

NOVA SCOTIA DEPARTMENT OF FINANCE
PENSION SERVICES GROUP

INVESTMENT REPORT

NOVA SCOTIA PUBLIC SERVICE
SUPERANNUATION PLAN

Quarter Ended December 31, 2005



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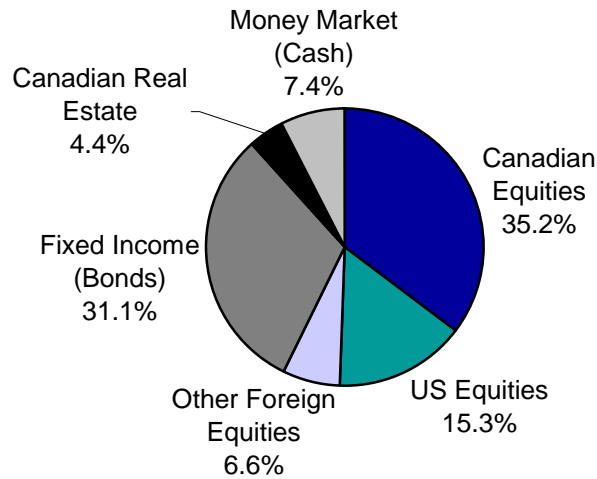
The Minister of Finance is trustee of the Fund and is responsible for the day-to-day administration of the plan. These functions are carried out through the Pensions and Investments Branch of the Department of Finance. The Investment Division of the Department of Finance is comprised of seven investment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

December 31, 2005



3-Month Quarter Ended

Asset	June 30	Sept 30	Dec 31
Canadian Equities	37.5%	35.1%	35.2%
US Equities	16.1%	15.2%	15.3%
Other Foreign Equities	6.2%	6.3%	6.6%
Fixed Income (Bonds)	33.7%	32.6%	31.1%
Canadian Real Estate	3.0%	4.0%	4.4%
Money Market (Cash)	5.2%	6.9%	7.4%

TOP 20 HOLDINGS

Stock	December 31, 2005 (descending value)
Royal Bank of Canada	\$65,442,972
Manulife Financial Corp	\$57,590,001
Toronto Dominion Bank	\$55,524,201
Bank of Nova Scotia	\$50,837,945
Encana Corporation	\$42,285,130
Talisman Energy Inc	\$39,555,686
Nexen Inc	\$35,923,478
Sun Life Financial Inc	\$24,125,765
Canadian National Railway	\$23,197,450
Transcanada Corp	\$22,636,856
Canadian Natural Resources Ltd.	\$20,841,638
Shell Canada Ltd.	\$20,763,632
Petro Canada	\$20,642,917
Imperial Oil Ltd.	\$19,804,943
Suncor Energy Inc.	\$19,675,653
Bank of Montreal	\$19,555,935
BCE Inc.	\$18,071,898
Canadian Tire Ltd.	\$18,070,151
Great West Lifeco Inc.	\$17,629,181
Rogers Communication Inc.	\$17,046,355

FUND PERFORMANCE

Economic Overview

The United States economy continues to exhibit impressive resilience. The combination of low inflation, strong growth in housing prices, and an improved unemployment picture helped to spur the US consumer in 2005. Hurricanes, surging oil and gas prices, a record trade deficit, and persistent interest rate increases from the Federal Reserve were unable to slow down the United States economic engine. The economy emerged from recent hurricanes in better shape than expected and ended 2005 with strong momentum. United States GDP grew at a 4.1% quarter over quarter annualized rate in third quarter 2005 (the tenth consecutive quarter with growth at or above the 3.0% level); and full year 2005 growth is approximated to be 3.6%.

The Federal Funds rate increased by 200 basis points in 2005 to reach its current level of 4.25%. The steady progression of this benchmark interest rate created concern about future economic growth in the United States but strong economic data such as housing starts and consumption supported the rationale for the increases. In fact, on December 13th, the 25 basis point increase was the thirteenth consecutive hike in this key interest rate since June 2004 as the Federal Reserve has attempted to remove excess stimulus from the United States economy put in place after 9/11, the recession, corporate accounting scandals, and the bursting of the stock market bubble.

With United States monetary policy no longer accommodative, and overall conditions tighter, the Federal Reserve may be close to the end of their tightening campaign. The fact that inflation, excluding energy, has remained somewhat constrained is one of the many reasons why investors feel that the Federal Reserve will soon be done increasing interest rates. The Federal Funds rate is expected to increase to 4.5% at the January 2006 meeting and one last rate hike could be implemented in March 2006.

Economic growth on the domestic front has been remarkably resilient as the latest figures indicate that overall Canadian GDP grew at a 3.6% annualized pace in the third quarter of 2005; and is approximated to be 2.9% for full year 2005. Growth in economic activity has shown considerable variation along sector and regional lines. The majority of growth has come from the Canadian energy stronghold: Alberta. Elsewhere in Canada, and in many other exporting industries, the data has pointed to feeble growth.

Given these above imbalances, the Bank of Canada delayed the start of its restrictive monetary policy. With core inflation well below the Bank's median target of 2.0%, the Bank of Canada has been able to be patient with interest rate increases. The key lending rate hit 3.25% in December following a much slower tightening pace than its American counterpart. For most of the year the Bank of Canada maintained the key rate at 2.75%. Consensus is that the Bank of Canada should wrap up its monetary tightening campaign after hiking its key interest rate another 50 basis points to 3.75%.

Overseas, economic recovery continues to gain momentum, with Japan and the euro zone showing encouraging signs. Growth in the euro zone has bounced back from the depths reached in late 2004 and risen steadily to an annual rate of 2.6% in the third quarter of 2005. Economic growth had not reached 2% since the first quarter of 2004. On December 1, the European Central Bank raised its key interest rate for the first time in more than two years by 25 basis points to 2.25%.

The recovery in Japan shows the promise of staying power. The country recorded strong real economic growth in the first half of 2005 with annualized quarterly gains of 5% or more. Particularly noteworthy is that growth has been driven by private domestic demand rather than exports or public spending.

In conclusion, the North American and world economies have experienced a period of sustained economic expansion. Global economic growth was about 4.3% in 2005 and is expected to revert towards its long-term trend of approximately 3.5% in 2006. As the main driver of global growth, the United States, - as the expansion of real estate wealth moderates and the stimulus of post hurricane rebuilding comes to an end its economy should decelerate due to the effects of past interest rate hikes and level off at just under 3%. The Canadian economy is expected to follow suit and end 2006 with GDP growth of 2.7%.

These forecasts are not without risk. The growing United States and Chinese trade imbalances, a deceleration in US consumer spending due to higher energy prices and a rapid rise in mortgage rates could entail not just slower spending in the United States but a contraction in spending leading to a hard landing for the North American economies. However, tame inflation expectations should leave room for the North American central banks to quickly change their monetary policy course if necessary to avoid this scenario.

Market Returns

Equity markets around the world increased during the fourth quarter of 2005, despite higher energy prices and concerns about the global economy.

The S&P TSX Composite Index was able to erase large losses in October and ended the quarter up 2.86% led by both the financials (+7.81%) and materials groups (9.86%). Unlike past quarters performance, energy was down 2.05% in the quarter.

Considering the heavy financial services and energy sector weights in the S&P/TSX it is no surprise that the Canadian market was one of the best performing equity markets worldwide in 2005 with a total return of 24.13%. More than 87% of the S&P/TSX Composite 2005 performance is attributable to both of these sectors. Without these two groups the index would only have been up 3.5% for the year. Additionally, gains were also restricted to a few larger names in the index as the top fifteen stock price gainers were responsible for over 70% of total index gains on the year. However, this marked the third straight year of double digit gains for this benchmark Canadian index.

The Canadian dollar depreciated slightly during the quarter but closed at approximately 86 cents (1.1624) as compared to approximately 83 cents (1.2097) last year.

The United States equity market, while positive (S&P 500 +2.09%), lagged markets elsewhere in the world; Japan (Nikkei +18.7%), Global (MSCI EAFE +4.12%) during fourth quarter 2005.¹

Under pressure all year, the US equity market was unable to benefit from buoying economic data and an otherwise healthy corporate America. Posting a scanty 4.91% 2005 return, the S&P 500 index lagged its

¹ Local market returns

peers in Europe, Asia, and Canada.² This underperformance was unusual in both size and timing.

European and Asian markets were good places to invest in 2005. Japanese stocks grew at an extraordinary pace with the Nikkei index returning 40.2% for the year. The turnaround in Japan's stock outlook is a familiar scenario for recently re-elected Prime Minister Koizumi who appears to global investors to be the architect of the country's financial system reform. European equities registered a 23.7% return based on the Bloomberg Europe 500 index. Globally the MSCI EAFE returned 14.02% for the year.³

The impact of energy on overall Canadian equity performance had a visible influence on large company (S&P/TSX 60) domination. The S&P/TSX 60 was up 2.85% for the quarter and 26.29% for the year versus 1.93% for the quarter and 10.60% for the year for the S&P/TSX Small cap index.

In the United States, small companies (Russell 2000) were also outpaced by large companies (Russell 1000) for both the most recent quarter and year.

Value⁴ outperformed growth⁵ during the quarter and the year with the S&P 500/Barra Value Index posting a 2.70% return for the quarter and 6.33% for the year compared with a 1.44% gain for the quarter and 3.46% for the year in the S&P 500/Barra Growth Index.⁶

In Canada, the yield curve has flattened as short-term interest rates have edged higher due to the Bank of Canada increasing its key interest rate to 3.25% without any follow through in the long end of the bond maturity spectrum. In such an environment where the yields on Government of Canada bonds are very similar at all maturities, less risky short-term securities are becoming more attractive at the expense of longer dated issues. The Scotia Capital Markets Universe bond index was flat for much of the fourth quarter and returned approximately 6.5% for 2005. Despite continuous Bank of Canada interest rate increases, long bonds returned an impressive 13.8% in 2005 while short-term and mid-term returned 2.37% and 5.68% respectively.

Public Service Superannuation Fund Performance

Performance for the December 31, 2005 quarter showed a return of 1.74% versus the Fund's benchmark return of 2.37%. Overall performance measured against the Fund's benchmark was impacted by underperformance in active Canadian equity combined with mixed results in actively managed United States and Global equity mandates. Domestic fixed income returns were strong as both internal and

² Local market returns

³ Local market returns

⁴ 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.

⁵ 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.

⁶ Local market returns

externally managed portfolios outperformed their benchmark.

For the rolling one-year period ended December 31, 2005, the Fund showed a return of 12.63% versus its benchmark return of 11.50% and the target investment return of 7.38%. Returns in Canadian equities were a strong contributor to 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 strength of the Canadian dollar. The appreciation of the Canadian dollar during the year ultimately had adverse consequences for both US and EAFE⁷ portfolios.

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.

Real estate returned 3.00% for the quarter ended September 30, 2005 and has returned 11.20% for the latest rolling twelve month period. The calendar year 2005 returns for real estate are currently being compiled. Strong returns stem from the income and capital appreciation of the 13 properties that the Fund currently owns. The Fund's investment in the Canadian Real Estate Investment Fund also continues to supply a well-diversified source of return.

In continued efforts to ramp up the real estate allocation, the Fund acquired two additional properties during the most recent quarter. Richview Square in Toronto will be a cornerstone of the Fund's foray into the retail market. The Fund was also able to effectively expand an existing successful asset by purchasing an industrial building that is a natural extension of Summit Centre in Edmonton.

Cash and cash equivalents increased to 7.38% from 6.87% as of the quarter ended December 31, 2005; with cash levels remaining outside of the Fund's stated long-term asset mix at calendar year end. However, cash balances declined in January 2006 as monies were transitioned to new equity mandates in conjunction with the Fund's stated long-term approved asset mix.

⁷ Europe, Australia, Far East - EAFE. An acronym referring to the geographical area that includes these three regions.

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