

**NOVA SCOTIA TEACHERS' PENSION FUND  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

## Auditors' report

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To 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 Nova Scotia Teachers' Pension Fund as at December 31, 2009 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, 2009 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, Canada  
May 7, 2010

Chartered accountants

**NOVA SCOTIA TEACHERS' PENSION FUND  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**CONTENTS**

	Page
Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits Net of Deficiency.....	3
Consolidated Statement of Changes in Net Assets Available for Benefits.....	4
Notes to the Consolidated Financial Statements.....	5

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**  
**AND ACCRUED PENSION BENEFITS NET OF DEFICIENCY**  
**AS AT DECEMBER 31, 2009**

	<b>2009</b>	<b>2008</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	(000's)	(000's)
<b>Assets</b>		
Investments (Note 3)	\$ 4,030,360	\$ 3,709,810
Contributions receivable		
Employees'	2,304	2,003
Employers'	4,683	4,347
Accrued income	11,364	11,256
Net investment transactions outstanding	3,739	140
Prepayment and sundry receivables	1,712	2,344
Cash	<u>32,437</u>	<u>6,386</u>
<b>Total assets</b>	<u><b>4,086,599</b></u>	<u><b>3,736,286</b></u>
<b>Liabilities</b>		
Real estate mortgages (Note 5)	59,855	60,097
Accounts payable	<u>11,287</u>	<u>7,971</u>
<b>Total liabilities</b>	<u><b>71,142</b></u>	<u><b>68,068</b></u>
<b>Net assets available for benefits</b>	<u><b>\$ 4,015,457</b></u>	<u><b>\$ 3,668,218</b></u>
<b>ACCRUED PENSION BENEFITS NET OF DEFICIENCY</b>		
Accrued pension benefits (Note 6)	\$ 5,289,405	\$ 5,180,488
Deficiency (Note 6)	<u>(1,273,948)</u>	<u>(1,512,270)</u>
<b>Accrued pension benefits net of deficiency</b>	<u><b>\$4,015,457</b></u>	<u><b>\$ 3,668,218</b></u>

Approved:

ORIGINAL SIGNED BY BYRON RAFUSE

ORIGINAL SIGNED BY WILLIAM D. REDDEN

\_\_\_\_\_  
Board Director

Teachers' Pension Plan Trustee Inc.

\_\_\_\_\_  
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, 2009**

	<b>2009</b>	<b>2008</b>
	(000's)	(000's)
<b>Increase In Assets</b>		
Investment activities (Note 3)	\$ 552,208	\$ -
Interest - Receivable from Province of Nova Scotia	<u>-</u>	<u>41</u>
	<u>552,208</u>	<u>41</u>
Contributions		
Employers' – matched	65,858	61,272
Employees' – matched	65,858	61,272
Employers' – unmatched	3,964	-
Employees' – unmatched	1,270	1,491
Transfers from other pension plans	<u>1,549</u>	<u>3,022</u>
	<u>138,499</u>	<u>127,057</u>
 Total increase in assets	 <u>690,707</u>	 <u>127,098</u>
<b>Decrease In Assets</b>		
Investment activities (Note 3)	-	739,418
Benefits paid	327,348	314,995
Operating expenses (Note 7)	13,429	12,013
Refunds of contributions and interest and transfers to other pension plans	<u>2,691</u>	<u>2,462</u>
Total decrease in assets	<u>343,468</u>	<u>1,068,888</u>
 <b>Net increase (decrease) in Net Assets</b>	 347,239	 (941,790)
 <b>Net Assets Available for Benefits at Beginning of Year</b>	 <u>3,668,218</u>	 <u>4,610,008</u>
 <b>Net Assets Available for Benefits at End of Year</b>	 <u>\$ 4,015,457</u>	 <u>\$ 3,668,218</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, 2009**

**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 of Nova Scotia (the "Province") and the Nova Scotia Teachers' Union (the "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 (the "TPPTI") was incorporated to act as trustee of the Fund and on April 1, 2006, the TPPTI became the trustee of the 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 are 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 times the highest average salary of the best 5 years. Pensions are integrated with CPP benefits at age 65. Pensions in pay are increased effective 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 (the "CPI") 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, 2009**

**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 a 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, 2009**

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

(d) Investments (continued):

- (ii) The derivative contracts held by the Fund are stated at fair value and 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 is comprised of income producing properties and a real estate pooled fund. 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, 2009.

(e) Investment income/loss

Investment income/loss is reflected in investment activities and includes interest, dividends and operating income/loss from real estate, which is recorded on an 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

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

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

(h) Investments (continued)

actuarial liabilities.

(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, 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, 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 5 and are subject to interest, market, credit, currency, price and liquidity risks as described in Note 3.

(k) Adoption of New Accounting Standards

i) *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, EIC 173*  
In January 2009, the Emerging Issues Committee ("EIC") issued Abstract No. 173 ("EIC – 173"). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparty(s) when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC, which is effective November 1, 2008, had no impact on the Fund's financial statements.

ii) *Fair Value and Liquidity Risk Disclosure – Amendments to Financial Instruments – Disclosures, Section 3862*

Effective January 1, 2009, the Fund adopted the recent amendments to Canadian Institute of Chartered Accountants ("CICA") 3862, Financial Instruments – Disclosures.

The amendments to CICA 3862, Financial Instruments – Disclosures, establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

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

(k) Adoption of New Accounting Standards (continued)

ii) (continued)

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

**3. Investments and Derivatives**

(a) Fair value of investments and related income are summarized in the following table:

	<u>As at December 31, 2009</u>		<u>For the Year</u>	<u>As at December 31, 2008</u>		<u>For the Year</u>
	Assets (000's)	%	Income * (000's)	Assets (000's)	%	Income * (000's)
Money market	\$ 160,151	4.0	\$ 2,247	\$ 231,179	6.2	\$ 9,350
Fixed income – directly held	1,090,260	27.1	62,500	1,174,098	31.7	73,621
Fixed income – pooled fund	125,142	3.1	13,826	85,284	2.3	(1,208)
Equities						
Canadian	857,213	21.2	212,374	678,941	18.3	(330,649)
US	728,133	18.1	68,656	555,824	14.9	(128,136)
Other foreign	756,071	18.7	86,598	692,638	18.7	(216,141)
Real estate – Canadian directly held	220,800	5.5	(10,480)	239,359	6.5	14,835
Real estate – Canadian pooled fund	83,535	2.1	1,329	82,850	2.2	(376)
Equity swap contract	781	-	7,396	(1,930)	(0.1)	(8,882)
Currency forwards	8,274	0.2	106,883	(28,433)	(0.7)	(152,583)
Securities lending	-	-	813	-	-	558
Other	-	-	66	-	-	193
	<u>\$ 4,030,360</u>	<u>100.0</u>	<u>\$ 552,208</u>	<u>\$ 3,709,810</u>	<u>100.0</u>	<u>\$ (739,418)</u>

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

(a) (continued)

\* Includes realized losses of \$128.4 million (gains of \$63.3 million - 2008) and unrealized gains of \$472.2 million (losses of \$698.5 million - 2008). Income from investment activities is net of brokerage commissions of \$1.4 million (\$1.9 million – 2008).

(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, 2009:

**Equity swap contract**

<u>Notional Amount (000's)</u>	<u>Term</u>	<u>Counterparty Credit Rating</u>	<u>Equity Index</u>	<u>BA Index</u>	<u>Fair Value (000's)</u>
\$30,357	12 months	AA (low)	S&P/TSX 60	CAD-BA-CDOR	\$781

The notional amount of the equity swap 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 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, 2009**

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

(b) Derivative contracts (continued)

**Currency forwards**

<u>Notional Amount (000's)</u>	<u>Fair Value (000's)</u>
\$1,328,343	\$ 8,274

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) 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. Trustee 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.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

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

(c) Investment risk management (continued)

(i) Interest rate risk (continued)

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.

	2009					Effective Yield %	2008	
	Within 1 year (000's)	1 to 5 years (000's)	5 to 10 years (000's)	Over 10 years (000's)	Total (000's)		Total (000's)	Effective Yield %
Money Market	\$160,151	-	-	-	\$160,151	0.3	\$231,179	1.2
Bonds and debentures	-	405,824	304,019	240,432	950,275	4.7	1,046,191	4.8
Real return bonds	-	-	-	139,985	139,985	3.7	127,907	3.5
Pooled bond funds	4,768	33,088	80,854	6,432	125,142	8.3	85,284	12.3
<b>Total</b>	<u>\$164,919</u>	<u>\$438,912</u>	<u>\$384,873</u>	<u>\$386,849</u>	<u>\$1,375,553</u>		<u>\$1,490,561</u>	

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

Excluding all other variables, a one percent increase in nominal interest rates would decrease the fair value of the Fund by \$ 74.9 million, and a one percent decrease in nominal interest rates would increase the fair value of the Fund by \$ 82.7 million.

(ii) 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 \$ 268.6 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 \$ 268.6 million.

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

(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 the following interest earning investments at December 31, 2009

	<u>2009</u>	<u>2008</u>
	(000's)	(000's)
Federal government	\$ 406,549	\$ 468,075
Provincial governments	195,863	332,348
Corporate	<u>805,578</u>	<u>696,524</u>
	<u>\$ 1,407,990</u>	<u>\$ 1,496,947</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.

Real estate investment managers mitigate risk through monthly monitoring of tenant performance and arrears. Tenant exposure is managed by limiting concentration to a specific economic sector or to a single covenant. Transactions, where a new tenant exposure is assumed, is vetted by appropriate due diligence and approval process.

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**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 unhedged currency exposure from net investment assets as at December 31, 2009 is summarized in the following table:

<u>Currency</u>	<u>2009</u> <u>Unhedged</u> (000's)	<u>2008</u> <u>Unhedged</u> (000's)
Canada	\$ 2,216,673	\$ 2,350,366
United States	1,046,972	647,882
Euro zone	193,448	200,299
Japan	152,128	204,483
United Kingdom	129,314	108,120
Other	<u>274,791</u>	<u>155,292</u>
Total	<u>\$ 4,013,326</u>	<u>\$ 3,666,442</u>

The Fund's currency policy allows for the management of risk through hedging strategies that are implemented through the purchase of forward currency contracts. The forward currency contracts offset the Fund's foreign currency exposure, hence reducing the Fund's foreign currency risk.

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 \$ 46.8 million. Similarly, a ten per cent decrease in the Canadian dollar against all other currencies would increase the fair value of the Fund by \$ 46.8 million.

(v) 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.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

**4. Fair Value Disclosure**

The Fund's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the amendment to CICA 3862. See Note 2(a) for a discussion of the Fund's policies regarding this hierarchy. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at December 31, 2009.

**Financial Assets at fair value as at Dec 31, 2009**

	Level 1	Level 2	Level 3	Total
Money market	\$160,151	-	-	\$160,151
Fixed Income - Canadian	849,566	82,210	-	931,776
Fixed Income - pooled fund	125,142	-	-	125,142
Fixed Income - US	158,484	-	-	158,484
Equities - Canadian	857,213	-	-	857,213
Equities - US	689,246	-	38,887	728,133
Equities - other foreign	756,071	-	-	756,071
Real estate - Canadian directly held	-	220,800	-	220,800
Real estate - Canadian pooled fund	-	83,535	-	83,535
Equity swap contract	781	-	-	781
Currency forwards	8,274	-	-	8,274
	<u>\$3,604,928</u>	<u>\$386,545</u>	<u>\$38,887</u>	<u>\$4,030,360</u>

**5. 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 5.0% to 8.0%.

Scheduled principal repayments in each of the next five years, beginning January 1, 2010 are as follows:

2010	\$ 1,246
2011	12,611
2012	3,853
2013	4,135
2014	10,317
Thereafter	<u>26,695</u>
Total	<u>\$ 58,857</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.

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**6. 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, performed a valuation as at December 31, 2009 and issued their report in April 2010. The report indicated that the Plan had an unfunded liability of \$ 1,273.9 million (December 31, 2008 - \$ 1,512.3 million).

The following table reflects the unfunded liability as at December 31, 2009 and as at December 31, 2008.

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
	(000's)	(000's)
Actuarial value of assets:	\$ 4,015,457	\$ 3,668,218
Accrued pension benefits:	<u>5,289,405</u>	<u>5,180,488</u>
Unfunded liability:	<u>(\$1,273,948)</u>	<u>(\$1,512,270)</u>

<b>Reconciliation of changes in accrued pension benefits:</b>	<b>For the Year Ended <u>Dec 31, 2009</u></b>	<b>For the Year Ended <u>Dec 31, 2008</u></b>
	(000's)	(000's)
Accrued pension benefits at beginning of period	\$ 5,180,488	\$ 5,065,564
Interest on accrued pension benefits	355,381	347,498
Contributions and transfers from other pension plans	138,499	127,057
Net impact of changes in assumptions	32,425	4,771
Contributions in excess of current service cost	(38,798)	(31,414)
Refunds of contributions and interest and transfers to other pension plans	(2,691)	(2,462)
Benefits paid	(327,348)	(314,995)
Net impact of experience gains and losses relating to accrued pension benefits	<u>(48,551)</u>	<u>(15,531)</u>
Accrued pension benefits at end of period	<u>\$ 5,289,405</u>	<u>\$ 5,180,488</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 2009 valuation remained unchanged from those used in the 2008 valuation, with the exception of average salary increase, which did not incorporate a known contractual salary increase, and the mortality table, which changed from UP-94 projected to 2015 using scale AA to UP-94 projected to 2020 using scale AA.

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

	<b><u>Valuation December 31, 2009</u></b>	<b><u>Valuation December 31, 2008</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%	2.5% per annum plus merit ranging from 0.0% to 2.75% plus 0.4% in 2009
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 2020 using scale AA	UP-94 projected to 2015 using scale AA

As a result of the agreement between the Province and the 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.

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2009**

**7. 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>2009</u>	<u>2008</u>
	(000's)	(000's)
<b>Plan Administration</b>		
Professional services	\$ 321	\$ 355
Salaries	1,328	1,179
Supplies and services	209	233
Travel	45	44
Other	<u>167</u>	<u>187</u>
	<u>\$ 2,070</u>	<u>\$ 1,998</u>
<b>Investment Expenses</b>		
Investment management and custodian fees	\$ 10,636	\$ 9,422
Professional services	141	147
Salaries	476	334
Supplies and services	21	21
Travel	11	12
Other	<u>74</u>	<u>79</u>
	<u>\$ 11,359</u>	<u>\$ 10,015</u>
 Total Operating Expenses	 <u>\$ 13,429</u>	 <u>\$ 12,013</u>

**8. Related Party Transactions**

Investments held in the Fund include debentures of the Province of Nova Scotia with a total fair value of \$5.2 million (0.1% of total assets) as at December 31, 2009 (\$11.6 million (0.3% of total assets) as at December 31, 2008).

**9. 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 and the 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

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

**9. 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 Province regarding how to address the actuarial deficiency.

**10. Comparative Figures**

Certain prior period amounts have been restated to conform to the current year presentation.