



**British Columbia  
Securities Commission**

Corporate Finance

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September 20, 2002

SEDAR Project 469709

Attention: Yasmin Lalani  
Ethical Funds Inc.  
Vancouver, BC

Dear Ms. Lalani:

**Ethical Funds Inc.  
Application under Section 19.1 of National Instrument 81-102**

By letter dated August 2, 2002 and subsequent correspondence (the “Application”), you applied to the regulator or securities regulatory authority (the “Decision Makers”) in each province and territory of Canada, except Quebec, (together, the “Jurisdictions”) on its own behalf and as manager and trustee of the Ethical RSP International Equity Fund and Ethical RSP European Equity Fund and any other mutual fund established and managed by Ethical Funds Inc. (“EFI”) from time to time having an investment objective or strategy that is linked to the returns or portfolio of another mutual fund managed by EFI while remaining 100% eligible for registered plans (collectively, the “RSP Funds”), for exemptive relief under Section 19.1 of NI 81-102 to permit each RSP Fund to exceed the permitted exposure to the Ethical International Equity Fund, Ethical European Equity Fund and any other specific prospectus qualified mutual funds established and managed by EFI (collectively, the “Underlying Funds”), and to permit each RSP Fund to enter into forward contracts or other derivative instruments (the “Forward Contracts”) with certain provincial credit unions (the “Related Counterparties”) to gain indirect exposure to securities of its corresponding Underlying Fund.

The Underlying Funds will be open-end mutual funds established under the laws of British Columbia. The units of the RSP Funds and the Underlying Funds will be qualified for distribution in all of the Jurisdictions under a simplified prospectus and an annual information form (collectively, a “Prospectus”) filed with and accepted by each Decision Maker.

Each RSP Fund intends to invest directly in the applicable Underlying Fund, provided that direct investment will not expose the RSP Funds to tax under Part XI of the *Income Tax Act* (Canada) (the “Tax Act”) by exceeding at the relevant time the maximum “foreign property” limit allowed under the Tax Act (the “Permitted Limit”). The RSP Funds intend to apply for “registered investment” status under the Tax Act and as a result, the RSP Funds will be “qualified investments” and not “foreign property” for certain registered plans.

This letter confirms that, based on the information and representations contained in the Application, and for purposes described in the Application, the Decision Makers hereby exempt each of the RSP Funds from the following requirement of NI 81-102:

1. subsection 2.1(1) of NI 81-102 – to permit each RSP Fund to obtain exposure, through the use of Forward Contracts, to a specified Underlying Fund beyond the prescribed limits, as determined under subsections 2.1(3) and (4);
2. subsections 2.1(1) and 2.2(1) and clause 2.5(1)(a) of NI 81-102 – to permit each RSP Fund to invest directly in units of a specified Underlying Fund beyond the prescribed limits;
3. clause 2.8(1)(d) of NI 81-102 – to permit each RSP Fund, in respect of its exposure under the Forward Contracts, to have a shortfall in its cash cover position for a period not to exceed one business day;
4. clause 5.5(1)(d) of NI 81-102 – to permit each RSP Fund to suspend the right of its security holders to redeem securities of the RSP Fund, whenever the right to redeem securities of its Underlying Fund is suspended in accordance with subsection 10.6(1) of NI 81-102; and
5. section 4.2 – to permit each RSP Fund to enter into Forward Contracts with the Related Counterparties.

The requested relief is granted to each of the RSP Funds subject to the following conditions:

1. The decision by each Decision Maker (collectively, the “Decision”), as it relates to the jurisdiction of the Decision Maker, will terminate one year after the publication in final form of any legislation or rule of that Decision Maker dealing with the matters in section 2.5 of NI 81-102.
2. At the time an RSP Fund makes or holds an investment in its Underlying Funds, the following conditions are satisfied:
  - (a) the securities of the RSP Funds and the Underlying Funds are offered for sale in the jurisdiction of each Decision Maker under a Prospectus which has been filed with and accepted by the Decision Maker;
  - (b) each RSP Fund will restrict its aggregate direct investment in its applicable Underlying Fund to a percentage of its assets that is within the Permitted Limit;
  - (c) the investment by the RSP Fund in the Underlying Funds is compatible with the fundamental investment objective of the RSP Fund;

- (d) the investment objectives in the Prospectus of the RSP Funds describe the intent of the RSP Funds to invest in the specified Underlying Funds and names the Underlying Funds;
- (e) there are compatible dates for the calculation of the net asset value of the RSP Funds and the Underlying Funds for the purpose of the issue and redemption of the securities of those mutual funds;
- (f) if an Underlying Fund provides notice to its securityholders as required by its constating documents or by the laws applicable to that Underlying Fund, the notice will also be delivered to the securityholders of the applicable RSP Fund; all voting rights attached to the securities of the Underlying Fund which are owned by an applicable RSP Fund will be passed through to the securityholders of that RSP Fund;
- (g) if an Underlying Fund calls a securityholders' meeting in respect of a matter requiring securityholder approval under NI 81-102, all of the disclosure and notice material prepared in connection with the meeting will be provided to the securityholders of the RSP Fund and those securityholders will be entitled to direct a representative of the RSP Fund to vote the RSP Fund's holdings in the Underlying Fund in accordance with their direction; and the representative of an RSP Fund will not be permitted to vote the RSP Fund's holdings in the Underlying Fund except to the extent the securityholders of the RSP Fund so direct;
- (h) the arrangements between or in respect of an RSP Fund and its Underlying Fund are such as to avoid the duplication of management fees;
- (i) no sales charges are payable by the RSP Funds in relation to their purchases of units of the Underlying Funds;
- (j) no redemption fees or other charges are charged by the Underlying Funds in respect of the redemption by the RSP Funds of units of the Underlying Funds owned by the RSP Funds;
- (k) no "trailer fees" or other fees will be paid in respect of the investment by the RSP Funds in units of the Underlying Funds;
- (l) copies of the simplified prospectus, annual information form and the annual and semi-annual financial statements relating to the applicable Underlying Funds may be obtained by a unitholder of the RSP Funds without charge upon request and this fact is disclosed in the Prospectus;
- (m) as part of receiving the annual and, upon request, the semi-annual financial statements, of an RSP Fund, securityholders of that RSP Fund will receive

appropriate summary disclosure in respect of the RSP Fund's holdings of securities of the corresponding Underlying Fund; and

- (n) the RSP Funds will not invest in an Underlying Fund whose investment objective includes investing directly or indirectly in other mutual funds; and
3. investments by an RSP Fund in Forward Contracts are made in compliance with the following conditions:
- (a) the competitiveness of the terms and pricing of Forward Contracts entered into between the RSP Funds and the Related Counterparties will be monitored by having the directors of EFI who are not also officers or employees of EFI or its affiliates or directors or officers of the Related Counterparties or an affiliate of the Related Counterparties ("Independent Directors") complete a review of the terms and pricing of the Forward Contracts before entering into the Forward Contracts and upon each pricing amendment to the Forward Contracts during the term of the Forward Contracts but the review will be undertaken not less frequently than semi-annually to determine whether the terms and pricing are at least as favourable as the terms and pricing of forward contracts entered into by other fund groups offering RSP Funds of similar size with non-related counterparties, and if the terms and pricing are not at least as favourable, to determine the pricing and terms available to the RSP Funds from non-related counterparties;
  - (b) after completing this review, if the findings are that the terms and pricing of the Forward Contracts less favourable than those then available to the RSP Funds from non-related counterparties, EFI will request that the Counterparties provide the Forward Contracts to the RSP Funds on the terms and pricing available from non-related Counterparties, and if the Counterparties are not willing to do so, as soon as reasonably practicable after such determination EFI will cause the RSP Funds to terminate their forward contract arrangements with the Counterparties and enter into forward contracts or other derivative transactions with a counterparty or counterparties unrelated to EFI;
  - (c) the Prospectus will disclose the review of the Forward Contracts, the role of the board of directors of EFI in the review and the relationship between EFI and the Counterparties.

Yours truly,

*"Angela Huxham"*

Angela Huxham  
Director