

IN THE MATTER OF THE SECURITIES LEGISLATION OF
BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA, ONTARIO,
NEW BRUNSWICK, NOVA SCOTIA, NEWFOUNDLAND,
PRINCE EDWARD ISLAND AND THE YUKON TERRITORY

AND

IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF
ETHICAL FUNDS INC.
CREDENTIAL INCOME AND GROWTH PORTFOLIO,
CREDENTIAL BALANCED PORTFOLIO,
CREDENTIAL GROWTH PORTFOLIO,
CREDENTIAL EQUITY PORTFOLIO,
ETHICAL RSP NORTH AMERICAN EQUITY FUND, AND
ETHICAL RSP GLOBAL EQUITY FUND

MRRS DECISION DOCUMENT

WHEREAS the Canadian securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland and the Yukon Territory (the "Jurisdictions") has received an application from Ethical Funds Inc. ("EFI") in its capacity as Manager of the Credential Income and Growth Portfolio, Credential Balanced Portfolio, Credential Growth Portfolio and Credential Equity Portfolio (the "Credential Portfolio Funds") and Ethical RSP North American Equity Fund and Ethical RSP Global Equity Fund (the "Ethical RSP Funds") (collectively the "Funds") for a decision under the securities legislation of the Jurisdictions (the "Legislation") that:

1. the requirements contained in the Legislation requiring an offeror to issue a news release and file a report where its aggregate holdings of securities of a reporting issuer exceed 10% of the outstanding securities of the reporting issuer and refrain from purchasing additional securities of the reporting issuer for a specified period of time once its holdings exceed this 10% level, and before such holdings exceed the 20% level (the "Early Warning Requirements"), shall not apply to investments by the Funds in the Underlying Funds (as defined below);
2. (a) the restrictions contained in the Legislation prohibiting a mutual fund from investing in a person who is a substantial security holder of the mutual fund, its manager or distributor shall not apply to investments by the Ethical RSP Funds in forward contracts (the "Forward Contracts") with the Counterparties (as defined below); and

(b) the restrictions contained in the Legislation prohibiting a mutual fund from knowingly making an investment in a person or company in which the mutual fund, alone or together with one or more related mutual funds, is a substantial securityholder shall not apply to investments by the Funds in the Underlying Funds;

(collectively, the "Substantial Securityholder Prohibitions")

3. the requirements contained in the Legislation for a mutual fund manager to file a report relating to a purchase or sale of securities between the mutual fund and any related person or company, or any transaction in which, by arrangement other than an arrangement relating to insider trading in portfolio securities, the mutual fund is a joint participant with one or more of its related persons or companies (the "Management Reporting Requirements"), shall not apply in relation to investments by the Funds in the Underlying Funds or to the entering into of Forward Contracts with the Counterparties;

4. the requirements contained in the Legislation prohibiting a mutual fund or responsible person from knowingly causing a mutual fund to invest in any issuer in which a responsible person is an officer or director unless the specific fact is disclosed to the client and, if applicable, the written consent of the client to the investment is obtained before the purchase (the "Responsible Person Prohibitions") shall not apply to certain investments to be made by the Ethical RSP Funds in the Underlying Funds; and

5. the Early Warning Requirements shall not apply to acquisitions by the Counterparties of units of the Underlying Funds;

AND WHEREAS under to the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the British Columbia Securities Commission is the principal regulator for this application;

AND WHEREAS EFI has represented to the Decision Makers that:

1. each of the Funds is an unincorporated mutual fund trust established under the laws of British Columbia pursuant to declarations of trust and units of the Funds will be qualified for distribution in all of the jurisdictions under a simplified prospectus and annual information form (the "Prospectus");

2. each of the Funds was established to provide investors with the opportunity to pursue their investment objectives through, in the case of the Credential Portfolio Funds, participation in a weighted portfolio consisting of units of other mutual funds, and in the case of the Ethical RSP Funds, to mirror the returns of certain other mutual funds (collectively, the "Underlying Funds");

3. currently the President and Chief Executive Officer of EFI and a director of EFI are the trustees of the Ethical RSP Funds and Credential Portfolio Funds;

4. EFI is the manager and promoter of the Funds as well as other mutual funds (the "EFI Funds") that are or will be qualified for distribution in all the Jurisdictions under a simplified prospectus and annual information form;

5. EFI will be registered as an investment counsel and portfolio manager in British Columbia;

6. the approximate ownership of EFI's outstanding common shares is as follows:

Credit Union Central of British Columbia	14.29%
Credit Union Central of Alberta Ltd.	14.29%
Credit Union Central of Saskatchewan	14.29%
Co-operative Credit Society of Manitoba Ltd.	14.29%
Credit Union Central of Ontario Ltd.	14.29%
Prince Edward Island Credit Union League	14.29%
Brunswick Credit Union Federated Limited	14.29%

7. each of the Credential Portfolio Funds will invest in fixed percentages (the "Target Weightings") of units of the Underlying Funds that are mutual funds managed by Desjardins Trust Inc. (the "Desjardins Funds");

8. units of the Desjardins Funds are qualified for distribution in all the Jurisdictions under a simplified prospectus and annual information form;

9. each of the Ethical RSP Funds may invest directly in units of one EFI Fund;

10. each of the Ethical RSP Funds seeks to achieve its investment objective while ensuring that securities of the Ethical RSP Fund do not constitute "foreign property" under the Canada Income Tax Act (the "ITA");

11. to achieve its investment objective, each of the Ethical RSP Funds invests its assets in securities such that its units will, in the opinion of tax counsel to the Ethical RSP Funds, be qualified investments under the ITA and will not constitute foreign property, primarily through the implementation of a derivative strategy using forward contracts (the "Forward Contracts") in conjunction with direct investments in units of a single EFI Fund which will at all times be below the maximum foreign property limit prescribed under the ITA (the "Permitted Limit"); the underlying interest of the Forward Contracts will be the value of an investment in the corresponding EFI Fund;

12. the direct investments by the Ethical RSP Funds in the corresponding EFI Funds will be within the Permitted Limit; the amount of direct investment by each Ethical RSP Fund in its corresponding EFI Fund will be adjusted from time to time so that, except for transitional cash, the aggregate of exposure through the Forward Contracts to, and direct investment in, the EFI Fund will equal 100% of the assets of the Ethical RSP Fund;

13. the counterparties for the Forward Contracts will be Credit Union Central of British Columbia, Credit Union Central of Alberta, Credit Union Central of Saskatchewan and Credit Union Central of Ontario (collectively, the "Counterparties");

14. the Counterparties may, from time to time, purchase units of the EFI Funds as a hedge against their obligations under the Forward Contracts and this will be disclosed in the Prospectus;

15. the Prospectus will disclose the relationship between EFI and the Counterparties;

16. except to the extent evidenced by this Decision and the specific approvals granted by the Canadian securities administrators pursuant to National Policy Statement No. 39 ("NP 39"), the investments by each Credential Portfolio Fund and Ethical RSP Fund in the Underlying Funds have been structured to comply with the investment restrictions of the Legislation and NP 39;

17. the Prospectus will disclose the identity and investment objectives of each Underlying Fund and disclose that there is no duplication of sales charges, redemption charges or management fees;

18. as a result of the definition of "substantial securityholder", "security" and "futures contract" under the Legislation of certain of the Jurisdictions, the entering into of the Forward Contracts by the Ethical RSP Funds with the Counterparties may be considered to be an investment in the Counterparties and therefore subject to the Substantial Securityholder Prohibitions;

19. as a result of the provisions of the Legislation and the definition of "substantial securityholder", investments by the Funds in the Underlying Funds are subject to the Substantial Securityholder Prohibitions;

20. as a result of the provisions of the Legislation, EFI is subject to the Management Reporting Requirements for each purchase or sale of securities between the Funds and any related person;

21. as a result of the provisions of the Legislation EFI, as manager of the Credential Portfolio Funds and Ethical RSP Funds may be subject to the Early Warning Requirements in respect of acquisitions of units of Underlying Funds; and

22. as a result of the provisions of the Legislation, the Counterparties may be subject to the Early Warning Requirements in respect of acquisitions of units of EFI Funds that are made for hedging purposes in connection with the entering into the Forward Contracts;

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE Decision of the Decision Makers under the Legislation is that:

1. the Early Warning Requirements, the Substantial Securityholder Prohibitions, the Management Reporting Requirements and the Responsible Person Prohibitions do not apply to the entering into of Forward Contracts between the Ethical RSP Funds and the Counterparties or investments by the Funds in any of the Underlying Funds, provided that:

(a) the Underlying Funds' securities are offered for sale in the jurisdiction of the Decision Maker pursuant to a prospectus which has been filed and accepted by the Decision Maker;

(b) the investments by the Funds in Underlying Funds are compatible with the investment objectives of the Funds;

(c) in respect of the Credential Portfolio Funds, each Credential Portfolio Fund invests its assets (exclusive of cash and cash equivalents) in the Underlying Funds in accordance with the Target Weightings provided that the investments may vary above or below the Target Weightings by 2.5% (the "Permitted Percentages");

(d) in respect of the Ethical RSP Funds, each Ethical RSP Fund invests in the corresponding Underlying Fund a portion of its assets that is no more than the Permitted Limit;

(e) in respect of the Ethical RSP Funds, the competitiveness of the terms and pricing of Forward Contracts entered into between the Ethical RSP Funds and the Counterparties will be monitored by having the members of the board of directors of EFI who are members of the board of directors or officers of any of the Counterparties or any affiliate of the Counterparties refrain from voting on the entering into of Forward Contracts by EFI and having the members, excluding those who are members of the board of directors or officers of the Counterparties or any affiliates of the Counterparties, complete a review of the terms and pricing of such Forward Contracts upon each pricing amendment to the Forward Contracts during the term of such Forward Contracts but such review will be undertaken not less frequently than on a semi-annual basis to determine whether such terms and pricing are comparable to the terms and pricing of forward contracts entered into by similar mutual funds with non-related counterparties, and if such terms and pricing are not comparable, to determine the pricing and terms available to the Ethical RSP Funds from non-related counterparties; after completing this review, if the findings are that the terms and pricing of the Forward Contracts are not comparable to those then available to the Ethical RSP Funds from non-related counterparties, EFI will request that the Counterparties provide the Forward Contracts to the Ethical RSP Funds on the comparable terms and pricing, and if the Counterparties are not willing to do so, as soon as reasonably practicable after such determination cause the Ethical 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; 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;

(f) the Prospectus discloses the intent of the Funds to invest, subject to the Permitted Percentages and Permitted Limit, as the case may be, in the Underlying Funds;

(g) in respect of the Credential Portfolio Funds, the particular Underlying Funds in which each Credential Portfolio Fund may invest which are disclosed in the Prospectus, may not be changed unless the Prospectus is amended or a new Prospectus is filed and the unitholders of the Credential Portfolio Funds have either been given at least 60 days notice of the change or the prior approval of the unitholders has been given to the change at a meeting of unitholders of the Credential Portfolio Funds called for that purpose and each prospective purchaser of securities of each Credential Portfolio Fund who proposes to acquire the securities following the issuance of the receipt for the amendment receives a copy of the amended Prospectus;

(h) the Credential Portfolio Funds may not change the Target Weightings that are disclosed in the Prospectus unless the Prospectus is amended or a new Prospectus is filed with the Decision Makers and the unitholders of the Credential Portfolio Funds either have been given at least 60 days notice of the change or have given their prior approval of the change at a meeting of the unitholders of the Credential Portfolio Funds called for that purpose and this fact is disclosed in the Prospectus for the Credential Portfolio Funds;

(i) the Ethical RSP Funds may change its investment in the corresponding EFI Fund that is disclosed in the Prospectus if it changes its fundamental investment objectives in accordance with the Legislation;

(j) if at any time the assets of the Funds that are invested in the Underlying Funds deviate from the Permitted Percentages or the Permitted Limit as the case may be, the Funds make the changes necessary to bring their assets within the Permitted Percentages or the Permitted Limit as the case may be, as at the next valuation date of the Funds;

(k) the Funds and the Underlying Funds have compatible dates for the calculation of their respective net asset values for the purpose of the issue and redemption of their respective securities;

(l) in the event of the provision of any notice to securityholders of an Underlying Fund as required by the constating documents of the Underlying Fund or by the laws applicable to the Underlying Fund, such notice will also be delivered to the securityholders of the Fund; all voting rights attached to the units of the Underlying Fund which are owned by the Funds will be passed through to the

securityholders of the Funds; in the event that a securityholders' meeting is called for an Underlying Fund, all of the disclosure and notice material prepared in connection with such meeting will be provided to the securityholders of the Fund and such securityholders will be entitled to direct the trustees of the Fund to vote the Funds' holdings in the Underlying Fund in accordance with their direction; the trustees of the Funds will not be permitted to vote the Funds' holdings in the Underlying Funds except to the extent the securityholders of the Funds so direct;

(m) the Funds pay no sales charges in respect of the purchase of securities of any of the Underlying Funds;

(n) the Funds pay no redemption fees or other charges to redeem securities of the Underlying Funds owned by the Funds;

(o) any management fee rebates negotiated by EFI with the manager of the Underlying Funds will be paid to the benefit of the relevant Funds and not for the benefit of EFI;

(p) except as described in paragraph (o) above, the Funds, the Underlying Funds, the manager or principal distributor of the Funds or the Underlying Funds, and any affiliates or associate of any of the foregoing, pay no fees or charges of any kind, including trailer fees, to anyone in respect of an investment by the Funds in the Underlying Funds;

(q) the arrangement between or in respect of each of the Funds and the Underlying Funds is such as to avoid the duplication of management fees;

(r) the annual and semi-annual financial statements of each of the Funds will include appropriate summary disclosure regarding each Underlying Fund in which the Fund invests; and

(s) each Fund will provide to their unitholders, upon request, copies of the simplified prospectus, annual information form and annual and semi-annual financial statements of any Underlying Fund in which the Fund invests; and

(t) section 1 (a) through (s) of the operative portion of this MRRS Decision Document, as it relates to the jurisdiction of a Decision Maker, will terminate one year after the publication in final form of any legislation or rule of that Decision Maker dealing with matters in clause 2.04(4)(b) of NP 39; and

2. the Early Warning Requirements shall not apply to an investment by a Counterparty in units of the EFI Funds for hedging purposes in connection with the entering into of the Forward Contracts, provided that the Counterparty complies with the alternative monthly early warning reporting system for "eligible institutional investors" set out in sections 1.1, 4.5 to 4.8 and 5.1 to 5.3 of Proposed National Instrument 62-103, as published at [1998] 35 B.C.S.C. Weekly

Summary 21 ("NI 62-103"), with respect to their investments in units of the EFI Funds, with the following modifications:

(i) for the purpose of calculating a Counterparty's security holding percentage for the purposes of section 4.5 of NI 62-103, any securities held by the Counterparty as a pledgee or otherwise as a secured party or in the capacity of underwriter during the underwriting period shall be excluded;

(ii) for greater certainty, a Counterparty is not required to file a report in the circumstances described in sections 6.1(1) and (2) of NI 62-103; and

(iii) for the purposes of item 1(i) of Appendix G to NI 62-103, a Counterparty shall state that it is relying on this MRRS Decision Document in filing the report; and

2. section 2 of the operative portion of this MRRS Decision Document shall cease to be operative 30 days following the entry into force of a rule or policy of the Jurisdictions relating to alternative early warning reporting and related matters (the 30th day being the "Lapse Date"), without prejudice to a Counterparty's ability to treat reports made pursuant to this Decision prior to such Lapse Date as having been made under that rule or policy.

DATED December 21, 1999.

Brent W. Aitken
Commission Member

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - relief from the early warning and certain of the self-dealing provisions in connection with investments by mutual funds in other mutual funds and the entering into of forward contracts - relief from the early warning provisions of the legislation in accordance with proposed National Instrument 62-103 for acquisitions by the counterparties under the forward contracts of units in the other funds for hedging purposes.

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c. 418, ss. 111, 114(2)(c), 121(2), 126, 127(1)(a), 130(b)