

Interim Management Report of Fund Performance

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 Canadian Preferred Shares 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.

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, by visiting our website at www.nbinvestments.ca, by visiting SEDAR's website at 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 Canadian Preferred Shares ETF's units returned 0.53% compared to 0.15% for the ETF's benchmark, the S&P/TSX Preferred Share Index (CAD). 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 dropped by 6.73% over the period, from \$138.34 million as at December 31, 2022 to \$129.04 million as at June 30, 2023.

It was a strong start to the year for Canadian preferred shares. All structures rebounded significantly after experiencing tax-loss selling pressure in December. The combination of wide spreads, solid credit profiles, and increasing coupons should continue to attract interest from investors. However, the rally was short-lived. As economic data kept coming in stronger throughout February with no signs of inflation abating, bond yields kept moving higher and Canadian Preferred Shares weakened. Counterintuitively, higher rates are having a negative effect on preferred share valuations as credit spreads widened, anticipating a deeper recession because of a more restrictive monetary policy.

While equities rebounded during the second quarter, preferred shares maintained their downward momentum. The S&P Preferred Share index has now given back all the gains it had recorded early in 2023. Most recently the market was impacted by the release of the federal budget which included a measure to tax Canadian financial institutions' dividends from Canadian entities as business income. This has created question marks around the preferred share investor base and whether traditional institutional preferred investors would still want to invest in the asset class if they are taxed in the future. The trade-off between poor liquidity and favourable tax treatment historically was enough to keep these buyers engaged in the market. Now their future "enthusiastic" participation is being called into question. This is yet another headwind for a beaten-up asset class, which over time will require more attractive yields to attract any new marginal buyers.

Since the federal budget announcement at the end of March, we have seen another 3 consecutive monthly outflows in preferred share ETFs. June was the 17th consecutive month of negative fund flows, by far the longest streak since preferred share ETFs became prevalent in the 2014-2015 period.

The unbalanced supply and demand environment has continued to put pressure on credit spreads which screen historically wide, especially for Fixed Resets. We continue to look for better equilibrium before becoming more constructive and this could be delayed if financial institutions decide to reduce their exposure.

The S&P TSX Preferred Shares Index lost 0.15% on a total return basis in the first half of 2023. Floaters were the best performers (2.4%), followed by Fixed Resets (0.6%) and Perpetuals (0.6%) on a total return basis.

Despite this context, the Fund overperformed its benchmark for the period. The outperformance resulted mainly from the portfolio manager's selection within Fixed Resets, of which lower spread issues reacted positively to higher interest rates.

Recent Developments

Exposure to Fixed Perpetuals and Floaters decreased while the exposure to Fixed Resets and Cash was increased. This was a result of opportunistic transactions during the quarter. The fund manager saw better opportunities in Fixed Resets not do not currently reflect the benefit of higher interest rates.

Exposure to P1 and P2 was increased while that of P3 issuers decreased. Exposure to Utilities and telecommunications was increased, for the same reasons mentioned previously.

Following the sharp selloff, the outlook for preferred share returns has improved. With a positive rate backdrop, the setup is encouraging considering credit spreads have widened considerably since their lows. As macroeconomic risk dissipates (geopolitical conflicts, supply chain issues, inflation) the portfolio manager believes preferred shares offer attractive risk/reward potential at these levels. However, they are looking for the balance in supply and demand of preferred shares to improve before we become more constructive on the asset class.

The fund manager is comfortable holding an overweight in fixed-rate perpetuals as their fundamentals are strong: high spreads, limited and shrinking supply with sustained demand because of the relatively high after-tax yield compared to other fixed-income securities available in Canada. Holding a diversified mix of fixed-rate perpetuals and fixed-resets is essential while navigating an unpredictable interest rate environment. It acts as a natural hedge against fixed-rate perpetuals since they tend to outperform in a rising rate environment, while the latter should stand out when rates fall. With 5-year interest rates at their highest level since 2011, it is important to be cautious about pricing in too many interests rate hikes. The portfolio manager's approach to investing will continue to be based on 3 key pillars: quality, balance, and relative valuation.

On May 1, 2023, the ETF's independent review committee (the "IRC") was increased to four members when Stéphanie Raymond-Bougie was appointed as 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
Total brokerage fees	23,201.00
Brokerage fees paid to National Bank Financial	-

Independent Review Committee Approvals and Recommendations

The ETF has followed the standing instructions of its Independent Review Committee with respect to one or more of the following transactions:

- a) purchasing or selling government or other debt securities on the secondary market from related brokers that are main brokers in the Canadian debt securities market;
- b) purchasing on the secondary market securities of a related issuer that are not traded on an exchange;
- c) purchasing on the primary market non-exchange-related issuer debt securities having maturities of 365 days or more, other than asset-backed commercial paper.

The manager has implemented policies and procedures to ensure that the conditions that apply to each of the transactions identified above are met. The applicable standing instructions require that these transactions be carried out in accordance with the manager's policies. Notably, these instructions require that investment decisions pertaining to such related-party transactions must be made free from any influence from an entity related to the manager and without taking into account any consideration relevant to an entity related to the manager. Moreover, investment decisions must represent the business judgment of the portfolio manager, uninfluenced by considerations other than the interests of the ETF, and must achieve a fair and reasonable result for the ETF.

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.

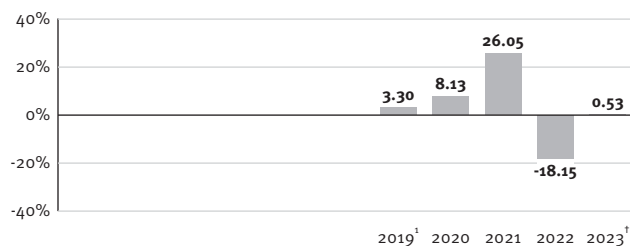
The ETF pays an annual management fee of 0.50% to the ETF manager for its management services. The fees are calculated based on a percentage of the ETF's daily net asset value before applicable taxes and are paid on a monthly basis. The management fees primarily covers investment management and general 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.



⁽¹⁾ Returns for the period from February 8, 2019 (commencement of operations) to December 31, 2019.

⁽¹⁾ 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⁽¹⁾

Commencement of operations: February 8, 2019

Accounting Period Ended	2023 June 30	2022 December 31	2021 December 31	2020 December 31	2019 December 31
Net Assets, Beginning of Accounting Period Shown ⁽²⁾	19.55	24.97	20.60	20.03	25.00
Increase (Decrease) from Operations (\$)					
Total revenue	0.60	1.15	1.10	1.11	0.97
Total expenses	(0.06)	(0.13)	(0.14)	(0.12)	(0.12)
Realized gains (losses)	(0.25)	0.27	1.40	(1.11)	(0.15)
Unrealized gains (losses)	(0.20)	(5.80)	2.75	0.93	0.71
Total Increase (Decrease) from Operations ⁽³⁾	0.09	(4.51)	5.11	0.81	1.41
Distributions (\$)					
From net investment income (excluding dividends)	—	—	—	—	—
From dividends	0.48	0.97	0.92	0.90	0.63
From capital gains	—	0.33	0.31	—	—
Return of capital	—	—	—	—	—
Total Annual Distributions ⁽⁴⁾	0.48	1.30	1.23	0.90	0.63
Net Assets, End of Accounting Period Shown ⁽²⁾	19.19	19.55	24.97	20.60	20.03

Ratios and Supplemental Data

Accounting Period Ended	2023 June 30	2022 December 31	2021 December 31	2020 December 31	2019 December 31
Total net asset value (000's of \$) ⁽⁵⁾	129,037	138,344	177,923	115,357	95,132
Number of units outstanding ⁽⁵⁾	6,725,000	7,075,000	7,125,000	5,600,000	4,750,000
Management expense ratio (%) ⁽⁶⁾	0.58	0.58	0.57	0.57	0.57
Management expense ratio before waivers or absorptions (%)	0.58	0.58	0.57	0.57	0.57
Trading expense ratio (%) ⁽⁷⁾	—	—	—	—	—
Portfolio turnover rate (%) ⁽⁸⁾	10.25	24.80	48.54	54.26	47.34
Net asset value per unit (\$)	19.19	19.55	24.97	20.60	20.03
Closing market price ⁽⁹⁾	19.16	19.68	24.94	20.59	20.05

⁽¹⁾ 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.

⁽²⁾ The net assets are calculated in accordance with IFRS.

⁽³⁾ 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.

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

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

⁽⁶⁾ 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.

⁽⁷⁾ 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.

⁽⁸⁾ 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.

⁽⁹⁾ 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
Cash, Money Market and Other Net Assets	4.2
Enbridge Inc., 4.96%, Series L	2.5
Power Financial Corp., 2.31%, Series P	2.0
Brookfield Corp., 3.24%, Series 24	1.9
Brookfield Corp., 3.85%, Series 26	1.8
Bank of Montreal, 3.62%, Series 29	1.7
Brookfield Corp., 4.61%, Series 28-A	1.7
Brookfield Renewable Energy Partners, 3.14%, Series 1	1.7
Enbridge Inc., 4.00%, Series 3	1.7
TC Energy Corp., 3.76%, Series 9	1.7
Toronto-Dominion Bank, Floating, due October 31, 2027	1.6
Toronto-Dominion Bank, 3.68%, Series 3	1.5
Power Financial Corp., 4.95%, Series K	1.5
Power Financial Corp., 4.50%, Series 23	1.4
Toronto-Dominion Bank, 3.75%, Series 5	1.3
Brookfield Renewable Energy Partners, 4.35%, Series	1.3
Canadian Utilities Ltd., 4.60%, Series 1	1.3
Power Financial Corp., 4.22%, Series T	1.3
Canadian Imperial Bank of Commerce, 3.90%, Series 39	1.2
Power Financial Corp., 4.80%, Series S	1.2
TC Energy Corp., 2.15%, Series 3	1.2
Royal Bank of Canada, 3.60%, Series BD	1.1
Brookfield Properties Corp., 3.78%, Class AAA, Series N	1.1
Fortis Inc., 3.91%, Series M	1.1
Great-West Lifeco Inc., 4.50%, Series I	1.1
	<u>40.1</u>

Net asset value \$129,036,875

Asset Mix

	% of Net Asset Value
Preferred Shares	92.7
Corporate Bonds	3.1
Cash, Money Market and Other Net Assets	4.2

Sector Allocation

	% of Net Asset Value
Financials	54.3
Energy	15.9
Utilities	12.8
Communication Services	6.5
Bonds	3.1
Real Estate	2.9
Consumer Staples	0.3
Cash, Money Market and Other Net Assets	4.2

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.



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