Pension Services Group
Nova Scotia Department of Finance

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Nova Scotia Teachers' Pension Plan Annual Report

December 31, 2004

Nova Scotia
Finance
Office of the Minister

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July 29, 2005

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, 2004. The pension plan currently includes 12,964 active members and 9,242 pensioners, and holds assets of $3.9 billion.

For the second consecutive year, the Fund's return on investments exceeded its target rate of return of 7.38%. The rate of return for the year ended December 31, 2004 was 8.56%. As well, the funded ratio improved again this year to reach a level of 81.7%.

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 two 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 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	12,964	13,065
Pensioners (including survivors)	9,242	8,815
Net Assets available for benefits (in billions)	$3.900	$3.709*

*Figure has been restated from last year's report. Please see explanation in Note 3 of the Notes to Financial Statements on Page 19 of this report.

Year Ended December 31	2004	2003
Investment - rate of return (annualized)	8.56%	14.17%

Years Ended December 31	2004	2003
	(in millions)	
Employee and employer contributions	$110.6	$107.5
Purchases and Transfers In	$3.5	$2.8
Pension Payments	$238.1	$219.8
Refunds and Transfers Out	$3.1	$3.3
Operating Expenses	$9.2	$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 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

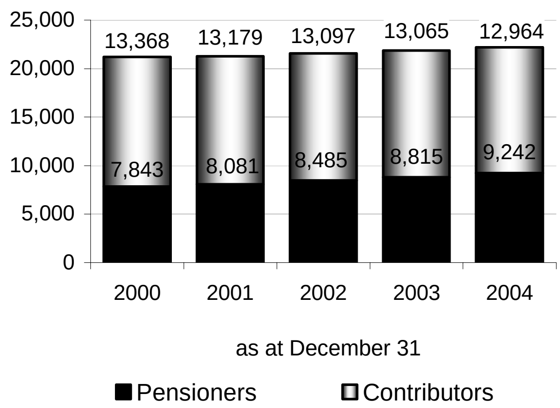
Online pension benefit calculators are available on our web site. These calculators enable clients to estimate the cost to purchase most types of prior service or to obtain pension estimates. A link to the calculators may be found on our web site's home page at: www.gov.ns.ca/finance/pension click on 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 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.

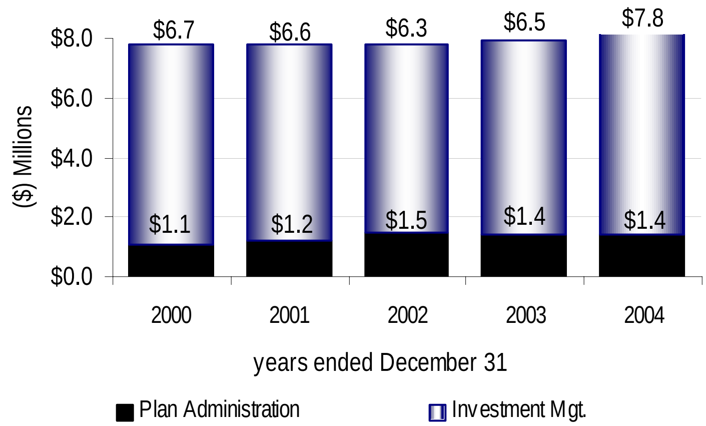
	As at December 31 ($) Millions				
	2000	2001	2002	2003	2004
Purchases and Transfers	$2.8	$3.6	$3.7	$2.8	$3.5
Employee and Employer Contributions	$98.2	$101.2	$100.9	$107.5	$110.6
Additional Provincial Contributions	$15.6	$16.8	$18.1	16.0	-
Investment Income	$263.1	($73.0)	($162.1)	$465.7*	$323.8

*Figure has been restated from last year's report. Please see explanation in Note 3 of the Notes to Financial Statements on Page 19 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.

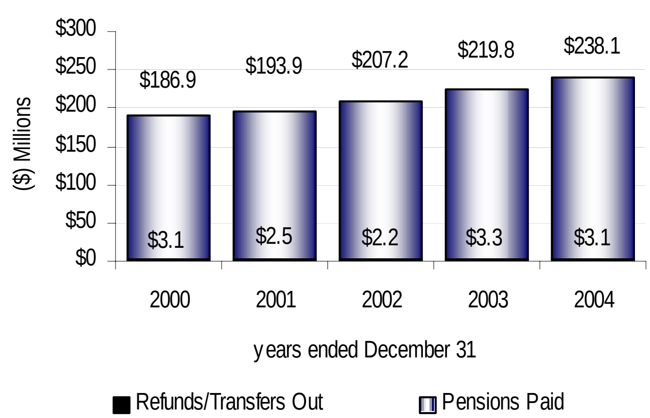


Plan Administration costs include the salaries and office expenses of the personnel in the Pension Services Group as well as the cost of professional services such as actuarial valuations. The increase in investment management costs is primarily due to an increased asset base and additional activity 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 made in 2004 totaled $238.1 million compared to $219.8 million paid in 2003.

This increase is due to an increase in the number of total pensioners, as well as a 2.2% 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. 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 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 December 2004 the fund showed a return of 8.56% versus its benchmark of 9.23% and the target investment return of 7.38% per annum. The major reason for the fund underperforming its benchmark was the substandard performance of one of our international money managers. This manager has been terminated and was replaced by a new manager in August 2004.

Average Annual Returns over the period ending December 31, 2004:

	1 year	3 years	5 years	10 years
Fund Return	8.56%	5.79%	4.59%	10.28%
Benchmark Return	9.23%	5.21%	3.81%	9.02%

RECENT DEVELOPMENTS

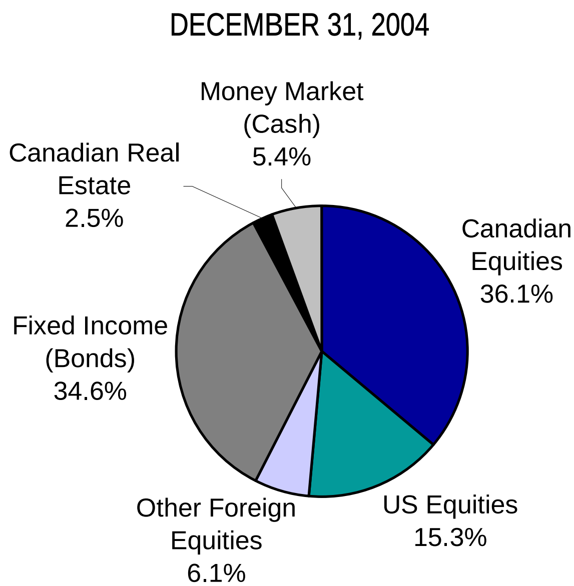
The fund's exposure to real estate was increased over the past year through direct investments in a number of income producing properties. These properties included multi-family housing, office, and industrial properties located in Alberta, Ontario and Nova Scotia. It is our intention to increase our exposure to this asset class from its current level of 2.6% of total assets to at least 7% in the future.

During the past year Mercer Investment Consulting were retained to conduct an asset/liability study of the fund for the purpose of ensuring that the fund's asset mix was appropriate for the future funding requirements. The study recommended that we increase the fund's exposure to international equities. We are currently studying this and will likely implement changes in 2005.

MARKET COMMENTARY

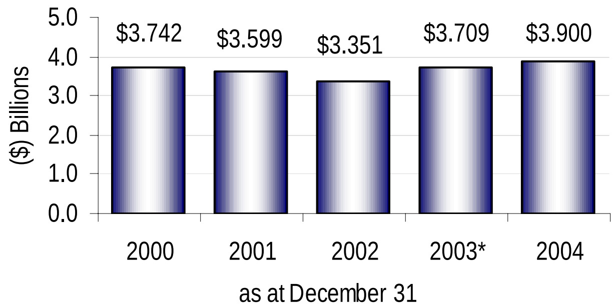
While 2004 proved to be a very good year for Canadian investors the year ahead could prove to be more difficult. The U.S. Federal Reserve has raised short-term rates seven times and it appears this will continue until there is a slowdown in economic growth. This will negatively impact Canada as it relies 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



Asset	3-Month Quarters Ended			
	March 31/04	June 30/04	Sept 30/04	Dec 31/04
Canadian Equities	35.6%	35.9%	35.9%	36.1%
US Equities	14.5%	15.8%	14.7%	15.3%
Other Foreign Equities	7.9%	7.9%	7.3%	6.1%
Fixed Income (Bonds)	33.1%	33.7%	35.0%	34.6%
Canadian Real Estate	2.1%	2.3%	2.6%	2.5%
Money Market (Cash)	6.8%	4.3%	4.5%	5.4%

Fund Assets



The bar chart shows net assets available for benefits as at December 31, 2004 totaling $3.900 billion.

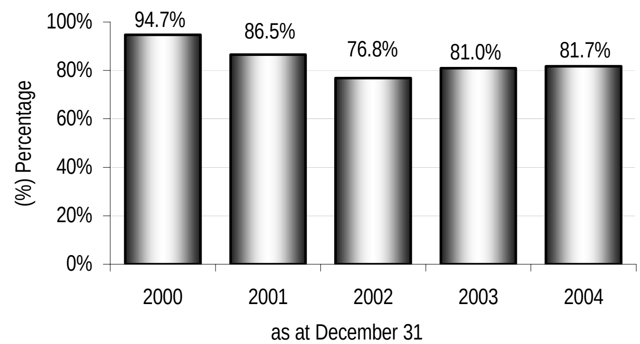
*Figure has been restated from last year's report. Please see explanation in Note 3 of the Notes to Financial Statements on Page 19 of this report.

Top 20 Holdings as at December 31, 2004	
Stock	Descending Value
Manulife Financial Corporation	$71,064,399
Bank of Nova Scotia	$67,874,472
Toronto Dominion Bank	$58,483,463
Royal Bank of Canada	$53,720,000
Encana Corporation	$40,600,139
Talisman Energy Inc.	$33,690,684
Canadian National Railway	$28,394,035
Sun Life Financial Inc.	$27,902,753
Transcanada Corporation	$27,185,193
BCE Inc.	$27,008,026
Nexen Inc.	$25,840,948
Bank of Montreal	$25,348,111
Canadian Imperial Bank of Commerce	$24,250,246
Thomson Corporation	$22,225,360
Canadian Tire Ltd.	$21,708,174
Enbridge Inc.	$21,623,264
Great West Life	$21,077,022
Potash Corp. of Saskatchewan	$20,876,492
Alcan Inc	$19,721,763
Petro Canada	$18,793,618

Actuarial Position

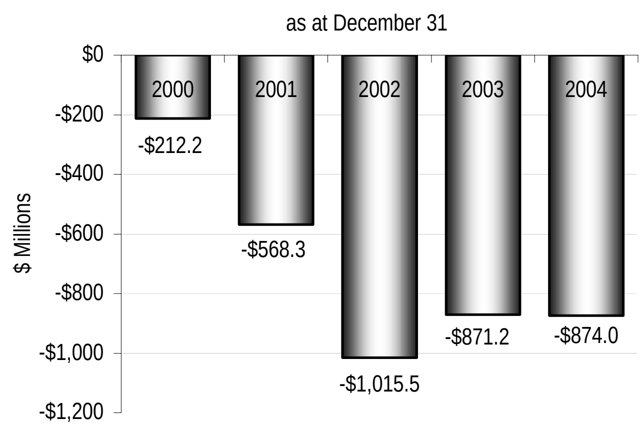
Funded Ratio

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 Plan'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 declined from an unfunded liability of $212.2 million as at December 31, 2000 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. Markets have been relatively stable since then. As at December 31, 2004 the unfunded liability was $874.0 million.



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

Unfunded Liability continued

valuations are performed annually. The Plan's actuaries have continued to note that while current contribution levels more than cover the current service cost (cost of service earned by Plan members each year) the high level of the unfunded liability is a matter of concern.

Subsequent to the actuarial valuation, teachers voted on a couple of options to reduce the unfunded liability of the plan in late winter of 2005. The option selected avoided raising the already high contribution levels by changing future indexing rules and the addition of $142 million to the fund by the Province. The significant improvement in the Plan's financial health brought about by these changes will show up in the 2005 valuation as the effective date of the changes was April 1, 2005.

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NOVA SCOTIA **Office of the Auditor General**

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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, 2004 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, 2004 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, 2005

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, 2004

	2004	2003 (Restated – see Note 3)
NET ASSETS AVAILABLE FOR BENEFITS	(000's)	(000's)
Assets		
Investments (Note 5)	$ 3,882,820	$ 3,661,083
Receivable from the Province of Nova Scotia (Note 1)	36,461	59,178
Contributions receivable		
Employees'	1,276	1,246
Employers'	4,196	4,789
Accrued income	11,583	11,504
Net investment transactions outstanding	1,072	-
Prepayment and sundry receivables	546	440
Cash	1,963	974
Total assets	3,939,917	3,739,214
Liabilities		
Real estte mortgages (Note 6)	14,728	-
Net investment transactions outstanding	-	7,061
Accounts payable	24,793	22,928
Total liabilities	39,521	29,989
Net assets available for benefits	$ 3,900,396	$ 3,709,225
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits (Note 7)	$ 4,774,410	$ 4,591,045
Deficiency (Note 7)	(874,014)	(881,820)
Accrued pension benefits net of deficiency	$ 3,900,396	$ 3,709,225

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, 2004

	2004	2003 (Restated – see Note 3)
	(000's)	(000's)
Increase In Assets		
Investment activities (Note 5)	$ 323,776	$ 465,686
Interest - Receivable from Province of Nova Scotia	3,657	5,544
	327,433	471,230
Contributions		
Employers' – matched	55,323	53,765
Employees' – matched	55,323	53,765
Employers' – unmatched – Province	-	15,977
Employees' – unmatched	1,898	1,598
Transfers from other pension plans	1,576	1,160
	114,120	126,265
Total increase in assets	441,553	597,495
Decrease in Assets		
Benefits paid	238,106	219,795
Operating expenses (Note 8)	9,194	7,890
Refund of contributions and interest and transfers to other pension plans	3,082	3,282
Total decrease in assets	250,382	230,967
Increase in Net Assets	191,171	366,528
Net Assets Available for Benefits at Beginning of Year as previously reported	3,719,809	3,350,712
Prior Period Adjustment (Note 3)	(10,584)	(8,015)
Net Assets Available for Benefits at Beginning of Year as restated	3,709,225	3,342,697
Net Assets Available for Benefits at End of Year	$ 3,900,396	$ 3,709,225

See accompanying notes to consolidated financial statements.

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 and participating employer was required to pay into the Fund an amount in respect of each eligible teacher in the employ of the school board or participating employer who retired in accordance with these regulations. At December 31, 2004 the balance outstanding was $36.1 million (December 31, 2003 - $59.2 million). Order-in Council 2002-181 dated April 26, 2002 transferred responsibility for making these payments from the school boards to the Province. A new consolidated schedule of payments was set up retroactive to January 31, 2002. The last payment under this schedule will be made on July 31, 2008. There is also a remaining balance of $0.3 million relating to APSEA, for which the Province has also taken over responsibility.

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 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 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.

2. Summary of Significant Accounting Policies (continued)

(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.

(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 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.

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 $8.0 million as at December 31, 2002. The increase in net assets for years 2004 and 2003 was reduced by $2.4 million and $2.6 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.

4. 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.

4. Agreement to Address Unfunded Liability (continued)

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 6). 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.

5. 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 effects of derivative contracts.

	As at December 31, 2004		For the Year	As at December 31, 2003		For the Year
	Asset	%	Income*	Asset	%	Income (Loss)* (Restated)
	(000's)		(000's)	(000's)		(000's)
Money market	$ 594,905	15.4	$ 9,062	$536,195	14.7	$10,417
Fixed income Canadian	1,142,958	29.4	92,288	1,096,223	29.9	87,606
Fixed income US fund	39,878	1.0	(1,436)	-	-	-
Equities						
Canadian	1,170,589	30.2	183,111	1,115,246	30.5	242,494
US	584,266	15.0	8,606	578,837	15.8	57,160
Other foreign	233,986	6.0	2,069	279,114	7.6	25,929
Real estate – Canadian	53,498	1.4	2,497	9,356	0.3	301
Real estate – Pooled fund	54,947	1.4	4,104	37,537	1.0	2,468
Derivatives	7,793	0.2	23,379	8,575	0.2	39,285
Other	-	-	96	-	-	26
	$3,882,820	100.0	$323,776	$3,661,083	100.0	$465,686

* Includes realized gains of $120.7 million (realized losses of $6.6 million – 2003) and unrealized gains of $76.0 million ($327.6 million – 2003)

5. Investments and Derivatives (continued)

(b) Derivative contracts

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

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.

5. Investments and Derivatives (continued)

The following table provides details of the derivative money market-to-equity swap Contracts outstanding as at December 31, 2004.

Notional Principal (000's)	Original Term	Credit Rating of Counter-party	Equity Index	BA Index	Market Value (000's)
$20,503	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	$752
42,399	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	775
64,382	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	2,634
91,366	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	3,632
$218,650					$7,793

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.

5. Investments and Derivatives (continued)

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

	As at December 31, 2004		For the Year	As at December 31, 2003		For the Year
	Asset	%	Income (Loss)*	Asset	%	Income (Loss)* (Restated)
	(000's)		(000's)	(000's)		(000's)
Money market	$ 375,437	9.7	$ 5,269	$ 343,644	9.4	$ 5,806
Fixed income Canadian	1,142,958	29.4	92,427	1,096,223	29.9	87,416
Fixed income US fund	39,878	1.0	(1,436)			
Equities						
Canadian	1,397,850	36.1	210,144	1,316,372	36.0	286,580
US	584,266	15.0	8,606	578,837	15.8	57,160
Other foreign	233,986	6.0	2,069	279,114	7.6	25,929
Real estate – Canadian	53,498	1.4	2,497	9,356	0.3	301
Real estate – Pooled fund	54,947	1.4	4,104	37,537	1.0	2,468
Other	-	-	96	-	-	26
	$3,882,820	100.0	$323,776	$3,661,083	100.0	$ 465,686

* Includes realized gains of $120.7 million (realized losses of $6.6 million - 2003) and unrealized gains of $76.0 million ($327.6 million - 2003).

(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.

5. 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 summarizes the maturities of fixed income securities as at December 31, 2004:

	2004						2003	
	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	$594,905	$ -	$ -	$ -	$594,905	2.5	$536,195	2.8
Bonds and debentures	31,321	386,970	277,965	314,523	1,010,779	5.5	980,907	5.7
Real return bonds	-	-	-	132,179	132,179	3.3	115,316	3.8
Fixed income US Fund	518	9,451	26,918	2,991	39,878	5.9	-	-
Total	$626,744	$396,421	$304,883	$449,693	$1,777,741		$1,632,418	

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

5. 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, 2004 is summarized in the following table:

Currency	2004	2003 (Restated)
	(000's)	(000's)
Canada	$ 3,014,069	$ 2,800,769
United States	658,464	626,270
Euro zone	49,882	82,773
Japan	69,134	31,939
United Kingdom	31,816	43,363
Other	59,051	81,359
Total	$ 3,882,416	$ 3,666,473

6. Real estate mortgages

Real estate mortgages 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 January 1, 2005 are as follows:

2005	$284
2006	306
2007	1,300
2008	306
2009	325
Thereafter	11,461
Total	$13,982

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

7. Accrued Pension Benefits

Actuarial valuations of the Fund are required every year by the Act, and provide an estimate of the accrued pension benefits (Fund liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Plan's consulting actuaries, Mercer Human Resources Consulting, 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 $874.1 million (December 31, 2003 - $871.2 million).

The following table reflects the unfunded liability as at December 31, 2004 and as at December 31, 2003 after the prior period adjustment.

	2004 (000's)	2003 (000's)
Actuarial value of assets:	$3,900,396	$3,709,225
Accrued pension benefits:	$4,774,410	4,591,045
Unfunded liability:	($ 874,014)	($881,820)

7. Accrued Pension Benefit (continued)

Reconciliation of changes in accrued pension benefits:	2004 (000's)	2003 (000's)
Accrued pension benefits at beginning of year	$4,591,045	$4,380,224
Interest on accrued pension benefits at 7.38%	338,704	323,151
Contributions and transfers from other pension plans	114,120	110,288
Contributions in excess of current service cost	(10,829)	(9,583)
Refunds of contributions and interest and transfers to other pension plans	(3,082)	(3,282)
Benefits paid	(238,106)	(219,795)
Net impact of experience gains and losses relating to accrued pension benefits	(17,442)	10,042
Accrued pension benefits at end of year	$4,774,410	$4,591,045

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:

	Valuation December 31, 2004	Valuation December 31, 2003
Inflation	3.0%	3.0% per annum
Average Salary Increase	0.5% per annum real plus merit ranging from 0.0% to 2.75%	0.5% per annum real plus merit ranging from 0.0% to 2.75%
Real Rate of Return on Investments	4.25% per annum	4.25% per annum
Average Retirement Age	60% - Retire at earliest date first eligible for an unreduced pension 40% - Retire at the earliest of: - age 65; - 35 years of service; or - age 60 and 10 years of service	60% - Retire at earliest date first eligible for an unreduced pension 40% - Retire at the earliest of: - age 65; - 35 years of service; or - age 60 with 10 years of service
Mortality	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 2004 valuation as compared to the 2003 valuation.

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.

	2004	2003
	(000's)	(000's)
Plan Administration		
Professional services	$ 270	$ 241
Salaries	768	679
Supplies and services	215	357
Travel	10	8
Other	97	103
	$1,360	$1,388
Investment Expenses		
Investment management fees	$ 7,273	$ 5,901
Professional services	70	33
Salaries	359	360
Supplies and services	104	164
Travel	11	13
Other	17	31
	$ 7,834	$ 6,502
Total Operating Expenses	$ 9,194	$ 7,890

9. Related Party Transactions

Investments held in the Fund include debentures of the Province of Nova Scotia with a total market value of $34.7 million (0.9% of total assets) as at December 31, 2004 ($34.9 million (0.9% of total assets) as at December 31, 2003).

10. Subsequent Event

The 2003 Review Committee (see Note 4) developed two proposals, one of which was approved by a majority of voting members of the Union in March 2005.

The approved proposal replaces the Minister of Finance as trustee, implementing a new

10. Subsequent Event (continuted)

Corporate Trustee with a Board of Directors, the latter being jointly comprised of both Union and Province representatives. To improve funding levels, the Province is required to make a $ 142 million contribution to the Plan and future Indexing is now tied to the Plan's funded position as determined by its actuarial funding valuation. The Union and the Province are in the process of signing the 2005 Agreement to finalize the terms of the proposal.

PUBLISHED IN OCTOBER 2005

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