

## Statement of Principles on Conflicts of Interest

### Introduction

Canadian securities regulations require National Bank Investments Inc. ("NBI", "we", "us" or "our") to comply with conflict of interest rules. It is important for you to know how we identify and manage conflicts of interest, as well as how we try to reduce their impact.

In accordance with securities laws, we provide you with the following information regarding existing and reasonably foreseeable significant conflicts of interest that may affect you as a client, including how we will address such conflicts in the best interests of our clients. We will notify you in due course if new conflicts of interest are identified.

### What is a conflict of interest?

We consider a conflict of interest or potential conflict of interest to be a situation in which our interests or those of our employees could be inconsistent or conflicting with the interests of clients who use our services. We take reasonable steps to identify, disclose and manage any significant conflicts of interest that exist, as well as those that are reasonably foreseeable, in your best interests. We avoid any situation that would create a conflict of interest that could not be managed in your best interest.

A conflict of interest is considered significant when it is reasonable to expect one or both of the following events to occur in the applicable circumstances: (1) the situation could affect a client's investment decisions or the decision to use our services or (2) the situation affects the recommendations or decisions of NBI or its employees. To ensure that your interests are always put first in any situation where a conflict of interest may affect our relationship, our employees must, among other things, comply with (i) the National Bank of Canada (NBC) Code of Conduct, which sets out the basic principles that guide their conduct, and (ii) the regulatory requirements that are summarized in the NBI's Compliance Manual. A description of the significant conflicts of interest we identified is provided below.

### NBI's conflicts of interest

#### 1. Relationships with related issuers of securities

A person or company is a "related issuer" if, through the ownership, direction or control over securities with voting or participating rights, or otherwise, (i) such person or company is an influential security holder of NBI, (ii) NBI is an influential security holder of such person or company, or (iii) the person or company and NBI are related issuers to the same third party person or company. A person or company is a "connected issuer" if the connected issuer, which is not a related issuer, has any other relationship with NBI that might lead a reasonable prudent client or prospective client to have doubts about our independence from the issuer.

The list of NBI's related issuers that are reporting issuers under Canadian securities laws is as described below. A brief description of the relationship between NBI and each of its related issuers is also provided:

**National Bank of Canada (NBC):** National Bank of Canada is a chartered bank incorporated under the *Bank Act* (Canada) and a reporting issuer that indirectly owns 100% of the voting and equity shares of National Bank Investments Inc.

**Canadian Credit Card Trust II:** This trust whose administrator is NBC and whose securities are publicly distributed, which makes it a related issuer.

**NBI Exchange Traded Funds (ETFs):** National Bank Investments Inc., a wholly owned subsidiary of National Bank of Canada, is the investment fund manager and the portfolio manager of the NBI ETFs. National Bank Financial Inc. acts as designated dealer and dealer for all NBI ETFs.

**NBI Funds:** National Bank Investments Inc., a wholly owned subsidiary of National Bank of Canada, is the investment fund manager of the NBI Funds (including the Meritage Portfolios and the NBI Private Portfolios, as listed in the NBI Funds' prospectus, updated every two years). National Bank Investments Inc. acts as portfolio manager for several NBI Funds.

**CWB Funds:** CWB Wealth Management Ltd., a wholly owned subsidiary of National Bank of Canada, is the trustee, investment fund manager, portfolio manager and the principal distributor of the CWB Onyx Funds and the CWB Core Equity Fund, as listed in the CWB Funds' prospectus, updated every two years.

NBI has the relationship described above with these related issuers. While carrying on its business as a portfolio manager, NBI may, from time to time, engage in the following activities in connection with NBC or other issuers related to NBI and, in connection with an offering, in respect of securities of NBC and other issuers connected to NBI:

(a) buy or sell securities of NBC or other related or connected issuers of NBI;

(b) buy or sell securities issued by private equity funds managed by BNI or its affiliates.

In addition, NBC or any other related or connected issuer may be a secured creditor for securities held in the clients' accounts, including units of private investment funds managed by NBI.

To manage these conflicts of interest, NBI, as a portfolio manager, must comply with the standing instructions of the independent review committee ("IRC") of the NBI funds and the NBI exchange traded funds (each, a "Fund" or collectively, "the Funds") set out in the Policy on "Monitoring Conflicts of Interest in National Bank Investment Inc.'s Role as Portfolio Manager " and the Policy on "Trading in Securities of a Related Issuer". The IRC is composed of individuals who are independent of NBI and NBC.

## **2. Relationships with related dealers or advisors**

As a result of our affiliation with NBC and its subsidiaries, we have policies in place to address existing or reasonably foreseeable conflicts of interest and to ensure that we act in your best interests.

NBC, indirectly owning 100% of the voting and equity shares of NBI, is also a significant shareholder of several dealers and advisers, which means that it holds, directly or indirectly, more than 20% of any class or series of voting securities of these entities. Therefore, NBI is related to the dealers or advisors listed below. While directors and officers may hold positions in more than one of these corporations, they operate as separate legal entities.

- National Bank Savings and Investments Inc.
- National Bank Trust Inc.
- National Bank Financial Inc.
- National Bank of Canada Financial Inc.
- NBC Financial Markets Asia Limited
- NBC Global Finance Limited
- Natcan Trust Company
- NatWealth Management (USA) Inc.
- CWB Wealth Management Ltd.
- CWB Wealth Partners Ltd.
- Canadian Western Financial Ltd.

From time to time, these entities may collaborate to offer products and services for the benefit of our customers. To manage these conflicts of interest in your best interests, NBI makes sure to disclose to you, verbally or in writing, the relationship between NBI and these related dealers or advisors.

## **3. Services provided by related entities**

Hiring affiliated suppliers can introduce bias and lead to excessive costs for the funds, thus favoring the interests of the affiliated entity, at the expense of the clients.

We manage these conflicts by assessing the services provided to you by our affiliates and ensuring that they remain competitive with services offered by third parties. Any changes, such as hiring a new supplier, renewing or modifying service agreements, among others, are subject to rigorous review to ensure that the level of service is maintained or improved. NBI must also comply with the Funds' IRC standing instructions set out in the Policy on "Related Suppliers Fees and Quality Monitoring".

NBI also ensures that any fees that may be imposed on you by us and/or our affiliates are disclosed in accordance with applicable securities laws, so that you are informed.

## **4. Investing in related underlying funds**

The Funds may invest a portion of their assets in securities of issuers that are related or connected to NBI or its affiliates, and to persons related to NBI, including other investment funds and other investment vehicles managed by NBI or its affiliates. The decision to invest in underlying funds is made based on different criteria. Faced with comparable products, but offered by competitors, NBI may prefer to incorporate, in the fund portfolio, issuers that are related or connected to NBI or its affiliates. NBI must ensure that these investments achieve a fair and reasonable result for each of the funds involved and that they comply with applicable regulatory requirements.

NBI, its affiliates and its associates may receive fees or other compensation from such related or connected issuers. NBI ensures that such fees do not constitute duplication of fees or other remuneration paid by a fund for the same service and are provided, at a minimum, on the terms and conditions of the market.

## **5. Fair allocation**

When an investment opportunity is suitable for multiple clients, the choice of accounts that will participate in the allocation may give rise to a conflict of interest.

NBI has established a policy of fair allocation of investment opportunities among client accounts, considering each client's investment objectives and constraints. The fundamental principle of trade allocation is to ensure fair treatment of all clients in situations where two or more client accounts are simultaneously involved in the purchase or sale of the same security. This principle also applies to determining which portfolios can participate in a particular

issue or trade. NBI's policy prohibits any trade allocation that favors specific clients or groups of clients.

## **6. Brokerage arrangements and indirect payments through brokerages**

From time to time, NBI may participate in brokerage arrangements whereby the dealer provides goods and services related to the execution of orders and other goods and services related to research. In certain circumstances, NBI may receive indirect payments through brokerages in respect of securities transactions conducted on behalf of its clients and may use these payments generated from client accounts in accordance with National Instrument 23-102 – Use of Client Brokerage.

These payments give rise to an appearance of conflict of interest to the extent that NBI could apply the payments to services that are beneficial to NBI but not to the benefit of clients.

To manage this conflict of interest, NBI establishes a brokerage policy and is required to ensure that:

1. Goods and services related to order execution and goods and services related to investment research received by NBI are used in making investment or trading decisions on behalf of the clients; and
2. Clients receive a reasonable benefit from the use of goods or services and the brokerage paid.

NBI must keep details of goods and services received for which payment was made by brokerage commissions. NBI will provide any client who requests it with a report identifying all dealers and third parties who provide goods and services related to the research.

## **7. Trading errors**

There are occasions when trading errors result in financial gain or loss. In cases where an error results in a financial loss, this may give rise to a conflict of interest when NBI is required to decide as to whether to correct the error and if NBI, in its decision-making process, prioritizes its own financial interests over those of its customers.

We manage this conflict by complying with Canadian securities laws, industry guidelines and in accordance with our trading errors policy, with the guiding principle being that the error must be resolved in a timely manner and must not penalize the client.

## **8. Inter-fund trading**

An inter-fund trade occurs when a security is purchased by one Fund and sold by another Fund (or a related party). This type of trade can give rise to conflicts of interest since NBI negotiates for both parties.

In the event of an inter-fund trade, NBI must maintain written records and provide the Funds' IRC with a quarterly report attesting to compliance with the following conditions when the inter-fund trade is executed:

- (i) The inter-fund trades were conducted in accordance with the conditions set out in the inter-fund trading policy and were recorded in accordance with the requirements of the policy;
- (ii) At the time the inter-fund trades were carried out, the portfolio manager considered that the inter-fund trade would achieve a fair and reasonable result for the fund(s) concerned;
- (iii) The inter-fund trades were carried out by the portfolio manager without any influence from an entity related to the NBI and without regard to any relevant consideration to an entity related to NBI; and
- (iv) The inter-fund trade represented the portfolio manager's business judgment without being influenced by considerations other than the interests of the funds.

## **9. Best execution**

In the context of a financial transaction, NBI has a duty to act in the best interest of its clients and to achieve the best execution when acting on behalf of a client. The selection of executing brokers is an important process to ensure best execution and can create a conflict of interest if the choice is made based on business interests or benefits received rather than on the quality of execution of trade orders.

To manage this conflict of interest, NBI has established a best execution policy that sets out how NBI ensures best execution when trading on behalf of clients. As best execution is defined as the most advantageous execution conditions that can reasonably be obtained in the circumstances, NBI considers several factors and determines their relative importance based on the characteristics of the client, the trade order and the financial instruments that are the subject of the order to ensure the best execution. NBI must also document its reasonable efforts and decisions made, as well as their regular updates, to ensure the best execution.

## **10. Proxy voting**

A potential conflict of interest with respect to a particular proxy voting matter may arise where NBI or an entity related to NBI (i) is related to the issuer of securities; or (ii) has a material business relationship with the issuer of securities (including, without limitation, other mandates related to the issuer of securities).

NBI's proxy voting policy is intended to ensure that all votes on securities held by clients are exercised in their best interests and with the objective of enhancing their long-term value. In exercising these rights, NBI must comply with the proxy voting policy guidelines to ensure that proxies will be voted in the best interests of its clients.

#### **11. Conduct of NBI's directors, officers and employees**

In the normal course of their duties, our directors, officers and employees may find that their personal interests are in potential conflict with those of a client. For example, our employees could be offered gifts that could compromise or give the impression of compromising their independence.

We manage this conflict by ensuring that NBI's directors, officers and employees comply with NBI's Code of Conduct and NBI's Compliance Manual, which address situations specific to the activities of its employees and reiterate that staff must never put their own interests at the expense of their responsibilities to clients and NBI. In particular, it is prohibited to (i) use confidential information acquired in the course of their duties; (ii) take advantage of a situation with a view to obtaining a benefit of any kind; or (iii) accept or give gifts, entertainment, and compensation that may influence decisions to be made in the performance of their duties. All NBI employees are required to sign an attestation to the NBC Code of Conduct that includes a section on declarations of conflicts of interest, external business activities and compliance with applicable policies and procedures. This attestation is required at the time of hiring and then annually thereafter.

#### **12. Dual function and external business activities**

An external business activity is a position held by an employee outside of his or her employment at NBI, whether this activity is paid or unpaid. Since external activities can be a source of conflict of interest, NBI requires its employees to declare all their external activities, whether paid or unpaid, before starting the external activity. The employee may be prohibited from engaging in an external activity if it causes a conflict of interest that cannot be addressed in the best interests of a client or NBI.

Also, the policy on the appointment as a director, partner or officer of entities applies to employees and officers of NBC or one of its subsidiaries. It provides that such individuals may not hold a position as a director, partner or officer of an entity other than NBC or the subsidiary hiring, subject to the exceptions and authorizations provided for in the policy. Thus, all employees must obtain the required authorization before agreeing to act as a director, partner or officer of such a company, and must notify their manager of the change or termination of their duties as director, partner or officer of this entity as soon as possible. The Registration Department is responsible for making regulatory declarations, if applicable.

#### **13. Other conflicts of interest situations**

From time to time, other situations of potential or actual conflicts of interest may arise. NBI is committed to continuing to do what is necessary to identify and address these situations in a fair and reasonable manner, and in the best interests of our clients.