

2005 BCSECCOM 647

September 30, 2005

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - National Instrument 81-106, s.17.1 - Continuous Disclosure Requirements for Investment Funds - An investment fund wants relief from the requirement in s. 14.2(3)(b) of National Instrument 81-106 to calculate its net asset value at least once every business day - The fund is a closed-end investment fund that allows redemptions or retractions no more frequently than once per month; units of the fund are listed on a stock exchange and unitholders can buy or sell units of the fund through the exchange; the fund calculates its net asset value on a regular basis and makes that calculation available to the public on request

Applicable British Columbia Provisions

National Instrument 81-106, s. 14.2(3)(b) and 17.1

In the Matter of
the Securities Legislation
of British Columbia, Alberta, Quebec, Saskatchewan, Manitoba, Ontario,
Newfoundland and Labrador, New Brunswick, Nova Scotia, Northwest
Territories, Yukon, and Nunavut
(the Jurisdictions)

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In The Matter of Connor, Clark & Lunn Conservative Income Fund II (the Filer)

MRRS Decision Document

Background

The local securities regulatory authority or regulator (the Decision Maker) in each of the Jurisdictions has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the Legislation) for an exemption from the daily calculation of net asset value requirement of the Legislation (the Requested Relief):

Under the Mutual Reliance Review System for Exemptive Relief Applications

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- (a) the Ontario Securities Commission is the principal regulator for this application, and
- (b) this MRRS decision document evidences the decision of each Decision Maker.

Interpretation

Defined terms contained in National Instrument 14-101 Definitions h

In this decision

“Common Share Portfolio” means a portfolio of common shares of Canadian public companies;

“Conservative Income Fund II” means a newly created investment trust to be established under the laws of Ontario;

“Counterparty” means the Bank of Montreal;

“Forward Agreement” means a forward purchase and sale agreement between the Counterparty and the Filer which will provide the Filer with the economic return generated by the Portfolio;

“Investment Manager” means Connor, Clark & Lunn Investment Management Ltd., the investment manager to Conservative Income Fund II;

“Manager” means Connor, Clark & Lunn Capital Markets Inc., the manager of the Filer;

“NI 81-102” means National Instrument 81-102 – Mutual Funds;

“NI 81-106” means National Instrument 81-106 – Investment Fund Continuous Disclosure;

“Portfolio” means a portfolio consisting of income producing securities including Canadian business income trusts, real estate investment trusts, utility income trusts, corporate bonds and convertible bonds;

“Preliminary Prospectus” means the preliminary prospectus of the Filer dated August 23, 2005;

“Prospectus” means the final prospectus of the Filer;

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“Termination Date” means a date that is approximately ten years from the closing date of the offering of Units under the Prospectus;

“TSX” means the Toronto Stock Exchange;

“Units” means the units of the Filer; and

“Unitholders” means the holders of Units.

Representations

This decision is based on the following facts represented by the Filer:

1. The Filer will be an investment trust established under the laws of Ontario by a trust agreement between the Manager and The Royal Trust Company as trustee.
2. The Filer’s investment objectives are: (i) to provide Unitholders with a stable stream of tax-efficient monthly cash distributions targeted to be \$0.05416 per Unit (representing a yield of approximately 6.5% per annum on the issue price of \$10.00 per Unit); and (ii) preserve the net asset value per Unit of the Filer in order to return at least the original issue price of Units (\$10.00 per Unit) to Unitholders on the Termination Date.
3. The Filer will invest the net proceeds of the offering of Units in the Common Share Portfolio.
4. The Filer will enter into the Forward Agreement with the Counterparty, which will provide the Filer with the economic return generated by the Portfolio. Under the terms of the Forward Agreement, the Counterparty will agree to pay to the Filer, on or about the Termination Date, as the purchase price for the Common Share Portfolio, the economic return provided by the Portfolio.
5. The Portfolio will be held by Conservative Income Fund II.
6. From time to time, the Filer may hold a portion of its assets in cash and cash equivalents.
7. The Filer intends to partially settle the Forward Agreement prior to the Termination Date in order to fund monthly distributions as well as redemptions and repurchases of Units and its operating expenses from time to time.

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8. The Manager is the promoter of the Filer and has been retained to act as manager for both the Filer and Conservative Income Fund II. The Manager will be responsible for providing or arranging for the provision of administrative services required by both the Filer and Conservative Income Fund II.
9. The Manager will appoint the Investment Manager as investment manager to Conservative Income Fund II.
10. A custodian meeting the criteria of section 6.2 of NI 81-102 will act as custodian of the assets of the Filer and Conservative Income Fund II.
11. The Units are expected to be listed and posted for trading on the TSX. An application requesting conditional listing approval has been made on behalf of the Filer to the TSX.
12. Units may be surrendered at any time for redemption by the Filer. The Units will be redeemable at the option of the Unitholder on a monthly basis at a price computed by reference to the market price of the Units and, commencing in 2006, the Units will also be redeemable once annually at a price computed by reference to net asset value of the Filer. As a result, the Filer will not be a “mutual fund” under applicable securities legislation, but will be a “non-redeemable investment fund” for purposes of NI 81-106.
13. The net asset value per Unit of the Filer will be calculated weekly. The Manager will post the net asset value per Unit of the Filer on its website.
14. The Investment Manager will employ leverage in the Portfolio to enhance returns when it considers market conditions appropriate. The Investment Manager intends to reduce or eliminate leverage and may increase the allocation to cash when the Investment Manager believes the outlook for market performance is unfavourable.
15. The Preliminary Prospectus contains, and the Prospectus will contain, disclosure with respect to securities lending by the Filer.

Decision

Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the decision has been met.

The decision of the Decision Makers under the Legislation is that the Requested Relief is granted provided that the Prospectus discloses:

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- (i) that the net asset value calculation of the Filer is available to the public upon request; and
 - (ii) a website that the public can access for this purpose
- for so long as:
- (iii) the Units are listed on the TSX; and
 - (iv) the Filer calculates its net asset value at least weekly.

Leslie Byberg
Manager, Investment Funds
Ontario Securities Commission