

# 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 Unconstrained Fixed Income 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](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 Unconstrained Fixed Income ETF's units returned 1.37% compared to 2.64% for the ETF's benchmark, the Bloomberg Global Aggregate Bond Index (CAD hedged). 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 ETF's net asset value rose by 19.32% over the period, from \$2.029 billion as at December 31, 2022, to \$2.422 billion as at June 30, 2023. The increase stemmed mainly from investments in the Fund by other NBI Funds.

Even as central banks began to slow the pace of monetary policy tightening to open the year, the cumulative and lagged impacts of their actions thus far became evident with the emergence of acute stress in the financial system with the collapse of Silicon Valley Bank and Credit Suisse. Year-end interest rate expectations initially experienced a steep decline as end-of-cycle sentiment accelerated rapidly, followed by a gradual return to previous highs as investor fears of an imminent recession subsided and optimism over a 'soft landing' scenario resurfaced.

The US Federal Reserve (Fed) delivered three consecutive 0.25% increases, bringing rates to 5.00%-5.25%, before pausing in June to reevaluate the health of the economy. As the 2-year/10-year US Treasury curve inverted further, a barometer for recession, monetary policy-sensitive 2-year US Treasury yields rose from 4.43% to 4.90% during the period. US Treasuries returned 1.6% and investment grade credit returned 3.1% year-to-date. Meanwhile, risk markets rallied amid the resilient economic backdrop: the US and European high yield returned 5.4% and 4.4% respectively while emerging markets sovereign debt returned 4.1%.

In this context, the Fund underperformed its benchmark for the period. Offsetting some of the underperformance was the Fund's exposure to high yield given the rally in risk assets. Investment grade credit also contributed to returns, and the Fund continued to shift to a defensive position with an up-in-quality bias. Returns were helped primarily by a rotation from financials into high-quality industrial names, as spreads ground tighter over the period.

### Recent Developments

Over the period, the Fund increased headline duration from 3.5 to 4.3 years. The Fund reduced its long US Treasury position while also closing its short position in German Bunds and Italy government bonds. The Fund increased its exposure to securitized products from 9% to 15%, primarily by adding agency mortgage-backed securities given attractive valuations.

The Fund reduced its high yield exposure from 23% to 14% while marginally decreasing its investment-grade credit exposure from 36% to 35%. Additionally, the Fund marginally increased its overall emerging market debt exposure from 15% to 16%, primarily by opening Czech Republic, Indonesia, and Poland local currency positions, while adding to its Brazil and Mexico local currency positions.

Central banks are committed to a course of higher rates and tighter policy to reduce inflation to the 2% target level, and policymakers are prepared to pay the price of a recession to get there.

Year-end interest rate expectations have risen steadily, and good economic news stories look set to postpone recession rather than prevent it. Recession remains our base case, as historically reliable leading indicators suggest an economic downturn is the most probable outcome: manufacturing has moved into contractionary territory, credit conditions have tightened. In our view, the onset of recession is likely by early 2024 as the gradual removal of excess liquidity begins to curb consumption, compress profit margins, and cool labour markets. Investors should maintain vigilance over simmering stress points in the regional banking system, the office segment of commercial real estate, and the elevated level of floating rate corporate borrowing. Some risk sectors are currently priced for a "soft landing" and we believe this does not adequately protect investors from the onset of recession in the time horizon we project. We continue to target any backup in yields to add high quality duration: we favour agency mortgage-backed securities, where valuations are at their cheapest since the global financial crisis, and selective exposure to local currency emerging market debt.

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.

During the period, the ETF received income from funds managed by related parties:

	June 30, 2023
Distributions from underlying funds	34,738.15

### 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	116,670.76
Brokerage fees paid to National Bank Financial	-

## Holdings

As at June 30, 2023, the NBI Unconstrained Fixed Income Fund held approximately 98.32% ownership of the redeemable units outstanding of the ETF. Transactions between the NBI Unconstrained Fixed Income Fund and the ETF were carried out in the normal course of business. The portfolio manager for this Fund is National Bank Trust Inc.

## 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.

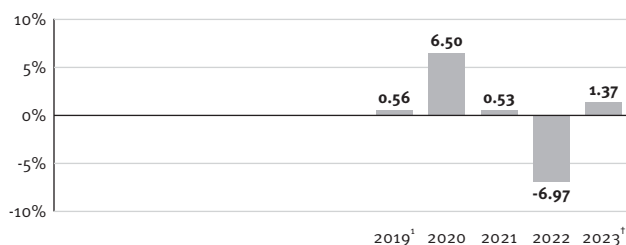
The ETF pays an annual management fee of 0.75% to the ETF manager for its management services. The fees are calculated based on a percentage of the ETF's daily net asset value before applicable taxes and are paid on a monthly basis. The management fees primarily covers investment management and general 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 October 18, 2019 (commencement of operations) to December 31, 2019.

<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: October 18, 2019

Accounting Period Ended	2023 June 30	2022 December 31	2021 December 31	2020 December 31	2019 December 31
<b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(2)</sup>	21.18	25.32	26.25	25.07	25.00
<b>Increase (Decrease) from Operations (\$)</b>					
Total revenue	0.22	2.32	1.27	1.04	0.74
Total expenses	(0.10)	(0.21)	(0.23)	(0.22)	(0.05)
Realized gains (losses)	(0.65)	(1.86)	(0.19)	1.71	—
Unrealized gains (losses)	0.80	(2.03)	(0.72)	0.47	(0.46)
<b>Total Increase (Decrease) from Operations</b> <sup>(3)</sup>	0.27	(1.78)	0.13	3.00	0.23
<b>Distributions (\$)</b>					
From net investment income (excluding dividends)	0.30	2.40	1.07	0.43	0.14
From dividends	—	—	—	—	—
From capital gains	—	—	—	0.70	0.21
Return of capital	0.28	—	—	—	—
<b>Total Annual Distributions</b> <sup>(4)</sup>	0.58	2.40	1.07	1.13	0.35
<b>Net Assets, End of Accounting Period Shown</b> <sup>(2)</sup>	20.90	21.18	25.32	26.25	25.07

### 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 \$) <sup>(5)</sup>	2,422,064	2,029,462	2,369,562	1,809,462	1,881
Number of units outstanding <sup>(5)</sup>	115,900,000	95,825,000	93,575,000	68,925,000	75,000
Management expense ratio (%) <sup>(6)</sup>	0.86	0.86	0.86	0.86	0.89
Management expense ratio before waivers or absorptions (%)	0.86	0.86	0.86	0.86	0.89
Trading expense ratio (%) <sup>(7)</sup>	—	—	—	—	—
Portfolio turnover rate (%) <sup>(8)</sup>	25.73	37.68	45.17	59.98	—
Net asset value per unit (\$)	20.90	21.18	25.32	26.25	25.07
Closing market price <sup>(9)</sup>	20.96	21.24	25.22	26.17	25.08

<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
Cash, Money Market and Other Net Assets	3.6
Uniform Mortgage Backed Security, TBA, 4.50%, due July 13, 2053	2.6
Government National Mortgage Association, 4.50%, due July 20, 2053	2.5
Uniform Mortgage Backed Security, TBA, 5.50%, due July 13, 2053	2.0
U.S. Treasury Notes, 3.75%, due May 31, 2030	1.6
Mexican Bonos, Series M, 7.75%, due May 29, 2031	1.5
U.S. Treasury Notes, 1.13%, due February 15, 2031	1.3
Brazil Notas do Tesouro Nacional Serie F, Series NTN F, 10.00%, due January 1, 2027	1.2
Republic of Poland Government Bond, Series 0728, 7.50%, due July 25, 2028	1.1
U.S. Treasury Notes, 3.88%, due December 31, 2029	1.1
Republic of South Africa Government Bond, Series 2035, 8.88%, due February 28, 2035	1.0
Mexican Bonos, Series M, 8.50%, due November 18, 2038	1.0
Indonesia Treasury Bond, Series FR96, 7.00%, due February 15, 2033	1.0
Mexican Bonos, Series M, 7.50%, due May 26, 2033	0.7
Czech Republic Government Bond, 4.90%, due April 14, 2034	0.6
U.S. Treasury Notes, 4.63%, due February 28, 2025	0.5
U.S. Treasury Notes, 4.50%, due August 15, 2039	0.4
Petroleos Mexicanos, 5.95%, due January 28, 2031	0.4
Czech Republic Government Bond, Series 142, 1.95%, due July 30, 2037	0.4
Goldman Sachs Group Inc./The, 0.66%, due September 10, 2024	0.4
Mitsubishi UFJ Financial Group Inc., 2.34%, due January 19, 2028	0.4
Republic of Italy Government International Bond, 2.88%, due October 17, 2024	0.3
Morgan Stanley, 1.59%, due May 4, 2027	0.3
Republic of Italy Government International Bond, 0.88%, due May 6, 2024	0.3
ON Semiconductor Corp., 0.00%, due May 1, 2027	0.3
	26.5

Net asset value ..... \$2,422,063,636

### Asset Mix

	% of Net Asset Value
US Bonds	35.1
Foreign Bonds	25.6
Federal Bonds	20.1
Mortgage Backed Securities	12.8
Asset Backed Securities	2.0
Bank Loans	0.7
Common Shares	0.1
Cash, Money Market and Other Net Assets	3.6

### Term Allocation

	% of Net Asset Value
Under one year	2.9
From 1 year to 5 years	34.9
From 5 years to 10 years	34.0
More than 10 years	24.5

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).



Open architecture.  
Endless opportunities.

