

Nova Scotia
Public Service Superannuation Plan

Annual Report

2016-2017



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Italicized terms, with the exception of statutes, that appear in the Report to Members and Investment Management sections are defined in the Glossary.



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About the Public Service Superannuation Plan

The Nova Scotia Public Service Superannuation Plan (Plan or PSSP) is one of the largest public sector pension plans in the Province. The Plan is a registered target benefit pension plan that offers you a lifetime pension benefit when you retire. Your pension benefit is funded by contributions made by you and your employer, as well as by investment income generated by the Plan's investment assets. This Annual Report details the Plan's investment performance and financial health as at March 31, 2017.



2016-2017 PSSP Annual Report highlights

(as at March 31, 2017)

The Plan's Funded Ratio

The Plan was 104.1 per cent funded on a market value basis*.



* Market Value:

- Values the Plan's assets at fair-market value
- Reflects actual value of assets in the pension fund

The Plan's Investment Return

The Plan had a positive *return on investments* of 10.84%. This is above the *benchmark* of 9.62%. The investment return is reported *gross of investment management fees*.

The Plan **10.84%**

benchmark **9.62%**

Net Assets Available for Benefits

Net assets available for benefits were \$6.0 billion. This is an increase of \$485 million from the previous year.

\$6.0 billion

Plan member and employer contributions paid to the Plan:

\$185 million



Benefits paid out to retirees and survivors:

\$325 million



Plan Membership

The Plan had a total of 34,884 Plan members. The number of retirees grew by 582* to 15,751. The number of active Plan members also increased by 684 to 17,028.



* This figure reflects the net increase in retirees year over year. It factors in deaths, and also includes all persons receiving a pension (e.g. surviving spouses/ex-spouses, children, and dependants).

** Inactive members are Plan members who have terminated employment, but have not yet retired or removed their funds from the Plan.

1.08

The Plan has 1.08 active members for every 1 retiree. The higher the ratio of active members to retirees, the healthier a pension plan is.

5,000

There are approximately 5,000 Plan members eligible to retire from the Plan with either a reduced or unreduced pension.

Membership Facts:

47.9

Average age of an active member

69.9

Average age of a retired member

712

New retirees.
This figure reflects only the number of members who retired in 2016.

\$20,383

Average annual lifetime pension (retired member)

13

Pensioners over 100 years of age

Annual Pensions in Pay

Value of Annual Pension (\$)

	<\$15K	\$15-\$30K	\$30-\$45K	\$45-\$60K	\$60K+
Retired Members <65	709	1,442	1,327	483	188
Retired Members >65	4,090	2,858	1,044	392	196
Survivors	2,162	695	115	40	10

1. The "annual pension in pay" is the amount paid from the PSSP only.
2. The category "survivors" includes surviving spouses/ex-spouses, children, and dependants.
3. The figures provided are estimates, based on currently-available data.

Message from the Trustee Chair

Ronald Smith, FCPA, FCA, ICD.D



On behalf of the Public Service Superannuation Plan Trustee Inc., I am pleased to present the annual report of the Public Service Superannuation Plan for the fiscal year ended March 31, 2017. This report provides you with details on the financial health of the Plan and a comprehensive review of its investment activities.

In 2016-2017, the Plan achieved a positive rate of return on investments of 10.84 per cent (gross of investment management expenses), generating \$594 million in total investment income. The total net assets for the Plan reached \$6.0 billion and, as of March 31, 2017, the Plan was 104.1 per cent funded.

This past year, we initiated our first comprehensive review of the *Public Service Superannuation Act (PSSA)* and its Regulations. The *PSSA Review* was conducted by an Independent Reviewer and included a thorough review of the Plan's benefit design, funding policy, and governance structure. The Trustee received the Independent Reviewer's Report and we are currently studying its recommendations.

During the *PSSA Review* process, we encouraged Plan members and stakeholders to be engaged in the process and voice any concerns they have about the Plan. We appreciate all of the significant feedback we received. The Independent Reviewer reviewed and considered all suggestions and comments.

In 2016-2017, the Trustee held 23 board and committee meetings. During these meetings we focused on a number of important initiatives, including membership growth, member engagement, and strategic planning.

Our focus on membership growth is intended to improve the Plan's aging demographic profile. As a result of this initiative, which began in 2015, the PSSP has welcomed almost 650 new active members and about 350 new retirees to date. These new members include employees from Acadia University, Université Sainte-Anne, and University of King's College. Our guiding principle for membership growth is that it must enhance the long-term sustainability of the Plan and be cost neutral to the Plan and its existing members. In 2016-2017, we continued discussions with several public sector employers to join and grow the Plan's membership.

In 2017-2018, we will continue to explore ways to enhance Plan member engagement, by focusing on pension plan education and retirement planning. We also will continue to work on our strategic plan and initiatives that focus on achieving retirement security for today's Plan members and generations yet to come.

The Trustee would like to thank the Pension Services Corporation team for their continued dedication to providing high-quality Plan member services, investment administration, and board support.

Plan Governance



The PSSP is governed by the *Public Service Superannuation Act*. The Plan transitioned to a joint governance structure on April 1, 2013. The section below explains the PSSP's governance structure and the respective roles and responsibilities of the key entities

Public Service Superannuation Plan Trustee Inc.



- is the Trustee of the PSSP and the Public Service Superannuation Fund
- has the fiduciary responsibility for the Plan and owns the investment *assets*
- is responsible for the Plan's overall operations and investment decisions
- sets policy framework and strategic direction for the investment *assets*
- is run by a 13-person board of directors (Board) that includes 6 representatives of employees including 3 members from NSGEU, 1 from NSGREU, 1 from CUPE, and 1 non-union employee member, as well as 6 representatives from the NS government and other employers, plus an independent chair

PSSPTI oversees all aspects of the Plan through the four following committees:

Audit, Actuarial, and Risk

Oversees the Plan's auditors and actuaries. Conducts a detailed review of the audited financial statements and actuarial valuation reports. Reviews quarterly compliance reports.

Governance, Communications, and Member Services

Ensures PSSPTI's duties and responsibilities are clear and sets the goals for the administrator of the Plan.

Investment

Monitors investment performance. Reviews and approves all investment management policies.

Plan Regulations

Supports PSSPTI in identifying, proposing and finalizing amendments to the PSSP Regulations.

The Board of Directors of Nova Scotia Pension Services Corporation (Pension Services Corp.)



- oversees the operation of Pension Services Corp., the administrator of the Plan
- sets strategic direction, approves operational budget, and makes key decisions
- is comprised of joint representation from PSSPTI and Teachers' Pension Plan Trustee Inc. (TPPTI)
- is an 8-person board, with alternating co-chairs, composed of 4 representatives from the PSSPTI and 4 representatives from the TPPTI

Pension Services Corp.

- manages day-to-day operation of Plan investments and benefit administration
- provides Plan member, retiree, and employer services
- for more information on these services, see page 8



Board of Directors (as at March 31, 2017)

Public Service Superannuation Plan Trustee Inc.

Public Service Superannuation Plan Trustee Inc. is comprised of an independent Chair and 12 directors, who represent the NSGEU, NSGREa, CUPE Local 1867, non-union employees, the Nova Scotia Government, and other employers.

The PSSPTI held 6 regular board meetings in 2016-2017. Directors also attended committee meetings and various educational training sessions throughout the year.



Ronald Smith, FCPA, FCA, ICD.D

PSSPTI Chair

The Chair is an Ex-Officio member on all committees.

Meeting Attendance: 6 of 6



Nancy MacLellan

Associate Deputy Minister,
Community Services
PSSPTI Vice-Chair

Committee: Governance, Chair
Non-Bargaining Unit Representative

Meeting Attendance: 5 of 6



Leo McKenna

Chief Financial Officer
Workers' Compensation Board
Committee: Investment, Chair
Employer Representative

Meeting Attendance: 6 of 6



Paul Hagen

Coord., SAP Business Support
Centre, Dept. of Education
Committee: Audit, Actuarial,
and Risk, Chair
NSGEU Representative

Meeting Attendance: 5 of 6



Cynthia Yazbek

Executive Director, Labour
and Advanced Education
Committee: Plan Regulations, Chair
Governance

Employer Representative

Meeting Attendance: 6 of 6



Mike Maclsaac

NS Highway Workers/CUPE
Local 1867

Committee: Audit, Actuarial, & Risk
CUPE Representative

Meeting Attendance: 5 of 6



Keiren Tompkins

Retired, Former Executive
Director of the NSGEU

Committee: Governance
NSGEU Representative

Meeting Attendance: 6 of 6



Cathy Rankin

Director, Benefits,
Public Service Commission

Committee: Governance
Employer Representative

Meeting Attendance: 6 of 6



Dave Peters

Retired
Committee: Investment
NSGREa Representative

Meeting Attendance: 6 of 6



Geoff Gatien *

Associate Deputy Minister
and Controller, Dept. of
Finance and Treasury Board

Committee: Audit, Actuarial, & Risk
Employer Representative

Meeting Attendance: 4 of 6



Chris Daly

Executive Director
Internal Services

Committee: Audit, Actuarial, & Risk
Employer Representative

Meeting Attendance: 6 of 6



Ian Johnson

Retired, Policy Analyst
NSGEU

Committee: Investment
Plan Regulations
NSGEU Representative

Meeting Attendance: 6 of 6



Doug Moodie **

Senior Solicitor
Department of Justice
PSSPTI Vice-Chair

Committee: Investment
Plan Regulations

Employer Representative

Meeting Attendance: 3 of 6



For more information, visit:
www.nspssp.ca

* G. Gatien joined the Board of Directors in September 2016.

** D. Moodie served as Interim CEO of Pension Services Corp. from October 2016 to May 2017, when he was named as the new permanent CEO of Pension Services Corp. and resigned from the Board.

Trustee Initiatives

Growing the PSSP membership

The Public Service Superannuation Plan Trustee Inc.'s (PSSPTI or Trustee) Membership Growth Initiative (Growth Initiative) was developed in 2015 as a result of the Plan's aging demographic profile. A low ratio of working-to-retired members creates a greater impact on active Plan members to cover any shortfalls or investment losses.

The Trustee understands that the Plan's demographic profile is a strategic and long-term financial risk. In 2015, it began discussions with several public sector employers about joining the Plan's membership. It also worked with government officials to implement the *University Pension Plan Transfer Act* and the *Municipal and Other Authorities Pension Plan Transfer Act*.

As a result of the Growth Initiative, the PSSP has welcomed a total of 637 new active members and 358 retirees to date. These new members include employees from Acadia University, Université Sainte-Anne, and University of King's College.

The Trustee's guiding principle in assessing potential new participating employers is that each transfer into the PSSP must be beneficial to the long-term sustainability of the Plan and cost neutral to its existing members.

PSSPTI is continuing to pursue growth opportunities and is in discussions with several other public-sector employers about joining the PSSP.

The 2017 PSSP Review

In 2016, PSSPTI commissioned a comprehensive review of the *Public Service Superannuation Act (PSSA)*. The *PSSA* requires the PSSPTI to conduct this review every 5 years and states that it must be completed by an independent reviewer (Independent Reviewer).

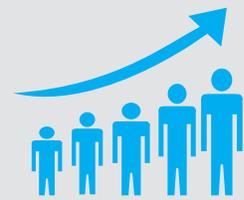
The Trustee received the Independent Reviewer's report (Report) in early 2017. It has begun to study the Report's recommendations and anticipates releasing the full Report, along with supporting documents, once this process is complete.

PSSPTI would like to thank all members and stakeholders who submitted input for the purposes of the *PSSA* review. Over 70 submissions were received, and all input was considered by the Independent Reviewer.

The Report lists 12 main recommendations for PSSPTI to consider, in response "to stakeholder concerns, changes in the Canadian pension landscape and to build on the Plan's success." Those recommendations fall into the following primary areas:

- Benefits and Eligibility, Funding Policy, and Actuarial Assumptions;
- Governance;
- Strategic Considerations;
- Plan Text Updates and 'Housekeeping Matters'.

You can read a summary of the recommendations and a summary of the member and stakeholder feedback on our website at: www.nspssp.ca/public-service/news/2017/04/07/update-2017-pssp-independent-review



As a result of the Growth Initiative, the PSSP has welcomed a total of 637 new active members and 358 retirees to date.

The Report lists 12 main recommendations for PSSPTI to consider, in response "to stakeholder concerns, changes in the Canadian pension landscape and to build on the Plan's success."

Nova Scotia Pension Services Corporation

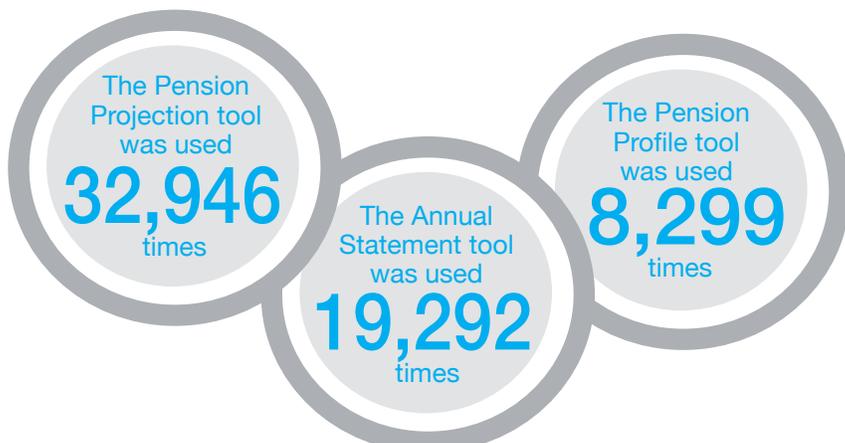
Pension Services Corp.'s service teams are responsible for providing pension services to Plan members, retirees, and employers. When a Plan member retires, Pension Services Corp. manages pension payments and provides assistance throughout the retirement process. Client Services Consultants also assist Plan members with support in making informed retirement decisions.



My Retirement Plan website <https://nspensions.hroffice.com>

My Retirement Plan website allows active Plan members secure access to their personal pension information online.

Since we launched the site in 2015, we have noticed Plan members are using this service to obtain pension estimates and view their Annual Member Statements. The site's usage statistics are below for 2016-2017:



"We are excited to provide support to the Trustee as it seeks to expand the membership in the Plan; improving its ratio of active to retired members. So far, four Nova Scotian universities have joined the Plan, and we are working closely with museums, municipalities and other types of authorities to help them as they explore a move to the PSSP."

- Kim Blinn
Chief Pensions Officer

Plan Valuation

The *funded ratio* is equal to the Plan's *assets* divided by the Plan's *liabilities*, expressed as a percentage. A *funded ratio* of 100 per cent or more means that the Plan is fully funded (i.e. there are sufficient *assets* to cover *liabilities*, based on current market values and actuarial assumptions).

More details about the assumptions that were used, and their impact on the valuation of Plan *liabilities*, may be found in the Report on the Actuarial Valuation (Dec. 31, 2016) which is available on our website at www.nspssp.ca/publicservice/members/publications/actuarial-valuation

While the Plan Valuation Report is completed each year as at December 31, the Plan's fiscal year-end is March 31. As at March 31, 2017, the Plan had total *liabilities* of approximately \$5.758 billion and a surplus of \$238.7 million. The *funded ratio* was 104.1 per cent.

Plan Valuation highlights:

- The Plan's *experience gain* on investment *assets* in calendar year 2016, relative to the assumed rate of return at the beginning of the year of 6.15 per cent, was \$56 million.
- The Plan's *return on investment assets* in fiscal year 2016-2017 was 10.84 per cent.
- Plan *liabilities* were valued at December 31, 2016 with a *funded ratio* of 102.8 per cent.
- Plan *liabilities* were extrapolated to March 31, 2017 resulting in a *funded ratio* of 104.1 per cent using market value of *assets* at that date.

How the Plan's surplus/deficit is calculated...

As at March 31, 2017

A Plan's surplus/deficit is calculated by deducting the Plan's *liabilities* from the Plan's *assets*. All figures below are rounded to the nearest \$100,000.



Did you know?

In 2015, the PSSPTI allocated \$125 million (approx.) to the strategic reserve and granted 0.85 per cent *cost-of-living adjustments (COLA)* for the next 5 years.

This was a result of the PSSPTI's 5-year funded health review of the Plan for January 1, 2016 to December 31, 2020.

The purpose of each 5-year review is to determine the Plan's capacity to afford future annual *COLA* and to review the adequacy of contribution rates.

The PSSPTI will conduct the next PSSP Funded Health review in 2020, based on the *funded ratio* of the Plan as at December 31, 2019.



Investment Management *Discussion and Analysis*

Information on the PSSP Fund and the factors that influenced its 2016-2017 investment performance

Investment Management Discussion and Analysis



Overview

The Goal

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

The SIP&G

The investment of pension assets is guided by the Fund's Statement of Investment Policies & Goals (SIP&G) as written by PSSPTI. The SIP&G sets out the parameters within which investments may be made. These parameters include permissible investments and the policy *asset mix* of the four main *asset classes*: *equities*, *fixed income*, *real assets*, and *absolute return strategies*. The Investment Beliefs, also found within the SIP&G, state the general principles upon which investments are made. The SIP&G is available on our website at:

www.nspssp.ca/publicservice/about/psspti-policies

Asset Mix

During the past year, assets were generally maintained close to target policy weights due to concerns regarding market valuations. One of the largest *overweights* within the Fund was in *absolute return strategies* while the largest *underweight* was in *fixed income*.



The approved
asset mix (*benchmark*)
as at March 31, 2017

The Fund's asset mix
as at March 31, 2017

Investment Management

Discussion and Analysis



2016-2017 Investment Performance

For the period ending March 31, 2017, the Public Service Superannuation Fund (Fund) achieved a one year return of 10.84 per cent, *gross of investment management fees*, and 10.58 per cent on a net basis. The Fund outperformed the policy *benchmark* of 9.62 per cent as well as the *actuarial assumed rate of return* of 6.15 per cent.

Despite early fears about the Chinese economy, continued oil weakness and whispers of a U.S. recession, U.S. *equity* markets performed well on stronger economic performance as the year progressed. U.S. *equity* markets shook off major political events, such as the U.K. BREXIT referendum and the U.S. election and rallied significantly through the end of the year on the Trump victory with the S&P 500 index rising 20.81 per cent.

Canadian *equity* markets were also solid performers during the period with the S&P TSX Composite index rising 18.62 per cent. Oil prices stabilized during most of 2016 and accommodative monetary policy helped Canadian *equity* markets; however, weaker oil in the first quarter of 2017 was a headwind.

The MSCI EAFE index advanced 15.12 per cent to March 31, 2017, supported by central bank stimulus measures and improving economic data. Receding political worries also helped bolster Eurozone *equity* gains.

Emerging markets, as measured by the MSCI EM index, had their strongest year since 2012, advancing 20.86 per cent. Emerging markets benefited from strengthening commodity prices, accommodative monetary policies, reform efforts in some countries, and the lack of follow-through on U.S. protectionist policies, fueling a renewed appetite for risk.

Corporate *fixed income* had a modest year, compared to *equities*, with the Barclays U.S. Credit index gaining 6.16 per cent. After a turbulent start to calendar year 2016 with widening corporate spreads, investment grade and high yield bond credit spreads tightened throughout the period as markets began to stabilize and renewed economic confidence took hold.



Investment Management

Discussion and Analysis



2016-2017 Investment Performance continued...

Canadian government *fixed income* delivered mixed results with the FTSE TMX Universe All Government bond index advancing 0.56 per cent. Canadian government yields rose in tandem with U.S. rates, as market expectation for inflation rose on the hopes of pro-growth Trump policies after the U.S. election.

For the Fund, active performance was relatively strong during the year. The Fund's performance outperformed the *benchmark* by 96 basis points on a net basis. Positive performance versus their *benchmarks* by the Fund's corporate *fixed income* managers, as well as the real estate and infrastructure portfolios, benefited the Fund.

Did you know?

You can view the PSSP's Quarterly Investment Reports online at:

www.nspssp.ca/publicservice/members/publications/investment-policies-and-reports

The PSSP's Quarterly Investment Reports are posted online shortly after each quarter end and detailed information such as the Fund's Investment Returns and *asset mix*.



Investment Management

Discussion and Analysis



2016-2017 Investment Accomplishments

With the completion of the *asset liability* study in 2015-16, the Trustee's primary focus this year was the implementation of the recommendations. Transitioning to the new policy *asset mix* included:

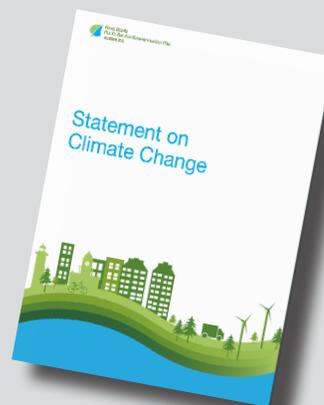
- Expansion of the *real asset* portfolio through investments in real estate and infrastructure. Direct real estate investments in Europe and the U.S. and fund investments and co-investments within the infrastructure portfolio helped to increase the *real asset* allocation and improve diversification within the respective portfolios.
- Re-alignment of the Fund's fixed income portfolio. Active credit exposures were increased in conjunction with the lowering of exposure to passive real return bonds.
- Increasing private *assets* within the Fund. A search for a private *equity* advisor was completed to help with the construction of a private *equity* portfolio.
- These initiatives will further diversify investments and improve the long-term risk/return profile of the Fund.
- Given the Trustee's commitment to sustainable investing, it continued to focus on the issue of climate change and the Fund's Sustainable Investment Policy framework. Work on the development of an engagement strategy progressed as did various initiatives within the *real asset* portfolio. The engagement strategy included the creation of a statement on climate change to help communicate the Trustee's position on this issue.

PSSPTI Statement on Climate Change:

The statement includes information, such as:

- Trustee Awareness of Climate Change Risk and Commitment to Sustainable Investing
- Investing in a Shifting Global Environment
- The Trustee's Engagement Strategy on Climate Change

The statement can be found on our website at:
www.nspssp.ca/publicservice/about/investments





2016-2017 Economic and Key Events

The Global Picture

Global output growth was 3.1 per cent for the year in 2016.¹ This stable average growth rate, however, masks divergent developments in different countries. There was a stronger than expected pickup in growth in advanced economies, due mostly to a reduced drag from inventories and some recovery in manufacturing output. In contrast, it was somewhat offset by an unexpected slowdown in some emerging market economies in Latin America and the Middle East.

Oil prices stabilized during 2016, largely due to an agreement among major producers to reduce production. In 2016, China's economic stabilization, fueled by accommodative fiscal and monetary policy, was a key factor in ending the steep global trade recession, and could continue to support global growth in the coming year.

The North American Picture

Growth in the Canadian economy increased modestly from 0.9 per cent in 2015 to 1.4 per cent in 2016. The rebound in commodities was a tailwind to Canadian *GDP* despite weakness in the first half of 2016 largely due to the wild fires in Alberta halting oil production.

The International Monetary Fund (IMF) estimates that economic growth will rebound slightly in the next two years, to 1.9 per cent in 2017 and 2.0 per cent in 2018 on a continued commodity rebound and U.S. economic strength.

The U.S. economy continued to expand at a modest pace; 2016 *GDP* was 1.6 per cent with much focus on the intense November U.S. Presidential election. The economy is expected to continue growing in the next two years to 2.3 per cent in 2017 and 2.5 per cent in 2018, boosted by expected fiscal stimulus by the new Trump administration.

The U.S. unemployment rate fell to 4.5 per cent in March 2017, down 0.6 per cent from a year previous. Job gains averaged 186,000 per month for the year. While less than 2015, job growth is still robust and hourly wages increased an average of 2.0 per cent.

With global economic conditions sluggish at the beginning of 2016, the Fed delayed raising the federal funds rate again until December 2016, followed with another hike at the March 2017 meeting. Fed Chair Janet Yellen cited full employment and inflation nearing the 2 per cent target as factors in the decision. Significantly, the central bank's outlook for rate hikes in 2017 rose from two to three.

Highlights¹:

- ▶ Global output growth was 3.1% for the year in 2016.
- ▶ Growth in the Canadian economy increased modestly from 0.9% in 2015 to 1.4% in 2016.
- ▶ The U.S. economy continued to expand at a modest pace; 2016 *GDP* was 1.6%.
- ▶ The Eurozone managed to grow 1.7% in 2016.
- ▶ After a 2015 economic slowdown, activity in both advanced economies and emerging markets is forecasted to accelerate in 2017 and 2018, with global growth projected to be 3.5% and 3.6%, respectively

¹ Global *GDP* sourced from the *World Economic Outlook Update, April 2017* as published by the *IMF*.

Investment Management

Discussion and Analysis



2016-2017 Economic and Key Events continued...

The International Picture

Europe's industrial activity continues to recover and economic expectations have risen across several large developed economies, although the political environment poses risks in 2017 with several core-country elections. The economic outlook for 2017 is for modest cyclical traction and abating global deflationary pressures.

The Eurozone managed to grow 1.7 per cent in 2016, slightly above potential, in part due to the European Central Bank's continued aggressive stimulus which managed to rekindle credit growth. Government expenditures on housing and social services to address the migrant crisis also helped. Thanks to a 15th consecutive quarter of growth in Q4, the Eurozone's output excluding Germany is finally back to pre-recession levels.

The Emerging Markets Picture

The picture for emerging market and developing economies remains much more diverse. The growth rate in China was a bit stronger than expected, supported by continued policy stimulus. However, activity was weaker than expected in some Latin American countries currently in recession, such as Argentina and Brazil, as well as in Turkey; all of which have seen some political turmoil over the last year. Activity in Russia was slightly better than expected, in part reflecting firmer oil prices.

Investment Management Discussion and Analysis

2016-2017 Economic and Key Events continued...

The Global Economic Picture* - Looking Forward

After a 2015 economic slowdown, activity in both advanced economies and emerging markets is forecasted to accelerate in 2017 and 2018, with global growth projected to be 3.5 per cent and 3.6 per cent, respectively. The previous concerns of deflationary pressures have abated somewhat in developed markets, as central banks worldwide have aggressively supported economic growth with low rates. This may lead to a slight shift in central bank focus, with less monetary support going forward.

Advanced economies are now projected to grow by 2.0 per cent in 2017 and 2.0 per cent in 2018. This forecast is particularly uncertain in light of potential changes in the policy stance of the United States under the new Trump administration. These policy uncertainties create the widest range of possible scenarios among the developed economies. The current projection assumes significant fiscal stimulus that leads growth to rise to 2.3 per cent in 2017 and 2.5 per cent in 2018 for the U.S. economy.

Growth projections for 2017 have also been revised upward for Germany, Japan, Spain, and the United Kingdom, mostly on account of stronger-than-expected performance during the latter part of 2016. The Chinese economy is expected to stabilize and grow over 6 per cent for the next few years, while India's economic surge is expected to continue with growth at 7.7 per cent by 2018.

*GDP growth estimates sourced from the World Economic Outlook Update, April 2017 as published by the IMF (International Monetary Fund).

Fund Investment Returns

as at March 31, 2017

	quarter	annualized			Since Inception
	Q1	1 year	4 year	10 year	
Fund	2.72%	10.84%	8.16%	5.42%	7.84%
Benchmark	2.76%	9.62%	7.25%	4.91%	7.16%

* Fund returns are reported gross of investment management fees.

Investment Management Discussion and Analysis



Looking Ahead to 2017-2018

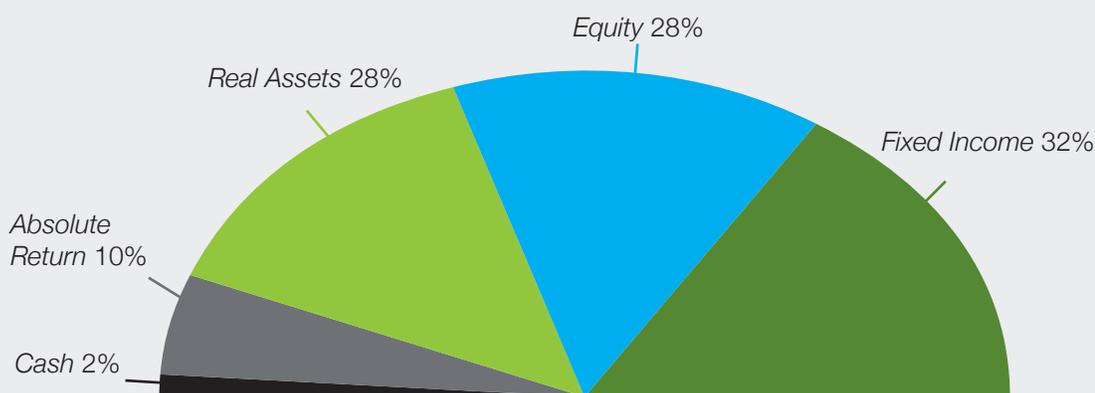
In 2017-18 the Trustee will concentrate on completing the transition to the new policy *asset mix*. Constructing a private *equity* portfolio will be a central focus for the year. This will be a multi-year endeavour to ensure that risk within the portfolio is well managed.

Achieving the targeted allocation to *real assets* will be the other focal point. Identifying investment opportunities for the real estate and infrastructure portfolios and new relationships to facilitate these investments will also progress.

With the augmentation of real estate, infrastructure and private *equity*, the overall allocation to private *assets* within the Fund will increase. The Trustee will continue to ensure that the analytics, risk monitoring and reporting, appropriate for the unique characteristics of private *assets*, are in place.

Recognizing the importance of the issue, the Trustee will continue to implement its strategy on sustainable investing. Initiatives focusing on engagement with investment managers to improve corporate disclosures related to the impact of climate change will be at the forefront of the effort, as will partnering with like-minded *asset* owners and groups with similar concerns.

The New Target Policy Asset Mix



Glossary

Absolute Return Strategies: An investment strategy which focuses on generating positive returns in rising and falling capital markets.

Actuarial assumed rate of return: The long term *rate of return* assumed by the Plan's external actuary in determining the value of the Plan's *liabilities*. Also, referred to as the Discount Rate.

Asset(s): Financial and real items owned by the Plan which have a monetary value, including cash, stocks, bonds, real estate, etc.

Asset mix: The allocation of funds to be used for investment purposes between different types of *assets*, including cash, stocks, bonds, real estate, etc.

Benchmark: A standard against which the performance of the Plan's *return on investment* can be measured.

Equity(ies): Common or preferred stock representing ownership in a company.

Experience gain: A measure of the difference between actual results and expected results based on assumptions. A gain (loss) indicates the plan performed better (worse) than expected.

Fixed Income: *Assets* that generate a predictable stream of interest such as bonds and debentures.

Funded ratio: A ratio of the Plan's *assets* to *liabilities*, expressed as a percentage. A ratio above 100 per cent indicates that the Plan has more *assets* than required to fund its future estimated *liabilities*.

Gross Domestic Product (GDP): Is the total market value of all final goods and services produced in a country in a given year. *GDP* is one of the primary indicators used to gauge the health of a country's economy.

Gross of investment management fees: Refers to the fact that the *return on investment* is reported before the deduction of management fees or expenses.

Cost of Living Adjustments (COLA): Also known as indexing, refers to the linkage of current retirees' pension payments to the average Consumer Price Index (CPI), as per the Funding Policy explained in the *PSSA*.

Liabilities: An estimate of the current value of future obligations of the Plan as a result of retirement commitments made to past, current, and future employees.

Overweight/Underweight: Refers to the difference relative to the *benchmark* portfolio. *Underweight* indicates less than the *benchmark*, while *overweight* indicates more than the *benchmark*.

Real Assets: Physical real estate, infrastructure and commodity *assets* such as apartments, bridges, tolls, gold and farmland that are invested in either directly or through pooled vehicles.

Return on investment(s): A performance measure used to evaluate the efficiency of the Plan's investments, expressed as a percentage gain or loss on the initial investment at the beginning of the period.

Financial Statements of

PUBLIC SERVICE SUPERANNUATION PLAN

Year ended March 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Public Service Superannuation Plan Trustee Inc.

We have audited the accompanying financial statements of Public Service Superannuation Plan, which comprise the statement of financial position as at March 31, 2017, and the statements of changes in net assets available for benefits, changes in pension obligations and changes in surplus (deficit) 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 judgement, 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 Public Service Superannuation Plan as at March 31, 2017 and the changes in its net assets available for benefits, changes in pension obligations and changes in surplus (deficit) for the year then ended in accordance with Canadian accounting standards for pension plans.

Chartered Professional Accountants, Licensed Public Accountants
June 27, 2017
Halifax, Canada

PUBLIC SERVICE SUPERANNUATION PLAN

Financial Statements

Year ended March 31, 2017

Financial Statements

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PUBLIC SERVICE SUPERANNUATION PLAN

Statement of Financial Position
(in thousands of dollars)

March 31, 2017, with comparative information for 2016

	2017	2016
Net Assets Available for Benefits		
Assets:		
Cash	\$ 44,045	\$ 50,517
Contributions receivable:		
Employers'	4,832	4,588
Employees'	4,510	4,427
Receivable from pending trades	20,264	8,075
Accounts receivable	3,305	199
Due from administrator (note 14)	2,270	2,731
Pension plan transfer deficits receivable (note 8)	3,163	2,431
Accrued investment income	17,564	17,683
Investments (notes 5)	5,961,485	5,464,074
Total assets	6,061,438	5,554,725
Liabilities:		
Payable for pending trades	\$ 40,033	\$ 25,150
Accounts payable and accrued liabilities	3,816	4,503
Due to administrator (note 14)	-	377
Investment-related liabilities (note 5)	21,593	10,666
Total liabilities	65,442	40,696
Net assets available for benefits	5,995,996	5,514,029
Purchases of service via instalment payments (note 7)	736	484
Fair value of net assets available for benefits	\$ 5,996,732	\$ 5,514,513
Accrued Pension Obligation and Surplus (Deficit)		
Accrued pension obligation (note 9)	\$ 5,757,998	\$ 5,563,552
Surplus (deficit):		
Funding surplus (deficit) (note 9)	238,734	(49,039)
	238,734	(49,039)
Commitments (note 10)		
Accrued pension obligation and surplus	\$ 5,996,732	\$ 5,514,513

See accompanying notes to financial statements.

Approved:

Original signed by 'Ron Smith' _____ Chair, Public Service Superannuation Plan Trustee Inc.

Original signed by 'Geoffrey Gatien' _____ Vice-Chair, Public Service Superannuation Plan Trustee Inc.

PUBLIC SERVICE SUPERANNUATION PLAN

Statement of Changes in Net Assets Available for Benefits

(in thousands of dollars)

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Increase in Assets		
Contributions (note 4)	\$ 194,223	\$ 185,496
University, municipality & other pension plan transfers (note 8)	58,085	135,626
Transfers from other pension plans	3,445	5,163
Interest on pension plan transfer deficits (note 8)	175	123
Investment activities (note 5)	188,633	154,043
Change in market value of investments (note 5)	405,490	-
Total increase in assets	850,051	475,288
Decrease in Assets		
Benefits paid (note 11)	339,645	323,142
Transfers to other pension plans	5,443	3,525
Administrative expenses (note 12)	22,996	22,805
Change in market value of investments (note 5)	-	150,850
Total decrease in assets	368,084	500,322
Increase (decrease) in net assets available for benefits	481,967	(25,034)
Net assets available for benefits, beginning of year	5,514,029	5,539,063
Net assets available for benefits, end of year	\$ 5,995,996	\$ 5,514,029

See accompanying notes to financial statements.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Accrued pension obligation, beginning of year	\$ 5,563,552	\$ 5,200,853
Increase in accrued pension benefits:		
Interest on accrued pension obligation	342,158	330,254
Contributions, special payments and transfers from other pension plans	255,753	321,121
Changes in actuarial assumptions	-	114,077
	597,911	765,452
Decrease in accrued pension benefits:		
Benefits paid and transfers to other pension plans	345,088	326,667
Contributions in excess of current service cost	53,925	60,156
Net experience gains	4,452	15,930
	403,465	402,753
Net increase in accrued pension benefits	194,446	362,699
Accrued pension obligation, end of year	\$ 5,757,998	\$ 5,563,552

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

Year ended March 31, 2017, with information for 2016

	2017	2016
(Deficit) surplus, beginning of year	\$ (49,039)	\$ 338,528
Increase (decrease) in net assets available for benefits	481,967	(25,034)
Increase in purchases of service via instalment payments	252	166
Net increase in accrued pension obligation	(194,446)	(362,699)
Surplus (deficit), end of year	\$ 238,734	\$ (49,039)

See accompanying notes to financial statements.

PUBLIC SERVICE SUPERANNUATION PLAN

Notes to Financial Statements
(in thousands of dollars)

Year ended March 31, 2017

1. Authority and description of Plan:

The following description of the Public Service Superannuation Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan legislative documents and agreements.

General:

The Plan is governed by the Public Service Superannuation Act (the "Act") as part of the Acts of Nova Scotia. It is a contributory defined benefit pension plan that covers employees of the Province of Nova Scotia (the "Province") and certain other public sector organizations. The Act established the Nova Scotia Public Service Superannuation Fund (the "Fund") for the purpose of crediting employer and employee contributions, investment earnings and meeting the Plan's obligations.

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.

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 and Treasury Board. As of April 1, 2013, the Minister of Finance and Treasury Board no longer has further legal liability for the Plan and the Fund. These changes are outlined in the 2012 Public Service Superannuation Act. That act repealed the existing Public Service Superannuation Act and replaced it with a new Public Service Superannuation Act.

The PSSPTI is responsible for the administration of the Plan and the investment management of the Fund assets. The investment of the Fund assets is guided by the Plan'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").

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

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 the 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 was at a rate of 1.25% annually. Subject to the conditions specified in the Act, as at January 1, 2016, and through to January 1, 2020, the annual rate of indexing is 0.85% per year.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

2. Basis of preparation:

(a) Basis of presentation:

These financial statements are prepared in Canadian dollars, which is the Plan's functional currency in accordance with the accounting standards for pension plans in Part IV of the Chartered Professional Accountants ("CPA") Canada Handbook ("Section 4600 – Pension Plans"). Section 4600 – Pension Plans 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 or accounting standards for private enterprises in Part II of the CPA Canada Handbook. The Plan has elected to comply on a consistent basis with IFRS in Part I of the CPA Canada 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 is 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.

These financial statements were authorized for issue by the Board of Trustees of the Public Service Superannuation Plan Trustee Inc. on June 27, 2017.

(b) 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.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

2. Basis of preparation (continued):

(c) 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.

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 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 net unrealized gains (loss).

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

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.

(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.

Derivative-related assets and liabilities are presented in the statement of financial position. The net amount is 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.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

3. Significant accounting policies (continued):

(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.

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.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

3. Significant accounting policies (continued):

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 fund investments include investments in fixed income, equities, real estate and commodities. Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the Plan's proportionate share of underlying net assets at fair values determined using closing market prices. These net asset values are reviewed by management.
- (iv) Directly held real estate is valued based on estimated fair values determined by appropriate techniques and best estimates by 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.
- (v) Private fund investments include investments in private equity, real estate and infrastructure assets. The fair value of a private fund investment where the Plan's ability to access information on underlying individual fund investments is restricted, such under the terms of a limited partnership agreement, is equal to the value provided by the fund's general partner unless there is specific and objectively verifiable reason to vary from the value provided by the general partner.
- (vi) Derivatives, including futures, options, interest rate swaps, credit default swaps, and currency forward 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.
- (viii) Absolute return strategy investments, comprised of hedge funds, are recorded at fair value based on net asset values obtained from each of the hedge funds' administrators. These net asset values are reviewed by management.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

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.

(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 PSSPTI 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 financial statements is consistent with the valuation for funding purposes.

(h) Contributions:

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

(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.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

3. Significant accounting policies (continued):

(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.

(m) Future changes to accounting standards:

The following standard is not yet effective for the year ended March 31, 2016, and has not been applied in preparing these financial statements.

- IFRS 9, Financial Instruments, introduces new requirements for the classification and measurement of financial assets. Financial assets are classified and measured based on the business model in which they are held and the characteristic of their contractual cash flows. The standard introduces additional changes relating to financial liabilities and amends the impairment model. The International Accounting Standards Board ("IASB") has determined the mandatory effective date for IFRS 9 will be for the annual periods beginning on or after January 1, 2018. The Plan will evaluate the impact of the change to the financial statements based on the characteristics of financial instruments outstanding at the time of adoption.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

4. Contributions:

	2017	2016
Employer:		
Matched current service	\$ 92,251	\$ 90,493
Matched past service	2,071	1,009
	<u>94,322</u>	<u>91,502</u>
Employee:		
Matched current service	92,269	90,503
Unmatched past service	5,157	2,029
Matched past service	2,071	1,009
Unmatched current service	404	453
	<u>99,901</u>	<u>93,994</u>
	<u>\$ 194,223</u>	<u>\$ 185,496</u>

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

5. Investments and investment-related liabilities:

- (a) The fair value of the Plan's investments and investment-related liabilities along with the related income is summarized in the following tables:

	As at March 31, 2017		As at March 31, 2016	
	Assets	%	Assets	%
Investment assets				
Fixed income				
Money market	\$ 187,493	3.1	\$ 106,474	1.9
Canadian bonds & debentures	643,447	10.8	673,297	12.3
Non-Canadian bonds & debentures	995,100	16.7	781,198	14.3
Canadian real return bonds	200,075	3.4	249,898	4.6
Equities				
Canadian	471,754	8.0	682,095	12.5
US	585,523	9.8	533,265	9.8
Global	982,187	16.5	648,764	11.9
Real Assets				
Real estate	693,225	11.6	622,446	11.4
Infrastructure	396,019	6.6	320,826	5.9
Commodities	147,399	2.5	130,005	2.4
Absolute Return Strategies				
Hedge funds	658,663	11.0	591,944	10.7
Derivatives				
Derivative-related receivables	600	-	123,862	2.3
	\$ 5,961,485	100.0	\$ 5,464,074	100.0
Investment-related liabilities				
Derivative-related payables	(21,593)	100.0	(10,666)	100.0
	\$ (21,593)	100.0	\$ (10,666)	100.0
Net investments	\$ 5,939,892		\$ 5,453,408	

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

5. Investments and investment-related liabilities (continued):

As at March 31, 2017	Investment income	Changes in market value of investments and derivatives		
		Realized	Unrealized	Total
Fixed income	\$ 67,046	\$ 51,673	\$ (36,443)	\$ 15,230
Equities	48,199	88,980	193,695	282,675
Real assets	72,312	14,905	33,764	48,669
Absolute return strategies	-	4,133	54,082	58,215
Derivatives	316	134,889	(134,188)	701
Other	760	-	-	-
	\$ 188,633	\$ 294,580	\$ 110,910	\$ 405,490

As at March 31, 2016	Investment income	Changes in market value of investments and derivatives		
		Realized	Unrealized	Total
Fixed income	\$ 67,493	\$ 43,911	\$ (73,321)	\$ (29,410)
Equities	47,464	112,293	(190,963)	(78,670)
Real assets	39,365	13,216	6,738	19,954
Absolute return strategies	-	11,725	(20,977)	(9,252)
Derivatives	(972)	(168,234)	114,762	(53,472)
Other	693	-	-	-
	\$ 154,043	\$ 12,911	\$ (163,761)	\$ (150,850)

(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 Plan utilizes such contracts to enhance investment returns and for managing exposure to interest rate and foreign currency volatility.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

5. Investments and investment-related liabilities (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:

Futures

Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining. The futures contracts that the Plan enters into are as follows:

- Government futures - 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 - 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.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

5. Investments and investment-related liabilities (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.

Swaptions are contractual agreements that convey to the purchaser the right but not the obligation to enter into or cancel a swap agreement at a fixed future date or at any time within a fixed future period. The seller receives a premium from the purchaser for this right.

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 Plan 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.

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.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

5. Investments and investment-related liabilities (continued):

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.

The following tables set out the notional values of the Plan's derivatives and their related assets and liabilities as at March 31.

2017	Notional value	Fair value		
		Assets	Liabilities	Net
Derivatives				
Futures	\$ 19,379	\$ 161	\$ (369)	\$ (208)
Options	-	-	-	-
Credit default swaps	2,375	18	(64)	(46)
Interest rate swaps	373,400	113	(701)	(588)
Currency forwards	2,613,688	308	(20,459)	(20,151)
	\$ 3,008,842	\$ 600	\$ (21,593)	\$ (20,993)
2016				
2016	Notional value	Fair value		
		Assets	Liabilities	Net
Derivatives				
Futures	\$ 214,823	\$ 255	\$ (344)	\$ (89)
Options	39,484	-	(33)	(33)
Credit default swaps	53,570	326	(6,522)	(6,196)
Interest rate swaps	105,964	33	(1,205)	(1,172)
Currency forwards	2,489,285	123,248	(2,562)	120,686
	\$ 2,903,126	\$ 123,862	\$ (10,666)	\$ 113,196

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

5. Investments and investment-related liabilities (continued):

The following table summarizes the contractual maturities of the Plan's derivatives and their related assets and liabilities as at March 31.

2017	Under 1 year	1 to 5 years	Over 5 years	Total
Futures	\$ (208)	\$ -	\$ -	\$ (208)
Options	-	-	-	-
Credit default swaps	9	9	(64)	(46)
Interest rate swaps	-	113	(701)	(588)
Currency forwards	(20,151)	-	-	(20,151)
	\$ (20,350)	\$ 122	\$ (765)	\$ (20,993)

2016	Under 1 year	1 to 5 years	Over 5 years	Total
Futures	\$ (90)	\$ -	\$ -	\$ (90)
Options	(33)	-	-	(33)
Credit default swaps	2	(5,917)	(280)	(6,195)
Interest rate swaps	-	(1,118)	(54)	(1,172)
Currency forwards	120,686	-	-	120,686
	\$ 120,565	\$ (7,035)	\$ (334)	\$ 113,196

Cash is deposited or pledged with various financial institutions as collateral in the event that the Plan 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 or pledged with other financial institutions as collateral and or margin as at March 31, 2017 and March 31, 2016 is as follows.

	March 31, 2017	March 31, 2016
Collateral	\$ 1,763	\$ 9,315
Margin	935	1,329
	\$ 2,698	\$ 10,644

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. 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, accounts receivable, due from administrator, accrued investment income, pension benefits payable, payable for pending trades and accounts payable and accrued liabilities payable 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.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

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

As at March 31, 2017	Level 1	Level 2	Level 3	Total
Investment assets				
Fixed income				
Money market	\$ 768	\$ 186,725	-	\$ 187,493
Canadian bonds & debentures	190,938	452,509	-	643,447
Non-Canadian bonds & debentures	41,753	953,347	-	995,100
Canadian real return bonds	-	125,140	74,935	200,075
Equities				
Canadian	370,875	100,879	-	471,754
US	163,837	421,686	-	585,523
Global	607,764	374,423	-	982,187
Real Assets				
Real estate	-	185,168	508,057	693,225
Infrastructure	-	-	396,019	396,019
Commodities	-	147,399	-	147,399
Absolute Return Strategies				
Hedge funds	-	658,663	-	658,663
Derivatives				
Derivative-related receivables	161	439	-	600
	\$ 1,376,096	\$ 3,606,378	\$ 979,011	\$ 5,961,485
Investment-related liabilities				
Derivative-related liabilities	\$ (369)	\$ (21,224)	\$ -	\$ (21,593)
	\$ (369)	\$ (21,224)	\$ -	\$ (21,593)
Net investments	\$ 1,375,727	\$ 3,585,154	\$ 979,011	\$ 5,939,892

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

As at March 31, 2016	Level 1	Level 2	Level 3	Total
Investment assets				
Fixed income				
Money market	\$ 1,902	\$ 104,572	\$ -	\$ 106,474
Canadian bonds & debentures	3,367	669,930	-	673,297
Non-Canadian bonds & debentures	84,724	696,474	-	781,198
Canadian real return bonds	-	173,833	76,065	249,898
Equities				
Canadian	670,170	11,925	-	682,095
US	166,201	367,064	-	533,265
Global	648,764	-	-	648,764
Real Assets				
Real estate	-	185,922	436,524	622,446
Infrastructure	-	-	320,826	320,826
Commodities	-	130,005	-	130,005
Absolute Return Strategies				
Hedge funds	-	591,944	-	591,944
Derivatives				
Derivative-related receivables	255	123,607	-	123,862
	\$ 1,575,383	\$ 3,055,276	\$ 833,415	\$ 5,464,074
Investment-related liabilities				
Derivative-related liabilities	\$ (344)	\$ (10,322)	\$ -	\$ (10,666)
	\$ (344)	\$ (10,322)	\$ -	\$ (10,666)
Net investments	\$ 1,575,039	\$ 3,044,954	\$ 833,415	\$ 5,453,408

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

There were no significant transfers between level 1 and level 2 financial instruments during the year ended March 31, 2017.

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

Year ended March 31, 2017	Fixed income	Real assets	Equity	Total
Balance, beginning of year	\$ 76,065	\$ 757,350	\$ -	\$ 833,415
Purchases, contributed capital	-	188,130	-	188,130
Sales, capital returned	(985)	(65,354)	-	(66,339)
Realized gains	221	7,231	-	7,452
Unrealized gains	(366)	16,719	-	16,353
Balance, end of year	\$ 74,935	\$ 904,076	\$ -	\$ 979,011
Year ended March 31, 2016	Fixed income	Real assets	Equity	Total
Balance, beginning of year	\$ 80,886	\$ 673,198	\$ 769	\$ 754,853
Purchases, contributed capital	-	61,670	-	61,670
Sales, capital returned	(778)	(17,477)	(595)	(18,850)
Realized gains	176	12,335	595	13,106
Unrealized gains (losses)	(4,219)	27,624	(769)	22,636
Balance, end of year	\$ 76,065	\$ 757,350	\$ -	\$ 833,415

The total income from level 3 instruments held as at March 31, 2017 and 2016, respectively, was \$23,805 and \$35,742.

Fair value assumptions and sensitivity:

Level 3 financial instruments are valued using various methods. Listed real return bonds are valued by a third party using broker prices and comparable securities. Certain unlisted private equity, real estate and infrastructure funds are valued using various methods including overall capitalization method and discount rate method. Real estate subsidiaries are valued using the overall capitalization method and discount rate method and the valuations are significantly affected by non-observable inputs, the most significant of which are the capitalization rate and the discount rate.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

Significant unobservable inputs used in measuring fair value:

The table below sets out information about significant unobservable inputs used at March 31, 2017 in measuring financial instruments categorized as level 3 in the fair value hierarchy.

Description	Fair value at March 31, 2017	Valuation technique	Unobservable inputs
Unlisted direct real estate subsidiaries	\$ 392,787	Income approach technique: overall capitalization rate method and discounted cash flow method	Capitalization rates, discount rates
Unlisted real estate, infrastructure funds	511,289	Net asset value – audited financial statements	Information not available
Listed real return bond	77,919	Vendor supplied price - proprietary price model	Information not available

The following analysis illustrates the sensitivity of the Level 3 valuations to reasonably possible capitalization rate and discount rate assumptions for real estate properties where reasonably possible alternative assumptions would change the fair value significantly.

Valuations determined by the direct capitalization method are most sensitive to changes in the discount rates.

	2017	2016
<u>Real estate subsidiaries</u>		
Minimum capitalization rate	4.00%	4.30%
Maximum capitalization rate	8.00%	8.00%
Increase in 25 basis points in capitalization rate	\$ (16,508)	\$ (15,687)
Decrease of 25 basis points in capitalization rate	21,784	22,577
Note: basis point is equal to 0.01%		

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

Valuations determined by the discounted cash flow method are most sensitive to changes in the discount rates.

	2017	2016
<u>Real estate subsidiaries</u>		
Minimum discount rate	3.90%	4.00%
Maximum discount rate	8.50%	8.50%
Increase in 25 basis points in discount rate	\$ (8,619)	\$ (8,487)
Decrease of 25 basis points in discount rate	9,303	9,328

Note: basis point is equal to 0.01%

The Plan does not have access to underlying information that comprises the fair market value of real return bonds, and certain real estate and infrastructure fund investments. The fair market value is provided by the general partner or other external managers. In the absence of information supporting the fair market value, no other reasonably possible alternative assumptions could be applied.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

Significant investments

The Plan's investments, each having a fair value or cost exceeding one per cent of the fair market value or cost of net investment assets and liabilities as follows:

As at March 31	Number of investments	Fair value	2017 Cost	Number of investments	Fair value	2016 Cost
Public market investments	1	\$ 74,935	\$ 29,187	1	\$ 76,065	\$ 29,951
Private market investments	16	2,204,738	1,757,921	15	1,985,038	1,675,324
	17	\$ 2,279,673	\$ 1,787,108	16	\$ 2,061,104	\$ 1,705,275

The Plan's significant private market investments consist of fixed income and equity pooled funds, commodities, real estate, and infrastructure.

(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 Plan 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 Plan. 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 Plan'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 Plan'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.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

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

March 31, 2017	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average yield (%) (1)
Money market	\$ 185,697	\$ -	\$ -	\$ -	\$ 185,697	-
Bonds & debentures	42,947	483,814	395,999	370,168	1,292,928	3.8
Real return bonds (2)	-	-	-	74,935	74,935	5.3
	\$ 228,644	\$ 483,814	\$ 395,999	\$ 445,103	\$ 1,553,560	3.5
Excluded pooled funds					472,555	
Total fixed income					\$ 2,026,115	

March 31, 2016	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average yield (%) (1)
Money market	\$ 106,474	\$ -	\$ -	\$ -	\$ 106,474	-
Bonds & debentures	61,926	406,323	375,902	390,066	1,234,217	4.1
Real return bonds (2)	-	-	-	76,065	76,065	5.3
	\$ 168,400	\$ 406,323	\$ 375,902	\$ 466,131	\$ 1,416,756	3.8
Excluded pooled funds					394,111	
Total fixed income					\$ 1,810,867	

The fixed income maturity schedule is exclusive of pooled bond & pooled real return bond funds.

(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.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

The fair value of the Plan's investments 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 Plan's investments in fixed income and fixed income related derivatives are sensitive to interest rate movements. The following table represents the Plan'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:

	March 31, 2017	March 31, 2016
Interest rate sensitive assets	\$ 1,552,718	\$ 1,409,264
Average duration for 1% increase in interest rates	(6.1)	(6.6)
Sensitivity to 1% increase in interest rates	(94,772)	(92,387)
Fair value after 1% increase in rates	\$ 1,457,946	\$ 1,316,877
Average duration for 1% increase in interest rates	6.1	6.6
Sensitivity to 1% decrease in interest rates	94,772	92,387
Fair value after 1% decrease in rates	\$ 1,647,490	\$ 1,501,651

(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 Plan'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 Plan through the construction of a diversified portfolio of instruments traded on various markets and across various industries.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

Market sensitivity:

The Plan's investments in equities are sensitive to market fluctuations. The following table represents the change in fair value of the Plan's investment in public and private equities due to a ten percent increase (decrease) in fair market values as at March 31, 2017:

	March 31, 2017	March 31, 2016
Total equity	\$ 2,039,464	\$ 1,864,124
10% increase in market values	203,946	186,412
Fair value after 10% increase	\$ 2,243,410	\$ 2,050,536
10% decrease in market values	(203,946)	(186,412)
Fair value after 10% decrease	\$ 1,835,518	\$ 1,677,712

(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 Plan is regularly monitored and analyzed through risk and credit committees.

Fixed income:

The Plan'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 2017.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

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

	March 31, 2017	March 31, 2016
Canadian		
Governments	\$ 463,945	\$ 460,873
Corporate	216,825	172,783
Non-Canadian		
Governments	41,753	86,626
Corporate	831,038	696,474
	\$ 1,553,561	\$ 1,416,756
Excluded pooled funds	472,554	394,111
Total fixed income	\$ 2,026,115	\$ 1,810,867

The credit risk schedule is exclusive of pooled bond and pooled real return bond funds.

Derivatives:

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

- 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.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

Securities lending:

The Plan engages in securities lending to enhance portfolio returns (note 13). Through a securities lending program at the Plan's custodian, the Plan 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.

(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 Plan 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 Plan's investment and non-investment 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 Plan'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 Plan's foreign currency exposure, hence reducing the Plan's foreign currency risk.

The Plan's investment and non-investment assets and liabilities that are held in the Fund are represented as unhedged and hedged currency exposure as at March 31 in the following table:

	March 31, 2017 Unhedged	March 31, 2017 Hedged
Canadian dollar	\$ 2,507,975	\$ 4,427,999
United States dollar	2,873,040	1,425,187
Euro	211,925	22,534
British pound sterling	145,210	(11,717)
Japanese yen	83,798	41,703
Other	179,336	75,428
	\$ 6,001,284	\$ 5,981,134

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

	March 31, 2016 Unhedged	March 31, 2016 Hedged
Canadian dollar	\$ 2,363,928	\$ 4,186,329
United States dollar	2,414,588	1,268,063
Euro	218,697	(14,983)
British pound sterling	136,415	(62,796)
Japanese yen	79,052	42,001
Other	169,988	84,738
	\$ 5,382,668	\$ 5,503,352

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 Plan's investment and non-investment assets and liabilities held in the Fund, respectively.

The following table below represents these changes in the Plan's investment and non-investment assets and liabilities held in the Fund as at March 31:

	2017	2016
Fund assets and liabilities	\$ 5,981,133	\$ 5,503,353
10% increase in Canadian dollar	(141,194)	(119,729)
Fund assets and liabilities after increase	\$ 5,839,939	\$ 5,383,624
10% decrease in Canadian dollar	172,570	146,336
Fund assets and liabilities after decrease	\$ 6,153,703	\$ 5,649,689

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

6. Financial instruments (continued):

(v) Liquidity risk:

Liquidity risk is the risk that the Plan 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 Plan'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 Plan, cash income of the Plan and planned dispositions of Plan assets as required. Cash requirements of the Plan are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Plan. The Plan'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 Plan.

Approximately 43.5% of the Plan'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 28.5% of the Plan's investments and are liquid within 30 days or less. Although market events could lead to some investments becoming illiquid, the diversity of the Plan's portfolios should ensure that liquidity is available for benefit payments. The Plan also maintains cash on hand for liquidly purposes and for payment of Plan liabilities. At March 31, 2017, the Plan had cash in the amount of \$44,045; March 31, 2016 \$50,517).

7. Present value of service purchases via instalment payments:

The present value of service purchases via instalment payments of \$736 (2016 - \$484) represents the present value of outstanding employee and employer contributions that are due as a result of service purchases that are being paid for through payroll deductions. The liabilities associated with this service are already recognized in the accrued pension benefit obligation.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

8. Universities, municipalities & other authorities pension plan transfers:

On May 4, 2015, the University Pension Plan Transfer Act (Bill No. 102) was proclaimed to facilitate the transfer of university pension plans to the Plan and on November 9, 2016, the Municipalities and Other Authorities Pension Plan Transfer Act (Bill No. 55) was also proclaimed to facilitate the transfer of pension plans of municipalities and other authorities to the Plan.

Both the University Pension Plan Transfer Act and the Municipalities and Other Authorities Pension Plan Transfer Act allow the Trustee to enter into an agreement with a university, municipality or other authority to transfer, in whole or in part, assets and liabilities of a designated plan to the Plan and to allow the members, the survivors of the members, the post-transfer employees of the transferring party and the survivors of the post-transfer employees to participate in the Plan.

The Trustee's guiding principle throughout this transfer process is that it must be beneficial to the long-term sustainability of the Plan and cost-neutral to the Plan and Plan members. A transfer to the Plan resulting in a deficit to the associated liability is recovered with interest owing from the transfer date. The pension plan transfer deficits receivable as at March 31, 2017 were \$3,163 (2016 - \$2,431). The interest received on the deficits receivable during the year were \$175 (2016 - \$123).

9. 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, 2016 and issued their report in June 2017. The report indicated that the Plan had a funding excess of \$160,833 (December 31, 2015 – funding excess of \$44,869).

The actuarial valuation calculates liabilities for each member on the basis of service earned to date and the employee's projected five-year highest 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

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

9. Accrued pension obligation (continued):

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. The major assumptions used are as follows:

	Valuation December 31, 2016	Valuation December 31, 2015
Inflation	2.00 % per annum	2.00% per annum
Salary increase	1.50% per annum for 1 year, 2.50% per annum thereafter plus merit ranging from 0.00% to 2.50%	1.50% per annum for 2 years, 2.50% per annum thereafter plus merit ranging from 0.00% to 2.50%
Total rate of return on assets (i.e. discount rate)	6.15% per annum	6.15% per annum
Average retirement age	<ul style="list-style-type: none"> • 10% at age 59; • 20% at age 60; • 10% at each age 61-64; • 50% at each age 65-69; • 100% at age 70 <p>However, 20% each year after EURD, if it is greater</p> <p>40% at 35 years of service</p>	<ul style="list-style-type: none"> • 10% at age 59; • 20% at age 60; • 10% at each age 61-64; • 50% at each age 65-69; • 100% at age 70 <p>However, 20% each year after EURD, if it is greater</p> <p>40% at 35 years of service</p>
Mortality	120% of CPM 2014 Publ with generational mortality using 100% of CPM-B	120% of CPM 2014 Publ with generational mortality using 100% of CPM-B

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, 2017 and as at March 31, 2016.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

9. Accrued pension obligation (continued):

	2017 Extrapolated	2016 Extrapolated
Actuarial value of assets	\$ 5,999,716	\$ 5,514,513
Accrued pension obligation	5,757,998	5,563,552
Funding surplus (deficit)	\$ 241,718	\$ (49,039)

10. Commitments:

The Plan has committed capital to investment in real estate and 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, 2017.

March 31, 2017	Committed	Outstanding
Real estate	50,000 USD	10,241 USD
Real estate	20,000 EUR	4,841 EUR
Infrastructure	105,255 CAD	57,154 CAD
Infrastructure	408,675 USD	194,355 USD
Infrastructure	31,700 GBP	7,808 GBP

11. Benefits:

	2017	2016
Benefits paid to retired members	\$ 288,449	\$ 272,397
Benefits paid to survivors	36,705	35,881
Refunds paid to terminated members	14,491	14,864
	\$ 339,645	\$ 323,142

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

12. Administrative expenses:

The Plan is charged by its service providers, including Nova Scotia Pension Services Corporation, a related entity, for professional and administrative services. The following is a summary of these administrative expenses:

	2017	2016
Plan administration:		
Office and administration services	\$ 5,153	\$ 4,735
Legal services	88	85
Actuarial services	263	529
Audit fees	37	36
Other professional services	123	22
Bad debts	14	-
Recovery of pension plan transfer costs (note 8)	(194)	(276)
	5,484	5,131
Investment expenses:		
Investment management fees	13,694	13,669
Transaction costs	882	968
Custody services	467	511
Advisory & consulting services	326	420
Information services	211	182
	15,580	15,750
HST	1,932	1,924
	\$ 22,996	\$ 22,805

The Plan's administrator, Nova Scotia Pension Services Corporation, annually reviews the resources required to service the Plan. The allocation of office and administrative expenses is reviewed and approved by the Nova Scotia Pension Services Corporation Board of Directors and the Plan Trustee before the beginning of each fiscal year.

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 \$24,164 (2016 - \$19,236). These fees are not direct expenses of the Plan and therefore are not included in administrative expenses.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

13. Securities lending:

The Plan participates in a securities lending program where it lends securities that it owns to third parties for a fee. For securities lent, the Plan 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 Plan 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, 2017	March 31, 2016
Securities on loan	\$ 425,366	\$ 466,997
Collateral held	\$ 460,685	\$ 498,353

14. Related party transactions:

Investments held by the Plan include debentures of the Province of Nova Scotia. The total fair value of these investments is \$3,906 (0.1% of total investment assets and liabilities) as at March 31, 2017 (2016 - \$3,822 (0.1% of total investment assets and liabilities)).

The Plan's administrator, Nova Scotia Pension Services Corporation, an entity co-owned by Teachers' Pension Plan Trustee Inc. and Public Service Superannuation Plan Trustee Inc. for the purpose of providing pension plan administration and investment services, 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, including HST, for the year ending March 31, 2017 was \$6,209 (2016 - \$5,850).

As Nova Scotia Pension Services Corporation operates on a cost recovery basis, the Plan advances or loans cash to its administrator, as required to pay upcoming expenses or to purchase capital assets. The amount due to the Plan was \$2,270 at March 31, 2017 (2016 - \$2,731). The amount due to Nova Scotia Pension Services Corporation at March 31, 2017 for expenses was \$nil (2016 - \$377).

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

15. Interest in subsidiaries:

The Plan's subsidiaries were created for the purposes of providing investment earnings from real estate, infrastructure and other investment arrangements. The Plan's subsidiaries are presented on a non-consolidated basis. The following table shows the fair values of the Plan's subsidiaries as at March 31, 2017 and 2016:

Subsidiary	Purpose	Ownership %	2017 Fair value	2016 Fair value
NT Combined Investments Inc.	Equities	54	\$ 421,686	\$ 367,064
PSS Investments RE Inc.	Real estate	100	306,380	249,620
PSS Investments CS Inc.	Infrastructure	100	146,671	138,289
PSS Investments II Inc.	Real estate	100	144,216	140,490
PSS Investments ES Inc.	Real estate	100	57,461	46,414
PSS Investments IV Inc.	Infrastructure	100	47,178	32,330
HV Combined Investments Inc.	Hedge funds	63	29,570	26,147
PSS Investments III Inc.	Infrastructure	100	19,940	26,115
PSS Investments CS II Inc.	Infrastructure	100	6,024	6,593

The Plan either has 100% controlling interest or significant influence over its subsidiaries' cash flows. Funding is made via capital investment from the Plan. Certain subsidiaries have commitments that must be funded directly through capital investment by the Plan. These amounts are included in the Plan's commitments (note 10). Financing is provided as required via shareholder loan and is payable on demand to the Plan.

16. Capital management:

The main objective of the Plan is to sustain a certain level of net assets in order to meet the Plan's pension obligations. 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 commerce of the Plan in accordance with the Act.

Under the direction of the PSSPTI, the Plan 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 Plan's governance structure.

The Plan fulfils its primary objective by adhering to specific investment policies outlined in its SIP&G, which is reviewed annually by PSSPTI. The Plan 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 Plan and contributions into the Plan by eligible employees and participating employers. The main use of net assets is for benefit payments to eligible Plan members.

PUBLIC SERVICE SUPERANNUATION PLAN

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

Year ended March 31, 2017

17. Comparative information:

Certain 2016 comparative information have been reclassified to conform to the financial statement presentation adopted for the current year.



For questions relating to your Public Service Superannuation Plan, contact Pension Services Corp. at:

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All information presented in this document is premised on the Plan rules and criteria which currently exist under the *Public Service Superannuation Act (PSSA)* and the Regulations made thereunder. This document explains in plain language the financial status of the Nova Scotia Public Service Superannuation Plan. Plan members, beneficiaries, and others who wish to determine their legal rights and obligations under the Plan should refer to the *PSSA*, the Plan Regulations, or other legal documents as appropriate. In the event of a discrepancy between the information provided in this document and the legislation and/or legal documents, the latter takes precedence.