

# Interim Management Report of Fund Performance

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For the period ended June 30, 2023

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2023

NBI Exchange-Traded Funds  
**NBI Active International Equity ETF**

## Notes on forward-looking statements

This report may contain forward-looking statements concerning the ETF, its future performance, its strategies or prospects or about future events or circumstances. Such forward-looking statements include, among others, statements with respect to our beliefs, plans, expectations, estimates and intentions. The use of the expressions "foresee", "intend", "anticipate", "estimate", "assume", "believe" and "expect" and other similar terms and expressions indicate forward-looking statements.

By their very nature, forward-looking statements imply the use of assumptions and necessarily involve inherent risks and uncertainties. Consequently, there is a significant risk that the explicit or implicit forecasts contained in these forward-looking statements might not materialize or that they may not prove to be accurate in the future. A number of factors could cause future results, conditions or events to differ materially from the objectives, expectations, estimates or intentions expressed in such forward-looking statements. Such differences might be caused by several factors, including changes in Canadian and worldwide economic and financial conditions (in particular interest and exchange rates and the prices of other financial instruments), market trends, new regulatory provisions, competition, changes in technology and the potential impact of conflicts and other international events.

The foregoing list of factors is not exhaustive. Before making any investment decision, investors and others relying on our forward-looking statements should carefully consider the foregoing factors and other factors. We caution readers not to rely unduly on these forward-looking statements. We assume no obligation to update forward-looking statements in the light of new information, future events or other circumstances unless applicable legislation so provides.

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This interim management report of fund performance contains financial highlights, but does not contain the complete interim financial statements of the ETF. You can get a copy of the interim financial statements of the ETF at your request, and at no cost, by calling 1-866-603-3601, by emailing us at [investments@nbc.ca](mailto:investments@nbc.ca), by visiting our website at [www.nbinvestments.ca](http://www.nbinvestments.ca), by visiting SEDAR's website at [www.sedar.com](http://www.sedar.com), or by contacting your advisor. You may also contact us using one of these methods to request a copy of the ETF's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Results of Operations

For the six-month period ended June 30, 2023, the NBI Active International Equity ETF's units returned 9.26% compared to 9.06% for the ETF's benchmark, the MSCI EAFE Index. Unlike the benchmark, the ETF's performance is calculated after fees and expenses. Please see the *Past Performance* section for the ETF's returns, which may vary mainly because of fees and expenses.

The Fund's net asset value rose by 111.74% over the period, from \$248.61 million as at December 31, 2022 to \$526.40 million as at June 30, 2023.

The increase stemmed mainly from investments in the Fund by other NBI Funds.

International equities continued to gain ground during the first half of the year as the eurozone economy gradually emerged from a mild winter recession between the fourth quarter of 2022 and the first quarter of 2023. Eurozone stocks responded accordingly, despite increasingly tight monetary policy by the European Central Bank, which remains preoccupied with stubborn inflation data.

The eurozone economy bounced back from a mild winter recession between the fourth quarter of 2022 and the first quarter of 2023. Eurozone stocks responded accordingly, despite a hawkish European Central Bank, which remains preoccupied with high core inflation. European regulators are also closely monitoring the zone's banking sector amidst troubles at Credit Suisse, and its eventual acquisition by UBS.

Japanese stocks performed particularly well. The Nikkei touched a 33-year high of 33,700 yen in June.

An easing, though still tense, global macro environment—as evidenced by a recent visit by U.S. Secretary of the Treasury Janet Yellen to China, and easier rhetoric emanating before the NATO summit in Vilnius—provided hope of further momentum going forward. A pause in the Federal Reserve's interest rate hike cycle, which eased competitive pressures on international central banks seeking to attract fund flows, will also help.

Under these circumstances, the Fund outperformed its benchmark.

Value added came mainly from security selection. Top individual contributors to relative performance during the period were Shin-Etsu Chemical, Daikin Industries and Fast Retailing. On the other hand, top detractors were Teleperformance, Equinor, DBS Group.

### Recent Developments

#### Additions

Compagnie Financière Richemont

Luxury company with a high-calibre brand portfolio where we believe that consensus is underestimating the improvements the company has made in its business operations across improving its product and regional mix, distribution channel mix, and exiting lower margin side businesses which should aid the company to be less cyclical in the future and increase its overall growth and margin profile.

Hoya Corp.

This thesis is predicated on reshaping the portfolio into structurally higher growth areas in semiconductors and Extreme Ultraviolet (EUV) lithography while at the same time growing their healthcare offering across lenses, endoscopes, and intraocular lenses globally. Structurally higher margins in both businesses have allowed for a higher quality growth story than a few years ago.

Schneider Electric

Schneider Electric, a France-based company that specializes in energy-related and industrial automation solutions, has improved its business model through a better geographic and product mix (including a higher software component) which should improve the company's margins and lower its cyclical nature which we believe warrants a valuation re-rating over time.

Sony Group

Sony Group is a conglomerate that is transforming its business from a consumer electronics company to an entertainment and sensor-focused company with superior growth and margin potential vs. the sector and hence we believe deserves a valuation re-rating over time.

#### Deletions

None

Lost production and related sanctions due to the invasion of Ukraine are adding to numerous existing inflationary drivers such as aging demographics, a labour force reassessing its work/life balance, Covid-19 production hurdles, and regionalization trends. Consequently, we are focused on business models that have strong pricing power.

The uncertainty surrounding changes in supply chains, consumer behaviours, digitization and rising wages will have lasting impact on business models.

We continue to see relative valuation dislocations caused by rapidly shifting market narratives that are offering compelling opportunities to book profits and reinvest in misunderstood and therefore mispriced stocks.

On May 1, 2023, the ETF's independent review committee (the "IRC") was increased to four members when Stéphanie Raymond-Bougie was appointed as an IRC member.

### Related Party Transactions

National Bank Investments Inc. (the "manager") is the manager and promoter of the ETF. Accordingly, it is entitled to receive, in exchange for the services that it provides to the ETF, management fees paid to it by the ETF (see "Management Fees" below).

From time to time, the manager may, on behalf of the ETF, carry out transactions or sign agreements to involve certain persons or companies related to it, to the extent that these transactions or agreements are, in its opinion, in the interest of the ETF. The description of the transactions or agreements between the ETF and a related party is provided in this section.

Members of the manager's group may earn fees or spreads in connection with services provided to, or transactions with, the NBI ETF, including in connection with brokerage and derivatives transactions.

#### **Trustee**

The manager has retained the services of Natcan Trust Company to serve as trustee for the ETF and has retained the services of National Bank Trust to serve as portfolio manager.

#### **Designated Broker**

The manager has signed an agreement with National Bank Financial Inc. ("NBF"), a company affiliated with NBI, under which NBF will serve as a designated broker for the ETF. The designated broker agreement signed with NBF is in keeping with market conditions.

## Brokerage Fees

The ETF may pay broker's commissions at market rates to a corporation affiliated with National Bank Investments Inc. The brokerage fees paid by the ETF for the period are as follows:

	Period ended June 30, 2023
<b>Total brokerage fees</b>	473,902.62
<b>Brokerage fees paid to National Bank Financial</b>	113,896.88

## Holdings

As at June 30, 2023, ownership of the redeemable units outstanding of the ETF was held by the following NBI Funds as indicated below:

NBI Funds	Ownership of the redeemable units outstanding of the ETF %
NBI Secure Portfolio	1.28
NBI Conservative Portfolio	7.98
NBI Moderate Portfolio	13.58
NBI Balanced Portfolio	30.00
NBI Growth Portfolio	16.65
NBI Equity Portfolio	6.78
NBI Global Balanced Growth Fund	0.02
NBI Active International Equity Fund	23.40

Transactions between the NBI Funds and the ETF were carried out in the normal course of business. The portfolio manager for these Funds is National Bank Trust Inc.

## Management Fees

The management fee is payable to the ETF manager in consideration of the services that the manager provides to the ETF in its capacity as manager, such as managing the day-to-day business and affairs of the ETF.

The ETF pays an annual management fee of 0.60% to the ETF manager for its management services. The fees are calculated based on a percentage of the ETF's daily net asset value before applicable taxes and are paid on a monthly basis. The management fees primarily covers investment management and general administration services.

## Past Performance

The performance of the ETF, presented below and calculated as at December 31 of each year, is based on the net asset value of the ETF. It assumes that all distributions made in the periods shown were reinvested in additional units of the ETF. These returns do not take into account sales, redemption charges, distributions, or optional charges that would have reduced returns. Past performance of an ETF does not necessarily indicate how it will perform in the future.

## Year-by-Year Returns

The bar chart indicates the performance of the ETF for each of the years shown and illustrates how the performance has changed from year to year. It shows, in percentage terms, how much an investment made on January 1 (or made commencing from the start of the ETF) would have grown or decreased by December 31 of that year, in the case of the Annual management report of fund performance, or by June 30, in the case of the Interim management report of fund performance.



<sup>(1)</sup> Returns for the period from February 11, 2021 (commencement of operations) to December 31, 2021.

<sup>(1)</sup> Returns for the period from January 1, 2023 to June 30, 2023.

## Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance for the accounting periods shown.

Net Assets per Unit<sup>(1)</sup>

Commencement of operations: February 11, 2021

Accounting Period Ended	2023 June 30	2022 December 31	2021 December 31
<b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(2)</sup>	21.43	24.97	25.25
<b>Increase (Decrease) from Operations (\$)</b>			
Total revenue	0.35	0.43	0.27
Total expenses	(0.08)	(0.14)	(0.15)
Realized gains (losses)	0.55	(2.22)	(0.77)
Unrealized gains (losses)	0.68	0.81	(3.72)
<b>Total Increase (Decrease) from Operations</b> <sup>(3)</sup>	1.50	(1.12)	(4.37)
<b>Distributions (\$)</b>			
From net investment income (excluding dividends)	—	0.27	0.03
From dividends	—	—	—
From capital gains	—	—	—
Return of capital	—	—	—
<b>Total Annual Distributions</b> <sup>(4)</sup>	—	0.27	0.03
<b>Net Assets, End of Accounting Period Shown</b> <sup>(2)</sup>	23.42	21.43	24.97

### Ratios and Supplemental Data

Accounting Period Ended	2023 June 30	2022 December 31	2021 December 31
Total net asset value (000's of \$) <sup>(5)</sup>	526,396	248,595	102,859
Number of units outstanding <sup>(5)</sup>	22,480,000	11,600,000	4,120,000
Management expense ratio (%) <sup>(6)</sup>	0.69	0.69	0.67
Management expense ratio before waivers or absorptions (%)	0.69	0.69	0.68
Trading expense ratio (%) <sup>(7)</sup>	—	—	—
Portfolio turnover rate (%) <sup>(8)</sup>	32.94	61.01	31.94
Net asset value per unit (\$)	23.42	21.43	24.97
Closing market price <sup>(9)</sup>	23.47	21.36	24.95

<sup>(1)</sup> This information is derived from the ETF's Annual Audited Financial Statements and Interim Unaudited Financial Statements. The net assets per unit presented in the financial statements might differ from the net asset value calculated for ETF pricing purposes. The differences are explained in the notes to the financial statements.

<sup>(2)</sup> The net assets are calculated in accordance with IFRS.

<sup>(3)</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase or decrease from operations is based on the average number of units outstanding over the accounting period.

<sup>(4)</sup> Distributions were paid in cash or reinvested in additional units of the ETF, or both.

<sup>(5)</sup> This information is provided as at the last day of the accounting period shown.

<sup>(6)</sup> Management expense ratio is based on total expenses including sales taxes for the accounting period indicated (excluding commission, other portfolio transaction costs and withholding taxes) and is expressed as an annualized percentage of daily average net value during the accounting period.

<sup>(7)</sup> 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 accounting period. The trading expense ratio includes, if necessary, the trading expenses from its underlying funds, as described in Article 15.2 of Regulation 81-106.

<sup>(8)</sup> The ETF's portfolio turnover rate indicates how actively the ETF portfolio's manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of the accounting period. The higher an ETF's portfolio turnover rate in an accounting period, the greater the trading costs payable by the ETF in the accounting period, and the greater the chance of an investor receiving taxable capital gains in the accounting period. There is not necessarily a relationship between a high turnover rate and the performance of an ETF.

<sup>(9)</sup> Closing market price on the last trading day of the year as reported on the TSX.

## Summary of Investment Portfolio

As of June 30, 2023

### Portfolio Top Holdings

	% of Net Asset Value
Prudential Corp. PLC	5.8
Deutsche Boerse AG	5.3
Cie Financière Richemont SA, Class A	5.2
L'Oréal SA	5.2
DBS Group Holdings Ltd.	4.9
Novartis AG	4.8
Beiersdorf AG, Class A	4.5
Experian Group Ltd.	4.3
Sika AG	4.1
Statoil ASA	3.9
Teleperformance	3.5
Ashtead Group PLC	3.3
Fast Retailing Co. Ltd.	3.1
Hexagon AB	3.0
Schneider Electric SA	3.0
Coloplast A/S, Class B	2.9
Keyence Corp.	2.9
Daikin Industries Ltd.	2.8
CSL Ltd.	2.7
MS&AD Insurance Group Holdings Inc.	2.7
Tencent Holdings Ltd.	2.7
Daito Trust Construction Co. Ltd.	2.5
ASML Holding NV	2.4
Shin-Etsu Chemical Co. Ltd.	2.2
Cash, Money Market and Other Net Assets	0.6
	<u>88.3</u>
Net asset value	\$526,395,882

### Regional Allocation

	% of Net Asset Value
Japan	20.6
Switzerland	14.2
Germany	12.6
France	11.7
United Kingdom	9.0
Singapore	4.9
Denmark	4.6
Australia	4.4
Ireland	4.3
Norway	3.9
China	3.8
Sweden	3.0
Netherlands	2.4
Cash, Money Market and Other Net Assets	0.6

### Sector Allocation

	% of Net Asset Value
Financials	18.8
Industrials	16.8
Consumer Discretionary	12.9
Health Care	12.1
Consumer Staples	10.7
Information Technology	9.5
Materials	7.8
Communication Services	4.4
Energy	3.9
Real Estate	2.5
Cash, Money Market and Other Net Assets	0.6

The above table shows the top 25 positions held by the ETF. In the case of an ETF with fewer than 25 positions, all positions are indicated.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the ETF. A quarterly update is available. Please consult our Web site at [www.nbinvestments.ca](http://www.nbinvestments.ca).



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