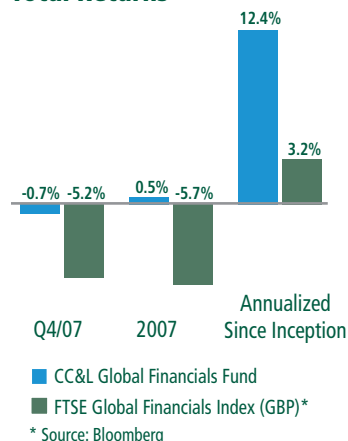


### Total Returns



Since inception in May 2006, the Fund has generated a total return of approximately 21%. The Fund is actively managed by New Star Asset Management Limited (“New Star”) and invests in the global financial services sector. New Star is a wholly owned subsidiary of New Star Asset Management Group PLC, a UK asset management group with approximately £23 billion in assets under management. New Star has a strong track record in investing in the global financial services sector. The case for

investing in financial companies is strengthened by the likelihood that banking, pensions, insurance and asset management companies all stand to benefit from ageing populations and rising incomes in developed countries. At the same time, there is increasing wealth and opportunity in emerging economies. It is intended that at least 90% of the value of the portfolio will be hedged from UK Pounds Sterling back to the Canadian dollar.

On December 11, 2007, Connor, Clark & Lunn Global Financials Fund and Connor, Clark & Lunn Global Financials Fund II announced a proposal that would result in the merger of the funds with Global Financials Fund II as the continuing fund. A proposal permitting Global Financials Fund II to issue warrants to its unitholders was also announced. The investment objectives, investment strategy and investment process of both funds are substantially similar and are based on New Star Asset Management’s expertise in investing in the global financial services sector. Currently, approximately 96% of the holdings of the Funds overlap. With these similarities, there are several advantages to merging the funds to create a larger fund. These advantages include lower costs, greater liquidity and higher levels of monthly distributions for unitholders of Global Financials Fund as well as the opportunity to participate in Global Financials Fund II’s distribution reinvestment plan. The merger proposal will be implemented as a “qualifying exchange” within the meaning of the Income Tax Act (Canada). This means that there should not be any tax payable by unitholders on completion of the merger. If approved, the merger is expected to be implemented in February 2008.

### New Star Asset Management Limited Commentary

The Fund continued to significantly outperform its benchmark in 2007 and the fourth quarter. The broad spread of the portfolio, both in terms of sectors and regions, helped to limit the impact of the sub-prime mortgage crisis. The Fund limited exposure to stocks most affected by the credit crunch by maintaining a focus on countries where structural local growth themes prevailed.

Greek banking stocks performed positively for the Fund. Healthy loan-to-deposit ratios, strong balance sheets and stable earnings growth prospects relative to comparable banks in Western Europe underlie the investment case for these banks.

Turkish banking stocks also outperformed the European banks. A surprise early rate cut in September, which was followed up with further

cuts encouraged investors. One of the fund’s holdings, Turkiye Halk Bankasi, significantly outperformed the Turkish market. The banks share price had a particularly strong end to the year after further details were released about the Turkish government’s plans to sell its majority stake in the bank during 2008.

The Fund’s exposure to financial and property stocks in Asia, notably Hong Kong and China, performed very strongly after China relaxed the rules on domestic institutions investing abroad. The Fund reduced its exposure to these stocks towards the end of the year as valuations had begun to look demanding.

The last three months of the year were marked by high levels of volatility and weak investor sentiment. The second round effects of the credit crisis began to emerge as commercial banks, investment banks and insurance groups reported quarterly results with significant write-downs on the structured credit products created from US sub-prime mortgages. The credit crunch continued to take hold as banks were increasingly unwilling to lend to each other, let alone anyone else. The financial system, however, was supported by additional liquidity from central banks and by the end of December short-term interbank rates had fallen relative to central bank policy rates in the major countries, giving financial stocks some reprieve.

Emerging markets, particularly those in the Far East driven by the booming economies of China and India, weathered the period under review better as investors contrasted their dynamism with the over-indebtedness of the developed markets. The steepness of the share price declines in US financial stocks suggested that investors feared the credit crunch could herald problems in the US economy and that the issues in the US housing market could spread to other credit-sensitive sectors. By the end of the year there were suggestions that growth forecasts for the eurozone and Asia might also need revising if the US slowdown were to have a dampening effect on global economic growth.

The Fund began 2008 predominantly invested in Europe, where financial consolidation continued to drive returns. The main overweight positions were in the east in Cyprus, Greece and Turkey and in the west in Switzerland and the UK. The Fund maintained its high exposure to banks and general financial stocks, with Standard Chartered and Man Group in the UK among the biggest holdings.

Some areas of the financial markets have become increasingly attractive such as hedge funds, which can perform well in difficult environments. Man Group, for instance, is a key investment opportunity for the Fund. Global financial exchanges and inter-broker dealers such as Deutsche Börse and ICAP also have potential as investments through which to benefit from heightened volatility. Uncertainty in global stock markets has typically generated increased trading volumes for such businesses as investors seek protection.

In the banking sector, certain companies are less exposed to the sub-prime fallout, notably in countries where the structural growth themes remain intact. Standard Chartered, an international banking group operating in Asia, Africa, Latin America and the Middle East, is one example because it has strong earnings momentum driven by increasing credit volumes and stable credit quality in these markets.

## **OUTLOOK**

Companies in the financial sector were trading on comparatively low relative valuations before the credit crisis started in the summer of 2007. The recent de-rating as a result of negative market sentiment has pushed down share valuations to the extent that some are trading at 20-year

lows. It is likely that there will be a contained slowdown in economic growth rather than a full-blown recession. In such circumstances, we believe that sentiment should begin to turn as earnings visibility becomes clearer, enabling financial stocks to enjoy a recovery.

The Fund will aim to continue to avoid banks with exposure to the deteriorating credit cycle as well as those with exposure to property in Europe, particularly in the UK, Ireland and Spain, which will continue to come under pressure. The Fund will also continue to avoid retail banks with high exposures to potentially problematic loans and those likely to experience lower trading volumes on these products.

## **MARKET DATA (DECEMBER 31, 2007)**

Initial Yield:	<b>5.00%</b>	TSX Ticker:	<b>GFF.UN</b>
Monthly Distribution:	<b>\$0.04167</b>	Issue Price:	<b>\$10.00</b>
Cumulative Distributions:	<b>\$0.95</b>	Trading Price:	<b>\$9.63</b>
Issue Date:	<b>17 May 06</b>	NAV:	<b>\$10.40</b>
Redemption Date:	<b>31 May 16</b>	Market Cap:	<b>\$40,328,264</b>

## **TOP SECTORS**

	% of Portfolio
Diversified Financials	37.0%
Banks	36.3%
Real Estate	6.7%
Insurance	6.2%
Software & Services	3.0%
Other	0.3%

## **TOP TEN HOLDINGS**

	% of Portfolio
Man Group	4.86%
Turkiye Halk Bankasi	4.84%
Standard Chartered	4.83%
Bank of Cyprus	4.10%
Hellenic Exchanges	3.74%
Deutsche Boerse	3.54%
Turkiye Garanti Bankasi	3.43%
Temenos Group	3.04%
Banque Cantonale Vaudoise	2.99%
Prudential	2.89%

## **TOP TEN COUNTRIES**

	% of Portfolio
UK	25.3%
Greece	15.2%
Switzerland	13.1%
Turkey	10.9%
US	8.7%
Germany	7.0%
France	4.4%
Italy	2.9%
Holland	2.6%
Norway	2.5%