Nova Scotia Teachers' Pension Plan

Annual Report **2009**

Table of Contents

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

April 30, 2010

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

The 2009 annual report outlines the financial performance of the Nova Scotia Teachers' Pension Fund for the year ended December 31, 2009. The year saw significant swings in commodity prices, currency exchange rates and share prices, contributing to a sense of uncertainty across the financial markets.

Based on market volatility, the Trustee chose higher quality investments with stronger fundamentals in an effort to minimize risk. This protective positioning was necessary in the face of a great deal of market uncertainty and is well-aligned with the Fund's long term growth objectives and risk preferences.

The results show a net 15.29 percent (or 15.6 percent gross) return on investments for 2009 and a funded level of 76 percent. This is a significant increase from 2008 results, and reflects the improved trend in pension fund performance across Canada.

While we don't expect the funded status to recover quickly, it is moving in a positive direction. The Teachers' Pension Plan Trustee Inc. continues to proactively monitor and manage the Teachers' Pension Fund.

As always, the primary objective is to maximize investment returns, within an acceptable level of risk, with the goal of meeting the long-term funding requirements of the Plan.

Detailed pension information is available online at www.novascotiapension.ca/teachersplan.

Sincerely,

Original signed by Byron Rafuse

Co-Chair
Nova Scotia Teachers' Pension Plan Trustee Inc.

Original signed by William D. Redden

Co-Chair
Nova Scotia Teachers' Pension Plan Trustee Inc.

Plan Governance

Teachers' Pension Plan Trustee Inc. is the trustee of the Nova Scotia Teachers' Pension Plan. The trustee is responsible for administration of the Plan and investment management of Plan assets. These activities are directed by the board of directors of the trustee.

There are nine directors on the board. Four directors are appointed by the Nova Scotia Teachers' Union. Four directors are appointed by the Minister of Finance of the Province of Nova Scotia. The chair of the board is mutually appointed by the Teachers' Union and the Minister of Finance.

On December 31, 2009, J. Patrick O'Neil retired as Chair, and James Kavanaugh retired as union appointed Director. We are very grateful to Pat and Jim for their service.

There were eleven trustee board meetings during 2009. Each meeting had a formal agenda supported by comprehensive materials. Throughout the year board directors also participated in numerous committee and working group meetings.

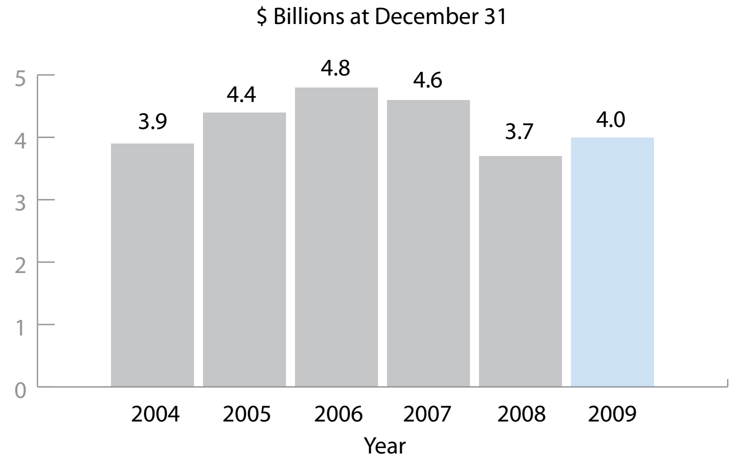
2009 brought record levels of market volatility and sustained uncertainty. The Trustee executed against the following priorities during this very challenging year.

- Proactive investment management, complemented by disciplined risk management;
- Diligent analysis of potential actions to improve the long term financial health of the Plan;
- Strengthened board governance to support accelerated and comprehensive analysis, decision-making and implementation;
- High levels of accountability and performance from all service providers;
- Enhanced member communications.

Teachers' Pension Plan Trustee Inc.

2009 at a Glance

Net Assets Available for Benefits at December 31, 2009



Index Returns

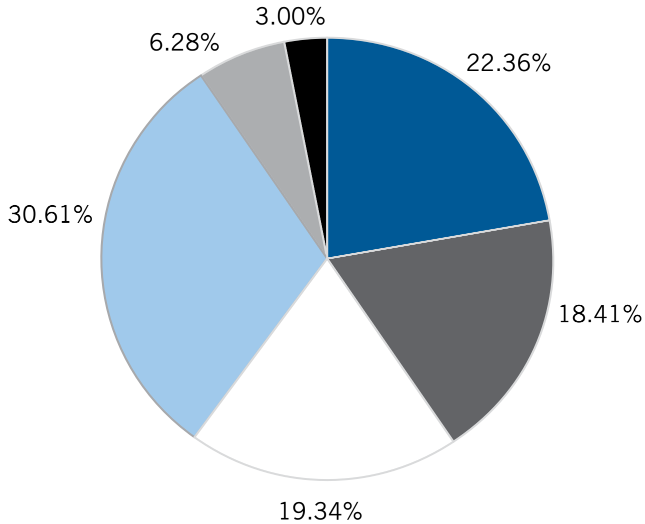
(%) (C$)	Quarter Ended Dec 31, 2009	1 Year Dec 31, 2009	4 Year Dec 31, 2009	10 Year Dec 31, 2009
S&P/TSX Equity	3.50%	34.51%	4.19%	5.73%
S&P/TSX 60	2.57%	31.94%	4.73%	5.56%
TSX Completion	8.10%	47.12%	1.80%	n/a
DEX Universe	-0.16%	5.41%	4.88%	6.67%
DEX Cdn T-Bill - 30 Day	0.05%	0.37%	2.78%	3.07%
S&P 500	3.57%	7.39%	-3.33%	-4.13%
S&P Mid Cap 400	3.11%	16.66%	-1.63%	2.96%
Russell 2000	1.46%	8.00%	-3.13%	0.20%
MSCI EAFE	-0.20%	11.91%	-1.52%	-2.06%

Investment Performance

	Quarter Ended Dec 31, 2009	1 Year Dec 31, 2009	4 Year Dec 31, 2009	10 Year Dec 31, 2009
Nova Scotia Teachers' Pension				
Fund Return[1]	2.36%	15.29%	2.25%	4.39%
Benchmark Return[2]	2.33%	17.17%	2.99%	4.22%

[1] Fund returns are reported net of investment management fees.
[2] The Benchmark was changed in June 2008 to reflect a passive 50% hedge on all international equities and a 100% hedge on all international fixed income.

Asset Mix



	Asset Mix Changes Dec 2009	Dec 2008
Canadian Equity	22.36%	19.34%
US Equity	18.41%	15.29%
International Equity	19.34%	18.62%
Fixed Income (Bonds)	30.61%	34.55%
Canadian Real Estate	6.28%	7.24%
Cash & Cash Equivalents	3.00%	4.96%
Total Plan Assets	100.00%	100.00%

Top 20 Public Equity Holdings at December 31, 2009

Stock	Value	% of Portfolio
Royal Bank of Canada	$53,168,306	2.24%
Toronto-Dominion Bank	$45,128,787	1.90%
Bank of Nova Scotia	$41,387,044	1.75%
Suncor Energy Inc.	$37,156,113	1.57%
Canadian Natural Resources	$35,266,898	1.49%
Transcanada Corp	$21,887,592	0.92%
Canadian National Railway Co.	$19,441,350	0.82%
Exxon Mobil Corp.	$17,752,109	0.75%
Rogers Communications - CL B	$16,386,047	0.69%
Sun Life Financial Inc.	$16,122,830	0.68%
SNC-Lavalin Group Inc.	$15,491,955	0.65%
Potash Corp of Saskatchewan	$15,400,046	0.65%
Canadian Tire Corp - CL A	$15,224,999	0.64%
Research in Motion	$14,983,624	0.63%
Great-West Lifeco Inc.	$14,656,486	0.62%
Manulife Financial Corp	$14,249,482	0.60%
Encana Corp	$14,222,525	0.60%
Metro Inc - A	$14,157,022	0.60%
Talisman Energy Inc.	$13,850,078	0.58%
BCE Inc.	$13,773,949	0.58%

Investment Management - Discussion and Analysis

Introduction

The primary goal of the Fund is to invest pension assets in a manner that maximizes investment returns, within an acceptable level of risk, which allows the Fund to meet the long-term funding requirements of the Plan.

The investment of the pension assets are guided by the Fund's Statement of Policies & Goals (the "SIP&G") as written by the Teachers' Pension Plan Trustee. The SIP&G sets out the parameters within which the investments may be made. These parameters include permissible investments and the policy asset mix of the three main asset classes - Equities, Fixed Income and Inflation Linked. The Investment Beliefs, also found within the SIP&G, state the general principles upon which the investments are made.

Asset Mix

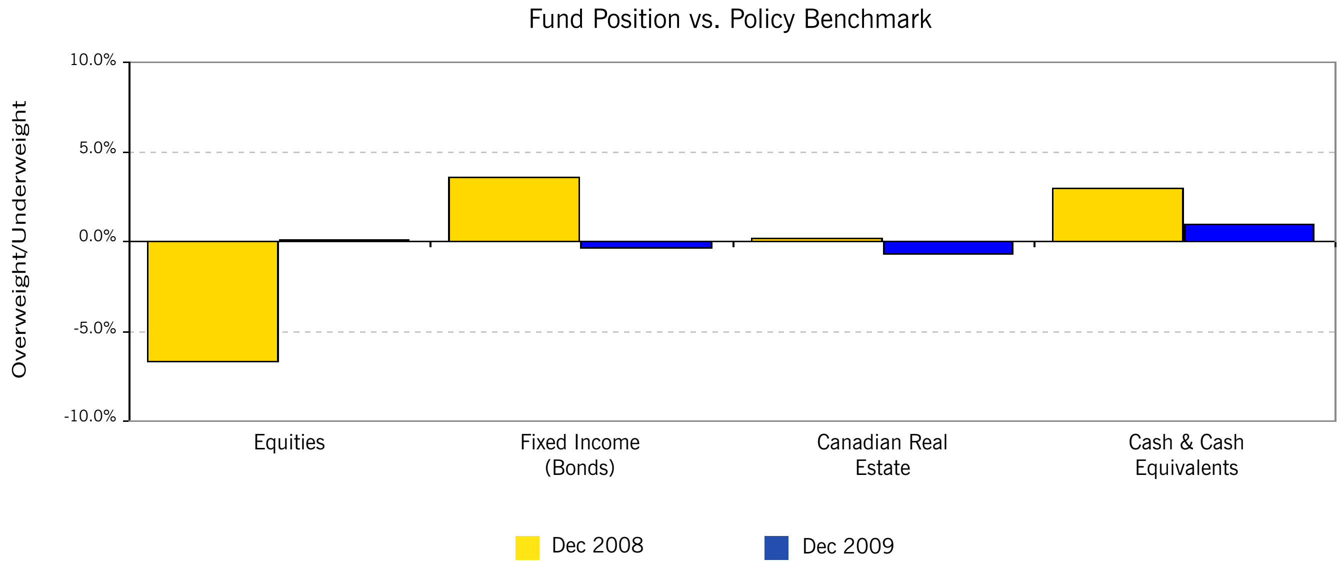
In 2008, global financial markets experienced the most significant collapse since the Great Crash of 1929. Equity markets throughout the world continued their decline in the early part of 2009. The economic and market risks remained extremely high. However, in the second week of March, a sharp and prolonged turnaround in equity prices began which eventually led to strong 2009 annual returns.

Region	Equity Index	2009 Return
Canada	S&P/TSX Equity Index	34.5%
U.S.	S&P 500 Index	26.5%
Europe, Austrailasia, and Far East	MSCI EAFE Index	24.7%
Emerging Economies	MSCI Emerging Markets Index	62.3%

At the beginning of 2009, as compared with the policy benchmark portfolio, the Fund was underweight in equities and overweight in fixed income and cash. This defensive position reduced the risk of financial loss. With the experience of extreme volatility in asset prices still very familiar, protective positioning was both responsible and necessary in the face of a great deal of uncertainty.

As 2009 progressed, key risks that existed at the beginning of the year diminished, and through active rebalancing the Fund began to reflect the policy benchmark portfolio more closely. Leading into 2010, the Fund positions are closely aligned with the policy benchmark portfolio. Active positioning within asset classes is set up to protect against current threats such as those expected to result from unprecedented government stimulus and its essential unwind. The Fund is also positioned to benefit from more specific relative growth opportunities.

Asset Mix /continued



Investment Performance

Asset allocation decisions made throughout the year had a positive impact on the return and risk performance of the Fund. Under cautious and adaptive fund management, the Fund was able to provide a 15.29% investment return during the 2009 recovery in financial markets.

Improved conditions in the global financial markets and in the global economic environment were important in the currency markets as investors no longer sought the safe haven of the US dollar. The currency hedging program implemented by the Fund provided significant protection to its holdings denominated in US dollars and other foreign currencies and allowed the Fund to add 3.0% versus a comparable unhedged portfolio.

For 2009, stock selection was less rewarding than in most other years. The rapidly rising equity prices did not distinguish between high and low quality companies. Many of the equity managers the Fund invests with have a bias toward investing in high-quality companies that is well aligned with the Fund's long-term growth objectives and risk preferences. This year, however, that position underperformed the broad market indices and contributed to a relative underperformance of the Fund versus the policy benchmark.

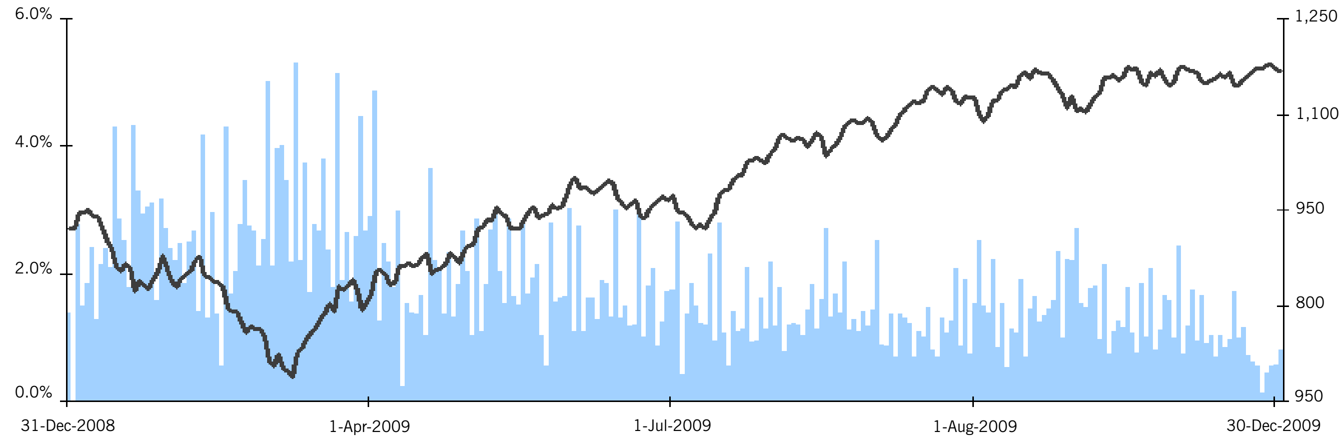
Overall, the Fund underperformed its policy benchmark by 1.88% in 2009. This was due to the quality bias of the equity managers that are responsible for the detailed management of the Fund's equity allocation.

In summary, during a time of enormous uncertainty in 2009, the Fund produced a strong return of 15.29% and provided protection from the prospect of excessive losses.

Economic and Capital Market Briefing

2009

MSCI World Index Level and Daily High-Low Range



Source: Bloomberg L.P.

2009 – An Engineered Recovery

Leading economists have labeled the global financial crisis which began in 2007 as the worst financial crisis since the Great Depression of the 1930s. As 2009 began, institutional and retail investors had suffered a significant destruction of wealth. Although a large-scale effort by worldwide governments was initiated to stimulate economies, investors remained very anxious. Economic activity was in free fall as capital markets had anticipated months before. The intense dialogue between the economy and the markets continued into the spring.

By the end of February 2009, the S&P 500 Index suffered an 18.6% year-to-date drop. However, after making new lows in March, world equity markets rebounded sharply. Equities staged an inspiring rebound making gains into October. At the same time, the global economy began to stabilize. Well ahead of many optimistic forecasts, GDP growth turned positive by the third quarter in most of the world's major economies. The upturn in financial markets and the effects of a mountain of stimulative fiscal and monetary policies formed a basis for the return to an engineered normality for 2010.

Despite all the positive news this year, many of the economic issues still remain, and many new ones were born out of the crisis and the global government response to it. In the US, for example, the average number of unemployment insurance claims for 2009 was a full 78% greater than the average number of claims in 2007. The International Monetary Fund, ("IMF"), pegged 2009 Global GDP growth at -0.8%, the first negative growth rate since World War II. The IMF is now projecting 3.9% growth for 2010 but provides cautionary guidance: "For the moment, the recovery is very much based on policy decisions and policy actions. The question is, when does private demand come and take over. Right now it's ok, but a year down the line, it will be a big question."[1]

The arguments are becoming more and more convincing that the global economy has entered a 5-10 year period in which economies may grow slowly relative to historical norms. During this time, world economies may begin to resolve important structural issues. The challenges resulting from the collapse of the sub-prime credit markets, and the essential unwind of colossal stimulus, will be significant and may take a good deal of productive time to untangle.

Please see Appendix A (pages 15 & 16) displaying graphs for Equity Indices, Equity Volatility, Fixed Income Indices, & Currencies.

[1] http://www.imf.org/ Olivier Blanchard, IMF, January 2010

Economic and Capital Market Briefing /continued

Capital Market Performance

Canada

The S&P/TSX Equity Index was up 3.5% in Q4 2009 and 34.5% for 2009 as a whole. From its March 9th lows, the index was up 58.2% by year end.

The Canadian dollar made impressive gains on the year versus the US Dollar. After testing a low of approximately 77 cents US in early March, the Canadian dollar was back up to 95 cents US by the end of the year.

At the beginning of 2009, the volatility of Canadian equities remained eerily high. Equity market risk was extreme. As is often the case during a recovery, positive returns and steadily decreasing volatility were observed together through the rest of the year.

Eurozone & UK

The leading Blue-chip equity index for the Eurozone, the EURO STOXX 50 Index, was up 3.2% last quarter and 21.1% during 2009. This was approximately the same annual percentage gain as the S&P 500 Index.

Yield curves are a representation of the term structure of interest rates. The yield spread between the 2-year and 10-year German government bonds increased from 1.20% to 2.05% during 2009.

The German measure of implied equity volatility, the VDAX Index, trended down throughout 2009 signifying an expectation of decreasing volatility in equity prices.

The FTSE 100 Index is a share index of the 100 most highly capitalized UK companies listed on the London Stock Exchange. The index gained 5.4% in the final quarter of 2009. In 2009 as a whole, the FTSE 100 Index increased by 22.1%.

United States

The S&P 500 Index was up 5.5% in Q4 2009 and 23.5% for the year.

The S&P 500 benchmark index ended the year with an average share price of nearly 24 times the average earnings per share across the index.

The US Dollar trended down for most of the year as measured against an international currency basket. However, in January, February and December 2009, the US dollar showed significant strength.

Government bond yield curves in the United States and in the United Kingdom are among the steepest for developed economies around the world indicating relatively low short-term interest rates as compared with longer term interest rates.

Asia

The Shanghai Stock Exchange Index of Chinese equity shares was up approximately 80% in 2009. In Japan, the Nikkei 225 Stock Average increased by 19.0%.

Measured in US Dollars, the Japanese Yen rose 9.2% by March 2009, then fell 12.7% by the end of November and finished 2009 up 2.6% from one year earlier.

A high rate of inflation in India was responsible for higher relative government bond yields. Nominal yields include the effects of inflation, while real yields do not. The ‘nominal’ 10-year yield in India was almost 8% at the close of 2009. After removing the effect of inflation, real yields were much lower. The steep front end of the curve in India however was very similar to the worldwide experience of interest rate term structure.

Investment Accomplishments within 2009

At the start of 2009 there was considerable uncertainty regarding how much further financial markets would decline. As markets seemed to find a bottom in March, the Fund began to address some of the under and over weights that had been carried as protection in the declining markets. By the end of the second quarter this rebalancing process was finished.

The effort to continue to diversify the portfolio continued throughout the declining market environment of early 2009. Despite the fact that global financial markets throughout the market decline of 2008/09 fell together and subsequently the benefits of diversification were questioned, it is felt that this is still a worthwhile strategy. This effort culminated with the funding of a new emerging market equity mandate and a new small cap EAFE (Europe, Asia, Far East) equity mandate in the second and third quarter, respectively.

Given the experience of 2008/09, the Fund was reviewed to determine whether qualities such as liquidity and diversification within the portfolio could be improved upon. During the market upheaval, the Fund did not have any issues with liquidity but its continuing importance was highlighted through the experiences of others. From this perspective and from the desire to continue diversification efforts, it was decided to enhance the structure of the fixed income asset class and a new policy was approved. In the first quarter the fixed income portfolio evolved from a purely Canadian approach which was passively invested in the fixed income benchmark to an approach that allows for investments in non Canadian securities and allows for active credit decisions. At the same time, this new approach will also retain an allocation to a highly liquid government bond portfolio. Subsequently, in the first quarter of 2009, a new fixed income mandate was funded which focuses on investment grade corporate bonds.

Work was also undertaken throughout 2009 that focused on taking advantage of some of the upheavals experienced in the capital markets in 2008/09. This led to additional allocations to investment grade bonds, high yield bonds, and a new commitment to real estate.

Additional work was also undertaken throughout 2009, to prepare for the development of strategies to improve and enhance various elements of the portfolio as discussed in the section below.

Investment Themes in 2010

Throughout 2010 emphasis will be placed on continuing to enhance the existing asset classes within the Fund. This work will help to improve the diversification of the portfolio, provide protection from inflation and reduce the volatility of the Fund. As these asset classes are enhanced, consideration will also be given to the historically low levels of interest rates and the concern that increasing interest rates will cause losses due to the declining market values in the fixed income portfolio and the risk of future inflation.

In the fixed income asset class, given the concern for higher interest rates and the impact of inflation on the bond portfolio, searches for new fixed income exposures and the broadening of existing mandates may be undertaken.

Within the inflation linked asset class new strategies and policies were recently approved which may lead to several new initiatives in this area. The approval of an infrastructure policy and the subsequent commitment to an infrastructure fund were recently completed. These initiatives will be built upon throughout 2010 as the Fund looks for new opportunities and commitments in infrastructure.

Further within the inflation linked asset class, a new Real Return Bond (RRB) policy was recently approved. New initiatives in this area will also be examined that may broaden and enhance the existing RRB portfolio. Opportunities to broaden the existing domestic real estate portfolio may also be examined throughout 2010.

Given the anticipated investment in additional illiquid assets such as real estate and infrastructure, the Fund will continue to build upon the work that it has already completed on the liquidity of the Fund. This will ensure that as new illiquid assets are brought into the Fund the impact on liquidity is well anticipated and addressed through a comprehensive liquidity plan.

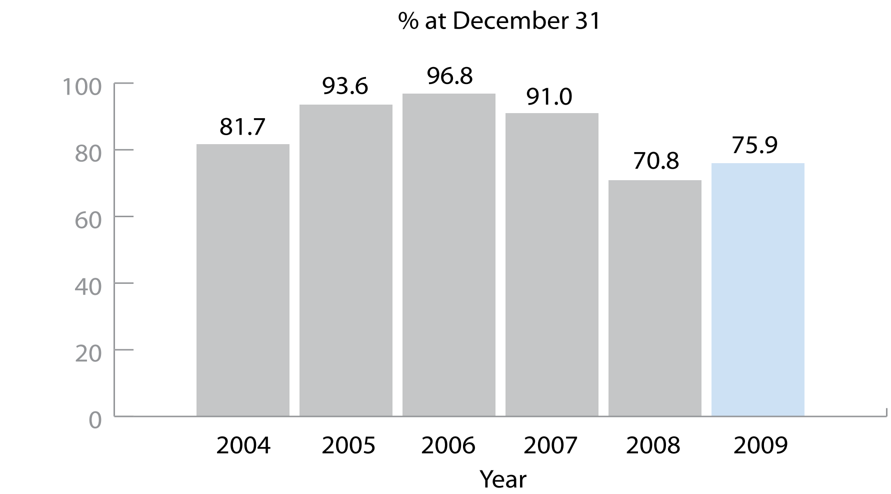
Beyond the work in the existing asset classes, work will also continue to move forward to directly address the volatility of the Fund. This work will include the assistance of a consultant to determine how to best address Fund volatility while continuing to provide the necessary investment returns required by the Plan.

Plan Valuation

Funded Ratio

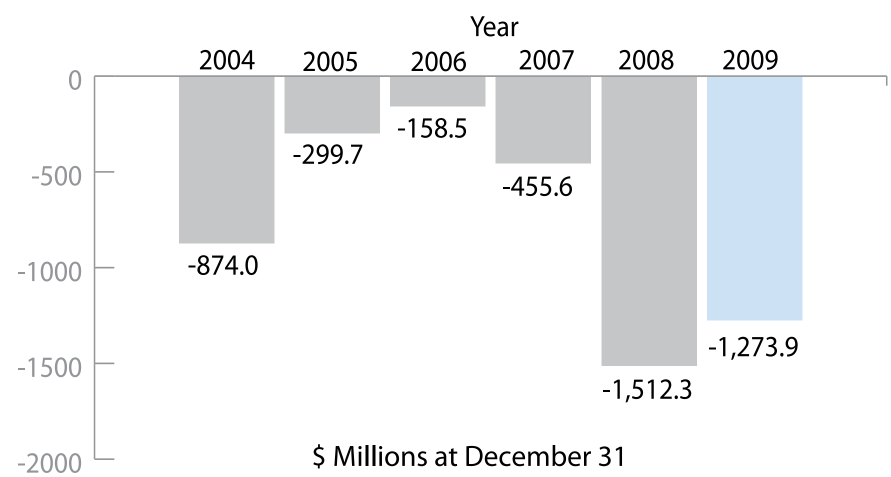
The funded ratio of the Plan on December 31, 2009 was 75.9%. The funded ratio is equal to assets divided by liabilities, expressed as a percentage. A funded ratio of 100% or more means that the Plan is fully funded, i.e. the Fund's assets are sufficient to cover liabilities, based on current market values and actuarial assumptions.

If liabilities are greater than assets, the Plan has an unfunded liability. A surplus is equal to the Plan's assets less its liabilities.



Unfunded Liability

After two challenging years in the markets, the plan rebounded in 2009, earning a return of 15.29%. As at December 31, 2009, the unfunded liability was $1.2739 billion, an improvement of $238.4 million over the previous year.

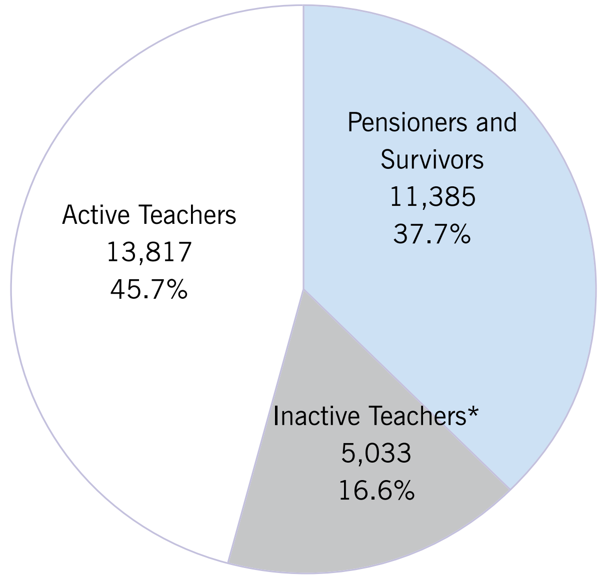


Member Profile - Teachers' Pension Plan

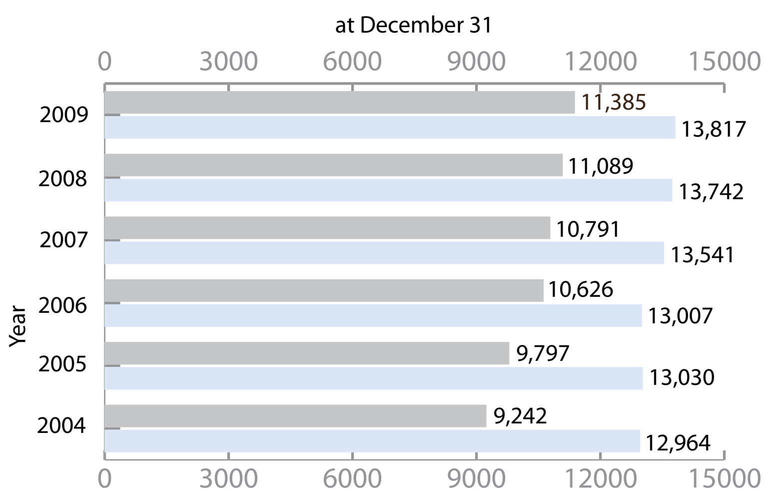
As of December 31, 2009 the total membership of the Teachers' Pension Plan was 30,235. This includes:

Active Teachers	45.7%	13,817
Pensioners & Survivors	37.7%	11,385
Inactive Teachers*	16.6%	5,033

*An inactive teacher is one who has made contributions to the Plan but is not currently teaching or contributing.



Change in Active Teacher & Pensioner Membership



Active teachers are teachers who are actively teaching and contributing to the Plan.

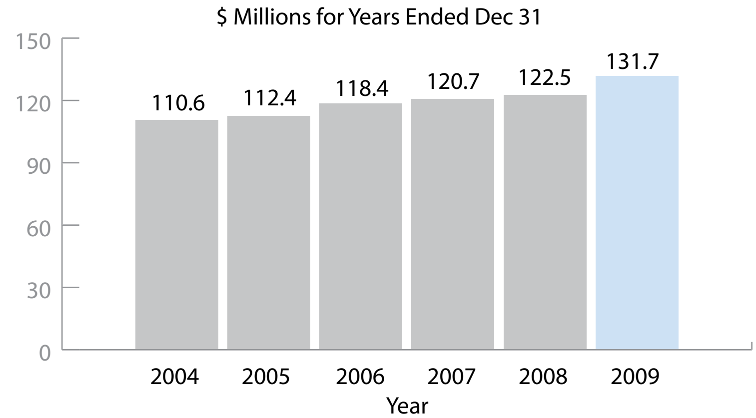
Pensioners are members who have retired from teaching and are drawing a pension. The category also includes survivors of deceased pensioners or members.

Member and Pensioner Administration

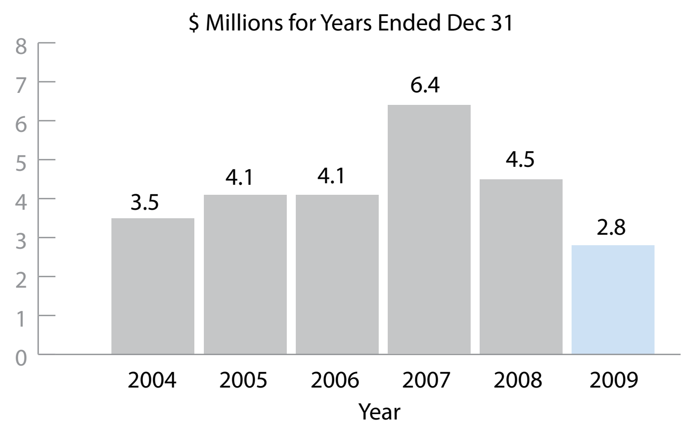
Employee & Employer Contributions

Pension benefits are partially funded by contributions to the Plan.

Active teachers' contributions to the Plan are shown in the bar graph, totaled along with their employer's matching contributions.



Purchases & Reciprocal Transfers In



Purchases & Reciprocal Transfers In for 2009 totaled $2.8 million compared to $4.5 million in 2008.

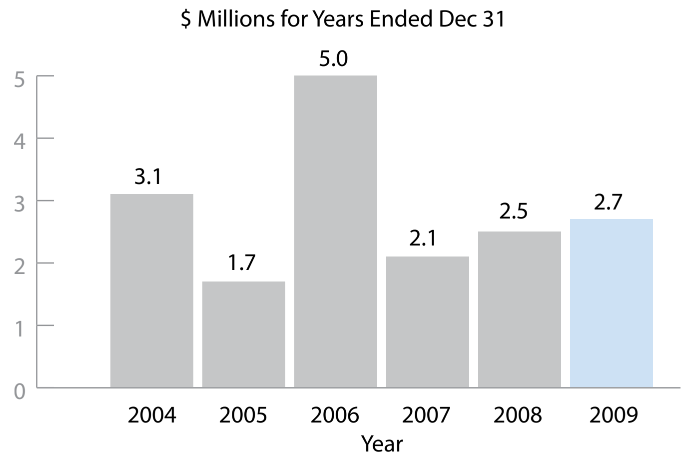
Purchases

A purchase is pensionable service that is purchased by a member for qualifying gaps in his or her employment history, such as maternity leave or pre-approved leave of absence.

Reciprocal Transfers In

A reciprocal transfer is pensionable service that is credited to the Plan for a member, through a transfer of his or her pension funds from a former employer, to their new employer's Plan. Such transfers are permitted between jurisdictions when both parties, typically provinces, participate in the National Reciprocal Transfer Agreement. This may also include a transfer from the Public Service Superannuation Plan.

Refunds & Reciprocal Transfers Out



Refunds & Reciprocal Transfers Out for 2009 totaled $2.7 million compared to $2.5 million in 2008.

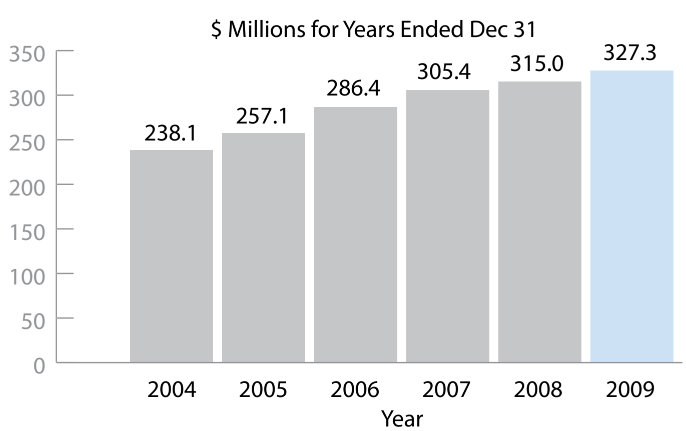
Refunds

When an active, contributing teacher stops teaching, he or she may be able to receive a refund of pension contributions from the Plan or may opt to transfer his or her funds out of the Plan, perhaps to a new employer's Plan in another jurisdiction. The option chosen depends on how long he or she had been employed and contributing to the Plan.

Reciprocal Transfer Out

Reciprocal transfers from the Plan occur when a member transfers his or her pension funds from the Plan to another jurisdiction where they will now be employed as a teacher, often from one province to another. Such transfers are permitted between jurisdictions when both parties participate in the National Reciprocal Transfer Agreement or the other plan is the Public Service Superannuation Plan.

Pensions in Pay



Pension payments made in 2009 totaled $327.3 million compared to $315.0 million in 2008. This increase is due primarily to the increase in the number of pensioners year over year.

Member Services

Teachers' Pension Plan Trustee Inc. appointed the Nova Scotia Pension Agency as administrator of the Teachers' Pension Plan. The Trustee closely monitors the performance of the Agency.

Contact from Members

In 2009 the Agency received almost 21,500 telephone calls, over 15,000 of which were from Plan members and pensioners. Of these calls, 96% were answered without any wait time. As well, 89% of calls were answered within 20 seconds.

Pension Seminars - One to One Client Counselling

Throughout the school year retirement seminars are conducted across the province hosted by the Nova Scotia Teachers' Union. In 2009 there were 14 seminars for which we provided 661 pension estimates for 403 teachers. The seminars are an excellent opportunity to learn about all aspects of retirement benefits, including pension, health benefits, and service awards.

Hours of Operation

Members and pensioners with questions about the Teachers' Pension Plan can reach us between the hours of 8AM and 4:30PM, Monday through Friday.

Online Pension Benefit Calculators

Online pension benefit calculators are available on our web site. The calculators enable clients to calculate the approximate cost to purchase prior service or to estimate the amount of pension they will receive upon retiring. You can find the calculators at www.novascotiapension.ca, click on Teachers' Plan, then Calculators.

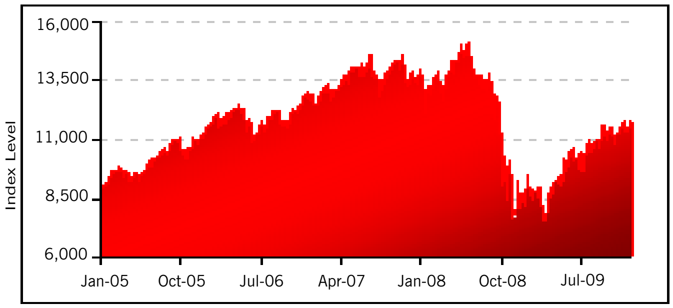
Appendix A - Economic and Capital Market Briefing

Capital Market Performance

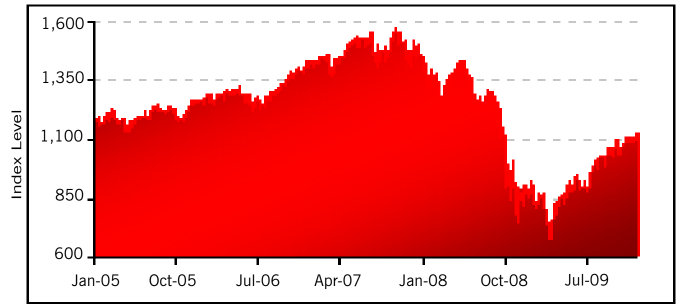
Equity Indices (5 Years Ending December 31, 2009)

Source: Bloomberg L.P.

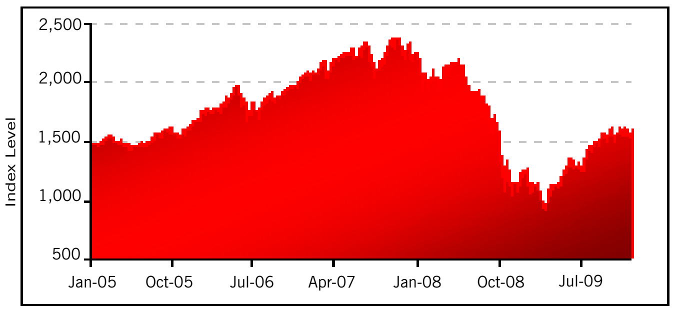
S&P/TSX Composite Index



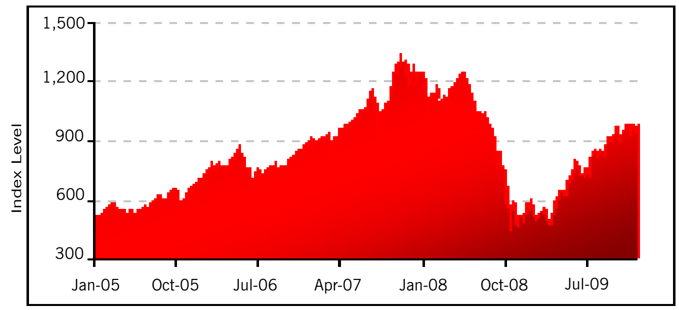
S&P 500 Index



MSCI EAFE Index



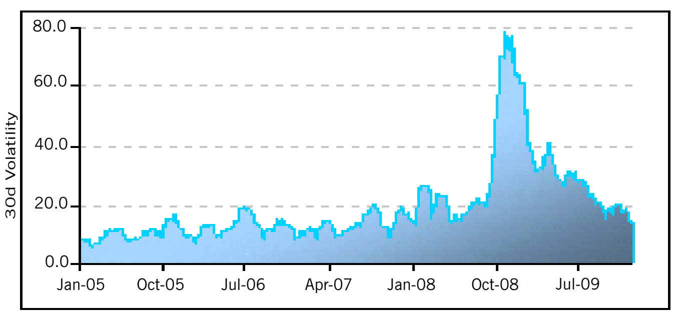
MSCI Emerging Markets Index



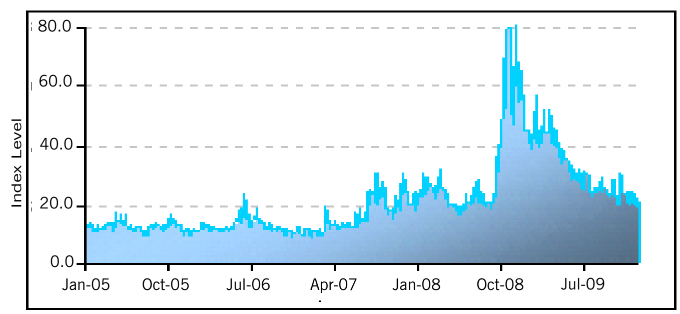
Equity Volatility (5 Years Ending December 31, 2009)

Source: Bloomberg L.P.

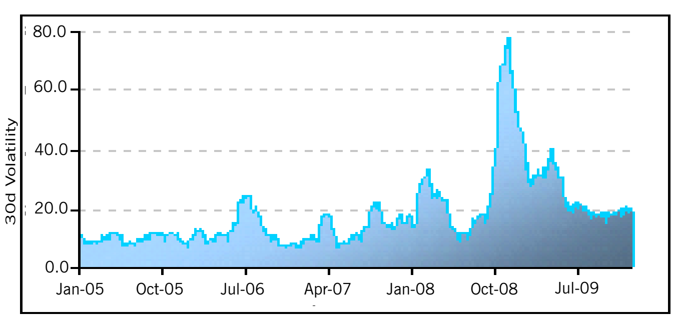
S&P/TSX Historical Volatility



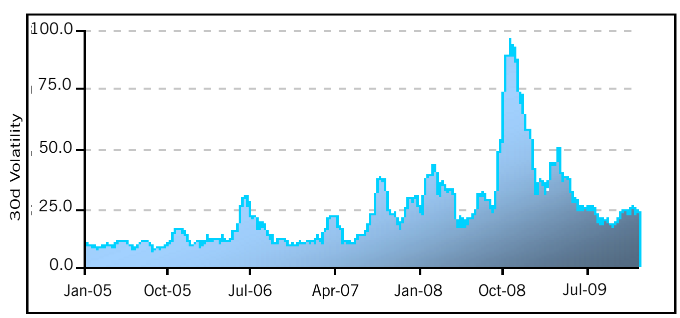
VIX Implied Volatility Index



MSCI EAFE Historical Volatility



MSCI Emerging Markets Historical Volatility



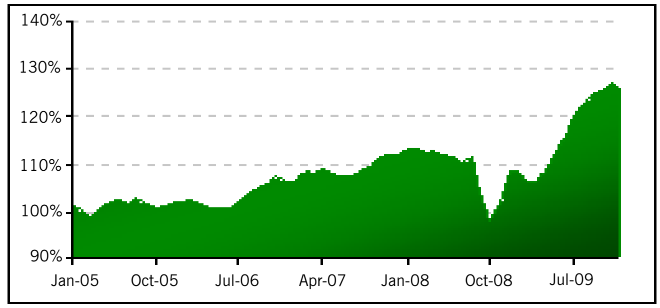
Capital Market Performance

Fixed Income Indices (5 Years Ending December 31, 2009)

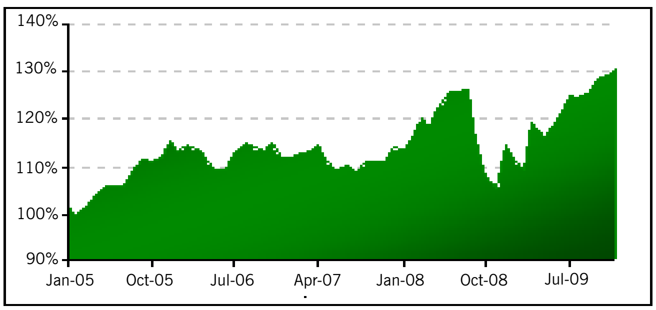
Source: Bloomberg L.P.

DEX Universe Bond Index

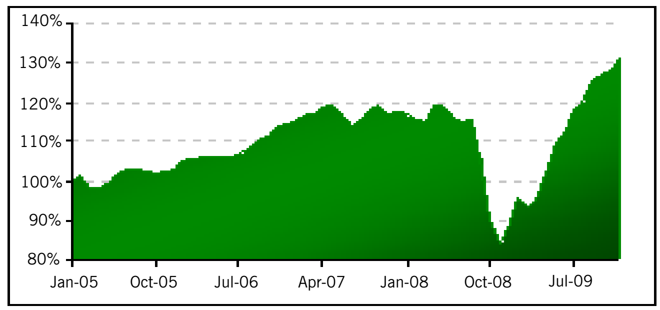
Barcap US Credit Bond Index



DEX Real Return Bond Index



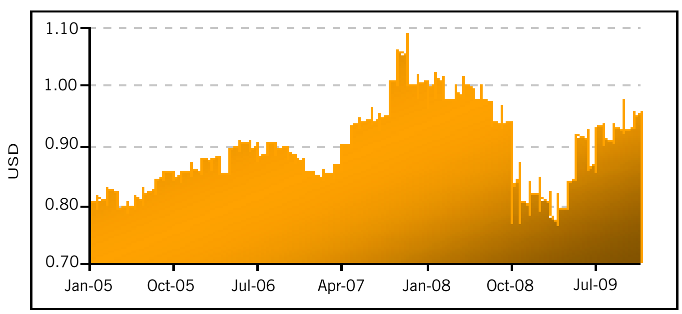
Merrill Lynch High Yield Bond Index (BB-B)



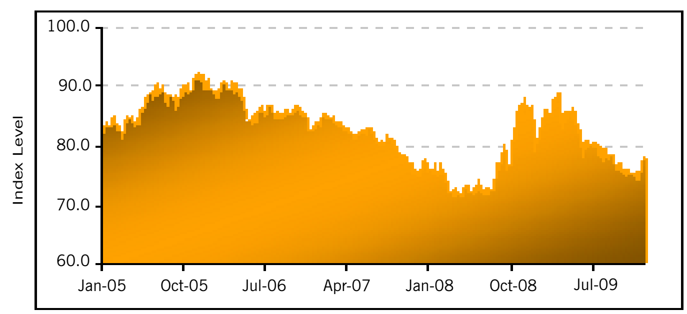
Currencies (5 Years Ending December 31, 2009)

Source: Bloomberg L.P.

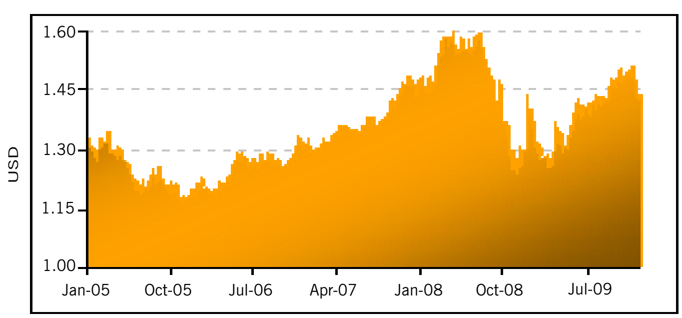
Canadian Dollar (USD)



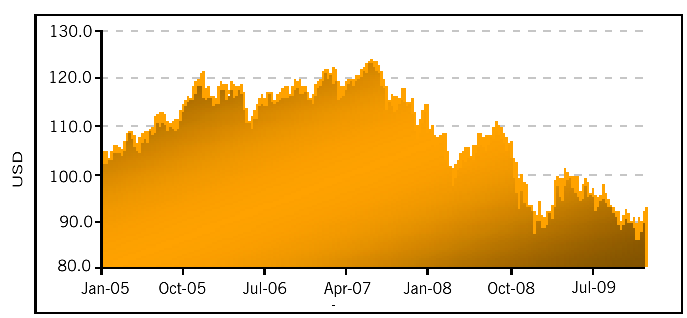
USD Dollar Index



Euro (USD)



YEN (USD)



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