

## Statement of Commitment from The Ethical Funds Company™

**The Ethical Funds Company** welcomes the Eurosif Transparency Guidelines as an important step towards helping investors to understand what they are buying when they select an investment. These voluntary guidelines are designed for use by the retail socially responsible investment (SRI) fund sector in order to provide more disclosure and increased accountability to investors.

This disclosure document constitutes **The Ethical Funds Company** Statement of Commitment as a signatory of the Eurosif Transparency Guidelines. Updated disclosures will be made publicly available on at least an annual basis. **The Ethical Funds Company** is pleased to present this document as a formal representation of our commitment to disclosure and transparency.

## Basic Details

1. Signatories should be clear about who they are and provide background information on the fund, and the fund manager.

1a. Provide the name of the fund(s) and fund manager to which these guidelines apply.

Fund Name	Fund Manager
<b>Ethical</b> ® Income Fund	Co-operators Investment Counselling Limited
<b>Ethical</b> Monthly Income Fund	Guardian Capital LP
<b>Ethical</b> Balanced Fund	Greystone Managed Investments
<b>Ethical</b> Canadian Dividend Fund	Greystone Managed Investments
<b>Ethical Growth Fund</b> ®	Guardian Capital LP
<b>Ethical</b> Special Equity Fund	OVG D Investors Inc.
<b>Ethical</b> North American Equity Fund	Manning & Napier
<b>Ethical</b> RSP North American Equity Fund	Ethical Funds Inc
<b>Ethical</b> Global Equity Fund	Rockefeller & Co. Inc.
<b>Ethical</b> RSP Global Equity Fund	Ethical Funds Inc
<b>Ethical</b> International Equity Fund	William Blair & Company, L.L.C.
<b>Ethical</b> Canadian Index Fund	Ethical Funds Inc

1b. Provide contact details for further information regarding the funds.

For further information, please visit our Web site at [ethicalfunds.com](http://ethicalfunds.com)

### By Phone

Investors toll-free: 1.877.ethical (1.877.384.4225)

Vancouver: 604.714.3802

Dealer Support: Toll-Free: 1888.747.4333

Vancouver: 604.714.3866

By email: [clientrelations@ethicalfunds.com](mailto:clientrelations@ethicalfunds.com)

### Mailing Address:

Ethical Funds Inc.  
Suite 800 - 1111 West Georgia Street  
Vancouver, BC V6E 4T6  
Canada

1c. What is the size of the fund? In currency at a specified date.

Fund Name	Total Assets Under Management as at December 31, 2004 (thousands, Canadian)
<b>Ethical</b> Income Fund	\$233,745
<b>Ethical</b> Monthly Income Fund	\$3,858
<b>Ethical</b> Balanced Fund	\$407,047
<b>Ethical</b> Canadian Dividend Fund	\$60,304
<b>Ethical Growth Fund</b>	\$435,802
<b>Ethical</b> Special Equity Fund	\$177,445
<b>Ethical</b> North American Equity Fund	\$117,842
<b>Ethical</b> RSP North American Equity Fund	\$13,760
<b>Ethical</b> Global Equity Fund	\$27,181
<b>Ethical</b> RSP Global Equity Fund	\$11,182
<b>Ethical</b> International Equity Fund	\$23,779
<b>Ethical</b> Canadian Index Fund	\$1,129

## 1d. Where can financial performance history data about the fund be found?

For information on fund performance, please visit our Web site at:

[http://ethicalfunds.com./do\\_the\\_right\\_thing/our\\_funds/classed/performance\\_long.asp](http://ethicalfunds.com./do_the_right_thing/our_funds/classed/performance_long.asp)

## 1e. Provide details of the content, frequency, and means of communicating information to investors.

Our financial reports, including the prospectus and semi-annual and annual reports, are available on our Web site at [ethicalfunds.com](http://ethicalfunds.com). Investors may also contact us in writing to request hard copies of these reports.

Our Web site also features news bulletins, a weekly market news update, and monthly fund commentaries from our portfolio managers.

In addition, we publish *A Guidebook to Sustainable Investing*, to describe in detail our approach to sustainable investing and our methods for implementation. The Guidebook is available on our Web site at [ethicalfunds.com](http://ethicalfunds.com).

## SRI Investment Criteria

### 2. Signatories should be clear about their purpose and investment criteria.

#### 2a. How does the fund define SRI?

The Ethical Funds Company has adopted the concept of sustainable development to guide our approach to SRI. We use the definition from the 1997 report “Our Common Future, the report of the World Commission on Sustainable Development” to inform our understanding of sustainable development. In the report, sustainable development is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” This understanding of sustainable development encompasses the environment, the economy, and social justice.

In our globalized world, many believe that corporations – as much if not more than governments – are responsible for the most significant challenges we face as a society. While governments have a primary responsibility for regulating business, corporations can and should be held directly accountable for the impact of their activity.

The Ethical Funds Company believes that SRI is about ensuring that business manages activities to produce an overall positive impact on society; it is about putting in place the market incentives that encourage corporate managers and directors to operate companies responsibly; and it is about fostering the creation of a just and sustainable society. We invest in companies on the basis of financial performance and sustainability policies, programs, and performance.

People, acting both as citizens and consumers, can also advance sustainable business practices through their investment activity. By rewarding companies with their investment dollars and by using their voices as shareholders, investors can help change how corporations are governed, make decisions, and

impact our world. Indeed, given the centrality of financial markets in providing incentives that drive corporate behavior, the transformation of capital markets is a necessary condition for the transformation to a more responsible corporate sector and the realization of a more just and sustainable society.

## 2b. What are the SRI investment criteria of the fund?

Our sustainable investing philosophy is defined by three Core Values.

- **Respect for the Environment**  
Companies must reduce environmental impacts, adopt a precautionary approach to the environment, and help restore ecological health.
- **Respect for Stakeholders**  
Companies must contribute to the local economy, demonstrate good ethics, governance, and accountability, and implement mechanisms for honest stakeholder engagement. We define stakeholders as shareholders, employees, communities, customers, and suppliers.
- **Respect for Human Rights**  
Companies must avoid complicity in human rights violations, support human and labour rights throughout their operations, and encourage the peaceful resolution of conflict.

Key results areas and key performance indicators are derived from these Core Values to reflect the most significant social and environmental challenges for companies operating in 34 distinct industrial sectors. The number of key performance indicators used to evaluate companies ranges from 56 for Media and Real Estate to 129 for Integrated Oil and Gas.

In addition, we also have three product screens that reflect broad societal values and that are consistent with our Core Values. These are non-military, non-nuclear, and non-tobacco.

We do not invest in tobacco companies, and have a 5% revenue tolerance for companies that sell tobacco-related products, including papers, filters, and packaging. **Ethical Funds** does not invest in major weapons manufacturers or companies that derive more than 5% of revenue from military contracts of any sort. We have zero tolerance for companies that generate power from nuclear fuels or those involved in mining, milling, or refining uranium.

## 2c. How are the SRI criteria defined, how frequently, and by whom are the criteria reviewed?

Our Core Values are based upon broadly held social and environmental values. In developing our Core Values, we periodically survey our investors to confirm values and establish priorities. International law and agreements also help further our understanding of broad public and governmental support for socially responsible business practices. Establishment of our Core Values is guided by these international agreements:

- Universal Declaration of Human Rights
- International Labour Organization (ILO) Fundamental Principles and Rights at Work
- ILO Tripartite Declaration of Principles on Multinational Enterprise and Social Policy
- Rio Declaration on Environment and Development
- UN Convention on Biological Diversity

- UN Global Compact
- UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises With Regard to Human Rights

The SRI criteria are reviewed annually by our Sustainable Investing Analysts.

**2d. How are criteria changes communicated to investors?**

We communicate changes to our investors through our Web site at [ethicalfunds.com](http://ethicalfunds.com) as well as our financial reports, investor newsletter, and the *Sustainable Investing Guidebook*. Links to these documents are also available on our Web site.

**Research Process**

**3. Signatories should provide information on their research process.**

**3a. Describe your SRI research methodology and process.**

The Ethical Funds Company has developed our Corporate Sustainability Scorecard as a proprietary methodology to evaluate, rate, and rank the social and environmental performance of publicly-traded companies. The Scorecard tells us how effectively companies are managing social and environmental risks and how well they perform across three main areas of concern: the environment and human health, human rights, and stakeholder relations.

Criteria are weighted according to our proprietary weighting system to account for social and environmental challenges relevant to each sector. Scores are calculated for each company in each of the major issue-areas, then compiled into a single overall company score. Companies are classified as leaders, fast followers, adopters, responders, and non-compliant.

**3b. Does the fund manager use an in-house research team and/or an external research team? Please explain.**

Our funds are managed by external advisors who use their proprietary methodologies to achieve financial performance targets. Our team of five in-house Sustainability Analysts conduct Scorecard reviews and liaise with fund managers to identify new companies for potential inclusion in the portfolio.

**3c. Is there an external control or external verification process in place for the research process? Where an Advisory Committee is used, please state its responsibilities.**

The Ethical Funds Company is implementing an internal verification process to be conducted by our Chief Financial Officer and General Counsel. In addition, The Ethical Funds Company has an SRI Committee of the Board, which is responsible for oversight of the Program and review of our Assurance Report.

### **3d. Does the research process include stakeholder consultation? If yes, please provide details.**

The Ethical Funds Company conducts periodic surveys of unitholders and the Canadian investing public to determine the most significant values and priority of social and environmental concerns. Information gathered is integrated into our Scorecard weightings and our Shareholder Action Program.

We also engage corporate stakeholders, such as community groups, environmental organizations, human rights advocates, etc., in the context of implementing our Scorecard and our Shareholder Action Program.

### **3e. Do companies have the opportunity to see their profile or analysis? If yes, how often?**

The Ethical Funds Company does not routinely provide results of the Scorecard review to companies in our portfolio. We do share results in face-to-face meetings, upon request.

### **3f. How frequently is the research process reviewed?**

The research process is reviewed annually by our Sustainability Analysts, Management Investment Committee, and SRI Committee of the Board as part of the Corporate Sustainability Scorecard Criteria Review process.

### **3g. What research findings are disclosed to the public? How?**

We disclose the results of our research via the Focus List for the Shareholder Action Program, available on our Web site.

The Ethical Funds Company also publishes research papers that describe detailed evaluation criteria and provide notice of the future direction of our Shareholder Action Program.

## **Evaluation & Implementation**

### **4. Signatories should provide information on how the research is used to build and maintain their portfolio.**

#### **4a. How are the results of research integrated into the investment process, including selection and approval of companies for investment?**

After populating the Scorecard for each company and weighting each Key Result Area, we derive an overall numerical score. Companies are then classified as leaders, fast followers, adopters, responders, and non-compliant. Non-compliant companies are ineligible for investment and are added to our Red List. Companies that receive scores above this level are added to our Green list and are eligible for inclusion in our portfolio.

**4b. What internal or external measures are in place to ensure portfolio holdings comply with SRI investment criteria?**

Sustainability Analysts conduct a weekly audit to ensure that no Red List companies are added to the portfolio.

**4c. What is the policy and procedure for divestments on SRI grounds?**

In the event that a company no longer meets our standards, we notify the portfolio manager and allow 90 days for total divestment.

**4d. Are investors informed about divestments on SRI grounds? If yes, how frequently and by what means?**

Historically, **The Ethical Funds Company** has not notified investors about SRI-related divestments.

**4e. Does the fund manager inform companies of portfolio exclusions or divestments due to non-compliance with its SRI policy and criteria?**

Yes. We communicate the reasons for exclusion to the CEO and the Board of Directors.

*Additionally, to what extent do any results of engagement activities feed into company selection?*

Companies that fail to respond to shareholder resolutions that receive substantial support receive negative scores under our “corporate indifference” metric.

## **Engagement Approach**

**5. Signatories should explain their approach to engagement if the fund has such a policy.**

**5a. What are the aims of the engagement policy?**

Our Shareholder Action Program provides **The Ethical Funds Company** with a comprehensive framework for engaging companies in structured dialogue.

Our objectives in engaging companies in dialogue are to:

- Communicate our concerns directly to company management and directors;
- Determine the extent to which companies are acknowledging problems and exploring strategies for change;
- Enhance corporate disclosure of social and environmental performance information;
- Provide opportunities for companies to develop viable strategies for addressing key stakeholder concerns and strategic issues.

### **5b. How does the fund prioritise which companies it will engage with?**

Using our Corporate Sustainability Scorecard we identify responder companies, i.e., those exhibiting social and environmental records that lag their peers in key areas. **The Ethical Funds Company** may also engage corporations that occupy a strategic position in their industry and appear likely to reach the next stage of evolution toward enhanced corporate responsibility, and have the potential to trigger an upward shift in the performance of its peers.

### **5c. Who undertakes engagement on behalf of the fund?**

The VP Sustainability directs **The Ethical Funds Company** Shareholder Action Program. Sustainability Analysts assist in implementation and coordination of the program.

### **5d. What methods of engagement are employed?**

**The Ethical Funds Company** uses three types of engagement.

1. Shareholder Dialogue – consisting of structured discussions with key company decision-makers.
2. Shareholder Resolutions – offers a specific recommendation for company action.
3. Proxy Voting – enables **The Ethical Funds Company** to effectively engage all companies in our portfolio by voting based on our sustainable proxy voting guidelines.

### **5e. How is the effectiveness of engagement activity monitored/addressed?**

**The Ethical Funds Company** benchmarks corporate performance each year through the Corporate Sustainability Scorecard. Improved corporate performance is observed by applying the Scorecard in subsequent years. In addition, we maintain records on the status of structured dialogues, the number of resolutions filed, voting results, and the number of resolutions withdrawn. On a monthly basis management provides a Shareholder Action Program Status Report to the SRI Committee of the Board for review.

### **5f. What further steps, if any, are taken if engagement is considered unsuccessful?**

One of our three Core Values is respect for stakeholders, which includes company engagement with shareholders. In the event that dialogue is unsuccessful, we will file a shareholder resolution. Upon filing a resolution a company may still fail to implement recommended changes, despite a high percentage of votes in favour of our resolution. In such cases we may file the same resolution at the following annual general meeting to seek greater shareholder support. Alternatively, we may exclude a company if that company repeatedly fails to address shareholders concerns.

### **5g. How, and how frequently, are engagement activities communicated to investors and other stakeholders?**

We provide a monthly update on our Web site of our engagement activities, including the status of structured dialogues, resolutions filed, vote tallies, resolutions withdrawn, and our proxy voting record. Investors may view the Focus List update at [ethicalfunds.com](http://ethicalfunds.com).



## Voting Policy

### 6. Signatories should make clear their policies on voting.

#### 6a. Does the fund have a voting policy? If so, what is it?

The Ethical Funds Company retains the right to vote proxies and regard the proxies we hold on behalf of our unitholders as significant corporate assets. All proxies are voted for both Canadian and US securities. We cannot guarantee the ability to vote shares of companies domiciled outside Canada and the US at all times due to legal and technical difficulties that arise from offshore political jurisdictions.

#### 6b. Does the fund disclose its voting practices and reasoning for decisions? If so, where can this information be found?

Our extensive proxy voting policies are updated each year and published on our Web site. We were the first mutual fund in Canada to disclose this information, starting in 2000. We also began to disclose actual proxy voting activity in 2001, another Canadian first. See [http://ethicalfunds.com/do\\_the\\_right\\_thing/sri/shareholder\\_action/proxy\\_voting.asp](http://ethicalfunds.com/do_the_right_thing/sri/shareholder_action/proxy_voting.asp)

#### 6c.) Does the fund sponsor/co-sponsor shareholder resolutions?

Yes. The Ethical Funds Company was the first Canadian mutual fund company to sponsor a shareholder proposal (2000) and regularly files and co-files proposals in Canada and the United States. We have also co-filed resolutions with companies headquartered in the United Kingdom.

## Periodical Activities

### 7. Signatories should periodically disclose information about their activities. This should be done at least on an annual basis.

#### 7a. List the fund holdings at a specified date within the last six months.

On a monthly basis we provide the top ten holdings for each of our twelve funds. Historically, we have provided a complete list of company holdings for each of our funds in our annual and semi-annual reports. This disclosure will be made quarterly in future, in keeping with new regulations in Canada. The monthly top ten holdings and annual and semi-annual reports are available on our Web site at [ethicalfunds.com](http://ethicalfunds.com).

#### 7b. What engagement activity has been carried out on behalf of the fund during the past year?

The Ethical Funds Company discloses the activities of our shareholder engagement program monthly throughout the proxy voting season. For the most recent information, please visit our Web site.

During the 2005 proxy voting season we have filed eight resolutions of which seven have been withdrawn due to substantial compliance by the company. We have engaged in structured dialogue with a total of 39 companies.

**7c. What voting actions occurred that were related to the SRI fund criteria?**

The Ethical Funds Company votes all of the proxies for the companies in our portfolio. All vote decisions are based on our proxy voting guidelines which support our commitment to sustainable development.

**Additional: What divestments occurred in the past year related to the SRI fund criteria?**

We currently have 242 companies on our Red List. We exclude approximately 20% of the companies listed on the S&P/TSX Composite Index. Our last exclusion was ABB Ltd., an engineering firm with operations in Sudan.