

NOVA SCOTIA PENSION AGENCY

INVESTMENT REPORT

NOVA SCOTIA TEACHERS' PENSION PLAN

Fourth Quarter Ended December 31, 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. Click on Teachers' Pension Plan and Investment Reports.

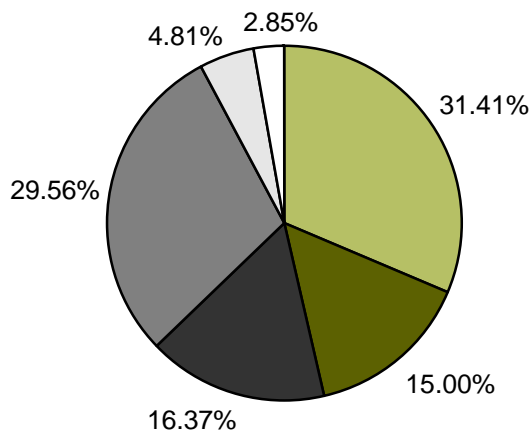
INVESTMENT REPORT

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ASSET MIX

Asset Mix at December 31, 2006

Canadian Equity	31.41%
U.S. Equity	15.00%
International Equity	16.37%
Fixed Income (Bonds)	29.56%
Canadian Real Estate	4.81%
Money Market (Cash)	2.85%
Total Plan Assets	100%



FUND PERFORMANCE

Nova Scotia Teachers' Pension Fund Fourth Quarter (October 1 to December 31, 2006)

2006 Economic Overview

The United States economy, the world's economic engine, revealed signs of strength and weakness throughout 2006. Debates continually centered around inflation, the cost of energy, rising interest rates, and the effect that these would have on consumers and the nation's housing market.

The Federal Reserve stopped raising interest rates on June 17, 2006 after 17 consecutive hikes over a two year period. The pause, which left the country's benchmark interest rate at 5.25% was a direct result of moderating economic growth. The 5.6% mid year reading of GDP was more than halved with December's 2.0% estimate for the third quarter. Fourth quarter GDP growth is estimated to be in the 2.5% to 3.0% range, resulting in a GDP growth rate for 2006 of approximately 3.3%. With the economic data being mixed for much of the fourth quarter, the Federal Reserve's decision to leave interest rates unchanged in both October and December signaled an end to interest rate hikes for the current Fed cycle.

The United States housing slowdown clearly put a drag on economic growth as it knocked approximately 1.0% off the estimated third quarter GDP reading. Inflation data remained volatile as we approached year end as the core rate of consumer inflation (this excludes food and energy prices) reached a decade high of 2.9% year over year in September but then moderated to 2.6% in November. The overall CPI rate remained at around 2.0% as a result of declining energy prices in September and October. The Fed's core PCE¹ measure stood in the 2.2% range in December which was slightly above the 2.0% level the Fed considers as the top of their comfort zone, but below the 2.5% to 3.0% range they were estimating in their mid year review of interest rates. However, it does appear as though inflationary pressures began to moderate in the fourth quarter and that year over year inflation is under control.

Canada remains a tale of two economies - strength in the commodities driven West and weakness in the manufacturing and exporting East. Regionalism aside, the Canadian economy did slow in the second half of 2006 due in large part to a deterioration in net exports as well as a decline in housing construction. After expanding at a 3.6% annual rate in the first quarter of 2006, Canadian GDP growth slowed to 2.0% in the third quarter of 2006 and for the fourth quarter was anticipated to come in around 1.8% which would result in full year growth of approximately 2.8%.

Similar to the United States, inflation seems to be under control as it remains well within the acceptable range identified by the Bank of Canada (1% to 3%). Core CPI for November was 2.2% while total CPI was running at 1.4% due to falling energy prices.

With a moderating economy, and inflation under control, the Bank of Canada left interest rates unchanged at both of their fourth quarter meetings. The benchmark interest rate remained at 4.25%, a full point below the counterpart United States benchmark.

The Canadian dollar depreciated substantially versus the United States dollar during the fourth quarter falling about 3.7 cents or 4.1% closing the year at just under 86 cents. Volatility was key for the dollar throughout the year as it started the year just under 86 cents, peaked at a 28 year high at roughly 91.5 cents in May only to finish the year back where it all began.

For the fourth quarter of 2006, economic growth remained strong in areas like the United Kingdom, and Spain, and was seen to be improving in Germany. The outlook for Japan remained unclear as consumers in that country continue to remain on the sidelines. While the North American central banks paused on interest rate increases, the final quarter witnessed interest rate increases in the United Kingdom, Eurozone, Australia, and Switzerland. The Bank of Japan was expected to raise rates early in 2007.

¹ A measure of price changes in consumer goods and services. It consists of the actual and imputed expenditures of households and includes data pertaining to durables, non-durables, and services. It is essentially a measure of goods and services targeted towards individuals and consumed by individuals.

The final quarter of 2006 ended with an increased level of uncertainty regarding future economic conditions around the globe. It is without question that many of the world's economies have experienced a decline in economic growth that started midway through 2006 and should likely continue into 2007. World GDP is expected to expand at a 4.9% pace in 2007, well above its historical average of 3.6%. From a regional standpoint, the path of slower growth that emerged in North America in 2006 will likely continue well into the new year; however growth rates in Asia and Europe could match their 2006 pace.

2006 Capital Market Returns

Financial markets were strong across the globe for the fourth quarter resulting in strong full year returns for 2006 as declines in commodity prices, a stable inflationary environment, and pauses in central bank interest rate increases, removed some of the uncertainties facing investors during the previous quarter.

The S&P/TSX Composite index² was up 10.42% during the quarter, and a resounding 17.26% for the year. This marked the fourth straight year of double digit gains. Materials took the lead in 2006 and posted a 38% gain. Other outperforming sectors included technology (+27.3%), telecom (+16.4%) and financials (+15.9%).

Small capitalization³ stocks did not fare as well as their large and mid capitalization⁴ peers for both the quarter and the year. The main reason for underperformance could be attributable to the heavy income trust weightings in the small capitalization indices. The federal government's unexpected announcement on October 31st introducing changes as to how income trusts would be taxed going forward severely impacted prices and this sector's total return for 2006.

The S&P/TSX Equity-Only Index⁵ returned 12.57% for the quarter and 20.18% for the year.

The United States, also posted stellar returns during the quarter and the year (S&P 500⁶ 6.70%/15.79%). During the second half of the year, with the Federal Reserve in pausing mode, oil prices falling, and inflation contained; investors felt more comfortable purchasing United States equities.

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 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.

⁴ Stocks with a market capitalization in excess of \$2 billion.

⁵ This index is similar to the S&P TSX Composite except that it does not include Income Trusts.

⁶ 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.

In the United States, small companies (Russell 2000⁷) clearly outperformed large companies (Russell 1000⁸) for the fourth quarter by over 1.95% and for the full year by 2.91%.⁹

Value¹⁰ outperformed their Growth¹¹ counterparts for the year with the S&P 500/Citigroup Value¹² Index posting an 18.0% return for the year compared with a 9.4% gain for the year in the S&P 500/Citigroup Growth Index.¹³

International equity markets were strong places to invest in 2006 with most markets recording double digit gains for the quarter and year (MSCI Europe 11.51%/34.36%), and Global (MSCI EAFE¹⁴ 10.35% /26.34%)¹⁵; while Japan although positive did lag (Nikkei¹⁶ 6.86% /7.90%).

Bond yields traded in a narrow range during the fourth quarter of 2006 and the Scotia Capital Universe¹⁷ returned 0.70%. Despite an upward trend in interest rates throughout 2006, bonds did manage to deliver modest gains and the Scotia Capital Universe returned 4.1% for the year. For the year, returns across the yield curve were similar as the short-term bond index¹⁸ was up 4.02% versus 4.06% for the Scotia Capital Universe long-term bond index.¹⁹

⁷ 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.

⁸ 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.

⁹ Local market returns

¹⁰ 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.

¹¹ 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.

¹² The S&P 500/Barra Growth and Value series became the S&P 500/Citigroup Growth and Value series on December 16, 2005.

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 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.

¹⁷ 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.

¹⁸ This index is a measure of broad return for those bonds with maturities under five years that are found in the Scotia Capital Universe.

¹⁹ 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.

Fourth Quarter and Full Year Teachers Fund Performance

Performance for the December 31, 2006 quarter showed a return of 7.19% versus the Fund's benchmark return of 8.24%. For the year ended December 31, 2006, the Fund showed a return of 12.66% versus a benchmark return of 14.38% 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 underperformed their benchmark for the year while the Fund's United States and International equity managers outperformed their respective benchmarks. As a whole, 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	1 Year	4 Year	10 Year
Fund	7.19%	12.66%	11.94%	8.79%
Benchmark	8.24%	14.38%	12.16%	7.98%

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