



## NAVINA/LAZARD STRATEGIC TRUST

Annual Report

December 31, 2009

## **NAVINA/LAZARD STRATEGIC TRUST**

### **CORPORATE INFORMATION**

**Manager:**

Navina Asset Management Inc.  
220 Bay Street, Suite 1500  
Toronto, On M5J 2W4

**Auditor:**

Ernst & Young LLP  
Ernst & Young Tower, 222 Bay Street  
P.O. Box 251, Toronto-Dominion Centre  
Toronto, On M5K 1J7

**Legal Counsel:**

Blakes, Cassels and Graydon LLP  
199 Bay Street  
Suite 2800 Commerce Court West  
Toronto, ON M5L 1A9

**Custodian:**

State Street Trust Company Canada  
30 Adelaide Street East, Suite 1100  
Toronto, On M5C 3G6

**Transfer Agent:**

SGGG Fund Services Inc.  
60 Yonge Street  
Suite 1200  
Toronto, ON M5E 1H5

This Annual Management Report of Fund Performance (“MRFP”) for Navina/Lazard Strategic Trust (the “Strategic Trust”) contain financial highlights and is does not contain the complete annual audited financial statements in the annual report of the Strategic Trust. You may request a copy of the Strategic Trust’s unaudited interim or audited financial statements, interim or annual MRFP, current proxy voting policies and procedures, or quarterly portfolio disclosure at no cost from Navina Asset Management Inc., by calling 1-800-513-3868, by writing to us at 220 Bay Street, Suite 1500, Toronto, Ontario, M5J 2W4, or by visiting our website at [www.navinaasset.com](http://www.navinaasset.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

The annual MRFPs and accompanying financial statements have been prepared by the manager and trustee of the Strategic Trust, Navina Asset Management Inc. and approved by the Board of Directors of the Manager. The financial statements were audited by Ernst & Young LLP, the external auditors of the Strategic Trust.

The Strategic Trust’s proxy voting disclosure record for the period ending June 30, 2010 will be available free of charge upon request at any time after August 31, 2010, by visiting our website at [www.navinaasset.com](http://www.navinaasset.com).

Navina Asset Management Inc. is the manager (the “Manager”) and trustee (the “Trustee”) of the Fund.

Effective January 1, 2010, the Manager, Navina Capital Corp., and Lawrence Asset Management Inc., effected an amalgamation of businesses and operations. The combined entity is named Navina Asset Management Inc.

### ***Forward Looking Statements***

Included in this annual MRFP are matters that constitute “forward-looking” information within the meaning of Canadian securities law. Such forward-looking statements may be identified by words such as “plans”, “proposes”, “estimates”, “intends”, “expects”, “believes”, “may” or words of a similar nature. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from such statements. Factors that could cause actual results to differ materially include among others, regulatory risks, risk inherent in foreign markets, commodity prices and competition. These factors are largely outside the control of the Fund. All subsequent forward-looking statements attributable to the Fund or its agents are expressly qualified in their entirety by these cautionary comments. Except as otherwise required by applicable securities statutes or regulation, the Fund expressly disclaims any intent or obligation to update publicly forward-looking information, whether as a result of new information, future events or otherwise.

## **MANAGEMENT REPORT OF FUND PERFORMANCE**

Navina/Lazard Strategic trust is a non-offering investment fund established under the laws of the Province of Ontario, which proposes to issue units from time to time in reliance on exemptions from the applicable prospectus and registration requirements. The Strategic Trust effectively began operations on June 10, 2009 (“Commencement of Operations”).

The Strategic Trust was established for the purpose of providing the Navina/Lazard U.S. High Yield Bond Fund (the “Fund”) with indirect economic exposure to a portfolio of securities. This is achieved by the Fund investing the net proceeds of its initial public offering in a portfolio of common shares (the “Common Share Portfolio”) and entering into a forward purchase and sale agreement (the “Forward Agreement”) with BMO Capital Markets Inc. (the “Counterparty”). As a result of the Forward Agreement, the returns of the Fund are intended to correlate with an investment in the Strategic Trust.

### ***Investment Objectives and Strategies***

The Strategic Trust’s investment objectives are to provide the Counterparty to the Forward Agreement with distributions and the opportunity for capital appreciation in order for the Fund to meet its investment objectives.

To pursue its investment objectives, the Strategic Trust acquired a portfolio comprised primarily of U.S. dollar denominated high yield corporate bonds (the “Portfolio”) actively managed by Lazard Asset Management (Canada), Inc. (the “Portfolio Advisor”). The Portfolio Advisor appointed Lazard Asset Management LLC (“LAM”, and together with the “Portfolio Advisor”, “Lazard”) as its sub-advisor.

## **Risk**

The Strategic Trust's investment objectives and strategy expose it to various types of risk associated with the financial instruments in which it invests directly. In addition to general market risks, the Strategic Trust is subject to other risks, including the following:

- Interest rate risk
- Credit risk
- Foreign currency and market risk
- Liquidity risk

For a detailed disclosure of risks associated with an investment in the Strategic Trust please refer to the Strategic Trust's prospectus.

## **RESULTS OF OPERATIONS**

### **Portfolio**

As at December 31, 2009, the Trust held 36 primarily fixed income securities in its Portfolio.

### **Market Review**

High-yield market spreads tightened by about 150 basis points during the fourth quarter and by 1,175 basis points for the year. BB spreads tightened by 100 basis points for the fourth quarter, while CCC tightened by 230 basis points. The CCC index sector credit spread is now narrower than its long-term average, while the BB index spread is modestly wider than its long-term average. High-yield market flows were very healthy during the fourth quarter and for the year. New high-yield bond issuance in the U.S. market was a record \$38 billion in the fourth quarter and \$127 billion for all of 2009. Mutual Fund investors started the high-yield rally late in 2008 and invested approximately \$30 billion in 2009. The Moody's trailing twelve-month issuer default rate, as of December 2009, was 13.2%, down from a peak of 13.8% in November 2009. The portfolio experienced no defaults in 2009.

## **Outlook & Strategy**

High-yield performance in 2009 was exceptional by any measure and is likely not to be repeated in 2010. Even so, we are more constructive and positive on the market today than we have been in several years. We believe 2010 will be a year of high single digit returns for the U.S. high-yield market and that such returns will represent very good value for investors. In 2009, many of the near term refinancing and liquidity issues were resolved by new capital flows into high yield, particularly mutual funds. This leads us to believe high-yield default rates have peaked and that default rates will decline over the next year into the 4% to 6% range. Retail investors will likely continue to invest in high yield given the attractive return potential and the prospect of lower default rates. Any incremental demand for high yield securities is likely to further tighten high-yield credit spreads. We expect new issue flow to be vibrant in 2010 and, perhaps, at times to overwhelm the market, creating attractive entry points. As always, we expect to maintain a strong core of better-quality holdings.

### **Net Asset Value**

The net asset value per unit of the Strategic Trust as at December 31, 2009 was \$10.74. Net asset value was \$11.0 million.

### **Distributions**

For the period ended December 31, 2009, the Strategic Trust distributed \$1.5 million to unitholders in the form of reinvestment.

### **Redemptions**

The Strategic Trust's Units may be redeemed for a redemption price per Trust Unit (the "Redemption Amount") equal to the Net Asset Value per Trust Unit as at any business day (each a "Redemption Date"). Trust Units surrendered for redemption by a unitholder on or before 4:00 p.m. (Toronto time) on any Redemption Date will be redeemed as at such Redemption Date and the unitholder will receive payment in respect of any Trust Units surrendered for redemption on the second business day after the Redemption Date, subject to the Manager's right to suspend redemptions in certain circumstances. The Redemption Amount will be paid to the Manager by the Strategic Trust and the unitholder will receive payment on or before the second business day following the Redemption Date.

During the period ended December 31, 2009, there were 244,305 Trust Units redeemed for proceeds of \$2.4 million.

**Revenue and Expenses**

For the period ended December 31, 2009, the Strategic Trust generated \$1,057,041 in income from investments, \$40,445 in net realized gains on investments and \$94,743 in net realized gains on foreign exchange.

The Strategic Trust does not pay management fees or operating expenses. The management expense ratio ("MER") for the Strategic Trust was 0.04% as a result of the management fee charged on the Funds ETF position.

**Recent Developments**

In June 2009 the Canadian Institute of Chartered Accountants ("CICA") issued amendments to Handbook Section 3862 Financial Instruments - Disclosures ("Section 3862") requiring the addition of enhanced disclosure of the classification of the fair value measurements associated with the financial instruments held by a Fund. The classifications use a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy has the following levels: quoted prices in an active market (Level 1 - unadjusted inputs); inputs other than quoted prices (Level 2 - directly or indirectly derived from quoted prices); and inputs not based on observable market data (Level 3 - unobservable inputs). Any significant transfers between Level 1 and Level 2 are disclosed. The new disclosures are required for annual financial statements for fiscal years ending after September 30, 2009. The adoption of these new standards resulted in increased disclosures but did not affect the Strategic Trust's Net Assets or results of operations.

**Future accounting change**

The Canadian Accounting Standards Board has confirmed its plan to adopt all International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board by January 1, 2011. At December 31, 2009 the Manager's plan for conversion to IFRS includes discussions with the Strategic Trust's accountants and fund administrators on their process for conversion to IFRS. In addition, the Manager has reviewed the potential impact of IFRS on the Strategic Trust's NAV and financial statements. Based on this review, the Manager believes that the impact of IFRS will be primarily the disclosure and presentation of the Strategic Trust's financial statements, with no impact to the Strategic Trust's NAV.

**Related Party Transactions**

The Manager provides all administrative services required by the Strategic Trust, including the appointment of the Portfolio Advisor and LAM.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Strategic Trust and are intended to help in understanding the Strategic Trust's financial performance since its commencement of operations on June 10, 2009. This information is derived from the Strategic Trust's audited annual financial statements.

THE STRATEGIC TRUST'S NET ASSETS PER UNIT	2009
Net Assets per unit, beginning of period <sup>(1)</sup>	\$10.00
<b>Increase (decrease) from operations:</b>	
Total revenue	0.93
Total expenses	-
Realized gains for the period	0.12
Unrealized gains for the period	0.27
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>1.32</b>
<b>Distributions:</b>	
From income (excluding dividends)	(1.50)
From dividends	-
From capital gains	-
From return of capital	-
<b>Total annual distributions<sup>(3)</sup></b>	<b>(1.50)</b>
<b>Net Assets per unit, end of period<sup>(4) (5)</sup></b>	<b>\$10.70</b>

(1) Net assets, beginning of period for 2009 represents the original investment amount as at June 10, 2009, the date of the closing of the initial offering of the Strategic Trust.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.

(3) Distributions were reinvested without issuance of additional Strategic Trust units.

(4) This information is provided as at December 31 of the period shown.

(5) The Financial Highlights are not intended to act as a continuity of the opening and closing net asset value per unit.

RATIOS AND SUPPLEMENTAL DATA	2009
Net asset value (000's) <sup>(1)</sup>	11,027
Number of units outstanding (000's) <sup>(1)</sup>	1,026
Management expense ratio <sup>(2)</sup>	0.00%
Portfolio turnover rate <sup>(3)</sup>	8.13%
Trading expense ratio <sup>(4)</sup>	0.00%
Transaction net asset value per unit	\$10.74

(1) This information is provided as at December 31 of the period shown.

(2) Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period. For the 2009 period, the management expense ratio is annualized from the date of inception to December 31, 2009.

(3) The Strategic Trust's portfolio turnover rate indicates how actively the Portfolio Manager manages the Strategic Trust's portfolio investments. A portfolio turnover rate of 100% is equivalent to the Strategic Trust buying and selling all of the securities in its portfolio once in the course of the period. The higher the Strategic Trust's portfolio turnover rate in a period, the greater the trading costs payable by the Strategic Trust in the period, and the greater the chance of an investor receiving capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of the Strategic Trust.

(4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

## MANAGEMENT FEES

The Manager is responsible for the management functions and administrative services of the Strategic Trust. In addition, the Manager will monitor the Strategic Trust's investment strategy to ensure compliance with the investment guidelines. The Manager has retained the Portfolio Advisor and LAM to provide the investment advisory and portfolio management services required by the Strategic Trust. The Manager is responsible for the payment of the investment management fees of the Portfolio Advisor and LAM out of its fees. All management fees are paid to the Manager by the Navina/Lazard U.S. High Yield Bond Fund. Therefore, the Navina/Lazard Strategic Trust paid no management fees.

## PAST PERFORMANCE

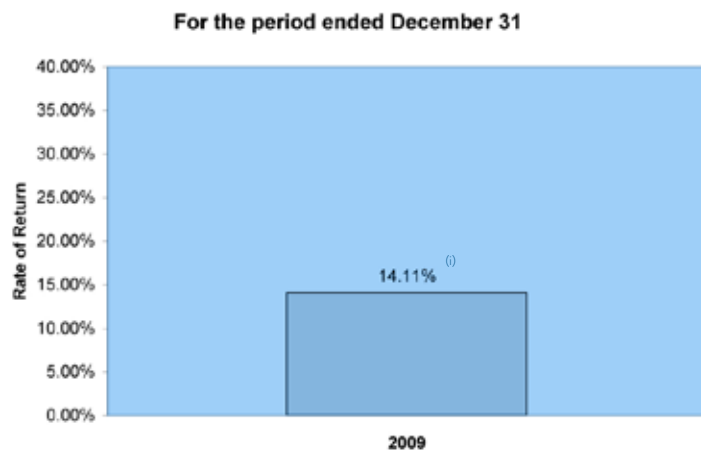
### PAST PERFORMANCE

#### General

The performance information shown assumes that all distributions made by the Strategic Trust in the period shown were reinvested in additional securities of the Strategic Trust. The Strategic Trust's past performance is no guarantee of how it will perform in the future. All performance information is calculated using Net Asset Value per Unit.

#### Year-by-Year Returns

The following bar chart shows the Strategic Trust's annual performance for the period shown, and illustrates how the Strategic Trust's performance has changed from inception. The chart shows in percentage terms how an investment made at inception would have increased or decreased by December 31 for the period.



(i) Return from June 10, 2009 to December 31, 2009.

## Annual Compound Returns

The following table shows the Strategic Trust's annual compound return for the period ended December 31, 2009 as indicated. As a basis for comparison, the annual compound return is compared to the Merrill Lynch U.S. High Yield Cash Pay Index on the same compound basis.

Percentage Return:	Since Inception <sup>(i)</sup>
Navina/Lazard Strategic Trust	14.11%
Merrill Lynch U.S. High Yield Cash Pay Index	40.7%

(i) Return from June 10, 2009.

The Merrill Lynch U.S. High Yield Cash Pay Index is an unmanaged index that tracks the performance of non-investment-grade corporate bonds. The index reflects the reinvestment of dividends and distributions, if any.

The Strategic Trust underperformed its benchmark index for the period ended December 31, 2009. This is a result of a focus on the higher end of the credit quality scale within the high yield bond market for the Strategic Trust. The lower grade bonds in the high yield market, particularly the CCC credits, saw a significant compression in spreads over U.S. Treasury notes, which resulted in significant price appreciation in the value of these bonds. Due to the relative underweighting of this part of the high yield market for the Strategic Trust, it underperformed the benchmark index.

## SUMMARY OF INVESTMENT PORTFOLIO

Below is a summary of the Strategic Trust's investment portfolio as at December 31, 2009. This is a summary only and subject to change due to on-going portfolio activity in the Strategic Trust. An update is available quarterly at [www.navinaasset.com](http://www.navinaasset.com).

TOP POSITIONS	% of Net Asset Value
SPDR Barclays Capital High Yield Bond ETF	9.8
Citizens Communications Company 9.00% Aug 15/31	3.3
Plains Exploration & Production Company 10.00% Mar 01/16	3.1
El Paso Corporation 12.00% Dec 12/13	2.8
Kansas City Southern Railway	2.8
Atlas Energy Operating Co. LLC 12.13% Aug 01/17	2.7
Sprint Capital Corp. 8.75% Mar 15/32	2.7
Terex Corporation 10.88% Jun 01/16	2.7
Masco Corporation 7.75% Aug 01/29	2.7
Wyndham Worldwide Corporation 9.88% May 01/14	2.6
Chesapeake Energy Corporation 9.50% Feb 15/15	2.6
HEALTHSOUTH Corporation 10.75% Jun 15/16	2.6
HCA, Inc. 9.25% Nov 15/16	2.6
Levi Strauss & Company 9.75% Jan 15/15	2.5
Tesoro Corporation 9.75% Jun 01/19	2.5
Hughes Network Systems LLC 9.50% Apr 15/14	2.5
Community Health Systems Inc. 8.88% Jul 15/15	2.5
USG Corporation 9.50% Jan 15/18	2.5
Royal Caribbean Cruises Ltd. 7.25% Jun 15/16	2.3
Level 3 Financing, Inc. 9.25% Nov 01/14	2.3
Domtar Corporation 10.75% Jun 01/17	2.2
Ford Motor Credit Company LLC 12.00% May 15/15	2.2
Liberty Media Corporation 8.25% Feb 01/30	2.2
Edison Mission Energy 7.20% May 15/19	2.1
Mariner Energy Inc. 11.75% Jun 30/16	2.1
<b>Top 25 Positions</b>	<b>70.9</b>
Other Investments	22.4
Cash and Cash Equivalents	4.0
Other Assets Less Liabilities	2.7
Total Net Asset Value	100.0
Portfolio Composition	% of Net Asset Value
<b>Exchange Traded Funds</b>	
United States	9.8
<b>Total Exchange Traded Funds</b>	<b>9.8</b>
<b>Fixed Income</b>	
United States	79.1
Liberia	2.3
Bermuda	2.1
<b>Total Fixed Income</b>	<b>83.5</b>
Cash and Cash Equivalents	4.0
Other Assets Less Liabilities	2.7
<b>Total Net Asset Value</b>	<b>100.0</b>

Net asset value includes the value of the assets of the Strategic Trust less liabilities of the Strategic Trust.

## MANAGEMENT'S RESPONSIBILITY STATEMENT

The accompanying financial statements have been prepared by Navina Asset Management Inc., the Manager of Navina/Lazard Strategic Trust (the "Strategic Trust"), and approved by the Manager. The Manager is responsible for the information and representations contained in these financial statements and other sections of the Annual Report.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Strategic Trust are described in Note 2 to the financial statements.

Ernst & Young LLP are the external auditors of the Strategic Trust. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements.



Ravi Sood  
Chief Executive Officer  
Navina Asset Management Inc.



Andrew Bentley  
President  
Navina Asset Management Inc.

March 26, 2010

## AUDITORS' REPORT

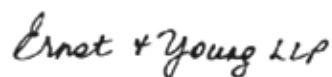
To the Unitholder of  
**Navina/Lazard Strategic Trust**

We have audited the statements of net assets and investments of **Navina/Lazard Strategic Trust** [the "Strategic Trust"] as at December 31, 2009 and the statements of operations and changes in net assets for the period from June 10, 2009 to December 31, 2009. These financial statements are the responsibility of the Strategic Trust's management. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Strategic Trust as at December 31, 2009 and the results of its operations and changes in its net assets for the period from June 10, 2009 to December 31, 2009 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
March 26, 2010



Chartered Accountants  
Licensed Public Accountants

## NAVINA/LAZARD STRATEGIC TRUST

## Statement of Net Assets - As at December 31

	2009
<b>Assets</b>	
Investments, at fair value	\$10,244,458
Cash and cash equivalents	442,435
Receivable on foreign currency contracts	86,459
Accrued investment income	212,768
	10,986,120
<b>Net Assets representing unitholder equity</b>	<b>\$10,986,120</b>
<b>Number of units outstanding</b> (Note 10)	<b>1,026,307</b>
<b>Net Assets per unit</b>	<b>\$10.70</b>

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors of the Manager:



Ravi Sood  
Director



Andrew Bentley  
Director

## NAVINA/LAZARD STRATEGIC TRUST

Statement of Operations - For the period from June 10, 2009 to December 31, 2009

	2009
<b>Investment income</b>	
Dividends	\$64,028
Interest	438,751
Income from derivatives	564,864
Less: Foreign withholding taxes	(10,602)
<b>Net investment income</b>	<b>\$1,057,041</b>
<b>Net realized and unrealized gain on investments</b>	
Net realized gain on investments	40,445
Net realized gain on foreign exchange	94,743
Change in unrealized appreciation on investments	312,725
Transaction costs (Note 2)	(308)
<b>Net gain on investments</b>	447,605
<b>Increase in Net Assets from Operations</b>	<b>\$1,504,646</b>
<b>Increase in Net Assets from Operations per unit</b>	<b>\$1.32</b>

See accompanying notes to financial statements.

## NAVINA/LAZARD STRATEGIC TRUST

Statement of Changes in Net Assets - For the period from June 10, 2009 to December 31, 2009

	2009
<b>Net Assets, beginning of period</b>	-
<b>Increase in Net Assets from operations</b>	1,504,646
<b>Capital transactions</b> (Note 10)	
Proceeds from issue	11,915,447
Reinvested distributions	1,540,313
Payments on redemption	(2,433,973)
	11,021,787
<b>Distributions to unitholder</b>	
Investment income	(1,540,313)
	(1,540,313)
<b>Increase in Net Assets</b>	10,986,120
<b>Net Assets, end of period</b>	<b>10,986,120</b>

See accompanying notes to financial statements.

## NAVINA/LAZARD STRATEGIC TRUST

## Statement of Investments - As at December 31, 2009

NUMBER OF UNITS / PAR VALUE	SECURITY	AVERAGE COST \$	FAIR VALUE \$
<b>EXCHANGE TRADED FUNDS</b>			
	<b>United States</b>		
26,500	SPDR Barclays Capital High Yield Bond ETF	1,043,717	1,078,469
<b>FIXED INCOME</b>			
	<b>Corporate Bond</b>		
	<b>Bermuda</b>		
200,000	Intelsat Jackson Holdings Ltd. 11.25% Jun 15, 2016	232,378	226,968
	<b>Liberia</b>		
250,000	Royal Caribbean Cruises Ltd. 7.25% Jun 15, 2016	223,372	253,242
	<b>United States</b>		
200,000	Amkor Technology, Inc. 9.25% Jun 01, 2016	206,823	222,774
250,000	Atlas Energy Operating Co. LLC 12.13% Aug 01, 2017	284,714	297,469
200,000	Biomet, Inc. 10.00% Oct 15, 2017	229,204	227,754
250,000	Chesapeake Energy Corporation 9.50% Feb 15, 2015	292,689	287,641
350,000	Citizens Communications Company 9.00% Aug 15, 2031	343,734	360,501
250,000	Community Health Systems Inc. 8.88% Jul 15, 2015	282,143	271,261
200,000	Denbury Resources Inc. 9.75% Mar 01, 2016	235,248	223,823
200,000	Domtar Corporation 10.75% Jun 01, 2017	223,619	246,362
300,000	Edison Mission Energy 7.20% May 15, 2019	265,061	238,237
250,000	El Paso Corporation 12.00% Dec 12, 2013	311,361	307,298
200,000	Ford Motor Credit Company LLC 12.00% May 15, 2015	212,165	243,139
250,000	HCA, Inc. 9.25% Nov 15, 2016	285,030	281,416
250,000	HealthSouth Corporation 10.75% Jun 15, 2016	279,634	285,020
200,000	Hertz Corporation 8.88% Jan 01, 2014	204,145	214,388
250,000	Hughes Network Systems LLC 9.50% Apr 15, 2014	282,865	270,605
200,000	Kabel Deutschland GmbH 10.63% Jul 01, 2014	241,289	219,105
250,000	Kansas City Southern Railway 13.00% Dec 15, 2013	302,638	304,021
250,000	Level 3 Financing, Inc. 9.25% Nov 01, 2014	243,259	247,673
250,000	Levi Strauss & Company 9.75% Jan 15, 2015	283,226	275,192
250,000	Liberty Media Corporation 8.25% Feb 01, 2030	216,132	240,138
200,000	Mariner Energy Inc. 11.75% Jun 30, 2016	226,986	233,782
200,000	Markwest Energy Partners, L.P. 8.75% Apr 15, 2018	197,242	215,960
300,000	Masco Corporation 7.75% Aug 01, 2029	250,005	292,683
200,000	Owens Corning Inc. 9.00% Jun 15, 2019	216,967	233,820
300,000	Plains Exploration & Production Company 10.00% Mar 01, 2016	341,333	344,383
300,000	Sprint Capital Corp. 8.75% Mar 15, 2032	281,686	296,421
200,000	SunGard Data Systems Inc. 10.25% Aug 15, 2015	214,734	223,299
250,000	Terex Corporation 10.88% Jun 01, 2016	285,578	292,228
250,000	Tesoro Corporation 9.75% Jun 01, 2019	277,573	271,261
200,000	The Goodyear Tire & Rubber Company 10.50% May 15, 2016	233,620	231,685
250,000	USG Corporation 9.50% Jan 15, 2018	255,250	269,950
200,000	Virgin Media Finance PLC 9.50% Aug 15, 2016	228,154	225,133
250,000	Wyndham Worldwide Corporation 9.88% May 01, 2014	274,560	291,357
		<b>8,508,667</b>	<b>8,685,779</b>
<b>TOTAL INVESTMENTS</b>		<b>\$10,008,134</b>	<b>10,244,458</b>
<b>Unrealized gain on foreign currency contracts</b> (Note 11)			86,459
Cash and cash equivalents			442,435
Other assets, net of liabilities			212,768
<b>NET ASSETS</b>			<b>\$10,986,120</b>

See accompanying notes to financial statements.

### 1. THE FUND

Navina/Lazard U.S. High Yield Bond Fund (the “Fund”) is a mutual fund trust governed by the laws of the Province of Ontario by a Declaration of Trust dated May 22, 2009. Navina/Lazard Strategic Trust (the “Strategic Trust”, and together with the Fund, the “Trusts”) is an investment trust established under the laws of the Province of Ontario by a Declaration of Trust dated May 22, 2009. The Fund effectively began operations on June 9, 2009 (“Commencement of Operations”) when it completed an initial public offering of 1,047,312 Class A units and 223,300 Class F units, each at \$10.00 per unit, for gross proceeds of \$12.7 million. Each Fund unit consisted of one redeemable, transferable fund unit (“Fund Unit”). The Trust effectively began operations on June 10, 2009 (“Commencement of Operations”).

When referencing “period ended December 31, 2009”, the Fund’s period is from June 9, 2009 to December 31, 2009 and the Strategic Trust’s period is from June 10, 2009 to December 31, 2009.

Navina Asset Management Inc. is the manager (the “Manager”) and trustee (the “Trustee”) of the Trusts.

Effective January 1, 2010, the Manager, Navina Capital Corp., and Lawrence Asset Management Inc., effected an amalgamation of businesses and operations. The combined entity is named Navina Asset Management Inc.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The following is a summary of significant accounting policies followed by the Trusts in the preparation of their financial statements:

#### **Adoption of new accounting standards**

In June 2009 the Canadian Institute of Chartered Accountants (“CICA”) issued amendments to Handbook Section 3862 Financial Instruments—Disclosures (“Section 3862”) requiring enhanced disclosure around fair value and liquidity risk. This includes classification of the fair value measurements associated with the financial instruments held by a Trust. The classifications use a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy has the following levels: quoted prices in an active market (Level 1—unadjusted inputs); inputs other than quoted prices (Level 2—directly or indirectly derived from observational market data); and inputs not based on observable market data (Level 3—unobservable inputs). In addition to the above disclosure requirements, Section 3862 requires disclosure of significant transfers between Levels 1 and 2 since the prior reporting period, as well as reconciliation of Level 3 assets, disclosing separately changes during the reporting period attributable to i) total gains or losses recognized in net income, and a description of where they are presented

in the income statement, ii) purchases, sales, issues and settlements, iii) transfers into or out of Level 3 and the reasons for those transfers. Any significant transfers between Level 1 and Level 2 are disclosed. Further, for fair value measurements in Level 3, if changing one or more type of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose both the effect of those changes and how the effect was calculated. The new disclosures are required for annual financial statements for fiscal years ending after September 30, 2009. The adoption did not have an impact on Net Assets or increase/decrease in Net Assets from Operations.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit and short-term, interest bearing notes with a term to maturity of less than three months from the date of purchase. Cash and cash equivalents are deemed to be held for trading and therefore recorded at fair value.

#### **Valuation of investments**

Investments are deemed to be classified as held-for-trading in accordance with Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855, Financial Instruments – Recognition and Measurement (“Section 3855”) and therefore are recorded at fair value.

Investments pledged under the forward agreement are valued at closing market prices. Any other investments in publicly traded securities are valued at fair value, that being the bid price for securities purchased long and ask price for securities sold short, from the relevant exchange on which such securities are principally traded.

Written options are valued at ask prices, and purchased options are valued at bid prices as reported on recognized exchanges.

Exchange-traded funds (“ETFs”) are valued at bid prices as reported on recognized exchanges.

Securities for which reliable quotations are not readily available or not traded in an active market are valued at fair value as determined by the Manager. The difference between fair value and average cost, as recorded in the accounts, is shown as change in unrealized appreciation (depreciation) on investments. Short-term investments and bonds are recorded at fair value using bid price market quotations.

**Other assets and liabilities**

For the purpose of categorization in accordance with the CICA Handbook Section 3862, Financial Instruments – Disclosures (“Section 3862”), accrued investment income and prepaid expenses designated as loans and receivables are recorded at cost or amortized cost. Similarly, payables for securities purchased, distributions payable and accounts payable and accrued liabilities are deemed to be other financial liabilities and reported at amortized cost.

**Investment transactions and income recognition**

All investment transactions are accounted for on the trade date. Realized gains and losses from investment transactions and unrealized appreciation or depreciation in the value of investments are calculated on an average cost basis, excluding transaction costs and effect of foreign exchange, which is disclosed separately.

Interest income and expenses are recognized daily on an accrual basis.

Dividend income is recognized on the ex-dividend date.

**Transaction costs**

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities by the Trusts, are expensed and are included in transaction costs in the Statement of Investments. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

**Foreign currency translation**

Investments at fair value and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange applicable on the valuation date. Investment transactions and income and expenses are translated at the rate of exchange on the date of such transactions.

**Forward foreign currency contracts**

Forward foreign currency contracts (see Note 11) are valued at current market value on each valuation date. The value is determined as the gain or loss that would be realized, if on the valuation date, the position of the forward foreign currency contracts were closed out. Gains or losses incurred when forward foreign currency contracts entered into by the Strategic Trust, which are of the nature of a general hedge of the currency exposure of the underlying portfolio of investments, mature or are closed out are included in “Net realized gain (loss) on foreign exchange” in the Statement of Operations.

**Forward Agreement**

The Forward Agreement is valued to the gain or loss that would be realized on the valuation date if the contract were closed out or expired. The amount to be received (or paid) on the Forward Agreement as at the valuation date is recognized as Unrealized loss on forward agreement on

Statement of Net Assets. All gains (losses) arising from the Forward Agreement are recorded as part of “Change in unrealized appreciation on common share portfolio and forward agreement” in the Statements of Operations.

**Accounting estimates**

The preparation of the financial statements in accordance with Canadian GAAP requires the Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**Net asset value per unit**

The net asset value per unit of the Fund is computed by dividing the net asset value of each of Class A Units and Class F Units of the Fund by the total number of units outstanding for Class A Units and Class F Units, respectively. The increase (decrease) in Net Assets from operations for period is based on the weighted average number of units outstanding during the period.

The net asset value per unit of the Strategic Trust is computed by dividing the net asset value of the Strategic Trust by the total number of units outstanding for the Strategic Trust on the valuation date. The increase (decrease) in Net Assets from operations for the period is based on the weighted average number of units outstanding during the period.

**3. NOTE RECEIVABLE**

The Manager reimbursed the Fund for the expenses of the initial public offering which amounted to \$790,673 and consist of agents’ fees and other offering expenses. The obligation is evidenced by a Note which was issued on closing, June 9, 2009. The repayment will be made in quarterly installments equal to one quarter of 1.00% of the Fund’s net asset value over a period of eight years, and began on September 30, 2009. The Note bears interest from the date of issue at the prime rate of interest. The Note is reduced proportionately if units are purchased for cancellation by the Fund, redeemed or retracted. On the maturity date, any unpaid principal amount of the Note will be due and payable by the Manager.

**4. NET ASSET VALUE AND NET ASSETS**

The application of CICA Handbook Section 3855 may result in a different value of securities for financial reporting purposes than the value used for pricing unitholder transaction purposes.

The following is the Net Asset Value per unit determined in accordance with Part 14 of the National Instrument and the Net Assets per unit as shown on the Statements of Net Assets. The difference between these amounts represents the valuation difference of securities resulting from the application of CICA Handbook Section 3855.

## NOTES TO FINANCIAL STATEMENTS (continued)

### Navina/Lazard U.S. High Yield Bond Fund

December 31, 2009	Net Asset Value per unit	Net Assets per unit
Class A	\$10.64	\$10.64
Class F	\$10.66	\$10.66

### Navina/Lazard Strategic Trust

	December 31, 2009
Net Asset Value per unit	\$10.74
Net Assets per unit	\$10.70

## 5. FORWARD AGREEMENT

In order to achieve its investment objectives, the Fund obtains economic exposure to the returns of Navina/Lazard Strategic Trust by investing the net proceeds of its initial public offering in a portfolio of common shares (the "Common Share Portfolio") and entering into a forward purchase and sale agreement (the "Forward Agreement") with BMO Capital Markets Inc. (the "Counterparty"). The Fund does not invest directly in the Strategic Trust. As a result of the Forward Agreement, the returns of the Fund are intended to correlate with the investment in the Strategic Trust.

The Fund will partially settle the Forward Agreement prior to the Forward Agreement termination date in order to fund monthly distributions as well as redemptions of Fund Units by unitholders from time to time and for payment of expenses of the Fund and Strategic Trust.

The Fund will also pay to the counterparty a fee under the Forward Agreement equal to 0.45% per annum of the net asset value of the Common Share Portfolio plus a fee, which may vary, based on the value of the Common Share Portfolio, calculated and payable monthly in arrears. This fee, which may vary, is intended to compensate the counterparty for the costs of hedging its exposure under the Forward Agreement.

The Forward Agreement has a termination date of June 10, 2012.

As at December 31, 2009, the Common Share Portfolio of the Fund, which is used as collateral for the forward agreement, was as follows:

Number of Shares	Description	Fair Value \$
91,828	Celestica Inc. Sub. Voting	914,607
72,770	CGO Group Inc. Cl.A Sub. Voting	1,036,245
73,345	Eldorado Gold Corporation	1,094,307
117,226	Fairborne Energy Ltd.	845,368
80,633	Hudbay Minerals Inc.	1,094,190
104,782	Ivanhoe Mines Ltd.	1,625,169
67,715	Nuvista Energy Ltd.	845,083
78,392	Red Back Mining Inc.	1,175,880
8,058	Research In Motion Limited	572,360
57,875	RONA Inc.	894,169
37,318	Teck Cominco Limited Cl.B Sub. Voting	1,374,049
63,507	Thompson Creek Metals Company, Inc.	783,041
74,227	Viterra, Inc.	732,620
<b>Value of Common Share Portfolio</b>		<b>\$12,987,088</b>

## 6. FINANCIAL INSTRUMENTS

### Management of financial risks

Through the Forward Agreement described in Note 5, the Fund is exposed to the risks through the holding of the Navina/Lazard Strategic Trust, which invests primarily in U.S. dollar denominated high yield bonds. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and the markets in which it invests.

The Fund and the Strategic Trust are exposed to various financial risks, including market risk (consisting of currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Fund's and Strategic Trust's overall risk management programme seeks to minimize potentially adverse effects of those risks on the Strategic Trust's financial performance. The Strategic Trust may use derivative financial instruments to mitigate certain risk exposures.

The Fund is an actively managed investment fund. The investment objectives are to provide unitholders with monthly distributions and to achieve capital appreciation through an actively managed portfolio comprised primarily of U.S. dollar denominated high yield corporate bonds.

The Strategic Trust is an actively managed investment trust. The Strategic Trust's investment objectives are to provide the Counterparty to the Forward Agreement with distributions and the opportunity for capital appreciation in order for the Fund to meet its investment objectives.

**Market risk**

Although the Fund's Common Share Portfolio is comprised of equity securities that are subject to market price risk and the value of the Forward Agreement will fluctuate as a result of changes in market conditions, the Fund itself is not exposed to the market price risk of the equity securities as they are collaterals for the Forward Agreement.

The Strategic Trust may take positions in traded instruments, which may include derivatives. Therefore, within defined limits, the Strategic Trust may buy or sell call or put options and financial futures or other derivatives.

All investments in securities present a risk of loss of capital. The Portfolio Advisor mitigates this risk through careful selection of securities and other financial instruments, within specified limits. The maximum risk for financial instruments held by the Strategic Trust is determined by the fair value thereof.

The Strategic Trust's overall market positions are monitored on a daily basis by the Portfolio Advisor, weekly by the Manager, and are reviewed semi-annually by the Board of Directors of the Manager.

As at December 31, 2009, the Fund's market risk is potentially affected by two main components, being changes in actual market prices and changes in foreign currency rates. The Fund's sensitivity to foreign currency movements is reported below under currency risk.

**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

As at December 31, 2009, the Fund held no short-term deposit notes or other interest-bearing securities. The Fund also has no interest-bearing liabilities. As a result of this, the Fund had minimal risk due to the changes in prevailing market interest rates.

Through its investment in the Strategic Trust, the Fund is exposed to interest rate risk from the Strategic Trust's holding in fixed-rate debt instruments, the value which fluctuates due to changes in prevailing levels of market interest rates.

As at December 31, 2009, the Fund's and the Strategic Trust's exposure to interest rate risks by remaining term to maturity was as follows:

Debt Instruments		% of Net Assets
Less than 1 year	-	0.00
1 to 3 years	-	0.00
3 to 5 years	1,854,447	16.88
Greater than 5 years	7,311,542	66.55
Total	9,165,989	83.43

At December 31, 2009, if the prevailing interest rates had risen or declined by 0.25%, assuming a parallel shift in the yield curve, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately \$102,888. The Strategic Trust's sensitivity to interest rate changes was estimated using the weighted average duration of the bonds. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

**Credit risk**

Credit risk is the risk of non-payment of scheduled interest and/or principal payments. Credit risk is also the risk that one or more investments in the portfolio of the Fund or Strategic Trust will decline in price, or fail to pay interest or principal when due, because the issuer of the security experiences a decline in its financial status.

As at December 31, 2009, the Fund held no short-term deposit notes or other interest-bearing securities. The Fund was exposed to credit risk through the counterparty of the Forward Agreement. BMO Capital Market Inc. had an A+ credit rating, as at December 31, 2009, according to S&P rating agency. As a result of this, the Manager believes the Fund had minimal credit risk.

The Fund's ability to pay distributions is dependent upon the performance of the Strategic Trust's assets. That performance, in turn, is subject to a number of risks, and in particular, the credit risk of the U.S. dollar-denominated high yield bonds of the Strategic Trust. The value of the U.S. dollar denominated high yield bonds is affected by the credit-worthiness of borrowers and by general economic and specific industry conditions.

## NOTES TO FINANCIAL STATEMENTS (continued)

At December 31, 2009, the Strategic Trust was invested in debt securities with the following credit ratings:

Debt securities by S&P rating	% of Net Assets
BBB+ or better	0.0%
BBB	2.7%
BBB-	4.7%
BB+	2.5%
BB	13.8%
BB-	14.8%
B+	18.7%
B	11.1%
B-	6.3%
CCC+ or lower	8.9%
Not rated	0.0%
Total	83.4%

### Liquidity risk

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required.

The Fund maintains sufficient liquidity from the partial settlement of the Forward Agreement and, therefore, has minimal liquidity risk.

The Strategic Trust is exposed to liquidity risk as the resale, or secondary market, for high yield bonds held by the Strategic Trust is less liquid and less transparent than publicly-traded markets. However, the Strategic Trust does seek to invest the majority of its assets in companies whose bond issues are large and in investments that are traded in active markets and can be readily disposed of. In addition, the Strategic Trust retains a significant portion of its Net Assets in an exchange-traded fund to maintain liquidity.

### Currency risk

Net asset value is measured in Canadian dollars and payments to unitholders are made in Canadian dollars. The Fund itself is not directly exposed to the fluctuations in the value of the Canadian dollar relative to other currencies as a result of the Forward Agreement.

Through its investment in the Strategic Trust, the Fund is exposed to currency risks as the Strategic Trust may hold assets or have liabilities denominated in currencies other than in Canadian dollars. Therefore, the Strategic Trust is exposed to currency risk, as the value of any assets or liabilities denominated in currencies other than the Canadian dollar will vary due to changes in foreign exchange rates. The following summarizes the Strategic Trust's exposure to currency risks, as at December 31, 2009:

December 31, 2009	Financial Assets	Other Assets	Foreign Forward Currency Contract	Financial Liabilities	Other Liabilities	Total Exposure	% of Net Assets
US Dollar	10,674,436	299,227	(10,580,030)	-	-	393,633	3.41%

As at December 31, 2009, had the Canadian dollar strengthened or weakened by 1% against each of the other currencies with all other variables remaining constant, net assets of the Strategic Trust for the period would have decreased or increased by \$3,936.

## NOTES TO FINANCIAL STATEMENTS (continued)

### Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital.

If prices of each of the investments in the Strategic Trust had strengthened or weakened by 1% with all other variables remaining constant, including prices of each of the investments in the Fund, Net Assets of the Fund and the Strategic Trust for the period would have increased or decreased by \$102,445.

If prices of each of the investments in the Fund had strengthened or weakened by 1% with all other variables remaining constant, including prices of each of the investments in the Strategic Trust, Net Assets of the Fund for the period would have remained the same due to the fact that the common share portfolio is held as collateral thus not subject to market risk.

### Fair Value Measurements

The following is a summary of the inputs used as of December 31, 2009 in valuing the Fund's and the Strategic Trust's investments carried at fair value:

#### Navina/Lazard U.S. High Yield Bond Fund

	Level One	Level Two	Level Three	Totals
<b>Financial Assets</b>				
EQUITIES				
COMMON STOCK	12,987,088	0	0	12,987,088
TOTAL EQUITIES	12,987,088	0	0	12,987,088
<b>Total Financial Assets</b>	<b>12,987,088</b>	<b>0</b>	<b>0</b>	<b>12,987,088</b>
<b>Financial Liabilities</b>				
UNREALIZED LOSS ON FORWARD AGREEMENT	0	1,959,955	0	1,959,955
<b>Total Financial Liabilities</b>	<b>0</b>	<b>1,959,955</b>	<b>0</b>	<b>1,959,955</b>

#### Navina/Lazard Strategic Trust

	Level One	Level Two	Level Three	Totals
<b>Financial Assets</b>				
EQUITIES				
EXCHANGE TRADED FUNDS	1,078,469	0	0	1,078,469
TOTAL EQUITIES	1,078,469	0	0	1,078,469
FIXED INCOME				
CORPORATE BONDS	0	9,165,989	0	9,165,989
TOTAL FIXED INCOME	0	9,165,989	0	9,165,989
<b>Total Financial Assets</b>	<b>1,078,469</b>	<b>9,165,989</b>	<b>0</b>	<b>10,244,458</b>
Other Financial Instruments				
FORWARD FOREIGN CURRENCY CONTRACTS	0	86,459	0	86,459
<b>Total Other Financial Instruments</b>	<b>0</b>	<b>86,459</b>	<b>0</b>	<b>86,459</b>

## 7. TAXATION

The Fund qualifies as a “mutual fund trust” within the meaning of the Income Tax Act (Canada). The Fund is subject to applicable federal and provincial taxes on the amount of its net income for tax purposes for the period, including net realized taxable capital gains, to the extent such net income for tax purposes has not been paid or made payable to unitholders in the period.

The Strategic Trust is subject to applicable federal and provincial taxes on the amount of its net income for tax purposes for the period, including net realized taxable capital gains, to the extent such net income for tax purposes has not been paid or made payable to unitholders in the period.

No provision for income taxes has been recorded in the accompanying financial statements as all income and net realized capital gains are distributed to the unitholders. Capital losses realized in excess of those utilized to offset realized capital gains in the current taxation year can be carried forward indefinitely and may be applied against future years' capital gains. Non-capital losses may be carried forward for a period of 20 years and applied against future years' taxable income. As at December 31, 2009, the Fund had a non-capital loss carry forward balance of \$77,018 (expiring in 2029). As at December 31, 2009, the Strategic Trust had \$nil capital loss carry forward balance.

## 8. EXPENSES OF THE TRUSTS

### *Management fees*

Pursuant to the Declaration of Trust, the Manager provides all administrative services required by the Trusts, including the appointment of Portfolio Advisors to the Strategic Trust.

In return, the Manager receives a monthly fee at the annual rate of 2.10%, plus applicable taxes, of the net asset value of the Fund, calculated and payable monthly in arrears. The Manager is responsible for payment of the investment management fees of the Trust's Portfolio Advisor out of its annual management fees.

The Class A Units of the Fund also pay to the Manager an annual service fee equal to 0.40% annually of the net asset value of units held by clients of the sales representatives of such dealers, calculated and payable quarterly in arrears. Dealer service fees for the year were \$25,354.

### *Other expenses*

The Fund is responsible for all other expenses incurred in connection with its operation and administration, such as custodian, valuation, transfer agent, reporting, audit and legal fees. Brokerage commissions paid on securities transactions are expensed in the period in which the transaction occurred and are not considered to be part of total expenses. These commissions are included in the cost of purchasing, or netted out of the proceeds from selling securities. For the period ended December 31, 2009, brokerage commissions for the Fund were \$nil, and for the Stra-

tegic Trust were \$308. There were no soft dollar amounts included in these payments.

The Fund will also pay to the counterparty a fee under the Forward Agreement equal to 0.45% per annum of the net asset value of the Common Share Portfolio plus a fee, which may vary, based on the value of the Common Share Portfolio, calculated and payable monthly in arrears. This fee, which may vary, is intended to compensate the counterparty for the costs of hedging its exposure under the Forward Agreement.

## 9. UNITHOLDERS' EQUITY

The Fund is authorized to issue an unlimited number of voting, transferable, redeemable Fund Units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. On termination of the Fund, unitholders will be entitled to receive their pro-rata share of all of the assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses.

The Fund may be terminated at any time upon not less than 90 days' written notice to the Trustee provided that the prior approval of unitholders has been obtained by a majority vote at a meeting of unitholders called for that purpose. In addition, the Trustee may, in its discretion, on 60 days' notice to unitholders, terminate the Fund without the approval of unitholders if, in its opinion, the net asset value of the Fund is reduced as a result of redemptions or otherwise so that it is no longer economically feasible to continue the Fund or the Trustee determines to terminate the Fund in connection with a permitted merger. In case the Fund is terminated, the Fund shall, to the extent possible, convert its assets to cash and, after paying or making adequate provision for all of the Fund's liabilities, distribute the net assets of the Fund, on a pro-rata basis, to the unitholders.

Commencing 30 days following the closing of the offering, Fund Units of a class were eligible to be surrendered for redemption on the last business day of each week (the “Redemption Date”), for a redemption price per Fund Unit of a class (the “Redemption Amount”) equal to the net asset value per Fund Unit of that class less any costs of funding the redemption and any redemption charges then outstanding. The Redemption Amount will be paid to the Manager by the Fund and the unitholder will receive payment on or before the 3rd business day following the Redemption Date. Redemption of Fund Units may only be affected through FundSERV by the book-entry only system administered by SGGG Fund Services Inc.

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

The Strategic Trust does not have a fixed termination date. However, the Strategic Trust may be terminated at any time upon not less than 90 days' written notice by the Trustee provided that the approval of

## NOTES TO FINANCIAL STATEMENTS (continued)

unitholders has been obtained by a majority vote at a meeting of unitholders called for the purpose (the "Termination Date") provided, however, that the Trustee may, in its discretion, on 60 days' notice to unitholders, terminate the Strategic Trust without the approval of unitholders if, in the opinion of the Trustee, the Net Asset Value of the Strategic Trust is reduced as a result of redemptions or otherwise so that it is no longer economically feasible to continue the Strategic Trust .

Units of the Strategic Trust may be redeemed for a redemption price per unit (the "Redemption Amount") equal to the Net Asset Value per unit as at any business day (each a "Redemption Date"). Units surrendered for redemption by a unitholder on or before 4:00 p.m. (Toronto time) on any Redemption Date will be redeemed as at such Redemption Date and the unitholder will receive payment in respect of any units surrendered for redemption on the second business day after the Redemption Date

### 10. NET CAPITAL TRANSACTIONS

Net capital transactions for the Fund for the period ended December 31, 2009 consisted of the following:

	Class A	Class F
Number of units outstanding, beginning of period	-	-
Issuance of Units	1,047,312	223,300
Redemption of Units	(81,317)	(106,150)
Number outstanding, end of period	965,995	117,150

Net capital transactions for the Strategic Trust for the period ended December 31, 2009 consisted of the following:

Number of units outstanding, beginning of period	-
Issuance of Units	1,270,612
Redemption of Units	(244,305)
Number outstanding, end of period	1,026,307

#### Capital Management

Unitholders equity is considered to be the source of capital for the Fund and the Strategic Trust. The Trusts' objectives are managing capital to safeguard the Trusts' ability to continue as a going-concern, to provide financial capacity and flexibility to meet its strategic objectives, to provide an adequate return to unitholders commensurate with the level of risk while maximizing the distributions to unitholders.

Since both revenues and expenses of the Trusts are reasonably predictable and stable and since the Trusts do not have any externally imposed capital requirements, the Manager believes that the current level of distributions, capital and capital structure is sufficient to sustain ongoing operations. The Manager monitors the cash position and financial performance of the Trusts weekly to ensure there are resources to meet current distribution levels.

**11. FORWARD FOREIGN CURRENCY CONTRACTS**

As at December 31, 2009, the Fund had not entered into forward foreign currency contracts to deliver currencies at specified future dates.

As at December 31, 2009, the Strategic Trust had entered into forward foreign currency contracts to deliver currencies at specified future dates as follows:

Contracts		Sold \$		Bought \$	Settlement Date	Unrealized Gain (Loss)	Counterparty	Credit Rating
1	CAD	120,000	USD	114,262	Mar 17, 2010	\$(214)	State Street	AA-
1	CAD	240,000	USD	224,521	Mar 17, 2010	(4,625)	State Street	AA-
1	CAD	140,000	USD	133,151	Mar 17, 2010	(412)	State Street	AA-
1	USD	300,000	CAD	312,870	Mar 17, 2010	(1,633)	State Street	AA-
1	USD	10,181,615	CAD	10,767,160	Mar 17, 2010	93,343	State Street	AA-
<b>Totals</b>						<b>\$86,459</b>		

**12. DISTRIBUTIONS**

The Fund endeavours to make monthly cash distributions to unitholders consisting primarily of distributions received on securities in the investment portfolio and, in certain circumstances, of net realized capital gains from the investment portfolio. The Fund will not have a fixed monthly distribution but will determine and announce each May, commencing in December 2010, an expected distribution amount for the following twelve months. Monthly distributions will be paid to unitholders on or about the 15th of each month following the month in which they are declared. The monthly distribution declared to unitholders of record, at the end of each month in the period, was \$0.058 per unit for Class A and \$0.058 per unit for Class F. For the year ending December 31, 2009, the Fund paid \$0.3867 per Fund Unit for Class A and \$0.3867 per Fund Unit for Class F.

The Strategic Trust endeavours to make monthly distributions to its unitholders in accordance with its investment objectives. For the year ending December 31, 2009, the Strategic Trust distributed and reinvested \$1.50083 per Strategic Trust Unit without the issuance of additional Strategic Trust Units.



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