

# 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 Sustainable Canadian Corporate Bond 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 Sustainable Canadian Corporate Bond ETF's units returned 2.75% compared to 2.97% for the ETF's benchmark, the FTSE Canada All Corporate Bond 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 5.26% over the period, from \$119.90 million as at December 31, 2022 to \$126.21 million as at June 30, 2023.

In the first half of 2023, interest rates increased for short-term maturities by approximately 0.5% for the 2-year term, and by approximately half of that range for the 5-year term. The opposite was true for the long end of the curve, with a slight drop for the 10-year term and around 0.2% for long-dated rates.

In this environment, we have seen a general tightening of corporate credit spreads. In the Canadian provinces, only a slight downward trend was observed. At the municipal level, the variation was more significant, at around a quarter of a percentage point.

Against this backdrop, the Fund underperformed its benchmark. The main contributors were duration (0.06%), curve (-0.11%), sector (-0.01%), and selection (0.18%).

### Recent Developments

Duration remained below the benchmark at -0.14 years, largely due to an underweight exposure to 30-year bonds. In a 100% corporate bond mandate, whose index has the same characteristics at this level, a shorter duration than the index implies an underweight exposure to corporate credit. The magnitude of the decline slightly increased to -0.17 years duration dollars (-0.08 as at Dec. 31, 2022) because of a decrease in financial exposure. The portfolio remains significantly underweight in the energy sector and overweight in the real estate and communications industries.

Central banks are doing everything they can to bring inflation back to target without triggering a severe recession. After aggressively raising rates over the past year, central bankers need to assess the impact of these increases on economic and pricing developments.

The Bank of Canada, the Bank of Australia, and even the Federal Reserve, which preferred the status quo to additional tightening in June, are in the process of adjusting. What complicates the task of central banks is that this expansion is more the result of income growth than increased borrowing, as was the case in the USA prior to the 2008 financial crisis. The U.S. household debt-to-equity ratio has fallen from 135% of disposable income in 2008 to 100% today. This period of deleveraging is unprecedented in U.S. economic history.

As a result, monetary policy tightening is no longer as effective at slowing the economy as it once was. In contrast, Canadian debt levels have continued to grow, and monetary policy may have a more direct impact. However, the immigration explosion in the past year partially offset the restrictive effect of the rate increase. Newcomers must have a roof over their heads and consume food regardless of the cost of money. Therefore, arguments can be made as to whether policy rates are high enough to slow the economy and whether the cuts anticipated next year in the United States are not premature.

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.

### 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 0.55% 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.

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>2</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<br>June 30 | 2022<br>December 31 | 2021<br>December 31 |
|--|-----------------|---------------------|---------------------|
| <b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(2)</sup> | 20.96           | 24.19               | 25.00               |
| <b>Increase (Decrease) from Operations (\$)</b>                        |                 |                     |                     |
| Total revenue  | 0.41            | 0.78                | 0.67                |
| Total expenses   | (0.07)          | (0.14)              | (0.14)              |
| Realized gains (losses)  | (0.22)          | (0.80)              | (0.12)              |
| Unrealized gains (losses)  | 0.45            | (2.54)              | (0.30)              |
| <b>Total Increase (Decrease) from Operations</b> <sup>(3)</sup>        | 0.57            | (2.70)              | 0.11                |
| <b>Distributions (\$)</b>  |                 |                     |                     |
| From net investment income (excluding dividends)                       | 0.34            | 0.64                | 0.54                |
| From dividends   | —               | —                   | —                   |
| From capital gains   | —               | —                   | —                   |
| Return of capital  | 0.02            | —                   | —                   |
| <b>Total Annual Distributions</b> <sup>(4)</sup>                       | 0.36            | 0.64                | 0.54                |
| <b>Net Assets, End of Accounting Period Shown</b> <sup>(2)</sup>       | 21.18           | 20.96               | 24.19               |

### Ratios and Supplemental Data

| Accounting Period Ended                                    | 2023<br>June 30 | 2022<br>December 31 | 2021<br>December 31 |
|--|-----------------|---------------------|---------------------|
| Total net asset value (000's of \$) <sup>(5)</sup>         | 126,210         | 119,899             | 173,659             |
| Number of units outstanding <sup>(5)</sup>                 | 5,960,000       | 5,720,000           | 7,180,000           |
| Management expense ratio (%) <sup>(6)</sup>                | 0.63            | 0.63                | 0.63                |
| Management expense ratio before waivers or absorptions (%) | 0.63            | 0.63                | 0.63                |
| Trading expense ratio (%) <sup>(7)</sup>                   | —               | —                   | —                   |
| Portfolio turnover rate (%) <sup>(8)</sup>                 | 13.57           | 11.69               | 41.42               |
| Net asset value per unit (\$)                              | 21.18           | 20.96               | 24.19               |
| Closing market price <sup>(9)</sup>                        | 21.15           | 20.96               | 24.17               |

<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<br>Asset Value |
|---|-------------------------|
| Bank of Montreal, 1.76%, due March 10, 2026                                     | 2.6                     |
| Royal Bank of Canada, Floating, due November 24, 2080                           | 2.4                     |
| Allied Properties Real Estate Investment Trust, 1.73%,<br>due February 12, 2026 | 2.2                     |
| Bell Canada, 2.20%, due May 29, 2028  | 2.1                     |
| Hydro One Inc., 5.36%, due May 20, 2036   | 2.1                     |
| Ontario Power Generation Inc., 2.89%, due April 8, 2025                         | 2.1                     |
| National Bank of Canada, 1.53%, due June 15, 2026                               | 2.0                     |
| BCIMC Realty Corp., 3.00%, due March 31, 2027                                   | 1.8                     |
| Granite Reit Holdings LP, 3.06%, due June 4, 2027                               | 1.8                     |
| OMERS Finance Trust Realty Corporation, 5.38%,<br>due November 14, 2028         | 1.8                     |
| Wells Fargo & Co., 2.98%, due May 19, 2026                                      | 1.8                     |
| Aéroports de Montréal, 3.03%, due April 21, 2050                                | 1.7                     |
| Bell Canada, 6.10%, due March 16, 2035  | 1.7                     |
| Dollarama Inc., 1.51%, due September 20, 2027                                   | 1.7                     |
| Sun Life Financial Inc., Floating, due August 13, 2029                          | 1.7                     |
| Manulife Finance (Delaware) LP, Floating,<br>due December 15, 2041              | 1.7                     |
| Metro Inc, 5.97%, due October 15, 2035  | 1.7                     |
| CT Real Estate Investment Trust, 3.29%, due June 1, 2026                        | 1.6                     |
| Alimentation Couche-Tard Inc., 3.06%, due July 26, 2024                         | 1.5                     |
| Bank of Montreal, Floating, due November 26, 2080                               | 1.5                     |
| Ivanhoe Cambridge II Inc., 2.30%, due December 12, 2024                         | 1.5                     |
| Rogers Communications Inc., 6.56%, due March 22, 2041                           | 1.5                     |
| TELUS Corp., 4.85%, due April 5, 2044   | 1.5                     |
| Vancouver Airport Authority, 2.80%, due September 21, 2050                      | 1.5                     |
| Cash, Money Market and Other Net Assets   | 0.8                     |
|   | 44.3                    |

Net asset value .....\$126,209,962

### Asset Mix

|   | % of Net<br>Asset Value |
|---|-------------------------|
| Corporate Bonds                         | 89.3                    |
| US Bonds                                | 4.2                     |
| Provincial Bonds                        | 3.2                     |
| Foreign Bonds                           | 1.7                     |
| Municipal Bonds                         | 0.7                     |
| Federal Bonds                           | 0.1                     |
| Cash, Money Market and Other Net Assets | 0.8                     |

### Term Allocation

|                          | % of Net<br>Asset Value |
|--------------------------|-------------------------|
| Under one year           | 1.2                     |
| From 1 year to 5 years   | 38.0                    |
| From 5 years to 10 years | 24.9                    |
| More than 10 years       | 35.9                    |

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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