

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2024

Short Term and Income Fund  
**NBI Income Fund**

## Notes on forward-looking statements

This report may contain forward-looking statements concerning the Fund, 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 investment fund. You can get a copy of the interim financial statements at your request, and at no cost, by calling 1-888-270-3941 or 514-871-2082, by writing to us at National Bank Investments Advisory Service, 800 Saint-Jacques Street, Transit 44331, Montreal, Quebec, H3C 1A3, by visiting our website at [www.nbinvestments.ca](http://www.nbinvestments.ca), by visiting SEDAR+'s website at [www.sedarplus.ca](http://www.sedarplus.ca), or by contacting your advisor. You may also contact us using one of these methods to request a copy of the investment fund'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, 2024, the NBI Income Fund's Investor Series units returned -0.60% compared to -0.38% for the Fund's benchmark, the FTSE Canada Universe Bond Index (CAD). Unlike the benchmark, the Fund's performance is calculated after fees and expenses. Please see the *Past Performance* section for the returns of all of the Fund's series, which may vary mainly because of fees and expenses.

The Fund's net asset value dropped by 8.92% over the period, from \$67.59 million as at December 31, 2023 to \$61.57 million as at June 30, 2024.

During the first half of 2024, North American bond yields adjusted higher, and the yield curve steepened over the first three months of the year. Softening global growth and inflation added to the view that financial conditions were tight and were working their way through the global economy.

The Bank of Canada reduced its target for the overnight rate to 4.75% from 5.00% in June. The economy was operating in excess supply and inflation continued to move lower giving the Bank more confidence they would be able to achieve their two percent inflation target over time.

Economic data has finally started to fade showing signs that restrictive monetary policy was working to cool the economy. Later in the second quarter, the probability of a soft landing increased, requiring interest rate cuts before the end of the year.

In this context, the Fund slightly underperformed its benchmark for the period. Spread management was one of the major contributors to the fund's performance over the period, with carry also proving to be a driver of performance. Curve and duration positioning detracted from performance. Security selection helped and came from our positions within the financial sector.

### Recent Developments

The Bank of Canada began the process of loosening monetary policy, and we expect this to continue in 2024 and 2025. It will not be a straightforward exercise where the Bank cuts at every meeting until they get to a neutral level. We expect stops and starts as the economy is not falling off a cliff and there are still risks to the inflation outlook. The U.S. economy has been more resilient than Canada, but it is also starting to show signs of weakening which will eventually lead to an interest rate cut from the Federal Reserve. Restrictive policy is working in both countries but there are long and variable lags. The portfolio manager expects a heightened level of interest rate volatility as the market transitions to lower rates, which will provide us with trading opportunities. Elevated bond supply and geopolitical events will also contribute to this environment.

Investment grade credit spreads are close to long-term historical averages. Our base case is for an economic soft landing, where Canadian growth operates below potential but does not fall into a recession, inflation trends towards the target in 2024 and 2025, and the Bank cut rates to neutral over this period. Credit spreads reflect this environment, the portfolio has a modest overweight, but the portfolio manager has reduced the fund's exposure over the last year. The portfolio manager's focus today is on the high-quality sectors or on names where spreads are attractive. Most of the overweight is now on the short end of the curve. The portfolio manager will continue to actively trade in this sector.

### Related Party Transactions

National Bank of Canada ("the Bank") and its affiliated companies' roles and responsibilities related to the Fund are as follows:

#### Trustee, Custodian, and Registrar

Natcan Trust Company ("NTC"), a direct or indirect wholly-owned subsidiary of the Bank, is the Fund's trustee. In this capacity, it is the legal owner of the Fund's investments.

NTC acts as registrar for the Fund's securities and the names of securityholders. NTC also acts as the Fund's custodian. The fees for NTC's custodial services are based on the standard rates in effect at NTC.

#### Agent for securities lending transactions

NTC acts as the agent for securities lending transactions acts on behalf of the Fund in administering securities lending transactions entered into by the Fund. NTC is an affiliate of the Manager.

#### Fund Manager

The Fund is managed by National Bank Investments Inc. ("NBII"), which is a wholly-owned subsidiary of the Bank. Therefore, NBII provides or ensures the provision of all general management and administrative services required by the Fund's current operations, including investment consulting, the arrangement of brokerage contracts for the purchase and sale of the investment portfolio, bookkeeping and other administrative services required by the Fund.

The operating expenses of the Fund do not include fees and expenses directly related to the funds' portfolio transactions, income and other taxes payable by the funds or to which they may be subject, or borrowing costs, if any. The portfolio manager assumes all the other expenses of the funds incurred in administering the Fund, including trustee, recordkeeping, custodial, legal, audit, investor servicing, and securityholder reporting fees

As described under the heading *Management Fees*, the Fund pays annual management fees to NBII as consideration for its services.

#### Portfolio Manager

The Manager has appointed National Bank Trust Inc. ("NBT"), an indirect wholly-owned subsidiary of the Bank, as the portfolio manager for the Fund. A flat fee is payable annually to NBT for its management services.

#### Distribution and Dealer Compensation

NBII acts as principal distributor for the Fund. In this capacity, NBII buys, sells and swaps securities through Bank branches and the National Bank Investments Advisory Service in Canadian provinces and territories, and through external registered representatives. Fund securities are also offered by National Bank Financial Inc. (including its division National Bank Direct Brokerage), CABN Investments (a division of NBII) and other affiliated entities. Brokers may receive, depending on the distributed series, a monthly commission representing a percentage of the average daily value of the securities held by their clients.

#### Independent Review Committee Approvals and Recommendations

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

- Purchasing or holding the securities of a related issuer, in particular, those of National Bank of Canada;
- Investing in the securities of an issuer when an entity related to the manager acts as an underwriter for the placement or at any time during the 60-day period after the end of the placement;
- Purchasing or selling securities to another investment Fund managed by the manager or a company in the same group;
- Purchasing or selling debt securities on the secondary market, through related brokers that are main brokers in the Canadian debt securities market (in accordance with an exemption received from the Canadian Securities Administrators);
- Entering into foreign exchange transactions (including both spot transactions and forward transactions) with National Bank of Canada.

The Manager has implemented policies and procedures to make sure that the conditions applicable to each of the above transactions are met. The applicable standing instructions require that these transactions be carried out in accordance with NBII policies, which specify, in particular, that investment decisions pertaining to these related party transactions must be made free from any influence by an entity related to NBII and without taking into account any consideration relevant to an entity related to NBII. Furthermore, the investment decisions must represent the business judgment of the securities advisor, uninfluenced by considerations other than the best interest of the Fund and must achieve a fair and reasonable result for the Fund.

### Registered Plan Trust Services

NTC receives a fixed amount per registered account for services provided as trustee for registered plans.

### Administrative and Operating Services

The provision of certain services was delegated by the Fund Manager, NBII, to National Bank Trust Inc. ("NBT"), a wholly-owned indirect subsidiary of the Bank. These include accounting, reporting and portfolio valuation services. The fees incurred for these services are paid to NBT by the Fund manager.

### Management Fees

The Fund pays annual management fees to the Fund manager for its management services. The fees are calculated based on a percentage of the Fund's daily net asset value before applicable taxes and are paid on a monthly basis. Under the *Distribution* heading, expenses include the broker's compensation consisting of the maximum annual trailer fees and sales commissions paid to brokers. Under the *Other* heading, the fees relate mainly to investment management, investment advisory services, general administration and profit. The breakdown of major services provided in consideration of the management fees, expressed as an approximate percentage of the management fees is as follows:

Series	Management Fees	Distribution	Others <sup>†</sup>
Investor Series	1.00%	50.00%	50.00%
Series F	0.60%	—	100.00%

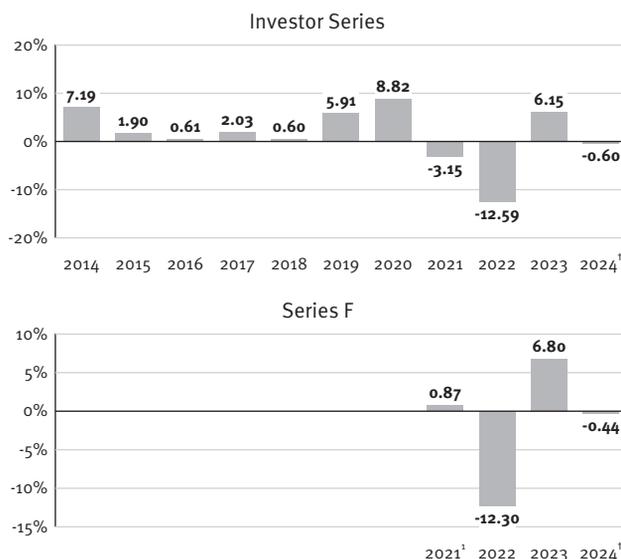
<sup>(†)</sup> Includes all costs related to management, investment advisory services, general administration and profit.

### Past Performance

The performance of each series of the Fund is presented below and calculated as at December 31 of each year. It assumes that all distributions made in the periods shown were reinvested in additional securities and does not take into account sales, redemption charges, distributions, or optional charges that would have reduced returns. Past performance of a series of a Fund does not necessarily indicate how it will perform in the future.

### Annual Returns

The bar charts indicate the performance for each the Fund's series in existence greater than one year during the years shown, and illustrate how the performance has changed from year to year. They show, in percentage terms, how much an investment made on January 1 (or made commencing from the start of the series) 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>(‡)</sup> Returns for the period from June 22, 2021 (commencement of operations) to December 31, 2021.

<sup>(†)</sup> Returns for the period from January 1, 2024 to June 30, 2024.

## Financial Highlights

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

### Investor Series

Net Assets per Unit <sup>(1)</sup>		Commencement of operations: February 19, 1970				
Accounting Period Ended	2024 June 30	2023 December 31	2022 December 31	2021 December 31	2020 December 31	2019 December 31
<b>Net Assets, Beginning of Accounting Period Shown<sup>(4)</sup></b>	7.84	7.57	8.85	9.31	8.83	8.50
<b>Increase (Decrease) from Operations (\$)</b>						
Total revenue	0.14	0.27	0.25	0.26	0.26	0.27
Total expenses	(0.04)	(0.08)	(0.09)	(0.10)	(0.10)	(0.10)
Realized gains (losses)	(0.05)	(0.38)	(0.35)	0.03	0.21	0.12
Unrealized gains (losses)	(0.12)	0.65	(1.15)	(0.51)	0.40	0.22
<b>Total Increase (Decrease) from Operations (\$)<sup>(2)</sup></b>	(0.07)	0.46	(1.34)	(0.32)	0.77	0.51
<b>Distributions (\$)</b>						
From net investment income (excluding dividends)	0.10	0.19	0.17	0.16	0.16	0.17
From dividends	—	—	—	—	—	—
From capital gains	—	—	—	0.01	0.13	—
Return of capital	—	—	—	—	—	—
<b>Total Annual Distributions (\$)<sup>(3)</sup></b>	0.10	0.19	0.17	0.17	0.29	0.17
<b>Net Assets, End of Accounting Period Shown (\$)<sup>(4)</sup></b>	7.69	7.84	7.57	8.85	9.31	8.83

### Ratios and Supplemental Data

Accounting Period Ended	2024 June 30	2023 December 31	2022 December 31	2021 December 31	2020 December 31	2019 December 31
Total net asset value (000's of \$) <sup>(5)</sup>	43,870	51,501	54,202	94,178	109,843	105,242
Number of units outstanding <sup>(6)</sup>	5,704,588	6,566,760	7,160,823	10,639,615	11,797,360	11,917,343
Management expense ratio (%) <sup>(4)</sup>	1.11	1.11	1.11	1.11	1.11	1.11
Management expense ratio before waivers or absorptions (%)	1.11	1.11	1.11	1.11	1.11	1.11
Trading expense ratio (%) <sup>(7)</sup>	—	—	—	—	—	—
Portfolio turnover rate (%) <sup>(8)</sup>	42.85	97.05	117.94	95.79	127.79	106.48
Net asset value per unit (\$)	7.69	7.84	7.57	8.85	9.31	8.83

### Series F

Net Assets per Unit <sup>(1)</sup>		Commencement of operations: June 22, 2021		
Accounting Period Ended	2024 June 30	2023 December 31	2022 December 31	2021 December 31
<b>Net Assets, Beginning of Accounting Period Shown<sup>(4)</sup></b>	8.91	8.59	10.02	10.00
<b>Increase (Decrease) from Operations (\$)</b>				
Total revenue	0.16	0.31	0.29	0.15
Total expenses	(0.03)	(0.06)	(0.06)	(0.04)
Realized gains (losses)	(0.06)	(0.44)	(0.45)	(0.01)
Unrealized gains (losses)	(0.06)	0.73	(0.02)	(0.11)
<b>Total Increase (Decrease) from Operations (\$)<sup>(2)</sup></b>	0.01	0.54	(0.24)	(0.01)
<b>Distributions (\$)</b>				
From net investment income (excluding dividends)	0.13	0.25	0.20	0.07
From dividends	—	—	—	—
From capital gains	—	—	—	—
Return of capital	—	—	—	—
<b>Total Annual Distributions (\$)<sup>(3)</sup></b>	0.13	0.25	0.20	0.07
<b>Net Assets, End of Accounting Period Shown (\$)<sup>(4)</sup></b>	8.74	8.91	8.59	10.02

### Ratios and Supplemental Data

Accounting Period Ended	2024 June 30	2023 December 31	2022 December 31	2021 December 31
Total net asset value (000's of \$) <sup>(5)</sup>	17,695	16,093	17,841	145
Number of units outstanding <sup>(6)</sup>	2,025,084	1,807,105	2,075,816	14,483
Management expense ratio (%) <sup>(4)</sup>	0.67	0.67	0.68	0.69
Management expense ratio before waivers or absorptions (%)	0.67	0.67	0.68	0.70
Trading expense ratio (%) <sup>(7)</sup>	—	—	—	—
Portfolio turnover rate (%) <sup>(8)</sup>	42.85	97.05	117.94	95.79
Net asset value per unit (\$)	8.74	8.91	8.59	10.02

- <sup>(1)</sup> This information is derived from the Fund'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 fund pricing purposes. The differences are explained in the notes to the financial statements.
- <sup>(2)</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>(3)</sup> Distributions were paid in cash or reinvested in additional units of the Fund, or both.
- <sup>(4)</sup> The net assets are calculated in accordance with IFRS.
- <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. The management expense ratio includes, if necessary, the management expenses from its underlying funds, as described in Article 15.2 of Regulation 81-106.
- <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 Fund's portfolio turnover rate indicates how actively the Fund portfolio's manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the accounting period. The higher a Fund's portfolio turnover rate in an accounting period, the greater the trading costs payable by the Fund 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 a Fund.

## Summary of Investment Portfolio

As of June 30, 2024

### Portfolio Top Holdings

	% of Net Asset Value
Government of Canada, 1.50%, due June 1, 2031	6.1
Government of Canada, 2.75%, due June 1, 2033	5.6
Government of Canada, 2.50%, due December 1, 2032	2.9
Government of Canada, 1.50%, due December 1, 2031	2.0
Canada Housing Trust, 3.65%, due June 15, 2033	1.7
Government of Canada, 2.00%, due June 1, 2032	1.7
Canada Housing Trust, 4.25%, due March 15, 2034	1.3
Government of Canada, 1.75%, due December 1, 2053	1.3
Government of Canada, 3.00%, due June 1, 2034	1.3
Province of Ontario, 2.25%, due December 2, 2031	1.3
Province of Ontario, 3.65%, due June 2, 2033	1.3
Province of Ontario, 3.75%, due December 2, 2053	1.3
Royal Office Finance LP, 5.21%, due November 12, 2032	1.3
Government of Canada, 3.25%, due December 1, 2033	1.2
Province of British Columbia, 4.15%, due June 18, 2034	1.2
Government of Canada, 4.00%, due March 1, 2029	1.1
Royal Bank of Canada, 5.23%, due June 24, 2030	1.0
Canada Housing Trust, 3.55%, due September 15, 2032	1.0
Province of Ontario, 5.60%, due June 2, 2035	1.0
Province of Ontario, 4.65%, due June 2, 2041	0.9
Province of Newfoundland, 5.60%, due October 17, 2033	0.9
City of Toronto, 3.25%, due June 24, 2046	0.8
Canada Housing Trust, 1.90%, due March 15, 2031	0.7
Province of Alberta, 3.10%, due June 1, 2050	0.7
Cash, Money Market and Other Net Assets	0.6
	40.2

Net asset value ..... \$61,565,056

### Asset Mix

	% of Net Asset Value
Canadian Corporate Bonds	34.9
Federal Bonds	30.1
Provincial Bonds	24.5
Municipal Bonds	7.7
US Bonds	1.3
Asset Backed Securities	0.5
Foreign Bonds	0.3
Mortgage Backed Securities	0.1
Cash, Money Market and Other Net Assets	0.6

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

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

If this investment Fund invests in other investment funds, please consult the prospectus and other information about the underlying investment funds on the website indicated above or on SEDAR+'s website at [www.sedarplus.ca](http://www.sedarplus.ca).