

NOVA SCOTIA PENSION AGENCY

INVESTMENT REPORT

NOVA SCOTIA PUBLIC SERVICE
SUPERANNUATION PLAN

First Quarter Ended June 30, 2006



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Superannuation Plan and
Investment Division & Reports.

Investment Division

Up until February 9, 2006 administrative functions of the Plan were carried out through the Pensions & Investments Branch of the Nova Scotia Department of Finance. February 10, 2006 the administration of the Plan was moved to the **NOVA SCOTIA PENSION AGENCY (NSPA)**. The NSPA was created as a Special Operating Agency of the Government of Nova Scotia.

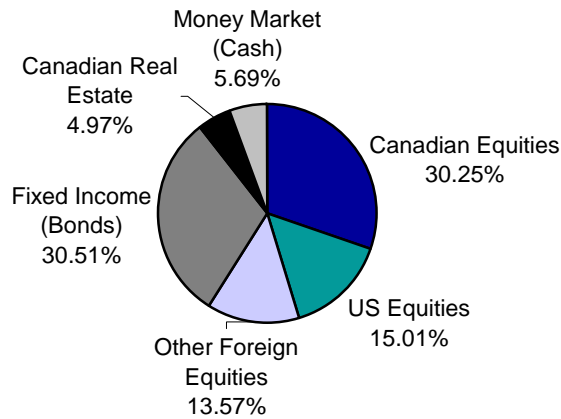
The Investment Division of the NSPA is comprised of six investment professionals. This group is responsible for the day-to-day monitoring of asset mix for compliance with asset mix guidelines and recommending asset mix changes. In addition, this group is responsible for selecting external fund managers and managing fixed income portfolios. Support staff are responsible for accounting for all investment transactions.

INVESTMENT REPORT

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

ASSET MIX

June 30, 2006



3-Month Quarter Ended

June 30

Asset	Percentage
Canadian Equities	30.25%
US Equities	15.01%
Other Foreign Equities	13.57%
Fixed Income (Bonds)	30.51%
Canadian Real Estate	4.97%
Money Market (Cash)	5.69%

TOP 20 HOLDINGS

Stock	June 30, 2006 (descending value)
Manulife Financial Corp	\$47,534,248
Royal Bank of Canada	\$47,273,659
Bank of Nova Scotia	\$41,640,138
Toronto Dominion Bank	\$41,369,064
Encana Corporation	\$34,515,871
Nexen Inc	\$30,029,402
Talisman Energy Inc	\$25,731,222
Canadian Natural Resources Ltd.	\$21,764,280
Canadian National Railway	\$19,967,480
Suncor Energy Inc.	\$18,813,935
Imperial Oil Ltd.	\$18,809,815
Bank of Montreal	\$18,251,739
Shell Canada Ltd.	\$17,951,098
Transcanada Corp	\$16,704,512
Sun Life Financial Inc	\$16,238,793
Petro Canada	\$15,956,853
SNC-Lavalin Group Inc.	\$15,304,314
Thomson Corp	\$14,310,571
Canadian Tire Ltd.	\$14,046,002
Great West Lifeco Inc	\$13,471,699

FUND PERFORMANCE

First Quarter 2006 Economic Overview (Calendar Year)

The second quarter of 2006 can probably be best summarized by the tightening actions of several of the world's central banks as they continued to raise interest rates to protect against inflation as strong economic growth is seemingly leading to higher prices and continued inflationary concerns.

The United States economy continued to grow in the second quarter but at a significantly slower pace than in the first quarter. The combination of reduced United States consumer spending, moderating housing prices, and rising interest rates to keep inflation at bay are slowing economic growth.

Higher prices for gasoline have forced many consumers to reduce purchases of other goods and the steep rise in home prices over the past few years and a gradual increase in mortgage rates is continuing to weigh on housing. Fewer home sales and reduced residential construction weighs directly on economic activity while softer home prices indirectly slows economic activity by discouraging the use of home equity financing to fund consumer purchases.

In spite of the slow down in growth, inflationary pressures are building, and because inflation was still above the Federal Reserve comfort zone, policymakers raised interest rates for the 17th time since June 2004, bringing the benchmark Federal Funds interest rate to 5.25%.

However, Federal Reserve policymakers signaled after their June 29th meeting that they were becoming less worried about inflation, in part because of the cooling that is becoming evident in the United States economy. This suggests that they may stop raising interest rates through the remainder of the year as the lagged impact of previous interest rate hikes and potential new interest rate hikes by other central banks could be expected to further slow the United States economy.

Similar to the Federal Reserve, the Bank of Canada continued to raise interest rates in the second quarter. The Bank of Canada increased its target interest rate by 25 basis points to 4.25% in late May. This hike was the seventh increase in a row and brought the policy interest rate to its highest level since August 2001. The Canadian economy has continued to benefit from higher energy and commodity prices in the first half of the year.

Investors seem to focus predominantly on the actions of the United States Federal Reserve. However, other key central banks outside of North America have also been raising interest rates (Europe, Australia) or preparing to do so (Japan).

Sharp increases in input costs such as oil has renewed concerns over rising inflationary pressures and the prospect of a prolonged cycle of interest rate hikes in the world's major economies. Higher interest rates globally are beginning to threaten growth in most of the developed economies, and as global monetary policy continues to converge and remove liquidity, global growth is expected to slow. The extent to which the world's central banks raise interest rates will to a large degree determine the magnitude of the economic slowdown.

First Quarter 2006 Capital Market Returns

Financial markets were largely unsettled and posted negative returns for the second quarter of 2006 as investors had a difficult time deciphering the Federal Reserve's policy with respect to interest rates. Though this was the same uncertainty investors faced in the previous quarter, there was now more evidence that growth in the economy was decelerating and inflationary pressures were picking up. Throughout the quarter, new Federal Reserve Chairman Ben Bernanke signaled that the Federal Reserve may not be finished raising interest rates in order to combat rising prices. Consequently, this led to significant volatility in equity markets worldwide as many investors had incorrectly anticipated the end of the Federal Reserve's tightening cycle in the first quarter.

The S&P/TSX Composite index¹ was down 3.5% during the quarter. Despite the jump in volatility which is often associated with a run to quality in the form of large and more established companies, small capitalization² stocks fared better (-2.11%) than their large (-3.80%) and mid capitalization³ (-3.66%) peers during the quarter.

The quarter saw a wider range of returns across sectors with energy, utilities, and materials posting modest gains. Other cyclical sectors, like information technology, and industrials and the interest rate sensitive financials traded sharply lower on continued fears that rising interest rates south of the border and abroad would eventually threaten economic activity and stunt the growth of corporate profits.

The S&P/TSX Equity-Only Index⁴ returned -4.03% for the quarter.

The Canadian dollar continued to benefit from soaring commodity prices. Based on average levels the Loonie is 11% stronger year over year and up 4.7% quarter over quarter.

The United States and global equity markets, also posted negative and or flat returns (S&P 500⁵ - 1.4%), Japan (Nikkei⁶ -9.1%), Global (MSCI EAFE⁷ +0.9%) during second quarter of 2006.⁸

After a strong first quarter, weakness was evident in United States equities throughout the second

¹ An index comprised of a basket of stocks representative of Canadian based Toronto stock exchange listed companies. It is the leading indicator of Canadian equity markets and is intended to represent the entire Canadian equity market and thus track the market's changes over time.

² Stocks with a relatively small market capitalization. The definition of small cap can vary among brokerages, but generally it is a company with a market capitalization of between \$300 million and \$2 billion.

³ Stocks with a market capitalization in excess of \$2 billion.

⁴ This index is similar to the S&P/TSX Composite except that it does not include Income Trusts.

⁵ An index consisting of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the United States large cap universe.

⁶ The leading and most-respected index of Japanese stocks. It is comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.

⁷ EAFE is an acronym referring to the geographical area that includes Europe, Australasia, and the Far East. These regions represent the most developed areas outside of North America. The MSCI EAFE index is designed to be a leading indicator of equity markets in this geographical area.

⁸ Local market returns

quarter as the markets were nervous about ongoing interest rate increases. Weakness was broad based but particularly in energy, materials, and technology.

Despite posting weak returns, European and Asian equity markets continue to be strong places to invest. European markets are likely to remain volatile over the next quarter amid lingering concerns of higher interest rates and inflation. With European economies starting to strengthen, it is likely that further interest rate increases over the coming months will occur.

Asian markets experienced sharp corrections during the second quarter as investors were eager to lock in their gains pending better clarity of interest rates, inflation and global economic growth.

A flight to quality helped value and large caps outperform their growth and small cap peers. Canadian small caps under performed their large cap peers recording a -6.47% return as measured by the Nesbitt Burns Small Cap Index⁹ and -4.91% as measured by the S&P/TSX Mid/Small Cap Equity-Only Index¹⁰.

In the United States, small companies (Russell 2000¹¹) clearly under performed large companies (Russell 1000¹²) for recent quarter by over 3.45%.¹³

Growth¹⁴ stocks fell behind their Value¹⁵ counterparts in the second quarter, consistent with results that have existed for much of the past five years. S&P 500/Citigroup Value¹⁶ Index posted a 0.6% return for the quarter compared with a 3.46% loss for the quarter in the S&P 500/Citigroup Growth Index.¹⁷

The Scotia Capital Universe¹⁸ returned a negative 0.90% during the second quarter of 2006 as rising interest rates continued to take their toll on the domestic bond market. The Scotia Capital Universe

⁹ This index includes the common shares of all Canadian companies trading on the Toronto and Montreal stock exchanges with a total capitalization of less than 0.1% of the total capitalization of the S&P TSX Composite Index. It is a leading indicator of Canadian small capitalization equity market performance.

¹⁰ The S&P/TSX Mid/Small Cap Equity Only Index is a blend of mid-sized and small sized Canadian companies, with weights adjusted across economic sectors. This Index does not include Income Trusts.

¹¹ Is an index including 2000 of the smallest stocks representing approximately 11% of the United States equity market. This is a United States small cap equity index.

¹² Is an index consisting of 1000 of the largest stocks representing approximately 87% of the United States equity market. This is a large cap United States equity index.

¹³ Local market returns

¹⁴ A strategy whereby an investor seeks out stocks with what they deem good growth potential. In most cases a growth stock is defined as a company whose earnings are expected to grow at an above-average rate than its industry or the overall market.

¹⁵ Value investors actively seek stocks of companies with sound financial statements that they believe the market has undervalued. Typically, these investors select stocks with lower-than-average price-to-book or price-to-earning ratios and/or high dividend yields.

¹⁶ The S&P 500/Barra Growth and Value series became the S&P 500/Citigroup Growth and Value series on December 16, 2005.

¹⁷ Local market returns

¹⁸ This index is a broad measure of return for the Canadian bond market covering approximately 700 marketable Canadian bonds with a term to maturity of more than one year. Bond categories include Federal, Provincial, Municipal and AA through BBB rated corporate issuers.

short-term bond index¹⁹ was up 0.1% versus a decline of 2.9% for the Scotia Capital Universe long-term bond index.²⁰

First Quarter (June 30th) Superannuation Fund Performance

Performance for the June 30, 2006 quarter showed a return of -2.66% versus the Fund's benchmark return of -2.83%. Over a rolling one year period, the Fund showed a return of 7.41% versus its benchmark return of 7.83% and the target investment return of 7.38%.²¹

Returns in the Fund's active mandates have been mixed in part due investment manager style.

The Fund tends to outperform in down markets and underperform in upward moving markets that are focused on momentum, and this is consistent with the most recent quarter and rolling one year results.

The real estate portfolio supplied a 3.23% return in the first quarter and this contributed to a return of 12.28% over the previous one year period. These returns stem from the income and capital appreciation of the 16 properties that the Fund owns as well as its investment in the Canadian Real Estate Investment Fund that continues to supply a well-diversified component of the return.

In continued efforts to ramp up the real estate allocation, the Fund has recently acquired a three building industrial portfolio in Montreal, Quebec. These industrial properties are well located near the Pierre Elliott Trudeau International Airport and provide a significant presence in the Montreal industrial market. The properties are "high cube", well leased, multi-tenant buildings.

Cash and cash equivalents increased to 5.69% from 2.05% as of the quarter ended March 31, 2006 as monies were moved out of Canadian equities as part of the Fund's quarterly rebalancing process. These monies are expected to be transitioned to other asset classes.

¹⁹ This index is a measure of broad return for those bonds with maturities under five years that are found in the Scotia Capital Universe.

²⁰ This index is a measure of broad return for those bonds with maturities in excess of 10 years that are found in the Scotia Capital Universe.

²¹ This may vary from the final return calculation as yearly returns for private equity and real estate investments are still being finalized.

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