Pension Services Group
Nova Scotia Department of Finance

1723 Hollis Street
PO Box 371
Halifax NS B3J 2P8
1 800 774 5070 (toll free in NS)
902 424 5070

Nova Scotia Teachers' Pension Plan Annual Report

December 31, 2003

Nova Scotia
Finance
Office of the Minister

PO Box 187, Halifax, Nova Scotia, Canada B3J 2N3 • Telephone 902 424-5720 Fax 902 424-0635 • www.gov.ns.ca

July 7th, 2004

To: **The Members and Beneficiaries of the Nova Scotia Teachers' Pension Plan**

In accordance with Subsection 35(2) of the Regulations under the Teachers' Pension Act, I as Trustee, am pleased to present for your information the annual report of the Nova Scotia Teachers' Pension Fund for the year ended December 31, 2003.

The Fund's position improved considerably over the year. As at December 31, 2002, the unfunded liability was $1.015 billion and the funded ratio was 76.8%. As at December 31, 2003, the unfunded liability had declined to $871 million and the funded ratio had improved to 81.0%. The Fund's return for the year was an outstanding 14.17%.

Our investment and service teams are working hard to meet your needs. We look forward to another successful year and welcome your feedback on this report.

Sincerely,

Peter G. Christie
Minister

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Profile

Organizational Structure

The Nova Scotia Teachers' Pension Fund was established by the Teachers' Pension Act. It is the funding vehicle for the Teachers' Pension Plan, which covers public schools and some community college teachers. Together with the Nova Scotia Teachers' Union, the goal of the pension plan administrator is to safeguard the rights and interests of the members and beneficiaries of the pension plans.

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 three main sections which provide services as follows:

Pension Services Group
Day-to-day administration of the Teachers' Pension Plan is the responsibility of the Pension Services Group, which is comprised of 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 Financial Services, Actuarial Services, Computer Services and Administrative Services.

Policy and Governance
This two-person division is responsible for research and analysis and for the formulation of pension policy recommendations to the trustee. The division also acts as the secretariat to the Teachers' Pension Partners' Board, the Public Service Pension Forum and other committees.

Investment Division
The Investment Division is currently comprised of five 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	2003	2002
Contributors	13,065	13,097
Pensioners (including survivors)	8,815	8,485
Assets available for benefits (in billions)	$3.720	$3.351

Year Ended December 31	2003
Investment - rate of return (annualized)	14.17%

Years Ended December 31	2003	2002
	(in millions)	
Employee and employer contributions	$107.5	$100.9
Purchases and Transfers In	$2.8	$3.7
Pension Payments	$219.8	$207.2
Refunds and Transfers Out	$3.3	$2.2
Operating Expenses	$7.9	$7.9

Your Pension Plan

Your plan is a “defined benefit” plan, which means that your benefits are calculated based on a formula that 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.

The Teachers’ Pension Partners’ Board sets contribution rates. There are two rates of contribution. The lower rate, 8.3%, is payable on earnings up to and including the Year’s Maximum Pensionable Earnings (YMPE), and the higher rate, 9.9%, 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 2004 the YMPE is $40,500.

1999* – Change in Fiscal Year End Date

Some of the figures for the year 1999 are displayed with an asterisk *. In 1999 the Teachers' Pension Plan fiscal year end date was changed from March 31 to December 31 therefore, the figures affected by this change are for the nine months only ended December 31, 1999.

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 contained there include information on plan provisions, plan legislation, financial statements, actuarial valuations, frequently asked questions and more useful information.

Online Pension Benefit Calculators

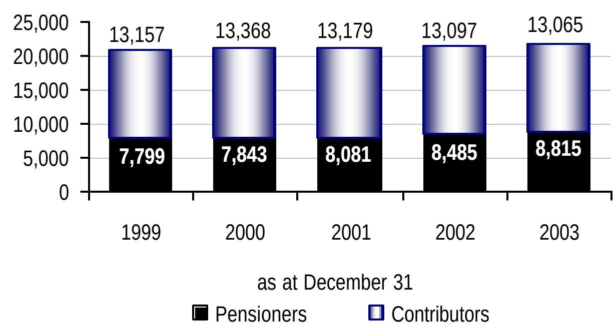
Effective April 2004 online pension benefit calculators were made available on our web site. These calculators enable clients to estimate the cost to purchase prior service or to obtain pension estimates. A link to the calculators may be found on our web site's home page at: www.gov.ns.ca/finance/pension, 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 accurate 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

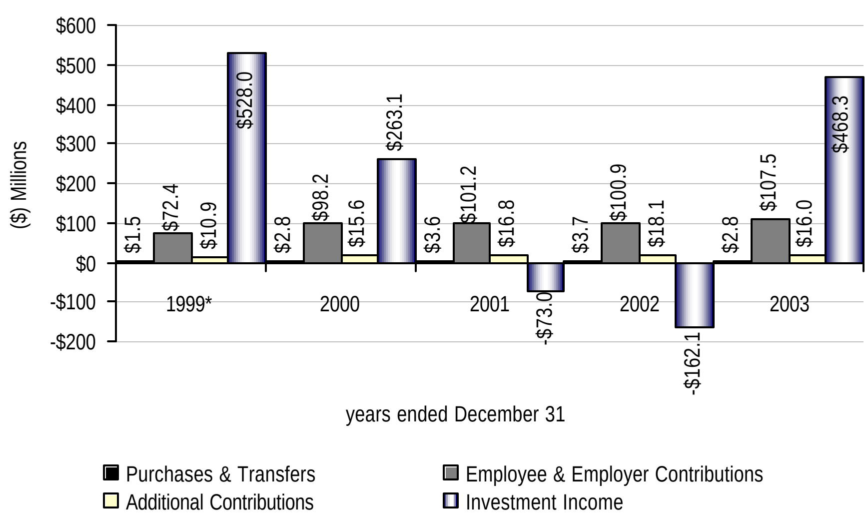
Membership



Most teachers who are employed in the public school system and/or community college system in Nova Scotia are required, as a condition of employment, to be members of the Teachers' Pension Plan. Contributors are teachers who are actively teaching and contributing to the plan. Pensioners are members who have retired from teaching and are drawing a pension. The pensioner figures also include survivor pensions being paid.

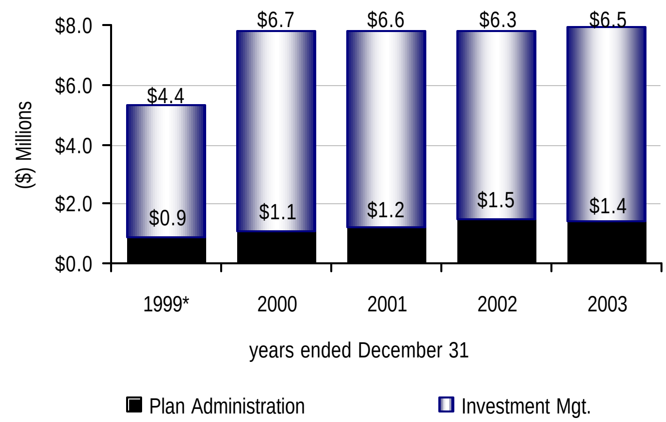
Plan Revenues

Your benefits are funded by the contributions you have made to the plan as well as investment earnings. Your contributions are matched by the Province. In the case of the Atlantic Provinces Special Education Authority (APSEA) and Community College teachers, these institutions make the matching contributions. The figures on the chart reflect investment income, total contributions received by the fund (on an accrual basis) including employee contributions, employer contributions, purchases of prior years of service, and transfers from other pension plans. * See page 3 for explanation (1999*)



Operating Expenses

Operating expenses are comprised of 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.

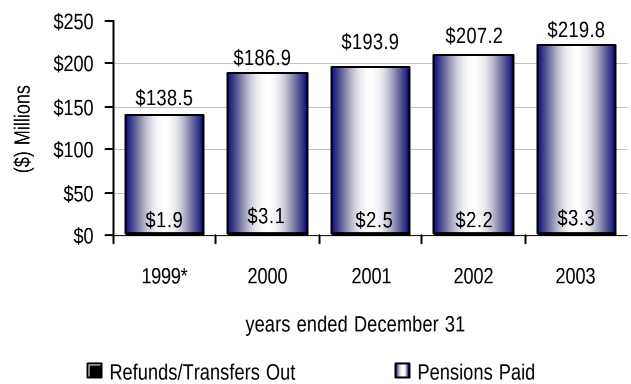
Plan Administration costs include the salaries and office expenses of the personnel in Pension Services Group and Pension Policy and Governance as well as the cost of professional services such as actuarial valuations.

* See page 3 for explanation (1999*)

Payments from the Fund

Pension payments made in 2003 totaled $219.8 million compared to $207.2 million paid in 2002. This increase is due to an increase in the number of total pensioners, as well as a 0.6% cost of living adjustment effective January 1, 2003.

* See page 3 for explanation (1999*)



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. The Deputy acts as chair for the Committee. 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 is currently comprised of 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.

Fund Performance

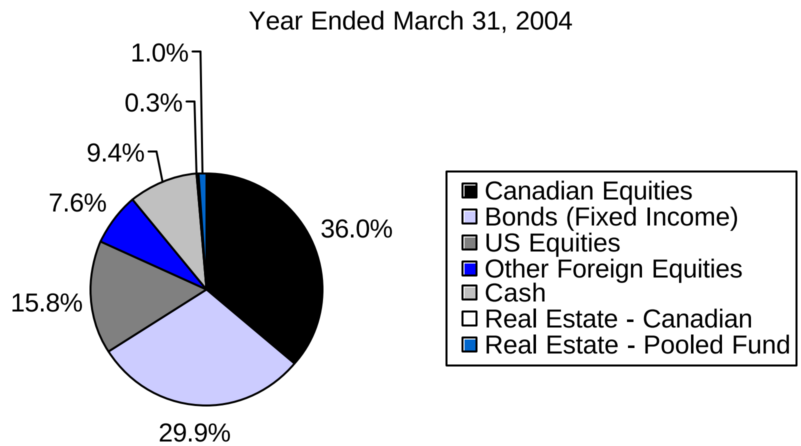
The Fund's active management style combined with its asset mix strategy helped add value of 58 basis points (.58%). The Fund's return was 14.17% versus its benchmark return of 13.59%. The benchmark return is calculated to show the portfolio returns if all the Fund assets were invested passively. Looking at ten year returns, you will note that the Fund has comfortably exceeded our target rate of return of 7.38% per annum.

Average Annual Returns over the period ending December 31, 2003

	1 year	3 years	5 years	10 years
Fund Return	14.17%	1.88%	6.40%	9.21%
Benchmark Return	13.39%	1.47%	5.04%	8.08%

Asset Mix

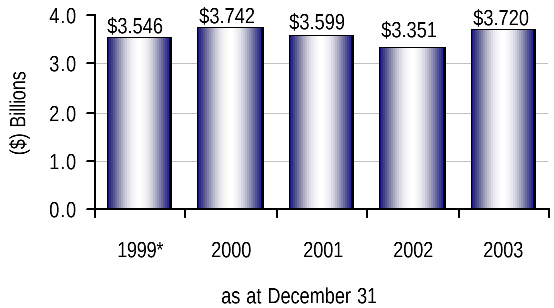
Note: Assets listed in the legend are displayed in clockwise position on the pie chart starting with Canadian Equities at 36.0%.



The asset mix of the fund changed modestly during the year as a result of very strong returns in the Canadian equity market. This resulted in a 2.4% increase in Canadian Equities by the end of the year. Canadian Bonds decreased by 8.2% as a result of the move in the equity markets as well as profit taking by our managers to reflect our concerns that the bond market was significantly overpriced relative to the strong economic fundamentals which were evident late in the year.

The cash position of the fund at the end of the year was sitting at its maximum established by the investment policy. These funds are to be invested in a number of real estate properties in the year ahead. The Investment Policy of the Plan allows for an increase in the Real Estate component from its current level of 1.3% to 7.0% of total Plan assets.

Fund Assets



The bar chart shows fund assets as at December 31, 2003 totaling $3.720 billion.

* See page 3 for explanation (1999*)

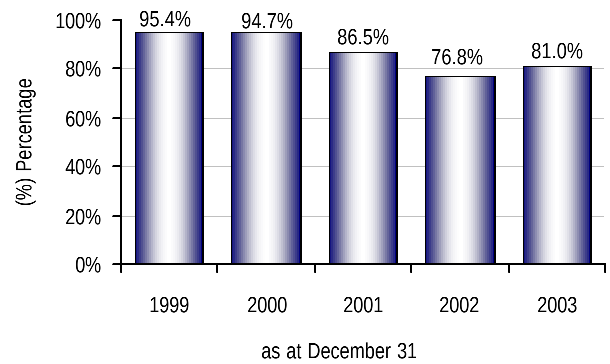
Top 20 Holdings as of December 31, 2003

Stock	Value
Royal Bank of Canada	$69,995,168
Bank of Nova Scotia	$65,020,435
Toronto Dominion Bank	$52,808,587
Manulife Financial Corporation	$43,765,138
Encana Corporation	$36,695,121
Bank of Montreal	$30,813,884
BCE Inc.	$29,584,845
Transcanada Corporation	$29,357,881
Canadian Imperial Bank of Commerce	$27,108,355
Talisman Energy Inc.	$26,716,829
Nexen Inc.	$26,365,392
Sun Life Financial Inc.	$24,882,251
Alcan Inc.	$23,282,369
Nortel Networks Corporation	$21,835,330
Thomson Corporation	$21,523,293
Petro Canada	$20,855,868
Cameco Corporation	$20,239,814
Enbridge Inc.	$19,896,497
Canadian National Railway	$18,418,542
Great West Life	$18,401,388

Actuarial Position

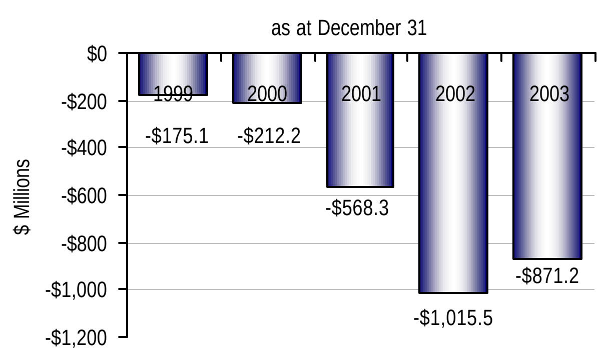
Funded Ratio

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 Plan's assets are sufficient to cover liabilities, based on current market value and actuarial assumptions. The surplus is equal to the Plan's assets less its liabilities. If liabilities are greater than assets, the Plan has an unfunded liability. The Plan'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 an unfunded liability of $175.1 million as at December 31, 1999 to an unfunded liability of $1,015.5 billion as at December 31, 2002. This was due primarily to a downturn in the financial markets. The position improved, however, from 2002 to 2003 to an unfunded liability of $871.2 million.



The Teachers' Pension Plan retains the services of an actuarial consulting firm to act as it actuary. The firm of Mercer Human Resource Consulting currently fills this role.

Consolidated Financial Statements
December 31, 2003

NOVA SCOTIA
Office of the Auditor General

1888 Brunswick Street
Suite 302
Halifax, Nova Scotia,
B3J 3J8

Bus: (902) 424-5907
Fax: (902) 414-4350

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 Teachers' Pension Fund as at December 31, 2003 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 December 31, 2003 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

E R Salmon

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
April 8, 2004

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS NET OF DEFICIENCY
AS AT DECEMBER 31, 2003

	2003	2002
NET ASSETS AVAILABLE FOR BENEFITS	(000's)	(000's)
Assets		
Investments (Note 4)	$3,661,083	$3,230,736
Receivable from the Province of Nova Scotia (Note 1)	59,178	84,376
Contributions receivable		
Employees'	1,246	1,564
Employer's	4,789	4,137
Net investment transactions outstanding	-	30,095
Accrued income	22,088	20,956
Prepayment	440	-
Cash	974	1,092
Total assets	3,749,798	3,372,956
Liabilities		
Net investment transactions outstanding	7,061	-
Accounts payable	22,928	22,244
Total liabilities	29,989	22,244
Net assets available for benefits	3,719,809	3,350,712
Actuarial asset value adjustment (Note 5)	-	14,043
Actuarial value of net assets available for benefits	$3,719,809	$3,364,755
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits (Note 6)	$4,591,045	$4,380,224
Deficiency (Note 6)	(871,236)	(1,015,469)
Accrued pension benefits net of deficiency	$3,719,809	$3,364,755

Approved:

Trustee - Minister of Finance

See accompanying notes to consolidated financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2003

	2003	2002
	(000's)	(000's)
Increase In Assets		
Investment activities (Note 4)	$ 468,255	$ -
Interest - Receivable from Province of Nova Scotia	5,544	8,787
	473,799	8,787
Contributions		
Employers' – matched	53,765	50,437
Employees' – matched	53,765	50,437
Employer's – unmatched – Province	15,977	18,058
Employees' – unmatched	1,598	1,934
Transfers from other pension plans	1,160	1,723
	126,265	122,589
Total increase in assets	600,064	131,376
Decrease in Assets		
Investment activities (Note 4)	-	162,120
Benefits paid	219,795	207,158
Operating expenses (Note 7)	7,890	7,877
Refund of contributions and interest and transfers to other pension plans	3,282	2,227
Total decrease in assets	230,967	379,382
Increase (Decrease) in Net Assets	369,097	(248,006)
Net Assets Available for Benefits at Beginning of Year	3,350,712	3,598,718
Net Assets Available for Benefits at End of Year	$3,719,809	$3,350,712

See accompanying notes to consolidated financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA TEACHERS' PENSION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. Authority and Description of Plan

The Teachers' Pension Fund (the "Fund") was established by the Teachers' Pension Act (the "Act"). It is the funding vehicle for the Teachers' Pension Plan (the "Plan"), a pension plan which covers public school and community college teachers. The detailed provisions of the Plan, including pension eligibility criteria and benefit formulas are 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 Plan agreements.

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 which qualify as eligible investments under the Provincial Finance Act.

The Plan is funded by employee and matching employer contributions of 8.3% of salary up to the Year's Maximum Pensionable Earnings ("YMPE") per the Canada Pension Plan ("CPP") and 9.9% of salary above the YMPE. The basic pension formula is 2% for each year of pensionable service times the number of years of pensionable service. Pensions are integrated with CPP benefits at age 65. Pensions in pay are increased on January 1 of each year at a rate equal to the increase in the Consumer Price Index for Canada less 1%, to a maximum of 6%.

Plan members are eligible for a pension upon reaching any of the following criteria:
- 35 years of service;
- age 50 with 30 years of service (reduced pension);
- age 55 with an age plus pensionable service factor of 85 - "Rule of 85";
- age 55 with two years of service (reduced pension);
- age 60 with 10 years of service;
- age 65 with two years of service.

On July 22, 1994 the Governor in Council authorized an early retirement program (ERP) for Plan members. Each employing school board was required to pay into the Plan an amount in respect of each eligible teacher in the employ of the school board who retired in accordance with these regulations. This receivable is repayable over 8 years and bears interest at 8%. At December 31, 2003 the balance outstanding was $59.2 million (December 31, 2002 - $84.4 million). Order-in Council 2002-181 dated April 26, 2002 transferred responsibility for making these payments from the school boards to the Province.

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.

(c) 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 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 the year-end 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 the 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.

(ii) The derivative contracts held by the Fund are recorded at market value with the resulting gains or losses being recognized in the realized and unrealized gains or losses on investments.

2. Summary of Significant Accounting Policies (continued)

(iii) Real estate is composed of income producing properties and real estate pooled funds. Unless recently acquired, properties are valued annually, by independent appraisers in accordance with generally accepted appraisal practices and procedures. This process utilizes discounted future cash flows. In estimating future cash flows certain assumptions are made with respect to future economic conditions and rates of return.

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

(e) Investment income/loss

Investment income/loss, which includes interest, dividends and operating income/loss from real estate, 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 receivable from the Province of Nova Scotia, contributions receivable, accrued income, other receivables, cash, net investment transactions outstanding 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.

2. Summary of Significant Accounting Policies (continued)

(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.

(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.

3. Agreement to Address Unfunded Liability

On November 25, 1993, the Act was amended to incorporate the terms of an agreement signed May 13, 1993 between the Nova Scotia Teachers' Union and the Province of Nova Scotia to address the unfunded liability in the Plan.

As part of this agreement the Province agreed to pay $300 million into the Fund. By July 18, 1997 the Province had paid the amount in full.

The Province also agreed to make payments over a ten year period equal to $10 million per year in 1993, increased by 7.5% per year. This commitment is set out in Schedule B of the Teachers' Pension Act (Note 5). The last payment under Schedule B was received in August 2003.

Under the terms of the agreement a review of the Plan's financial status was to be carried out in 2003.The Teachers' Pension Partners Board established a committee (2003 Review Committee) to undertake this review. The committee is continuing its deliberations and has yet to report to the Board.

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 employer. 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 effective of derivative contracts.

	As at December 31, 2003		For the Year	As at December 31, 2002		For the Year
	Asset	%	Income*	Asset	%	Income (Loss)*
	(000's)		(000's)	(000's)		(000's)
Money market	$536,195	14.7	$10,417	$276,780	8.6	$5,079
Fixed income	1,096,223	29.9	90,175	1,229,884	38.1	124,021
Equities						
- Canadian	1,115,246	30.5	242,494	898,299	27.8	(75,239)
- US	578,837	15.8	57,160	530,382	16.4	(120,005)
- Other foreign	279,114	7.6	25,929	253,346	7.8	(63,321)
Real estate – Canadian	9,356	0.3	301	-	-	-
Real estate – Pooled fund	37,537	1.0	2,468	35,409	1.1	465
Derivatives	8,575	0.2	39,285	6,636	0.2	(33,146)
Other	-	-	-	-	0.0	26
	$3,661,083	100.0	$468,255	$3,230,736	100.0	$(162,120)

* Includes realized losses of $6.6 million ($14.1 million – 2002) and unrealized gains of $327.6 million (unrealized losses of $231.8 million – 2002)

(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 duration and risk profile during the year.

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 purpose 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.

The following table provides details of the derivative money market-to-equity swap contracts outstanding as at December 31, 2003.

Notional Principal (000's)	Original Term	Credit Rating of Counter-party	Equity Index	BA Index	Market Value (000's)
$18,011	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	$715
37,244	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	1,614
56,554	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	2,485
80,257	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	3,479
$192,066					$8,293
US ($6,000)		Bond Futures			CDN $ 282
Total					$8,575

4. Investments and Derivatives (Continued)

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.

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

	As at December 31, 2003		For the Year	As at December 31, 2002		For the Year
	Asset	%	Income (Loss)*	Asset	%	Income (Loss)*
	(000's)		(000's)	(000's)		(000's)
Money market	$ 343,644	9.4	$ 5,806	$ 97,419	3.0	$ 1,015
Fixed income	1,096,223	29.9	89,985	1,229,884	38.1	124,021
Equities						
- Canadian	1,316,372	36.0	286,580	1,084,296	33.6	(104,321)
- US	578,837	15.8	57,160	530,382	16.4	(120,005)
- Other foreign	279,114	7.6	25,929	253,346	7.8	(63,321)
Real estate – Canadian	9,356	0.3	301	-	-	-
Real estate – Pooled fund	37,537	1.0	2,468	35,409	1.1	465
Other	-	-	26	-	-	26
	$3,661,083	100.0	$ 468,255	$3,230,736	100.0	$(162,120)

* Includes realized losses of $6.6 million (losses of $14.1 million - 2002) and unrealized gains of $327.6 million (unrealized losses of $231.8 million - 2002).

(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.

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.

	2003						2002	
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average effective yield	Total	Average effective yield
	(000's)	(000's)	(000's)	(000's)	(000's)	%	(000's)	%
Money market	$ 536,195	$ -	$ -	$ -	$536,195	2.8	$276,780	2.8
Bonds and debentures	43,764	346,559	292,256	298,328	980,907	5.7	1,127,769	5.9
Real return bonds	-	-	-	115,316	115,316	3.8	102,115	4.3
Total	$ 579,959	$ 346,559	$ 292,256	$ 413,644	$ 1,632,418		$ 1,506,664	

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

4. Investments and Derivatives (Continued)

(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, 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 rate spreads or other economic fundamentals.

The Plan's currency exposure from net investment assets as at December 31, 2003 is summarized in the following table:

4. Investments and Derivatives (Continued)

Currency	2003 (000's)	2002 (000's)
Canada	$2,811,380	$2,493,795
United States	626,270	566,557
Euro Zone	82,773	66,212
Japan	31,939	26,915
United Kingdom	43,363	57,253
Other	81,359	72,147
Total	$3,677,084	$3,282,879

5. Actuarial Asset Value Adjustment

The actuarial asset value adjustment is comprised of the present value of future payments under Schedule B of the Act. As at December 31, 2003, no further payments were payable under Schedule B.

6. Actuarial Valuation

Actuarial valuations of the Fund are required every year by the Act, and provide an estimate of the accrued pension benefits (Fund liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Plan's consulting actuaries, William M. Mercer Limited, performed a valuation as at December 31, 2003 and issued their report in May 2004. The report indicated that the Plan had an unfunded liability of $871.2 million (2002 - $1,015.5 million).

The actuarial valuation projects liabilities for each member on the basis of service earned to date and the employee's projected five year average salary at the expected date of retirement. The projected unit credit method was adopted for the actuarial valuation to determine the current cost and actuarial liability. The major economic and demographic assumptions used in the valuation are as follows:

6. Actuarial Valuation (Continued)

	Valuation December 31, 2003	**Valuation December 31, 2002**
Inflation	3.0% per annum	3.0% per annum
Average Salary Increase	0.5% per annum real plus merit ranging from 0.0% to 2.75% based on 5 year age bands	0.5% per annum real plus merit ranging from 0.0% to 2.75% based on 5 year age bands
Real Rate of Return on Investments	4.25% per annum	4.25% per annum
Average Retirement Age	60% - Retire at earliest date first eligible for an unreduced pension	60% - Retire at earliest date first eligible for an unreduced pension
	40% - retire at the earliest of: - age 65; - 35 years of service; or - age 60 with 10 years of service	40% - Retire at the earliest of: - age 65; - 35 years of service; or - age 60 with 10 years of service
Mortality	1994 Group Annuitant Mortality Table projected to 2000 using scale AA	1994 Group Annuitant Mortality Table projected to 2000 using scale AA

There have been no changes in the major actuarial assumptions and methodology used for the 2003 valuation as compared to the 2002 valuation.

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.

	2003	2002
	(000's)	(000's)
Plan Administration		
Professional services	$ 241	$ 150
Salaries	679	681
Supplies and services	357	658
Travel	8	6
Other	103	47
	1,388	1,542
Investment Expenses		
Investment management fees	$5,901	5,827
Professional services	33	27
Salaries	360	344
Supplies and services	164	52
Travel	13	22
Other	31	63
	6,502	6,335
Total Operating Expenses	$7,890	$7,877

8. Related Party Transactions

Investments held in the Fund include debentures of the Province of Nova Scotia with a total market value of $34.9 million (0.9% of total assets) as at December 31, 2003 ($65.3 million (1.9% of total assets) as at December 31, 2002).

9. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year presentation.

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PENSION SERVICES GROUP
PO BOX 371
HALIFAX, NOVA SCOTIA
B3J 2P8

TELEPHONE:
902 424 5070
(HALIFAX AREA)
1 800 774 5070
(TOLL-FREE IN NOVA SCOTIA)

FAX:
902 424 0662

E-MAIL:
PENSIONSINFO@GOV.NS.CA