

**NOVA SCOTIA TEACHERS' PENSION FUND  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

## Auditors' report

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To the Nova Scotia Teachers' Pension Plan Trustee Inc.

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits net of deficiency of the Province of Nova Scotia – Nova Scotia Teachers' Pension Fund as at December 31, 2008 and the consolidated statement of changes in net assets available for benefits for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits net of deficiency of the Fund as at December 31, 2008 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

*Grant Thornton LLP*

Halifax, Nova Scotia  
May 4, 2009

Chartered accountants

**NOVA SCOTIA TEACHERS' PENSION FUND  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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**NOVA SCOTIA TEACHERS' PENSION FUND**  
**CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**  
**AND ACCRUED PENSION BENEFITS NET OF DEFICIENCY**  
**AS AT DECEMBER 31, 2008**

	<b>2008</b>	<b>2007</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	(000's)	(000's)
<b>Assets</b>		
Investments (Note 3)	\$ 3,709,810	\$ 4,648,149
Receivable from the Province of Nova Scotia (Note 1)	-	1,962
Contributions receivable		
Employees'	2,003	2,704
Employers'	4,347	4,078
Accrued income	11,256	13,109
Net investment transactions outstanding	140	327
Prepayment and sundry receivables	2,344	2,298
Cash	6,386	6,541
Total assets	3,736,286	4,679,168
 <b>Liabilities</b>		
Real estate mortgages (Note 4)	60,097	60,326
Accounts payable	7,971	8,834
Total liabilities	68,068	69,160
 <b>Net assets available for benefits</b>	 <b>\$ 3,668,218</b>	 <b>\$ 4,610,008</b>
 <b>ACCRUED PENSION BENEFITS NET OF DEFICIENCY</b>		
Accrued pension benefits (Note 5)	\$ 5,180,488	\$ 5,065,564
Deficiency (Note 5)	(1,512,270)	(455,556)
<b>Accrued pension benefits net of deficiency</b>	<b>\$ 3,668,218</b>	<b>\$ 4,610,008</b>

Approved:

ORIGINAL SIGNED BY BYRON RAFUSE

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Board Director  
Teachers' Pension Plan Trustee Inc.

ORIGINAL SIGNED BY WILLIAM D. REDDEN

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Board Director  
Teachers' Pension Plan Trustee Inc.

See accompanying notes to consolidated financial statements.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b>2008</b>	<b>2007</b>
	(000's)	(000's)
<b>Increase In Assets</b>		
Investment activities (Note 3)	\$ -	\$ 42,805
Interest - Receivable from Province of Nova Scotia	<u>41</u>	<u>429</u>
	<u>41</u>	<u>43,234</u>
Contributions		
Employers' – matched	61,272	60,336
Employees' – matched	61,272	60,336
Employees' – unmatched	1,491	1,720
Transfers from other pension plans	<u>3,022</u>	<u>4,690</u>
	<u>127,057</u>	<u>127,082</u>
 Total increase in assets	 <u>127,098</u>	 <u>170,316</u>
<b>Decrease In Assets</b>		
Investment activities (Note 3)	739,418	-
Benefits paid	314,995	305,375
Operating expenses (Note 6)	12,013	11,290
Refunds of contributions and interest and transfers to other pension plans	<u>2,462</u>	<u>2,087</u>
Total decrease in assets	<u>1,068,888</u>	<u>318,752</u>
 <b>Decrease in Net Assets</b>	 (941,790)	 (148,436)
 <b>Net Assets Available for Benefits at Beginning of Year</b>	 <u>4,610,008</u>	 <u>4,758,444</u>
 <b>Net Assets Available for Benefits at End of Year</b>	 <u>\$ 3,668,218</u>	 <u>\$ 4,610,008</u>

See accompanying notes to consolidated financial statements.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**1. Authority and Description of Plan**

The Teachers' Pension Fund (the "Fund") was established by the Teachers' Pension Act (the "Act"). Employee and employer contributions and investment earnings are credited to the Fund which is the funding vehicle for the Teachers' Pension Plan (the "Plan"), a pension plan which covers public school and community college teachers. The detailed provisions of the Plan, including pension eligibility criteria and benefit formulas, are contained in the Act and in the Regulations made under the Act.

The following description is a summary only. For more complete information, reference should be made to the Plan legislative documents and agreements.

As part of the June 22, 2005 Agreement between the Province and the Nova Scotia Teachers' Union, the Province and the Union agreed to joint and equal participation in the governance of the Plan including the sharing of any actuarial surpluses or deficits between the Province and the beneficiaries of the Plan upon the transfer of the Plan to the Trustee. Teachers' Pension Plan Trustee Inc. ("TPPTI") was incorporated to act as trustee of the Fund and on April 1, 2006, the TPPTI became the trustee of the Nova Scotia Teachers' Pension Fund.

The TPPTI is responsible for administration of the Plan and investment management of Fund assets. The investment of the Fund assets is guided by the Fund's Statement of Investment Policies & Goals (the "SIP&G") as written by the TPPTI. The SIP&G sets out the parameters within which the investments may be made. These parameters include permissible investments and the policy asset mix. The Investment Beliefs, also found within the SIP&G, state the general principles upon which the investments are made.

The Plan is funded by employee and matching employer contributions of 8.3% of salary up to the Year's Maximum Pensionable Earnings (the "YMPE") per the Canada Pension Plan (the "CPP") and 9.9% of salary above the YMPE. The basic pension formula is 2% for each year of pensionable service times the number of years of pensionable service. Pensions are integrated with CPP benefits at age 65. Pensions in pay are increased on July 1 of each year, on one of two indexing bases. For pensions with an effective date before August 1, 2006, the rate is equal to the increase in the Consumer Price Index for Canada less 1%, to a maximum of 6%. For pensions with an effective date on or after August 1, 2006, as well as pensions of members or beneficiaries who elected to change their indexing basis prior to that date, the rate is dependent on the funding level of the Plan.

Plan members are eligible for a pension upon reaching any of the following criteria:

- 35 years of service;
- age 50 with 30 years of service (reduced pension);
- age 55 with an age plus service factor of 85 - "Rule of 85";
- age 55 with two years of service (reduced pension);
- age 60 with 10 years of service;
- age 65 with two years of service.

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**1. Authority and Description of Plan (continued)**

On July 22, 1994 the Governor in Council authorized an Early Retirement Program for Plan members. Each employing school board and participating employer was required to pay into the Fund an amount in respect of each eligible teacher in the employ of the school board or participating employer who retired in accordance with these regulations. Order-in Council 2002-181 dated April 26, 2002 transferred responsibility for making these payments from the school boards to the Province. A new consolidated schedule of payments was set up retroactive to January 31, 2002. The last payment under this schedule was made on July 31, 2008.

**2. Summary of Significant Accounting Policies**

(a) Basis of Presentation

These consolidated financial statements are prepared on the going concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity. These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Consolidation

The Fund holds real estate investments through wholly-owned subsidiaries. The consolidated financial statements include the financial statements of the Fund, and its subsidiaries.

(c) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions. The fair values of foreign investments and cash balances held at period end are translated at the rates in effect at the year end. The resulting gain or loss from changes in these rates is included in current period change in the fair value of investments.

(d) Investments:

- (i) Investments are reported as of trade date and are stated at fair value as at year end. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Money market securities, fixed income securities and equities are valued at quoted market prices.

Private equity values are estimated with appropriate valuation techniques and best estimates of managers or evaluators.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**2. Summary of Significant Accounting Policies (continued)**

- (ii) The derivative contracts held by the Fund are valued using quoted market indices. The gains or losses from derivative contracts are included in the realized and unrealized gains or losses on investments.
- (iii) Real estate comprises income producing properties and real estate pooled funds. Unless recently acquired, properties are valued annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. This process utilizes discounted future cash flows. In estimating future cash flows certain assumptions are made with respect to future economic conditions and rates of return.

The fair value of any real estate which has been recently acquired is based on the purchase price.

- (iv) The Fund holds bank-sponsored asset-backed commercial paper in its cash portfolios; however, exposure is limited to multi-seller, multi-asset conduits with global-style credit facilities, thus mitigating both credit and liquidity risk. There has been no impact on the value of these assets at December 31, 2008.

(e) Investment income/loss

Investment income/loss includes interest, dividends and operating income/loss from real estate, which is recorded on the accrual basis. Also included are gains and losses that have been realized on disposal of investments and the unrealized appreciation and depreciation in the fair value of investments.

(f) Non-Investment Assets and Liabilities

The fair value of contributions receivable, accrued income, net investment transactions outstanding, prepayment and sundry receivables, cash and accounts payable approximate their carrying amounts due to their short-term nature.

(g) Contributions

Basic contributions from employers and members due to the Plan as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence and transfers from other pension plans are recorded when received.

(h) Benefits

Benefit payments to retired members, commuted value payments and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits are recorded as part of accrued actuarial liabilities.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**2. Summary of Significant Accounting Policies (continued)**

(i) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates.

(j) Financial Instruments

The Fund's financial instruments include cash, contributions receivable, receivable from the Province of Nova Scotia, investments, net investment transactions outstanding, accounts payable and real estate mortgages.

Due to their short term nature, the Fund's short-term financial instruments, consisting of cash, contributions receivable, receivable from the Province of Nova Scotia, net investment transactions outstanding, and accounts payable, are carried at cost which approximates their fair values. Investments and real estate mortgages are carried at fair values as described in Notes 2 and 4 and are subject to interest, market, credit, currency, price and liquidity risks as described in Note 3.

(k) Changes in Accounting Policies

On January 1, 2008 the Fund adopted the recommendations of the Canadian Institute of Chartered Accountants, Section 3862 and Section 3863 which replaced Section 3861, and the new Section 1535.

Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentations" required enhanced qualitative and quantitative disclosures relating to financial instruments.

Section 1535 "Capital Disclosures" requires the disclosure of information about an entity's objectives, policies and capital management processes.

The disclosure requirements are in Notes 3 and 8.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**3. Investments and Derivatives**

(a) Fair value of investments and related income before allocating the effects of derivative contracts.

	<b>As at December 31, 2008</b>		<b>For the Year</b>	<b>As at December 31, 2007</b>		<b>For the Year</b>
	Assets (000's)	%	Income * (000's)	Assets (000's)	%	Income * (000's)
Money market	\$ 231,179	6.2	\$ 9,350	\$ 353,991	7.6	\$ 15,799
Fixed income - Canadian	1,174,098	31.7	73,621	1,387,499	29.9	44,519
Fixed income – pooled fund	85,284	2.3	(1,208)	36,800	0.8	(5,322)
Equities						
Canadian	678,941	18.3	(330,649)	1,140,369	24.6	107,756
US	555,824	14.9	(128,136)	661,003	14.2	(109,514)
Other foreign	692,638	18.7	(216,141)	768,731	16.5	(61,915)
Real estate – Canadian directly held	239,359	6.5	14,835	220,390	4.7	24,111
Real estate – Canadian pooled fund	82,850	2.2	(376)	83,897	1.8	11,563
Money market to-equity-contracts	(1,930)	(0.1)	(8,882)	(4,531)	(0.1)	15,433
Currency forwards	(28,433)	(0.7)	(152,583)	-	-	-
Securities lending	-	-	558	-	-	-
Other	-	-	193	-	-	375
	<u>\$ 3,709,810</u>	<u>100.0</u>	<u>\$ (739,418)</u>	<u>\$ 4,648,149</u>	<u>100.0</u>	<u>\$ 42,805</u>

\* Includes realized losses of \$ 63.3 million (gains of \$ 203.9 million - 2007) and unrealized losses of \$ 698.5 million (\$ 343.9 million - 2007). Income from investment activities is net of brokerage commissions of \$ 1.9 million (\$ 1.7 million – 2007).

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**3. Investments and Derivatives (continued)**

(b) Derivative contracts

Derivatives are financial contracts, the value of which is 'derived' from the value of underlying assets or interest or exchange rates. Derivatives provide flexibility in implementing investment strategies.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, the Fund:

- deals only with highly rated counterparties, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency; and
- Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

The following tables provide details of the derivative contracts outstanding as at December 31, 2008:

**Money market-to-equity swap contract**

<u>Notional Amount</u>	<u>Original Term</u>	<u>Credit Rating of Counterparty</u>	<u>Equity Index</u>	<u>BA Index</u>	<u>Fair Value</u>
(000's)					(000's)
\$ 23,606	1.00 yr	AA(low)	S&P/TSX60	CAD-BA-CDOR	\$ (1,930)

The notional amount of the money market-to-equity derivative contract represents the volume of the outstanding transaction and serves as the basis upon which the return and the fair value of the contract is determined. The money market-to-equity swap contract is denominated in Canadian dollars and is reset quarterly.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**3. Investments and Derivatives (continued)**

**Currency forwards**

<b><u>Notional Amount</u></b>	<b><u>Fair Value</u></b>
(000's)	(000's)
\$ 673,500	\$ (28,433)

Forward contracts are used to manage the currency exposure of investments held in foreign currencies. The net notional amount of the currency forwards represents the volume of the outstanding transactions and serves as the basis upon which the return and the market value of the contract is determined.

(c) Fair value of investments and related income after allocating the effect of derivative contracts.

	<b><u>As at</u></b>		<b><u>For the</u></b>		<b><u>As at</u></b>		<b><u>For the</u></b>	
	<b><u>December 31, 2008</u></b>		<b><u>Year</u></b>		<b><u>December 31, 2007</u></b>		<b><u>Year</u></b>	
	Assets	%	Income *	Assets	%	Income *	Assets	%
	(000's)		(000's)	(000's)		(000's)	(000's)	
Money market	\$ 207,499	5.6	\$ 4,214	\$ 94,198	2.0	\$ 5,365	\$ 94,198	2.0
Fixed income - Canadian	1,174,098	31.7	73,621	1,387,499	29.9	44,519	1,387,499	29.9
Fixed income – pooled fund	85,284	2.3	(1,208)	36,800	0.8	(5,322)	36,800	0.8
Equities								
Canadian	700,692	18.9	(334,394)	1,395,631	30.1	133,623	1,395,631	30.1
US	548,731	14.7	(227,777)	661,003	14.2	(109,514)	661,003	14.2
Other foreign	671,297	18.1	(269,084)	768,731	16.5	(61,915)	768,731	16.5
Real estate – Canadian directly held	239,359	6.5	14,835	220,390	4.7	24,111	220,390	4.7
Real estate – Canadian pooled fund	82,850	2.2	(376)	83,897	1.8	11,563	83,897	1.8
Securities lending	-	-	558	-	-	-	-	-
Other	-	-	193	-	-	375	-	-
	<u>\$ 3,709,810</u>	<u>100.0</u>	<u>\$ (739,418)</u>	<u>\$ 4,648,149</u>	<u>100.0</u>	<u>\$ 42,805</u>	<u>\$ 4,648,149</u>	<u>100.0</u>

\* Includes realized losses of \$ 63.3 million (gains of \$ 203.9 million - 2007) and unrealized losses of \$ 698.5 million (\$ 343.9 million - 2007). Income from investment activities is net of brokerage commissions of \$ 1.9 million (\$ 1.7 million – 2007).

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**3. Investments and Derivatives (continued)**

(d) Investment risk management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market price fluctuations, credit risk, and liquidity risk. The Fund has set formal goals, policies, and operating procedures that establish an asset mix among equity, fixed income and real estate investments, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. Risk and credit committees have been created that regularly monitor the risks and exposures of the Fund. Management oversight, procedures and compliance functions are incorporated into Fund processes to achieve consistent controls and to mitigate operational risk.

(i) Interest rate risk

Interest rate risk refers to the fact that the Fund's financial position will change with market interest rate changes, as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund's assets and cash flows related to the Fund's liabilities.

The value of the Fund is affected by short-term changes in nominal interest rates. Pension liabilities are exposed to the long-term expectation of rate of return on the investments as well as expectations of inflation and salary escalation.

	2008					2007		
	Within 1 year	1 to 5 years	Average 5 to 10 years	Average Over 10 years	Total	effective yield	Total	effective yield
	(000's)	(000's)	(000's)	(000's)	(000's)	%	(000's)	%
Money market	\$ 231,179	-	-	-	\$ 231,179	1.2	\$ 353,991	5.3
Bonds and debentures	10,407	\$ 449,221	\$ 267,004	\$ 319,559	1,046,191	4.8	1,254,971	4.9
Real return bonds	-	-	-	127,907	127,907	3.5	132,528	3.3
Fixed income pooled fund	<u>9,211</u>	<u>20,980</u>	<u>50,915</u>	<u>4,178</u>	<u>85,284</u>	12.3	<u>36,800</u>	8.5
Total	<u>\$ 250,797</u>	<u>\$ 470,201</u>	<u>\$ 317,919</u>	<u>\$ 451,644</u>	<u>\$ 1,490,561</u>		<u>\$ 1,778,290</u>	

The average effective yield reflects the estimated annual income of a security as a percentage of its year end fair value.

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**3. Investments and Derivatives (continued)**

(d) Investment risk management

(i) Interest rate risk (continued)

After the effect of derivatives contracts, and without change in all other variables, a one percent increase in nominal interest rates would decrease the fair value of the Fund by \$ 77.2 million. A one percent decrease in nominal interest rates would increase the fair value of the Fund by \$ 88.0 million.

(ii) Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Fund's policy is to invest in a diversified portfolio of investments, based on criteria established in the SIP&G.

(iii) Credit risk

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss. Credit risk associated with the Fund is regularly monitored and analyzed through risk and credit committees.

The Fund limits derivative contract risk by dealing with counterparties that have a minimum "A" credit rating.

The Fund is exposed to credit risk from interest earning investments at December 31, 2008 from securities:

	<u>2008</u>	<u>2007</u>
	(000's)	(000's)
Federal government	\$ 468,075	\$ 550,937
Provincial governments	332,348	430,340
Corporate	<u>696,524</u>	<u>803,554</u>
	<u>\$ 1,496,947</u>	<u>\$ 1,784,831</u>

The Fund lends securities for a fee to approved borrowers. High quality collateral is provided by borrowers to alleviate the credit risk. Regular reporting of the securities lending program ensures that its various components are continuously being monitored.

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**3. Investments and Derivatives (continued)**

(iv) Foreign currency risk

Foreign currency exposure arises from the holding of investments denominated in foreign currencies. A policy of hedging up to 100% of the currency exposure helps to mitigate this risk.

The Fund's hedged and unhedged currency exposure from net investment assets as at December 31, 2008 is summarized in the following table:

<u>Currency</u>	<u>2008 hedged</u>	<u>2008 unhedged</u>	<u>2007 unhedged</u>
	(000's)	(000's)	(000's)
Canada	\$ 3,023,815	\$ 2,350,366	\$ 3,131,432
United States	239,029	647,882	745,221
Euro zone	95,060	200,299	254,520
Japan	132,096	204,483	171,813
United Kingdom	21,150	108,120	130,942
Other	<u>155,292</u>	<u>155,292</u>	<u>171,354</u>
Total	<u>\$ 3,666,442</u>	<u>\$ 3,666,442</u>	<u>\$ 4,605,282</u>

After the effect of hedging, and without change in all other variables, a ten per cent increase in the Canadian dollar against all other currencies would decrease the fair value of the Fund by \$ 64.3 million. Similarly, a ten per cent decrease in the Canadian dollar against all other currencies would increase the fair value of the Fund by \$ 64.3 million.

(v) Price risk

Price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Price risk does include interest rate risk and foreign currency risk which are also discussed in this note. After the effect of derivatives contracts, and without change in all other variables, a ten per cent increase in market values of all public equities and privately owned equities would increase the fair value of the Fund by \$ 224.3 million. Similarly, a ten per cent decrease in market values of all public equities and privately owned equities would decrease the fair value of the Fund by \$ 224.3 million.

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**3. Investments and Derivatives (continued)**

(vi) Liquidity risk

Liquidity risk is the risk of not meeting the cash obligations of the Fund in an efficient manner. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund and planned dispositions of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Fund. The Fund's cash management policy ensures that the quality and liquidity of the investment vehicles within the cash portfolios are consistent with the needs of the Fund.

**4. Real Estate Mortgages**

Real estate mortgages have various terms to maturity to 2018 with each mortgage secured by a specific real property. Nominal rates range from 5.2% to 8.0%.

Scheduled principal repayments in each of the next five years, beginning January 1, 2009 are as follows:

2009	\$ 7,111
2010	1,076
2011	12,430
2012	3,662
2013	3,931
Thereafter	<u>31,838</u>
Total	<u>\$ 60,048</u>

For purposes of the Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits Net of Deficiency, real estate mortgages payable are valued at fair values based on prevailing interest rates.

**5. Accrued Pension Benefits**

Actuarial valuations of the Fund are required every year by the Act, and provide an estimate of the accrued pension benefits (Fund liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Plan's consulting actuaries, Mercer (Canada) Limited, performed a valuation as at December 31, 2008 and issued their report in April 2009. The report indicated that the Plan had an unfunded liability of \$ 1,512.3 million (December 31, 2007 - \$ 455.6 million).

The following table reflects the unfunded liability as at December 31, 2008 and as at December 31, 2007.

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**5. Accrued Pension Benefits (continued)**

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
	(000's)	(000's)
Actuarial value of assets:	\$ 3,668,218	\$ 4,610,008
Accrued pension benefits:	<u>5,180,488</u>	<u>5,065,564</u>
Unfunded liability:	<u>(\$1,512,270)</u>	<u>(\$ 455,556)</u>

<b>Reconciliation of changes in accrued pension benefits:</b>	<b>For the Year Ended <u>Dec 31, 2008</u></b>	<b>For the Year Ended <u>Dec 31, 2007</u></b>
	(000's)	(000's)
Accrued pension benefits at beginning of period	\$ 5,065,564	\$ 4,951,424
Interest on accrued pension benefits	347,498	337,306
Contributions and transfers from other pension plans	127,057	127,082
Net impact of changes in assumptions	4,771	-
Contributions in excess of current service cost	(31,414)	(32,809)
Refunds of contributions and interest and transfers to other pension plans	(2,462)	(2,087)
Benefits paid	(314,995)	(305,375)
Net impact of experience gains and losses relating to accrued pension benefits	<u>(15,531)</u>	<u>(9,977)</u>
Accrued pension benefits at end of period	<u>\$ 5,180,488</u>	<u>\$ 5,065,564</u>

The actuarial valuation projects liabilities for each member on the basis of service earned to date and the employee's projected five-year average salary at the expected date of retirement. The projected unit credit method was adopted for the actuarial valuation to determine the current cost and actuarial liability.

The major economic and demographic assumptions used in the 2008 valuation remained unchanged from those used in the 2007 valuation, with the exception of average salary increase, which incorporated the contractual salary increase of 2.9% for 2009:

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**5. Accrued Pension Benefits (continued)**

	<b><u>Valuation December 31, 2008</u></b>	<b><u>Valuation December 31, 2007</u></b>
Inflation	2.5% per annum	2.5% per annum
Average Salary Increase	2.5% per annum plus merit ranging from 0.0% to 2.75% plus 0.4% in 2009	2.5% per annum plus merit ranging from 0.0% to 2.75%
Real Rate of Return on Investments	4.25% per annum	4.25% per annum
Average Retirement Age	60% - Retire at earliest date first eligible for an unreduced pension 40% - Retire at the earliest of: - age 65; - 35 years of service; or - age 60 with 10 years of service	60% - Retire at earliest date first eligible for an unreduced pension 40% - Retire at the earliest of: - age 65; - 35 years of service; or - age 60 with 10 years of service
Mortality	UP-94 projected to 2015 using scale AA	UP-94 projected to 2015 using scale AA

As a result of the agreement between the Province of Nova Scotia and the Nova Scotia Teachers' Union signed on June 22, 2005, indexing in a given year for pensions with an effective date on or after August 1, 2006, as well as those of existing pensioners who opted for the new indexing arrangement, depends on the funding level of the Plan. If the funding level as at December 31 of the preceding fiscal year is less than 90%, no indexing will be provided. At a funding level of between 90% and 100%, indexing will be granted at 50% of the increase in the CPI, at the discretion of the Board of Trustees. If the funding level is greater than 100%, indexing will be provided at 100% of the increase in the CPI, to the extent that it does not reduce the funding level to below 100%, in which case pensions will be increased by at least 50% of the increase in the CPI. For the purposes of the valuation, it was assumed that indexing would not be paid in years in which it is discretionary.

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**6. Operating Expenses**

The Fund is charged with administrative and certain other expenses incurred on behalf of the Fund by the Nova Scotia Pension Agency. The following is a summary of these operating expenses.

	<u>2008</u>	<u>2007</u>
	(000's)	(000's)
<b>Plan Administration</b>		
Professional services	\$ 355	\$ 352
Salaries	1,179	1,010
Supplies and services	233	236
Travel	44	32
Other	<u>187</u>	<u>243</u>
	<u>\$ 1,998</u>	<u>\$ 1,873</u>
<b>Investment Expenses</b>		
Investment management and custodian fees	\$ 9,422	\$ 8,763
Professional services	147	281
Salaries	334	175
Supplies and services	21	8
Travel	12	8
Other	<u>79</u>	<u>182</u>
	<u>\$ 10,015</u>	<u>\$ 9,417</u>
 Total Operating Expenses	 <u>\$ 12,013</u>	 <u>\$ 11,290</u>

**7. Related Party Transactions**

Investments held in the Fund include debentures of the Province of Nova Scotia with a total fair value of \$11.6 million (0.3% of total assets) as at December 31, 2008 (\$17.4 million (0.4% of total assets) as at December 31, 2007).

**8. Capital Management**

The TPPTI (see Note 1) manages the contributions and plan benefits as required by the Teachers' Pension Act and its related Regulations. The TPPTI approves and incurs expenses to administer the commerce of the Fund as required by agreement between the Province of Nova Scotia and the Nova Scotia Teachers' Union.

Under the direction of the TPPTI, the Fund provides for the short term financial needs of current benefit payments while investing members' contributions for the longer term security of pensioner payments. The TPPTI exercises duly diligent practices and has established written investment policies and procedures, and approval processes. Operating budgets, audited financial statements, yearly actuarial valuations and reports, and as required, the retention of supplementary professional, technical

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**8. Capital Management (continued)**

and other advisors, are part of the Fund governance structure.

Under the 2005 Agreement, minimum funding targets were established, with objectives of having assets of the Plan reach levels of at least 95% of the actuarial liabilities on or before December 31, 2015 and at least 100% on or before December 31, 2025. These funding targets are required to be regularly reviewed, including a review in 2010, a comprehensive review in 2015, and further reviews every 5 years thereafter. The TPPTI is currently reviewing the funded status of the Plan, with the objective of providing recommendations to the Union and the Minister regarding how to address the actuarial deficiency.