

NOVA SCOTIA PENSION AGENCY

INVESTMENT REPORT

NOVA SCOTIA TEACHERS' PENSION PLAN

First Quarter Ended March 31, 2007



Investment Division of the Nova Scotia Pension Agency

The Investment Division of the Nova Scotia Pension Agency 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.

This report may also be found online at: www.novascotiapension.ca. Click on Teachers' Pension Plan and Investment Reports.

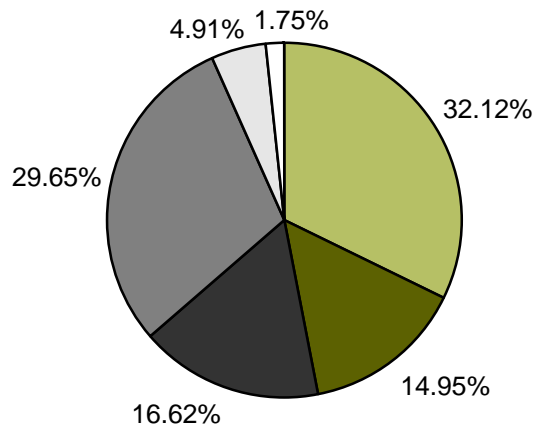
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ASSET MIX

Asset Mix at March 31,2007

Canadian Equity	32.12%
U.S. Equity	14.95%
International Equity	16.62%
Fixed Income (Bonds)	29.65%
Canadian Real Estate	4.91%
Money Market (Cash)	1.75%
Total Plan Assets	100%



FUND PERFORMANCE

Nova Scotia Teachers' Pension Fund

2006 Economic Overview

The United States economy continued to experience several challenges during the first quarter of 2007. These included continued housing concerns, a sub-prime mortgage¹ meltdown, and rising oil prices.

As expected, the United States Federal Reserve left interest rates unchanged during the quarter at 5.25%. There were clear signals that the United States economy slowed during the first quarter as both the ISM Manufacturing Index and ISM Services Index showed weakness. In addition, both

¹ A type of mortgage that is normally made out to borrowers with lower credit ratings. As a result of the borrower's lowered credit rating, a conventional mortgage is not offered because the lender views the borrower as having a larger-than-average risk of defaulting on the loan. Lending institutions often charge interest on sub-prime mortgages at a rate that is higher than a conventional mortgage in order to compensate themselves for carrying more risk

Durable Goods orders and Retail Sales growth are running at multi-year lows. As well, the final reading of fourth quarter 2006 GDP was reported at 2.5%, a percent lower than initial calculation highlighted by slower trends in housing and manufacturing.

Housing and mortgage defaults remain two of the biggest discussion topics concerning the United States economy. The housing market continues to struggle. New home sales continue to fall, down approximately 38% since the peak in July 2005; and median new home price growth is essentially 0%.

The above indicators would argue for an interest rate cut; however other economic indicators most notably inflation and employment have made it difficult for the Federal Reserve to even consider a rate cut.

The Consumer Price Index (CPI) remains at levels above the Federal Reserve's comfort zone. Overall CPI is running at an annual rate of 2.4% while the core CPI (excludes both Food and Energy prices) is running at an annual rate of 2.7%. This worries the Federal Reserve, who would like to see core CPI at around 2.0%.

Employment in the United States is still strong. March payroll growth of 180,000 generated a 3-month average job growth rate of 152,000. Unemployment is 4.4%, which is a return to October 2006 cyclical low.

As a result, the Federal Reserve continues trying to balance the signals of an economic slowdown with still strong labor market and inflation levels.

Growth in Canada, like its United States counterpart has been slowing in recent quarters. Economic indicators in Canada signaled moderate growth and inflation during the first quarter of 2007. Gross Domestic Product (GDP) growth for the fourth quarter was tame, but beat economic expectations. As well, the labor market continues to show resiliency as the March unemployment rate came in at 6.1%. Canada's employment rate is at its highest level in 31 years.

Canada continues to exhibit regional economic divergence. The West, most notably Alberta, continues to exhibit strength stemming from energy as Alberta's unemployment rates fell to 3.6% (the lowest in Canada).

Headline inflation in Canada has moderated in recent months as energy prices have eased, but core inflation (core CPI) is running around 2.4%, above the Bank of Canada's target range of 2%. Given the continued inflationary landscape, the Bank of Canada is likely to keep interest rates steady at 4.25% in the near to medium term.

The Canadian dollar relative to the United States dollar appreciated slightly during the quarter, but really rallied from its early February low of about 84.5 cents to finish the quarter at around 86.6 cents. As of May 15, 2007, the dollar is presently trading at approximately 90 cents. The currency continues to be supported by budget and trade surpluses and rising foreign demand for Canadian companies.

However, the performance of the Canadian dollar was mixed relative to other major currencies and as a result the returns of international equities in Canadian dollar terms varied.

Economic conditions outside of North America were also relatively positive during the quarter and much of Europe witnessed central bank tightening as did Japan which raised rates for the second time in a year.

Global growth is expected to moderate to 4.6% in 2007, but still remain above its 3.6% long-term average. European economies are continuing to expand at a healthy pace providing an overall positive outlook for their markets this year. World economic growth continues to be led by China, however Japan is once again moving to the forefront as GDP growth registered a strong 5.5% in the last quarter of 2006.

Q1 2007 Capital Market Returns

Equity markets were volatile during the first quarter of 2007 amid concern over the strength of the United States economy thus tempering optimism about global growth. United States concerns centered on the struggling housing market and the potential repercussions of the sub-prime loans market and the possible impact this might have on United States consumer spending.

Investors were concerned in late February by a five day sell off in China, triggered by Chinese government intervention aimed at cooling speculation in the country's equity markets. A further sell off in March was driven by news that one of the largest sub-prime lenders in the United States was in financial trouble, amid fears that sub-prime lending issues were spreading and would have a larger impact than expected on the United States economy.

Fortunately, as the quarter ended, China's blistering rate of growth and the country's appetite for commodities showed no signs of slowing and global equity markets, although remaining below their year to date highs reached on February 26th, ended the quarter on a stronger note. Of note, the United States is lagging Canadian and International equities in light of their weaker domestic economy and more vulnerability to the recent spike in crude prices.

The S&P/TSX Composite index² was up 2.6% during the quarter, and hit a new record high of 13,404 during the three-month period.

Gains in the financial, materials, and energy sectors accounted for the majority of the benchmark's gains; however telecommunications services, industrials, and consumer discretionary sectors all posted particularly strong gains. The S&P/TSX Equity-Only Index³ returned 2.76% for the quarter.

² 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.

³ This index is similar to the S&P TSX Composite except that it does not include Income Trusts.

United States large cap equities posted modest returns during the quarter (S&P 500⁴ 0.64%⁵) marked by a rise in volatility associated with concerns over inflation and moderating economic growth.

In the United States, small companies (Russell 2000⁶) clearly outperformed large companies (Russell 1000⁷) in the first quarter by over 75 basis points⁸. Value⁹ outperformed their Growth¹⁰ counterparts in large cap and mid cap while growth beat value in small cap.

International equity markets generally finished higher during the quarter as Europe (MSCI Europe 3.92%¹¹) and Japan (Nikkei¹² 0.8%¹³) posted positive results. The MSCI EAFE¹⁴, the benchmark for global equity performance returned 4.2%¹⁵.

Canadian bonds as represented by the Scotia Capital Universe¹⁶ returned 0.9% for the quarter with yields remaining relatively unchanged from year-end 2006. Returns across the yield curve were

⁴ 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.

⁵ Local market returns.

⁶ 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.

⁷ 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.

⁸ Local market returns

⁹ 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.

¹⁰ 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.

¹¹ Local market returns.

¹² 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.

¹³ Local market returns.

¹⁴ 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.

¹⁵ Local market returns

¹⁶ 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.

similar as the short-term bond index¹⁷ was up 1% versus 0.6% for the Scotia Capital Universe long-term bond index.¹⁸

Real return bonds outperformed both the broad index and the long-term index with a 1.2% return reflecting a return in concern about inflation in both the United States and Canada.

Q1 2007 Teachers Fund Performance

Performance for the first quarter showed a return of 1.99% versus the Fund's benchmark return of 1.91%. For the one-year period ended March 31, 2007, the Fund showed a return of 10.64% versus a benchmark return of 11.51% and the target investment return of 7.38%. Returns in the Fund's active mandates have been mixed in part due investment manager style. Canadian equity managers exhibited strong returns as compared to their benchmark for the quarter while the Fund's United States and International equity manager returns were mixed. As a whole, the Fund tends to outperform in down and volatile markets and under-perform in upward moving markets, and this is consistent with the most recent quarter and rolling twelve month results.

	Quarter	1 Year	4 Year	10 Year
Fund	1.99%	10.64%	13.48%	8.88%
Benchmark	1.91%	11.51%	14.10%	8.18%

¹⁷ This index is a measure of broad return for those bonds with maturities under five years that are found in the Scotia Capital Universe.

¹⁸ 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.

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