



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**Connor, Clark & Lunn
Real Return Income Fund**

Semi-Annual Report

June 30, 2011

Connor, Clark & Lunn Real Return Income Fund Message to Unitholders

August 24, 2011

Dear Investor,

We are pleased to provide you with the semi-annual report of the Connor, Clark & Lunn Real Return Income Fund (the “Fund”) for the six month period ended June 30, 2011.

The Fund’s investment objective is to provide current income and to preserve and enhance net asset value. To achieve that objective, the Fund invests to obtain exposure of at least 80% of its managed assets to inflation-linked securities issued by governments with AAA ratings, with at least 70% comprised of U.S. Treasury Inflation Protected Securities (“U.S. TIPS”). U.S. TIPS provide income-oriented investors the potential for attractive current income that is protected from the adverse effects of inflation. The Fund may also invest up to 20% of its total managed assets in other income producing securities and may utilize hedging strategies to help limit risk and to preserve capital. There can be no assurance, however, that the Fund will achieve its investment objectives.

Western Asset Management Company (“Western Asset”) is the Fund’s Investment Adviser and is responsible for actively managing and making investment decisions with respect to the Fund’s portfolio. Western Asset is one of the world’s premier fixed income managers with offices in Pasadena, New York, London, Tokyo, Singapore, Hong Kong, Melbourne and Sao Paulo.

The Fund generated a total return of 3.28% during the six month period ended June 30, 2011 and its net asset value was \$7.73 on June 30, 2011. The closing market price on the TSX moved from \$7.34 to \$7.64.

While inflation rose sharply over the first half of the year, at the end of the 2nd quarter inflation data began to moderate, as energy prices were no longer contributing to the gains. With other commodity prices falling recently as well, Western Asset believes that headline inflation should continue to moderate in coming months, although base effects will still cause year-over-year comparisons to increase. Core inflation continues to rise steadily as rent and shelter components are no longer a drag. While core inflation could reach the Fed’s target of 2% by the end of 2011, it does not appear to be going higher without significant reductions in the unemployment rate. Headline inflation in the US, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), increased significantly, moving from 1.1 % at the end of December 2010 to 2.99% at the end of June, 2011, year over year. Core CPI (which excludes the effects of food and energy) moved higher from 0.8 % to 1.4 % during the same period.

Western Assets believes that the US economy recovery remains on-track, albeit at a middling pace. Growth for the remainder of the year is apt to improve despite significant roadblocks at home and abroad. Potential fiscal measures in the US, such as spending cuts to help tame the growing debt, may be beneficial in the long term, but could be detrimental in the short term by biting into growth. Certain global events demand particular attention. Europe has thus far avoided a full-fledged debt crisis contagion—which would likely disrupt global markets—but the possibility of stumbling into one remains.

During the six month period ended June 30, 2011, the Fund paid total distributions of \$0.125 per unit. These distributions are characterized as return of capital distributions. At its closing price of \$7.64 on June 30, 2011, this represented a yield of 3.3 % and a pre-tax interest equivalent of 4.7%. The Fund’s distributions are based on the level of inflation and are designed to vary with the level of inflation. During the life of the Fund, distributions have been lowered to reflect the drop in inflation. Since inception the Fund has paid \$2.22 in distributions.

The Fund’s Management Report of Fund Performance section of the report provides more information on what impacted the performance of the Fund during the fiscal period and Western Asset Management’s views on the overall market environment. For the most up-to-date information on your investment, please visit our website at www.cclcapitalmarkets.com. We appreciate your investment and look forward to serving your investment needs in the future.

Sincerely,



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

Management Report of Fund Performance

This semi-annual management report of fund performance for Connor, Clark & Lunn Real Return Income Fund (the “Fund”) contains financial highlights but does not contain the complete semi-annual financial statements of the Fund. **The semi-annual financial statements and accompanying notes are attached to this report.**

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

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

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

Investment Objectives and Strategy

Connor, Clark & Lunn Real Return Income Fund (the “Fund”) was established under the laws of Ontario as of June 29, 2005 by a Trust Agreement (the “Trust Agreement”) made by the Manager and RBC Dexia Investor Services Trust (“RBC Dexia”) as trustee of Fund. The Fund is a mutual fund trust whose investment portfolio (the “Common Share Portfolio”) consists of common shares of Canadian public companies that are Canadian securities for the purpose of the Income Tax Act (Canada) (the “Tax Act”). The Fund commenced operations on July 18, 2005 and will be terminated on or about July 18, 2015 (the “Termination Date”) if not terminated earlier in accordance with its terms.

The Fund was created to obtain exposure to an actively managed portfolio (the “Portfolio”) of which at least 80% will consist of AAA-rated real return bonds via a forward purchase and sale agreement. The majority of the real return bonds held in the Portfolio are U.S. Treasury Inflation Protected Securities (“U.S. TIPS”). In order to diversify the Portfolio and improve expected returns, up to 20% of the assets are invested in a mix of other fixed income assets to bring the overall dollar weighted average credit rating of the Portfolio to AA+.

The Fund has the following investment objectives:

- (i) to provide holders of Units with tax efficient monthly distributions of cash that will be linked to the rate of inflation; and
- (ii) to preserve and enhance the net asset value of the Fund.

In order to meet its investment objectives, the Fund has obtained exposure to the performance of a portfolio held by Real Return Trust (the “Real Return Trust”), an investment trust, by entering into a forward purchase and sale agreement (“Forward Agreement”) with the Bank of Montreal (“BMO”). Western Asset Management Company acts as the Real Return Trust’s investment advisor (the “Investment Advisor”) and is actively managing and making investment decisions with respect to Real Return Trust’s assets. The Fund holds a portfolio of Canadian common shares (the “Common Share Portfolio”) and, under the Forward Agreement, is entitled to deliver the Common Share Portfolio or the cash value of that portfolio to BMO in exchange for the value of the Real Return Trust. The Fund is also entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions, repurchases of Units and its operating expenses.

In order to enhance returns, the Real Return Trust may employ leverage in the portfolio, with a debt-to-equity ratio of up to 2:1. It is also intended that at least 90% of foreign currency exposure be hedged back to Canadian dollars at all times.

Risk

Changes in the risk profile of the Fund occurred in the following areas:

Use of leverage:

The Real Return Trust is entitled to employ leverage at a debt-to-equity ratio of up to 2:1. The Real Return Trust's borrowing is short-term and is effected by way of repurchase agreements. Leverage was 0.02% of the Real Return Trust's net assets at December 31, 2010, but was eliminated during six month period ended June 2011.

Use of Derivatives:

The Real Return Trust has employed derivatives for the purpose of hedging interest rate exposure. Such exposure has involved the use of short futures contracts and long put options with exposure up to 100% of the Real Return Trust's net asset value. The Real Return Trust has also hedged foreign currency exposure, with 97% of its Transactional NAV having been hedged to the Canadian dollar on June 30, 2011. There is no guarantee that such hedging will be successful.

Fluctuations in Net Asset Value:

Because of the Fund's exposure to U.S. TIPS, net asset value is sensitive to fluctuations in the month-over-month U.S. Consumer Price Index for All Urban Consumers ("CPI-U"), which accrue to the principal value of U.S. TIPS in the second month following their release. The month-over-month CPI-U can be much more volatile than annual inflation and is affected by seasonal factors and to changes in U.S. real interest rates.

For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated June 29, 2005.

Recent Developments

Future accounting changes

The Canadian Accounting Standards Board ("CASB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the CASB issued an exposure draft "Adoption of IFRSs by Investment Companies", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "Investment Companies" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the CASB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

At its January 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises for one additional year. The decision is in response to the International Accounting Standards Board's announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012, which is the current date of mandatory adoption of IFRS for these entities. As a result, the Fund will delay implementation of IFRS until January 1, 2013.

The Fund's Manager has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the GAAP Net Assets of the Funds. Management has presently determined that there will be no significant impact to the GAAP Net Assets per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

Results of Operations

The Investment Advisor's Commentary (July 2011)

Fund Performance

For the six-month period ended June 30, 2011, the Fund generated a net total return of 3.28%.

The largest contributor to the Fund's performance during the reporting period was its credit exposure. Both high yield bonds and investment grade corporate bonds performed well as the economy continued to expand, corporate profits were generally better than expected, defaults were low and investor demand was generally strong as they sought to generate incremental yield in the low interest rate environment.

We gained access to the high yield market through our exposure to the Western Asset Floating Rate High Income Fund. Examples of the largest investment grade corporate bond contributors were SLM Corp., Kraft Foods, Inc., Citigroup, Inc., Goldman Sachs Group Inc. and Berkshire Hathaway, Inc.

The largest detractor from the Fund's relative performance for the period was several individual investment grade corporate bonds. In particular, JPMorgan Chase & Co. and Bank of America Corp. generated weak results during the reporting period.

Market conditions

While stocks and lower-quality bonds generated solid results during the reporting period, there were several periods of heightened volatility and periodic sell-offs. These were triggered by a variety of factors, including concerns regarding the global economy, geopolitical unrest, the devastating earthquake and tsunami in Japan and the ongoing European sovereign debt crisis. During those periods, investors tended to favor the relative safety of U.S. Treasury securities. However, these setbacks proved to be only temporary and risk aversion was generally replaced with solid demand for riskier assets.

The U.S. spread sectors (non-Treasuries) produced positive results during the reporting period. As was the case for much of 2010, the spread sectors generally outperformed equal-duration Treasuries during the first four months of the reporting period. A combination of positive economic growth, benign core inflation, rising corporate profits and overall robust investor demand supported the spread sectors from January through April 2011. Investor sentiment then began to shift in May, as optimism about the economic expansion waned and investor risk appetite started to be replaced with increased risk aversion. While the U.S. spread sectors generally posted positive results in May, they underperformed equal-duration Treasuries. Risk aversion then increased in June given a host of disappointing economic data and a further escalation of the European sovereign debt crisis. Against this backdrop, the spread sectors generated relatively poor results during most of June as investors fled the spread sectors in favor of the safety of Treasury securities.

Both short- and long-term Treasury yields fluctuated during the six months ended June 30, 2011. When the period began, two- and ten-year Treasury yields were 0.61% and 3.30%, respectively. Yields initially moved higher given expectations for stronger growth in 2011 and the potential for rising inflation. On February 14, 2011, two-year Treasury yields peaked at 0.87%, while ten-year Treasuries peaked at 3.75% on February 8, 2011. Treasury yields then declined as investor risk aversion increased given the uprising in Libya and, later, due to the tragic events in Japan. Yields briefly moved higher toward the end of March, but then typically declined from April through June given disappointing economic data and periodic flights to quality. Two- and ten-year Treasury yields bottomed at 0.35% and 2.93%, respectively, on June 23 and ended the period at 0.45% and 3.18%, respectively. For the six months ended June 30, 2011, the Barclays Capital U.S. Aggregate Index returned 2.72%.

Inflation was fairly well-contained during the reporting period. For the six months ended June 30, 2011, the seasonally unadjusted rate of inflation, as measured by the Consumer Price Index for All Urban Consumers ("CPI-U"), was 2.99%. The CPI-U less food and energy was 1.40% over the same time frame. Inflation-protected securities generated positive results during the six months ended June 30, 2011, with the Barclays Capital U.S. TIPS Index returning 5.81%.

A number of adjustments were made to the Fund during the reporting period. We decreased our exposure to U.S. Treasuries and increased the Fund's allocation to cash and non-U.S. dollar securities.

The Portfolio used U.S. Treasury futures and options and euro dollar futures to manage our duration and yield curve exposure. We also used currency forwards to manage our foreign currency exposure. Overall, the use of these derivative instruments slightly detracted from performance during the six-month reporting period.

Leverage

As at December 31, 2010, the Fund had a liability of \$623,704 under a master repurchase agreement with a European bank, pursuant to which the Fund had agreed to repurchase certain U.S. TIPS from the Bank of Montreal with a market value on December 31, 2010 of \$635,399. The value of the Real Return Trust's net assets was \$25,903,155. As such, the Fund's debt-to-equity ratio was approximately 0.02:1. The Fund maintained the above mentioned ratio during the first half of 2011 and completely removed leverage in the middle of June 2011.

Currency Hedging

As at June 30, 2011, the Real Return Trust was approximately 97% hedged against moves in Canadian/U.S. exchange rates by way of few short term contracts and one long term contract entitling the Fund to sell US \$22,600,000 in exchange for CA \$26,700,318 on July 17, 2015. The degree of currency hedging employed is partly determined by the par value of the bonds in the portfolio, which mature at a minimum of par value and is also influenced by the term to maturity of the hedge.

Market repurchases

Subject to certain conditions described in the Annual Information Form, the Fund is obligated to purchase Units offered in the market if, at any, time, the price at which Units are offered for sale and the most recent closing price of the Units on the TSX are each less than 95% of the latest determined net asset value per Unit.

The fund had no purchases during the six month periods ended June 30, 2011 and 2010.

Distributions

The Fund has made all its scheduled distributions to date. The level of distributions is linked to the rate of inflation. The Fund paid \$423,838 or \$0.125 per unit during the six month period ended June 30, 2011 (\$546,234 or \$0.125 per unit during the six month period ended June 30, 2010).

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee tabled no special reports and made no reportable material recommendations to management of the Company during the six month period ended June 30, 2011.

Related Party Transactions

Management Fees

As compensation for management services rendered to the Fund, the Manager is entitled to receive an annual management fee in an amount equal to 0.30% per annum of the net asset value of the Fund, to be calculated and payable monthly in arrears, plus applicable taxes.

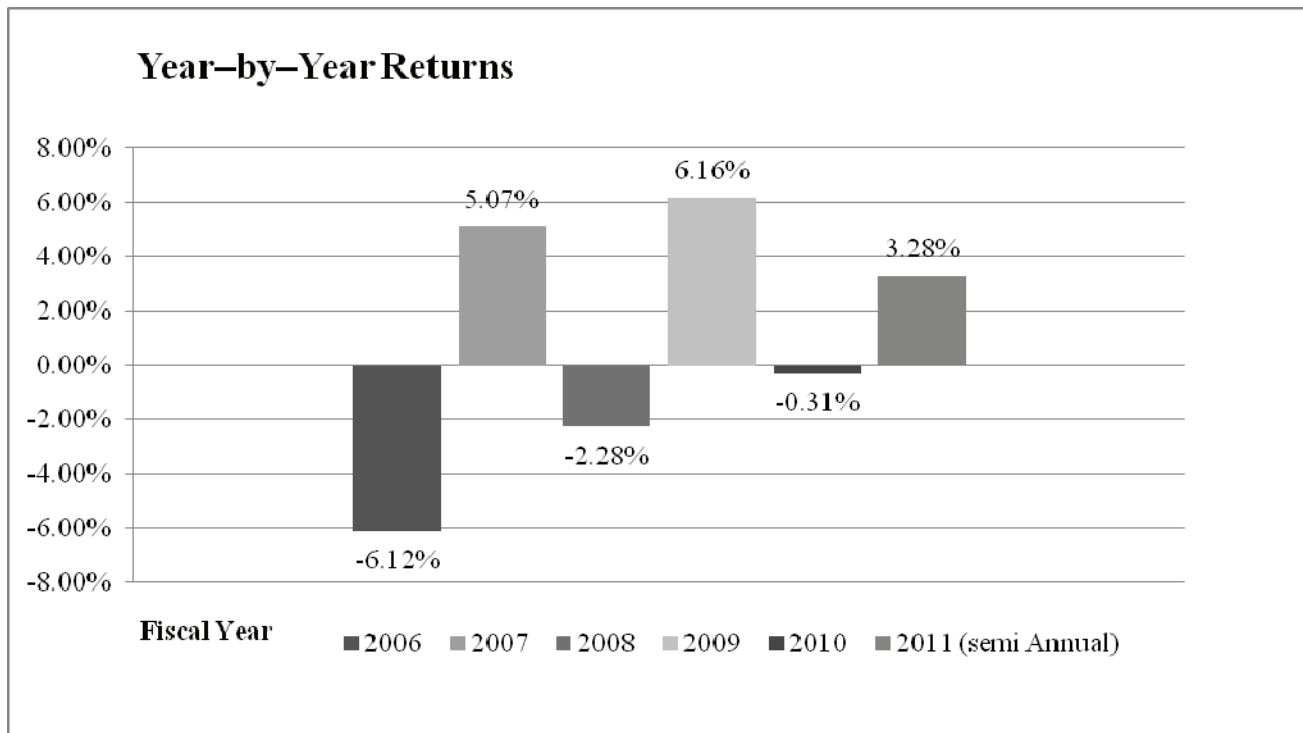
As compensation for management services rendered to Real Return Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.90% of the net asset value of Real Return Trust calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Funds during the six month period ended June 30, 2011 were \$33,009 (\$53,059 during the six month period ended June 30, 2010). The total management fees charged to the Fund and the Real Return Trust during the six month period ended June 30, 2011 were \$169,667 (\$212,871 during the six month period ended June 30, 2010). The Manager, in its capacity as manager of Fund and the Real Return Trust pays the Investment Advisor out of

the above management fees.

Past Performance

The following bar chart shows the Fund's annual performance for the years ended December 31, 2006, 2007, 2008, 2009 & 2010. It also shows the semi annual performance for the six-month period ended June 30, 2011 assuming all the distributions made by the Fund during the periods shown were reinvested. This bar chart shows, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. Past performance is not necessarily indicative of future performance.



Financial Highlights

The following tables show selected key financial information about the Fund and are intended to aid the reader in understanding the Fund's financial performance since inception. This information is derived from the Fund's audited annual financial statements for the years ended December 31, 2007, 2008, 2009 and 2010 and unaudited semi-annual financial statements dated June 30, 2011:

The Fund's Net Assets per unit:

	2011 ⁽¹⁾	2010	2009	2008	2007
Net Assets, beginning of period	7.61	7.88	7.69	8.23	8.23
Increase (decrease) from operations:					
Total revenues	—	—	—	—	—
Total expenses	(0.06)	(0.12)	(0.11)	(0.11)	(0.11)
Realized gains (losses) for the period	0.01	0.12	—	0.56	(0.09)
Unrealized gains (losses) for the period	0.30	(0.01)	0.56	(0.45)	0.48
Total increase (decrease) from operations ⁽²⁾	0.25	(0.01)	0.45	0.00	0.28
Distributions:					
From income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	(0.12)	(0.25)	(0.27)	(0.38)	(0.39)
Total Annual Distributions ⁽²⁾	(0.12)	(0.25)	(0.27)	(0.38)	(0.39)
Net Assets, end of period ⁽²⁾⁽³⁾	7.73	7.61	7.88	7.69	8.23

⁽¹⁾ Results for the six month period ended June 30, 2011.

⁽²⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽³⁾ This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data:

Fund	2011 ⁽¹⁾	2010	2009	2008	2007
Net asset value (000's)	26,210	25,793	34,442	39,926	56,316
Number of units outstanding	3,391,250	3,391,250	4,370,571	5,193,552	6,839,067
Base management expense ratio ⁽²⁾	1.58%	1.53%	1.49%	1.34%	1.30%
Issue expenses ratio ⁽²⁾	0.00%	0.00%	0.00%	0.00%	0.00%
Management expense ratio ⁽²⁾	1.58%	1.53%	1.49%	1.34%	1.30%
Management expense ratio before waivers or absorptions ⁽²⁾	1.58%	1.53%	1.49%	1.34%	1.30%
Portfolio turnover rate ⁽⁴⁾	43.40%	60.46%	26.25%	118.09%	0.00%
Trading expense ratio ⁽⁵⁾	0.00%	0.00%	0.00%	0.00%	0.00%
Closing market price (TSX)	7.64	7.34	7.38	6.93	7.67
Net asset value per unit	7.73	7.61	7.88	7.69	8.23

Consolidated for the Fund and Real Return Trust

Base Management expense ratio ⁽²⁾⁽³⁾	2.98%	2.65%	2.47%	2.49%	2.32%
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⁽¹⁾ Results for the six month period ended June 30, 2011.

⁽²⁾ 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.

⁽³⁾ A separate management expense ratio has been presented above to include expenses of both the Fund and the Real Return Trust excluding interest expense on the reverse repurchase agreement.

⁽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 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 June 30, 2011

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.

Investment portfolio of the Connor Clark & Lunn Real Return Income Fund

	Fair Value \$	% of NAV
Portfolio by Category		
Materials	8,330,060	31.8%
Equity Derivatives	6,322,585	24.1%
Information Technology	6,227,904	23.8%
Consumer Discretionary	3,300,457	12.6%
Consumer Staples	2,095,414	8.0%
Cash	85,188	0.3%
Top 25 Holdings		
Celtic Exploration Ltd.	5,452,865	20.8%
Quadra FNX Mining Ltd.	4,331,872	16.6%
Equity Derivatives	3,300,457	12.6%
Crew Energy Inc.	2,877,195	11.0%
CGI Group Class A	2,726,197	10.4%
Celestica Inc.	2,441,543	9.3%
SXC Health Solutions	2,095,414	8.0%
New Gold Inc.	1,896,032	7.2%
Research In Motion	1,154,845	4.4%
Cash	85,188	0.3%
Net asset value	26,210,109	

Investment portfolio of the Real Return Trust

	% Rate	Maturity date	Fair Value \$	% of NAV
Portfolio by Category				
Foreign bonds			21,275,196	81.0%
Foreign currency forward contracts			3,861,490	14.7%
Foreign funds			843,746	3.2%
Cash			207,405	0.8%
Futures contracts			(3,695)	0.0%
Top 25 Holdings				
US Treasury Inflation-Protected Securities	1.875%	Jul-15	18,367,072	69.9%
Unrealized gain on foreign currency forward contracts			3,861,490	14.7%
Western Asset Floating Rate High Income Fund LLC			843,746	3.2%
Commonwealth of Australia Treasury Indexed Bond	4.000%	Aug-20	521,340	2.0%
Government of France Inflation-Indexed Bond	0.450%	Jul-16	451,816	1.7%
Commonwealth of Australia Treasury Indexed Bond	3.000%	Sep-25	425,124	1.6%
US Treasury Inflation-Protected Securities	1.125%	Jan-21	391,465	1.5%
US Treasury Inflation-Protected Securities	2.375%	Jan-17	319,174	1.2%
US Treasury Inflation-Protected Securities	1.250%	Jul-20	305,255	1.2%
Cash & Cash Equivalents			207,405	0.8%
Kraft Foods Inc.	4.125%	Feb-16	134,158	0.5%
Goldman Sachs Group Inc.	4.750%	Jul-13	112,067	0.4%
Bank of America	4.500%	Apr-15	80,721	0.3%
Citigroup Inc.	6.010%	Jan-15	74,343	0.3%
SLM Corp.	8.000%	Mar-20	72,543	0.3%
Berkshire Hathaway Inc.	3.200%	Feb-15	20,118	0.1%
Futures contracts			(3,695)	0.0%
Net asset value (NAV)			26,276,420	

Connor, Clark & Lunn Real Return Income Fund

Financial Statements

June 30, 2011

Notice to Reader:

These interim financial statements and related notes for the six month period ended June 30, 2011 have been prepared by Management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Fund have not audited or reviewed these interim financial statements.

Connor, Clark & Lunn Real Return Income Fund

Statements of Net Assets (Unaudited)

As at June 30, 2011 and December 31, 2010

	June 30, 2011	December 31, 2010
	\$	\$
Assets		
Cash	85,188	85,139
Investments at fair value (cost - \$23,789,340; 2010 - \$24,411,719)	22,930,957	23,837,534
Unrealized gain on forward agreement	3,345,463	2,065,621
Other receivables	-	3,325
	<u>26,361,608</u>	<u>25,991,619</u>
Liabilities		
Accounts payable and accrued liabilities	61,333	101,765
Distributions payable	70,640	70,640
Management fees payable	19,526	26,339
	<u>151,499</u>	<u>198,744</u>
Net Assets and Unitholders' Equity	<u>26,210,109</u>	<u>25,792,875</u>
Units outstanding (note 5)	<u>3,391,250</u>	<u>3,391,250</u>
Net assets per unit	<u>7.73</u>	<u>7.61</u>
Unitholders' Equity		
Unit capital (note 5)	23,274,062	23,697,900
Contributed surplus (note 5)	2,141,047	2,141,047
Surplus (Deficit)	<u>795,000</u>	<u>(46,072)</u>
Unitholders' equity - End of period	<u>26,210,109</u>	<u>25,792,875</u>

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



Director



Director

Connor, Clark & Lunn Real Return Income Fund

Statements of Operations (Unaudited)

For the six month period ended June 30, 2011 and 2010

	2011	2010
	\$	\$
Income		
Interest income	244	-
Expenses		
Forward fees (note 7)	63,976	84,462
Service fees	39,943	49,386
Management fees	33,009	53,059
Custodial and other unitholder fees	12,247	10,413
Audit fees	11,090	12,933
Administration fees	10,142	10,818
Sustaining fees	7,360	7,200
Printing and mailing fees	6,147	6,202
Filing fees	5,429	5,268
Advisory Board fees	5,164	3,451
Transfer agent fees	2,440	2,480
Legal fees	2,109	1,558
Interest expense	1,688	964
IRC fees	1,681	2,159
Other	60	-
	202,485	250,353
Investment income (loss)	(202,241)	(250,353)
Unrealized gain (loss) on investments		
Change in unrealized gain (loss) on investments	(284,198)	(3,873,775)
Change in unrealized gain (loss) on forward agreement (note 7)	1,279,842	4,067,339
	995,644	193,564
Realized gain (loss) on investments		
Net realized gain (loss) on investments	47,669	33,259
Net gain (loss) on investments	1,043,313	226,823
Increase (decrease) in net assets from operations	841,072	(23,530)
Increase (decrease) in net assets from operations per unit ^(*)	0.25	(0.01)
Distributions per unit	0.12	0.12

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

Connor, Clark & Lunn Real Return Income Fund

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

For the six month period ended June 30, 2011 and 2010

	2011	2010
	\$	\$
Increase (decrease) in net assets from operations	841,072	(23,530)
Distributions to unitholders from return on capital	(423,838)	(546,234)
Unitholders' transactions		
Payments on cancellation of units (note 6)	<u>-</u>	<u>-</u>
Change in net assets during the period	417,234	(569,764)
Net assets - Beginning of period	<u>25,792,875</u>	<u>34,441,919</u>
Net assets - End of period	<u>26,210,109</u>	<u>33,872,155</u>
Surplus (Deficit), beginning of period	(46,072)	(15,274)
Increase (decrease) in net assets from operations	<u>841,072</u>	<u>(23,530)</u>
Surplus (Deficit), end of period	<u>795,000</u>	<u>(38,804)</u>
Contributed surplus, beginning of period	2,141,047	2,613,054
Cost of shares repurchased at less than (more than) stated value	<u>-</u>	<u>-</u>
Contributed surplus, end of period	<u>2,141,047</u>	<u>2,613,054</u>

(See accompanying notes to financial statements)

Connor, Clark & Lunn Real Return Income Fund

Statements of Cash Flow (Unaudited)

For the six month period ended June 30, 2011 and 2010

	2011	2010
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	841,072	(23,530)
Items not effecting cash:		
Change in unrealized (gain) loss on investments	284,198	3,873,775
Change in unrealized (gain) loss on forward agreement (note 7)	(1,279,842)	(4,067,339)
Net realized (gain) loss on investments	(47,669)	(33,259)
Changes in non-cash working capital		
(Increase) decrease in other receivables	3,325	
Increase (decrease) in accounts payable and accrued liabilities	(40,432)	(18,767)
Increase (decrease) in management fees payable	(6,813)	(744)
Purchase of investments	(10,619,944)	(5,731,016)
Proceeds on disposition of investments	11,289,992	6,566,054
Net cash flow provided by operating activities	<u>423,887</u>	<u>565,174</u>
Financing Activities		
Distributions to unitholders	<u>(423,838)</u>	<u>(546,234)</u>
Net cash flow provided by financing activities	<u>(423,838)</u>	<u>(546,234)</u>
Net increase (decrease) in cash	49	18,940
Cash - beginning of period	<u>85,139</u>	<u>30,642</u>
Cash - end of period	<u>85,188</u>	<u>49,582</u>

(See accompanying notes to financial statements)

Connor, Clark & Lunn Real Return Income Fund

Statement of Investments (Unaudited)

As at June 30, 2011

	Number of shares	Average cost	Fair value	% of net assets
Canadian common stocks (pledged to the Counterparty under the Forward Agreement)				
Energy				
Celtic Exploration Ltd.	255,643	4,588,792	5,447,752	20.7%
Crew Energy Inc.	191,813	2,904,049	2,871,441	11.0%
		<u>7,492,841</u>	<u>8,319,193</u>	<u>31.7%</u>
Materials				
New Gold Inc.	190,556	1,602,576	1,890,316	7.2%
Quadra FNX Mining Ltd.	302,505	4,510,770	4,331,872	16.5%
		<u>6,113,346</u>	<u>6,222,188</u>	<u>23.7%</u>
Health Care				
SXC Health Solutions	36,781	1,602,548	2,085,483	8.0%
Information Technology				
CGI Group Class A	114,498	1,016,502	2,725,052	10.4%
Celestica Inc.	288,940	4,865,863	2,427,096	9.3%
Research In Motion Limited	41,422	2,698,240	1,151,945	4.4%
		<u>8,580,605</u>	<u>6,304,093</u>	<u>24.1%</u>
Total Canadian common stocks (pledged to the Counterparty under the Forward Agreement)		<u>23,789,340</u>	<u>22,930,957</u>	<u>87.5%</u>

Unrealized gain on forward agreement:

Investments held in Real Return Trust under the Forward Agreement

	% Rate	Maturity date	Number of shares / par value	Average cost CAD	Fair value CAD	% of net assets
Investments (denominated in USD unless otherwise indicated)						
Foreign bonds						
Commonwealth of Australia Treasury Indexed Bond (AUD)	3.000%	Sep-25	350,000	379,396	425,124	1.6%
Commonwealth of Australia Treasury Indexed Bond (AUD)	4.000%	Aug-20	300,000	449,640	521,340	2.0%
Government of France Inflation-Indexed Bond (EUR)	0.450%	Jul-16	320,000	457,297	451,816	1.7%
US Treasury Inflation-Protected Securities	1.875%	Jul-15	14,930,000	18,160,080	18,367,072	70.1%
US Treasury Inflation-Protected Securities	2.375%	Jan-17	260,000	308,190	319,174	1.2%
US Treasury Inflation-Protected Securities	1.250%	Jul-20	290,000	315,461	305,255	1.2%
US Treasury Inflation-Protected Securities	1.125%	Jan-21	380,000	378,051	391,465	1.5%
SLM Corp.	8.000%	Mar-20	70,000	69,546	72,543	0.3%
Citigroup Inc.	6.010%	Jan-15	70,000	76,430	74,343	0.3%
Goldman Sachs Group Inc.	4.750%	Jul-13	110,000	115,086	112,067	0.4%
Berkshire Hathaway Inc.	3.200%	Feb-15	20,000	21,383	20,118	0.1%
Kraft Foods Inc.	4.125%	Feb-16	130,000	138,974	134,158	0.5%
Bank of America	4.500%	Apr-15	80,000	82,097	80,721	0.3%
Total foreign bonds				<u>20,951,631</u>	<u>21,275,196</u>	<u>81.2%</u>
Foreign funds						
Western Asset Floating Rate High Income Fund LLC ^(*)			55,009	735,842	843,746	3.2%
Total foreign mutual funds				<u>735,842</u>	<u>843,746</u>	<u>3.2%</u>
Transaction costs - Section 3855 adjustment (note 3)				-	-	0.0%
Total investments				<u>21,687,473</u>	<u>22,118,942</u>	<u>84.40%</u>

Connor, Clark & Lunn Real Return Income Fund

Statement of Investments (Unaudited)... continued

As at June 30, 2011

	Maturity date	Number of contracts	Average cost CAD	Fair value CAD	Unrealized gain (loss) CAD	% of net assets
Futures contracts (USD)						
5 Year United States Treasury Note Futures	Sep-11	(6)	686,517	690,212	(3,695)	0.0%
Unrealized gain (loss) on futures contracts					<u>(3,695)</u>	<u>0.0%</u>
	Contract Price	Maturity date	Number of contracts	Unrealized gain (loss) CAD \$	% of net assets	
Foreign currency forward contracts						
Bought CAD 26,700,318, sold USD 22,600,000	USD 1.18143	7/17/2015	1	3,869,290	14.8%	
Bought USD 865,832, sold AUD 821,176	USD 1.05438	8/18/2011	1	(7,346)	0.0%	
Bought USD 468,563, sold EUR 324,193	USD 1.44532	8/18/2011	1	(754)	0.0%	
Sold CAD 37,210, bought USD 38,453	CAD 0.96767	8/18/2011	1	(51)	0.0%	
Bought CAD 37,210, sold USD 38,143	CAD 0.97555	8/18/2011	1	351	0.0%	
Unrealized gain on foreign exchange contracts					<u>3,861,490</u>	<u>14.8%</u>
Cash				<u>207,405</u>	<u>0.8%</u>	
Other assets net of other liabilities of the Real Return Trust					<u>92,278</u>	<u>0.4%</u>
Net assets of the Real Return Trust					<u>26,276,420</u>	<u>100.4%</u>
Unrealized gain (loss) on forward agreement ^(**)					<u>3,345,463</u>	<u>12.8%</u>
Cash					<u>85,188</u>	<u>0.3%</u>
Other liabilities net of other assets of the Fund					<u>(151,499)</u>	<u>-0.6%</u>
Net assets of the Fund					<u>26,210,109</u>	<u>100.0%</u>

^(*) Related party to the Fund as an affiliated entity of Western Asset Management Company, the Real Return Trust's investment advisor.

^(**) The difference between the total Net Assets of the Real Return Trust and the Total Canadian common stocks (pledged to the Counterparty under the Forward Agreement).

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements (Unaudited)

June 30, 2011

1 Corporate activities

Connor, Clark & Lunn Real Return Income Fund (the "Fund") was established under the laws of Ontario as of June 29, 2005 by a Trust Agreement (the "Trust Agreement") made by Connor, Clark & Lunn Capital Markets Inc. (the "Manager") and RBC Dexia Investor Services Trust ("RBC Dexia") as trustee of Fund. The Fund is a mutual fund trust whose investment portfolio (the "Common Share Portfolio") consists of common shares of Canadian public companies that are Canadian securities for the purpose of the Income Tax Act (Canada) (the "Tax Act"). The Fund commenced operations on July 18, 2005 and will be terminated on or about July 18, 2015 (the "Termination Date") if not terminated earlier in accordance with its terms.

2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated June 29, 2005 are (i) to provide its holders of units ("Unitholders") with tax efficient monthly cash distributions that will be linked to the rate of inflation; and (ii) to preserve and enhance the net asset value of the Fund.

In order to meet its investment objectives, the Fund obtained exposure to the performance of the Portfolio held by Real Return Trust by entering into a forward purchase and sale agreements (collectively, the "Forward Agreement") with Bank of Montreal (the "Counterparty") rated A+ by Standard and Poor's.

The Real Return Trust invests, on a leveraged basis, in a Portfolio with (i) at least 80% of the Portfolio invested in real return bonds issued by governments with AAA credit ratings including the United States, the United Kingdom, Canada, France, Sweden and Australia. At least 70% of the portfolio is invested in U.S. Treasury Inflation Protected Securities ("TIPS"). In addition, up to 20% of the Portfolio may be invested in AAA-rated real return bonds issued by governments other than the United States; and (ii) in order to diversify the Portfolio, improve net asset value stability and increase expected returns, up to 20% of the Portfolio can be invested in a mix of assets which may include mortgage-backed and other asset-backed securities, corporate debt securities, bank loans, emerging markets debt securities, commodity index investments directly or indirectly throughout investments in underlying investment funds. No more than 10% of the Portfolio may be invested in any one of these asset classes with the exception of mortgage-backed securities, in respect of which up to 20% of the Portfolio may be invested. Western Asset Management Company acts as the Real Return Trust's investment advisor (the "Investment Advisor") and is actively managing and making investment decisions with respect to Real Return Trust's assets.

The combination of these investments is targeted to create a portfolio that has a dollar weighted average credit rating of AA+ on the Portfolio assets. In order to enhance returns the Manager may employ leverage in the Portfolio with a debt to equity ratio of up to 2:1.

3 Summary of significant accounting policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of the significant accounting policies of the Fund.

Future accounting changes

The Canadian Accounting Standards Board ("CASB") previously confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. In June 2010, the CASB issued an exposure draft "Adoption of IFRSs by Investment Companies", proposing that investment companies currently applying Accounting Guideline 18 ("AcG 18") "Investment Companies" issued by the Canadian Institute of Chartered Accountants ("CICA"), defer the adoption of IFRS by one year to fiscal years beginning on or after January 1, 2012. In September 2010, the CASB approved the optional one year deferral from IFRS adoption for investment companies applying AcG 18.

At its January 12, 2011 meeting, the AcSB decided to extend the deferral of mandatory adoption of IFRS for Investment Companies and Segregated Accounts of Life Insurance Enterprises for one additional year. The decision is in response to the International Accounting Standards Board's announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012, which is the current date of mandatory adoption of IFRS for these entities. As a result, the Fund will delay implementation of IFRS until January 1, 2013.

The Fund's Manager has commenced activities to identify key issues and the likely impacts resulting from the adoption of IFRS and is in the process of developing a changeover plan, which will include identifying differences between the Fund's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on Net Assets of the Fund. Management has presently determined that there will be no significant impact to Net Assets per Unit as a result of the changeover to IFRS but will continue to assess based on any changes to existing IFRS.

Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("GAAP Net Assets"). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred. The Canadian Securities Administrators allow investment funds to calculate the daily net asset value for the purpose of processing unitholder transactions using the last traded price for the day as fair value of financial instruments traded in an active market, which is referred to as a "Transactional NAV". The Fund processes unitholder transactions using Transactional NAV.

There were no differences between the Transactional NAV and the GAAP Net assets as of June 30, 2011 and December 31, 2010.

Cash and short-term investments

Cash and short term investments include cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements (Unaudited)

June 30, 2011

Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized on an ex-dividend date 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.

Future contracts

The futures contracts are exchange-traded futures contracts. Futures contracts are valued at their settlement price at the close of business on each Valuation Date. Any difference between the settlement value at the close of business on the current Valuation Date and that of the previous Valuation Date is recorded in the Statements of Net Assets as unrealized gain or loss on future contracts and variation margin receivable (payable).

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 fair value of net assets of the Fund by the total number of units of the Fund.

Forward contracts

Forward contracts entered into by the Fund are valued at an amount that is equal to the gain or loss that would be realized if the position were to be closed out, which is equivalent to the difference between the deliverable asset and the value of the asset to be received. Changes in the value of a forward contract or the assets deliverable under such a contract are included as unrealized gains or losses on investments.

Expense recognition

Expenses that are directly attributable to the Fund are recorded on an accrual basis as incurred.

Increase (decrease) in net assets from operation per share

This calculation is based on the increase (decrease) in net assets from operations divided by the weighted average number of units outstanding during the period.

4 Custodian

In the Trust Agreement RBC Dexia ("the Custodian") rated AA- by Standard & Poor's, acts 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.

5 Unitholders' equity

The Fund is authorized to issue an unlimited number of redeemable, transferable units of one class, each of which represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement.

On July 18, 2005 and August 2, 2005, the Fund issued 12,000,000 and 384,408 units respectively, for net proceeds of \$113,270,000 and \$3,651,876 respectively.

For redemptions on the August Redemption Date in each year the redemption price is equal to the Transactional NAV 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.

The unit capital dollar amount represents the face value of the fund units minus any return on capital distributions and issue cost paid since July 18, 2005 (commencement of operations) to June 30, 2011. If the redemption price is lower than the original price, the difference is included in contributed surplus on the statements of net assets. If the price is greater than the original issue price, the difference is first charged to Contributed Surplus until the balance in Contributed Surplus is eliminated, and the remaining amount is charged to retained earnings (deficit).

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).

Changes in outstanding units are summarized as follows:

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements (Unaudited)

June 30, 2011

	Number of units	
	June 30, 2011	December 31, 2010
Opening balance	3,391,250	4,370,571
Units redeemed	–	(979,321)
Units cancelled (note 6)	–	–
Ending balance	<u>3,391,250</u>	<u>3,391,250</u>

6 Market Purchase Program

Subject to certain conditions described in the prospectus dated June 29, 2005, the Fund is obligated to purchase any Units offered in the market if, at any, time, the price at which Units are offered for sale and the most recent closing price of the Units on the TSX are each less than 95% of the latest determined Transactional NAV per Unit.

The fund had no purchases during the six month periods ended June 30, 2011 and 2010.

7 Forward Agreement and Common Share Portfolio

The Fund entered into a Forward Agreement with the Counterparty to obtain exposure to the performance of the Portfolio held by Real Return Trust (see note 2). Under the Forward Agreement, the Fund is entitled to sell securities in the Common Share Portfolio from time to time to fund monthly distributions, redemptions and repurchases of Units and its operating expenses. Under the terms of the Forward Agreement, the Fund and the Counterparty have agreed that their settlement obligations under the Forward Agreement with respect to the Common Share Portfolio securities will be discharged by physical delivery of the Common Share Portfolio securities by the Fund to the Counterparty against cash payment or, at the election of the Fund, by the making of cash payments between the parties. The amount payable by the Counterparty for physical delivery of the Common Share Portfolio may be more or less than the original aggregate subscription price of the Units. Unless the Fund elects cash settlement of the Forward Agreement, the Counterparty will pay to the Fund on or about the Termination Date, as the purchase price for the Common Share Portfolio, an amount equal to the Canadian dollar equivalent of the redemption proceeds of a corresponding number of units of the Real Return Trust. The Common Share Portfolio securities are pledged to, and held by, the Counterparty as security for the obligations of the Fund under the Forward Agreement.

The Fund pays to the Counterparty a fee under the Forward Agreement of approximately 0.50% per annum of the net asset value of Real Return Trust calculated and payable quarterly in arrears.

8 Distributions

The Fund has made all its scheduled distributions to date. The level of distributions is linked to the rate of inflation. The Fund paid \$423,838 or \$0.125 per unit during the six month period ended June 30, 2011 (\$546,234 or \$0.125 per unit during the six month period ended June 30, 2010).

9 Management fees and other expenses

As compensation for management services rendered to the Fund, the Manager is entitled to receive an annual management fee in an amount equal to 0.30% per annum of the net asset value of the Fund, to be calculated and payable monthly in arrears, plus applicable taxes.

As compensation for management services rendered to Real Return Trust, the Manager is entitled to receive an annual management fee in an amount equal to 0.90% of the net asset value of Real Return Trust calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Funds during the six month period ended June 30, 2011 were \$33,009 (\$53,059 during the six month period ended June 30, 2010). The Manager, in its capacity as manager of Fund and the Real Return Trust pays the Investment Advisor out of the above management fees.

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 eliminated. 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.

As at December 31, 2010, the Fund had net capital losses of \$977,438 (2009 – \$977,438), which may be carried forward indefinitely to reduce future realized capital gains and non-capital losses of \$9,396,063 (2009 – \$8,429,788), which will expire within the next twenty years as shown in the following table:

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements (Unaudited)

June 30, 2011

Year of the realized non-capital tax loss	Amount of tax loss	Expiry date
2005	1,209,147	2015
2006	2,650,671	2026
2007	2,328,420	2027
2008	326,611	2028
2009	1,914,939	2029
2010	966,275	2030
Total	9,396,063	

11 Broker commission charges and soft dollar services

There were \$nil broker commissions paid during the six-month period ended on June 30, 2011 (\$nil during the six-month period ended on June 30, 2010) in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

12 Financial instruments

The Fund obtained exposure to the performance of the portfolio held by Real Return Trust through the Forward Agreement and therefore the categorization in accordance with section 3862 is best presented by consolidating the assets and liabilities of both the Fund and the Real Return Trust.

<u>Assets</u>	<u>June 30, 2011</u>	<u>December 31, 2010</u>
	\$	\$
Cash	85,188	85,139
Held for trading	26,276,420	25,903,155
Loans and receivables	–	3,325
Total assets	26,361,608	25,991,619
<u>Liabilities</u>		
Financial liabilities at amortized cost	151,499	198,744
Total liabilities	151,499	198,744

For the purposes of categorization in accordance with section 3862, management fees payable, accounts payable and accrued liabilities, and distributions payable are deemed to be financial liabilities and reported at amortized cost.

As mentioned in note 7 above, the Fund is exposed to the performance of the portfolio held by Real Return Trust through the Forward Agreement, and therefore, the following table illustrates the classification of the Real Return Trust's financial instruments within the fair value hierarchy as at June 30, 2011 and December 31, 2010:

<u>Assets at fair value as at June 30, 2011 (\$)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Foreign funds	–	843,746	–	843,746
Bonds	–	21,275,196	–	21,275,196
Foreign currency forward contracts	–	3,869,641	–	3,869,641
Total	–	25,988,583	–	25,988,583

<u>Liabilities at fair value as at June 30, 2011 (\$)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Future contracts	3,695	–	–	3,695
Foreign currency forward contracts	–	8,151	–	8,151
Total	3,695	8,151	–	11,846

<u>Assets at fair value as at December 31, 2010 (\$)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	23,552	–	–	23,552
Foreign funds	–	834,761	–	834,761
Bonds	–	22,258,616	–	22,258,616
Foreign currency forward contracts	–	3,200,588	–	3,200,588
Total	23,552	26,293,965	–	26,317,517

<u>Liabilities at fair value as at December 31, 2010 (\$)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Future contracts	379	–	–	379
Foreign currency forward contracts	–	28,314	–	28,314
Total	379	28,314	–	28,693

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

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements (Unaudited)

June 30, 2011

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

Foreign funds: Foreign funds are classified as Level 2 as they are valued using observable inputs. These funds have audited financial statement and values that can be confirmed by the trustee who is responsible for their valuations.

Bonds: Bonds are classified as Level 2 as they are valued using observable inputs, including interest rate curves, credit spreads and volatilities.

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

Future contracts and options on future contract: The Fund holds option and future contracts which relate to the United States Treasury Note. These contracts are Exchange-traded and, therefore, are classified as Level 1 as the fair value is based on a quote in an active market.

There were no transfers among the three levels during the six month period ended June 30, 2011 or the year ended December 31, 2010.

13 Financial instrument risk

The Fund obtained exposure to the performance of the portfolio held by Real Return Trust through the Forward Agreement and therefore the risks associated with an investment in the Fund's units are best defined by describing the financial risks associated with an investment in the Real Return Trust's portfolio. The following is a description of these risks based on the financial statements of the Real Return Trust.

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 tables below summarize 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.

June 30, 2011:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	(3,695)	112,067	18,676,412	2,486,717	4,705,236	25,976,737
Cash and cash equivalents	–	–	–	–	292,593	292,593
Other assets	–	–	–	–	175,159	175,159
Liabilities	–	–	–	–	(234,380)	(234,380)
Net assets value						26,210,109

December 31, 2010:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	(379)	116,436	19,584,159	2,558,021	4,030,587	26,288,824
Cash and cash equivalents	–	–	–	–	153,457	153,457
Other assets	–	–	–	–	242,930	242,930
Liabilities	(623,704)	–	–	–	(268,632)	(892,336)
Net assets value						25,792,875

As at June 30, 2011, 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 \$922,000 (December 31, 2010 - \$1,059,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material. This Fund is also exposed to indirect interest rate risk to the extent any underlying investment funds invest in interest-sensitive financial instruments.

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 indirect exposure to foreign currencies as at June 30, 2011 and December 31, 2010 through its investment in Real Return Trust. 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 futures and forward contracts. Other financial assets such as interest and variation margin receivable and liabilities such as accounts payable and accrued liabilities 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.

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements (Unaudited)

June 30, 2011

June 30, 2011:

	Monetary instruments \$	Non- monetary instruments \$	Derivative instruments \$	Net exposure \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
Australian Dollar	967,984	–	(848,471)	119,513	0.5%	6,000
European Union Currency	451,816	–	(453,626)	(1,810)	0.0%	–
US Dollar	20,042,732	843,746	(20,527,042)	359,436	1.4%	18,000

December 31, 2010:

	Monetary instruments \$	Non- monetary instruments \$	Derivative instruments \$	Net exposure \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
Australian Dollar	896,779	–	(842,197)	54,582	0.2%	3,000
US Dollar	20,793,433	858,313	(21,763,893)	(112,147)	(0.4%)	(6,000)

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 Advisor moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. Except for futures contracts, the maximum risk resulting from financial instruments is equivalent to their fair value. Possible losses from futures contracts can be unlimited. 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 June 30, 2010, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$nil (December 31, 2010 - \$2,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

The Fund is exposed indirectly (through its investment in Real Return Trust) 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 and unrealized gain on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at June 30, 2011 and December 31, 2010. This also applies to other assets, as they have a short-term to settlement.

The table below summarizes the Fund's exposure to credit risk as of June 30, 2011 and December 31, 2010. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

June 30, 2011:

Rating	(% of net assets)
AAA	79.1%
AA+	0.1%
A+	14.7%
A	1.0%
BBB-	0.8%
BB-	3.2%
Total	98.9%

December 31, 2010:

Rating	(% of net assets)
AAA	80.3%
AA+	0.3%
A+	12.2%
A	1.1%
BBB-	0.8%
Not rated	6.6%
Total	101.3%

As at June 30, 2011 and December 31, 2010, no debt securities were contractually past due and no longer meeting interest payment obligations.

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements (Unaudited)

June 30, 2011

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 6). The Fund is also exposed to unlimited annual anniversary redemptions on August 31 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 cash equivalent positions to maintain liquidity. All liabilities are due within three months.