



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

## **Annual Information Form**

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

May 2010

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## **1 THE TRUST**

### **1.1 NAME AND FORMATION**

Connor, Clark & Lunn Conservative Income Fund II (the “Fund”) is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement dated as of September 29, 2005 (the “Trust Agreement”) between Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) in its capacity as manager and RBC Dexia Investor Services Trust as trustee of Fund (the “Trustee”) 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 Fund and the registered office of the Manager is Suite 300, 181 University Avenue, Toronto, Ontario M5H 3M7.

### **1.2 STATUS OF THE TRUST**

The Fund 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 will not be available to investors in the Units.

## **2 INVESTMENT OBJECTIVES AND STRATEGY**

### **2.1 INVESTMENT OBJECTIVES AND STRATEGY**

The Fund’s investment objectives are to:

- (i) provide holders of the Units (“Unitholders”) with a stable stream of tax-efficient monthly cash distributions targeted to be \$0.0542 per Unit (representing a yield of approximately 6.5% per annum 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 October 19, 2015 (the “Termination Date”) and provide to Unitholders an opportunity for capital appreciation above the original issue price.

### **2.2 INVESTMENT STRATEGY**

In order to achieve the Fund’s investment objectives, the Fund has obtained exposure to the performance of the Portfolio (defined below under “The Portfolio”) held by Conservative Income Fund II (“Conservative Income Fund II”) by virtue of a forward purchase and sale agreement (the “Forward Agreement”) with Bank of Montreal (the “Counterparty”). The Fund does not invest in Conservative Income Fund II. The Fund invested the net proceeds of the Offering in a portfolio of common shares of Canadian public companies (the “Common Share Portfolio”). Under the Forward Agreement, the Fund is entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses as described in more detail under “Forward Agreement” below. As a result, Unitholders’ returns correlate with the net returns realized by Conservative Income Fund II on its investment in the Portfolio. The long-term debt of the Counterparty or any guarantor must be rated at least “A” by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), or have an equivalent rating from Dominion Bond Rating Service Limited or another “approved credit rating organization” as defined in National Instrument 81-102 Mutual Funds (“NI 81-102”).

#### **2.2.1 Forward Agreement**

The Fund entered into the Forward Agreement on October 18<sup>th</sup>, 2005. Under the Forward Agreement, the Fund is entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses.

Under the terms of the Forward Agreement, the Fund and the Counterparty have agreed that their settlement obligations under the Forward Agreement with respect to the Common Share Portfolio securities will be discharged by physical delivery of the Common Share Portfolio securities by the Fund to the Counterparty against cash payment or, at the election of the Fund, by the making of cash payments between the parties. The amount payable by the Counterparty for physical delivery of the Common Share Portfolio may be

more or less than the original aggregate subscription price of the Units. Unless the Fund elects cash settlement of the Forward Agreement, the Counterparty will pay to the Fund on or about the Termination Date, as the purchase price for the Common Share Portfolio, an amount equal to the Canadian dollar equivalent of the redemption proceeds of a corresponding number of units of Conservative Income Fund II. Prior to the Termination Date, Common Share Portfolio securities or other acceptable securities are pledged to, and may be held by, the Counterparty as security for the obligations of the Fund under the Forward Agreement.

In order to permit the Fund to fund distributions as well as redemptions of Units by Unitholders from time to time, payment for purchases of Units in the market and expenses of the Fund, the terms of the Forward Agreement provides that the Forward Agreement may be partially settled prior to the Termination Date by the Fund by tendering to the Counterparty securities of the Common Share Portfolio or, at the election of the Fund, in cash.

Under the Forward Agreement, the forward purchase price may be reduced for all dividends and distributions, including extraordinary distributions, declared and paid on the Common Share Portfolio securities paid to the Fund as owner of the Common Share Portfolio. If any dividends or distributions are to be received by the Fund, the Forward Agreement will provide that replacement securities acceptable to the Counterparty may, at the Fund's option, be substituted for shares in respect of which the dividend or distribution has been declared to preserve the value of the Forward Agreement. Alternatively, the Fund may consider contributing additional securities to the Common Share Portfolio or entering into additional forward, derivative or other transactions. The Forward Agreement will have provisions designed to avoid adjustments of the amount to be paid on or about the Termination Date which might otherwise be required if the Fund receives consideration as a consequence of a merger transaction involving any of the securities in the Common Share Portfolio.

The Forward Agreement may be terminated prior to the Termination Date in certain circumstances including: (i) at the option of the Fund in its sole discretion; or (ii) by the Counterparty if an event occurs that the Counterparty determines has had or would reasonably be expected to have an adverse effect on the Counterparty's ability to perform its obligations under the Forward Agreement or hedge its position under the Forward Agreement. The Fund intends to exercise its right to partially settle the Forward Agreement prior to the Termination Date in order to permit the Fund to fund monthly distributions, redemptions and repurchases of Units and its operating expenses from time to time.

The Counterparty may choose to enter into transactions in order to hedge its exposure under the terms of the Forward Agreement to the economic performance of Conservative Income Fund II. There is no assurance that the Counterparty will maintain a hedge or will do so with respect to the full amount or term of the Forward Agreement. The Fund is exposed to the credit risk associated with the Counterparty in respect of the Forward Agreement.

### 3 INVESTMENT RESTRICTIONS

The Fund used the net proceeds of the Offering to acquire the Common Share Portfolio. In purchasing and holding the Common Share Portfolio, the Fund is subject to, among other things, the following investment restrictions:

- (i) **Investment in Canadian Equities.** The Fund will restrict its investments to common shares of Canadian public companies that are "Canadian securities" for the purposes of the Income Tax Act (Canada) (the "Tax Act");
- (ii) **Purchasing Securities.** The Fund will not purchase securities other than through normal market facilities unless the purchase price therefore approximates the prevailing market price or is negotiated or established on an arm's length basis;
- (iii) **Status under the Tax Act.** The Fund will restrict its investments to the extent necessary to qualify as a mutual fund trust and a unit trust for purposes of the Tax Act;
- (iv) **Concentration.** The Fund will restrict its investments in any one issuer to no more than 10% of its total assets at the time of investment in such issuer; and
- (v) **Taxable Canadian Property.** The Fund will not acquire or hold any property that is "taxable Canadian property" within the meaning of the Tax Act or that will otherwise constitute "specified property" within the meaning of the proposed amendments to the Tax Act announced on September 16, 2004.

The Fund may also hold cash, and may invest excess cash in cash equivalents.

## **4 MANAGEMENT OF THE FUND**

### **4.1 THE MANAGER**

Connor, Clark & Lunn Capital Markets Inc. performs management and investment management services for the Fund pursuant to the terms of the Trust Agreement. The Manager is entitled to receive fees as compensation for management services rendered to the Fund.

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., Connor, Clark & Lunn Arrowstreet Capital Ltd, Connor, Clark & Lunn Infrastructure Ltd, Banyan Capital Partners Management Partnership, Global Alpha Capital Management Ltd. and Gyrus Investment Management Inc. (collectively, the “CC&L Group”). The CC&L Group 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 2010 Flow-Through Limited Partnership, Build America Investment Grade Bond Fund, North American Financials Capital Securities Trust, Connor, Clark & Lunn 2009 Flow-Through Limited Partnership, Connor, Clark & Lunn Natural Resources Fund Inc. (including Connor, Clark & Lunn Natural Resources Class (“Class A Shares”) and Connor, Clark & Lunn Balanced Portfolio (“Class B Shares”)), Canadian Banc Capital Securities Trust, Connor, Clark & Lunn Global Financials Fund II, CANADIAN Financials & Utilities Split Corp., Focused Global trends Fund, Connor, Clark & Lunn Real Return Income Fund, Connor, Clark & Lunn Conservative Income Fund and Connor, Clark & Lunn PRINTS Trust.

### **4.2 DUTIES AND SERVICES 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 Fund, to make all decisions regarding the business of the Fund and to bind the Fund. 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 Fund to do so. Among other restrictions imposed on the Manager, it may not dissolve the Fund or wind up the Fund’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 Fund; maintaining accounting records for the Fund; preparing the Fund’s reports to Unitholders and to the Canadian securities regulators; calculating the amount and determining the frequency of distributions by the Fund; preparing financial statements, income tax returns and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the Fund complies with regulatory requirements including the continuous disclosure requirements of the Fund 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; administering the Forward Agreement including partial or early settlement thereof; 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 Fund. The Manager monitors the Fund’s investment strategy to ensure compliance with the Investment Guidelines, and that the assets of the Fund are invested as described under “Use of Proceeds”. The Manager is also responsible for selecting the Common Share Portfolio held by the Fund.

The Manager has entered into the registrar, transfer agency and distribution agency agreement as referred to under “Material Contracts”. Such agreement does not in any way release the Manager from compliance with its obligations to the Fund 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 Fund, 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 Fund 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 Fund 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 Fund and the Unitholders or upon such lesser notice period as the Fund 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 TSX 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 Fund. 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 Fund shall be terminated.

As compensation for management services rendered to the Fund, the Manager is entitled to receive an annual management fee in an amount equal to 0.75% 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. For a full description of fees and expenses paid by the fund and Conservative Income Fund II, see "Fees and Expenses".

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

#### **4.3 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, Chairman and Chief Financial Officer	Managing Partner, Connor, Clark & Lunn Financial Group
Darren N. Cabral Toronto, Ontario	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.

#### **4.4 PROXY VOTING POLICIES AND PROCEDURES**

With regard to voting on matters for which the Fund receives, in its capacity as a shareholder, proxy materials for a meeting of securityholders of an issuer, the Manager has a fiduciary duty to act solely in the best interests of the Fund. The Manager intends to vote securities in a timely manner and make voting decisions that are in the best interests of the Fund. In addition to its own research, the Manager may pay Institutional Shareholder Services Inc. (“ISS”), an independent proxy review service, to provide an analysis of non-routine proxy issues. In most cases proxy items are routine issues and no further comment is made. In a small percentage of cases where the situation is considered to be non-routine a significant amount of additional work may be performed.

#### **4.5 THE ADVISORY BOARD**

The Fund has established an advisory board (the “Advisory Board”) consisting of two members appointed by the Manager each of whom is independent of the Manager, the Investment Manager, and each of their affiliates, and free from any interest and any business or other relationship which could, or could be reasonably perceived to, materially interfere with the exercise of an Advisory Board member’s judgment. The Advisory Board provides independent advice to the Manager to assist them in performing their services under the Trust Agreement or Conservative Income Fund II Agreement, as applicable, including with respect to conflicts of interest or potential conflicts of interest (other than those described under “Conflicts of Interest”) or related party transactions identified by the Manager. The members of the Advisory Board are required to act honestly and in good faith in the best interests of the Fund, the Unitholders, and Conservative Income Fund II, as the case may be, and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Manager reports to the Advisory Board on the operation and performance of the Fund and Conservative Income Fund II, as applicable, on a quarterly basis, including with respect to compliance with applicable investment restrictions and material contracts as amended from time to time. The Manager is required under the Trust Agreement and the Conservative Income Fund II Trust Agreement, as applicable, to notify each member of the Advisory Board in writing of any conflicts of interest, potential conflicts of interest or related party transactions concerning the Manager, the Fund, or Conservative Income Fund II, as applicable (other than any such conflicts of interest, potential conflicts of interest or related party transactions relating to matters with respect to which the approval of Unitholders is required under the Trust Agreement or the unitholders under the Conservative Income Fund II Trust Agreement) and to consult with the Advisory Board in respect of any such conflicts of interest, potential conflicts of interest or related party transactions.

In the event of a dispute between the Advisory Board and the Manager with respect to a conflict of interest, potential conflict of interest or related party transaction, upon written direction of the Advisory Board, the Manager will call a meeting of Unitholders or limited partners, as applicable, to consider the conflict of interest, potential conflict of interest or related party transaction.

The Fund’s annual report to Unitholders and Conservative Income Fund II’s annual report to its unitholders will each include any report by the Advisory Board summarizing any recommendations made by the Advisory Board, including recommendations made and not followed by the Manager, as applicable, and any other matter that the Advisory Board determines to be appropriate in the circumstances.

All fees and expenses of the Advisory Board incurred in connection with its duties with respect to the Fund or Conservative Income Fund II are paid by the Fund. The Advisory Board have the authority to retain, at the expense of the Fund, independent counsel or other advisors if the Advisory Board deems it appropriate to do so.

The members of the Advisory Board of the Fund receive remuneration for their services as advisors. The Board of advisors’ fees paid during the year ended March 31, 2010 were \$10,500 (\$10,500 during the year ended March, 31 2009).

The members of the Advisory Board are indemnified by the Fund or Conservative Income Fund II, as the case may be, except in cases of willful misconduct, bad faith, negligence or breach of their standard of care. The Advisory Board members are not responsible for the investments made by the Fund, or for the performance of the Fund. The members of the Advisory Board may serve in a similar capacity in respect of other entities managed by the Manager.

The following is a brief description of the backgrounds of the proposed members of the Advisory Board:

**Arthur Donner** is a Toronto-based economic consultant. His research and consulting have ranged widely in the field of economics and public policy – macroeconomics, finance, pension issues, labour economics, environmental issues, industrial policy and communications policy. His career has moved between universities, governments and the private sector, and he continues to be a commentator in the media. Mr. Donner is on the Board of Directors of the First Ontario Fund, an Ontario based venture capital fund. He is also a member of the Investment Advisory Committee of the Nunavut Trust. Between September of 2002 and June of 2006, Mr.

Donner was on the Board of Social Housing Services Corporation Financial Inc. As well, he has been a member of the Investment Committee of the Atkinson Charitable Foundation for a number of years, and has been Chair of the Investment Committee for the past four years. For four months in 2005, Mr. Donner was a special advisor to the Federal Minister of Housing, Joe Fontana, on the development of new aboriginal housing institutions.

**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.

#### **4.6 ACCOUNTING AND REPORTING**

The Fund's fiscal year ends on March 31 in each year and its taxation year ends on December 31 in each year or such other fiscal period permitted under the Tax Act as the Fund elects. The Manager will ensure that the Fund complies with all applicable reporting and administrative requirements.

The Manager will keep adequate books and records reflecting the activities of the Fund. A Unitholder or his or her duly authorized representative will have the right to examine the books and records of the Fund 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 Fund.

### **5 CONSERVATIVE INCOME FUND II**

Conservative Income Fund II is an investment trust that was established under the laws of the Province of Ontario pursuant to a trust agreement dated September 29, 2005 between CC&L, as manager of Conservative Income Fund II, and RBC Dexia Investor Services Trust, as trustee (the "Conservative Income Fund II Trust Agreement"). Conservative Income Fund II will terminate on or about the Termination Date (or such later date upon which the Fund terminates) if not terminated earlier in accordance with its terms.

Conservative Income Fund II distributes all of its net income and net realized capital gains earned in each taxation year to ensure that it is not subject to tax on taxable income under the Tax Act.

Units of Conservative Income Fund II are redeemable at the demand of its unitholders on a daily basis.

#### **5.1 INVESTMENT RESTRICTIONS OF CONSERVATIVE INCOME FUND II**

The investment activities of Conservative Income Fund II are conducted in accordance with, among other things, the following investment restrictions:

- (i) **Investments.** Conservative Income Fund II 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 25% 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 Conservative Income Fund II 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.** Conservative Income Fund II may not borrow or use other forms of leverage in an aggregate in excess of 15% of the assets at the time the borrowing or other leverage is entered into.
- (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 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.** Conservative Income Fund II 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.** Conservative Income Fund II 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) **No Guarantee.** Conservative Income Fund II will not guarantee securities or obligations of another person or company other than the Manager, and then only in respect of the activities of Conservative Income Fund II.

## **5.2 MANAGEMENT OF CONSERVATIVE INCOME FUND II**

### **5.2.1 The Manager**

Connor, Clark & Lunn Capital Markets Inc. performs management services for Conservative Income Fund II pursuant to the Conservative Income Fund II Trust Agreement. The Manager is entitled to receive fees as compensation for management services rendered to Conservative Income Fund II. See “Fees and Expenses”. The Manager is responsible for payment of the investment management fees of the Investment Manager related to Conservative Income Fund II.

### **5.2.2 Duties and Services provided by the Manager**

The Manager has exclusive authority to manage the operations and affairs of Conservative Income Fund II, to make all decisions regarding the business of Conservative Income Fund II and to bind Conservative Income Fund II. 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 Conservative Income Fund II to do so.

### **5.2.3 Accounting and Reporting**

Conservative Income Fund II’s fiscal year ends on March 31 in each year and its taxation year ends on December 31 in each year or such other date permitted under the Tax Act as Conservative Income Fund II elects. The Manager ensures that Conservative Income Fund II complies with all applicable reporting and administrative requirements.

The Manager keeps adequate books and records reflecting the activities of Conservative Income Fund II. A unitholder or his or her duly authorized representative have the right to examine the books and records of Conservative Income Fund II during normal business hours at the offices of the Manager. Notwithstanding the foregoing, subject to applicable law, a unitholder shall not have access to any information which, in the opinion of the Manager, should be kept confidential in the interests of the Conservative Income Fund II.

### **5.2.4 The Advisory Board**

Conservative Income Fund II established an advisory board (the “Advisory Board”) consisting of two members appointed by the Manager each of whom is independent of the Manager, the Investment Manager, and each of their affiliates, and free from any interest and any business or other relationship which could, or could be reasonably perceived to, materially interfere with the exercise of an Advisory Board member’s judgment. The Advisory Board provides independent advice to the Manager to assist it in performing its services under the Trust Agreement or Conservative Income Fund II Trust Agreement, as applicable, including with respect to conflicts of interest or potential conflicts of interest (other than those described under “Conflicts of Interest”) or related party transactions identified by the Manager. The members of the Advisory Board are required to act honestly and in good faith in the best interests of the Fund, the Unitholders, and Conservative Income Fund II, as the case may be, and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Manager reports to the Advisory Board on the operation and performance of the Fund and Conservative Income Fund II, as applicable, on a quarterly basis, including with respect to compliance with applicable investment restrictions and material contracts as amended from time to time.

The Manager is required under the Trust Agreement and Conservative Income Fund II Trust Agreement, as applicable, to notify each

member of the Advisory Board in writing of any conflicts of interest, potential conflicts of interest or related party transactions concerning the Manager, the Fund, or Conservative Income Fund II, as applicable (other than any such conflicts of interest, potential conflicts of interest or related party transactions relating to matters with respect to which the approval of Unitholders is required under the Trust Agreement or the unitholders under the Conservative Income Fund II Trust Agreement) and to consult with the Advisory Board in respect of any such conflicts of interest, potential conflicts of interest or related party transactions.

In the event of a dispute between the Advisory Board and the Manager with respect to a conflict of interest, potential conflict of interest or related party transaction, upon written direction of the Advisory Board, the Manager will call a meeting of Unitholders or limited partners, as applicable, to consider the conflict of interest, potential conflict of interest or related party transaction.

The Fund's annual report to Unitholders and Conservative Income Fund II's annual report to its unitholders will each include any report by the Advisory Board summarizing any recommendations made by the Advisory Board, including recommendations made and not followed by the Manager, as applicable, and any other matter that the Advisory Board determines to be appropriate in the circumstances.

All fees and expenses of the Advisory Board incurred in connection with its duties with respect to the Fund or Conservative Income Fund II are paid by the Fund. The Advisory Board have the authority to retain, at the expense of the Fund, independent counsel or other advisors if the Advisory Board deems it appropriate to do so.

The members of the Advisory Board of the Conservative Income Fund II receive remuneration for their services as advisors. The Board of advisors' fees paid during the year ended March 31, 2010 were \$10,500 (\$10,500 during the year ended March, 31 2009).

The members of the Advisory Board are indemnified by the Fund or Conservative Income Fund II, as the case may be, except in cases of willful misconduct, bad faith, negligence or breach of their standard of care. The Advisory Board members are not responsible for the investments made by the Fund, or for the performance of the Fund. The members of the Advisory Board may serve in a similar capacity in respect of other entities managed by the Manager.

The members of the Advisory Board are Arthur Donner and Selwyn Kletz as described under "Management of the Fund – The Advisory Board".

### 5.2.5 *The Investment Manager*

The Investment Manager provides investment advisory and portfolio management advice to Conservative Income Fund II and will actively manage the Portfolio in a manner consistent with the investment restrictions of Conservative Income Fund II pursuant to an investment management agreement (the "Investment Management Agreement") between the Manager as manager of Conservative Income Fund II and in its own capacity and the Investment Manager dated as of September 29, 2005.

The Investment Manager is responsible for execution of Conservative Income Fund II's investment strategy. Decisions as to the purchase and sale of securities and as to the execution of all portfolio and other transactions in connection with the Portfolio will be made by 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.

<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

<u>Name and Municipality</u>	<u>Position with the Investment Manager</u>	<u>Principal Occupation</u>
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
GARY BAKER West Vancouver, British Columbia	Director	Director of the Investment Manager
SCOTT HACKNEY Etobicoke, Ontario	Vice President	Vice President of the Investment Manager
KATHLEEN A. LEAVENS 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 Brian Eby, Jane Justice, Chris Kalbfleisch, David George and Steve Vertes.

**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.

**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.

**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.

**Gary Baker:** CFA; MBA, University of Toronto (1985); BEng, McMaster University (1984). Gary is the leader of the fundamental Canadian equity team, responsible for overall portfolio strategy and fundamental research in the technology, consumer discretionary and non-bank financial sectors. Gary is a Director of Connor, Clark & Lunn Investment Management Ltd. and a Partner in Connor, Clark & Lunn Investment Management Partnership.

**David George:** CFA; BComm, University of British Columbia. David is a partner of Connor, Clark & Lunn Investment Management Partnership and a member of the fixed income team responsible for research and analysis.

### **5.2.5.1 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 unitholders of Conservative Income Fund II 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 Conservative Income Fund II 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 of its standard of care.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the termination of Conservative Income Fund II. 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 there under 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 Conservative Income Fund II.

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 restrictions of Conservative Income Fund II.

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 unitholders of Conservative Income Fund II 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 Conservative Income Fund II. In addition, the Investment Manager and each of its directors, officers, employees and agents are indemnified by Conservative Income Fund II 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.

### **5.2.6 Proxy Voting Policies and Procedures**

With regard to voting on matters for which Conservative Income Fund II receives, in its capacity as a shareholder, proxy materials for a meeting of securityholders of an issuer, the Investment Manager has a fiduciary duty to act solely in the best interests of Conservative Income Fund II and its unitholders. It intends to vote securities in a timely manner and make voting decisions that are in the best interests of Conservative Income Fund II and its unitholders. In addition to its own research, the Investment Manager pays ISS, an independent proxy review service, to provide an analysis of all non-routine proxy issues.

### **5.2.7 The Credit Agreement**

Pursuant to a credit agreement dated September 8, 2008 (the "Credit Agreement"); Conservative Income Fund II has entered into a 364-day revolving term credit facility with the Bank of Montreal. The credit facility available pursuant to the Credit Agreement has a maximum principal amount of \$5,000,000. Under the Credit Agreement, Conservative Income Fund II's total leverage outstanding at any time may not exceed the lower of (a) the maximum principal amount and (b) 15% of total asset value. If the total leverage is more than the 15% but not more than 20% of the total asset value, Conservative Income Fund II must eliminate the credit excess by reducing the total leverage on a commercially reasonable basis as soon as practicable. In the event that total leverage is greater than 20% of the Conservative Income Fund II's total asset value, Conservative income Fund II must promptly take whatever actions are required to reduce leverage to 15% of total assets, including selling Portfolio Securities.

Conservative Income Fund II did not employ any leverage during the year ended March 31, 2010.

## **6 INDEPENDENT REVIEW COMMITTEE**

National Instrument 81-107 Independent Review Committee for Investment Funds ("NI 81-107") which came into force on November 1, 2006 requires all publicly offered investment funds to establish an Independent Review Committee to whom the

Manager must refer all conflict of interest matters for review or approval. NI 81-107 imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters maintain records in respect of these matters and provide assistance to the Independent Review Committee in carrying out its functions. The Independent Review Committee must be comprised of a minimum of three independent members and is subject to requirements to conduct regular assessments and provide reports to the Manager and to Limited Partners in respect of its functions. 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 Independent Review Committee 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** currently serves on the board of directors of several public companies and private organizations, including Loblaw Companies Limited and BFI Canada Income Fund. 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 by the Fund during the year ended March 31, 2010 were \$2,367 (\$nil during year ended March 31, 2009).

## 7 THE TRUSTEE

RBC Dexia Investor Services Trust has been appointed the trustee of the Fund pursuant to the provisions of the Trust Agreement. The Trustee acts as custodian of the Fund as described in the Trust Agreement, including on direction of the Manager to pay redemptions to the distribution agent, calculating net asset value, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund.

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 trustee is not appointed, the Fund 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 Fund, 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 Fund 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 Fund.

The Trustee is also the trustee of Conservative Income Fund II pursuant to Conservative Income Fund II Trust Agreement described under "Conservative Income Fund II". The rights and responsibilities of the Trustee under the Conservative Income Fund II Trust Agreement are substantially equivalent to the rights and responsibilities of the Trustee under the Trust Agreement described above.

## **8 UNITHOLDERS' EQUITY**

### **8.1 DESCRIPTION OF UNITS**

#### **8.1.1 Units**

The Fund 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 Fund. To become a Unitholder, an investor must acquire 100 or more Units in the Fund under the Offering. 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 Fund.

On termination, all Unitholders of record holding outstanding Units are entitled to receive their pro rata share of any assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses of the Fund. See "Termination of the Fund".

The Fund does not currently intend to issue additional Units, 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". Immediately after a pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold, after the consolidation, the same number of Units as the Unitholder held before the non-cash distribution (subject to any withholding tax requirements). Subject to the foregoing, the Fund may also allot and issue other securities at such time or times, and in such manner, as the Trustee in its sole discretion shall determine.

To enhance liquidity and to provide market support for the Units, the Fund has a mandatory market purchase program under which the Fund will, subject to certain exceptions contained in the Trust Agreement (as described under "Description of Units – Units") and in compliance with any applicable regulatory requirements, be obligated to purchase Units for cancellation on and subject to the terms below. If, on the business day following any Valuation Date, the weighted average price of the Units is less than 95% of the net asset value of the Fund ("NAV") per Unit (the "NAV per Unit") determined as at the most recently published Valuation Date, the Fund will offer to purchase for cancellation any Units offered in the market at or below 95% of the NAV per Unit on the following business day. The maximum number of Units purchased in any three month period must be 1.25% of the number of Units outstanding at the beginning of the period (commencing with the three month period that began on the first day of the month following the closing date of the Offering). The Fund is not obligated to make such purchases if: (i) the Fund 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 Fund. During the year ended March 31, 2010, the Fund purchased 97,900 units for cancellation at a cost of \$758,171 (150,400 units at a cost of \$967,938 during the year ended March 31, 2009).

In addition, the Trust Agreement provides that the Fund 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.

#### **8.1.2 Book-Entry Only System**

A book-entry only certificate representing Units was issued in registered form to The Canadian Depository for Securities Limited ("CDS"), or its nominee on its behalf, on the date of the closing of the 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 through whom such Units are purchased in accordance with the practices and procedures of such CDS Participant and will not have the right to receive physical certificates evidencing this ownership. 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 Fund 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 Fund, 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.

## **8.2 UNITHOLDER MATTERS**

### **8.2.1 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 Fund 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 66 $\frac{2}{3}$ % 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 10 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 Fund 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 Fund 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 Fund (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.

### **8.2.2 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 Fund as described under "Investment Objective and Strategy", unless such change is required by applicable law or any regulatory authority; a change in the investment restrictions of the Fund as described under "Investment Restrictions"; the right of a Unitholder to vote at any meeting; or changing the Fund 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 Fund 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 Fund, 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 Fund's taxation year-end as permitted under the Tax Act or for the purpose of maintaining the status of the Fund 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.

### **8.2.3 Information and Reports to Unitholders**

The Fund will furnish to Unitholders such financial statements (including interim unaudited and annual audited financial statements) 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 Fund will comply 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 Fund 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 Fund. 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 Fund 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 Fund.

## **8.3 TERMINATION OF THE FUND**

The Fund will terminate on the Termination Date, whereupon the Forward Agreement will be settled, any non-cash assets of the Fund will be liquidated, and the net assets of the Fund will be distributed to Unitholders unless Unitholders determine to continue the Fund by a majority of the votes cast at a meeting of Unitholders called for such purpose. Immediately prior to the Termination Date, the Trustee will, to the extent possible, convert the assets of the Fund to cash and after paying or making adequate provision for all of the Fund's liabilities, distribute the net assets of the Fund to Unitholders as soon as practicable after the Termination Date. If a meeting of Unitholders is to be held to extend the Fund, it must be held at least 30 days prior to the then scheduled Termination Date. The Manager, may, in its discretion, terminate the Fund without the approval of Unitholders if, in the opinion of the Manager after consulting with the Advisory Board, the Net Asset Value of the Fund has been reduced as the result of redemptions or otherwise such that it is no longer economically feasible to continue the Fund and it would be in the best interests of the Unitholders to terminate the Fund. After paying outstanding liabilities, the Fund will distribute its remaining assets pro rata to Unitholders.

If the term of the Fund is extended beyond the Termination Date, Unitholders may redeem their Units on the Termination Date for the NAV per Unit as of that date.

## **8.4 DISTRIBUTIONS**

### **8.4.1 Distribution Policy**

One of the objectives of the Fund is to 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 \$0.65 per annum (\$0.0542 per month, approximately 6.5% per annum yield on the original issue price of \$10.00 per Unit). Distributions are expected to consist primarily of returns of capital and may include capital gains.

The Fund has made all its scheduled distributions to date, including an initial distribution of \$0.0773 per Unit in respect of the period from October 18, 2005 (commencement of operations) to November 30, 2005 and monthly distributions of \$0.0542 per Unit from December 2005 thereafter. Distributions paid during the year ended March 31, 2010 were \$1,512,682 or \$0.65 per Unit (\$1,995,375 or \$0.65 per unit during the year ended March 31, 2009).

The Fund intends that the aggregate distributions of net income and net capital gains made in each year will be sufficient to ensure that the Fund 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 Fund for a year that are retained by the Fund would be recoverable by it in such year. If in any year, after such distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, the Fund 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 Fund will not be liable for income tax thereon under the Tax Act. The Fund may make additional distributions provided certain conditions are met at any time.

The Fund may also, at the discretion of the Manager, make special distributions in cash or in Units at any time in addition to monthly cash distributions. To the extent that the Fund makes a distribution in Units, the number of outstanding Units of the Fund will be consolidated such that each Unitholder of the Fund will hold after the consolidation the same number of Units of the Fund as it held before the distribution of additional Units (except in the case of non-resident Unitholders, where withholding is required).

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.

Each Unitholder will be provided annually with the information necessary to enable such Unitholder to complete an income tax return with respect to amounts paid or payable by the Fund in respect of its preceding taxation year.

## **8.5 REDEMPTION OF UNITS**

### **8.5.1 Redemption on Termination of the Fund**

All Units outstanding on the Termination Date will be redeemed by the Fund on such date. The redemption price payable by the Fund 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.

### **8.5.2 Optional Redemptions**

Units may be surrendered at any time for redemption by the Fund, subject to the Fund's right to suspend redemptions in certain circumstances. Where Units are surrendered on or prior to the 10th 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 10th 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 November 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 Fund 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 November Redemption Date in each year, commencing in 2006, 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 will be made available to Unitholders on request and will be posted on the Manager's website ([www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com)). The NAV per Unit will vary depending on a number of factors, including the distributions paid on the Units, the value of the securities in the Portfolio, which will be affected by market conditions, and the distributions paid on securities held in the Portfolio.

The Fund paid \$3,576,200 to redeem 432,794 units during the November 2009 annual redemption anniversary (\$4,259,308 paid to redeem 643,088 in November 2008).

### **8.5.3 Exercise of Redemption Right**

Units surrendered for redemption by a Unitholder no later than the 10th day of a month will be redeemed on the Redemption Date of such month and such Unitholder will receive payment on or before the 10th 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 Fund, the Trustee, the Manager or the Agents to the CDS Participant or the Unitholder.

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

The Fund may enter into a recirculation agreement (the “Recirculation Agreement”) with Scotia Capital Inc. (in such capacity, the “Recirculation Agent”) whereby the Recirculation Agent may agree 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 Fund may from time to time appoint additional dealers to act as recirculation agents for any Units surrendered for redemption. The Fund 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 Fund 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.

### **8.5.5 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 Fund 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 Fund, any declaration of suspension made by the Manager shall be conclusive.

### **8.5.6 Purchase for Cancellation**

Subject to applicable law and regulatory requirements, the Fund 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. See “Description of Units – Units”.

## 9 VALUATION

### 9.1.1 *Net Asset Value and NAV per Unit*

The net asset value of the Fund (the “NAV”) on a particular date will be equal to: (i) the aggregate value of the assets of the Fund, less (ii) the aggregate value of the liabilities of the Fund, 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 Investor Services Trust has been appointed valuation agent of the Fund (in such capacity, the “Valuation Agent”) pursuant to the provisions of the Trust Agreement. The NAV per Unit is calculated by the Valuation Agent (with assistance from the Manager in certain respects as identified below) as of 4:00 p.m. (Toronto time) on the following days (each, a “Valuation Date”): (i) each Friday during the year (or, if a Friday is not a business day, then on the business day following such Friday); (ii) each Redemption Date; and (iii) on the last day of the Fund’s fiscal year and taxation year. Such information will be provided by the Manager to Unitholders on request and will be posted on the Manager’s website ([www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com)). The Fund has obtained from the securities regulatory authorities a relief from the provisions of National Instrument 81-106 – Investment Fund Continuous Disclosure to permit it to calculate the NAV on a weekly basis.

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

The total assets of the Fund consist of the aggregate value of the assets of the Common Share Portfolio and the Forward Agreement. Since the value of the Fund’s rights and obligations under the Forward Agreement is determined by reference to the value of units of Conservative Income Fund II, the Fund’s NAV is linked to the value of Conservative Income Fund II. The total assets of Conservative Income Fund II consist of the aggregate value of the Portfolio. 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 Valuation Agent, 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;
- (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 Fund’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 Fund 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, including the Forward Agreement, 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 Fund valued in a foreign currency and all liabilities and obligations of the Fund payable by the Fund in foreign currency shall be converted into Canadian funds by applying the rate of exchange obtained from the best available sources to the Valuation Agent, including, but not limited to, the Valuation Agent or any of its affiliates;
- (k) all expenses or liabilities (including fees payable to the Manager) of the Fund 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 Valuation Agent shall be entitled to rely on reports prepared by or for the Manager or the Investment Manager.

#### **9.1.2 Audit of Financial Statements**

The annual financial statements of the Fund shall be audited by the Fund's auditors in accordance with Canadian generally accepted auditing standards. The auditors will be asked to report on the fair presentation of the annual financial statements in accordance with Canadian generally accepted accounting principles.

## **10 PORTFOLIO TRANSACTIONS AND BROKERAGE**

The Investment 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.

## **11 CUSTODIAN**

RBC Dexia Investor Services Trust acts as custodian (the "Fund Custodian") of the assets of the Fund and the Conservative Income Fund II pursuant to the Trust Agreement. However, the Common Share Portfolio are pledged by the Fund to the Counterparty under the Forward Agreement and may be held by the Counterparty instead of the Fund Custodian.

## **12 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.

## **13 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.

## **14 FEES AND EXPENSES**

### **14.1 INITIAL FEES AND EXPENSES**

The expenses of the Offering, subject to a combined maximum of 1.5% of the gross proceeds of the Offering, were, together with the Agents' fees, paid by the Fund and Conservative Income Fund II from the gross proceeds of the Offering. The Offering expenses include the costs of creating and organizing the Fund, the costs of printing and preparing this prospectus, legal expenses of the Fund, marketing expenses and legal and other out-of-pocket expenses incurred by the Agents, the cost of establishing Conservative Income Fund II and certain other expenses. The Offering expenses, which were \$691,351, and the Agents' fees, which were \$3,324,980, were paid to the Agents from the gross proceeds of the Offering.

### **14.2 ONGOING FEES AND EXPENSES**

Pursuant to the terms of the Trust Agreement, the Manager is entitled to an annual fee of 0.75% of the NAV, plus applicable taxes. The Manager will also be paid, as an additional fee, the amount of the Service Fee (defined below), plus any applicable taxes, to be paid by the Manager to dealers. Fees payable to the Manager (but not the Service Fee portion) will accrue daily and be payable monthly in arrears based on the NAV as at the last Valuation Date of each month. As compensation for management services rendered to Conservative Income Fund II, pursuant to the terms of the Conservative Income Fund II Trust Agreement, the Manager is entitled to an annual fee of 0.35% of the net asset value of Conservative Income Fund II, plus applicable taxes. Fees payable to the Manager will accrue daily and be payable monthly in arrears based on the net asset value of Conservative Income Fund II as at the last valuation date of each month. The Investment Manager will be remunerated by the Manager, in its capacity as manager of Conservative Income Fund II, out of the management fee.

The management fees charged to the Fund on consolidation basis for the year ended March 31, 2010 were \$213,488 (\$293,126 for the year ended March 31, 2009).

Each of the Fund and Conservative Income Fund II pay for all ordinary expenses incurred in connection with their operation and administration. These expenses include, without limitation: mailing and printing expenses for periodic reports to Unitholders and unitholders of Conservative Income Fund II, and other Unitholder and Conservative Income Fund II unitholder communications including marketing and advertising expenses; fees payable to Computershare Investor Services Inc. for acting as registrar, transfer agent and distribution agent of the Fund and performing certain financial, record-keeping, reporting and general administrative services; fees payable to the Trustee for acting as trustee of the Fund and Conservative Income Fund II; any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their on-going obligations to the Fund and Conservative Income Fund II; any additional fees payable to the Manager for performance of extraordinary services on behalf of the Fund and Conservative Income Fund II; fees payable to the auditors and legal advisors; regulatory filing, stock exchange and licensing fees; any expenditures incurred upon the termination of the Fund and Conservative Income Fund II; and fees payable to the independent members of the Advisory Board and the advisory board of Conservative Income Fund II. Such expenses may 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 Fund and Conservative Income Fund II. See "Management of the Fund" and "Management of Conservative Income Fund II". The aggregate annual amount of these fees and expenses for the year ended March 31, 2010 were \$183,115 on a consolidation basis (\$202,422 for the year ended March 31, 2009). The Fund and Conservative Income Fund II are also responsible for any debt service and costs relating to leverage, fees associated with interest hedging activities and any extraordinary expenses which they may incur from time to time. Conservative Income Fund II is responsible for commissions and other costs of portfolio transactions of Conservative Income Fund II.

The Fund pays to the Counterparty a fee under the Forward Agreement of approximately 0.50% per annum of the net asset value of Conservative Income Fund II. Such fee includes any hedging costs incurred by the Counterparty. The Forward fees charged to the Fund for the year ended March 31, 2010 were \$91,793 (\$127,184 for the year ended March 31, 2009).

### **14.3 SERVICE FEE**

The Manager pays to registered dealers a servicing fee (the "Service Fee") equal to 0.40% annually of the NAV per Unit for each Unit held by clients of the registered dealer (accrued daily and paid at the end of each calendar quarter), plus any applicable taxes.

The Service fees charged to the Fund for the year ended March 31, 2010 were \$70,346 (\$92,955 for the year ended March 31, 2009).

## 15 CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

### 15.1 TAXATION OF THE FUND

The Fund qualifies and intends to continue to qualify as a mutual fund trust under the Tax Act. As a mutual fund trust the Fund 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 Fund 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 Fund should not be subject to any material net Canadian income tax liability.

### 15.2 TAXATION OF UNITHOLDERS

**This summary is only general in nature and is not intended to be legal or tax advice to any investor. Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in the Units based on their particular circumstances.**

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 Fund under present legislation will be minimized.

Although the Manager anticipates all the monthly distributions paid to the unitholders be classified as a return of capital due to the Forward Agreement, unitholders might receive distributions from other income, dividends, 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 Fund 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.

## 16 MATERIAL CONTRACTS

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

- (a) the Trust Agreement described under “Description of Units”;
- (b) the Forward Agreement described under “Investment Strategy”;
- (c) the Credit Agreement between Conservative Income Fund II and the Bank of Montreal described under “Conservative Income Fund II”; and
- (d) the Agency Agreement dated as of September 29, 2005 (the “Agency Agreement”) between Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc., TD Securities Inc., National Bank Financial Inc., HSBC Securities (Canada) Inc., Richardson Partners Financial Limited, Wellington West Capital Inc., Desjardins Securities Inc., Raymond James Ltd., Canaccord Capital Corporation and Blackmont Capital Inc. (collectively, the “Agents”), the Manager and the Fund, the Agents have agreed to offer the Units for sale, as agents of the Fund, on a best efforts basis, if, as and when issued by the Fund. The Agents received a fee equal to \$0.50 for each Unit sold and were reimbursed for out-of-pocket expenses incurred by them.

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

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

Additional information about Connor, Clark & Lunn Conservative Income Fund II 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)