

# Annual Management Report of Fund Performance

For the nine month period ended September 30, 2008

## EnRich Canadian Equity Pool

Portfolio Manager

Northwest & Ethical Investments L.P.

Toronto, Ontario

This annual management report of fund performance contains financial highlights but does not contain complete annual financial statements of the investment fund. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling 1.888.207.8121, by writing us at Northwest & Ethical Investments L.P., 155 University Avenue, Suite 400, Toronto, ON M5H 3B7 or Suite 800 –1111 West Georgia Street, Vancouver, BC V6E 4T6 or by visiting our website at [www.ethicalfunds.com](http://www.ethicalfunds.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Security holders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

### **A note on forward-looking statements**

This document contains forward-looking statements. Such statements are generally identifiable by the terminology used, such as "plan", "anticipate", "intend", "expect", "estimate", or other similar wording. These forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, but are not limited to: general economic, market and business conditions; fluctuations in securities prices, fluctuation in interest rates and foreign currency exchange rates; and actions by governmental authorities. Future events and their effects on the fund may not be those anticipated by us. Actual results may differ materially from the results anticipated in these forward-looking statements. We do not undertake, and specifically disclaim, any obligation to update or revise any forward-looking information, whether as a result of new information, future developments or otherwise.

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## Management Discussion of Fund Performance

### Investment Objectives and Strategies

Credential EnRich Canadian Equity Pool aims to provide investors with long-term growth through a combination of dividends and capital appreciation by investing mostly in common shares of a wide variety of Canadian companies. The Pool uses a multi-manager investment strategy to diversify by asset class. The portfolio currently has a 75% exposure to large cap and 25% to small-cap.

### Risks

The risks of investing in the Pool have not changed and remain as discussed in the prospectus. The Pool is suitable for investors seeking current income and the potential for some capital growth and who have a low to moderate tolerance for risk.

### Results of Operations

The Credential EnRich Canadian Equity Pool's Class A units returned -15.7% for the nine months ended September 30, 2008, compared with the benchmark S&P/TSX Composite Total Return Index's (S&P/TSX) return of -13.3%. Unlike the index return, the Pool's returns are after the deduction of fees and expenses paid by the Pool. The Pool's net assets decreased by 14.2% to \$26.0 million at September 30, 2008, from \$30.3 million at December 31, 2007. Of this change, \$4.2 million is attributable to a loss by investment performance and \$100,000 to net redemptions. Performance differences between classes of units are mainly attributable to management fees charged to each class. Refer to the Past Performance section for the details of returns by Class.

### Factors That Have Affected Fund Performance

Despite reaching an all-time high of 15,073 on June 18, the S&P/TSX had a rollercoaster ride to end the first nine months of 2008 at 11,753, down 13.3%. The strong global growth and resulting demand for oil and materials of the past 5 years began to wane as the credit crisis leached into all areas of the global economy.

The earlier selloff was pointed to financials, but became indiscriminate towards the end of the period with all 10 subsectors of the index ending in double digit losses. Information Technology and Consumer discretionary were the worst performing sectors at -37.1% and -28.1% as Research in Motion posted disappointing earnings and reduced estimates, causing the stock to tumble from \$140 to \$70 and having a net effect on the S&P/TSX index of a 207 point loss. Consumer Staples, Energy and Financials were the best sectors, returning -10.3%, -11.3% and -11.8%, respectively.

Oil continued its ascent, rising from \$96/barrel at the end of December to over \$140/barrel in the middle of June, representing a 46% increase, driven primarily by limited refining capacity, investor speculation and global unrest. But, by the end of the third quarter, oil had fallen back significantly to \$100/barrel as growth forecasts and demand has been reduced as consumers have begun to adjust to relatively higher cost energy.

Large capitalization companies outperformed smaller companies as investors continued to seek safety in larger names, with the S&P/TSX 60 returning -11.0% and the BMO Nesbitt Burns Small Cap index returning -26.0%. As the volatility increases, investors place an increased emphasis on liquidity, and often smaller companies which have lower trading volumes, experience reduced demand for their stock putting downward pressure on their share price. Also, with the credit crisis, it is often easier for larger companies to raise capital, should they need it.

### Reasons for Changes to Fund Composition and Exposures

The Pool decreased its exposure to the Energy and Materials sectors during the third quarter, while increasing Financials and Consumer Discretionary. The positions in CIBC and Greatwest Life Co. were eliminated early in the year and the position in Bank of Nova Scotia and Royal Bank were increased as concerns over Canadian Banks have decreased, being named the safest banks in the world's safest banks by the World Economic Forum. An overweight in Potash and a market weight in Research in Motion detracted from returns. The exposure to small/mid cap stocks, which account for approximately 25% of the pool, detracted from performance as investors moved away from this area and into the cyclical industries. The BMO Small cap index returned -26.0% for the first nine months of the year, yet our Portfolio Managers defensive positions protected returns on the downside, returning -15.7% during the same period.

### Recent Developments

The portfolio managers continue to be cautious and expect continued volatility in the market, especially within the cyclical sectors that have had a strong run in the last five years. The market and governments have not made it through the credit crisis that is looming. It is expected that the level of corporate profitability and consumer spending will be much more muted for some time, as global growth will be slowed despite both the Bank of Canada and Federal Reserve are now much more focused on economic stimuli and less on inflation. Stock selection remains the key to adding value over the long run with focuses on companies with lower debt ratios, strong cash flows and non-cyclical business offerings.

At the beginning of April, the weighting of the Pool was restructured from 33.3% small/mid cap and 66.7% large cap weighting to 25.0% small/mid cap and 75.0% large cap. The large cap focus is expected to provide an increased defensive structure to the Pool, as markets will favor the safety of familiar large cap names in this particular investing climate. The Pool remains broadly diversified and defensively structured and will continue to invest using a multi-manager, multi-style approach. This will provide investors with increased diversification, as continued volatility in the markets is expected.

### Related Party Transactions

NEILP is the Manager of the Pool pursuant to a management agreement. NEILP ensures the daily administration of the Fund. NEILP provides the Fund or makes sure the Fund is provided with all services (accounting, custody, portfolio management, record maintenance, transfer agent) required to function properly. The fees are presented in the Management Fees section.

Desjardins Trust Inc. is the custodian. Desjardins Trust Inc. is a wholly-owned subsidiary of the Fédération des caisses Desjardins du Québec, which is a 50% owner of NEILP. The Custodian fees of Desjardins Trust Inc. are at the Fund's expense and are established based on market conditions.



Management and administrative fees presented in the Statement of Operations are incurred by the Fund with the Manager. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

In total, the Pool paid 2.41% of its average Class A net asset value for management and portfolio advisory services. In addition, the Pool paid \$39.50/unitholder per annum (aggregate across all funds) and \$35/day to NEILP.

During the nine months ended September 30, 2008, Northwest & Ethical Investments L.P. chose to waive a portion of the management fee, registrar fee and other expenses totalling 0.29% of the average net asset value, reducing the overall expenses charged to the Pool.

The Pool is distributed through Credential Asset Management Inc., Credential Securities Inc. and other non-related dealers. Both Credential Asset Management Inc. and Credential Securities Inc. are related to NEILP by way of common ownership. NEILP pays to these related parties distribution and servicing fees based on a percentage of the average daily value of the units of each held by the dealer's clients and additionally, in some cases, on the amount of the initial purchase.



## Financial Highlights

The following tables show selected key financial information about the Pool and are intended to help you understand the Pool's financial performance for the periods indicated. This information is derived from the Pool's audited annual financial statements.

### The Fund's Net Asset Value per Unit

|  | CLASS A        |                 |                 |                             | CLASS B         |                 |                 |                             |
|--|----------------|-----------------|-----------------|-----------------------------|-----------------|-----------------|-----------------|-----------------------------|
|  | Sep 30<br>2008 | Dec 31<br>2007  | Dec 31<br>2006  | Dec 31<br>2005 <sup>4</sup> | Sep 30<br>2008  | Dec 31<br>2007  | Dec 31<br>2006  | Dec 31<br>2005 <sup>5</sup> |
| <b>Net asset value, beginning of year</b>                                  | \$ 11.71       | \$ 11.61        | \$ 10.50        | -                           | \$ 11.81        | \$ 11.75        | \$ 10.53        | -                           |
| Net asset value, at inception  |                |                 |                 | \$ 10.00                    |                 |                 |                 | \$ 10.00                    |
| Initial Adoption of new accounting policy <sup>1</sup>                     | n/a            | (0.02)          | n/a             | n/a                         | n/a             | \$ (0.02)       | n/a             | n/a                         |
| <b>Increase (decrease) from operations:</b>                                |                |                 |                 |                             |                 |                 |                 |                             |
| Total revenue  | 0.18           | 0.32            | 0.26            | 0.04                        | 0.19            | 0.33            | 0.27            | 0.02                        |
| Total expenses   | (0.22)         | (0.30)          | (0.26)          | (0.04)                      | (0.02)          | (0.02)          | (0.02)          | -                           |
| Realized gain (loss) for the period  | (0.10)         | 0.16            | 0.16            | (0.01)                      | (0.11)          | 0.16            | 0.17            | (0.01)                      |
| Unrealized gain (loss) for the period                                      | (1.56)         | (0.13)          | 0.98            | 0.39                        | (0.40)          | (0.15)          | 0.99            | 0.25                        |
| <b>Total increase (decrease) in net assets from operations<sup>2</sup></b> | <b>(1.70)</b>  | <b>0.05</b>     | <b>1.14</b>     | <b>0.38</b>                 | <b>(1.55)</b>   | <b>0.32</b>     | <b>1.41</b>     | <b>0.26</b>                 |
| <b>Distributions:</b>  |                |                 |                 |                             |                 |                 |                 |                             |
| From income (excluding dividends)  | -              | -               | -               | -                           | -               | (0.10)          | (0.04)          | -                           |
| From dividends   | -              | -               | -               | -                           | -               | (0.15)          | (0.07)          | -                           |
| From realized gains on investments   | -              | (0.01)          | -               | -                           | -               | (0.09)          | (0.04)          | -                           |
| From return of capital   | -              | -               | -               | -                           | -               | -               | -               | -                           |
| <b>Total annual distributions<sup>3</sup></b>                              | <b>-</b>       | <b>(0.01)</b>   | <b>-</b>        | <b>-</b>                    | <b>-</b>        | <b>(0.34)</b>   | <b>(0.15)</b>   | <b>-</b>                    |
| <b>Net asset value, end of period</b>                                      | <b>\$ 9.89</b> | <b>\$ 11.71</b> | <b>\$ 11.61</b> | <b>\$ 10.50</b>             | <b>\$ 10.12</b> | <b>\$ 11.81</b> | <b>\$ 11.75</b> | <b>\$ 10.53</b>             |

<sup>1</sup> The impact of the adoption of the new accounting policy for valuation of securities on the net assets per unit determined in accordance with GAAP as of October 1, 2006 is disclosed. The new accounting policy may result in a different valuation of securities held by the Fund for financial reporting purposes than the market value used to determine net asset value of the Fund for the purchase and redemption of the Fund's units ("transactional NAV"). As a result, the net asset value per unit presented may differ from the Transaction NAV as of December 31, 2007.

<sup>2</sup> Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. These calculations are prescribed by securities regulations and are not intended to be a reconciliation between opening and closing net asset value per unit.

<sup>3</sup> Distributions were paid in cash/reinvested in additional units of the Fund, or both.

<sup>4</sup> For the period from commencement of operations, November 8, 2005 to December 31, 2005.

<sup>5</sup> For the period from commencement of operations, November 10, 2005 to December 31, 2005.

|   | CLASS A        |                |                |                             | CLASS B        |                |                |                             |
|---|----------------|----------------|----------------|-----------------------------|----------------|----------------|----------------|-----------------------------|
|   | Sep 30<br>2008 | Dec 31<br>2007 | Dec 31<br>2006 | Dec 31<br>2005 <sup>5</sup> | Sep 30<br>2008 | Dec 31<br>2007 | Dec 31<br>2006 | Dec 31<br>2005 <sup>6</sup> |
| <b>Ratios and Supplemental Data:</b>                                |                |                |                |                             |                |                |                |                             |
| Net assets (in 000's) <sup>1</sup>                                  | \$ 18,116      | \$ 20,746      | \$ 11,761      | \$ 992                      | \$ 7,879       | \$ 9,569       | \$ 5,371       | \$ 314                      |
| Number of units outstanding (in 000's) <sup>1</sup>                 | 1,833          | 1,772          | 1,013          | 95                          | 779            | 811            | 457            | 30                          |
| Management expense ratio <sup>2</sup>                               | 2.58%          | 2.58%          | 2.58%          | 2.73%                       | 0.19%          | 0.21%          | 0.21%          | 0.19%                       |
| Management expense ratio before waivers or absorptions <sup>2</sup> | 2.87%          | 2.96%          | 3.19%          | 7.05%                       | 0.31%          | 0.29%          | 0.61%          | 4.48%                       |
| Portfolio turnover rate <sup>3</sup>                                | 40.38%         | 88.86%         | 31.11%         | n/a                         | 40.38%         | 88.86%         | 31.11%         | n/a                         |
| Trading expense ratio <sup>4</sup>                                  | 0.06%          | 0.14%          | 0.11%          | 0.26%                       | 0.06%          | 0.14%          | 0.11%          | 0.26%                       |

<sup>1</sup> For each class of each Pool, the information is provided as at December 31 or September 30 of the year shown.

<sup>2</sup> Management expense ratio is based on total expenses for the stated year and is expressed as an annualized percentage of daily average net assets during the year. In the year a class is established or reinstated the management expense ratio is annualized from the date of inception or reinstatement to December 31 or September 30, as applicable.

<sup>3</sup> The Pool's portfolio turnover rate indicates how actively the Pool's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Pool buying and selling all of the securities in its portfolio once in the course of the year. The higher a Pool's portfolio turnover rate in a year, the greater the trading costs payable by the Pool in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Pool. The portfolio turnover rate is not provided when the Pool is less than one year old.

<sup>4</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily net assets during the year.

<sup>5</sup> For the period from commencement of operations, November 8, 2005 to December 31, 2005.

<sup>6</sup> For the period from commencement of operations, November 10, 2005 to December 31, 2005.



## Management Fees

The Pool pays NEILP a management fee for management services. The fee is calculated daily and paid monthly. The maximum annual management fee for Class A units of the Pool is 2.50%. The Pool does not pay management fees with respect to Class B units. However, we will directly charge an investment management fee to unitholders for the management of their portfolios.

The management fee covers the cost of investment advisory fees, sales, marketing, and distribution expenses of the Pool. In addition, the Manager pays a trailer fee to dealers out of this management fee. The trailer fee is a percentage of the average daily value of the units of the Pool held by the dealer's clients.

The following table shows the Pool's maximum trailer fee and commission rates paid to dealers for Class A units. The trailer fees are a percentage of the average daily value of the units of each Pool held by the dealer's clients. The fees depend on the Pool and the sales charge option chosen.

|  | CLASS A               |          |                    |                        |
|--|-----------------------|----------|--------------------|------------------------|
|  | Deferred Sales Charge | Low-Load | Low-Load 2         | Front-End Sales Charge |
| Maximum Trailer Fee Paid to Dealers (annually)             | 0.50%                 | 1.00%    | 1.00% <sup>1</sup> | 1.25%                  |
| Maximum Commission Paid to Dealers (upon initial purchase) | 5.00%                 | 1.00%    | 2.50%              | 5.00%                  |

<sup>1</sup> A maximum of 0.5% of the value of Class A units of the Pool held in your individual account during the first three years, and a maximum of 1% thereafter.

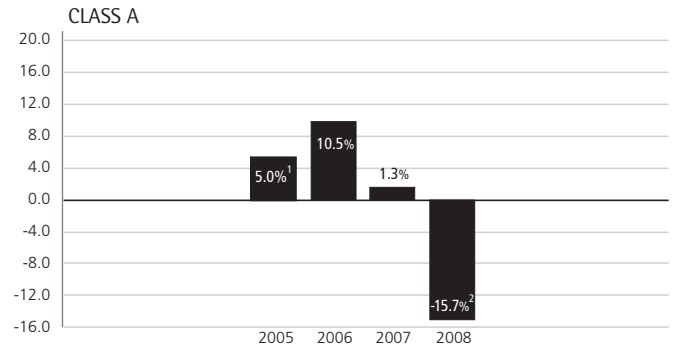
## Past Performance

Past performance shows historical information for the Pool. This information is provided to show past performance only, and is not necessarily indicative of what may happen in the future.

Past performance information shown assumes that all distributions made by the Pool in the period shown are reinvested in additional units of the Pool. Performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance.

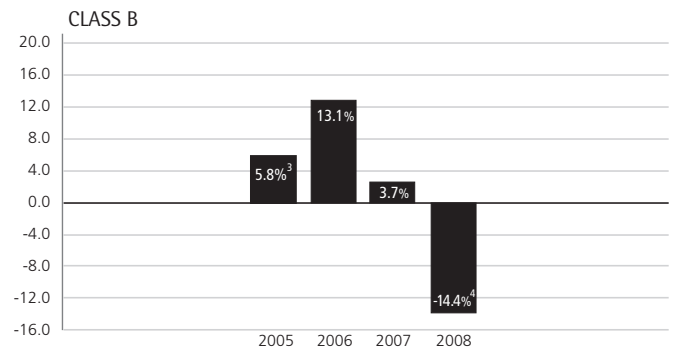
## Year-by-year Returns

The bar charts that follow show the performance of each class of unit of the Pool for the nine-month period ended September 30, 2008, and for each of the previous 12-month periods ended December 31. The charts show, in percentage terms, how an investment made on January 1 would have increased or decreased by the end of the period.



<sup>1</sup> Class A unit return shown from the first date of distribution November 8, 2005 to December 31, 2005.

<sup>2</sup> Class A unit return shown from January 1, 2008 to September 30, 2008.



<sup>3</sup> Class B unit return shown from the first date of distribution November 10, 2005 to December 31, 2005.

<sup>4</sup> Class B unit return shown from January 1, 2008 to September 30, 2008.



## Annual Compound Returns

The following tables show the annual compound returns for Class A and Class B units of the Pool. All returns are in Canadian dollars, on a total return basis, net of all fees.

For comparison, the S&P/TSX Composite Total Return Index returns are included.

### Annual Compound Returns

For the periods ended September 30, 2008

| Year                                 | 1      | 3   | 5   | 10  | Since Inception |
|--------------------------------------|--------|-----|-----|-----|-----------------|
| Class A                              | (18.5) | n/a | n/a | n/a | (0.3)           |
| S&P/TSX Composite Total Return Index | (14.4) | n/a | n/a | n/a | 5.6             |

| Year                                 | 1      | 3   | 5   | 10  | Since Inception |
|--------------------------------------|--------|-----|-----|-----|-----------------|
| Class B                              | (15.6) | n/a | n/a | n/a | 2.1             |
| S&P/TSX Composite Total Return Index | (14.4) | n/a | n/a | n/a | 5.6             |

The S&P/TSX Composite Total Return Index is a capitalization weighted index that measures market activity of stocks traded on the Toronto Stock Exchange. The Index also includes reinvestment of dividends and capital gains.

## Summary of Investment Portfolio

(%) as at September 30, 2008

### Sector Allocation

% of Portfolio

#### Common Stocks - Canadian

|                            |      |
|----------------------------|------|
| Consumer Discretionary     | 4.9  |
| Consumer Staples           | 1.5  |
| Energy                     | 22.5 |
| Financials                 | 23.5 |
| Healthcare                 | 0.6  |
| Industrials                | 8.4  |
| Information Technology     | 7.3  |
| Materials                  | 14.5 |
| Telecommunication Services | 3.2  |

#### Trust Units - Canadian

|                        |     |
|------------------------|-----|
| Consumer Discretionary | 1.8 |
| Consumer Staples       | 0.3 |
| Energy                 | 4.4 |
| Financials             | 1.9 |
| Industrials            | 0.9 |

#### Bonds - Canadian

|                            |              |
|----------------------------|--------------|
| Corporate                  | 0.1          |
| Other assets (liabilities) | 4.2          |
| <b>Total</b>               | <b>100.0</b> |

### Global Allocation

|                            |              |
|----------------------------|--------------|
| Canada                     | 95.8         |
| Other assets (liabilities) | 4.2          |
| <b>Total</b>               | <b>100.0</b> |

## Top Twenty Five Holdings

(%) as at September 30, 2008

|   | Sector                     | Percentage Holding |
|---|----------------------------|--------------------|
| Cash & Short Term Notes                 | Cash & Short Term Notes    | 9.9                |
| EnCana Corporation                      | Energy                     | 5.0                |
| Potash Corporation of Saskatchewan Inc. | Materials                  | 4.8                |
| Barrick Gold Corporation                | Materials                  | 4.4                |
| Canadian Natural Resources Ltd.         | Energy                     | 4.3                |
| Royal Bank of Canada                    | Financials                 | 4.2                |
| Research In Motion Limited              | Information Technology     | 3.7                |
| Manulife Financial Corporation          | Financials                 | 3.7                |
| Toronto-Dominion Bank (The)             | Financials                 | 3.6                |
| Nexen Inc.                              | Energy                     | 3.1                |
| Bank of Nova Scotia                     | Financials                 | 3.0                |
| Husky Energy Inc.                       | Energy                     | 2.9                |
| Canadian National Railway Company       | Industrials                | 2.8                |
| TELUS Corporation                       | Telecommunication Services | 2.6                |
| Canadian Oil Sands Trust - Units        | Energy                     | 2.5                |
| Bombardier Inc. - Class B               | Industrials                | 2.4                |
| Petro-Canada Ltd.                       | Energy                     | 2.4                |
| Agrium Inc.                             | Materials                  | 2.3                |
| Power Corporation of Canada             | Financials                 | 1.9                |
| Petrobank Energy and Resources Ltd.     | Energy                     | 1.8                |
| Yellow Pages Income Fund- Units         | Consumer Discretionary     | 1.7                |
| Bank of Montreal                        | Financials                 | 1.7                |
| Magna International Inc. - Class A      | Industrials                | 1.6                |
| AltaGas Income Trust- Units             | Energy                     | 1.6                |
| Sun Life Financial Inc.                 | Financials                 | 1.5                |
| <b>Total</b>                            |                            | <b>79.4</b>        |

This Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Pool. A quarterly update is available.