

ANNUAL REPORT

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN
MARCH 31, 2008





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NOVA SCOTIA

Finance
Office of the Minister

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July 10th, 2008

To: The Members and Beneficiaries of the Nova Scotia Public Service Superannuation Plan

As Trustee of the Public Service Superannuation Fund, I am pleased to present for your information the annual report of the Fund for the year ended March 31, 2008. The pension plan presently covers 15,911 active members and 11,341 pensioners and survivors; with assets of \$3.6 billion.

It has been a challenging time for financial markets, with record levels of volatility throughout 2007 and continuing into 2008. Although the Plan is prudently managed, its performance and funding level at March 31, 2008 were impacted by market conditions.

Our primary objective continues to be the long term sustainability of the Plan, and its continued ability to meet its obligations to Plan Members.

Sincerely,

Michael G. Baker, Q.C.
Minister of Finance & Trustee of
the Nova Scotia Public Service Superannuation Plan



In January of 2006, the Minister of Finance, in his capacity as Trustee, established an advisory committee. The Public Service Pension Advisory Committee provides a forum where stakeholder representatives can discuss issues related to the administration and investment of the Public Service Superannuation Plan; as well as provide advice and recommendations to the Minister.

Committee Members

Co-chairs

Ian Johnson
Policy Analyst/Researcher
Nova Scotia Government and General Employees Union

Byron Rafuse
Controller of the Province of Nova Scotia
Nova Scotia Department of Finance

Provincial Government Representatives

- ❖ Carrie Cussons
Vice President, Finance
Nova Scotia Liquor Corporation
- ❖ Bill Hogg
Former Deputy Minister for the Province for 10 years. Last position was Deputy Minister of Finance. Now retired.
- ❖ Gordon MacLean
Executive Director, Employee Relations
Public Service Commission
- ❖ Bill Wilson
Senior Executive Director
Department of Justice

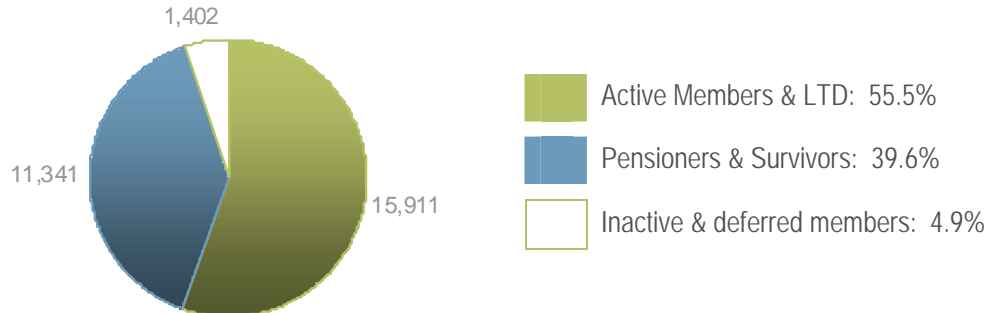
Union Representatives

- ❖ Greg Blanchard
Nova Scotia Government and General Employees Union
- ❖ Cameron MacKinnon
Nova Scotia Government Retired Employees Association
- ❖ Michael MacIsaac
Nova Scotia Highway Workers' union
- ❖ Dave Peters
Nova Scotia Government and General Employees Union



MEMBER PROFILE – PUBLIC SERVICE SUPERANNUATION PLAN

As of December 31, 2007 the total membership of the Public Service Superannuation Plan is 28,654. This includes: 15,911 active members, 11,341 pensioners & survivors and 1,402 inactive or deferred members.

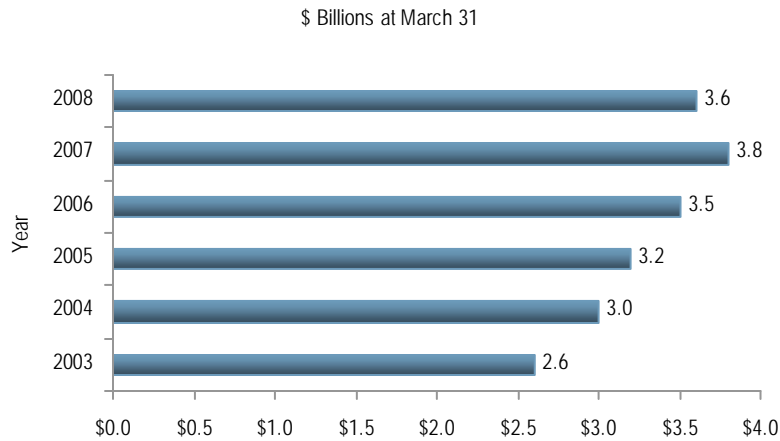


	December 31, 2006	December 31, 2007
Active and LTD Members		
Percentage of membership	55.1%	55.5%
Number	15,624	15,911
Average pensionable earnings for year	\$50,678	\$52,179
Average years of pensionable service	13.08 years	12.91 years
Average age	46.5	46.7
Pensioners & Survivors		
Percentage of membership	38.8%	39.6%
Number	11,023	11,341
<i>Pensioners</i>		
Average annual lifetime pension	\$15,989	\$16,759
Average annual *temporary pension	\$6,718	\$7,222
Average age	69.3	69.4
<i>Spouses & Ex-spouses</i>		
Average annual lifetime pension	\$10,552	\$10,952
Average age	74.5	74.8
<i>Children</i>		
Average annual pension	\$2,725	\$2,494
Average age	20.2	20.3
Deferred Pensioners & Pending Terminations		
Percentage of membership	6.1%	4.9%
Number	1,730	1,402
<i>Deferred Pensioner</i>		
Average annual pension	\$8,221	\$8,416
Average age	49.9	50.3
<i>Pending Terminations</i>		
Average annual lifetime pension	\$4,329	\$4,095
Average annual *temporary pension	\$1,677	\$1,526
Average age	44.3	44.8

* Temporary Pension: The temporary pension is added to the lifetime pension to form the total annual pension benefit paid. As its name suggests, the temporary pension is only meant as a bridge payment between the date of retirement and age 65 at which time it ceases (at age 65 most members are eligible to receive the Canada Pension Benefit from the federal government).



Net Assets in Billions \$ at March 31



Investment Performance (%) for the fiscal year ended March 31, 2008

	1-Year	4-Year	10-Year
Public Service Superannuation Fund (%)	-3.91	6.77	6.13
Benchmark (%)	-1.96	7.52	5.82

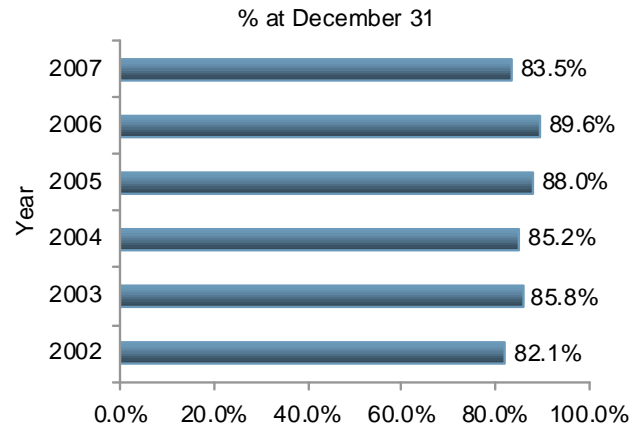
Investment Results

In 2007/08 the problems in the US housing market spread to global financial markets in a significant way causing credit and liquidity issues for participants and creating volatile market conditions. Performance in most financial markets was driven by the strong performance of just a few stocks and the resource sectors. Such conditions made it difficult for broader more diversified investment strategies to outperform financial market indices. This was the case for the Fund in fiscal year 2007/08. For the year ending 2007/08 it returned -3.91% versus the benchmark which returned -1.96%.



Funded Ratio

An actuarial valuation was conducted for the Plan at December 31, 2007. The funded ratio of the Plan at December 31, 2007 was 83.5%. The funded ratio is equal to assets divided by liabilities, expressed as a percentage. A funded ratio of 100% or more means that the Plan is fully funded, i.e. the Fund's assets are sufficient to cover liabilities, based on current market values and actuarial assumptions. A surplus would be equal to the Plan's assets less its liabilities. If liabilities are greater than assets, the Plan would have an unfunded liability. For the Funded Ratio calculation the Fund's assets are based on current market value. The Plan's liabilities are equal to the present value of what the Fund is expected to pay out in future benefits for service accrued to date, based on actuarial assumptions.



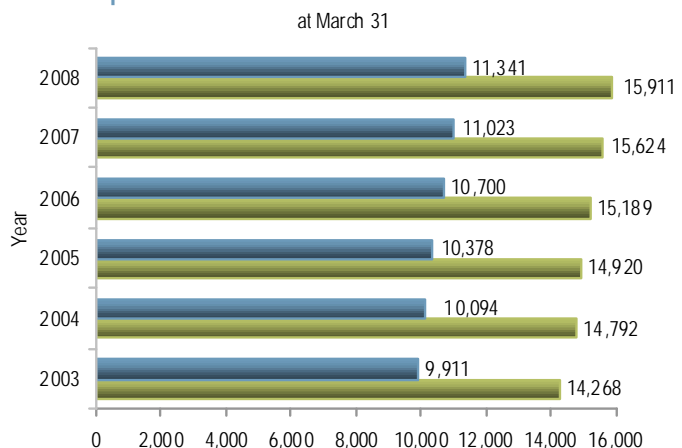
Unfunded Liability

After four straight years of exceeding its target return on investments, 2007 was a very challenging year. The unfunded liability at December 31, 2007 was \$732.7 million. The funding position had improved by \$150.6 million from 2002 to 2006. At December 31, 2007 the funding position declined by \$296.3 million. This decline was primarily due to unfavourable economic conditions, resulting in the Plan experiencing a loss on investments.

Change in Active Member and Pensioner Membership

■ Pensioners are members who have retired and are drawing a pension (also included are survivors of deceased pensioners).

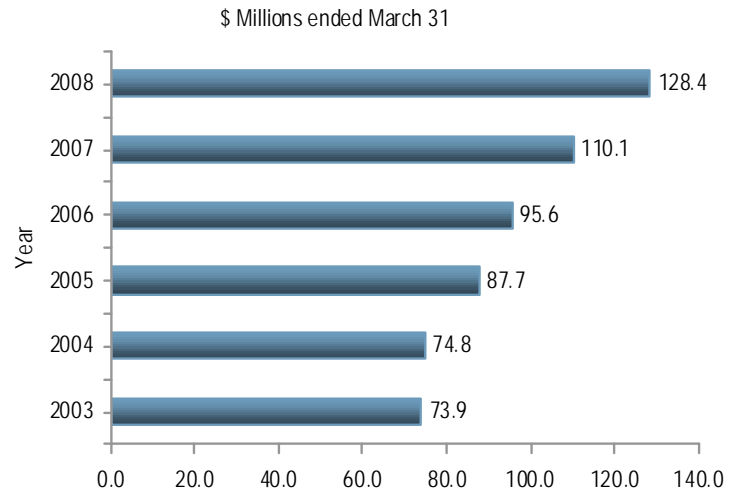
■ Active Members are members who are still working and contributing to the pension plan (includes members on long term disability).



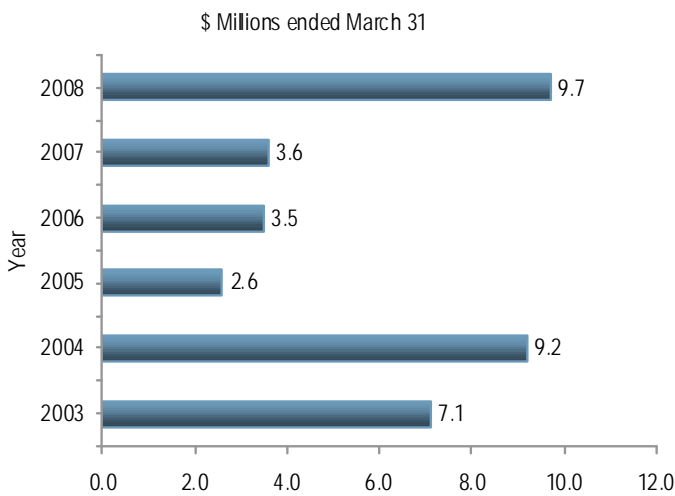


Employee & Employer Contributions

Pension benefits are partially funded by contributions made to the Plan. The Employer includes the Province as well as other employers. Total contributions ended March 31, 2008 were \$128.4 million compared to \$110.1 million for the year ended March 31, 2007. This includes Employee contributions and matching Employer contributions.



Purchases & Transfers



When a member purchases prior service or has service transferred via reciprocal transfer from another defined benefit pension plan, those contributions are made to the Public Service Superannuation Fund. The chart represents purchases and transfers made by members of the Plan for the periods ending March 31 of each year.

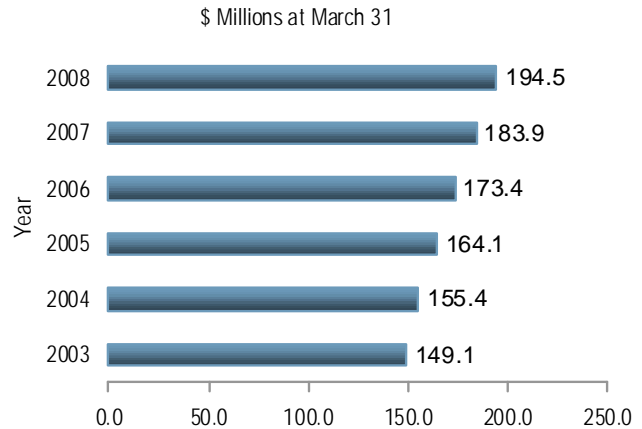
Purchases & transfers into the Public Service Superannuation Plan totaled \$9.7 million at March 31, 2008 compared to \$3.6 million at March 31, 2007.



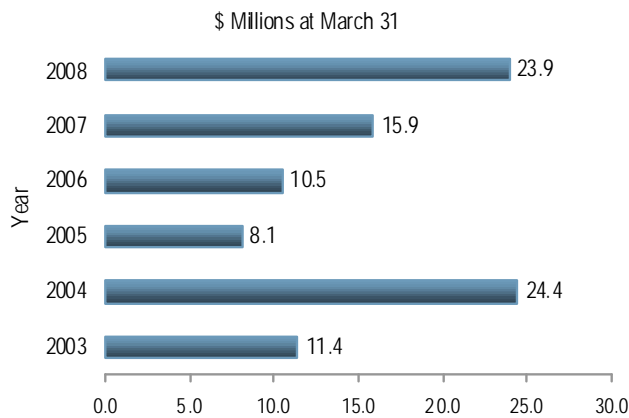
Pensions in Pay and Cost of Living Adjustment (COLA)

Pension payments made up to March 31, 2008 totaled \$194.5 million compared to \$183.9 million as at March 31, 2007.

This increase is due to an increase in the total number of pensioners, as well as the Cost of Living Adjustment (COLA) of 2.1% that was effective January 1, 2007.



Refunds and Transfers Out



At March 31, 2008 refunded contributions and reciprocal transfers out of the Public Service Superannuation Plan totaled \$23.9 million as compared to \$15.9 million in at March 31, 2007.

Refunds and Transfers Out are two of the pension options available to a member who has stopped working as a public servant:

- ❖ A refund of contributions (depending on the amount of pensionable service and the time period in which the contributions were made);
- ❖ A transfer to another pension plan or retirement savings plan;

A third option is a deferred pension payable as early as age 55.



Economic Conditions

In 2007/08 phrases like “credit crunch” and “sub-prime” became a part of every day language as the impact of problems in the US housing market spread to all corners of the globe. Bad news in this sector mounted as defaults on US residential mortgages increased throughout the year. US housing foreclosures fed through to asset-backed securities and securitized investment vehicles which led to a crisis in confidence and liquidity not only in these investments but in other investment vehicles and financial markets as well. Central banks were forced to intervene by providing liquidity to financial markets and by cutting interest rates. In Canada this scenario played out in the commercial paper market, as certain third party Asset Back Commercial Paper issuers found themselves unable to roll over maturing issues and holders of this paper found themselves with illiquid securities.

Due to these events, financial markets experienced volatility to the degree not experienced since 2002. The Canadian equity market, TSX Composite, did comparatively well returning 3% on the year due to its resource concentration while other equity markets such as the S&P500 index and the EAFE (Europe, Asia Far East) index returned -16% and -13%, respectively. The strong performance of Canadian Equities continued to be driven by a very narrow group of Sectors, Energy and Materials, and a very small number of high performing stocks. Bonds in Canada were affected by the events in the asset-back securities market but still managed to register a stronger performance than some asset classes by returning 6% on the year ending March 2008. The US housing market and the continued strong demand for Canadian resources led to an ever strengthening Canadian dollar throughout 2007/08 as it reached and moved through parity with the US dollar. This was a benefit for vacationers traveling south of the border but not for investors holding US dollar investments.

The Fund

As per the Fund’s Statement of Investment Policies and Goals, the goal of the Fund is to invest Fund assets in consideration of the long term interest of the beneficiaries and specifically to achieve, within acceptable levels of volatility and risk, a rate of return in excess of the actuarial assumed rate of return and the return of a designated policy asset mix, the benchmark.

Policy and Actual Asset Mix

Over the past year a significant amount of work was devoted to examining the Fund’s Policy Asset Mix in relation to risk mitigation and the Fund’s liabilities. The result of this work was the decision by the Trustee, on the advice of the Advisory Committee and the Agency to make the following changes initiated in 2007/08 and continuing during the



current year:

	Canadian Equity	US Equity	International Equity	Fixed Income	* Real Estate	Inflation Linked	Cash
Current Policy Asset Mix	30%	15%	15%	31%	7%	-	2%
Final Policy Asset Mix	20%	20%	20%	20%	-	18% ¹	2%

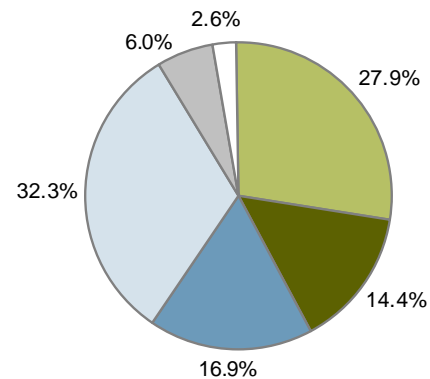
* Real Estate Note: In the Final Policy Asset Mix, Real Estate is included in Inflation Linked

The purpose of the reduction in the Canadian Equity allocation, from 30% to 20%, is to help mitigate the inherent risk found in the Canadian Equity space due to significant concentrations in resource and financial equities. By spreading the equity allocation to other markets, increasing each of the US and EAFE allocation from 15% to 20%, the Fund can take advantage of deeper and broader investment opportunities, outside of Canada.

The creation of an inflation-linked asset class reflects the work that has been undertaken over the past year to analyze Fund's assets and liabilities. The Plan's obligation to pay CPI means that it is exposed to changes in inflation. To mitigate this exposure the Fund will create an asset class that is linked to inflation and will enable the Fund's assets to more closely match its liabilities. Assets such as real estate, infrastructure, real return bonds and commodities are some of the investments whose value typically keeps pace with increases in inflation. As investments are found that fit this asset class and conform to the risk/return expectations of the Fund, they will be added to the portfolio and will be funded out of the fixed income space to adjust these two spaces as per the above table.

	March 31, 2007	March 31, 2008
Asset Class	%	%
Canadian Equity (%)	31.6	27.9
U.S. Equity (%)	15.8	14.4
International Equity (%)	16.3	16.9
Fixed Income (Bonds) (%)	29.2	32.3
Canadian Real Estate (%)	5.3	6.0
Cash (%)	1.8	2.6

Asset Mix for Quarter Ended March 31, 2008



At 2007/08 year end total equities were 59% of the portfolio versus 64% at the end of 2006/07 with 27.9% allocated to Canadian Equities, 14.4% allocated to US Equities and 16.9% allocated to International Equities. As the Canadian Equity space returned positive results throughout the year, as represented by the TSX, \$237 million was removed from the Canadian Equity space and distributed to other asset classes. This allowed the Fund to realize gains and to maintain a close to neutral weighting.

¹ Includes Real Estate



Fixed income as represented by Canadian bonds, real and nominal, and US High Yield bonds finished the year at a 32.3% weighting within the portfolio. Real Estate holdings in the portfolio of 6.0% were represented by Canadian office, industrial, retail and multi-family residential properties.

Investment Initiatives of 2007/08

Throughout 2007/08, a number of initiatives were undertaken that focused on themes of reducing risk, improving portfolio diversification, reducing costs, and matching Plan assets to liabilities. Details of these initiatives are as follows:

1. A set of Investment Beliefs was adopted by the Trustee to ensure that the investment views flowed throughout all aspects of the Fund. This process led to asset re-allocations within the portfolio such as adding more passive management in US Large Cap equities.
2. A change to the Fund's Policy Asset Mix was approved by the Trustee to mitigate the risk inherent in the Canadian Equity markets and to broaden diversification within the portfolio through investment in international markets.
3. Steps were taken to reduce the risk of mismatch of Fund assets to liabilities through the creation of an inflation-linked asset class.
4. A currency hedging program was implemented in 2007/08 to mitigate the risk of currency fluctuations. Currency risk is inherent in a portfolio of assets that includes holdings of non Canadian dollar denominated assets.
5. Opportunities to reduce portfolio management costs and improve portfolio efficiency were identified through a review of investment manager allocations.

Investment Themes for 2008/09

In 2008/09, the Fund will continue to seek out new investments building on the theme of matching assets and liabilities as well as increasing the diversification of the portfolio and thereby reducing risk. The focus will be placed on adding assets to the portfolio that will achieve a long term investment return that will ensure the payment of pension benefits for the long term. Several initiatives will be undertaken that will continue to expand the current focus on reducing costs. Fees related to investment management, real estate management, and custodial services will be addressed to improve cost-efficiency.



The Nova Scotia Pension Agency administers the Nova Scotia Public Service Superannuation Plan. Created in 2006, the Agency is a team of more than 50 professionals committed to providing the highest quality pension and investment management services to the Public Service Superannuation Plan.

Survey Results & Enhancements

In March 2007 the Nova Scotia Pension Agency completed its second Client Satisfaction Survey of the active and retired members of the Public Service Superannuation Plan and other pension plans that it administers. The survey was conducted by telephone reaching a random sample of 3,138 participants. The results showed that overall satisfaction with our service was 80.1% out of 100%.

We received valuable feedback regarding our website and realized it needed improvement. We listened to our members and in November 2007 launched a brand new website which we believe provides the enhancements that our members are looking for.

Despite e-mail becoming more and more popular, the survey found that many members and pensioners of the Public Service Plan still preferred to ask questions and make requests 'in person' via the telephone. It also showed that there were some issues with the existing phone system. For example, some members found wait times were too long or that they were transferred to voice mail too often. To ensure faster one-on-one service, we implemented a more modern phone system this winter and are seeing great improvements, since its introduction.

New Website

We improved our web site and sincerely hope you will try it for yourself. You'll find it easier to navigate - to access the information that you are specifically looking for. You will find information for active & retired members, Plan and Legislation documents, Frequently Asked Questions, investment reports, and many other items of interest. The "Public Service Plan" tab contains information specific to your Pension Plan.



www.novascotiapension.ca



Saving You Time

When you call the Nova Scotia Pension Agency, we want you to reach a Service Consultant in as short a time as possible, seconds rather than minutes. Our new telephone system was installed to help us accomplish this important goal. As well, all of our Service Consultants are available to take your calls; trained on the specifics of your Plan. We take great pride in our detailed knowledge of the Public Service Superannuation Plan and are working hard to meet your needs.

Semi-annual Newsletters

Our newsletters highlight pension plan topics and information that may assist you with your pre and post retirement planning. They are published in the summer and winter, and are distributed to both active & retired Plan members. The Newsletters will keep you advised of improvements to your Plan's rules and benefits, current pension topics, and of improvements to services and procedures.

Pension Seminars

In 2007-08 the Nova Scotia Pension Agency facilitated 30 retirement seminars across the Province. These seminars are most often attended by Plan members considering retirement and are an excellent opportunity to learn about all aspects of retirement benefits, including pension, health benefits, and service awards.

Member Guide Booklets

Two of the publications available to aid members in learning about their Pension Plan are:

- ❖ New Member Summary - A two-page document which provides an overview of the Pension Plan; and
- ❖ Member Guide Booklet - A comprehensive guide that provides pension information on the various stages of Plan membership from early contributor to retirement eligibility.

Both publications may be requested from the Nova Scotia Pension Agency or may be found on the Agency's website at www.novascotiapension.ca, click on Public Service Plan, then Publications.

Online Pension Benefit Calculator

Online pension benefit calculator is available on our web site. This calculator enables clients to estimate the amount of pension they will receive upon retiring. To find the calculator go to www.novascotiapension.ca, click on Public Service Plan, then Calculators.



Contacting the Nova Scotia Pension Agency

Mailing Address: PO Box 371, Halifax, NS B3J 2P8

Street Address: 1949 Upper Water Street, 4th Floor, Halifax NS B3J 3N3

Phone Toll Free in NS: 1-800-774-5070

Phone Local: 424-5070

Fax: 902-424-0662

E-mail: pensionsinfo@gov.ns.ca

Website: www.novascotiapension.ca



Agency Hours of Operation

We have a team of Client Services staff who are ready to take your calls. Members and pensioners with questions about their Pension Plan can reach us between the hours of 8AM and 4:30PM, Monday through Friday.



PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE
SUPERANNUATION FUND
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008



Office of the Auditor General

1888 Brunswick Street, Suite #302, Halifax, Nova Scotia B3J 3J8 • Telephone 902 424-5907 • Fax 902 424-4350

Auditor's Report

To the Members of the Legislative Assembly of Nova Scotia; and
To the Minister of Finance

I have audited the consolidated statement of net assets available for benefits and accrued pension benefits net of deficiency of the Nova Scotia Public Service Superannuation Fund as at March 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 my 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 March 31, 2008 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.


A handwritten signature in black ink, appearing to read "JA Lapointe".

Jacques Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
June 24, 2008



PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
AND ACCRUED PENSION BENEFITS NET OF DEFICIENCY
AS AT MARCH 31, 2008

	2008	2007
NET ASSETS AVAILABLE FOR BENEFITS	(000's)	(000's)
Assets		
Investments (Note 3)	\$ 3,619,754	\$ 3,898,160
Contributions receivable		
Employees'	2,855	2,290
Employers'	3,571	2,517
Accrued income	17,587	16,203
Net investment transactions outstanding	1,234	-
Prepayment and sundry receivables	1,632	2,598
Cash	<u>4,502</u>	<u>2,531</u>
Total assets	<u>3,651,135</u>	<u>3,924,299</u>
Liabilities		
Real estate mortgages (Note 4)	50,456	53,235
Accounts payable	17,292	17,993
Net investment transactions outstanding	-	<u>36,024</u>
Total liabilities	<u>67,748</u>	<u>107,252</u>
Net assets available for benefits	3,583,387	3,817,047
Actuarial asset value adjustment (Note 5)	601	582
Actuarial value of net assets available for benefits	<u>\$ 3,583,988</u>	<u>\$ 3,817,629</u>
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits (Note 6)	\$ 4,496,218	\$ 4,265,104
Deficiency (Note 6)	<u>(912,230)</u>	<u>(447,475)</u>
Accrued pension benefits net of deficiency	<u>\$ 3,583,988</u>	<u>\$ 3,817,629</u>
Approved:		
		
Trustee – Minister of Finance		

See accompanying notes to consolidated financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
CONSOLIDATED STATEMENT OF CHANGES
IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED MARCH 31, 2008

	2008	2007
	(000's)	(000's)
Increase In Assets		
Investment activities (Note 3)	\$ -	\$ 370,679
Contributions		
Employers' – matched	64,218	55,054
Employees' – matched	64,218	55,054
Employees' – unmatched	4,135	1,271
Transfers from other pension plans	5,524	2,361
	<u>138,095</u>	<u>113,740</u>
Total increase in assets	<u>138,095</u>	<u>484,419</u>
Decrease in Assets		
Investment activities (Note 3)	143,559	-
Benefits paid	194,459	183,880
Operating expenses (Note 7)	9,843	9,313
Refund of contributions and interest and transfers to other pension plans	<u>23,894</u>	<u>15,943</u>
Total decrease in assets	<u>371,755</u>	<u>209,136</u>
Increase (Decrease) in Net Assets	(233,660)	275,283
Net Assets Available for Benefits at Beginning of Year	<u>3,817,047</u>	<u>3,541,764</u>
Net Assets Available for Benefits at End of Year	<u>\$ 3,583,387</u>	<u>\$ 3,817,047</u>

See accompanying notes to consolidated financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

1. Authority and Description of Plan

The Public Service Superannuation Fund (the "Fund") was established by the Public Service Superannuation Act (the "Act"). It is the funding vehicle for the Public Service Superannuation Plan (the "Plan"), a pension plan that covers employees of the Province and certain other public sector organizations. The detailed provisions of the Plan, including pension eligibility criteria and benefit formulas, are also 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 Act and Regulations.

Employee and employer contributions and investment earnings are credited to the Fund. Pensions, payments to terminating employees and administration expenses are charged to the Fund. The Minister of Finance is trustee of the Fund, which is invested in federal, provincial, municipal and corporate securities that qualify as eligible investments under the Provincial Finance Act.

The Plan is funded by employee and matching employer contributions of 7.4% of salary up to the Year's Maximum Pensionable Earnings (the "YMPE") and 9.6% of salary above the YMPE. The YMPE is a figure set annually by the Canada Pension Plan ("CPP").

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 and deferred pensions are increased on January 1 of each year at a rate equal to the increase in the Consumer Price Index for Canada, to a maximum of 6%.

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

- age 50 with an age plus pensionable service factor of 80 – "Rule of 80";
- age 55 with two years of service (reduced pension);
- age 60 with two years of service;
- age 65.

Certain pension payments are attributable to previous early retirement programs and other unfunded benefits. They are charged to the Consolidated Fund of the Province and participating employers and are not paid from the Fund. These payments amounted to \$16.7 million for the year ended March 31, 2008 (2007 - \$16.7 million).

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 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. In the event there are insufficient funds within the Fund to make all payments required by the Act, the Province of Nova Scotia guarantees cash flow assistance with respect to the pension benefits in pay. These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Consolidation

The Fund holds certain real estate investments through wholly-owned subsidiaries. The consolidated financial statements include the financial statements of the Plan 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 trade dates of the transactions. The market values of foreign investments and cash balances held at year-end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in current period change in market value of investments.

(d) Investments:

(i) Investments are reported as of trade date and are stated at market value as at year-end. Market 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 appraisers.

(ii) The derivative contracts held by the Fund at year-end 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.

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

- (iii) Real estate is composed of income producing properties and real estate pooled funds. Unless recently acquired in the current fiscal year, properties, including real estate mortgages, 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 that 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.

(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, 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.

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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. It is management's opinion, unless otherwise noted, that the Fund is not exposed to significant interest, currency or credit risks from its financial instruments.

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, due to their short-term nature, approximates their fair value. Investments and real estate mortgages are carried at fair value as described in note 2 and are subject to interest, currency and credit risks as described in note 3.

3. Investments and Derivatives

The investment objectives of the Plan are to provide long-term security of pension benefits to members and to minimize any increases in contributions required by members and the employers. A strategy of investing in assets of Canadian and foreign equities, bonds, debentures, mortgages and money market securities is aimed at achieving these objectives.

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3. Investments and Derivatives (continued)

(a) Market value of investments and related income before allocating the effect of derivative contracts.

	As at March 31, 2008			For the Year			As at March 31, 2007			For the Year		
	Asset (000's)	%	Income (Loss)* (000's)	Asset (000's)	%	Income (Loss)* (000's)	Asset (000's)	%	Income (Loss)* (000's)	Asset (000's)	%	Income (Loss)* (000's)
Money market	\$ 325,459	9.0	\$ 13,369	\$ 261,758	6.7	\$ 13,151						
Fixed income												
- Canadian	1,121,271	31.0	61,189	1,114,537	28.6	51,406						
- US funds	30,546	0.8	(4,512)	35,226	0.9	2,611						
Equities												
- Canadian	791,541	21.9	8,157	855,745	22.0	113,572						
- US	515,273	14.2	(120,245)	672,901	17.3	55,178						
- Other foreign	594,810	16.4	(98,730)	703,287	18.0	91,866						
Real Estate												
- Canadian	181,657	5.0	13,095	181,464	4.7	17,010						
- Pooled fund	81,795	2.3	10,819	71,565	1.8	11,086						
Derivatives	(22,598)	(0.6)	(27,040)	1,677	0.0	14,678						
Other	-	-	339	-	-	121						
	<u>\$ 3,619,754</u>	<u>100.0</u>	<u>\$ (143,559)</u>	<u>\$ 3,898,160</u>	<u>100.0</u>	<u>\$ 370,679</u>						

* Includes realized gains of \$166.2 million (\$169.6 million – 2007) and unrealized losses of \$430.5 million (gains of \$75.5 million - 2007).

(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 strategy.

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3. Investments and Derivatives (continued)

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.

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 table provides details of derivative contracts outstanding as at March 31, 2008:

Money market-to-equity swap contracts

Notional Principal	Original Term	Credit Rating of Counter-party	Equity Index	BA Index	Market Value
(000's)					(000's)
\$ 64,244	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	\$ 174
65,879	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	812
<u>79,828</u>	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	<u>(3,101)</u>
<u>\$ 209,951</u>					<u>\$ (2,115)</u>
Currency forwards					<u>\$ (20,483)</u>

Notional amounts of the money market-to-equity derivative contracts represent the volume of outstanding transactions and serve as the basis upon which the return from and the market value of the contracts are determined.

Money market-to-equity swap contracts are denominated in Canadian dollars and are reset quarterly.

Foreign currency forwards have been used during the year to manage the currency exposure of investments held in foreign currencies.

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3. Investments and Derivatives (continued)

(c) Market value of investments and related income after allocating the effects of derivative contracts.

	As at March 31, 2008		For the Year	As at December 31, 2007		For the Year
	Assets (000's)	%	Income * (000's)	Assets (000's)	%	Income * (000's)
Money market	\$ 115,131	3.2	\$ 4,350	\$ 65,606	1.7	\$ 6,266
Fixed income						
- Canadian	1,121,271	31.0	61,189	1,114,537	28.6	51,406
- US Funds	30,546	0.8	(4,512)	35,226	0.9	2,611
Equities						
- Canadian	999,754	27.6	21,327	1,053,574	27.0	135,135
- US	507,988	14.0	(123,994)	672,901	17.3	55,178
- Other foreign	581,612	16.1	(126,172)	703,287	18.0	91,866
Real Estate						
- Canadian	181,657	5.0	13,095	181,464	4.7	17,010
- Pooled fund	81,795	2.3	10,819	71,565	1.8	11,086
Other	-	0.0	339	-	0.0	121
	<u>\$ 3,619,754</u>	<u>100.0</u>	<u>\$ (143,559)</u>	<u>\$ 3,898,160</u>	<u>100.0</u>	<u>\$ 370,679</u>

* Includes realized gains of \$166.2 million (\$169.6 million – 2007) and unrealized losses of \$430.5 million (gains of \$75.5 million - 2007).

(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 and credit risk. The Fund has set formal policies and 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.

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3. Investments and Derivatives (continued)

(i) Interest rate risk:

Interest rate risk refers to the fact that the Plan's financial position will change as market interest rates change. Interest rate risk is inherent in the nature of the pension plan business due to prolonged timing differences between cash flows related to the Plan's assets and cash flows related to the Plan's liabilities.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. 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. To meet these liabilities the Plan has established an asset mix policy of approximately 60% equities, 33% fixed income securities and 7% real estate. Long-term equity returns have historically shown high correlation with changes in inflation and salary escalation, while fixed income securities are sensitive to changes in nominal interest rates.

The following breakdown of fixed income securities as at March 31, 2008 is summarized in the following table:

	March 31, 2008 (000's)						March 31, 2007 (000's)	
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average effective yield	Total	Average effective yield
Money market	\$ 287,609	\$ 37,850	\$ -	\$ -	\$ 325,459	3.8	\$ 261,758	4.5
Bonds and debentures	26,983	\$ 414,303	\$ 191,371	\$ 360,142	992,799	4.9	989,566	5.0
Real return bonds	-	-	-	128,472	128,472	2.8	124,971	2.9
US Fixed Income	<u>2,566</u>	<u>7,362</u>	<u>19,733</u>	<u>85</u>	<u>30,546</u>	8.7	<u>35,226</u>	7.2
Total	<u>\$ 317,158</u>	<u>\$ 459,515</u>	<u>\$ 211,104</u>	<u>\$ 489,499</u>	<u>\$ 1,477,276</u>		<u>\$ 1,411,521</u>	

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3. Investments and Derivatives (continued)

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

(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 Statement of Investment Policies and Guidelines.

(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.

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

(iv) Foreign currency risk

Foreign currency exposure arises from the Plan's holding of equities denominated in foreign currency.

The Plan's currency exposure from net investment assets as at March 31, 2008, after the effect of derivatives, is summarized in the following table.

<u>Currency</u>	March 31, 2008	March 31, 2007
	(000's)	(000's)
Canada	\$ 2,461,650	\$ 2,407,839
United States	573,547	770,726
Euro Zone	203,849	223,758
Japan	132,259	168,515
United Kingdom	93,867	127,314
Other	126,561	129,593
Total	<u>\$ 3,591,733</u>	<u>\$ 3,827,745</u>

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4. Real Estate Mortgages

Real estate mortgages are carried at fair value and 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 April 1, 2008 are as follows:

2008	\$ 1,531
2009	5,771
2010	830
2011	10,117
2012	2,940
Thereafter	<u>26,678</u>
Total	<u>\$ 47,867</u>

The real estate mortgage payables are valued at fair value based on prevailing interest rates.

5. Actuarial Asset Value Adjustment

The actuarial asset value adjustment is comprised of the following:

	2008	2007
	(000's)	(000's)
Service Buy-Back Receivable	<u>\$ 601</u>	<u>\$ 582</u>

This receivable represents the present value of outstanding employee and employer contributions that are due as a result of service buy-backs.

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6. Accrued Pension Benefits and Deficiency:

Actuarial valuations of the Fund are carried out annually 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, 2007 and issued their report in June 2008. The report indicated that the Plan had an unfunded liability of \$732.7 million (December 31, 2006 - \$436.4 million). A projection to March 31, 2008, applying the same assumptions, indicated an unfunded liability of \$912.2 million (March 31, 2007 - \$447.5 million).

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

	2008	2007
	(000's)	(000's)
Actuarial value of assets:	\$ 3,583,988	\$ 3,817,629
Accrued pension benefits:	<u>4,496,218</u>	<u>4,265,104</u>
Unfunded liability:	<u>(\$ 912,230)</u>	<u>(\$ 447,475)</u>

	2008	2007
Reconciliation of changes in accrued pension benefits:	(000's)	(000's)
Accrued pension benefits at beginning of year	\$ 4,265,104	\$ 3,952,745
Interest on accrued pension benefits at 6.86% (7.38% in 2007)	292,586	291,614
Contributions and transfers from other pension plans	138,095	113,740
Current service cost in excess of contributions	2,909	16,803
Net impact of changes in assumptions	-	83,834
Net impact of experience gains and losses relating to accrued pension benefits	15,877	6,191
Benefits paid	(194,459)	(183,880)
Refunds of contributions and interest and transfers to other pension plans	<u>(23,894)</u>	<u>(15,943)</u>
Accrued pension benefits at end of year	<u>\$ 4,496,218</u>	<u>\$ 4,265,104</u>

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6. Accrued Pension Benefits and Deficiency (continued):

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

The major economic and demographic assumptions used in the last valuation are as follows:

	Valuation December 31, 2007	Valuation December 31, 2006
Inflation	2.5% per annum	2.5% per annum
Average Salary Increase	Inflation plus merit ranging from 0.0% to 2.5%, per annum.	Inflation plus merit ranging from 0.0% to 2.5%, per annum.
Real Rate of Return on Investments	4.25% per annum	4.25% per annum
Average Retirement Age	35% - earliest age for undreduced pension, but not before age 54; 65% - earlier of age 60 and 35 years service	35% - earliest age for undreduced pension, but not before age 54; 65% - earlier of age 60 and 35 years service
Mortality	UP-94 projected to 2015 using scale 'AA'	UP-94 projected to 2015 using scale 'AA'

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7. Operating Expenses:

The Fund is charged with administrative and certain other expenses incurred on behalf of the Fund by the Department of Finance. The following is a summary of these operating expenses:

	2008	2007
	(000's)	(000's)
Plan Administration		
Professional services	\$ 203	\$ 169
Salaries	998	1,010
Supplies and services	197	225
Travel	21	17
Other	<u>175</u>	<u>197</u>
	<u>\$ 1,594</u>	<u>\$ 1,618</u>
Investment Expenses		
Investment management fees	\$ 7,718	\$ 7,294
Professional services	141	119
Salaries	233	196
Supplies and services	17	18
Travel	6	6
Other	<u>134</u>	<u>62</u>
	<u>\$ 8,249</u>	<u>\$ 7,695</u>
Total Operating Expenses	<u>\$ 9,843</u>	<u>\$ 9,313</u>

8. Related Party Transactions:

Investments include debentures of the Province of Nova Scotia with total market value of \$14.0 million (0.4% of total assets) as at March 31, 2008 (\$14.4 million (0.4% of total assets) as at March 31, 2007).

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