



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**Connor, Clark & Lunn  
Conservative Income &  
Growth Fund  
(formerly Connor, Clark &  
Lunn PRINTS Trust)**

Annual Report  
December 31, 2010

## Connor, Clark & Lunn Conservative Income & Growth Fund (formerly Connor, Clark & Lunn PRINTS Trust) Message to Unitholders

Dear Investor,

March 29, 2011

I am pleased to provide you with the annual report for the Connor, Clark & Lunn Conservative Income & Growth Fund.

This Fund is the continuing fund from the merger of the Connor Clark & Lunn PRINTS Trust and the Connor Clark & Lunn Conservative Income Fund II. The merger was approved by unitholders of the two funds and took place on June 14, 2010. The portfolio has subsequently been repositioned to reflect the new investment mandate. The investment objectives of the Fund are to provide unitholders with: (i) an attractive yield through receipt of monthly distributions initially targeted to yield approximately 6.0% per annum; (ii) downside protection through diversification across multiple asset classes and a conservative approach to security selection; and (iii) growth that outpaces inflation by investing in securities that provide both a high yield and capital appreciation potential. Subsequent to the fiscal year end the unitholders of the Fund and the unitholders of Connor, Clark & Lunn Conservative Income Fund approved a merger of the two funds. The merger was effective on January 31, 2011. The purpose of the mergers and the mandate change was to give the Fund a broader range of higher yielding securities given the changes to the tax rules governing income trusts and to lower administrative costs and increase trading liquidity.

Since repositioning, the Fund's net asset value delivered strong performance moving from \$23.22 per unit, prior to merger, to \$25.13 as of December 31, 2010 and paying \$0.76 in distributions for a total annual return of 12.07%.

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.

Income Trusts had an exceptional performance in their final year, driven strong demand for income in the market. Despite distribution cuts from many income trusts, the cuts were well-telegraphed and became essentially a non-event. As income trusts converted to Corporations, many performed strongly due to the attention from a greater proportion of investors including those with the TSX Equity-only Index as their benchmark.

Following a strong performance in the first three quarters of the year, REIT weighting was trimmed slightly towards the end of the year. REITs continue offer reasonable valuations, stable fundamentals and superior yields and are a cornerstone of the Connor, Clark & Lunn Conservative Income & Growth Fund.

The Fund continues to have a significant weighting in fixed income, although it was reduced in early December to reflect a change in the interest rate outlook from the team. While government yields have risen towards the end of 2010, the credit team of the Investment Manager continues to believe there remains room for spread compression in the corporate bond market.

We encourage you to check our website for quarterly investment updates and other timely information, and we thank you for your continued support.

Yours truly,



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

## Management Report of Fund Performance

This annual management report of fund performance for Connor, Clark & Lunn Conservative Income & Growth Fund (formerly Connor, Clark & Lunn PRINTS Trust) contains financial highlights but does not contain the complete annual financial statements of the Fund. The annual financial statements and accompanying notes are attached to annual report.

You can obtain a copy of the 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](http://www.cclcapitalmarkets.com) or by visiting [www.sedar.com](http://www.sedar.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" or "GAAP Net Assets" means that the value was determined in accordance with the Canadian Generally Accounting Principles "GAAP" for financial statements purposes. Also any reference to "Net Asset Value" or "Net Asset Value per Unit" or "Transactional NAV" 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

On June 14, 2010 (the "Merger Date"), Connor, Clark & Lunn PRINTS Trust (PRINTS Trust) merged with Connor, Clark & Lunn Conservative Income Fund II (Conservative II) with PRINTS Trust as the continuing fund (the "Merger"). The continuing Fund was renamed the Connor, Clark & Lunn Conservative Income & Growth Fund (the "Fund"). The objectives of the Merger were to: (i) lower the administrative costs and increase trading liquidity by establishing a larger fund; (ii) expand the investment mandate of Conservative II to include a broader range of high yielding securities as required due to the pending change in taxation of income trusts; and (iii) change the investment mandate of PRINTS Trust which should allow it to resume distributions, provide greater potential for capital growth and utilize its accumulated tax losses.

The investment objectives of the Fund are to provide unitholders with: (i) an attractive yield through receipt of monthly distributions initially targeted to yield approximately 6.0% of net asset value per annum; (ii) downside protection through diversification across multiple asset classes and a conservative approach to security selection; and (iii) growth that outpaces inflation by investing in securities that provide both a high yield and capital appreciation potential. On May 31, 2012, the Fund will convert to an open-ended mutual fund which will be able to distribute and redeem its units on a continuous basis.

The Fund retained Connor, Clark & Lunn Capital Markets Inc. (the "Manager") as a Manager of the Fund and Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager") as the Fund's investment manager.

### Risk

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

#### *Use of Derivatives*

The Fund has actively hedged foreign currency exposure, in particular the market value exposure associated with the positions in US dollar-denominated bonds.

#### *Change of Investment Mandate*

Prior to the Merger, the value of the Fund behaved like the value of a zero coupon bond maturing on December 2, 2013, and changed as the Canadian dollar swap rate to maturity changed. Following the Merger, the Fund mandate moved to what is explained in "Investment Objectives and Strategy" above. The risk profile of the Fund changed by moving from debt holdings to equity.

For a full analysis of risks, please see the PRINTS Trust prospectus dated November 29, 2001 or the Fund's most recent

annual information form. Both are available at [www.sedar.com](http://www.sedar.com) or [www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com).

## **Recent Developments**

### ***Future accounting changes***

The Canadian Accounting Standards Board (“AcSB”) previously confirmed that effective January 1, 2011, International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the AcSB issued an exposure draft “Adoption of IFRSs by Investment Companies”, proposing that investment companies currently applying Accounting Guideline 18 (“AcG 18”) “Investment Companies” issued by the Canadian Institute of Chartered Accountants (“CICA”), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the AcSB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

At its January 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises. The decision is in response to the International Accounting Standards Board's announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012, which is the current date of mandatory adoption of IFRS for these entities. As a result, the Fund will delay implementation of IFRS until January 1, 2013.

The Fund's Manager has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

## **Results of Operations**

### ***Portfolio Manager Commentary (January 2011)***

Markets performed strongly in the second half of 2010 as another round of quantitative easing from the US Fed and improvement in economic data has spurred a significant recovery in confidence with respect to the economic outlook. With the storm clouds lifting, government bonds felt pressure towards the end of the year sending yields somewhat higher from historically low levels. To reflect this change in the macro environment, steps were taken during the period to reduce the Fund's weighting in more interest sensitive bonds and real estate segments and increase weighting in dividend paying equities.

### **Income Trusts**

Income Trusts had an exceptional performance in their final year, driven by strong demand for income in the market. Despite distribution cuts from many income trusts, the cuts were well-telegraphed and became essentially a non-event. As income trusts converted to Corporations, many performed strongly due to the attention from a greater proportion of investors including those with the TSX Equity-only Index as their benchmark. Most income trusts converted around the end of 2010, with a few remaining in the form of stapled unit structures.

### ***Recent New Additions***

Wajax Income Fund (WJX): Heavy equipment markets bottomed early this year and we are now seeing a very gradual upswing. There are pockets of early strength such as oil sands and mining projects which we think will continue to show strength over a longer period. Wajax is also getting the benefit of the inventory restocking cycle and then sustainable underlying improved demand in the industrial distribution segment. We think that the industrial distribution segment is misunderstood by the market. Earnings growth will be higher than consensus as the underlying strength of the industrial distribution pushed numbers higher. Stock is attractively valued, trading at a slight discount to the group. We believe that there is further accretion potential from additional tuck under acquisitions in the industrial distribution segment. The company's 8.6% yield is sustainable and management remain conservative stewards of capital.

## **Dividend Paying Equities**

We expect dividend growth stocks to outperform higher yielding groups such as former income trusts and REITs in 2011 and expect to continue to shift in this direction in the near future.

### *Recent New Additions*

Great West Lifeco Inc. (GWO): The market characterizes Great-West as steady and boring, but as we have seen in the recent past this can be a very good thing when it comes to insurance companies. Great-West is trading well below historical valuations, has an ROE substantially above the sector and has a very attractive 4.8% dividend yield.

## **REITs**

Following a strong performance in the first three quarters of the year, REIT weighting was trimmed slightly towards the end of the year. REITs continue offer reasonable valuations, stable fundamentals and superior yields and are a cornerstone of the Fund.

We are increasingly positive on the outlook for retail real estate in Canada based on solid fundamentals and increasingly strong interest for space from US retailers such as Lowe's, Marshalls, Dollar Tree, Kohls and Target. Target's acquisition of hundreds of Zellers locations in early 2011 confirms this trend and improves the quality and competitiveness of one of the largest tenants in Canada. The Fund owns Calloway REIT, First Capital and Crombie REITs in the sector.

### *Recent New Additions*

Calloway REIT: commonly known as the Wal-Mart REIT has a solid base of relatively new shopping power centres. In a market where acquisitions are difficult to source, the company continues to benefit from its relationship with Smart Centres, the primary developer of Wal-Mart anchored shopping centres. At purchase, the REIT traded at a discount to the group and had a solid 6.4% yield.

## **Bonds**

The Fund continues to have a significant weighting in fixed income, although it was reduced in early December to reflect a change in the interest rate outlook from the team. While government yields have risen towards the end of 2010, the credit team continues to believe there remains room for spread compression in the corporate bond market.

### *Recent New Additions*

Kimco is North America's largest owner, operator and manager of neighbourhood and community shopping centres. With its \$1.1 billion in equity issuance in 2009, it substantially improved its balance sheet, and expects to continue to deliver over the next two years.

## **Merger**

Results of operations do not include the results of the terminated fund prior to the merger.

## **Distributions**

The current targeted annual distributions are \$1.39 per unit to yield 6.0% based on the NAV per unit as of the Merger Date.

The Fund did not make any distributions during the period from January 1, 2010 to June 13, 2010 (the date prior to the merger date). Following the merger date on June 14, 2010 to December 31, 2010, the Fund has made all its scheduled distributions paying regular monthly distributions totalling \$0.7585 per unit (\$nil per unit during the year ended December 31, 2009).

## **Recommendations or Reports by the Independent Review Committee ("IRC")**

The IRC reviewed the merger proposal and recommended the proposal be put to unitholders. The IRC did not table any other special reports or make any other material recommendations to management of the Fund during the year ended December 31, 2010.

## Related Party Transactions

### Management Fees

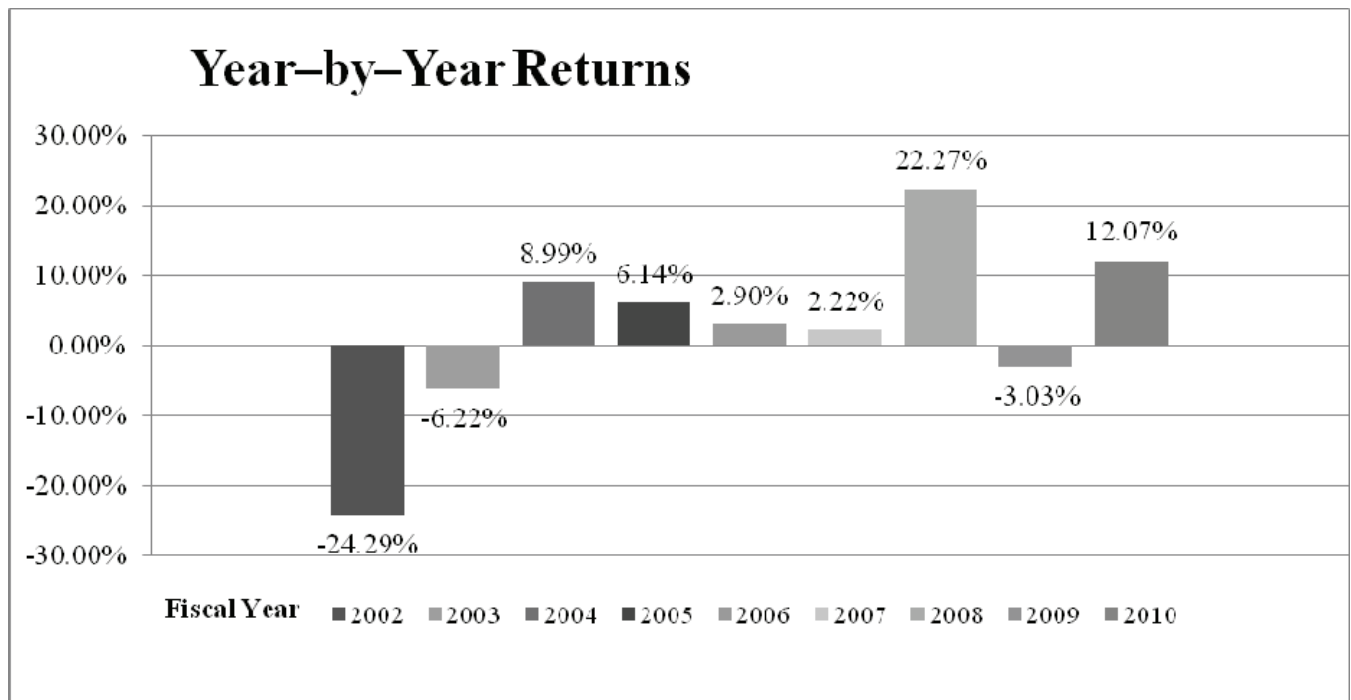
The Manager is entitled to a fee payable from the Fund at an annual rate equal to 1.10% of the net asset value of the Fund and calculated and payable monthly, plus applicable taxes.

The total management fees charged to the Fund during the year ended December 31, 2010 were \$108,443 (\$47,253 during the year ended December 31, 2009).

The Manager pays the Investment Manager out of the above management fees.

### Past Performance

The following bar chart and table indicate the performance of the Fund's units by showing both annual returns by fiscal year and annualized compound returns from inception assuming all the distributions made by the Fund in the year shown were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance is not necessarily indicative of future performance.



## Annual Compound Returns

	Past Year	Three Years	Five Years	Since Inception
Based on NAV	12.07%	9.93%	7.95%	1.88%
Based on share price	8.19%	9.45%	7.33%	0.62%
S&P/TSX Income Trust Index <sup>(1)</sup>	26.69%	10.01 %	6.64%	15.62 %

The benchmark is the S&P/TSX Income Trust Index. This benchmark was chosen because income trusts and REITs have comprised a significant portion of the Fund's portfolio since the change in the Fund's mandate took place upon completion of the merger. As such, the benchmark is relevant from June 14, 2010 onward. The Fund's portfolio also invests in corporate bonds and dividend paying equities which are not represented in the benchmark and the benchmark includes sectors, such as oil and gas royalty trusts that the Fund does not invest in. As a result, the performance of the Fund may differ considerably from the performance of the benchmark.

The Fund's mandate is similar to an existing CC&L mandate, the Connor, Clark & Lunn High Income Composite, which consists of a single fund, the Connor, Clark and Lunn High Income Fund. The performance of this mandate is outlined below.

	NAV Performance					Since Inception
	3 month	6 month	1 year	3 year	5 year	
Connor, Clark & Lunn High Income Composite	5.2%	16.4%	19.6%	7.4%	7.4%	13.6%

- <sup>(1)</sup> Returns presented are net of trading and administration costs but are gross of management expenses. Returns for periods greater than one year are annualized. Inception is March 2001.
- <sup>(2)</sup> While the Fund is managed on substantially the same basis as the Connor, Clark & Lunn High Income Composite, there are differences in the investment objectives and strategy, including the use of leverage, that will result in different performance.
- <sup>(3)</sup> The performance data quoted above represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data quoted.
- <sup>(4)</sup> The Federal Government's October 31, 2006 Tax Fairness Plan signaled the winding down of the income trust market by January 1, 2011. CC&L determined that income trusts would convert to equities over that period and would be valued in similar fashion to equities. Therefore, to account for the income trust conversions and open a broader set of investment opportunities, CC&L began to include equities in Connor, Clark & Lunn High Income Fund as of December 31, 2006.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to assist in understanding the Fund's financial performance since inception. This information is derived from the Fund's past five year audited annual financial statements:

The Fund's Net Assets per unit: <sup>(1)</sup>	2010	2009	2008	2007	2006
<b>Net Assets, beginning of period<sup>(4)</sup></b>	<b>23.13</b>	<b>23.85</b>	<b>19.51</b>	<b>19.08</b>	<b>21.55</b>
<b>Increase (decrease) from operations:</b>					
Total revenues	1.1	0.01	0.04	0.08	0.04
Total expenses	(0.65)	(0.42)	(0.32)	(0.30)	(0.65)
Realized gains (losses) for the period	3.82	1.13	2.28	0.47	0.93
Unrealized gains (losses) for the period	(0.72)	(1.49)	2.31	0.15	(0.26)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>3.55</b>	<b>(0.77)</b>	<b>4.31</b>	<b>0.40</b>	<b>0.06</b>
<b>Distributions:</b>					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	(0.76)	—	—	—	—
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>(0.76)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Assets, end of period <sup>(4)</sup></b>	<b>25.08</b>	<b>23.13</b>	<b>23.85</b>	<b>19.51</b>	<b>22.62</b>

<sup>(1)</sup> This information is derived from the Fund's annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value per unit calculated for fund pricing purposes. The difference between the net asset value per unit and the net assets per unit as shown on the Statement of Net Assets is due to the different pricing methodology discussed in note 3 to the financial statements.

<sup>(2)</sup> Net asset and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on weighted average number of units of 575,215 units outstanding as of December 31, 2010 (2009 – 383,155).

<sup>(3)</sup> Distributions were paid in cash.

<sup>(4)</sup> This is not reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:	2010	2009	2008	2007	2006
Net asset value (000's)	19,357	7,810	9,620	10,904	15,383
Number of units outstanding	770,308	337,643	403,263	558,888	679,968
Base management expense ratio <sup>(1)(2)</sup>	2.52%	1.79%	1.49%	1.60%	3.53%
Management expense ratio <sup>(2)</sup>	2.73%	1.79%	1.49%	1.60%	3.53%
Management expense ratio before waivers or absorptions <sup>(2)</sup>	2.73%	1.79%	1.49%	1.60%	3.53%
Portfolio turnover rate <sup>(3)</sup>	147.19%	26.22%	57.54%	8.51%	25.05%
Trading expense ratio <sup>(4)</sup>	0.20%	0.00%	0.00%	0.00%	0.00%
Net asset value per unit	25.13	23.13	23.85	19.51	22.62
Closing market price	23.80	22.73	21.60	18.75	18.53

<sup>(1)</sup> A separate base management expense ratio has been presented to include the normal ongoing operating expenses and excluding the Broker commission charges.

<sup>(2)</sup> Management expense ratio is based on the total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. The base management expense ratio is based on all the ongoing excluding Broker commission charges.

<sup>(3)</sup> 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.

<sup>(4)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Summary of Investment Portfolio as of December 31, 2010

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at [www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com) and at [www.sedar.com](http://www.sedar.com).

	Fair Value \$	% of NAV
<b>Portfolio by Category</b>		
Financials	7,925,806	40.9%
Corporate Bonds	3,922,420	20.2%
Consumer Discretionary	1,787,345	9.3%
Energy	1,744,251	9.0%
Utilities	1,480,999	7.7%
Industrials	986,742	5.1%
Telecommunication Services	601,175	3.1%
Health Care	407,479	2.1%
Cash & Cash Equivalents	377,369	1.8%
Materials	322,800	1.7%
Foreign currency forward contracts	24,318	0.1%
Other liabilities net of other assets	(198,944)	-1.0%
<b>Top 25 Holdings</b>		
Toronto-Dominion Bank	1,032,075	5.3%
Royal Bank of Canada	837,120	4.2%
Chartwell Seniors Housing Real Estate Investment Trust	615,954	3.2%
Telus Corp. Non-voting	601,175	3.1%
Canadian Apartment Properties Real Estate Investment Trust	579,332	3.0%
Fort Chicago Energy Partners L.P.	569,052	2.9%
Enbridge Inc.	540,192	2.8%
Canadian Imperial Bank of Commerce	532,644	2.8%
Algonquin Power & Utilities Co	530,614	2.7%
Brookfield Infrastructure Partners LP	517,824	2.7%
Thomson Reuters Corporation	487,844	2.5%
Corus Entertainment Inc.	482,870	2.5%
Killam Properties Inc.	473,385	2.4%
Bank of Nova Scotia	468,220	2.4%
Mullen Group Ltd.	426,132	2.2%
TMX Group Inc.	421,566	2.2%
CML Healthcare Income Fund	407,479	2.1%
Transglob Apartment Real Estate Investment Trust	393,120	2.0%
Cineplex Galaxy Income Fund	380,970	2.0%
Cash & Cash Equivalents	377,369	1.8%
IBI Income Fund Unit Trust	368,823	1.9%
IGM Financial Inc.	338,988	1.8%
Labrador Iron Ore Royalty Inc.	322,800	1.7%
Genivar Income Fund	319,515	1.7%
Great West Lifeco	314,160	1.6%
<b>Net asset value (NAV)</b>	<b>19,357,442</b>	

## Management's Responsibility for Financial Reporting

The accompanying financial statements of **Connor, Clark & Lunn Conservative Income & Growth Fund** (formerly Connor, Clark & Lunn PRINTS Trust) (the "Fund") and all of the information have been prepared by Connor, Clark & Lunn Capital Markets Inc. in its capacity as Manager of the Fund and have been approved by the Board of Directors of the Manager. The Fund's Manager is responsible for all of the information and representations contained in these financial statements and other sections of the Annual Report.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. The Manager has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the unitholders. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements.



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



Michael W. Freund  
Chief Financial Officer  
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada

**March 29, 2011**

March 29, 2011

## Independent Auditor's Report

To the Unitholders of  
**Connor, Clark & Lunn Conservative Income and Growth Fund**  
(formerly Connor, Clark & Lunn PRINTS Trust)

We have audited the accompanying financial statements of Connor, Clark & Lunn Conservative Income and Growth Fund (the Fund), which comprise the statement of investment portfolio as at December 31, 2010, the statements of net assets as at December 31, 2010 and 2009 and the statements of operations, changes in net assets, deficit and contributed surplus for the years then ended, and the related notes including a summary of significant accounting policies.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2010 and 2009 and the results of its operations and the changes in its net assets, deficit and contributed surplus for the years then ended in accordance with Canadian generally accepted accounting principles.

*Price Waterhouse Coopers LLP*

**Chartered Accountants, Licensed Public Accountants**

**Connor, Clark & Lunn Conservative Income & Growth Fund  
(formerly Connor, Clark & Lunn PRINTS Trust)**

Statements of Net Assets

As at December 31, 2010 and 2009

	2010	2009
	\$	\$
<b>Assets</b>		
Cash	128,094	200,059
Short-term investments	249,275	299,778
Investments at fair value (average cost - \$17,798,266; 2009 - \$5,839,663)	19,140,038	6,178,411
Distributions, interest and dividends receivable	137,827	58
Unrealized gain on forward currency contracts	24,344	-
Prepaid expenses and other receivables	4,975	-
Unrealized gain on forward agreement (note 1)	-	1,445,115
	<u>19,684,553</u>	<u>8,123,421</u>
<b>Liabilities</b>		
Payable for investment purchases	160,000	-
Accounts payable and accrued liabilities	98,171	62,484
Distributions payable	89,433	-
Management fees payable	14,246	251,031
Variation margin payable	4,214	-
Unrealized loss on forward currency contracts	26	-
	<u>366,090</u>	<u>313,515</u>
<b>Net Assets and Unitholders' Equity</b>	<u>19,318,463</u>	<u>7,809,906</u>
<b>Units outstanding</b> (note 4)	<u>770,308</u>	<u>337,643</u>
<b>Net assets per unit</b> (note 3)	<u>25.08</u>	<u>23.13</u>
<b>Unitholders' Equity</b>		
Unit Capital	17,718,332	8,370,584
Contributed surplus	28,728,713	28,611,168
Deficit	<u>(27,128,582)</u>	<u>(29,171,846)</u>
<b>Unitholders' Equity</b>	<u>19,318,463</u>	<u>7,809,906</u>

Approved by the Manager  
Connor, Clark & Lunn Capital Markets Inc.



Director



Director

**Connor, Clark & Lunn Conservative Income & Growth Fund**  
**(formerly Connor, Clark & Lunn PRINTS Trust)**

Statements of Operations

For the years ended December 31, 2010 and 2009

	2010	2009
	\$	\$
<b>Income</b>		
Dividends	251,696	-
Distributions received from income trusts	214,380	-
Interest income	165,072	3,420
Other income	-	1,510
	<u>631,148</u>	<u>4,930</u>
<b>Expenses</b>		
Management fees (note 7)	108,443	47,253
Custodial and other unitholder fees	87,997	54,952
Service fees (note 6)	47,032	-
Board of advisors fees	29,908	21,000
Transaction costs	27,956	-
Administration fees	26,983	17,500
Audit fees	23,837	15,002
Legal fees	21,208	2,712
Other fees	1,054	914
Independent Review Committee fees	812	1,893
Interest expenses	128	-
	<u>375,358</u>	<u>161,226</u>
<b>Net Investment income (loss) for the year</b>	<u>255,790</u>	<u>(156,296)</u>
<b>Realized gains (losses)</b>		
Net realized gain (loss) on investments	2,126,057	433,555
Net realized gain (loss) on foreign exchange	(13,834)	-
Net realized gain (loss) on future contracts	(4,214)	-
Net realized gain (loss) on foreign exchange contracts	83,544	-
Other gains (losses)	7,882	-
	<u>2,199,435</u>	<u>433,555</u>
<b>Unrealized gains (losses)</b>		
Change in unrealized gain (loss) on investments	1,003,024	2,575,735
Change in unrealized gain (loss) on foreign exchange	5,812	(17,603)
Change in unrealized gain (loss) on foreign exchange contracts	24,318	-
Change in unrealized gain (loss) on forward agreement	(1,445,115)	(3,127,712)
	<u>(411,961)</u>	<u>(569,580)</u>
<b>Net gain (loss) on investments</b>	<u>1,787,474</u>	<u>(136,025)</u>
<b>Increase (decrease) in net assets from operations</b>	<u>2,043,264</u>	<u>(292,321)</u>
<b>Increase (decrease) in net assets from operations per unit*</b>	<u>3.55</u>	<u>(0.77)</u>

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

**Connor, Clark & Lunn Conservative Income & Growth Fund**  
**(formerly Connor, Clark & Lunn PRINTS Trust)**

Statements of Changes in Net Assets, Deficit and Contributed Surplus  
**For the years ended December 31, 2010 and 2009**

	2010	2009
	\$	\$
<b>Increase (decrease) in net assets from operations</b>	<u>2,043,264</u>	<u>(292,321)</u>
<b>Distributions to unitholders from:</b>		
Return on capital	<u>(584,279)</u>	<u>-</u>
Unitholders' transactions:		
Proceeds from issue of units (note 4)	11,767,073	-
Payments on redemption of units (note 4)	<u>(1,717,501)</u>	<u>(1,517,400)</u>
	<u>10,049,572</u>	<u>(1,517,400)</u>
<b>Change in net assets during the period</b>	11,508,557	(1,809,721)
<b>Net assets - Beginning of year</b>	<u>7,809,906</u>	<u>9,619,627</u>
<b>Net assets - End of year</b>	<u>19,318,463</u>	<u>7,809,906</u>
<b>Deficit, beginning of year</b>	(29,171,846)	(28,879,525)
Increase (decrease) in net assets from operations	<u>2,043,264</u>	<u>(292,321)</u>
<b>Deficit, end of year</b>	<u>(27,128,582)</u>	<u>(29,171,846)</u>
<b>Contributed surplus, beginning of year</b>	28,611,168	28,501,767
Cost of shares redeemed at less than (in excess of) average price per unit	<u>117,545</u>	<u>109,401</u>
<b>Contributed surplus, end of year</b>	<u>28,728,713</u>	<u>28,611,168</u>

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

**(formerly Connor, Clark & Lunn PRINTS Trust)**

Statement of Investment Portfolio

As at December 31, 2010

	Coupon %	Maturity date	Par Value / Quantity	Average cost \$	Fair value \$	% of Net Assets
<b>Short-term investments</b>						
<b>Bankers Acceptance</b>						
Bank of Nova Scotia	1.68%	02/28/11	100,000	99,730	99,730	0.5%
<b>Bearer Deposit Notes</b>						
Bank of Nova Scotia	1.29%	03/25/11	150,000	149,545	149,545	0.8%
				<u>249,275</u>	<u>249,275</u>	<u>1.3%</u>
<b>Investments</b>						
<b>Corporate Bonds</b>						
ING Bank of Canada	4.30%	12/5/2011	45,000	42,150	42,690	0.2%
Spectrum Brands Holdings (U.S. Dollars)	9.50%	6/15/2018	85,000	94,436	92,801	0.5%
Armtec Holdings Ltd	8.88%	9/22/2017	100,000	100,000	101,910	0.5%
Newalta Corporation	7.63%	11/23/2017	100,000	100,000	102,750	0.5%
Sanmina-SCI Corp. (U.S. Dollars)	8.13%	3/1/2016	100,000	102,160	100,359	0.5%
TD Northgroup (U.S. Dollars)	6.38%	10/15/2017	100,000	93,677	91,628	0.5%
GE Capital Trust I (U.S. Dollars)	6.38%	11/15/2017	105,000	103,953	103,029	0.5%
CHC Helicopter (U.S. Dollars)	9.25%	10/15/2020	105,000	106,618	107,985	0.6%
Bell Canada	8.88%	4/17/2026	125,000	143,938	152,341	0.8%
Cricket Communications Inc. (U.S. Dollars)	7.75%	10/15/2015	130,000	128,177	123,039	0.6%
Hertz Corp. (U.S. Dollars)	7.38%	1/15/2021	140,000	141,731	140,502	0.7%
Visant Corp. (U.S. Dollars)	10.00%	10/1/2017	145,000	157,151	153,084	0.8%
Westcan Limited Partnership	9.50%	4/7/2017	150,000	147,750	150,188	0.8%
Cara Operations Ltd	9.13%	12/1/2015	155,000	157,750	160,425	0.8%
Quebecor Media Inc	7.38%	1/15/2021	160,000	160,000	160,200	0.8%
Brascan Corporation	5.95%	6/14/2035	168,000	147,840	154,347	0.8%
Livingston International Inc	10.13%	11/9/2015	170,000	170,000	179,350	0.9%
American Achievement (U.S. Dollars)	10.88%	4/15/2016	175,000	184,615	178,236	0.9%
Paramount Resources Ltd.	8.25%	12/13/2017	185,000	185,000	187,775	1.0%
Ford Credit Canada	7.50%	8/18/2015	200,000	200,000	212,076	1.1%
Goldman Sachs Capital II (U.S. Dollars)	5.79%	6/1/2012	200,000	163,340	168,424	0.9%
Calfrac Holdings (U.S. Dollars)	7.50%	12/1/2020	230,000	235,665	231,396	1.2%
Tesoro Corp. (U.S. Dollars)	6.50%	6/1/2017	247,000	230,077	246,045	1.3%
Great West Life Co. (U.S. Dollars)	7.15%	5/16/2016	300,000	281,030	298,095	1.5%
Citigroup Financial Inc.	5.37%	3/6/2036	322,000	248,101	267,244	1.4%
				<u>3,825,159</u>	<u>3,905,919</u>	<u>20.1%</u>
<b>Canadian common stock</b>						
<b>Energy</b>						
Enbridge Inc.			9,600	478,973	539,808	2.8%
Fort Chicago Energy Partners L.P.			47,900	502,511	569,052	2.9%
Keyera Facilities Inc T/U			2,700	75,300	94,905	0.5%
Mullen Group Ltd.			25,200	371,713	426,132	2.2%
TransCanada Pipelines Corp.			3,000	110,761	113,820	0.6%
				<u>1,539,258</u>	<u>1,743,717</u>	<u>9.0%</u>
<b>Materials</b>						
Labrador Iron Ore Royalty Inc.			4,800	232,560	322,800	1.7%
<b>Industrials</b>						
Genivar Income Fund			10,500	276,048	317,205	1.6%
Wajax Income Fund			8,100	201,862	297,189	1.5%
IBI Income Fund Unit Trust			27,300	364,296	367,185	1.9%
				<u>842,206</u>	<u>981,579</u>	<u>5.0%</u>
<b>Consumer Discretionary</b>						
Cineplex Galaxy Income Fund			17,000	338,654	380,970	2.0%
Corus Entertainment Inc.			21,800	414,052	482,870	2.5%
Groupe Aeroplan Inc.			22,300	307,740	304,395	1.6%
Thomson Reuters Corporation			13,100	506,687	486,796	2.5%
Yellow Media Inc			21,100	133,297	130,820	0.7%
				<u>1,700,430</u>	<u>1,785,851</u>	<u>9.3%</u>

(See accompanying notes to financial statements)

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

**(formerly Connor, Clark & Lunn PRINTS Trust)**

Statement of Investment Portfolio .... Continued

As at December 31, 2010

	Quantity	Average cost \$	Fair value \$	% of Net Assets
<b>Health Care</b>				
CML Healthcare Income Fund	35,650	373,734	407,123	2.1%
<b>Financials</b>				
Bank of Nova Scotia	8,200	433,080	467,810	2.4%
Canadian Imperial Bank of Commerce	6,800	501,938	531,964	2.8%
Royal Bank of Canada	16,000	878,552	835,520	4.3%
Toronto-Dominion Bank	13,900	1,000,774	1,029,990	5.3%
IGM Financial Inc.	7,800	303,122	338,286	1.8%
TMX Group Inc.	11,406	358,187	421,452	2.2%
Great West Lifeco Inc.	11,900	310,665	313,922	1.6%
Brookfield Office Properties Canada Real Estate Investment Trust	6,700	146,757	144,988	0.8%
Calloway Real Estate Investment Trust	12,300	296,520	287,451	1.5%
Canadian Apartment Properties Real Estate Investment Trust	33,800	527,769	579,332	3.0%
Chartwell Seniors Housing Real Estate Investment Trust	75,300	565,277	615,954	3.2%
Cominar Real Estate Investment Trust	12,700	246,275	264,541	1.4%
Crombie Real Estate Investment Trust	16,100	197,948	203,182	1.1%
First Capital Realty Inc.	18,400	278,041	277,840	1.4%
H&R Real Estate Investment Trust	10,900	208,216	211,787	1.1%
Inn Vest Real Estate Investment Trust	45,100	291,148	301,719	1.6%
Killam Properties Inc.	45,300	385,834	471,573	2.4%
Northern Property Real Estate Investment Trust	7,700	187,107	222,684	1.2%
Transglobe Apartment Real Estate Investment Trust	37,800	351,557	392,364	2.0%
		7,468,767	7,912,359	41.1%
<b>Telecommunication Services</b>				
Telus Corp. Non-voting	13,900	535,005	601,175	3.1%
<b>Utilities</b>				
Algonquin Power & Utilities Co	105,700	463,466	530,614	2.7%
Brookfield Infrastructure Partners LP	24,800	424,837	516,832	2.7%
Northland Power Inc. Fund Trust Units	14,300	198,671	223,938	1.2%
Valener Inc	12,200	210,548	208,131	1.1%
		1,297,522	1,479,515	7.7%
<b>Total Canadian common stock</b>		13,989,482	15,234,119	79.0%
<b>Total Investments (before transaction costs)</b>		17,814,641	19,140,038	99.1%
Transaction costs (note 3)		(16,375)	-	0.0%
<b>Total investments</b>		17,798,266	19,140,038	99.1%
	<b>Maturity date</b>	<b>Contract price / rate \$</b>	<b>Unrealized gain (loss) \$</b>	<b>% of Net Assets</b>
<b>Foreign currency forward contracts</b>				
Bought CAD 2,010,270 , sold USD 1,995,900	3/21/2011	1.0072	23,438	0.1%
Bought CAD 42,120 , sold USD 41,400	3/21/2011	1.0174	906	0.0%
Bought CAD 32,922 , sold USD 33,100	3/21/2011	0.9946	(26)	0.0%
			24,318	0.1%
<b>Cash</b>			128,094	0.7%
<b>Other liabilities net of other assets</b>			(223,262)	-1.2%
<b>Net assets</b>			19,318,463	100.0%

# Connor, Clark & Lunn Conservative Income & Growth Fund (formerly Connor, Clark & Lunn PRINTS Trust)

## Notes to Financial Statements

As at December 31, 2010 and 2009

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### 1 Establishment of Fund

Connor, Clark & Lunn PRINTS Trust (PRINTS Trust) is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement dated November 29, 2001 between the Manager and RBC Dexia Investor Services Trust (the "Trustee") as trustee of the PRINTS Trust. On December 12, 2001, PRINTS Trust completed its initial public offering raising in excess of \$100 million and the units of PRINTS began trading on the TSX.

At the time of the initial public offering, PRINTS's investment objectives were: (i) Distributions: to provide unitholders with a stable stream of quarterly distributions targeted to be \$0.50 per unit (\$2.00 per annum to yield 8.0% on the subscription price); (ii) Capital Repayment: to pay to unitholders on or about December 2, 2013 (the "PRINTS Termination Date") an amount per unit equal to the original subscription price (the "Original Investment Amount"); and (iii) Capital Appreciation: to pay to unitholders, on the PRINTS Termination Date, in addition to the Original Investment Amount, the value per unit, if any, in excess of the Original Investment Amount.

On June 14, 2010 (the "Merger Date"), PRINTS Trust merged with Connor, Clark & Lunn Conservative Income Fund II (Conservative II) with PRINTS Trust as the continuing fund which was renamed Connor, Clark & Lunn Conservative Income & Growth Fund (the "Fund"). The Fund retained RBC Dexia as a trustee of the Fund.

The Fund retained Clark & Lunn Capital Markets Inc. (the "Manager") as a Manager of the Fund and Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager") as the Fund's investment manager.

#### Forward contracts and Capital Portfolio

On June 14, 2010 and following the merger and change in investment objective mentioned above, the Forward agreement of the PRINTS Trust was terminated.

### 2 Investment objectives

The investment objectives of the Fund are to provide unitholders with: (i) an attractive yield through receipt of monthly distributions initially targeted to yield approximately 6.0% per annum; (ii) downside protection through diversification across multiple asset classes and a conservative approach to security selection; and (iii) growth that outpaces inflation by investing in securities that provide both a high yield and capital appreciation potential. On May 31, 2012, the Fund will convert to an open-ended mutual fund which will be able to distribute and redeem its units on a continuous basis.

### 3 Summary of significant accounting policies

#### Terms and definitions

Any reference to "Net Assets" or "Net Assets per Unit" or "GAAP Net Assets" means that the value was determined in accordance with Canadian Generally Accepted Accounting Principles "GAAP" for financial statements purposes. Also any reference to "Net Asset Value" or "Net Asset Value per Unit" or "Transactional NAV" means that the value was determined for valuation and transactional purposes. An explanation of the difference between both values can be found below.

#### 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

The Canadian Accounting Standards Board ("AcSB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the AcSB issued an exposure draft "Adoption of IFRSs by Investment Companies", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "Investment Companies" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the AcSB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

At its January 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises. The decision is in response to the International Accounting Standards Board's announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012.

The Fund will adopt IFRS on January 1, 2013. The Fund's Manager has commenced activities to identify key issues and the likely impact resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

#### Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 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 ("GAAP Net Assets"). 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 Manager 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. The Canadian Securities

# Connor, Clark & Lunn Conservative Income & Growth Fund (formerly Connor, Clark & Lunn PRINTS Trust)

## Notes to Financial Statements

As at December 31, 2010 and 2009

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Administrators allow investment funds to calculate the daily net asset value for the purpose of processing unitholder transactions using the last traded price for the day as fair value of financial instruments traded in an active market, which is referred to as a "Transactional NAV". The fund processes unitholder transactions using Transactional NAV.

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

	<u>Transactional NAV</u>	<u>GAAP Net Assets</u>
<b>Unit pricing</b>		
December 31, 2009	23.13	23.13
December 31, 2010	25.13	25.08

### Cash and short-term investments

Cash and short term investments include cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

### Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. Distributions received from income trusts are recorded as income, capital gains or a return on capital based on the best information available to the trustee. Due to the nature of these investments, actual allocations could vary from this information. Distributions from income trusts that are treated as return of capital for income tax purposes reduce the average cost of the underlying trust. Realized gains and losses on investments and unrealized appreciation and depreciation on investments are calculated using average cost. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash and short-term investments) are attributable to investments and derivatives which are deemed held for trading.

### Foreign currency forward contracts

The Fund may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The carrying value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date, and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as a net realized gain or loss on foreign currency forward contracts.

### Future contracts

The futures contracts are exchange-traded futures contracts. Futures contracts are valued at their settlement price at the close of business on each Valuation Date. Any difference between the settlement value at the close of business on the current Valuation Date and that of the previous Valuation Date is recorded in the Statements of Operations and in the Statements of Net Assets as Unrealized gain (loss). Amounts receivable (payable) from futures contracts are reflected in the Statements of Net Assets as unrealized gain or loss on future contracts and variation margin receivable (payable). Gains/losses are settled on daily basis. Variation margin account is adjusted for the settlement amount.

### Unit valuation

The net asset value per unit is determined by dividing the aggregate market value of net assets of the Fund by the total number of units of the Fund outstanding before giving effect to redemptions or subscriptions for units on that day.

### Expense recognition

Expenses that are directly attributable to the Fund are recorded on an accrual basis as incurred.

### Increase (decrease) in net assets from operation per share

This calculation is based on the increase (decrease) in net assets from operations divided by the weighted average number of units outstanding during the period.

## 4 Unitholders' equity

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Fund.

Following the merger mentioned in note 1 above, the unitholders of the Fund approved that the redemption rights of the units will be automatically converted to an open-ended mutual fund on May 31, 2012, and to eliminate the annual redemption right at net asset value in December 2010 and 2011 and change the monthly redemption price so that it is based on market price and not net asset value.

On June 14, 2010, and following the merger mentioned in note 1 above, the Fund issued 506,685 units for the amount of \$11,767,073 representing the NAV of the merged fund Conservative II. Pursuant to the merger, each Conservative II unit held by Conservative II unitholder was automatically exchanged for approximately 0.3693 units of the Fund. This exchange ratio was based on the relative net asset value of Conservative II and PRINTS Trust as at the close of trading on the Toronto Stock Exchange ("TSX") on June 11, 2010, which was \$8.5758 per Conservative II unit and \$23.2237 per Prints unit respectively. The above merger was accounted through the application of the purchase method of accounting which complies with GAAP.

# Connor, Clark & Lunn Conservative Income & Growth Fund (formerly Connor, Clark & Lunn PRINTS Trust)

## Notes to Financial Statements

As at December 31, 2010 and 2009

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During the year ended December 31, 2010, the Fund also paid \$1,717,501 to redeem 74,020 units.

Changes in outstanding units during the year ended December 31, 2010 and 2009 are summarized as follows: (Note that comparatives do not include results of terminated fund)

	<u>Number of units</u>	
	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Balance – Beginning of year	337,643	403,263
Units issued on merger	506,685	–
Units redeemed	<u>(74,020)</u>	<u>(65,620)</u>
Balance – End of year	<u>770,308</u>	<u>337,643</u>

The Unit Capital dollar amount represents the face value of the Fund units minus any return on capital distributions and issue cost paid since December 13, 2001 (commencement of operations) to December 31, 2010. If the redemption price is lower than the average cost per unit, the difference is included in Contributed Surplus on the statements of net assets. If the price is greater than the average cost per unit, the difference is first charged to Contributed Surplus until the balance in Contributed Surplus is eliminated, and the remaining amount is charged to retained earnings (deficit).

The Fund considers capital to include all units issued and outstanding. The Fund manages their capital in accordance with the objectives outlined in Note 2.

### 5 Distributions

The current targeted annual distributions are \$1.39 per unit to yield 6.0% based on the NAV per unit as of the Merger Date.

The Fund has made all its scheduled distributions during the period from its merger on June 14, 2010 to December 31, 2010 paying regular monthly distributions totalling \$0.7585 per unit (\$nil per unit during the year ended December 31, 2009).

### 6 Service fees

The Fund pays a service fee to dealers whose clients hold Units in the Fund. The service fee is calculated and payable each calendar quarter in arrears and is equal to 0.40% annually of the net asset value of the Units held by clients of the dealers. The total service fees charged to the Fund during the year ended December 31, 2010 were \$47,032 (2009 - \$nil).

### 7 Management fees and other expenses

Prior to the merger date and pursuant to the terms of the Trust Agreement for PRINTS Trust dated November 29, 2001, the PRINTS Trust pays to the Manager an annual fee of up to 1.10% of the Net Asset Value of the Trust, plus applicable taxes.

Effective January 1, 2004 the Manager has elected that all future management fees payable to it will be deferred and will accrue daily at the minimum level set out in the prospectus (a rate of 0.50% of the net asset value of the Trust). Such fees will be payable only after and to the extent that the Trust has redeemed all remaining units at \$25 per unit on the Termination Date, or on units that have been retracted prior to the Termination Date.

Following the Merger on June 14, 2010, the Management fees became 1.10% per annum of the net asset value of Fund returning to the initial rate for PRINTS Trust (to reflect the active management of the new mandate) and at the same level as Conservative II. The Manager also received all the deferred management fees previously accrued in the PRINTS Trust. The total amount that was paid to the Manager as of the Merger Date was \$227,588 (including all the applicable taxes).

The total management fees charged to the Fund during the year ended December 31, 2010 were \$108,443 (\$47,253 during the year ended December 31, 2009). The Manager pays the Investment Manager out of the above management fees.

### 8 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 (if applicable, net of dividend tax credits and capital gain refund) 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 eliminated. 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 & Growth Fund (formerly Connor, Clark & Lunn PRINTS Trust)

## Notes to Financial Statements

As at December 31, 2010 and 2009

The Canadian Revenue Agency notice of assessment for the year 2009 has not been received by the Fund's Trustee up to the date of filing these financial statements. As at December 31, 2010, the Fund had net capital losses of \$18,939,735 (2009 – \$18,939,735), which may be carried forward indefinitely to reduce future realized capital gains and non-capital losses of \$4,646,208 (2009 – \$14,252,935), which will expire within the next twenty years as shown in the following table:

Year of the realized non-capital tax loss	Amount of tax loss	Expiry date
2004	1,278,766	2014
2005	1,877,070	2015
2006	1,405,804	2026
2007	84,568	2027
<b>Total</b>	<b>4,646,208</b>	

### 9 Broker commission charges and soft dollar services

There were \$27,956 broker commissions paid during the year ended December 31, 2010 in connection with portfolio transactions (2009 – \$nil). No soft dollar services were included in the broker commission charges.

### 10 Financial instruments

Assets	December 31, 2010	December 31, 2009
	\$	\$
Cash	128,094	200,059
Held for trading	19,413,657	7,923,362
Loans and receivables	142,802	–
<b>Total assets</b>	<b>19,684,553</b>	<b>8,123,421</b>
<b>Liabilities</b>		
Held for trading	26	–
Financial liabilities at amortized cost	366,064	313,515
<b>Total liabilities</b>	<b>366,090</b>	<b>313,515</b>

For the purposes of categorization in accordance with section 3862, interest receivable and other assets are deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities, management fees payable and other liabilities are deemed to be financial liabilities and reported at amortized cost.

During 2009, Section 3862 was amended to include enhanced disclosures about inputs to fair value measurement. The following table illustrates the classification of the Fund's financial instruments within the fair value hierarchy as at December 31, 2010 and 2009:

Assets at fair value as at December 31, 2010 (\$)	Level 1	Level 2	Level 3	Total
Equities	15,234,119	–	–	15,234,119
Bonds	–	3,905,919	–	3,905,919
Short-term notes	–	249,275	–	249,275
Foreign currency forward contracts	–	24,344	–	24,344
<b>Total</b>	<b>15,234,119</b>	<b>4,179,538</b>	<b>–</b>	<b>19,413,657</b>
<b>Liabilities at fair value as at December 31, 2010 (\$)</b>				
Foreign currency forward contracts	–	26	–	26
<b>Total</b>	<b>–</b>	<b>26</b>	<b>–</b>	<b>26</b>
<b>Assets at fair value as at December 31, 2009</b>				
Equities	6,178,411	–	–	6,178,411
Short-term investments	–	299,778	–	299,778
Foreign currency forward contracts	–	1,445,115	–	1,445,115
<b>Total</b>	<b>6,178,411</b>	<b>1,744,893</b>	<b>–</b>	<b>7,923,304</b>

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

*Equities:* The Fund's long equity positions are classified as Level 1 as all these securities are actively traded and a reliable quote is observable.

# Connor, Clark & Lunn Conservative Income & Growth Fund (formerly Connor, Clark & Lunn PRINTS Trust)

## Notes to Financial Statements

As at December 31, 2010 and 2009

*Bonds and short-term notes:* Bonds and short-term notes are classified as Level 2 as they are valued using observable inputs, including interest rate curves, credit spreads and volatilities.

*Foreign currency forward contracts:* Foreign currency forward contracts for which inputs, including interest rates, forward market rates and credit spreads are observable and reliable, or for which unobservable inputs are determined not to be significant to fair value, are classified as Level 2.

There were no transfers between the three levels during the years ended December 31, 2010 and 2009.

### 11 Financial instrument risk

The Fund may be exposed to a variety of financial risks. The Investment Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by daily monitoring of the Fund's positions and market events, by diversifying the investment portfolio within the constraints of the investment objective.

#### 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 assets and trading liabilities at fair values for the Fund, categorized by the earlier of contractual re-pricing or maturity dates.

December 31, 2010:

	Less than 1 year	1 – 3 years	3 – 5 years	> 5 years	Non-interest bearing	Total
<b>Investments</b>	42,690	168,424	674,890	3,019,915	15,258,463	<b>19,164,382</b>
<b>Cash and cash equivalents</b>	249,275	–	–	–	128,094	<b>377,369</b>
<b>Other assets</b>	–	–	–	–	142,802	<b>142,802</b>
<b>Liabilities</b>	–	–	–	–	(366,090)	<b>(366,090)</b>
<b>Net assets</b>						<b>19,318,463</b>

As at December 31, 2010, 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 \$218,000 (December 31, 2009 – \$298,000). 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 December 31, 2010. 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 summarizes 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. The fund did not have significant currency risk in 2009.

December 31, 2010:

	Monetary instruments \$	Non-monetary instruments \$	Derivative instruments \$	Net exposure \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	2,144,745	–	(2,057,254)	87,491	(0.5%)	4,000

#### 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. The maximum risk resulting from financial instruments is equivalent to their fair value. 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 December 31, 2010, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$1,523,000 (December 31, 2009 – \$nil). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

# Connor, Clark & Lunn Conservative Income & Growth Fund (formerly Connor, Clark & Lunn PRINTS Trust)

## Notes to Financial Statements

As at December 31, 2010 and 2009

### 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 December 31, 2010. The fund did not have significant credit risk in 2009.

The table below summarizes the Fund's exposure to credit risk as of December 31, 2010 (All debt securities held at December 31, 2009 were AA rated). Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

December 31, 2010:

Rating <sup>(1)</sup>	(% of Net Assets)	Rating <sup>(1)</sup>	(% of Net Assets)
AAA	–	BB+	1.3%
AA+	–	BB	–
AA	–	BB–	0.8%
AA–	0.1%	B+	5.5%
A+	0.5%	B	1.9%
A	0.7%	B–	2.1%
A–	3.7%	CCC+	0.5%
BBB+	–	A–1+	1.3%
BBB	0.8%	A–1–	–
BBB–	0.9%	Not rated	1.4%
		<b>Total</b>	<b>21.5%</b>

As at December 31, 2010 and 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.

### Concentration risk

The investments of the Fund are concentrated in the in the Real Estate and Financials sectors, and will be especially affected by factors particular to this sector. Factors influencing this sector may include changes in government policy, interest rate movements, fluctuations in the capital markets and conditions of the overall economy. Changes that specifically affect the provision of financial services may cause the Net Assets of the Fund to be more volatile than the value of a more broadly diversified portfolio.

The Investment Manager believes that the real estate market in Canada is poised to become a large very public market due to a scarcity of yield-oriented securities, made more acute by the upcoming taxation of income trusts and energy trusts. While it has taken some time, the Investment Manager is encouraged by what appears to be a broadening and deepening of the Real Estate Investment Trust ("REIT") and real estate market in Canada.

The Statement of Investments summarizes the Fund's exposure to the different market sectors.

## 12 Merger

On June 14, 2010, and following the merger mentioned in note 1 above, the Fund issued 506,685 units for the amount of \$11,767,073 representing the NAV of the merged fund Conservative II. Pursuant to the merger, each Conservative II unit held by Conservative II unitholder was automatically exchanged for approximately 0.3693 units of the Fund. This exchange ratio was based on the relative net asset value of Conservative II and PRINTS Trust as at the close of trading on the Toronto Stock Exchange ("TSX") on June 11, 2010, which was \$8.5758 per Conservative II unit and \$23.2237 per Prints unit respectively.

## 13 Subsequent event

On December 16, 2010, the Fund announced that the board of directors of the Manager has approved a proposal that would result in the merger between the Fund and Connor, Clark & Lunn Conservative Income Fund ("CCQ"). The objectives of the proposals are to: (i) broaden the investment mandate; (ii) provide additional liquidity; and (iii) lower administrative expenses. This proposal was accepted by a unitholder vote on January 31, 2011. The Fund is the continuing fund and as a result unitholders of the CCQ became unitholders of the Fund.