

2009

**Connor, Clark & Lunn**  
**Global Financials Fund II**  
Annual Report  
December 31, 2009

March 11, 2010

Dear Investor,

Over the long term the financial services sector has traditionally generated strong returns for investors, but inevitably there have been ‘bumps in the road’. We have recently been through a ‘bump’ of historic proportions as the sector was at the epicentre of the great recession. Governments and central banks around the world have done a very good job of not only stabilizing the crisis but also providing the macro-economic environment required to facilitate a resumption of economic growth. The share prices of the financial services sector have reacted accordingly. They are no longer being priced based on the perception that the whole sector was on the edge of bankruptcy. Since the low in March, the MSCI World Financials Index was up by over 69% over the remainder of the year (in pound sterling terms). It is still down over 50% from its high in early 2007.

The total return of the Connor Clark & Lunn Global Financials Fund II (the “Fund”) based on net asset value was 16.7%, while the unit price on the stock exchange was up by 21%. These returns compare favourably to the Investment Manager’s benchmark, the FTSE Global Financials Index that was up by 13.1%. Since inception in 2007 the Fund has had an annualized return of -7.9% versus an index return of -13.1%. So, while we are not pleased with the absolute returns for the Fund, our Investment Manager has done a very good job with respect to the task (investing in the financial sector) that we have given him.

Although share prices have had a good recovery, they are still well below the levels of a few years ago. An important question for investors today is whether financial sector companies will be able to get back to ‘normalized’ earnings, how long will it take them to do so and, given the recent past, what valuation levels will investors be willing to pay for these earnings. Key variables to watch in this regard are the pace at which the macro-economic environment continues to improve and what form any new regulations for the sector will take. Increased capital requirements and/or restrictions on business activities could lower the level at which earnings normalize.

The Fund is actively managed by Henderson Group PLC., after their acquisition of New Star Asset Management Limited. Henderson is one of Europe’s largest and most established investment companies with a 75-year history and £58 billion in assets under management. In October 2009, Emily Adderson assumed portfolio management responsibilities for the Fund following the departure of Guy de Blonay. Ms Adderson has spent the last three and a half years working alongside Mr. de Blonay and is therefore best positioned to assume management of the Fund.

Please check our web site for quarterly investment updates and other timely information. We appreciate your investment in the Fund and would like to thank you for your continued support.

Yours truly,



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

# Management Report of Fund Performance

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. **The annual financial statements and accompanying notes are attached to this report.**

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

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

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

## Investment Objectives and Strategy

The Connor, Clark & Lunn Global Financials Fund II (the “Fund”) is a closed-end investment fund that is listed on the Toronto Stock Exchange under the symbol GFT.UN. It was established under the laws of the Province of Ontario pursuant to a trust agreement dated as of February 27, 2007.

Beneficial interest in the net assets and net income of the Fund is divided between the common units (“the Common Units”) and class F units (the “Class F Units”). The principal differences between the Common Units and the Class F Units are that the agents’ fees payable with respect to the original issuance of the units were lower for the Class F Units, and that the service fee component of the manager’s fee and the TSX listing fees are not paid by Class F Units.

The Fund’s investment objectives are to:

- (i) provide holders of the Common Units and the Class F Units (“Unitholders”) with a stable stream of monthly cash distributions initially targeted to be \$0.05 per unit (representing a yield of approximately 6.0% per annum on the issue price of \$10.00 per Unit);
- (ii) preserve and enhance the Transactional NAV per Unit of the Fund.

In order to achieve the Fund’s investment objectives, Henderson Group plc (the “Investment Manager” or “Henderson”) (Formerly: New Star Asset Management Limited), the Fund’s investment manager, invested the net proceeds of the Offering, in a portfolio (the “Portfolio”) consisting of securities of global financial services businesses. In addition, from time to time, the Portfolio may include significant cash and cash equivalents.

On October 22, 2008, the Fund announced a change to the monthly distribution rate as a result of ongoing difficult market conditions. The monthly distribution level was changed from \$0.05 to \$0.0375 per unit for both the Common and Class F Units (or from \$0.60 to \$0.45 per annum).

## **Risk**

### ***Leverage***

The Fund's investment restrictions contemplate leverage of up to 15.0% of total net asset value. Leverage increases the exposure of the fund to market fluctuations. The Fund pays interest on the amount borrowed and such interest payments may exceed the total return on the leveraged portion of the Fund's portfolio. During the year ended December 31, 2009, the Fund employed leverage in the range of 0-11.4%. The Credit Facility had an outstanding balance of \$3,000,000 (or 5.8% of NAV) as of December 31, 2009 (\$nil as of December 31, 2008).

### ***Warrants***

The issuance of warrants in May 2008 could result in a risk of dilution to existing unitholders. As disclosed in the prospectus of the warrant offering, if unitholders wish to retain their current percentage ownership in the Fund, and assuming that all warrants are exercised, then the unitholders should purchase all of the units for which they may subscribe pursuant to the warrants delivered under the offering. If a unitholder does not do so, and other holders of warrants exercise any of their warrants, that unitholder's current percentage in the Fund will be diluted by the issue of units under the offering.

Due to the warrants offering, the unitholders are exposed to the risk of dilution, but since the exercise price of (\$8.20) is higher than the current Transactional NAV, the diluted weighted average number of units outstanding during the year is the same as what is shown in the above basic calculation. The Fund considers capital to include all units issued and outstanding.

For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated February 27, 2007.

## **Recent Developments**

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

In February 2008, the Canadian Accounting Standards Board confirmed that the International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on January 1, 2011. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Funds. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

### ***Adoption of New Accounting Standards***

*CICA Section 3862, "Financial Instruments – Disclosures"*: In March 2009, the Canadian Accounting Standards Board announced it has agreed to adopt recent amendments to IFRS 7, "Financial Instruments: Disclosures", into Section 3862, "Financial Instruments – Disclosures". The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs. The Fund adopted the amendments to Section 3862 as of January 1, 2009. This standard impacted the Fund's disclosure provided but did not affect the Fund's results or financial position.

*EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities"*: On January 20, 2009, the CICA Emerging Issues Committee issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The abstract requires the entity's own credit risk and the risk of the counterparty should be taken into consideration in assessing the fair value of financial assets and financial liabilities. The Fund adopted the abstract as of January 1, 2009.

# Results of Operations

## *Investment Manager Commentary*

### *Overview*

The period under review has been a challenging and yet exciting period for investing in the financial sector. For those investors brave enough to take tentative investments into financials in early Spring 2009, the returns have been exceptional with the MSCI World Financials Index up 69.14%, the European banks index up 99.14%, European insurers up 57.23% and the US banks index up 59.88% (in sterling terms). Of course investing at that point in the cycle was not for the faint hearted as the period up until mid March 2009 contained the worst elements of the financial crisis with banks taking centre-stage over worries about capital, large write-downs, nationalisations and the end of the ban on short-selling the sector.

The sentiment shift from early March was aided by the investment banks indicating that they had been profitable in the first two months of the year on the back of wide spreads in fixed income, commodities and currencies (FICC). Alongside this, confidence grew that policymakers had managed to avoid a systemic collapse of the banking system and a deflationary depression through their monetary, fiscal and financial policies. These factors helped to create a floor for credit and equity markets.

Financials strengthened throughout the summer months as appetite for risk improved and, as the market brushed aside any negative news flow, the reporting season provided plenty of catalysts for analyst upgrades. Within the financial sector, banks with capital market exposure had stellar earnings reports driven by revenues from the FICC divisions and more positive news came from the retail banks, which generally seemed to be experiencing a slowdown in the rate of deterioration in credit quality of their loan portfolios. While there were some geographical regions that were still experiencing difficult conditions, the general message from managements seemed to be one more of optimism.

By September – the first anniversary of the collapse of Lehman Brothers – news flow for the sector centred on a large wave of rights issues, capital raisings and initial public offerings as investor risk appetite proved buoyant. Company managements were also mindful that regulators around the globe were co-ordinating a release of new limits and guidelines for banks on levels of Tier one capital, liquidity and leverage which potentially could be restrictive to future growth if balance sheets were not fully repaired by the time of implementation.

Towards the end of the period under review, markets paused for reflection after the strong share price appreciation. Investors in the financial sector began weighing up the outlook for pressures from regulation, sovereign credit risk and liquidity withdrawal against the opportunities presented by global recovery and the transition to more normalised earnings.

### *Performance*

The Fund performed strongly over the 12 month period under review. The Fund outperformed in the first quarter of the year by maintaining its more defensive positioning in financial bonds and less volatile companies such as the reinsurers. However, the Fund also performed strongly since the March lows. A more optimistic positioning was taken in April, with the Fund building positions in equities. Financials en masse rallied on the back of the stabilising support from central banks and governments, but the strongest performance was seen in those companies that had been the most severely impacted by the financial crisis. These stocks were rallying from deeply distressed valuations and once it was deemed the support was in place for their survival the risk reward trade-off proved attractive. On the back of this, the Fund recorded strong performance from holding both Bank of Ireland and Natixis during the summer months. In general, however, the Fund preferred to hold franchises that had taken little government support and had been opportunistic in acquiring new earnings-enhancing businesses during the crisis. Examples of strong performers included Barclays, which avoided the shackles of government support and benefited from the opportunistic purchase of part of Lehman's investment banking franchise; and Bank of America, which has the potential to develop into a world-leading bank after the acquisition of Merrill Lynch.

It became clear earlier in 2009 that for the Fund to benefit more fully from capital appreciation on the back of underlying earnings growth, opportunities would have to be found in international regions outside of the US and Europe. In particular, emerging markets offer attractive growth profiles given the low penetration/saturation of financial products and services. The favourable macro backdrops as well as healthy government budget surpluses are providing supportive fundamental investment rationales for financials in particular. Financials are structurally geared to economic growth as demand for loans responds to investment spending and consumer demand. In addition, the banking systems of Asia and Latin America did not

suffer from the financial crisis to the extent of their western peers because they were less exposed to structured products, were better capitalised and did not face an over-indebted consumer. The Fund especially benefitted from strong performance in real estate in Brazil and China over the period.

### *Investment Themes*

The fundamental drivers of the banking sector such as low interest rates, an upward-sloping steep yield curve, controlled inflation and stabilising credit costs continue to be supportive in early 2010. At current valuation, we also believe the sector looks attractive trading at around 30% below historical averages.

There are, however, some potential hurdles that the financial sector will face this year, including exit strategies from monetary support and low rates, the market's perceptions of sovereign risk and/or fiscal tightening and the hawkishness of new regulation. Nevertheless, we believe that the new regulatory environment will take time to implement and this will continue to allow banks to earn their way to full recapitalisation.

In light of this, good stock picking is critical to success and we believe a portfolio constructed around the key themes highlighted below is the best way to maximise returns for shareholders.

The developed world financials will show benign loan growth during this year, so in order to access bottom up earnings growth for financials the Fund will look to regions with strong economic momentum. The Fund will, therefore, take advantage of its new investment remit of international exposure, in particular financials with business in higher growth regions such as Asia, Russia and Latin America. There is likely to be a focus not only on large international companies with business divisions in these regions but also local domestic players that have the opportunity to gain market share through acquisitions or inorganic growth. Examples include Itau Unibanco in Brazil, Industrial & Commercial Bank of China and Sberbank in Russia.

For developed world financials, ongoing analysis of the strength of the macroeconomic recovery will be paramount. Investment opportunities are likely to revolve around those banks where non-performing loans are peaking and provisioning levels can decline quickly. Within this theme, the Fund is focusing on financials with strong balance sheets that have stabilising or growing earnings, and the ability to increase dividends. We are also looking for companies with the potential to undertake acquisitions to bolster market share or with sufficient internal capital to support organic growth. Examples here include DNB Nor, Barclays and JP Morgan.

We believe that interest rates globally are going to stay lower for longer and that accommodative monetary policy will be around for most of 2010. In light of this, we continue to see the steep yield curve as favourable for financials. The investment banks provide the most direct vehicle to benefit from this theme. The Fund therefore remains exposed to a basket of these names. This theme of easy monetary policy ties in with the positive outlook for equity markets and supports a favourable environment for asset gathers including alternatives managers and traditional asset managers. We believe equities as an asset class will continue to recover and that there will be continued inflows out of government bonds and cash looking for better total returns.

The financial crisis has created a new environment whereby companies have mostly recapitalised but are subject to pressure from regulators to restructure and focus on core businesses. We see opportunities from this theme not only for banks but also insurers. As such, underlying operational performance may not be the fundamental driver to share price performance. We see potential for valuation upside and lower execution risk of restructuring in both Fortis and Lloyds.

Finally, a defensive angle against the higher beta financials in the portfolio will be to look for companies which can increase their payout to shareholders over the coming years. We believe we are nearing the trough in dividend payouts from the large financials globally, and we should gradually begin to see a reinstatement of progressive dividend policies as financial groups seek to rehabilitate their relationship with their shareholder base. That said, attractive dividend yields amongst financials already exist. One of the portfolio's largest holdings, Banque Cantonale Vaudoise, a low risk Swiss regional bank, is a high yielding stock; it has embarked on a process of returning its excess capital to shareholders over the next few years.

### *Investment Income and Capital Gains*

During the year ended December 31, 2009, the Fund had net investment loss of \$733,234 and realized \$13,582,271 in gains on investments sold and foreign currency movements. In addition, the portfolio had a \$165,562 decrease in net unrealized losses on its investments and foreign currency positions. Investment loss, realized gains and unrealized losses combined for

a total increase in net assets from operations of \$12,683,475. Distributions to unitholders during same period totalled \$4,899,325 for the Common Units or \$0.45 per unit and \$120,063 for Class F Units or \$0.45 per unit.

### ***Liquidity and Capital Resources***

As at December 31, 2009, the Fund had current assets excluding investments of \$5,061,189. Current liabilities, including distributions accrued but not yet paid, totalled \$3,574,206.

### ***Capital transactions***

On March 22, 2007, the Fund completed an initial public offering pursuant to the prospectus dated February 27, 2007. \$108,133,800 was raised through the issue of 10,500,000 Common Units and over 313,380 Class F Units at a price of \$10.00 per Unit. On April 12, 2007, the Agents exercised an over-allotment option in respect of 185,000 Common Units, and 47,500 Class F Units raising a further \$2,325,000. Total proceeds from these two transactions after Agents' fees and issue expense were \$104,385,406. The Common Units were issued at \$10 per unit and incurred agents fees and issue expenses of \$0.56 per unit, for an opening Transactional NAV of \$9.44 per unit. The Class F Units were issued at \$10 per unit and incurred agents fees and issue expenses of \$0.27 per unit, for an opening Transactional NAV of \$9.73 per unit.

On February 1, 2008, upon following the merger of Connor, Clark & Lunn Global Financials Fund and Connor, Clark & Lunn Global Financials Fund II, Connor, Clark & Lunn Global Financials Fund II received 4,750,154 Common Units for an equivalent value of \$40,366,371.

The Fund has issued to holders of its common units warrants (the "Warrants") to subscribe for Units pursuant to a final prospectus dated May 23, 2008 and to holders of its Class F units Class F warrants (the "Class F Warrants") to subscribe for Class F Units on a private placement basis.

Under the warrant offerings, the Fund issued one-half of a Warrant for each Unit of the Fund held by holders of record on June 9, 2008 (the "Record Date"). Each whole Warrant entitles the holder thereof to purchase one Unit at a price of \$8.20 per Unit on the second business day after the last day of each month, commencing on July 3, 2008 and ending on July 5, 2010. This means that the Warrants may be exercised on any of 24 specific dates. The Warrants started trading on June 5, 2008 under the ticker symbol "GFT.WT" and will continue trading until July 5, 2010.

The Fund also issued on a private placement basis one-half of a Class F Warrant for each Class F Unit held by holders of record of the Class F Units on the Record Date. Each whole Class F Warrant entitles the holder thereof to purchase one Class F Unit on the second business day after the last day of each month, commencing on July 3, 2008 and ending on July 5, 2010. This means that the Class F Warrants may be exercised on any of 24 specific dates. The exercise price for the Class F Warrants will be an amount equal to the Transactional NAV per Class F Unit determined as of the valuation date immediately preceding the relevant exercise date.

During September 2009 the Fund had its annual Redemption Date. \$21,611,722 was paid to redeem 3,233,803 of Common Units and \$1,888,388 was paid to redeem 270,730 Class F Units. There were also 9,400 of Class F Units converted to 9,808 of Common Units for a total value of \$57,462 during the year ended December 31, 2009.

### ***Market repurchases***

As set out in the Prospectus, the Fund is obligated, under certain conditions, to purchase Common Units in the market for cancellation. If, on any day, the Common Units weighted average trading price is less than 95% of the Transactional NAV per Common Unit determined on the most recent valuation date, the Fund must purchase any Common Units offered in the market the following day at 95% of Transactional NAV per unit or less.

Pursuant to this obligation, the Fund purchased 15,640 Common Units during the year ended December 31, 2009 for a total cost of \$70,089 (92,030 Units were purchased for a total cost of \$531,842 during the year ended December 31, 2008).

## **Distributions**

The Fund has made all its scheduled distributions during the year ended December 31, 2009 paying, \$0.45 per Common Unit and \$0.45 per Class F Unit (\$0.56 per Common Unit and \$0.56 per Class F Unit during the year ended December 31, 2008).

## **Related Party Transactions**

### ***Management Fees***

Pursuant to a trust agreement (“the Trust Agreement”) the Fund retained Connor, Clark & Lunn Capital Markets Inc. to act as manager. As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Fund, the Manager is entitled to an annual management fee in an amount equal to 1.10% per annum of the Transactional NAV of the Fund to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Fund were \$707,643 during the year ended December 31, 2009 (\$1,138,022 during the year ended December 31, 2008).

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

## **Recommendations or Reports by the Independent Review Committee**

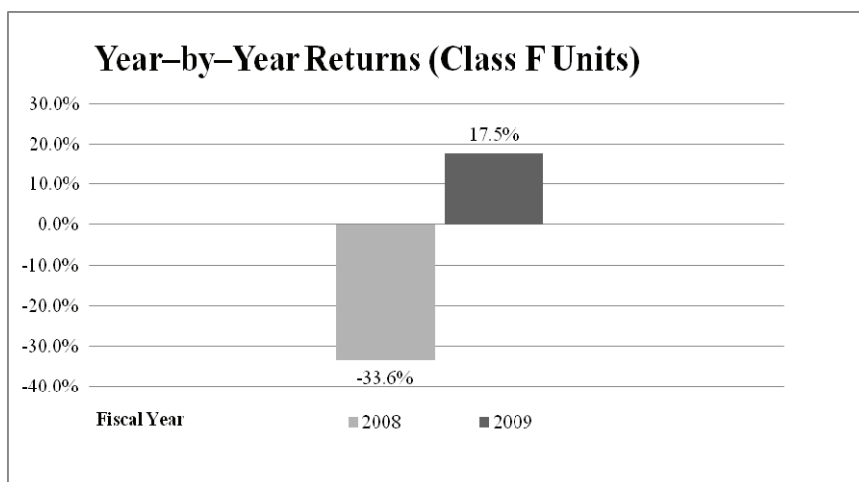
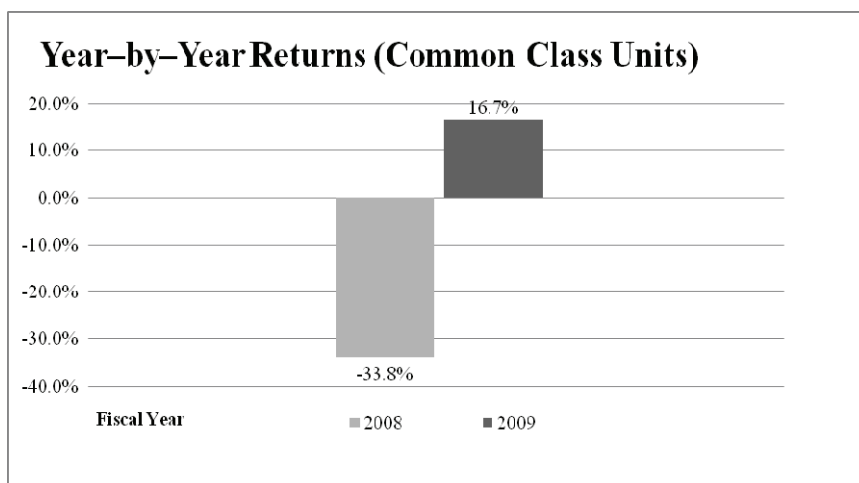
The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Fund during the year ended December 31, 2009.

## Past Performance

The following bar charts and table indicate the performance of the Common Class and the F Class Units by showing both annual returns by fiscal year and annualized compound returns assuming all the distributions made by the Fund during the periods shown were reinvested. Past performance is not necessarily indicative of future performance.

### Year – by – Year Returns

The following bar charts show the Fund’s annual performance for the years shown. These bar charts show, in percentage terms, how much an investment made on the first day of the financial year would have grown or decreased by the last day of the financial year.



### Annual Compound Returns

	Past Year	Since Inception <sup>(1)</sup>
Based on NAV (Common Class Units)	16.70%	-7.89%
Based on share price (Common Class Units)	21.00%	-13.74%
Based on NAV (Class F Units)	17.50%	-7.55%
FTSE Global Financial Index (GBP)	13.10%	-13.1%

<sup>(1)</sup> Annualized for the period March 22, 2007 (Commencement of operations) to December 31, 2009.

## Financial Highlights

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

### Common Units:

The Fund's Net Assets per Common Unit:

	December 31, 2009	December 31, 2008	December 31, 2007 <sup>(1)</sup>
<b>Net Assets, beginning of period</b>	<b>5.61</b>	<b>9.22</b>	<b>10.00</b>
<b>Increase (decrease) from operations:</b>			
Total revenues	0.16	0.27	0.24
Total expenses	(0.23)	(0.27)	(0.30)
Share issue expense <sup>(2)</sup>	—	—	(0.56)
Realized gains (losses) for the period	1.20	(2.56)	(0.71)
Unrealized gains (losses) for the period	(0.01)	(0.48)	1.01
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>1.12</b>	<b>(3.04)</b>	<b>(0.32)</b>
<b>Distributions:</b>			
From income (excluding dividends)	—	—	—
From dividends	—	—	—
From capital gains	—	—	—
Return of capital	(0.45)	(0.56)	(0.47)
<b>Total Distributions <sup>(4)</sup></b>	<b>(0.45)</b>	<b>(0.56)</b>	<b>(0.47)</b>
<b>Net Assets, end of period <sup>(5)</sup></b>	<b>6.07</b>	<b>5.61</b>	<b>9.22</b>

<sup>(1)</sup> Results for the period from March 22, 2007 (commencement of operations) to December 31, 2007.

<sup>(2)</sup> Issue expense of \$5,977,500 incurred in connection with the Common Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.

<sup>(3)</sup> Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.

<sup>(4)</sup> The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.

<sup>(5)</sup> This is not reconciliation between the opening and the closing net assets per unit.

<sup>(6)</sup> The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

Ratios and Supplemental Data (Common Units):

	December 31, 2009	December 31, 2008	December 31, 2007 <sup>(1)</sup>
Net asset value (000's)	51,513	66,145	98,209
Number of units outstanding	8,465,941	11,705,576	10,606,228
Base Management expense ratio (annualized) <sup>(2)(3)</sup>	2.26%	2.47%	2.24%
Issue expenses ratio <sup>(2)(3)</sup>	0.00%	0.00%	5.97%
Interest expense ratio <sup>(2)(3)</sup>	0.16%	0.00%	0.53%
Management expense ratio (annualized) <sup>(3)</sup>	2.42%	2.47%	8.74%
Management expense ratio before waivers or absorptions (annualized) <sup>(3)</sup>	2.42%	2.47%	8.74%
Portfolio turnover rate <sup>(5)</sup>	476.86%	674.04%	205.64%
Trading expense ratio <sup>(6)</sup>	1.64%	1.39%	1.29%
Net asset value per unit	6.08	5.65	9.26
Closing market price (TSX) - units	5.23	4.74	8.63
Closing market price (TSX) - warrants	0.005	0.02	N/A

<sup>(1)</sup> Results for the period from March 22, 2007 (commencement of operations) to December 31, 2007.

<sup>(2)</sup> A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.

<sup>(3)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.

<sup>(4)</sup> The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

<sup>(5)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Class F Units:

The Fund's Net Assets per Class F Unit:

	December 31, 2009	December 31, 2008	December 31, 2007 <sup>(1)</sup>
<b>Net Assets, beginning of period</b>	<b>5.82</b>	<b>9.51</b>	<b>10.00</b>
<b>Increase (decrease) from operations:</b>			
Total revenues	0.23	0.29	0.25
Total expenses	(0.26)	(0.25)	(0.28)
Share issue expense <sup>(2)</sup>	—	—	(0.27)
Realized gains (losses) for the period	1.74	(2.71)	(0.74)
Unrealized gains (losses) for the period	(0.02)	(0.51)	1.01
<b>Total increase (decrease) from operations<sup>(3)</sup></b>	<b>1.69</b>	<b>(3.18)</b>	<b>(0.03)</b>
<b>Distributions:</b>			
From income (excluding dividends)	—	—	—
From dividends	—	—	(0.02)
From capital gains	—	—	—
Return of capital	(0.45)	(0.56)	(0.45)
<b>Total Distributions<sup>(4)</sup></b>	<b>(0.45)</b>	<b>(0.56)</b>	<b>(0.47)</b>
<b>Net Assets, end of period<sup>(5)</sup></b>	<b>6.37</b>	<b>5.82</b>	<b>9.51</b>

<sup>(1)</sup> Results for the period from March 22, 2007 (commencement of operations) to December 31, 2007.

<sup>(2)</sup> Issue expense of \$95,894 incurred in connection with the Class F Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.

<sup>(3)</sup> Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of shares outstanding over the financial period.

<sup>(4)</sup> The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.

<sup>(5)</sup> This is not reconciliation between the opening and the closing net assets per unit.

<sup>(6)</sup> The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

Ratios and Supplemental Data (Common Units):

	December 31, 2009	December 31, 2008	December 31, 2007 <sup>(1)</sup>
Net asset value (000's)	367	1,979	3,446
Number of units outstanding	57,500	337,630	360,880
Base Management expense ratio (annualized) <sup>(2)(3)</sup>	2.11%	2.05%	1.93%
Issue expenses ratio <sup>(2)(3)</sup>	0.00%	0.00%	2.77%
Interest expense ratio <sup>(2)(3)</sup>	0.22%	0.00%	0.51%
Management expense ratio (annualized) <sup>(3)</sup>	2.33%	2.05%	5.21%
Management expense ratio before waivers or absorptions (annualized) <sup>(3)</sup>	2.33%	2.05%	5.21%
Portfolio turnover rate <sup>(4)</sup>	476.86%	674.04%	205.64%
Trading expense ratio <sup>(5)</sup>	1.64%	1.39%	1.29%
Net asset value per unit	6.38	5.86	9.55

<sup>(1)</sup> Results for the period from March 22, 2007 (commencement of operations) to December 31, 2007.

<sup>(2)</sup> A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.

<sup>(3)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.

<sup>(4)</sup> The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

<sup>(5)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Summary of Investment Portfolio as of December 31, 2009

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

<b>Portfolio by Category</b>	<b>Market Value \$</b>	<b>% of NAV</b>
Britain	8,152,052	15.7%
Switzerland	7,282,319	14.0%
Foreign currency forward contracts	6,085,467	11.8%
Brazil	6,017,966	11.5%
Cash and cash equivalents	4,808,550	9.2%
USA	4,262,088	8.4%
Norway	2,754,085	5.3%
China	2,582,635	5.0%
Spain	1,786,484	3.5%
France	1,650,957	3.1%
Singapore	1,534,189	3.0%
Italy	1,297,125	2.5%
Hong Kong	1,102,546	2.1%
Belgium	1,005,603	1.9%
Mexico	799,959	1.5%
India	590,994	1.2%
Greece	577,942	1.2%
Ireland	490,894	0.9%
Netherlands	471,210	0.9%
Bermuda	386,754	0.7%
Hungary	343,405	0.7%
Russia	286,553	0.6%
Poland	284,396	0.5%
Turkey	266,805	0.5%
Germany	225,454	0.4%
Japan	154,885	0.3%
<b>Top 25 Holdings</b>		
Foreign currency forward contracts	6,085,467	11.8%
Cash and cash equivalents	4,808,550	9.2%
Banque Cantonale Vaudoise	3,752,922	7.2%
DnB NOR ASA	2,754,085	5.3%
Templeton Emerging Markets Investment Trust PLC	2,247,720	4.3%
Barclays PLC	1,682,217	3.2%
Banque Privee Edmond de Rothschild SA	1,304,421	2.5%
Itau Unibanco Holding SA, ADR	1,296,177	2.5%
The Goldman Sachs Group Inc.	1,287,523	2.5%
Prudential PLC	1,053,911	2.0%
Credit Suisse Group AG	1,015,308	2.0%
JPMorgan Chase & Co.	980,460	1.9%
Jardine Strategic Holdings Ltd.	940,999	1.8%
Rossi Residencial SA	932,124	1.8%
Banco Santander Central Hispano SA	914,164	1.8%
Lloyds Banking Group PLC	912,582	1.8%
Gafisa SA	902,736	1.7%
Banco Bilbao Vizcaya Argentaria SA	872,320	1.7%
Fortis	845,310	1.6%
Societe Generale	838,829	1.6%
Corp GEO SAB de CV	799,959	1.5%
Cyrela Brazil Realty SA	796,928	1.5%
Man Group PLC	726,118	1.4%
Bank of China Ltd.	716,048	1.4%
Agra Empreendimentos Imobiliarios SA	712,948	1.4%
<b>Net asset value (NAV)</b>	<b>51,879,747</b>	

## Management's Responsibility for Financial Reporting

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

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

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



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



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

Toronto, Canada

**March 11, 2010**

March 31, 2010

## Auditors' Report

To the Unitholders of  
**Connor, Clark & Lunn Global Financials Fund II**

We have audited the statement of investment portfolio of **Connor, Clark & Lunn Global Financials Fund II** (the Fund) as at December 31, 2009, the statements of net assets as at December 31, 2009 and 2008 and the statements of operations, changes in net assets, surplus (deficit) and contributed surplus and cash flow for the years then ended. These financial statements are the responsibility of the Fund's Manager. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Fund's Manager, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations, the changes in its net assets and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**

## Connor, Clark & Lunn Global Financials Fund II

Statements of Net Assets

As at December 31, 2009 and 2008

	2009	2008
	\$	\$
<b>Assets</b>		
Cash	4,808,550	15,053,364
Investments at fair value (cost - \$43,650,626; 2008 - \$45,947,435)	44,200,148	44,473,745
Unrealized gain on forward currency contracts	6,085,467	8,185,611
Dividends and interest receivable	252,639	760,825
	<u>55,346,804</u>	<u>68,473,545</u>
<b>Liabilities</b>		
Bank indebtedness (note 6)	3,000,000	-
Payable for investment purchases	-	61,504
Distributions payable	319,629	452,108
Accounts payable and accrued liabilities	198,638	218,480
Management fees payable	55,939	62,743
	<u>3,574,206</u>	<u>794,835</u>
<b>Net Assets and Unitholders' Equity</b>	<u>51,772,598</u>	<u>67,678,710</u>
<b>Net Assets</b>		
<b>Common Units</b>	51,406,499	65,712,190
<b>Class F</b>	366,099	1,966,520
	<u>51,772,598</u>	<u>67,678,710</u>
<b>Units issued and outstanding (note 5)</b>		
<b>Common Units</b>	8,465,941	11,705,576
<b>Class F</b>	57,500	337,630
<b>Net assets per unit</b>		
<b>Common Units</b>	6.07	5.61
<b>Class F</b>	6.37	5.82
<b>Unitholders' Equity</b>		
Unit capital (note 5)	64,400,653	98,260,881
Contributed surplus	15,844,712	10,574,071
Surplus (deficit)	(28,472,767)	(41,156,242)
<b>Total Unitholders' Equity</b>	<u>51,772,598</u>	<u>67,678,710</u>

Approved by the Manager



Director



Director

## Connor, Clark & Lunn Global Financials Fund II

### Statements of Operations

For the years ended December 31, 2009 and 2008

	2009	2008
	\$	\$
<b>Income</b>		
Dividends	1,790,306	3,307,666
Interest	216,972	861,351
Less: Withholding taxes	(200,055)	(280,965)
	<u>1,807,223</u>	<u>3,888,052</u>
<b>Expenses</b>		
Transaction costs	1,028,050	1,413,426
Management fees (note 9)	707,643	1,138,022
Custodial and other unitholders' fees	274,110	226,548
Service fees (note 9)	252,171	408,240
Loan interest expenses (note 6)	65,120	-
Transfer agent fees	38,395	47,654
Audit fees	34,510	36,103
Interest expense	33,920	79,303
TSX Listing fees	29,268	25,827
Board of Advisors fees	21,000	22,382
Administration fees	17,484	29,018
Printing fees	13,896	97,497
Filing fees	9,249	25,746
Legal fees	8,224	351,572
Other fees	3,915	6,899
Independent Review Committee fees	3,502	2,686
	<u>2,540,457</u>	<u>3,910,923</u>
<b>Net Investment income (loss) for the period</b>	<u>(733,234)</u>	<u>(22,871)</u>
<b>Net realized gain (loss) on investments</b>		
Net realized gain (loss) on investments	12,326,282	(49,190,205)
Net realized gain (loss) on foreign exchange	(560,004)	54,159
Net realized gain (loss) on foreign currency forward contracts	1,815,993	12,271,390
	<u>13,582,271</u>	<u>(36,864,656)</u>
<b>Net change in unrealized gain (loss) on investments</b>		
Change in unrealized gain (loss) on investments	2,023,213	(1,472,618)
Change in unrealized gain (loss) on foreign exchange	(88,631)	36,375
Change in unrealized gain (loss) on foreign currency forward contracts	(2,100,144)	(5,483,751)
	<u>(165,562)</u>	<u>(6,919,994)</u>
<b>Net gain (loss) on investments</b>	<u>13,416,709</u>	<u>(43,784,650)</u>
<b>Increase (decrease) in net assets from operations</b>	<u>12,683,475</u>	<u>(43,807,521)</u>
<b>Increase (decrease) in net assets from operations for</b>		
Common Units	12,217,983	(42,687,272)
Class F Units	465,492	(1,120,249)
<b>Increase (decrease) in net assets from operations per unit *</b>		
Common Unit	1.12	(3.04)
Class F Unit	1.69	(3.18)

\* (based on average number of units outstanding during the period)  
(See accompanying notes to financial statements)

## Connor, Clark & Lunn Global Financials Fund II

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

For the years ended December 31, 2009 and 2008

	Common shares		Class F		Total	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
<b>Increase (decrease) in net assets from operations</b>	<u>12,217,983</u>	<u>(42,687,272)</u>	<u>465,492</u>	<u>(1,120,249)</u>	<u>12,683,475</u>	<u>(43,807,521)</u>
<b>Distributions to unitholders from:</b>						
Net investment income	-	-	-	-	-	-
Return of capital	<u>(4,899,325)</u>	<u>(7,980,749)</u>	<u>(120,063)</u>	<u>(200,338)</u>	<u>(5,019,388)</u>	<u>(8,181,087)</u>
	<u>(4,899,325)</u>	<u>(7,980,749)</u>	<u>(120,063)</u>	<u>(200,338)</u>	<u>(5,019,388)</u>	<u>(8,181,087)</u>
<b>Unitholders' transactions:</b>						
Proceeds from issue of units (note 5)	57,462	40,366,371	-	-	57,462	40,366,371
Market repurchases (note 4)	(70,089)	(531,842)	-	-	(70,089)	(531,842)
Payments on redemptions (note 5)	<u>(21,611,722)</u>	<u>(21,252,461)</u>	<u>(1,945,850)</u>	<u>(143,742)</u>	<u>(23,557,572)</u>	<u>(21,396,203)</u>
	<u>(21,624,349)</u>	<u>18,582,068</u>	<u>(1,945,850)</u>	<u>(143,742)</u>	<u>(23,570,199)</u>	<u>18,438,326</u>
<b>Change in net assets during the period</b>	<u>(14,305,691)</u>	<u>(32,085,953)</u>	<u>(1,600,421)</u>	<u>(1,464,329)</u>	<u>(15,906,112)</u>	<u>(33,550,282)</u>
<b>Net assets - Beginning of period</b>	<u>65,712,190</u>	<u>97,798,143</u>	<u>1,966,520</u>	<u>3,430,849</u>	<u>67,678,710</u>	<u>101,228,992</u>
<b>Net assets - End of period</b>	<u>51,406,499</u>	<u>65,712,190</u>	<u>366,099</u>	<u>1,966,520</u>	<u>51,772,598</u>	<u>67,678,710</u>
<b>Surplus (deficit), beginning of period</b>	<u>(40,113,885)</u>	<u>2,573,387</u>	<u>(1,042,357)</u>	<u>77,892</u>	<u>(41,156,242)</u>	<u>2,651,279</u>
Increase (decrease) in net assets from operations	12,217,983	(42,687,272)	465,492	(1,120,249)	12,683,475	(43,807,521)
Distributions to unitholders	-	-	-	-	-	-
<b>Surplus (deficit), end of period</b>	<u>(27,895,902)</u>	<u>(40,113,885)</u>	<u>(576,865)</u>	<u>(1,042,357)</u>	<u>(28,472,767)</u>	<u>(41,156,242)</u>
<b>Contributed surplus , beginning of period</b>	<u>10,501,796</u>	<u>66,701</u>	<u>72,275</u>	<u>-</u>	<u>10,574,071</u>	<u>66,701</u>
Cost of shares repurchased at less than original issue price	<u>4,780,006</u>	<u>10,435,095</u>	<u>490,635</u>	<u>72,275</u>	<u>5,270,641</u>	<u>10,507,370</u>
<b>Contributed surplus , end of period</b>	<u>15,281,802</u>	<u>10,501,796</u>	<u>562,910</u>	<u>72,275</u>	<u>15,844,712</u>	<u>10,574,071</u>

## Connor, Clark & Lunn Global Financials Fund II

Statements of Cash Flow

For the years ended December 31, 2009 and 2008

	2009 \$	2008 \$
<b>Operating Activities</b>		
Increase (decrease) in net assets from operations	12,683,475	(43,807,521)
Items not affecting cash:		
Net realized (gain) loss on investments	(12,326,282)	49,190,205
Unrealized (gain) loss on investments	(2,023,213)	1,472,618
Unrealized (gain) loss on foreign exchange forward contracts	2,100,144	5,483,751
Changes in non-cash working capital		
(Increase) decrease in dividends and interest receivable	508,186	(534,878)
Increase (decrease) in accounts payable and accrued liabilities	(19,842)	(6,952)
Increase (decrease) in management fees payable	(6,804)	(135,436)
Cost of investments purchased	(301,890,947)	(588,923,927)
Proceeds from investments sold	316,452,535	581,408,262
<b>Net cash flow provided by (used in) operating activities</b>	<u>15,477,252</u>	<u>4,146,122</u>
<b>Financing Activities</b>		
Proceeds from issuance of units	57,462	40,366,371
Distributions to unitholders	(5,151,867)	(8,277,644)
Payments on redemption/cancellation of units	(23,627,661)	(21,928,045)
Proceeds from bank indebtedness	6,000,000	-
Repayment of bank indebtedness	(3,000,000)	-
<b>Net cash flow provided by (used in) financing activities</b>	<u>(25,722,066)</u>	<u>10,160,682</u>
<b>Net increase (decrease) in cash and short-term investments</b>	(10,244,814)	14,306,804
<b>Cash - beginning of year</b>	<u>15,053,364</u>	<u>746,560</u>
<b>Cash - end of year</b>	<u>4,808,550</u>	<u>15,053,364</u>
<b>Supplementary information</b>		
Interest paid	86,023	79,303

## Connor, Clark & Lunn Global Financials Fund II

Statement of Investment Portfolio

As at December 31, 2009

	Quantity	Average Cost \$	Fair Value \$	% of NAV
<b>Investments</b>				
<b>Foreign Equities</b>				
<b>Belgium (Euro)</b>				
KBC Groep NV	3,495	173,800	159,652	0.3%
KBC Ancora	25	778	614	0.0%
Fortis	214,257	1,054,057	844,988	1.6%
		<u>1,228,635</u>	<u>1,005,254</u>	<u>1.9%</u>
<b>Bermuda (US Dollar)</b>				
Lazard Ltd.	9,716.00	410,677	386,142	0.7%
<b>Brazil (Brazilian Real)</b>				
Even Construtora e Incorporadora SA	13,467	50,876	67,060	0.1%
MRV Engenharia e Participacoes SA	13,914	100,461	115,894	0.2%
Brookfield Incorporacoes SA	128,406	428,507	596,932	1.2%
Agra Empreendimentos Imobiliarios SA	237,573	553,459	707,233	1.4%
Cyrela Brazil Realty SA	54,087	445,114	788,796	1.5%
Gafisa SA	53,154	603,290	895,064	1.7%
Rossi Residencial SA	101,303	538,803	922,986	1.8%
Banco Santander Brasil SA	7,916	112,351	113,256	0.2%
Banco Bradesco SA	21,655	353,543	473,785	0.9%
Itau Unibanco Holding SA, ADR	54,133	925,052	1,294,475	2.5%
		<u>4,111,454</u>	<u>5,975,481</u>	<u>11.5%</u>
<b>China (Hong Kong Dollar)</b>				
Bank of Communications Co., Ltd.	167,000	175,522	203,432	0.4%
China Construction Bank Corp.	391,000	339,237	352,070	0.7%
Industrial & Commercial Bank of China	791,476	648,183	688,060	1.3%
Bank of China Ltd.	1,261,000	740,617	714,343	1.4%
China Life Insurance Co., Ltd., ADR	4,632	332,492	356,233	0.7%
Guangzhou R&F Properties Co., Ltd.	143,200	306,632	264,854	0.5%
		<u>2,542,684</u>	<u>2,578,992</u>	<u>5.0%</u>
<b>Switzerland (Swiss Franc)</b>				
Banque Cantonale Vaudoise	9,004	3,262,561	3,752,922	7.2%
EFG International AG	14,511	239,651	210,439	0.4%
UBS AG	19,996	354,719	325,267	0.6%
GAM Holding Ltd.	52,770	1,080,172	672,689	1.3%
Credit Suisse Group AG	19,554	1,107,287	1,015,308	2.0%
Banque Privee Edmond de Rothschild SA	50	1,565,269	1,293,012	2.5%
		<u>7,609,659</u>	<u>7,269,637</u>	<u>14.0%</u>
<b>Germany (Euro)</b>				
Deutsche Bank AG	3,033	236,569	225,865	0.4%
<b>Greece (Euro)</b>				
Marfin Popular Bank Public Co Ltd.	25,415	119,821	87,540	0.2%
National Bank of Greece SA	3,501	124,363	95,103	0.2%
Piraeus Bank SA	9,384	149,642	113,341	0.2%
Alpha Bank AE	11,291	161,879	139,261	0.3%
Bank of Cyprus Public Co., Ltd.	19,101	143,234	140,203	0.3%
		<u>698,938</u>	<u>575,448</u>	<u>1.2%</u>

## Connor, Clark & Lunn Global Financials Fund II

Statement of Investment Portfolio .... Continued

As at December 31, 2009

	Quantity	Average Cost \$	Fair Value \$	% of NAV
<b>France (Euro)</b>				
BNP Paribas SA	3,176	272,572	266,562	0.5%
Societe Generale	11,393	850,223	838,315	1.6%
AXA SA	13,032	330,729	324,212	0.6%
Societe de la Tour Eiffel	2,787	161,451	220,876	0.4%
		<u>1,614,974</u>	<u>1,649,965</u>	<u>3.1%</u>
<b>Britain (British Pound)</b>				
Standard Chartered PLC	8,798	221,418	232,353	0.4%
HSBC Holdings PLC	50,265	618,862	603,156	1.2%
Lloyds Banking Group PLC	1,063,431	1,107,542	902,860	1.7%
Barclays PLC	360,025	1,744,988	1,679,170	3.2%
Aberdeen Asset Management PLC	97,218	237,767	220,542	0.4%
Investcorp Bank BSC, GDR	73,456	2,047,268	231,793	0.4%
Man Group PLC	139,031	718,431	722,587	1.4%
Templeton Emerging Markets Investment Trust PLC	253,379	1,761,452	2,247,720	4.3%
Aviva PLC	35,543	235,803	238,281	0.5%
Prudential PLC	97,271	985,741	1,044,853	2.0%
		<u>9,679,273</u>	<u>8,123,316</u>	<u>15.5%</u>
<b>Hong Kong (Hong Kong Dollar)</b>				
China Overseas Land & Investment Ltd	40,802	92,572	90,249	0.2%
China Resources Land Ltd.	66,867	163,939	158,389	0.3%
New World Development Ltd	61,000	126,988	131,626	0.3%
Wharf Holdings Ltd.	23,000	99,518	139,155	0.3%
Agile Property Holdings Ltd.	116,000	161,095	177,848	0.3%
Kerry Properties Ltd.	33,500	196,563	178,904	0.3%
Shenzhen Investment Ltd.	500,871	218,996	222,792	0.4%
Shun Tak Holdings Ltd.	1,000	654	657	0.0%
		<u>1,060,324</u>	<u>1,099,620</u>	<u>2.1%</u>
<b>Hungary (Hungarian Forint)</b>				
FHB Mortgage Bank PLC	47,422.00	333,612	343,405	0.7%
<b>India (US Dollar)</b>				
ICICI Bank Ltd., ADR	7,219.00	257,854	284,861	0.6%
HDFC Bank Ltd., ADR	2,241.00	240,849	305,604	0.6%
		<u>498,703</u>	<u>590,465</u>	<u>1.2%</u>
<b>Ireland (Euro)</b>				
Irish Life & Permanent PLC	26,497	208,176	124,347	0.2%
Irish Life & Permanent PLC	73,847	521,666	366,547	0.7%
		<u>729,842</u>	<u>490,894</u>	<u>0.9%</u>
<b>Italy (Euro)</b>				
UniCredit SpA	74,758	282,028	263,403	0.5%
Azimut Holding SpA	33,953	391,007	476,222	0.9%
Banca Generali SpA	43,386	461,930	554,691	1.1%
		<u>1,134,966</u>	<u>1,294,316</u>	<u>2.5%</u>
<b>Japan (Japanese Yen)</b>				
Sumitomo Mitsui Financial Group Inc.	5,200	177,951	154,885	0.3%

## Connor, Clark & Lunn Global Financials Fund II

Statement of Investment Portfolio .... Continued

As at December 31, 2009

	Quantity	Average Cost \$	Fair Value \$	% of NAV
<b>Mexico (Mexican Peso)</b>				
Corp GEO SAB de CV	286,762	617,899	797,196	1.5%
<b>Netherlands (Euro)</b>				
ING Groep NV	27,484	277,107	285,241	0.6%
Delta Lloyd NV	7,303	183,363	185,145	0.4%
		<u>460,470</u>	<u>470,386</u>	<u>1.0%</u>
<b>Norway (Norwegian Krona)</b>				
DnB NOR ASA	241,849	2,366,634	2,754,085	5.3%
<b>Poland (Polish Zloty)</b>				
Bank Pekao SA	4,801	278,423	284,396	0.5%
<b>Russia (US Dollar)</b>				
Sberbank of Russian Federation, GDR	972	266,661	285,457	0.6%
<b>Singapore (Singapore Dollar)</b>				
United Overseas Bank Ltd.	20,000	301,434	293,907	0.6%
Oversea-Chinese Banking Corp. Ltd.	44,000	286,076	298,656	0.6%
Jardine Strategic Holdings Ltd.	51,000	769,500	940,999	1.8%
		<u>1,357,009</u>	<u>1,533,562</u>	<u>3.0%</u>
<b>Spain (Euro)</b>				
Banco Bilbao Vizcaya Argentaria SA	45,558	880,132	871,978	1.7%
Banco Santander Central Hispano SA	52,621	929,039	913,768	1.8%
		<u>1,809,171</u>	<u>1,785,746</u>	<u>3.5%</u>
<b>Turkey (New Turkish Lira)</b>				
Turkiye Garanti Bankasi AS	60,076	254,214	266,805	0.5%
<b>USA (US Dollar)</b>				
Marshall & Ilsley Corp.	7,847	50,993	44,834	0.1%
First Niagara Financial Group Inc.	7,261	98,902	105,808	0.2%
New York Community Bancorp Inc.	15,670	214,109	238,365	0.5%
Blackstone Group LP	6,020	95,675	82,612	0.2%
Greenhill & Co Inc.	2,229	201,934	187,152	0.4%
GLG Partners Inc.	66,843	199,353	225,641	0.4%
Evercore Partners Inc.	7,185	242,166	228,759	0.4%
Bank of America Corp.	15,334	256,360	242,095	0.5%
Bank of Ameerica Corporation	18,964	299,921	296,424	0.6%
Morgan Stanley	11,001	354,635	341,142	0.7%
JPMorgan Chase & Co.	22,444	962,997	980,460	1.9%
The Goldman Sachs Group Inc.	7,274	1,306,730	1,285,540	2.6%
		<u>4,283,776</u>	<u>4,258,833</u>	<u>8.5%</u>
<b>Total Foreign Equities</b>		<u>43,762,517</u>	<u>44,200,148</u>	<u>85.4%</u>
<b>Total investments</b>		<u>43,762,517</u>	<u>44,200,148</u>	<u>85.4%</u>
Transaction costs - Section 3855 adjustment (note 3)		<u>(111,890)</u>	<u>-</u>	<u>0.0%</u>
<b>Total investments</b>		<u>43,650,626</u>	<u>44,200,148</u>	<u>85.4%</u>

## Connor, Clark & Lunn Global Financials Fund II

### Statement of Investment Portfolio .... Continued

As at December 31, 2009

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	<b>Maturity date</b>	<b>Number of contracts</b>	<b>Contract price / rate \$</b>	<b>Fair value \$</b>	<b>Unrealized gain (loss) \$</b>	<b>% of NAV</b>
<b>Foreign currency forward contracts</b>						
Bought CAD 41,000,000 sold GBP 19,929,770	5/31/2016	1	2.05722	34,914,533	<u>6,085,467</u>	<u>11.9%</u>
<b>Total foreign currency forward contracts</b>					<u>6,085,467</u>	<u>11.9%</u>
<b>Other assets, net of liabilities</b>					<u>1,486,983</u>	<u>2.7%</u>
<b>Net assets</b>					<u>51,772,598</u>	<u>100.0%</u>

# Connor, Clark & Lunn Global Financials Fund II

## Notes to Financial Statements

December 31, 2009

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### 1 Formation of Fund

Connor, Clark & Lunn Global Financials Fund II (the "Fund") is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement dated as of February 27, 2007 (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") as trustee and commenced operating on March 22, 2007. The Manager was incorporated under the Business Corporations Act (Ontario) on January 15, 2001 and is wholly owned by Connor, Clark & Lunn Capital Markets Partnership.

At the close of business on February 4, 2008, the Fund issued 4,750,154 units to unitholders of the Connor, Clark & Lunn Global Financials Fund in exchange for \$40,366,371 in investments and other assets (net of liabilities)

### 2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated February 27, 2007 are to (i) provide holders of the Units ("Unitholders") with a stable stream of monthly cash distributions initially targeted to be \$0.05 per Unit (representing a yield of approximately 6.0% per annum on the issue price of \$10.00 per Unit); (ii) preserve and enhance the Transactional NAV per Unit of the Fund.

In order to achieve the Fund's investment objectives, Henderson Group plc (the "Investment Manager") (Formerly: New star Asset Management Limited), the Fund's investment manager, invested the net proceeds of the Offering, in a portfolio (the "Portfolio") consisting of securities of global financial services businesses. In addition, from time to time, the Portfolio may include significant cash and cash equivalents.

### 3 Summary of significant accounting policies

#### Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which require the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates.

#### Future accounting changes

In February 2008, the Canadian Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian GAAP for publicly accountable enterprises effective January 1, 2011, which includes investment funds. The Fund will adopt IFRS on January 1, 2011. Management has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on NAV of the Fund. Management has presently determined that there will be no significant impact to NAV per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

#### Adoption of New Accounting Standards

*CICA Section 3862, "Financial Instruments – Disclosures"*: In March 2009, the Canadian Accounting Standards Board announced it has agreed to adopt recent amendments to IFRS 7, "Financial Instruments: Disclosures", into Section 3862, "Financial Instruments – Disclosures". The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs. The Fund adopted the amendments to Section 3862 as of January 1, 2009. This standard impacted the Fund's disclosure provided but did not affect the Fund's results or financial position.

*EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities"*: On January 20, 2009, the CICA Emerging Issues Committee issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The abstract requires the entity's own credit risk and the risk of the counterparty should be taken into consideration in assessing the fair value of financial assets and financial liabilities. The Fund adopted the abstract as of January 1, 2009.

#### Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("GAAP Net Assets"). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred. The fund calculates its daily Net Asset Value for the purchase and redemption of units ("Transactional NAV") based on the fair value of the investment fund's assets and liabilities (being the last traded price for the day). The Fund did not change its methodology in this respect.

The reconciliation between the Transactional NAV and the GAAP Net Assets as of December 31, 2009 as a result of the adoption of Section 3855 is as follows:

# Connor, Clark & Lunn Global Financials Fund II

## Notes to Financial Statements

December 31, 2009

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	<u>Transactional NAV</u>	<u>Section 3855 Adjustment</u>	<u>GAAP Net Assets</u>
<b>Per Unit Closing Value as of December 31, 2009</b>			
Common Unit	6.08	(0.01)	6.07
Class F Unit	6.38	(0.01)	6.37

The reconciliation between the Transactional NAV and the GAAP Net Assets as of December 31, 2008 as a result of the adoption of Section 3855 is as follows:

	<u>Transactional NAV</u>	<u>Section 3855 Adjustment</u>	<u>GAAP Net Assets</u>
<b>Per Unit Closing Value as of December 31, 2008</b>			
Common Unit	5.65	(0.04)	5.61
Class F Unit	5.86	(0.04)	5.82

### Cash

Cash includes cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

### Income recognition

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

### Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the period.

Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

### Foreign currency forward contracts

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

### Unit valuation

Units of the Fund are valued at the net assets per unit of the Fund. The Transactional NAV per unit is determined by dividing the aggregate fair value of net assets of the Fund by the total number of units of the Fund outstanding before giving effect to redemptions or subscriptions for units on that day.

### Allocation of expenses

The Common Class is charged with the full amount of the Service fees (see note 9) and the TSX listing fees. All the other expenses are allocated on a prorated basis between the Common Class and the Class F units.

## 4 Market Purchase Program

As set out in the Prospectus, the Fund is obligated, under certain conditions, to purchase Common Units in the market for cancellation. If, on any day, the Common Units weighted average trading price is less than 95% of the Transactional NAV per Common Unit determined on the most recent valuation date, the Fund must purchase any Common Units offered in the market the following day at 95% of Transactional NAV per unit or less.

Pursuant to this obligation, the Fund purchased 15,640 Common Units during the year ended December 31, 2009 for a total cost of \$70,089 (92,030 Units were purchased for a total cost of \$531,842 during the year ended December 31, 2008).

## 5 Units of the Fund

Units of the Fund were offered to the public by way of prospectus. The Fund is authorized to issue an unlimited number of transferable, redeemable Fund units of Common Units and Class F (subject to restrictions set forth in the Prospectus). The principal differences between the Common Units and the Class F Units are that the agents' fees payable with respect to the original issuance of the units were lower for the Class F Units, and that the service fee component of the manager's fee and the TSX listing fees are not paid by Class F Units.

# Connor, Clark & Lunn Global Financials Fund II

## Notes to Financial Statements

December 31, 2009

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 principal market on which the Units are quoted for trading in the applicable Monthly Redemption Date. 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.

Commencing in 2008, Units of a class may be redeemed on the last business day of September 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 Transactional 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 20th business day before the Redemption Date (the "Notice Period").

Redeeming Unitholders will be entitled to receive a redemption price per Unit based on the Transactional 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 Transactional 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 Transactional NAV per unit of a class as of that date.

On February 1, 2008, upon following the merger of Connor, Clark & Lunn Global Financials Fund and Connor, Clark & Lunn Global Financials Fund II, Connor, Clark & Lunn Global Financials Fund II received 4,750,154 Common Units for an equivalent value of \$40,366,371. This transaction was accounted for as a business acquisition for accounting purposes.

The Fund has issued to holders of its common units warrants (the "Warrants") to subscribe for Units pursuant to a final prospectus dated May 23, 2008 and to holders of its Class F units Class F warrants (the "Class F Warrants") to subscribe for Class F Units on a private placement basis.

Under the warrant offerings, the Fund issued one-half of a Warrant for each Unit of the Fund held by holders of record on June 9, 2008 (the "Record Date"). Each whole Warrant entitles the holder thereof to purchase one Unit at a price of \$8.20 per Unit on the second business day after the last day of each month, commencing on July 3, 2008 and ending on July 5, 2010. This means that the Warrants may be exercised on any of 24 specific dates. The Warrants started trading on June 5, 2008 under the ticker symbol "GFT.WT" and will continue trading until July 5, 2010. As of December 31, 2009 no warrants have been exercised.

During September 2009 the Fund had its annual Redemption Date. \$21,611,722 was paid to redeem 3,233,803 of Common Units and \$1,888,388 was paid to redeem 270,730 Class F Units. There were also 9,400 of Class F Units converted to 9,808 of Common Units for a total value of \$57,462 during the year ended December 31, 2009.

The basic calculation of changes in the outstanding units is summarized as follows:

	Common Units		F Units	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Balance – beginning of period/year	11,705,576	10,606,228	337,630	360,880
Units received issued on merger	–	4,750,154	–	–
Units converted	9,808	–	(9,400)	–
Units redeemed	(3,233,803)	(3,558,776)	(270,730)	(23,250)
Units redeemed under the Market Purchase Program (note 4)	(15,640)	(92,030)	–	–
Balance – end of period/year	<u>8,465,941</u>	<u>11,705,576</u>	<u>57,500</u>	<u>337,630</u>

Due to the warrants offering, the unitholders are exposed to the risk of dilution, but since the exercise price of (\$8.20) is higher than the current Transactional NAV, the diluted weighted average number of units outstanding during the year is the same as what is shown in the above basic calculation. The Fund considers capital to include all units issued and outstanding. The Fund manages their capital in accordance with the objectives outlined in Note 2.

## 6 Bank indebtedness

As part of its strategy, the Investment Manager employs leverage in the Portfolio to enhance returns when market conditions are considered appropriate. The Investment Manager intends to reduce or eliminate leverage and may increase the allocation to cash when the Investment Manager believes the outlook for market performance is unfavourable. The Fund entered into a credit agreement with the Bank of Montreal ("BMO").

During the year ended December 31, 2009, the Fund employed leverage in the range of 0-11.4%. The Credit Facility had an outstanding balance of \$3,000,000 as of December 31, 2009 (\$nil as of December 31, 2008).

# Connor, Clark & Lunn Global Financials Fund II

## Notes to Financial Statements

December 31, 2009

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### 7 Fund administration

Pursuant to a Trust Agreement, the Fund has retained RBC Dexia Investor Services Trust to act as custodian (the "Custodian") of the assets of the Fund. The Custodian carries out certain aspects of the day-to-day administration of the Fund, including calculating Transactional NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund.

### 8 Distributions

On October 22, 2008, the Fund announced a change to the monthly distribution rate as a result of ongoing difficult market conditions. The monthly distribution level was changed from \$0.05 to \$0.0375 per unit for both the Common and Class F Units (or from \$0.60 to \$0.45 per annum).

The Fund has made all its scheduled distributions during the year ended December 31, 2009 paying, \$0.45 per Common Unit and \$0.45 per Class F Unit (\$0.56 per Common Unit and \$0.56 per class F unit during the year ended December 31, 2008).

### 9 Management fees and other expenses

Pursuant to a management agreement ("the Management Agreement") the Fund has retained Connor, Clark & Lunn Capital Markets Inc. to act as manager. As compensation for management services rendered to the Fund, the Manager receives an annual management fee in an amount equal to 1.1% of the Transactional NAV of the Fund, calculated and paid monthly in arrears, plus applicable taxes. The Fund also pays a service fee to dealers whose clients hold Units in the Fund. The service fee is calculated and payable each calendar quarter in arrears and is equal to 0.40% annually of the Transactional NAV per Unit of the Units held by clients of the dealers. The Fund is also responsible for all expenses incurred in connection with its operation and administration.

### 10 Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to tax on its investment income, including net realized capital gains, for any calendar year in which its net investment income or sufficient net realized capital gains are not paid or payable to its unitholders as at the end of the calendar year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be minimized. As a result thereof, and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statements.

### 11 Broker commission charges and soft dollar services

There were \$1,028,050 broker commissions paid during the year ended December 31, 2009 (\$1,413,426 during the year ended December 31, 2008) in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

### 12 Financial instruments

<u>Assets</u>	\$
Held for trading	55,094,165
Loans and receivables	252,639
<b>Total assets</b>	<b>55,346,804</b>
<u>Liabilities</u>	
Held for trading	-
Financial liabilities at amortized cost	3,574,206
<b>Total liabilities</b>	<b>3,574,206</b>

For the purposes of categorization in accordance with Section 3862, amounts due from brokers, interest and dividends receivable and other assets are deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, bank indebtedness, amounts due to brokers, distributions payable, accounts payable and accrued liabilities and other liabilities are deemed to be financial liabilities and reported at amortized cost.

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

<b>Assets at fair value as at October 31, 2009</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	43,914,691	285,457	-	44,200,148
Foreign currency forward contracts	-	6,085,467	-	6,085,467
<b>Total</b>	<b>43,914,691</b>	<b>6,370,924</b>	<b>-</b>	<b>50,285,615</b>

# Connor, Clark & Lunn Global Financials Fund II

## Notes to Financial Statements

December 31, 2009

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

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

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

There were no transfers among the three levels during the year ended December 31, 2009.

### 13 Financial instrument risk

The Fund's activities expose it to a variety of financial risks. The Investment Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional, experienced portfolio advisors, by daily monitoring of the Fund's positions and market events, by diversifying the investment portfolio within the constraints of the investment objective, and periodically through the use of derivatives to hedge certain risk exposures.

#### Interest rate risk

Interest rate risk is the risk that the fair value of the Fund's interest-bearing investments will fluctuate due to changes in prevailing interest rates. The Fund's exposure to interest rate risk is concentrated in its investment in debt securities and interest rate derivative instruments (if any). Other assets and liabilities are short-term in nature and non-interest bearing. As at December 31, 2009, interest rate risk was negligible as the Fund had no significant exposure to interest-bearing investments.

#### Currency risk

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

The table below summarizes the Fund's exposure to foreign currencies as at December 31, 2009. Amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as forward contracts. Other financial assets such as dividends and interest receivable, and receivable from investment sales and liabilities such as accounts payable and accrued liabilities and management fees payable denominated in foreign currencies do not expose the Fund to significant currency risk. The table below summarizes the Fund's exposure to foreign currencies and the approximate impact on net assets had the Canadian Dollar ("CAD") weakened by 5% in relation to these currencies. If the Canadian dollar were to strengthen relative to these currencies, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

*As at December 31, 2009:*

	Monetary instruments	Non- monetary instruments	Foreign Currency Contracts	Total	% of Net Assts	Sensitivity (based on devaluation of CAD)
	\$	\$	\$	\$	%	\$
Brazil Real	33,792	5,975,481	-	6,009,273	11.6%	300,000
British Pound Sterling	1,929,944	8,123,316	33,739,813	43,793,072	84.6%	2,190,000
European Union Euro	334,295	7,497,874	-	7,832,169	15.1%	392,000
Hungarian Forint	-	343,405	-	343,405	0.7%	17,000
Hong Kong Dollar	-	3,678,611	-	3,678,611	7.1%	184,000
Japanese Yen	-	154,885	-	154,885	0.3%	8,000
Mexican Peso	-	797,196	-	797,196	1.5%	40,000
New Turkish Lira	-	266,805	-	266,805	0.5%	13,000
Norwegian Kroner	-	2,754,085	-	2,754,085	5.3%	138,000
Polish Zloty	340	284,396	-	284,736	0.5%	14,000
Russian Ruble	6,686	-	-	6,686	0.0%	-
Singapore Dollar	-	1,533,562	-	1,533,562	3.0%	77,000
Swiss Franc	-	7,269,637	-	7,269,637	14.0%	363,000
US Dollar	1,222,800	5,520,897	-	6,743,697	13.0%	337,000
			(33,739,813			
<b>Total</b>	<b>3,527,517</b>	<b>44,200,148</b>	<b>)</b>	<b>13,987,648</b>	<b>26.8%</b>	<b>699,000</b>

# Connor, Clark & Lunn Global Financials Fund II

## Notes to Financial Statements

December 31, 2009

As at December 31, 2008:

	Monetary instruments \$	Non- monetary instruments \$	Foreign Currency Contracts \$	Total \$	% of Net Assts %	Sensitivity (based on devaluation of CAD) \$
Swiss Franc	1,882,769	8,767,127	–	10,649,896	15.7%	532,000
European Union Euro	5,184,970	10,289,931	–	15,474,901	22.9%	774,000
British Pound Sterling	3,829,673	2,563,504	(40,500,000)	(34,106,823)	-50.4%	(1,705,000)
Hong Kong Dollar	1,143,275	378,390	–	1,521,665	2.2%	76,000
Japanese Yen	3,402,641	–	–	3,402,641	5.0%	170,000
Norwegian Kroner	53,254	–	–	53,254	0.1%	3,000
Russian Ruble	7,816	–	–	7,816	0.0%	–
US Dollar	6,024,103	10,234,241	–	16,258,344	24.0%	813,000
Brazil Real	5,801	819,371	–	825,172	1.2%	41,000
<b>Total</b>	<b>21,534,302</b>	<b>33,052,564</b>	<b>(40,500,000)</b>	<b>14,086,866</b>	<b>20.7%</b>	<b>704,000</b>

### Other market risk

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

If equity prices had increased or decreased by 10% on December 31, 2009, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$4,420,000 (2008 - \$3,305,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

### Credit risk

The Fund is exposed to the risk that a security issuer will be unable to pay amounts when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain on derivative instruments outstanding with counterparties represents the maximum exposure to credit risk. As at December 31, 2009, \$6,085,467 or 11.9% (2008 - \$8,185,611 or 12.1% of the Fund's net assets) of the Fund's net assets are exposed to credit risk, arising almost entirely from the unrealized gain on a foreign currency forward contract. The counterparty to this contract has an A+ credit rating.

### Liquidity risk

The Fund is exposed to daily cash redemptions due to its market purchase program which are limited to certain conditions (see note 4). The Fund is also exposed to unlimited annual anniversary redemptions on September 30 of every year (see note 5). Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed. In addition, the Fund retains sufficient cash and/or cash equivalent positions to maintain liquidity. All liabilities are due within three months.

## 14 Reclassification

Certain of the 2008 comparative figures have been reclassified from the statements previously presented to conform to the presentation of the 2009 annual financial statements.