

Financial Statements of

**NOVA SCOTIA PUBLIC SERVICE
SUPERANNUATION PLAN**

Year ended March 31, 2014



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INDEPENDENT AUDITORS' REPORT

To the Public Service Superannuation Plan Trustee Inc.

We have audited the accompanying financial statements of the Nova Scotia Public Service Superannuation Plan, which comprise the statement of financial position as at March 31, 2014, and the statements of changes in net assets available for benefits, changes in pension obligations and changes in surplus for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Nova Scotia Public Service Superannuation Plan as at March 31, 2014, and the changes in its net assets available for benefits and the changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Chartered Accountants
June 26, 2014
Halifax, Canada

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Financial Statements

Year ended March 31, 2014

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NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Statement of Financial Position
(in thousands of dollars)

March 31, 2014, with comparative information for 2013

	2014	2013
Net Assets Available for Benefits		
Assets		
Cash	\$ 42,766	\$ 35,308
Contributions receivable:		
Employers'	6,560	5,274
Employees'	5,878	4,673
Receivable from pending trades	15,833	5,922
HST receivable	813	-
Due from administrator (note 13)	1,688	149
Deposits on pending investment purchases (note 3)	4,415	-
Accrued investment income	20,004	18,461
<u>Investments (notes 4 and 5)</u>	<u>5,021,978</u>	<u>4,666,397</u>
Total assets	5,119,935	4,736,184
Liabilities:		
Pension benefits payable	\$ -	\$ 195
Payable for pending trades	8,585	16,674
<u>Accounts payable and accrued liabilities</u>	<u>7,656</u>	<u>10,179</u>
Total liabilities	16,241	27,048
Net assets available for benefits	5,103,694	4,709,136
Present value of expected instalment payments (note 6)	404	470
<u>Fair value of net assets available for benefits</u>	<u>\$ 5,104,098</u>	<u>\$ 4,709,606</u>
Accrued Pension Obligation and Surplus (Deficit)		
Accrued pension obligation (note 7)	4,890,120	4,686,652
Surplus (deficit):		
Funding deficit (note 7)	(66,953)	(154,559)
<u>Actuarial value adjustment of net assets (notes 2 and 7)</u>	<u>280,931</u>	<u>177,513</u>
	213,978	22,954
Commitments (note 8)		
<u>Accrued pension obligation and surplus</u>	<u>\$ 5,104,098</u>	<u>\$ 4,709,606</u>

See accompanying notes to financial statements.

On behalf of the Board:

Original signed by Ronald E. Smith Chair, Public Service Superannuation Plan Trustee Incorporated

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Statement of Changes in Net Assets Available for Benefits
(in thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Increase in Assets		
Contributions (note 9)	\$ 178,797	\$ 172,746
Transfers from other pension plans	3,014	7,952
Investment activities (note 4)	124,859	118,380
Change in market value of investments (note 4)	388,714	325,897
Total increase in assets available for benefits	695,384	624,975
Decrease in Assets		
Benefits paid (note 10)	279,204	266,221
Transfers to other pension plans	2,604	2,515
Administrative expenses (note 11)	19,018	16,422
Total decrease in assets	300,826	285,158
Net increase in net assets available for benefits	394,558	339,817
Net assets available for benefits, beginning of year	4,709,136	4,369,319
Net assets available for benefits, end of year	\$ 5,103,694	\$ 4,709,136

See accompanying notes to financial statements.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Statement of Changes in Pension Obligations
(in thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Accrued pension obligation, beginning of year	\$ 4,686,652	\$ 4,541,817
Increase in accrued pension benefits:		
Interest on accrued pension obligation	304,632	299,760
Contributions and transfers from other pension plans	181,811	180,698
Changes in actuarial assumptions	16,114	21,095
	<u>502,557</u>	<u>501,553</u>
Decrease in accrued pension benefits:		
Benefits paid (note 10)	(279,204)	(266,221)
Net experience gains and losses	22,570	(50,861)
Transfers to other pension plans	(2,604)	(2,515)
Contributions in excess of current service cost	(39,851)	(37,121)
	<u>(299,089)</u>	<u>(356,718)</u>
Net increase in accrued pension benefits	203,468	144,835
Accrued pension obligation, end of year (note 7)	<u>\$ 4,890,120</u>	<u>\$ 4,686,652</u>

Statement of Changes in Surplus (Deficit)
(in thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Surplus, (deficit) beginning of year	\$ 22,954	\$ (171,812)
Net increase in net assets available for benefits	394,558	339,817
Net decrease in present value of instalment payments	(66)	(216)
Net increase in accrued pension obligation	(203,468)	(144,835)
Surplus, end of year	<u>\$ 213,978</u>	<u>\$ 22,954</u>

See accompanying notes to financial statements.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2014

1. Authority and description of Plan:

The Public Service Superannuation Plan (the "Plan"), and its funding vehicle, the Public Service Superannuation Fund (the "Fund") were established by the Public Service Superannuation Act (the "Act"). The Public Service Superannuation Plan is a pension plan that covers employees of the Province of Nova Scotia (the "Province") and certain other public sector organizations. The detailed provisions of the Plan, including pension eligibility criteria and benefit formulas, are also contained in the Act and in the Regulations made under the Act. Public Service Superannuation Plan Trustee Inc. (2013 - Minister of Finance, Province of Nova Scotia) is the Trustee of the Plan and the Fund.

Effective April 1, 2013, the Plan and the Fund transitioned to a new joint governance structure. The newly created Public Service Superannuation Plan Trustee Inc. ("PSSPTI") assumed fiduciary responsibility for the Plan and the Fund from the Minister of Finance. As of April 1, 2013 the Minister of Finance no longer has legal liability for the Plan and the Fund. These changes are outlined in the 2012 Public Service Superannuation Act ("PSSA"). That act repealed the then existing Public Service Superannuation Act and replaced it with a new Public Service Superannuation Act.

The following description is a summary only. For more complete information, reference should be made to the PSSA and Regulations.

General:

The PSSPTI is responsible for the administration of the Plan and the investment management of Fund assets. The investment of the Fund assets is guided by the Fund's Statement of Investment Policies & Goals (the "SIP&G") as written by the PSSPTI. The SIP&G sets out the parameters within which the investments are made. These parameters include permissible investments and the policy asset mix. The Investment Beliefs, also found within the SIP&G, state the general principles upon which the investments are made.

Eligibility:

All employees of the Province (and other participating employers) as defined in accordance with the Plan provisions must join the Plan on the date of their employment.

Funding:

The Plan is funded by investment earnings and employee and matching employer contributions of 8.4% of salary up to the Year's Maximum Pensionable Earnings (the "YMPE") and 10.9% of salary above the YMPE. The YMPE is a figure set annually by the Canada Pension Plan (the "CPP").

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

1. Authority and description of Plan (continued):

Retirement benefits:

The basic pension formula is 2% multiplied by the number of years of pensionable service multiplied by the highest average pensionable salary of the best five years. Vesting occurs after two years. Pensions are integrated with CPP benefits at age 65.

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

- age 50 with an age plus service factor of 80 – “Rule of 80” (age 55 with an age plus service factor of 85 for members first hired by a participating employer on or after April 6, 2010);
- age 55 with two years of service (reduced pension);
- age 60 with two years of service;

Death benefits:

Upon the death of a vested member, the surviving spouse is entitled to receive 66.67% of the member's pension benefit payable for life (60% for the surviving spouse of a member first hired by a participating employer on or after April 6, 2010). Eligible children are entitled to receive 10% of the member's pension benefit, payable until age 18 (or 25 while still in school).

Termination benefits:

Upon termination of employment, a vested member may choose to defer their pension until they satisfy one of the above eligibility criteria, or they may remove their funds from the plan in the form of a commuted value.

Refunds:

The benefit payable upon termination or death of a non-vested member, or upon death prior to retirement of a vested member with no eligible survivors, is a lump sum refund of the member's contributions with interest.

Indexing:

From January 1, 2011 to January 1, 2015, indexing of pensions in pay will be at a rate of 1.25% annually. Starting January 1, 2016, the annual rate of indexing will be set by the Trustee for five-year periods, based on the funding level of the Plan and the advice of the Plan's actuary.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

2. Basis of preparation:

(a) Basis of presentation:

The Plan adopted Canadian accounting standards for pension plans in Part IV of the Canadian Institute of Chartered Accountants (CICA) Handbook, Section 4600 Pension Plans ("Section 4600"), on March 1, 2011 with a transition date of March 1, 2010. Section 4600 provides specific accounting guidance on investments and pension obligations. For accounting policies that do not relate to either investments or pension obligations, the Plan must consistently comply with either International Financial Reporting Standards ("IFRS") in Part I of the CICA Handbook or accounting standards for private enterprises in Part II of the CICA Handbook. The Plan has elected to comply on a consistent basis with IFRS in Part I of the CICA Handbook. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

Consistent with Section 4600, investment assets are presented on a non-consolidated basis even when the investment is in an entity over which the Plan has effective control. Earnings of such entities are recognized as income as earned and as dividends are declared. The Plan's total investment income includes valuation adjustments required to bring the investments to their fair value.

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate reporting entity.

(b) Early adoption of IFRS 13:

The Plan elected to early adopt IFRS 13, Fair Value Measurement, on a prospective basis, commencing April 1, 2010. The mandatory application date of IFRS 13 is for fiscal years beginning January 1, 2013. The AcSB allowed early adoption for fiscal years beginning on or after January 1, 2011, which is also the effective date for Section 4600. The measurement requirements under IFRS 13 were applied consistently to the fair value of all investment assets and investment related liabilities in the periods presented in the financial statements. The definition of fair value has been amended to comply with IFRS 13. There is no impact on the values of either investment assets or investment related liabilities. As per Section 4600, the Plan is not required to comply with the disclosure requirements prescribed in IFRS 13.

These financial statements were authorized for issue by the Board of Trustees of the Public Service Superannuation Plan Trustee Inc. on June 26, 2014.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

2. Basis of preparation (continued):

(c) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value through the statement of changes in net assets available for benefits and derivative financial instruments which are measured at fair value. Units of holding companies held are measured at the fair value of the underlying assets.

(d) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Plan's functional currency.

(e) Use of estimates and judgments:

The preparation of the financial statements in conformity with Section 4600 and IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the statement of financial position, the reported amounts of changes in net assets available for benefits and accrued pension benefits during the year. Actual results may differ from those estimates. Significant estimates included in the financial statements relate to the valuation of real estate, infrastructure and private equity investments and the determination of the accrued pension obligation.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

3. Significant accounting policies:

(a) Investment transactions, income recognition and transactions costs:

(i) Investment transactions:

Investment transactions are accounted for on a trade date basis.

(ii) Income recognition:

Income from investments is recorded on an accrual basis and includes interest, dividends and operating income/loss from real estate, as well as gains and losses that have been realized on disposal of investments and the unrealized appreciation and depreciation in the fair value of investments.

(iii) Transaction costs:

Brokers' commissions and other transaction costs are recorded in the statement of changes in net assets available for benefits when incurred.

(b) 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. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on retranslation are recognized in the statement of changes in net assets available for benefits as a change in market value of investments.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

3. Significant accounting policies (continued):

(c) Financial assets and liabilities:

(i) Non-derivative financial assets:

Financial assets are recognized initially on the trade date, which is the date that the Plan becomes a party to the contractual provisions of the instrument.

The Plan classifies all of its financial assets at fair value through the statement of changes in net assets available for benefits if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through the statement of changes in net assets available for benefits if the Plan manages such investment and makes purchase and sale decisions based on their fair value in accordance with the Plan's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Financial assets are measured at fair value and changes therein are recognized in the statement of changes in net assets available for benefits.

(ii) Non-derivative financial liabilities:

All financial liabilities are recognized initially on the trade date at which the Plan becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position, when and only when, the Plan has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Plan considers its amounts payable to be a non-derivative financial liability.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

3. Significant accounting policies (continued):

(iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value and attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and all changes are recognized immediately in the statement of changes in net assets available for benefits.

(d) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market price as a practical expedient for fair value measurement.

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

3. Significant accounting policies (continued):

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When a transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

All changes in fair value, other than interest and dividend income and expense, are recognized in the statement of changes in net assets available for benefits as part of the change in market value of investments.

Fair values of investments are determined as follows:

- (i) Fixed income securities, real return bonds and equities are valued at year-end quoted closing prices, where available. Where quoted prices are not available, estimated fair values are calculated using comparable securities.
- (ii) Short-term notes, treasury bills, repurchase agreements and term deposits maturing within a year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.
- (iii) Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the Fund's proportionate share of underlying net assets at fair values determined using closing market prices.
- (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. There has been no impact on the value of these assets at March 31, 2014.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

3. Significant accounting policies (continued):

- (v) Real estate holding companies, private equities, and infrastructure are valued based on estimated fair values determined by using appropriate techniques and best estimates by either management, appraisers, or both. Where external appraisers are engaged to perform the valuation, management ensures the appraisers are independent and compares the assumptions used by the appraisers with management's expectations based on current market conditions and industry practice to ensure the valuation captures the business and economic conditions specific to the investment.
- (vi) Investments in derivative contracts, including futures, forwards and option contracts, are valued at year end quoted market prices, interest, spot and forward rates, where available. Where quoted prices are not available, appropriate alternative valuation techniques are used to determine fair value. The gains or losses from derivative contracts are included in the realized and unrealized gains or losses on investments.
- (vii) Absolute return strategy investments, comprised of hedge funds, are recorded at fair value based on net asset values obtained from each of the funds' administrators. These net asset values are reviewed by management.
- (viii) Commodities, comprised of pooled funds, are recorded at fair value based on the net asset values obtained from each of the funds' administrators. These net asset values are reviewed by management.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

3. Significant accounting policies (continued):

(e) Non-investment assets and liabilities:

The fair value of non-investment assets and liabilities are equal to their amortized cost value and are adjusted for foreign exchange where applicable.

On March 31, 2014, the Public Service Superannuation Fund subscribed to an investment in an absolute return strategy limited partnership for settlement on April 1, 2014. Subscription monies were due in advance of the value date. This amount is represented as a deposit on pending investment purchases on the Statement of Financial Position as at March 31, 2014.

(f) Receivable/payable from pending trades:

For securities transactions, the fair value of the receivable from pending trades and the payable from pending trades approximate their carrying amounts due to their short-term nature.

(g) Accrued pension benefit obligation:

The value of the accrued pension benefit obligation of the Plan is based on a going concern method actuarial valuation prepared by an independent firm of actuaries using the projected unit credit method as at December 31 and then extrapolated to March 31. The accrued pension benefit obligation and its extrapolation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Plan for the purpose of establishing the long term funding requirements of the Plan. The actuarial valuation and extrapolated accrued pension benefit obligation included in the consolidated financial statements is consistent with the valuation for funding purposes.

(h) Contributions:

Basic contributions from employers and members 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 and service is credited when the purchase amount is received.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

3. Significant accounting policies (continued):

(i) 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 the accrued pension benefit obligation.

(j) Administrative expenses:

Administrative expenses, incurred for plan administration and direct investment management services, are recorded on an accrual basis. Plan administration expenses represent expenses incurred to provide direct services to the plan members and employers. Investment management expenses represent expenses incurred to manage the Fund. Base external manager fees for portfolio management are expensed in investment management expenses as incurred.

(k) Actuarial value of net assets and actuarial value adjustment:

The actuarial value of net assets of the Plan is used in assessing the funding position of the Plan, including the determination of contribution rates. The actuarial value of net assets is determined by smoothing investment returns above or below the actuarial long-term rate of return assumption over a five-year period. The fair value of net assets is adjusted by the unrecognized actuarial value adjustment to arrive at the actuarial value of net assets.

(l) Income taxes:

The Fund is the funding vehicle for a registered pension plan, as defined by the Income Tax Act (Canada) and, accordingly is not subject to income taxes.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

3. Significant accounting policies (continued):

(m) Future changes in IFRS and new standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended March 31, 2014, and have not been applied in preparing these financial statements. Standards which may potentially have an effect on the financial statements of the Plan are as follows:

(a) Offsetting financial assets and financial liabilities:

In December 2011, the IASB issued amendments to IAS 21 Offsetting Financial Assets and Financial Liabilities ("IAS 32") and to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities ("IFRS 7"). The amendments clarify that an entity has a legally enforceable right to offset if that right is not contingent on a future event; and that right is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. These amendments also contain new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position or subject to master netting agreements or similar agreements. The disclosure amendments are effective for the fiscal year beginning January 1, 2015. The amendments may result in additional disclosures. The Plan does not expect this new standard to have a significant impact on their financial statements.

(b) Financial instruments:

In December 2011, the IASB issued IFRS 9 Financial Instruments ("IFRS 9"), which sets out requirements for the classification and measurement of financial assets and financial liabilities. This is the first phase of a three-phase project to replace the current standard for accounting for financial instruments. The new standard specifies that financial assets are to be measured at either amortized cost or fair value on the basis of the reporting entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial liabilities designated at fair value through profit or loss remain generally unchanged; however, fair value changes attributable to changes in the credit risk for financial liabilities designated at fair value through profit or loss are to be recorded in other comprehensive income unless they offset amounts recorded in income. In November 2013, the IASB issued an amendment to IFRS 9 which set out in a new general hedge accounting model. The other phase of this project, which is currently under development, addresses impairment. In July 2013, the IASB tentatively decided to defer the effective date of IFRS 9 to an unspecified date pending the finalization of the impairment and hedge accounting phases of the project. The Plan has not yet

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

determined the impact that the current IFRS 9 or the further changes will have on the Plan's financial statements.

- (c) Consolidated financial statements:
In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements ("IFRS 10"), which provides a single consolidation model that defines control and establishes control as the basis for consolidation for all types of interests. IFRS 10 is effective for the fiscal year beginning April 1, 2014. The Plan expects no significant impacts on their financial statements from the adoption of the new standard.
- (d) Disclosure of interests in other entities:
In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12"), which sets out the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. This new standard requires disclosure of the nature of, and risks associated with, an entity's interests in other entities and the effects of these interests on its financial position, financial performance and cash flows. The new standard is effective for the fiscal year beginning April 1, 2014, and will result in additional disclosures.
- (e) Fair value measurement:
In May 2011, the IASB issued IFRS 13 Fair Value Measurement ("IFRS 13"), which replaces the existing standard for fair value measurement. The new standard provides a common definition of fair value and establishes a framework for measuring fair value. The new standard also requires additional disclosures about fair value measurements. IFRS 13 is effective for the fiscal year beginning April 1, 2014. The adoption of the new standard will result in additional disclosures. The Plan does not expect this new standard to have a significant impact on how the Plan determines fair value.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

4. Investments and derivatives:

(a) The fair value of the Fund's investments and related income is summarized in the following table:

	As at March 31, 2014		As at March 31, 2013	
	Assets	%	Assets	%
Fixed income				
Money market	\$ 126,605	2.5	\$ 173,268	3.7
Canadian bonds and debentures	596,783	11.9	601,647	13.0
Non-Canadian bonds and debentures	682,791	13.6	629,570	13.5
Canadian real return bonds	266,613	5.3	285,529	6.1
Equities				
Canadian	520,251	10.4	489,083	10.5
US	595,620	11.9	588,568	12.6
Global	868,401	17.3	825,215	17.7
Real Assets				
Real estate	493,617	9.8	412,389	8.8
Infrastructure	197,533	3.9	149,875	3.2
Commodities	158,513	3.2	124,176	2.7
Absolute Return Strategies				
Hedge funds	512,977	10.2	370,726	7.8
Derivatives				
Swaps, futures, options	(263)	-	628	-
Currency forwards	2,537	0.1	15,723	0.3
	\$ 5,021,978	100.0	\$ 4,666,397	100.0

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

4. Investments and derivatives (continued):

As at March 31, 2014	Investment income	Changes in market value of investments and derivatives		
		Realized	Unrealized	Total
Fixed income	\$ 59,772	\$ 10,227	\$ (11,675)	\$ (1,448)
Equities	42,173	175,136	182,841	357,977
Real Assets	19,659	(3,252)	65,598	62,346
Absolute Return Strategies	-	12,624	56,531	69,155
Derivatives	2,635	(87,105)	(12,211)	(99,316)
Other	620	-	-	-
Total	\$ 124,859	\$ 107,630	\$ 281,084	\$ 388,714

As at March 31, 2013	Investment income	Changes in market value of investments and derivatives		
		Realized	Unrealized	Total
Fixed income	\$ 57,831	\$ 18,211	\$ 22,804	\$ 41,015
Equities	44,869	(2,774)	209,357	206,583
Real Assets	11,511	(3,601)	48,483	44,882
Absolute Return Strategies	-	3,414	32,276	35,690
Derivatives	1,561	(13,299)	13,317	18
Other	2,608	4	(2,295)	(2,291)
Total	\$ 118,380	\$ 1,955	\$ 323,942	\$ 325,897

b) Derivatives:

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 strategies. The Fund utilizes such contracts to enhance investment returns and for managing exposure to interest rate and foreign currency volatility.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

4. Investments and derivatives (continued):

Notional amounts of derivative contracts are the contract amounts used to calculate the cash flows to be exchanged. They represent the contractual amount to which a rate or price is applied for computing the cash to be paid or received. Notional amounts are the basis upon which the returns from, and the fair value of, the contracts are determined. They do not necessarily indicate the amounts of future cash flows involved or the current fair value of the derivative contracts. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure. The derivative contracts become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in either market rates or prices relative to their terms. The aggregate notional amounts and fair values of derivative contracts can fluctuate significantly.

Derivative contracts, transacted either on a regulated exchange market or in the over-the-counter ("OTC") market, directly between two counterparties include the following:

Interest rate swaps

Interest rate swaps involve contractual agreements between two counterparties to exchange fixed and floating interest payments based on notional amounts. They are used to adjust interest rate yield curve exposures and substitute for physical securities. Long swap positions increase exposure to long term interest rates and short positions decrease exposure. Long swap positions are backed with high grade, liquid debt securities.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

4. Investments and derivatives (continued):

Credit default swaps

Credit default swaps ("CDS") provide protection against the decline in value of the referenced asset as a result of specified events such as payment default or insolvency. The purchaser pays a premium to the seller of the CDS in return for payment related to the deterioration in the value of the referenced asset. The referenced asset for CDS is a debt instrument. They are used to manage credit exposure without buying or selling securities outright. Written CDS increase credit exposure (selling protection), obligating the Fund to buy bonds from counterparties in the event of a default. Purchased CDS decrease exposure (buying protection), providing the right to "put" bonds to the counterparty in the event of a default. Net long exposures are backed with high grade, liquid debt securities. Underlying credit exposures are continuously monitored.

Futures

Government futures are contractual obligations to either buy or sell at a fixed value (the contracted price) government fixed income financial instruments at a predetermined future date. They are used to adjust interest rate exposure and replicate government bond positions. Long future positions are backed with high grade, liquid debt securities.

Money market futures are contractual obligations to either buy or sell money market financial instruments at a predetermined future date at a specified price. They are used to manage exposures at the front end of the yield curve. Futures are based on short term interest rates and do not require delivery of an asset at expiration. Therefore they do not require cash backing.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

4. Investments and derivatives (continued):

Options

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), a security, exchange rate, interest rate, or other financial instrument or commodity at a predetermined price, at or by a specified future date. The seller (writer) of an option can also settle the contract by paying the cash settlement value of the purchaser's right. The seller (writer) receives a premium from the purchaser for this right. Purchased options are used to manage interest rate volatility exposures. Written options generate income in expected interest rate scenarios and may generate capital losses if unexpected interest rate environments are realized. Both written and purchased options will become worthless at expiration if the underlying instrument does not reach the strike price of the option. In the money portion of written options are covered by high grade, liquid debt securities.

Currency forwards

Currency forwards are contractual obligations to exchange one currency for another at a specified price or settlement at a predetermined future date. Forward contracts are used to manage the currency exposure of investments held in foreign currencies. The notional amount of a currency forward represents the contracted amount purchased or sold for settlement at a future date. The fair value is determined by the difference between the market value and the notional value upon settlement.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

4. Investments and derivatives (continued):

The fair value of derivatives, based upon their contractual maturity, as at March 31, 2014 and 2013 are as follows:

	Under 1 year	1 to 5 years	Over 5 years	Total at March 31, 2014	Total at March 31, 2013
Interest rate swaps	-	-	-	-	428
Credit default swaps	12	(885)	611	(262)	287
Futures	141	-	-	141	80
Options	(78)	-	-	(78)	(167)
	75	(885)	611	(199)	628
Currency forwards	2,537	-	-	2,537	15,723
	\$ 2,612	\$ (885)	\$ 611	\$ 2,338	\$ 16,351

Cash is deposited or pledged with various financial institutions as collateral or margin in the event that the Fund was to default on payment obligations on its derivative contracts. On the statement of financial position collateral is represented as part of the net cash balance of the Plan.

The fair value of cash held at other financial institutions as collateral or margin as at March 31, 2014 and 2013 is as follows:

	2014	2013
Collateral and margin	\$ 1,732	\$ 64

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments:

(a) Fair value:

The fair values of investments and derivatives are as described in note 3(d). The fair values of other financial assets and liabilities, being cash, contributions receivable, receivable from pending trades, HST receivable, due from administrator, accrued investment income, pension benefits payable, payable from pending trades and accounts payable and accrued liabilities approximate their carrying values due to the short term nature of these financial instruments.

Fair value measurements recognized in the statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

Level 1: Fair value is based on inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date. Level 1 primarily includes publicly listed investments.

Level 2: Fair value is based on valuation methods that make use of inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market.

Level 3: Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level 3 primarily includes real estate, infrastructure, and private equity investments valued based on discounted future cash flow models which reflect assumptions that a market participant would use when valuing such an asset or liability.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

The following table illustrates the classification of the Fund's financial instruments using the fair value hierarchy as at March 31:

As at March 31, 2014	Level 1	Level 2	Level 3	Total
Fixed income				
Money market	\$ 3,972	\$ 99,903	\$ 22,730	\$ 126,605
Canadian bonds and debentures	301,899	294,884	-	596,783
Non-Canadian bonds and debentures	18,428	648,408	15,955	682,791
Canadian real return bonds	-	191,803	74,810	266,613
Equities				
Canadian	368,470	151,781	-	520,251
US	320,084	222,349	53,187	595,620
Global	574,260	294,141	-	868,401
Real Assets				
Real estate	-	168,255	325,362	493,617
Infrastructure	-	-	197,533	197,533
Commodities	-	158,513	-	158,513
Absolute Return Strategies				
Hedge funds	-	512,977	-	512,977
Derivatives				
Swaps, futures, options	63	(326)	-	(263)
Currency forwards	-	2,537	-	2,537
	\$ 1,587,176	\$ 2,745,225	\$ 689,577	\$ 5,021,978

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

As at March 31, 2013	Level 1	Level 2	Level 3	Total
Fixed income				
Money market	\$ 22,471	\$ 133,038	\$ 17,759	\$ 173,268
Canadian bonds and debentures	324,743	276,904	-	601,647
Non-Canadian bonds and debentures	56,902	572,668	-	629,570
Canadian real return bonds	-	203,991	81,538	285,529
Equities				
Canadian	342,330	146,753	-	489,083
US	314,986	232,895	40,687	588,568
Global	535,363	289,852	-	825,215
Real Assets				
Real estate	-	155,583	256,806	412,389
Infrastructure	-	-	149,875	149,875
Commodities	-	124,176	-	124,176
Absolute Return Strategies				
Hedge funds	-	370,726	-	370,726
Derivatives				
Swaps, futures, options	-	628	-	628
Currency forwards	-	15,723	-	15,723
	\$ 1,596,795	\$ 2,522,937	\$ 546,665	\$ 4,666,397

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

There were no significant transfers between level 1 and level 2 financial instruments during the year ended March 31, 2014.

The following table shows the changes in the fair value measurement in Level 3 of the fair value hierarchy:

Year ended March 31, 2014	Fixed income	Equity	Real assets	Total
Level 3 investments, April 1, 2013	\$ 99,297	\$ 40,687	\$ 406,681	\$ 546,665
Purchases	38,685	-	74,830	113,515
Sales	(18,466)	-	(1,993)	(20,459)
Realized gains (losses)	-	-	38	38
Unrealized gains (losses)	(6,021)	12,500	43,339	49,818
Level 3 investments, end of year	\$ 113,495	\$ 53,187	\$ 522,857	\$ 689,577

Year ended March 31, 2013	Fixed income	Equity	Real assets	Total
Level 3 investments, April 1, 2012	\$ 97,135	\$ 42,979	\$ 259,122	\$ 399,236
Purchases	17,759	-	122,413	140,172
Sales	(16,641)	(2,006)	(3,774)	(22,421)
Realized gains (losses)	151	(2,904)	-	(2,753)
Unrealized gains (losses)	893	2,618	28,920	32,431
Level 3 investments, end of year	\$ 99,297	\$ 40,687	\$ 406,681	\$ 546,665

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

The total income from level 3 financial instruments for the years ended March 31, 2014 and 2013, respectively, was \$49,856 and \$29,678.

(b) 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 interest rate volatility, market price fluctuations, credit risk, foreign currency risk and liquidity risk. The Fund has set formal goals, policies, and operating procedures that establish an asset mix among equity, fixed income, real assets, absolute return strategy investments and derivatives that requires diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. Risk and credit committees have been created to regularly monitor the risks and exposures of the Fund. Trustee oversight, procedures and compliance functions are incorporated into Fund processes to achieve consistent controls and to mitigate operational risk.

(i) Interest rate risk

Interest rate risk refers to the fact that the Fund's financial position will change with market interest rate changes, as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund's assets and cash flows related to the Plan's liabilities. To properly manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for the bonds and other fixed income investments are set and monitored.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

The following table summarizes the contractual maturities of all financial assets at March 31, by the earlier of contractual repricing or maturity dates:

March 31, 2014	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average yield (%) (1)
Money market	\$ 126,605	\$ -	\$ -	\$ -	\$ 126,605	-
Bonds and debentures	17,182	442,278	448,516	371,598	1,279,574	4.6
Real return bonds (2)	-	-	-	74,810	74,810	5.3
Total	\$ 143,787	\$ 442,278	\$ 448,516	\$ 446,408	\$ 1,480,989	4.2

March 31, 2013	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average yield (%) (1)
Money market	\$ 165,039	\$ -	\$ -	\$ -	\$ 165,039	-
Bonds and debentures	41,805	434,284	433,856	329,501	1,239,446	3.7
Real return bonds (2)	-	-	-	81,538	81,538	0.3
Total	\$ 206,844	\$ 434,284	\$ 433,856	\$ 411,039	\$ 1,486,023	4.0

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

The fixed income maturity schedule is exclusive of Canadian pooled real return bond funds (March 31, 2014 - \$191,803; March 31, 2013 - \$203,991).

- (1) The average effective yield reflects the estimated annual income of a security as a percentage of its year-end fair value.
- (2) Real return bond yields are based on real interest rates. The ultimate yield will be impacted by inflation as it occurs.

The fair value of the Fund is affected by short-term changes in nominal interest rates. Pension liabilities are exposed to the long-term expectation of rate of return of the Fund as well as expectations of inflation and salary escalation.

Interest rate sensitivity:

The Fund's investments in fixed income and derivatives are sensitive to interest rate movements. The following table represents the Fund's assets subject to interest rate changes, average duration due to a one percent increase (decrease) in interest rates and the change in fair value of those assets:

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

	March 31, 2014	March 31, 2013
Interest rate sensitive assets	\$ 1,471,133	\$ 1,486,570
Average duration for 1% increase in interest rates	(6.2)	(6.1)
Sensitivity to 1% increase in interest rates	\$ (90,740)	\$ (90,127)
Fair value after 1% increase in rates	\$ 1,380,393	\$ 1,396,443
Average duration for 1% decrease in interest rates	6.1	6.6
Sensitivity to 1% decrease in interest rates	\$ 90,740	\$ 98,172
Fair value after 1% decrease in rates	\$ 1,561,873	\$ 1,584,742

(ii) Market price risk

Market price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Market price risk does not include interest rate risk and foreign currency risk which are also discussed in this note. As all of the Fund's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in financial position, all changes in market conditions will directly result in an increase (decrease) in net assets. Market price risk is managed by the Fund through the construction of a diversified portfolio of instruments traded on various markets and across various industries.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

Market sensitivity:

The Fund's investments in equities are sensitive to market fluctuations. The following table represents the change in fair value of the Fund's investment in public and private equities due to a ten percent increase (decrease) in fair market values as at March 31, 2014:

	March 31, 2014	March 31, 2013
Total equity	\$ 1,984,272	\$ 1,902,866
10% increase in market values	\$ 198,427	\$ 190,287
Fair value after 10% increase	\$ 2,182,699	\$ 2,093,153
10% decrease in market values	\$ (198,427)	\$ (190,287)
Fair value after 10% decrease	\$ 1,785,845	\$ 1,712,579

(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. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for traded financial instrument is not backed by an exchange clearing house. Credit risk associated with the Fund is regularly monitored and analyzed through risk and credit committees.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

Fixed income:

The Fund's Fixed Income Program includes two main sectors: the Government Sector and the Corporate Sector. One benefit to managing these two pieces separately is to provide the opportunity to access physical government bonds when required. When markets are at their utmost distress these may be the only securities available for liquidation. Managing the Corporate Sector and the Government Sector separately allows for the adjustment of credit risk within the Fixed Income Program by changing the allocation between these two sectors-increasing the Government Sector through periods of market duress and increasing the Corporate Sector through periods of stability. This approach also allows the active management of the Corporate Sector and taking active decisions where returns can be maximized. In order to minimize the exposure to credit risk, a comprehensive investment policy has been developed. There were no significant concentrations of credit risk in the portfolio in 2014.

The Fund is exposed to credit risk from the following interest earning investments:

	March 31, 2014	March 31, 2013
Canadian		
Governments	\$ 674,992	\$ 639,742
Corporate	120,635	207,660
Non-Canadian		
Governments	19,697	57,723
Corporate	668,665	580,898
	\$ 1,483,989	\$ 1,486,023

The credit risk schedule is exclusive of Canadian pooled real return bond funds (March 31, 2014 - \$191,803; March 31, 2013 - \$203,991).

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

Derivatives:

The Fund is exposed to credit-related losses in the event counterparties fail to meet their payment obligations upon maturity of derivative contracts. The Fund limits derivative contract risk by dealing with counterparties that have a minimum "A" credit rating. In order to mitigate this risk, the Fund:

- i) Deals only with highly rated counterparties, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with a minimum credit standard of "A" rating, as supported by a recognized credit rating agency; and
- ii) 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 contracts is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Securities lending:

The Fund engages in securities lending to enhance portfolio returns (see note 12). Through a securities lending program at the Fund's custodian, the Fund lends securities for a fee to approved borrowers. Credit risk associated with securities lending is mitigated by requiring the borrowers to provide high quality collateral. In the event that a borrower defaults completely or in part, the custodian will replace the security at its expense. Regular reporting of the securities lending program ensures that its various components are continuously being monitored.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

(iv) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund primarily invests in financial instruments and enters into transactions denominated in various foreign currencies, other than its measurement currency. Consequently, the plan is exposed to risk that the exchange rates of the various currencies may change in a manner that has an adverse effect on the value of the portion of the Fund's assets or liabilities denominated in currencies other than the Canadian dollar. Foreign currency risk is hedged by using foreign exchange forward contracts. A policy of hedging up to 100% of the currency exposure helps to mitigate this risk.

The Fund's currency policy allows for the management of risk through hedging strategies that are implemented through the purchase of forward currency contracts. The forward currency contracts offset the Fund's foreign currency exposure, hence reducing the Fund's foreign currency risk.

The Fund's unhedged and hedged currency exposure including Fund non-investment assets and liabilities as at March 31, 2014 is summarized in the following table:

	March 31, 2014 Unhedged	March 31, 2014 Hedged
Canadian dollar	\$ 2,316,830	\$ 3,736,792
United States dollar	2,160,097	1,124,376
Euro	214,856	62,167
British pound sterling	151,711	36,342
Japanese yen	69,482	35,997
Other	180,464	100,301
	\$ 5,093,440	\$ 5,095,975

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

Currency	March 31, 2013 Unhedged	March 31, 2013 Hedged
Canada dollar	\$ 2,285,069	\$ 3,411,123
United States dollar	1,854,468	1,052,667
Euro	164,514	69,170
British pound sterling	128,820	50,563
Japanese yen	86,528	43,238
Other	174,292	82,653
	<u>\$ 4,693,691</u>	<u>\$ 4,709,414</u>

After the effect of hedging, and without change in all other variables, a ten percent increase (decrease) in the Canadian dollar against all other currencies would (decrease) increase the fair value of the Fund, respectively.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

5. Financial instruments (continued):

The table below represents these changes in the Fund including non-investment assets and liabilities as at March 31:

	2014	2013
Investment fund assets	\$ 5,095,976	\$ 4,709,414
10% increase in Canadian dollar	(123,562)	(118,026)
Investment assets after increase	\$ 4,972,414	\$ 4,591,388
10% decrease in Canadian dollar	151,020	144,255
Investment assets after decrease	\$ 5,246,996	\$ 4,853,669

(v) Liquidity risk:

Liquidity risk is the risk that the Fund does not have sufficient cash to meet its current payment liabilities and acquire investments in a timely and cost effective manner. Liquidity risk is inherent in the Fund's operations and can be impacted by a range of situation specific and market wide events including, but not limited to, credit events and significant movements in the market. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund and planned dispositions of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Fund. The Fund's cash management policy ensures that the quality and liquidity of the investment vehicles within the cash portfolios are consistent with the needs of the Fund.

Approximately 57% of the Fund's investments are in liquid securities traded in public markets, consisting of fixed income and equities. Pooled funds consisting of exchange traded equities are approximately 16% of the Fund's investments and are liquid within 30 days or less. Although market events could lead to some investments becoming illiquid, the diversity of the Fund's portfolios should ensure that liquidity is available for benefit payments. The Fund also maintains cash on hand for liquidity purposes and for payment of Plan liabilities. At March 31, 2014, the Fund had cash in the amount of \$42,331; March 31, 2013 - \$35,508).

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

6. Present value of expected instalment payments:

The present value of expected instalment payments of \$404 (March 31, 2013 - \$470) represents the present value of outstanding employee and employer contributions as at March 31, 2014 that are due as a result of service buy-backs that are being paid for through payroll deductions. The liabilities associated with this service are already recognized in the accrued pension benefit obligation.

7. Accrued pension obligation:

The actuarial present value of the accrued pension obligation is an estimate of the value of pension obligations of the Plan in respect of benefits accrued to date for all active and inactive members including pensioners and survivors. As the experience of the Plan unfolds, and as underlying conditions change over time, the actual value of accrued benefits payable in the future could be materially different than the actuarial present value.

Actuarial valuations of the Plan are conducted annually, and provide an estimate of the accrued pension obligation (Plan liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Plan's consulting actuaries, Mercer, performed a valuation as at December 31, 2013 and issued their report in June 2014. The report indicated that the Plan had an unfunded liability of \$95,106 (December 31, 2012 – unfunded liability of \$181,322).

The actuarial valuation calculates 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 or on the pension in pay, for retired members and survivors. The projected unit credit method was adopted for the actuarial valuation to determine the current service cost and actuarial liability. Under this method, the cost of providing benefits to an individual member will increase as the individual member ages and gets closer to retirement.

The assumed increases in the real rate of pensionable earnings (i.e. increase in excess of the assumed inflation rate) are dependent on the attained age of the members. These rates are based on recent experience of the Plan and current expectations for future years.

Demographic assumptions are used to estimate when future benefits are payable to members and beneficiaries, including assumptions about mortality rates, termination rates, and patterns of early retirement. Each of these assumptions is updated periodically, based on a detailed review of the experience of the Plan and on the expectations for future trends.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

7. Accrued pension obligation (continued):

The major economic and demographic assumptions used in the 2013 valuation remained unchanged from those used in the 2012 valuation, with the exception of the mortality improvement projection scale, which changed from 100% of scale AA to 150% of scale AA.

	Valuation December 31, 2013	Valuation December 31, 2012
Inflation	2.25% per annum	2.25% per annum
Salary increase	2.25% per annum plus merit ranging from 0.0% to 2.5%	2.25% per annum plus merit ranging from 0.0% to 2.5%
Total rate of return on assets (i.e. discount rate)	6.50% per annum	6.50% per annum
Average retirement age	35% - earliest age for unreduced pension, but not before age 54 (age 55 for a member first hired on or after April 6, 2010);	35% - earliest age for unreduced pension, but not before age 54 (age 55 for a member first hired on or after April 6, 2010);
	65% - earlier of age 60 and 35 years of service	65% - earlier of age 60 and 35 years of service
Mortality	UP-94 projected to 2014 with generational mortality improvements using 150% of scale AA	UP-94 projected with generational mortality improvements using 100% of scale AA

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

7. Accrued pension obligation (continued):

Valuations prior to 2010 reported assets on a market value basis. Commencing with the December 31, 2010 valuation, assets are reported on a smoothed value basis. The actuarial value of net assets of the Fund is established such that investment returns above or below the long-term rate of return assumption in effect for the year (December 31, 2012 and thereafter - 6.50%; December 31, 2011 – 6.60%) is recognized over five years to smooth fluctuations in the market value of net assets.

As at March 31, 2014, the actuarial adjustment was \$280,932 (March 31, 2013 - \$177,513) which reflected the fact that there was a net gain on investments relative to assumptions that had not yet been recognized.

The accrued pension obligation as at March 31 is determined by an extrapolation performed by the Plan's actuary of the Plan's liabilities from December 31 of the immediately preceding calendar year, as reflected in the actuarial valuation. The following table reflects the extrapolated funding surplus (deficit) as at March 31, 2014 and as at March 31, 2013.

	2014 Extrapolated	2013 Extrapolated
Actuarial value of assets	\$ 4,823,167	\$ 4,532,093
Accrued pension obligation	4,890,120	4,686,652
Funding deficit	\$ (66,953)	\$ (154,559)

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

7. Accrued pension obligation (continued):

As at March 31, 2014 and March 31, 2013, the surplus of the Fund's actuarial value of net assets available for benefits over accrued pension obligation is as follows:

	2014 Extrapolated	2013 Extrapolated
Net assets available for benefits	\$ 5,103,694	\$ 4,709,136
Present value of expected instalment payments	404	470
Fair value of net assets available for benefits	5,104,098	4,709,606
Actuarial value adjustment	(280,931)	(177,513)
Actuarial value of net assets available for benefits	4,823,167	4,532,093
Accrued pension obligation	4,890,120	4,686,652
Funding deficit of actuarial value of net assets available for benefits over accrued benefit obligation	(66,953)	(154,559)
Reversal of actuarial value adjustment	280,931	177,513
Surplus of net assets available for benefits over accrued pension benefit obligation	\$ 213,978	\$ 22,954

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

8. Commitments:

The Fund has committed capital to investment in infrastructure over a definitive period of time. The future commitments are generally payable on demand based on the capital needs of the related investment. The table below indicates the capital amount committed and outstanding as at March 31, 2014.

	Committed	Outstanding
Canadian infrastructure	\$ 30,000 CAD	\$ 4,073 CAD
Non-Canadian infrastructure	\$ 225,000 USD	\$ 107,037 USD
Non-Canadian real estate	\$ 25,000 USD	\$ 13,573 USD

9. Contributions:

	2014	2013
Employer:		
Matched current service	\$ 87,339	\$ 83,565
Matched past service	922	1,190
	88,261	84,755
Employee:		
Matched current service	87,296	83,613
Unmatched current service	519	564
Matched past service	984	1,190
Unmatched past service	1,737	2,624
	90,536	87,991
	\$ 178,797	\$ 172,746

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

10. Benefits:

	2014	2013
Benefits paid to retired members	\$ 235,302	\$ 222,575
Benefits paid to survivors	33,975	32,799
Refunds paid to terminated members	9,927	10,847
	\$ 279,204	\$ 266,221

11. Administrative expenses:

The Plan is charged by its service providers for administrative and professional services, including its administrator, Nova Scotia Pension Services Corporation (2013 - Nova Scotia Pension Agency) a related party, for plan administration and investment services. The following is a summary of these administrative expenses:

	2014	2013
Plan administration:		
Office and administration services	\$ 3,094	\$ 3,214
Legal services	72	230
Actuarial services	37	51
Audit fees	36	38
Other professional services	23	-
	3,262	3,533
Investment expenses:		
Investment management fees	12,166	11,129
Transaction costs	1,015	843
Custody services	515	572
Advisory services	247	264
Information services	187	81
	14,130	12,889
HST	1,626	-
	\$ 19,018	\$ 16,422

Prior to April 1, 2013, the Province of Nova Scotia paid all Plan expenses and recovered the costs from the Plan. HST was not charged to the Plan. Effective April 1, 2013, the Plan became subject to HST after its administrator, Nova Scotia Pension Agency devolved from the Province of Nova Scotia and became Nova Scotia Pension Services Corporation (note 13).

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

11. Administrative expenses (continued):

Investment management and performance fees included in the unrealized gains / (losses) on investment vehicles consisting of pooled funds, limited partnerships and holding companies are estimated at \$20,502 (2013 - \$18,792). These fees are not direct expenses of the Plan and therefore are not included in administrative expenses.

12. Securities lending:

The Fund participates in a securities lending program where it lends securities that it owns to third parties for a fee. For securities lent, the Fund receives a fee and the borrower provides readily marketable securities of higher value as collateral which mitigates the credit risk associated with the program. When the Fund lends securities, the risk of failure by the borrower to return the loaned securities is alleviated by such loans being continually collateralized. The securities lending agent also provides indemnification if there is a shortfall between collateral and the lent security that cannot be recovered. The securities lending contracts are collateralized by securities issued by, or guaranteed without any limitation or qualification by, the government of Canada or the governments of other countries.

The following table represents the estimated fair value of securities that were loaned out and the related collateral:

	March 31, 2014		March 31, 2013	
Securities on loan	\$	483,691	\$	467,538
Collateral held	\$	518,779	\$	497,034

13. Related party transactions:

Investments held in the Fund include debentures of the Province of Nova Scotia and a promissory note issued by PSS Investments I Inc., a wholly-owned subsidiary. The total fair value of these investments is \$12,374 (0.2% of total assets) as at March 31, 2014 (2013 - \$12,950 (0.2% of total assets)).

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

13. Related party transactions (continued):

The fair values of these investments are shown in the table below:

	2014	2013
Province of Nova Scotia:		
Bonds and debentures	\$ 5,759	\$ 6,558
Promissory note	6,984	-
Total fair value	12,743	6,558
% of total assets	0.3	0.1
PSS Investments I Inc. promissory note:		
Fair value	6,615	6,392
% of total assets	0.1	0.1
Total fair value	\$ 19,358	\$ 12,950
% of total assets	0.4	0.2

The Province of Nova Scotia is a related party via contributing employers. The total fair value of Province of Nova Scotia bonds, debentures and money market is \$12,743 (0.3% of total assets) as at March 31, 2014 (2013 - \$6,558 (0.1% of total assets)).

Effective January 26, 2011, PSS Investments I Inc., a wholly owned subsidiary of Public Service Superannuation Plan, entered into a promissory note as bridge financing for the acquisition of an investment property in the amount of \$5,750 payable on demand to its shareholder, Public Service Superannuation Plan. Interest is calculated monthly at a rate of 5.13% per annum, with interest of \$295 (2013 - \$295) accrued to March 31, 2014. The promissory note will be paid in full at the time subsequent mortgage financing is obtained.

On April 1, 2013, the Plan's administrator Nova Scotia Pension Agency, devolved from the Province of Nova Scotia and became Nova Scotia Pension Services Corporation, an entity co-owned by Public Service Superannuation Plan Trustee Incorporated and Teachers' Pension Plan Trustee Inc. for the purpose of providing pension plan administration and investment services. Nova Scotia Pension Services Corporation charges the Plan at cost, an amount equal to the expenses incurred in order to service the Plan. The administration expense charged to the Plan from April 1, 2013 to March 31, 2014 was \$3,414.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

13. Related party transactions (continued):

As Nova Scotia Pension Services Corporation operates on a cost recovery basis, the Plan advances cash as required to pay upcoming expenses. As at March 31, 2014 the cash advance outstanding due to the Plan was \$306.

In 2013, Nova Scotia Pension Services Corporation initiated a technology project funded via loans from Teachers' Pension Plan and Public Service Superannuation Plan. The costs associated with the construction, development and betterment of technology assets were capitalized and will be depreciated upon completion of the project. As the assets are depreciated an amount equal to the depreciation will be charged back to Public Service Superannuation Plan and Teachers' Pension Plan offsetting the loans from the related entities. As at March 31, 2014, the loan outstanding due to the Plan was \$1,383 (2013 - \$149).

14. Capital management:

The main objective of the Fund is to sustain a certain level of net assets in order to meet the pension obligations of the Plan. The PSSPTI (note 1) manages the contributions and benefits as required by the Public Service Superannuation Act and its related Regulations. The PSSPTI approves and incurs expenses to administer the Plan in accordance with the Act.

Under the direction of the PSSPTI, the Fund provides for the short term financial needs of current benefit payments while investing members' contributions for the longer term security of pensioner payments. The PSSPTI exercises duly diligent practices and has established written investment policies and procedures, and approval processes. Operating budgets, audited financial statements, yearly actuarial valuations and reports, and as required, the retention of supplementary professional, technical and other advisors, are part of the PSSPTI Fund governance structure.

The Fund fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Goals ("SIP&G"), which is reviewed annually. The Fund manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the SIP&G. Increases in net assets are a direct result of investment income generated by investments held by the Fund and contributions into the Fund by eligible employees and participating employers. The main use of net assets is for benefit payments to eligible Plan members.

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements (continued)
(in thousands of dollars)

Year ended March 31, 2014

15. Comparative figures:

Certain 2013 comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.