

PROSPECTUS

Non-Offering Prospectus

May 27, 2009

PORTFOLIO TRUST

No securities are being offered pursuant to this prospectus. This prospectus is being filed to enable Portfolio Trust to become a reporting issuer under the *Securities Act* (Quebec). The Fund is an investment fund established under the laws of the Province of Ontario. The Fund is an open-end mutual fund. The Fund proposes to issue Units from time to time in reliance on exemptions from the applicable prospectus and registration requirements. Units will be offered at prices negotiated between the Fund and the purchasers of Units.

The Fund has been established for the purpose of acquiring and holding the Portfolio. The Fund's investment objectives are to (i) provide Unitholders with attractive distributions, and (ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 30, 2014. The Fund will seek to achieve its investment objectives through investment in an actively managed portfolio consisting primarily of capital trust securities of the six largest Canadian banks, including such issues as TD Capital Trust IV Notes (TD CaTS IV), Scotiabank Capital Trust Securities (Scotia BaTS II) and BMO Capital Trust II Notes (BoATS VI). The Fund may also invest in other securities issued by Canadian financial institutions, including subordinated debt, preferred shares and common shares. See "Investment Objectives".

Canadian financial institutions have participated in the issuance of capital trust securities, which are hybrid securities that qualify as Tier 1 capital together with common and preferred equity under the OSFI guidelines, and are also known as "innovative Tier 1 Capital instruments". The Innovative Tier 1 Capital Securities have long maturities or are perpetual, but generally include either convertibility or "step up" features usually 10 years or longer from the date of issuance. On the "step up" date, the issuer can call the security at par, but if such security is not called there is generally a step up in the coupon rate. It is important to note however, that issuers of Innovative Tier 1 Capital Securities are not obligated to call such securities on the step up date and OSFI approval is required to do so, and as such these securities are viewed as equity-like and are treated as permanent capital by OSFI. Holders of Innovative Tier 1 Capital Securities may become holders of preferred shares of a Bank in certain circumstances. See "Risk Factors — Innovative Tier 1 Capital Securities Risks".

The Portfolio Manager believes that an attractive opportunity currently exists to invest in Innovative Tier 1 Capital Securities for the following reasons:

- Canadian banks have been recognized as well capitalized and conservatively run financial institutions, and were recently ranked #1 globally in the "Soundness of Banks" category by the World Economic Forum in its *Global Competitiveness Report 2008-2009*. The soundness of Canadian banks relative to their international counterparts has been particularly highlighted during the recent financial crisis, during which Canadian banks have maintained Investment Grade credit ratings while many US and European banks have been forced into restructuring, bankruptcy or partial or full government nationalization.
- The recent volume of issuance by the Banks of preferred shares and common shares to strengthen their balance sheets has increased the Banks' regulatory capital levels to levels approaching historical highs, and has further enhanced the downside protection of Innovative Tier 1 Capital Securities.
- Innovative Tier 1 Capital Securities currently provide high yields on an absolute basis and relative to Government Bonds and to equities.
- Current spreads of Innovative Tier 1 Capital Securities over Government Bonds provide the opportunity for capital gains if spreads return to their long-term averages.
- Innovative Tier 1 Capital Securities represent a class of securities generally otherwise available only to institutional investors on issuance.

Securities in the Indicative Portfolio have a weighted average Investment Grade credit rating of A, a weighted average yield to the first date upon which the securities may be called at par of 6.74%, a current yield of 7.32% and an average term to call (to the first date upon which the securities may be called at par) of approximately 9.34 years. See "Investment Objectives".

The Fund will have a term of approximately five years, terminating on June 30, 2014. The Fund will pay distributions if, as and when declared by the Fund from time to time.

Connor, Clark & Lunn Capital Markets Inc. will act as Manager of the Fund. The Manager is a leading provider of investment products that has raised over \$1.3 billion since 2004. The Manager is part of the Connor, Clark & Lunn Financial Group, which has approximately \$28 billion of assets under management as at March 31, 2009. See "Organization and Management Details of the Fund — The Manager of the Fund".

Connor, Clark & Lunn Investment Management Ltd. will act as Portfolio Manager to the Fund. The Portfolio Manager, part of the Connor, Clark & Lunn Financial Group, was established in March 1982 and has offices in Vancouver and Toronto. The Portfolio Manager managed assets worth approximately \$16.7 billion as at December 31, 2008, approximately \$6.9 billion of which is in fixed income securities. See "Organization and Management Details of the Fund — The Portfolio Manager".

There is no guarantee that an investment in the Fund will earn any positive return in the short or long term nor is there any guarantee that the Net Asset Value per Unit will appreciate or be preserved. There are certain risk factors associated with an investment in Units including general risks of investing in Canadian Bank Capital Securities, risks relating to the term of Innovative Tier 1 Capital Securities, reinvestment risks, risks relating to securities in the Portfolio being concentrated in a particular sector and concentration in a limited number of issuers and risks related to fluctuations in interest rates. See "Risk Factors".

Units may be redeemed for a redemption price per Unit equal to 100% of the Net Asset Value per Unit as at the Redemption Date. Units surrendered for redemption by a Unitholder on or before 5:00 p.m. (Toronto time) on any Redemption Date will be redeemed as at such Redemption Date, subject to the Manager's right to suspend redemptions in certain circumstances. The Net Asset Value per Unit will vary depending on the performance of the Portfolio, which depends on a number of factors, including the value of the securities included in the Portfolio. See "Redemption of Units" and "Risk Factors".

Certain capitalized terms used, but not defined, in the foregoing are defined in the "Glossary of Terms".

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PROSPECTUS SUMMARY

The following is a summary of the principal features of the Fund and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms used, but not defined, in this summary are defined in the “Glossary of Terms”.

THE FUND

Portfolio Trust is an investment trust established under the laws of the Province of Ontario and governed by the Trust Agreement. See “Overview of the Legal Structure of the Fund”.

Investment Objectives

The Fund’s investment objectives are to: (i) provide Unitholders with attractive distributions; and (ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 30, 2014. See “Investment Objectives”.

Investment Strategy

The Fund will seek to achieve its investment objectives through investment in an actively managed portfolio consisting primarily of Innovative Tier 1 Capital Securities of the six largest Canadian banks. The Portfolio will include a minimum of 80% Canadian Bank Capital Securities, including such Innovative Tier 1 Capital Securities as TD Capital Trust IV Notes (TD CaTS IV), Scotiabank Capital Trust Securities (Scotia BaTS II), RBC Capital Trust Securities (RBC TruCS V) and BMO Capital Trust II Notes (BoATS VI). The Fund may also invest in other securities issued by Canadian financial institutions, including subordinated debt, preferred shares and common shares.

The Portfolio Manager will select securities for the Portfolio based on its assessment of the credit quality and total return expectations of such securities.

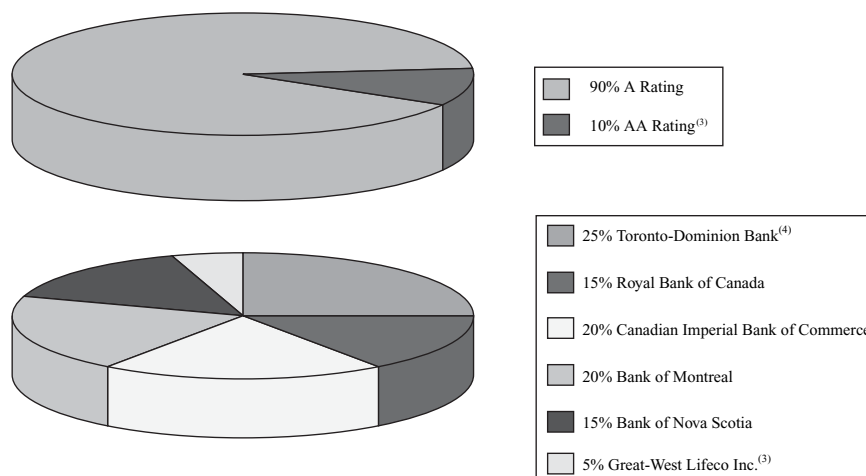
When the Portfolio Manager believes it is appropriate, it will employ a hedging strategy that is designed to mitigate the expected impact of significant interest rate increases on the Net Asset Value. See “Investment Strategy” and “Overview of the Investment Structure”.

The Portfolio

Securities in the Indicative Portfolio have a weighted average Investment Grade credit rating of A, a weighted average yield to the first date upon which the securities may be called at par of 6.74%, a current yield of 7.32%, and an average term to call (to the first date upon which the securities may be called at par) of approximately 9.38 years.

The following charts show the Indicative Portfolio’s exposure by credit rating and issuer. The Indicative Portfolio is illustrative of the securities that the Portfolio Manager would have invested in the Portfolio as of May 21, 2009 and the Portfolio may have a different allocation of securities than the allocation indicated in the Indicative Portfolio. See “Investment Strategy — Portfolio Composition”.

Indicative Portfolio Credit Rating⁽¹⁾ and Issuer⁽²⁾ Allocation



- (1) Credit rating by Standard & Poor's, a division of The McGraw-Hill Companies, Inc.
- (2) The securities included in the Indicative Portfolio may not be issued directly by the issuer listed above but may be Innovative Tier 1 Capital Securities.
- (3) Representing securities which constitute Tier 2A capital for regulatory purposes.
- (4) 10% constitutes Tier 2A capital for regulatory purposes.

Capital Structure of Canadian Banks

The three primary considerations for defining the consolidated capital of a financial institution for purposes of measuring capital adequacy are: (i) its permanence, (ii) it being free of mandatory fixed charges against earnings, and (iii) its subordinate legal position to the rights of depositors and other creditors of the institution. Total capital comprises three tiers. Tier 1 (core capital) comprises the capital elements that most adequately address these considerations. Tier 1 capital is made up of common, preferred and innovative Tier 1 capital. Since October 2008, Canadian banks have raised over \$7 billion in Tier 1 common, preferred and innovative capital which reflects the general trend towards an increase in Tier 1 capital relative to risk-weighted assets. Tier 2 elements (supplementary capital) fall short in meeting either of the first two capital properties, but contribute to the overall strength of a bank as a going concern. The definition of Tier 2 capital differentiates between what are referred to as hybrid (Tier 2A) and limited life (Tier 2B) instruments. Tier 3 capital is used only to meet market risk capital requirements.

The following chart is illustrative of an extract of a bank balance sheet of liabilities and shareholders' equity.

Sample Extract of a Bank Balance Sheet — Liabilities and Shareholders' Equity⁽¹⁾

Deposits/Senior Debt
Subordinated Debt
Innovative Tier 1 Capital Securities
Preferred Shares
Common Shares

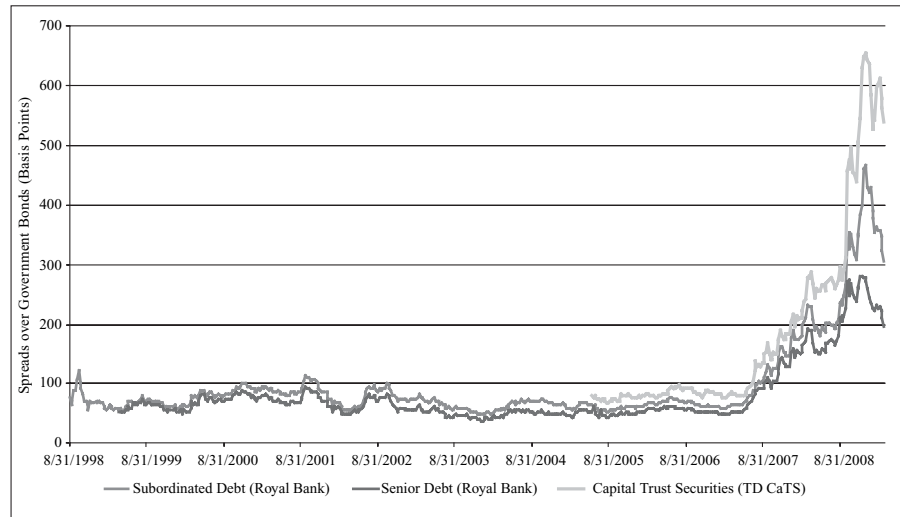
(1) This extract of a bank balance sheet is not necessarily illustrative of Canadian bank obligations in terms of priority on distribution or liquidation.

Canadian Bank Capital Securities Market

The Canadian fixed income market comprises all fixed income securities with a term greater than one year including those issued by corporations; entities holding debt securities, deposit notes of banks or other income generating assets; as well as provincial governments. The sector of the fixed income market that includes regulated Canadian financial institutions, such as banks, has attracted investors seeking higher yields than those offered by Government Bonds. A number of the securities in this sector, such as Innovative Tier 1 Capital Securities and Subordinated Debt, are issued to finance operations by Canadian banks and generally pay interest or distributions semi-annually and repay principal or a redemption amount on the maturity or call date (as applicable). Canadian Bank Capital Securities generally provide higher yields than comparable term Government Bonds and have ratings that range depending on a number of factors including financial health of the issuer, capital structure priority and structure of issuances.

As the capital markets have recognized the relative soundness of Canadian Banks, there has been an increased demand by investors for Canadian Bank Capital Securities and preferred shares. The Canadian Banks have taken advantage of this market demand and have participated in sizeable issuances of Canadian Bank Capital Securities to raise regulatory capital, thereby further growing their capital base. As part of this recent round of issuances of Canadian Bank Capital Securities, the Canadian Banks have participated in the issuance of Innovative Tier 1 Capital Securities, which are hybrid securities that qualify as Tier 1 capital under the OSFI guidelines, and are also known as “innovative Tier 1 Capital instruments”. There are currently 28 different Innovative Tier 1 Capital Securities that have been issued by entities related to the Canadian Banks, with a total par value of approximately \$15.9 billion. These Innovative Tier 1 Capital Securities have long maturities or are perpetual, but generally include either convertibility or “step up” features usually 10 years or longer from the date of issuance. On the “step up” date, the issuer can call the security at par, but if such security is not called there is generally a step up in the coupon rate. However, issuers of Innovative Tier 1 Capital Securities are generally not obligated to call such securities on the step up date and OSFI approval is required to do so. As such these securities are viewed as equity-like and are treated as permanent capital by OSFI.

The following chart shows a sample of spreads of Canadian Bank Capital Securities over Government Bonds over the last 10 years.



Constant maturity spreads based on interpolated 10 year curve for Government of Canada Bonds, Royal Bank of Canada (“RBC”) subordinated debt, RBC senior debt and TD CaTS instruments.

Source: BMO Nesbitt Burns Inc.

See “The Canadian Bank Capital Securities Market”.

Distributions

The Fund will pay distributions if, as and when declared by the Fund from time to time. See “Distributions”.

The Units

Redeemable, transferable units of the Fund will be issued from time to time in reliance on exemptions from the applicable prospectus and registration requirements.

Redemption

Units may be redeemed for a redemption price per Unit equal to 100% of the Net Asset Value per Unit as at the Redemption Date.

Units surrendered for redemption by a Unitholder on or before 5:00 p.m. (Toronto time) on any Redemption Date will be redeemed as at such Redemption Date, subject to the Manager’s right to suspend redemptions in certain circumstances. The Net Asset Value per Unit will vary depending on the performance of the Portfolio, which depends on a number of factors, including the value of the securities included in the Portfolio. See “Valuation, Total Assets and Net Asset Value”, “Redemption of Units” and “Risk Factors”.

Termination of the Fund

The Fund will have a term of approximately five years, terminating on June 30, 2014 and investments will be liquidated prior to maturity at prevailing market prices. The Manager may, in its discretion, terminate the Fund without the approval of Unitholders prior to the anticipated termination date if, in its opinion, it would be in the best interests of the Unitholders to terminate the Fund. Upon termination, the Fund will distribute to Unitholders their *pro rata* portions of the remaining assets of the Fund after all liabilities of the Fund have been satisfied or appropriately provided for. There can be no assurance that Unitholders will receive \$25.00 per Unit upon the termination of the Fund. See “Termination of the Fund”.

Risk Factors

An investment in Units is subject to certain risk factors, including: (i) risks relating to investing in Canadian Bank Capital Securities; (ii) Innovative Tier 1 Capital Securities risks; (iii) Reset Subordinated Debentures risks; (iv) term risks; (v) risks relating to securities in the Portfolio being concentrated in a particular sector and concentration in a limited number of issuers; (vi) illiquid securities risks; (vii) re-investment risks; (viii) interest rate fluctuation risks; (ix) fluctuations in the value of Portfolio securities risks; (x) recent global financial developments risks; (xi) that there is no assurance that the Fund will be able to achieve its investment objectives or make distributions; (xii) risks relating to the composition of the Portfolio; (xiii) risks relating to the use of derivatives; (xiv) risks relating to securities lending; (xv) reliance on the Portfolio Manager; (xvi) no ownership of Portfolio securities; (xvii) changes in legislation and regulatory risk; (xviii) the possible loss of investment; (xix) conflicts of interest; (xx) the status of the Fund under Canadian securities laws; (xxi) risks relating to redemptions; (xxii) the Fund's lack of operating history; (xxiii) the fact that the Fund is not a trust company, (xxiv) the nature of the Units, and (xxv) risks related to investing in Bank Shares and Life Insurance Company Securities. See "Risk Factors".

Canadian Federal Income Tax Considerations

The Fund intends to distribute the amount of its income for each taxation year so that it will generally not be liable for income tax under the Tax Act. A Unitholder will generally be required to include, in computing income for a taxation year, the amount of the Fund's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder in the taxation year. The Fund intends to make designations so that the portion of net realizable taxable capital gains of the Fund that are distributed to Unitholders will be treated as taxable capital gains to Unitholders. Distributions by the Fund to a Unitholder in excess of the Unitholder's share of net income and the full amount of the Fund's net realized capital gains will reduce the adjusted cost base of the Unitholder's Units. Upon the disposition of Units held as capital property, Unitholders will realize capital gains or capital losses. Prospective investors should consult their own tax advisors with respect to the income tax consequences of investing in Units, based upon their own particular circumstances. See "Canadian Federal Income Tax Considerations".

Organization and Management of the Fund

Manager and Promoter: Connor, Clark & Lunn Capital Markets Inc. will act as Manager of the Fund. The Manager is a leading provider of investment products that has raised over \$1.3 billion since 2004. The Manager is part of the Connor, Clark & Lunn Financial Group, which has approximately \$28 billion of assets under management as at March 31, 2009.

The Manager of the Fund will provide all administrative services required by the Fund. The Manager may be considered to be a promoter within the meaning of the securities legislation of certain provinces and territories of Canada. The Manager's principal office is located at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. See "Organization and Management Details of the Fund — The Manager of the Fund".

Portfolio Manager: Connor, Clark & Lunn Investment Management Ltd. will act as portfolio manager to the Fund. The Portfolio Manager, part of the Connor, Clark & Lunn Financial Group, was established in March 1982 and has offices in Vancouver and Toronto. The Portfolio Manager managed assets worth approximately \$16.7 billion as at December 31, 2008, approximately \$6.9 billion of which is in fixed income securities. See "Organization and Management Details of the Fund — The Portfolio Manager".

Trustee: RBC Dexia Investor Services Trust will act as Trustee of the Fund. The Trustee's office is located in Toronto.

Auditors: PricewaterhouseCoopers LLP, Chartered Accountants, at its offices in Toronto, Ontario, are the auditors of the Fund.

Custodian: RBC Dexia Investor Services Trust will act as custodian of the assets of the Fund. The Custodian is located in Toronto, Ontario.

Registrar and Transfer Agent: RBC Dexia Services Trust, will maintain the securities registers of the Units and register transfers of the Units.

SUMMARY OF FEES AND EXPENSES

The following table contains a summary of the fees and expenses payable by the Fund, which will therefore reduce the value of a Unitholder's investment in the Fund. For further particulars, see "Fees and Expenses".

<u>Type of Fee</u>	<u>Amount and Description</u>
Management Fee	The Manager will receive a Management Fee from the Fund and Canadian Banc Capital Securities Trust equal in the aggregate to 0.50% per annum of the Net Asset Value, calculated and payable monthly in arrears, plus applicable taxes. The Manager will be responsible for paying the fees of the Portfolio Manager out of this amount. See "Fees and Expenses — Management Fee".
Ongoing Expenses of the Fund	The Fund will pay for all of its expenses incurred in connection with its operation and administration, estimated to be \$50,000 per annum (assuming the Net Asset Value is approximately \$100,000,000 million). The Fund will also be responsible for its costs of Portfolio transactions and any extraordinary expenses which may be incurred from time to time. See "Fees and Expenses — Ongoing Expenses".

Information in this prospectus that is not current or historical factual information may constitute forward-looking information within the meaning of securities laws, and actual results may vary from the forward-looking information. Implicit in this information are assumptions regarding future operations, plans, expectations, anticipations, estimates and intentions, such as the Fund's plans to invest in Canadian Bank Capital Securities. These assumptions, although considered reasonable by the Fund at the time of preparation, may prove to be incorrect. Readers are cautioned that actual future operating results and economic performance of the Fund are subject to a number of risks and uncertainties. See "Risk Factors" for a list of material risk factors. Forward-looking information contained in this prospectus is based on current estimates, expectations and projections, which the Fund believes are reasonable as of the date of this prospectus. The Fund uses forward-looking statements because it believes such statements provide useful information with respect to the future operation and financial performance of the Fund, and cautions readers that the information may not be appropriate for other purposes. Readers should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While the Fund may elect to, it does not undertake to update this information at any particular time.

GLOSSARY OF TERMS

In this prospectus, the following terms have the meanings set forth below, unless otherwise indicated.

“**Additional Distribution**” means a distribution made to Unitholders in order that the Fund will generally not be liable to pay income tax, as described under “Distributions”.

“**AMF**” means the Autorité des marchés financiers.

“**Banks**” or “**Canadian Banks**” means, collectively, Bank of Montreal, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, The Bank of Nova Scotia and The Toronto-Dominion Bank, and each is a “Bank” or a “Canadian Bank”.

“**Bank Shares**” means common shares and preferred shares issued by banks regulated by OSFI.

“**Bonds**” means debt securities with a term to maturity greater than one year.

“**Business Day**” means any day except Saturday, Sunday, a statutory holiday in Toronto, Ontario or any other day on which the TSX is not open for trading.

“**Canadian Bank Capital Securities**” means Innovative Tier 1 Capital Securities, Subordinated Debt and Bonds issued by the Banks, as determined by the Portfolio Manager.

“**Cash and Cash Equivalents**” has the meaning ascribed thereto in National Instrument 81-102 — *Mutual Funds* of the Canadian Securities Administrators, as it may be amended from time to time.

“**Closing**” means the issuance of Units in reliance on exemptions from applicable prospectus and registration requirements on or about the Closing Date.

“**Closing Date**” means the date of the Closing, which is expected to be on or about June 9, 2009 or such later date as the Fund may determine, but in any event not later than August 12, 2009.

“**CRA**” means the Canada Revenue Agency.

“**Custodian**” means RBC Dexia Investor Services Trust, in its capacity as custodian under the Custodian Agreement.

“**Custodian Agreement**” means the custodian agreement to be entered into on or about the Closing Date between the Fund, Canadian Banc Capital Securities Trust and the Custodian, as it may be amended from time to time.

“**Extraordinary Resolution**” means a resolution passed by the affirmative vote of at least two-thirds of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of considering such resolution.

“**Fund**” means Portfolio Trust, an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement.

“**Government Bonds**” means debt securities issued by the Government of Canada.

“**Independent Review Committee**” has the meaning given in “Organization and Management Details of the Fund — Independent Review Committee”.

“**Indicative Portfolio**” means the securities that would have comprised the Portfolio if it had been formed by the Portfolio Manager on May 21, 2009.

“**Initial Holder**” means a Canadian chartered bank or affiliate.

“**Innovative Tier 1 Capital Securities**” means securities issued by entities related to the Banks that hold debt securities, deposit notes of Banks, or other assets which are used to generate income to be distributed to holders of the Innovative Tier 1 Capital Securities, as determined by the Portfolio Manager. Innovative Tier 1 Capital Securities are also often referred to as “capital trust securities”.

“**Investment Grade**” means a rating of BBB-or greater from Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., or Baa3 or greater from Moody’s Investor Services, Inc., or a similar rating from a qualified rating agency.

“**Life Insurance Companies**” means insurance companies regulated by OSFI, including Sun Life Financial Inc., Manulife Financial Corporation and Great-West Lifeco Inc., and their affiliates, and each is a “Life Insurance Company”.

“**Life Insurance Company Securities**” means securities issued by Life Insurance Companies or securities issued by entities that provide exposure to securities issued by Life Insurance Companies as determined by the Portfolio Manager.

“**Manager**” means the manager of the Fund, namely Connor, Clark & Lunn Capital Markets Inc., and if applicable, its successor.

“**Management Agreement**” means the agreement to be dated on or about the Closing Date between the Manager and the Fund, as it may be amended from time to time.

“**Management Fee**” means the management fee payable to the Manager by the Fund and Canadian Banc Capital Securities Trust as more fully described under “Fees and Expenses — Management Fee”.

“**Net Asset Value**” means the net asset value of the Fund as determined by subtracting the aggregate liabilities of the Fund from the Total Assets of the Fund on the date on which the calculation is being made, as more fully described under “Valuation, Total Assets and Net Asset Value”.

“**Net Asset Value per Unit**” means the Net Asset Value divided by the total number of Units outstanding, on the date on which the calculation is being made.

“**NI 81-102**” means National Instrument 81-102 — Mutual Funds of the Canadian Securities Administrators, as amended from time to time.

“**NI 81-107**” means National Instrument 81-107 — *Independent Review Committee for Investment Funds* of the Canadian Securities Administrators, as amended from time to time.

“**Ordinary Resolution**” means a resolution passed by the affirmative vote of at least a majority of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of considering such resolution.

“**OSFI**” means the Office of the Superintendent of Financial Institutions (Canada).

“**Portfolio**” means the portfolio of securities acquired and held by the Fund from time to time.

“**Portfolio Management Agreement**” means the agreement to be dated on or about the Closing Date between the Portfolio Manager and the Fund, as it may be amended from time to time.

“**Portfolio Manager**” means Connor, Clark & Lunn Investment Management Ltd., and if applicable, its successors.

“**Redemption Date**” means any Business Day on which Units are surrendered by a Unitholder for redemption by the Fund.

“**Reset Subordinated Debentures**” means Subordinated Debt issued by the Banks in respect of which the interest rate payable is reset periodically and which, in certain circumstances, may be automatically converted into preferred shares of such Banks.

“**Subordinated Debt**” means an instrument evidencing indebtedness of a Bank that by its terms provides that the indebtedness will, in the event of the insolvency or winding-up of the Bank, be subordinate in right of payment to all deposit liabilities of the Bank and all other liabilities of the Bank except those that, by their terms, rank equally with or are subordinate to such indebtedness, and includes Reset Subordinated Debentures.

“**Superintendent**” means the Superintendent of Financial Institutions, appointed pursuant to the *Office of the Superintendent of Financial Institutions Act* (Canada).

“**Tax Act**” means the *Income Tax Act* (Canada), as now or hereafter amended, or successor statutes, and includes regulations promulgated thereunder.

“**Total Assets**” means the aggregate value of the assets of the Fund.

“**Trust Agreement**” means the trust agreement governing the Fund dated as of May 22, 2009, as it may be amended from time to time.

“**Trustee**” means RBC Dexia Investor Services Trust, in its capacity as trustee under the Trust Agreement.

“**TSX**” means the Toronto Stock Exchange.

“**United States**” or “**U.S.**” means the United States of America, its territories and possessions, any state thereof, and the District of Columbia.

“**Unitholders**” means the owners of the beneficial interest in the Units.

“**Units**” means the transferable, redeemable trust units of the Fund, each of which represents an equal, undivided beneficial interest in the net assets of the Fund.

“**Valuation Date**” means, at a minimum, Friday of each week, or if any Friday is not a Business Day, the immediately preceding Business Day, and includes any other date on which the Manager elects, in its discretion, to calculate the Net Asset Value per Unit.

OVERVIEW OF THE LEGAL STRUCTURE OF THE FUND

Portfolio Trust an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement. Connor, Clark & Lunn Capital Markets Inc. is the Manager of the Fund. The Fund's principal office is at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The fiscal year-end of the Fund is December 31. The beneficial interest in the net assets and net income of the Fund is divided into Units. The Fund is authorized to issue an unlimited number of Units.

The Fund was established for the purpose of acquiring and holding the Portfolio. The Fund will use any subscription proceeds to acquire the Portfolio. See "Investment Strategy". The initial beneficial owner of all the Units is expected to be one or more Canadian financial institutions, or such of their affiliates as the Fund may approve.

Units of the Fund will be redeemable at the demand of the Unitholders. On redemption a Unitholder will receive, for each Unit redeemed, an amount equal to the Net Asset Value per Unit as at the Redemption Date. See "Valuation, Total Assets and Net Asset Value" and "Redemption of Units".

Units of the Fund will be redeemable at the demand of its Unitholders. On redemption, a Fund Unitholder will receive for each Unit of Fund redeemed an amount equal to the Net Asset Value per Unit. The Net Asset Value per Unit will be equal to the amount by which the Total Assets exceed its total liabilities on a per unit basis and, accordingly, will be based upon the value of the Portfolio.

Although the Fund is a mutual fund for the purposes of Québec securities law, it is not subject to NI 81-102, which is applicable to conventional mutual funds. As a result, some of the protections provided to investors in mutual funds under NI 81-102 will not be available to investors in the Units.

The Fund will generally receive interest income or distributions from Canadian Bank Capital Securities included in the Portfolio. The net income of the Fund will consist primarily of interest income or distributions, less expenses of the Fund. The Fund will distribute all of its net income and net realized capital gains earned in each fiscal year to ensure that it is not liable for tax under Part I of the Tax Act. To the extent that the Fund has not distributed in cash the full amount of its net income in any year, the difference between such amount and the amount actually distributed by the Fund may be paid through the issuance of additional Units having a Net Asset Value in the aggregate at the date of distribution equal to this difference. Immediately after any such distribution of Units, the number of outstanding Units may be consolidated such that each Unitholder will hold after the consolidation the same number of Units as it held before the distribution of additional Units.

INVESTMENT OBJECTIVES

The Fund's investment objectives are to (i) provide Unitholders with attractive distributions; and (ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 30, 2014.

Investment Rationale

The Portfolio Manager believes that an attractive opportunity currently exists to invest in Innovative Tier 1 Capital Securities for the following reasons:

- Canadian banks have been recognized as well capitalized and conservatively run financial institutions, and were recently ranked #1 globally in the "Soundness of Banks" category by the World Economic Forum in its *Global Competitiveness Report 2008-2009*. The soundness of Canadian banks relative to their international counterparts has been particularly highlighted during the recent financial crisis, during which Canadian banks have maintained Investment Grade credit ratings while many US and European banks have been forced into restructuring, bankruptcy or partial or full government nationalization.
- The recent volume of issuance by the Banks of preferred shares and common shares to strengthen their balance sheets has increased the Banks' regulatory capital levels to levels approaching historical highs, and has further enhanced the downside protection of Innovative Tier 1 Capital Securities.
- Innovative Tier 1 Capital Securities currently provide high yields on an absolute basis and relative to Government Bonds and to equities.

- Current spreads of Innovative Tier 1 Capital Securities over Government Bonds provide the opportunity for capital gains if spreads return to their long-term averages.
- Innovative Tier 1 Capital Securities represent a class of securities generally otherwise available only to institutional investors on issuance.

INVESTMENT STRATEGY

Investment Strategy

The Fund will seek to achieve its investment objectives through an investment in an actively managed portfolio consisting primarily of Innovative Tier 1 Capital Securities of the six largest Canadian banks. The Portfolio will include a minimum of 80% Canadian Bank Capital Securities, including such Innovative Tier 1 Capital Securities as Scotiabank Capital Trust Securities (Scotia BaTS II), TD Capital Trust IV Notes (TD CaTS IV), RBC Capital Trust Securities (RBC TruCS V) and BMO Capital Trust II Notes (BoATS VI). The Portfolio Manager may also invest up to 20% of the Portfolio (measured at the time of investment) in Bank Shares and Life Insurance Company Securities. Also see “Overview of the Investment Structure”. The Fund may also invest in other securities issued by Canadian financial institutions, including subordinated debt, preferred shares and common shares.

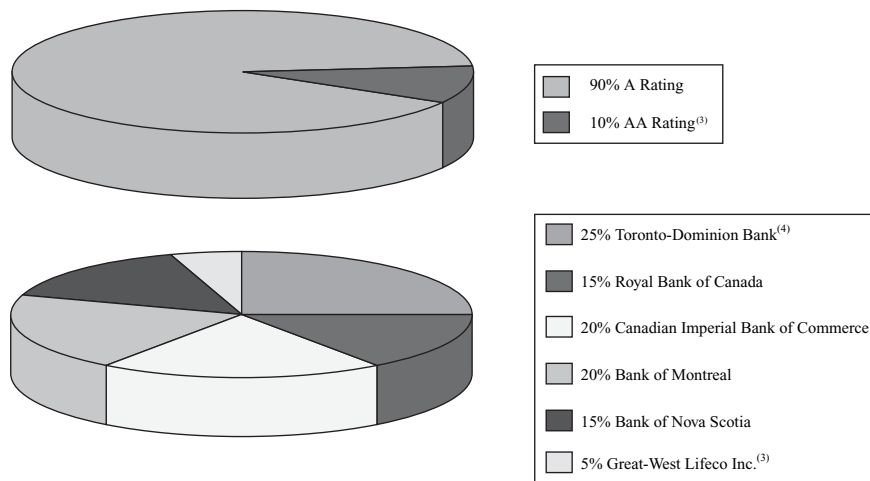
Portfolio Composition

The securities in the Indicative Portfolio have a weighted average Investment Grade credit rating of A, a weighted average yield to the first date upon which the securities may be called at par of 6.74%, a current yield of 7.32% and an average term to call (to the first date upon which the securities may be called at par) of approximately 9.38 years.

The Portfolio will be actively managed by the Portfolio Manager, and therefore security selection, sector allocation, and credit ratings will vary over time based on the Portfolio Manager’s assessment of market conditions and opportunities.

The following charts show the Indicative Portfolio’s exposure by credit rating and issuer. The Indicative Portfolio is illustrative of the securities that the Portfolio Manager would have invested in the Portfolio as of May 21, 2009 and the Portfolio may have a different allocation of securities than the allocation indicated in the Indicative Portfolio.

Indicative Portfolio Credit Rating⁽¹⁾ and Issuer⁽²⁾ Allocation



(1) Credit rating by Standard & Poors, a division of The McGraw-Hill Companies, Inc.

(2) The securities included in the Indicative Portfolio may not be issued directly by the issuer listed above but may be Innovative Tier 1 Capital Securities.

(3) Representing securities which constitute Tier 2A capital for regulatory purposes.

(4) 10% constitutes Tier 2A capital for regulatory purposes.

Investment Management Approach

Connor, Clark & Lunn Investment Management Ltd. will provide investment advisory and portfolio management services to the Fund. As at December 31, 2008, the Portfolio Manager managed assets worth approximately \$16.7 billion and its eight person fixed income team managed approximately \$6.9 billion of these assets. The Portfolio Manager will employ a disciplined, conservative process with respect to managing the Portfolio aimed at generating stable cash flows and preserving capital.

The Portfolio's sensitivity to quantitative macro-economic factors such as interest rates and economic growth will be continuously monitored. When the Portfolio Manager considers it appropriate, adjustments will be made to the composition of the Portfolio.

Duration Management

Duration, which is expressed in number of years, is a measure of the sensitivity of a fixed income investment or portfolio to changes in interest rates. Longer duration typically reflects an investment or portfolio with a longer term to maturity and hence greater price sensitivity to a given change in interest rates. By managing duration, the Portfolio Manager can manage the overall risk of interest rate changes on the Portfolio. In a period of falling interest rates, a portfolio manager will want to have a longer duration, as that portfolio will experience greater price appreciation, and conversely in a period of rising interest rates, a portfolio manager will want to have a portfolio of shorter duration to protect capital. The Portfolio Manager uses the first date upon which the securities may be called at par (rather than the legal maturity) in order to calculate duration. Based on this approach, the duration of the Indicative Portfolio is approximately 6.4 years.

Interest Rate Hedging

When the Portfolio Manager believes it is appropriate, it will employ a hedging strategy that is designed to mitigate the expected impact of significant interest rate increases on the Net Asset Value. The Fund will never be net short as a result of hedging. The Portfolio Manager anticipates using various hedging instruments and techniques, including derivatives and entering into options on futures contracts, interest rate swap positions and options thereon, known as "swaptions". The hedging strategy is designed to hedge against substantial interest rate increases that may occur over an investment horizon. It is not intended to enhance the returns of the Fund but rather only to minimize the impact of increases in interest rates. In circumstances where there is an interest rate hedge employed, the total return on the Portfolio may be higher with the hedge than without it when interest rates rise significantly, but total return may be lower than it otherwise would be in a stable to falling interest rate environment.

Securities Lending

In order to generate additional returns, the Fund may lend securities included in the Portfolio to securities borrowers acceptable to the Fund pursuant to the terms of a securities lending agreement between the Fund and such borrower. Under a securities lending agreement: (i) the borrower will pay to the Fund a negotiated securities lending fee and will make compensatory payments to the Fund equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as "securities lending arrangements" for the purposes of the Tax Act; and (iii) the Fund will receive collateral security. The Fund is not limited in the amount of securities lending transactions it may engage in.

Use of Derivatives

The Fund may invest in or use derivative instruments, other than commodity derivatives, for hedging purposes consistent with its investment objectives and subject to the investment restrictions of the Fund. For example, the Fund may use derivatives, including interest rate hedges, with the intention of offsetting or reducing risks associated with an investment or group of investments. The Fund may use derivatives to hedge the currency risk of any non-Canadian dollar denominated securities. No assurance can be given that the Fund will be hedged from any particular risk from time to time.

OVERVIEW OF THE INVESTMENT STRUCTURE

The Fund will be established for the purpose of acquiring and holding the Portfolio. The Manager will settle the Fund by subscribing for a Unit, which will be automatically redeemed upon Closing. Following Closing the initial beneficial owner of all of the Units will be the Initial Holder. On the Closing Date, the Initial Holder may subscribe for Units. The Fund will use any subscription proceeds to acquire the Portfolio. In order to generate additional returns, the Fund may lend its securities to brokers, dealers and other financial institutions.

THE CANADIAN BANK CAPITAL SECURITIES MARKET

The Canadian fixed income market comprises all fixed income securities with a term greater than one year including those issued by corporations; entities holding debt securities or deposit notes of banks or other income generating assets; as well as provincial governments. The sector of the fixed income market that includes regulated Canadian financial institutions, such as banks, has attracted investors seeking higher yields than those offered by Government Bonds. A number of the securities in this sector, such as Innovative Tier 1 Capital Securities and Subordinated Debt, are issued to finance operations by Canadian banks and generally pay interest or distributions semi-annually and repay principal or a redemption amount on the maturity or call date (as applicable). Canadian Bank Capital Securities generally provide higher yields than comparable term Government Bonds and have ratings that range depending on a number of factors including financial health of the issuer, capital structure priority and structure of issuances.

Canadian Banks

Canadian banks are regulated by the federal government under the Bank Act. The principal bank regulator is the Office of the Superintendent of Financial Institutions. OSFI has issued guidelines concerning the maintenance of adequate capital and has statutory authority to direct the Banks to increase their capital even if a Bank has met the minimum thresholds established by the OSFI guidelines. The OSFI guidelines establish risk-based capital targets for Canadian chartered banks of 7% for Tier 1 Capital and 10% for Total Capital. The Superintendent has actively monitored Canadian financial institutions with a view to ensuring that they have sufficient capital ratios to underpin their viability. Recently the six largest Canadian banks have been actively raising capital in public debt and equity markets to increase their regulatory capital. In late 2008, OSFI amended the rules with respect to what constitutes an innovative Tier 1 security, following which there has been an increase in the level of issuance of Innovative Tier 1 Capital Securities.

Canadian Banks in an International Context

The six largest Canadian banks benefit from a robust regulatory structure and a business model built upon a stable and diverse foundation with operations in several financial services sectors, including national retail banking, retail brokerage and investment banking. As a result, while not immune from the global financial crisis, Canadian banks have avoided many of the general hardships of the US and European banks. Due in large part to the regulatory environment under which Canadian banks operate, the Canadian banking industry has earned international recognition as being conservative, well-run and well capitalized. Canadian banks were recently ranked #1 globally in the “Soundness of Banks” category by the World Economic Forum in its *Global Competitiveness Report 2008-2009*.

The Bank of Canada and the federal government have announced that they are actively monitoring the Canadian banking system with a view to ensuring that robust support is in place if necessary; however, to date, no Canadian bank is in a position where it has required a federal bailout analogous to what has occurred in the United States and Europe. During the recent financial crisis Canadian banks have maintained dividends on their common and preferred shares as well as Investment Grade credit ratings while many US and European banks have been forced into restructuring, bankruptcy or partial or full government nationalization. Brian Cowen, Ireland’s Prime Minister, and Paul Volcker, former Federal Reserve Chief and advisor to United States President Barack Obama, have advocated financial system reforms based on the Canadian banking system for their respective countries.

Capital Structure of Canadian Banks

The three primary considerations for defining the consolidated capital of a financial institution for purposes of measuring capital adequacy are: (i) its permanence, (ii) it being free of mandatory fixed charges against earnings, and (iii) its subordinate legal position to the rights of depositors and other creditors of the institution. Total capital comprises three tiers. Tier 1 (core capital) comprises the capital elements that most adequately address these considerations. Tier 2 elements (supplementary capital) fall short in meeting either of the first two capital properties, but contribute to the overall strength of a company as a going concern. Tier 1 capital is made up of common, preferred and innovative Tier 1 capital. Since October 2008, Canadian banks have raised over \$7 billion in Tier 1 common, preferred and innovative capital which reflects the general trend towards an increase in Tier 1 capital relative to risk-weighted assets. The definition of Tier 2 capital differentiates between what are referred to as hybrid (Tier 2A) and limited life (Tier 2B) instruments. Tier 3 capital is used only to meet market risk capital requirements. A bank's Tier 1 Capital ratio represents the total amount of Tier 1 Capital as a percentage of the bank's risk weighted assets.

The following chart is illustrative of an extract of a bank balance sheet of liabilities and shareholders' equity.

Sample Extract of a Bank Balance Sheet — Liabilities and Shareholders' Equity⁽¹⁾

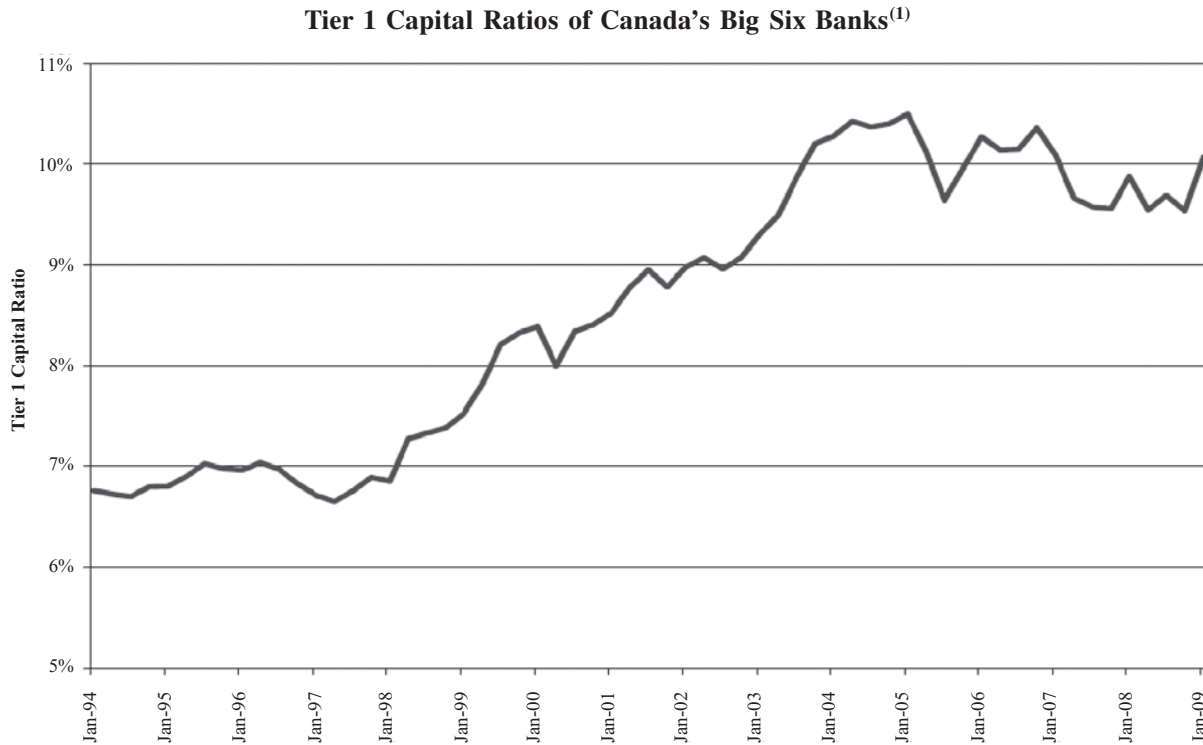
Deposits/Senior Debt
Subordinated Debt
Innovative Tier 1 Capital Securities
Preferred Shares
Common Shares

(1) This extract of a bank balance sheet is not necessarily illustrative of Canadian bank obligations in terms of priority on distribution or liquidation.

The following chart includes typical provisions of Innovative Tier 1 Capital Securities, Reset Subordinated Debentures and perpetual preferred shares of the Canadian banks.

	Innovative Tier 1 Capital Securities (Tier 1 Capital)	Reset Subordinated Debentures (Fixed/Floater) (Tier 2A Capital)	Perpetual Preferred Shares (5-Year Rate Resets) (Tier 1 Capital)
Issuer	Issued by entities related to banks	Issued directly by banks	Issued directly by banks
Ratings	Two notches below senior debt	One notch below senior debt	Two notches below senior debt
Legal Maturity	Perpetual or up to 99 years	99 years	Perpetual
Early Call Right at Par	Callable at par generally after 10 - 30 years	Callable at par after 10 years	Callable at par any time after first 5 years
Distribution Rate	Fixed semi-annual distributions (non-cumulative)	Fixed semi-annual interest	Fixed quarterly dividends (non-cumulative)
Consequence of Halting Distributions	Prohibits dividend payments on common and preferred shares	Prohibits dividend payments on preferred and common shares	Prohibits dividend payments on common shares
Interest Rate-Reset if Issue Not Called	Reset based on Government Bonds 5 year rate (or Bankers' Acceptance rate) plus an increased spread	Reset based on Government Bonds 5 year rate plus an increased spread	Reset based on Government Bonds 5 year rate plus fixed spread (no "step-up" in spread)
Mandatory Distribution Deferral	Distributions not paid at all, or paid in preferred shares of the banks, if dividends are not paid on preferred and/or common shares of banks	None	Dividends not paid, generally, if distributions not paid on Innovative Tier 1 Capital Securities
Investor Retraction	Generally none	None	None
Upon liquidation of the Bank	Exchanged for preferred shares of banks	Converted into preferred shares	Rank below senior debt and subordinated debt but above common shares

The following graph shows the average Tier 1 Capital ratio of the Banks over the last 15 years.



Source: BMO Nesbitt Burns Inc., based on company reports of the Canadian Banks. Starting in Q1-08, Basel II methodology used.

(1) A bank's Tier 1 Capital ratio represents the total amount of Tier 1 Capital as a percentage of the bank's risk weighted assets.

Innovative Tier 1 Capital Securities

As the capital markets have recognized the relative soundness of Canadian Banks, there has been an increased demand by investors for Canadian Bank Capital Securities and preferred shares. The Canadian Banks have taken advantage of this market demand and have participated in sizeable issuances of Canadian Bank Capital Securities to raise regulatory capital, thereby further growing their capital base. As part of this recent round of issuance of Canadian Bank Capital Securities, the Canadian Banks have participated in the issuance of Innovative Tier 1 Capital Securities, which are hybrid securities that qualify as Tier 1 capital under the OSFI guidelines, and are also known as "innovative Tier 1 Capital instruments". There are currently 28 different Innovative Tier 1 Capital Securities that have been issued by entities related to the Canadian Banks, with a total par value of approximately of \$15.9 billion. These securities are designed to provide a bank with a cost effective means of raising capital. Innovative Tier 1 Capital Securities have long maturities or are perpetual, but generally include either convertibility or "step up" features, usually 10 years or longer from the date of issuance. On the "step up" date, the issuer can call the security at par, but if such security is not called there is generally a step up in the coupon rate. The "step up" in coupon in recent Innovative Tier 1 Capital Security issuances has been considerably higher than earlier issuances. However, issuers of Innovative Tier 1 Capital Securities are not obligated to call such securities on the step up date and OSFI approval is required to do so. As such these securities are viewed as equity-like and are treated as permanent capital by OSFI. Several Innovative Tier 1 Capital Securities include covenants for the benefit of securityholders whereby the bank related to such securities will refrain from declaring dividends on its common and preferred shares for a specified period if interest or distributions on the Innovative Tier 1 Capital Securities are not paid in full. Recent offerings of these securities have largely been placed with institutional investors and have been difficult for retail investors to purchase on issuance despite significant demand.

Recent Issuances of Innovative Tier 1 Capital Securities

The following are examples of recent issuances of Innovative Tier 1 Capital Securities:

In March 2009, CIBC Capital Trust, issued \$1,300,000,000 principal amount of 9.976% CIBC Tier 1 Notes — Series A and \$300,000,000 principal amount of 10.25% CIBC Tier 1 Notes — Series B. The notes mature on June 30, 2108, however, beginning on June 30, 2014, CIBC Capital Trust may, at its option, redeem both series of notes in whole or in part. CIBC Capital Trust may redeem the Series A Notes for par on June 30, 2019, and every fifth anniversary thereafter, until June 30, 2104. The Series B Notes may be redeemed by CIBC Capital Trust for par on June 30, 2039 and every fifth anniversary thereafter, until June 30, 2104.

In January 2009, TD Capital Trust IV issued \$550,000,000 principal amount of 9.523% TD Capital Trust IV Notes — Series 1 and \$450,000,000 principal amount of 10% TD Capital Trust IV Notes — Series 2. The notes mature on June 30, 2108, however, beginning on June 30, 2014, TD Capital Trust IV may, at its option redeem both series of notes in whole or in part. TD Capital Trust IV may redeem the Series 1 Notes for par on June 30, 2019, and every fifth anniversary thereafter, until June 30, 2104. The Series 2 Notes may be redeemed by TD Capital Trust IV for par on June 30, 2039 and every fifth anniversary thereafter, until June 30, 2104.

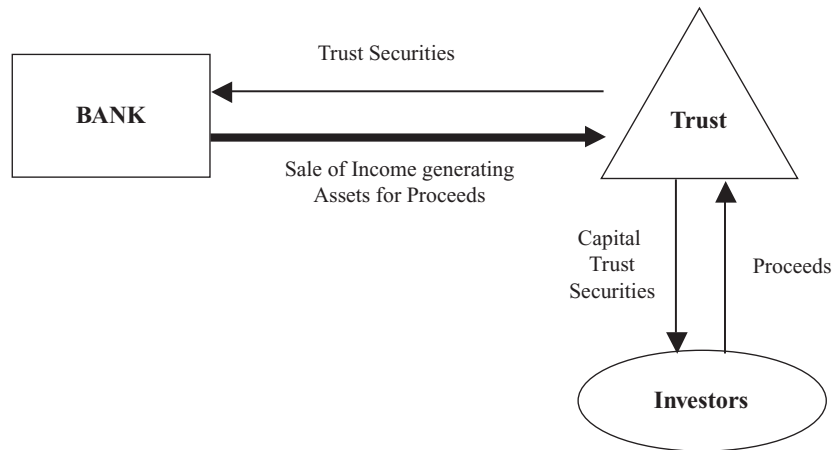
In December 2008, BMO Capital Trust II issued \$450,000,000 principal amount of 10.221% BMO Tier 1 Notes — Series A due December 31, 2107. Beginning on December 31, 2013 the notes may be redeemed by BMO Capital Trust II in whole or in part. On December 31, 2018 and every fifth anniversary of such date thereafter, until December 31, 2103, the notes may be redeemed for par.

These Innovative Tier 1 Capital Securities contain similar features with respect to redemptions other than at par, interest resets, automatic exchanges and required re-investments of the Innovative Tier 1 Capital Securities' interest payments in Bank preferred shares. If these Innovative Tier 1 Capital Securities are redeemed on a date other than as specified above, they will be redeemed at the greater of par and the annual yield to maturity of a non-callable Government of Canada bond plus a spread. The spread amount varies depending on whether the actual redemption date is earlier or later than the earliest date that the Capital Trust Security could have been redeemed. The spread is generally higher if redeemed after the earliest date that the Capital Trust Security could have been redeemed for par. In each case, redemption of the Innovative Tier 1 Capital Securities is subject to receipt of OSFI approval. These Innovative Tier 1 Capital Securities also contain an interest reset feature. The interest rate of these Innovative Tier 1 Capital Securities will reset on the earliest day the Innovative Tier 1 Capital Securities can be called for par and every fifth anniversary thereafter. The interest rate will reset to an amount equal to the annual yield to maturity of a five year non-callable Government of Canada bond plus a spread. These Innovative Tier 1 Capital Securities will be automatically exchanged for a series of Bank preferred shares upon the liquidation or winding up of the Bank related to the Innovative Tier 1 Capital Securities; if the Bank's regulatory capital appears to fall below certain required thresholds; or if the Superintendent takes control of the Bank pursuant to the Bank Act. Holders of the Innovative Tier 1 Capital Securities will be required on each interest payment date to invest the interest paid on the securities in a new series of preferred shares if: the Bank related to the Innovative Tier 1 Capital Securities fails to pay dividends on its preferred shares (or failing preferred shares being outstanding, on its common shares in accordance with the Bank's normal dividend practice); the Bank elects to pay the interest due on the Innovative Tier 1 Capital Securities in preferred shares; or for whatever other reason the interest is not paid in cash.

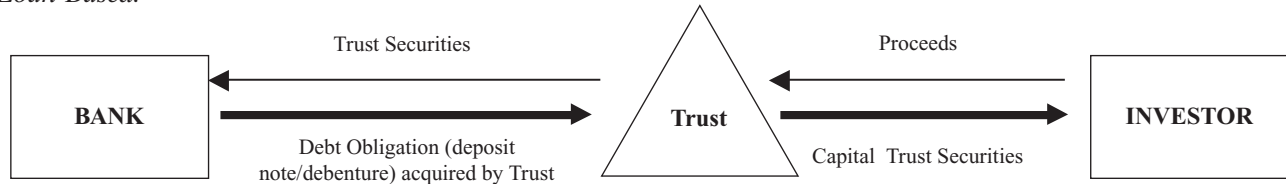
Innovative Tier 1 Structures

The following diagrams are illustrative of the typical structure of Innovative Tier 1 Capital Securities.

Asset-Based:



Loan-Based:



INVESTMENT RESTRICTIONS

Investment Restrictions of the Fund

The Fund is subject to the investment restrictions set out below. The investment restrictions of the Fund, which are set forth in the Trust Agreement, provide that the Fund will not:

- (a) invest less than 80% of the Total Assets of the Fund (measured at the time of investment) in Canadian Bank Capital Securities, invest less than 60% of Total Assets of the Fund (measured at the time of investment) in Innovative Tier 1 Capital Securities, nor invest more than 20% of the Total Assets of the Fund in Cash and Cash Equivalents, Bank Shares and Life Insurance Company Securities (measured at the time of investment), except within 90 days of the Closing Date and within 90 days of the Fund's termination;
- (b) purchase the securities of an issuer for the purposes of exercising control over management of that issuer or if, as a result of such purchase, the Fund would be required to make a take-over bid that is a "formal bid" for the purposes of applicable securities laws;
- (c) purchase the common or preferred shares of any "substantial securityholder" of the Fund (as defined in the *Securities Act* (Ontario)) or the direct or indirect parent of any substantial securityholder of the Fund;
- (d) make or hold any investments in entities that would be "foreign affiliates" of the Fund for purposes of the Tax Act;
- (e) make or hold any securities in any non-resident trusts other than "exempt foreign trusts" as defined in subsection 94(1) of the Tax Act as set forth in former Bill C-10, which was before the second session of the 39th Parliament (or pursuant to any amendments to such proposals, subsequent provisions enacted into law, or successor provisions thereto);
- (f) at any time, hold any property that is a "non-portfolio property" for the purposes of the SIFT Rules;

- (g) make or hold any investments that could require the Fund to include any material amount in its income pursuant to proposed sections 94.1 or 94.3 of the Tax Act or require the Fund to mark the investment to market in accordance with proposed section 94.2 of the Tax Act, all as set forth in former Bill C-10, which was before the second session of the 39th Parliament, (or pursuant to any amendments to such proposals, subsequent provisions as enacted into law, or successor provisions thereto); or
- (h) pledge any of its assets or employ leverage, except in connection with interest rate hedging, securities lending or use of derivatives as described under “Investment Strategy”.

While the Fund is considered a mutual fund for the purposes of Québec securities law, the Fund is not subject to the various policies and regulations that apply to conventional mutual funds under NI 81-102. However, the Fund is subject to certain other requirements and restrictions contained in securities legislation, including National Instrument 81-106 — *Investment Fund Continuous Disclosure* of the Canadian Securities Administrators, which governs the continuous disclosure obligations of investment funds, including the Fund.

FEES AND EXPENSES

Management Fee

The Manager will receive a Management Fee from the Fund and Canadian Banc Capital Securities Trust equal in the aggregate to 0.50% per annum of the applicable Net Asset Value, (0.25% from the Fund and 0.25% from Canadian Banc Capital Securities Trust), calculated and payable monthly in arrears, plus applicable taxes. The Management Fee payable to the Manager in respect of the month in which Closing occurs will be pro-rated based on the fraction that the number of days from and including the Closing Date to and including the last day of the month is of the number of days in such month. The Manager is responsible for paying the fees payable to the Portfolio Manager out of the Management Fee.

Ongoing Expenses

The Fund will pay for all expenses incurred in connection with its operation and administration. The expenses will be allocated to Units based on the Net Asset Value of the Units. Expenses include fees payable to the Trustee, custodial fees, legal, audit, valuation fees and expenses, any additional fees payable to third party service providers, expenses of the directors of the Manager, printing and mailing costs, expenses and other administrative expenses and costs incurred in connection with the continuous public filing requirements of the Fund and expenses relating to the issue of Units, costs and expenses of preparing financial and other reports, costs and expenses arising as a result of complying with all applicable laws, regulations and policies, extraordinary expenses that the Fund may incur, but excluding the fees payable to the Portfolio Manager. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Portfolio Manager, the Custodian or the Trustee and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Fund.

The Manager estimates that ongoing expenses, exclusive of the Management Fee, will be approximately \$50,000 per year for the Fund (assuming the Net Asset Value is approximately \$100 million).

Additional Services

Any arrangements for additional services between the Fund and the Manager, or any affiliate thereof, that have not been described in this prospectus will be on terms that are no less favourable to the Fund than those available from arm’s length persons (within the meaning of the Tax Act) for comparable services and the Fund will pay all expenses associated with such additional services.

RISK FACTORS

Certain risk factors relating to the Fund and the Units are described below. Additional risks and uncertainties not currently known to the Manager or the Portfolio Manager, or that are currently considered immaterial, may also impair the operations of the Fund. If any such risk actually occurs, the undertaking, financial condition, liquidity or results of operations of the Fund, and the ability to the Fund to make distributions on the Units, could be materially adversely affected.

General Risks of Investing in Canadian Bank Capital Securities — No Guarantee of Distributions

Generally, Canadian Bank Capital Securities will decrease in value when interest rates rise and increase in value when interest rates decline. The Net Asset Value of the Fund will fluctuate with interest rate changes and the corresponding changes in the value of the securities in the Portfolio. The value of Canadian Bank Capital Securities is also affected by the risk of default in the payment of interest or non-payment of distributions and principal and price changes due to such factors as general economic conditions and the issuer's creditworthiness. Canadian Bank Capital Securities may not pay interest or distributions or their issuers may default on their obligations to pay interest and/or principal amounts. Most of the Canadian Bank Capital Securities that may be included in the Portfolio from time to time are unsecured, which will increase the risk of loss in case of default or insolvency of the issuer. Global financial markets have experienced a significant repricing in recent months that has contributed to a reduction in liquidity and the availability of credit enhancing the likelihood of default by some issuers due to diminishing profitability or an inability to refinance existing debt.

Innovative Tier 1 Capital Securities Risk

The Portfolio will include Innovative Tier 1 Capital Securities. Innovative Tier 1 Capital Securities involve risk with respect to the performance and capital levels of Canadian Banks. Innovative Tier 1 Capital Securities are securities issued by special purpose vehicles established by the Banks or other financial institutions or entities, and therefore investments in these securities create risks related to the solvency of such special purpose vehicles. Innovative Tier 1 Capital Securities generally provide a return on investment through the ownership by the special purpose vehicle of a Bank and other debt securities and deposit notes or other assets. Innovative Tier 1 Capital Securities may not pay interest or distributions or their issuers may default on their obligations to pay interest and/or principal amounts.

The holders of Innovative Tier 1 Capital Securities may be required to invest interest paid under the instruments in a new or existing series of the Bank's preferred shares in the event of certain prescribed circumstances such as the Bank failing to declare cash dividends on all of its outstanding preferred shares, or failing any preferred shares being outstanding, on all of the outstanding common shares in accordance with the Bank's ordinary dividend practice, or for other reasons. Innovative Tier 1 Capital Securities may also be automatically exchanged for a new or existing series of Bank preferred shares without the consent of the holders of the Innovative Tier 1 Capital Securities in certain circumstances, such as a decline in the performance and capital levels of the Bank or upon the Bank becoming insolvent or bankrupt. As such, the holders of Innovative Tier 1 Capital Securities, including the Fund, could become shareholders of a Bank at a time when the Bank's financial condition is deteriorating or when the Bank has become insolvent or bankrupt or resolved to be wound-up or has been ordered wound-up or liquidated. The new Bank series of preferred shares (or in some cases an existing series of preferred shares) issued due to either the insolvency or bankruptcy of the Bank or its failure to pay dividends, or for any other reason, may rank equally with other preferred shares of the Bank. Holders of the Innovative Tier 1 Capital Securities may in certain circumstances rank subordinate to the claims of depositors and creditors of the Bank.

There can be no guarantee that the triggering events requiring holders of Innovative Tier 1 Capital Securities, such as the Fund, to subscribe for preferred shares of the Bank will not change over time or will not vary from one Capital Trust Security to another. There can be no guarantee that the new series of preferred share (or existing preferred shares) will pay a dividend, appreciate, or that there will be a liquid market for such preferred shares. There can be no guarantee that the Bank or entity issuing the Innovative Tier 1 Capital Securities will resume payment of interest on the Innovative Tier 1 Capital Securities, or necessarily redeem the instruments, and due to the long life of the instruments holders of the Innovative Tier 1 Capital Securities may continue to receive preferred shares rather than cash interest payments.

As a result, were the Fund to become a holder of a new or existing series of Bank preferred shares, it could receive substantially less than as a holder of Innovative Tier 1 Capital Securities that have not been exchanged for a new or existing series of Bank preferred shares, which in turn could effect the ability of the Fund to meet its investment objectives, including paying targeted quarterly distributions.

Event of default provisions, including acceleration and subordination provisions, are not likely to be relevant to holders of Innovative Tier 1 Capital Securities, including the Fund, in their capacity as creditors of

entities that issue such securities since the Innovative Tier 1 Capital Securities will automatically be exchanged for preferred shares of the Bank prior to the occurrence of several events that may otherwise have been considered events of default.

Reset Subordinated Debenture Risk

The Portfolio may include Reset Subordinated Debentures. Reset Subordinated Debentures involve risk with respect to the performance and capital levels of Canadian Banks. Interest on the Reset Subordinated Debentures is reset periodically, which new interest rates are unlikely to be the same as, and may be lower than, the interest rates for the preceding periods.

In certain circumstances, including when a Bank does not report cumulative consolidated net income for the immediately preceding four financial quarters or fails to declare any cash dividends on all of its outstanding preferred shares and common shares, a Bank may defer interest payments on the Reset Subordinated Debentures. There is no limit on the number of times the Bank may defer interest payments or, during the term of the Reset Subordinated Debentures, on the duration of the period or periods of such deferral. While interest payments are being deferred, interest will accrue but will not compound. Once deferred, there is no specific requirement as to when interest payments must resume and the Bank may defer interest payments up until, but not beyond, maturity of the Reset Subordinated Debentures.

An investment in the Reset Subordinated Debentures may become an investment in preferred shares of the Bank in certain circumstances, including when the Superintendent has taken control of the Bank or its assets pursuant to the Bank Act, or a winding-up order in respect of the Bank is applied for or granted. As a result, a holder of Reset Subordinated Debentures, including the Fund, may become a shareholder of the Bank at a time when the Bank's financial condition is deteriorating or when it has become insolvent or has been ordered to be wound-up or liquidated. In the event of the Bank's liquidation, the claims of its depositors and creditors (including holders of subordinated indebtedness) would be entitled to priority of payment over holders of preferred shares. If the Bank were to become insolvent or be ordered to be wound-up or liquidated following the automatic conversion of the Reset Subordinated Debentures into preferred shares, a holder of preferred shares may receive, if anything, substantially less than such holder would have received as a holder of Reset Subordinated Debentures.

Event of default provisions, including acceleration and subordination provisions, are not likely to be relevant to holders of Reset Subordinated Debentures, including the Fund, in their capacity as creditors of the Bank since the Reset Subordinated Debentures will automatically convert into preferred shares of the Bank effective as of the day before the occurrence of several events that may otherwise have been considered events of default.

Term Risk

The securities in the Portfolio may be perpetual in nature or have very long terms. Investors tend to value these securities based on the assumption that they will be called on the first date that the coupon will be reset. In the event that an issuer does not call a particular security on this date then it may affect the market value thereof.

Concentration Risk

The Portfolio will be concentrated in securities issued by, or related to the securities of, the Banks and therefore the Net Asset Value of the Fund may be more volatile than the value of a more broadly diversified portfolio and may fluctuate substantially over short periods of time.

Illiquid Securities

There is no assurance that an adequate market will exist for the securities included in the Portfolio and it cannot be predicted whether the securities included in the Portfolio will trade at a discount to, a premium to, or at their respective par or maturity values. Certain securities held in the Portfolio may trade infrequently if at all and may trade at a significant premium or discount to the last recorded trade.

Re-investment Risk

A security in the Portfolio may include a call or redemption provision that permits the issuer of such security to “call” or redeem its securities. The existence of such provisions will, if exercised, require such a security to be removed from the Portfolio and replaced with new securities. These actions may have implicit costs to the Fund and may reduce the distributions paid to Unitholders. At any time that the Portfolio is re-adjusted in the discretion of the Manager or as a result of a redemption or call provision in the terms of a security in the Portfolio, the distributions available to Unitholders may be affected as, among other things, such security included in the Portfolio upon any such re-adjustment may not provide the same rate of return as the security replaced. In addition, if the call or redemption price of a security in the Portfolio is less than the price paid by the Fund upon its inclusion in the Portfolio, and that security is redeemed, the Net Asset Value of the Fund will be negatively impacted.

Interest Rate Fluctuations

It is anticipated that the market price for the Units at any given time will be affected by the level of interest rates prevailing at such time. A rise in interest rates may have a negative effect on the market price of the Units. Unitholders who wish to redeem or sell their Units may, therefore, be exposed to the risk that the redemption price or sale price of the Units will be negatively affected by interest rate fluctuations.

Fluctuation in Value of Portfolio Securities

The value of the Units will vary according to the value of the securities included in the Portfolio. The value of the securities included in the Portfolio will be influenced by factors which are not within the control of the Fund, the Manager or the Portfolio Manager, including the financial performance of the respective issuers, operational risks relating to the specific business activities of the respective issuers, quality of assets owned by the respective issuers, commodity prices, risks associated with issuers operating, or having exposure to assets, outside of Canada, exchange rates, interest rates, political risks, issues relating to government regulation, credit markets and other financial market conditions. The Fund has entered into some commitments to purchase securities. Accordingly, the Fund has exposure to changes in market value of such securities.

Recent Global Financial Developments

Global financial markets have experienced a sharp increase in volatility during recent months. This has been, in part, the result of the revaluation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While central banks as well as global governments are attempting to restore liquidity to the global economies, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not materially and adversely affect economies around the world in the near to medium term. Some of these economies may experience significantly diminished growth or a recession. These market conditions and unexpected volatility or illiquidity in financial markets may also adversely affect the prospects of the Fund and the value of the securities included in the Portfolio. As a result of the recent global financial volatility there is a risk that financial institutions may be nationalized, partially nationalized or come under the control of regulatory bodies, the result of which may be a total loss of value of certain of the Innovative Tier 1 Capital Securities while the interest payments on senior and subordinated debt of such financial institutions continue to be satisfied.

No Assurance in Achieving Investment Objectives or Making Distributions

There is no assurance that the Fund will be able to achieve its investment objectives. Furthermore, there is no assurance that the Fund will be able to pay distributions in the short or long term, nor is there any assurance that the Net Asset Value of the Fund will appreciate or be preserved. Changes in the relative weightings between the various types of securities making up the Portfolio can affect the overall yield to Unitholders.

Composition of Portfolio

The composition of the securities included in the Portfolio taken as a whole may vary widely from time to time, resulting in the securities included in the Portfolio being less diversified than anticipated. Overweighting investments in certain issuers, sectors or industries involves risk that the Fund will suffer a loss because of declines in the prices of securities in those issuers, sectors or industries.

Use of Derivatives

The Fund may invest in and use derivative instruments for hedging purposes to the extent considered appropriate by the Manager taking into account factors including transaction costs. There can be no assurance that the Fund's hedging strategies will be effective. The Fund is subject to the credit risk that its counterparty (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments) may be unable to meet its obligations. In addition, there is a risk of loss by the Fund of margin deposits in the event of the bankruptcy of the dealer with whom the Fund has an open position in an option or futures or forward contract. Derivative instruments traded in foreign markets may offer less liquidity and greater credit risk than comparable instruments traded in North American markets. The ability of the Fund to close out its positions may also be affected by exchange imposed daily trading limits on options and futures contracts. If the Fund is unable to close out a position, it will be unable to realize its profit or limit its losses until such time as the option becomes exercisable or expires or the futures or forward contract terminates, as the case may be. The inability to close out options, futures and forward positions could also have an adverse impact on the Fund's ability to use derivative instruments to effectively hedge the Portfolio.

Securities Lending

The Fund may engage in securities lending. Although the Fund will receive collateral for the loans and such collateral will be marked-to-market, the Fund will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral be insufficient to reconstitute the portfolio of loaned securities.

Reliance on the Portfolio Manager

The Portfolio Manager will manage the Fund in a manner consistent with the investment objectives and the investment restrictions of the Fund. The officers of the Portfolio Manager who will be primarily responsible for the management of the Portfolio have extensive experience in managing investment portfolios, however there is no certainty that such individuals will continue to be employees of the Portfolio Manager until the termination of the Fund.

No Ownership Interest

An investment in Units does not constitute an investment by Unitholders in the securities included in the Portfolio. Unitholders will not own the securities held by the Fund.

Changes in Legislation and Regulatory Risk

There can be no assurance that certain laws applicable to the Fund, including income tax laws, government incentive programs and the treatment of trusts under the Tax Act will not be changed in a manner which adversely affects the Fund or Unitholders. Canadian Bank Capital Securities are generally created based on current regulations affecting Canadian financial institutions and OSFI's interpretation of these regulations. If these regulations change, or the interpretation thereof changes, such changes could have a negative effect upon the value of the Portfolio and upon the investment opportunities available to the Fund.

Loss of Investment

An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

Conflicts of Interest

The Manager and Portfolio Manager and their respective directors and officers engage in the promotion, management or investment management of one or more funds or trusts with similar investment objectives to those of the Fund. Although none of the directors or officers of the Manager or the Portfolio Manager will devote his or her full time to the undertaking and affairs of the Fund, each director and officer of the Manager and the Portfolio Manager will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the undertaking and affairs of (in the case of officers) the Fund, the Manager and the Portfolio Manager, as applicable.

Status of the Fund

The Fund is not subject to the Canadian policies and regulations that apply to open-end mutual funds.

Risks Relating to Redemptions

If a significant number of Units are redeemed the expenses of the Fund would be spread among fewer Units resulting in potentially lower distributions per Unit and a higher management expense ratio. The Manager has the ability to terminate the Fund if, in its opinion, it would be in the best interests of Unitholders to do so. The Manager may also suspend the redemption of Units in the circumstances described under “Redemption of Units”.

Operating History

The Fund is a newly organized investment fund with no previous operating history. There is currently no public market for the Units nor is one expected to develop.

Not a Trust Company

The Fund is not a trust company and, accordingly, is not registered under the trust company legislation of any jurisdiction. Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under provisions of that Act or any other legislation.

Nature of Units

The Units are neither fixed income nor equity securities. The Units represent a fractional interest in the net assets of the Fund. Units are dissimilar to debt instruments in that there is no principal amount owing Unitholders. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions.

Equity Securities

The Bank Shares and Life Insurance Company Securities held in the Portfolio may consist of common and preferred shares that give the Fund part ownership in Banks and Life Insurance Companies. The value of such equity securities changes with the fortunes of the Banks and Life Insurance Companies that issue them. General market conditions and the health of the economy as a whole can also effect equity prices. Equity-related securities that provide indirect exposure to equity securities of an issuer, such as convertible debentures, can also be affected by equity risk.

DISTRIBUTION POLICY

The Fund will have a term of approximately five years, terminating on June 30, 2014. The Fund will pay distributions if, as and when declared by the Fund from time to time.

The fund will generally receive interest income from the securities held in the Portfolio. The net income of the Fund will consist primarily of interest income, less expenses of the Fund. The Fund will distribute all of its income and net realized capital gains earned in each fiscal year to ensure that it is not liable for tax under Part I of the Tax Act. To the extent that the Fund has not distributed in cash the full amount of its net income in any

year, the difference between such amount and the amount actually distributed by the Fund will be paid through an Additional Distribution, which may involve the issuance of additional Units having a Net Asset Value in the aggregate at the date of distribution equal to this difference. Immediately after any such Additional Distribution of Units, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as it held before the distribution of additional Units.

REDEMPTION OF UNITS

Units may be redeemed for a redemption price per Unit equal to 100% of the Net Asset Value per Unit as at the Redemption Date. Units surrendered for redemption by a Unitholder on or before 5:00 p.m. (Toronto time) on any Redemption Date will be redeemed as at such Redemption Date, subject to the Manager's right to suspend redemptions in certain circumstances. The Net Asset Value per Unit will vary depending on the performance of the Portfolio, which depends on a number of factors, including the value of the securities included in the Portfolio.

A Unitholder who desires to exercise redemption privileges must deliver to the Trustee at its office in the City of Toronto, a written notice of the Unitholder's intention to redeem Units by no later than 5:00 p.m. (Toronto time) on the relevant notice date.

By delivering to the Trustee a notice of intention to redeem Units, the Unitholder will be deemed to have irrevocably surrendered his or her Units for redemption. Any redemption notice that the Trustee determines to be incomplete, not in proper form or not duly executed will, for all purposes, be void and of no effect and the redemption privilege to which it relates will be considered, for all purposes, not to have been exercised thereby.

The Manager may suspend the redemption of Units or payment of redemption proceeds (a) for the whole or any part of a period during which normal trading is suspended on one or more exchanges on which more than 50% of the securities included in the Portfolio are listed and traded, and if the securities are not traded on any other exchange that represents a reasonable, practical alternative for the Fund or (b) for any period not exceeding 5 Business Days during which conditions exist which impair the ability of the Manager to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension, but for which payment has not been made, as well as to all requests received while the suspension is in effect. In such circumstances all Unitholders will have, and will be advised that they have, the right to withdraw their requests for redemption. The suspension will terminate in any event on the first Business 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 Fund, any declaration of suspension made by the Manager will be conclusive.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Stikeman Elliott LLP, counsel to the Fund, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to the Fund under the Tax Act and the regulations thereunder.

This summary is based on the current provisions of the Tax Act, counsel's understanding of the current published administrative policies and assessing practices of the CRA and all specific proposed amendments to the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof. This summary assumes that the proposed amendments will be enacted as proposed. Except for the proposed amendments, this summary does not take account or anticipate any changes in the law, whether by way of legislative, governmental or judicial decision or action, nor does it take into account other federal or any provincial or foreign tax legislation or considerations.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations that may be relevant to the Fund, and is not intended to be legal or tax advice to any particular investor. Prospective investors should consult their own tax advisors with respect to the income tax consequences of investing based upon the investor's particular circumstances.

Taxation of the Fund

The Fund will be a “financial institution” for purposes of the “mark-to-market” rules contained in the Tax Act at any time if more than 50% of the fair market value of all interests in the Fund are held at that time by one or more such financial institutions. The Tax Act contains special rules for determining the income of financial institutions.

The Fund will be subject to tax in each taxation year under Part I of the Tax Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. The Fund intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year and therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains as described under “Distributions” it will generally not be liable in such year for income tax under Part I of the Tax Act. In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income.

The Fund may be subject to “minimum tax” under the Tax Act. The Trustee will endeavour to manage the Fund in a manner such that the Fund will not be subject to minimum tax.

The Tax Act provides for special tax on designated income of certain trusts which have designated beneficiaries. The Trust Agreement prohibits ownership of Units by any person that would be a designated beneficiary for the purposes of the Tax Act.

ORGANIZATION AND MANAGEMENT DETAILS OF THE FUND

The Manager of the Fund

Connor, Clark & Lunn Capital Markets Inc. has offices at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The Manager oversees, manages and implements the objectives of the Fund. The Fund’s objectives are to (i) provide Unitholders with attractive distributions, and (ii) return to Unitholders the original issue price of the Units upon the termination of the Fund on June 30, 2014.

The Manager is a registered investment counsel and portfolio manager. The Manager is a leading provider of investment products that has raised over \$1.3 billion since 2004. The Manager is part of the Connor, Clark & Lunn Financial Group, which has approximately \$28 billion of assets under management as at March 31, 2009.

The Manager acts as manager or investment advisor for the following investment funds: Connor, Clark & Lunn ROC Pref Corp., Connor, Clark & Lunn Conservative Income Fund II, Clark & Lunn Real Return Income Fund, ROC Pref III Corp., Connor, Clark & Lunn Conservative Income Fund, ROC Pref II Corp., ROC Pref Corp., 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 2007 Flow-Through Limited Partnership and Connor, Clark & Lunn 2008 Flow-Through Limited Partnership.

Duties and Services to be Provided by the Manager

Pursuant to the Management Agreement, the Manager has exclusive authority to manage the operations and affairs of the Fund, to make all decisions regarding the undertaking of the Fund and to bind the Fund. 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 Fund to do so.

The Manager's duties will include maintaining accounting records for the Fund; authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements, income tax returns and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements and other reports as are required from time to time by applicable law; ensuring that the Fund comply with regulatory requirements, including its continuous disclosure requirements under applicable securities laws; preparing the Fund's reports to Unitholders and to the AMF; providing the Custodian with information and reports necessary for the Custodian to fulfil its fiduciary responsibilities; currency hedging; administering the redemption of Units; arranging for any payment required on the termination of the Fund; dealing and communicating with Unitholders; and negotiating contracts with third party providers of services, including, but not limited to, custodians, transfer agents, legal counsel, auditors and printers. The Manager will also implement the Fund's investment strategy to ensure compliance with the Fund's investment guidelines.

Details of the Management Agreement

Pursuant to the Management Agreement, the Manager shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of the Fund and the Unitholders, and in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

The Manager may resign as manager of the Fund upon 60 days' notice to the Unitholders and to the Fund or upon such lesser notice period as the Fund may accept. If the Manager resigns it may appoint its successor but, unless its successor is an affiliate of the Manager, its successor must be approved by Unitholders of the Fund. If the Manager is in material default of its obligations under the Management Agreement and such default has not been cured within 20 business days after notice of same has been given to the Manager, the Fund shall give notice thereof to their Unitholders and such Unitholders may remove the Manager and appoint a successor manager.

The Manager is entitled to fees for its services under the Management Agreement as described under "Fees and Expenses" and will be reimbursed for all reasonable costs and expenses incurred by the Manager on behalf of the Fund.

The Manager and each of its directors, officers, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses 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, employees or agents in the exercise of its duties as manager, except those resulting from the Manager's wilful misconduct, bad faith or negligence or the Manager's failure to meet the standard of care set forth above.

Conflicts Of Interest — Manager and Trustee

The management and administrative services provided by the Manager to the Fund pursuant to the Management Agreement are not exclusive and nothing in the Management Agreement prevents the Manager from providing similar management services to other investment funds and clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities. Investment decisions for the Fund will be made independently of those made for other clients and independently of investments of the Manager. On occasion, however, the Manager may manage the same investment for the Fund and for one or more of its other clients. If the Fund and one or more of the other clients of the Manager are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

The Trust Agreement acknowledges that the Trustee may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favourable to the Fund than those which would be obtained from parties which are at arm's length for comparable services. The Trustee may act as trustee of, and provide services to, other investment funds or trusts.

Accounting and Reporting

The Fund's fiscal year will be the calendar year or such other fiscal period permitted under the Tax Act as the Fund elects. The Manager will ensure that the Fund complies with all applicable reporting and administrative requirements.

The Manager will keep adequate books and records reflecting the activities of the Fund. A Unitholder or his or her duly authorized representative will have the right to examine the books and records of the Fund during normal business hours at the offices of the Manager. Notwithstanding the foregoing, subject to applicable law, 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 Fund.

Directors and Officers of the Manager of the Fund

The name and municipality of residence of the Directors and Executive Officers of the Manager and their principal occupations are as follows:

<u>Name and Municipality</u>	<u>Position with the Manager</u>	<u>Principal Occupation</u>
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, Chairman and Chief Financial Officer	Managing Partner, Connor, Clark & Lunn Financial Group
PHILIP K. GOW Lunenburg, Nova Scotia	Vice President	Corporate Director
DARREN N. CABRAL Toronto, Ontario	Vice-President	Vice-President, Connor, Clark & Lunn Capital Markets Inc.

W. Neil Murdoch: *CFA; B.Comm, 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.

Philip K. Gow: *CFA; BA, Dalhousie University; MBA, Saint Mary's University.* Mr. Gow was a director and Chief Financial Officer of Connor, Clark & Lunn Capital Markets Inc. until July, 2008. His principal occupation is corporate director.

Michael W. Freund: *B.Bus.Sci., University of Cape Town.* Mr. Freund has held various management positions within the Connor, Clark & Lunn Financial 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.

During the past five years, all of the directors and officers of the Manager listed above have held their present principal occupations (or similar positions with their present employer or its affiliates), except for Darren N. Cabral who joined Connor, Clark & Lunn Capital Markets Inc. in May 2007.

The Portfolio Manager

Connor, Clark & Lunn Investment Management Ltd. will act as portfolio manager to the Fund. The Portfolio Manager, part of the Connor, Clark & Lunn Financial Group and an affiliate of the Manager, was established in March 1982, and has offices in Vancouver and Toronto. The Portfolio Manager managed assets worth approximately \$16.7 billion as at December 31, 2008, approximately \$6.9 billion of which was in fixed income securities.

The name, municipality of residence, position with the Portfolio Manager and principal occupation of each of the directors and the officers of the Portfolio Manager involved in managing the assets of the Fund are set out below:

<u>Name and Municipality</u>	<u>Position with the Portfolio Manager</u>	<u>Principal Occupation</u>
LARRY R. LUNN Vancouver, British Columbia	Director, Chairman and President	Director, Chairman and President, Connor, Clark & Lunn Investment Management Ltd.
PHILLIP COTTERILL West Vancouver, British Columbia	Director	Director of Connor, Clark & Lunn Investment Management Ltd.
MICHAEL W. FREUND Toronto, Ontario	Director	Managing Partner, Connor, Clark & Lunn Financial Group
MARTIN L. GERBER West Vancouver, British Columbia	Director and Commodity Advising Officer	Director and Commodity Advising Officer, Clark & Lunn Investment Management Ltd.
BRIAN EBY West Vancouver, British Columbia	Director and Vice President	Director and Vice President, Connor, Clark & Lunn Investment Management Ltd.
GORDON H. MACDOUGALL West Vancouver, British Columbia	Director and Vice President	Director and Vice President, Connor, Clark & Lunn Investment Management Ltd.
J. WARREN STODDART Toronto, Ontario	Director	Managing Partner, Connor, Clark & Lunn Financial Group
GARY BAKER West Vancouver, British Columbia	Director	Director of Connor, Clark & Lunn Investment Management Ltd.
SCOTT HACKNEY Etobicoke, Ontario	Vice President	Vice President, Connor, Clark & Lunn Investment Management Ltd.
KATHLEEN A. LEAVENS Vancouver, British Columbia	Compliance Officer	Compliance Officer, Connor, Clark & Lunn Investment Management Ltd.

Each of the foregoing has held his or her current office or has held a similar office with the Portfolio Manager during the five years preceding the date hereof, except Mr. Baker who was appointed to the Board of Portfolio Manager in 2006.

Connor, Clark & Lunn Investment Management Ltd., will be primarily responsible for investing the Portfolio. The team of individuals working at the Portfolio Manager responsible for the Portfolio consists of 4 individuals each of whom has significant experience in managing investment portfolios. The investment managers of the Portfolio Manager are Brian Eby, Jane Justice, Chris Kalbfleisch and David George.

The biographies of each of the principal members of The Portfolio Manager that will be managing the Portfolio are as follows:

Brian Eby: *CFA; MBA McMaster University.* Mr. Eby is a partner of Connor, Clark & Lunn Investment Management Partnership, and co-head of the fixed income team responsible for fixed income management strategy and research. Mr. Eby has 21 years experience covering three separate recessionary periods. His

experience outside portfolio management includes advising in the structuring/restructuring of public debt programs and underwriting of corporate bonds.

S. Jane Justice: *B.Mgmt. Capilano College.* Ms. Justice is a Partner of Connor, Clark & Lunn Investment Management Partnership and a member of the fixed income team responsible for bond trading and risk management.

Chris Kalbfleisch: *CFA; MSc. Statistics University of Western Ontario.* Mr. Kalbfleisch is a partner of Connor, Clark & Lunn Investment Management Partnership and is a member of the fixed income team. Mr. Kalbfleisch is a quantitative financial markets specialist and is responsible for research. In addition to his experience with the Portfolio Manager, Mr. Kalbfleisch has extensive financial market experience that includes alternative asset portfolio management, derivatives trading and credit risk management.

David George: *CFA; BComm, University of British Columbia.* David is a partner of Connor, Clark & Lunn Investment Management Partnership and a member of the fixed income team responsible for research and analysis.

Details of the Portfolio Management Agreement

Under the Portfolio Management Agreement, the Portfolio Manager is required to act at all times on a basis which is fair and reasonable to the Fund, to act honestly and in good faith with a view to the best interests of the Fund, and in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Portfolio Management Agreement provides that the Portfolio Manager shall not be liable in any way for any default, failure or defect in the Innovative Tier 1 Capital Securities or other securities held by the Fund or for any loss or diminution in the value of such securities or other loss or damage suffered by any such person or for any errors of judgement, acts or omissions if it has satisfied the duties and standard of care, diligence and skill set forth above. The Portfolio Manager will, however, incur liability in cases of wilful misconduct, bad faith or negligence or breach of its standard of care set forth above.

The Portfolio Management Agreement will continue in effect unless earlier terminated in accordance with the terms thereof. If the Manager is terminated, the Portfolio Management Agreement will terminate at such time. The Manager may terminate the Portfolio Management Agreement if the Portfolio Manager has committed certain events of bankruptcy or insolvency, has lost any registration, licence or other authorization required to perform its services thereunder or is in material breach or default of the provisions thereof and such material breach or default has not been cured within 20 Business Days after notice thereof has been given to the Portfolio Manager by the Manager. Except as described above, the Portfolio Manager cannot be terminated as the portfolio manager of the Fund.

The Portfolio Manager may terminate the Portfolio Management Agreement upon 20 business days' notice in the event that the Fund or the Manager is in material breach or default of the provisions thereof and such material breach or default has not been cured within 20 business days' notice of same to the Manager and to the Fund, or in the event that there is a material change in the investment guidelines of the Fund.

If the Portfolio Management Agreement is terminated, the Manager will promptly appoint a successor portfolio manager to carry out the activities of the Portfolio Manager until a meeting of Unitholders is held to confirm such appointment.

Any amendment to the Portfolio Management Agreement which would have an adverse effect on the ability of the Fund to perform any of its material obligations under any material agreements to which it is a party requires the prior written consent of the Manager, which consent shall not be unreasonably withheld or delayed.

The Manager, in its capacity as manager of the Fund, is responsible for the payment of the fees of the Portfolio Manager out of its fees.

Conflicts Of Interest — Portfolio Manager

The services of the Portfolio Manager and its officers and directors are not exclusive to the Fund or the Manager. The Portfolio Manager or any of its affiliates and associates may, at any time, engage in the promotion, management or investment management of any other entity which invests primarily in the same securities as those held by the Fund, and provide similar services to other investment funds and other clients and engage in other activities. Investment decisions for the Fund will be made independently of those made for other clients and independently of investments of the Portfolio Manager. On occasion, however, the Portfolio Manager may make the same investment for the Fund and for one or more of its other clients. If the Fund and one or more of the other clients of the Portfolio Manager are engaged in the purchase or sale of the same security, the transactions will be effected on an equitable basis.

Independent Review Committee

The Manager has appointed an independent review committee (the “Independent Review Committee”) in accordance with NI 81-107 comprised of three members, each of whom is independent of the Manager and entities related to the Manager. The Independent Review Committee intends to function in accordance with applicable securities law, including NI 81-107. The mandate of the Independent Review Committee is to review and provide its decisions to the Manager on conflict of interest matters that the Manager has referred to the Independent Review Committee for review. The Manager is required to identify conflict of interest matters inherent in its management of the Fund and request input from the Independent Review Committee in respect of how it manages those conflicts of interest, as well as its written policies and procedures outlining its management of those conflicts of interest. The Independent Review Committee has adopted a written charter which it follows when performing its functions and is subject to requirements to conduct regular assessments. In performing their duties, members of the Independent Review Committee are required to act honestly, in good faith and in the best interests of the Fund and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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 and by Connor, Clark & Lunn Managed Portfolios Inc., an affiliate of the Manager.

The fees and other reasonable expenses of members of the Independent Review Committee, as well as premiums for insurance coverage for such members, will be paid by the Fund and approximately 20 other applicable investment funds managed by the Manager and Connor, Clark & Lunn Managed Portfolios Inc. with each fund’s share based on a complexity factor approved by the Independent Review Committee on a pro rata basis. It is expected that the annual retainer fees (but not including expenses) and insurance for the Independent Review Committee for all such funds collectively will be approximately \$55,000. In addition, the Fund has agreed to indemnify the members of the Independent Review Committee against certain liabilities.

Trustee

RBC Dexia Investor Services Trust is the trustee of the Fund under the Trust Agreement and, as such, is responsible for certain aspects of the day-to-day administration of the Fund as described in the Trust Agreement, including executing instruments on behalf of the Fund.

The Trustee may resign upon 60 days’ notice to Unitholders and the Manager. The Trustee may be removed with the approval of a simple majority vote cast at a meeting of unitholders called for such purpose or by the Manager, if the Trustee has committed certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Trust Agreement which breach has not been cured within 30 days after notice thereof has been given to the Trustee. Any such resignation or removal shall become effective only upon the acceptance of appointment by a successor. If the Trustee resigns, its successor may be appointed by the Manager. The successor must be approved by Unitholders if the Trustee is removed by Unitholders. If no successor has been appointed within 90 days, the Fund will be terminated.

The Trust Agreement provides that the Trustee shall not be liable in carrying out its duties under the Trust Agreement except where it is in breach of its obligations under the Trust Agreement or where the Trustee fails to act honestly and in good faith, and in the best interests of Unitholders to the extent required by laws applicable to trustees, 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, or any of its officers, directors, employees or agents, in respect of certain liabilities incurred by it in carrying out its duties.

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

Custodian

RBC Dexia Investor Services Trust will act as Custodian of the assets of the Fund pursuant to the Custodian Agreement. The Custodian, or an affiliate of the Custodian, will also carry out certain aspects of the administration of the Fund, including calculating NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund.

Auditor

The auditors of the Fund are PricewaterhouseCoopers LLP, Chartered Accountants, at 77 King Street West, Suite 3000, Toronto, Ontario, M5K 1G8.

The Promoter

The Manager may be considered a promoter of the Fund by reason of its initiative in forming and establishing the Fund. The Manager will not receive any benefits, directly or indirectly, from the issuance of Units offered hereunder other than amounts paid to the Manager as described under “Fees and Expenses”.

VALUATION, TOTAL ASSETS AND NET ASSET VALUE

Calculation of Net Asset Value

The Manager will calculate the Net Asset Value per Unit as at the close of business on each Valuation Date. The Net Asset Value per Unit will be calculated upon the demand of Unitholders at no additional cost.

Valuation Policies and Procedures

For reporting purposes other than financial statements, the Net Asset Value of the Fund on a particular date will be equal to (i) the Total Assets less (ii) the aggregate value of the liabilities of the Fund. The Net Asset Value on a particular date will be equal to the Net Asset Value, including an allocation of any net realized capital gains or other amounts payable to Unitholders on or before such date expressed in Canadian dollars at the applicable exchange rate on such date. The Net Asset Value per Unit on any day will be obtained by dividing the Net Asset Value on such day by the number of Units then outstanding.

For the purpose of calculating Net Asset Value of the Fund on a Valuation Date, the Total Assets, and any short positions, of the Fund on such Valuation Date will be determined as follows:

- (a) the value of any cash on hand or on deposit, bill, demand note, account receivable, prepaid expense, distribution, or other amount receivable (or declared to holders of record of securities owned on a date before the Valuation Date as of which the Total Assets are being determined, and to be receivable) and interest accrued and not yet received will be deemed to be the full amount thereof provided that if the Manager has determined that any such deposit, bill, demand note, account receivable, prepaid expense, distribution, or other amount receivable (or declared to holders of record of securities owned on a date before the Valuation Date as of which the Total Assets are being determined, and to be receivable) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof will be deemed to be such value as the Manager determines to be the fair market value thereof;

- (b) the value of any bonds, debentures, other debt obligations and short positions will be valued by taking the average of the bid and ask prices quoted by a major dealer or recognized information provider in such securities on a Valuation Date at such times as the Manager, in its discretion, deems appropriate. Short-term investments including notes and money market instruments will be valued at cost plus accrued interest;
- (c) the value of any security which is listed or traded upon a stock exchange (or if more than one, on the principal stock exchange for the security, as determined by the Manager) will be determined by taking the latest available sale price of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless in the opinion of the Manager such value does not reflect the value thereof and in which case the latest offer price or bid price will be used), as at the Valuation Date on which the Total Assets are being determined, all as reported by any means in common use;
- (d) the value of any security which is traded over-the-counter will be priced at the average of the last bid and asked prices quoted by a major dealer or recognized information provider in such securities;
- (e) the value of any security or other asset for which a market quotation is not readily available will be its fair market value on the Valuation Date on which the Total Assets are being determined as determined by the Manager (generally the Manager will value such security at cost until there is a clear indication of an increase or decrease in value);
- (f) any market price reported in currency other than Canadian dollars will be translated into Canadian currency at the rate of exchange available from the Custodian on the Valuation Date on which the Total Assets are being determined;
- (g) listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Manager and investments in private companies and other assets for which no published market exists will be valued at the lesser of cost and the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair market value is determined to be appropriate by the Manager;
- (h) the value of any forward contract will be the value that would be realized by the Fund if, on the date on which the Total Assets are being determined, the forward contract were closed out in accordance with its terms; and
- (i) the value of any security or property to which, in the opinion of the Manager, the application of the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) will be the fair market value thereof determined in good faith in such manner as the Manager from time to time adopts.

The Net Asset Value per Unit is calculated in Canadian dollars in accordance with the rules and policies of the Canadian Securities Administrators or in accordance with any exemption therefrom that the Fund may obtain. The Net Asset Value per Unit determined in accordance with the principles set out above may differ from Net Asset Value per Unit determined under Canadian generally accepted accounting principles.

Units may be redeemed for a redemption price per Unit equal to 100% of the Net Asset Value per Unit as at the Redemption Date. The Net Asset Value per Unit will vary depending on the performance of the Portfolio, which depends on a number of factors, including the value of the securities included in the Portfolio.

Reporting of Net Asset Value

The Net Asset Value per Unit will be provided weekly to Unitholders at no cost on the Manager's website at www.cclcapitalmarkets.com, and will also be available to Unitholders upon request, at no cost, by calling 1-866-642-6001.

DESCRIPTION OF THE UNITS

The Units

The Fund is authorized to issue an unlimited number of Units of a single class of transferable, redeemable units of beneficial interest, each of which represents an equal undivided interest in the net assets of the Fund.

Each Unit entitles the holder to the same rights and obligations as a Unitholder and no Unitholder is entitled to any privilege, priority or preference in relation to any other holder of Units. 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 Fund, including distributions of net realized capital gains, if any. On the redemption of Units, however, the Fund may in its sole discretion, designate payable to redeeming Unitholders, as part of the redemption price, any capital gains realized by the Fund in the taxation year in which the redemption occurred. On termination or liquidation of the Fund, the Unitholders of record are entitled to receive on a *pro rata* basis with other holders of Units the assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses of the Fund. Unitholders will have no voting rights in respect of securities held by the Fund. The Fund has delegated to the Portfolio Manager the responsibility for voting on matters for which the Fund receives, in its capacity as a securityholder, proxy materials for a meeting of securityholders of an issuer included in the Portfolio. See "Proxy Voting Disclosure".

On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004* (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises, (i) the trust is a reporting issuer under the *Securities Act* (Ontario) and (ii) the trust is governed by the laws of Ontario. The Fund is a reporting issuer under the *Securities Act* (Ontario) and it is governed by the laws of Ontario by virtue of the provisions of the Trust Agreement.

UNITHOLDER MATTERS

Meetings of Unitholders

A meeting of Unitholders may be convened by the Trustee by a written requisition specifying the purpose of the meeting, and must be convened by the Trustee if requisitioned by Unitholders holding not less than 10% of the then outstanding Units entitled to vote on the matter by a written requisition specifying the purpose of the meeting.

Notice of all meetings of Unitholders will be given in accordance with the terms of the Trust Agreement. The quorum for a meeting of Unitholders is one or more Unitholders present in person or represented by proxy holding not less than five percent of the Units then outstanding. In the event that such quorum is not present within one-half hour after the time called for a meeting, the meeting will stand adjourned to such day no later than 14 days later and to such time and place as may be appointed by the chairman of the meeting (which for greater certainty can be at a later time on the date of the originally scheduled meeting), and if at such adjourned meeting a quorum is not present, the Unitholders present in person or by proxy at such adjourned meeting will be deemed to constitute a quorum.

A matter requiring an Extraordinary Resolution requires an affirmative vote of at least two-thirds of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of considering such resolution.

The Fund, subject to obtaining any necessary regulatory approvals, does not intend to hold annual meetings of Unitholders.

Amendment of Trust Agreement

Except as provided below, the Trust Agreement may be amended by an Ordinary Resolution approved at a meeting of Unitholders duly convened and held in accordance with the provisions in that regard contained in the Trust Agreement, or by the written consent in lieu of a meeting if there is only one Unitholder.

The following matters may only be undertaken with the approval of Unitholders by an Extraordinary Resolution:

- (a) the removal of the Trustee or any of its affiliates as the trustee of the Fund;
- (b) any change in the investment objectives or investment restrictions of the Fund, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (c) any change of the Manager except where the new manager is an affiliate of the Manager;
- (d) any increase in the Management Fee;
- (e) any amendment, modification or variation in the provisions or rights attaching to the Units;
- (f) any merger, arrangement or similar transaction or the sale of all or substantially all of the assets of the Fund other than in the ordinary course;
- (g) any liquidation, dissolution or termination of the Fund except if it is determined by the Manager, in its sole discretion, to be in the best interest of the Unitholders or otherwise in accordance with the terms of the Trust Agreement; and
- (h) any amendment to the above provisions except as permitted by the Trust Agreement.

Notwithstanding the foregoing, the Trustee is entitled to amend the Trust Agreement without the consent of, or notice to, the Unitholders, to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Trust Agreement and any provisions of any law, regulation or requirements of any governmental authority applicable to or affecting the Fund;
- (b) make any change or correction in the Trust Agreement which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Trust Agreement into conformity with applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities or investment fund industries, provided such amendments do not in the opinion of the Manager adversely affect the pecuniary value of the interest of the Unitholders or restrict any protection for the Trustee or the Manager or increase their respective responsibilities; or
- (d) provide added protection or benefit to Unitholders.

Reporting to Unitholders

The Fund will make available to Unitholders such financial statements and other continuous disclosure documents as are required by applicable law, including unaudited interim and audited annual financial statements, prepared in accordance with Canadian generally accepted accounting principles. The Fund will make available to each Unitholder annually and within the time prescribed by law, information necessary to enable such Unitholder to complete an income tax return with respect to the amounts payable by the Fund.

TERMINATION OF THE FUND

The Fund will have a term of approximately five years, terminating on June 30, 2014, unless terminated earlier in accordance with the Trust Agreement. Pursuant to the Trust Agreement, the Fund will terminate on the date specified in an Extraordinary Resolution of Unitholders calling for the termination of the Fund or when terminated by the Manager, as described below. In addition to such termination, the Trust Agreement also provides that:

- (a) in the event that the Manager resigns and no new Manager is appointed by the Unitholders within 120 days of the Manager giving notice to the Trustee of such resignation, the Fund will automatically terminate on the date which is 60 days following the end of such 120 day period; and

- (b) the Manager may, in its discretion, terminate the Fund without the approval of Unitholders if, in its opinion, it would be in the best interests of the Unitholders.

Upon termination, the Fund will distribute to Unitholders their *pro rata* portions of the remaining assets of the Fund after all liabilities of the Fund have been satisfied or appropriately provided for. There can be no assurance that Unitholders will receive \$25.00 per Unit upon the termination of the Fund.

The Trust Agreement provides that prior to the termination of the Fund, the Manager will use commercially reasonable efforts to dispose of all of its assets and will satisfy or make appropriate provision for all liabilities of the Fund. The Trust Agreement provides that the Manager may, in its discretion and with the consent of Unitholders, postpone any termination date by a period of up to 180 days if the Manager determines that it will be unable to convert all of its assets to cash prior to any termination date and the Manager determines that it would be in the best interests of the Unitholders to do so.

Upon termination, the Trust Agreement provides that the Fund will distribute to Unitholders their *pro rata* portions of the remaining assets of the Fund, which will include cash and, to the extent liquidation of certain assets is not practicable or the Manager considers such liquidation not to be appropriate prior to any termination date, such unliquidated assets *in specie* rather than in cash. Following such distribution, the Fund will be dissolved.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Manager is entitled to receive the Management Fee and the Portfolio Manager will be entitled to receive fees from the Manager pursuant to the Portfolio Management Agreement. See “Organization and Management Details of the Fund” and “Fees and Expenses”.

PROXY VOTING DISCLOSURE FOR PORTFOLIO SECURITIES HELD

Policies and Procedures

Subject to compliance with the provisions of applicable law, the Portfolio Manager acting on the Manager’s behalf has the right to vote proxies relating to the securities in the Portfolio. Proxies must be voted in a manner consistent with the best interests of the Fund.

Because the Fund does not purchase securities for the purposes of exercising control or direction over the securities of the Portfolio, as a general rule, proxies will be voted with management on routine business. Examples of routine business are voting on the size, nomination and election of the board of directors and the appointment of auditors. All other special or non-routine matters will be assessed on a case-by-case basis with a focus on the potential impact of the vote on the value of the Fund’s investment. Examples of non-routine business are stock based compensation plans, executive severance compensation arrangements, shareholders rights plans, corporate restructuring plans, going private transactions in connection with leveraged buyouts, supermajority approval proposals, and stakeholder or shareholder proposals.

On rare occasions, the Portfolio Manager may abstain from voting a proxy or a specific proxy item when it is concluded that the potential benefit of voting the proxy is outweighed by the cost of voting the proxy. In addition, the Portfolio Manager will not vote proxies received for securities which are no longer held in the Portfolio.

Proxy Voting Conflicts of Interest

Where proxy voting could give rise to a conflict of interest or perceived conflict of interest, in order to balance the interest of the Fund in voting proxies with the desire to avoid the perception of a conflict of interest, the Portfolio Manager has instituted procedures to help ensure that the Fund’s proxy is voted in accordance with the business judgment of the person exercising the voting rights on behalf of the Fund, uninfluenced by considerations other than the best interests of the Fund.

The procedures for voting proxies where there may be a conflict of interest include escalation of the issue to the Independent Review Committee, for their consideration and advice, although the responsibility for deciding how to vote the Fund’s proxies and for exercising the vote remains with the Portfolio Manager.

Disclosure of Proxy Voting Guidelines and Record

A copy of the Portfolio Manager's proxy voting guidelines will be made available on the Internet at www.cclcapitalmarkets.com. The most recent proxy voting record for the Fund for the most recent period ended June 30 of each year will also be available on the Internet at www.cclcapitalmarkets.com.

MATERIAL CONTRACTS

The only material contracts entered into by the Fund or the Manager during the past two years or to which either of them will become a party prior to the Closing, other than during the ordinary course of business, are as follows:

- (a) the Trust Agreement referred to under "Overview of the Legal Structure of the Fund";
- (b) the Management Agreement referred to under "Organization and Management Details of the Fund — Details of the Management Agreements";
- (c) the Custodian Agreement to be entered into on or prior to the Closing Date referred to under "Organization and Management Details of the Fund — The Custodian";

Copies of the foregoing documents may be examined during normal business hours at the principal office of the Fund. Copies of the Trust Agreement may be obtained at any time from the Manager on written request.

EXPERTS

Certain legal matters in connection with the issuance and sale of the Units offered by this prospectus will be passed upon on behalf of the Fund by Stikeman Elliott LLP.

The auditors of the Fund are PricewaterhouseCoopers LLP, Chartered Accountants, Licensed Public Accountants. PricewaterhouseCoopers LLP is independent with respect to the Fund within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

EXEMPTIONS AND APPROVALS

The Fund has applied to the AMF pursuant to Part 17 of National Instrument 81-106 *Investment Fund Continuous Disclosure* and Article 263 of the *Securities Act* (Québec), for relief from the requirement to calculate Net Asset Value at least once every business day as required by Part 14 of National Instrument 81-106. The AMF granted the requested relief on May 15, 2009 and as a result the Fund will calculate Net Asset Value on the demand of Unitholders or as otherwise necessary. The Fund continues to rely on the exemption granted by the AMF as of the date of this prospectus and expects to continue to rely on such exemption.

INDEPENDENT AUDITORS' CONSENT

We have read the prospectus of Portfolio Trust (the "Fund") dated May 27, 2009 relating to the filing of the Fund to become a reporting issuer under the *Securities Act* (Québec). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the Unitholder and the Manager of the Fund on the statement of net assets of the Fund as at May 27, 2009. Our report is dated May 27, 2009.

Toronto, Ontario
May 27, 2009

(Signed) "PRICEWATERHOUSECOOPERS LLP"
Chartered Accountants, Licensed Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Unitholder and the Manager of Portfolio Trust

We have audited the statement of net assets of Portfolio Trust (the "**Fund**") as at May 27, 2009. This statement of net assets is the responsibility of the Fund's management. Our responsibility is to express an opinion on this statement of net assets based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement of net assets is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of net assets. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of net assets.

In our opinion, this statement of net assets presents fairly, in all material respects, the financial position of the Fund as at May 27, 2009 in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 27, 2009

(Signed) "PRICEWATERHOUSECOOPERS LLP"
Chartered Accountants, Licensed Public Accountants

PORTFOLIO TRUST
STATEMENT OF NET ASSETS
As at May 27, 2009

Assets

Cash \$25

Unitholder's Equity

Unitholder's Equity (Note 2) \$25

The accompanying notes are an integral part of this statement of net assets.

Approved on behalf of Portfolio Trust
By: Connor, Clark & Lunn Capital Markets Inc. as Manager

(Signed) "W. NEIL MURDOCH"
Director

(Signed) "MICHAEL FREUND"
Director

PORTFOLIO TRUST
NOTES TO STATEMENT OF NET ASSETS
As at May 27, 2009

1. ORGANIZATION

Portfolio Trust (the “**Fund**”) is an investment fund established under the laws of the Province of Ontario pursuant to a Trust Agreement dated as of May 22, 2009.

The Fund has retained Connor, Clark & Lunn Capital Markets Inc. to act as the manager of the Fund (the “**Manager**”).

2. UNITS AUTHORIZED AND OUTSTANDING

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units (the “**Units**”). On May 22, 2009, the Fund was settled and issued an initial Unit for cash consideration of \$25 to the Manager, the settlor of the Fund.

Units may be redeemed at any time for a redemption price per Unit equal to the net assets per Unit as at the business day on which Units are surrendered by a holder of Units for redemption by the Fund.

3. MANAGEMENT FEES

The Manager will receive a Management Fee from the Fund and Canadian Banc Capital Securities Trust equal in the aggregate to 0.50% per annum of the net asset value of the Fund, calculated and payable monthly in arrears, plus applicable taxes.

4. CUSTODIAN

Pursuant to a custodial agreement, the Fund will retain RBC Dexia Investor Services Trust to act as custodian of the assets of the Fund.

CERTIFICATE OF THE FUND, THE MANAGER AND THE PROMOTER

Dated: May 27, 2009

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities qualified by this prospectus as required by the securities legislation of the Province of Québec.

PORTFOLIO TRUST

By its Attorney **CONNOR, CLARK & LUNN CAPITAL MARKETS INC.**

By: *(Signed)* "W. NEIL MURDOCH"
Chief Executive Officer

By: *(Signed)* "MICHAEL FREUND"
Chief Financial Officer

On behalf of the Board of Directors
of
Connor, Clark & Lunn Capital Markets Inc.

By: *(Signed)* "W. NEIL MURDOCH"
Director

By: *(Signed)* "MICHAEL FREUND"
Director

Connor, Clark & Lunn Capital Markets Inc.
as Manager and Promoter

By: *(Signed)* "W. NEIL MURDOCH"
Chief Executive Officer

