

2010

Connor, Clark & Lunn
Conservative Income Fund II
Semi-Annual Report
September 30, 2009

Connor, Clark & Lunn Conservative Income Fund II Message to Unitholders

November 25, 2009

Dear Investor,

These semi-annual financial statements are in respect of the six-month period ended September 30, 2009. We welcome the opportunity to provide you with an update on the Connor, Clark & Lunn Conservative Income Fund II (the "Fund"). The goal of the Fund is to provide unitholders of the Fund with a stable stream of tax efficient monthly cash distributions and preserve the net asset value. All of the distributions of the Fund to date have been characterized as return of capital for tax purposes.

Connor, Clark & Lunn Investment Management Ltd's (the "Investment Manager") prime objective is to deliver a yield to investors that is both attractive and sustainable. Therefore the prime focus of their team is to find solid companies that have demonstrated the ability and commitment to return a predictable level of capital to shareholders and bondholders in all market conditions, whether it is a business trust, REIT or corporate bond.

The Fund delivered strong performance during the period, with a total return of 29.9%. Its benchmark, S&P/TSX Income Trust Index, was up 39.33%

The themes of the last several months continue to hold, namely economic stabilization and improvement with ample liquidity in the system being deployed aggressively into capital markets. The quest for yield has been revived and the Investment Manager expects that income-oriented securities, such as those held by the Conservative Income Fund II (the "CIF II"), will continue to benefit.

The Investment Manager has lowered the weighting in REITs and used the proceeds to buy business trusts. REITs have been aggressively raising equity over the past several months in order to bring leverage down. The notion of making accretive deals with the capital raised continues to persist, but the gap in price between buyers/sellers is wide and there are no signs of distressed asset sales in the Canadian market.

The Fund continues to have a significant weighting in fixed income. The bond market has experienced an incredible sea change, with one member of the Investment Manager's fixed income team noting that "it has gone from 'no bid' to 'no offer'" leading to a significant compression in credit spreads (prices higher). While the Fund has had a considerable weighting in financial issuers, as spreads have improved in that sector, there has been a concerted effort by the Investment Manager's fixed income team to pursue greater sector diversity.

In anticipation of the changes to the tax laws affecting income trusts that come into force in 2011, we are actively exploring possible changes to the investment mandate of the Fund. We will keep you informed of any possible changes.

Yours truly,



W. Neil Murdoch
Chief Executive Officer
Connor, Clark & Lunn Capital Markets

Management Report of Fund Performance

This semi-annual management report of fund performance for Connor, Clark & Lunn Conservative Income Fund II (the “Fund”) contains financial highlights but does not contain the complete Semi-Annual financial statements of the Fund. **The semi-annual financial statements and accompanying notes are attached to this report.**

You can obtain a copy of the semi-annual financial statements at no cost by writing to the Manager to the following address: Connor, Clark & Lunn Capital Markets Inc., Suite 300, 181 University Avenue, Toronto, Ontario M5H 3M7, or calling (416) 862-2020 or visiting the Manager’s website at www.cclcapitalmarkets.com.

Securityholders may also contact us using one of these methods to request a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Note that any reference to “Net Assets” or “Net Assets per Unit” means that the value was determined in accordance with the Canadian Generally Accounting Principles for financial statements purposes. Also any reference to “Net Asset Value” or “Net Asset Value per Unit” means that the value was determined for valuation and transactional purposes. An explanation of the difference between both values can be found in note 3 to the financial statements.

Investment Objectives and Strategy

The Fund is a closed-end investment Fund that is listed on the Toronto Stock Exchange under the symbol CCK.UN.

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 and provide to Unitholders an opportunity for capital appreciation above the original issue price.

In order to achieve the Fund’s investment objectives, the Fund obtained exposure to the performance of the Portfolio (the “Portfolio”) held by Conservative Income Fund II (the “CIF II”) by virtue of a forward purchase and sale agreement (the “Forward Agreement”) with Bank of Montreal (the “Counterparty”). The Fund does not invest directly in CIF 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 a result, Unitholders’ returns correlate with the net returns realized by CIF II on its investment in the Portfolio.

Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”), the CIF II’s investment manager, actively manages the Portfolio. The Portfolio consists of income producing securities including Canadian business income trusts, real estate investment trusts, utility income trusts, corporate bonds and convertible bonds. In addition, from time to time, the Portfolio may include significant cash and cash equivalents. As part of its strategy, the Investment Manager employs leverage in the Portfolio to enhance returns when market conditions are considered appropriate.

Recent Developments

Future accounting changes

International Financial Reporting Standards (“IFRS”): The Canadian Accounting Standards Board (“AcSB”) confirmed that effective January 1, 2011, International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. IFRS will apply to fiscal years beginning on or after

January 1, 2011. As of September 30, 2009 the Manager has not developed a changeover plan to IFRS nor has it assessed the full impact of the move to IFRS on business arrangements, GAAP net assets per unit and accounting policies. Manager will develop a plan prior to the January 1, 2011 deadline and will disclose this plan in the Fund's March 31, 2010 or 2011 annual reports.

CICA Section 3862, "Financial Instruments – Disclosures": In March 2009, the Canadian AcSB announced it has agreed to adopt recent amendments to IFRS 7, "Financial Instruments: Disclosures", into Section 3862, "Financial Instruments – Disclosures". The final amended version to IFRS 7 will also be subsequently incorporated into Canadian GAAP. The amendments to Section 3862 will apply to annual financial statements for years ending after September 30, 2009. The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs.

Adoption of New Accounting Standards

EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities": On January 20, 2009, the CICA Emerging Issues Committee issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The abstract requires the entity's own credit risk and the risk of the counterparty should be taken into consideration in assessing the fair value of financial assets and financial liabilities. This abstract is effective for the September 30, 2009 semi-annual report, and it was considered when valuing the financial instruments in this semi-annual report.

Risk

Changes in the risk exposure of the Fund occurred in the following areas:

▪ Use of leverage

CIF II is entitled to employ leverage of up to 15% of its total assets. CIF II did not employ any leverage during the six-month periods ended September 30, 2009 and 2008.

▪ Use of Derivatives

CIF II has used derivatives for the purpose of hedging interest rate exposure. Such exposure has involved the use of short U.S. and Canadian 10-year Bond Futures and has been limited to less than 10% of the portfolio.

For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated September 29, 2005 and to the Fund's most recent Annual Information Form.

Results of Operations

Portfolio Manager Commentary

The themes of the last several months continue to hold, namely economic stabilization and improvement with ample liquidity in the system being deployed aggressively into in capital markets. The quest for yield has been revived and the Investment Manager expects that income-oriented securities, such as those held by the CIF II, will continue to benefit.

Income Trusts

The Investment Manager continues to see the income trust space evolve, with three different avenues being pursued:

1. *Conversion to a corporation*: We are just over a year away from the deadline for most income trusts to convert to corporations. Income trusts, other than real estate income trusts, that do not convert will be subject to tax of approximately 31.51% on income flowed out to investors.

2. *Acquisition targets:* With solid free cash flow yields and credit markets improving dramatically, we are starting to see takeover activity re-commence with Livingston International acquired by CPP Investment Board and Sterling Partners and Harvest Energy Trust acquired by Korean National Oil Corporation .
3. *Other:* Recently we've seen tax-driven takeovers of biotech and other loss-heavy companies by the likes of Premium Brands, Colabor and Superior Plus. It remains unclear whether such structures will survive government scrutiny.

Recent New Additions

Cineplex Galaxy Income Fund: Cineplex has a dominant position in the theatre business in Canada which has proven to be remarkably resilient during this recession. It also has some interesting ancillary businesses including their pre-show advertising business and an emerging loyalty card business. The trust was strong in 2008 but has lagged in 2009 as other less defensive businesses outperform giving us a chance to buy it at a reasonable level. One strong differentiator is tax shelter that will preserve the distribution for ten years, so investors will enjoy an approximately 8% yield that will be re-characterized as more tax-efficient dividend upon corporate conversion.

Fort Chicago Energy Partners LP: Fort Chicago is a stable utility trust that owns a 50% interest in the Alliance Pipeline in the US and Canada, with take-or-pay contracts extending to December 2015. The Investment Manager believes it ultimately makes sense for Enbridge to buy both Fort Chicago and Enbridge Income Fund to consolidate the Alliance Pipeline, making Fort Chicago a potential takeover target. This investment receives a solid 11.5% yield in the meantime.

REITs

REITs have been aggressively raising equity over the past several months, with nearly every single Canadian REIT issuing equity in the past few months to bring leverage down. The option of making accretive deals with the capital raised continues to persist, but the gap in price between buyers and sellers is wide and there are no signs of distressed asset sales in the Canadian market.

The Investment Manager has lowered the weight in REITs given significant year-to-date returns. As real estate tends to lag the general economy, the Investment Manager expects that fundamentals continue to worsen and that the excess capital raised in the sector is unlikely to be deployed accretively in the short term.

Bonds

The bond market has experienced an incredible sea change, with one member of the Investment Manager's fixed income team noting that "it has gone from 'no bid' to 'no offer'" leading to a significant compression in credit spreads and higher prices. While the CIF II has had a considerable weighting in financial issuers, as spreads have improved in that sector, there has been a concerted effort by the team to pursue greater sector diversity by adding to names such as Loblaw and Canadian Tire.

Net Assets

The net assets per unit is calculated as the value of the common share portfolio and any other investments held by the Fund, plus the value of any gain or loss on the Forward Agreement, less any net liabilities of the Fund, divided by the number of units outstanding.

On September 30, 2009, the value of the common share portfolio was \$18,578,701. Since the Fund can deliver the value of the common share portfolio to the Counterparty in exchange for the value of the CIF II, the value of the Forward Agreement to the Fund is equal to the value of the CIF II less the value of the common share portfolio. On September 30, 2009 value of the Forward Agreement was \$1,498,717. Other liabilities net of other assets in the Fund totalled \$156,151 leaving net assets of \$19,921,267 or \$8.07 per Unit.

Investment Income and Capital Gains

The Fund had a net investment loss of \$218,654 during the six-month period ended September 30, 2009, and realized \$43,957 in losses on investments sold during the same period. In addition, the portfolio had \$5,067,663 change in unrealized gains on investments as of September 30, 2009. The loss, realized loss and unrealized gains combined for a total increase in net assets from operations of \$4,805,052, or \$1.92 per Unit. Distributions to unitholders totalled \$810,025, or \$0.33 per Unit.

Liquidity and Capital Resources

As at September 30, 2009, both the Fund and the CIF II held cash and short-term investments of \$301,912 on a combined basis. The Fund had \$2,034 in Current Assets excluding investments, and had Current Liabilities, including distributions accrued but not yet paid, totalled \$232,828.

Market repurchases

As set out in the Prospectus, the Fund is obligated, under certain conditions, to purchase Units in the market for cancellation. If, on any day, the weighted average price of the Units is less than 95% of the net asset value per unit determined on the most recent valuation date, the Fund must purchase any units offered in the market the following day at 95% of net asset value per unit or less. The maximum number of Units purchased in any three-month period will be 1.25% of the number of Units outstanding at the beginning of that period.

During the six-month period ended September 30, 2009, the Fund purchased 70,400 units for cancellation at a cost of \$540,996 during (during the six-month period ended September 30, 2008, 15,600 units were bought for cancellation at a cost of \$135,224).

Distributions

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 during the six-month period ended September 30, 2009 were \$810,025 (\$0.3252 per Unit).

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Fund tabled no special reports and made no extraordinary material recommendations to management of the Fund during the six-month period ended September 30, 2009.

Related Party Transactions

Management Fees

Pursuant to a management agreement (the “Management Agreement”) the Fund has retained Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) to act as manager.

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% per annum of the NAV of the Fund, to be calculated daily and payable monthly in arrears, plus applicable taxes.

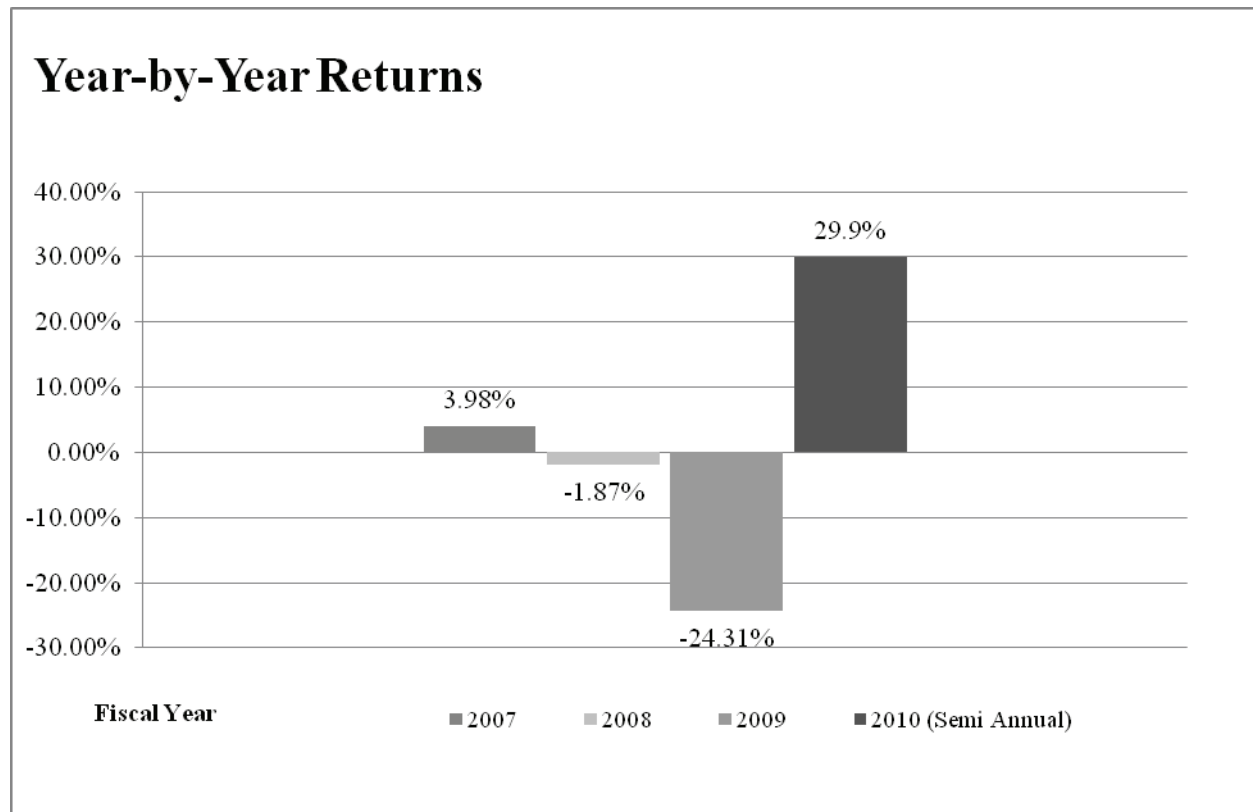
As compensation for management services rendered to CIF II, the Manager will receive an annual management fee in an amount equal 0.35% of the CIF II’s NAV, to be calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and CIF II on a combined basis during the six month period ended September 30, 2009 were \$105,802 (\$178,471 paid during the six month period ended September 30, 2008). The Manager is responsible for payment of the investment management fees of the Investment Manager out of these management fees.

Past Performance

The following bar chart shows the Fund’s annual performance for the years ended March 31, 2007, 2008 and 2009. It also shows the Semi-Annual performance for the six-month period ended September 30, 2009 assuming all the distributions made by the Fund during the periods shown were reinvested. This bar chart show, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period.

Past performance is not necessarily indicative of future performance.



Financial Highlights

The following tables show selected key financial information about the Fund and are intended to aid in understanding the Fund's financial performance since inception. This information is derived from the Fund's audited annual and unaudited semi-annual financial statements.

The Fund's Net Assets per unit:

	September 30, 2009 ⁽²⁾	March 31, 2009	March 31, 2008	March 31, 2007	March 31, 2006 ⁽¹⁾
Net Assets, beginning of period	6.49	9.32	10.17	10.43	10.00
Increase (decrease) from operations:					
Total revenues	—	—	—	—	—
Total expenses	(0.09)	(0.18)	(0.20)	(0.20)	(0.09)
Unit issue expense ⁽³⁾	—	—	—	(0.02)	(0.59)
Realized gains (losses) for the period	(0.02)	(0.19)	1.17	0.51	0.03
Unrealized gains (losses) for the period	2.03	(2.01)	(1.06)	(0.06)	1.36
Total increase (decrease) from operations⁽⁴⁾	1.92	(2.38)	(0.09)	0.23	0.71
Distributions:					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	(0.33)	(0.65)	(0.65)	(0.65)	(0.29)
Total Annual Distributions⁽⁵⁾	(0.33)	(0.65)	(0.65)	(0.65)	(0.29)
Net Assets, end of period⁽⁶⁾	8.07	6.49	9.32	10.17	10.43

(1) Results for the period October 18, 2005 (commencement of operations) to March 31, 2006.

(2) Results for the six-month period ended September 30, 2009.

(3) Issue expense of \$4,016,331 incurred in connection with the unit issuance, which has been treated as a reduction of capital.

(4) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.

(5) Distributions were paid in cash.

(6) This is not reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:

Fund	September 30, 2009 ⁽²⁾	March 31, 2009	March 31, 2008	March 31, 2007	March 31, 2006 ⁽¹⁾
Total net asset value (000's)	19,993	16,531	31,147	51,090	68,120
Number of units outstanding	2,467,936	2,538,336	3,331,824	5,023,014	6,533,600
Base Management expense ratio ⁽³⁾⁽⁴⁾	2.38%	2.19%	1.96%	1.94%	1.97%
Issue expenses ratio ⁽³⁾⁽⁴⁾	0.00%	0.00%	0.00%	0.18%	6.00%
Management expense ratio ⁽⁴⁾	2.38%	2.19%	1.96%	2.12%	7.97%
Management expense ratio before waivers or absorptions ⁽⁴⁾	2.38%	2.19%	1.96%	2.12%	7.97%
Portfolio turnover rate ⁽⁵⁾	19.34%	66.78%	18.96%	8.03%	13.24%
Trading expense ratio ⁽⁶⁾	0.00%	0.00%	0.00%	0.00%	0.00%
Net asset value per unit	8.10	6.51	9.35	10.17	10.43
Closing market price (TSX)	7.53	5.93	8.81	9.70	9.88

Consolidated for the Fund and the CIF II

Base Management expense ratio ⁽²⁾⁽³⁾	3.18%	2.89%	2.47%	2.42%	2.45%
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(1) Results for the period October 18, 2005 (commencement of operations) to March 31, 2006.

(2) Results for the six-month period ended September 30, 2009.

(3) A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio, which is based on total agents fees and unit issue expenses of \$4,016,331.

(4) Management expense ratio is based on total expenses (including issue expenses) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. Unit issue expenses, representing all Agents' fees and other offering expenses which are one-time expenses, are not annualized.

(5) The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

(6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

Summary of Investment Portfolio as of September 30, 2009

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at www.cclcapitalmarkets.com and at www.sedar.com.

Investment portfolio of the Connor Clark & Lunn Conservative Income Fund II

	Fair value \$	% of NAV
Portfolio by Category		
Materials	11,782,382	59.0%
Information Technology	3,490,500	17.4%
Consumer Discretionary	2,741,813	13.7%
Equity Derivatives	1,521,293	7.6%
Consumer Staples	613,384	3.1%
Cash	74,643	0.4%
Top 25 Holdings		
Teck Cominco Ltd.	4,617,694	23.2%
FNX Mining Company Inc.	3,694,472	18.5%
Celestica Inc.	2,025,608	10.1%
Sino-Forest Corporation - Class A	1,842,700	9.2%
Gildan Activewear Class A	1,722,593	8.6%
Pan American Silver Corp.	1,627,516	8.1%
Equity Derivatives	1,521,293	7.6%
Rona Inc.	1,019,220	5.1%
Research In Motion	960,483	4.8%
Viterra Inc	613,384	3.1%
CGI Group Class A	504,409	2.5%
Cash	74,643	0.4%
Net asset value	19,993,221	

Investment portfolio of the Conservative Income Fund II

	% Rate	Maturity date	Fair value \$	% of NAV
Portfolio by Category				
Corporate Bonds			5,936,411	29.3%
Financials			3,897,031	19.3%
Energy			3,405,800	17.0%
Industrials			3,004,954	15.0%
Consumer Discretionary			1,772,020	8.8%
Health Care			1,071,378	5.3%
Materials			685,355	3.4%
Cash & Cash Equivalents			227,269	1.1%
Derivative Contracts			280	0.0%
Top 25 Holdings				
CML Healthcare Income Fund			1,071,378	5.3%
Chartwell Seniors Housing Real Estate Investment Trust			916,370	4.5%
Cineplex Galaxy Income Fund			712,000	3.5%
Keyera Facilities Inc.			698,795	3.6%
Genivar Income Fund			690,901	3.4%
Labrador Iron Ore Royalty Inc.			685,355	3.4%
Canadian Apartment Properties Real Estate Investment Trust			656,375	3.3%
IBI Income Fund			639,000	3.3%
New Flyer Limited Income Deposit Securities			634,555	3.1%
Yellow Pages Income Fund			620,460	3.1%
Westshore Terminals Income Fund			620,199	3.1%
Fort Chicago Energy Partners L.P.			609,960	3.1%
Altus Group Income Fund			572,579	2.8%
Enerflex Systems Income Fund			546,546	2.7%
Extencicare Real Estate Investment Trust			544,320	2.7%
Allied Properties Real Estate Investment Trust			495,900	2.5%
Altagas Income Trust			492,714	2.4%
Groupe Aeroplan Inc.			439,560	2.2%
Mullen Group Ltd.			430,521	2.1%
Armtec Infrastructure Income Fund			420,299	2.1%
Athabasca Oil Sands Corp.	13.00%	7/30/2011	419,760	2.1%
Boardwalk Real Estate Investment Trust			412,484	2.0%
Morgan Stanley	4.90%	2/23/2017	409,783	2.0%
CIBC Capital Trust	9.98%	6/30/2019	380,330	1.9%
Bank of Nova Scotia	6.65%	1/22/2016	345,528	1.7%
Net asset value			20,149,372	

Connor, Clark & Lunn Conservative Income Fund II

Financial Statements (Unaudited)
September 30, 2009

Notice to Reader:

These interim financial statements and related notes for the six month period ended September 30, 2009 have been prepared by Management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Fund have not audited or reviewed these interim financial statements.

Connor, Clark & Lunn Conservative Income Fund II

Statements of Net Assets (Unaudited)

As at September 30 and March 31, 2009

	September 30, 2009	March 31, 2009
	\$	\$
Assets		
Cash	74,643	32,300
Investments pledged to counterparty under forward agreement (cost - \$17,504,212; March 31, 2009 - \$19,218,178)	18,578,701	10,362,675
Unrealized gain on forward agreement (note 7)	1,498,717	6,361,046
Interest and dividends receivable	-	202
Prepaid expenses	2,034	-
	<u>20,154,095</u>	<u>16,756,223</u>
Liabilities		
Distributions payable	133,762	138,141
Accounts payable and accrued liabilities	85,000	99,289
Payable on securities purchased	-	28,576
Management fees payable	14,066	22,981
	<u>232,828</u>	<u>288,987</u>
Net assets and unitholders' equity	<u>19,921,267</u>	<u>16,467,236</u>
Units outstanding (note 5)	<u>2,467,936</u>	<u>2,538,336</u>
Net assets per unit	<u>8.07</u>	<u>6.49</u>
Unitholders' equity		
Unit capital (note 5)	14,936,535	16,195,744
Contributed surplus	367,516	459,328
Surplus (deficit)	4,617,216	(187,836)
Unitholders' equity - end of period	<u>19,921,267</u>	<u>16,467,236</u>

Approved on behalf of the Manager,
Connor, Clark & Lunn Capital Markets Inc.



Director



Director

Connor, Clark & Lunn Conservative Income Fund II

Statements of Operations (Unaudited)

For the six month period ended September 30, 2009 and 2008

	2009	2008
	\$	\$
Income		
Interest income	87	34
Expenses		
Management fees (note 9)	72,308	121,211
Forward fees (note 7)	45,729	77,974
Service fees (note 10)	35,602	60,152
Audit Fees	11,236	11,236
Administration fees	10,822	10,268
Custodial and other unitholder fees	10,424	11,490
Transfer agent fees	7,789	6,678
Advisory fees	5,314	5,250
Sustaining fees	5,212	5,212
Legal fees	4,862	4,862
Filing fees	4,108	7,412
Other	3,524	1,805
Printing and mailing fees	1,504	1,504
Interest expense	307	5,539
	218,741	330,593
Investment income (loss)	(218,654)	(330,559)
Unrealized gain (loss) on investments		
Change in unrealized gain (loss) on investments	9,929,992	(2,672,050)
Change in unrealized gain (loss) on forward agreement (note 7)	(4,862,329)	911,418
Change in unrealized gain (loss) on foreign exchange	-	(228)
	5,067,663	(1,760,860)
Realized gain (loss) on investments		
Net realized gain (loss) on investments	(43,957)	201,812
Net gain (loss) on investments	5,023,706	(1,559,048)
Increase (decrease) in net assets from operations	4,805,052	(1,889,607)
Increase (decrease) in net assets from operations per unit *	1.92	(0.57)
Distributions per unit	0.33	0.33

* (based on average number of units outstanding during the period)

Connor, Clark & Lunn Conservative Income Fund II

Statements of Changes in Net Assets, Surplus and Contributed Surplus (Unaudited)

For the six month period ended September 30, 2009 and 2008

	2009	2008
	\$	\$
Increase (decrease) in net assets from operations	<u>4,805,052</u>	<u>(1,889,607)</u>
Distributions to unitholders from: (note 8)		
Return of capital	<u>(810,025)</u>	<u>(1,080,322)</u>
Unitholders' transactions		
Payments on redemption and cancellation of units (note 5 and 6)	<u>(540,996)</u>	<u>(135,224)</u>
Change in net assets during the period	<u>3,454,031</u>	<u>(3,105,153)</u>
Net assets - Beginning of period	<u>16,467,236</u>	<u>31,042,722</u>
Net assets - End of period	<u>19,921,267</u>	<u>27,937,569</u>
Surplus, beginning of period	(187,836)	7,165,029
Increase (decrease) in net assets from operations	4,805,052	(1,889,607)
Cost of shares repurchased in excess of par value price	<u>-</u>	<u>(23,426)</u>
Surplus, end of period	<u>4,617,216</u>	<u>5,251,996</u>
Contributed surplus (deficit), beginning of period	459,328	-
Cost of shares repurchased at less than (in excess of) par value price	<u>(91,812)</u>	<u>-</u>
Contributed surplus (deficit), end of period	<u>367,516</u>	<u>-</u>

Connor, Clark & Lunn Conservative Income Fund II

Statements of Cash Flow (Unaudited)

For the six month period ended September 30, 2009 and 2008

	2009	2008
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	4,805,052	(1,889,607)
Items not affecting cash:		
Change in unrealized (gain) loss on investments	(9,929,992)	2,672,050
Change in unrealized (gain) loss on forward agreement (note 7)	4,862,329	(911,418)
Net realized (gain) loss on investments	43,957	(201,812)
Changes in non-cash working capital:		
(Increase) decrease in prepaid expenses	(2,034)	5,212
(Increase) decrease in interest and dividends receivable	202	-
Increase (decrease) in accounts payable and accrued liabilities	(14,289)	(4,850)
Increase (decrease) in management fees payable	(8,915)	38,921
Purchase of investment portfolio	(2,958,454)	(7,937,368)
Proceeds on disposition of investment portfolio	4,628,463	9,412,420
Net cash flow provided by (used in) operating activities	<u>1,426,319</u>	<u>1,183,548</u>
Financing Activities		
Payments on redemption and cancellation of units (note 5 and 6)	(569,572)	(135,224)
Distributions to unitholders	(814,404)	(1,080,897)
Net cash flow provided by (used in) financing activities	<u>(1,383,976)</u>	<u>(1,216,121)</u>
Net increase (decrease) in cash	42,343	(32,573)
Cash - beginning of period	<u>32,300</u>	<u>36,591</u>
Cash - end of period	<u>74,643</u>	<u>4,018</u>
Supplementary Information		
Interest paid	307	1,504

Connor, Clark & Lunn Conservative Income Fund II

Statement of Investment Portfolio (Unaudited)

As at September 30, 2009

	Number of shares / par value \$	Average cost \$	Market value \$	% of Net Assets
Investments				
Canadian common stocks (pledged to the Counterparty under the Forward Agreement)				
Materials				
FNX Mining Company Inc.	393,867	4,578,420	3,678,717	18.5%
Pan American Silver Corp.	66,213	2,185,029	1,611,624	8.1%
Sino-Forest Corporation - Class A	108,971	2,108,589	1,842,700	9.2%
Teck Cominco Ltd.	156,532	2,958,455	4,617,694	23.3%
		<u>11,830,493</u>	<u>11,750,735</u>	<u>59.1%</u>
Consumer Discretionary				
Gildan Activewear Class A	81,408	865,954	1,719,337	8.6%
Rona Inc.	67,948	785,963	1,019,220	5.1%
		<u>1,651,917</u>	<u>2,738,557</u>	<u>13.7%</u>
Consumer Staples				
Viterra Inc	57,433	677,709	612,810	3.1%
Information Technology				
CGI Group Class A	40,224	316,965	504,409	2.5%
Celestica Inc.	198,589	2,500,776	2,011,707	10.1%
Research In Motion	13,270	526,352	960,483	4.8%
		<u>3,344,093</u>	<u>3,476,599</u>	<u>17.4%</u>
Total investments		<u>17,504,212</u>	<u>18,578,701</u>	<u>93.3%</u>
Unrealized gain on forward agreement			<u>1,498,717</u>	<u>7.5%</u>
Other liabilities net of other assets			<u>(156,151)</u>	<u>-0.8%</u>
Net assets			<u>19,921,267</u>	<u>100.0%</u>

(See accompanying notes to financial statements)

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2009

1 Corporate activities

Connor, Clark & Lunn Conservative Income Fund II (the "Fund") was established under the laws of Ontario as of September 29, 2005 by a Trust Agreement (the "Trust Agreement") made by Connor, Clark & Lunn Capital Markets Inc. (the "Manager") and RBC Dexia Investor Services Trust ("RBC Dexia") (formerly "The Royal Trust Company") as trustee of Fund. The Fund is a mutual fund whose investment portfolio (the "Common Share Portfolio") consists of common shares of Canadian public companies that are Canadian securities for the purpose of the Income Tax Act (Canada) (the "Tax Act"). The Fund commenced operations on October 18, 2005 and will be terminated on or about October 19, 2015 (the "Termination Date") if not terminated earlier in accordance with its terms.

2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated September 29, 2005 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.

In order to achieve the Fund's investment objectives, the Fund obtained exposure to the performance of the Portfolio held by Conservative Income Fund II (the "CIF II") by virtue of a forward purchase and sale agreements (the "Forward Agreement") with Bank of Montreal (the "Counterparty"). The Fund does not invest in CIF 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 a result, Unitholders' returns correlate with the net returns realized by CIF II on its investment in the Portfolio. Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager") is the Investment Manager of CIF II.

3 Summary of significant accounting policies

Basis of presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of the significant accounting policies of the Fund.

Future accounting changes

International Financial Reporting Standards ("IFRS"): The Canadian Accounting Standards Board ("AcSB") confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. IFRS will apply to fiscal years beginning on or after January 1, 2011. As of September 30, 2009 the Manager has not developed a changeover plan to IFRS nor has it assessed the full impact of the move to IFRS on business arrangements, GAAP net assets per unit and accounting policies. Manager will develop a plan prior to the January 1, 2011 deadline and will disclose this plan in the Fund's March 31, 2010 or 2011 annual reports.

CICA Section 3862, "Financial Instruments – Disclosures": In March 2009, the Canadian AcSB announced it has agreed to adopt recent amendments to IFRS 7, "Financial Instruments: Disclosures", into Section 3862, "Financial Instruments – Disclosures". The final amended version to IFRS 7 will also be subsequently incorporated into Canadian GAAP. The amendments to Section 3862 will apply to annual financial statements for years ending after September 30, 2009. The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs.

Adoption of New Accounting Standards

EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities": On January 20, 2009, the CICA Emerging Issues Committee issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The abstract requires the entity's own credit risk and the risk of the counterparty should be taken into consideration in assessing the fair value of financial assets and financial liabilities. This abstract is effective for the September 30, 2009 semi-annual report, and it was considered when valuing the financial instruments in this semi-annual report.

Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA Section 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded. Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Managers on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred.

On April 1, 2007, the Fund adopted Section 3855 on a prospective basis for financial reporting purposes ("GAAP Net Assets"). Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for the security. Until March 31, 2007, fair value for GAAP was based on the last traded price for the day, when available. In addition, Section 3855 requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund be charged to net income in the period. Until March 31, 2007, the Fund's policy has been to add these expenses to the cost of the securities purchased or deduct from the proceeds of sale.

On September 8, 2008, the Canadian Securities Administration issued the amended National Instrument 81-106 ("NI 81-106"). Section 14.2 of this amended NI 81-106 requires an investment fund to calculate its daily Net Asset Value for the purchase and redemption of units ("Transactional NAV") based on the last traded price for the day.

The reconciliation between the Transactional NAV and the GAAP Net Assets as a result of the adoption of Section 3855 is as follows:

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2009

	<u>Transactional NAV</u>	<u>GAAP Net Assets</u>
Unit pricing		
March 31, 2009	6.51	6.49
September 30, 2009	8.10	8.07

Cash

Cash is deemed to be held for trading and therefore is carried at fair value.

Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized at the time a security trades on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash) are attributable to investments and derivatives which are deemed held for trading.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the year. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

Forward contract

Forward contracts entered into by the Fund are valued at an amount that is equal to the gain or loss that would be realized if the position were to be closed out, which is equivalent to the difference between the deliverable asset and the value of the asset to be received. Changes in the value of a forward contract or the assets deliverable under such a contract are included as unrealized gains or losses on investments.

4 Custodian

Pursuant to the Trust Agreement RBC Dexia ("the Custodian") acts as custodian of the assets of the Fund. The Custodian is also responsible for certain aspects of the Fund's day-to-day operations, including calculating the Net Asset Value ("NAV"), net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. In consideration for these services, the Fund pays a fee to the Custodian.

5 Unitholders' equity

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, subject to the terms and conditions of the Trust Agreement.

On October 18, 2005 and November 8, 2005, the Fund issued 6,400,000 and 250,000 units respectively, for net proceeds of \$60,220,000 and 2,375,000 respectively. Changes in outstanding units during the year ended March 31, 2008 and the six-month period ended September 30, 2008 are summarized as follows:

	Number of units	
	September 30, 2009	March 31, 2009
Opening balance	2,538,336	3,331,824
Units issued	—	—
Units redeemed	—	(643,088)
Units cancelled (note 7)	<u>(70,400)</u>	<u>(150,400)</u>
Ending balance	<u>2,467,936</u>	<u>2,538,336</u>

6 Market Purchase Program

To enhance liquidity and to provide market support for the Units, the Fund has a mandatory market purchase program under which the Fund, subject to certain exceptions contained in the Trust Agreement and in compliance with any applicable regulatory requirements, is 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 is 1.25% of the number of Units outstanding at the beginning of the period (commencing with the three month period that begins on the first day of the month following October 18, 2005 (commencement of operations)). The

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2009

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.

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. Such purchases, if made, are 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.

During the six-month period ended September 30, 2009, the Fund purchased 70,400 units for cancellation at a cost of \$540,996 during (during the six-month period ended September 30, 2008, 15,600 units were bought for cancellation at a cost of \$135,224).

7 Forward Agreement and Common Share Portfolio

The Fund entered into a Forward Agreement with the Counterparty to obtain exposure to the performance of the Portfolio held by CIF II. 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 the CIF II. The Common Share Portfolio securities are pledged to, and held by, the Counterparty as security for the obligations of the Fund under the Forward Agreement.

On September 30, 2009, the value of the common share portfolio was \$18,578,701. Since the Fund can deliver the value of the common share portfolio to the Counterparty in exchange for the value of the CIF II, the value of the Forward Agreement to the Fund is equal to the value of the CIF II less the value of the common share portfolio. On September 30, 2009 value of the Forward Agreement was \$1,498,717. Other liabilities net of other assets in the Fund totalled \$156,151 leaving net assets of \$19,921,267 or \$8.07 per Unit

The Fund pays to the Counterparty a fee under the Forward Agreement of approximately 0.50% per annum of the net asset value of CIF II calculated and payable quarterly in arrears.

8 Distributions

The Fund pays monthly cash distributions plus any additional amounts as directed by the Manager. Such distributions may consist of net income, net realized capital gains and return of capital and shall be paid no later than 10 days after the record date for Distribution.

The amount of distributions in any particular month shall be determined by the Manager, having regard to the investment objectives of the Fund, the net realized capital gains and net income of the Fund, if any, during the month and the year to date, the net realized capital gains and net income of the Fund anticipated in the balance of the year, and distributions made in previous months; provided, however, that the aggregate distributions of net income and net realized capital gains made in each year shall be such amount as is sufficient to ensure that the Fund is not liable for income tax thereon under the 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.

Distributions paid during the six-month period ended September 30, 2009 were \$810,025 or \$0.3252 per Unit and were entirely return of capital (distributions paid during the six-month period ended September 30, 2008 were \$1,080,322 or \$0.3252 per Unit and were entirely return of capital).

9 Management fees

Pursuant to a management agreement (the "Management Agreement") the Fund has retained Connor, Clark & Lunn Capital Markets Inc. (the "Manager") to act as manager. 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% per annum of the NAV of the Fund, to be calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the six-month period ended September 30, 2009 were \$72,308 (\$121,211 during the six-month period ended September 30, 2008). The Manager is responsible for payment of the investment management fees of the Investment Manager out of the above management fees.

10 Service Fee

The Fund pays to registered dealers a servicing 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 during the six-month period ended September 30, 2009 were \$35,602 (\$60,152 during the six-month period ended September 30, 2008).

11 Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to tax on its investment income, including net realized capital gains, for any calendar year in which its net investment income or sufficient net realized capital gains are not paid or payable to its unitholders as at the end of the calendar year. 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. As a result thereof, and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statements.

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2009

12 Broker commission charges and soft dollar services

There were \$nil broker commissions paid during the six-month period ended September 30, 2009 in connection with portfolio transactions (\$nil during the six-month period ended September 30, 2008). No contractual arrangements for soft dollar services exist in the broker commission charges.

13 Financial instruments

The Fund obtained exposure to the performance of the portfolio held by the CIF II through the Forward Agreement and therefore the categorization in accordance with Section 3862 is best presented by consolidating the assets and liabilities of both; the Fund and the CIF II.

<u>Assets</u>	\$
Held for trading	20,152,061
Loans and receivables	2,034
Total assets	20,154,095
<u>Liabilities</u>	
Held for trading	–
Financial liabilities at amortized cost	232,828
Total liabilities	232,828

For the purposes of categorization in accordance with Section 3862, prepaid expenses are deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, distributions payable, management fees payable, and accounts payable and accrued liabilities are deemed to be financial liabilities and reported at amortized cost.

14 Financial instrument risk

The Fund obtained exposure to the performance of the portfolio held by the CIF II through the Forward Agreement and therefore the risks associated with an investment in the Fund's units are best defined by describing the financial risks associated with an investment in the CIF II's portfolio.

The Investment Manager invests in derivatives for the purpose of hedging interest rate exposure; such exposure has involved the use of short United States and Canadian 10-year Bond Futures and has been limited to less than 10% of the portfolio. The Investment Manager also invests in foreign currency forward contracts to hedge the CIF II's foreign exchange risk exposure.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and fixed income derivatives. The Fund is exposed to the risk that the value of interest-sensitive financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	130,652	603,133	931,154	2,247,864	13,788,472	19,701,275
Cash	99,792	–	–	–	202,120	301,912
Other assets	–	–	–	–	272,965	272,965
Liabilities	–	–	–	–	(354,885)	(354,885)
Net assets						19,921,267

As at March 31, 2009, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$305,000. In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional currency. The Fund is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. The Statement of Investments identifies all bonds denominated in foreign currencies. Bonds from other countries are presumed to be denominated in that country's currency unless otherwise noted.

The table below summarizes the Fund's exposure to foreign currencies as at September 30, 2009. Amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as futures and forward contracts. Other financial assets such as interest and variation margin receivable and liabilities such as accounts payable and accrued liabilities denominated in foreign currencies do not expose the Fund to significant currency risk. The table below summarized the Fund's exposure to foreign currencies and the approximate impact on net assets had the Canadian Dollar ("CAD") weakened by 5% in relation to these currencies. If the CAD were to strengthen relative to these currencies, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Connor, Clark & Lunn Conservative Income Fund II

Notes to Financial Statements (Unaudited)

September 30, 2009

	Monetary instruments \$	Non- monetary instruments \$	Derivative instruments \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	1,538,422	–	(1,567,454)	(29,032)	(1.0%)	(1,000)

Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Investment Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. Except for futures contracts, the maximum risk resulting from financial instruments is equivalent to their fair value. Possible losses from futures contracts can be unlimited. The Fund's equity instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

If equity prices had increased or decreased by 10% on March 31, 2009, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$1,379,000. In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

The Fund is exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at September 30, 2009.

The Fund is also exposed to the credit risk of the Forward agreement Counterparty (whose S&P senior debt credit rating as of September 30, 2009 was A+).

The table below summarizes the Fund's exposure to credit risk as of September 30, 2009. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

Rating ⁽¹⁾	September 30, 2009 (% of Net Assets)	Rating ⁽¹⁾	September 30, 2009 (% of Net Assets)
AAA	0.00%	BB+	1.20%
AA+	1.70%	BB	1.20%
A+	3.20%	B+	0.90%
A	4.60%	B	0.70%
A-	7.50%	B-	0.70%
BBB+	1.10%	A-1	0.50%
BBB	1.20%	Not Rated	2.10%
BBB-	3.20%		
		Total	29.80%

As at September 30, 2009, no debt securities were contractually past due and no longer meeting interest payment obligations.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

Liquidity risk

The Fund is exposed to daily cash redemptions due to its market purchase program which are limited to certain conditions (see note 6). The Fund is also exposed to unlimited annual anniversary redemptions on November 30 of every year. Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed. In addition, the Fund retains sufficient cash positions to maintain liquidity.