



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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

Annual Report

December 31, 2007

**Connor, Clark & Lunn Global Financials Fund II Message to Unitholders**

**March 13, 2008**

**Dear Investor,**

The Connor, Clark & Lunn Global Financials Fund II (the "Fund") has generated a total return of 3.0% since its inception on March 23, 2007 to December 31, 2007. We are pleased with the Fund's performance, particularly given that its benchmark, the FTSE Global Financials Index (GBP) was down by 4.6% over the same period. The broad spread of the portfolio, both in terms of sectors and regions, helped to limit the impact of the sub-prime crisis. The Fund limited exposure to stocks most affected by the credit crunch by maintaining a focus on countries where structural local growth themes prevailed.

On December 11, 2007, Connor, Clark & Lunn Global Financials Fund and Connor, Clark & Lunn Global Financials Fund II announced a proposal that would result in the merger of the funds, with Global Financials Fund II as the continuing fund. A proposal permitting Global Financials Fund II to issue warrants to its unitholders was also announced. The investment objectives, investment strategy and investment process of both funds are substantially similar and are based on New Star Asset Management's expertise in investing in the global financial services sector. At the time the merger was announced, approximately 96% of the holdings of the Funds overlap. With these similarities, there are several advantages to merging the funds to create a larger fund. These advantages include lower costs, greater liquidity and higher levels of monthly distributions for unitholders of Global Financials Fund as well as the opportunity to participate in Global Financials Fund II's distribution reinvestment plan.

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

Yours truly,

A handwritten signature in black ink, appearing to read "W. Neil Murdoch". The signature is fluid and cursive, with a prominent initial "W." and a long, sweeping tail.

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.**

## 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 net asset value 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.

## Recent Development

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

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, 2007, the Fund had zero leverage. 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 Units' total return was 3.0% from March 22, 2007 (commencement of operations) to December 31, 2007 (The Class F Units' NAV rose 3.0% during the same period) while the FTSE Global Financials Total Return Index (£) fell 4.6%.

The period from April through to mid July was characterised by strong global markets with high levels of takeover activity and a better than expected corporate earnings season. Positive economic data boosted investor confidence and markets reached new highs. There was much consolidation activity among European banks. Barclays' bid for ABN Amro was followed by a counter-offer from the consortium led by Royal Bank of Scotland. In May, Unicredito Italiano announced the merger with Capitalia after some rumours circulated about a potential link with Societe Generale.

By mid July, however, the financial sector was constrained by escalating credit concerns and news that investment banks were unable to sell debt for two large private equity deals highlighted that demand had gone and was a pre-cursor to the flight to quality. The summer months were overshadowed by the credit crisis, which arose from the spreading contagion from the crisis in the US sub-prime lending market and the derivatives related to these loans. High volatility caused by the de-leveraging process and lack of visibility on direct or indirect sub-prime exposure led to a sell-off in banks and investment banks. Funding costs rose in both the interbank and debt markets and, with the resultant fall in margins, wholesale funded banks experienced an indiscriminate sell-off. Northern Rock was the main headline in September after it approached the Bank of England for emergency funding, which led to a run on the bank.

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

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

#### *Performance*

The Fund significantly outperformed its benchmark over the period under review. The broad spread of the portfolio, both in terms of sectors and regions, meant that it was able to limit the impact of the sub-prime mortgage crisis. The Fund avoided the stocks most affected by the US sub-prime mortgage crisis. It also maintained a focus on countries where structural local growth themes prevailed.

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

Turkish banking stocks also outperformed the European banks. The election of Recep Tyyip Erdogan as prime minister in

July provided the long-term stability for which international investors has been hoping. A surprise early rate cut in September, which was followed up with further cuts encouraged investors. One of the Fund's holdings, Turkiye Halk Bankasi, significantly outperformed the Turkish market. The banks share price had a particularly strong end to the year after further details were released about the Turkish government's plans to sell its majority stake in the bank during 2008.

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

### *Investment themes for 2008*

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

Some areas of the financial markets have become increasingly attractive such as hedge funds, which can perform well in difficult environments. Man Group, for instance, is a key investment opportunity for the Fund.

Global financial exchanges and inter-broker dealers such as Deutsche Börse and ICAP also have potential as investments through which to benefit from heightened volatility. Uncertainty in global stock markets has typically generated increased trading volumes for such businesses as investors seek protection.

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

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

### *Outlook*

Companies in the financial sector were trading on comparatively low relative valuations before the credit crisis started in the summer of 2007. The recent de-rating as a result of negative market sentiment has pushed down share valuations to the extent that some are trading at 20-year lows. It is likely that there will be a contained slowdown in economic growth rather than a full-blown recession. In such circumstances, sentiment should begin to turn as earnings visibility becomes clearer, enabling financial stocks to enjoy a recovery.

### ***Investment Income and Capital Gains***

During the period from March 22, 2007 (commencement of operations) to December 31, 2007, the Fund had net investment loss of (\$594,880) and realized (\$7,844,039) in losses on investments sold. In addition, the portfolio had an \$ 11,098,491 increase in unrealized gains on its investments. Income, and realized losses and unrealized gains combined for a total increase in net assets from operations of \$2,659,572 before subtracting the issue and agents cost of \$6,073,394. Distributions to unitholders during same period totalled \$4,970,709 for the Common Units or \$0.47 per unit and \$168,242 for Class F Units or \$0.47 per unit.

### ***Leverage***

The Investment Manager employs 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

net asset value of the Fund.

Since commencement of operations on March 22, 2007, the Fund employed leverage in the range of 0-16% including accrued interest. According to the term of the Credit Agreement, leverage may exceed 15% due to market fluctuations but may not exceed 20%. Leverage has not been used since late September 2007.

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

As at December 31, 2007, the Fund had current assets excluding investments of \$4,090,415. Current liabilities, including distributions accrued but not yet paid, totalled \$6,627,923.

### ***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 net asset value 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 net asset value of \$9.73 per unit.

### ***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 net asset value 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 net asset value per unit or less.

Pursuant to this obligation, the Fund purchased 78,900 Units during the period from March 22, 2007 (commencement of operations) to December 31, 2007 for a total cost of \$678,160.

## **Distributions**

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

## **Related Party Transactions**

### ***Investment Portfolio Activity***

The Fund's holding in New Star Asset Management Group PLC closely mirrors the holding by New Star's UK mutual fund, which follows the same strategy as the Fund. These shares are held in accordance with New Star's investment policies and procedures and as such are subject to the same criteria and restrictions as all other portfolio holdings as well as an additional senior management approval prior to any trading in them. The holding in New Star offers the fund exposure to a fast growing, leading fund manager with a diversified client base. The Manager and New Star believe that neither New Star nor any of its directors, officers or employees derive any measurable benefit from the Fund's holding New Star shares and are confident that the shares were acquired solely based on investment considerations and in the best interests of unitholders.

## ***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 net asset value of the Fund to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Fund during the period from March 22, 2007 (commencement of operations) to December 31, 2007 were \$938,817.

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

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

The Independent Committee of the Board of Advisors tabled no special reports and made no extraordinary material recommendations to management of the Fund during the period from March 22, 2007 (commencement of operations) to December 31, 2007.

## 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 Asset Value per Common Unit:

	December 31, 2007 <sup>(1)</sup>
<b>Net Asset Value, beginning of period</b>	<b>10.00</b>
<b>Increase (decrease) from operations:</b>	
Total revenues	0.24
Total expenses	(0.30)
Share issue expense <sup>(2)</sup>	(0.56)
Realized gains (losses) for the period	(0.71)
Unrealized gains (losses) for the period	1.01
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>(0.32)</b>
<b>Distributions:</b>	
From income (excluding dividends)	—
From dividends	—
From capital gains	—
Return of capital	(0.47)
<b>Total Distributions <sup>(4)</sup></b>	<b>(0.47)</b>
<b>Net Asset Value, end of period <sup>(5,6)</sup></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 asset value 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 asset values per unit.

<sup>(6)</sup> The NAV as of December 31, 2007 represent the GAAP NAV. The Transactional NAV net of section 3855 adjustment was 9.26. (See: New Accounting Standards).

Ratios and Supplemental Data (Common Units):

	December 31, 2007 <sup>(1)</sup>
Net assets (000's) <sup>(2)</sup>	98,209
Number of units outstanding	10,606,228
Base Management expense ratio <sup>(3) (4)</sup>	2.24%
Issue expenses ratio <sup>(3) (4)</sup>	5.97%
Interest expense ratio <sup>(3) (4)</sup>	0.53%
Management expense ratio (annualized) <sup>(4)</sup>	8.74%
Management expense ratio before waivers or absorptions (annualized) <sup>(4)</sup>	8.74%
Portfolio turnover rate <sup>(5)</sup>	205.64%
Trading expense ratio <sup>(6)</sup>	1.29%
Closing market price (TSX)	8.63

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

<sup>(2)</sup> The NAV as of December 31, 2007 represent the Transactional NAV. (See: New Accounting Standards).

<sup>(3)</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>(4)</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>(5)</sup> The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

<sup>(6)</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 Asset Value per Class F Unit:

	December 31, 2007 <sup>(1)</sup>
<b>Net Asset Value, beginning of period</b>	<b>10.00</b>
<b>Increase (decrease) from operations:</b>	
Total revenues	0.25
Total expenses	(0.28)
Share issue expense <sup>(2)</sup>	(0.27)
Realized gains (losses) for the period	(0.74)
Unrealized gains (losses) for the period	1.01
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>(0.03)</b>
<b>Distributions:</b>	
From income (excluding dividends)	—
From dividends	(0.02)
From capital gains	—
Return of capital	(0.45)
<b>Total Distributions <sup>(4)</sup></b>	<b>(0.47)</b>
<b>Net Asset Value, end of period <sup>(5,6)</sup></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 asset value 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 asset values per unit.

<sup>(6)</sup> The NAV as of December 31, 2007 represent the GAAP NAV. The Transactional NAV net of section 3855 adjustment was 9.55. (See: New Accounting Standards).

Ratios and Supplemental Data (Common Units):

	December 31, 2007 <sup>(1)</sup>
Net assets (000's) <sup>(2)</sup>	3,446
Number of units outstanding	360,880
Base Management expense ratio <sup>(3)(4)</sup>	1.93%
Issue expenses ratio <sup>(3)(4)</sup>	2.77%
Interest expense ratio <sup>(3)(4)</sup>	0.51%
Management expense ratio (annualized) <sup>(4)</sup>	5.21%
Management expense ratio before waivers or absorptions (annualized) <sup>(4)</sup>	5.21%
Portfolio turnover rate <sup>(5)</sup>	205.64%
Trading expense ratio <sup>(6)</sup>	1.29%

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

<sup>(2)</sup> The NAV as of December 31, 2007 represent the Transactional NAV. (See: New Accounting Standards).

<sup>(3)</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>(4)</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>(5)</sup> The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

<sup>(6)</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, 2007

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	26,271,000	26.0%
Greece	13,036,310	12.8%
Switzerland	12,339,682	12.1%
Foreign currency forward contracts	11,092,746	11.0%
Turkey	10,738,515	10.5%
Germany	6,671,751	6.6%
USA	6,567,431	6.5%
France	3,604,891	3.6%
Italy	2,560,174	2.6%
Norway	2,147,735	2.1%
Netherlands	1,961,329	1.9%
India	1,784,365	1.8%
Hong Kong	1,574,778	1.6%
Russia	1,391,630	1.4%
Austria	1,104,787	1.1%
Spain	919,345	0.9%
Cash & Cash Equivalents	746,560	0.7%
Belgium	31	0.0%
<b>Top 25 Holdings</b>		
Foreign currency forward contracts	11,092,746	11.0%
Standard Chartered Plc	6,132,266	6.0%
Turkiye Halk Bankasi	5,356,528	5.2%
Man Group PLC	5,350,512	5.2%
Bank Of Cyprus Ltd	4,549,911	4.5%
Turkiye Garanti Bankasi	3,931,018	3.9%
Deutsche Borse AG	3,696,387	3.7%
Temenos Group AG	3,559,462	3.5%
Prudential Corp.	3,542,938	3.5%
National Bank Of Greece	3,373,806	3.3%
Banque Cantonale Vaudoise	3,100,896	3.1%
Muenchener Rueckver AG-Reg	2,975,364	2.9%
ICAP PLC	2,479,064	2.5%
Tour Eiffel	2,428,418	2.4%
Annaly Capital Management Inc	2,303,728	2.3%
Bank Sarasin & Co. Ltd	2,250,070	2.2%
Hellenic Exchanges SA	2,167,126	2.1%
DnB NOR ASA	2,147,735	2.1%
Schroders PLC	2,095,556	2.1%
Intesa Sanpaolo SPA	1,975,292	2.0%
Kardan NV	1,961,329	1.9%
London Stock Exchange	1,829,078	1.8%
State Bank Of India (GDR)	1,784,365	1.8%
Julius Baer Holding AG	1,755,118	1.7%
CME Group Inc	1,610,969	1.6%
<b>Net asset value (NAV)</b>	<b>\$101,228,992</b>	

## 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.

Toronto, Canada

**March 13, 2007**



Philip Gow  
Chief Financial Officer  
Connor, Clark & Lunn Capital Markets Inc.

March 13, 2008

## Auditors' Report

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

We have audited the statements of investment portfolio and net assets of **Connor, Clark & Lunn Global Financials Fund II** as at December 31, 2007 and the statements of operations, changes in net assets and surplus and cash flow for the period from March 22, 2007 (commencement of operations) to December 31, 2007. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 management, 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, 2007 and the results of its operations, the changes in its net assets and its cash flow for the period from March 22, 2007 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

Statement of Net Assets

As at December 31, 2007

	\$
<b>Assets</b>	
Cash	746,560
Investments at market value (cost - \$92,674,826)	92,673,754
Unrealized gain on forward currency contracts	11,092,746
Dividends and interest receivable	225,947
Receivable from investment sales	3,117,908
	<u>107,856,915</u>
<b>Liabilities</b>	
Payable for investment purchases	5,655,647
Distributions payable	548,665
Accounts payable and accrued liabilities	225,432
Management fees payable	198,179
	<u>6,627,923</u>
<b>Net Assets and Unitholders' Equity</b>	<u>101,228,992</u>
<b>Net Asset Value</b>	
<b>Common Units</b>	97,798,143
<b>Class F</b>	3,430,849
	<u>101,228,992</u>
<b>Units issued and outstanding (note 5)</b>	
<b>Common Units</b>	10,606,228
<b>Class F</b>	360,880
<b>Net asset value per unit</b>	
<b>Common Units</b>	9.22
<b>Class F</b>	9.51
<b>Unitholders' Equity</b>	
Unit capital (note 5)	98,511,012
Contributed surplus	66,701
Surplus (deficit)	2,651,279
	<u>101,228,992</u>
<b>Approved by the Manager</b>	



Director



Director

## Connor, Clark & Lunn Global Financials Fund II

Statement of Operations

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

	\$
<b>Income</b>	
Dividends	2,831,908
Interest	161,318
Less: Withholding taxes	<u>(331,797)</u>
	<u>2,661,429</u>
<b>Expenses</b>	
Transaction costs	1,040,941
Management fees (note 9)	938,817
Loan interest expenses (note 6)	420,827
Service fees (note 9)	317,017
Custodial and other unitholders' fees	230,392
Interest expenses	205,011
Transfer agent fees	22,910
Audit fees	20,229
Board of Advisors fees	16,889
TSX Listing fees	12,622
Legal fees	12,371
Printing fees	8,247
Filing fees	7,836
Administration fees	1,483
Other	<u>717</u>
	<u>3,256,309</u>
<b>Investment income (loss) for the period</b>	<u>(594,880)</u>
<b>Net realized gain (loss) on investments</b>	
Net realized gain (loss) on investments	(10,482,776)
Net realized gain (loss) on foreign exchange	1,492,265
Net realized gain (loss) on foreign exchange contracts	<u>1,146,472</u>
	<u>(7,844,039)</u>
<b>Net unrealized gain (loss) on investments</b>	
Unrealized gain (loss) on investments	(1,072)
Unrealized gain (loss) on foreign exchange forward contracts	11,092,746
Unrealized gain (loss) on foreign exchange	<u>6,817</u>
	<u>11,098,491</u>
<b>Net gain (loss) on investments</b>	<u>3,254,452</u>
<b>Increase (decrease) in net assets from operations</b>	<u>2,659,572</u>
<b>Increase (decrease) in net assets from operations for</b>	
Common Units	2,573,387
Class F Units	86,185
<b>Increase (decrease) in net assets from operations per *</b>	
Common Unit	0.24
Class F Unit	0.24
<b>Distributions paid per</b>	
Common Unit	0.47
Class F Unit	0.47

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

## Connor, Clark & Lunn Global Financials Fund II

Statement of Changes in Net Assets and Surplus

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

	Common shares	Class F	Total
	\$	\$	\$
<b>Increase (decrease) in net assets from operations</b>	<u>2,573,387</u>	<u>86,185</u>	<u>2,659,572</u>
<b>Distributions to unitholders from:</b>			
Net investment income	-	(8,293)	(8,293)
Return of capital	<u>(4,970,709)</u>	<u>(159,949)</u>	<u>(5,130,658)</u>
	<u>(4,970,709)</u>	<u>(168,242)</u>	<u>(5,138,951)</u>
<b>Unitholders' transactions:</b>			
Proceeds from issue of units (note 5)	106,850,000	3,608,800	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>(678,160)</u>	<u>-</u>	<u>(678,160)</u>
	<u>100,195,465</u>	<u>3,512,906</u>	<u>103,708,371</u>
<b>Change in net assets during the period</b>	97,798,143	3,430,849	101,228,992
<b>Net assets - Beginning of period</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net assets - End of period</b>	<u>97,798,143</u>	<u>3,430,849</u>	<u>101,228,992</u>
<b>Surplus (deficit), beginning of period</b>	-	-	-
Increase (decrease) in net assets from operations	2,573,387	86,185	2,659,572
Distributions to unitholders	<u>-</u>	<u>(8,293)</u>	<u>(8,293)</u>
<b>Surplus (deficit), end of period</b>	<u>2,573,387</u>	<u>77,892</u>	<u>2,651,279</u>
<b>Contributed surplus , beginning of period</b>	-	-	-
Cost of shares repurchased at less than original issue price	<u>66,701</u>	<u>-</u>	<u>66,701</u>
<b>Contributed surplus , end of period</b>	<u>66,701</u>	<u>-</u>	<u>66,701</u>

## Connor, Clark & Lunn Global Financials Fund II

Statement of Cash Flow

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

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\$

### Operating Activities

Increase (decrease) in net assets from operations	2,659,572
Items not affecting cash:	
Net realized (gain) loss on investments	10,482,776
Unrealized (gain) loss on investments	1,072
Unrealized (gain) loss on foreign exchange forward contracts	(11,092,746)
Changes in non-cash working capital	
(Increase) decrease in interest and dividends receivable	(225,947)
Increase (decrease) in accounts payable and accrued liabilities	225,432
Increase (decrease) in management fees payable	198,179

**Net cash flow provided by (used in) operating activities** 2,248,338

### Investing Activities

Cost of investments purchased	(310,387,176)
Proceeds from investments sold	<u>209,767,313</u>

**Net cash provided by (used in) investing activities** (100,619,863)

### Financing Activities

Proceeds from issuance of units	110,458,800
Distributions reinvested	1,125
Distributions to unitholders	(4,590,286)
Payments on redemption/cancellation of units	(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	<u>(1,563,620)</u>

**Net cash flow provided by (used in) financing activities** 99,118,085

**Net increase (decrease) in cash and short-term investments** 746,560

**Cash and short-term investments - beginning of period** -

**Cash and short-term investments - end of period** 746,560

### Supplementary information

Interest paid 625,838

## Connor, Clark & Lunn Global Financials Fund II

Statement of Investment Portfolio

As at December 31, 2007

	Quantity	Average Cost \$	Market Value \$	% of NAV
<b>Investments</b>				
<b>Foreign Equities and mutual funds</b>				
<b>Austria</b>				
Raiffeisen International Bank AG	7,455	1,188,102	1,104,787	1.1%
<b>Belgium</b>				
Groupe Bruxelles Lambert Rights	1,081	-	31	0.0%
<b>Britain</b>				
ICAP PLC	173,688	2,176,411	2,479,064	2.5%
IG Group Holdings PLC	146,136	1,163,800	1,161,336	1.2%
Investcorp Bank	44,636	1,283,180	1,231,298	1.3%
London Stock Exchange	47,044	1,778,056	1,829,078	1.8%
Man Group PLC	479,052	5,450,527	5,350,512	5.2%
New Star Asset Management Group PLC (note 10)	348,736	3,407,980	1,219,548	1.2%
Prudential Corp.	253,815	3,522,636	3,542,938	3.5%
Resolution PLC	35,450	532,133	495,186	0.5%
Schroders PLC	81,986	2,315,455	2,095,556	2.1%
Speymill Macau Property Company	590,416	913,866	734,218	0.7%
Standard Chartered Plc	169,361	5,990,800	6,132,266	6.0%
		28,534,844	26,271,000	26.0%
<b>France</b>				
Banque BNP Paribas SA	5,285	579,880	565,708	0.6%
Les Nouveaux Constructeurs SA	48,208	1,812,519	610,765	0.6%
Tour Eiffel	17,932	3,357,995	2,428,418	2.4%
		5,750,394	3,604,891	3.6%
<b>Germany</b>				
Deutsche Borse AG	18,954	2,754,434	3,696,387	3.7%
Muenchener Rueckver AG-Reg	15,542	2,907,712	2,975,364	2.9%
		5,662,146	6,671,751	6.6%
<b>Greece</b>				
Alpha Bank SA	27,825	973,408	998,955	1.0%
Bank Of Cyprus Ltd	254,285	4,611,593	4,549,911	4.5%
Hellenic Exchanges SA	63,262	1,710,281	2,167,126	2.1%
Marfin Financial Group Holdings SA	52,717	508,077	451,853	0.4%
Marfin Popular Bank	73,633	966,718	975,384	1.0%
National Bank Of Greece	49,959	3,244,672	3,373,806	3.3%
Piraeus Bank SA	13,478	501,897	519,275	0.5%
		12,516,646	13,036,310	12.8%
<b>Hong Kong</b>				
Rex Financial	8,350,000	1,278,472	1,574,778	1.6%
<b>India</b>				
State Bank Of India (GDR)	15,257	1,289,839	1,784,365	1.8%

## Connor, Clark & Lunn Global Financials Fund II

Statement of Investment Portfolio .... Continued

As at December 31, 2007

	Quantity	Average Cost \$	Market Value \$	% of NAV
<b>Italy</b>				
Intesa Sanpaolo SPA	253,265	1,948,955	1,975,292	2.0%
UBI Banca	21,583	614,673	584,882	0.6%
		<u>2,563,628</u>	<u>2,560,174</u>	<u>2.6%</u>
<b>Netherlands</b>				
Kardan NV	118,399	2,047,057	1,961,329	1.9%
<b>Norway</b>				
DnB NOR ASA	142,362	2,179,238	2,147,735	2.1%
<b>Russia</b>				
Sberbank	338,949	1,420,305	1,391,630	1.4%
<b>Spain</b>				
Bolsas y Mercados Espanoles SA	13,672	944,698	919,345	0.9%
<b>Switzerland</b>				
Bank Sarasin & Co. Ltd	487	2,176,628	2,250,070	2.2%
Banque Cantonale Vaudoise	7,100	4,027,190	3,100,896	3.1%
Banque Privee Edmond de Rothschild SA Series B	15	494,236	546,586	0.5%
Gottex Fund Management	19,162	1,104,794	1,127,550	1.1%
Julius Baer Holding AG	21,556	1,634,880	1,755,118	1.7%
Temenos Group AG	150,669	3,594,180	3,559,462	3.5%
		<u>13,031,908</u>	<u>12,339,682</u>	<u>12.1%</u>
<b>Turkey</b>				
Asya Katilim Bankasi	158,109	1,006,765	1,450,969	1.4%
Turkiye Garanti Bankasi	444,673	2,932,431	3,931,018	3.9%
Turkiye Halk Bankasi	525,803	4,074,414	5,356,528	5.2%
		<u>8,013,610</u>	<u>10,738,515</u>	<u>10.5%</u>
<b>USA</b>				
Annaly Capital Management Inc	128,747	2,218,762	2,303,728	2.3%
CME Group Inc	2,382	1,597,014	1,610,969	1.6%
GLG Partners Inc.	21,004	294,598	281,098	0.3%
InterContinental Exchange Inc	2,141	394,585	405,856	0.4%
Nasdaq Stock Market Inc.	21,079	990,204	1,028,756	1.0%
UltraShort Financials ProShares	4,898	490,735	483,168	0.5%
UltraShort MSCI Emerging Markets ProShares	6,328	509,935	453,856	0.4%
		<u>6,495,833</u>	<u>6,567,431</u>	<u>6.5%</u>
<b>Total foreign equities (Transactional net asset value)</b>		<u>92,916,720</u>	<u>92,673,754</u>	<u>91.5%</u>
Transaction costs - Section 3855 adjustment (note 3)		<u>(241,894)</u>	<u>-</u>	<u>0.0%</u>
<b>Total foreign equities (GAAP net asset value)</b>		<u>92,674,826</u>	<u>92,673,754</u>	<u>91.5%</u>
<b>Total investments</b>		<u>92,674,826</u>	<u>92,673,754</u>	<u>91.5%</u>

## Connor, Clark & Lunn Global Financials Fund II

Statement of Investment Portfolio .... Continued

As at December 31, 2007

	Maturity date	Number of contracts	Contract price / rate \$	Market value \$	Unrealized gain (loss) \$	% of NAV
<b>Foreign currency forward contracts</b>						
Bought CAD 89,605,516 sold GBP 40,000,000	03/25/08	1	2.24014	78,512,770	11,092,746	11.0%
<b>Total foreign currency forward contracts</b>					11,092,746	11.0%
<b>Liabilities, net of other assets</b>					(2,537,508)	-2.5%
<b>Net asset value (NAV)</b>					101,228,992	100.0%

# Connor, Clark & Lunn Global Financials Fund II

## Notes to Financial Statements

December 31, 2007

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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.

### 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 net asset value 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.

#### Recent accounting pronouncements

On March 22, 2007 (commencement of operations), the Fund adopted Section 1506 of the CICA Handbook Accounting Changes, which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This standard did not affect the Fund's financial position or results of operations.

The new Section 1535, Capital Disclosures, 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. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund.

This standard will impact the Fund's disclosures provided but will not affect the Fund's consolidated results or financial position.

The new Sections 3862 and 3863 replace 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. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund.

This standard will impact the Fund's disclosures provided but will not affect the Fund's results or financial position.

#### Section 3855

National Instrument 81-106 "Investment Fund Continuous Disclosure" requires the net asset value of the Fund be calculated in accordance with Canadian generally accepted accounting principles ("GAAP").

The Canadian Institute of Chartered Accountants ("CICA") has issued Section 3855, Financial Instruments: Recognition and Measurement, effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The adoption of this section will impact the valuation and disclosure of the net asset value ("NAV") of the Fund, and the way transaction costs are recorded for financial reporting purposes.

Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for securities held short.

Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities be charged to net income in the period.

The Canadian Securities Administrators have granted temporary relief to investment funds from complying with Section 3855, for the purpose of calculating and reporting of NAV ("Transactional NAV") (other than for financial reporting purposes) until September 30, 2008, to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements, such as the purchase and redemption price of an investment fund.

On March 22, 2007, the Fund adopted Section 3855 for financial reporting purposes ("GAAP NAV"). The reconciliation between the Transactional NAV and the GAAP NAV 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, 2007

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	<u>Transactional NAV</u>	<u>Section 3855 Adjustment</u>	<u>GAAP NAV</u>
<b>Net Asset Value per:</b>			
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>
<b>Net Asset Value Per:</b>			
Common Unit	9.26	(0.04)	9.22
Class F Unit	9.55	(0.04)	9.51

**Transaction costs** are any costs that can directly be attributable to the acquisition and disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. As mentioned earlier Section 3855 requires that any transaction costs be expensed and included in "Transaction costs" in the Statements of Operations.

**Valuation of investments**

Short-term investments are carried at cost, which together with interest receivable approximates market value. Other investments are recorded at their quoted market value, being the last bid price recorded by the securities exchanges on which such investments are principally traded.

**Investment transactions**

Investment transactions are recorded on the trade date. Realized gains or losses on sales of investments are determined based on the average cost of investments, after deducting transaction costs.

**Income recognition**

Interest income is recorded on the accrual basis. Dividend income and distributions from income trusts are recorded on the ex-dividend date. Distributions received from income trusts are recorded as income, capital gains or a return on capital based on the best information available to the trustee.

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

**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 net asset value 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 net asset value per unit or less.

Pursuant to this obligation, the Fund purchased and subsequently redeemed 78,900 Units during the period from March 22, 2007 (commencement of operations) to December 31, 2007 for a total cost of \$678,160.

**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, 2007

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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 NAV per Unit less any costs of funding the redemption and the Unitholder will receive payment on or before the 15<sup>th</sup> day following the Redemption Date. Notice of Redemption must be provided between 45 days and the 20<sup>th</sup> business day before the Redemption Date (the "Notice Period").

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

Changes in outstanding units are summarized as follows:

	Number of units	
	Common Units	Class F Units
Balance – March 22, 2007 (commencement of operations)	–	–
Units issued	10,685,000	360,880
Units reinvested	128	–
Units redeemed under the Market Purchase Program (note 4)	(78,900)	–
Units redeemed	–	–
Balance – December 31, 2007	<u>10,606,228</u>	<u>360,880</u>

### 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.

As of December 31, 2007, the Credit Facility had an outstanding balance of \$nil.

### 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 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 period from March 22, 2007 (commencement of operations) to December 31, 2007 paying, \$0.47 per common unit and \$0.47 per class F unit.

### 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 net asset value 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

# Connor, Clark & Lunn Global Financials Fund II

## Notes to Financial Statements

December 31, 2007

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calculated and payable each calendar quarter in arrears and is equal to 0.40% annually of the net asset value 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 Related party transactions

The Fund's holding in New Star Asset Management Group PLC closely mirrors the holding by New Star's UK mutual fund, which follows the same strategy as the Fund. These shares are held in accordance with New Star's investment policies and procedures and as such are subject to the same criteria and restrictions as all other portfolio holdings as well as an additional senior management approval prior to any trading in them. The holding in New Star offers the fund exposure to a fast growing, leading fund manager with a diversified client base. The Manager and New Star believe that neither New Star nor any of its directors, officers or employees derive any measurable benefit from the Fund's holding New Star shares and are confident that the shares were acquired solely based on investment considerations and in the best interests of unitholders.

### 11 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.

### 12 Broker commission charges and soft dollar services

There were \$1,040,941 broker commissions paid during the period from March 22, 2007 (commencement of operations) to December 31, 2007 in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges.

### 13 Subsequent event

On February 4, 2008, Connor, Clark & Lunn Global Financials Fund and Connor, Clark & Lunn Global Financials Fund II completed the merger of the two 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.

Pursuant to the merger, the Connor, Clark & Lunn Global Financials Fund II issued 4,750,154 units for an equivalent value of \$40,366,371.33 on February 1, 2008.