

NOVA SCOTIA DEPARTMENT OF FINANCE
PENSION SERVICES GROUP

INVESTMENT REPORT

NOVA SCOTIA PUBLIC SERVICE
SUPERANNUATION PLAN

Quarter Ended September 30, 2005



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Investment Division

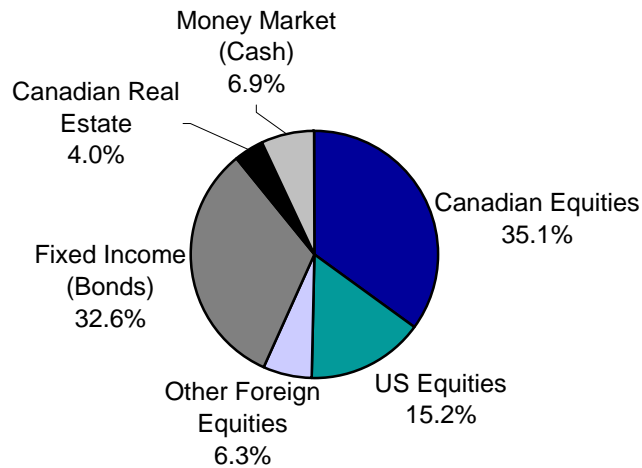
The Minister of Finance is trustee of the Fund and is responsible for the day-to-day administration of the plan. These functions are carried out through the Pensions and Investments Branch of the Department of Finance. The Investment Division of the Department of Finance is comprised of seven investment 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

September 30, 2005



Asset	3-Month Quarter Ended	
	June 30/05	Sept 30/05
Canadian Equities	37.5%	35.1%
US Equities	16.1%	15.2%
Other Foreign Equities	6.2%	6.3%
Fixed Income (Bonds)	33.7%	32.6%
Canadian Real Estate	3.0%	4.0%
Money Market (Cash)	5.2%	6.9%

TOP 20 HOLDINGS

Stock	September 30, 2005 (descending value)
Royal Bank of Canada	\$63,357,778
Encana Corporation	\$54,130,033
Manulife Financial Corp	\$52,126,132
Toronto Dominion Bank	\$52,029,223
Bank of Nova Scotia	\$47,531,289
Talisman Energy Inc	\$36,965,318
Nexen Inc	\$35,795,080
Imperial Oil Ltd.	\$21,860,971
Sun Life Financial Inc	\$21,851,090
Petro Canada	\$21,458,900
Transcanada Corp	\$20,772,247
BCE Inc.	\$20,171,919
Canadian National Railway	\$19,836,571
Shell Canada Ltd.	\$19,078,673
Canadian Natural Resources Ltd.	\$18,583,511
Suncor Energy Inc.	\$18,488,470
Metro Inc	\$17,426,267
Thomson Corporation	\$16,814,941
Great West Lifeco Inc	\$16,602,781
Enbridge Inc	\$16,533,626

FUND PERFORMANCE

SECOND QUARTER (JULY 1 TO SEPTEMBER 30, 2005)

Economic Overview

Hurricanes were the talk of the quarter as both Katrina and Rita smashed into the US Gulf coast in late August and early September. While the human toll has been determined, the economic impact caused by these events still remains relatively uncertain. Short-term expectations are for slower US economic growth, while the longer-term impact is likely to be one of re-building and that should be a spark for economic growth in 2006.

Oil prices spiked dramatically higher in the quarter. While light sweet crude hit an intraday high of over US \$70 per barrel in September, it closed the quarter at US \$66.24. A move of over 27% from last quarter. The dramatic increase was due to significant oil and gas production closures from the hurricanes and continuing high global and North American demand. As oil prices rose and refineries in the Gulf Coast were shut down, gasoline prices at the pump also surged.

A potential economic impact of surging energy prices is the introduction of inflationary pressures. While consumer spending on energy goods and services accounted for just 5.7% of U.S. consumer spending in July, energy prices are reflected throughout the economy. Companies either pass these costs on to consumers through higher prices of finished goods and services or corporations will absorb the higher costs, leading to lower profits. Should significant increases in the Consumer Price Index (CPI) occur, the US Federal Reserve and the Bank of Canada will manage this inflationary pressure by increasing interest rates to balance economic growth and inflation.

There were suggestions that in the wake of the Gulf Coast disaster, the US Federal Reserve would stop increasing interest rates and take a break from their hawkish stance on the economy. However, as it turned out, the US Federal Reserve continued on its path of measured tightening by raising interest rates by 25 basis points during the quarter to 3.75%.

The US Federal Reserve continues to gather data and estimates over the next several months to judge how long prices for gasoline and natural gas will remain elevated. This energy supply shock should have a greater impact on US consumers than previous demand price increases, which resulted from greater demand. As a result, the market is pricing in more interest rate hikes by the US Federal Reserve. It looks increasingly likely that the US Federal Reserve will raise rates again in November and December, which would bring the funds rate up to 4.25% by the end of the calendar year. Exiting Chairman Alan Greenspan feels that the potentially destructive power of inflation is far greater than the short-term slowdown that is likely to occur from the hurricanes.

The Bank of Canada raised interest rates by 25 basis points in the quarter to 2.75% despite the skyrocketing price of oil and the economic uncertainty arising from the hurricane disasters in the U.S. Canadian GDP came in at a healthy annualized rate of 3.2% versus the Bank of Canada's 2.3% estimate. This rate increase came after the Bank of Canada had been on the sidelines for over 10 months.

The Canadian economy continues to perform reasonably well. Strong consumer spending, retail sales, and residential housing markets continue to be the key support for growth. Further interest rate hikes are expected by the market over the next several meetings.

Market Returns

Equity markets around the world increased during the third quarter of 2005, despite higher energy prices and concerns about the global economy. The S&P TSX Composite Index led most indices with an 11.6% jump during the quarter. It has been dominated by the relentless rise in the energy sector that was up 25.5% in the quarter and has gained over 65% year to date. More than 67% of the S&P/TSX Composite 2005 performance is attributable to the energy sector alone. One has to look all the way back to the second quarter of 2004 to find a negative quarter for the TSX.

The Canadian dollar appreciated strongly in the quarter because of the move in oil prices. Closing above 86 cents versus the \$US at quarter end (a 13 year high), it was also robust compared to the euro (3 year high), the yen (7 year high), and the British Pound (9 year high).

U.S. equity markets, while positive (S&P 500 +3.6%; Dow Jones Industrial +3.13%), lagged markets elsewhere in the world; Japan (Nikkei +17.2%), Global (MSCI EAFE +10.44%).¹ The US market's sluggishness is disconcerting since the US economy has had one of the top growth rates in the world.

The impact of energy on overall Canadian equity performance is also having a visible influence on large company (S&P/TSX 60) domination. The S&P/TSX 60 was up 12.18% in the quarter versus 9.88% for the S&P/TSX Small/Mid Cap Index. This is in contrast from the trend in the US where small companies (Russell 2000) are outpacing large companies (Russell 1000).

Growth² managed to outperform value³ during the quarter with the S&P 500/Barra Growth Index posting a 3.78% return compared with a 3.44% gain in the S&P 500/Barra Value Index. However, value is still dominating growth over a 12-month period with a 3.16% advantage.⁴

Bond performance was lackluster over the quarter. The sell-off in the Canadian bond market that started in mid-June continued through the first half of the third quarter. However, in August investors revised their expectations believing that rather than generating inflationary pressures, the sustained rise in the price of oil would dampen the short-term outlook for economic growth. The Scotia Capital Universe fixed income benchmark registered a modest 0.12% rise in the quarter and is up 4.47% calendar year to date.

¹ Local market returns

² 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.

³ 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.

⁴ Local market returns

Public Service Superannuation Fund Performance

Performance for the September 2005 quarter showed a return of 4.50% versus the Fund's benchmark return of 3.68%. Performance continues to be driven by strong returns from both Canadian large and small cap active equity mandates. Also contributing to the quarter's outperformance was domestic fixed income that outperformed its benchmark by 10 basis points.

For the rolling one year period ended September 30, 2005, the fund showed a return of 15.78% versus its benchmark return of 14.47% and the target investment return of 7.38%. Returns in Canadian equities continue to be the main contributor for the outperformance. International and US equity returns have been mixed in part due to underperformance by certain active equity mandates versus the benchmark and the ongoing strength of the Canadian dollar.

The Fund continues to benefit from the strong performance of a number of oil and gas companies including Nexen Inc., Encana Corp., Talisman Energy, Petro-Canada, Suncor Energy Inc., Shell Canada Ltd. and Imperial Oil Ltd. The energy sector has grown to account for 27.1% of the S&P/TSX Composite Index at quarter end from 18.3% a year earlier.

Offsetting the strong performance achieved by domestic asset classes, US and International equity performance was mixed during the quarter. In the US, weak returns were attributable to underperformance against the benchmark in certain active investment manager mandates. In addition, the strong appreciation of the Canadian dollar during the quarter ultimately had adverse consequences for both US and EAFE⁵ portfolios.

While the final quarterly returns for real estate have yet to be compiled, the Fund is expecting returns similar to the 2-3% range achieved in prior quarters. Returns are now attributable to the eleven properties that the Fund currently owns. During the quarter, the Fund acquired interests in two major Canadian downtown office buildings. Namely, Purdy's Wharf in Halifax, Nova Scotia, and First Canadian Centre, in Calgary, Alberta. Also, this quarter, the Fund received a 12% appraisal gain on one of its industrial properties in Toronto, Ontario. The Fund's investment in the Great West Life Canadian Real Estate Investment Fund also continues to supply a well-diversified income source.

Cash and cash equivalents increased to 6.87% from 5.23% last quarter. The Fund continues to re-balance by taking monies out of Canadian equity to be redeployed in other asset classes and monies are currently being transitioned to new international equity mandates. This re-deployment is in conjunction with the Fund's stated long-term approved asset mix.

⁵ Europe, Australia, Far East - EAFE. An acronym referring to the geographical area that includes these three regions.

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PENSION SERVICES GROUP

PO BOX 371, 1723 HOLLIS STREET

HALIFAX, NOVA SCOTIA B3J 2P8

PHONE: 902.424.5070

TOLL FREE IN NS: 1.800.774.5070

FAX: 902.424.0662

E-MAIL:
PENSIONSINFO@GOV.NS.CA

WEBSITE:
WWW.GOV.NS.CA/FINANCE/PENSION