

# Annual Management Report of Fund Performance

For the nine month period ended September 30, 2008



## EnRich Income 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

The Credential EnRich Income Pool aims to provide investors with regular income while also offering growth of capital over the long term. The Pool invests mainly in fixed-income securities and income trusts. The Pool uses a multi-manager investment strategy to diversify by security and investment style. The Pool currently has a target of 85% exposure to fixed-income securities and 15% to income trusts.

### 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 Income Pool's Class A units returned -0.2% for the nine months ended September 30, 2008, compared with the benchmark DEX Universe Bond Index's return of 1.8%. Unlike the Index return, the Pool's returns are stated after the deduction of fees and expenses paid by the Pool. The Pool's net assets decreased by 8.7% to \$53.8 million, from \$58.9 million at December 31, 2007. Of this change, the decrease of \$5.1 million is attributable 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

High levels of volatility and uncertainty plagued both the equity and debt markets throughout the first nine months of 2008. Years of excess lending with minimal risk management culminated towards the end of the third quarter as credit markets froze up. Banks began shoring up their balance sheets with as much cash as possible and refused to offer loans at reasonable terms to other institutions for fear of their exposure to subprime loans and other toxic assets. The London Interbank Offer Rate (LIBOR), the most common measure at which banks will lend to each other, skyrocketed in the third quarter to nearly 4.0% (both 1 & 3 month), from 2.7% 6 months prior.

With financial institutions reluctant to lend money, North American central banks lowered their rates in an effort to boost liquidity. For the first nine months of 2008, the Bank of Canada lowered its key rate by 1.25% to end at 3.0%, while the US Federal Reserve was more aggressive in their cutting, ending at 2% from 4.25% at the beginning of the year; this in an attempt to boost the economy and stave off an economic slowdown. Late in the third quarter, oil and food prices began to pull back, easing inflationary pressures that have been rising. The US Government also attempted to increase the liquidity and confidence in financial institutions by bailing out Freddie Mac, Fannie Mae, American International Group (AIG), which all came into severe trouble as their subprime loans and re-insurance contract assets continued to fall in value. In addition, during the third quarter, the US government launched the Troubled Asset Relief Program (TARP), which proposed to buy back \$700 billion of trouble mortgage assets from banks to boost liquidity to the market.

Short Term bonds (one to five years) were the strongest performers during the first nine months of the year, returning 4.1%, followed by mid term bonds (five to ten years) at 2.7% return, while long term bonds (ten years +) were the worst performers at -2.4%, as institutional investors reduced the term to maturity of their portfolios in the face of uncertainty. During the period, the slope of the yield curve continued to

steepen as investors moved to shorter term bonds, pushing down their yields by 0.3% while yields on long term bonds rose by 0.5% to 5.2% at the end of September.

Federal bonds significantly outperformed both corporates and the DEX Universe Index, returning 3.8% year to date vs. 0.5% for corporates and 1.8% for the index. During these high levels of instability and uncertainty, investors have fled to the safest harbours of government securities. The 60 and 91 day Treasury bill yields have fallen from 3.8% to 1.9% and 1.9% at the end of September 2008.

### Reasons for Changes to Fund Composition and Exposures

Corporate bond holdings increased slightly from 78.0% to 80.8% of the bond allocation within the Pool during the period. Early in the year, the spreads between government and corporates became more attractive, but with recent credit concerns, proved to be slightly premature. With continued market concern around corporate earnings and growth, yields should remain high within this sector. At the end of the quarter within the Pool, 32.2% of bonds were rated A, 60.8% rated AA and 7.0% AAA. Given the high quality level of holdings, the Pool offers an attractive yield with a high margin of safety. Corporate bonds returned 0.5% during the nine months, underperforming governments, which returned 2.4%.

The income trust allocation provided an excellent boost to the Pool during the first five and a half months of the period, but subsequently fell heavily with the rest of the equity market. Income trusts continue to be one of the highest yielding investment vehicles and add a valuable layer of diversification to the Pool. The S&P/TSX Income Trust Index returned over 3% during the nine months of 2008. Energy and Commodity trusts were the predominant reason for the gains earlier in the year, but also accounted for the majority of the losses late in the third quarter.

### Recent Developments

#### Economic and Market Projections That May Impact the Fund

Central banks will likely keep a relaxed monetary policy, as concerns of the global recession have far outweighed concerns about inflation as commodity and energy prices have turned significantly downward during the third quarter. The credit crunch that began in 2007 has not yet played out and lending has and likely will remain strained as it will take a while for banks to lower their guard on lending their cash reserves. The unwillingness to lend will continue to impact the overall economy, as real estate will continue to slow and business spending decelerate as consumers reduce their spending. Canadian lending practices have been far more prudent and will continue to benefit investors, as the direct exposure to credit issues do not stem as deep.

#### Strategy Going Forward

At the end of the June, the allocation to income trusts was reduced from 20% to 15% given the strong performance of this sector, which was primarily driven by the Energy sector and the volatility facing the markets. The portfolio manager does not forecast the Energy sector to continue to rise at the same pace as it has in the past four years. Income Trusts will continue to offer increased capital gains potential and excellent yield, but will be affected by the volatility of the equity markets. The Pool remains broadly diversified and defensively structured. The Pool will continue to invest using a multi-manager, multi-style approach that will provide investors with increased diversification at a time when the markets are expected to be relatively volatile.



## 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 1.50% 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.

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 and unaudited interim financial statements.

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

	CLASS A				CLASS B			
	Sep 30 2008	Dec 31 2007	Dec 31 2006	Dec 31 2005 <sup>4</sup>	Sep 30 2008	Dec 31 2007	Dec 31 2006	Dec 31 2005 <sup>5</sup>
<b>Net asset value, beginning of year</b>	\$ 9.95	\$ 10.11	\$ 10.14	-	\$ 10.04	\$ 10.19	\$ 10.14	-
Net asset value, at inception				\$ 10.00				\$ 10.00
Initial Adoption of new accounting policy <sup>1</sup>	n/a	(0.01)	n/a	n/a	n/a	\$(0.01)	n/a	n/a
<b>Increase (decrease) from operations:</b>								
Total revenue	0.41	0.50	0.45	0.04	0.42	0.51	0.44	0.03
Total expenses	(0.14)	(0.18)	(0.18)	(0.02)	(0.02)	(0.02)	(0.02)	-
Realized gain (loss) for the period	(0.03)	(0.06)	(0.02)	-	(0.03)	(0.06)	(0.02)	-
Unrealized gain (loss) for the period	(0.27)	(0.14)	(0.10)	0.03	(0.31)	(0.14)	(0.06)	0.06
<b>Total increase (decrease) in net assets from operations<sup>2</sup></b>	<b>(0.03)</b>	<b>0.12</b>	<b>0.15</b>	<b>0.05</b>	<b>0.06</b>	<b>0.29</b>	<b>0.34</b>	<b>0.09</b>
<b>Distributions:</b>								
From income (excluding dividends)	-	(0.29)	(0.12)	(0.01)	-	(0.44)	(0.21)	(0.02)
From dividends	-	-	-	-	-	-	-	-
From realized gains on investments	-	-	-	-	-	-	-	-
From return of capital	-	-	-	-	-	-	-	-
<b>Total annual distributions<sup>3</sup></b>	<b>-</b>	<b>(0.29)</b>	<b>(0.12)</b>	<b>(0.01)</b>	<b>-</b>	<b>(0.44)</b>	<b>(0.21)</b>	<b>(0.02)</b>
<b>Net asset value, end of period</b>	<b>\$ 9.93</b>	<b>\$ 9.95</b>	<b>\$ 10.11</b>	<b>\$ 10.14</b>	<b>\$ 10.08</b>	<b>\$ 10.04</b>	<b>\$ 10.19</b>	<b>\$ 10.14</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 2008	Dec 31 2007	Dec 31 2006	Dec 31 2005 <sup>5</sup>	Sep 30 2008	Dec 31 2007	Dec 31 2006	Dec 31 2005 <sup>6</sup>
<b>Ratios and Supplemental Data:</b>								
Net assets (in 000's) <sup>1</sup>	\$ 36,813	\$ 39,331	\$ 25,258	\$ 1,977	\$ 16,998	\$ 19,597	\$ 11,615	\$ 631
Number of units outstanding (in 000's) <sup>1</sup>	3,707	3,951	2,498	195	1,686	1,951	1,140	62
Management expense ratio <sup>2</sup>	1.81%	1.79%	1.89%	1.66%	0.20%	0.18%	0.20%	0.19%
Management expense ratio before waivers or absorptions <sup>2</sup>	*	*	1.96%	4.89%	0.22%	*	0.38%	3.18%
Portfolio turnover rate <sup>3</sup>	26.18%	113.48%	29.48%	n/a	26.18%	113.48%	29.48%	n/a
Trading expense ratio <sup>4</sup>	0.05%	0.01%	0.03%	0.13%	0.05%	0.01%	0.03%	0.13%

<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.

\* There was no absorption of expenses for this class.



## 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 1.50%. 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)	0.25%	0.50%	0.50% <sup>1</sup>	0.60%
Maximum Commission Paid to Dealers (upon initial purchase)	5.00%	1.00%	2.50%	5.00%

<sup>1</sup> A maximum of 0.25% of the value of Class A units of the Pool held in your individual account during the first three years, and a maximum of 0.50% thereafter.

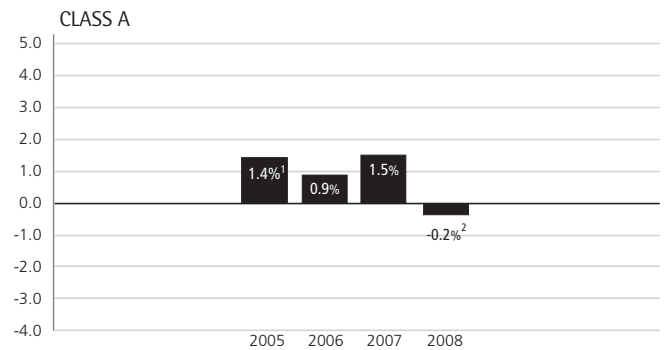
## Past Performance

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.

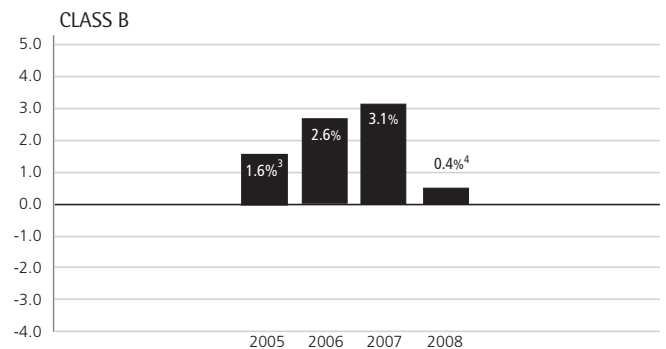
## Year-by-year Returns

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 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 DEX Universe Bond Index returns are included.

### Annual Compound Returns

For the periods ended September 30, 2008

Year	1	3	5	10	Since Inception
Class A	0.4	n/a	n/a	n/a	1.3
DEX Universe Bond Index	4.6	n/a	n/a	n/a	3.7

Year	1	3	5	10	Since Inception
Class B	1.4	n/a	n/a	n/a	2.7
DEX Universe Bond Index	4.6	n/a	n/a	n/a	3.7

The DEX Universe Bond Index is designed to be a broad measure of the Canadian investment-grade fixed income market. Returns are calculated daily, and are weighted by market capitalization, so that the return on a bond influences the return on the index in proportion to the bond's market value.

## Summary of Investment Portfolio

(%) as at September 30, 2008

### Sector Allocation

Sector Allocation	% of Portfolio
<b>Bonds - Canadian</b>	
Provincial	16.1
Corporate	67.5
<b>Trust Units - Canadian</b>	
Consumer Discretionary	1.5
Energy	6.0
Financials	4.9
Health Care	0.5
Industrials	1.1
Telecommunication Services	0.4
Other assets (liabilities)	2.0
<b>Total</b>	<b>100.0</b>

### Global Allocation

Canada	98.0
Other assets (liabilities)	2.0
<b>Total</b>	<b>100.0</b>

## Top Twenty Five Holdings

(%) as at September 30, 2008

	Sector	Percentage Holding
Province of Ontario, 5.00%, Mar. 8, 2014	Provincial	9.2
Union Gas Ltd., 4.64%, Jun. 30, 2016	Corporate	8.0
Province of Ontario, 4.30%, Mar. 8, 2017	Provincial	6.9
John Hancock Canadian CP, 6.496%, Nov. 30, 2011	Corporate	6.7
Bank of Montreal, 4.55%, Aug. 1, 2017	Corporate	6.2
Wells Fargo Financial Canada, 4.38%, Jun. 30, 2015	Corporate	5.9
Toronto-Dominion Bank (The), 5.69%, Jun. 3, 2018	Corporate	5.5
General Electric Capital Canada, 5.10%, Jun. 1, 2016	Corporate	5.2
Hydro One Inc., 4.64%, Mar. 3, 2016	Corporate	5.0
Sun Life Assurance Company of Canada, 6.15%, Jun. 30, 2022	Corporate	4.9
Trans-Canada Pipelines, 5.10%, Jan. 11, 2017	Corporate	4.7
Royal Bank of Canada, 6.30%, Apr. 12, 2016 - Fixed to Float	Corporate	4.7
Trans-Canada Pipelines, 5.65%, Jan. 15, 2014	Corporate	4.3
Hydro One Inc., 7.15%, Jun. 3, 2010	Corporate	3.2
FortisAlberta Inc., 5.33%, Oct. 31, 2014	Corporate	1.8
Cash & Short Term Notes	Cash & Short Term Notes	1.8
Bank of Montreal, 4.78%, Apr. 30, 2014	Corporate	1.5
Crescent Point Energy Trust - Units	Energy	0.9
Canadian Oil Sands Trust - Units	Energy	0.8
RioCan Real Estate Investment Trust - Units	Financials	0.7
ARC Energy Trust - Units	Energy	0.7
Enerplus Resources Fund - Units	Energy	0.7
Teranet Income Fund - Units	Financials	0.7
Yellow Pages Income Fund - Units	Consumer Discretionary	0.6
Canadian Real Estate Investment Trust - Units	Financials	0.6
<b>Total</b>		<b>91.2</b>

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