

# Interim Management Report of Fund Performance

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For the period ended June 30, 2020

## **INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE**

For the period ended June 30, 2020

### **NBI Sustainable Canadian 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

### Investment Objective and Strategies

The ETF's investment objective is to provide a high level of current income and sustained capital growth while focusing on debt instruments designed to raise funds for projects or businesses that have a positive environmental or social impact. It invests in a portfolio comprised primarily of bonds issued by Canadian federal or provincial governments or by Canadian corporations.

The ETF seeks to achieve its objective by using a top-down approach when managing the level of risk of the portfolio. It considers the economic outlook and analyzes the risks of the various assets constituting the portfolio. When selecting securities, the ETF uses a bottom-up approach. It selects issuers based on fundamental analysis, including a credit and an ESG analysis for each security.

### Risks

The global investment risk of the ETF remains as described in the prospectus or any amendments thereto and ETF Facts.

### Results of Operations

The NBI Sustainable Canadian Bond ETF was launched on January 23, 2020, and the ETF's net asset value was \$5.17 million as at June 30, 2020. Investment performance is not provided for an ETF that has been available for less than one year.

2020 started with positive momentum with many markets reaching record highs up until mid-February. However, fears of global pandemic quickly turned to reality, sending markets across the world in a downward spiral. The spread of the virus and the impact of the response measures (including social distancing) on economic activity is very severe and a global recession is in the cards for 2020. Specific to Canada, the sharp drop in oil prices has also compounded the impact on our economy.

In this context, Canadian government bond yields ended the period lower while having swung wildly, as investors sought to assess the economic fallout stemming from the coronavirus, the bond supply implications of the massive fiscal response, and assertive central bank measures aimed at restoring liquidity and avoiding a credit crunch.

In this tumultuous and unprecedented market environment, corporate credit spreads vs government bonds blew out in March as the economic shutdown threatened corporate health and liquidity seized up. Over the second quarter, those spreads begun to narrow as quantitative easing programs took effect and market conditions improved. Under these circumstances, bonds with higher duration performed better – no large surprise as interest rates were lowered by central banks.

Under these circumstances, the overall Canadian bond universe index ended the semester with a return of 7.53%, as all sectors posted gains. Provincial bonds for their part, outperformed corporate, municipal and federal bonds as they returned 9.06% over the semester vs 5.41%, 8.15% and 7.52% for the other respective asset classes. Longer-term issues also stood out short and mid-term issues.

While corporate bonds underperformed the overall Canadian fixed income universe with a return of 5.4% overall, A-rated issues posted higher returns than AAA/AA and BBB-rated issues. Sector-wise, Infrastructure and Communication led the other sectors, gaining respectively 7.9% and 7.5% whereas Real Estate and Securitized assets trailed behind, with 3.2% and 3.8%.

### Recent Developments

Given the uncertainty prevailing about the direction of the economy and the evolution of COVID-19, it is quite difficult to make forecasts.

However, the portfolio manager believes that the process of reopening the economy will have its ups and downs, which should give him opportunities to add some risk to the portfolio at more attractive levels.

He also thinks that policymakers are much more concerned about not stimulating enough than too much, which bodes well for the recovery, but could also lead to higher interest rates.

At the end of the semester, the portfolio had an underweight exposure in both provincial and corporate bonds, while having a slightly shorter duration than its benchmark, mainly in the long end of the curve.

On April 30, 2020, the ETF's independent review committee (the "IRC") was reduced to three members when Jacques Valotaire resigned 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 fund (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

Since the present Interim Management Report of Fund Performance is the first interim report submitted for this ETF, the NI 81-106 does not require this information to be reported. The ETF's units were available since March 4, 2020.

### Past Performance

Since the present Interim Management Report of Fund Performance is the first interim report submitted for this ETF, the NI 81-106 does not require the presentation of past performance. The ETF's units were available since March 4, 2020.

## Financial Highlights

Since the present Interim Management Report of Fund Performance is the first interim report submitted for this ETF, the NI 81-106 does not require the presentation of financial highlights. The Fund's units were available since March 4, 2020.

### Summary of Investment Portfolio

As of June 30, 2020

#### Portfolio Top Holdings

	% of Net Asset Value
Hydro-Quebec, Series 19, 6.50%	18.0
Province of Ontario Canada, 2.65%	15.2
Export Development Canada, 1.80%	9.6
CPPIB Capital Inc., Series EMTN, 3.00%	8.8
Province of Ontario Canada, 1.95%	8.0
Lower Mattagami Energy LP, 5.14%	4.1
Canadian Imperial Bank of Commerce, Series DPNT, 2.90%	4.0
Ivanhoe Cambridge II Inc., Series 2, 2.30%	4.0
Canadian Government Bond, 2.00%	3.8
City of Ottawa Ontario, 3.25%	3.5
City of Toronto Canada, 2.60%	3.1
Manulife Financial Corp., 3.32%	3.1
Sun Life Financial Inc., 2.38%	3.0
Algonquin Power Co., 4.65%	1.5
Reliance LP, 3.84%	1.5
British Columbia Ferry Services Inc., Series 13-1, 4.70%	1.3
Ontario Power Generation Inc., 3.84%	1.2
City of Vancouver, 3.10%	1.1
South Coast British Columbia Transportation Authority, 3.25%	1.1
South Coast British Columbia Transportation Authority, 3.05%	1.1
Ontario Power Generation Inc., 2.89%	1.0
RioCan Real Estate Investment Trust, Series AC, 2.36%	0.9
Cash, Money Market and Other Net Assets	0.7
City of Ottawa Ontario, 2.50%	0.4
	100.0
<b>Net asset value</b>	<b>\$5,166,340</b>

#### Asset Mix

	% of Net Asset Value
Bonds and Debentures	99.3
Cash, Money Market and Other Net Assets	0.7

#### Term Allocation

	% of Net Asset Value
Under 1 year	0.0
From 1 year to 5 years	45.9
From 5 years to 10 years	18.0
Over 10 years	35.4

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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