



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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

Annual Report

December 31, 2008

March 12, 2009

Dear Investor,

The financial services sector has been at the epicentre of one of the most challenging economic periods that we have faced in many years. Many companies that were leaders in their sectors, with long track records of creating wealth for their shareholders have been decimated. Although the Connor, Clark & Lunn Global Financials Fund II (the "Fund") was underweight both the United States and large banks, it was not able to escape the turmoil in the sector.

Many sectors in the financial services sector are essential for a modern capitalistic economy to function, so governments have been very proactive in responding to the situation. These actions have varied from large stimulus plans to rescue packages directed specifically at the financial services sector that have included asset guarantees, capital injections as well as outright nationalisations. Central banks have also been very active in lowering interest rates and instituting other measures to add liquidity to the system. Despite these measures, shares in many companies have continued to drop. It has become increasingly difficult to use the financial statements as a guide to the strength and prospects for the business. In addition, western governments have been changing the rules of the game in ways that have severely impacted the value of shareholders. In this difficult environment, the markets assume the worse and the share prices and valuations reflect the uncertainty and lack of trust.

The Fund has been defensively positioned for a number of months, with high levels of cash and bonds. As a result its performance in the fourth quarter, at -2.8%, was significantly better than its benchmark, the FTSE Global Financials Index (the "Index"), which was down 14.8% during the quarter. This strong showing allowed the Fund to recover from its underperformance earlier in the year. The Funds was down by 33.2% for the year versus -37.3% for the Index.

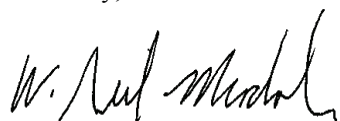
On February 4, 2008, Connor, Clark & Lunn Global Financials Fund and the Fund completed a merger, with the Fund as the continuing fund. The investment objectives, investment strategy and investment process of both funds were substantially similar, based on New Star Asset Management's ("New Star") expertise in investing in the global financial services sector. With these similarities, there were 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 Connor, Clark & Lunn Global Financials Fund as well as the opportunity to participate in Connor, Clark & Lunn Global Financials Fund II's distribution reinvestment plan. Subsequent to the merger, the Fund issued Warrants to unitholders.

In October of 2008 the annual distribution level of the Fund was reduced from \$.60 per unit to \$.45 per unit. The distribution level is based on CC&L Capital Markets and New Star's view with respect to the performance of the Fund during the coming year, with a goal to distribute any dividends and other income remaining after expenses plus the net realised capital gains for the year.

The business of NewStar was also caught in the financial turmoil which led to a process that culminated with its sale to Henderson Group PLC. Guy de Blonay, the Fund's portfolio manager, has committed to continue with Henderson.

The Fund's defensive focus is likely to be maintained in 2009. New Star will seek out companies that are well capitalised, have earnings visibility and are insulated from asset deterioration, write-offs and potential losses. With the economic environment continuing to weigh on investor sentiment, a reduced rate of negative news flow will be required before any longer-term sustainable recovery in financial markets is likely. The investment manager is constantly reviewing the markets with a view to being ready to increase the Fund's exposure when he is confident that the environment has improved.

Yours truly,



W. Neil Murdoch
Chief Executive Officer
Connor, Clark & Lunn Global Financials Fund II

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.**

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, New Star Asset Management Limited (the “Investment Manager” or “New Star”), 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 February 4, 2008, Connor, Clark & Lunn Global Financials Fund and Connor, Clark & Lunn Global Financials Fund II completed the merger of the funds, with Connor, Clark & Lunn Global Financials Fund II as the continuing fund. A proposal permitting Connor, Clark & Lunn Global Financials Fund II to issue warrants to its unitholders was also approved by unitholders. The investment objectives, investment strategy and investment process of both funds were substantially similar, based on New Star Asset Management’s expertise in investing in the global financial services sector. Approximately 96% of the holdings of the Funds overlapped. With these similarities, there were 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 Connor, Clark & Lunn Global Financials Fund as well as the opportunity to participate in Connor, Clark & Lunn Global Financials Fund II’s distribution reinvestment plan.

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. As at December 31, 2008, the Fund had zero leverage.

Warrants

The issuance of warrants in December 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.

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

Results of Operations

Portfolio Manager Commentary

Overview

The Fund's Common Shares Units NAV fell 33.8% over the twelve months to the end of December 2008 bringing the annualized total return since launch to -19.33% to the end of December 2008. The fund outperformed its respective benchmark over the review period; the FTSE Global Financials Index (GBP) dropped 37.3% in 2008 and has declined by 40.2% since the launch of the fund.

2008 has been the most challenging year for global financial stocks since the 1930s, with the failures of investment banks prompting worldwide governments to issue emergency bailout packages and co-ordinated monetary easing from central banks.

Sentiment towards financials was already cautious at the start of the year, reflecting the continued fallout from the collapse in US sub-prime mortgages, credit tightening and concerns about the health of the US economy. However, investor confidence deteriorated sharply in March following the rescue of Bear Stearns by JP Morgan and the US Federal Reserve. Hopes that the Fed's interventionist stance would improve prospects for the sector triggered a recovery rally in April. The upturn gathered further strength from evidence that the big banks were moving to repair their balance sheets by raising capital and selling non-core businesses. However, the sell-off resumed in May and June as deteriorating economic concerns increased nervousness in the sector and by the end of the second quarter there was a growing consensus among investors that higher inflation would prompt central banks to reverse the recent monetary easing and raise interest rates.

September proved to be a landmark month, with the failures of Freddie Mac, Fannie Mae, Lehman Brothers, AIG and Merrill Lynch being followed by the initial rejection of the White House's "troubled asset relief programme" (TARP) triggering one of the worst daily market drops on record. Congress eventually approved the plan in an effort to stabilise the financial system, a move that was reinforced when the UK's Financial Services Authority banned the short selling of key banks and insurers which was quickly followed by the US's Securities & Exchange Commission and other regulators.

Even so, global financial stocks remained exceptionally weak, volatile and liquidity-constrained during the final quarter of

2008. Economic data worsened significantly, with confirmation of recessionary conditions across the developed world. In addition, financial markets suffered from investor redemptions, deleveraging by hedge funds and forced selling. Negative investor sentiment reached a peak when the UK government moved to implement a full-scale rescue of the domestic banking industry. This was followed with a coordinated global interest rate cut by the central banks in an attempt to stabilise fragile economies. During November and December, the rescue packages from the US, supported by the president-elect, and European governments and central banks, ranging from deposit guarantees and capital injections to nationalisations, helped to restore some confidence and slowly began to revive the interbank lending market. In addition, financial stocks faced an unexpected hurdle after news that investors in funds managed by Bernard Madoff Securities had lost about \$50 billion as a result of an alleged Ponzi scheme. Market participants were concerned about where the exposures lay and about potential losses for financial institutions.

Currencies moved significantly during the final weeks of the year as central banks made significant interest rate cuts, with the Federal Reserve cutting to a range of 0% to 0.25%, and amid signs that other central banks would cut in January, creating an environment of competitive devaluation.

The year ended with a relief rally aided by the growing consensus that governments were acting efficiently and quickly to protect the ability of financial markets to function and to promote growth via both monetary and fiscal stimuli.

Investment themes

The positioning of the fund has been cautious throughout the year, with high levels of cash and financial bonds, reflecting the increasing challenging economic prospects, weaker job market and slower growth impacting earnings prospects. However, the exposure to equities was selectively increased in December, focusing on companies that are well-capitalised with solid balance sheets but that can also potentially benefit from a rebound in equity markets. While many banks looked attractive trading at the quarter end on historically low valuation multiples, the lack of earnings visibility and the effects of the economic slowdown could lead to significant additional earnings downgrades. The assets of many banks are likely to continue to deteriorate so shareholders face the risk of further dilution from capital raisings.

The fund retained its focus on the non-life insurance sector, particularly reinsurance groups. These companies were trading at the quarter end on cheap valuation multiples and had solid cash reserves. Demand for reinsurance is expected to increase while supply is expected to shrink, resulting in a reversal from the price declines of the past few years.

The wealth management industry is showing signs of substantial change, with two relatively large mergers announced in recent months and the potential for more to follow. Asset and wealth managers are not exposed to the same constraints as the banks because they are not capital intensive and are cash generative. They should also benefit significantly if equity markets rebound.

Within the banking sector, the fund invested selectively in special situations such as Brazil's Banco Itaú, which should enjoy increased market share and cost reductions as a result of its merger with Unibanco.

Outlook

The fund's defensive focus is likely to be maintained in 2009. It will seek out companies that are well capitalised, have earnings visibility and are insulated from asset deterioration, write-offs and potential losses.

With the economic environment continuing to weigh on investor sentiment, a reduced rate of negative news flow will be required before any longer-term sustainable recovery in financial markets is likely. Measures to inject liquidity into the system, restore a healthy functional credit market and create and save jobs will have an impact depending on how aggressive monetary policy will unfold and ultimately restore confidence in investor's minds.

Investment Income and Capital Gains

During the year ended December 31, 2008, the Fund had net investment loss of \$(22,871) and realized \$(36,864,656) in losses on investments sold. In addition, the portfolio had an \$(6,919,994) decrease in unrealized gains (losses) on its investments. Income, realized and unrealized losses combined for a total decrease in net assets from operations of \$(43,807,521). Distributions to unitholders during same period totalled \$7,980,749 for the Common Units or \$0.56 per

unit and \$200,338 for Class F Units or \$0.56 per unit.

Leverage

Leverage has not been used since late September 2007. The Investment Manager may employ leverage in the Portfolio to enhance returns when it considers market conditions appropriate. The Fund has entered into a credit agreement (the "Credit Agreement") with Bank of Montreal ("BMO"). The aggregate amount of borrowings under the loan facility and other leverage transactions may not exceed 15% of the Transactional NAV of the Fund.

Liquidity and Capital Resources

As at December 31, 2008, the Fund had current assets excluding investments of \$15,814,189. Current liabilities, including distributions accrued but not yet paid, totalled \$794,835.

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 2008 the fund had its annual Redemption Date. \$21,252,461 were paid to redeem 3,558,776 Common Units and \$143,742 were paid to redeem 23,250 Class F Units at the September 30, 2008 NAV per unit price minus the costs of funding the redemption including all brokerage fees, commissions and other costs incurred in liquidating the securities held in the portfolio.

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 92,030 Common Units during the year ended December 31, 2008 for a total cost of \$531,842 (78,900 Units were purchased for a total cost of \$678,160 during the period from March 22, 2007 (commencement of operations) to December 31, 2007).

Distributions

The Fund has made all its scheduled distributions during the year ended December 31, 2008 paying, \$0.56 per Common Unit and \$0.5 per Class F Unit. The distribution rate was lowered from \$0.60 per unit to \$0.45 per unit in October 2008.

Based on their original issue price, Connor Clark & Lunn Global Financials Fund (“GFF”) and Connor Clark & Lunn Global Financials Fund II (“GFF II” or “the Fund”) have paid an annual distribution of 5.0% and 6.0% respectively since their inception dates of April 2006 and March 2007. Additionally, GFF paid a special distribution of \$0.11 in 2006. GFF was subsequently merged into GFF II in April of this year. The distribution rate for the continuing fund, GFF II, was left at 6.0% or \$0.60 per annum. The distribution level is set based upon the Manager and the Investment Manager’s views with respect to the performance of the Fund during the coming year, with a goal to distribute any dividends and other income remaining after expenses plus the net realized capital gains for the year. As a mutual fund trust, in order to remain neutral for tax purposes it is necessary to pay out to unitholders all the net realized gains during the taxation year. By setting the distribution level at a rate higher than net dividends/interest received the goal is that unitholders receive these gains over the course of the year, rather than as a special distribution at year end.

The equity markets have moved significantly lower in the last half of the year and the financial services sector has had a particularly tough period as a result of the continuing global credit crisis. Guy de Blonay, the portfolio manager at New Star Asset Management, employs an active management style and the Fund has realized significant capital losses year-to-date. While the Investment Manager believes that the valuation levels for many companies are currently very attractive it is not yet clear what the timing and extent of any recovery will be. As such, the Fund will not likely have any net realized capital gains during this year and the Manager believes that it is in the best interests of the Fund to adjust the monthly distribution level of the Fund from \$0.05 to \$0.0375 per Common Unit and Class A Unit (or from \$0.60 to \$0.45 per annum). The change will allow the Fund to retain assets and to take advantage of any recovery in the financial equity markets and improve the Transactional NAV of the Fund. The record date for the first monthly distribution of \$0.0375 is October 31, 2008 and the payment date is November 17, 2008.

Related Party Transactions

Management Fees

Pursuant to a trust agreement (“the Trust Agreement”) the Fund retained Connor, Clark & Lunn Capital Markets Inc. (“the Manager”) 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 \$1,138,022 during the year ended December 31 2008 (\$938,817 during the period from March 22, 2007 (commencement of operations) to December 31, 2007).

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

Recommendations or Reports by the Independent Review Committee

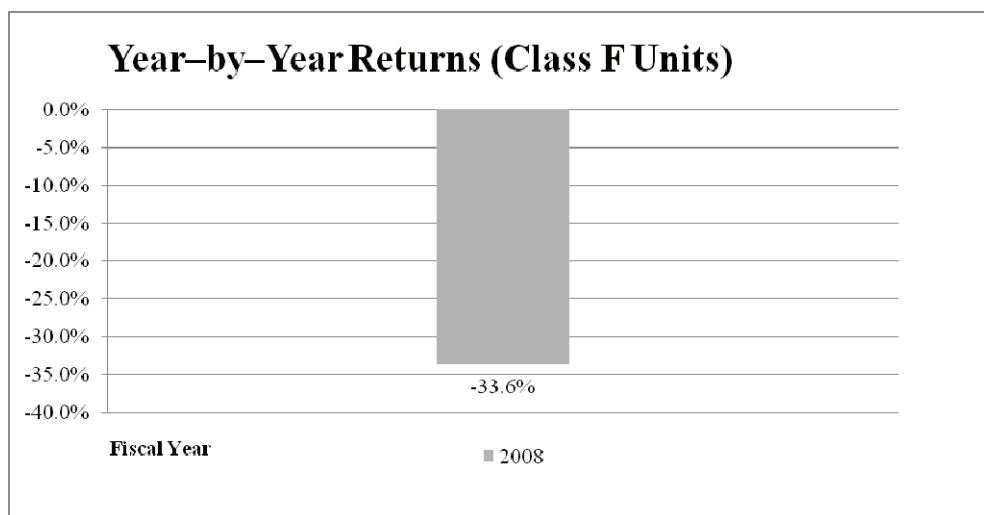
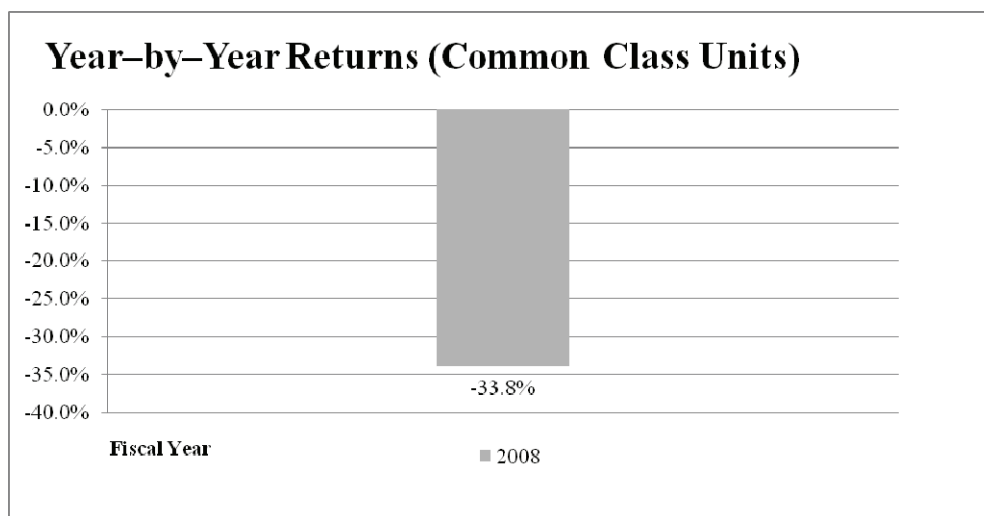
The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Fund during the year ended December 31, 2008.

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 from inception assuming all the distributions made by the Fund in the periods shown were reinvested. Past performance is not necessarily indicative of future performance.

Year – by –Year Returns

The following bar charts shows the Fund’s annual performance for the years shown. This bar chart shows, 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 ⁽¹⁾
Based on NAV (Common Class Units)	-33.80%	-19.33%
Based on share price (Common Class Units)	-39.70%	-28.68%
Based on NAV (Class F Units)	-33.60%	-19.20%
Index ⁽²⁾	-37.30%	-40.20%

⁽¹⁾ Annualized for the period March 22, 2007 (Commencement of operations) to December 31, 2008.

⁽²⁾ Index of Benchmark is FTSE Global Financials Index (GBP).

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 financial statements:

Common Units:

The Fund's Net Assets per Common Unit:

	December 31, 2008	December 31, 2007 ⁽¹⁾
Net Assets, beginning of period	9.22	10.00
Increase (decrease) from operations:		
Total revenues	0.27	0.24
Total expenses	(0.27)	(0.30)
Share issue expense ⁽²⁾	-	(0.56)
Realized gains (losses) for the period	(2.56)	(0.71)
Unrealized gains (losses) for the period	(0.48)	1.01
Total increase (decrease) from operations ⁽³⁾	(3.04)	(0.32)
Distributions:		
From income (excluding dividends)	-	-
From dividends	-	-
From capital gains	-	-
Return of capital	(0.56)	(0.47)
Total Distributions ⁽⁴⁾	(0.56)	(0.47)
Net Assets, end of period ⁽⁵⁾	5.61	9.22

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

⁽²⁾ 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.

⁽³⁾ 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.

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

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

Ratios and Supplemental Data (Common Units):

	December 31, 2008	December 31, 2007 ⁽¹⁾
Net asset value (000's)	66,145	98,209
Number of units outstanding	11,705,576	10,606,228
Base Management expense ratio ⁽²⁾⁽³⁾	2.47%	2.24%
Issue expenses ratio ⁽²⁾⁽³⁾	0.00%	5.97%
Interest expense ratio ⁽²⁾⁽³⁾	0.00%	0.53%
Management expense ratio (annualized) ⁽³⁾	2.47%	8.74%
Management expense ratio before waivers or absorptions (annualized) ⁽³⁾	2.47%	8.74%
Portfolio turnover rate ⁽⁴⁾	674.04%	205.64%
Trading expense ratio ⁽⁵⁾	1.39%	1.29%
Net asset value per unit	5.65	9.26
Closing market price (TSX) - units	4.74	8.63
Closing market price (TSX) - warrants	0.02	N/A

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

⁽²⁾ 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.

⁽³⁾ 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.

⁽⁴⁾ 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.

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

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

⁽²⁾ 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.

⁽³⁾ 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.

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

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

Ratios and Supplemental Data (Common Units):

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

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

⁽²⁾ 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.

⁽³⁾ 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.

⁽⁴⁾ 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.

⁽⁵⁾ 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, 2008

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

Portfolio by Category	Market Value \$	% of NAV
Cash and cash equivalents	15,053,364	22.0%
Foreign Bonds	11,429,983	16.7%
Switzerland	8,864,516	13.0%
Foreign currency forward contracts	8,185,611	12.1%
USA	7,754,868	11.5%
Germany	7,006,623	10.3%
Britain	2,569,402	3.8%
Bermuda	2,385,903	3.5%
Finland	1,921,179	2.8%
France	991,637	1.5%
Brazil	847,068	1.2%
Netherlands	455,598	0.7%
Hong Kong	378,390	0.6%
Bahrain	313,903	0.5%
Belgium	26	0.0%
Top 25 Holdings		
Cash and cash equivalents	15,053,364	22.0%
Foreign currency forward contracts	8,185,611	12.1%
Muenchener Rueckver AG	5,407,140	7.9%
Banque Cantonale Vaudoise	3,110,904	4.6%
Landwirtsch Rentenbank (CAD)	3,092,179	4.5%
Sampo Oyj	1,921,179	2.8%
Oest Kontrollbank (JPY)	1,851,260	2.7%
Travelers Companies Inc.	1,605,526	2.4%
Nordic Investment Bank (USD)	1,544,716	2.3%
Banco Itau SA	1,517,119	2.2%
Rabobank Nederland (JPY)	1,259,038	1.8%
Bank Nederlandse Gemeenten (USD)	1,236,457	1.8%
IPC Holdings Ltd.	1,220,229	1.8%
Hannover Rueck	1,219,403	1.8%
Rabobank Nederland (CAD)	1,215,243	1.8%
Julius Baer Holding AG	1,190,678	1.7%
Banque Privée Edmond de Rothschild SA	1,014,301	1.5%
Zurich Financial Services	1,011,820	1.5%
Chubb Corp.	967,378	1.4%
Banco do Brasil SA	847,068	1.2%
HCC Insurance Holdings Inc.	806,753	1.2%
AON Corp.	744,265	1.1%
Credit Suisse Group	704,790	1.0%
PartnerRe Ltd.	681,607	1.0%
Scor	664,194	1.0%
Net asset value (NAV)	\$68,124,061	

Management's Responsibility for Financial Reporting

The accompanying financial statements of **Connor, Clark & Lunn Global Financials Fund II** (the "Fund") and all of the information 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
Director
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada

March 12, 2008

March 17, 2009

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, 2008, the statements of net assets as at December 31, 2008 and 2007 and the statements of operations, changes in net assets, surplus (deficit) and contributed surplus and cash flow for the year ended December 31, 2008 and the period from March 22, 2007 (commencement of operations) to December 31, 2007. 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, 2008 and the results of its operations, the changes in its net assets and its cash flow for the year ended December 31, 2008 and the period from March 22, 2007 (commencement of operations) to December 31, 2007 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, 2008 and 2007

	2008	2007
	\$	\$
Assets		
Cash	15,053,364	746,560
Investments at market value (cost - \$45,947,435; 2007 - \$92,674,826)	44,473,745	92,673,754
Unrealized gain on forward currency contracts	8,185,611	11,092,746
Dividends and interest receivable	760,825	225,947
Receivable from investment sales	-	3,117,908
	<u>68,473,545</u>	<u>107,856,915</u>
Liabilities		
Payable for investment purchases	61,504	5,655,647
Distributions payable	452,108	548,665
Accounts payable and accrued liabilities	218,480	225,432
Management fees payable	62,743	198,179
	<u>794,835</u>	<u>6,627,923</u>
Net Assets and Unitholders' Equity	<u>67,678,710</u>	<u>101,228,992</u>
Net Assets		
Common Units	65,712,190	97,798,143
Class F	<u>1,966,520</u>	<u>3,430,849</u>
	<u>67,678,710</u>	<u>101,228,992</u>
Units issued and outstanding (note 5)		
Common Units	11,705,576	10,606,228
Class F	337,630	360,880
Net assets per unit - basic		
Common Units	5.61	9.22
Class F	5.82	9.51
Net assets per unit - diluted		
Common Units	5.61	9.22
Class F	5.82	9.51
Unitholders' Equity		
Unit capital (note 5)	98,260,881	98,511,012
Contributed surplus	10,574,071	66,701
Surplus (deficit)	<u>(41,156,242)</u>	<u>2,651,279</u>
Total Unitholders' Equity	<u>67,678,710</u>	<u>101,228,992</u>

Approved by the Manager



Director



Director

Connor, Clark & Lunn Global Financials Fund II

Statements of Operations

For the year ended December 31, 2008 and the period from March 22, 2007 (commencement of operations) to December 31, 2007

	2008	2007
	\$	\$
Income		
Dividends	3,307,666	2,831,908
Interest	861,351	161,318
Less: Withholding taxes	<u>(280,965)</u>	<u>(331,797)</u>
	<u>3,888,052</u>	<u>2,661,429</u>
Expenses		
Transaction costs	1,413,426	1,040,941
Management fees (note 9)	1,138,022	938,817
Service fees (note 9)	408,240	317,017
Legal fees	351,572	12,371
Custodial and other unitholders' fees	226,548	230,392
Printing fees	97,497	8,247
Interest expenses	79,303	205,011
Transfer agent fees	47,654	22,910
Audit fees	36,103	20,229
Administration fees	29,018	1,483
TSX Listing fees	25,827	12,622
Filing fees	25,746	7,836
Board of Advisors fees	22,382	16,889
Other fees	6,899	717
IRC fees	2,686	-
Loan interest expenses (note 6)	<u>-</u>	<u>420,827</u>
	<u>3,910,923</u>	<u>3,256,309</u>
Investment income (loss) for the period	<u>(22,871)</u>	<u>(594,880)</u>
Net realized gain (loss) on investments		
Net realized gain (loss) on investments	(49,190,205)	(10,482,776)
Net realized gain (loss) on foreign exchange	54,159	1,492,265
Net realized gain (loss) on foreign currency forward contracts	<u>12,271,390</u>	<u>1,146,472</u>
	<u>(36,864,656)</u>	<u>(7,844,039)</u>
Net unrealized gain (loss) on investments		
Change in unrealized gain (loss) on investments	(1,472,618)	(1,072)
Change in unrealized gain (loss) on foreign exchange	36,375	6,817
Change in unrealized gain (loss) on foreign currency forward contracts	<u>(5,483,751)</u>	<u>11,092,746</u>
	<u>(6,919,994)</u>	<u>11,098,491</u>
Net gain (loss) on investments	<u>(43,784,650)</u>	<u>3,254,452</u>
Increase (decrease) in net assets from operations	<u>(43,807,521)</u>	<u>2,659,572</u>
Increase (decrease) in net assets from operations for		
Common Units	(42,687,272)	2,573,387
Class F Units	<u>(1,120,249)</u>	<u>86,185</u>
Increase (decrease) in net assets from operations per unit - basic *		
Common Unit	(3.04)	0.24
Class F Unit	(3.18)	0.24
Increase (decrease) in net assets from operations per unit - diluted *		
Common Unit	(3.04)	0.24
Class F Unit	(3.18)	0.24
Distributions paid per		
Common Unit	0.56	0.47
Class F Unit	0.56	0.47

*(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 year ended December 31, 2008 and the period from March 22, 2007 (commencement of operations) to December 31, 2007

	Common shares		Class F		Total	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Increase (decrease) in net assets from operations	<u>(42,687,272)</u>	<u>2,573,387</u>	<u>(1,120,249)</u>	<u>86,185</u>	<u>(43,807,521)</u>	<u>2,659,572</u>
Distributions to unitholders from:						
Net investment income	-	-	-	(8,293)	-	(8,293)
Return of capital	<u>(7,980,749)</u>	<u>(4,970,709)</u>	<u>(200,338)</u>	<u>(159,949)</u>	<u>(8,181,087)</u>	<u>(5,130,658)</u>
	<u>(7,980,749)</u>	<u>(4,970,709)</u>	<u>(200,338)</u>	<u>(168,242)</u>	<u>(8,181,087)</u>	<u>(5,138,951)</u>
Unitholders' transactions:						
Proceeds from issue of units (note 5)	40,366,371	106,850,000	-	3,608,800	40,366,371	110,458,800
Agents' fees and issue expenses	-	(5,977,500)	-	(95,894)	-	(6,073,394)
Distributions reinvested	-	1,125	-	-	-	1,125
Payments on redemption/cancellation of units (note 4 & 5)	<u>(21,784,303)</u>	<u>(678,160)</u>	<u>(143,742)</u>	<u>-</u>	<u>(21,928,045)</u>	<u>(678,160)</u>
	<u>18,582,068</u>	<u>100,195,465</u>	<u>(143,742)</u>	<u>3,512,906</u>	<u>18,438,326</u>	<u>103,708,371</u>
Change in net assets during the period	<u>(32,085,953)</u>	<u>97,798,143</u>	<u>(1,464,329)</u>	<u>3,430,849</u>	<u>(33,550,282)</u>	<u>101,228,992</u>
Net assets - Beginning of period	<u>97,798,143</u>	<u>-</u>	<u>3,430,849</u>	<u>-</u>	<u>101,228,992</u>	<u>-</u>
Net assets - End of period	<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>
Surplus (deficit), beginning of period	2,573,387	-	77,892	-	2,651,279	-
Increase (decrease) in net assets from operations	(42,687,272)	2,573,387	(1,120,249)	86,185	(43,807,521)	2,659,572
Distributions to unitholders	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,293)</u>	<u>-</u>	<u>(8,293)</u>
Surplus (deficit), end of period	<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>
Contributed surplus , beginning of period	66,701	-	-	-	66,701	-
Cost of shares repurchased at less than original issue price	<u>10,435,095</u>	<u>66,701</u>	<u>72,275</u>	<u>-</u>	<u>10,507,370</u>	<u>66,701</u>
Contributed surplus , end of period	<u>10,501,796</u>	<u>66,701</u>	<u>72,275</u>	<u>-</u>	<u>10,574,071</u>	<u>66,701</u>

Connor, Clark & Lunn Global Financials Fund II

Statements of Cash Flow

For the year ended December 31, 2008 and the period from March 22, 2007 (commencement of operations) to December 31, 2007

	2008	2007
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	(43,807,521)	2,659,572
Items not affecting cash:		
Net realized (gain) loss on investments	49,190,205	10,482,776
Unrealized (gain) loss on investments	1,472,618	1,072
Unrealized (gain) loss on foreign exchange forward contracts	5,483,751	(11,092,746)
Changes in non-cash working capital		
(Increase) decrease in interest and dividends receivable	(534,878)	(225,947)
(Increase) decrease in prepaid expenses	-	-
Increase (decrease) in accounts payable and accrued liabilities	(6,952)	225,432
Increase (decrease) in management fees payable	(135,436)	198,179
Cost of investments purchased	(588,923,927)	(310,387,176)
Proceeds from investments sold	581,408,262	209,767,313
Net cash flow provided by (used in) operating activities	<u>4,146,122</u>	<u>(98,371,525)</u>
Financing Activities		
Proceeds from issuance of units	40,366,371	110,458,800
Distributions reinvested	-	1,125
Distributions to unitholders	(8,277,644)	(4,590,286)
Payments on redemption/cancellation of units	(21,928,045)	(678,160)
Unit issue costs	-	(6,073,394)
Proceeds from bank indebtedness	-	16,872,263
Repayment of bank indebtedness	-	(15,308,643)
(Gain) loss on foreign exchange from bank indebtedness	-	(1,563,620)
Net cash flow provided by (used in) financing activities	<u>10,160,682</u>	<u>99,118,085</u>
Net increase (decrease) in cash and short-term investments	14,306,804	746,560
Cash - beginning of period	<u>746,560</u>	-
Cash - end of period	<u>15,053,364</u>	<u>746,560</u>
Supplementary information		
Interest paid	79,303	625,838

Connor, Clark & Lunn Global Financials Fund II

Statement of Investment Portfolio

As at December 31, 2008

			Quantity	Average Cost \$	Fair Value \$	% of net assets
Investments						
Foreign Bonds						
Landwirtschaft Rentenbank (CAD)	4.25%	9/1/2009	3,035,000	3,079,918	3,090,814	4.6%
Oest Kontrollbank (JPY)	1.80%	3/22/2011	135,000,000	1,857,320	1,850,249	2.7%
Nordic Investment Bank (USD)	3.75%	6/15/2010	1,214,000	1,590,696	1,544,177	2.3%
Rabobank Nederland (JPY)	1.05%	1/22/2010	93,000,000	1,301,587	1,257,898	1.9%
Bank Nederlandse Gemeenten (USD)	5.38%	6/28/2010	959,000	1,302,854	1,233,260	1.8%
Rabobank Nederland (CAD)	4.25%	1/5/2009	1,215,000	1,216,711	1,214,879	1.8%
Landwirtschaft Rentenbank (USD)	4.00%	1/28/2010	488,000	525,404	614,910	0.9%
European Investment Bank (USD)	4.13%	9/15/2010	479,000	637,019	614,485	0.9%
United States Treasury Note (USD)	2.00%	8/5/2010	400	419	509	0.0%
Total Foreign Bonds				<u>11,511,928</u>	<u>11,421,181</u>	<u>16.9%</u>
Foreign Equities						
Belgium						
Groupe Bruxelles Lambert SA (Rights)			1,673	9	29	0.0%
Bahrain						
Investcorp Bank			84,758	2,362,263	104,634	0.2%
Bermuda						
IPC Holdings Ltd.			33,058	1,171,108	1,219,821	1.8%
PartnerRe Ltd.			7,747	637,078	681,607	1.0%
RenaissanceRe Holdings Ltd			7,605	417,958	483,034	0.7%
				<u>2,226,144</u>	<u>2,384,462</u>	<u>3.5%</u>
Brazil						
Banco do Brasil SA			109,000	944,330	819,371	1.2%
Switzerland						
Banque Cantonale Vaudoise			8,441	3,166,136	3,044,818	4.5%
Julius Baer Holding AG			25,677	1,025,841	1,188,295	1.8%
Banque Privée Edmond de Rothschild SA			33	1,107,104	1,010,474	1.5%
Zurich Financial Services			3,843	933,419	1,010,929	1.5%
Credit Suisse Group			21,321	723,442	704,790	1.0%
Swiss Reinsurance Co.			8,649	452,063	492,956	0.7%
Bank Sarasin AG			13,466	415,853	488,866	0.7%
St.Galler Kantonalbank			846	368,846	370,911	0.5%
Baloise-Holding AG			2,329	160,429	211,919	0.3%
Temenos Group AG			8,132	200,684	131,105	0.2%
Swissquote Group Holding Ltd.			2,669	100,676	112,064	0.2%
				<u>8,654,493</u>	<u>8,767,127</u>	<u>12.9%</u>
Germany						
Muenchener Rueckver AG			28,387	4,924,170	5,329,200	7.9%
Hannover Rueck			31,582	993,604	1,218,861	1.8%
Deutsche Boerse AG			4,360	373,491	379,108	0.6%
				<u>6,291,265</u>	<u>6,927,169</u>	<u>10.3%</u>
France						
Scor			23,644	576,954	658,513	1.0%
Tour Eiffel			5,679	860,146	327,443	0.5%
				<u>1,437,100</u>	<u>985,956</u>	<u>1.5%</u>

Connor, Clark & Lunn Global Financials Fund II

Statement of Investment Portfolio Continued

As at December 31, 2008

	Quantity	Average Cost \$	Fair Value \$	% of net assets		
Finland						
Sampo Oyj	84,558	1,864,967	1,921,179	2.8%		
Netherland						
Aegon NV	58,673	458,655	455,598	0.7%		
Britain						
Catlin Group Ltd.	65,198	475,501	501,648	0.7%		
Brit Insurance Holdings PLC	126,310	440,248	493,215	0.7%		
Aberdeen Trust	179,817	331,919	379,798	0.6%		
Schroders Plc	22,697	346,488	345,041	0.5%		
Man Group Plc	74,362	327,446	310,562	0.5%		
Jardine Lloyd Thompson Group Plc	34,906	311,050	271,053	0.4%		
Beazley Group	109,219	243,444	262,187	0.4%		
		2,476,096	2,563,504	3.8%		
Hong Kong						
Agile Property	588,000	369,452	378,390	0.6%		
USA						
Travelers Companies Inc.	28,773	1,486,913	1,605,170	2.4%		
Banco Itau SA	105,942	1,546,850	1,515,810	2.2%		
Chubb Corp.	15,365	958,053	967,378	1.4%		
HCC Insurance Holdings Inc.	24,430	704,827	806,753	1.2%		
AON Corp.	13,198	687,788	744,265	1.1%		
Arch Capital Group	7,331	606,396	633,693	0.9%		
Allied World AS	12,012	545,889	596,270	0.9%		
ACE Ltd.	4,820	285,218	314,058	0.5%		
Banco Bradesco SA (ADR)	25,316	327,189	307,840	0.5%		
Mastercard Inc.	750	137,759	132,336	0.2%		
Visa Inc.	1,879	129,418	121,572	0.2%		
		7,416,300	7,745,145	11.5%		
Total Foreign Equities		34,501,074	33,052,564	49.0%		
Total investments (Transactional net asset value)		46,013,002	44,473,745	65.9%		
Transaction costs - Section 3855 adjustment (note 3)		(65,567)	-	0.0%		
Total investments (GAAP net asset value)		45,947,435	44,473,745	65.9%		
	Maturity date	Number of contracts	Contract price / rate	Fair value	Unrealized gain (loss)	% of net assets
			\$	\$	\$	
Foreign currency forward contracts						
Bought CAD 3,000,000 sold GBP 1,639,200	3/24/2009	1	1.83016	3,096,557	96,557	0.1%
Sold CAD 43,500,000 bought GBP 21,145,000	5/13/2016	1	2.05722	35,410,946	8,089,054	12.0%
Total foreign currency forward contracts					8,185,611	12.1%
Other assets, net of liabilities					15,019,354	22.0%
Net assets					67,678,710	100.0%

Connor, Clark & Lunn Global Financials Fund II

Notes to Financial Statements

December 31, 2008

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, New Star Asset Management Limited (the "Investment Manager"), 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

The Canadian Accounting Standards Board ("AcSB") confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. IFRS will apply to fiscal years beginning on or after January 1, 2011. As of December 31, 2008 the manager has not developed a changeover plan to IFRS nor has it assessed the impact of IFRS on business arrangements, Transactional NAV per unit and accounting policies. The Manager will develop a plan prior to the January 1, 2011 deadline and will disclose this plan in either the Fund's 2009 or 2010 annual reports.

Recent accounting pronouncements

On January 1, 2008, the Fund adopted the new Section 1535, Capital Disclosures, which requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard impacted the Fund's disclosures provided but it did not affect the Trust's results or financial position.

On January 1, 2008, the Fund adopted the new CICA Sections 3862, Financial Instruments – Disclosures ("Section 3862"), and 3863, Financial Instruments – Presentation ("Section 3863"), which replaced Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards impacted the Fund's disclosures provided but they did not affect the Trust's results or financial position.

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. Should the quoted value for a security, in the opinion of the Managers, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Managers on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred.

On March 22, 2007, the Fund adopted Section 3855 for financial reporting purposes ("GAAP Net Assets"). Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for the security. In addition, Section 3855 requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund be charged to net income in the period.

On September 8, 2008, the Canadian Securities Administration issued the amended National Instrument 81-106 ("NI 81-106"), Section 14.2 of this amended NI 81-106 requires an investment fund to calculate its daily 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, 2008 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, 2008

	<u>Transactional NAV</u>	<u>Section 3855 Adjustment</u>	<u>GAAP Net Assets</u>
Net Assets:			
Common Units	66,203,879	(491,689)	65,712,190
Class F Units	<u>1,979,449</u>	<u>(12,929)</u>	<u>1,966,520</u>
Total	<u>68,183,328</u>	<u>(504,618)</u>	<u>67,678,710</u>
Net Assets:			
Common Unit	5.65	(0.04)	5.61
Class F Unit	5.86	(0.04)	5.82

The reconciliation between the Transactional NAV and the GAAP Net Assets as of December 31, 2007 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>
Net Assets:			
Common Units	98,209,070	(410,927)	97,798,143
Class F Units	<u>3,445,930</u>	<u>(15,081)</u>	<u>3,430,849</u>
Total	<u>101,655,000</u>	<u>(426,008)</u>	<u>101,228,992</u>
Net Assets:			
Common Unit	9.26	(0.04)	9.22
Class F Unit	9.55	(0.04)	9.51

Cash

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

Income recognition

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

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Notes to Financial Statements

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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 92,030 Common Units during the year ended December 31, 2008 for a total cost of \$531,842 (78,900 Units were purchased for a total cost of \$678,160 during the period from March 22, 2007 (commencement of operations) to December 31, 2007).

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.

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 10th 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 15th 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 15th 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.

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

	Common Units		F Units	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Balance – beginning of period	10,606,228	–	360,880	–
Units issued	–	10,685,000	–	360,880
Units received issued on merger	4,750,154	–	–	–
Units reinvested	–	128	–	–
Units redeemed	(3,558,776)	–	(23,250)	–
Units redeemed under the Market Purchase Program (note 4)	(92,030)	(78,900)	–	–
Balance – end of period	11,705,576	10,606,228	337,630	360,880

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

Connor, Clark & Lunn Global Financials Fund II

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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") denominated in British pounds.

During the period from March 22, 2007 (commencement of operations) to December 31, 2007, the Credit Facility outstanding had a minimum balance of \$0 and maximum balance of \$16.4 million. The related total interest expense was \$420,827.

Leverage has not been used since late September 2007, therefore, the Credit Facility had an outstanding balance of \$nil as of December 31, 2008 and 2007.

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

The Fund has made all its scheduled distributions during the year ended December 31, 2008 paying, \$0.56 per Common Unit and \$0.56 per Class F Unit (\$0.47 per Common Unit and \$0.47 per class F unit during the period from March 22, 2007 (commencement of operations) to December 31, 2007).

9 Management fees and other expenses

Pursuant to a management agreement ("the Management Agreement") the Fund has retained Connor, Clark & Lunn Capital Markets Inc. ("the Manager") to act as manager. As compensation for management services rendered to the Fund, the Manager 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 \$1,413,426 broker commissions paid during the year ended December 31, 2008 (\$1,040,941 during the period from March 22, 2007 (commencement of operations) to December 31, 2007) 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	67,712,720
Loans and receivables	760,825
Total assets	68,473,545
<u>Liabilities</u>	
Held for trading	-
Financial liabilities at amortized cost	794,835
Total liabilities	794,835

For the purposes of categorization in accordance with section 3862, interest and dividends receivable, and other assets are deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, 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.

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

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	4,305,693	7,115,488	–	–	33,052,564	44,473,745
Cash	–	–	–	–	15,053,364	15,053,364
Other assets	–	–	–	–	8,946,436	8,946,436
Liabilities	–	–	–	–	(794,835)	(794,835)
Net assets value						67,678,710

As at December 31, 2008, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$129,000. In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk

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

The table below summarizes the Fund's exposure to foreign currencies as at December 31, 2008. 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.

	Monetary instruments \$	Non-monetary instruments \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
Swiss Franc	–	8,767,127	8,767,127	13.0%	438,000
European Union Euro	–	10,289,931	10,289,931	15.2%	514,000
British Pound Sterling	–	43,063,504	43,063,504	63.6%	2,153,000
Hong Kong Dollar	–	378,390	378,390	0.6%	19,000
Japanese Yen	3,108,147	–	3,108,147	4.6%	155,000
US Dollar	4,007,341	10,234,241	14,241,582	21.0%	712,000
Brazil Real	–	819,371	819,371	1.2%	41,000

Other market risk

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

If equity prices had increased or decreased by 10% on December 31, 2008, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$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 or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments represents the maximum credit risk exposure as at December 31, 2008. This also applies to other assets, as they have a short-term to settlement.

As of December 31, 2008, the Fund had 16.9% of its Transactional NAV exposed to the credit risk of AAA rated foreign government bonds and 12.1% of its Transactional NAV exposed to currency derivatives held with BMO whose S&P credit rating as of December 31, 2008 was A+. No debt securities were contractually past due and no longer meeting interest payment obligations.

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

Liquidity risk

The Fund is exposed to daily cash redemptions due to its market purchase program which are limited to certain conditions (see note 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.