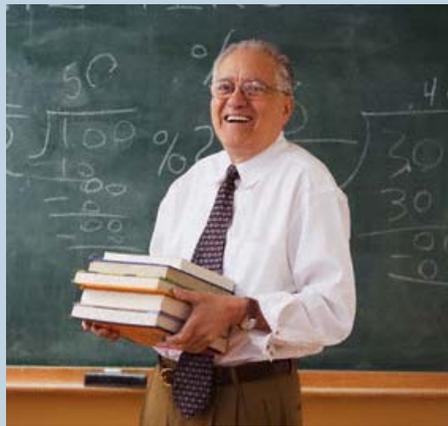


# ANNUAL REPORT

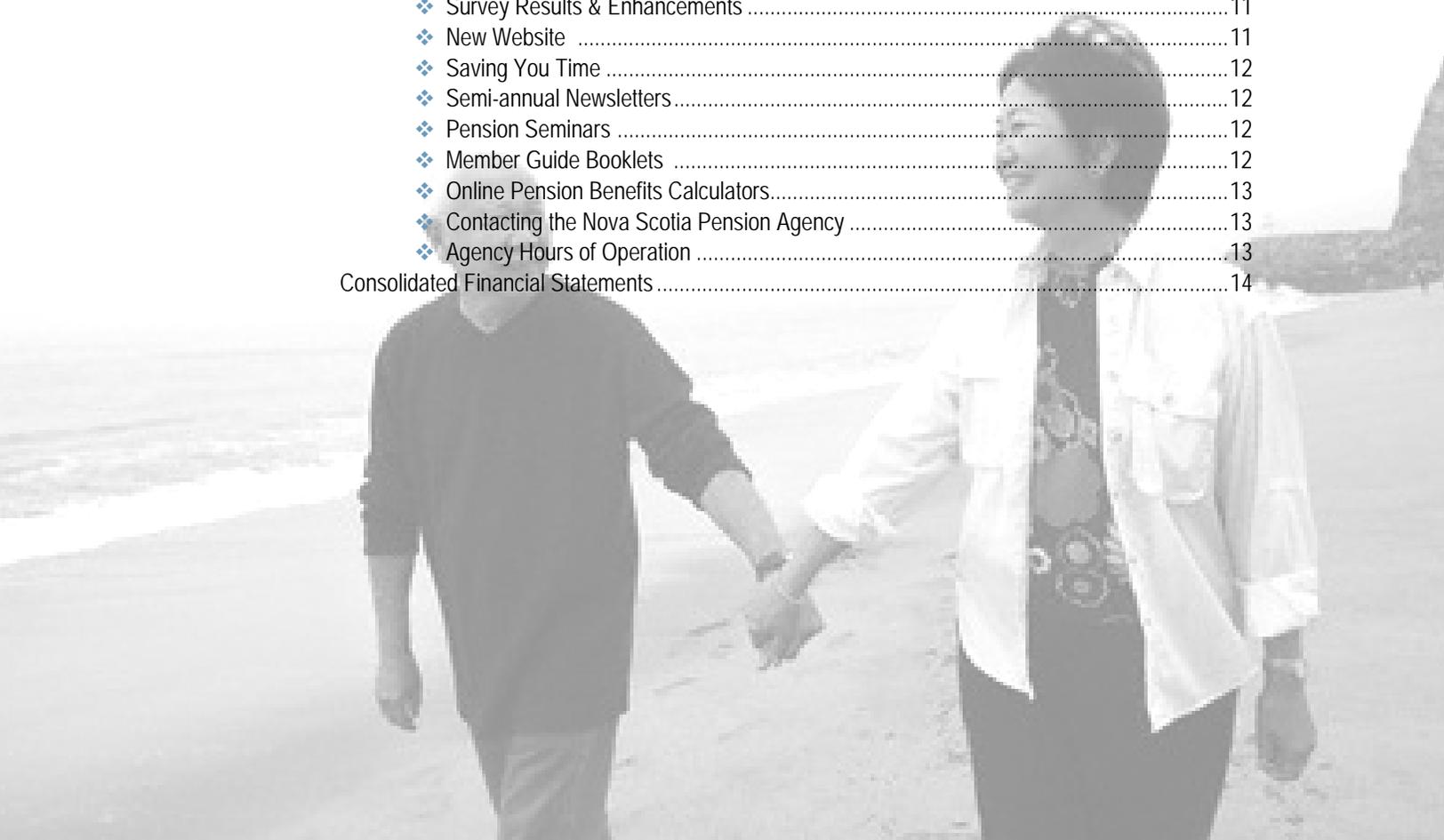
NOVA SCOTIA TEACHERS' PENSION PLAN  
DECEMBER 31, 2007





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## *Nova Scotia Teachers' Pension Plan Trustee Inc.*

Purdy's Landing, Suite 400, 1949 Upper Water Street, Halifax, NS B3J 3N3  
PO Box 371, Halifax, NS B3J 2P8

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July 1, 2008

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

On behalf of the Board of Directors of Nova Scotia Teachers' Pension Plan Trustee Inc., I am pleased to present for your information the annual report of the Nova Scotia Teachers' Pension Fund for the year ended December 31, 2007, in accordance with subsection 35(2) of the Regulations under the Teachers' Pension Act. The pension plan currently includes 13,541 active members and 10,791 pensioners, and holds assets of \$4.6 billion.

Despite a challenging year for the markets in 2007, the health of the plan remains strong, with a funding level of 91.0%.

I welcome your feedback on this report.

Sincerely

J. Patrick O'Neil, FCA, CMC  
Chair  
Nova Scotia Teachers' Pension Plan Trustee Inc.



The Trustee of the Teachers' Pension Fund is Nova Scotia Teachers' Pension Plan Trustee Inc. A Board of nine directors manages the Trustee. The Board is composed of four persons appointed by the Nova Scotia Teachers' Union, four persons appointed by the Minister of Finance, plus, a neutral chair chosen by mutual agreement between the parties.

## Nova Scotia Teachers' Pension Plan Trustee Inc. Board of Trustees

### *Chair*

J. Patrick O'Neil, FCA, CMC

### *Nova Scotia Teachers' Union Representatives*

- ❖ Lloyd Gesner, BA, LLB, MBA, MEd, CFP  
Program Coordinator  
Business Administration & Investment Management  
Nova Scotia Community College
- ❖ James Kavanaugh, BA, BEd, MEd  
Retired School Principal
- ❖ Bill Redden, BA, BEd, MEd(Adm), RPA  
Executive Director  
Nova Scotia Teachers' Union
- ❖ Bradley N. Rowe, CFA  
Vice President, Business Development  
Louisbourg Investments Inc.

### *Provincial Representatives*

- ❖ J. Kim MacNeil, MPA(M)  
Executive Director  
Environment & Natural Areas Management Division  
Nova Scotia Department of Environment & Labour
- ❖ Byron Rafuse, CMA  
Controller  
Nova Scotia Department of Finance
- ❖ Brian Stonehouse, P.Eng.  
Former Deputy Minister of Transportation & Public  
Works. Served as Chair of Municipal Financial  
Corporation Board & Sydney Steel Corp Board.
- ❖ one position currently vacant



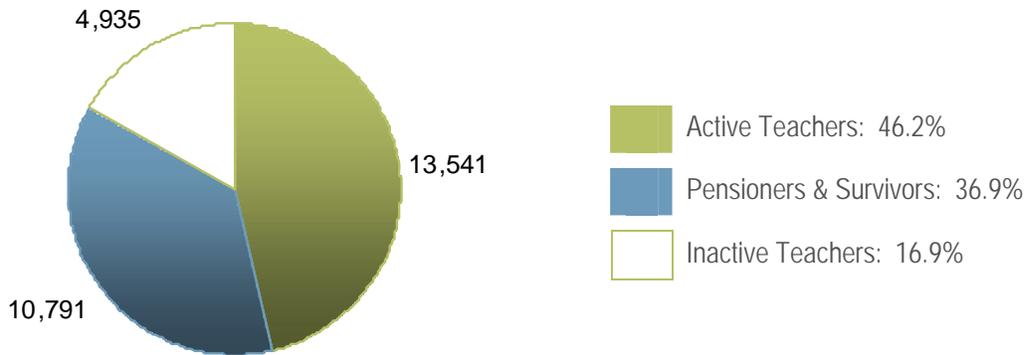
MEMBER PROFILE – TEACHERS’ PENSION PLAN

As of December 31, 2007 the total membership of the Teachers’ Pension Plan was 29,267. This includes:

13,541 active teachers

10,791 pensioners & survivors

4,935 inactive teachers



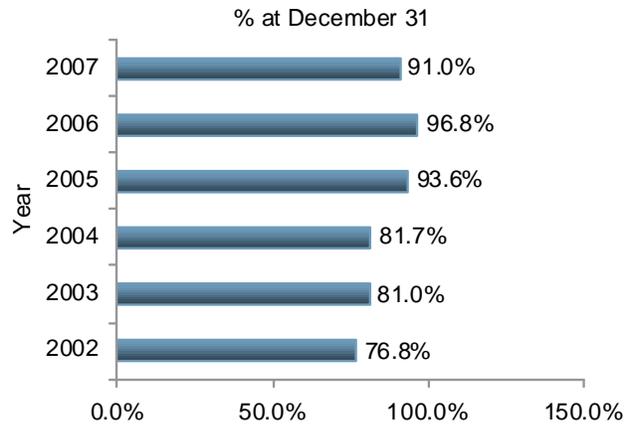
	December 31, 2006	December 31, 2007
<b>Active Teachers</b>		
Number	13,007	13,541
Percentage of membership	46%	46%
Average pensionable earnings for year	\$53,174	\$56,489
Average years of pensionable service	11.4 years	11.1 years
Average age	42.2	42.2
<b>Pensioners and Survivors</b>		
Number	10,626	10,791
Percentage of membership	37%	37%
Average annual lifetime pension	\$24,991	\$25,224
Average annual *bridge benefit	\$8,034	\$8,158
Average age	67.0	67.4
<b>Inactive Teachers</b>		
Number	4,807	4,935
Percentage of membership	17%	17%
Average annual pension	\$919	\$833
Average age	44.4	45.2

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



### Funded Ratio

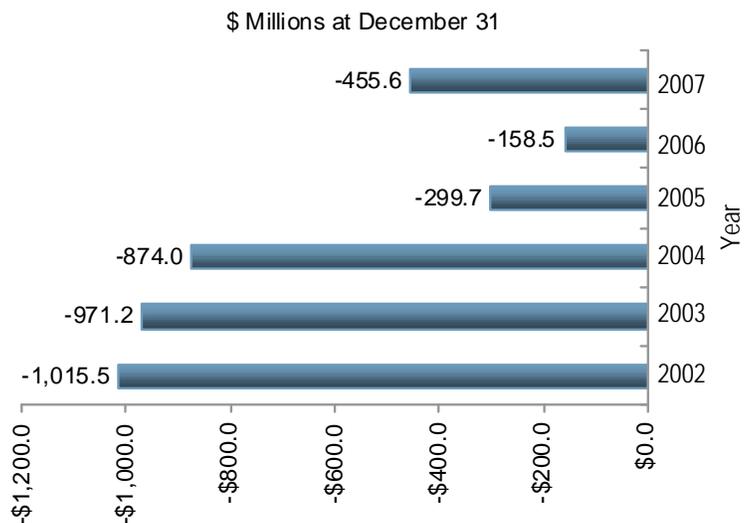
The funded ratio of the Plan at December 31, 2007 was 91.0%. The funded ratio is equal to assets divided by liabilities, expressed as a percentage. A funded ratio of 100% or more means that the Plan is fully funded, i.e. the Fund's assets are sufficient to cover liabilities, based on current market values and actuarial assumptions. 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.

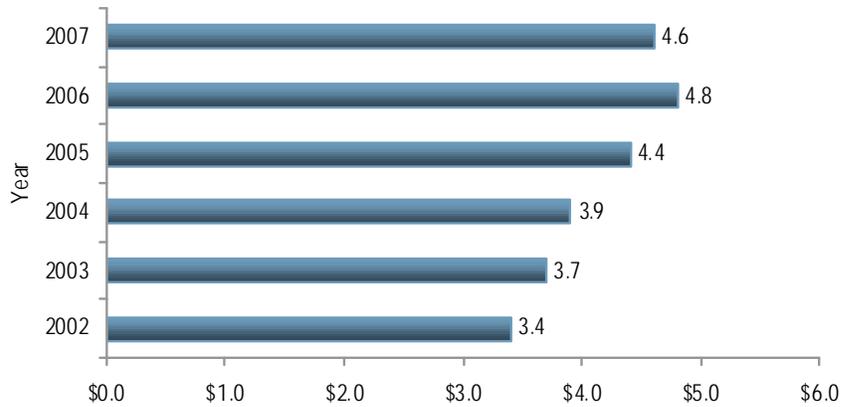
### Unfunded Liability

After four straight years of exceeding its target return on investments, 2007 was a very challenging year. The funding position had improved by \$857 million from 2002 to 2006; however, in 2007, it declined by \$298 million. This decline was primarily due to unfavourable economic conditions, resulting in the Plan experiencing reduced investment returns, relative to its investment assumptions, of \$290 million.





### Net Assets in Billions \$ at December 31



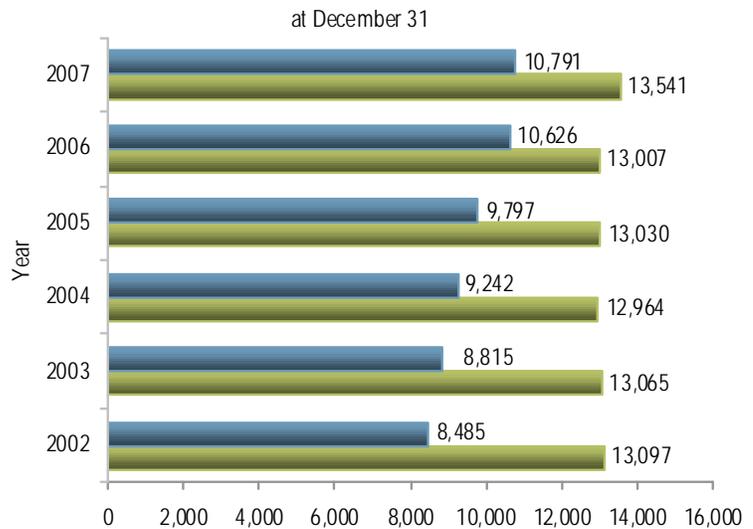
### Investment Performance (%) at December 31, 2007

	1-Year	4-Year	10-Year
Teachers' Pension Fund (%)	1.06	8.56	7.29
Benchmark (%)	2.53	9.32	6.96

### Change in Active Teacher and Pensioner Membership

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

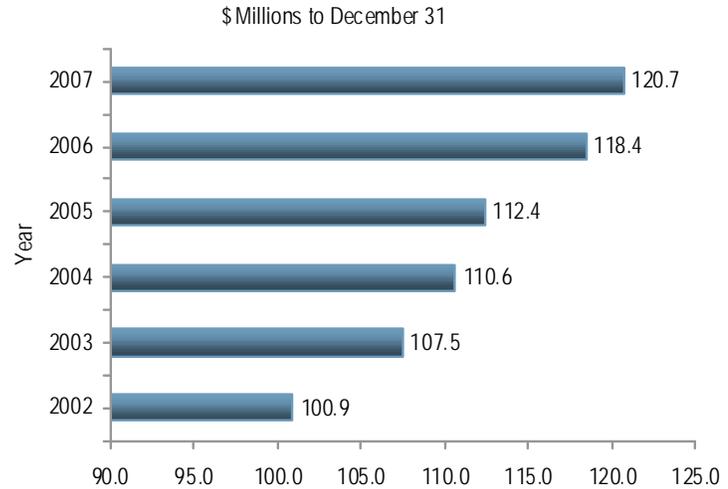
**Active Teachers** are teachers who are actively teaching and contributing to the pension plan.



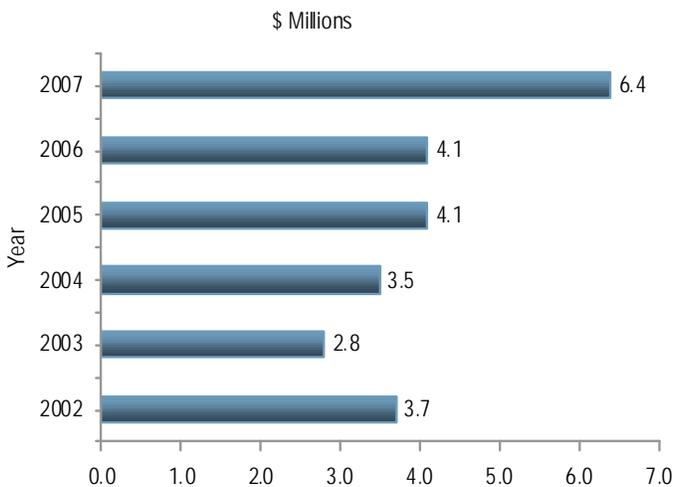


## Employee & Employer Contributions

Pension benefits are partially funded by contributions made to the Plan. The Province matches member contributions. In the case of the Atlantic Province Special Education Authority (APSEA) and Community College teachers, these institutions make the matching contributions. The chart reflects the contributions made by employees and employers for each year ending December 31.



## Purchases & Transfers



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

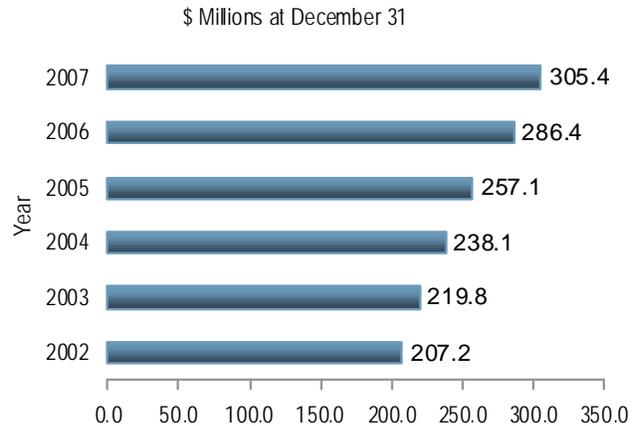
Purchases & transfers into the Teachers' Pension Plan totaled \$6.4 million during 2007 compared to \$4.1 million during 2006.



## Pensions in Pay and Cost of Living Adjustment (COLA)

Pension payments made in 2007 totaled \$305.4 million compared to \$286.4 million in 2006. This increase is due to an increase in the total number of pensioners, as well as the Cost of Living Adjustment (COLA).

The COLA for pensioners is effective July 1 of each year. In July 2007 pensioners who were receiving their COLA by the Variable Indexing Method received a 0.7% increase on their monthly pension benefit. Pensioners under the CPI Minus 1% Method received a 0.5% increase.



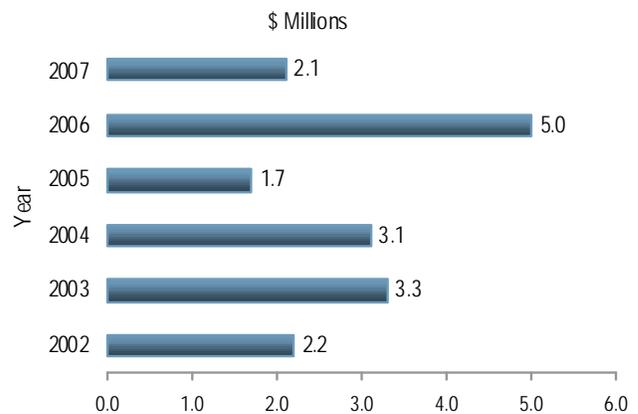
## Refunds and Transfers Out

In 2007 refunded contributions and reciprocal transfers out of the Teachers' Pension Plan totaled \$2.1 million as compared to \$5 million in 2006.

Refund and Transfers Out are two of the pension options available to a member who has stopped working as a teacher.

- ❖ A refund of pension contributions is available to a teacher who has stopped working as a teacher and paying contributions to the Plan, and can be applied for 90 days after the last day taught.
- ❖ The Teachers' Pension Plan is a participant in a number of reciprocal transfer agreements with other pension plans. The object of these agreements is to permit a pension plan member to transfer pensionable service from one plan to another.

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





## Economic Conditions

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

Due to these events, financial markets experienced volatility to a degree not experienced since 2002. The TSX Composite did well returning 10% on the year due to its resource concentration while other equity markets such as the S&P500 and EAFE returned -11% and -6%, respectively. Bonds in Canada were affected by the events in the asset-back securities market but managed to register a stronger performance than some asset classes by returning 4% on the year.

The US housing market and the continued strong demand for Canadian resources led to an ever strengthening Canadian dollar throughout 2007 as it reached and moved through parity with the US dollar. This was a benefit for vacationers traveling south of the border but not for investors holding US dollar investments.

## The Fund

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

## Investment Results

In 2007, the problems in the US housing market spread to global financial markets in a significant way causing credit and liquidity issues for participants and creating volatile market conditions. Performance in most financial markets was driven by the strong performance of just a few stocks and the resource sectors. Subsequently, such conditions made it difficult for broader more diversified investment strategies to outperform financial market indices. Such was the case for the Fund in 2007. For the year ending 2007 it returned 1.06% versus the benchmark which returned 2.53%.

	1-Year	4-Year	10-Year
Teachers’ Pension Fund (%)	1.06	8.56	7.29
Benchmark (%)	2.53	9.32	6.96



### Policy and Actual Asset Mix

Over the past year a significant amount of work was devoted to examining the Fund's Policy Asset Mix in relation to risk mitigation and the Fund's liabilities. The result of this work was the decision by the Trustee to make the following changes initiated in 2007 and continuing during the current year:

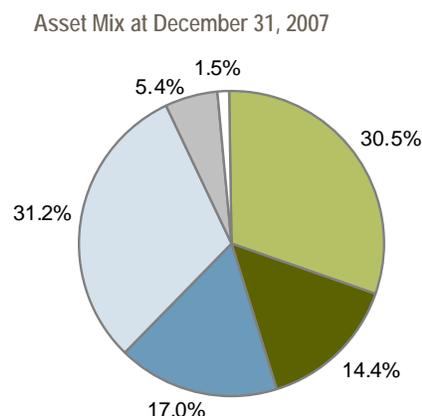
	Canadian Equity	US Equity	International Equity	Fixed Income	* Real Estate	Inflation Linked	Cash
<b>Current Policy Asset Mix</b>	30%	15%	15%	31%	7%	-	2%
<b>Final Policy Asset Mix</b>	20%	20%	20%	20%	-	18% <sup>1</sup>	2%

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

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

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

Asset Class	Dec 31, 2006 %	Dec 31, 2007 %
Canadian Equity (%)	31.4%	30.5%
U.S. Equity (%)	15.0%	14.4%
International Equity (%)	16.4%	17.0%
Fixed Income (Bonds) (%)	29.6%	31.2%
Canadian Real Estate (%)	4.8%	5.4%
Cash (%)	2.8%	1.5%



<sup>1</sup> Includes Real Estate



At 2007 year end total equities were 62% of the portfolio versus 63% at the end of 2006 with 30.5% allocated to Canadian Equities, 14.4% allocated to US Equities and 17% allocated to International Equities. As the Canadian Equity space returned positive results throughout the year, as represented by the TSX, \$185 million was removed from the Canadian Equity space and distributed to other asset classes. This allowed the Fund to realize gains and to maintain a close to neutral weighting.

Fixed income as represented by Canadian bonds, real and nominal, and US High Yield bonds finished the year at a 31.2% weighting within the portfolio. Real Estate holdings in the portfolio of 5.4% were represented by Canadian office, industrial, retail and multi-family residential properties.

### Investment Initiatives of 2007

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

1. A set of Investment Beliefs was adopted by the Trustees to ensure that their investment views flowed throughout all aspects of the Fund. This process led to asset re-allocations within the portfolio such as adding more passive management in US Large Cap equities.
2. A change to the Fund's Policy Asset Mix was approved by the Trustee to mitigate the risk inherent in the Canadian Equity markets and to broaden diversification within the portfolio through investment in international markets.
3. Steps were taken to reduce the risk of mismatch of Fund assets to liabilities through the creation of an inflation-linked asset class.
4. One area that was deemed important was the exposure to currency through the portfolio's international holdings. Throughout the year, time was spent determining how this risk should be dealt with and taking the steps necessary to mitigate it.
5. Opportunities to reduce portfolio management costs and improve portfolio efficiency were identified through a review of investment manager allocations.

### Investment Themes for 2008

In 2008, the Fund will continue to seek out new investments building on the theme of matching assets and liabilities as well as increasing the diversification of the portfolio and thereby reducing risk. The focus will be placed on adding assets to the portfolio that will achieve a long term investment return that will ensure the payment of pension benefits for the long term. Several initiatives will be undertaken that will continue and expand the focus on reducing costs. Several areas such as investment manager fees, real estate management, and custody of pension assets will be addressed.



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

## Survey Results & Enhancements

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

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

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

## New Website

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

[www.novascotiapension.ca](http://www.novascotiapension.ca)





## Saving You Time

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

## Semi-annual Newsletters

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

## Pension Seminars

Between the months of September and June retirement seminars are conducted across the province; hosted by the Nova Scotia Teachers' Union. These seminars are most often attended by teachers considering retirement. The seminars are an excellent opportunity to learn about all aspects of retirement benefits, including pension, health benefits, and service awards. The Agency's Service Consultants meet with participants, those that were pre-registered in advance and are within two years of retirement; reviewing details of their specific retirement circumstances. To prepare for these one-on-one counseling seminars, our Consultants calculate Pension Estimates specific to each Plan member that they will meet with.

Member Services Provided in 2007	
Pension Seminars	Pension Estimates
12	1534

## Member Guide Booklets

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

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

Both publications may be requested from the Nova Scotia Pension Agency or may be found on the Agency's website at [www.novascotiapension.ca](http://www.novascotiapension.ca), click on Teachers' Plan, then Publications.



### Online Pension Benefit Calculators

Online pension benefit calculators are available on our web site. These calculators enable clients to calculate the approximate cost to purchase prior service or to estimate the amount of pension they will receive upon retiring. To find the calculators go to [www.novascotiapension.ca](http://www.novascotiapension.ca), click on Teachers' Plan, then Calculators.

### Contacting the Nova Scotia Pension Agency

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

Street Address: 1949 Upper Water Street, 4<sup>th</sup> Floor, Halifax NS B3J 3N3

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

Phone Local: 424-5070

Fax: 902-424-0662

E-mail: [pensionsinfo@gov.ns.ca](mailto:pensionsinfo@gov.ns.ca)

Website: [www.novascotiapension.ca](http://www.novascotiapension.ca)



### Agency Hours of Operation

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



NOVA SCOTIA TEACHERS' PENSION FUND  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007

## Auditors' report

Grant Thornton LLP  
Suite 1100  
2000 Barrington Street  
Halifax, NS  
B3J 3K1  
T (902) 421-1734  
F (902) 420-1068  
www.GrantThornton.ca

To the Nova Scotia Teachers' Pension Plan Trustee Inc.

We have audited the consolidated statement of net assets available for benefits and accrued pension benefits net of deficiency of the Province of Nova Scotia – Nova Scotia Teachers' Pension Fund as at December 31, 2007 and the consolidated statement of changes in net assets available for benefits for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits net of deficiency of the Fund as at December 31, 2007 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Halifax, Nova Scotia  
May 29, 2008



Chartered accountants



**NOVA SCOTIA TEACHERS' PENSION FUND**  
**CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**  
**AND ACCRUED PENSION BENEFITS NET OF DEFICIENCY**  
**AS AT DECEMBER 31, 2007**

	2007	2006 (Restated – see Note 3)
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	(000's)	(000's)
<b>Assets</b>		
Investments (Note 4)	\$ 4,648,149	\$ 4,813,517
Receivable from the Province of Nova Scotia (Note 1)	1,962	9,501
Contributions receivable		
Employees'	2,704	1,772
Employers'	4,078	4,267
Accrued income	13,109	14,861
Net investment transactions outstanding	327	1,596
Prepayment and sundry receivables	2,298	2,809
Cash	<u>6,541</u>	<u>3,325</u>
Total assets	<u>4,679,168</u>	<u>4,851,648</u>
<b>Liabilities</b>		
Real estate mortgages (Note 5)	60,326	60,087
Accounts payable	<u>8,834</u>	<u>33,117</u>
Total liabilities	<u>69,160</u>	<u>93,204</u>
<b>Net assets available for benefits</b>	<u>\$ 4,610,008</u>	<u>\$ 4,758,444</u>
<b>ACCRUED PENSION BENEFITS NET OF DEFICIENCY</b>		
Accrued pension benefits as previously reported	\$ 5,065,564	\$ 4,916,993
Adjustment (Note 3)	<u>-</u>	<u>34,431</u>
Accrued pension benefits as restated (Note 6)	5,065,564	4,951,424
Deficiency (Note 6)	<u>(455,556)</u>	<u>(192,980)</u>
<b>Accrued pension benefits net of deficiency</b>	<u>\$ 4,610,008</u>	<u>\$ 4,758,444</u>
Approved:		
ORIGINAL SIGNED BY BRIAN STONEHOUSE		ORIGINAL SIGNED BY WILLIAM D. REDDEN
Board Director Teachers' Pension Plan Trustee Inc.		Board Director Teachers' Pension Plan Trustee Inc.

See accompanying notes to consolidated financial statements.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	2007	2006
	(000's)	(000's)
<b>Increase In Assets</b>		
Investment activities (Note 4)	\$ 42,805	\$ 552,255
Interest - Receivable from Province of Nova Scotia	<u>429</u>	<u>1,190</u>
	<u>43,234</u>	<u>553,445</u>
Contributions		
Employers' – matched	60,336	59,178
Employees' – matched	60,336	59,178
Employees' – unmatched	1,720	2,158
Transfers from other pension plans	<u>4,690</u>	<u>1,960</u>
	<u>127,082</u>	<u>122,474</u>
 Total increase in assets	 <u>170,316</u>	 <u>675,919</u>
<b>Decrease in Assets</b>		
Benefits paid	305,375	286,360
Operating expenses (Note 7)	11,290	10,513
Refund of contributions and interest and transfers to other pension plans	<u>2,087</u>	<u>5,045</u>
Total decrease in assets	<u>318,752</u>	<u>301,918</u>
 <b>(Decrease) Increase in Net Assets</b>	 (148,436)	 374,001
 <b>Net Assets Available for Benefits at     Beginning of Year</b>	 <u>4,758,444</u>	 <u>4,384,443</u>
 <b>Net Assets Available for Benefits at     End of Year</b>	 <u>\$ 4,610,008</u>	 <u>\$ 4,758,444</u>

See accompanying notes to consolidated financial statements.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**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. Teachers' Pension Plan Trustee Inc. 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 July 1 of each year, on one of two indexing bases. For pensions put in pay before August 1, 2006, the rate is equal to the increase in the Consumer Price Index for Canada less 1%, to a maximum of 6%. For pensions put in pay on or after August 1, 2006, as well as pensions of members or beneficiaries who elected to change their indexing basis prior to that date, the rate is dependent on the funding level of the plan.

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

- 35 years of service;
- age 50 with 30 years of service (reduced pension);
- age 55 with an age plus 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, 2007 the balance outstanding was \$2.0 million (December 31, 2006 - \$9.5 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.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**1. Authority and Description of Plan (continued)**

As part of the June 22, 2005 agreement between the Province and the Nova Scotia Teachers' Union (see note 4), the Province and the Union agreed to joint and equal participation in the governance of the Plan including the sharing of any actuarial surpluses or deficits between the Province and the beneficiaries of the Fund upon the transfer of the Fund to the Trustee. Teachers' Pension Plan Trustee Inc (TPPTI) was incorporated to act as trustee of the Fund and on April 1, 2006, TPPTI became the Trustee of the Nova Scotia Teachers' Pension Fund.

**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. 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 values of foreign investments and cash balances held at period end are translated at the rates in effect at the year end. The resulting gain or loss from changes in these rates is included in current period change in market value of investments.

NOVA SCOTIA TEACHERS' PENSION FUND  
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2. **Summary of Significant Accounting Policies (continued)**

(d) Investments:

- (i) Investments are reported as of trade date and are stated at market value as at the 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 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 comprises 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.

- (iv) The Fund holds bank-sponsored asset-backed commercial paper in its cash portfolios; however, exposure is limited to multi-seller, multi-asset conduits with global-style credit facilities, thus mitigating both credit and liquidity risk.

(e) Investment income/loss

Investment income/loss includes interest, dividends and operating income/loss from real estate, which is recorded on the accrual basis. Also included are gains and losses that have been realized on disposal of investments and the unrealized appreciation and depreciation in the fair value of investments.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
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**2. Summary of Significant Accounting Policies (continued)**

(f) Non-Investment Assets and Liabilities

The fair value of contributions receivable, accrued income, net investment transactions outstanding, prepayment and sundry receivables, cash and accounts payable approximate their carrying amounts due to their short-term nature.

(g) Contributions

Basic contributions from employers and members due to the Plan as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence and transfers from other pension plans are recorded when received.

(h) Benefits

Benefit payments to retired members, commuted value payments and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits are recorded as part of accrued actuarial liabilities.

(i) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates.

(j) Financial Instruments

The Fund's financial instruments include cash, contributions receivable, receivable from the Province of Nova Scotia, investments, net investment transactions outstanding, accounts payable and real estate mortgages.

Due to their short term nature, the Fund's short-term financial instruments, consisting of cash, contributions receivable, receivable from the Province of Nova Scotia, net investment transactions outstanding, and accounts payable, are carried at cost which approximates their fair values. Investments and real estate mortgages are carried at fair value as described in notes 2 and 5 and are subject to interest, currency and credit risks as described in note 4.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
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**3. Adjustment**

In the actuarial valuation as at December 31, 2006, retroactive pay increases related to the previous collective agreement, which were paid in the 2005-2006 school year, were partially attributed to the 2004-2005 school year. Pensionable earnings were adjusted based on that assumption. Subsequently, it was determined the assumption was incorrect. Had the retroactive earnings been attributed to the appropriate school year, accrued pension benefits as at December 31, 2006 would have been \$34,431,000 greater. By extension, the deficiency would have been greater by a corresponding amount.

**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 effects of derivative contracts.

	As at December 31, 2007		For the Year	As at December 31, 2006		For the Year
	Asset (000's)	%	Income* (000's)	Asset (000's)	%	Income * (000's)
Money market	\$353,991	7.6	\$ 15,799	\$ 397,799	8.2	\$ 17,660
Fixed income Canadian	1,387,499	29.9	44,519	1,351,360	28.1	46,602
Fixed income US fund	36,800	0.8	(5,322)	42,338	0.9	2,910
Equities						
Canadian	1,140,369	24.6	107,756	1,244,563	25.9	195,822
US	661,003	14.2	(109,514)	709,503	14.7	92,440
Other foreign	768,731	16.5	(61,915)	766,453	15.9	140,416
Real estate – Canadian	220,390	4.7	24,111	214,675	4.5	15,476
Real estate – Pooled fund	83,897	1.8	11,563	72,935	1.5	11,223
Derivatives	(4,531)	(0.1)	15,433	13,891	0.3	29,634
Other	-	-	375	-	-	72
	<u>\$ 4,648,149</u>	<u>100.0</u>	<u>\$ 42,805</u>	<u>\$ 4,813,517</u>	<u>100.0</u>	<u>\$ 552,255</u>

\* Includes realized gains of \$203.9 million (\$202.5 million – 2006) and unrealized losses of \$343.9 million (gains of \$187.5 million - 2006).

**NOVA SCOTIA TEACHERS' PENSION FUND  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**4. 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.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, the Fund:

- deals only with highly rated counterparties, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency; and
- Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
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**4. Investments and Derivatives (continued)**

The following table provides details of the derivative money market-to-equity swap contracts outstanding as at December 31, 2007.

<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)
\$ 34,294	1.00 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	\$ (723)
76,410	1.00 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	(2,363)
76,410	1.00 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	(2,363)
<u>70,917</u>	1.00 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	<u>918</u>
<u>\$ 258,031</u>					<u>\$ (4,531)</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.

**NOVA SCOTIA TEACHERS' PENSION FUND**  
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**4. Investments and Derivatives (continued)**

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

	As at December 31, 2007		For the Year	As at December 31, 2006		For the Year
	Assets (000's)	%	Income * (000's)	Assets (000's)	%	Income * (000's)
Money market	\$ 94,198	2.0	\$ 5,365	\$ 164,367	3.4	\$ 9,957
Fixed income Canadian	1,387,499	29.9	44,519	1,351,360	28.1	46,602
Fixed income US fund	36,800	0.8	(5,322)	42,338	0.9	2,910
Equities						
Canadian	1,395,631	30.1	133,623	1,491,886	31.0	233,159
US	661,003	14.2	(109,514)	709,503	14.7	92,440
Other foreign	768,731	16.5	(61,915)	766,453	15.9	140,416
Real estate – Canadian	220,390	4.7	24,111	214,675	4.5	15,476
Real estate – Pooled fund	83,897	1.8	11,563	72,935	1.5	11,223
Other	-	-	375	-	-	72
	<u>\$ 4,648,149</u>	<u>100.0</u>	<u>\$ 42,805</u>	<u>\$ 4,813,517</u>	<u>100.0</u>	<u>\$ 552,255</u>

\* Includes realized gains of \$203.9 million (\$202.5 million – 2006) and unrealized losses of \$343.9 million (gains of \$187.5 million - 2006).

(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.

**NOVA SCOTIA TEACHERS' PENSION 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 summarizes the maturities of fixed income securities as at December 31, 2007:

	2007						2006	
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	effective yield	Total	effective yield
	(000's)	(000's)	(000's)	(000's)	(000's)	%	(000's)	%
Money market	\$ 353,991	-	-	-	\$ 353,991	5.3	\$ 397,799	4.7
Bonds and debentures	28,054	\$ 524,850	\$ 266,935	\$ 435,132	1,254,971	4.9	1,214,021	5.0
Real return bonds	-	-	-	132,528	132,528	3.3	137,339	3.2
Fixed income US Fund	<u>3,238</u>	<u>5,815</u>	<u>26,606</u>	<u>1,141</u>	<u>36,800</u>	8.5	<u>42,338</u>	7.0
Total	<u>\$ 385,283</u>	<u>\$ 530,665</u>	<u>\$ 293,541</u>	<u>\$ 568,801</u>	<u>\$ 1,778,290</u>		<u>\$ 1,791,497</u>	

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

**NOVA SCOTIA TEACHERS' PENSION FUND**  
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**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.

(iii) Credit risk

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss.

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

(iv) Foreign currency risk

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

The Plan's currency exposure from net investment assets as at December 31, 2007 is summarized in the following table:

Currency	<u>2007</u>	<u>2006</u>
	(000's)	(000's)
Canada	\$ 3,131,432	\$ 3,245,449
United States	745,221	788,288
Euro zone	254,520	246,881
Japan	171,813	200,915
United Kingdom	130,942	135,457
Other	171,354	155,022
<b>Total</b>	<b><u>\$ 4,605,282</u></b>	<b><u>\$ 4,772,012</u></b>

**NOVA SCOTIA TEACHERS' PENSION FUND**  
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**5. Real estate mortgages**

Real estate mortgages have various terms to maturity to 2018 with each mortgage secured by a specific real property. Nominal rates range from 5.2% to 8.0%.

Scheduled principal repayments in each of the next five years, beginning January 1, 2008 are as follows:

2008	\$ 2,061
2009	7,045
2010	1,006
2011	12,357
2012	3,584
Thereafter	<u>32,782</u>
Total	<u>\$ 58,835</u>

For purposes of the Consolidated Statement of Net Assets Available for Benefits and Accrued Pension Benefits Net of Deficiency, real estate mortgages payable are valued at fair values based on prevailing interest rates.

**6. Accrued Pension Benefits**

Actuarial valuations of the Fund are required every year by the Act, and provide an estimate of the accrued pension benefits (Fund liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Plan's consulting actuaries, Mercer (Canada) Limited, performed a valuation as at December 31, 2007 and issued their report in April 2008. The report indicated that the Plan had an unfunded liability of \$455.6 million (December 31, 2006 - \$158.5 million as previously reported, \$193.0 million as restated).

The following table reflects the unfunded liability as at December 31, 2007 and as at December 31, 2006.

	<u>December 31, 2007</u>	<u>December 31, 2006 (restated)</u>
	(000's)	(000's)
Actuarial value of assets:	\$ 4,610,008	\$ 4,758,444
Accrued pension benefits:	<u>5,065,564</u>	<u>4,951,424</u>
Unfunded liability:	<u>(\$ 455,556)</u>	<u>(\$ 192,980)</u>

**NOVA SCOTIA TEACHERS' PENSION FUND**  
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**6. Accrued Pension Benefit (continued)**

Reconciliation of changes in accrued pension benefits:	For the Year Ended Dec 31, 2007	For the Year Ended Dec 31, 2006 (restated)
	(000's)	(000's)
Accrued pension benefits at beginning of period	\$ 4,951,424	\$ 4,684,101
Interest on accrued pension benefits	337,306	345,570
Contributions and transfers from other pension plans	127,082	122,474
Net impact of changes in assumptions	-	76,503
Contributions in excess of current service cost	(32,809)	(32,182)
Refunds of contributions and interest and transfers to other pension plans	(2,087)	(5,045)
Benefits paid	(305,375)	(286,360)
Adjustment	-	34,431
Net impact of experience gains and losses relating to accrued pension benefits	(9,977)	11,932
Accrued pension benefits at end of period	<u>\$ 5,065,564</u>	<u>\$ 4,951,424</u>

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

The major economic and demographic assumptions used in the 2007 valuation remained unchanged from those used in the 2006 valuation:

	Valuation December 31, 2007	Valuation December 31, 2006
Inflation	2.5% per annum	2.5% per annum
Average Salary Increase	0.0% per annum real plus merit ranging from 0.0% to 2.75%	0.0% 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 with 10 years of service	60% - Retire at earliest date first eligible for an unreduced pension 40% - Retire at the earliest of: - age 65; - 35 years of service; or - age 60 with 10 years of service
Mortality	UP-94 projected to 2015 using scale AA	UP-94 projected to 2015 using scale AA

**NOVA SCOTIA TEACHERS' PENSION FUND**  
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**6. Accrued Pension Benefits (continued)**

As a result of the agreement between the Province of Nova Scotia and the Nova Scotia Teachers' Union signed on June 22, 2005, indexing for pensions put in pay on or after August 1, 2006, as well as those of existing pensioners who opt for the new indexing arrangement, will depend on the funding level of the plan. If the funding level is less than 90%, no indexing will be provided. At a funding level of between 90% and 100%, indexing will be granted at 50% of the increase in the CPI, at the discretion of the Board of Trustees. If the funding level is greater than 100%, indexing will be provided at 100% of the increase in the CPI, to the extent that it does not reduce the funding level to below 100%, in which case pensions will be increased by at least 50% of the increase in the CPI. Regardless of the funding level, indexing credited in July 2006 and July 2007 is guaranteed to be at least 50% of the increase in the CPI. For the purposes of the valuation, it was assumed that indexing would not be paid in years in which it is discretionary.

**7. Operating Expenses**

The Fund is charged with administrative and certain other expenses incurred on behalf of the Fund by the Nova Scotia Pension Agency. The following is a summary of these operating expenses.

	<u>2007</u>	<u>2006</u>
	(000's)	(000's)
<b>Plan Administration</b>		
Professional services	\$ 352	\$ 200
Salaries	1,010	953
Supplies and services	236	199
Travel	32	17
Other	243	108
	<u>\$ 1,873</u>	<u>\$ 1,477</u>
<b>Investment Expenses</b>		
Investment management fees	\$ 8,763	\$ 8,439
Professional services	281	26
Salaries	175	389
Supplies and services	8	80
Travel	8	6
Other	182	96
	<u>\$ 9,417</u>	<u>\$ 9,036</u>
<b>Total Operating Expenses</b>	<u><u>\$ 11,290</u></u>	<u><u>\$ 10,513</u></u>

NOVA SCOTIA TEACHERS' PENSION FUND  
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**8. Related Party Transactions**

Investments held in the Fund include debentures of the Province of Nova Scotia with a total market value of \$17.4 million (0.4% of total assets) as at December 31, 2007 (\$18.1 million (0.4% of total assets) as at December 31, 2006).

# ANNUAL REPORT

NOVA SCOTIA TEACHERS' PENSION PLAN  
DECEMBER 31, 2007

