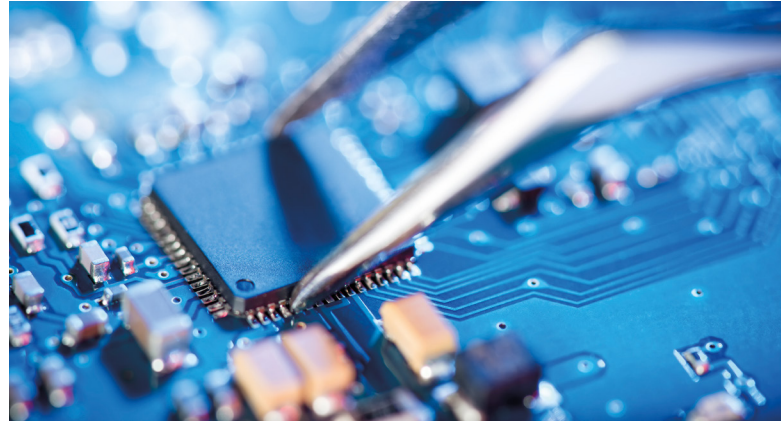


Responsible Investment ROUNDTABLE

Spring 2022

Electric vehicles and their
value chain: opportunities
for a sector in transition



**Our portfolio managers' views on
the following investment solutions:**

- › **EMERGING MARKETS EQUITIES**
NBI Diversified Emerging Markets Equity Fund
- › **CANADIAN EQUITIES**
NBI Canadian Equity Fund
- › **GLOBAL EQUITIES**
NBI Sustainable Global Equity ETF
NBI Sustainable Global Equity Fund



FOREWORD

The Paris Agreement, adopted in 2015 and ratified by 194 countries, laid the groundwork for the movement towards zero greenhouse gas emissions targets, which is gaining momentum around the world, both for businesses and governments. The daunting challenge of meeting the targets of this commitment requires a concerted effort on the part of the public and private sectors and civil society.

At the heart of possible solutions for the decarbonization of the global economy, transport plays a pivotal role. Indeed, this sector alone accounts for about a quarter of the world's total annual greenhouse gas (GHG) emissions. Road transport occupies the first position, far ahead of aviation, rail or maritime transport.¹

Despite increasing climate commitments, there has been an upward trend in GHG emissions from the transportation sector for several years. Forecasts show that without a massive transition, they will continue to increase.²

In this context, it is not surprising that alternative technologies to combustion engines have accelerated their entry into the market in recent years.

With the arrival of these new technologies, supported by considerable consumer enthusiasm, exponential growth of the electric vehicle market has begun. Far from running out of steam, sales are expected to increase from 1.7 million vehicles in 2020 to 26 million in 2030,³ despite a slowdown in 2020 due to the pandemic.

The financial policies and incentives put in place by the governments of many countries are certainly not unrelated to this enthusiasm. By supporting the transition to low-emission vehicles, polluting nations are empowering themselves to meet their climate commitments.

With the constant improvement in the performance and reliability of electric vehicles, in addition to the new players in the market, we can imagine that the conditions are right to initiate a major change in the vehicle fleet on a global scale.

This booming sector is also seeing opportunities for many suppliers to position themselves in the industry. When you talk about electric vehicles, you also need to talk about batteries, charging stations, as well as all the components used in the manufacture of these vehicles.

Not surprisingly, the responsible investment market has a keen interest in the electric vehicle sector and its ecosystem, as it helps achieve critical environmental objectives to combat climate change, in addition to offering attractive economic opportunities.

In this edition of the Responsible Investment Roundtable, we present the views of three of our portfolio managers on the outlook for the electric vehicle market and its value chain.

1 Source: Shiyong, W., Mengpin, G., *Everything You Need to Know About the Fastest-Growing Source of Global Emissions: Transport*, October 16, 2019, <https://www.wri.org/insights/everything-you-need-know-about-fastest-growing-source-global-emissions-transport>

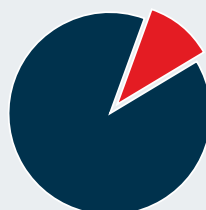
2 Source: IEA (2021), *Tracking Transport 2021*, IEA, Paris <https://www.iea.org/reports/tracking-transport-2021>

3 Source: BloombergNEF (2020), *Electric Vehicle Outlook 2020*, <https://about.bnef.com/electric-vehicle-outlook-2020/>

EMERGING MARKETS

NBI DIVERSIFIED EMERGING MARKETS EQUITY FUND

Submanaged by Newton Investment Management



11.1% of the strategy is exposed to the electric vehicle sector.¹



Paul Birchenough
Portfolio Manager



Ian Smith
Portfolio Manager

How does the electric vehicle industry add value to your investment strategy?

The theme of electric vehicles (EVs) is one of the most important and oldest themes in our portfolio strategy, supported by undeniable data concerning the major global energy transition underway. A recent report by the Intergovernmental Panel on Climate Change (IPCC) hypothesized that it might be possible to contain global warming to 1.5 degrees by the end of the century if net-zero targets are met by 2050. Meanwhile, the International Energy Agency (IEA), in its assessment of what might be needed to achieve net-zero 2050, forecasts an 18-fold increase in electric vehicle sales (to reach about 60% penetration of total car sales) by 2030.

The costs and performance of EV batteries continue to improve. EV sales penetration already exceeds 20% in the Chinese and European markets. So, we are already seeing very positive momentum. Companies in emerging

markets are showing global leadership in this area. For example, China and Korea together account for more than 70% of the market share of batteries for electric vehicles. We believe the long-term secular drivers of the electric vehicle theme remain strong, and we seek to identify the best companies that leverage this theme and the global electric vehicle supply chain.

How does this theme fit with a responsible investment approach?

The UN's Sustainable Development Goals (SDGs) provide a useful framework and perspective around the importance of the topic of electric vehicles. Academic research suggests significant underserved needs for clean energy and electrification. Electrification and electric vehicles are aligned with SDG 11, sustainable cities and communities, as well as several other SDGs.

ESG approach:



1. Experienced team that makes sure to fully understand each asset in which it invests.
2. ESG quality review for all companies before integrating them into the emerging markets strategy.
3. Active engagement with companies to find ways to improve their ESG practices.

ESG Framework Implementation Strategy:



- › Identification of negative risks or externalities related to activities.
- › In case of problems: dialogue with the company or reflection of the associated risk in the size of the stake in the portfolio.
- › Example of engagement: dialogue with EV battery companies on their supply chain policies, in particular cobalt sourcing.

¹ Battery manufacturers, component manufacturers and electric vehicle material companies

Newton Investment Management Limited will make investment decisions that are not based solely on ESG considerations. Other attributes of an investment may outweigh ESG considerations when making investment decisions. The way that ESG considerations are assessed may vary depending on the asset class and strategy involved. There is no guarantee that any strategy that considers ESG factors will be successful or that any strategy will reflect the beliefs or values of any particular investor.

CANADIAN EQUITIES

NBI CANADIAN EQUITY FUND

Submanaged by Jarislowsky, Fraser Limited



60% to 70% less carbon intensity in portfolios than the market benchmark¹



Charles Nadim, CFA

Head of research,
Portfolio Manager



Bernard Gauthier, CFA

Managing Director,
Portfolio Manager

How does the electric vehicle industry add value to your investment strategy?

Transportation is one of the three largest sectors in terms of contribution to global warming, and many new regulations, both nationally and globally, are emerging to encourage consumers to adopt electric modes of transport. Examples include Canada's transportation electrification strategy and the pan-Canadian framework on zero-emission vehicles.

At Jarislowsky Fraser, we believe that this transition in the transportation sector represents a major trend that will increase in the future. We want to harness it to benefit our portfolios, which are built based on rigorous research in terms of stock selection. For example, during the initiation phase, a significant part of this research is

to gain in-depth knowledge of the sector in which the company operates and to understand how it positions itself within this sector in order to grow sustainably and gain market share.

How does this theme fit with a responsible investment approach?

In addition to selecting companies positioned to benefit from the transition, our team discusses climate-related issues with them and aims to influence them in adopting best practices, including ambitious reduction targets and communicating a robust transition strategy. It should be noted that the carbon intensity of our portfolios is significantly lower than the market, which makes it possible to be less exposed to the risks related to the climate transition faced by the largest GHG emitters.

ESG approach:



1. Invest in quality businesses with sustainable value creation models.
2. ESG factors are an integral part of bottom-up fundamental analysis.
3. Take a fully integrated approach to overcome some of the constraints common to approaches based solely on data from external sources or the work of separate ESG teams.

Example of a portfolio holding: Magna



- › Third largest auto parts manufacturer in the world.
- › Relies on R&D, creating partnerships, and an extension of its production capacity to accentuate its position as a leader in the electric vehicle segment with manufacturers.
- › In 2021, Magna signed a long-term agreement with Fisker to design and manufacture a new electric vehicle.

¹ Jarislowsky, Fraser Limited, *Climate Related Financial Disclosures Report 2021*, <https://jflglobal.com/wp-content/uploads/2021/09/Climate-Related-Financial-Disclosures-Report-2021.pdf>

GLOBAL EQUITIES

NBI SUSTAINABLE GLOBAL EQUITY ETF and NBI SUSTAINABLE GLOBAL EQUITY FUND

Submanaged by AllianceBernstein Canada Inc.

3 main
themes
of the
portfolio

- › Climate
- › Health
- › Empowerment



Daniel Roarty, CFA

Chief Investment Officer
Portfolio Manager

How does the electric vehicle theme add value to your investment strategy?

The transition to electric vehicles represents a powerful secular trend with durable drivers of growth that we believe will persist for decades. The adoption rate of electric vehicles around the world has accelerated significantly in recent years, with more than 100% growth in units sold from 2020 to 2021. The pace at which electric vehicles are being adopted is accelerating thanks to improved energy efficiency and range.

Throughout our history of investing in ecosystems of change, we have found that one of the most powerful ways to unlock the value of our sustainable themes is to invest in “enablers,” that is, companies that are well positioned to take advantage of the market’s expansion, not just the expected overall market-share winners for the end product.

How does this theme fit with a responsible investment approach?

This trend is part of a broader ecosystem of change that makes up our “Sustainable Transportation” subtheme. Within this subtheme, we invest in companies involved in providing sustainable mobility options for public, private and commercial use, including the manufacture of electric and autonomous vehicles. Sustainable transportation promotes mobility in a way that is least harmful to the environment. The global trend towards sustainable transport is reflected in multiple subtargets of the United Nations Sustainable Development Goals, such as SDG target 7.3: by 2030, double the global rate of improvement in energy efficiency.

ESG commitment: be a leader in accountability



- › 100 employees directly supporting responsible investment initiatives.
- › The firm received a PRI A+ rating for its responsible investment strategy five years in a row.
- › Active shareholding: follow-up with companies’ management groups on important ESG issues.

Example of a portfolio holding: Wolfspeed



- › One of the leading suppliers of silicon carbide (SiC); key input in electric vehicles and high-voltage power converters.
- › The company’s mission is to transform the semiconductor market with the adoption of SiC, which is more efficient than traditional silicon.
- › Wolfspeed has produced more than 95% of the world’s man-made SiC in the last 20 years.

ABOUT OUR INVESTMENT SOLUTIONS



NBI DIVERSIFIED EMERGING MARKETS EQUITY FUND

Portfolio subadvisor

Newton Investment Management



Active management



Bottom-up approach in a global thematic investment framework, with a focus on quality and good governance.



Goal: long-term capital growth

	Series	Initial sales charge	No charge
Fund details	Advisors	<u>NBC473</u>	–
	F	–	<u>NBC773</u>

NBI CANADIAN EQUITY FUND

Portfolio subadvisor

Jarislowsky, Fraser Limited



Active management



Growth at a reasonable price-based approach: a portfolio of large-cap companies that are leaders in their industry.



Goal: long-term capital growth

	Series	Initial sales charge	No charge
Fund details	Advisors	<u>NBC3402</u>	–
	F	–	<u>NBC3702</u>

NBI SUSTAINABLE GLOBAL EQUITY ETF NBI SUSTAINABLE GLOBAL EQUITY FUND

Portfolio subadvisor

AllianceBernstein Canada Inc.



Active management



Global thematic approach: the portfolio revolves around three main themes: climate, health and empowerment.



Goal: long-term capital growth while following a sustainable development approach

	Stock symbol		Exchange	
ETF details	NSGE		Toronto Stock Exchange (TSX)	
	Series	Initial sales charge		No charge
Fund details	Advisors	NBC5454		–
	F	–		NBC5754

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RESPONSIBLE INVESTING AT NBI



Investing in the power of people™

National Bank Investments is an investment fund management firm committed to manufacturing and distributing diversified investment solutions and services designed to help investors achieve their financial goals.

As Canada's leading open-architecture provider, NBI selects from the best portfolio managers at global management firms.

NBI aims to be an accelerator that promotes the growth and development of investment solutions and services in order to have a positive impact on the lives of investors.

The approaches used by our portfolio managers

When selecting a manager, NBI acknowledges the expertise of each manager in their respective asset classes. We therefore respect the management philosophy and investment decisions of our portfolio managers, while encouraging them to adopt industry best practices.

Exclusion	ESG investing	Best in class	Sustainable portfolio creation
 <p>Involves excluding companies, sectors or even countries that are not compatible with an investor's mission or values.</p>	 <p>Involves incorporating data on ESG criteria into the investment processes.</p>	 <p>Involves investing in leading securities based on environmental, social and governance criteria.</p>	 <p>Involves investing in securities that contribute to the achievement of one or more of the United Nations (UN) Sustainable Development Goals.</p>

Incorporating the UN Sustainable Development Goals (SDGs) at NBI

NBI offers the first lineup of actively managed funds aligned with the UN SDGs in Canada.

The various portfolio managers who, as part of our open architecture structure, are responsible for submanaging our sustainable investment solutions must ensure that they invest in securities that contribute to achieving one or more of the SDGs.





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