Financial Statements of the

Nova Scotia Health Employees' Pension Plan

(Formerly the Nova Scotia Association of Health Organizations Pension Plan)

Year ended December 31, 2016

Independent auditors' report

The Sponsors and Trustees of the
Nova Scotia Health Employees' Pension Plan

We have audited the accompanying financial statements of the **Nova Scotia Health Employees' Pension Plan [the "Plan"]**, which comprise the statement of financial position as at December 31, 2016 and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information. These financial statements have been prepared by management based on the financial reporting provisions described in Section 67(1) and Schedule 1, Section 11(3), of the Pension Benefits Regulations made under Section 139 of the Pension Benefits Act (Nova Scotia).

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions described in Section 67(1) and Schedule 1, Section 11(3), of the Pension Benefits Regulations made under Section 139 of the Pension Benefits Act (Nova Scotia), 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 the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **the Plan** as at December 31, 2016 and the changes in its net assets available for benefits and pension obligations and for the year then ended in accordance with the financial reporting provisions described in Section 67(1) and Schedule 1, Section 11(3), of the Pension Benefits Regulations made under Section 139 of the Pension Benefits Act (Nova Scotia).

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Trustees and Sponsors of the Plan to meet the requirements of Nova Scotia Office of the Superintendent of Pensions. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Trustees, Sponsors of the Plan and the Nova Scotia Office of the Superintendent of Pensions, and should not be used by parties other than the Trustees, Sponsors of the Plan or the Nova Scotia Office of the Superintendent of Pensions.

Ernst & Young LLP

Halifax, Canada,
May 5, 2017

Chartered Professional Accountants

STATEMENT OF FINANCIAL POSITION

As at December 31

		($ Thousands)		
		2016		**2015**
NET ASSETS AVAILABLE FOR BENEFITS				
Assets				
Investments (note 3 and note 4)	$	**6,564,113**	$	6,306,575
Contributions receivable:				
Employers'		**7,006**		7,241
Employees'		**5,942**		6,190
Accrued income		**4,560**		4,627
Other receivables		**471,327**		228,855
Cash		**78,948**		90,196
Restricted cash (note 5)		**14,154**		23,271
Other assets		**196**		245
		7,146,246		6,667,200
Liabilities				
Accounts payable and accrued liabilities (note 6)		**5,592**		63,737
Net assets available for benefits		**7,140,654**		6,603,463
Fair value of net assets available for benefits	$	**7,140,654**	$	6,603,463
ACCRUED PENSION BENEFITS AND SURPLUS				
Accrued pension benefits (note 7)	$	**5,423,711**	$	4,998,978
Surplus		**1,716,943**		1,604,485
Accrued pension benefits and surplus	$	**7,140,654**	$	6,603,463

See accompanying notes

Commitments (note 14)

Contingency (note 15)

Approved on behalf of the Trustees:

Mary Lee

Janet Hazelton

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

For the year ended December 31

($ Thousands)

		2016		2015
Fair value of net assets available for benefits	**$**	**7,140,654**	$	6,603,463
Actuarial present value of accrued pension benefits, beginning of year		**4,998,978**		4,510,409
Benefits accrued		**239,781**		259,517
Benefits, refunds and transfers		**(208,249)**		(185,593)
Interest on accrued benefits		**313,421**		304,039
Impact of assumption changes		**79,780**		110,606
Actuarial present value of accrued pension benefits, end of year (note 7)	**$**	**5,423,711**	$	4,998,978
Funding surplus		**1,716,943**		1,604,485
Accrued pension benefit obligation and surplus	**$**	**7,140,654**	$	6,603,463

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the year ended December 31

($ Thousands)

		2016		2015
Increase in net assets available for benefits				
Investment income (note 9)	$	**422,026**	$	237,926
Net realized and unrealized gains on investments		**83,503**		592,483
Contributions:				
Employers' (note 11)		**133,580**		133,477
Employees' (note 11)		**114,387**		114,257
Pension buybacks (note 11)		**3,216**		20,926
Transfers from other pension plans (note 11)		**1,572**		2,295
Total increase in net assets available for benefits		**758,284**		1,101,364
Decrease in net assets available for benefits				
Pension benefits paid (note 12)		**170,413**		155,223
Termination refunds, death benefits, and transfers to other pension plans (note 12)		**37,836**		30,370
Asset management and governance expenses (note 10)		**10,208**		10,443
Client service expenses (note 10)		**2,636**		2,402
Total decrease in net assets available for benefits		**221,093**		198,438
Change in net assets available for benefits		**537,191**		902,926
Net assets available for benefits, beginning of year	$	**6,603,463**	$	5,700,537
Net assets available for benefits, end of year	$	**7,140,654**	$	6,603,463

1. DESCRIPTION OF PLAN:

The following description of the Nova Scotia Health Employees' (NSHE) Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan Text.

a) General:

On June 4, 2012, the Trust Agreement for the Nova Scotia Association of Health Organizations Pension Plan was revised. The new Trust Agreement reduced the Board of Trustees from 20 to 8 members with responsibility equally shared between union and non-union members, and the name of the plan changed to "Nova Scotia Health Employees' Pension Plan".

The Plan is a contributory defined benefit pension plan covering contributing employees of member organizations of the Nova Scotia Association of Health Organizations and Plan Sponsors. Contributions are made by both employees and employers. The Plan is registered under the *Pension Benefits Act* of Nova Scotia (Registration number NS 0355925).

Benefits are based on career average earnings, but have been enhanced in the past by base year upgrades. As at the end of 2016, the Plan had a 2015 base year, meaning that benefits with respect to service up to and including 2015 are based on earnings and the YMPE (Yearly Maximum Pensionable Earnings level for Canada Pension Plan purposes) in 2015.

b) Funding policy:

Plan benefits are funded by contributions and investment earnings. The determination of the value of the accumulated benefits and the required contributions is made on the basis of periodic actuarial valuations (see note 7).

c) Retirement pension:

Members are eligible for an unreduced retirement pension if their age is 65; they are age 60 or over with at least 10 years of continuous service; they are age 55 or over and their age plus continuous service equals 85 or more; or their age plus continuous service equals 90 (if enrolled before January 1, 1999).

Members are eligible for a reduced pension if they are age 50 or more and have 10 or more years of continuous service; are age 55 or over; or their age plus continuous service equals 80.

The pension benefit provides 1.4% of earnings up to the YMPE and 2% of any earnings in excess of the YMPE for each year of participation. A bridge benefit of 0.6% of earnings to the YMPE for each year of participation is also available from retirement to age 65 (or death if earlier).

d) Indexing:

Pensions in payment are subject to annual indexation for inflation up to a maximum of 3% per year. Indexing above 3% (if applicable) may be provided on an ad-hoc basis.

e) Disability pensions:
A disability pension for service prior to January 1, 1993, is available to qualifying individuals:

- who joined the plan prior to October 1, 1999;
- who have 10 years of continuous service prior to 1993; and
- who do not participate in an employer-sponsored Long-Term Disability Plan.

f) Survivor pensions:
A survivor pension is available to a spouse of a member who dies. There is also a survivor benefit payable to dependent child(ren), conditional on at least 10 years of continuous service if death occurs before pension commencement.

g) Death benefit:
A lump-sum death benefit is available as an alternative to the above noted surviving spouse pension with respect to any member who dies before retirement.

h) Termination refunds:
On termination of employment, a Member will receive a deferred pension, or prior to retirement eligibility, a locked-in transfer, dependent on the option they choose.

i) Income taxes:
The Plan is a Registered Pension Trust as defined in the Income Tax Act (Canada) and is not subject to income taxes for contributions or investment income received.

2. SIGNIFICANT ACCOUNTING POLICIES:

a) Basis of presentation:
These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the employers and Plan Members. They are prepared to assist the Plan Sponsors and Trustees in reviewing the activities of the Plan for the fiscal period.

These financial statements are prepared in accordance with the significant accounting policies set out below to comply with the financial reporting provisions described in Section 67(1) and Schedule 1, Section 11(3), of the Pension Benefits Regulations made under Section 139 of the *Pension Benefits Act* (Nova Scotia). The basis of accounting used in these financial statements differs from Canadian accounting standards for pension plans in Section 4600, "Pension Plans", in Part IV of the *CPA Handbook – Accounting*, because investments in real estate corporations, as defined by the Pension Benefits Regulations, are recorded at the Plan's proportionate ownership of the corporation's net assets rather than at fair value.

The Plan has applied Accounting Standards for Private Enterprises ("ASPE") for those items not covered by Section 4600.

b) Measurement uncertainty:

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

c) Contributions:

Contributions from employees of member organizations and contributions from member organizations are recorded in the period that payroll deductions are made.

d) Investments:

Investments are recorded as of the trade date and are stated at fair value as at December 31, 2016. Fair value is the price that would either be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming the market participants act in their economic best interest.

Money market, publicly traded bonds, equity securities, and derivatives are valued at quoted closing mid-market prices. Other investments for which market quotations are not available, such as real estate and infrastructure, are valued on a current market yield or appraised basis. Private equity values are estimated with appropriate valuation techniques and best estimates of managers or evaluators, with the exception of investments in real estate corporations, which are valued at the Plan's proportionate ownership of the corporation's net assets, in compliance with Schedule 1, Section 11(3), of the Pension Benefits Regulations.

e) Fixed assets:

Fixed assets are included in other assets, are stated at cost and consist of costs related to a software license, furniture and fixtures, and a website. Depreciation is being recorded on a straight-line basis over five years. Fixed asset additions costing less than $10,000 each are expensed in the year of purchase.

f) Investment income:

Dividends are recognized on the ex-dividend date, and interest income and real estate income is recognized on the accrual basis as earned. Investment income also includes realized and unrealized gains and losses.

g) Translation of foreign currencies:

(i) Assets and liabilities denoted in foreign currencies are translated into Canadian dollars at approximate quoted rates of exchange as at December 31.
(ii) Investment income and expenses are translated into Canadian dollars using the exchange rate prevailing at the date of the transaction.
(iii) The gains and losses arising from these translations are included in investment income.

3. INVESTMENTS:

The investment objectives of the Plan are to provide long-term security of pension benefits to Members and to minimize any increases in required contributions, while controlling risk at a level consistent with policy guidelines. A strategy of investing in assets of equities, fixed income, fixed income alternatives, real estate, infrastructure, money market securities and absolute return investments is aimed at achieving these objectives.

a) Market value of investments before allocating the effects of derivative contracts:

($ Thousands)

As at December 31	Assets 2016	% 2016	Income 2016	Assets 2015	% 2015	Income 2015
Fixed Income - Bonds	$1,077,060	16.4%	$49,092	$1,104,623	17.5%	$38,655
- Infrastructure Loans	35,362	0.5%	1,424	12,072	0.2%	1,389
- Mortgages	855,526	13.1%	29,000	681,447	10.8%	21,177
- Short-term	206,308	3.1%	(2,318)	207,933	3.3%	16,747
Equity - Canadian	20,724	0.3%	26,592	19,652	0.3%	1,342
- Foreign	1,518,793	23.1%	24,864	1,488,693	23.6%	25,884
- US	296,459	4.5%	27,602	261,594	4.1%	35,807
Alternatives - Commodities	4,098	0.1%	1,307	5,695	0.1%	1,516
- Emerging Market Debt	365,043	5.6%	5,388	321,642	5.1%	15,594
- Hedge Funds	719,304	11.0%	(32)	789,918	12.5%	67,732
- High Yield Credit	-	0.0%	-	1,444	0.0%	-
- Infrastructure	944,972	14.4%	32,404	843,831	13.4%	41,673
- Real Estate	504,157	7.7%	17,110	488,727	7.8%	14,086
Derivatives	16,307	0.2%	209,593	79,304	1.3%	(43,676)
Total	**$6,564,113**	**100.0%**	**$422,026**	**$6,306,575**	**100.0%**	**$237,926**

The Plan's investment in a real estate corporation (included in Canadian equities) is recorded at $1,620,000 (2015 - $1,710,000), which represents the Plan's proportionate ownership of the corporation's net assets, in compliance with Schedule 1, Section 11(3), of the Pension Benefits Regulations. Management has estimated the fair value of this investment to be approximately $13,800,000.

b) Derivative contracts:

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts are transacted either in the over-the-counter market or in regulated markets. The Plan utilizes derivatives to manage its asset mix and foreign currencies exposure.

Notional amounts of derivative contracts represent the volume of outstanding transactions and do not represent the potential gain, loss or net exposure associated with the market, foreign currency or credit risk of such transactions. Rather, they serve as the basis upon which the returns from, and the fair market value of, the contracts are determined.

Derivative contracts are valued at fair market value. Realized and unrealized gains and losses from derivative contracts have been included in investment income as part of net gain on investments (see note 9).

The fair value of the derivatives, based upon their contractual maturity as at December 31, 2016, and December 31, 2015 are as follows:

($ Thousands)

	Under 1 year	1 to 5 years	Over 5 years	Total as at 31-Dec-16	Total as at 31-Dec-15
Equity Swaps	$ (711)	$ (863)	$ -	$ (1,574)	$ 44,455
Currency Forwards	1,910	-	-	1,910	(274)
Bond Forwards	15,971	-	-	15,971	35,123
	$ 17,170	**$ (863)**	**$ -**	**$ 16,307**	**$ 79,304**

c) Market value of investments after allocating the effect of derivative contracts:

($ Thousands)

As at December 31	**Assets 2016**	**% 2016**	**Assets 2015**	**% 2015**
Fixed Income- Bonds	$4,493,220	68.5%	$4,112,213	65.2%
- Infrastructure Loans	37,272	0.6%	11,798	0.2%
- Mortgages	855,526	13.0%	681,447	10.8%
- Short-term	206,308	3.1%	207,933	3.3%
Equities - Canadian	523,363	8.0%	443,779	7.0%
- Foreign	1,518,793	23.1%	1,488,693	23.6%
- US	990,536	15.1%	977,438	15.5%
Alternatives - Commodities	4,098	0.1%	5,695	0.1%
- Emerging Market Debt	365,043	5.5%	321,642	5.1%
- Hedge Funds	719,304	11.0%	789,918	12.5%
- High Yield Credit	-	0.0%	1,444	0.0%
- Infrastructure	944,972	14.4%	843,831	13.4%
- Real Estate	504,157	7.7%	488,727	7.8%
Leverage for Overlays	(4,598,479)	(70.1%)	(4,067,983)	(64.5%)
Total	**$6,564,113**	**100.0%**	**$6,306,575**	**100.0%**

d) Investments greater than 2%:

Section 67 (3) of the *Pension Benefits Act Regulations* requires disclosure of each investment asset that has a fair value greater than two percent of the fair value of all the investment assets of the Fund.

The following schedule presents a listing of all investments in pooled funds or securities outside of pooled funds that have a fair value greater than two percent of the fair value of all investment assets.

($ Thousands)	2016	
Mesirow North Shore Fund	$719,128	10.96%
William Blair International Leaders Pooled Fund	341,998	5.21%
CUBE Infrastructure Fund	302,724	4.61%
Province of Quebec Debenture	299,616	4.56%
Dimensional EM VL Portfolio	286,816	4.37%
Comgest Growth PLC Fund	278,073	4.24%
Brookfield Americas Infrastructure Fund	233,048	3.55%
Ashmore Emerging Markets Liquid Investment Portfolio	190,105	2.90%
Emerald Canadian Short Term Investment Fund	175,408	2.67%
Ashmore SICAV EM Local Currency Bond Fund	174,938	2.67%
Montez Core Income Fund	149,842	2.28%
Private Mortgage	149,694	2.28%
Brookfield Brazil Motorways Holdings SRL (Arteris)	134,479	2.05%

($ Thousands)	2015	
Pinehurst Institutional Ltd	$414,254	6.55%
Mesirow North Shore Fund	375,480	5.94%
William Blair International Leaders Pooled Fund	345,800	5.47%
CUBE Infrastructure Fund	285,296	4.51%
Comgest Growth PLC Fund	270,154	4.27%
Dimensional EM VL Portfolio	265,289	4.20%
Brookfield Americas Infrastructure Fund	238,370	3.77%
Province of Quebec debenture	226,662	3.58%
Ashmore SICAV EM Local Currency Bond Fund	161,009	2.55%
Ashmore Emerging Markets Liquid Investment Portfolio	160,632	2.54%
Montez Core Income Fund	157,579	2.49%
Province of Ontario debenture	143,834	2.27%
Bank of Nova Scotia US Term Deposit	136,827	2.16%

4. FINANCIAL INSTRUMENTS:

a) Fair value disclosure:
The fair value of investments and derivatives is determined as described in note 2(d). Fair value measurements recognized in the statement of net assets available for benefits 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 fixed income securities and derivative contracts not actively traded on a public exchange.

- **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 and private market investments.

Investments classified based on the valuation level within the fair value hierarchy are as follows:

($ Thousands)

As at December 31, 2016	Total	Level 1	Level 2	Level 3
Fixed income - Bonds	$1,077,060	$ -	$1,077,060	$ -
- Infrastructure Loan	35,362	-	35,362	-
- Mortgage	855,526	-	855,526	-
- Short-term	206,308	175,408	30,900	-
Equities - Canadian	20,724	19,104	-	1,620
- Foreign	1,518,793	1,518,793	-	-
- US	296,459	294,388	-	2,071
Alternatives - Commodities	4,098	-	4,098	-
- Emerging Market Debt	365,043	-	365,043	-
- Hedge Funds	719,304	-	719,304	-
- High Yield Credit	-	-	-	-
- Infrastructure	944,972	-	-	944,972
- Real Estate	504,157	54	-	504,103
Derivatives	16,307	-	16,307	-
	$6,564,113	**$2,007,747**	**$3,103,600**	**$1,452,766**

As at December 31, 2015	Total	Level 1	Level 2	Level 3
Fixed income - Bonds	$1,104,623	$ -	$1,104,623	$ -
- Infrastructure Loan	12,072	-	12,072	-
- Mortgage	681,447	-	681,447	-
- Short-term	207,933	43,906	164,027	-
Equities - Canadian	19,652	17,335	-	2,317
- Foreign	1,488,693	1,488,693	-	-
- US	261,594	257,944	-	3,650
Alternatives - Commodities	5,695	-	5,695	-
- Emerging Market Debt	321,642	-	321,642	-
- Hedge Funds	789,918	-	789,916	2
- High Yield Credit	1,444	-	1,444	-
- Infrastructure	843,831	-	-	843,831
- Real Estate	488,727	53	-	488,674
Derivatives	79,304	-	79,304	-
	$6,306,575	**$1,807,931**	**$3,160,170**	**$1,338,474**

The following table outlines the changes in the fair value of Level 3 assets of the fair value hierarchy:

		Fair Value December 31, 2015	Total gain Included in Income	Total loss Included in Income	Contributed Capital	Capital Returned	Fair Value December 31, 2016
Equities	- Canadian	$ 2,317	$ 81	$(171)	$ -	$ (607)	$1,620
	- US	3,650	-	(233)	-	(1,346)	2,071
Alternatives	- Real Estate	488,674	18,049	(6,666)	33,051	(29,005)	504,103
	- Infrastructure	843,831	46,492	(368)	55,017	-	944,972
Absolute Return		2	4	-	-	(6)	-
Total		**$1,338,474**	**$64,626**	**$(7,438)**	**$88,068**	**$(30,964)**	**$1,452,766**

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 investment policies that establish an asset mix among equity, fixed income and alternative investments such as real estate, infrastructure, and emerging market debt and require diversification of investments within categories. Trustee oversight, procedures and compliance functions are incorporated into the Plan's 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 as market interest rates change. Interest rate risk is inherent in the nature of the pension plan business due to prolonged timing differences between cash flows related to the assets and liabilities of the Plan.

The value of the Plan's assets is affected by changes in nominal interest rates and equity markets. Pension liabilities are exposed to the long-term expectation of the rate of return on investments as well as expectations of inflation and salary escalation. To meet these liabilities, the Plan has established a long-term policy asset mix for each asset type. As at December 31, 2016, these were: 42.5% for equities, 19% for fixed income, and 38.5% for alternative investments (as at December 31, 2015: 42.5% for equities, 19% for fixed income, and 38.5% for alternative investments), plus additional derivative fixed income and equity exposures. A fixed income derivative exposure is used to change the Plan's sensitivity to changes in interest and expected inflation rates to more closely match the sensitivity of the Plan liabilities, thereby reducing interest and inflation rate risk.

The term to maturity classifications of interest-bearing investments, after allocating the effects of derivative contracts and based upon the contractual maturity of the securities, as at December 31, are as follows:

($ Thousands)

	< 1 yr	1 to 5 yrs	5 to 10 yrs	>10 yrs	2016 Total	Avg Yield	2015 Total	Avg Yield
Short-term	$206,308	-	-	-	$206,308	-	$207,933	-
Debentures	2,226,186	-	-	708,552	2,934,738	2.747%	2,686,773	3.421%
Real return bonds	1,189,974	-	23,416	351,432	1,564,822	1.467%	1,425,441	1.816%
Mortgages	-	250,811	604,715	-	855,526	3.770%	681,447	3.520%
Infrastructure loans	-	-	35,362	-	35,362	4.000%	12,072	4.000%
Totals	**$3,622,468**	**$250,811**	**$663,493**	**$1,059,984**	**$5,596,756**		**$5,013,666**	

Of the $3,622,468 shown above in the < 1 yr total, approximately $3,416,160 is related to various derivative exposures to bonds having a maturity date of greater than 10 years.

Excluding all other variables, a one percent increase in interest rates would decrease the fair value of the Fund by $707,338 (2015 - $647,069), and a one percent decrease in interest rates would increase the fair value of the Fund by $707,338 (2015 - $647,069). Any increase or decrease to the fair value of the Plan's assets as a result of a decrease or increase in real interest rates (excluding all other variables) is expected to have a similar impact on the value of benefit liabilities, and as a result the net impact to the Plan would be expected to be limited.

(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 net assets available for benefits, all changes in market conditions will directly result in an increase or 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.

The Plan's investments in equities are sensitive to market fluctuations. After the effect of derivatives contracts, and without change in all other variables, a ten per cent increase in market values of all public equities and privately owned equities would increase the fair value of the Plan's assets by $303,269 (2015 - $291,285). Similarly, a ten per cent decrease in market values of all public equities and privately owned equities would decrease the fair value of the Plan's assets by $303,269 (2015 - $291,285).

(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.

Fixed income

The Plan's Conventional Fixed Income Program consists entirely of Government of Canada and provincial issues, and as such represents negligible risk of default by the issuers. Much of this portfolio is implemented on an unfunded basis through bond forwards, delayed settlement bonds and bonds that have been "repo'd". Fluctuations in the market value of these unfunded exposures are subject to counterparty risk with this risk being significantly mitigated through the regular exchange of collateral with counterparties by the third party investment manager that manages these exposures on the Plan's behalf. As at December 31, 2016, the Plan had posted approximately $13,570,000 in bond collateral, and held approximately $6,340,000 in bond collateral posted by external counterparties (2015 - the Plan had posted approximately $12,990,000 in bond collateral, and held approximately $41,925,000 in bond collateral posted by external counterparties).

The Plan is exposed to credit risk from the following interest earning investments, which are included in Fixed Income Bonds, Mortgages, and Infrastructure Loans:

($ Thousands)

	2016	2015
Provincial government	$1,077,060	$1,104,623
Corporate	890,887	693,519
	$1,967,947	**$1,798,142**

The above totals include only the fair value of the Plan's physical assets and do not include approximately $3,416,160 in notional exposure to unfunded Federal and Provincial bonds (2015 - $3,007,591).

Derivatives

The Plan is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, the Plan deals directly with only highly rated major financial institutions, with whom International Swap and Derivative Association agreements have been executed. The credit risk on these exposures is significantly mitigated by monitoring the fair value of these exposures daily, and the regular exchange of collateral when exposures exceed very limited thresholds.

Real estate

Real estate investment managers mitigate risk through ongoing monitoring of tenant performance and arrears.

(iv) Foreign currency risk

Foreign currency exposure arises from the Plan's holding of foreign currency-denominated investments. Foreign currency risk is controlled by limiting foreign investments through asset allocation guidelines.

The Plan's foreign currency exposure, after the effect of derivatives (net of currency forwards), as at December 31 is summarized in the following table.

Currency Exposure	(CDN$ Thousands)	2016	2015
United States		$2,795,566	$2,607,850
European Union		496,184	500,272
Japan		149,900	178,600
Australia		100,972	74,519
United Kingdom		160,117	135,702
Other		298,899	288,823
		$4,001,638	$3,785,766

After the effect of hedging, and without change in all other variables, a ten percent increase in the Canadian dollar against all other currencies would decrease the fair value of the Plan's assets by $400,164 (2015 - $378,577). Similarly, a ten percent decrease in the Canadian dollar against all other currencies would increase the fair value of the Plan's assets by $400,164 (2015 - $378,577).

(v) Liquidity risk:
Liquidity risk is the risk of not meeting the cash obligations of the Plan in an efficient manner. Cash obligations are fulfilled from contributions to the Plan, cash income of the Plan, replacing physical assets with unfunded exposures, 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 investment policy ensures that the quality and liquidity of the investment vehicles within the cash portfolios are consistent with the needs of the Plan.

5. RESTRICTED CASH:

In conjunction with an investment holding, the Plan has authorized its bank to hold funds as collateral for the purposes of providing security on possible future cash calls by the investee. As at December 31, 2016, restricted cash totalled $14,154,000 (2015 - $23,271,000). The Plan does not believe that this cash will ultimately be called.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

($ Thousands)

	2016	2015
Cash collateral received from counterparties	$ -	$ 58,310
Trade and accrued liabilities	5,590	5,426
Due to Health Association Nova Scotia	2	1
	$ 5,592	$ 63,737

The Plan has entered into various swap agreements with two counterparties that are linked to collateral management agreements between the parties. Depending upon the position of the swaps at a given point in time, one of the counterparties will be required to post collateral. As at December 31, 2016, neither the Plan nor its external counterparties held any cash posted as collateral due to the position of the swaps at that date (2015 - the Plan held $58,310,000).

7. ACCRUED PENSION BENEFITS:

The actuarial present value of accrued pension benefits as at December 31, 2016 was determined using the projected unit credit method prorated on service and the administrator's best estimate assumptions. Actuarial gains and losses are recorded using the immediate recognition approach. These results were extrapolated from the date of the last formal valuation of Plan liabilities, July 1, 2014.

The economic assumptions used in determining the accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were as follows:

	2016	2015
Investment Assumption (discount rate)	**6.40% per annum**	6.25% per annum
Inflation	**1.90% per annum**	1.70% per annum
Salary / YMPE Increase	**3.10% / 2.40% per annum**	2.90% / 2.20% per annum
Mortality	**CPM 2014 combined with future mortality improvements using Scale CPM-B**	CPM 2014 combined with future mortality improvements using Scale CPM-B
Retirement	**75% earliest unreduced 25% age 65**	75% earliest unreduced 25% age 65

Future base year improvements and indexing of pensions to 100% of the change in CPI (not limited to 3%) are included in the actuarial present value of accrued pension benefits.

8. FUNDING POLICY:

In accordance with the Plan terms, employees were required to contribute 7.82% of their earnings up to the YMPE ($54,900 in 2016) as defined under the Canada Pension Plan, and 10.18% of earnings in excess of the YMPE. Employers remitted 9.22% up to the YMPE, and 11.58% of earnings in excess of the YMPE.

The most recent actuarial valuation for funding purposes was prepared by Mercer (Canada) Ltd. as of July 1, 2014, and a copy of this valuation was filed with the Nova Scotia Superintendent of Pensions and with the Canada Revenue Agency. This valuation disclosed a funding excess of $935.3 million on a going-concern basis. The effective date of the next required actuarial valuation is on or before July 1, 2017.

Actuarial valuation results can be prepared on several different bases. Solvency results are based on the assumption that the Plan is to be wound up as of the date of the valuation report, and the assumptions that are used are for the most part mandated by the *Pension Benefits Act*. As a result, certain actuarial assumptions such as salary increases and inflation indexing of pensions have been excluded from these results. On a solvency basis, this valuation disclosed a funding excess of $48.1 million as of July 1, 2014.

9. INVESTMENT INCOME:

($ Thousands)

	2016	2015
Dividends	$ 39,809	$ 30,009
Short-term interest	2,187	1,534
Bond interest	49,092	38,655
Real estate income	17,110	14,086
Infrastructure income	32,404	41,673
Infrastructure loan income	1,424	1,389
Mortgage income	29,000	21,177
Emerging market debt income	5,150	10,309
Swap income (loss)	207,023	(42,962)
Other foreign exchange gain	38,579	122,056
Securities lending income	248	-
	$ 422,026	$ 237,926

Net gains on investments are presented net of pooled fund expenses, which have been deducted directly from investment revenue by the investment manager. Pooled fund expenses are not direct cash flows of the Plan, are difficult to measure with a great deal of certainty, and as such only other investment expenses are directly reflected on the Plan's financial statements.

Other foreign exchange gain amounts include gains and losses not already recorded in other investment income categories.

10. EXPENSES:

($ Thousands)

ASSET MANAGEMENT AND GOVERNANCE	2016	2015
Investment management (note 9)	$ 8,642	$ 9,006
Salaries and benefits	604	502
Education and related travel	4	2
Trustee expenses	31	41
Sponsor expenses	1	3
Premises	16	16
Computer services	10	10
Custodial	341	450
Professional fees	84	13
Insurance	19	23
Depreciation	14	14
Administration	30	27
Audit	30	30
Consulting and performance measurement	382	306
	$ 10,208	$ 10,443

($ Thousands)

CLIENT SERVICES	2016	2015
Salaries and benefits	$ 1,509	$ 1,425
Professional fees	394	205
Benefit payment fees	252	254
Equipment and software	100	138
Communications	58	54
Depreciation	82	80
Administration	46	42
Premises	102	100
Computer services	52	52
Insurance	19	23
Trustee expenses	6	10
Education and related travel	1	1
Audit	15	18
	$ 2,636	$ 2,402

11. CONTRIBUTIONS:

($ Thousands)

	2016	2015
Employers	**$ 133,580**	$ 133,477
Employees	**114,387**	114,257
Transfers from other pension plans	**1,572**	2,295
Pension buybacks:		
Members' past service purchases	**3,028**	20,717
Employer adjustments	**188**	209
	$ 252,755	$ 270,955

12. BENEFITS, REFUNDS AND TRANSFERS:

($ Thousands)

	2016	2015
Pensioner benefits	**$ 170,413**	$ 155,223
Termination refunds	**28,936**	24,288
Death benefits	**7,200**	2,846
Transfers to other plans	**1,700**	3,236
	$ 208,249	$ 185,593

13. CAPITAL MANAGEMENT:

Unlike a private corporation, the NSHE Pension Plan does not have a capital structure made up of direct debt and residual equity. While certain investments of the NSHE Pension Plan have related debt (e.g. mortgages that exist on some real estate assets), these are not directly the debt of the NSHE Pension Plan. The reason for this is these debt providers have no legal recall on any assets of the Plan beyond those of the asset being mortgaged and in limited cases to the third party manager funds that hold these assets and the Plan's related funding commitments to these funds. The Income Tax Act (Canada) also prevents registered pension plans such as the NSHE Pension Plan from having debt obligations except in very limited circumstances.

Instead of debt and equity obligations, the NSHE Pension Plan has obligations to its members as specified in the Plan terms. These are very long-term obligations, having characteristics that are somewhat similar to long-term fixed debt obligations. These obligations are valued regularly by the Plan's actuary for various purposes, including these financial statements and the actuarial valuation reports that are periodically filed with the pension regulators. To the best of management's knowledge, the NSHE Pension Plan has paid all member benefits to date in compliance with Plan terms.

14. COMMITMENTS:

The Plan has committed to enter into investment transactions that may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2016, these potential commitments totaled $402.2 million (2015 - $441.4 million).

15. CONTINGENCY:

The NSHE Pension Plan may, from time to time, be involved in legal proceedings, claims and litigation that arise in the ordinary course of business that the Plan believes would not reasonably be expected to have a material adverse effect on the financial condition of the Plan.

16. COMPARATIVE INFORMATION:

Certain of the comparative figures for 2015 have been reclassified to conform to the financial statement presentation adopted for 2016.