

# Annual Management Report of Fund Performance

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For the period ended December 31, 2020

## **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

For the period ended December 31, 2020

### **NBI Canadian Family Business 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 Family Business ETF's investment objective is to generate long-term capital growth by replicating, to the extent reasonably possible and before fees and expenses, the performance of a Canadian equity index that measures the investment return of family-owned Canadian companies that are publicly listed. Currently the ETF tracks the performance of the NBC Canadian Family Index (or any successor thereto). To do this, the Canadian Family Business ETF invests directly, or indirectly through investments in securities of other mutual funds, in a portfolio comprised primarily of shares of family-owned Canadian companies.

In selecting securities for the portfolio, the portfolio manager follows a passive investment strategy designed to replicate the performance of the Family Index. The portfolio manager is not required to invest in all the stocks in the Family Index. The ETF may be managed using an "optimization" technique, whereby securities are selected for the portfolio so that industry weightings, market capitalization and certain fundamental characteristics match the Family Index, or a full replication strategy in which the ETF will generally hold the same investments and in the same proportion as the target index.

### Risks

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

### Results of Operations

For the twelve-month period ended December 31, 2020, the NBI Canadian Family Business ETF's units returned 13.78% compared to 5.60% 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 ETF's net asset value dropped by 9.19% over the period, from \$22.38 million as at December 31, 2019 to \$20.33 million as at December 31, 2020.

A tumultuous 2020 ended on a positive note amid optimism that the distribution of safe and effective vaccines will revitalize the economy in 2021. While the pandemic intensified at year-end, investors opted to look through the rampant outbreak towards the post-vaccine economy, while the deluge of policy stimulus also underpinned sentiment. Indeed, after several weeks of wrangling, U.S. lawmakers managed to approve a \$900 billion fiscal relief package that will be critical in bridging the gap until widespread vaccine rollout. Meanwhile, the U.K. and European Union unveiled a historic post-Brexit accord at the 11th hour, which formally completes Britain's separation from the bloc more than four years after the referendum.

Global equity markets extended their upward momentum through December, with the MSCI All Country World closing-out the year at an all-time high (+14.22%). Regionally speaking, gains were widespread across the globe. The S&P 500 (+16.32%), Nasdaq (+42.37%), and Dow Jones Industrial Average (+7.80%) all ended the year at record levels, while Canadian and international stocks also participated in the risk-on move. Emerging market stocks led the global charge and climbed to the highest level since 2007, with China's benchmark rising to a five-year high as economic data revealed a vigorous recovery in the world's second-largest economy.

The S&P/TSX Composite Index fell significantly in the month of March, declining more than 20% due to the COVID-19 pandemic and subsequent global lockdowns. Then in the April to December period, the index sharply rebounded on encouraging reports of progress on the vaccine front. Performance in 2020 was driven by the Information

Technology (+80.68%) and Materials (+21.24%) sectors, while Health Care (-22.95%) and Energy (-26.57%) sectors lagged, despite a clear sector rotation during the last three months of the year.

During the year, the S&P/TSX Small Cap index returned 12.87% versus 5.60% for the S&P/TSX Composite index.

The ETF's top positive contributors in 2020 were Lightspeed POS Inc., Ivanhoe Mines Ltd., Suncor Energy Inc., West Fraser Timber Co. Ltd. and Northland Power Inc. The ETF's top detractors to performance during the same period were Bombardier Inc., MTY Food Group Inc., ATCO Ltd., Canadian National Railway Company and Transcontinental Inc.

In this context, the NBI Canadian Family Business ETF outperformed its benchmark, the S&P/TSX Composite Index. Currently, the ETF tracks the performance of the NBC Canadian Family Index.

### Recent Developments

While few will miss 2020, all will long remember this past year that began amidst bombings between the U.S. and Iran, featured the worst pandemic in over 100 years, increased social tensions, and included a presidential election which looked like a referendum on America's core values.

The portfolio manager's main economic scenario expects the coronavirus vaccination campaign provides immunization for the vast majority of the most-at-risk population in developed countries by the end of Q1-2021 and takes us near herd immunity midyear. That should set to stage for the strong global cyclical recovery to continue. After a more challenging start of the year due to containment measures, the investment team expects the pace of growth to accelerate in Q2-2021, driven by a gradual and permanent reopening of the economy, a rise in consumer sentiment, and a recovery in the service sector.

It is expected that central banks ensure highly accommodative monetary conditions as inflationary pressures remain muted. Central banks are expected to continue asset purchases and even increase pace if need be. The portfolio manager expects policy makers from most developed countries will maintain a significant level of fiscal support to businesses and consumers. Lastly, the investment team expects the bond yields to remain stable as the USD depreciates. The global equities are expected to continue to rise along their long-term trend, with an edge in favour of cyclical and emerging markets equities.

In short, 2020 was a year like no other: a year where a once-in-100-year pandemic triggered a recession that was as brief as it was brutal, revealed the spectacular effectiveness of coordination between monetary and fiscal authorities in times of crisis, and generated a succession of historical highs and lows.

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

### Related Party Transactions

National Bank Investments Inc. (the "manager") is the manager and promoter of the ETF. Accordingly, it is entitled to receive, in exchange for the services that it provides to the ETF, management fees paid to it by the ETF (see "Management Fees" below).

From time to time, the manager may, on behalf of the ETF, carry out transactions or sign agreements to involve certain persons or companies related to it, to the extent that these transactions or agreements are, in its opinion, in the interest of the ETF. The description of the transactions or agreements between the ETF and a related party is provided in this section.

Members of the manager's group may earn fees or spreads in connection with services provided to, or transactions with, the NBI ETF, including in connection with brokerage and derivatives transactions.

#### Trustee

The manager has retained the services of Natcan Trust Company to serve as trustee for the ETF and has retained the services of National Bank Trust to serve as portfolio manager.

#### Designated Broker

The manager has signed an agreement with National Bank Financial Inc. ("NBF"), a company affiliated with NBI, under which NBF will serve as a designated broker for the ETF. The designated broker agreement signed with NBF is in keeping with market conditions.

#### Licence Provider

The manager has signed a licence agreement with National Bank of Canada, a member of the manager's group. Under the terms of the licence agreement and subject to the conditions thereof, the manager is authorized to use the NBC Canadian Family Index for the activities of the NBI Canadian Family Business ETF.

#### 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, 2020
<b>Total brokerage fees</b>	7,813.31
<b>Brokerage fees paid to National Bank Financial</b>	7,813.31

#### Holdings

As at December 31, 2020, ownership of the redeemable units outstanding of the ETF was held by the following NBI Funds as indicated below:

NBI Funds	Ownership of the redeemable units outstanding of the ETF %
NBI Secure Diversified Fund	3.76
NBI Conservative Diversified Fund	7.06
NBI Balanced Diversified Fund	39.05
NBI Moderate Diversified Fund	13.65
NBI Growth Diversified Fund	22.94

Transactions between the NBI Funds and the ETF were carried out in the normal course of business. The portfolio manager for these Funds 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 0.35% 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, or by June 30, as applicable.



(1) Returns for the period from February 8, 2019 (commencement of operations) to December 31, 2019.

(2) Returns for the period from January 1, 2020 to December 31, 2020.

#### 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, 2020, compared with the following benchmarks:

- S&P/TSX Composite Index

#### NBI Canadian Family Business ETF

	1 year	3 years	5 years	10 years	Since inception
<b>ETF Units<sup>(1)</sup></b>	13.78%	-	-	-	9.80%
<b>Benchmark</b>	5.60%	-	-	-	18.62%

(1) Commencement of operations: February 08, 2019.

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 08, 2019

Accounting Period Ended	2020 December 31	2019 December 31
<b>Net Assets, Beginning of Accounting Period Shown<sup>(2)</sup></b>	21.32	-
<b>Increase (Decrease) from Operations (\$)</b>		
Total revenue	0.41	0.36
Total expenses	(0.09)	(0.08)
Realized gains (losses)	(0.30)	0.21
Unrealized gains (losses)	2.35	0.10
<b>Total Increase (Decrease) from Operations (\$)<sup>(3)</sup></b>	2.37	0.59
<b>Distributions (\$)</b>		
From net investment income (excluding dividends)	-	0.11
From dividends	0.34	-
From capital gains	-	0.03
Return of capital	-	-
<b>Total Annual Distributions (\$)<sup>(4)</sup></b>	0.34	0.14
<b>Net Assets, End of Accounting Period Shown (\$)<sup>(2)</sup></b>	23.91	21.32

## Ratios and Supplemental Data

Accounting Period Ended	2020 December 31	2019 December 31
Total net asset value (000's of \$) <sup>(5)</sup>	20,326	22,382
Number of units outstanding <sup>(5)</sup>	850,000	1,050,000
Management expense ratio (%) <sup>(6)</sup>	0.40	0.40
Management expense ratio before waivers or absorptions (%)	0.40	0.40
Trading expense ratio (%) <sup>(7)</sup>	-	-
Portfolio turnover rate (%) <sup>(8)</sup>	48.11	16.55
Net asset value per unit (\$)	23.91	21.32
Closing market price <sup>(9)</sup>	24.08	21.39

<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, 2020

### Portfolio Top Holdings

	% of Net Asset Value
Lightspeed POS Inc. ....	3.1
Lundin Mining Corp. ....	3.0
Ivanhoe Mines Ltd., Class A ....	2.9
Aritzia Inc. ....	2.8
Shopify Inc., Class A ....	2.8
BRP Inc. ....	2.8
FirstService Corp. ....	2.8
CGI Inc. ....	2.7
Great-West Lifeco Inc. ....	2.7
Northland Power Inc. ....	2.7
Canadian Tire Corp. Ltd., Class A ....	2.7
Colliers International Group Inc. ....	2.6
Thomson Reuters Corp. ....	2.6
Celestica Inc. ....	2.6
Linamar Corp. ....	2.6
Teck Resources Ltd., Class B. ....	2.6
Wipak Ltd. ....	2.6
Maple Leaf Foods Inc. ....	2.6
Quebecor Inc., Class B ....	2.6
Cogeco Communications Inc. ....	2.6
Onex Corp. ....	2.6
Alimentation Couche-Tard Inc., Class B ....	2.6
IGM Financial Inc. ....	2.6
Rogers Communications Inc., Class B ....	2.6
Power Corp. of Canada ....	2.6
	67.4
Net asset value. ....	\$20,326,143

### Asset Mix

	% of Net Asset Value
Equities ....	99.8
Cash, Money Market and Other Net Assets ....	0.2

### Sector Allocation

	% of Net Asset Value
Materials ....	18.8
Consumer Staples ....	15.2
Consumer Discretionary ....	13.3
Financials ....	12.9
Information Technology ....	11.2
Communication Services. ....	10.3
Utilities ....	7.7
Real Estate ....	5.4
Industrials. ....	2.6
Health Care ....	2.4
Cash, Money Market and Other Net Assets ....	0.2

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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