

# 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 Active Canadian Preferred Shares 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 Active Canadian Preferred Shares ETF's investment objective is to generate tax-efficient dividend income while focusing on capital preservation. It invests, directly or indirectly through investments in securities of other mutual funds, in a portfolio comprised primarily of preferred shares of Canadian companies and other income-generating securities of Canadian companies. It is expected that investments in foreign securities will not exceed 10% of the ETF's net assets.

The ETF's investment process is principally based on fundamental research, but the Portfolio Sub-Advisor 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, relative performance and general economic conditions are completed to confirm the selection and the relative weight of each portfolio security.

### 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 Active Canadian Preferred Shares ETF's units returned -18.15% compared to -18.08% for the ETF's benchmark, the S&P/TSX Preferred Share Index (CAD). 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 dropped by 22.25% over the period, from \$177.92 million as at December 31, 2021 to \$138.34 million as at December 31, 2022.

The decline stemmed mainly from market fluctuations.

It was a volatile start to the year in financial markets as inflation and the expectation of monetary policy tapering was at the forefront of investors' concerns. Furthermore, geopolitical tensions between Russia and Ukraine had a significant effect on asset valuations during the first half of 2022. Coming off a strong 2021, credit spreads in preferred shares had hit a historical low and therefore any increase in risk had the potential to dampen investor enthusiasm and push prices lower. Performance did not improve in the second half.

Central bankers remained firmly committed on monetary tightening to combat inflation while the geopolitical tensions in Europe seem nowhere near a possible de-escalation or solution. Credit spreads continue to widen putting downward pressure on asset valuations including preferred shares. The market tested new lows in Q4, exacerbated by tax-loss selling pressure in December. The combination of 4 difficult quarters culminated in the worst year for the asset class in over a decade.

The first most impactful reason why preferred shares have produced negative returns in 2022 is credit spread widening. Because they are junior in the capital structure to bonds, preferred shares exhibit more sensitivity to economic downturns. This sensitivity is also amplified by the fact that preferred shares do not have a fixed maturity. So far this year, credit spreads have widened on average by 175 basis point, approaching levels witnessed during the economic downturns of 2015 (O&G price collapse) and 2020 (pandemic).

The second reason to highlight, and it has contributed to credit spread widening as mentioned previously, is the increased supply in the LRCN and Institutional \$1K preferred share market. Canadian Banks were faced with a delicate situation of managing a capital transition plan away from 25\$ preferred shares into new Additional Tier 1 Capital instruments. However, they have constantly had to issue new instruments at higher prevailing spreads, making the secondary market look expensive compared to these new issues.

Under these circumstances, the ETF underperformed its benchmark for the period, mainly due to its overweight in Fixed Perpetuals, the worst-performing structure. In terms of structures, the best performers on a total return basis were Floaters (-10.9%) followed by Fixed Resets (-20.0%) and finally Fixed Perpetuals (-23.2%).

### Recent Developments

Patient investors will begin to feel the tailwind of higher dividends in the coming quarters. The benefit from higher interest rates on preferred share dividends (Fixed Resets) is only felt gradually over time. The positive effect for investors' cash flows is very real but patience is required because Fixed Resets only have their dividends reset once every five years. In the near-term, current yields may look thin compared to other fixed income products, but increases will happen over time.

The Fund managers continue to monitor the supply/demand environment for preferred shares as they believe that an equilibrium must be achieved before we can expect the market to rebound in a sustainable fashion. An important factor influencing performance has been the outflow of capital from the asset class. Using Preferred Share ETFs inflows/outflows as a proxy for demand, the portfolio manager estimates that again in the fourth quarter, the market experienced an outflow of approximately \$87M.

Following the sharp selloff year-to-date, the outlook for preferred share returns has improved. With a positive rate backdrop, the setup is encouraging considering credit spreads have widened considerably in 2022. As macroeconomic risk dissipates (geopolitical conflicts, inflation, Central Bank tightening) the fund managers believe preferred shares offer attractive risk/reward potential at these levels. However, we are looking for the balance in supply and demand of preferred shares to improve before we become more constructive on the asset class.

The portfolio manager 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. 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.

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
Total brokerage fees	95,084.00
Brokerage fees paid to National Bank Financial	653.00

## Independent Review Committee Approvals and Recommendations

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

- purchasing or selling government or other debt securities on the secondary market from related brokers that are main brokers in the Canadian debt securities market;
- purchasing on the secondary market securities of a related issuer that are not traded on an exchange;
- purchasing on the primary market non-exchange-related issuer debt securities having maturities of 365 days or more, other than asset-backed commercial paper.

The manager has implemented policies and procedures to ensure that the conditions that apply to each of the transactions identified above are met. The applicable standing instructions require that these transactions be carried out in accordance with the manager's policies. Notably, these instructions require that investment decisions pertaining to such related-party transactions must be made free from any influence from an entity related to the manager and without taking into account any consideration relevant to an entity related to the manager. Moreover, investment decisions must represent the business judgment of the portfolio manager, uninfluenced by considerations other than the interests of the ETF, and must achieve a fair and reasonable result for the ETF.

## 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.

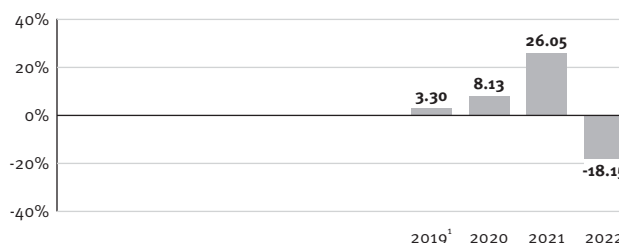
The ETF pays an annual management fee of 0.50% to the ETF manager for its management services. The fees are calculated based on a percentage of the ETF's daily net asset value before applicable taxes and are paid on a monthly basis. The management fees primarily covers investment management and general 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 8, 2019 (commencement of operations) to December 31, 2019.

## 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 Preferred Share Index (CAD)

### NBI Active Canadian Preferred Shares ETF

	1 year	3 years	5 years	10 years	Since inception
ETF Units <sup>1</sup>	(18.15)%	3.72%	–	–	3.71%
Benchmark	(18.08)%	1.25%	–	–	2.14%

<sup>1</sup>Commencement of operations: February 8, 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 Preferred Share Index** is comprised of preferred stocks trading on the Toronto Stock Exchange that meet criteria relating to minimum size, liquidity and issuer rating.

## 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 8, 2019

Accounting Period Ended	2022 December 31	2021 December 31	2020 December 31	2019 December 31
<b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(2)</sup>	24.97	20.60	20.03	25.00
<b>Increase (Decrease) from Operations (\$)</b>				
Total revenue	1.15	1.10	1.11	0.97
Total expenses	(0.13)	(0.14)	(0.12)	(0.12)
Realized gains (losses)	0.27	1.40	(1.11)	(0.15)
Unrealized gains (losses)	(5.80)	2.75	0.93	0.71
<b>Total Increase (Decrease) from Operations</b> <sup>(3)</sup>	(4.51)	5.11	0.81	1.41
<b>Distributions (\$)</b>				
From net investment income (excluding dividends)	—	—	—	—
From dividends	0.97	0.92	0.90	0.63
From capital gains	0.33	0.31	—	—
Return of capital	—	—	—	—
<b>Total Annual Distributions</b> <sup>(4)</sup>	1.30	1.23	0.90	0.63
<b>Net Assets, End of Accounting Period Shown</b> <sup>(2)</sup>	19.55	24.97	20.60	20.03

## Ratios and Supplemental Data

Accounting Period Ended	2022 December 31	2021 December 31	2020 December 31	2019 December 31
Total net asset value (000's of \$) <sup>(5)</sup>	138,344	177,923	115,357	95,132
Number of units outstanding <sup>(5)</sup>	7,075,000	7,125,000	5,600,000	4,750,000
Management expense ratio (%) <sup>(6)</sup>	0.58	0.57	0.57	0.57
Management expense ratio before waivers or absorptions (%)	0.58	0.57	0.57	0.57
Trading expense ratio (%) <sup>(7)</sup>	—	—	—	—
Portfolio turnover rate (%) <sup>(8)</sup>	24.80	48.54	54.26	47.34
Net asset value per unit (\$)	19.55	24.97	20.60	20.03
Closing market price <sup>(9)</sup>	19.68	24.94	20.59	20.05

<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
Cash, Money Market and Other Net Assets	3.6
Enbridge Inc., 4.96%, Series L	2.7
Brookfield Corp., 3.24%, Series 24	2.0
Brookfield Corp., 4.61%, Series 28-A	1.9
Power Financial Corp., 2.31%, Series P	1.9
Brookfield Corp., 3.85%, Series 26	1.8
Toronto-Dominion Bank, Floating, due October 1, 2027	1.6
TC Energy Corp., 3.76%, Series 9	1.6
Bank of Montreal, 3.62%, Series 29	1.5
Brookfield Renewable Power Inc., 3.14%, Series 1	1.5
Power Financial Corp., 4.95%, Series K	1.5
Toronto-Dominion Bank, 3.68%, Series 3	1.4
Canadian Utilities Ltd., 4.60%, Series 1	1.4
Power Financial Corp., 4.50%, Series 23	1.4
Enbridge Inc., 4.00%, Series 3	1.4
Bank of Montreal, 7.373%, Series 50	1.3
Brookfield Properties Corp., 3.78%, Class AAA, Series N	1.3
Brookfield Renewable Power Inc., 4.35%, Series	1.2
Power Financial Corp., 4.80%, Series S	1.2
Element Financial Corp., 6.40%, Series E	1.2
Brookfield Corp., 3.25%, Series 42	1.1
Power Financial Corp., 4.22%, Series T	1.1
Fortis Inc., 3.91%, Series M	1.1
Great-West Lifeco Inc., 4.50%, Series I	1.1
TC Energy Corp., 2.15%, Series 3	1.1
	38.9

Net asset value ..... \$138,343,951

### Asset Mix

	% of Net Asset Value
Preferred Shares	93.8
Corporate Bonds	2.6
Cash, Money Market and Other Net Assets	3.6

### Sector Allocation

	% of Net Asset Value
Financials	55.1
Energy	16.3
Utilities	12.5
Communication Services	6.4
Real Estate	3.2
Bonds	2.6
Consumer Staples	0.3
Cash, Money Market and Other Net Assets	3.6

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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