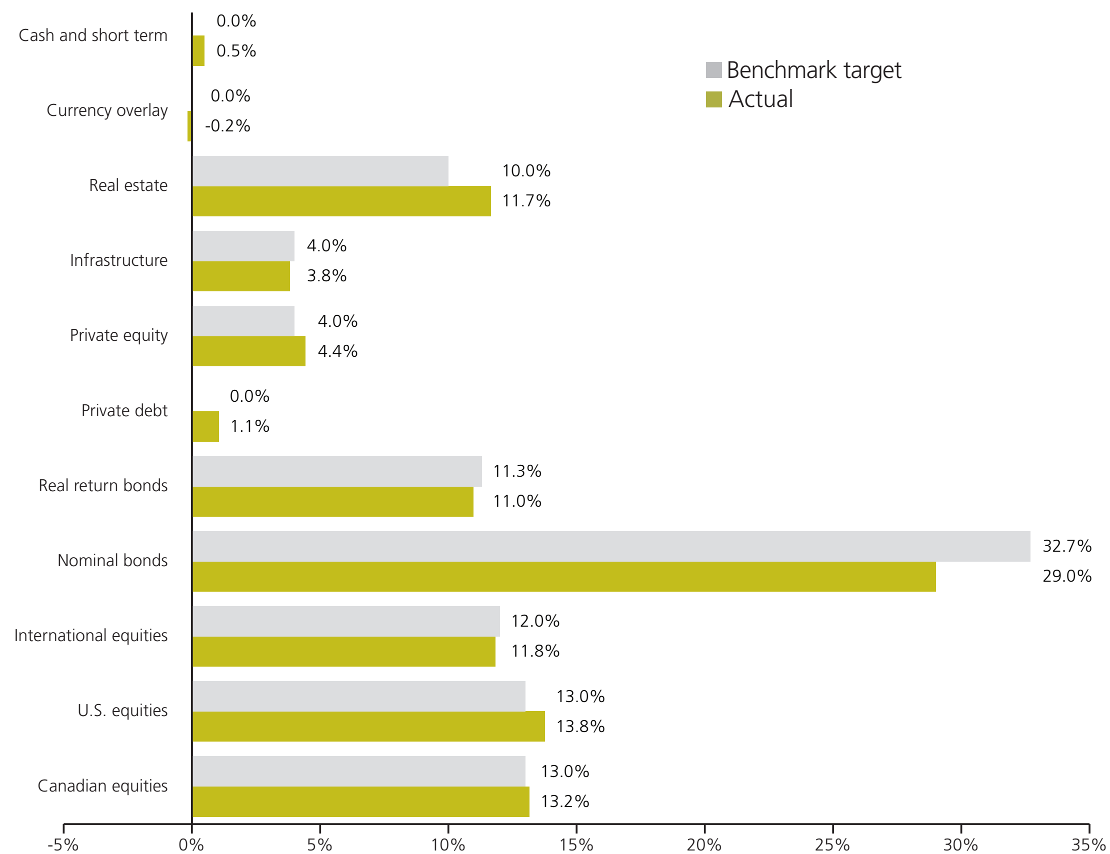
Managing assets internally reduces costs and increases flexibility.

EQUITY HOLDINGS GREATER THAN 0.25% OF PLAN ASSETS

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

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

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

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

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

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

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

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

CHANGES IN PENSION OBLIGATIONS

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

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

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

SURPLUS (DEFICIT)

The difference between assets available for benefit and pension obligations as at December 31, 2018, resulted in a surplus of $3,141 million, as disclosed in the financial statements based on standards of the Chartered Professional Accountants of Canada (CPA Canada).

The going-concern surplus as of the same date was estimated at $3,317 million. The difference between the accounting surplus of $3,141 million and the estimated going-concern surplus of $3,317 million was an **actuarial asset value adjustment** (or **smoothing**) of $176 million. The smoothed assets valuation method recognizes gains or losses on investments over a five-year period to minimize fluctuations due to market volatility. This actuarial adjustment is no longer permitted as a valuation methodology for accounting purposes under CPA Canada Section 4600 since 2011.

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.

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.

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.

What do you think of this summary for the 2018 Report to Members?

Answer a brief survey online and you could

WIN

this beautiful frame featuring three stamps

48.6 cm x 100.33 cm
19.125 in. x 39.5 in.

Survey until August 2019.
One entry per Plan member.
DRAW ON:
September 3, 2019.

Survey and details at
cpcpension.com

FYI 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

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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.

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QUESTIONS ABOUT YOUR INVESTMENTS AND RETURNS

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100%

This publication is printed on 14,833 lb. of recycled paper Rolland Enviro 100. Its environmental footprint is smaller than the one for the 2017 Report to Members because we printed fewer pages. As a result, we saved 178 trees and reduced forest disturbance on 2.8 acres.

CarbonZero logo FSC
FPO