

# ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended December 31, 2020

Short Term and Income Fund  
**NBI Preferred Equity 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 annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual 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, 500, Place d'Armes, 12th floor, Montreal, Quebec, H2Y 2W3, 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 investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Investment Objective and Strategies

The NBI Preferred Equity Income Fund's investment objective is to generate high dividend income while focusing on capital preservation. This Fund invests directly, or through investments in securities of other mutual funds, in a portfolio mainly composed of preferred shares of Canadian companies and other income generating Canadian equities.

The portfolio manager conducts fundamental research, but will also consider quantitative and technical factors. The portfolio securities selection is based on knowledge of the company, its industry and its growth prospects. An extensive credit analysis for each security and an assessment of the risk profiles, the relative performance and the general conditions are completed in order to confirm the selection and the relative weight of each portfolio security. It is expected that investments in foreign securities will not exceed approximately 10% of the Fund's assets.

### Risks

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

### Results of Operations

For the twelve-month period ended December 31, 2020, the NBI Preferred Equity Income Fund's Investor Series units returned 6.81% compared to 6.16% for the Fund's benchmark, the S&P/TSX Preferred Share 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 rose by 15.30% over the period, from \$489.56 million as at December 31, 2019 to \$564.45 million as at December 31, 2020.

The increase stemmed mainly from unit purchases by investors in the Fund and market fluctuations.

Financial assets plummeted during the first quarter after the world was struck with an unprecedented and unexpected pandemic. What once was supposed to only be confined to Asia, the COVID-19 quickly spread across the planet, affecting developed countries like never a virus has done in the past. The economic ramifications have led to unprecedented financial stimulus and support to the economy from central banks and governments. During the month of March only, the Bank of Canada cut interest rate on 3 different occasions, bringing the overnight lending rate from 1.75% to 0.25%. This led the 5-year Government of Canada ("5Y GoC") bond yield to fall to 0.59% at the end of the first quarter, before moving even lower at the end of the second quarter to 0.37%, down 1.30% from where we started the year. This had an immediate negative effect on the dividend yield for floating rate preferred shares, and a potential negative impact for fixed-resets, as every single issue of the Canadian preferred shares universe will see its dividend yield move lower, if interest rates remain at this level. However, valuations reflected this new reality very quickly and fixed-reset issues traded at yields that have never been seen before for this asset class. Credit spreads in preferred shares have widened a lot relative to more senior instruments during this period.

Following the end of the first quarter, financial markets saw a sharp rebound as confinement measures helped flatten the curve. Investors grew more and more confident in a "V" shaped recovery and this led to significant credit spread compression in the preferred share market which pushed prices higher even though the 5-Year Government of Canada bond yield was falling. The month of May offered better insight in how the pandemic has affected the business operations of preferred shares issuers. This most important information in our opinion was the quarterly results provided by the Canadian Banks. For the most part, the banks took a conservative stance by building provisions for potential loan losses more than the market had anticipated. Nonetheless, they were able to maintain adequate capital levels which alleviated the potential for dividend cuts or equity issuance in order to recapitalize. Overall, these results were applauded by equity and credit investors.

The momentum witnessed at the end of the second quarter continued into the second half of 2020 but for different reasons. This biggest event impacting market conditions was the announcement from the Royal Bank of Canada that they would be issuing a new Fixed Income structure called Limited Recourse Capital Note (LRCN). This note is structured as a 60-year bond with a coupon reset structure every 5 years, very similar to the bank Fixed Resets. This note includes Non-Viability Contingency Clause (NVCC) and has been approved by the Office Superintendent of Financial Institutions of Canada (OSFI) to count against the issuing banks Additional Tier 1 Capital. Previously, NVCC preferred shares were the only financial instrument issued in Canada that counted as AT1 capital.

Why is this so important? First, this new product offers the issuer with flexibility in determining the type of capital they want to issue in order to suffice their capital needs. With the large discrepancy between corporate spreads witnessed in the corporate bond market versus the preferred share market, issuers can pay a lower coupon using the LRCN structure. Second, the new LRCN structures enable the issuers to deduct the interest payments as a corporate expense, reducing the amount of taxes they pay. Third, the LRCN is intended for institutional investors, and with the Fixed Income market being multiples in size compared to the preferred share market, they can issue large size deals.

During the second half of the year we got a taste of what's to come as we saw many issuers announce redemptions. Although some issues were expected to get called eventually as they did not possess the NVCC clause and therefore would no longer count as permanent capital at the end of October 2021, others came as a surprise and this brought light to the impact future redemptions would have on the overall market. With cash needing to find a home, and the increased appetite for preferred shares in general, product offering is becoming more and more scarce and therefore more and more valuable. You simply can't find 5.2% of yield (the current gross yield of the portfolio) in investment grade fixed income, without mentioning the preferential tax treatment for Canadians domiciled investors. This explains why the demand / supply picture is heavily unbalanced right now and why we see more potential for capital appreciation.

In this context, the S&P/TSX Preferred Share Index ended the year with a return of 6.16%, fixed rate perpetual issues being the best performers followed by fixed-reset. Lagging far behind were floating rate perpetuals which closed the period in negative territory. In this tumultuous environment, the Fund managed to outperform its benchmark for the period, due mainly to its overweight exposure to fixed rate perpetuals, the best-performing group. Early in the year, the portfolio manager considered discounted resets as being cheap and increased their allocation. In hindsight it was too early given what happened with the pandemic and it impacted performance negatively. However, while he realized the selloff was overdone and that the risk-reward proposition was heavily skewed in his favor, he increased their allocation, which ended up being a very lucrative decision.

## Recent Developments

The outlook for preferred shares has become far less predictable following the COVID-19 outbreak. As the portfolio manager reviews the markets key driver for performance, he has limited visibility in certain areas, while others offer encouraging signs for the future that should help enhance performance over the next 12-18 months.

Interest rate volatility seems to be the new norm. Only a few months ago, interest rate levels would have been supportive for the fixed-reset segment, which represents approximately  $\frac{3}{4}$  of the market. However, with latest easing of financial conditions and the current level of the 5-Year GoC bond yield, far less fixed-resets will see their future dividend yield go higher over time.

Volatility has certainly increased over the last few years and he believes this trend should persist. The impact of ETFs is more pronounced than in the past as they grew immensely in size (from sub 5% in 2014 to about 10% today). Furthermore, central bank policies on interest rates has created heightened volatility without a clear direction. Both these dynamics will be important to understand and monitor going forward.

Fixed-reset and fixed rate perpetual spreads vs 5-Year GOC bond yields have risen sharply over the short-term and are now at a multi-decade high. Some issues are trading at higher spreads than those witnessed during the Global Financial Crisis. This has occurred while the credit fundamentals of most issuers are in very good conditions entering the recent market downturn. There is room for spread compression if the volatility in the market settles and a potential resolution is found for the health crisis. Credit spreads in preferred shares have widened too much relative to more senior instruments.

The lack of supply for new preferred share issues should help valuations on the secondary market. He doesn't expect the outlook of new supply to change in the near-term given the high coupon issuers would need to price them.

Institutional demand for new deals has picked up from recent lows. However, with the lack of new deals, it is difficult to get a clear picture. It feels as if the institutional investors have turned to the secondary market to buy products as we are seeing a large quantity of sizable block trades. Retail demand seems to be lower as we see large capital outflows from preferred share ETFs.

Therefore, the portfolio manager's outlook for preferred shares is cautious. He remains 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. He thinks that holding a diversified mix of fixed rate perpetuals and fixed-resets is essential while navigating an unpredictable interest rate environment. Holdings of fixed-resets act 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. Concerning fixed rate perpetuals, he favors mainly the ones offering high coupons (>5.50%). Their duration is shorter, they are less volatile when there are big moves in rates and they also provide better returns over a cycle.

On April 30, 2020, the Fund's independent review committee (the "IRC") was reduced to three members when Jacques Valotaire and Jean-François Bernier resigned as IRC members. On July 1, 2020, the Fund's IRC was increased to four members when Marie Desroches was appointed as IRC member.

## 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 Manager pays the operating expenses of the Fund other than its "Fund costs" (defined below) (the "variable operating expenses"), in exchange for the Fund's payment to the Manager of annual fixed-rate administration fees with respect to each series of the Fund.

The administration fees are equal to a specified percentage of the net asset value of each series of the Fund, calculated and paid in the same manner as the Fund's management fees. The variable operating expenses payable by the Manager include, but are not limited to: transfer agency and recordkeeping costs; custodial costs; accounting and valuation fees; audit fees and legal fees; costs of preparing and distributing financial reports, simplified prospectuses, annual information forms, Fund Facts, continuous disclosure material and other securityholder communications; and costs of trustee services relating to registered tax plans, as applicable.

In addition to administration fees, the Fund shall also pay certain Fund costs, namely: taxes (including, but not limited to, GST/HST and income taxes); costs of compliance with any changes to existing governmental or regulatory requirements introduced after August 1, 2013; costs of compliance with any new governmental or regulatory requirements, including any new fees introduced after August 1, 2013; interest and borrowing costs; costs related to external services that were not commonly charged in the Canadian mutual fund industry as at August 1, 2013; Independent Review Committee costs, including compensation paid to IRC members, travel expenses, insurance premiums and costs associated with their continuing education; and variable operating expenses incurred outside of the normal course of business of the Fund.

The Manager may, from time to time and at its sole discretion, decide to absorb a portion of a series' management fees, administration fees or Fund costs.

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

## Brokerage Fees

The Fund may pay broker's commissions at market rates to a corporation affiliated with NBII. The brokerage fees paid by the Fund for the period are as follows:

|   | Period ended<br>December 31, 2020 |
|---|-----------------------------------|
| <b>Total brokerage fees</b>                           | 468,375.18                        |
| <b>Brokerage fees paid to National Bank Financial</b> | -                                 |

## Holdings

As at December 31, 2020, National Bank Investments Inc. held 147.51 Fund securities for a value of \$1,417.54, which represented close to 0.0003% of the net asset value of the Fund at that date. Transactions between National Bank Investments Inc. and the Fund were carried out in the normal course of business and at the Fund's net asset value as at the transaction date.

As at December 31, 2020, Intact Insurance Company held 16,428,670.63 Fund securities for a value of \$157,879,524.78, which represented close to 28.0890% of the net asset value of the Fund at that date. Transactions between Intact Insurance Company and the Fund were carried out in the normal course of business and at the Fund's net asset value as at the transaction date.

## 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. A portion of the management fees paid by the Fund covers maximum annual trailer fees and sales commissions paid to brokers. The remainder of the management fees primarily covers investment management and general administration services. 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                  | 1.25%           | 60.00%       | 40.00%              |
| Advisor Series*                  |                 |              |                     |
| Front-end load                   | 1.25%           | 60.00%       | 40.00%              |
| Back-end load - 1 to 6 years     | 1.25%           | 20.00%       | 80.00%              |
| Back-end load - 7 years and more | 1.25%           | 60.00%       | 40.00%              |
| Low load - 1 to 3 years          | 1.25%           | 20.00%       | 80.00%              |
| Low load - 4 years and more      | 1.25%           | 60.00%       | 40.00%              |
| Series F                         | 0.50%           | —            | 100.00%             |
| Series O                         | N/A**           | —            | 100.00%             |

(\*) Includes all costs related to management, investment advisory services, general administration and profit.

(†) Excluding sales commissions paid on the Advisor Series with the low sales charge option and deferred sales charge option, which are not paid for out of the management fees.

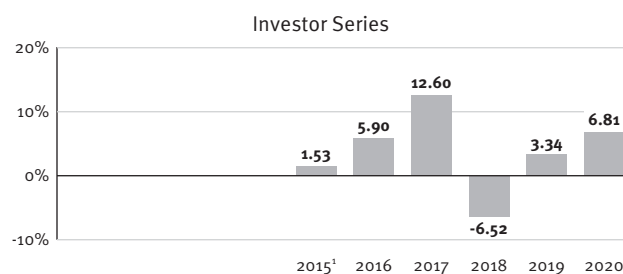
(\*\*) There are no management fees paid by the Fund with respect to the Series O. Instead, Series O securityholders pay a negotiated administration fee directly to National Bank Investments.

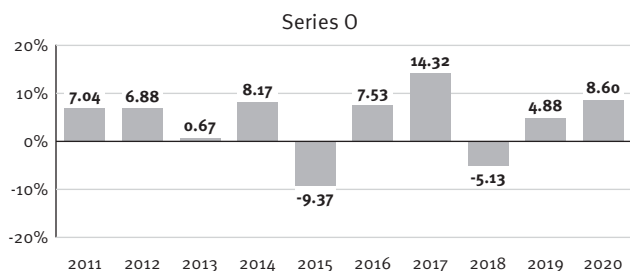
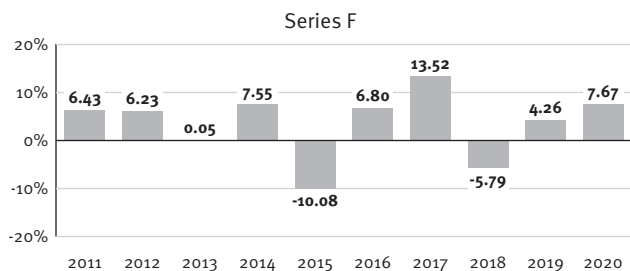
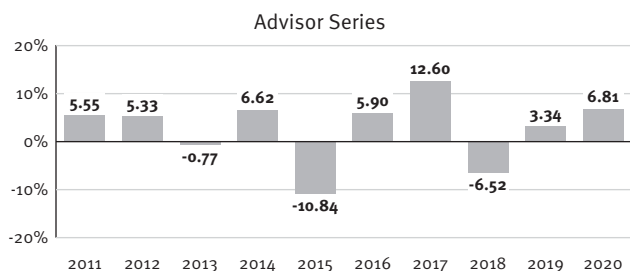
## Past Performance

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, or by June 30, as applicable.





<sup>(1)</sup> Returns for the period from October 30, 2015 (commencement of operations) to December 31, 2015.

## Annual Compounded Performance

The following table shows the Fund's annual compound returns for each series in existence greater than one year and for each of the periods ended on December 31, 2020, compared with the following benchmark:

- S&P/TSX Preferred Share Index (CAD)

### NBI Preferred Equity Income Fund

|                                    | 1 year | 3 years | 5 years | 10 years | Since inception |
|------------------------------------|--------|---------|---------|----------|-----------------|
| <b>Investor Series<sup>1</sup></b> | 6.81%  | 1.05%   | 4.23%   | –        | 4.39%           |
| Benchmark                          | 6.16%  | 0.38%   | 4.22%   | –        | 4.43%           |
| <b>Advisor Series<sup>2</sup></b>  | 6.81%  | 1.05%   | 4.23%   | 2.58%    | –               |
| Benchmark                          | 6.16%  | 0.38%   | 4.22%   | 1.95%    | –               |
| <b>Series F<sup>3</sup></b>        | 7.67%  | 1.88%   | 5.10%   | 3.44%    | –               |
| Benchmark                          | 6.16%  | 0.38%   | 4.22%   | 1.95%    | –               |
| <b>Series O<sup>2</sup></b>        | 8.60%  | 2.62%   | 5.84%   | 4.14%    | –               |
| Benchmark                          | 6.16%  | 0.38%   | 4.22%   | 1.95%    | –               |

<sup>1</sup>Commencement of operations: October 30, 2015

<sup>2</sup>Commencement of operations: November 22, 2007

<sup>3</sup>Commencement of operations: May 16, 2008

A discussion of the Fund's relative performance in comparison to the index (or indices) can be found in the *Results of Operations* Section of this report.

### Index Description

The **S&P/TSX Preferred Share Index** is a subset of the S&P/TSX Index and reflects the preferred share price fluctuations of a group of companies listed on the Toronto Stock Exchange and weighted by market capitalization.

## 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\* / Advisor Series

<sup>(\*)</sup> The Investor Series was created on October 30, 2015.

Net Assets per Unit<sup>(1)</sup> Commencement of operations: November 22, 2007

| Accounting Period Ended  | 2020<br>December 31 | 2019<br>December 31 | 2018<br>December 31 | 2017<br>December 31 | 2016<br>December 31 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(4)</sup> | 9.20                | 9.23                | 10.21               | 9.34                | 9.13                |
| <b>Increase (Decrease) from Operations (\$)</b>                        |                     |                     |                     |                     |                     |
| Total revenue  | 0.50                | 0.49                | 0.47                | 0.44                | 0.44                |
| Total expenses   | (0.14)              | (0.15)              | (0.17)              | (0.17)              | (0.15)              |
| Realized gains (losses)  | (0.16)              | (0.22)              | 0.08                | 0.34                | (0.52)              |
| Unrealized gains (losses)  | 0.28                | 0.18                | (1.01)              | 0.57                | 0.63                |
| <b>Total Increase (Decrease) from Operations (\$)</b> <sup>(2)</sup>   | 0.48                | 0.30                | (0.63)              | 1.18                | 0.40                |
| <b>Distributions (\$)</b>  |                     |                     |                     |                     |                     |
| From net investment income (excluding dividends)                       | —                   | —                   | —                   | —                   | —                   |
| From dividends   | 0.35                | 0.34                | 0.32                | 0.30                | 0.30                |
| From capital gains   | —                   | —                   | —                   | —                   | —                   |
| Return of capital  | —                   | —                   | —                   | —                   | —                   |
| <b>Total Annual Distributions (\$)</b> <sup>(3)</sup>                  | 0.35                | 0.34                | 0.32                | 0.30                | 0.30                |
| <b>Net Assets, End of Accounting Period Shown (\$)</b> <sup>(4)</sup>  | 9.42                | 9.20                | 9.23                | 10.21               | 9.34                |

### Ratios and Supplemental Data

| Accounting Period Ended                                    | 2020<br>December 31 | 2019<br>December 31 | 2018<br>December 31 | 2017<br>December 31 | 2016<br>December 31 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total net asset value (000's of \$) <sup>(5)</sup>         | 120,221             | 128,362             | 146,075             | 188,478             | 191,052             |
| Number of units outstanding <sup>(5)</sup>                 | 12,757,321          | 13,953,751          | 15,812,361          | 18,457,708          | 20,451,135          |
| Management expense ratio (%) <sup>(6)</sup>                | 1.55                | 1.55                | 1.55                | 1.55                | 1.55                |
| Management expense ratio before waivers or absorptions (%) | 1.55                | 1.55                | 1.55                | 1.55                | 1.55                |
| Trading expense ratio (%) <sup>(7)</sup>                   | 0.10                | 0.12                | 0.14                | 0.16                | 0.15                |
| Portfolio turnover rate (%) <sup>(8)</sup>                 | 24.28               | 43.72               | 47.95               | 55.26               | 53.85               |
| Net asset value per unit (\$)                              | 9.42                | 9.20                | 9.24                | 10.21               | 9.34                |

### Series F

Net Assets per Unit<sup>(1)</sup> Commencement of operations: May 16, 2008

| Accounting Period Ended  | 2020<br>December 31 | 2019<br>December 31 | 2018<br>December 31 | 2017<br>December 31 | 2016<br>December 31 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(4)</sup> | 9.52                | 9.54                | 10.54               | 9.61                | 9.39                |
| <b>Increase (Decrease) from Operations (\$)</b>                        |                     |                     |                     |                     |                     |
| Total revenue  | 0.52                | 0.51                | 0.49                | 0.45                | 0.46                |
| Total expenses   | (0.07)              | (0.08)              | (0.09)              | (0.09)              | (0.08)              |
| Realized gains (losses)  | (0.15)              | (0.23)              | 0.09                | 0.36                | (0.47)              |
| Unrealized gains (losses)  | 0.64                | 0.16                | (1.16)              | 0.52                | 0.72                |
| <b>Total Increase (Decrease) from Operations (\$)</b> <sup>(2)</sup>   | 0.94                | 0.36                | (0.67)              | 1.24                | 0.63                |
| <b>Distributions (\$)</b>  |                     |                     |                     |                     |                     |
| From net investment income (excluding dividends)                       | —                   | —                   | —                   | —                   | —                   |
| From dividends   | 0.41                | 0.42                | 0.40                | 0.36                | 0.38                |
| From capital gains   | —                   | —                   | —                   | —                   | —                   |
| Return of capital  | —                   | —                   | —                   | —                   | —                   |
| <b>Total Annual Distributions (\$)</b> <sup>(3)</sup>                  | 0.41                | 0.42                | 0.40                | 0.36                | 0.38                |
| <b>Net Assets, End of Accounting Period Shown (\$)</b> <sup>(4)</sup>  | 9.77                | 9.52                | 9.54                | 10.54               | 9.61                |

### Ratios and Supplemental Data

| Accounting Period Ended                                    | 2020<br>December 31 | 2019<br>December 31 | 2018<br>December 31 | 2017<br>December 31 | 2016<br>December 31 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total net asset value (000's of \$) <sup>(5)</sup>         | 286,393             | 215,738             | 221,820             | 203,732             | 130,880             |
| Number of units outstanding <sup>(5)</sup>                 | 29,301,697          | 22,670,073          | 23,227,744          | 19,333,701          | 13,610,181          |
| Management expense ratio (%) <sup>(6)</sup>                | 0.72                | 0.71                | 0.71                | 0.71                | 0.72                |
| Management expense ratio before waivers or absorptions (%) | 0.72                | 0.71                | 0.71                | 0.71                | 0.72                |
| Trading expense ratio (%) <sup>(7)</sup>                   | 0.10                | 0.12                | 0.14                | 0.16                | 0.15                |
| Portfolio turnover rate (%) <sup>(8)</sup>                 | 24.28               | 43.72               | 47.95               | 55.26               | 53.85               |
| Net asset value per unit (\$)                              | 9.77                | 9.52                | 9.55                | 10.54               | 9.62                |

## Series O

Net Assets per Unit<sup>(1)</sup>

Commencement of operations: November 22, 2007

| Accounting Period Ended  | 2020        | 2019        | 2018        | 2017        | 2016        |
|--|-------------|-------------|-------------|-------------|-------------|
|  | December 31 | December 31 | December 31 | December 31 | December 31 |
| <b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(a)</sup> | 9.36        | 9.37        | 10.36       | 9.46        | 9.23        |
| <b>Increase (Decrease) from Operations (\$)</b>                        |             |             |             |             |             |
| Total revenue  | 0.51        | 0.50        | 0.48        | 0.44        | 0.45        |
| Total expenses   | (0.01)      | (0.01)      | (0.02)      | (0.02)      | (0.02)      |
| Realized gains (losses)  | (0.16)      | (0.23)      | 0.08        | 0.34        | (0.48)      |
| Unrealized gains (losses)  | 0.43        | 0.26        | (1.07)      | 0.57        | 0.80        |
| <b>Total Increase (Decrease) from Operations (\$)</b> <sup>(a)</sup>   | 0.77        | 0.52        | (0.53)      | 1.33        | 0.75        |
| <b>Distributions (\$)</b>  |             |             |             |             |             |
| From net investment income (excluding dividends)                       | —           | —           | —           | —           | —           |
| From dividends   | 0.47        | 0.46        | 0.47        | 0.44        | 0.42        |
| From capital gains   | —           | —           | —           | —           | —           |
| Return of capital  | —           | —           | —           | —           | —           |
| <b>Total Annual Distributions (\$)</b> <sup>(3)</sup>                  | 0.47        | 0.46        | 0.47        | 0.44        | 0.42        |
| <b>Net Assets, End of Accounting Period Shown (\$)</b> <sup>(a)</sup>  | 9.61        | 9.36        | 9.37        | 10.36       | 9.46        |

## Ratios and Supplemental Data

| Accounting Period Ended                                    | 2020        | 2019        | 2018        | 2017        | 2016        |
|--|-------------|-------------|-------------|-------------|-------------|
|  | December 31 | December 31 | December 31 | December 31 | December 31 |
| Total net asset value (000's of \$) <sup>(5)</sup>         | 157,832     | 145,457     | 116,726     | 123,016     | 107,599     |
| Number of units outstanding <sup>(5)</sup>                 | 16,428,818  | 15,532,261  | 12,445,281  | 11,876,802  | 11,365,116  |
| Management expense ratio (%) <sup>(6)</sup>                | 0.02        | 0.02        | 0.02        | 0.02        | 0.02        |
| Management expense ratio before waivers or absorptions (%) | 0.02        | 0.02        | 0.02        | 0.02        | 0.02        |
| Trading expense ratio (%) <sup>(7)</sup>                   | 0.10        | 0.12        | 0.14        | 0.16        | 0.15        |
| Portfolio turnover rate (%) <sup>(8)</sup>                 | 24.28       | 43.72       | 47.95       | 55.26       | 53.85       |
| Net asset value per unit (\$)                              | 9.61        | 9.36        | 9.38        | 10.36       | 9.47        |

<sup>(1)</sup> This information is derived from the Fund's Annual Audited 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.

<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 December 31, 2020

### Portfolio Top Holdings

|   | % of Net<br>Asset Value |
|---|-------------------------|
| Cash, Money Market and Other Net Assets                 | 3.0                     |
| Canadian Imperial Bank of Commerce, 4.40%, Series 45    | 2.1                     |
| Bank of Montreal, 3.90%, Series 29                      | 2.0                     |
| Toronto-Dominion Bank, 4.85%, Series 14                 | 1.9                     |
| Brookfield Asset Management Inc., 3.01%, Series 24      | 1.9                     |
| Brookfield Asset Management Inc., 3.47%, Series 26      | 1.9                     |
| National Bank of Canada, 5.40%, Series 36               | 1.6                     |
| Toronto-Dominion Bank, 3.80%, Series 3                  | 1.6                     |
| TC Energy Corp., 4.25%, Series 9                        | 1.6                     |
| Power Financial Corp., 4.95%, Series K                  | 1.3                     |
| Sun Life Financial Inc., 2.84%, Series 10R              | 1.3                     |
| Manulife Financial Corp., 3.90%, Series 15              | 1.3                     |
| Canadian Imperial Bank of Commerce, 3.90%, Series 39    | 1.2                     |
| Bank of Montreal, 3.80%, Series 31                      | 1.2                     |
| Bank of Montreal, 4.00%, Series 27                      | 1.2                     |
| Bank of Montreal, 4.40%, Series 42                      | 1.2                     |
| Brookfield Properties Corp., 3.78%, Class AAA, Series N | 1.2                     |
| Fortis Inc., 4.10%, Series M                            | 1.2                     |
| Power Corporation of Canada, 5.60%, Series G            | 1.2                     |
| Toronto-Dominion Bank, 3.75%, Series 5                  | 1.1                     |
| Power Financial Corp., 2.31%, Series P                  | 1.1                     |
| Power Financial Corp., 5.75%, Series H                  | 1.1                     |
| Element Financial Corp., 5.75%, Series I                | 1.1                     |
| Power Corporation of Canada, 5.35%, Series B            | 1.1                     |
| Manulife Financial Corp., 4.50%, Series 3               | 1.1                     |
|   | 36.5                    |

Net asset value ..... \$564,445,253

### Sector Allocation

|   | % of Net<br>Asset Value |
|---|-------------------------|
| Financials                              | 69.4                    |
| Energy                                  | 13.1                    |
| Utilities                               | 9.0                     |
| Real Estate                             | 3.2                     |
| Communication Services                  | 2.3                     |
| Cash, Money Market and Other Net Assets | 3.0                     |

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 Web site at [www.nbinvestments.ca](http://www.nbinvestments.ca).