

**Connor, Clark & Lunn PRINTS Trust**

**Annual Information Form**

**For the year ended December 31, 2009**

March 2010

# TABLE OF CONTENTS

<b>1</b>	<b>DESCRIPTION OF THE BUSINESS .....</b>	<b>4</b>
1.1	NAME AND FORMATION.....	4
1.2	STATUS OF THE TRUST.....	4
1.3	ISSUE OF UNITS .....	4
<b>2</b>	<b>DESCRIPTION OF THE PORTFOLIO .....</b>	<b>4</b>
2.1	INVESTMENT OBJECTIVES AND STRATEGY .....	4
2.2	CAPITAL REPAYMENT.....	5
2.3	SECURITIES LENDING .....	7
2.4	INVESTMENT RESTRICTIONS .....	7
<b>3</b>	<b>UNITHOLDERS' EQUITY .....</b>	<b>8</b>
3.1	UNITS .....	8
3.2	BOOK-ENTRY CERTIFICATE.....	8
3.3	UNITHOLDER MATTERS.....	8
3.4	TERMINATION OF THE TRUST .....	9
3.5	DISTRIBUTIONS.....	10
3.6	REDEMPTION OF UNITS .....	10
<b>4</b>	<b>VALUATION.....</b>	<b>11</b>
4.1	VALUATION OF ASSETS .....	11
4.2	NET ASSET VALUE OF THE TRUST .....	12
4.3	AUDIT OF FINANCIAL STATEMENTS.....	12
<b>5</b>	<b>MANAGEMENT OF THE TRUST.....</b>	<b>13</b>
5.1	THE MANAGER.....	13
5.2	THE ADVISORY BOARD .....	15
5.3	INDEPENDENT REVIEW COMMITTEE .....	15
5.4	THE TRUSTEE .....	15
<b>6</b>	<b>PORTFOLIO TRANSACTIONS AND BROKERAGE.....</b>	<b>16</b>
<b>7</b>	<b>CUSTODIAN .....</b>	<b>16</b>
<b>8</b>	<b>AUDITORS.....</b>	<b>16</b>
<b>9</b>	<b>REGISTRAR, TRANSFER AGENT AND DISTRIBUTION AGENT .....</b>	<b>16</b>
<b>10</b>	<b>FEES AND EXPENSES PAYABLE BY THE TRUST .....</b>	<b>16</b>
10.1	INITIAL FEES AND EXPENSES .....	16
10.2	MANAGEMENT FEES .....	16
10.3	SERVICE FEES .....	17
10.4	ON-GOING EXPENSES.....	17
<b>11</b>	<b>CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.....</b>	<b>17</b>

11.1	GENERAL.....	17
11.2	TAXATION OF THE TRUST .....	18
11.3	TAXATION OF UNITHOLDERS.....	18
<b>12</b>	<b>MATERIAL CONTRACTS.....</b>	<b>19</b>

## **1 DESCRIPTION OF THE BUSINESS**

### **1.1 NAME AND FORMATION**

The Connor, Clark & Lunn PRINTS Trust (the “Trust”) is an investment trust established under the laws of the Province of Ontario by a trust agreement dated November 29, 2001 (the “Trust Agreement”). The Manager of the Trust is Connor, Clark & Lunn Capital Markets Inc. RBC Dexia Investor Services Trust (“RBC Dexia”) is the Trustee and acts as custodian of the Trust. The Trust commenced operations on December 12, 2001 and will terminate on or about December 2, 2013 (the “Termination Date”), unless terminated earlier in accordance with the terms of the Trust Agreement, when the net assets will be distributed to the unitholders unless the unitholders determine to continue the Trust by majority vote at a meeting called for such purpose.

The principal place of business of the Trust and the registered office of the Manager is Suite 300, 181 University Avenue, Toronto, Ontario, M5H 3M7.

### **1.2 STATUS OF THE TRUST**

While the Trust is technically a mutual fund trust under the securities legislation of certain provinces of Canada, it is not a conventional mutual fund trust and has exemptions from certain requirements of National Instrument 81-102 of the Canadian Securities Administrators, as it may be amended from time to time (“NI 81-102”).

The Trust differs from a conventional mutual fund trust in a number of respects, most notably: (i) while Units may be surrendered at any time for redemption, the redemption price is payable monthly whereas the securities of most conventional mutual fund trusts are redeemable for a redemption price that is paid daily; (ii) Units trade in the market whereas the securities of most conventional mutual fund trusts do not; and (iii) unlike the securities of most conventional mutual fund trusts, Units will not be offered on a continuous basis.

### **1.3 ISSUE OF UNITS**

On December 12, 2001, units of the Trust (“Units”) were issued and began trading on the Toronto Stock Exchange. The Trust does not continuously distribute its Units and does not currently intend to issue any further Units. The Initial Public Offering (the “Offering”) is summarized in the following table:

- Issue date: December 12, 2001
- Redemption date: December 2, 2013.
- Number of Units issued: 4,131,600.
- Issue price per Unit: \$25.00.
- Total raised: \$103,290,000.
- Expenses of issue: \$6,178,792.
- Net amount raised: \$97,111,208
- Trading symbol: CCP-UN

Subsequent to the Offering, a total of 3,793,957 Units have been retracted pursuant to the unitholders’ right to tender units for redemption described below. 337,643 Units are currently outstanding.

## **2 DESCRIPTION OF THE PORTFOLIO**

### **2.1 INVESTMENT OBJECTIVES AND STRATEGY**

The Trust’s investment objectives are:

- (i) Distributions: to provide holders of Units (“Holders”) with a stable stream of quarterly distributions targeted to be \$0.50 per Unit (\$2.00 per annum to yield 8.0% on the subscription price);
- (ii) Capital Repayment: to pay to Holders on or about December 2, 2013 (the “Termination Date”) an amount per Unit equal to the subscription price paid for Units offered hereby (the “Original Investment Amount”); and
- (iii) Capital Appreciation: to pay to Holders, on the Termination Date, in addition to the Original Investment Amount, the value per Unit, if any, in excess of the Original Investment Amount.

On June 4, 2003, the Trust completed the forward sale of a portfolio of Canadian equity securities in accordance with a forward sale agreement with TD Global Finance (TDGF), the counterparty to the forward agreement, the terms of which are described in the Trust's prospectus dated November 29, 2001. The execution of the forward sale, which came about as the result of prolonged deterioration in the US equity market and falling bond yields, was in support of the capital repayment objective of the Trust. The Trust does not expect to pay distributions or to realize significant capital appreciation in excess of the original investment. As a result, the Trust's sole objective is to pay at least \$25.00 per unit to holders on or about December 2, 2013.

## **2.2 CAPITAL REPAYMENT**

### **2.2.1 Initial Period**

Initially and in order to achieve the Trust's distribution and capital appreciation objectives, the Trust invested the net proceeds of the offering in a diversified portfolio (the "Managed Portfolio") consisting principally of equity securities of companies which were selected from the S&P 500 Index.

To achieve the capital repayment objective, the Trust entered into an agreement (the "Forward Agreement") dated December 13, 2001 with TDGF, a member of the TD Bank Financial Group and an affiliate of TD Securities Inc., in connection with which the Trust agreed to identify and purchase a portfolio of equity securities (the "Capital Portfolio") for sale to the Counterparty on the Termination Date on the earlier of (i) December 13, 2004 (or such later date as may be agreed upon by the Trust and the Counterparty), and (ii) the occurrence of any of the following:

- (a) the Counterparty, in its sole discretion after consultation with the Manager, determines that (A) there has been any amendment to, clarification of, or change (including any prospective change) in the laws, or any regulations thereunder, of Canada or any political subdivision or taxing authority thereof, or (B) any other circumstances not within the control of the Counterparty have occurred, which in either case could have an adverse effect on the Counterparty or the Trust if the Determination Date is not designated immediately;
- (b) the Counterparty, in its sole discretion after consultation with the Manager, determines that it would be appropriate for the Determination Date to be designated immediately, including without limitation as a result of the Trust not meeting the collateralization requirements described below or a material diminution in the value of the Managed Portfolio securities (without including the Initial Securities as defined below); or
- (c) the Manager, on behalf of the Trust, in its sole discretion after consultation with the Counterparty, determines that it would be in the best interests of the Unitholders for the Determination Date to be designated immediately.

The Determination Date occurred on June 4, 2003 on agreement between the Manager and the Counterparty. At that time, the Managed Portfolio was sold and the assets of the Trust were invested in the Capital Portfolio, with a portion invested in cash equivalents in order to fund expected operating expenses.

### **2.2.2 Period Following the Determination Date**

Under the Forward Agreement, on the Termination Date the Counterparty will pay the Original Investment Amount to the Trust in exchange for the equity securities comprising the Capital Portfolio. As a result, on or about the Termination Date, The Trust is expected to receive an amount per Unit equal to the Original Investment Amount. However, the Trust's ability to pay the Original Investment Amount to Unitholders may be affected by the credit risk of the Counterparty and the extent to which it satisfies its obligations under the Forward Agreement or if the Forward Agreement is terminated prior to the Termination Date. In addition, as the size of the Trust continues to be reduced by retractions, the fixed costs of operations must be shared among a smaller number of units. Over time, this may impair the Trust's ability to pay the Original Investment Amount to unitholders.

Under the terms of the Forward Agreement, the Trust will be required to sell the Capital Portfolio securities to the Counterparty on the Termination Date. The Capital Portfolio securities were purchased on the Determination Date by mutual agreement of the Trust and the Counterparty, are "Canadian securities" for the purposes of the Income Tax Act (Canada) and were acquired by the Trust on the Determination Date out of the existing assets of the Trust, including proceeds from the sale of Managed Portfolio securities.

Pursuant to the Forward Agreement, Capital Portfolio securities or other acceptable collateral are pledged as security for the obligations of the Trust under the Forward Agreement, and the Capital Portfolio is not actively managed by the Trust. On the Termination Date, all the Capital Portfolio securities will be delivered to the Counterparty in exchange for a cash payment in Canadian dollars equal to 100% of the aggregate Original Investment Amount per Unit outstanding on the Termination Date. Each of

the Trust and the Counterparty have agreed that their settlement obligations under the Forward Agreement with respect to Capital Portfolio securities will be discharged by the making of a net cash payment to the appropriate party unless either the Trust or the Counterparty requests settlement of the Forward Agreement in any such instance by physical delivery of Capital Portfolio securities.

On the Termination Date, Unitholders will also be entitled to receive an additional amount, if any, attributable to any net assets held by the Trust and not subject to the Forward Agreement.

Under the Forward Agreement, the Trust was initially obliged to pay to the Counterparty an annual fee of approximately 0.70% of the gross proceeds of the Offering, payable quarterly in advance, until the Determination Date and, after the Determination Date, an annual fee under the Forward Agreement of approximately 0.45% of the gross proceeds of the Offering, payable quarterly in advance. On the Determination Date, the Trust delivered the present value of the fixed price forward fee that was payable to TDGF over the term of the Forward Agreement. The full amount of the present value of the prepaid forward agreement fee was \$4,119,089, or 6.9% of the Trust's net assets at the time of purchase. As a result of discussions with TDGF initiated by the Manager, TDGF later agreed to reimburse a portion of the forward fee equating to approximately \$0.07 per unit, net of fees payable to TDGF, based on the number of units outstanding on June 4, 2003. The gross value of the reimbursement of approximately \$300,000 reduced the carrying amount of prepaid forward agreement fees. The Trust will owe no further fees to TDGF but may be liable for hedging costs incurred by TDGF from time to time.

The obligations of the Counterparty pursuant to the Forward Agreement are guaranteed by The Toronto-Dominion Bank.

In order to permit the Trust to fund periodic redemptions of Units after the Determination Date, the terms of the Forward Agreement provide that it may be terminated or partially terminated and then settled on any Valuation Date by the Trust tendering to the Counterparty securities of the Capital Portfolio at a price equal to the then-current market value of the tendered securities plus or minus the value of the portion of the Forward Agreement attributable to such securities.

Under the Forward Agreement, all dividends and distributions, including extraordinary distributions, declared and paid on Capital Portfolio securities will be paid to the Trust and the Original Investment Amount payable on or about the Termination Date may be reduced. In order to minimize the likelihood that such dividends or distributions will be paid, the Trust holds non-dividend paying common shares of Canadian public companies for the Capital Portfolio. However, if any such dividends or distributions are to be received by the Trust, the Forward Agreement provides that replacement securities acceptable to the Counterparty may at the Trust's option be substituted for the shares in respect of which the dividend or distribution has been declared to preserve the value of the forward transaction prior to the occurrence of such event. In the event that such replacement securities are not available, the Trust may consider contributing additional securities to the Capital Portfolio or entering into additional forward, derivative or other transactions to enable the Trust to receive the Original Investment Amount on the Termination Date. The Forward Agreement will have similar provisions to avoid adjustments of the Original Investment Amount to be paid on or about the Termination Date which might otherwise be required if the Trust receives consideration as a consequence of a merger transaction involving any of the securities in the Capital Portfolio.

The mark-to-market value of the Trust's exposure under the Forward Agreement may not exceed 30% of the Trust's net assets for a period of more than 60 days. To ensure compliance with the exposure limit, the Trust may seek to amend the terms of the Forward Agreement by entering into forward or other derivative transactions with other counterparties in order to comply with this exposure limit and preserve the original objectives of the Forward Agreement. The Trust may agree to amend the existing forward arrangements to substitute replacement securities for Capital Portfolio securities or the Trust may enter into additional forward transactions in respect of shares that the parties agree may be used in circumstances similar to the existing forward arrangements. If the Trust is not able to complete such actions on terms which preserve the original objectives of the Forward Agreement, the Forward Agreement may be settled in part in order to lower the mark-to-market value of the Trust's exposure thereto.

The Forward Agreement may be terminated prior to the Termination Date in certain circumstances including: (i) at the option of the Trust in its sole discretion, (ii) by the Counterparty if the Counterparty determines in its sole discretion that it is unable to hedge its position under the Forward Agreement, or (iii) if the Trust fails to pay the annual fee under the Forward Agreement. If the Forward Agreement is terminated prior to the Termination Date, the amount received by the Trust in the event of such an early termination of the Forward Agreement may be insufficient to enable the Trust to pay an amount at least equal to the Original Investment Amount at the time of such termination or on the Termination Date. However, in the event of such early termination, the Trust may enter into one or more additional forward, derivative or other transactions in order to enable it to pay Unitholders the Original Investment Amount on or before the Termination Date.

As a result of the Forward Agreement at least \$25.00 per Unit is expected to be paid to the Trust by the Counterparty on the Termination Date. The amount payable to Unitholders of record on the Termination Date will equal the amount received from the Counterparty plus any other assets of the Trust and less any liabilities of the Trust, which may total more or less than the Original

Investment Amount Unit. Based on the current number of Units outstanding, the amount of cash held by the Trust and the expected level of the Trust's operating expenses, the Manager expects that the amount payable to Unitholders of record will be at least \$25.00 per Unit. A substantial increase in the Trust's operating expenses per Unit, however, which might occur if such expenses themselves increase or if the number of Units outstanding is significantly reduced due to retractions, may result in the Trust's becoming unable to return the full Original Investment Amount. See "Risk Factors – Loss of Full Capital Repayment".

### **2.3 SECURITIES LENDING**

The Trust may lend Capital Portfolio securities not pledged to the Counterparty under the Forward Agreement to TD Securities Inc. ("TD Securities") and one or more other borrowers (collectively, the "Borrower") pursuant to the terms of one or more securities lending agreements between the Trust and the Borrower (a "Securities Lending Agreement"). Under the Securities Lending Agreement: (i) the Borrower will make compensation payments to the Trust equal to any distributions received by the Borrower on the securities borrowed; (ii) the Borrower will pay a fee to the Trust in consideration of the lending by the Trust of the securities to the Borrower; (iii) the securities loans must qualify as "securities lending arrangements" for the purposes of the Income Tax Act (Canada); and (iv) the Trust will receive prescribed collateral security. The Trust will lend portfolio securities in accordance with the provisions of NI 81-102.

### **2.4 INVESTMENT RESTRICTIONS**

The investment activities of the Trust are conducted in accordance with, among other things, the following investment restrictions as well as the additional restrictions set forth in the Forward Agreement:

- (i) **Canadian Equity Securities Only.** Other than Cash Equivalents and the Forward Agreement, the Trust will only invest in common shares of Canadian companies.
- (ii) **Cash Equivalents.** The Trust will not purchase debt securities unless such securities are Cash Equivalents. Cash Equivalents means:
  - a. Cash held by or on deposit with or on behalf of the Trustee or the Trust's custodian;
  - b. An evidence of indebtedness that has a remaining term to maturity of 365 days or less and that is issued, or fully and unconditionally guaranteed as to principal and interest by:
    - i. Any of the Federal or provincial governments of Canada;
    - ii. The Government of the United States; or
    - iii. A Canadian financial institution;Provided that, in the case of (ii) and (iii), such evidence of indebtedness has a rating of at least R-1 (mid) by Dominion Bond Rating Service Limited or the equivalent rating from another approved rating organization;
  - c. other cash cover as defined by NI 81-102..
- (iii) **Non-Resident Entities.** The Trust will not invest in the securities of or interests in any non-resident corporation or trust or other non-resident entity or property that, under the terms or conditions in respect of which or any agreement relating to which, is convertible into or exchangeable for or confers a right to acquire, directly or indirectly, such securities or interests or a property the fair market value of which is determined by reference to the fair market value of such securities or interests, if the Trust would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the Income Tax Act (Canada) or to include any significant amount in income pursuant to proposed section 94.1 of the Income Tax Act (Canada) dealing with foreign investment entities released on August 2, 2001 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto).
- (iv) **NI 81-102 and Derivatives.** The Trust will not purchase or sell derivatives except as specifically permitted under NI 81-102, or as permitted by the Canadian Securities Administrators.

In addition, but subject to these investment restrictions, the Trust has adopted, in connection with the managed Portfolio, the standard investment restrictions and practices set forth in NI 81-102, including the current restriction to limit the purchase of securities of an issuer to not more than 10% of the Net Asset Value of the Trust at the time of purchase. A copy of such standard investment

restrictions and practices will be provided by the Manager to any person on request.

Furthermore, in conducting its investment activities, the Trust shall not make or retain any investment which would result in the Trust failing to qualify as a “mutual fund trust” within the meaning of the Income Tax Act (Canada).

### **3 UNITHOLDERS’ EQUITY**

#### **3.1 UNITS**

The Trust 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 Trust. To become a Unitholder, an investor must acquire 100 or more Units in the Trust hereunder. Fractional Units will not be issued.

Each Unit entitles the Unitholder to the same rights and obligations as a Unitholder of any other Units and no Unitholder is entitled to any privilege, priority or preference in relation to any other Unitholder. Each Unitholder is entitled to one vote for each Unit held and is entitled to participate equally with respect to any and all distributions made by the Trust, including distributions of net income and net realized capital gains, if any. On termination, the Unitholders of record holding outstanding Units are entitled to receive all of the assets of the Trust remaining after payment of all debts, liabilities and liquidation expenses of the Trust.

The Trust does not currently intend to issue additional Units except (i) by way of rights offerings to existing Unitholders, private placement or public offering where the net proceeds per Unit to be received by the Trust are not less than the Net Asset Value per Unit, (ii) by way of Unit distributions, or (iii) with the approval of Unitholders by Extraordinary Resolution (as defined below).

The Trust may, at its option, make a distribution of any net income or net realized capital gains in Units and/or in cash. Immediately following any such reinvestment of distributions in Units, the number of Units outstanding will automatically be consolidated such that the number of Units outstanding after such distribution will be equal to the number of Units outstanding immediately prior to the distribution.

#### **3.2 BOOK-ENTRY CERTIFICATE**

A book-entry only certificate representing the Units has been issued in registered form to The Canadian Depository for Securities Limited (“CDS”). Any purchase or transfer of Units must be made through participants in the CDS depository service (“CDS Participants”), which includes securities brokers and dealers, banks and trust companies. Indirect access to the CDS book entry system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly. Each purchaser of Units will receive a customer confirmation of purchase from the CDS Participant from whom such Units are purchased in accordance with the practices and procedures of such CDS Participant. Reference in this prospectus to a Unitholder means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

No Unitholder will be entitled to a certificate or other instrument from the transfer agent for the Units or CDS evidencing that person’s interest in or ownership of Units, or will be shown on the records maintained by CDS, except through an agent who is a CDS Participant. Distributions, if any, in respect of Units will be made by the Trust to CDS and distributions to CDS will be forwarded by CDS to CDS Participants, and thereafter to the Unitholders.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such owner’s interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Manager, on behalf of the Trust, has the option to terminate the book entry system through CDS, in which case the Units in fully registered certificated form will be issued to Unitholders, as of the effective date of such termination.

#### **3.3 UNITHOLDER MATTERS**

##### **3.3.1 Meetings of Unitholders and Extraordinary Resolutions**

The Trustee may, at any time, convene a meeting of the Unitholders and will be required to convene a meeting on receipt of a request in writing of the Manager or Unitholders holding 10% or more of the Units outstanding. Each Holder is entitled to one vote for each Unit held. A quorum consists of two or more Unitholders present in person or by proxy and representing not less than 10% of the Units outstanding.

Certain matters shall require the approval of Unitholders by extraordinary resolution (an “Extraordinary Resolution”). An Extraordinary Resolution shall be a resolution passed by Unitholders of not less than 66<sup>2/3</sup>% of the Units voting thereon at a meeting duly convened for the consideration of such matter. A quorum for any meeting convened to consider a matter requiring the approval of Unitholders by Extraordinary Resolution shall consist of two or more Unitholders present in person or by proxy and representing not less than 25% of the Units then outstanding.

If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Unitholders, will be cancelled, but otherwise will be adjourned to another day, not less than 10 days or more than 21 days later, selected by the Manager and notice will be given to the Unitholders of such adjourned meeting. The Unitholders present at any adjourned meeting will constitute a quorum.

The matters which require Unitholder approval by Extraordinary Resolution include the termination of the Manager, the termination of the Investment Management Agreement (if such termination is initiated by Unitholders), any issuance of Units subsequent to the initial issuance of Units (other than issuances made by way of rights offering to existing Unitholders, private placement or public offering where the net proceeds per Unit to be received by the Trust are not less than the Net Asset Value per Unit or by way of Unit distributions) and certain matters described below under “Amendments to the Trust Agreement”.

The Manager, in respect of any Units which may be held by it from time to time, insiders of the Trust (as such expression is defined in the Securities Act (Ontario)), affiliates of the Manager, and any director or officer of such persons who hold Units shall not be entitled to vote on any Extraordinary Resolution to be adopted by the Unitholders.

### **3.3.2 Amendments to the Trust Agreement**

The Trust Agreement may only be amended with the consent of the Unitholders. Changes, in any manner, to the Investment Guidelines of the Trust (other than the standard investment restrictions and practices set forth in NI 81-102), the liability of any Unitholder, the right of a Unitholder to vote at any meeting or changing the Trust from a trust to a different form of issuer require approval by Extraordinary Resolution. However, no amendment can be made to the Trust Agreement which would have the effect of reducing the interest in the Trust of the Unitholders unless all of the Unitholders consent thereto. No amendment can be made to the Trust Agreement which would have the effect of reducing the fees payable to the Manager unless the Manager, in its sole discretion, consents.

Notwithstanding the foregoing, the Manager is entitled, without the consent of the Unitholders, to make certain amendments to the Trust Agreement to make any change or correction which is of a typographical nature or is required to cure or correct a clerical omission, mistake or manifest error contained therein or which is for the purpose of amending the existing provisions or adding any provisions which, in the opinion of counsel to the Trust, are for the protection or benefit of the Unitholders or the Trust, for the purpose of curing an ambiguity in the Trust Agreement, for the purpose of supplementing any provision which may be defective or inconsistent with another provision, for the purpose of compliance with applicable law, for the purpose of conforming the Trust Agreement with current administrative practice or to provide added protection to Unitholders. Such amendments may be made only if they will not materially affect the interest of any Unitholder. The Manager may also amend the Trust Agreement without the consent of the Unitholders for the purpose of removing any conflicts or other inconsistencies which may exist between the Trust Agreement and applicable law or changing the Trust’s taxation year-end as permitted under the Income Tax Act (Canada) or maintaining the status of the Trust as a “mutual fund trust” for the purposes of the Income Tax Act (Canada). Any amendments made by the Manager without the consent of the Unitholders must be disclosed in the next regularly scheduled report to Unitholders.

### **3.3.3 Reporting to Unitholders**

The Trust will deliver to each Unitholder audited annual and unaudited semi-annual financial statements of the Trust.

## **3.4 TERMINATION OF THE TRUST**

The Trust will terminate on or about December 2, 2013 (the “Termination Date”) unless terminated earlier in accordance with the terms of the Trust Agreement or unless Unitholders determine to continue the Trust by an Extraordinary Resolution at a meeting called for such purpose. The Trust shall, after settlement of amounts owing or payable under the Forward Agreement, and after paying or making adequate provision for all of the Trust’s liabilities, distribute the net assets of the Trust to Unitholders, on a pro rata basis, as soon as practicable after the Termination Date. If the Trust is terminated prior to the Termination Date, Unitholders will not receive the benefit of the capital repayment provided by the Forward Agreement and may receive proceeds per Unit in an amount less than the Original Investment Amount.

Not less than six months nor more than twelve months prior to the Termination Date, the Manager may present a proposal to the Unitholders providing for a deferral of the termination of the Trust to a date that is later than the Termination Date. Such proposal may include, without limitation, a proposal (i) to continue the Trust beyond the Termination Date or (ii) to exchange the Units for securities of one or more mutual funds or closed-end investment funds on or after the Termination Date. In the event that a proposal to continue the Trust beyond the Termination Date is approved, the termination of the Trust will be deferred until that later specified date, but the Trust shall distribute the Original Investment Amount in respect of each Unit on or about the Termination Date.

In the event of the approval of the proposal referred to above, any dissenting Unitholder may require the Trustee to redeem all (but not less than all) of his or her Units on the Termination Date at a price per Unit equal to the Net Asset Value per Unit on the Termination Date which, for greater certainty, will not include the Original Investment Amount which will be distributed separately to Unitholders. The termination of the Trust may not be extended beyond twenty years. However, even if the Trust is extended beyond the Termination Date, the Forward Agreement will still be settled on or about the Termination Date and the Managed Portfolio will remain.

### **3.5 DISTRIBUTIONS**

#### **3.5.1 Distribution Policy**

The Trust does not expect to pay distributions.

The Trust intends that the aggregate distributions of net income and net capital gains, if any, made in each year will be sufficient to ensure that the Trust will not be liable for income tax thereon under the Income Tax Act (Canada), except to the extent that any tax payable on net realized capital gains of the Trust for a year that are retained by the Trust would be recoverable by it in such year.

Distributions, if any, will be payable to Unitholders of record at 5:00 p.m. (Toronto time) on the Record Date. All distributions will be paid to Unitholders proportionately based on their respective holdings of Units.

### **3.6 REDEMPTION OF UNITS**

Units may be surrendered at any time for redemption to Computershare Trust Company of Canada (the “Registrar and Transfer Agent”) but will be redeemed only on a monthly Valuation Date (as defined below). Units surrendered for redemption by a Unitholder at least five Business Days prior to the third Friday of a month (a “Valuation Date”) will be redeemed as at such Valuation Date and the Unitholder will receive payment on or before the tenth Business Day following such Valuation Date (the “Redemption Payment Date”). If a Unitholder makes such surrender after 5:00 p.m. (Toronto time) on the fifth Business Day immediately preceding a Valuation Date, the Units will be redeemed as at the Valuation Date in the following month and the Unitholder will receive payment for the Units on the Redemption Payment Date in respect of such Valuation Date. Unitholders who redeem their Units prior to the Termination Date will not receive the benefit of the capital repayment provided by the Forward Agreement and may receive proceeds of redemption in an amount less than the Original Investment Amount of the Units redeemed. The Net Asset Value per Unit will vary depending on a number of market factors, including interest rates.

Unitholders whose Units are redeemed on the December Valuation Date in each year (commencing with the December 2002 Valuation Date) will be entitled to receive a redemption price per Unit (the “Unit Redemption Price”) equal to the Net Asset Value per Unit determined as at such Valuation Date. Unitholders whose Units are redeemed on any other Valuation Date will be entitled to receive a redemption price per Unit equal to the Net Asset Value per Unit determined as at such other Valuation Date, less the lesser of (i) 4% of such Net Asset Value and (ii) \$1.00. The difference between the Net Asset Value per Unit and the Unit Redemption Price will be retained by the Trust for the benefit of the remaining Unitholders. Any unpaid distribution payable on or before a Valuation Date in respect of Units tendered for redemption on such Valuation Date will also be paid on the Redemption Payment Date.

In order to permit the Trust to fund periodic redemptions of Units, the terms of the Forward Agreement provide that it may be terminated or partially terminated and then settled on any Valuation Date by the Trust tendering to the Counterparty securities of the Capital Portfolio at a price equal to the then-current market value of the tendered securities plus or minus the value of the portion of the Forward Agreement attributable to such securities.

A Unitholder who desires to exercise Unit redemption privileges must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the Unitholder a written notice of the Unitholder’s intention to redeem Units, no later than 5:00 p.m. (Toronto time) on the relevant notice date. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise his or her redemption right sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver a notice to CDS by the required time.

By causing a CDS Participant to deliver to CDS a notice of a Unitholder's intention to redeem Units, the Unitholder shall be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any redemption notice that CDS determines to be incomplete, not in proper form or not duly executed shall, for all purposes, be void and of no effect, and the redemption privilege to which it relates shall be considered, for all purposes, not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with a Unitholder's instructions will not give rise to any obligations or liability on the part of the Trust or the Manager to the CDS Participant or the Unitholder.

The Manager may direct the Trustee to suspend the redemption of Units or payment of redemption proceeds (i) for the whole or any part of a period when normal trading is suspended on a stock exchange, options exchange or futures exchange within or outside Canada on which securities are listed and traded, or on which specified derivatives are traded, if the securities or specified derivatives represent more than 50% by value, or underlying market exposure, of the total value of the Managed Portfolio without allowance for liabilities and if those securities or specified derivatives are not traded on any other exchange that represents a reasonably practical alternative for the Trust; or (ii) with the prior permission of the Ontario Securities Commission, for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Trust or which impair the ability of the Trustee to determine the value of the assets of the Trust. The suspension may apply to all requests for redemption received prior to the suspension but as for which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised of the suspension and that the redemption will be effected at a price determined on the first Valuation Date following the termination of the suspension. All such Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Trust, any declaration of suspension made by the Manager shall be conclusive.

### ***3.6.1 Resale of Units Tendered for Redemption***

The Trust may enter into an agreement (the "Recirculation Agreement") with TD Securities (the "Recirculation Agent") whereby the Recirculation Agent has agreed to use commercially reasonable efforts to find purchasers for any Units tendered for redemption prior to the relevant Redemption Payment Date, provided that the Unitholder of the Units so tendered has not withheld consent thereto. The Trust may, but is not obligated to, require the Recirculation Agent to seek such purchasers. In such event, the amount to be paid to the Unitholder on the Redemption Payment Date will be an amount equal to the proceeds of the sale of the Units less any applicable commission. Such amount will not be less than the Unit Redemption Price described above. Unitholders are free to withhold their consent to such treatment and to require the Trust to redeem their Units in accordance with their terms.

Any and all Units which have been surrendered to the Trust for redemption are deemed to be outstanding until (but not after) the close of business on the relevant Valuation Date, unless not redeemed thereon, in which event such Units will remain outstanding.

### ***3.6.2 Purchase for Cancellation***

Subject to applicable law, the Trust may, at any time and from time to time, purchase Units for cancellation at prices not exceeding the Net Asset Value per Unit on the NAV Valuation Date (as defined under "Valuation - Valuation of Assets") immediately prior to such purchase.

## **4 VALUATION**

### ***4.1 VALUATION OF ASSETS***

The Trustee calculates, on each Business Day (a "NAV Valuation Date"), the value of the Trust's assets as set forth below. The Trust's total assets (the "Total Assets") consist of the aggregate value of the Trust's assets. The Manager reviews daily and, if satisfactory, approves the valuation monthly and, from time to time, considers the appropriateness of the valuation policies adopted by the Trust, as such policies are modified from time to time in the discretion of the Manager, acting reasonably, and in the best interests of Unitholders.

## **4.2 NET ASSET VALUE OF THE TRUST**

The net asset value of the Trust (the “Net Asset Value” or “NAV”) is calculated by the Trustee on each NAV Valuation Date by subtracting the aggregate amount of the Trust’s liabilities from the Total Assets. The Total Assets is valued as follows:

- (a) the value of securities is calculated using the last board lot sale price of such securities on the principal stock exchange on which they are traded prior to the NAV Valuation Date or, if no such sale price is available at that time, the closing price quoted for the security provided that where bid and ask quotes are available, at the average of the bid and the asked price instead of at the quoted closing price;
- (b) where a clearing corporation option or over-the-counter option is written by the Trust, the option premium received by the Trust is reflected as a deferred credit which is valued at an amount equal to the current market value of the clearing corporation option or over-the-counter option which would have the effect of closing the position; any difference resulting from revaluation is treated as an unrealized gain or loss on investment; the deferred credit shall be deducted in arriving at the Net Asset Value;
- (c) the value of any cash on hand or on deposit, prepaid expenses, cash dividends received (or declared to Unitholders of record on a date before the NAV Valuation Date as of which the Net Asset Value is being determined and to be received) and interest accrued and not yet received, is deemed to be the face amount thereof unless the Trustee has determined that any such asset is not otherwise worth the face amount thereof, in which case the value thereof is deemed to be such value as the Trustee determines to be the fair value thereof;
- (d) the value of a forward contract is the gain or loss with respect thereto that would be realized if, on the NAV Valuation Date, the position in the forward contract were to be closed out unless “daily limits” are in effect, in which case fair value is based on the current market value of the underlying interest;
- (e) notes, money market instruments and other debt securities are valued by taking the bid price at the calculation time;
- (f) if a NAV Valuation Date is not a Business Day, then the Trust’s portfolio securities and other Trust property are valued as if such NAV Valuation Date was the preceding Business Day;
- (g) if an investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Trustee to be inappropriate under the circumstances, then notwithstanding the foregoing rules, the Trustee makes such valuation as it considers fair and reasonable; and
- (h) the value of all assets of the Trust quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable to the Trust in foreign currency and the value of all liabilities and contractual obligations payable by the Trust in foreign currency are determined using the applicable rate of exchange current at, or as nearly as practicable to, the date of which the Net Asset Value is computed.

The Net Asset Value per Unit is the amount obtained by dividing the Net Asset Value as of a particular date by the total number of Units outstanding on that date. The Trust will make available to the financial press for publication the Net Asset Value per Unit promptly after it is determined.

**The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.**

## **4.3 AUDIT OF FINANCIAL STATEMENTS**

The annual financial statements of the Trust are audited by the Trust’s auditors in accordance with generally accepted auditing standards. The auditors report on the fair presentation of the annual financial statements in accordance with generally accepted accounting principles.

## 5 MANAGEMENT OF THE TRUST

### 5.1 THE MANAGER

Connor, Clark & Lunn Capital Markets Inc. performs management and investment management services for the Trust pursuant to the terms of the Trust Agreement. The Manager is entitled to receive fees as compensation for management services rendered to the Trust. See “Duties and Services to be provided by the Manager” below and “Fees and Expenses”.

The Manager is part of the Connor, Clark & Lunn Financial Group, which also includes Connor, Clark & Lunn Investment Management Ltd., Connor, Clark & Lunn Private Capital Ltd., Baker Gilmore & Associates Inc., PCJ Investment Counsel Ltd., Scheer Rowlett & Associates Investment Management Ltd., New Star Canada Inc., Connor, Clark & Lunn Arrowstreet Capital Ltd, Connor, Clark & Lunn Infrastructure Ltd, Banyan Capital Partners Management Partnership, Global Alpha Capital Management Ltd. and Gyrus Investment Management Inc. (collectively, the “CC&L Group”). The CC&L Group offers professional management of financial assets for pension plan sponsors, capital accumulation plans, corporations, foundations, mutual funds and individual investors.

The Manager acts as manager or investment advisor for the following investment funds: Connor, Clark & Lunn Conservative Income Fund II, Clark & Lunn Real Return Income Fund, Connor, Clark & Lunn Conservative Income Fund, Connor and Clark & Lunn PRINTS Trust, Connor, Clark & Lunn Global Financials Fund II, CANADIAN Financials & Utilities Split Corp, Focused Global Trends Fund, Connor, Clark & Lunn Natural Resources Fund, Connor, Clark & Lunn 2008 Flow-Through Limited Partnership, Connor, Clark & Lunn 2009 Flow-Through Limited Partnership, Canadian Banc Capital Securities Trust and North American Financials Capital Securities Trust.

#### 5.1.1 Officers and Directors of the Manager

The name, municipality of residence, position with the Manager and principal occupation of each of the directors and officers of the Manager are set out below:

<b>Name and Municipality</b>	<b>Position with the Manager</b>	<b>Principal Occupation</b>
W. Neil Murdoch Oakville, Ontario	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer, Connor, Clark & Lunn Capital Markets Inc.
Michael W. Freund Toronto, Ontario	Director and Chairman	Managing Partner, Connor, Clark & Lunn Financial Group
Darren N. Cabral Toronto, Ontario	Vice-President	Vice-President, Connor, Clark & Lunn Capital Markets Inc.

**W. Neil Murdoch:** CFA; BComm, McGill University; LLB, University of Toronto; Master of Management, Kellogg Graduate School of Management, Northwestern University. Mr. Murdoch joined Connor, Clark & Lunn Capital Markets Inc. in December 2003. Prior thereto, Mr. Murdoch was Executive Vice President and Portfolio Manager at AIC Group of Funds.

**Michael W. Freund:** B.Bus.Sci., University of Capetown. Mr. Freund has held various management positions within the CC&L Group of companies since 1997. Mr. Freund’s current principal occupation is managing partner of the Connor, Clark & Lunn Financial Group.

**Darren N. Cabral:** CFA; BA (Hons.), York University; MBA, Schulich School of Business, York University. Mr. Cabral joined Connor, Clark & Lunn Capital Markets Inc. in May 2007. Prior thereto, Mr. Cabral held various positions with affiliates of Middlefield Group Limited from September 2001 to April 2007, including Executive Director of Research at Middlefield Capital Corporation and Managing Director of Middlefield International Limited..

#### 5.1.2 Duties and Services to be provided by the Manager

Pursuant to the Trust Agreement, the Manager has exclusive authority to manage the operations and affairs of the Trust, to make all decisions regarding the business of the Trust and to bind the Trust. The Manager may delegate certain of its powers to third parties where, in the discretion of the Manager, it would be in the best interests of the Trust to do so. Among other restrictions imposed on

the Manager, it may not dissolve the Trust or wind up the Trust's affairs except in accordance with the provisions of the Trust Agreement.

The Manager's duties include: maintaining accounting records for the Trust; authorizing the payment of operating expenses incurred on behalf of the Trust; calculating the amount and determining the frequency of distributions by the Trust; preparing financial statements, income tax returns and financial and accounting information as required by the Trust; ensuring that Unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the Trust complies with regulatory requirements; preparing the Trust's reports to Unitholders and to the Canadian Securities Administrators; providing the Trustee with information and reports necessary for it to fulfill its fiduciary responsibilities; administering the redemption of Units; arranging for the payment of the Original Investment Amount on or about the Termination Date as provided under the Forward Agreement; and negotiating contracts with third-party providers of services, including, but not limited to, custodians, transfer agents, auditors and printers. The Manager provides office facilities and personnel to carry out these services, together with clerical services which are not furnished by the Trustee or transfer agent of the Trust.

Under the Trust Agreement, the Manager has full responsibility for investment advisory and portfolio management services to the Trust in accordance with the Investment Guidelines, including the investment objectives. The Manager acquired and manages the Capital Portfolio and entered into the Forward Agreement and manages any Securities Lending Agreement on behalf of the Trust. The Manager entered into the registrar, transfer agency and distribution agency agreement (See "Material Contracts"). Such agreement does not in any way release the Manager from compliance with its obligations to the Trust under the Trust Agreement.

The Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Trust and to exercise the care, diligence and skill of a prudent and qualified person in similar circumstances. The Trust Agreement provides that the Manager is not liable in any way for any default, failure or defect in any of the securities comprising the investment portfolio of the Trust if it has satisfied the duties and the standard of care, diligence and skill set forth above. The Manager will incur liability, however, in cases of willful misconduct, bad faith, negligence, disregard of the Manager's standard of care or by any material breach or default by it of its obligations under the Trust Agreement.

Unless the Manager resigns or is removed as described below, the Manager will continue as manager until the termination of the Trust. The Manager may resign upon twenty Business Days' written notice to the Trustee if the Trust is in material breach or default of the provisions of the Trust Agreement and the Manager is deemed to have resigned if the Manager becomes bankrupt or insolvent or in the event the Manager ceases to be resident in Canada for the purposes of the Income Tax Act (Canada). The Manager may not be removed by the Trustee other than by an Extraordinary Resolution (as defined under "Unitholder Matters – Meetings of Unitholders and Extraordinary Resolutions") of the Unitholders in the event that the Manager is in material breach or default (defaults under the Trust Agreement include, among other things, cases of willful misconduct, bad faith, disregard of the Manager's standard of care or negligence) of the provisions of the Trust Agreement and, if capable of being cured, any such breach or default has not been cured within twenty Business Days' notice of such breach or default to the Manager, or if the Manager becomes bankrupt or insolvent. If the Manager is removed, any successor manager must be approved by the Unitholders prior to appointment by the Trustee.

In the event that the Manager resigns, the Manager may appoint its successor but, unless the successor is an affiliate of the Manager, its successor must be approved by the Unitholders.

The removal or resignation of the Manager shall only become effective upon the appointment of a replacement manager. If within 90 days from the notice of resignation or removal of the Manager, the Unitholders have not directed the Trustee to appoint a replacement manager, the Trust shall be terminated.

The Manager and each of its directors, officers, and employees are indemnified by the Trust for all liabilities and expenses reasonably incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Manager or any of its officers, directors, or employees in the exercise of its duties as manager, except those resulting from such person's willful misconduct, bad faith, negligence, disregard of such person's standard of care or material breach or default of duty to the Trust in relation to the matter in respect of which indemnification is claimed.

### **5.1.3 Accounting and Reporting**

The Trust's fiscal year is the calendar year. The Manager ensures that the Trust complies with all applicable reporting and administrative requirements.

The Manager keeps adequate books and records reflecting the activities of the Trust. A Unitholder or his or her duly authorized representative will have the right to examine the books and records of the Trust during normal business hours at the offices of the

Manager. Notwithstanding the foregoing, a Unitholder shall not have access to any information which, in the opinion of the Manager, should be kept confidential in the interests of the Trust.

#### **5.1.4 Conflict of Interest**

The services of the Manager and its officers and directors are not exclusive to the Trust. The Manager or any of its affiliates and associates may, at any time, engage in the promotion, management or investment management of any other fund or trust which invests primarily in companies in the Managed Portfolio Universe, and provide similar services to other investment funds and other clients and engage in other activities.

### **5.2 THE ADVISORY BOARD**

The Trust established an advisory board (the “Advisory Board”) consisting of two members that were appointed by the Manager to assist the Manager in performing its services under the Trust Agreement. The independent members of the Advisory Board are Eric Schwitzer and Joseph Wright.

The members of the Advisory Board of the Trust receive remuneration for their services as advisors. The Board of advisors’ fees paid during the year ended December 31, 2009 were \$21,000 (\$21,000 paid during the year ended December 31, 2008). The Advisory Board members are not responsible for investments made by the Trust or for the performance of the Trust.

### **5.3 INDEPENDENT REVIEW COMMITTEE**

National Instrument 81-107 Independent Review Committee for Investment Funds (“NI 81-107”) which came into force on November 1, 2006 requires all publicly offered investment funds to establish an IRC to whom the Manager must refer all conflict of interest matters for review or approval. NI 81-107 imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters maintain records in respect of these matters and provide assistance to the Independent Review Committee in carrying out its functions. The Independent Review Committee must be comprised of a minimum of three independent members and is subject to requirements to conduct regular assessments and provide reports to the Manager and to Limited Partners in respect of its functions. The members of the Independent Review Committee are Fred Lazar, Frank Santangeli and Joseph Wright. The Independent Review Committee acts as a review committee for a number of investment funds managed by the Manager.

The principal occupations and biographies of the Independent Review Committee members are set out below.

**Fred Lazar** is a Professor of Economics at York University’s Schulich School of Business. In addition to a distinguished academic career, Mr. Lazar has served as a senior advisor to the governments of Canada and Ontario and to a number of national and international companies.

**Frank Santangeli** has worked in the financial services industry since 1960. Positions he has held include Vice-President of Sunlife Canada, President and Chief Executive Officer of Finsco Investment Management Corporation, and Vice President of Imasco Financial Corporation. He has also served as Chairman of The Investment Funds Institute of Canada.

**Joseph Wright** currently serves on the board of directors of several public companies and private organizations, including Loblaw Companies Limited and BFI Canada Income Fund. His former positions include the Chief Executive Officer of Swiss Bank Corporation (Canada) and Vice-Chairman and Director of Burns Fry Limited.

The Independent Review Committee fees paid during the year ended December 31, 2009 were \$1,893 (\$1,927 paid during the year ended December 31, 2008).

### **5.4 THE TRUSTEE**

RBC Dexia Investor Services Trust (the “Trustee”) has been appointed the trustee of the Trust pursuant to the provisions of the Trust Agreement. The Trustee acts as custodian of the Trust’s assets and is responsible for certain aspects of the day-to-day administration of the Trust as described in the Trust Agreement, including executing documents on behalf of the Trust, processing redemptions, calculating Net Asset Value, net income and net realized capital gains of the Trust and maintaining the books and records of the Trust. However, the Trustee does not hold the Initial Securities, the Capital Portfolio securities or any other securities pledged to the Counterparty and is not responsible for the custody or safekeeping of any such assets pledged to and held by the Counterparty, either as Trustee or as Custodian.

The Trustee or any successor trustee may resign upon 60 days' written notice to Unitholders and the Manager or may be removed with the approval of a majority of the votes cast at a meeting of Unitholders called for such purpose with two or more persons present in person or by proxy representing not less than 10% of the Units then outstanding. Any such resignation or removal shall become effective only on the acceptance of appointment by a successor trustee. If the Trustee resigns or is removed by Unitholders, its successor must be approved by Unitholders. If, after the resignation or removal of the Trustee, no successor has been appointed within 60 days, the Trustee, the Manager or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor trustee.

The Trust Agreement provides that the Trustee not to be liable in carrying out its duties under the Trust Agreement except in cases of willful misconduct, bad faith, negligence or disregard of its obligations and duties or in cases where the Trustee fails to act honestly and in good faith with a view to the best interests of the Unitholders or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. In addition, the Trust Agreement contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The Trustee is entitled to receive fees from the Trust as described under "Fees and Expenses Payable by the Trust" and to be reimbursed for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the Trust.

## **6 PORTFOLIO TRANSACTIONS AND BROKERAGE**

The Manager is responsible for selecting members of securities exchanges, brokers and investment dealers for the execution of transactions in respect of the Trust's investments and, when applicable, the negotiation of commissions in connection therewith. The Trust is responsible to pay those commissions.

## **7 CUSTODIAN**

The Trustee acts as the custodian of the assets of the Trust and is responsible for processing redemptions, calculating NAV, net income and net realized capital gains of the Trust and maintaining the books and records of the Trust.

## **8 AUDITORS**

The auditors of the Trust are PricewaterhouseCoopers LLP. The principal office of the auditor's is located at The Royal Trust Tower, Suite 3000, 77 King Street West, Toronto, Ontario M5K 1G8.

## **9 REGISTRAR, TRANSFER AGENT AND DISTRIBUTION AGENT**

The registrar, transfer agent and distribution agent is Computershare Investor Services Inc. The principal office of the registrar and the place where the securities register for the Units is kept is located at 8th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1.

## **10 FEES AND EXPENSES PAYABLE BY THE TRUST**

### ***10.1 INITIAL FEES AND EXPENSES***

The expenses of the Offering (including the costs of creating and organizing the Trust, the costs of printing and preparing the prospectus, legal expenses, marketing and advertising expenses and other reasonable out-of-pocket expenses) incurred by the Trust and the Agents and other incidental expenses, which were \$756,067, were paid out of the gross proceeds of the Offering. In addition, the Agents' fees, which were \$5,422,725, were paid to the Agents from the gross proceeds of the Offering.

### ***10.2 MANAGEMENT FEES***

The Manager has coordinated the organization of the Trust, worked with the Agents in developing and implementing all aspects of the Trust's communications, marketing and distribution strategies, manages the ongoing business and administrative affairs of the Trust and is responsible for the investment advisory and portfolio management services in respect of the Trust. In consideration for these and other services as described under "Management of the Trust – Duties and Services to be Provided by the Manager" and pursuant to the terms of the Trust Agreement, the Trust pays to the Manager an annual fee of up to 1.10% of the Net Asset Value of

the Trust, plus applicable taxes, plus an amount equal to the Service Fee payable to all dealers, as described below. This management fee are paid monthly in arrears on the first Business Day of each month and calculated on the basis of the Net Asset Value of the Trust for each day in the immediately preceding month. Pursuant to the terms of the Investment Management Agreement, the Investment Manager is entitled to a fee which is payable by the Manager out of its management fee.

In the event that the Trust does not distribute at least \$0.50 per Unit in respect of any quarter commencing with the second quarter following the quarter in which closing of the Offering occurs, the fee payable to the Manager in respect of each month in the subsequent quarter shall be reduced pro rata based on the amount by which the distribution in respect of the previous quarter is less than \$0.50 per Unit, subject to a minimum monthly fee of 1/12 of 0.50% of the NAV. Regular monthly fees payable to the Manager will resume in the quarter that follows that quarter for which the Trust distributes at least \$0.50 per Unit. Accrued fees will not be paid to the Manager until such time as the corresponding distribution shortfall has been paid to Unitholders and will not be payable out of the proceeds of the sale of the Capital Portfolio pursuant to the Forward Agreement. In the event that the regular monthly fees payable to the Manager are reduced in such circumstances, the Manager may in its sole discretion, correspondingly reduce the fee payable by it to the Investment Manager.

Effective January 1, 2004 the Manager has elected that all future management fees payable to it will be deferred and will accrue daily at the minimum level set out in the prospectus (a rate of 0.50% of the net asset value of the Trust). Such fees will be payable only after and to the extent that the Trust has redeemed all remaining units at \$25 per unit on the Termination Date, or on units that have been retracted prior to the Termination Date.

The Fund accrued deferred management fees of approximately \$47,253 in 2009 (\$61,637 in 2008).

### ***10.3 SERVICE FEES***

The Manager collects from the Trust and pays to dealers a service fee (the "Service Fee") (calculated and paid at the end of each calendar quarter) equal to 0.40% annually of the Net Asset Value of Units held by clients of the sales representatives of the dealers. In the event that the Trust does not distribute at least \$0.50 per Unit in respect of any quarter commencing with the second quarter following the quarter in which closing of the Offering occurs, the Service Fee for that calendar quarter shall be reduced pro rata based on the amount by which the distribution in respect of such quarter is less than \$0.50 per Unit. Service fees were reduced to nil since the beginning of the year 2003.

### ***10.4 ON-GOING EXPENSES***

On the Determination Date, the Trust delivered the present value of the 0.45% annual fixed price forward fee that was payable to TDGF over the term of the Forward Agreement. The full amount of the present value of the prepaid forward agreement fee was \$4,119,089, or 6.9% of the Trust's net assets at the time of purchase. As a result of discussions with TDGF initiated by the Manager, TDGF later agreed to reimburse a portion of the forward fee equating to approximately \$0.07 per unit, net of fees payable to TDGF, based on the number of units outstanding on June 4, 2003. The gross value of the reimbursement of approximately \$300,000 reduced the carrying amount of prepaid forward agreement fees. The Trust will not owe further fees to TDGF but may be liable for hedging costs incurred by TDGF from time to time.

The Trust also pays for all expenses incurred in connection with the operation and administration of the Trust. It is expected that these expenses will include, without limitation: mailing and printing expenses for periodic reports to Unitholders; fees payable to the Trustee for acting as trustee of the Trust; fees payable to the Registrar and Transfer Agent for performing certain financial, record-keeping, Unitholder reporting and general administrative services; fees payable to the auditors and legal advisors of the Trust; ongoing regulatory filing fees and other fees; any reasonable out-of-pocket expenses incurred by the Manager or its agents in connection with their ongoing obligations to the Trust; expenses relating to portfolio transactions; and any expenditures which may be incurred upon the termination of the Trust. Administration and operating costs were approximately \$113,973 in 2009 (\$112,724 in 2008).

## **11 CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

### ***11.1 GENERAL***

The following is a summary based on the current provisions of the Tax Act and the regulations thereunder, This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, nor does it take into account other federal or any provincial, territorial or foreign income tax legislation or considerations. This summary is not

exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Units and does not describe the income tax consequences relating to the deductibility of interest on money borrowed to acquire Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on an investor's particular circumstances including the province or territory in which the investor resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any investor. Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units, based on their particular circumstances.

## **11.2 TAXATION OF THE TRUST**

The Trust is subject to tax under Part I of the Tax Act for a taxation year on the amount of its income for the year computed for tax purposes (including net taxable capital gains) less the portion thereof paid or payable to Unitholders in the year that it claims as a deduction. Provided the net income and net realized capital gains of the Trust are paid or payable to Unitholders in each year, and provided the Trust deducts, in computing its income, the full amount available for deduction in each year, the Trust is not generally liable for income tax under Part I of the Tax Act.

In computing its income for tax purposes, the Trust may deduct reasonable administrative, interest and other expenses incurred by it for the purpose of earning income and generally may deduct over a five-year period the expenses incurred by it to issue Units pursuant to the Offering and not reimbursed.

As at December 31, 2009, the Trust had net capital losses of \$18,939,735 (2008 - \$18,939,735), which may be carried forward indefinitely to reduce future realized capital gains and non-capital losses of \$14,252,935 (2008 -\$16,541,676), which will expire within the next twenty years as shown in the following table.

<b>Year of the realized non- capital tax loss</b>	<b>Amount of tax loss</b>	<b>Expiry date</b>
2003	9,606,727	2010
2004	1,278,766	2014
2005	1,877,070	2015
2006	1,405,804	2026
2007	84,568	2027
<b>Total</b>	<b>14,252,935</b>	

## **11.3 TAXATION OF UNITHOLDERS**

### **11.3.1 Holding Units**

A Unitholder is generally required to include in computing income for a taxation year, the Unitholder's share of the net income of the Trust (including the taxable portion of any net capital gains) that is paid or becomes payable to the Unitholder in the taxation year, whether or not reinvested in additional Units. Where an appropriate designation is made by the Trust, the portion of (a) any net taxable capital gains of the Trust, and (b) any taxable dividends received by the Trust on shares of taxable Canadian corporations, that is paid or becomes payable to a Unitholder shall retain its character in the hands of the Unitholder. Thus, where an amount is designated to a Unitholder as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply.

The non-taxable portion of any net capital gains of the Trust that is paid or becomes payable to a Unitholder in a year will not be included in computing the Unitholder's income for the year and will not reduce the adjusted cost base of the Units of the Unitholder. Any other amount in excess of a Unitholder's share of the net income of the Trust (including any net capital gains) for a taxation year that is paid or becomes payable to the Unitholder in the year will not generally be included in computing the Unitholder's income for the year. However, the payment by the Trust of such excess amount will reduce the adjusted cost base of the Units of the Unitholder. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder's adjusted cost base will be increased by the amount of such deemed capital gain.

### **11.3.2 Disposition of Units**

Upon a disposition or deemed disposition by a Unitholder of a Unit, whether on a sale, redemption, repurchase or otherwise, a capital gain (or capital loss) will be realized by the Unitholder to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Unit to the Unitholder immediately before the disposition. For the purposes of determining the adjusted cost base to a Unitholder of Units, the cost of any newly acquired Units will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property immediately before such acquisition. The cost of additional Units acquired as a distribution of income (including capital gains) will be equal to the amount of the distribution. A consolidation of Units following a distribution paid in the form of additional Units will not be regarded as a disposition of Units and will not affect the aggregate adjusted cost base to a Unitholder of Units.

Generally, one-half of any capital gain (a “taxable capital gain”) realized by a Unitholder in a taxation year must be included in computing the income of the Unitholder for the year and one-half of any capital loss (an “allowable capital loss”) realized by a Unitholder in a taxation year may be deducted from taxable capital gains realized by the Unitholder in the year in accordance with the rules in the Tax Act. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year, against taxable capital gains realized in those years, including taxable capital gains realized on the disposition of Units or amounts designated by the Trust to a Unitholder as taxable capital gains.

## **12 MATERIAL CONTRACTS**

The following contracts can reasonably be regarded as material to purchasers of Units:

- (a) the Trust Agreement referred to under “Description of the Business”;
- (b) the Agency Agreement dated November 29, 2001 among TD Securities Inc., Merrill Lynch Canada Inc., RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Desjardins Securities Inc., National Bank Financial Inc., Scotia Capital Inc., HSBC Securities (Canada) Inc., Raymond James Ltd., Canaccord Capital Corporation and Yorkton Securities Inc. (collectively, the “Agents”), the Trustee and the Manager, the Agents have agreed to offer the Units for sale as agents of the Trust, on a best efforts basis, if, as and when issued by the Trust, in accordance with the terms and conditions of the Agency Agreement. The Units were offered at a price of \$25.00 per Unit. The Agents received a fee equal to \$1.3125 for each Unit sold and were reimbursed for reasonable out-of-pocket expenses incurred by them.
- (c) the Forward Agreement referred to under “Description of the Portfolio – Investment Objectives and Strategy”;
- (d) the guarantee referred to under “Investment Guidelines – Investment Objectives and Strategy”; and
- (e) the registrar, transfer agency and distribution agency agreement referred to under “Registrar, Transfer Agent and Distribution Agent”.

Copies of the contracts referred to above may be inspected during normal business hours at the offices of the Manager at 181 University Avenue, Suite 300, Toronto, Ontario and are available on [www.sedar.com](http://www.sedar.com).

[Back Cover]

### **Connor, Clark & Lunn PRINTS Trust**

Additional information about Connor, Clark & Lunn PRINTS Trust is available in the financial statements. You can get copy of the financial statements, including a statement of portfolio transactions, at no charge by contacting the Manager by:

- Mail: Connor, Clark & Lunn Capital Markets Inc.  
181 University Avenue  
Suite 300  
Toronto, ON  
M5H 3M7  
[www.cclcapitalmarkets.com](http://www.cclcapitalmarkets.com)
- Phone: 416 862-2020
- E-mail: [dcabral@cclgroup.com](mailto:dcabral@cclgroup.com)