



# **Connor, Clark & Lunn Global Financials Fund**

## **Annual Information Form**

**For the year ended March 31, 2007**

June 2007

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## **1 THE FUND**

### ***1.1 NAME AND FORMATION***

Connor, Clark & Lunn Global Financials Fund (the “Fund”) is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement dated as of April 27, 2006 (the “Trust Agreement”) between Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) in its capacity as manager and RBC Dexia Investor Services Trust (the “Trustee” or “RBC Dexia”) as trustee. The Manager was incorporated under the Business Corporations Act (Ontario) on January 15, 2001 and is wholly owned by CC&L Capital Markets Partnership.

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

### ***1.2 STATUS OF THE FUND***

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

## **2 DESCRIPTION OF THE BUSINESS**

### ***2.1 ISSUE OF UNITS***

On May 17, 2006, the Fund completed an initial public offering pursuant to the prospectus dated April 27, 2006. \$51,500,000 was raised through the issue of 5,150,000 Units at \$10.00 per Unit. On May 23, 2006, the Agents exercised an over-allotment option in respect of 130,000 Units, raising a further \$1,300,000. Total proceeds from these two transactions after Agents’ fees and issue expense was \$49,554,803.

### ***2.2 INVESTMENT OBJECTIVES AND STRATEGY***

The Fund’s investment objectives are:

- (i) provide holders of the Units (“Unitholders”) with a stable stream of monthly cash distributions targeted to be \$0.04167 per Unit (representing approximately a 5.0% per annum yield on the issue price of \$10.00 per Unit);
- (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 May 31, 2016; and
- (iii) provide Unitholders with an opportunity for capital appreciation above the original issue price.

In support of these investment objectives, the assets of the Fund, including any borrowings or other leverage, are invested in an actively managed portfolio (the “Portfolio”) consisting of securities of global financial services businesses. The Portfolio is actively managed by New Star Asset Management Limited (the “Investment Manger” or “New Star”). The Portfolio is managed using the same investment approach that the Investment Manger applies to its New Star Global Financials Fund (the “UK fund”).

### ***2.3 INVESTMENTS GUIDELINES***

#### ***2.3.1 Investment Restrictions of the Fund***

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

- (i) **Investments.** The Fund will invest at least 90% of the Portfolio in securities of companies in the global financial services sector.

- (ii) **Concentration.** The Fund will restrict its investments in any one issuer to no more than 10% of its total assets at the time of investment in such issuer.
- (iii) **Leverage.** The Fund may not borrow or use other forms of leverage in excess of 15% of total assets at the time the Loan Facility is entered into.
- (iv) **Commodities.** The Fund will not purchase or sell commodities or commodity contracts for the Portfolio.
- (v) **Illiquid Securities.** Not more than 10% of the assets (determined at the time of purchase) of the Portfolio will be invested in “illiquid securities”. The term “illiquid securities” for this purpose means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the securities are valued for the Portfolio.
- (vi) **Real Estate other than Real Estate Investment Trusts (“REITs”).** The Fund will not purchase real estate (other than through the purchase of securities of issuers that invest primarily in real estate or interests therein, including REITs, up to a maximum of 10% of the Fund’s total assets).
- (vii) **Control.** The Fund will not own more than 10% of the outstanding equity securities of an issuer or purchase the securities of an issuer for the purpose of exercising control over management of that issuer.
- (viii) **No Guarantee.** The Fund will not guarantee securities or obligations of another person or company other than the Manager, and then only in respect of the activities of the Fund.
- (ix) **Status under the Tax Act.** The Fund will not make or hold any investment that would result in the Fund failing to qualify as a “mutual fund trust” within the meaning of the *Income Tax Act* (Canada) (the “Tax Act”).
- (x) **Foreign Investment Entities.** The Fund will not acquire any interest in a non-resident trust that is not an “exempt foreign trust” as defined in proposed section 94 of the Tax Act, or invest in the securities of any non-resident corporation or trust or other non-resident entity if the Fund would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the Tax Act or to include any significant amounts in income pursuant to proposed sections 94.1 or 94.3 of the Tax Act, as set forth in the proposed amendments to the Tax Act dealing with foreign investment entities and non-resident trusts released on July 18, 2005 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto).
- (xi) **Foreign Controlled Affiliates.** The Fund will not invest in any securities of any entity that would be a controlled foreign affiliate of the Fund for purposes of the Tax Act.
- (xii) **Taxable Canadian Property.** The Fund will not acquire or hold any property that is “taxable Canadian property” within the meaning of the Tax Act or that will otherwise constitute “specified property” within the meaning of the proposed amendments to the Tax Act announced on September 16, 2004 (or amendments to such proposals as enacted into law or successor provisions thereto).

### 2.3.2 *Securities Lending*

The Fund may enter into securities lending, repurchase and reverse repurchase transactions to generate additional income and/or as a short-term cash management tool. Any borrower of securities from the Fund must maintain with a qualified agent collateral having a market value equal to at least 102% of the market value of the securities borrowed, and must provide the Fund with a right to sell the collateral if the borrower defaults on its obligations under the transaction. The Fund will provide to the borrower a right to sell the securities if the Fund defaults on its obligations under the transaction. The value of the collateral and the securities will be monitored daily and collateral will be adjusted appropriately on each business day. Any securities lending transaction must qualify as a “securities lending arrangement” for purposes of the Tax Act.

### 2.3.3 *Leverage Transactions*

On September 22, 2006, the Fund entered into a Revolving Term Credit Facility Agreement (the “Credit Facility”) with the Bank of Montreal (the “Lender”). The lender is an affiliate of BMO Nesbitt Burns Inc., one of the agents on the Fund’s May 17, 2006 public offering. The aggregate amount of borrowings and other leverage under the Leverage Transactions may not exceed 15%

of the total assets of the Fund. Such leverage may be used to purchase additional securities for the Portfolio.

During the period from September 22, 2006 (date of Credit Facility inception) to March 31, 2007, the Credit Facility outstanding had a minimum balance of \$0 and maximum balance of \$8.75 million (0% to 14.4% of NAV). As of March 31, 2007, the Credit Facility had \$8,483,395 outstanding balance.

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

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

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

#### **2.3.4 Currency Hedging and Use of Derivative Instruments**

The Fund is exposed to a number of foreign currencies. The Investment Manger takes currency exposure into account in managing the Portfolio and attempts to maximize the Fund's total returns in Pounds Sterling. In addition, it is intended that at least 90% of the value of the Portfolio's non-Canadian exposure will be hedged from Pounds Sterling back to the Canadian dollar.

The Fund may utilize derivatives consistent with its investment strategy and in accordance with National Instrument 81-102 of the Canadian Securities Administrators ("NI 81-102") (as if the Fund were subject to NI 81-102) or as otherwise may be permitted by Canadian securities regulators from time to time. For example, the Fund may use derivatives for the purpose of offsetting or reducing risks associated with an investment or group of investments.

### **3 MANAGEMENT OF THE FUND**

#### **3.1 THE MANAGER**

Connor, Clark & Lunn Capital Markets Inc. performs management services for the Fund pursuant to the terms of the Trust Agreement. The Manager is entitled to receive fees as compensation for management services rendered to the Fund. See "Duties and Services to be provided by the Manager" below and "Fees and Expenses".

The Manager is part of the Connor, Clark & Lunn Financial Group, which also includes Connor, Clark & Lunn Investment Management Ltd., Connor, Clark & Lunn Private Capital Ltd., Baker Gilmore & Associates Inc., PCJ Investment Counsel Ltd., Scheer Rowlett & Associates Investment Management Ltd., New Star Canada Inc., Connor, Clark & Lunn Arrowstreet Capital Ltd; Banyan Capital Partners Management Partnership and Global Alpha Capital Management Ltd. (collectively, the "CC&L Group"). The CC&L Group offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors.

Connor, Clark & Lunn Financial Group and New Star Institutional Mangers Limited have a joint venture in Canada called New Star Canada Inc.

The Manger acts as manger or investment advisor for the following investment funds: CANADIAN Financials & Utilities Split Corp., Connor, Clark & Lunn Global Financials Fund II, Connor, Clark & Lunn ROC Pref Corp., Connor, Clark & Lunn Conservative Income Fund II, Connor, Clark & Lunn Real Return Income Fund, ROC Pref Corp., Connor, Clark & Lunn Conservative Income Fund, ROC Pref II Corp., ROC Pref III Corp., SNP Health Split Corp., Connor, Clark & Lunn PRINTS

Trust.

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

Pursuant to the Trust Agreement, the Manager has exclusive authority to manage the operations and affairs of the Fund, to make all decisions regarding the business of the Fund and to bind the Fund. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Fund to do so.

The Manger's duties include maintaining accounting records for the Fund; authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements, income tax returns and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the Fund complies with regulatory requirements, including its continuous disclosure requirements under applicable securities laws; preparing the Fund's reports to Unitholders and to the Canadian securities regulators; providing the Custodian with information and reports necessary for the Custodian to fulfill its fiduciary responsibilities; administering the retraction and redemption of Units; arranging for any payment required on or about the Termination Date; dealing and communicating with Unitholders; and negotiating contracts with third party providers of services, including, but not limited to , custodians, transfer agents, auditors and printers.

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

### **3.1.2 Trust Agreement**

The Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of Unitholders, and in connection therewith, to exercise the care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

The Manager has entered into the Investment Management Agreement with New Star (the "Investment Manager" or "New Star"), a wholly owned subsidiary of New Star Asset Management Group PLC (together with its subsidiaries, "New Star Group"), and the Fund, pursuant to which the Investment Manger acts as a sub-advisor to the Manger and the Fund. The Manger is responsible to the Fund for all investment advice and portfolio management services provided by the Investment Manger to the Fund and for any loss that arises out of the failure of the Investment Manger to exercise the powers and discharge its duties honestly, in good faith and in the best interests of the Fund and the Unitholders or to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances. To the extent applicable, there may be difficulty in enforcing legal rights against the Investment Manger because it is not a resident of Canada and all or a substantial portion of its assets are located outside of Canada.

The Manager may resign as manager of the Fund upon 60 days' notice to the Unitholders and the Fund or upon such lesser notice period as the Fund may accept. If the Manager resigns it may appoint its successor but, unless its successor is an affiliate of the Manager, the successor must be approved by Unitholders. If the Manger is in material default of its obligations under the Trust Agreement and such default has not been cured within 20 business days (any day on which commercial banks are open for business in Toronto, Ontario hereinafter referred to as a "business day") after notice of same has been given to the Manger, the Fund shall give notice thereof to Unitholders and the Unitholders may remove the Manger and appoint a successor manager of the Fund.

The Manager is entitled to fees for its services under the Trust Agreement as described under "Fees and Expenses" and is reimbursed for all reasonable costs and expenses incurred by the Manager on behalf of the Fund. In addition, the Manger and each of its directors, officers, employees and agents are indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Manger or any of its officers, directors, employees or agent sin the exercise of its duties as manger, except those resulting from the Manger's willful misconduct, bad faith or negligence.

### 3.1.3 Officers and Directors of the Manager

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

<b>Name and Municipality</b>	<b>Position with the Manager</b>	<b>Principal Occupation</b>
W. Neil Murdoch Oakville, Ontario	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer, Connor, Clark & Lunn Capital Markets Inc.
Philip K. Gow Toronto, Ontario	Director, Chief Financial Officer and Secretary	Director, Chief Financial Officer and Secretary, Connor, Clark & Lunn Capital Markets Inc.
Michael W. Freund Toronto, Ontario	Director and Chairman	Managing Partner, Connor, Clark & Lunn Financial Group
Timothy E. Bradshaw Toronto, Ontario	Senior Vice-President and National Sales Manager	Senior Vice-President and National Sales Manager, Connor, Clark & Lunn Capital Markets Inc
Darren N. Cabral Toronto, Ontario	Vice-President	Vice-President, Connor, Clark & Lunn Capital Markets Inc.
John Colangelo Toronto, Ontario	Vice-President Sales, Ontario	Vice-President Sales, Ontario, Connor, Clark & Lunn Capital Markets Inc.
Bonnie L. M. Chwartacki Winnipeg, Manitoba	Vice-President, Sales, Western Canada	Vice-President, Sales, Western Canada, Connor, Clark & Lunn Capital Markets Inc.
Victoria L. Jonas Beaconsfield, Quebec	Vice-President, Sales, Quebec	Vice-President, Sales, Quebec, Connor, Clark & Lunn Capital Markets Inc.

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

**Philip K. Gow:** CFA; BA, Dalhousie University; MBA, Saint Mary's University. Mr. Gow was a managing director of Brenton Reef Capital Inc. (which was acquired by CC&L Capital Markets Partnership in April 2001) from 1997 to April 2001 and has been a director and investment manager of Connor, Clark & Lunn Capital Markets Inc. since April 2001.

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

**Timothy E. Bradshaw:** B.Comm. McGill University, MBA London Business School. Mr. Bradshaw joined Connor, Clark & Lunn Capital Markets Inc. in May 2006. Prior thereto, Mr. Bradshaw was a Vice-President of TD Bank Financial Group from 2000 to October 2005.

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

**John Colangelo:** BA, University of Guelph, Ontario. Mr. Colangelo joined Connor, Clark & Lunn Capital Markets in April 2007. Prior thereto, Mr. Colangelo was Vice-President Sales for Faircourt Asset Management Inc., Regional Sales Manager of Franklin Templeton Investments Corp., and Regional Vice-President of Spectrum Investments Inc.

**Bonnie L. M. Chwartacki:** B.Comm (Hons.) University of Manitoba. Ms. Chwartacki has been with Connor, Clark & Lunn

Capital Markets Inc. since the fall of 2004. Prior thereto, she was Regional Vice-President for Western Canada at AIC Group of Funds.

**Victoria L. Jonas:** B.Ed., McGill University. Ms. Jonas joined Connor, Clark & Lunn Capital Markets Inc. in December 2005. She was Senior Regional Sales Manager for Franklin Templeton Investments from 2002 until December 2005, Regional Vice-President at Spectrum Investments from 2001 until that company was sold to CI Funds in 2002 and, prior thereto, Regional Vice-President and Director with AGF Group of Funds from 1987.

### ***3.2 PROXY VOTING POLICIES AND PROCEDURES***

With regard to voting on matters for which the Fund receives, in its capacity as a shareholder, proxy materials for a meeting of securityholders of an issuer, the Investment Manager has a fiduciary duty to act solely in the best interests of the Fund and its Unitholders. The Investment Manager intends to vote securities in a timely manner and make voting decisions that are in the best interests of the Fund. The proxy voting policy provides that routine matters to be considered at annual meetings will generally be voted in accordance with management's recommendations unless there are concerns about the level of disclosure, procedures followed or the judgement of management. More complex or non-routine matters, for example relating to compensation, related party transactions, restructurings and share and debt issuances will be determined on a case-by-case basis. In addition to its own research, the Investment Manager has entered into an agreement with Research Recommendations and Electronic Voting Limited ("RREV"), a joint venture between the National Association of Pension Funds ("NAPF") and Institutional Shareholder Services Inc. ("ISS"), to provide an analysis of all proxy issues. Contentious issues are identified as part of the research process undertaken by RREV and are raised independently with New Star, who uses the research provided to take any necessary actions. New Star has adopted the RREV standard policy for proxy voting and as such, is compliant with both NAPF Corporate Governance Policy and the ISS US Voting Manual Recommendations. The Investment Manager has agreed pursuant to the Investment Management Agreement to vote proxies in accordance with these guidelines subject to the Investment Manager's discretion to depart from such guidelines where necessary in the best interests of the Fund and Unitholders.

### ***3.3 THE ADVISORY BOARD***

The Fund has established an advisory board (the "Advisory Board") consisting of two members appointed by the Manager each of whom is independent of the Manager, the Investment Manager, and each of their affiliates, and free from any interest and any business or other relationship which could, or could be reasonably perceived to, materially interfere with the exercise of an Advisory Board member's judgement. The Advisory Board provides an independent advice to the Manager to assist the Manager in performing its services under the Trust Agreement, including with respect to conflicts of interest or potential conflicts of interest (other than those described under "Conflicts of Interest") or related party transactions identified by the Manager. The members of the Advisory Board are required to act honestly and in good faith in the best interests of the Fund and the Unitholders, and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Manager will report to the Advisory Board on the operation and performance of the Fund on a quarterly basis, including with respect to compliance with applicable investment restrictions and material contracts as amended from time to time.

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

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

The Fund's annual report to Unitholders includes any report by the Advisory Board summarizing any recommendations made by the Advisory Board, including recommendations made and not followed by the Manager, as applicable, and any other matter that the Advisory Board determines to be appropriate in the circumstances.

All fees and expenses of the Advisory Board incurred in connection with its duties with respect to the Fund are paid by the Fund. The Board of advisors' fees paid during the period from May 17, 2006 (commencement of operations) to March 31, 2007 were

\$15,934. The Advisory Board also has the authority to retain, at the expense of the Fund, independent counsel or other advisors if the Advisory Board deems it appropriate to do so. See “Fees and Expenses”.

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

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

**Arthur Donner** is a Toronto based economic consultant. His research and consulting have ranged widely in the field of economics and public policy – macroeconomics, finance, pension issues, labour economics, environmental issues, industrial policy and communications policy. His career has moved between universities, governments and the private sector, and he continues to be a commentator in the media. Mr. Donner is on the Investment Advisory Committee of the Nunavut Trust. In September of 2002, Mr. Donner was appointed to the Board of Social Housing Services Corporation Financial Inc. As well, he has been a member of the Investment Committee for the past four years. Between July and October 2005, Mr. Donner was a special advisor to the Federal Minister of Housing, Joe Fontana, on the development of new aboriginal housing institutions.

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

### **3.4 THE TRUSTEE**

RBC Dexia Investor Services Trust is the trustee of the Fund under the Trust Agreement and, as such, is responsible for certain aspects of the day-to-day administration of the Fund as described in the Trust Agreement, including calculating NAV, net income and net realized capital gains of the Fund and executing instruments on behalf of the Fund.

The Trustee may resign upon 60 days’ notice to Unitholders. The Trustee may be removed with the approval of a simple majority vote cast at a meeting of Unitholders called for such purpose or by the Manager, if the Trustee has committed certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Trust Agreement which breach has not been cured within 30 days after notice thereof has been given to the Trustee. Any such resignation or removal shall become effective only upon the acceptance of appointment by a successor. If the Trustee resigns, its successor may be appointed by the Manager. The successor must be approved by Unitholders if the Trustee is removed by Unitholders. If no successor has been appointed within 60 days, the Trustee or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor.

The Trust Agreement provides that the Trustee shall not be liable in carrying out its duties under the Trust Agreement except where it is in breach of its obligations under the Trust Agreement or where the Trustee fails to act honestly and in good faith, and in the best interests of Unitholders to the extent required by laws applicable to corporate trustees, or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Trust Agreement contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee, or any of its officers, directors, employees or agents, in respect of certain liabilities incurred by it in carrying out its duties.

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

### **3.5 ACCOUNTING AND REPORTING**

The Fund’s fiscal year end is March 31. The Manager ensures that the Fund complies with all applicable reporting and administrative requirements.

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

### 3.6 THE INVESTMENT MANAGER

The Investment Manager provides investment advisory and portfolio management advice to the Fund and actively manages the Portfolio in a manner consistent with the investment restrictions of the Fund pursuant to an investment management agreement (the “Investment Management Agreement”) between the Manager, as manager of the Fund, and in its own capacity and the Investment Manager dated as of April 27, 2006.

The Investment Manager is responsible for execution of the Fund’s investment strategy. Decisions as to the purchase and sale of securities and as to the execution of all portfolio and other transactions in connection with the Portfolio are made by the Investment Manager. The Investment Manager was established in June 2000. The principal office of the Investment Manager is located in London, England and it and certain other companies in the New Star Group are authorized and regulated in the UK by the Financial Services Authority.

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

<u>Name and Municipality</u>	<u>Position with the Investment Manager</u>	<u>Principal Occupation</u>
John Duffield London, UK	Executive Chairman	Executive Chairman, New Star Asset Management Group
Howard Covington London, UK	Chief Executive Officer	Chief Executive Officer, New Star Asset Management Group
Rupert Ruvigny London, UK	Finance Director and Group Chief Operating Officer	Finance Director and Group Chief Operating Officer, New Star Asset Management Group
Ravi Anand London, UK	Corporate Finance Director and Head of Structured Products	Corporate Finance Director and Head of Structured Products, New Star Asset Management Group

Each of the foregoing has held his or her current office or has held a similar office with the Investment Manger during the five years preceding the date hereof.

**John Duffield:** Mr. Duffield founded New Star in June 2000. Until 2000, Mr. Duffield was chief executive officer of Jupiter International Group, which he founded in 1985.

**Howard Covington:** Mr. Covington joined New Star as a non-executive director in August 2000, becoming chief executive officer in January 2001. Previously, Mr. Covington was chief executive officer of the European investment-banking firm of Wassertein Parella from 1996 to 2001. Prior to such time, Mr. Covington was a director of SG Warburg, where he was a corporate financier for 10 years.

**Rupert Ruvigny:** Mr. Ruvigny joined New Star in October 2000. Prior to joining New Star, Mr. Ruvigny was deputy chairman of PricewaterhouseCoopers’ financial services regulatory practice. He qualified as a chartered accountant with Price Waterhouse in 1984. Mr. Ruvigny was made a partner in 1992 and specialized in asset management and regulation. He was seconded to IMRO initially as head of investigations and subsequently as director of monitoring.

**Ravi Anand:** Mr. Anand joined New Star in June 2001. Prior to joining New Star, Mr. Anand was a director in HSBC’s equity capital markets business. He worked for HSBC for five years after working in business development at Robert Fleming & Co. and qualifying as a chartered accountant at KPMG.

The investment professionals responsible for investment management at the Investment Manager all have significant experience

in managing investment portfolios. The employees of the Investment Manger who will be primarily responsible for managing the Portfolio are Guy de Blonay supported by Nick Brind.

**Guy de Blonay:** Law, University of Geneva. Mr. De Blonay joined the Investment Manger from Jupiter Asset Management, where he was co-manager of the highly successful Jupiter Ecology Fund. Mr. De Blonay has managed the New Star Global Financials Fund since its launch in December 2001, the New Star Financials Hedge Fund since its launch in April 2002 and the New Star Global British Lion Fund from 2002 to 2004. Mr. De Blonay has demonstrated his skills as a portfolio manager in global financial equities and also has extensive experience in Asian and Latin American markets.

**Nick Brind:** BSc, Southampton University; Securities Institute Diploma. Mr. Bind joined the Investment Manager from Exeter Asset Management in April 2005. He is the lead fund manager of the New Star Financial Opportunities Fund (formerly Exeter Financials Fund). At Exeter Asset Management, Mr. Brind was a fund manager with responsibility for a number of fund including, Exeter Financials fund and Exeter Capital Growth Fund. These funds have since been acquired by the Investment Manager, with the latter renamed the New Star UK Strategic Capital Unit Trust. Prior to joining Exeter Asset Management in 1997, Mr. Brind worked for three years at Capel-Cure Myers as a portfolio manager.

### **3.6.1 Investment Management Agreement**

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

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

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

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

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

## **4 CONFLICTS OF INTEREST**

The management and administrative services provided by the Manager to the Fund pursuant to the Trust Agreement are not exclusive and nothing in the Trust Agreement prevents the Manager from providing similar management services to other investment funds and clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities. Investment decisions for the Fund are made independently of those made for other clients and independently of investments of the Manager. On occasion, however, the Manager may manage the same investment for the Fund and for one or more of its other clients. If the Fund and one or more of the other clients of the Manager are engaged in the purchase or sale of the same security, the transactions are effected on an equitable basis.

The investment management services provided by the Investment Manager to the Fund under the Investment Management Agreement are not exclusive and nothing in the Investment Management Agreement prevents the Investment Manager from providing similar services for its own account or to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities. Investments in securities purchased by the Investment Manager on behalf of the Fund and other investment funds or trusts for which the Investment Manager provides investment management services are allocated to the Fund and such other investment funds or trusts on a pro rata basis according to the size of the order and the applicable investment restrictions and policies of the Fund and the other investment funds or trusts.

The Trust Agreement acknowledges that the Trustee may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favourable to the Fund than those which would be obtained from parties which are at arm's length for comparable services. The Trustee may act as trustee of, and provide services to, other investment funds or trusts.

## **5 UNITHOLDERS' EQUITY**

### **5.1 DESCRIPTION OF UNITHOLDERS' EQUITY**

#### **5.1.1 Units**

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

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

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

#### **5.1.2 Mandatory 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 is, subject to certain exceptions contained in the Trust Agreement (as described under "The Trust Agreement and Description of Units – Units") and in compliance with any applicable regulatory requirements, obligated to purchase Units for cancellation on and subject to the terms below. If, on the business day following any of the Fund's valuation dates ("valuation Date"), the weighted average price of the Units is less than 95% of the NAV of the Fund 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 will be 1.25% of the number of Units outstanding at the beginning of the period (commenced with the three month period that began on the first day of the month following the closing date of the Offering). The 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. Pursuant to the mandatory market repurchase program, the Fund purchased 1,000 Units for cancellation for a total cost of \$10,510 during the period from May 17, 2006 (commencement of operations) to March 31, 2007.

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

the Trust Agreement or as otherwise permitted by applicable securities laws.

### **5.1.3 Book-Entry Only System**

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

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

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

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

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

## **5.2 UNITHOLDER MATTERS**

### **5.2.1 Meetings of Unitholders**

A meeting of Unitholders may be convened by the Manager by a written requisition specifying the purpose of the meeting and must be convened if requisitioned by Unitholders holding not less than 10% of the Units then outstanding by a written requisition specifying the purpose of the meeting. Not less than 21 days’ and not more than 50 days’ notice will be given of any meeting of Unitholders. The quorum at any such meeting is two Unitholders present in person or by proxy except for the purpose of any meeting called to consider a change of the manager of the Fund, other than a change resulting in an affiliate of such person assuming such position, in which case the quorum shall be Unitholders holding 15% of the outstanding Units. If no quorum is present at such meeting when called, the meeting, if called on the requisition of Unitholders or for the purpose of the change of the manager of the Fund, will be terminated and otherwise will be adjourned for not less than 10 days and at the adjourned meeting the Unitholders then present in person or represented by proxy will form the necessary quorum. At any meeting of Unitholders, each Unitholder will be entitled to one vote for each whole Unit registered in the Unitholder’s name.

The Fund does not intend to hold annual meetings of Unitholders.

### **5.2.2 Acts Requiring Unitholder Approval**

Pursuant to the Trust Agreement, the following matters require the approval of Unitholders by resolution passed by at least 66 $\frac{2}{3}$ % of the votes cast at a meeting called and held for such purpose (an “Extraordinary Resolution”), other than items (c), (f) and (j), which require approval of Unitholders by a simple majority vote at a meeting called and held for such purpose (an “Ordinary Resolution”):

- (a) a change in the investment objectives of the Fund as described under “The Fund— Investment Rationale and Objectives”;
- (b) a change in the investment restrictions of the Fund as described under “The Fund’s Investment Guidelines— Investment

Restrictions”;

- (c) any change in the basis of calculating fees or other expenses that are charged to the Fund which could result in an increase in charges to the Fund other than a fee or expense charged by a person or company that is at arm’s length to the Fund;
- (d) a change of the manager of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (e) except as described under “Management of the Fund— The Trustee”, a change in the trustee of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (f) a change in the auditors of the Fund;
- (g) a reorganization with, or transfer of assets to, a mutual fund trust, if (i) the Fund ceases to continue after the reorganization or transfer of assets; and (ii) the transaction results in Unitholders becoming securityholders in the mutual fund trust;
- (h) a reorganization with, or acquisition of assets of, a mutual fund trust, if (i) the Fund continues after the reorganization or acquisition of assets; (ii) the transaction results in the securityholders of the mutual fund trust becoming unitholders of the Fund; and (iii) the transaction would be a significant change to the Fund;
- (i) a termination of the Fund prior to the Termination Date other than as set forth under “Termination of the Fund”;
- (j) an extension of the Fund beyond the Termination Date as described under “Termination of the Fund”;
- (k) an amendment, modification or variation in the provisions or rights attaching to the Units;
- (l) the issuance of additional Units, other than (i) for net proceeds equal to or greater than 100% of the NAV per Unit; or (ii) by way of Unit distribution; and
- (m) a reduction in the frequency of calculating the NAV per Unit.

### **5.2.3 Amendments to the Trust Agreement**

The Manager may, without the approval of or notice to Unitholder, amend the Trust Agreement for certain limited purposes specified therein, including to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Trust Agreement and any provisions of any law or regulation applicable to or affecting the Fund;
- (b) make any change or correction in the Trust Agreement which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Trust Agreement into conformity with applicable laws, rules and policies of securities regulatory authorities or with current practice within the securities industry, provided that any such amendment does not adversely affect the rights, privileges or interests of the Unitholders;
- (d) maintain, or permit the Trustee to take such steps as may be desirable or necessary to maintain, the status of the fund as a “mutual fund trust” for the purposes of the Tax Act; or
- (e) provide added protection to Unitholders.

Except for changes to the Trust Agreement which require the approval of Unitholders or changes described above which do not require approval of or prior notice to Unitholders, the Trust Agreement may be amended from time to time by the Manger upon not less than 30 days’ prior written notice to Unitholders.

### **5.2.4 Information and Reports to Unitholders**

The Fund will furnish to Unitholders such financial statements (including interim unaudited and annual audited financial statements) and other reports as are from time to time required by applicable law to be furnished by the Manger, including

prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

### **5.2.5 *Non-Resident Unitholders***

At no time may (i) non-residents of Canada, (ii) partnerships that are not Canadian partnerships or (iii) a combination of non-residents of Canada and such partnerships (all as defined in the Tax Act) be the beneficial owners of a majority of the Units and the Trustee shall inform the registrar and transfer agent of this restriction. The Trustee may require declarations as to the jurisdictions in which beneficial owners of Units are resident and, if a partnership, its status as a Canadian partnership. If the Trustee becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% or more of the Units then outstanding are, or may be, non-residents and/or partnerships that are not Canadian partnerships, or that such a situation is imminent, the Trustee may make a public announcement thereof. If the Trustee determines that more than 40% of the Units are beneficially held by non-residents and/or partnerships that are not Canadian partnerships, the Trustee may send a notice to such non-resident Unitholders and partnerships, chosen in inverse order to the order of acquisition or in such manner as the Trustee may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 30 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustee with satisfactory evidence that they are not non-residents or partnerships other than Canadian partnerships within such period, the Trustee may on behalf of such Unitholders sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such sale, the affected holders shall cease to be beneficial holders of Units and their rights shall be limited to receiving the net proceeds of sale of such Units.

Notwithstanding the foregoing, the Trustee may determine not to take any of the actions described above if the Trustee has been advised by legal counsel that the failure to take any of such actions would not adversely impact the status of the Fund as a mutual fund trust for purposes of the Tax Act or, alternatively, may take such other action or actions as may be necessary to maintain the status of the Fund as a mutual fund trust for purposes of the Tax Act.

### **5.2.6 *Termination of the Fund***

The Fund will terminate on May 31, 2016 (the "Termination Date"), unless the Fund is terminated earlier or Unitholders determine to continue the Fund by a majority of the votes cast at a meeting of Unitholders called for such purpose. Immediately prior to the Termination Date, the Trustee will, to the extent possible, convert the assets of the Fund to cash and after paying or making adequate provision for all of the Fund's liabilities, distribute the net assets of the Fund to Unitholders as soon as practicable after the Termination Date. If a meeting of Unitholders is to be held to extend the Fund, it must be held at least 30 days prior to the then scheduled Termination Date. The Manager, may, in its discretion, terminate the Fund without the approval of redemptions or otherwise so that it is no longer economically feasible to continue the Fund and it would be in the best interests of the Unitholders to terminate the Fund. After paying outstanding liabilities, the Fund will distribute its remaining assets pro rate to Unitholders.

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

## **5.3 *DISTRIBUTIONS***

### **5.3.1 *Distribution Policy***

The Fund provides a stable stream of monthly cash distributions to Unitholders of record on or about the last business day of each month (such date, a "Record Date") equal to approximately \$0.50 per annum (\$0.04167 per month, approximately 5.0% per annum yield on the original issue price of \$10.00 per Unit). Monthly cash distributions on the Units are funded primarily from the distributions received by the Fund on the securities in the Portfolio, and may also be funded by net realized capital gains. If the Fund's net income and net realized capital gains in a year are insufficient to fund the regular distributions of \$0.50 per annum, the balance of the regular distributions will constitute a return of capital to Unitholders. Distributions per Unit paid to the end of March 2007 by the Fund are set out in the following table:

<b>Historical Distributions:</b>			
<b>2006</b>		<b>2007</b>	
<b>June</b>	\$0.06222	<b>January</b>	\$0.04167
<b>July</b>	\$0.04167	<b>February</b>	\$0.04167
<b>August</b>	\$0.04167	<b>March</b>	\$0.04167
<b>September</b>	\$0.04167		
<b>October</b>	\$0.04167		
<b>November</b>	\$0.04167		
<b>December</b>	\$0.04167		
<b>December</b>	\$0.14016		
<b>2006 Total</b>	<b>\$0.4524</b>	<b>2007 Total</b>	<b>\$0.12501</b>
<b>Total Distributions Since Inception:</b>			<b>\$0.57741</b>

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

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

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

## **5.4 REDEMPTION OF UNITS**

### **5.4.1 Annual Redemptions**

Commencing in 2007, Units may be redeemed on the last business day of October in each year (the “Redemption Date”), subject to the Fund’s right to suspend redemptions, for a redemption price per Unit (the “annual Redemption Amount”) based on the NAV per Unit less any costs of funding the redemption and the Unitholder will receive payment on or before the 15<sup>th</sup> day following the Redemption Date. Notice of Redemption must be provided between 45 days and the 20<sup>th</sup> business day before the Redemption Date (the “Notice Period”).

Redeeming Unitholders will be entitled to receive a redemption price per Unit based on the NAV per Unit determined as of the Redemption Date. Any unpaid distribution payable on or before the Redemption Date in respect of Units tendered for redemption on such Redemption Date will also be paid on the same day as the redemption proceeds are paid. The NAV per Unit will vary depending on a number of market factors, including interest rates and volatility in the equity markets. If the Fund is extended beyond the Termination Date, Unitholders may redeem their Units on the Termination Date for the NAV as of that date.

#### **5.4.2 Monthly Redemptions**

Units may be surrendered for redemption in any month. Units properly surrendered for redemption by a Unitholder by 5:00 p.m. (Toronto time) on the 10<sup>th</sup> business day before the last business day of a month will be redeemed on the last day of that month (“Monthly Redemption Date”) and the Unitholder will receive payment on or before the 15<sup>th</sup> business day following such Monthly Redemption Date, subject to the Fund’s right to suspend redemptions in certain circumstances.

A Unitholder who properly surrenders a Unit for redemption will receive the amount, if any, equal to the lesser of (A) 96% of the weighted average trading price of the Units on the TSX during the 15 trading days preceding the applicable Monthly Redemption Date, and (B) the “closing market price” of the Units on the “closing market price” shall be an amount equal to (i) the closing price of the Units if there was a trade on the applicable Monthly Redemption Date and the market provides a closing price; (ii) the average of the highest and lowest prices of the Units if there was trading on the applicable Monthly Redemption Date and the market provides only the highest and lowest prices of the Units traded on a particular day; or (iii) the average of the last bid and last asking prices of the Units if there was no trading on the applicable Monthly Redemption Date. Notwithstanding the foregoing, a Unitholder who properly surrenders a Unit for redemption during the Notice Period for an annual redemption will receive the Annual Redemption Amount.

#### **5.4.3 Exercise of Redemption Right**

A Unitholder who desires to exercise Unit redemption privileges must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the Unitholder a written notice (the “Redemption Notice”) of the Unitholder’s intention to redeem Units. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver a notice to CDS in advance of the required time. The form of Redemption Notice will be available from a CDS Participant or the registrar and transfer agent. Any expense associated with the preparation and delivery of Redemption Notices will be for the account of the owner exercising the redemption privilege.

Except as provided under “Suspension of Redemptions”, by causing a CDS Participant to deliver to CDS a notice of a Unitholder’s intention to redeem Units, the Unitholder shall be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

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

#### **5.4.4 Suspension of Redemptions**

The Manager may direct the Trustee to suspend the redemption of Units or payment of redemption proceeds: (i) during any period when normal trading is suspended on a stock exchange or other market on which securities owned by the Fund are listed and traded, if these securities represent more than 50% by value or underlying market exposure of the total assets of the Fund without allowance for liabilities, and if these securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund; or (ii) with the prior permission of the securities regulatory authorities where required, for any period not exceeding 30 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Trustee to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised by the Manager of the suspension and that the redemption will be effected at a price determined on the first business day following the termination of the suspension. All such Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition is giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

#### **5.4.5 Purchase for Cancellation**

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

## **6 VALUATION**

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

The net asset value of the Fund (the “NAV”) on a particular date is equal to the aggregate value of the assets of the Fund, less the aggregate value of the liabilities of the Fund, including any income, net realized capital gains or other amounts declared payable to Unitholders on or before such date expressed in Canadian dollars at the applicable exchange rate on such date. The “NAV per Unit” on a particular date is obtained by dividing the NAV on such date by the number of Units then outstanding.

RBC Dexia has been appointed as the valuation agent of the Fund (in such capacity, the “Valuation Agent”) pursuant to the provisions of the Trust Agreement. The NAV per Unit is calculated as of 4:00 p.m. (Toronto time) on the following days (each, a “Valuation Date”): (i) each Friday during the year (or, if a Friday is not a business day, then on the business day following such Friday); and (ii) each Redemption Date. Such information will be provided by the Manager to Unitholders on request and it is posted on the Manager’s website ([www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com)).

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

In determining the NAV at any time, the Valuation Agent takes into account the following:

- (a) the value of any cash on hand or on deposit, prepaid expenses, cash distributions declared and interest accrued and not yet received, shall be deemed to be the face amount thereof unless the Valuation Agent determines that any such asset is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Valuation Agent determines to be the fair value thereof;
- (b) the value of any security that is listed or dealt in on a stock exchange shall be valued at the closing sale price applicable to a board lot last reported at 4:00 p.m. on the Valuation Date on the principal stock exchange on which such security is traded, or, if no sale price is available at that time, the last closing price quoted for the security, but if bid and ask quotes are available, at the average of the latest bid and asked price rather than at the last quoted closing price;
- (c) any security purchased, the purchase price of which has not been paid, shall be included for valuation purposes as a security held, and the purchase price, including brokers’ commissions and other expenses, shall be treated as a liability of the Fund;
- (d) any security sold but not delivered, pending receipt of the proceeds, shall be valued at the net sale price;
- (e) Restricted Securities (as that term is defined in NI 81-102) shall be valued at the lesser of:
  - a. The value thereof based on reported quotations of such Restricted Securities in common use; and
  - b. That percentage of the market value of securities of the class or series of a class of which the Restricted Securities form part that are not Restricted Securities equal to the percentage that the Fund’s acquisition cost was of the market value of such securities at the time of acquisition, but taking into account, if appropriate, the amount of time remaining until the Restricted Securities will cease to be Restricted Securities;
- (f) If any date on which NAV is determined is not a business day, then the property of the Fund will be valued as if such date was the preceding business day;
- (g) If any investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Valuation Agent to be inappropriate under the circumstances, then notwithstanding the foregoing rules, the Valuation

Agent shall make such valuation as it considers fair and reasonable;

- (h) the value of all assets of the Fund quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable to the Fund in foreign currency and the value of all liabilities and contractual obligations payable by the Fund in foreign currency shall be determined using the applicable rate of exchange current at, or as nearly as practicable to, the applicable date on which NAV is determined; and
- (i) estimated operating expenses of the Fund shall be accrued to the date as of which the NAV is being determined.

## **6.2 AUDIT OF FINANCIAL STATEMENTS**

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

## **7 PORTFOLIO TRANSACTIONS AND BROKERAGE**

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

## **8 CUSTODIAN**

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

## **9 AUDITORS**

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

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

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

## **11 FEES AND EXPENSES**

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

The expenses of the Offering (including the costs of creating and organizing the Fund, the costs of printing and preparing the prospectus, legal expenses, marketing and advertising expenses and other reasonable out-of-pocket expenses) incurred by the Fund and the Agents and other incidental expenses, which were \$605,197, were paid out of the gross proceeds of the Offering. In addition, the Agents' fees, which were \$2,640,000, were also paid to the Agents from the gross proceeds of the Offering.

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

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

The total management fees charged to the Fund during the period from May 17, 2006 (commencement of operations) to March

31, 2007 were \$545,214. The Investment Manager is remunerated by the Manager out of the management fee.

The Fund pays for all ordinary expenses incurred in connection with its operation and administration. These expenses include, without limitation: mailing and printing expenses for periodic reports to Unitholders and other Unitholder communications including marketing and advertising expenses; fees payable to Computershare Investor Services Inc. for acting as registrar, transfer agent and distribution agent and performing certain financial, record-keeping, reporting and general administrative services; fees payable to the Trustee for acting as trustee of the Fund, any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their on-going obligations to the Fund; any additional fees payable to the Manager for performance of extraordinary services on behalf of the Fund; fees payable to the auditors and legal advisors; regulatory filing, stock exchange and licensing fees; any expenditures incurred upon the termination of the Fund; and fees payable to the independent members of the Advisory Board. Such expenses also include expenses of any action, suit or other proceedings in which or in relation to which the Manager is entitled to indemnity by the Fund. See "Management of the Fund". The aggregate amount of these fees and expenses during the period from May 17, 2006 (commencement of operations) to March 31, 2007 was \$272,333. The Fund is also responsible for any debt service and costs relating to the Leverage Transactions, fees associated with interest hedging activities and any extraordinary expenses which it may incur from time to time. The aggregate amount of these fees and expenses during the period from May 17, 2006 (commencement of operations) to March 31, 2007 was \$210,193.

The Manager also pays a Service Fee to each dealer whose clients hold Units. The Service Fee accrues daily, it's paid at the end of each calendar quarter and is equal to 0.40% annually of the NAV of the Units held by clients of the dealer, plus any applicable taxes. The aggregate amount of these fees during the period from May 17, 2006 (commencement of operations) to March 31, 2007 was \$188,310.

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

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Units and does not describe the income tax consequences relating to the deductibility of interest on money borrowed to acquire Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on an investor's particular circumstances including the province or territory in which the investor resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any investor. Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units, based on their particular circumstances.**

### ***12.1 STATUS OF THE FUND***

The Fund qualifies and intends to qualify as a "mutual fund trust" within the meaning of the Tax Act. The Fund elected under the Tax Act to be a mutual fund trust from the date it was established. To continue to qualify as a mutual fund trust, (i) the Fund must be a Canadian resident "unit trust" for purposes of the Tax Act; (ii) the only undertaking of the Fund must be the investing of its funds in property (other than real property or interests in real property); and (iii) the Fund must comply with certain minimum requirements respecting the ownership and dispersal of Units.

An additional condition to continue to qualify as a mutual fund trust for purposes of the Tax Act is that the Fund may not be established or maintained primarily for the benefit of non-resident persons unless, at all times, substantially all of its property consists of property other than "taxable Canadian property" within the meaning of the Tax Act.

If the Fund were not to qualify as a mutual fund trust at all times, the income tax considerations as described below and under would in some respects be materially different.

### ***12.2 TAXATION OF THE FUND***

The Fund is subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to Unitholders in the year. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid in the year by the Fund or the Unitholder is entitled in that year to enforce payment of the amount.

The Fund is required to include in its income for a taxation year all dividends received in the year on shares of corporations.

The Fund is also required to include in its income for each taxation year all interest on the debt securities it holds that accrues or is deemed to accrue to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a previous taxation year.

In determining the income of the Fund, gains or losses realized upon dispositions of Portfolio securities of the Fund are constitute capital gains or capital losses of the Fund in the year realized unless the Fund is considered to be trading or dealing in securities or otherwise carrying on a business of buying and selling securities or the Fund has acquired the securities in a transaction or transactions considered to be an adventure in the nature of trade.

The Portfolio includes securities that are not denominated in Canadian dollars. Proceeds of disposition of securities, distributions, interest and all other amounts are determined for the purposes of the Tax Act in Canadian dollars at the exchange rate prevailing at the time of the transaction. The Fund may realize gains or losses by virtue of the fluctuation in the value of foreign currencies relative to Canadian dollars.

The Fund may derive income or gains from investments in countries other than Canada and, as a result, may be liable to pay income or profits tax to such countries. To the extent that such foreign tax paid does not exceed 15% of such amount and has not been deducted in computing the Fund's income, the Fund may designate a portion of its foreign source income in respect of a Unitholder so that such income and a portion of the foreign tax paid by the Fund may be regarded as foreign source income of, and foreign tax paid by, the Unitholder for the purposes of the foreign tax credit provisions of the Tax Act. To the extent that such foreign tax paid by the Fund exceeds 15% of the amount included in the Fund's income from such investments, such excess may generally be deducted by the Fund in computing its income for the purposes of the Tax Act.

In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income, including interest on the Loan Facility generally to the extent borrowed funds are used to purchase Portfolio securities. The Fund may generally deduct the costs and expenses of this Offering paid by the Fund and not reimbursed at a rate of 20% per year, pro-rated where the Fund's taxation year is less than 365 days.

The Fund intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains as described under "Distributions", it will generally not be liable in such year for income tax under Part I of the Tax Act.

### ***12.3 TAXATION OF UNITHOLDERS***

A Unitholder is generally required to include in computing income for a taxation year the amount of the Fund's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder (whether in cash or in Units) in the taxation year. The non-taxable portion of the Fund's net realized capital gains paid or payable to a Unitholder in a taxation year will not be included in the Unitholder's income for the year. Any other amount in excess of the Fund's net income for a taxation year paid or payable to the Unitholder in the year will not generally be included in the Unitholder's income. Such amount, however, will generally reduce the adjusted cost base of the Unitholder's Units. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed capital gain.

Provided that appropriate designations are made by the Fund, such portion of: (i) the net realized taxable capital gains of the Fund, (ii) income of the Fund from foreign sources, and (iii) dividends received on shares of taxable Canadian corporations, as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. A taxable Unitholder will generally be entitled to foreign tax credits in respect of foreign taxes under and subject to the general foreign tax credit rules under the Tax Act and depending upon other foreign source income or loss of and foreign taxes paid by the Unitholder. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply.

Under the Tax Act, the Fund is permitted to deduct in computing its income for a taxation year an amount that is less than the amount of its distributions for the year. This will enable the Fund to utilize, in any taxation year, losses from prior years without affecting the ability of the Fund to distribute its income annually. The amount distributed to a Unitholder but not deducted by the Fund will not be included in the Unitholder's income. However, the adjusted cost base of the Unitholder's Units will be reduced by such amount.

The NAV per Unit reflects any income and gains of the Fund that have accrued at the time Units are acquired. Accordingly, a Unitholder who acquires Units may become taxable on the Unitholder's share of income and gains of the Fund that accrued before the Units were acquired notwithstanding that such amounts would have been reflected in the price paid by the Unitholder for the Units.

On the disposition or deemed disposition of a Unit, the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition. For the purpose of determining the adjusted cost base of Units to a Unitholder, when Units are acquired, the cost of the newly acquired Units will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property immediately before that time. The cost of Units acquired as a distribution of income or capital gains will generally be equal to the amount of the distribution. A consolidation of Units following a distribution paid in the form of additional Units will not be regarded as a disposition of Units and will not affect the aggregate adjusted cost base to a Unitholder of Units.

One half of any capital gain realized on the disposition of Units will be included in the Unitholder's income and one half of any capital loss realized may be deducted from taxable capital gains in accordance with the provisions of the Tax Act.

In general terms, net income of the Fund paid or payable to a Unitholder that is designated as taxable dividends received on shares of taxable Canadian corporations, or net realized taxable capital gains or taxable capital gains realized on the disposition of Units, may increase the Unitholder's liability for alternative minimum tax.

### **13 MATERIAL CONTRACTS**

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

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

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

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**Connor, Clark & Lunn Global Financials Fund**

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

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