

a better future

Getting there with **Ethical Funds**®

Markets shine a spotlight on the need for sustainability

Widespread effort to stabilize world financial markets has sparked global discussion about corporate and financial practices that can have a tumultuous effect on economies and people. Questionable lending policies, inadequate disclosure, excessive CEO compensation, and poor corporate governance are the kind of unsustainable practices **Ethical Funds** and other advocates of socially responsible investing have long been monitoring and working to change as shareholders.

Market upset can pave way for change

While losses experienced by many publicly traded companies have been far-reaching this year, the turmoil in the markets has encouraged others to take a closer look at what we've always stood for.

Governments and investors around the world are now looking more closely at the companies in which they have invested their money and their future prosperity. Some in the socially responsible investing community have observed that if major companies had followed sustainability guidelines, today's financial crisis might have been averted, or at least mitigated.

As socially responsible investors, we seek companies that can demonstrate a sound, long-term vision, conduct sustainable business practices, and disclose the risks they face to shareholders. We promote financial stability, sustainability, and long-term shareholder value by using our voice for change.

How we do it

While we believe that investing sustainably is a way to help build a better world, it's also a powerful way to manage risk over the long term. Within the management of each **Ethical Fund**, we seek to reduce

continued on Page 4

what's inside

Page 2: **Sifting through the risks in Alberta's oil sands**

Page 3: **Expanding our focus for shareholder action in 2009**

Page 4: **Ethical Funds** recognized at SRI summit



Diversify your RRSP with Northwest & Ethical Investments L.P.

Whether your Ethical Funds investments make up all or part of your portfolio, it's important that your holdings work together, particularly for long-term savings in your Registered Retirement Savings Plan (RRSP).

A well-balanced portfolio will ensure diversification for stability and growth, with exposure to different asset classes, countries, and industry sectors.

If you're interested in complementing your Ethical Funds investments, consider the selection of conventional funds and portfolios offered by Northwest Funds.

Northwest Funds and Ethical Funds are divisions of **Northwest & Ethical Investments L.P. (NEI)**. Northwest Funds has a philosophy similar to our own — superior returns with less risk — and focuses on providing superior customer service and exceptional portfolio management. Among Northwest's broad lineup of investments are the Northwest Corporate Class and Quadrant Portfolios.

Talk to your advisor if you have questions about diversification and to help keep your portfolio balanced.

Sifting through the risks of developing Alberta's oil sands

Alberta's oil sands contain one of the world's largest oil reserves and a vast energy treasure for Canada. But **Ethical Funds** is keeping watch over the potential negative environmental and social impacts of too much development happening too fast. We believe this could cause undue risks for energy companies, their stock prices, and their investors.

In our new whitepaper, *Unconventional Risks: An Investor Response to Canada's Oil Sands*, we take a closer look at the effects of oil sands development and propose actions that could allow development with reduced impact on the environment, the community, and the companies involved.

Keeping valuable resources in balance

Since the energy sector comprises 28% of the S&P/TSX Composite Index, oil and gas stocks are a part of many Canadians' portfolios. **Ethical Funds** invests in this sector, both for potential returns and to press for our rights as shareholders in influencing oil company practices. Sustainability of oil sands development is a priority for Canada's future.

The oil sands are a rich resource. But extracting the oil requires a number of complex processes that can cause environmental and social harm in a variety of ways.

Oil production from the oil sands has a number of consequences:

- Greenhouse gas emissions may be three to five times higher than for conventional oil production.
- The oil sands mining process draws large amounts of water from the Athabasca River and threatens fish habitats.
- Extracting the oil sands, by surface mining or by sinking wells, endangers Canada's fragile Boreal forest.
- Aboriginal peoples claim oil sands development is depriving them of their treaty rights and are pressing for action through legal challenges.

Our call to suspend new development

Ethical Funds is calling for the suspension of new oil sands development until conservation and land use planning is complete. We would also like to see acceleration of new technologies that could improve oil companies' environmental and social performance and reduce portfolio risk. A slowdown in the oil industry presents an opportunity for pause and a new strategy. As well, we are urging other large investors to ask oil companies to address oil sands issues that pose risks for their shareholders.

 To read our whitepaper on the Alberta oil sands, go to ethicalfunds.com



CHANGEMAKERS

Cut from a better cloth

COMPANY: Gildan Activewear Inc.
INDUSTRY: Activewear/apparel
LOCATION: Montreal
EMPLOYS: More than 20,000 internationally
SALES: US\$964 million (2007)

How they're changing the world

Gildan has committed to the highest standards of social responsibility in its operations around the world.

In 2007, Gildan became the first Canadian apparel maker to receive accreditation from the Fair Labor Association (FLA) for its labour compliance program.

Gildan has a robust code of conduct for its factories that meets and, in some aspects, exceeds International Labour Organization standards. This means male and female employees are compensated equally, with wages above industry standards. And employees have access to free transportation, free medical care, and subsidized meals.

The company's products have achieved the international Oeko-Tex® Standard 100 certification, demonstrating that materials used in its production process are not harmful to human health or the environment.

Gildan has committed to use the Global Reporting Initiative for disclosing its corporate responsibility practices. This provides a way to assess its environmental, social, and governance performance.

At time of printing, Gildan was one of the holdings in the **Ethical**® Balanced Fund, the **Ethical** Canadian Index Fund, and the **Ethical** Canadian Stock Fund.

 Read about other Changemakers at ethicalfunds.com/changemakers

Shareholder action in 2009



Engaging the companies we invest in to encourage them to adopt better environmental, social, and governance practices is one way we make your voice heard as an **Ethical Funds** investor. And one of the most effective ways we do that is through our annual **Ethical Funds Focus List**.

Each year, we renew our list of companies that lag their peers in specific areas or are positioned to help “raise the bar” for other companies. As well, we select a list of themes we believe are of particular importance, including those you have indicated are your top concerns in our annual unitholders’ survey.

This year, **Ethical Funds** will engage more than 40 Canadian and international corporations to make them more sustainable, reduce portfolio risk, and increase shareholder value. And we are expanding our list of themes from five to seven, with the new themes of respecting Indigenous rights and safeguarding water. Here’s how:

1. CLIMATE CHANGE. Investor risk in Canada’s oil sands is our top concern for 2009. We will deepen our engagement with companies including EnCana, Petro-Canada, and Suncor on the inherent risks of their oil sands operations, including greenhouse gas emissions.

2. BIODIVERSITY. After our success working with Canada’s major banks to incorporate climate change into their lending policies, we will continue our dialogue with them to include forest conservation and biodiversity in these policies. And we’ll engage retail, forestry and paper, and real estate companies to adopt policies that support sustainable forests and biodiversity.

3. HUMAN RIGHTS. We will continue to engage gold companies Barrick, Goldcorp, and IAMGOLD to promote positive dialogues with communities affected by their mines. And we’ll continue working to improve human rights for workers in the food and beverages, pharmaceuticals, and financial industries.

4. SAFEGUARDING WATER. A new theme to our efforts in 2009, as part of our oil sands focus, we will press major oil and gas companies to address the effects of their operations on local water supplies and water quality.


5. ELIMINATING SWEATSHOP CONDITIONS. In the name of safe and healthy workplaces, we will continue pressing companies like retailers Le Chateau and Reitmans Canada to establish and implement codes of conduct for their suppliers and factories.

6. INDIGENOUS RIGHTS. We’ll engage oil and gas companies on their plans to address potential conflicts with First Nations rights regarding their oil sands operations.

7. TRANSPARENCY. Expanding on a theme we have previously called corporate governance, we will again this year urge companies in several industries to respond to the Carbon Disclosure Project. This asks them to reveal how they are accounting for the risks associated with climate change.

Our action plan

These efforts are part of our Shareholder Action Program, which promotes better corporate practices through direct engagement with companies. This program has been effective in influencing important, long-term changes in industries including banking, mining, and forestry in past years.

 To read more about our Focus List, go to ethicalfunds.com and enter “Focus List” under “Search.” You can find updates on our progress and learn how we create our Focus List.

Continued from Page 1 — “Markets shine a spotlight on the need for sustainability”

risk through a **Double Due Diligence**® process applied to each investment selection.

First, we perform a traditional financial analysis to ensure a company has sound business fundamentals. Then, our sustainability team evaluates its environmental, social, and governance (ESG) practices to identify any practices that could create risk for the company and its shareholders.

We'll keep the issues on the agenda

We think good companies can strive to be great, and **Ethical Funds** investors benefit from our active shareholder engagement to promote sustainable practices, greater transparency, and better corporate governance. Our Shareholder Action Plan encourages companies we invest in to:

- Address the issue of excessive executive compensation.
- Ensure greater transparency and disclosure of the company's business practices.
- Account for any social or environmental risks the business or its products may be exposed to, and take steps to reduce or offset them.

At **Ethical Funds**, we are working to make companies and industries more sustainable and responsible. As more people share the message, that helps to make a better future for us all.

Ethical Funds recognized for leadership at SRI summit

Ethical Funds was a leading participant at SRI in the Rockies, North America's largest annual gathering of investment professionals and organizations committed to socially responsible investing (SRI).

The event — hosted by the Social Investment Forum, the U.S.-based SRI industry association — drew more than 700 participants to Whistler, B.C., in October. It provided a forum to discuss ways to influence financial markets around the principles of transparency, fairness, good governance, and long-term thinking.

Ethical Funds created an impact with the presentation of our whitepaper, *Unconventional Risks: An Investor Response to Canada's Oil Sands* (see story on Page 2).

Bob Walker, **Ethical Funds** Vice-President of Sustainability, was awarded the prestigious SRI Service Award to recognize his outstanding contributions to the SRI industry. These achievements recognize our efforts to ensure your investments contribute to a better world.



Learn more about the event at sriintherockies.com

How Canadians are choosing to make a difference

Canadians are broadening their sustainable choices for 2009.

In a recent survey, Canadians said they plan to make sustainable choices this year in areas that are major household decisions. Personal finance, including investing, is in the number-two spot, moving up dramatically from 15th place in 2008.

Where Canadians want to make sustainable choices

2008		2009	
1. Food choices	84.7%	1. Vacation	52.1%
2. Home cleaning	80.9%	2. Finance	49.7%
3. Home energy	76.4%	3. Home decoration	43.4%

The Shift Report survey conducted by ¹© Conscientious Innovation Ltd., May 2008.

Invest with us. For information about how **Ethical Funds** can help you reach your financial goals, contact your investment professional or visit our Web site: ethicalfunds.com

We value your opinion. Send us your comments or questions. Email **The Ethical Funds Company** at editor@ethicalfunds.com or call 1.877.ethical (1.877.384.4225).

Northwest Funds and Ethical Funds are divisions of Northwest & Ethical Investments L.P.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their value changes frequently and past performance may not be repeated.

® Ethical, Ethical Funds, The Ethical Funds Company, Ethical Growth Fund, Double Due Diligence, and Northwest Funds are registered marks owned by Northwest & Ethical Investments L.P.

¹© Conscientious Innovation Ltd.



EF 2008 10 069
2090099000
410861