

Annual Report of the Independent Review Committee of

The Northwest Group of Funds

January 12, 2009

IRC annual report to: Securityholders in the Northwest Group of Funds (the “Funds”) as listed at the end of this report.

Dear Investor,

In accordance with **National Instrument 81-107 Independent Review Committee for Investment Funds** (“NI 81-107” or the “Instrument”), the Manager established an independent review committee (the “IRC”) for the Funds. The IRC became fully operational on October 10, 2007 and, after that date, has functioned in accordance with the applicable securities laws, including the Instrument. The IRC is composed of three individuals, each of whom is independent of the Funds, the Manager and each entity related to the Manager (as defined in the Instrument).

Effective December 28, 2007 Northwest Mutual Funds Inc. and Ethical Funds Inc. entered into a combination and became Northwest & Ethical Investments L.P. (“the Manager”). In accordance with the Instrument, the Manager has continued the IRC as of the above date with respect of potential conflicts of interest between the Manager and the Funds

The IRC is pleased to publish its first annual report to the Securityholders, to describe the IRC and its activities during the period from October 10, 2007 to September 30, 2008 (“the Reporting Period”). Next year’s report will cover a full financial year.

Mandate of the IRC

In accordance with the Instrument, the mandate of the IRC is to consider and provide recommendations to the Manager on conflicts of interest to which the Manager may be subject when managing the Funds. The Manager is required under the Instrument to identify potential conflicts of interest inherent in its management of the Funds, develop written policies and procedures guiding its management of those conflicts and request input from the IRC on those written policies and procedures.

When a conflict matter arises, the Manager must refer its proposed course of action in respect of any such conflict of interest matter to the IRC for its review. While certain matters require the IRC’s prior approval, in most cases the IRC will provide a recommendation to the Manager as to whether or not, in the opinion of the IRC, the Manager’s proposed action provides a fair and reasonable result for the Funds. For recurring conflict of interest matters, the IRC can provide the Manager with Standing Instructions (“SIs”) that enable the Manager to proceed with certain matters without having to refer them to the IRC each time for approval, providing the Manager deals with the conflicts in accordance with the SIs.

The IRC is empowered to represent the best interest of the Funds in any matter where the Manager has referred a conflict of interest matter to the IRC. In those cases, it has sought to ensure that the Manager’s proposed course of action represents a fair and reasonable result for the relevant Fund(s).

Composition of the IRC

The current members of the IRC, and their principal occupations, are as follows:

<i>Name and municipality of residence</i>	<i>Principal Occupation</i>	<i>Term of Office</i>
Chair: Lawrence A. Ward, FCA, Toronto, Ontario	Consultant, retired partner of PricewaterhouseCoopers, LLP	Three years from May 1, 2007
Eamonn B.P. McConnell, Toronto, Ontario	Consultant, former Managing Director of Deutsche Bank, Europe and Asia	Two and a half years from May 1, 2007
Michele McCarthy, Toronto, Ontario	President McCarthyLaw Professional Corp.,	Two (2) years from May 1, 2007

There have been no changes to the IRC composition since its inception on May 1, 2007.

Compensation and Indemnification

Members' Fees

In aggregate the IRC members were paid \$65,000 for the Reporting Period plus applicable taxes. The IRC has engaged Independent Review Inc. to assist it in its duties in accordance with the provisions of the Instrument and the IRC's written charter, to provide certain administrative and record keeping functions, and to act as the IRC's independent secretariat.

Indemnities Granted

The Funds and the Manager have provided each IRC Member with a contractual indemnity to the fullest extent permitted by NI 81-107. No indemnities were paid to any IRC Member by the Funds or the Manager during the Reporting Period.

Disclosure of IRC Member's Holdings

As at September 30, 2008 the IRC Members did not beneficially own, directly or indirectly:

- any units in any of the Funds;
- any interests in the Manager ; or
- any interests in a company or person that provides services to the Manager or any Fund.

Recommendations and Approvals

In January, 2008, the IRC made a recommendation to re-open the Northwest Specialty High Yield Bond Fund to new investors. The Manager's Conflicts of Interest Manual prohibits a closed Fund from being re-opened without receiving a recommendation from the IRC. The IRC gave its recommendation on February 1, 2008 supporting the re-opening of the Fund. Other than the SIs set out below, there were no other recommendations or approvals requested by the Manager during the Reporting Period.

Standing instructions Approved

The IRC has approved three SIs, which constitute a written approval or recommendation from the IRC that permit the Manager to proceed with the specific action(s) set out in the SIs on an ongoing basis, without having to refer the conflict of interest matter or its proposed action to the IRC, provided that the Manager complies with the terms and conditions of the SI. The Manager relied on SI No.1 during the Reporting Period. In each case, the SIs required the Manager to comply with its related policy and procedures and to report periodically to the IRC. The Manager did not rely on SI No. 2 or SI No. 3 during the Reporting Period.

Standing Instruction No. 1: Omnibus. This SI deals with a number of conflict of interest matters including:

1. Expenses charged to the Funds
2. Expense allocations
3. Excessive trading policy
4. Trade allocations
5. Net asset value error correction policy
6. Correcting other material securityholder transaction errors
7. Seeking best execution
8. Soft dollar arrangements
9. Favouritism policy
10. Proxy voting policy
11. Sub-advisory services provided by related parties
12. Changing sub-advisors
13. Monitoring sub-advisors
14. Employee personal trading policy
15. Trading policies for sub-advisors
16. Short-term trading and late trading policy
17. Investing in a related party
18. Services provided by related parties
19. Trading policies including broker selection and trade allocations

Standing Instruction No. 2: Portfolio Pricing Issues: Fair Valuing Securities.

Standing Instruction No. 3: Related Party Issues: A Fund Purchases Securities Underwritten by a Company Related to the Manager or to a Sub-Advisor.

Manager's Report on Standing Instructions

In accordance with NI 81-107, the Manager provided a written report to the IRC on September 30, 2008 describing its reliance on any SIs during the Reporting Period.

Annual Assessment

In accordance with NI 81-107, the IRC conducted an annual assessment which consisted of the following elements:

- 1) Review of the Written Charter;
- 2) Review of the SIs and the Manager's Policies, Procedures ; and
- 3) A self-assessment review by the IRC

Review of the Written Charter

The Written Charter required amendment to reflect the new name after Northwest Mutual Funds Inc. and Ethical Funds Inc. entered into a combination and became Northwest & Ethical Investments L.P. The IRC adopted the updated Charter on April 24, 2008.

As part of the IRC's annual assessment process, it reviewed the adequacy and effectiveness of the Written Charter. It was noted that the definitions in the IRC's Written Charter for "Funds" and "Fund Manager" required amendment as the definitions referred to all of the Manager's funds under the combination. This change and several other amendments to the Written Charter were adopted on January 12, 2009.

Review of the SIs and the Manager's Policies, Procedures

The annual assessment process with the Manager consisted of the following:

1. *A review of the adequacy and effectiveness of the Manager's written policies and procedures concerning conflict of interest matters;*

The Manager's written conflict of interest matters policies and procedures were reviewed and several amendments were recommended. As a result of these recommendations, the Manager adopted a revised Conflict of Interest Matters policies and procedures manual on January 12, 2009.

2. *A review of the adequacy and effectiveness of the SIs the IRC has provided to the Manager;*

The SIs adopted on October 10, 2007 were reviewed and after consultation with the Manager, several amendments were adopted by the IRC on January 12, 2009

3. *A review of the adequacy and effectiveness of the Manager's and each Fund's compliance with any conditions imposed by the IRC in a recommendation or approval it has provided to the Manager;*

The Manager has complied with all the conditions imposed by the IRC in the SIs granted. No conditions were attached to the recommendation granted.

Self-Assessment Review

The self-assessment review conducted subsequent to the Reporting Period consisted of the following steps;

1. *A review of compensation*

The initial compensation of the IRC was set by the Manager. At least annually, the IRC reviews its compensation giving consideration to the following:

- i. the best interests of the Funds;
- ii. that compensation paid to the IRC by each Fund should fairly and reasonably reflect the general and specific benefits accruing to that Fund;
- iii. the nature and extent of the workload of each member of the IRC.

2. *The completion of questionnaires and an annual written declaration of independence.*

Each IRC member completed an individual questionnaire and a group questionnaire related to the performance of the IRC over the Reporting Period and the IRC's interaction with the Manager. Each IRC

member also completed the annual declaration of independence wherein each member re-asserted his/her independence within the meaning of the Instrument.

The self assessment review was concluded at a meeting of the IRC on January 12, 2009. After the completion of all of the above elements the IRC prepared its annual assessment report to the Manager which set out the results of the IRC's annual assessment review.

The IRC's annual assessment report would have included any details of any breaches by the Manager of its conflict of interest matters policies and procedures, had there been any. It would also have included any breaches of any conditions imposed by the IRC, of which the IRC was aware, and the IRC's recommendations for changes in the Manager's conflict of interest matters policies and procedures as noted above. There were no conditions imposed by the IRC other than those contained in the Standing Instructions.

Funds served by the IRC

Core Funds

Northwest Money Market Fund
Northwest Canadian Equity Fund
Northwest Canadian Bond Fund
Northwest Canadian Dividend Fund
Northwest Growth & Income Fund
Northwest Global Equity Fund
Northwest U.S. Equity Fund
Northwest EAFE Fund
Northwest Global Growth & Income Fund

Specialty Funds

Northwest Specialty High Yield Bond Fund
Northwest Specialty Global High Yield Bond Fund
Northwest Specialty Equity Fund
Northwest Specialty Innovations Fund
Northwest Specialty Growth Fund Inc.

Quadrant Funds

Northwest Quadrant Conservative Portfolio
Northwest Quadrant Income Portfolio
Northwest Quadrant Balanced Portfolio
Northwest Quadrant Balanced Growth Portfolio
Northwest Quadrant Growth Portfolio
Northwest Quadrant Global Growth Portfolio
Northwest Quadrant Global Equity Portfolio
Northwest Quadrant All Equity Portfolio

Northwest Corporate Class Funds

Northwest Short Term Corporate Class
Northwest Canadian Equity Corporate Class
Northwest Canadian Dividend Corporate Class

Northwest Growth and Income Corporate Class
Northwest U.S. Equity Corporate Class
Northwest EAFE Corporate Class
Northwest Global Equity Corporate Class
Northwest Global Growth and Income Corporate Class
Northwest Specialty Equity Corporate Class
Northwest Specialty Innovations Corporate Class
Northwest Quadrant Balanced Growth Corporate Class Portfolio
Northwest Quadrant Growth Corporate Class Portfolio
Northwest Quadrant Global Growth Corporate Class Portfolio
Northwest Quadrant Global Equity Corporate Class Portfolio
Northwest Quadrant All Equity Corporate Class Portfolio

This report is available on the Manager's website at <http://www.northwestfunds.com> or you may request a copy, at no cost to you, by contacting the Northwest Funds at (416)-594-6633 or 1-888-809-3333 or email the Northwest Funds at clientservice@northwestfunds.com. This document and other information about the Northwest Funds are available on www.sedar.com.

Lawrence A. Ward, Chair

Schedule of IRC Members who sit on IRCs for other Fund Families

Lawrence A. Ward serves as a member of the Independent Review Committees for the following funds:

The Acker Finley Canada Focus Fund;
Investment funds that are reporting issuers managed by Russell Investments Canada Limited;
The Goodwood Capital Fund; and
Investment funds that are reporting issuers managed by Sprott Asset Management Inc.

Eamonn McConnell serves as a member of the Independent Review Committees for the following funds:

Investment funds that are reporting issuers managed by Integra Capital Limited;
Investment funds that are reporting issuers managed by Russell Investments Canada Limited;
The Goodwood Capital Fund;
Investment funds that are reporting issuers managed by Gencap Funds LP
Investment funds that are reporting issuers managed by Sprott Asset Management Inc.; and
Investment funds that are reporting issuers managed by Webb Asset Management Canada Inc.

Michele McCarthy serves as a member of the Independent Review Committees for the following funds:

Investment funds that are reporting issuers managed by Integra Capital Limited; and
Investment funds that are reporting issuers managed by Educators Financial Group Inc.