



# **Connor, Clark & Lunn Conservative Income Fund**

## **Annual Information Form**

**For the year ended October 31, 2010**

January 2011

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# 1 THE TRUST

## 1.1 NAME AND FORMATION

Connor, Clark & Lunn Conservative Income Fund (the “Trust”) is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement dated as of November 29, 2004 (the “Trust Agreement”) between Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) in its capacity as manager and RBC Dexia Investor Services Trust (formally “The Royal Trust Company”) (the “Trustee” or “RBC Dexia”) as trustee. The Manager was incorporated under the Business Corporations Act (Ontario) on January 15, 2001 and is wholly owned by CC&L Capital Markets Partnership.

The principal place of business of the Trust and the registered office of the Manager is Suite 300, 181 University Avenue, Toronto, Ontario M5H 3M7.

## 1.2 STATUS OF THE TRUST

The Trust is not a “mutual fund” for securities law purposes. As a result, some of the protections provided to investors in mutual funds under such laws are not available to investors in the units of the Trust (“Units”).

# 2 DESCRIPTION OF THE BUSINESS

## 2.1 ISSUE OF UNITS

On December 15<sup>th</sup>, 2004, Units were issued and began trading on the Toronto Stock Exchange. The Trust does not continuously distribute its Units and does not intend to issue any further Units. The offering is summarized in the following table:

- Issue date: December 15, 2004
- Redemption date: December 15, 2014.
- Number of Units issued: 14,375,000.
- Issue price per Unit: \$10.00.
- Total raised: \$143,750,000.
- Expenses of issue: \$8,176,865.
- Net amount raised: \$135,573,135
- Trading symbol: CCQ.UN
- Distributions: provide Unitholders with a stable stream of monthly distributions targeted to be \$0.0583 per Unit (representing approximately a 7.0% per annum yield on the original issue price of \$10.00 per Unit) to Unitholders of record on or about the last business day of each month.

## 2.2 INVESTMENT OBJECTIVES AND STRATEGY

The Trust’s investment objectives are:

- (i) provide holders of the Units (“Unitholders”) with a stable stream of monthly cash distributions targeted to be \$0.0583 per Unit (representing approximately a 7.0% per annum yield on the issue price of \$10.00 per Unit); and
- (ii) preserve the net asset value per Unit in order to return at least the original issue price of Units (\$10.00 per Unit) to Unitholders on or about December 15, 2014 and provide to Unitholders an opportunity for capital appreciation above the original issue price.

In support of these investment objectives, the assets of the Trust, including any borrowings or other leverage, are invested in a portfolio (the “Portfolio”) consisting of income producing securities including Canadian business income trusts, real estate investment trusts (“REITs”), utility income trusts, corporate bonds and convertible bonds. In addition, from time to time, the Portfolio may include significant cash and cash equivalents.

## 2.3 INVESTMENTS GUIDELINES

### 2.3.1 Investment Restrictions of the Trust

The investment activities of the Trust are conducted in accordance with, among other things, the following investment restrictions:

- (i) **Investments.** The Trust will not, for a period of more than 90 days, have: (a) less than 40% or more than 90% of the value of the Portfolio invested in units of income trusts; (b) more than 50% of the value of the Portfolio invested in investment grade corporate bonds; (c) more than 20% of the value of the Portfolio invested in other income-oriented securities; and (d) more than 20% of the value of the Portfolio invested in cash and cash equivalents. Any cash equivalents in which the Trust invests must be rated at least investment grade.
- (ii) **Concentration.** Not more than 10% of the assets (determined at the time of purchase) of the Portfolio will be invested in any one issuer.
- (iii) **Leverage.** The Trust may borrow or use other forms of leverage in an aggregate amount of up to 15% of the total value of the Trust's assets at the time the borrowing or other leverage is entered into. See "Leverage Transactions" below.
- (iv) **Commodities.** The Investment Manager will not purchase or sell commodities or commodity contracts for the Portfolio.
- (v) **Illiquid Securities.** Not more than 10% of the total assets (determined at the time of purchase) of the Portfolio will be invested in "illiquid securities". The term "illiquid securities" for this purpose means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the securities are valued for the Portfolio.
- (vi) **Real Estate other than REITs.** The Trust will not purchase real estate (other than through the purchase of securities of issuers that invest in real estate or interests therein, including REITs).
- (vii) **Control.** The Trust will not own more than 10% of the outstanding equity securities of an issuer or purchase the securities of an issuer for the purpose of exercising control over management of that issuer.
- (viii) **Mutual Fund Trust Status.** The Trust will not make or hold any investment that would result in the Trust failing to qualify as a "mutual fund trust" or "unit trust" within the meaning of the *Income Tax Act* (Canada) (the "Tax Act").
- (ix) **Foreign Property.** The Trust will not invest in or hold securities, which may be considered "foreign property", if the "cost amount" to the Trust of all "foreign property" (as those terms are defined in the Tax Act) held by it would cause the Units to be foreign property under the Tax Act.
- (x) **Foreign Investment Entities.** The Trust will not invest in the securities of any non-resident corporation or trust or other non-resident entity if the Trust would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the Tax Act or to include any significant amounts in income pursuant to proposed sections 94.1 or 94.3 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities released on October 30, 2003 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto).
- (xi) **No Guarantee.** The Trust will not guarantee securities or obligations of another person or company other than the Manager, and then only in respect of the activities of the Trust.

### 2.3.2 Securities Lending

The Trust may enter into securities lending, repurchase and reverse repurchase transactions to generate additional income and/or as a short-term cash management tool. Any borrower of securities from the Trust must maintain with a qualified agent collateral having a market value equal to at least 102% of the market value of the securities borrowed, and must provide the Trust with a

right to sell the collateral if the borrower defaults on its obligations under the transaction. The Trust will provide to the borrower a right to sell the securities if the Trust defaults on its obligations under the transaction. The value of the collateral and the securities will be monitored daily and collateral will be adjusted appropriately on each business day. Any securities lending transaction must qualify as a “securities lending arrangement” for purposes of the Tax Act.

### **2.3.3 Leverage Transactions**

On November 29, 2005, the Trust entered into a Revolving Term Credit Facility Agreement (the “Credit Facility”) with the Bank of Montreal (the “Lender”). The lender is an affiliate of BMO Nesbitt Burns Inc., one of the agents on the Trust’s December 15, 2004 public offering. The Trust may also add leverage to the Portfolio by utilizing a variety of additional strategies, including but not limited to trading on margin, derivative instruments that are inherently leveraged, including forward contracts, futures contracts and swaps, repurchase agreements and other forms of direct and indirect borrowings (the loan facility and other leverage transactions collectively, (the “Leverage Transactions”). The aggregate amount of borrowings and other leverage under the Leverage Transactions may not exceed 15% of the total assets of the Trust. Such leverage may be used to purchase additional securities for the Portfolio.

The use of leverage to enhance returns on the Portfolio may result in capital losses or a decrease in net cash distributions to Unitholders. The Manager will ensure that, in the event of default under the Leverage Transactions, the Lender’s or counterparty’s recourse will be limited to the assets of the Trust. Such provisions are intended to ensure that Unitholders will not be liable for the obligations of the Trust under the Leverage Transactions.

In the event that the total amount borrowed or otherwise subject to leverage by the Trust exceeds the 15% limit as a result of redemptions or other decrease in the number of Units outstanding, indebtedness will be reduced on an orderly basis as soon as practicable so that the amount borrowed or otherwise subject to leverage does not continue to exceed such limit. The Trust will not be required to reduce borrowings or other leverage as a result of decreases in the total assets of the Trust occurring other than as a result of redemptions or other decrease in the number of Units outstanding. If the total assets of the Trust decreases other than as a result of redemptions or other decrease in the number of Units outstanding, the percentage of leverage in the Trust’s investment portfolio may constitute more than 15% of the total assets of the Trust from time to time.

Leverage has not been used since October 2006.

Other than borrowings or other transactions by the Trust under the Leverage Transactions the Trust will not engage in other borrowings or leverage transactions.

### **2.3.4 Use of Derivative Instruments**

Derivative instruments are only used in ways that are consistent with the investment guidelines. Counterparty risk arising from derivative transactions are limited to credits rated “A” or better, as defined by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (or an equivalent rating from another recognized rating agency). Instruments used may include but are not limited to forward contracts, futures contracts, options, swaps and structured notes.

## **3 THE TRUSTEE**

RBC Dexia has been appointed the trustee of the Trust pursuant to the provisions of the Trust Agreement. The Trustee acts as custodian of the Trust’s assets and is responsible for certain aspects of the day-to-day administration of the Trust as described in the Trust Agreement, including processing redemptions, calculating net asset value, net income and net realized capital gains of the Trust and maintaining the books and records of the Trust.

The Trustee or any successor trustee may resign upon 60 days’ written notice to Unitholders and the Manager or may be removed upon 60 days’ written notice by an Extraordinary Resolution of the Unitholders (as defined under “Unitholder Matters – Meetings of Unitholders and Extraordinary Resolutions” below). Any such resignation or removal shall become effective only on the acceptance of appointment by a successor trustee. If the Trustee resigns or is removed by Unitholders, the Manager shall appoint a successor trustee. If, after the resignation or removal of the Trustee, no successor has been appointed within 60 days, the Trustee, the Manager or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor trustee. If a successor appointee is not appointed, the Trust shall be terminated.

The Trustee is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Trust, and to exercise the degree of care, diligence and skill that a reasonably prudent Canadian trust company would exercise in comparable circumstances. The Trust Agreement provides that the Trustee will not be liable in carrying out its duties under the Trust Agreement except in cases of willful misconduct, bad faith, negligence or breach of its standard of care. In addition, the Trust Agreement contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The Trustee is entitled to receive fees from the Trust as described under “Fees and Expenses” and to be reimbursed for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the Trust.

## **4 UNITHOLDERS’ EQUITY**

### **4.1 DESCRIPTION OF UNITHOLDERS’ EQUITY**

#### **4.1.1 General**

The Trust is an investment trust created pursuant to the Trust Agreement and governed by the laws of the Province of Ontario. The Trust Agreement provides that the undertaking of the Trust is restricted to: (i) investing in securities as described under “Investment Guidelines”; (ii) investing in, holding and selling cash equivalents as provided for herein and holding cash; (iii) borrowing or otherwise adding leverage to the Portfolio pursuant to the Leverage Transactions to purchase securities for the Portfolio in accordance with the Investment Guidelines; and (iv) investing in or entering into derivative instruments for the purpose of interest rate hedging.

#### **4.1.2 Units**

The Trust is authorized to issue an unlimited number of redeemable, transferable Units of one class, each of which represents an equal, undivided interest in the net assets of the Trust. Fractional Units will not be issued.

Each Unit entitles a Unitholder to the same rights and obligations as a Unitholder of any other Unit and no Unitholder is entitled to any privilege, priority or preference in relation to any other Unitholder. Each Unitholder is entitled to one vote for each Unit held, except as described below under “Unitholder Matters – Meetings of Unitholders and Extraordinary Resolutions”, and is entitled to participate equally with respect to any and all distributions made by the Trust. On termination, all Unitholders of record holding outstanding Units are entitled to receive their pro rata share of any assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust. See “Termination of the Trust”.

The Trust does not currently intend to issue additional Units following completion of the Offering, except: (i) by way of rights offerings to existing Unitholders, private placement or public offering where the subscription amount is not less than the aggregate of the NAV per Unit calculated prior to the pricing of the subsequent offering and the estimated expenses of such offering, or (ii) with the approval of Unitholders by Extraordinary Resolution. See “Unitholder Matters – Meetings of Unitholders and Extraordinary Resolutions”.

To enhance liquidity and to provide market support for the Units, the Trust has a mandatory market purchase program under which the Trust is, subject to certain exceptions contained in the Trust Agreement (as described under “The Trust Agreement and Description of Units – Units”) and in compliance with any applicable regulatory requirements, obligated to purchase Units for cancellation on and subject to the terms below. If, on the business day following any of the Trust’s valuation dates (“valuation Date”), the closing price of the Units is less than 95% of the net asset value of the Trust (“NAV”) per Unit (the “NAV per Unit”) determined as at the most recent Valuation Date, the Trust will offer to purchase for cancellation any Units offered in the market at or below 95% of the NAV per Unit on such business day. The maximum number of Units purchased in any three-month period will be 1.25% of the number of Units outstanding at the beginning of the period (commenced with the three month period that began on the first day of the month following the closing date of the Offering). The Trust is not obligated to make such purchases if (i) the Trust lacks the cash, debt capacity or other resources to make such purchases, or (ii) in the opinion of the Manager, such market purchases would adversely affect the ongoing activities of the Trust. Pursuant to the mandatory market repurchase program, the Fund purchased 4,580 Units for cancellation at a total cost of \$125,790 during the year ended October 31 2010 (114,200 units at a cost of \$759,683 during the year ended October 31, 2009). All units purchased by the Fund were subsequently cancelled.

In addition, the Trust Agreement provides that the Trust has the right (but not the obligation), exercisable in its sole discretion, at any time, to purchase for cancellation Units in the market at prices not exceeding the NAV per Unit, subject to any applicable regulatory requirements and limitations. It is expected that such purchases, if made, will be made as normal course issuer bids through the facilities and under the rules of the exchange or market on which the Units are listed, if applicable, as provided for in the Trust Agreement or as otherwise permitted by applicable securities laws.

#### **4.1.3 Book-Entry Only System**

A book-entry only certificate representing Units was issued in registered form to The Canadian Depository for Securities Limited (“CDS”), on the date of the closing of the initial public offering. Any purchase or transfer of Units must be made through participants in the CDS depository service (“CDS Participants”), which includes securities brokers and dealers, banks and trust companies. Indirect access to the CDS book-entry only system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly. Each purchaser of Units will receive a customer confirmation of purchase from the CDS Participant from or through whom such Units are purchased in accordance with the practices and procedures of such CDS Participant. Reference in this annual information form to a Unitholder means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

No Unitholder will be entitled to a certificate or other instrument from the registrar and transfer agent or CDS evidencing that person’s interest in or beneficial ownership of Units, or will be shown on the records maintained by CDS, except through an agent who is a CDS Participant. All cash distributions in respect of Units will be made by the Trust to CDS and distributions to CDS will be forwarded by CDS to CDS Participants, and thereafter to the Unitholders. See “Distributions”.

Neither the Manager, the Trustee nor the Agents will have any liability for (i) records maintained by CDS relating to the beneficial interests in the Units or the book-entry accounts maintained by CDS; (ii) maintaining, supervising or reviewing any records relating to such beneficial ownership interests; or (iii) any advice or representation made or given by CDS or made or given with respect to the rules and regulations of CDS or any action taken by CDS or at the direction of CDS Participants.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such owner’s interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Manager, on behalf of the Trust, has the option to terminate the book-entry only system through CDS, in which case Units in fully registered certificated form will be issued to Unitholders, as of the effective date of such termination.

## **4.2 UNITHOLDER MATTERS**

### **4.2.1 Meetings of Unitholders and Extraordinary Resolutions**

The Trustee may, at any time, convene a meeting of the Unitholders and will be required to convene a meeting on receipt of a request in writing of the Manager or Unitholders holding 10% or more of the outstanding Units, which request must specify the purpose or purposes for which such meeting is to be called. Subject to the foregoing and to any applicable stock exchange requirements, the Trust need not hold annual meetings of Unitholders. Each Unitholder is entitled to one vote for each Unit held. A quorum for ordinary meetings of Unitholders will consist of two or more Unitholders present in person or by proxy and representing not less than 10% of the Units outstanding.

Certain matters shall require the approval of Unitholders by extraordinary resolution (an “Extraordinary Resolution”). An Extraordinary Resolution shall be a resolution passed by Unitholders of not less than ~~75%~~ 66% of the Units voting thereon at a meeting duly convened for the consideration of such matter. A quorum for any meeting convened to consider a matter requiring the approval of Unitholders by an Extraordinary Resolution shall consist of two or more Unitholders present in person or by proxy and representing not less than 10% of the Units then outstanding.

If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Unitholders, will be cancelled, but otherwise will be adjourned to another day, not less than ten days or more than 21 days later, selected by the Manager and notice will be given to the Unitholders of such adjourned meeting. The Unitholders present at any adjourned meeting will constitute a quorum.

The matters which require Unitholder approval by an Extraordinary Resolution include the removal of the Manager, any issuance

of Units subsequent to the initial issuance of Units (other than issuances made by way of rights offerings to existing Unitholders, private placement or public offering where the net proceeds per Unit to be received by the Trust are not less than the NAV per Unit or a distribution in Units as discussed above and in the Trust Agreement), or the continuation of the Trust beyond the Termination Date and certain matters described below under “Amendments to the Trust Agreement”.

The Manager, in respect of any Units which may be held by it from time to time, insiders of the Trust (as such expression is defined in the Securities Act (Ontario)), affiliates of the Manager, and any director or officer of such persons who hold Units shall not be entitled to vote on any Extraordinary Resolution to be adopted by the Unitholders.

#### **4.2.2 Amendments to the Trust Agreement**

Except as described below, the Trust Agreement may only be amended with the consent of Unitholders by an Extraordinary Resolution, including: changes to the fundamental investment objectives and strategy of the Trust as described in “Investment Objectives and Strategy”, unless such change is required by applicable law or any regulatory authority; a change in the investment restrictions of the Trust as described under “Investments of the Trust – Investment Restrictions of the Trust”; the liability of any Unitholder; the right of a Unitholder to vote at any meeting; or changing the Trust from a trust to a different form of issuer. However, no amendment can be made to the Trust Agreement that would have the effect of reducing the interest in the Trust of Unitholders unless all Unitholders consent thereto. No amendment can be made to the Trust Agreement, which would have the effect of reducing the fees payable to the Manager unless the Manager, in its sole discretion, consents.

Notwithstanding the foregoing, the Manager and the Trustee are entitled, without the consent of Unitholders, to make certain amendments to the Trust Agreement to make any change or correction which is of a typographical nature or is required to cure or correct a clerical omission, mistake or manifest error contained therein or which is for the purpose of amending the existing provisions or adding any provisions which are for the protection or benefit of the Unitholders or the Trust, for the purpose of curing an ambiguity in the Trust Agreement, for the purpose of supplementing any provision which may be defective or inconsistent with another provision, for the purpose of compliance with applicable law, or for the purpose of conforming the Trust Agreement with current administrative practice or curing or correcting any administrative difficulty. Such amendments may be made only if they will not materially adversely affect the interest of any Unitholder. The Manager and the Trustee may also amend the Trust Agreement without the consent of the Unitholders for the purpose of removing any conflicts or other inconsistencies which may exist between the Trust Agreement and applicable law, changing the Trust’s taxation year-end as permitted under the Tax Act or for the purpose of maintaining the status of the Trust as a “mutual fund trust” for purposes of the Tax Act. Any amendments made by the Manager and the Trustee without the consent of the Unitholders must be disclosed in the next regularly scheduled report to Unitholders.

#### **4.2.3 Information and Reports to Unitholders**

The Trust provides the Unitholders with financial statements (including interim unaudited and annual audited financial statements, accompanied by a management report of fund performance) and other reports as are from time to time required by applicable law to be furnished by the Manager, including prescribed forms needed for the completion of Unitholders’ tax returns under the Tax Act and equivalent provincial legislation.

The Trust complies with all of the continuous disclosure requirements applicable to it as a reporting issuer under applicable securities laws. Prior to any meeting of Unitholders, the Trust will provide to Unitholders (along with notice of such meeting) all such information as is required by applicable law to be provided to Unitholders.

By purchasing Units, investors will be deemed to consent to the sharing of personal information collected by the CDS Participant through whom Units are purchased with the Manager, the Trustee and the Trust. The investor will be deemed to acknowledge that the information will be used by the Manager, the Trustee and their affiliates to administer and manage the Trust and the investment in Units, and that such information may be disclosed to third parties that provide administrative and other services in respect of the Trust.

#### **4.2.4 Non-Resident Unitholders**

At no time may non-residents of Canada (including, for this purpose, any partnerships having a partner that is a non-resident of Canada) be the beneficial owners of a majority of the Units and the Manager shall inform the registrar and transfer agent of this restriction. The Manager may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the

Manager becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% of the Units then outstanding are, or may be, non-residents, or that such situation is imminent, the Manager may make a public announcement thereof. If the Manager determines that a majority of the Units are beneficially held by non-residents, or that such a situation is imminent, the Manager may send a notice to such non-resident Unitholders, chosen in inverse order to the order of acquisition or in such manner as the Manager may consider equitable and practicable, requiring them to sell their Units or a portion thereof to residents of Canada within a specified period of not less than 30 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Manager with satisfactory evidence that they are not non-residents within such period, the Manager may, on behalf of such Unitholders, sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such sale, the affected holders shall cease to be beneficial holders of Units and their rights shall be limited to receiving the net proceeds of sale of such Units.

#### **4.2.5 Termination of the Trust**

The Trust will terminate on or about December 15, 2014 unless terminated earlier in accordance with the terms of the Trust Agreement or unless Unitholders determine to terminate the Trust prior to the Termination Date or to continue the Trust beyond the Termination Date by an Extraordinary Resolution at a meeting called for such purpose. The Trust shall, to the extent possible, convert its assets to cash and, after paying or making adequate provision for all of the Trust's liabilities, distribute the net assets of the Trust to Unitholders, on a pro rata basis, as soon as practicable after the Termination Date.

Not less than six months nor more than twelve months prior to the Termination Date, the Manager may present a proposal to the Unitholders providing for a deferral of the termination of the Trust to a date that is later than the Termination Date. Such proposal may include, without limitation, a proposal: (i) to continue the Trust beyond the Termination Date; or (ii) to exchange Units for securities of one or more mutual funds or closed-end investment funds on or after the Termination Date.

In the event of the approval of the proposal referred to above, any dissenting Unitholder may require the Manager to redeem all (but not less than all) of his or her Units on the Termination Date at a price per Unit equal to the NAV per Unit on the Termination Date. The termination of the Trust may not be extended beyond January 1, 2025.

### **4.3 DISTRIBUTIONS**

#### **4.3.1 Distribution Policy**

The Trust will provide monthly distributions to Unitholders of record on or about the last business day of each month (such date, a "Record Date") equal to approximately \$0.70 per annum (\$0.0583 per month, approximately 7.0% per annum yield on the original issue price of \$10.00 per Unit). Monthly cash distributions on the Units will be funded primarily from the distributions received by the Trust on the securities in the Portfolio, and may also be funded by net realized capital gains. If the Trust's net income and net realized capital gains in a year are insufficient to fund the regular distributions of \$0.70 per annum, the balance of the regular distributions will constitute a return of capital to Unitholders.

The Fund has made all its scheduled distributions during the year ended October 31, 2010 paying regular monthly distributions of \$0.0583 to holders of record on the last business day of each month totaling \$0.6996 per unit (\$0.6996 per unit during the year ended October 31, 2009).

The Trust intends that the aggregate distributions of net income and net capital gains made in each year will be sufficient to ensure that the Trust will not be liable for income tax thereon under the Tax Act, except to the extent that any tax payable on net realized capital gains of the Trust for a year that are retained by the Trust would be recoverable by it in such year. If in any year, after such distributions, there would otherwise remain in the Trust additional net income or net realized capital gains, the Trust intends to make, on or before December 31 of that year, a special distribution of such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Trust will not be liable for income tax thereon under the Tax Act. The Trust may make additional distributions provided certain conditions are met at any time. The Manager will determine, in view of the investment objectives of the Trust, whether to retain in the Trust any amounts remaining after any special distribution has been made or to distribute such amounts by further special distribution.

Distributions will be payable to Unitholders of record at 5:00 p.m. (Toronto time) on the Record Date. All distributions will be paid to Unitholders proportionately based on their respective holdings of Units within 15 days following the Record Date or paid in such other manner as may be agreed to by the Manager.

Information necessary to enable Unitholders to complete an income tax return with respect to amounts paid or payable by the Trust in respect of its preceding taxation year will be made available annually. See “Canadian Federal Income Tax Considerations”

#### **4.4 REDEMPTION OF UNITS**

##### **4.4.1 Redemption on Termination of the Trust**

All Units outstanding on the Termination Date will be redeemed by the Trust on such date. The redemption price payable by the Trust for a Unit on that date will be equal to the NAV per Unit determined as of the Termination Date. Notice of redemption will be given to CDS Participants holding Units on behalf of the beneficial owners thereof at least 30 days before the Termination Date.

##### **4.4.2 Optional Redemptions**

Units may be surrendered at any time for redemption by the Trust, subject to the Trust’s right to suspend redemptions in certain circumstances. Where Units are surrendered on or prior to the 10<sup>th</sup> day of a month, Units will be redeemed on the last business day of the month (a “Redemption Date”); where Units are surrendered after the 10<sup>th</sup> day of a month, Units will be redeemed on the Redemption Date of the following month. For redemptions occurring on a Redemption Date other than the January Redemption Date of each year, the redemption price per Unit will be equal to the lesser of:

- (a) 95% of the Market Price. For such purposes, the “Market Price” is the weighted average trading price of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading) for the 10 trading days immediately preceding the applicable Redemption Date, and
- (b) 100% of the Closing Market Price of the Units on the applicable Redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Trust in connection with such payment, including, but not limited to, costs incurred in liquidating securities held in the Portfolio. For such purposes, the “Closing Market Price” means the closing price of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading) or, if there was no trade on the relevant date, the average of the last bid and the last asking prices of the Units on the principal stock exchange on which the Units are listed (or, if the Units are not listed on any stock exchange, on the principal market on which the Units are quoted for trading).

For redemptions on the January Redemption Date in each year, the redemption price will be equal to the NAV per Unit determined as of the relevant Redemption Date, minus any costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating the securities held in the Portfolio. The NAV per Unit is available to Unitholders on request and is posted on the Manager’s website ([www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com)). The NAV per Unit vary depending on a number of factors, including the distributions paid on the Units, the value of the securities in the Portfolio and the distributions paid on securities held in the Portfolio.

##### **4.4.3 Exercise of Redemption Right**

Units surrendered for redemption by a Unitholder no later than the 10<sup>th</sup> day of a month will be redeemed on the Redemption Date of such month and such Unitholder will receive payment on or before the 10<sup>th</sup> business day following such Redemption Date (the “Redemption Payment Date”). Any unpaid distribution declared on or before a Redemption Date in respect of Units redeemed on such Redemption Date will be paid to the Unitholder redeeming such Units on the applicable Redemption Payment Date. A Unitholder who desires to exercise Unit redemption privileges must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the Unitholder a written notice of the Unitholder’s intention to redeem Units, no later than 5:00 p.m. (Toronto time) on the relevant notice date. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption right sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver a notice to CDS by the required time.

By causing a CDS Participant to deliver to CDS a notice of a Unitholder’s intention to redeem Units, the Unitholder shall be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant to act as his or her

exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any redemption notice that CDS determines to be incomplete, not in proper form or not duly executed shall, for all purposes, be void and of no effect, and the redemption privilege to which it relates shall be considered, for all purposes, not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with a Unitholder's instructions will not give rise to any obligations or liability on the part of the Trust, the Trustee, the Manager or the Agents to the CDS Participant or the Unitholder.

#### **4.4.4 Resale of Units Tendered for Redemption**

The Trust has entered into a recirculation agreement (the "Recirculation Agreement") with Scotia Capital Inc. (in such capacity, the "Recirculation Agent") whereby the Recirculation Agent has agreed to use commercially reasonable efforts to find purchasers for any Units properly surrendered for redemption, provided that the holder of the Units so surrendered has not withheld consent thereto. The Trust may from time to time appoint additional dealers to act as recirculation agents for any Units surrendered for redemption. The Trust is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Units is found in this manner, the amount to be paid to the holder of the Units on the relevant Redemption Payment Date will be an amount equal to the proceeds of the sale of the Units less any applicable commission, provided that such amount will not be less than the applicable redemption price described above. Any Units for which the Trust requests the Recirculation Agent to find purchasers and for which purchasers are not found will be redeemed on the applicable Redemption Payment Date at a price equal to the applicable redemption price.

#### **4.4.5 Suspension of Redemptions**

The Manager may direct the Trustee to suspend the redemption of Units or payment of redemption proceeds: (i) for the whole or any part of a period during which normal trading is suspended on a stock exchange, options exchange or futures exchange or other market within or outside Canada on which securities are listed and traded, if those securities represent more than 50% by value of the total assets of the Portfolio; or (ii) with the prior approval of the securities regulatory authorities (if required) for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Trust or which impair the ability of the Trustee to determine the value of its assets. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All holders of Units making such requests shall be advised of the suspension and of their right to withdraw their request for redemption. Redemptions so suspended will be effected at a price determined on the first date that the NAV is calculated following the termination of the suspension. The suspension shall terminate on the first day on which the condition-giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Trust, any declaration of suspension made by the Manager shall be conclusive.

#### **4.4.6 Purchase for Cancellation**

Subject to applicable law and regulatory requirements, the Trust will have a mandatory market purchase program and may, at any time and from time to time, purchase Units for cancellation at prices not exceeding the NAV per Unit on the Valuation Date immediately prior to such purchase.

## **5 VALUATION**

### **5.1 NET ASSET VALUE AND NAV PER UNIT**

The net asset value of the Trust (the "NAV") on a particular date is equal to (i) the aggregate value of the assets of the Trust, less (ii) the aggregate value of the liabilities of the Trust, including any distributions declared and not paid that are payable to Unitholders on or before such date. The "NAV per Unit" on a particular date is obtained by dividing the NAV on such date by the number of Units then outstanding.

RBC Dexia has been appointed as the valuation agent of the Trust (in such capacity, the "Valuation Agent") pursuant to the provisions of the Trust Agreement. The NAV per Unit is calculated on the last business day of each week by the Valuation Agent

(with assistance from the Manager in certain respects as identified below). Such information will be provided by the Manager to Unitholders on request and it is posted on the Manager's website ([www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com)).

The Manager reviews and, if satisfactory, approves the valuation and, from time to time, consider the appropriateness of the valuation policies adopted by the Trust, as such policies are modified from time to time in the discretion of the Manager, acting reasonably, and in the best interests of the Trust.

In determining the NAV at any time:

- (a) the value of any cash on hand, on deposit or on call, prepaid expenses, cash dividends or distributions declared and interest accrued and not yet received, shall be deemed to be the face amount thereof unless the Valuation Agent determines that any such asset is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Valuation Agent determines to be the fair value thereof;
- (b) the value of any security, index futures or index options thereon which is listed on any recognized exchange shall be determined by the closing sale price at the close of business on the Valuation Date or, if there is no sale price, the average between the closing bid and the closing asked price on the day on which the NAV is being determined, all as reported by any report in common use or authorized as official by a recognized stock exchange; provided that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;
- (c) the value of any bonds, debentures, and other debt obligations shall be valued by taking the average of the bid and ask prices on a Valuation Date at such times as the Trustee, in its discretion, deems appropriate. Amounts drawn under any loan facility will be valued at par. Short-term investments including notes and money market instruments shall be valued at cost plus accrued interest;
- (d) the value of any security or other asset for which a market quotation is not readily available shall be its fair market value as determined by the Valuation Agent, acting reasonably;
- (e) the value of any security, the resale of which is restricted or limited, shall be the lesser of the value thereof based on reported quotations in common use and that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Trust's acquisition cost was of the market value of such securities at the time of acquisition; provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restriction will be lifted is known;
- (f) purchased or written clearing corporation options, options on futures, over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;
- (g) where a covered clearing corporation option, option on futures or over-the-counter option is written, the premium received by the Trust shall be reflected as a deferred credit which shall be valued at an amount equal to the current market value of the clearing corporation option, option on futures or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation of such options shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the NAV. The securities, if any, which are the subject of a written clearing corporation option, or over-the-counter option shall be valued at their then current market value;
- (h) the value of a futures contract, or a forward contract, shall be the gain or loss with respect thereto that would be realized if, at 4:00 p.m. (Toronto time), the position in the futures contract, or the forward contract, as the case may be, were to be closed out unless daily limits are in effect in which case fair value shall be based on the current market value of the underlying interest;
- (i) margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
- (j) all securities, property and assets of the Trust valued in a foreign currency and all liabilities and obligations of the Trust payable by the Trust in foreign currency shall be converted into Canadian funds by applying the rate of exchange obtained from the best available sources to the Trustee, including, but not limited to, the Trustee or any of its affiliates;

- (k) all expenses or liabilities (including fees payable to the Manager) of the Trust shall be calculated on an accrual basis; and
- (l) if any security or property cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Valuation Agent, in consultation with the Manager, to be inappropriate under the circumstances (whether because no price or yield equivalent quotations are available as above provided, or for any other reason), then notwithstanding such rules, the Valuation Agent shall make such valuation as it considers fair and reasonable.

In discharging its valuation duties, the Trustee shall be entitled to rely on reports prepared by or for the Manager or the Investment Manager.

## **5.2 AUDIT OF FINANCIAL STATEMENTS**

The annual financial statements of the Trust are audited by the Trust's auditors in accordance with Canadian generally accepted auditing standards. The auditors report on the fair presentation of the annual financial statements in accordance with Canadian generally accepted accounting principles.

## **6 MANAGEMENT OF THE TRUST**

### **6.1 THE MANAGER**

CC&L Capital Markets, a registered portfolio manager, is the manager of the Funds and is responsible for their management and administration. The registered and head office of the Manager is 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7.

The Manager is a leading provider of investment products and has raised over \$1.7 billion since 2004. The Manager is part of the Connor, Clark & Lunn Financial Group, which also includes Connor, Clark & Lunn Investment Management Ltd., Connor, Clark & Lunn Private Capital Ltd., Baker Gilmore & Associates Inc., PCJ Investment Counsel Ltd., Scheer Rowlett & Associates Investment Management Ltd., New Star Canada Inc., Banyan Capital Partners Management Partnership and Global Alpha Capital Management Ltd. and Gyrus Investment Management Inc. The Connor, Clark & Lunn Financial Group, with over \$38 billion in assets under management as at October 31, 2010, offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors.

The Manager also acts as manager or investment advisor for the following investment funds: Connor, Clark & Lunn 2009 Flow-Through Limited Partnership, Connor, Clark & Lunn 2010 Flow-Through Limited Partnership, Connor, Clark & Lunn Real Return Income Fund, Connor, Connor, Clark & Lunn Global Financials Fund II, CANADIAN Financials & Utilities Split Corp., Focused Global Trends Fund, Canadian Banc Capital Securities Trust, Connor, Clark & Lunn Natural Resources Class, Connor, Clark & Lunn Balanced Portfolio Class, Build America Investment Grade Bond Fund, North American Financials Capital Securities Trust, HBanc Capital Securities Trust and Australian Banc Capital Securities Trust

#### **6.1.1 Duties and Services to be provided by the Manager**

Pursuant to the Trust Agreement, the Manager has full authority and responsibility to manage and direct the business and affairs of the Trust, to make all decisions regarding the business of the Trust and to bind the Trust. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Trust to do so. Among other restrictions imposed on the Manager, it may not dissolve the Trust or wind up the Trust's affairs except in accordance with the provisions of the Trust Agreement.

The Manager's duties include negotiating contracts with certain third-party service providers, including, but not limited to, custodians, registrars, transfer agents, auditors and printers; obtaining the services of dealers in exchange for payment of the Service Fee; authorizing the payment of operating expenses incurred on behalf of the Trust; maintaining accounting records for the Trust; preparing the Trust's reports to Unitholders and to the Canadian securities regulators; calculating the amount and determining the frequency of distributions by the Trust; preparing financial statements, income tax returns and financial and accounting information as required by the Trust; ensuring that Unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the Trust complies with regulatory requirements including the continuous disclosure requirements of the Trust under applicable securities laws; providing the Trustee with the

information and reports necessary for it to fulfill its fiduciary responsibilities; administering the redemption and market purchases of Units; arranging for any payment required on or about the Termination Date; and dealing and communicating with Unitholders. The Manager provides office facilities and personnel to carry out these services, together with clerical services that are not furnished by the Trustee or transfer agent of the Trust. The Manager monitors the Trust's investment strategy to ensure compliance with the Investment Guidelines, and that the net proceeds of the Offering are invested as described under "Use of Proceeds".

The Manager has entered into the registrar, transfer agency and distribution agency agreement as referred to under "Auditors, Transfer Agent, Registrar and Custodian". See "Material Contracts". Such agreement does not in any way release the Manager from compliance with its obligations to the Trust under the Trust Agreement. The Manager may terminate the foregoing agreement upon notice.

The Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Trust, and to exercise the care, diligence and skill that a reasonably prudent manager would exercise in comparable circumstances. The Trust Agreement provides that the Manager will not be liable in any way for any default, failure or defect in any of the securities comprising the investment portfolio of the Trust if it has satisfied its duties and the standard of care, diligence and skill set forth above. The Manager will incur liability in cases of willful misconduct, bad faith, negligence or the disregard of its obligations or duties or breach of its standard of care. The Manager and each of its directors, officers, employees and agents will be indemnified by the Trust for all costs, claims, charges, liabilities and expenses actually and reasonably incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Manager or any of its officers, directors, employees or agents in the exercise of its duties under the Trust Agreement, except those resulting from such person's willful misconduct, bad faith, negligence or the disregard of its obligations or duties or breach of its standard of care in relation to the matter in respect of which indemnification is claimed.

The Manager may resign upon 60 days' notice to the Trust and the Unitholders or upon such lesser notice period as the Trust may accept. If the Manager resigns it may appoint its successor but, unless its successor is an affiliate of the Manager, the successor must be approved by Unitholders. The Manager may be removed upon 90 days' written notice by an Extraordinary Resolution of the Unitholders (as defined under "Unitholder Matters – Meetings of Unitholders and Extraordinary Resolutions") in the event the Manager is in material breach or default of the provisions of the Trust Agreement and, if capable of being cured, such breach or default has not been cured within 20 business days' notice of such breach or default (a "business day" being any day on which the Toronto Stock Exchange is open for trading). If the Manager is removed, any successor manager must be approved by the Unitholders prior to appointment by the Trustee on behalf of the Trust. The Manager is deemed to have resigned in certain circumstances, including if the Manager becomes bankrupt or insolvent or in the event the Manager ceases to be resident in Canada for the purposes of the Tax Act. The resignation or removal of the Manager shall only become effective upon the appointment of a replacement manager. If, within 90 days after the resignation or removal of the Manager, the Unitholders have not directed the Trustee to appoint a successor manager, the Trust shall be terminated.

As compensation for management services rendered to the Trust, the Manager is entitled to receive an annual management fee in an amount equal to 1.10% of the NAV, together with the service fee (the "Service Fee") to be paid by the Manager to each dealer whose clients hold Units, plus applicable taxes, accrued daily and payable monthly in arrears based on the NAV as at the last Valuation Date of each month (as defined under "Valuation"). The Investment Manager will be remunerated by the Manager out of the management fee.

The Manager will not receive any performance fees from the Trust.

### **6.1.2 *Officers and Directors of the Manager***

The name, municipality of residence, position with the Manager and principal occupation of each of the directors and officers of the Manager are set out below:

<b>Name and Municipality</b>	<b>Position with the Manager</b>	<b>Principal Occupation</b>
W. Neil Murdoch Oakville, Ontario	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer, Connor, Clark & Lunn Capital Markets Inc.
Michael W. Freund Toronto, Ontario	Director and Chief Financial Officer	Managing Partner, Connor, Clark & Lunn Financial Group
Darren N. Cabral Toronto, Ontario	Director, Vice-President	Vice-President, Connor, Clark & Lunn Capital Markets Inc.

**W. Neil Murdoch:** CFA; BComm, McGill University; LLB, University of Toronto; Master of Management, Kellogg Graduate School of Management. Mr. Murdoch joined Connor, Clark & Lunn Capital Markets Inc. in December, 2003. Prior thereto, Mr. Murdoch was Executive Vice President and Portfolio Manager at AIC Group of Funds.

**Michael W. Freund:** B.Bus.Sci., University of Capetown. Mr. Freund has held various management positions within the CC&L Group of companies since 1997. Mr. Freund's current principal occupation is managing partner of the Connor, Clark & Lunn Financial Group.

**Darren N. Cabral:** CFA; BA (Hons.), York University; MBA, Schulich School of Business, York University. Mr. Cabral joined Connor, Clark & Lunn Capital Markets Inc. in May 2007. Prior thereto, Mr. Cabral held various positions with affiliates of Middlefield Group Limited from September 2001 to April 2007, including Executive Director of Research at Middlefield Capital Corporation and Managing Director of Middlefield International Limited.

## **6.2 THE ADVISORY BOARD**

The Trust established an advisory board (the "Advisory Board") consisting of two members appointed by the Manager. The Advisory Board act in an advisory capacity to the Manager with respect to conflicts of interest and potential conflicts of interest identified by the Manager. The members of the Advisory Board are Frank Santangeli and Selwyn Kletz, both of whom are independent of the Manager. The Trust is responsible for all fees and expenses of the Advisory Board including costs of independent counsel or advisors, if the Advisory Board deems it to be appropriate to retain such experts.

The members of the Advisory Board of the Trust receive remuneration for their services as advisors. The Board of advisors' fees paid during the year ended October 31, 2010 were \$21,167 (2009 - \$21,149). The Advisory Board members are not responsible for investments made by the Trust or for the performance of the Trust.

**Frank Santangeli** has worked in the financial services industry since 1960. Positions he has held include Vice President of Sunlife of Canada, President and Chief Executive Officer of Finsco Investment Management Corporation, and Vice President of Imasco Financial Corporation. He has also served as Chairman of The Investment Funds Institute of Canada.

**Selwyn Kletz** is Chairman of Guardian Timing Services Inc. He was previously President, North America of Asset Management Investment Company PLC, a British based company engaged in the business of investing in investment counseling companies, having served as President and CEO of AMIC Canada Limited since its inception. He was previously a Managing Director of CIBC Wood Gundy Securities Inc. where he managed the Global Equity Research Department and served as a member of the Equity Management Committee and the Investment Committee of the merchant banking arm. Earlier in his career, Mr. Kletz founded and managed MYW Financial Management (since incorporated into Scotia Investment Management Limited), Laurim Capital Management Inc. and Laurentian Investment Management (Canada) Inc. Mr. Kletz has more than 30 years of experience in the investment business.

## **6.3 INDEPENDENT REVIEW COMMITTEE**

The Manager has appointed an independent review committee (the "Independent Review Committee") in accordance with NI 81-107 comprised of three members, each of whom is independent of the Manager and entities related to the Manager. The Independent Review Committee intends to function in accordance with applicable securities law, including NI 81-107. The

mandate of the Independent Review Committee is to review and provide its decisions to the Manager on conflict of interest matters that the Manager has referred to the Independent Review Committee for review. The Manager is required to identify conflict of interest matters inherent in its management of the Fund and request input from the Independent Review Committee in respect of how it manages those conflicts of interest, as well as its written policies and procedures outlining its management of those conflicts of interest. The Independent Review Committee has adopted a written charter which it follows when performing its functions and is subject to requirements to conduct regular assessments. In performing their duties, members of the Independent Review Committee are required to act honestly, in good faith and in the best interests of the Fund and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Independent Review Committee will report annually to the Fund which report will be available free of charge upon request to the Manager and will also be posted on the Manager's website at [www.cclgroup.com](http://www.cclgroup.com). Information contained on the Manager's website is not part of this prospectus and is not incorporated herein by reference.

The members of the Independent Review Committee are Fred Lazar, Frank Santangeli and Joseph Wright. The Independent Review Committee acts as a review committee for a number of investment funds managed by the Manager and by Connor, Clark & Lunn Managed Portfolios Inc., an affiliate of the Manager.

The principal occupations and biographies of the IRC members are set out below.

**Fred Lazar** is a Professor of Economics at York University's Schulich School of Business. In addition to a distinguished academic career, Mr. Lazar has served as a senior advisor to the governments of Canada and Ontario and to a number of national and international companies.

**Frank Santangeli** has worked in the financial services industry since 1960. Positions he has held include Vice-President of Sunlife Canada, President and Chief Executive Officer of Finsco Investment Management Corporation, and Vice President of Imasco Financial Corporation. He has also served as Chairman of The Investment Funds Institute of Canada.

**Joseph Wright** has served on the board of directors of several public companies and private organizations, including Loblaw Companies Limited and IESI-BFC Ltd.. His former positions include the Chief Executive Officer of Swiss Bank Corporation (Canada) and Vice-Chairman and Director of Burns Fry Limited.

The Independent Review Committee fees paid during year ended October 31, 2010 were \$1,512 (2009 - \$1,152).

## **6.4 ACCOUNTING AND REPORTING**

The Trust's fiscal year end is October 31. The Manager ensures that the Trust complies with all applicable reporting and administrative requirements.

The Manager keeps adequate books and records reflecting the activities of the Trust. A Unitholder or his or her duly authorized representative have the right to examine the books and records of the Trust during normal business hours at the offices of the Manager. Notwithstanding the foregoing, a Unitholder shall not have access to any information that, in the opinion of the Manager, should be kept confidential in the interests of the Trust.

## **6.5 CONFLICT OF INTEREST**

The services of the Manager and its officers and directors are not exclusive to the Trust. The Manager or any of its affiliates and associates may, at any time, engage in the promotion, management or investment management of any other entity and provide similar services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Trust) and engage in other activities. Investment decisions for the Trust will be made independently of those made for other clients and independently of investments of the Manager. On occasion, however, the Manager may make the same investment for the Trust and for one or more of its other clients. If the Trust and one or more of the other clients of the Manager are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

## **6.6 THE INVESTMENT MANAGER**

The Investment Manager was established in March 1982 and is an affiliate of the Manager. The principal office of the Investment Manager is located at 2200 - 1111 West Georgia Street, Vancouver, British Columbia V6E 4M3.

The name, municipality of residence, position with the Investment Manager and principal occupation of each of the directors and officers of the Investment Manager are set out below:

<u>Name and Municipality</u>	<u>Position with the Investment Manager</u>	<u>Principal Occupation</u>
LARRY R. LUNN Vancouver, British Columbia	Director, Chairman and President	Director, Chairman and President of the Investment Manager Clark & Lunn Investment Management Ltd.
PHILLIP COTTERILL West Vancouver, British Columbia	Director and Vice President	Director and Vice President of the Investment Manager
MICHAEL W. FREUND Toronto, Ontario	Director	Managing Partner, Connor, Clark & Lunn Financial Group
MARTIN L. GERBER West Vancouver, British Columbia	Director and Commodity Advising Officer	Director and Commodity Advising Officer of the Investment Manager
BRIAN EBY West Vancouver, British Columbia	Director and Vice President	Director and Vice President of the Investment Manager
GORDON H. MACDOUGALL Vancouver, British Columbia	Director and Vice President	Director and Vice President of the Investment Manager
J. WARREN STODDART Toronto, Ontario	Director	Managing Partner, Connor, Clark & Lunn Financial Group
SCOTT HACKNEY Etobicoke, Ontario	Vice President	Vice President of the Investment Manager
KATHLEEN A. LEA VENS Vancouver, British Columbia	Compliance Officer	Compliance Officer of the Investment Manager

Except as indicated below, each of the foregoing has held his or her current office or has held a similar office with the Investment Manager during the five years preceding the date hereof.

The team of investment professionals responsible for investment management at the Investment Manager all have significant experience in managing investment portfolios. The investment managers of the Investment Manager who will be primarily responsible for managing the Portfolio are Steve Vertes and Brian Eby, who will be assisted by Simon McNair and David George.

**Warren Stoddart:** BA, Trinity College, University of Toronto. Mr. Stoddart is a director of the Investment Manager and Managing Partner of the Connor, Clark & Lunn Financial Group. Mr. Stoddart is co-head of the fixed income team responsible for fixed income management strategy and research and also a member of the risk management team. Mr. Stoddart has 16 years experience covering three separate recessionary periods. In addition to his portfolio management experience, he has participated in the fixed income market as an employee of an issuer of debt, a principal lender to investment and sub-investment grade credits and in debt restructuring and workouts.

**Brian Eby:** CFA, MBA, BComm, McMaster University. Mr. Eby is a director of the Investment Manager and a partner of Connor, Clark & Lunn Investment Management Partnership. Mr. Eby is co-head of the fixed income team responsible for fixed income management strategy and research. Mr. Eby has 17 years experience covering three separate recessionary periods. His experience outside portfolio management includes advising in the structuring/restructuring of public debt programs and underwriting of corporate bonds. Prior to joining the CC&L Group in 1998, Mr. Eby held various roles with Scotia Capital Markets Inc. for 10 years, including Director, Fixed Income, Proprietary Trading.

**S. Jane Justice:** BMgm, Capilano College. Ms. Justice is a partner of Connor, Clark & Lunn Investment Management Partnership and a member of the fixed income team responsible for bond trading and risk management.

**Chris Kalbfleisch:** CFA, MSc, Statistics, University of Western Ontario. Mr. Kalbfleisch is a partner of Connor, Clark & Lunn Investment Management Partnership and a member of the fixed income team. Mr. Kalbfleisch is a quantitative financial markets specialist and is responsible for research. In addition to his experience with the Investment Manager, Mr. Kalbfleisch has extensive financial market experience that includes alternative asset portfolio management, derivatives trading and credit risk management.

**Steve Vertes:** CFA; BA, University of Western Ontario. Mr. Vertes is a Partner of Connor, Clark & Lunn Investment Management Partnership. Mr. Vertes is responsible for fundamental analysis, research and security selection of Canadian equities and income trusts. In addition to his experience with the Investment Manager, Mr. Vertes also has extensive experience in the field of investment banking.

### **6.6.1 Investment Management Agreement**

Under the Investment Management Agreement, the Investment Manager is required to act honestly, in good faith and in the best interests of the Unitholders and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that the Investment Manager shall not be liable in any way for the making, retention or sale of any investment or for any loss to or diminution of, the assets of the Trust if it has satisfied the duties and standard of care, diligence and skill set forth above. The Investment Manager will incur liability in cases of willful misconduct, bad faith, negligence or breach its standard of care.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the termination of the Trust. If the Manager is terminated, the Investment Management Agreement will terminate at such time. The Manager may terminate the Investment Management Agreement if the Investment Manager has committed certain events of bankruptcy or insolvency, has lost any registration, license or other authorization required to perform its services thereunder or is in material breach or default of the provisions thereof and such material breach or default has not been cured within 20 business days after notice thereof has been given to the Investment Manager and the Trustee by the Manager. Except as described above, the Investment Manager cannot be terminated as investment manager of the Trust.

The Investment Manager may terminate the Investment Management Agreement upon 20 business days' notice in the event that the Manager is in material breach or default of the provisions thereof and such material breach or default has not been cured within 20 business days' notice of same to the Manager and to the Trustee, or in the event that there is a material change in the Investment Guidelines.

If the Investment Management Agreement is terminated, the Manager will promptly appoint a successor investment manager to carry out the activities of the Investment Manager until a meeting of the Unitholders is held to confirm such appointment.

The Investment Manager is entitled to fees for its services under the Investment Management Agreement and is reimbursed for all reasonable costs and expenses incurred by the Investment Manager on behalf of the Trust. In addition, the Investment Manager and each of its directors, officers, employees and agents will be indemnified by the Trust for all claims whatsoever brought against the Investment Manager for any act or omission, except those resulting from the Investment Manager's willful misconduct, bad faith, negligence or breach of its standard of care.

## **7 PORTFOLIO TRANSACTIONS AND BROKERAGE**

The Manager is responsible for selecting members of securities exchanges, brokers and investment dealers for the execution of transactions in respect of the Trust's investments and, when applicable, the negotiation of commissions in connection therewith. The Trust is responsible to pay those commissions.

## **8 CUSTODIAN**

The Trustee acts as the custodian of the assets of the Trust and is responsible for processing redemptions, calculating NAV, net income and net realized capital gains of the Trust and maintaining the books and records of the Trust. See "The Trustee".

## **9 AUDITORS**

The auditors of the Trust are PricewaterhouseCoopers LLP. The principal office of the auditor's is located at The Royal Trust Tower, Suite 3000, 77 King Street West, Toronto, Ontario M5K 1G8.

## **10 REGISTRAR, TRANSFER AGENT AND DISTRIBUTION AGENT**

The registrar, transfer agent and distribution agent is Computershare Investor Services Inc. The principal office of the registrar and the place where the securities register for the Units is kept is located at 8<sup>th</sup> Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1.

## **11 FEES AND EXPENSES**

### ***11.1 INITIAL FEES AND EXPENSES***

The expenses of the Offering (including the costs of creating and organizing the Trust, the costs of printing and preparing the prospectus, legal expenses, marketing and advertising expenses and other reasonable out-of-pocket expenses) incurred by the Trust and the Agents and other incidental expenses, which were \$630,000 were paid out of the gross proceeds of the Offering. In addition, the Agents' fees, which were \$7,546,865, were also paid to the Agents from the gross proceeds of the Offering.

### ***11.2 ONGOING FEES AND EXPENSES***

Pursuant to the terms of the Trust Agreement, the Manager is entitled to an annual fee of 1.10% of the NAV, plus applicable taxes. The Manager is also paid the amount of the Service Fee, plus any applicable taxes, to be paid by the Manager to dealers. Fees payable to the Manager (but not the Service Fee portion) accrue daily and are payable monthly in arrears based on the NAV as at the last Valuation Date of each month. The Investment Manager is remunerated by the Manager out of the management fee.

The Trust pays for all ordinary expenses incurred in connection with its operation and administration. These expenses include, without limitation: mailing and printing expenses for periodic reports to Unitholders and other Unitholder communications including marketing and advertising expenses; fees payable to Computershare Investor Services Inc. for acting as registrar, transfer agent and distribution agent and performing certain financial, record-keeping, reporting and general administrative services; fees payable to the Trustee for acting as trustee of the Trust, any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their on-going obligations to the Trust; any additional fees payable to the Manager for performance of extraordinary services on behalf of the Trust; fees payable to the auditors and legal advisors; regulatory filing, stock exchange and licensing fees; any expenditures incurred upon the termination of the Trust; and fees payable to the independent members of the Advisory Board. Such expenses also include expenses of any action, suit or other proceedings in which or in relation to which the Manager is entitled to indemnity by the Trust. See "Management of the Trust". The aggregate amount of these fees and expenses for the year ended October 31, 2010 was \$174,744 (2009 - \$192,724). The Trust is also responsible for any debt service and costs relating to the Leverage Transactions, fees associated with interest hedging activities and any extraordinary expenses which it may incur from time to time.

The Manager pays a Service Fee to each dealer whose clients hold Units. The Service Fee accrue daily and paid at the end of each calendar quarter and is equal to 0.40% annually of the NAV of the Units held by clients of the dealer, plus any applicable taxes.

## **12 CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

### ***12.1 TAXATION OF THE TRUST***

The Trust qualifies and intends to continue to qualify as a mutual fund trust under the Tax Act. As a mutual fund trust the Trust is entitled to capital gains refunds in respect of (i) capital gains dividends paid by it; and (ii) qualifying redemptions to the extent that the Trust has paid or is liable to pay Canadian federal income tax on its taxable capital gains. As a result thereof, and of the deduction of expenses in computing its taxable income, the Trust should not be subject to any material net Canadian income tax liability.

## **12.2 TAXATION OF UNITHOLDERS**

It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Trust under present legislation will be minimized.

Unitholders are expected to receive distributions from other income, dividends, returns of capital and capital gains. The amount of any other income, dividends and capital gains distributions received by a Holder will be considered to be other income, dividends and capital gains to the Holder in the taxation year in which the distributions were received. Whereas any returns of capital distributed by the Trust to unitholders are generally not subject to tax but will reduce the adjusted cost base of the units to the Holder. A disposition of units held as capital property may result in a capital gain or a capital loss to the Holder thereof. A redemption or retraction of units is considered to be a disposition for these purposes.

## **13 MATERIAL CONTRACTS**

The following contracts can reasonably be regarded as material to purchasers of Units:

- (a) the Trust Agreement described under “The Trustee”;
- (b) the Agency Agreement described under “Management of the Trust – Duties and Services to be provided by the Manager”; and
- (c) the Investment Management Agreement described under “The Investment Manager”.

Copies of the contracts referred to above may be inspected during normal business hours at the offices of the Manager at 181 University Ave., Suite 300, Toronto, Ontario. They are also available on [www.sedar.com](http://www.sedar.com).

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**Connor, Clark & Lunn Conservative Income Fund**

Additional information about Connor, Clark & Lunn Conservative Income Fund is available in the financial statements. You can get copy of the financial statements, including a statement of portfolio transactions, at no charge by contacting the Manager by:

- Mail: Connor, Clark & Lunn Capital Markets Inc.  
181 University Avenue  
Suite 300  
Toronto, ON  
M5H 3M7  
[www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com)
- Phone: 416 862-2020
- E-mail: [dcabral@cclgroup.com](mailto:dcabral@cclgroup.com)