



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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

Semi-Annual Report

June 30, 2008

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

August 29, 2007

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, 2008.

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 approximately 7.03% in the first half of 2008. During the six month period ended June 30, 2008, the Fund paid monthly distributions of \$0.03125 per unit totalling \$0.1875 per unit. These distributions are expected to be characterized as return of capital distributions. At its closing price of \$8.27 on June 30th 2008 this represented a yield of 4.5% and a pre-tax interest equivalent of 6.5%.

Credit markets continued to be challenging in the first half of 2008. The credit crunch continues to work its way through the system, with a worry that the problems in housing and mortgages will slow the economy to such an extent that debt problems spill into other areas. On the inflation front, even though core inflation measures were tame, headline CPI increased significantly. Inflation in the U.S., as measured by the Consumer Price Index for All Urban Consumers (CPI-U), rose from 4.1% at the end of December 2007 to 5.0% as of June 2008 year over year. Much of this rise was driven by commodity prices as the price of oil, which started 2008 at approximately \$96 per barrel, breached the \$145 per barrel threshold, ending the period up approximately 46%.

The six months ending June 30, 2008 was a very favourable period for U.S. Treasury Inflation Protected Securities (U.S. TIPS), as the decline in real yields along with strong CPI accretion combined to produce significant outperformance. During this period the Fund outperformed U.S. Treasuries. The non U.S. TIPS component of the Fund contributed negatively to performance. Exposure to bank loans and corporate bonds, with an emphasis on financial issues, had a negative impact. Spreads widened to new all-time highs in mid-March before partially recovering in April and May. Exposure to the mortgage-backed sector detracted from returns despite some recovery in the agency pass-through market following the Bear Stearns rescue.

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 annual financial statements of the Fund. **The semi-annual financial statements and accompanying notes are attached to this report.**

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 Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) and RBC Dexia Investor Services Trust (“RBC Dexia”) (formerly “The Royal Trust Company”) 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. 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 (“NAV”) 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. The Real Return Trust held no leverage at June 30, 2008. 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 exposure 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. During 2007, leverage was reduced to zero in response to borrowing costs and overall market conditions. The effective rate of interest on such borrowing is highly

correlated with the U.S. federal funds rate but in recent months had become more correlated with LIBOR rates as fundamentals in the credit market deteriorated. Increased costs of borrowing that are not accompanied by an increase in inflation have a negative effect on the Real Return Trust's performance, and therefore the Fund's overall cash flow and may affect the level of distributions.

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 Trust's net asset value. The Real Return Trust has also hedged foreign currency exposure, with 106% of NAV having been hedged to the Canadian dollar on June 30, 2008. There is no guarantee that such hedging will be successful.

Fluctuations in Net Asset Value:

Because of the Fund's leveraged 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. Leverage also makes net asset value sensitive to changes in U.S. real interest rates.

Results of Operations

The Investment Advisor's Commentary

The following analysis includes forward-looking statements. The use of any of the words "anticipate", "may", "will", "expect", "estimate", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such statements reflect the opinion of the investment advisor regarding factors that might be reasonably expected to affect the performance and the distributions on units of the Fund, and are based on information available at the time of writing. The Fund believes that the expectations reflected in those forward-looking statements and in the investment advisor's analysis are reasonable, but no assurance can be given that these expectations or the analysis will prove to be correct and accordingly they should not be unduly relied on. These statements speak only as of the date of this report. Actual events and outcomes may differ materially from those described in these forward-looking statements or the investment advisor's analysis.

The price of a barrel of oil soared, rising nearly 40% during the quarter to finish above \$140. This led to quite a bit of anxiety across all markets, and served as a harsh reminder of the headwinds the US economy is currently facing. The Federal Reserve (the "Fed") reduced rates by 25 basis points early in the period but held at 2% thereafter. The Fed's latest statement even sounded more hawkish—it acknowledged the fine line between balancing downside risks to growth and cost pressures from oil. Futures markets shifted from pricing in additional rate cuts to showing a strong chance of rate hikes by year-end. The idea that monetary policy may become more restrictive despite rising unemployment, falling home values, and ongoing restricted credit extension was too much for investors to stomach, and part of the excess returns generated by corporate bonds in April and May were reversed in June.

Headline inflation in the US, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), remained elevated, increasing from 4% at the end of March 2008 to 5.0% at the end of June 2008 year over year. Core CPI (which excludes the effects of food and energy) remained relatively stable, increasing from 2.3% to 2.4% during the same period. Personal Consumption Expenditures (PCE) core deflator, which we believe is the Federal Reserve's favourite inflation measure, remained flat at 2.1% for the end of May 2008 and March 2008 year over year. However, commodity prices continued to rise, led by oil, which breached the \$145 per barrel threshold ending the quarter up approximately 38%. The US dollar gained 6% against the Japanese Yen and was flat against the Euro.

The combination of weaker economic data and soaring commodity prices was a great environment for US Treasury Inflation Protected Securities (US TIPS) performance relative to US Treasuries. US TIPs continued to outperform other US dollar fixed income securities, as the decline in real yields along with strong CPI accretion combined to produce significant outperformance. US TIPS returned 4.88% in for the six months ending June 30, 2008 compared to US Treasuries which returned 2.18% in for the same period.

The 10-year US TIPS real yield rose from approximately 1.05% at the end of March 2008 to approximately 1.38% at the

end of June 2008.

In the past nine months, commercial and investment banks have reported real and mark-to-market losses of close to \$400 billion from subprime mortgage holdings, according to Federal Reserve officials. Given these staggering losses, institutions have been moving to reduce leverage and replenish capital. The million dollar, or even billion dollar question, is when these losses will begin to subside. News that Citigroup would take a “significant” second quarter write-down hurt, and it knocked the wind out of many investors. In response, the market sharply discounted both financial and non-financial issues. Clearly, the lack of transparency is an enduring issue for the markets. Some believe that losses will continue to mount on mortgage backed securities and that credit card losses will be the next shoe to drop. While we would not dismiss such a possibility, we would disagree with those looking for a significant increase in such losses. The housing market has been ravaged, but recent sales, inventory, price, and delinquency data suggest that the worst may be behind us. Consumer income growth is still increasing more rapidly than core inflation and even considering oil and food prices, real incomes are declining only slightly. Without a sharp drop in real incomes it is hard to forecast a significant rise in credit card charge-offs. There is no doubt individuals have seen a significant decline in the value of their homes and their investment portfolios. However, income and spending growth do not currently portend a massive rise in charge off levels and GDP growth remains positive. Credit markets face significant obstacles to meaningful improvement. However, the degree of negativity currently priced into the credit market is greater than we believe reasonable. Financials face the prospect of another quarter of disastrous earnings; however year-over-year earnings comparisons will most likely show improvement beginning in the third quarter. Aside from the financial and consumer discretionary sectors, all other sectors have had positive earnings growth and are forecasted to remain positive going forward according to Bloomberg consensus estimates. That said, the option-adjusted spread reading at the end of June on the Lehman Credit Index at +238 bps was the second widest on record, wider than those seen at any time during the 1980, 1981-92, 1990-91, or 2001 recessions, and wider than the worst levels experienced during the Savings and Loan crisis of the late 1980s and early 1990s.

Western believes that the high yield asset class currently offers a significant investment opportunity in the fixed income asset class. From a technical perspective the new issue backlog, an albatross around the neck of the high yield asset class the past nine months, is much reduced. In July 2007 the high yield asset class was in the position of having to fund an enormous new issue calendar of over \$450 billion due in large part to over \$750 billion of announced LBOs during the previous eight months. Since that time, particularly during the past three months, a significant amount of issuance has been priced and cleared, cancelled, or is likely to be cancelled. The largest remaining transactions on the calendar are BCE (\$44 billion in bonds and loans), Alltel (\$28 billion in bonds and loans) and Lyondel-Basell (\$23 billion in bonds and loans). However, we appreciate the importance of the leverage finance calendar (having declined to approximately \$200 billion at the end of March). Further, the forward calendar total includes \$22 billion to fund the LBO of Clear Channel—a deal which has a high probability of being cancelled. Earnings have been a disaster for the broad market the past two quarters, however most of the red ink is coming from the financial sector. Financials represent less than 5% of the Lehman 2% Issuer Constrained Index. In our view fundamentals are supportive of better valuations. High yield is mostly an industrial and utility market. Excluding financials, earnings remain on solid footing and are forecasted to grow 9% for 1Q08, per UBS. For the average high yield issuer, liquidity levels remain elevated as measured by interest coverage, which remains near historical high levels. Leverage remains restrained including debt-to-EBITDA, which is well below the historical average. Finally, valuations imply future default rates will skyrocket to unprecedented levels. Using the historical average recovery rate of 0.40%, current spreads imply a cumulative default rate of almost 50% over the next five years. The worst five-year period in the last 50 years was 1999 to 2003, when the cumulative issuer-weighted default rate was less than 35%. The cumulative default rate for the past five years was less than 12%. We don't doubt that with a generally slowing macroeconomic environment and tighter lending standards that default rates will climb. However any rise should be muted by two factors. First, as previously mentioned the average high yield company has significant liquidity, particularly when compared to the periods immediately preceding the recessions of 1990 and 2001. Secondly, today's high yield companies are significantly larger than they have ever been. The \$25 billion RJR Nabisco LBO completed in 1988 ranked as the largest LBO in history for 19 years, until last year when at least 10 deals of greater size were announced. Today's high yield companies are larger and have significantly more resources to weather a financial storm.

Although credit markets have been under significant pressure for the past five weeks, our longer-term market outlook remains optimistic. With the technical picture finally cleaned up, the challenge for the loan market for the remainder of the year should be the fundamental picture and how badly credit may suffer due to the soft economic environment. We continue to believe that weakness will remain isolated to a few choice sectors, and will be less of a broad-market issue than what is currently priced in by spreads. We remain particularly concerned with the credit fundamentals within the autos and airlines sectors, but are also enticed by the risk/reward trade-off currently offered. We have some concerns in the consumer cyclical space but continue to find value in issuers that have abundant liquidity and are proving to be less economically sensitive. Finally, we are encouraged by the fact that earnings continued to be supportive for credit. Given market pricing

that implied a significant rise in defaults, we believe the loan market currently offers an attractive investment opportunity.

Outlook

The rapid rise in oil prices over the past few months has led to an unusual degree of anxiety in all markets. In an effort to stabilize rising inflation expectations, the Federal Reserve suggested that it is increasingly concerned with price stability, and has shifted focus away from the possibility of recession, which the Fed considers to have “diminished somewhat”. In reaction, investors priced in a series of quarter-point rate hikes as early as the next FOMC meeting.

We believe that the Federal Reserve is unlikely to tighten monetary conditions given current circumstances, and expect it to maintain the funds rate at 2% for some time. While we continue to believe that recession will be narrowly averted, it is difficult to envision the US economy approaching anything like the roughly 3% trend growth it had in the post-war era. This is not a reflection of reduced capacity or part of the demographic story. That is a secular trend that will play out over the next decade. Rather, we anticipate that sluggish consumer spending over the next 12 months, if not longer, may be the primary culprit of an extended cyclical soft patch that began with the contraction in the homebuilding sector. Household net worth declined by 3% during the first quarter, and it’s safe to assume that net worth continued to decline through the second quarter given recent declines in both equity and real estate prices. Combined with softening employment conditions, subdued wage growth, and depressed consumer confidence, consumers’ ability and willingness to continue spending at current levels are impaired. The recent tax rebate checks offer a small boost, but this mild tailwind should fade by the fourth quarter just as the headwind from homebuilding fades, leaving the US economy not in recession but rather a slow-growth equilibrium for the time being.

Regarding inflation, we find it difficult to become too anxious about rising consumer prices when consumer spending is low, falling, and could potentially fall substantially further. Inflation requires excess demand, and a general inability by producers to keep up with new orders. In contrast, the current economic environment is characterized by inventories that are falling relative to sales, slack that is developing in labor markets, and capacity utilization that continues to decline. Indeed, the prices of goods produced within the US economy are falling — the GDP deflator has declined almost continuously for the past two years. Domestic producers are lowering prices and workers are not demanding higher wages. Globally-traded commodities, on the other hand, are rising and are solely responsible for increasing headline consumer inflation (the GDP deflator largely excludes commodity prices since most commodities are imported from foreign producers). We view this phenomenon as a global relative price adjustment, not a case of too much money chasing too few goods. However, according to textbook theory, a true relative price adjustment should be inflation-neutral: for every increase in a particular price, there is an equal and offsetting price decline, rendering the overall inflation rate unchanged. In reality, the process is far from seamless, and relative price changes can cause instability until behaviour and consumer preferences have altered sufficiently. In this case, the revaluation of commodities has been extraordinary and requires a remarkable degree of change in consumption patterns. But we still believe in the textbook theory. There is simply not enough purchasing power in the US economy to sustain price increases at this time.

When will this instability fade? When will oil prices reach their new equilibrium level? Futures markets predict stable oil prices at current elevated levels, implying a relatively quick moderation in headline measures. The Federal Reserve agrees, and forecasts that headline PCE inflation will converge towards core PCE inflation below 2% before the end of 2009. We are comfortable with these predictions, but would not be surprised if the process took longer.

While conditions are much improved compared to the days leading up to the Bear Stearns bailout, capital markets are still very fragile. The slow and gradual return of liquidity should have a large impact on fixed-income pricing, and we continue to maintain our view that most spread sectors are undervalued. So where does this leave us? With real yields near their all time lows and credit markets beginning to show signs of stability, we are looking for opportunities to increase exposure to higher yielding assets.

Leverage

During the second half of 2007, the Real Return Trust reduced its obligation under the repurchase agreement with the Bank of Montreal to zero.

Currency Hedging

As at June 30, 2008, the Real Return Trust was approximately 106% hedged against moves in Canadian/U.S. exchange rates by way of a currency forward entitling the Fund to sell US \$52,824,181 in exchange for CA \$62,408,000 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 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 NAV per Unit. Pursuant to this obligation, during the six-month period ended on June 30, 2008 the Fund purchased 6,000 units for cancellation at a cost of \$47,899 (24,900 units at a cost of \$200,784 during the six-month period ended on June 30, 2007).

Distributions

The Fund has made all its scheduled distributions to date. The following schedule shows all the historical distributions per unit up to June 30 2008.

2005		2006		2007		2008	
January		January	\$0.04790	January	\$0.03333	January	\$0.03125
February		February	\$0.04790	February	\$0.03333	February	\$0.03125
March		March	\$0.04790	March	\$0.03333	March	\$0.03125
April		April	\$0.04580	April	\$0.03333	April	\$0.03125
May		May	\$0.04580	May	\$0.03333	May	\$0.03125
June		June	\$0.04580	June	\$0.03333	June	\$0.03125
July		July	\$0.04375	July	\$0.03333	July	
August	\$0.06540	August	\$0.04375	August	\$0.03333	August	
September	\$0.04580	September	\$0.04375	September	\$0.03333	September	
October	\$0.04580	October	\$0.04167	October	\$0.03125	October	
November	\$0.04580	November	\$0.04167	November	\$0.03125	November	
December	\$0.04580	December	\$0.04167	December	\$0.03125	December	
Total	\$0.24860	Total	\$0.53736	Total	\$0.39372		\$0.18750
Distributions Since Inception:							\$1.36718

Recommendations or Reports by the Board of Advisors

The Board of Advisors tabled no reports and made no reportable material recommendations to management of the Fund during the six –month period ended June 30, 2008.

Related Party Transactions

Management Fees

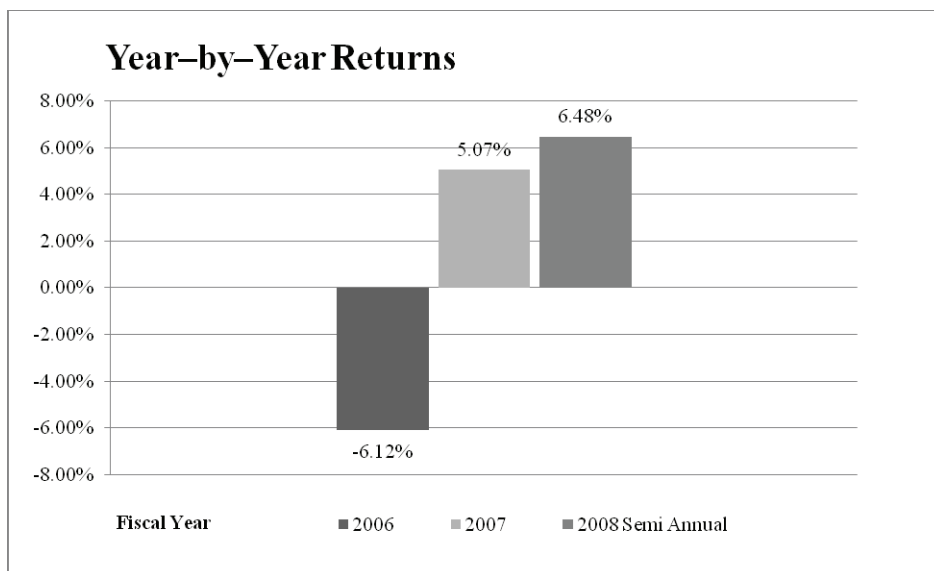
As compensation for management services rendered to the Fund, the Manager is entitled to receive an annual management fee in an amount equal to 0.30% per annum of the NAV of the Fund, to be calculated and payable monthly in arrears, plus applicable taxes.

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 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. It also shows the semi annual performance for the six-month period ended June 30, 2008 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:

The Fund's Net Asset Value per unit:

	June 30, 2008 ⁽⁵⁾	December 31, 2007	December 31, 2006	December 31, 2005 ⁽¹⁾
Net Asset Value, beginning of period	8.23	8.23	9.33	10.00
Increase (decrease) from operations:				
Total revenues	—	—	—	—
Total expenses	(0.06)	(0.11)	(0.11)	(0.05)
Unit issue expense ⁽²⁾	—	—	(0.01)	(0.56)
Realized gains (losses) for the period	0.41	(0.09)	(0.01)	0.01
Unrealized gains (losses) for the period	0.18	0.48	(0.43)	0.17
Total increase (decrease) from operations ⁽³⁾	0.53	0.28	(0.56)	(0.43)
Distributions:				
From income (excluding dividends)	—	—	—	—
From dividends	—	—	—	—
From capital gains	—	—	—	—
Return of capital	(0.19)	(0.39)	(0.54)	(0.25)
Total Annual Distributions ⁽³⁾	(0.19)	(0.39)	(0.54)	(0.25)
Net Asset Value, end of period ⁽³⁾⁽⁴⁾	8.58	8.23	8.23	9.33

⁽¹⁾ Results for the period July 18, 2005 (commencement of operations) to December 31, 2005.

⁽²⁾ Issue expense incurred in connection with the unit issuance, which has been treated as a reduction of capital.

⁽³⁾ Net asset value 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.

⁽⁴⁾ This is not a reconciliation between the opening and the closing net asset values per unit.

⁽⁵⁾ Results for the six month period ended June 30, 2008.

Ratios and Supplemental Data:

Fund	June 30, 2008 ⁽⁶⁾	December 31, 2007	December 31, 2006	December 31, 2005 ⁽¹⁾
Net assets (000's)	58,608	56,316	92,636	114,791
Number of units outstanding	6,833,067	6,839,067	11,260,603	12,307,408
Base Management expense ratio ⁽²⁾	1.36%	1.30%	1.25%	1.25%
Issue expenses ratio ⁽²⁾	0.00%	0.00%	0.08%	5.98%
Management expense ratio ⁽²⁾	1.36%	1.30%	1.33%	7.23%
Management expense ratio before waivers or absorptions ⁽²⁾	1.36%	1.30%	1.33%	7.23%
Portfolio turnover rate ⁽⁴⁾	104.90%	0.00%	4.74%	10.91%
Trading expense ratio ⁽⁵⁾	0.00%	0.00%	0.00%	0.00%
Closing market price (TSX)	8.27	7.67	8.05	8.87

Consolidated for the Fund and Real Return Trust

Base Management expense ratio ⁽²⁾⁽³⁾	2.39%	2.32%	2.24%	2.26%
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⁽¹⁾ Results for the period July 18, 2005 (commencement of operations) to December 31, 2005.

⁽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.

⁽⁶⁾ Results for the six month period ended June 30, 2008.

Summary of Investment Portfolio as of June 30, 2008

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

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

	Market Value \$	% of NAV
Portfolio by Category		
Materials	28,508,219	48.6%
Equity Derivatives	15,717,791	26.8%
Information Technology	9,331,489	15.9%
Consumer Staples	5,410,036	9.2%
Cash and Cash Equivalents	14,434	0.0%
 Top 25 Holdings		
Equity Derivatives	15,717,791	26.8%
Sino-Forest Corporation - Class A	12,035,505	20.5%
Pan American Silver Corp.	11,247,809	19.2%
Viterra Inc	5,410,036	9.2%
Celestica Inc.	5,394,074	9.2%
FNX Mining Company Inc.	5,224,905	8.9%
Nortel Networks Corp.	2,638,794	4.5%
CGI Group Class A	1,298,621	2.2%
Cash and Cash Equivalents	14,434	0.0%
 Net asset value (NAV)	 58,607,571	

Investment portfolio of the Real Return Trust

	% Rate	Maturity date	Market Value \$	% of NAV
Portfolio by Category				
Foreign bonds			45,205,849	76.7%
Foreign currency forward contracts			7,033,973	11.9%
Foreign funds			4,642,822	7.9%
Foreign equities			1,533,024	2.6%
Cash & Cash Equivalents			107,460	0.2%
Option contracts			(1,807)	0.0%
Futures contracts			(49,663)	-0.1%
Top 25 Holdings				
US Treasury Inflation-Protected Securities	1.875%	Jul-15	42,854,222	72.8%
Foreign currency forward contracts			7,033,973	11.9%
Western Asset Mgmt MBS Portfolio Fund LLC			2,567,755	4.4%
Western Asset Floating Rate High Income Fund LLC			2,075,067	3.5%
US Treasury Inflation-Protected Securities	2.375%	Apr-11	1,192,588	2.0%
Federal Home Loan Mortgage Corp.			616,257	1.0%
Fannie Mae			485,361	0.8%
SLM Corp.	4.035%	Feb-10	467,124	0.8%
Citigroup Inc.			431,406	0.7%
Vale Overseas	6.875%	Nov-36	244,985	0.4%
JP Morgan Chase & Company Series 1	7.900%	Apr-49	237,820	0.4%
Bank of America Corp.	8.000%	Dec-49	209,110	0.4%
Cash & Cash Equivalents			107,460	0.2%
3 Month Eurodollar Futures		Mar-09	419	0.0%
5 Year United States T-Note Put Option on Futures		Aug-08	(1,807)	0.0%
5 Year United States Treasury Note Futures		Sep-08	(17,953)	0.0%
3 Month Sterling Futures		Sep-08	(32,129)	-0.1%
Net asset value (NAV)			58,967,535	

Connor, Clark & Lunn Real Return Income Fund

Financial Statements (Unaudited)

June 30, 2008

Notice to Reader:

These interim financial statements and related notes for the six month period ended June 30, 2008 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

As at June 30, 2008 and December 31, 2007

	2008 (Unaudited)	2007 (Audited)
	\$	\$
Assets		
Cash	14,434	81,098
Investments at market value (cost - \$56,121,814; 2007 - \$55,094,722)	43,249,744	29,845,101
Unrealized gain on forward agreement	15,717,791	26,869,988
	<u>58,981,969</u>	<u>56,796,187</u>
Liabilities		
Accounts payable and accrued liabilities	130,023	227,874
Distributions payable	213,533	213,846
Management fees payable	30,842	30,743
Market repurchases payable (note 6)	-	7,755
	<u>374,398</u>	<u>480,218</u>
Net Assets and Unitholders' Equity	<u>58,607,571</u>	<u>56,315,969</u>
Units outstanding (note 5)	<u>6,833,067</u>	<u>6,839,067</u>
Net asset value per unit	<u>8.58</u>	<u>8.23</u>
Unitholders' Equity		
Unit capital (note 5)	53,158,355	54,499,774
Contribution surplus	4,052,956	4,040,855
Surplus (Deficit)	1,396,260	(2,224,660)
Unitholders' equity - End of period	<u>58,607,571</u>	<u>56,315,969</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, 2008 & 2007

	2008	2007
	\$	\$
Income		
Dividend income	404	647
Expenses		
Forward fees (note 7)	146,925	231,270
Management fees	90,389	152,498
Service fees	80,961	137,586
Audit fees	17,972	17,622
Custodial and other unitholder fees	10,977	17,610
Administration fees	9,788	11,887
Legal fees	9,604	9,604
Transfer agent fees	7,167	7,912
Sustaining fees	6,693	7,797
Advisory Board fees	5,285	5,385
Filing fees	4,186	4,143
Printing and mailing fees	1,569	2,992
Interest expense	76	895
Other	1,080	1,249
	<u>392,672</u>	<u>608,450</u>
Investment income (loss)	<u>(392,268)</u>	<u>(607,803)</u>
Unrealized gain (loss) on investments		
Change in unrealized gain (loss) on investments	12,296,372	11,217,667
Change in unrealized gain (loss) on forward agreement (note 7)	<u>(11,071,019)</u>	<u>(12,052,168)</u>
	1,225,353	(834,501)
Realized gain (loss) on investments		
Net realized gain (loss) on investments	<u>2,787,835</u>	<u>(39,441)</u>
Net gain (loss) on investments	<u>4,013,188</u>	<u>(873,942)</u>
Increase (decrease) in net assets from operations	<u>3,620,920</u>	<u>(1,481,745)</u>
Increase (decrease) in net assets from operations per unit *	<u>0.53</u>	<u>(0.12)</u>
Distributions per unit	<u>0.19</u>	<u>0.54</u>

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

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, 2008 & 2007

	2008	2007
	\$	\$
Increase (decrease) in net assets from operations	3,620,920	(1,481,745)
Distributions to unitholders from return on capital	(1,281,419)	(2,248,597)
Unitholders' transactions		
Payments on cancellation of units (note 6)	<u>(47,899)</u>	<u>(200,784)</u>
	<u>(47,899)</u>	<u>(200,784)</u>
Change in net assets during the year	<u>2,291,602</u>	<u>(3,931,126)</u>
Net assets - Beginning of period	<u>56,315,969</u>	<u>92,635,853</u>
Net assets - End of period	<u>58,607,571</u>	<u>88,704,727</u>
Surplus (Deficit), beginning of period	(2,224,660)	(5,009,671)
Increase (decrease) in net assets from operations	<u>3,620,920</u>	<u>(1,481,745)</u>
Surplus (Deficit), end of period	<u>1,396,260</u>	<u>(6,491,416)</u>
Contributed surplus, beginning of period	4,040,855	1,561,442
Cost of shares repurchased at less than stated value	<u>12,101</u>	<u>48,216</u>
Contributed surplus, end of period	<u>4,052,956</u>	<u>1,609,658</u>

Connor, Clark & Lunn Real Return Income Fund

Statements of Cash Flow (Unaudited)

For the six month period ended June 30, 2008 & 2007

	2008	2007
	\$	\$
Operating Activities		
Increase (decrease) in net assets from operations	3,620,920	(1,481,745)
Items not effecting cash:		
Change in unrealized (gain) loss on investments	(12,296,372)	(11,217,667)
Change in unrealized (gain) loss on forward agreement (note 7)	11,071,019	12,052,168
Net realized (gain) loss on investments	(2,787,835)	39,441
Changes in non-cash working capital		
Increase (decrease) in accounts payable and accrued liabilities	(97,851)	(19,915)
Increase (decrease) in management fees payable	99	(22,124)
Increase (decrease) in market repurchases payable (note 6)	(7,755)	-
Net cash flow provided by operating activities	<u>(497,775)</u>	<u>(649,842)</u>
Investing Activities		
Purchase of investments	(33,927,565)	-
Proceeds on disposition of investments	<u>35,688,307</u>	<u>3,385,000</u>
Net cash used in investing activities	<u>1,760,742</u>	<u>3,385,000</u>
Financing Activities		
Payments on redemption/cancellation of units (note 6)	(47,899)	(200,784)
Distributions to unitholders	(1,281,732)	(2,344,082)
Proceeds from bank indebtedness	22,500	234,600
Principal payments on bank indebtedness	<u>(22,500)</u>	<u>(347,600)</u>
Net cash flow provided by financing activities	<u>(1,329,631)</u>	<u>(2,657,866)</u>
Net increase (decrease) in cash	(66,664)	77,292
Cash (bank overdraft) - beginning of period	<u>81,098</u>	<u>(131)</u>
Cash - end of period	<u>14,434</u>	<u>77,161</u>

(See accompanying notes to financial statements)

Connor, Clark & Lunn Real Return Income Fund

Statement of Investments (Unaudited)

As at June 30, 2008

	Number of shares	Average cost	Market value	% of Portfolio
Canadian common stocks (pledged to the Counterparty under the Forward Agreement)				
Materials				
FNX Mining Company Inc.	216,801	5,146,856	5,224,905	12.1%
Pan American Silver Corp.	320,816	10,586,928	11,247,809	26.0%
Sino-Forest Corporation - Class A	674,258	13,046,892	12,035,505	27.8%
		<u>28,780,676</u>	<u>28,508,219</u>	<u>65.9%</u>
Consumer Staples				
Viterra Inc	386,984	5,146,887	5,410,036	12.5%
Information Technology				
CGI Group Class A	127,817	1,007,198	1,298,621	3.0%
Celestica Inc.	628,680	10,587,217	5,394,074	12.5%
Nortel Networks Corp.	316,782	10,599,836	2,638,794	6.1%
		<u>22,194,251</u>	<u>9,331,489</u>	<u>21.6%</u>
Total Canadian common stocks		<u>56,121,814</u>	<u>43,249,744</u>	<u>100.0%</u>
		Maturity date	Number of contracts	Market value \$
Derivative contracts				
Forward Agreement (note 7)		18-Jul-15	1	15,717,791

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements

June 30, 2008

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") (formerly "The Royal Trust Company") 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 (the "NAV") 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").

The Real Return Trust invests, on a leveraged basis, in a Portfolio with (i) at least 80% of this Portfolio invested in real return bonds issued by the 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 employs 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

As of June 30, 2008 the manager has not developed a changeover plan to International Financial Reporting Standards ("IFRS") nor has it assessed the impact of IFRS on business arrangements, net asset value per unit and accounting policies. The manager will develop a plan prior to the 2008 year end and will disclose this plan in the 2008 annual financial statements.

Recent accounting pronouncements

On January 1, 2008, the Fund adopted Section 1506 of the CICA Handbook Accounting Changes, which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This standard did not affect the Fund's financial position or results of operations.

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

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

Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded. Should the quoted value for a security, in the opinion of the Managers, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Managers on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred.

On January 1, 2007, the Fund adopted Section 3855 on a prospective basis for financial reporting purposes ("GAAP NAV"). Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for the security. Until December 31, 2006, fair value for GAAP was based on the last traded price for the day, when available. In addition, Section 3855 requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund be charged to net income in the period. Until December 31, 2006, the Fund's policy has been to add these expenses to the cost of the securities purchased or deduct from the proceeds of sale.

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

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements

June 30, 2008

There were no differences between the Transactional NAV and the GAAP NAV as a result of the adoption of Section 3855.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on deposit with terms to maturity of less than 90 days at acquisition. Cash and cash equivalents are deemed to be held for trading and therefore are carried at fair value.

Income recognition

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

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the period. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

Foreign currency forward contracts

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

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 Operations and in the Statements of Net Assets as Unrealized gain (loss). Amounts receivable (payable) from futures contracts are reflected in the Statements of Net Assets as a 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 market 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.

4 Custodian

In the Trust Agreement RBC Dexia ("the Custodian") 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 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.

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, 2008.

Changes in outstanding units are summarized as follows:

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements

June 30, 2008

	Number of units	
	June 30, 2008	December 31, 2007
Opening balance	6,839,067	11,260,603
Units issued	—	—
Units redeemed	—	(4,327,036)
Units cancelled (note 7)	<u>(6,000)</u>	<u>(94,500)</u>
Ending balance	<u>6,833,067</u>	<u>6,839,067</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 NAV per Unit. Pursuant to this obligation, during the six-month period ended on June 30, 2008 the Fund purchased 6,000 units for cancellation at a cost of \$47,899 (24,900 units at a cost of \$200,784 during the six-month period ended on June 30, 2007).

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. 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 Bank indebtedness

The Fund has an overdraft agreement with the Bank of Montreal ("BMO") dated March 2, 2006. Under the terms of this agreement, the maximum allowable borrowing limit is \$500,000.

During the six-month period from ended June 30, 2008, the Credit Facility had a minimum outstanding balance of \$0 and a maximum outstanding balance of \$22,500. The related total interest expense was \$76.

As of June 30, 2008, the Credit Facility had \$nil outstanding balance (December 31, 2007 - \$nil).

9 Distributions

The Fund pays monthly cash distributions plus any additional amounts as directed by the Manager. Such distributions may consist of net income, net realized capital gains and return of capital and shall be paid no later than 10 days after the record date for Distribution.

The amount of distributions in any particular month shall be determined by the Manager, having regard to the investment objectives of the Fund, the net realized capital gains and net income of the Fund, if any, during the month and the year to date, the net realized capital gains and net income of the Fund anticipated in the balance of the year, and distributions made in previous months; provided, however, that the aggregate distributions of net income and net realized capital gains made in each year shall be such amount as is sufficient to ensure that the Fund is not liable for income tax thereon under the Act, except to the extent that any tax payable on net realized capital gains of the Fund for a year that are retained by the Fund would be recoverable by it in such year.

10 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 is entitled to receive an annual management fee in an amount equal to 0.30% per annum of the NAV of the Fund, to be calculated and payable monthly in arrears, plus applicable taxes.

As compensation for management services rendered to the Real Return Trust, the Manager will receive an annual management fee in an amount equal to 0.90% of the Real Return Trust's NAV, to be calculated and payable monthly in arrears, plus applicable taxes.

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements

June 30, 2008

The Manager is responsible for payment of the investment management fees of the Investment Advisor.

11 Income taxes

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

12 Broker commission charges and soft dollar services

There were \$nil broker commissions paid during the six-month period ended on June 30, 2008 (\$nil during the six-month period ended on June 30, 2007) in connection with portfolio transactions. No soft dollar services were included in the broker commission charges.

13 Reclassification

Certain of the 2007 comparative figures have been reclassified from the statements previously presented to conform to the presentation of the 2008 semi-annual financial statements.

14 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>	\$
Held for trading	58,537,981
Loans and receivables	624,832
Total assets	59,162,813
<u>Liabilities</u>	
Held for trading	51,889
Financial liabilities at amortized cost	503,353
Total liabilities	555,242

For the purposes of categorization in accordance with section 3862, interest receivable, variation margin receivable, and other assets are deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, bank overdrafts, management fees payable, accounts payable and accrued liabilities and other liabilities are deemed to be financial liabilities and reported at amortized cost.

15 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 table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	(19,760)	1,659,712	–	43,546,137	13,178,109	58,364,198
Cash and cash equivalents	–	–	–	–	121,894	121,894
Other assets	–	–	–	–	624,832	624,832
Liabilities	–	–	–	–	(503,353)	(503,353)
Net assets value						58,607,571

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements

June 30, 2008

As at June 30, 2008, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$2,950,000. 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 the underlying mutual 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 exposure to foreign currencies as at June 30, 2008. Amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as 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.

	Sensitivity (based on devaluation of CAD) \$	Monetary instruments \$	Non- monetary instruments \$	Total \$	% of Net Assets
US Dollar	(309,000)	(12,356,518)	6,175,846	(6,180,672)	(10.5%)
European Union Euro	135,000	2,697,384	–	2,697,384	4.6%
British Pound Sterling	154,000	3,080,905	–	3,080,905	5.2%

Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Investment Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. 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, 2008, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately \$153,000. In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Credit risk

The Fund is exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at June 30, 2008. 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, 2008. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

Rating ⁽¹⁾	June 30, 2008 (% of NAV)	Rating ⁽¹⁾	June 30, 2008 (% of NAV)
AAA	79.4%	BBB-	0.8%
AA+	–	BB+	–
AA	–	BB	–
AA-	12.0%	BB-	–
A+	0.4%	B+	3.5%
A	0.4%	B	–
A-	–	B-	–
BBB+	–	CCC+	–
BBB	0.4%	A-1+	–
		Total	96.9%

As at June 30, 2008, no debt securities were contractually past due and no longer meeting interest payment obligations.

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.

Connor, Clark & Lunn Real Return Income Fund

Notes to Financial Statements

June 30, 2008

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.