

NOVA SCOTIA PENSION AGENCY

# INVESTMENT REPORT

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NOVA SCOTIA PUBLIC SERVICE  
SUPERANNUATION PLAN

*Second Quarter Ended September 30, 2006*

# 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](http://www.novascotiapension.ca). Click on Public Service Plan and Investment Reports.

# INVESTMENT REPORT

## NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

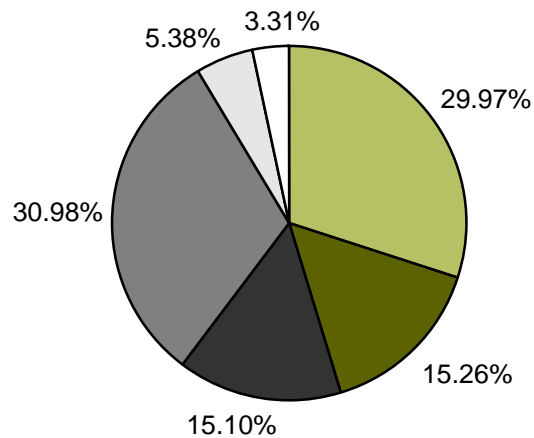
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### ASSET MIX

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#### Asset Mix at September 30, 2006

Canadian Equity	29.97%
U.S. Equity	15.26%
International Equity	15.10%
Fixed Income (Bonds)	30.98%
Canadian Real Estate	5.38%
Money Market (Cash)	3.31%
Total Plan Assets	100%



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### FUND PERFORMANCE

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#### Nova Scotia Public Service Superannuation Fund Second Quarter (July 1 to September 30, 2006)

#### Second Quarter 2006 Economic Overview

United States economic activity has moderated since the first half of 2006 and this slowing momentum is expected to prevail through the remainder of the year. The growing concern during the quarter was the weakening in the real estate market, most notably housing. The state of the United States housing market has quickly become the center of global investors' attention as the median price registered its first year over year decline since 1995. Declines in housing starts and building permits, as well as increases in home builder inventories of unsold homes pose risks to the United States economic growth. Strong increases in housing values have been a main engine of United States economic growth since 2002 as they have supported consumer spending.

The United States Federal Reserve Board left its Federal Funds rate unchanged during the quarter at 5.25% bringing to a halt 17 consecutive 25 basis point increases dating back to the summer of 2004.

Weaker than expected employment reports, together with data showing a slowing housing market and moderating core inflation persuaded the Federal Reserve to pause in its interest rate increases.

As Expected, in Canada, the overall pace of economic growth has moderated due to our country's reliance on the United States economic engine. Exports have remained a large drag on growth and the lagged effects of the stronger Canadian dollar continue to weigh on manufacturing activity and employment. However, a solid labor market, rising incomes, tax cuts, and a strong housing market have supported consumer spending.

Similar to the Federal Reserve, the Bank of Canada remained on the sidelines over the quarter, maintaining their benchmark rate at 4.25%. The Bank remains convinced that the overnight rate is at a level conducive to an economy operating close to capacity with inflation contained.

Looking ahead, signs suggest that the rapid pace of global economic growth of the last two years is now slowing as a United States consumer based slowdown is expected to anchor a global slowdown. After several years of strong above trend world growth, global GDP is widely expected to slow next year to around 4% after averaging about 5% from 2004 to 2006.

### Second Quarter 2006 Capital Market Returns

Financial markets performed reasonably well in the third quarter as declines in commodity prices and pauses in central bank interest rate increases removed some of the uncertainties facing investors during the previous quarter.

The S&P/TSX Composite index<sup>1</sup> was up 1.93% during the quarter, however this advance trailed most other global equity markets. Small capitalization<sup>2</sup> stocks (-3.50%) did not fare as well as their large (3.49%) and mid capitalization<sup>3</sup> (0.43%) peers during the quarter.

The slide in oil and natural gas prices during the quarter caused a significant 9.5% decline in the heavily weighted energy sector and flat performance in materials and industrials held back the return of the overall market.

The S&P/TSX Equity-Only Index<sup>4</sup> returned 2.86% for the quarter.

The Canadian dollar continues to exhibit strength against its United States peer. Based on average levels the Loonie is 4.0% stronger year over year and remained flat quarter over quarter even with the decline in commodity prices.

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Stocks with a market capitalization in excess of \$2 billion.

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

The United States and global equity markets, posted strong returns during the quarter (S&P 500<sup>5</sup> 5.7%), Japan (Nikkei<sup>6</sup> 4.0%), Global (MSCI EAFE<sup>7</sup> 4.0%).<sup>8</sup>

With the Federal Reserve in pausing mode and oil prices falling, United States equities headed higher. European and Asian equity markets continue to be strong places to invest. Global equities have been supported by strong earnings which to a large extent have been the result of high growth.

A flight to quality continued to help value and large caps outperform their growth and small cap peers. Canadian small caps under performed their large cap peers recording a -1.63% return as measured by the Nesbitt Burns Small Cap Index<sup>9</sup> and -0.98% as measured by the S&P/TSX Mid/Small Cap Equity-Only Index<sup>10</sup>.

In the United States, small companies (Russell 2000<sup>11</sup>) clearly under performed large companies (Russell 1000<sup>12</sup>) for recent quarter by over 4.62%.<sup>13</sup>

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<sup>5</sup> 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.

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> Local market returns

<sup>9</sup> 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.

<sup>10</sup> 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.

<sup>11</sup> 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.

<sup>12</sup> 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.

<sup>13</sup> Local market returns

Growth<sup>14</sup> outperformed their Value<sup>15</sup> counterparts in the third quarter, with the S&P 500/Citigroup Value<sup>16</sup> Index posted a 4.7% return for the quarter compared with a 5.7% gain for the quarter in the S&P 500/Citigroup Growth Index.<sup>17</sup>

The Scotia Capital Universe<sup>18</sup> returned 4.85% during the third quarter of 2006 yields falling across all maturities shifting the entire Canadian yield curve downwards nearing 2005 year end levels. The Scotia Capital Universe short-term bond index<sup>19</sup> was up 2.59% versus 8.31% for the Scotia Capital Universe long-term bond index.<sup>20</sup>

## Second Quarter (September 30th) Public Service Fund Performance

Performance for the September 30, 2006 quarter showed a return of 3.79% versus the Fund's benchmark return of 4.04%. For the six months ended September 30, 2006, the Fund showed a return of 1.03% versus a benchmark return of 1.09%. For the most recent twelve months, the return is 6.67% versus a benchmark return of 8.18% and the target investment return of 7.38%. 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, and this is consistent with the most recent quarter and rolling twelve month results.

	Quarter	YTD 6 Months	1 Year	4 Year	10 Year
Fund	3.79%	1.03%	6.67%	10.05%	8.93%
Benchmark	4.04%	1.09%	8.18%	11.38%	7.95%

<sup>14</sup> 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.

<sup>15</sup> 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.

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

<sup>17</sup> Local market returns

<sup>18</sup> 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.

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

<sup>20</sup> 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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