

NOVA SCOTIA PENSION AGENCY

INVESTMENT REPORT

NOVA SCOTIA PUBLIC SERVICE
SUPERANNUATION PLAN

YEAR-END SUMMARY
MARCH 31, 2006



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Investment Division

Up Until February 9, 2006 administrative functions of the Plan were carried out through the Pensions & Investments Branch of the 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.

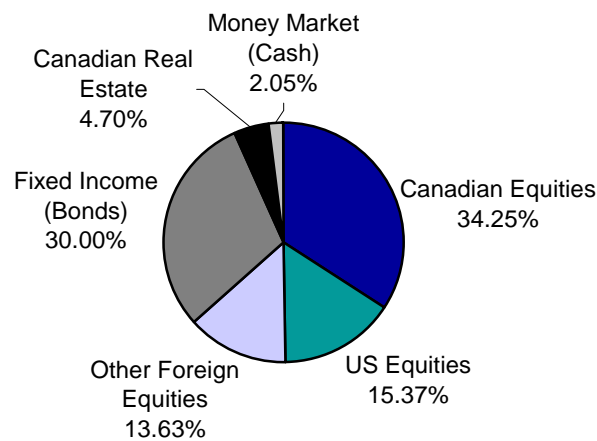
The Investment Division of the NSPA is comprised of six investment professionals. This group is responsible for the day-to-day monitoring of asset mix for compliance with asset mix guidelines and recommending asset mix changes. In addition, this group is responsible for selecting external fund managers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

INVESTMENT REPORT YEAR-END SUMMARY

NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

ASSET MIX

March 31, 2006



Asset	Year-end Summary			
	1 st June 30/05	2 nd Sept 30/05	3 rd Dec 31/05	4 th Mar 31/06
Canadian Equities	37.5%	35.1%	35.2%	34.25%
US Equities	16.1%	15.2%	15.3%	15.37%
Other Foreign Equities	6.2%	6.3%	6.6%	13.63%
Fixed Income (Bonds)	33.7%	32.6%	31.1%	30.00%
Canadian Real Estate	3.0%	4.0%	4.4%	4.70%
Money Market (Cash)	5.2%	6.9%	7.4%	2.05%

TOP 20 HOLDINGS

Stock	Value March 31, 2006 (descending value)
Royal Bank of Canada	\$64,796,657
Manulife Financial Corp	\$57,507,769
Toronto Dominion Bank	\$54,170,596
Bank of Nova Scotia	\$49,512,534
Encana Corporation	\$39,835,485
Nexen Inc	\$34,022,092
Talisman Energy Inc	\$31,910,028
Canadian Natural Resources Ltd.	\$31,762,695
Canadian National Railway	\$24,684,557
Sun Life Financial Inc	\$24,143,359
Suncor Energy Inc.	\$22,802,462
Petro Canada	\$21,792,326
Imperial Oil Ltd.	\$21,553,582
Transcanada Corp	\$21,102,751
Bank of Montreal	\$20,557,958
SNC-Lavalin Group Inc.	\$18,501,223
Shell Canada Ltd.	\$18,342,384
Great West Life	\$15,848,134
Canadian Imperial Bank of Commerce	\$15,763,828
BCE Inc.	\$15,745,965

FUND PERFORMANCE

First Quarter 2006 Economic Overview

Global economies were strong in 2005, and the growth momentum has continued into the first quarter of 2006. They have withstood high energy prices, geopolitical risks, and have benefited from remarkably benign inflationary pressures. There is now a growing confidence that the current global economic expansion may continue for some time to come without much slowdown. The reasons for this optimism include the improving Eurozone economy, continuing strength in China, and the sustained growth in Japan.

Economic growth in the United States has remained intact as the economy appears to have grown at an above-average rate in the first quarter of 2006 and many of the United States economic indicators continue to show either stability or improvement. Despite these positive signals, most market watchers and the United States Federal Reserve are most interested in the inflation measures.

Current data continues to show a lack of any direct evidence of heightened inflation, despite the continued and at times dramatic rise in commodity prices. The year over year core inflation rate for March continued to hold steady at 2.1% keeping core inflation locked in the extremely narrow 2.0% to 2.2% range experienced over the past 12 months. The headline inflation rate in March actually dipped slightly to 3.4% from 3.6% and is still well below last September's peak of 4.7% (in the wake of Katrina). Thus the trend in inflation since Katrina, has been down not up.

When it comes to inflation, the Federal Reserve prefers to look at the core PCE (Personal Consumer Expenditures) Index. This index is currently running at a year over year rate of 1.8%; and below their expected rate for the year of 2.0% (a figure new Federal Reserve Chairman, Ben Bernanke has talked about targeting). This too is down from a previous peak of 2.3% (November 2004). Thus, this index is not showing an inflation problem either at this point.

Despite the positive news on the inflation front, the Federal Reserve twice raised the Federal Funds Rate during the first quarter of 2006 (January 31st by 25 basis points and then again on March 28th by 25 basis points) bringing this benchmark interest rate to 4.75%.

The Federal Reserve has moved into a data dependent mode and has signaled that it is concerned that both the pass through of energy costs and more intensive resource utilization may lead to higher inflation. A decision on whether to stop raising short-term interest rates or to continue hiking them in the coming months hinges on how the United States economy looks at the time. The Federal Reserve will not stop increasing interest rates unless it is convinced that inflation is under control.

Economic growth on the domestic front continues to be remarkably resilient with the Bank of Canada continuing to state that Canada is operating at "full production capacity" which may lead to future inflationary pressure. The Bank of Canada also raised interest rates by 25 basis points twice during the first quarter (January 24th and March 7th) to bring the target for the short-term rate to 3.75%. Similarly to the United States, inflation indicators still illustrate a benign level of inflation

with March's year over year CPI remained at 2.2% while the year on year measure of core inflation (CPIX) remained unchanged at 1.7%.

Overseas, economic recovery continues to gain momentum, with Japan and the Euro zone continuing to show encouraging signs. Indices which track manufacturing and services in Euro zone countries have hit new cyclical highs. Data is confirming expectations that the Euro economies are set to accelerate with growth of 2.4% expected up from 1.7% in 2005. The European Central Bank (ECB) acknowledged the improvement in growth and raised its policy rate by another 25 basis points in March, the second rate increase since December 2005 which was the first time rates were increased in five years.

It may be true that the North American economies have peaked and will slow down in the next two years. However, any decline in contribution from these economies is expected to be offset by the improving Eurozone economy, sustained growth in Japan, and the still strong Chinese economy. In fact, the base of world growth broadened last year as the Eurozone countries started growing on their own with the help of strengthening domestic demand. This should in part mitigate any negatives coming from a slowdown in North American economies.

First Quarter 2006 Capital Markets Return

Equity markets around the world increased during the first quarter of 2006, despite continued higher energy prices, the volatile geo-political landscape and some still ongoing concerns about the global economy.

The S&P/TSX was up 7.98% during the quarter as late cycle industries such as Industrials and Materials lead the way up 10.7% and 14.7% respectively. Commodities posted mixed performance during the quarter as materials solidly outperformed energy commodities. Zinc, Copper, Nickel, Aluminum, Lead, Gold, and Silver all had impressive returns while oil lagged and natural gas continued to slide. The typically more defensive sectors of the S&P/TSX (consumer staples, utilities, and telecommunications services) continued to struggle and remain the only three industries in negative territory year to date.

After more than three years of addressing the Income Trust debacle, these instruments are now fully represented in the benchmark index as of March 17, 2006. The S&P/TSX Equity-Only Index, which does not include Income Trusts, returned 8.16% for the quarter.

The Canadian dollar continued to benefit from soaring commodity prices. Based on average levels the Loonie is 6.1% stronger year over year and up 1.6% quarter over quarter.

The United States equity market, posted solid gains (S&P 500 +4.21%), but continued to lag markets elsewhere in the world; Japan (Nikkei +6.36%), Global (MSCI EAFE +9.47%) during first quarter of 2006.¹

¹ Local market returns

After starting the year on a positive note rising 3.1% in the first two weeks of the quarter, the S&P 500 treaded water until the final week of March.

European and Asian equity markets continue to be strong places to invest. Europe is currently the best performing region in the developed world. Strong performance has been driven by a continued positive outlook for European corporations which are currently experiencing record-high operating margins and return on invested capital.

Canadian small caps outperformed their large cap peers recording a 15.58% return as measured by the Nesbitt Burns Small Cap Index and 8.85% as measured by the S&P/TSX Mid/Small Cap Equity-Only Index.

In the United States, small companies (Russell 2000) clearly outpaced large companies (Russell 1000) for recent quarter by over 9.45%.²

Growth³ stocks fell behind their Value⁴ counterparts in the first quarter, consistent with results that have existed for much of the past five years. S&P 500/Citigroup Value⁵ Index posted a 5.8% return for the quarter compared with a 2.61% gain for the quarter in the S&P 500/Citigroup Growth Index.⁶

The Scotia Capital Universe returned -0.43% during the first quarter of 2006 as bond yields moved higher, bond prices down, and the yield curve steepened. The spread between Government of Canada two-year bonds and thirty-year bonds started the year at 19 basis points and ended the quarter at 29 basis points. Long bonds were the worst performing sub-class returning a negative 1.79%.

Provincial bond yield spreads enjoyed a modestly improved tone during the quarter as a result of the early 2006 Canadian federal election outcome and recent provincial budget releases. Corporate spreads widened modestly during the quarter, largely a function of the very heavy issuance of corporate bonds. Issuance has been significantly elevated by the elimination of the Canadian foreign content rules and global issuers' interest in diversifying funding requirements into Canada, thereby giving rise to the Maple bond market.

² Local market returns

³ 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.

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

⁶ Local market returns

Fourth Quarter (March 31st) and Full Year Public Service Superannuation Fund Performance

Performance for the March 31, 2006 quarter showed a return of 3.76% versus the Fund's benchmark return of 4.52%. Overall performance measured against the Fund's benchmark was impacted by mixed results in active Canadian equity combined with underperformance in actively managed United States and Global equity mandates. Domestic fixed income returns also underperformed the benchmark.

For the Fund's fiscal year ended March 31, 2006, the Fund showed a return of 13.79% versus its benchmark return of 14.72% and the target investment return of 7.38%.⁷ 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 fiscal year end results.

Real estate returned 2.32% for the quarter ended December 31, 2005 and has returned 11.22% for the 2005 calendar year. Returns for the Funds' fiscal year ended March 31, 2006 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 the Fund's continued efforts to ramp up the real estate allocation, the Fund has recently acquired an additional property. The Canpar Distribution Centre in Toronto was purchased to add to our industrial property holdings. The facility is newly constructed and fully leased on a long-term basis. The building was constructed to LEED environmental standards and was nominated by an industry association for Industrial Development of the Year.

Cash and cash equivalents declined to 2.05% from 7.38% as of the quarter ended December 31, 2005 and are now in line with the Fund's stated long-term asset mix. Cash balances declined significantly in January 2006 as monies were transitioned to new international equity mandates in conjunction with the Fund's stated long-term approved asset mix.

⁷ This may vary from the final return calculation as yearly returns for private equity and real estate investments are still being finalized.

NOVA SCOTIA PENSION AGENCY

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