

Connor, Clark & Lunn

CAPITAL MARKETS INC.

2020

**Connor, Clark & Lunn  
Conservative Income Fund**

Semi-Annual Report



## Connor, Clark & Lunn Conservative Income Fund Message to Unitholders

June 15<sup>th</sup>, 2005

Dear Investor,

These semi-annual financial statements are in respect of the period commencing with the formation of the Connor, Clark & Lunn Conservative Income Fund (the "Fund") and its initial public offering in December 2004 and ending April 30<sup>th</sup>, 2005. We welcome the opportunity to provide you with an update.

The Fund has performed well over the few months since its initial public offering. The opening net asset value of \$9.43 has risen to \$9.98 as at June 10<sup>th</sup>, 2005. The Fund has made all its scheduled distributions to date, including an initial distribution of \$0.0883 in respect of the period from December 15 2004 to January 31 2005 and regular monthly distributions of \$0.0583 on the last business day of each month thereafter. In total, the Fund paid out \$0.2632 cents from inception to the end of April 2005 for an annualized yield on the \$10.00 original issue price of 7.06%.

Ten-year bond yields reached highs in late March on strong economic data and increasing inflation concerns. Rising yields combined with a seasonal slowdown in fund flows to precipitate a correction in the income trust market, which commenced on March 4<sup>th</sup>. In February, the Fund had shifted 7% of its assets out of income trusts into cash and fixed income securities and also decreased its weighting in economy-sensitive industrial income trust positions. The Fund was thus well positioned for the correction, with 20% fixed income exposure and no leverage, as a result of which the fund returned -0.90% from March 4<sup>th</sup> to April 30<sup>th</sup> while the Index returned -4.7% over the same period.

Since late March, bonds have been very strong on the back of weakening economic data and ten-year yields have dropped as low as 3.8%. Our more defensive segments, including REITs, Utilities and the business trusts, all continued to outperform as bond yields approached new lows. The trust market has been relatively stable and our policy of avoiding the oil and gas royalty sector left the Trust insulated from volatile price fluctuations.

We look forward to the remainder of 2005 and believe the Fund's portfolio is well positioned for the current environment.

Yours truly,



Neil Murdoch  
Chief Executive Officer  
Connor, Clark & Lunn Conservative Income Fund

## The Fund

The Connor, Clark & Lunn Conservative Income Fund (the “Fund”) is a closed-end investment trust that is listed on the Toronto Stock Exchange under the symbol CCQ.UN. The Fund’s investment objectives are to: provide a stable stream of monthly cash distributions targeted to be yield approximately 7.0% per annum on the issue price of \$10.00 per Unit; preserve the net asset value per Unit in order to return at least \$10.00 per Unit on or about December 15, 2014; and provide an opportunity for capital appreciation above the original issue price.

The Fund is actively managed by the fixed income team at Connor, Clark & Lunn Investment Management Ltd. (“CC&L”). CC&L seeks to control downside risk by emphasizing credit-oriented factors, while allowing the potential for capital appreciation. The Fund’s portfolio consists of income producing securities including business income trusts, real estate investment trusts, utility income trusts, corporate bonds and convertible bonds.

### Management’s discussion and analysis

The following information provides an analysis of the operations and financial position of the Fund. It should be read in conjunction with the semi-annual financial statements and accompanying notes as well as the Fund’s prospectus dated November 29<sup>th</sup>, 2004.

We are pleased to report that the Fund has performed well over its opening months of operations. Regular monthly distributions have been paid at a rate of 7.0% per annum, for a total of \$0.26 per Unit to the end of April, in accordance with the investment objectives. The Fund’s net asset value rose from an opening level of \$9.43 to \$9.85 at April 30, 2005 and stood at \$9.98 on June 10, 2005. In accordance with the Fund’s conservative investment stance, performance during the Income Trust market’s downturn, commencing March 4, 2005, was relatively favourable. From March 4 to April 30 the Scotia Capital Income Trust Index returned -4.7% while the Fund returned -0.9%.

#### Investment Portfolio

As at April 30, 2005, the Fund was invested in the following sectors and asset classes:

Cash and short term investments	3.1%
Corporate bonds	18.2%
Convertible bonds	0.6%
Business income trusts	56.5%
Real estate investment trusts	11.5%
Utility income trusts	10.1%

A detailed list of the holdings of the Fund is provided in the accompanying financial statements.

During the period, North American equity markets showed reasonably flat performance with extremely low volatility, while fixed income markets performed well, with both economic data and corporate results pointing to a slowing economy. While high, and volatile, oil prices passed their effect through to the income trust arena, the Fund’s policy of avoiding the oil and gas royalty sector left it insulated from resulting price fluctuations.

In February, the Fund shifted 7% of its assets out of income trusts into cash and fixed income securities and also decreased weighting in economy-sensitive industrial income trust positions. The Fund was thus well positioned for the correction in income trusts which began March 4, 2005. As the correction commenced, the Fund held 20% fixed income exposure and was carrying no leverage.

The Fund is entitled to employ leverage of up to 15% of its total assets. To date, CC&L has not felt that there is sufficient value in the income trust or fixed income markets to justify the use of leverage. A total return swap in respect of GTAA 6.47% February 2034 bonds was entered on February 9<sup>th</sup>, 2005 effectively adding leverage of approximately \$2.165 million, or 1.4% of total assets. However, this bond was purchased from the swap provider on February 16<sup>th</sup>, reducing leverage to nil.

## **Distributions**

The Fund has made all its scheduled distributions to date, including an initial distribution of \$0.0883 in respect of the period from December 15 2004 to January 31 2005 and regular monthly distributions of \$0.0583 on the last business day of each month thereafter.

## **Results of Operations**

The Fund earned net investment income of \$3.1 million for the period under review and realized \$1.5 million in gains on investments sold. In addition, the portfolio contained \$5.2 million in unrealized appreciation on its investments at April 30, 2005. Income, realized gains and unrealized gains combined for a total increase in net assets from operations of \$9.8 million. Net of distributions to unitholders of \$3.8 million, the Fund's assets increased by \$6.1 million over the period, the equivalent of \$0.42 per unit.

## **Liquidity and Capital Resources**

As at April 30, 2005, the Fund held cash and short-term investments of \$4,043,609. Short-term liabilities, including distributions accrued but not yet paid, totalled \$1,075,946. The Fund had no long-term liabilities and had no debt.

### *Capital transactions*

On December 15, 2004, the Fund completed an initial public offering pursuant to the prospectus dated November 29, 2004. \$140,000,000 was raised through the issue of 14 million Units at \$10.00 per Unit. On December 23, 2004, the Agents exercised an over-allotment option in respect of 3.75 million Units, raising a further \$3,750,000. Total proceeds from these two transactions after Agents' fees and issue expense were \$135,573,135.

### *Market repurchases*

As set out in the Prospectus, the Fund is obligated, under certain conditions, to purchase Units in the market for cancellation. If, on any day, the Units closing price is less than 95% of the net asset value per unit determined on the most recent valuation date, the Fund must purchase any 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 14,500 Units during the period for a total cost of \$136,867.

## **Management expense ratio**

The Management expense ratio for the period was 1.68% based on net average assets.

# **Connor, Clark & Lunn Conservative Income Fund**

Financial Statements  
(Unaudited)  
**April 30, 2005**

## **Notice to Reader**

These interim financial statements and related notes for the period from inception to April 30, 2005 have been prepared by Management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Trust have not audited or reviewed these interim financial statements.

# Connor, Clark & Lunn Conservative Income Fund

Statement of Net Assets (Unaudited)

As at April 30, 2005

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## Assets

Short-term investments	\$	4,043,609
Investments at market value (average cost \$132,106,562) (note 4)		137,300,694
Interest and dividends receivable		1,212,846
Prepaid expenses		<u>12,792</u>
	\$	<u>142,569,941</u>

## Liabilities

Bank indebtedness		176
Accounts payable and accrued liabilities	\$	234,822
Distributions payable		837,240
Due to broker (note 4)		<u>3,708</u>
	\$	<u>1,075,946</u>

Commitments and contingencies (note 5)

**Net Assets and Unitholders' Equity** \$ 141,493,995

**Units outstanding** (note 6) 14,360,500

**Net Asset value per unit** \$ 9.85

Approved on behalf of the Manager,  
Connor, Clark & Lunn Capital Markets Inc.

  

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(See accompanying notes to the financial statements.)

# Connor, Clark & Lunn Conservative Income Fund

Statement of Operations (Unaudited)

For the period November 29, 2004 (inception date) to April 30, 2005

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## Income

Income from income trusts	\$	3,406,380
Interest		612,779
		<hr/>
	\$	4,019,159

## Expenses

Management fees	\$	625,515
Service fees		205,572
Custodial fees		19,799
Non-resident taxes		14,053
Sustaining fees		8,583
Advisors' fees		8,024
Audit fees		7,384
Printing and mailing charges		4,770
Legal fees		3,975
Interest expense		56
Other		2,917
		<hr/>
	\$	900,648

**Net investment income for the period** \$ 3,118,511

## Realized and unrealized gain (loss) on investments

Net realized gain on investments	\$	1,535,258
Net realized loss on foreign exchange		(4,859)
Net realized loss on forward currency contracts		(2,637)
Change in unrealized appreciation of investments		5,194,132
		<hr/>

**Net gain on investments** \$ 6,721,894

**Increase in net assets from operations** \$ 9,840,405

**Increase in net assets from operations per unit\*** \$ 0.69

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

## Investments at average cost – Beginning of period

Cost of investments purchased	\$	149,293,634
Cost of investments sold		17,187,072
		<hr/>

## Investments at average cost – End of period

Unrealized appreciation on investments		5,194,132
		<hr/>

**Market value of investments** \$ 137,300,694

Proceeds from investments sold		18,722,330
Cost of investments sold		(17,187,072)
		<hr/>

**Net realized gain on investments** \$ 1,535,258

(See accompanying notes to the financial statements.)

# Connor, Clark & Lunn Conservative Income Fund

Statement of Changes in Net Assets

(Unaudited)

For the period November 29, 2004 (inception date) to April 30, 2005

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<b>Increase in net assets from operations</b>	\$ 9,840,405
<b>Distributions to unitholders</b>	\$ (3,782,678)
<b>Unitholders' Transactions</b>	
Proceeds from issuance of units	\$ 135,573,135
Distributions reinvested	—
Payments on redemptions of units (note 4)	(136,867)
	<u>\$ 135,436,268</u>
<b>Change in net assets during the period</b>	\$ 141,493,995
<b>Net assets - Beginning of year</b>	<u>—</u>
<b>Net assets - End of period</b>	<u>\$ 141,493,995</u>

(See accompanying notes to the financial statements.)

# Connor, Clark & Lunn Conservative Income Fund

Statement of Investments Portfolio (Unaudited)

As at April 30, 2005

	Rate %	Maturity Date	Par Value / Quantity	Average Cost \$	Market Value \$	% of Portfolio
<b>Short-term investments</b>						
<b>Bankers' acceptance</b>						
Bank of Montreal		5/2/2005	200,000	199,554	199,970	4.9%
Royal Bank of Canada		5/6/2005	500,000	498,785	499,797	12.4%
Toronto-Dominion Bank		5/6/2005	200,000	199,612	199,918	4.9%
Bank of Montreal		5/25/2005	850,000	848,240	848,529	21.0%
				<u>1,746,191</u>	<u>1,748,214</u>	<u>43.2%</u>
<b>Bearer deposit notes</b>						
Bank of Montreal		5/9/2005	150,000	149,655	149,907	3.7%
Toronto-Dominion Bank		5/9/2005	200,000	199,512	199,876	4.9%
Bank of Montreal		6/1/2005	750,000	748,290	748,344	18.5%
Royal Bank of Canada		6/2/2005	1,200,000	1,197,024	1,197,268	29.7%
				<u>2,294,481</u>	<u>2,295,395</u>	<u>56.8%</u>
<b>Total short-term investments</b>				<u>4,040,672</u>	<u>4,043,609</u>	<u>100.0%</u>
<b>Investments</b>						
<b>Bonds</b>						
<b>Corporate bonds</b>						
Rogers Wireless Inc	7.63	12/15/2011	3,000,000	3,150,000	3,110,689	2.3%
Shaw Communications Inc.	7.50	11/20/2013	3,900,000	4,261,000	4,311,393	3.1%
Bell Canada	7.65	12/30/2031	1,800,000	2,124,900	2,115,379	1.5%
George Weston Ltd.	7.10	2/5/2032	1,700,000	1,925,590	1,948,461	1.4%
Great West Life Co.	6.67	3/21/2033	3,500,000	3,913,875	3,977,631	2.9%
Greater Toronto Airport Authority	6.47	2/2/2034	6,000,000	6,395,460	6,457,704	4.7%
Hertz Corp. (USD)	6.35	6/15/2010	3,135,000	3,469,744	3,853,322	2.8%
				<u>25,240,569</u>	<u>25,774,579</u>	<u>18.7%</u>
<b>Convertible bonds</b>						
Canam Manac Group	9.25	5/1/2008	383,000	419,393	434,705	0.3%
Magna International Inc.	6.50	3/31/2010	433,000	523,435	480,630	0.4%
				<u>942,828</u>	<u>915,335</u>	<u>0.7%</u>
<b>Total bonds</b>				<u>26,183,397</u>	<u>26,689,914</u>	<u>19.4%</u>

(See accompanying notes to the financial statements.)

# Connor, Clark & Lunn Conservative Income Fund

Statement of Investment Portfolio (Unaudited)... *continued*

As at April 30, 2005

	Par Value / Quantity	Average Cost \$	Market Value \$	% of Portfolio
<b>Income trusts</b>				
<b>Materials</b>				
Fording Canadian Coal Trust	24,312	2,138,451	2,697,416	2.0%
Noranda Income Fund	225,000	2,814,750	2,668,500	1.9%
Sun Gro Horticulture Income Fund	254,900	2,032,077	2,108,023	1.5%
		<u>6,985,278</u>	<u>7,473,939</u>	<u>5.4%</u>
<b>Industrials</b>				
BFI Canada Income Fund	266,800	6,403,200	7,112,888	5.3%
Contrans Income Fund	132,000	1,862,520	2,176,680	1.6%
Newalta Income Fund	120,000	2,678,400	2,604,000	1.9%
Oceanex Income Fund	286,600	4,447,804	4,728,900	3.5%
Student Transportation of America IPS	320,100	3,242,883	4,177,305	3.0%
The Data Group Income Fund	440,000	4,400,000	4,598,000	3.3%
Transforce Income Fund	165,000	2,447,330	2,755,500	2.0%
		<u>25,482,137</u>	<u>28,153,273</u>	<u>20.6%</u>
<b>Consumer discretionary</b>				
ACS Media Income Fund	124,000	1,198,125	1,205,280	0.9%
Cineplex Galaxy Income Fund	246,000	3,615,670	3,444,000	2.5%
Davis & Henderson Income Fund	131,300	2,902,247	2,737,605	2.0%
Gateway Casinos Income Fund	158,200	3,154,829	3,330,110	2.4%
Osprey Media Income Trust	325,900	3,044,808	2,737,560	2.0%
Yellow Pages Income Fund	49,200	645,075	660,756	0.5%
Yellow Pages Income Fund - Install. Rec.	748,400	6,485,572	6,638,308	4.8%
		<u>21,046,326</u>	<u>20,753,619</u>	<u>15.1%</u>
<b>Consumer staples</b>				
Arctic Glacier Income Trust	425,000	4,989,500	4,811,000	3.5%
Connors Brothers Income Fund	372,500	6,579,685	6,887,525	5.0%
K-Bro Linen Income Fund	40,000	400,000	417,600	0.3%
		<u>11,969,185</u>	<u>12,116,125</u>	<u>8.8%</u>
<b>Healthcare</b>				
CML Healthcare Income Fund	337,300	4,359,471	4,283,710	3.2%
Keystone North America	158,000	1,580,000	1,562,620	1.1%

(See accompanying notes to the financial statements.)

# Connor, Clark & Lunn Conservative Income Fund

Statement of Investment Portfolio (Unaudited)... *continued*

As at April 30, 2005

	Maturity Date	Par Value / Quantity	Average Cost \$	Market Value \$	% of Portfolio
<b>Healthcare (cont'd.)</b>					
Medical Facilities Corp IPS		279,100	3,325,581	3,628,300	2.6%
			<u>9,265,052</u>	<u>9,474,630</u>	<u>6.9%</u>
<b>Financials</b>					
Boardwalk Real Estate Investment Trust		185,000	3,278,626	3,533,500	2.6%
Chartwell Seniors Housing REIT		300,500	4,002,370	4,267,100	3.1%
Legacy Hotels REIT		378,530	2,653,777	2,634,569	1.9%
Riocan REIT		154,615	2,711,174	2,882,024	2.1%
Sunrise Senior Living REIT		264,800	2,710,472	2,926,040	2.1%
			<u>15,356,419</u>	<u>16,243,233</u>	<u>11.8%</u>
<b>Telecommunication services</b>					
Bell Nordiq Income Fund		127,000	2,042,452	2,148,840	1.6%
<b>Utilities</b>					
Altgas Income Trust		118,000	2,675,060	2,852,060	2.1%
Fort Chicago Energy Partners L.P.		303,200	3,386,810	3,544,408	2.6%
Innergex Power Income Fund		189,800	2,361,112	2,463,604	1.8%
Inter Pipeline Fund		435,000	3,958,500	4,028,100	2.9%
Pembina Pipeline Income Trust		102,500	1,391,126	1,383,750	1.0%
			<u>13,772,608</u>	<u>14,271,922</u>	<u>10.4%</u>
<b>Total income trusts</b>			<u>105,919,457</u>	<u>110,635,581</u>	<u>80.6%</u>
<b>Mutual funds</b>					
Connor, Clark & Lunn Conservative Income Fund (note 4)		400	3,708	3,708	0.0%
<b>Foreign currency forward contracts</b>					
Bought CAD 2,831,874					
Sold USD 2,280,000 @ 1.242	5/20/2005			<u>(28,509)</u>	<u>0.0%</u>
<b>Total investments</b>			<u>132,106,562</u>	<u>137,300,694</u>	<u>100.0%</u>

(See accompanying notes to the financial statements.)

# Connor, Clark & Lunn Conservative Income Fund

## Notes to Financial Statements (Unaudited)

April 30, 2005

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### 1 Formation of Fund

The Connor, Clark & Lunn Conservative Income Fund (the "Fund") was established under the laws of Ontario by a declaration of trust dated November 29, 2004. The Fund commenced operations on December 14, 2004.

### 2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated November 29, 2004 are (i) to pay to holders of Units ("Unitholders") a monthly cash distribution of approximately \$0.0583 per Unit (\$0.70 per annum to yield 7.0% per annum on the issue price of \$10.00 per Unit) and (ii) preserve net asset value in order to return at least the issue price of the Units (\$10.00 per Unit) on or about December 15, 2014. Distributions will consist primarily of returns of capital, but will also include distribution of interest and may include capital gains.

The Fund will meet its investment objectives by investing its available assets, together with any borrowings under its loan facility or other leveraged transactions (not to exceed 15% of the assets of the Fund), in a portfolio consisting of income producing securities including Canadian business income trusts, real estate investment trusts, utility income trusts, corporate bonds and convertible bonds. 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.

#### 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 sale price recorded by the securities exchanges on which such investments are principally traded. Debt instruments are recorded at the average of available bid and ask quotations.

#### 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.

#### 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. Due to the nature of these investments, actual allocations could vary from this information.

#### 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 on each valuation day. A valuation day is each day the Toronto Stock Exchange is open for trading. 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

In accordance with the Fund's prospectus, and to enhance liquidity and to provide support to the units, the Fund has a mandatory market purchase program under which the Fund, subject to exceptions contained in the Trust Agreement and in compliance with any regulatory requirements, is obligated to purchase its own units for cancellation. If, on any business day, the closing price of the units is less than 95% of the net asset value per unit determined by the trustee as at the most recent valuation date, the Fund will offer to purchase for cancellation any units offered in the market at or below 95% of the net asset value per unit on the following business day. The maximum number of units to be purchased in any quarterly period will not be over 1.25% of the number of units outstanding at the beginning of such period. During the period from November 29, 2004 (Inception Date) to April 30, 2005, the Fund purchased 14,500 units for cancellation at a cost of \$136,867. At April 30, 2005, the Fund contracted to purchase 400 units at a cost of \$3,708. All units purchased by the Fund were subsequently cancelled.

# Connor, Clark & Lunn Conservative Income Fund

## Notes to Financial Statements (Unaudited)

April 30, 2005

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### 5 Loan facility

The Fund has entered into an agreement with the Bank of Montreal to provide notional returns, or swaps, on certain income producing securities. Under the agreement the Fund receives the notional return on these securities in exchange for interest on the principal or notional amount at a rate determined as the 1-month Canadian Dollar Offered Rate ("CDOR") plus 0.40% per annum. CDOR is the recognized benchmark index for bankers' acceptances with a term-to-maturity of one year or less. Under the terms of agreement the total notional amounts are capped at the lesser of (i) 15% of the Fund's total assets and (ii) \$20,000,000. All transactions under the swap agreement are secured by a first ranking general claim on the assets of the Fund.

### 6 Units of the Fund

Units of the Fund are offered to the public by way of prospectus. The Trust is authorized to issue 14,375,000 (representing the maximum amount stated in the prospectus plus a 15% over allotment) transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Fund.

Units may be surrendered for redemption at any time for redemption by the Fund. Where Units are surrendered for redemption by the prior to the 10th day business day of the month, Units will be redeemed on the last business day of that month (a "Redemption Date"); where Units are surrendered after the 10th day of the month, Units will be redeemed on the Redemption date of the following month. For redemptions occurring on a Redemption Date other than the January Redemption Date of each year, the redemption price per Unit is equal to the lesser of:

- (a) 95% of the weighted average trading price of the Units on the Toronto Stock Exchange for the ten trading days immediately preceding the applicable Redemption Date, and
- (b) 100% of the closing price of the Units on the Toronto Stock Exchange on the applicable redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with the redemption including costs incurred in liquidating securities held in the portfolio.

For redemptions on the January Redemption Date in each year the redemption price will be equal to the net asset value per Unit determined as of the relevant Redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with the redemption including costs incurred in liquidating securities held in the portfolio.

Changes in outstanding units are summarized as follows:

	Number of units
Balance – November 29, 2004	1
Units issued	14,374,999
Units redeemed	<u>(14,500)</u>
Balance – April 30, 2005	<u>14,360,500</u>

### 7 Custodian

Pursuant to a custodian agreement ("the Custodian Agreement"), the Fund has retained The Royal Trust Company ("the Custodian") to act as custodian of the assets of the Fund. The Custodian is also responsible for certain aspects of the Fund's day-to-day operations. In consideration for these services, the Fund pays a fee to the Custodian.

### 8 Distributions

Targeted monthly distributions are \$0.583 per Unit. During the period from December 15, 2004 (start of operations) to April 30, 2005, the Fund met its targeted monthly distribution and paid total distributions of \$3,782,678, or \$0.2632 per Unit (\$0.0583 per month) representing a combination of interest, income, capital gains and return of capital.

### 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 Manager in turn 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 net asset value 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.

# Connor, Clark & Lunn Conservative Income Fund

Notes to Financial Statements (Unaudited)

April 30, 2005

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## 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.

