

**Pension Services Group
Nova Scotia Department of Finance**

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**Nova Scotia Public Service
Superannuation Plan
Annual Report**

March 31, 2005





Nova Scotia
Finance

Office of the Minister

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July 29, 2005

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, 2005. The pension plan currently includes 14,920 active members and 10,378 pensioners, and holds assets of \$3.189 billion.

For the second consecutive year, the Fund's return on investments has exceeded its actuarial requirement of 7.38% with a return of 7.48%, as of the year ended March 31, 2005. It also exceeded the Fund's benchmark return of 6.53%. These results are very positive and support our goal of enhancing the health of this important pension plan.

Both our Investment and Service teams continue to work diligently to meet your retirement needs & help you to accomplish your financial goals. We look forward to another successful year and welcome your feedback on this report.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter G. Christie'.

Peter G. Christie
Minister

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Profile

Organizational Structure

The Nova Scotia Public Service Superannuation Fund was established by the Public Service Superannuation Act. It is the funding vehicle for the Public Service Superannuation Plan, which covers employees of the Province and certain other public sector organizations.

The Minister of Finance is trustee of the Fund and is responsible for the day-to-day administration of the plan. These functions are carried out through the Pensions & Investments Branch of the Department of Finance. The Department of Finance is located at 1723 Hollis Street, Provincial Building, Halifax, NS.

The Pensions & Investments Branch is organized into two main sections which provide services as follows:

Pension Services Group

Day-to-day administration of the Public Service Superannuation Plan is the responsibility of the Pension Services Group, which comprises 30 staff members. There are eight Client Services Consultants, whose responsibility is to provide accurate and timely pension and related benefits information to all active pension plan members. As well, there are three Pension Payroll Administrators who are responsible for responding to inquiries from retired members and maintaining records related to the payment of benefits. There are also sections that provide Finance and Actuarial Services, Computer Services and Administrative Services.

Investment Division

The Investment Division currently has seven investment professionals. This group is responsible for the day-to-day monitoring of asset mix for compliance within asset mix guidelines and recommending asset mix changes. In addition, this group is responsible for selecting external fund managers, and managing fixed income portfolios. Support staff are responsible for accounting for all investment transactions.

Highlights

AS AT DECEMBER 31	2004	2003
Contributors	14,920	14,792
Pensioners (includes survivors)	10,378	10,094

AS AT MARCH 31	2005	2004 (Restated)
Net Assets available for benefits (in billions)	\$3.189	\$3.036*

*Figure has been restated from last year's report. Please see explanation in Note 3 of the Notes to Financial Statements on Page 18 of this report.

YEARS ENDED MARCH 31	2005	2004
	(in millions)	
Employee and employer contributions	\$87.7	\$74.8
Purchases and Transfers In	\$2.58	\$9.16
Pension Payments	\$164.1	\$155.4
Refunds and Transfers Out	\$8.1	\$24.4
Operating Expenses	\$8.2	\$7.6

YEAR ENDED MARCH 31	2005	2004
Investment - rate of return	7.48%	23.12%

Your Pension Plan

Your plan is a "defined benefit" plan which means that your benefits are calculated based on a formula which incorporates salary and years of service. Members contribute a percentage of salary that is over the long term expected to cover 50% of the cost of the pension. The Province matches members' contributions.

There are two rates of contribution. The lower rate, 6.4%, is payable on earnings up to and including the Year's Maximum Pensionable Earnings (YMPE), and the higher rate, 8.0%, is payable on earnings in excess of the YMPE. The YMPE is a figure established by the Canada Pension Plan on January 1 of each year. For the year 2005, the YMPE is \$41,100.

Member Services

Personalized Client Services

Our team of Client Services Consultants is available from 9AM to 4PM, Monday through Friday. They may be reached at 424 5070 (Halifax area), 1 800 774 5070 (toll free in NS) or by e-mailing: PensionsInfo@gov.ns.ca.

Our Web Site

You can find our web site at: www.gov.ns.ca/finance/pension. The pages include information on plan provisions, plan legislation, financial statements, actuarial valuations, frequently asked questions and more useful information.

Online Pension Benefit Calculators

Online pension benefit calculators are available on our web site. These calculators enable clients to estimate the cost to purchase most types of prior service or to obtain pension estimates. A link to the calculators may be found on our web site's home page at: www.gov.ns.ca/finance/pension click on Online Calculators under Tools. Please note the estimates provided by these calculators are for illustrative purposes only. If you are within two years of retirement you should contact the Pension Services Group for a more exact estimate.

Pension Seminars or Information Sessions

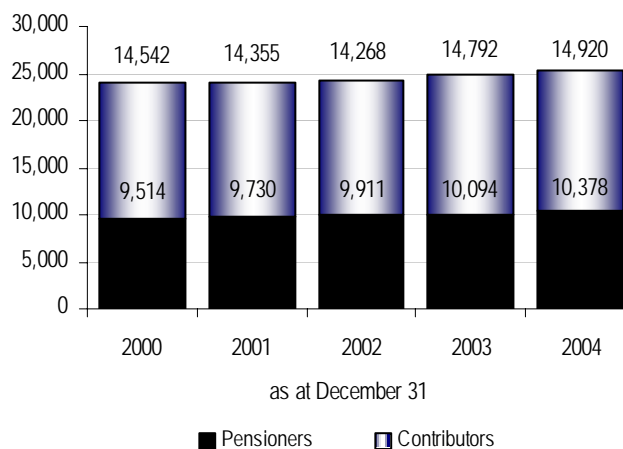
Between the months of September and June, we participate in pension seminars designed to communicate retirement options, qualification for a pension, and other pension plan information. In these seminars we reach new and mid-career members and those nearing retirement. After such presentations our staff are available to take questions and discuss individual pension matters.

Administration Report

Membership

Most people who are employed in the public service of the Province of Nova Scotia are members of the Public Service Superannuation Plan. This includes permanent employees, probationary employees, employees who are designated by Order-in-Council and contract employees if the contract specifies pension plan membership.

Contributors are members who are working and contributing to the plan. Contributors also includes members on Long Term Disability. Pensioners are those who are retired and drawing a pension. The pensioner figures also include survivors.



Plan Revenues

Your benefits are funded from contributions you make to the plan which are matched by your employer. Other sources of funding are derived from purchases of prior service and transfers from other pension plans. The figures in the charts reflect investment income, total contributions to the fund, and purchases and transfers.

	As at March 31 (\$ Millions)				
	2001	2002	2003	2004	2005
Purchases and Transfers	\$3.8	\$6.5	\$7.1	\$9.16	\$2.6
Employee and Employer Contributions	\$65.0	\$68.1	\$73.9	\$74.8	\$87.7
Investment Income	(\$90.8)	\$127.1	(\$304.8)	\$591.7*	\$243.2

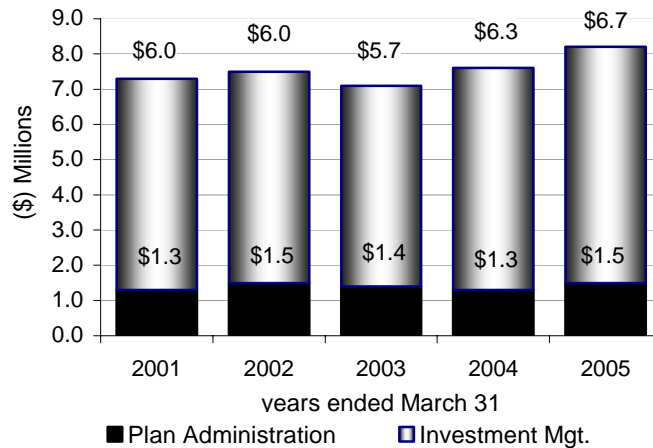
*Figure has been restated from last year's report. Please see explanation in Note 3 of the Notes to Financial Statements on Page 18 of this report.

Operating Expenses

Operating expenses comprise the various costs incurred to manage the investment of the plan and to carry out the day-to-day plan administration.

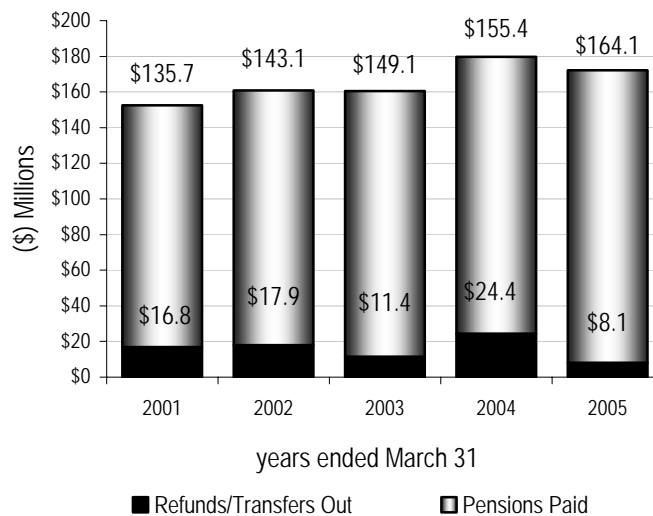
Investment costs include fees paid to external fund managers as well as the salaries, office expenses of in-house investment personnel and the cost of professional services.

Plan Administration costs include the salaries and office expenses of the personnel in Pension Services Group as well as the cost of professional services such as actuarial valuations. The increase in investment management costs is primarily due to an increased asset base and additional activity in real estate. Investment fees are normally a percentage of the assets under management; therefore, as assets increase so do the associated management fees.



Payments from the Fund

Pension payments for the year ended March 31, 2005 totaled \$164.1 million compared to \$155.4 million paid for the year ended March 31, 2004. This increase is due to an increase in the number of total pensioners, as well as a 3.2% cost of living adjustment effective January 1, 2004.



Investment Report

Investment Advisory Committee

The Investment Advisory Committee is a standing committee that advises the Minister of Finance via the Deputy Minister of Finance. This Committee's responsibilities center on monitoring the overall performance of the Plan, the Statement of Investment Policies and Goals and the performance of external and internal fund managers.

The Committee currently has seven full members and four Ex-officio members. The full members consist of two representatives each from the NSTU and the NSGEU, two independent members appointed by the Minister, and the Deputy Minister of Finance. The Ex-officio members include the Executive Director of Pensions and Investments, the Director of Investments, the Internal Manager of Fixed Income Securities and the Manager of Portfolio Analytics.

Investment Division

The Minister of Finance is Trustee of the Fund and is responsible for the day-to-day administration of the plan. These functions are carried out through the Pensions and Investments Branch of the Department of Finance.

The Investment Division of the Department of Finance comprises seven investment professionals. This group is responsible for the day-to-day monitoring of asset mix for compliance with asset mix guidelines and recommending asset mix changes. In addition, this group is responsible for selecting external fund managers and managing fixed income portfolios. Support staff are responsible for accounting for all investment transactions.

Fund Performance

For the one year period ended March 2005 the fund showed a return of 7.48% versus its benchmark of 6.53% and the target investment return of 7.38%.

Average Annual Returns over the period ending March 31, 2005

	1 year	3 years	5 years	10 years
Fund Return	7.48%	5.75%	3.67%	9.98%
Benchmark Return	6.53%	5.28%	2.77%	8.70%

RECENT DEVELOPMENTS

The fund's exposure to real estate was increased over the past year through direct investments in a number of income producing properties. These properties included multi-family housing, office and industrial properties in Alberta, Nova Scotia and Ontario. It is our intention to continue to increase our exposure to this asset class from its current level of 2.86% to 7.0% in the future.

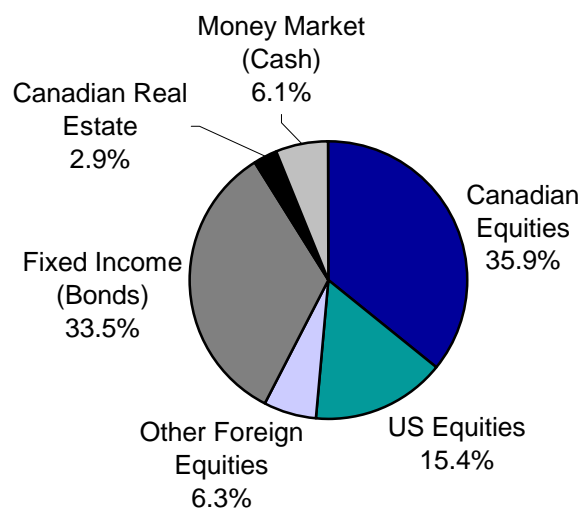
During the past year Mercer Investment Consulting were retained to conduct an asset/liability study for the fund for the purpose of ensuring that the fund's asset mix was compatible with its liabilities and appropriate for future funding requirements. This study recommended a heavier emphasis be placed on real estate and International equities. We are currently reviewing the study recommendations and will likely implement changes in 2005.

MARKET COMMENTARY

While the year ended March 31, 2005 proved to be a very good year for Canadian investors the year ahead could prove to be more difficult. The US Federal Reserve has raised short-term interest rates eight times and it appears this will continue until there is a slowdown in economic growth. This will negatively impact Canada as it relies heavily on exports to the United States. In this rising interest rate environment bond returns will be negatively impacted while the strong upward momentum we have seen in Canadian equity returns will be hard to sustain unless the world appetite for oil and other commodities continues to grow and push up prices providing an expanding earnings base for Canadian firms.

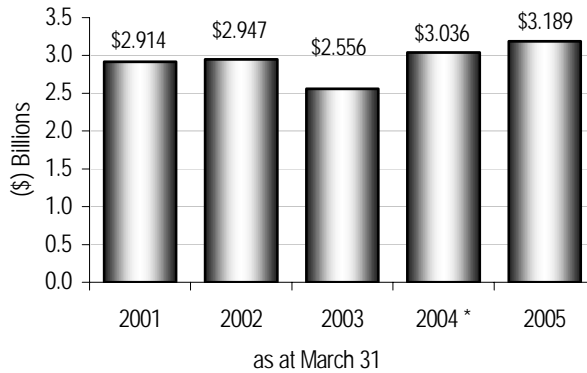
Asset Mix

MARCH 31, 2005



Asset	3-Month Quarters Ended			
	June 30/04	Sept 30/04	Dec 31/04	Mar 31/05
Canadian Equities	36.1%	36.1%	36.1%	35.9%
US Equities	16.4%	15.2%	15.9%	15.4%
Other Foreign Equities	7.9%	7.3%	6.4%	6.3%
Fixed Income (Bonds)	33.0%	34.3%	33.8%	33.5%
Canadian Real Estate	2.6%	2.8%	2.7%	2.9%
Money Market (Cash)	4.0%	4.3%	5.1%	6.1%

Fund Assets



The bar chart shows net assets available for benefits as at March 31, 2005 totaling \$3.189 billion.

*Figure has been restated from last year's report. Please see explanation in Note 3 of the Notes to Financial Statements on Page 18 of this report.

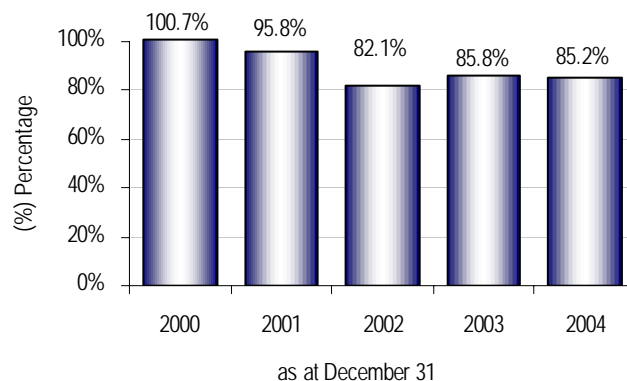
Top 20 holdings as at March 31, 2005

Stock	Descending Value
Royal Bank of Canada	\$58,835,038
Manulife Financial Corp	\$55,020,952
Bank of Nova Scotia	\$50,460,022
Toronto Dominion Bank	\$49,143,510
Encana Corporation	\$39,087,389
Talisman Energy Inc	\$32,141,164
Nexen Inc	\$27,154,986
Canadian National Railway	\$23,241,381
Transcanada Corp	\$21,488,372
BCE Inc	\$21,487,757
Sun Life Financial Inc	\$21,131,504
Canadian Imperial Bank of Commerce	\$18,373,942
Thomson Corporation	\$18,023,815
Great West Lifeco Inc	\$17,737,899
Bank of Montreal	\$17,648,481
Canadian Tire Ltd.	\$16,610,491
SNC-Lavalin Group Inc.	\$16,488,005
Imperial Oil Ltd.	\$16,249,387
Enbridge Inc	\$16,086,822
Petro Canada	\$15,446,642

Actuarial Position

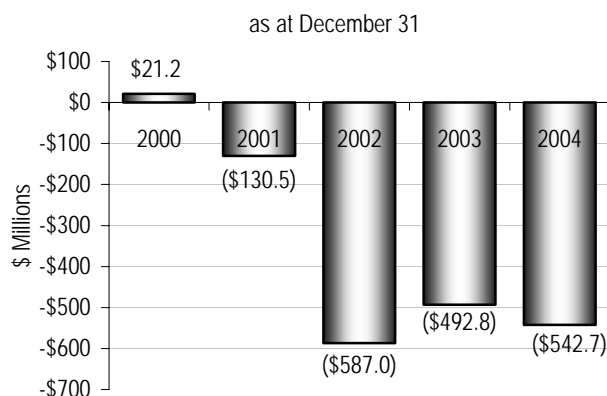
Funded Ratio

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 value and actuarial assumptions. The surplus is equal to the Fund's assets less its liabilities. If liabilities are greater than assets, the Plan has an unfunded liability. 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

The actuarial position of the Plan had declined from a surplus of \$21.2 million as at December 31, 2000 to an unfunded liability of \$587.0 million as at December 31, 2002. This was due primarily to a downturn in the financial markets. Markets have been relatively stable since then. As at December 31, 2004, the unfunded liability was \$542.7 million.



The Public Service Superannuation Plan retains the services of an actuarial consulting firm to act as its actuary. The firm of Morneau Sobeco currently fills this role. Actuarial valuations are performed annually. The Plan's actuaries have continued to note that current contribution levels still do not cover the current service cost (cost of service earned by Plan members each year) even after the 1% increase in June 2004. Unless there is a sustained increase in capital markets it is likely that contribution rates will have to rise again in the near future to cover, at least, current service costs.

Consolidated Financial Statements

March 31, 2005



**Office of the
Auditor General**

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Halifax, Nova Scotia,
B3J 3J8

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, 2005 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, 2005 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
May 25, 2005

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, 2005

	2005	2004 (Restated – see Note 3)
	(000's)	(000's)
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (Note 4)	\$ 3,202,226	\$ 3,049,621
Contributions receivable		
Employees'	3,435	2,758
Employers'	4,084	2,975
Accrued income	14,833	14,021
Net investment transactions outstanding	5,838	-
Prepayment and sundry receivables	473	97
Cash	<u>2,083</u>	<u>1,225</u>
Total assets	<u>3,232,972</u>	<u>3,070,724</u>
Liabilities		
Real estate mortgages (Note 5)	17,614	-
Accounts payable	26,522	28,113
Net investment transactions outstanding	<u>-</u>	<u>6,835</u>
Total liabilities	<u>44,136</u>	<u>34,948</u>
Net assets available for benefits	3,188,836	3,035,776
Actuarial asset value adjustment (Note 6)	<u>411</u>	<u>600</u>
Actuarial value of net assets available for benefits	<u>\$ 3,189,247</u>	<u>\$ 3,036,376</u>
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits (Note 7)	\$ 3,729,200	\$ 3,522,000
Deficiency (Note 7)	<u>(539,953)</u>	<u>(485,624)</u>
Accrued pension benefits net of deficiency	<u>\$ 3,189,247</u>	<u>\$ 3,036,376</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, 2005**

	2005	2004 (Restated – see Note 3)
	(000's)	(000's)
Increase In Assets		
Investment activities (Note 4)	<u>\$ 243,207</u>	<u>\$ 591,724</u>
Contributions		
Employer's – matched	43,860	37,401
Employees' – matched	43,860	37,401
Employees' – unmatched	1,205	5,195
Interest on the purchase of prior years' service	564	1,056
Transfers from other pension plans	<u>810</u>	<u>2,912</u>
	<u>90,299</u>	<u>83,965</u>
Total increase in assets	<u>333,506</u>	<u>675,689</u>
Decrease in Assets		
Benefits paid	164,074	155,366
Operating expenses (Note 8)	8,233	7,591
Refund of contributions and interest and transfers to other pension plans	<u>8,139</u>	<u>24,396</u>
Total decrease in assets	<u>180,446</u>	<u>187,353</u>
Increase in Net Assets	153,060	488,336
Net Assets Available for Benefits at Beginning of Year as previously reported	<u>3,045,756</u>	<u>2,555,530</u>
Prior Period Adjustment (Note 3)	<u>(9,980)</u>	<u>(8,090)</u>
Net Assets Available for Benefits at Beginning of Year as restated	<u>3,035,776</u>	<u>2,547,440</u>
Net Assets Available for Benefits at End of Year	<u>\$ 3,188,836</u>	<u>\$ 3,035,776</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, 2005**

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 which 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 6.4% (5.4% prior to June 2004) of salary up to the Year's Maximum Pensionable Earnings ("YMPE") per the Canada Pension Plan ("CPP") and 8% (7% prior to June 2004) 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 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 \$16.6 million for the year ended March 31, 2005 (2004 - \$16.3 million).

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005**

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 value 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.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

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 which has been recently acquired is based on the purchase price.

- (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.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005**

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 notes 2 and 3 and are subject to interest, currency and credit risks as described in note 4.

3. Prior Period Adjustment:

Calculations of accrued income for fixed income securities, as stated in financial statements for prior years, were found to contain errors relating to real return bonds. These errors were corrected, and accrued investment income amounts were restated in these financial statements. The net assets available for benefits were reduced by \$8.1 million as at March 31, 2003. The increase in net assets for years 2005 and 2004 was reduced by \$1.5 million and \$1.9 million respectively and is included in these financial statements.

Accordingly, certain comparative figures have been restated from those previously reported in order to properly account for accrued investment income.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005**

4. 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.

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

	<u>As at March 31, 2005</u>		<u>For the Year</u> Income (Loss)*	<u>As at March 31, 2004</u>		<u>For the Year</u> Income (Loss)* (Restated) (000's)
	Asset	%		Asset	%	
	(000's)		(000's)	(000's)		(000's)
Money market	\$ 385,743	12.1	\$ 7,726	\$ 482,193	15.8	\$ 9,372
Fixed income						
- Canadian	998,597	31.2	53,127	906,666	29.7	103,708
- US Funds	32,253	1.0	(1,511)	-	-	-
Equities						
- Canadian	986,797	30.8	163,797	895,737	29.4	265,374
- US	490,238	15.3	(3,288)	457,792	15.0	103,638
- Other foreign	199,209	6.2	(5,048)	236,508	7.8	59,632
Real Estate						
- Canadian	54,530	1.7	3,598	21,803	0.7	541
- Pooled fund	53,696	1.7	4,817	49,325	1.6	2,424
Derivatives	1,163	0.0	19,931	(403)	0.0	46,992
Other	-	-	58	-	-	43
	<u>\$ 3,202,226</u>	<u>100.0</u>	<u>\$ 243,207</u>	<u>\$ 3,049,621</u>	<u>100.0</u>	<u>\$ 591,724</u>

* Includes realized gains of \$86.1 million (\$47.8 million – 2004) and unrealized gains of \$52.8 million (\$413.0 million – 2004).

- (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.

Money market-to-equity swaps have been used during the year to adjust the asset mix.

Bond futures are contractual agreements to buy or sell the financial instrument at the contracted date and price. Bond futures have been used to adjust asset mix during the year.

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NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
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4. 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; and
- enters into derivatives only for the purposes of managing risk.

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.

<u>Notional Principal</u>	<u>Original Term</u>	<u>Credit Rating of Counter-party</u>	<u>Equity Index</u>	<u>BA Index</u>	<u>Market Value</u>
(000's)					(000's)
\$ 21,471	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	\$ 736
51,279	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	194
<u>82,535</u>	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	<u>233</u>
<u>\$ 155,285</u>	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	<u>\$ 1,163</u>

Notional amounts of these 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.

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4. Investments and Derivatives (continued):

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

	<u>As at March 31, 2005</u>		<u>For the Year</u>	<u>As at March 31, 2004</u>		<u>For the Year</u>
	Asset	%	Income *	Asset	%	Income (Loss)* (Restated)
	(000's)		(000's)	(000's)		(000's)
Money market	\$ 230,218	7.2	\$ 4,197	\$ 298,296	9.8	\$ 5,182
Fixed income						
- Canadian	998,597	31.2	53,642	906,666	29.7	103,336
- US Funds	32,253	1.0	(1,511)	-	-	-
Equities						
- Canadian	1,143,485	35.7	186,742	1,079,231	35.4	316,928
- US	490,238	15.3	(3,288)	457,792	15.0	103,638
- Other foreign	199,209	6.2	(5,048)	236,508	7.8	59,632
Real Estate						
- Canadian	54,530	1.7	3,598	21,803	0.7	541
- Pooled fund	53,696	1.7	4,817	49,325	1.6	2,424
Other	-	-	58	-	-	43
	<u>\$ 3,202,226</u>	<u>100.0</u>	<u>\$ 243,207</u>	<u>\$ 3,049,621</u>	<u>100.0</u>	<u>\$ 591,724</u>

*Includes realized gains of \$86.1 million (\$47.8 million – 2004) and unrealized gains of \$52.8 million (\$413.0 million – 2004).

(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. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks.

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
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4. 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, 2005 is summarized in the following table:

	March 31, 2005					March 31, 2004		
	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)	Average effective yield %	Total (000's)	Average effective yield %
Money market	\$ 385,743	\$ -	\$ -	\$ -	\$ 385,743	2.6	\$ 482,193	2.2
Bonds and debentures	41,787	324,437	273,271	238,609	878,104	5.3	795,406	5.7
Real return bonds	-	-	-	120,493	120,493	3.0	111,260	3.6
US Fixed Income	<u>581</u>	<u>7,289</u>	<u>21,416</u>	<u>2,967</u>	<u>32,253</u>	6.7	-	-
Total	<u>\$ 428,111</u>	<u>\$ 331,726</u>	<u>\$ 294,687</u>	<u>\$ 362,069</u>	<u>\$ 1,416,593</u>		<u>\$ 1,388,859</u>	

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.

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4. Investments and Derivatives (continued):

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, and to utilize derivative financial instruments, which are designed to mitigate the impact of market risk.

(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 credit risk by purchasing fixed income securities with a credit rating of "BBB" and higher. In addition, 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. From time to time some of this exposure will be hedged based on interest rates or other economic fundamentals.

The Plan's currency exposure from net investment assets as at March 31, 2005 is summarized in the following table.

<u>Currency</u>	<u>March 31, 2005</u> (000's)	<u>March 31, 2004</u> (Restated) (000's)
Canada	\$ 2,477,590	\$ 2,360,136
United States	551,936	489,631
Euro Zone	44,977	69,085
Japan	56,176	39,857
United Kingdom	26,911	39,169
Other	<u>49,503</u>	<u>60,154</u>
Total	<u>\$ 3,207,093</u>	<u>\$ 3,058,032</u>

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5. Real Estate Mortgages:

Real estate mortgages are carried at fair value and have various terms to maturity to 2015 with each mortgage secured by a specific real property. Nominal rates range from 5.3% to 6.9%

Scheduled principal repayments in each of the next five years, beginning April 1, 2005 are as follows:

2005	\$269
2006	336
2007	1,154
2008	345
2009	366
Thereafter	<u>14,535</u>
Total	<u>\$17,005</u>

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

6. Actuarial Asset Value Adjustment:

The actuarial asset value adjustment is comprised of the following:

	<u>2005</u>	<u>2004</u>
	(000's)	(000's)
Service buy-back receivable	<u>\$ 411</u>	<u>\$ 600</u>

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

**PROVINCE OF NOVA SCOTIA
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7. 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, Morneau Sobeco, performed a valuation as at December 31, 2004 and issued their report in June 2005. The report indicated that the Plan had an unfunded liability of \$542.7 million (December 31, 2003 - \$492.8 million). A projection to March 31, 2005, applying the same assumptions, indicated an unfunded liability of \$540.0 million (March 31, 2004 - \$475.6 million).

The following table reflects the unfunded liability as at March 31, 2005 and as at March 31, 2004 after the prior period adjustment.

	<u>2005</u>	<u>2004</u>
	(000's)	(000's)
Actuarial value of assets:	\$ 3,189,247	\$ 3,036,376
Accrued pension benefits:	<u>3,729,200</u>	<u>3,522,000</u>
Unfunded liability:	<u>(\$ 539,953)</u>	<u>(\$ 485,624)</u>

Reconciliation of changes in accrued pension benefits:	<u>2005</u>	<u>2004</u>
	(000's)	(000's)
Accrued pension benefits at beginning of year	\$3,522,000	\$3,318,275
Interest on accrued pension benefits at 7.38%	259,836	244,806
Contributions and transfers from other pension plans	90,299	83,965
Current service cost in excess of contributions	18,500	24,000
Net impact of experience gains and losses relating to accrued pension benefits	10,778	30,716
Benefits paid	(164,074)	(155,366)
Refunds of contributions and interest and transfers to other pension plans	<u>(8,139)</u>	<u>(24,396)</u>
Accrued pension benefits at end of year	<u>\$3,729,200</u>	<u>\$3,522,000</u>

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.

**PROVINCE OF NOVA SCOTIA
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7. Accrued Pension Benefits and Deficiency (continued):

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

	<u>Valuation December 31, 2004</u>	<u>Valuation December 31, 2003</u>
Inflation	3.0% per annum	3.0% per annum
Average Salary Increase	0.5% per annum real plus merit ranging from 0.0% to 2.5%	0.5% per annum real plus merit ranging from 0.0% to 2.5%
Real Rate of Return on Investment	4.25% per annum	4.25% per annum
Average Retirement Age	20% - age 55 or "Rule of 80" 80% - age 60 or 35 years service	20% - age 55 or "Rule of 80" 80% - age 60 or 35 years service
Mortality	1994 Group Annuity Mortality Table projected to 2000 using scale AA	1994 Group Annuity Mortality Table projected to 2000 using scale AA

There was one change in major actuarial assumptions and methodology used for December 31, 2004 as compared to December 31, 2003. Prior to 2004, the net assets available for benefits was subject to an actuarial asset value adjustment known as asset smoothing, which moderated the effects of market volatility on investment value. The adjustment was based on the difference between the market value of assets and what the market value would have been if the Fund had earned the assumed rate of return. The investment gain or loss in each year (relative to actuarial assumptions) was amortized over the current year and the following two years. The actuarial asset value adjustment reflected the portion of investment gains or losses (relative to actuarial assumptions) not yet recognized for purposes of determining the net assets available for benefits. This adjustment was subject to the condition that the actuarial asset value would not be greater than the fair market value of investments. For the valuation as at December 31, 2004, this adjustment has been eliminated.

Elimination of smoothing will not require restatement of asset figures for the fiscal year ending March 31, 2004. The actuarial value of assets as at that date was equal to the market value of assets; therefore, there was no asset smoothing adjustment.

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8. 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:

	<u>2005</u>	<u>2004</u>
	(000's)	(000's)
Plan Administration		
Professional services	\$ 322	\$ 170
Salaries	799	714
Supplies and services	303	333
Travel	7	10
Other	<u>108</u>	<u>79</u>
	<u>\$ 1,539</u>	<u>\$ 1,306</u>
Investment Expenses		
Investment management fees	6,138	5,782
Professional services	60	41
Salaries	376	318
Supplies and services	90	107
Travel	12	13
Other	<u>18</u>	<u>24</u>
	<u>6,694</u>	<u>6,285</u>
Total Operating Expenses	<u>\$ 8,233</u>	<u>\$ 7,591</u>

9. Related Party Transactions:

Investments include debentures of the Province of Nova Scotia with total market value of \$18.3 million (0.6% of total assets) as at March 31, 2005 (\$17.8 million (0.6% of total assets) as at March 31, 2004).

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