

# Annual Management Report of Fund Performance

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For the period ended December 31, 2022

# ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended December 31, 2022

NBI Exchange-Traded Funds

## NBI Canadian Dividend 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.

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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 ETF. You can get a copy of the annual 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 NBI Canadian Dividend Income ETF's investment objective is to maximize the potential for long-term capital growth and to generate sustained dividend income. It invests, directly or indirectly through investments in securities of other mutual funds, in a portfolio comprised primarily of equity securities of Canadian companies that pay dividends.

The ETF's investment process is primarily based on bottom-up, fundamental research. The focus is set on companies that pay a stable dividend with sustainable payout ratio, while diversifying across many sectors, industries and regions in order to reduce volatility. The Portfolio Sub-Advisor has a bias for the companies capable of increasing their dividend as well as those proceeding to shares repurchases. Thus, a company that eliminates its dividend will generally be fully redeemed.

### Risks

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

### Results of Operations

For the twelve-month period ended December 31, 2022, the NBI Canadian Dividend Income ETF's units returned -8.35% compared to -5.84% for the ETF's benchmark, the S&P/TSX Composite Index. Unlike the benchmark, the ETF's performance is calculated after fees and expenses. Please see the *Past Performance* section for the ETF's returns, which may vary mainly because of fees and expenses.

The Fund's net asset value rose by 975.35% over the period, from \$1.22 million as at December 31, 2021 to \$13.10 million as at December 31, 2022.

The increase stemmed mainly from investments in the Fund by other NBI Funds.

Canadian stocks lost ground during 2022 despite a year of strong job creation, as multiples compressed alongside the onset of a major monetary policy tightening cycle. Economic developments centred around the phasing out of government Covid lockdowns which caused consumers to want to "catch up" on some purchases, much of which businesses were not able to adequately supply.

Resulting inflation, which proved stronger and more tenacious than experts initially expected caused the Bank of Canada, which remains committed to bringing inflation down to its 2% target, to initiate a series of interest rate hikes. These by year-end began to show signs of success. A sharp drop in the Canadian dollar boosted the competitive position of export sectors.

Developments in Canada in many ways reflected actions in the U.S., the country's largest trading partner. The scale of the U.S. Federal Reserve's own tightening, including a series of 0.75% increases that amounted to one of the most severe cycles in modern history in relative terms, shocked markets by boosting businesses' interest costs and hitting housing, real estate, production equipment and other capital-intensive sectors hard. Despite fluctuating prices Canadian commodity producers, ranging from energy to fertilizers to agricultural products, continued to benefit from shortages and the resulting increased demand stemming from troubles in Ukraine.

Under these circumstances, the Fund underperformed its benchmark.

The Fund's positions in the Information Technology, Communication Services, and Financials sectors contributed the most to its relative performance during the period. Holdings in the Consumer Staples, Real Estate, and Energy sectors, detracted from relative performance.

Top individual contributors to the Fund's performance during the period included Definity, Enbridge, and Quebecor. Definity, like many insurance players benefitted in a rising interest rate environment, as markets recognized its pristine balance sheet, and successful first year of operations as a public company. Enbridge shares outperformed alongside strong energy prices during much of the year, the pipeline company's deleveraging goal, and its ability to pass through inflation-related costs to its customers. Quebecor's shares rallied during the period as the market expects a favourable regulatory decision regarding the diversified media and telecommunications player's offer to acquire Freedom Mobile.

Top detractors to the Fund's relative performance included Digital Realty, Brookfield Corp., and Granite REIT, all of which faced headwinds stemming from rising borrowing costs. Digital Realty's shares suffered amidst the real estate investment trust's leveraged positions, and exposure to derated technology end markets. Brookfield Corp., a manager of alternative assets also faced interest rate-related headwinds and resulting weak equity markets, while Granite REIT had to simultaneously contend with weakening demand for industrial space post Covid.

### Recent Developments

Multiple transactions took place during 2022 to recalibrate the weight of portfolio holdings and sectors. However, a limited number of new positions were added or divested during the period. Brookfield Asset Management Ltd (ticker BAM) was initiated following the reception of 0.2 shares for each share of Brookfield Asset Management (ticker BAM/A; simultaneously changing its ticker to BN and name to Brookfield Corporation) that was held in the portfolio. The share exchange occurred in early December. The Fund exited its position in Abbvie Inc., which it regards as an overvalued pharmaceutical play with a declining EPS growth profile.

As expected by the nature of the strategy, the Beta of the NBI Canadian Dividend Income ETF was well below 1 in the past year and stood at 0.78 as at December 31, 2022.

The Fund is principally overweight in the Communications Services, Financials, Utilities and Real Estate sectors, and underweight in the Materials, Consumer Discretionary, Industrial and Energy sectors. No big changes occurred during the period.

Despite the risks highlighted above, we remain cautiously constructive on the equity markets for the coming year given the market correction but do recognize its fragility and have highlighted key events that would force us to revisit our positioning. Our tiering of events is as follows:

- **Recession:** High inflation leads to higher interest rates which leads to lower growth. The problem is when headline inflation is at a forty-year peak, central banks need to be more draconian than simply "pumping the brakes." The risk of a recession in North America in FY2023 is now our base case.
- **Inflation:** Core inflation is off the second quarter peaks but still coming in above expectations. Both the Bank of Canada and the U.S. Federal Reserve had made it quite clear that enemy number one is inflation, and they will not let up on increasing rates until core inflation (excluding food and energy) is back at 2.0%.
- **Interest rates:** We had an unchanged FY2023 forecast of 3.50% on the Canada 10-year yield. At quarter end, the 10-year Canada was 3.30% and the 10-year U.S. is at 3.87%. If real yields continue to tighten (which we expect they will in the coming months), this will be negative for equity markets in general. The inverse is also true.
- **Unemployment Rate:** While currently low in both Canada and the U.S. (5.1% and 3.7% respectively) the consensus expectations is that they will increase to 4.4% and 6.1% by year-end 2023. In both cases, consensus expects less than 1% full percentage increase which is paltry.

- Geopolitical risk: Ukraine/Russia and possible China/Taiwan/U.S. are conflicts that can have a profound humanitarian effect that will impact migration flows, affect commodity prices, increase onshoring, and accelerate the energy transition.

- Covid variants: Likely to be our last post on the topic but given the recent spike in China, notable nonetheless.

On April 30, 2022, the ETF's independent review committee (the "IRC") was reduced to three members when Robert Martin resigned as IRC member. On May 1, 2022, the Fund's IRC was increased to four members when Line Deslandes was appointed as IRC member. However, on September 30, 2022, the ETF's IRC was reduced to three members when Line Deslandes 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 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.

### 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 December 31, 2022
<b>Total brokerage fees</b>	5,839.58
<b>Brokerage fees paid to National Bank Financial</b>	4,246.11

### Holdings

As at December 31, 2022, the NBI Exclusive Income Pooled Fund held approximately 84.14% ownership of the redeemable units outstanding of the ETF. Transactions between the NBI Exclusive Income Pooled Fund and the ETF were carried out in the normal course of business. The portfolio manager for this Fund is National Bank Trust Inc.

## Management Fees

The management fee is payable to the ETF manager in consideration of the services that the manager provides to the ETF in its capacity as manager, such as managing the day-to-day business and affairs of the ETF.

The ETF pays an annual management fee of 0.55% to the ETF manager for its management services. The fees are calculated based on a percentage of the ETF's daily net asset value before applicable taxes and are paid on a monthly basis. The management fees primarily covers investment management and general administration services.

## Past Performance

The performance of the ETF, presented below and calculated as at December 31 of each year, is based on the net asset value of the ETF. It assumes that all distributions made in the periods shown were reinvested in additional units of the ETF. These returns do not take into account sales, redemption charges, distributions, or optional charges that would have reduced returns. Past performance of an ETF does not necessarily indicate how it will perform in the future.

## 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 February 11, 2021 (commencement of operations) to December 31, 2021.

## Annual Compounded Performance

The following table shows the ETF's annual compound returns greater than one year and for each of the periods ended on December 31, 2022, compared with the following benchmark:

- S&P/TSX Composite Index

### NBI Canadian Dividend Income ETF

	1 year	3 years	5 years	10 years	Since inception
<b>ETF Units<sup>1</sup></b>	(8.35)%	–	–	–	7.26%
<b>Benchmark</b>	(5.84)%	–	–	–	11.29%

<sup>1</sup>Commencement of operations: February 11, 2021

A discussion of the ETF'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 Composite Index** is a subset of the S&P/TSX and reflects share price fluctuations of a group of companies listed on the Toronto Stock Exchange (TSX) and weighted by market capitalization.

## Financial Highlights

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

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

Commencement of operations: February 11, 2021

Accounting Period Ended	2022 December 31	2021 December 31
<b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(2)</sup>	30.46	25.00
<b>Increase (Decrease) from Operations (\$)</b>		
Total revenue	0.92	0.77
Total expenses	(0.17)	(0.16)
Realized gains (losses)	(0.34)	0.63
Unrealized gains (losses)	(2.20)	4.82
<b>Total Increase (Decrease) from Operations</b> <sup>(3)</sup>	(1.79)	6.06
<b>Distributions (\$)</b>		
From net investment income (excluding dividends)	0.08	0.03
From dividends	0.56	0.56
From capital gains	—	0.64
Return of capital	—	—
<b>Total Annual Distributions</b> <sup>(4)</sup>	0.64	1.23
<b>Net Assets, End of Accounting Period Shown</b> <sup>(2)</sup>	27.30	30.46

## Ratios and Supplemental Data

Accounting Period Ended	2022 December 31	2021 December 31
Total net asset value (000's of \$) <sup>(5)</sup>	13,103	1,218
Number of units outstanding <sup>(5)</sup>	480,000	40,000
Management expense ratio (%) <sup>(6)</sup>	0.63	0.64
Management expense ratio before waivers or absorptions (%)	0.67	0.77
Trading expense ratio (%) <sup>(7)</sup>	—	—
Portfolio turnover rate (%) <sup>(8)</sup>	29.17	31.74
Net asset value per unit (\$)	27.30	30.46
Closing market price <sup>(9)</sup>	27.30	30.43

<sup>(1)</sup> This information is derived from the ETF's Annual Audited 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 December 31, 2022

### Portfolio Top Holdings

	% of Net Asset Value
Royal Bank of Canada.....	9.0
Toronto-Dominion Bank.....	7.8
Enbridge Inc.....	7.6
Quebecor Inc., Class B.....	5.8
Shaw Communications Inc., Class B.....	4.8
Canadian National Railway Co.....	4.4
Cash, Money Market and Other Net Assets.....	4.1
Brookfield Infrastructure Partners LP.....	4.0
Constellation Software Inc.....	4.0
WSP Global Group Inc.....	3.8
TC Energy Corp.....	3.5
Scotiabank.....	3.2
Granite Real Estate Investment Trust.....	3.1
iA Financial Corp Inc.....	2.8
Brookfield Corp.....	2.6
TMX Group Ltd.....	2.4
Microsoft Corp.....	2.1
TELUS Corp.....	2.0
BCE Inc.....	1.9
Thomson Reuters Corp.....	1.9
National Bank of Canada.....	1.6
Brookfield Renewable Corporation.....	1.6
Sun Life Financial Inc.....	1.6
Brookfield Asset Management Ltd.....	1.5
Parkland Corp.....	1.2
	88.3

Net asset value.....\$13,102,867

### Asset Mix

	% of Net Asset Value
Canadian Equity.....	85.7
US Equity.....	6.2
International Equity.....	4.0
Cash, Money Market and Other Net Assets.....	4.1

### Sector Allocation

	% of Net Asset Value
Financials.....	39.0
Communication Services.....	14.5
Energy.....	12.3
Industrials.....	10.1
Information Technology.....	6.7
Consumer Staples.....	5.0
Real Estate.....	4.8
Utilities.....	3.5
Cash, Money Market and Other Net Assets.....	4.1

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



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