Outlook
Connor, Clark & Lunn
INVESTMENT MANAGEMENT LTD.
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COMPANY COMMENT

As in the past, our February issue of *Outlook* is devoted to highlighting developments at Connor, Clark & Lunn.

Our Mission

Our firm is built around the commitment to provide our clients with superior performance and a first-class level of individualized service. This requires us to keep intently focused on our primary objectives while endeavouring to remain at the forefront of research and development initiatives within the financial markets. This month we highlight some of the recent advancements at CC&L that help us to succeed in these efforts.

Investment management at CC&L is carried out in teams, and we are constantly looking for ways to strengthen our investment teams and ensure smooth succession whether through internal development or the judicious hiring of new professionals with complementary backgrounds and experience. Over the past year we had three promotions and one new hire at CC&L

In terms of new product development, it was put on the backburner last year as we, along with everyone else in our business, were preoccupied with the market meltdown. However, we did fine-tune some elements of our quantitative processes. We also completed a major systems upgrade, which touched all areas of the firm including investment management, risk management and compliance.

Assets Under Management

At the end of the year, our total assets under management stood at over $19.7 billion, which was up considerably from the beginning of the year. Last year we were honoured to be awarded 18 new mandates, totaling over $1.1 billion in assets, across a diverse array of strategies including balanced, fixed income and fundamental, small cap and quantitative equity mandates. We would like to thank all our new and existing clients for the trust that they have placed in us.

By putting the right people in place, building sound investment products and enhancing operations, we are determined to fulfill our client commitment.

PRODUCT DEVELOPMENTS

Quantitative Equities

Ongoing development within our quantitative equity strategy resulted in the introduction of several enhancements throughout 2009. In the second quarter, the industry classification framework within our Canadian and US models was enhanced through more narrowly defined industry groups. In Canada, we now categorize stocks into 34 proprietary industries, and our US model incorporates over 100 industries. Also, a significant improvement was made to our market risk (beta) forecast which allows us to forecast risk more accurately and indirectly improves the efficacy of our momentum indicators. There were also upgrades made to improve the intelligence of our portfolio construction framework and a considerable amount of time spent researching new trading strategies. The creation of trading tools that allow us to be responsive to liquidity opportunities within the marketplace was another meaningful enhancement in 2009.

TECHNOLOGY IMPROVEMENTS

Next to people, our largest investment as a firm is in technology. In 2009, we executed on a plan to replace the system that is at the heart of our portfolio management processes. The portfolio management system has evolved from a data warehouse and investment analytical system to an integrated multi-application decision support system. Our old system, which had been in place since 1996, had an increasing level of challenges with performance and scalability. In addition, we had concerns that the technology would become obsolete especially in regard to disaster recovery capabilities.

We selected the kdb database from Kx Systems, a New York and Dublin, Ireland-based privately owned systems developer. The NYSE and Morgan Stanley use kdb which was specifically developed for the financial industry. The system incorporates time series and relational concepts as well as a comprehensive set of financial and research functions such as tick-by-tick real-time analysis. Its architecture complements the macro technology changes that are emerging, including advances in hardware, operating systems, virtualization, and data replication. The migration was successfully completed in ten phases over a 15-month period. Next on the schedule for upgrades are the portfolio accounting and client relationship management systems which should take nine months to complete.

PEOPLE

Last March, we were pleased to announce the addition of three new partners in the firm. Fixed income portfolio manager David George has over 12 years of experience specializing in corporate credit analysis. He brings a wealth of experience to the firm after spending nearly a decade on the US sell-side covering the US high yield debt market. David has made a significant contribution to credit research on the Fixed Income Team since joining the firm three years ago. He now has a senior role in corporate security selection decision-making.

Johanne Bouchard, David George, Simon MacNair

The firm also promoted Simon MacNair from the fixed income team to partner. Simon brings a unique combination of strong academic quantitative skills and practical experience. He has a PhD in Mathematics with a background in investment and risk management. Since joining CC&L in 2006, Simon has contributed in a wide range of areas including developing and implementing enhancements to the fixed income risk process and the development of the Q-credit investment process.

Johanne Bouchard joined the Client Solutions Team in 2006 after working for years in the world of fixed income. Johanne brings a unique set of skills to the partnership, not the least of which is her fluency in French. Her ability to service clients and coordinate the production of all of our written material in French has been an important element in our relationship management with our Quebec-based clients.

Our one new hire in 2009 was Mark Bridges. Mark joined the Canadian Fundamental Equity Team after having a successful career as a top-ranked equity analyst covering the energy sector. He took over responsibility for stock selection within the energy sector from Alastair Dunn who retired from CC&L in January 2010 after 26 years of service. We would like to thank Alastair for his contribution and commitment to our organization and wish him the very best in retirement. We are pleased to report that the transition of Alastair's responsibilities within the energy sector to Mark has been successful and gone very smoothly.

Mark Bridges

CLIENT COMMUNICATIONS

This coming spring, the Client Solutions Team will be hosting a series of client seminars that will focus on the new investment paradigm that we all will be facing over the next decade.