

# Interim Management Report of Fund Performance

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For the period ended June 30, 2023

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2023

## NBI Exchange-Traded Funds **NBI High Yield Bond 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 interim management report of fund performance contains financial highlights, but does not contain the complete interim financial statements of the ETF. You can get a copy of the interim 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

### Results of Operations

For the six-month period ended June 30, 2023, the NBI High Yield Bond ETF's units returned 3.63% compared to 5.01% for the ETF's benchmark, the ICE BofA US High Yield Constrained Index (CAD Hedged). 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 rose by 7.31% over the period, from \$977.09 million as at December 31, 2022 to \$1.048 billion as at June 30, 2023.

Following the second worst annual return in the history of the high yield market, high yield, and risk assets more broadly, posted solid 1Q23 gains despite the continued macro headwinds.

Central banks continued their rhetoric on the dangers of runaway inflation versus a hard landing scenario and now face new challenges as the second-largest bank failure in US history occurred. Subsequent contagion risk/fears emerged across US regional banks, only a few days before UBS acquired Credit Suisse in a government-backed deal, marking the first time two Systemically Important Banks merged. Prior to March, high yield outperformed in January, on no real news other than speculation that the Fed would not follow through with continued hikes and that inflation was moderating.

High yield generated carry returns during the second quarter, fuelled by the risk-on rally in June. The quarter began with concerns over US regional banks and tighter lending standards, with spillover into the Swiss banks following UBS's acquisition of Credit Suisse that reset US interest rates roughly one percentage point lower. While macro sentiment was cautious, high yield was largely out of the eye of the storm as it entered an earnings season that yet again met/beat weak expectations. Sector and issuer dispersion continued to percolate; consumer experience sectors are posting record numbers and backlogs while telecom faces a higher capex environment amid elevated borrowing costs and chemical companies' end markets struggle to find demand.

Issuance is now outpacing 2022 low levels but remains below historical averages. Default activity continued to climb through the quarter but has yet to cause concern in the market given the very low starting point. High yield's carry return outperformed higher quality areas of fixed income but lagged leverage loans and equities.

In this context, the fund underperformed its benchmark with security selection in the leisure and wirelines sectors as well as an overweight to cable satellite detracted from relative performance.

Oppositely, security selection in automotive, packaging, and pharmaceuticals led the contributors in the period. The overweights to Cooper-Standard Holdings, Bausch Health, Mauser Packaging, and JELD-WEN as well as avoiding Icahn Enterprises added to relative performance during the period.

### Recent Developments

During the period the portfolio manager increased the yield and spread relative to the benchmark, partly through purchases and partly due to longer duration, former fallen angels that returned to investment grade. The fund's involvement in Cooper-Standard's refinancing, which we structured and backstopped, increased our exposure to the automotive sector and was the leading contributor to performance in the first half of 2023. The portfolio remained shorter in duration given the inverted US Treasury yield curve, which has resulted in little to no yield pick up in certain names for extending out credit curves.

Relative to the benchmark the fund was overweight cable satellite, automotive, consumer products, and pharmaceuticals due to our view of the relative value opportunities within those sectors. Conversely, the fund was underweighting the finance companies, electric utilities, insurance P&C and retailer sectors. The fund manager does not find these sectors attractive due to challenging fundamental outlooks or rich valuations.

While defaults have picked up, and are likely to continue to rise, the trailing twelve-month default rate is still below 2%, compared to the long-term average of 3-3.5%. Despite the outperformance of lower quality assets, dispersion has been a theme year-to-date and will persist throughout the remainder of the year.

Thus far, fundamentals have proved resilient with modest revenue and EBITDA growth, and while margins have deteriorated off all-time highs, they have held steady the last few quarters. Low issuance, modest outflows, and rising stars outpacing fallen angels have provided technical support for the asset class and are expected to continue for the remainder of the year. Given the favourable fundamental and technical backdrop, the fund manager believes high yield will continue to provide attractive carry for the second half of 2023.

On May 1, 2023, the ETF's independent review committee (the "IRC") was increased to four members when Stéphanie Raymond-Bougie 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.

### Holdings

As at June 30, 2023, the NBI High Yield Bond Fund held approximately 98.85% ownership of the redeemable units outstanding of the ETF. Transactions between the NBI High Yield Bond Fund and the ETF were carried out in the normal course of business. The portfolio manager for this Fund is National Bank Trust Inc.

### 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:

- a) 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;
- b) purchasing on the secondary market securities of a related issuer that are not traded on an exchange;
- c) 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.

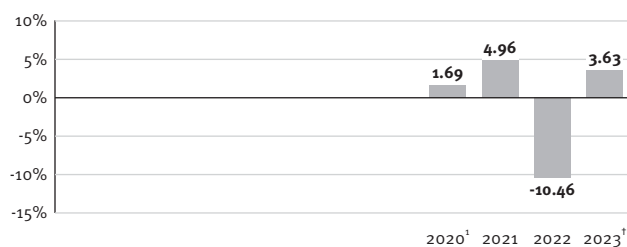
The ETF pays an annual management fee of 0.60% to the ETF manager for its management services. The fees are calculated based on a percentage of the ETF's daily net asset value before applicable taxes and are paid on a monthly basis. The management fees primarily covers investment management and general 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 March 4, 2020 (Commencement of operations) to December 31, 2020.

<sup>(†)</sup> Returns for the period from January 1, 2023 to June 30, 2023.

## 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: March 4, 2020

| Accounting Period Ended  | 2023<br>June 30 | 2022<br>December 31 | 2021<br>December 31 | 2020<br>December 31 |
|--|-----------------|---------------------|---------------------|---------------------|
| <b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(2)</sup> | 20.50           | 24.28               | 24.50               | 25.00               |
| <b>Increase (Decrease) from Operations (\$)</b>                        |                 |                     |                     |                     |
| Total revenue  | 0.64            | 1.43                | 1.40                | 1.14                |
| Total expenses   | (0.07)          | (0.15)              | (0.17)              | (0.13)              |
| Realized gains (losses)  | (0.41)          | (1.24)              | 0.91                | 2.45                |
| Unrealized gains (losses)  | 0.52            | (2.29)              | (0.97)              | 1.87                |
| <b>Total Increase (Decrease) from Operations</b> <sup>(3)</sup>        | 0.68            | (2.25)              | 1.17                | 5.33                |
| <b>Distributions (\$)</b>  |                 |                     |                     |                     |
| From net investment income (excluding dividends)                       | 0.60            | 1.28                | 1.40                | 0.87                |
| From dividends   | —               | —                   | —                   | —                   |
| From capital gains   | —               | —                   | 0.64                | 2.15                |
| Return of capital  | —               | —                   | —                   | —                   |
| <b>Total Annual Distributions</b> <sup>(4)</sup>                       | 0.60            | 1.28                | 2.04                | 3.02                |
| <b>Net Assets, End of Accounting Period Shown</b> <sup>(2)</sup>       | 20.64           | 20.50               | 24.28               | 24.50               |

### Ratios and Supplemental Data

| Accounting Period Ended                                    | 2023<br>June 30 | 2022<br>December 31 | 2021<br>December 31 | 2020<br>December 31 |
|--|-----------------|---------------------|---------------------|---------------------|
| Total net asset value (000's of \$) <sup>(5)</sup>         | 1,048,497       | 977,119             | 858,397             | 883,698             |
| Number of units outstanding <sup>(5)</sup>                 | 50,800,000      | 47,675,000          | 35,350,000          | 36,075,000          |
| Management expense ratio (%) <sup>(6)</sup>                | 0.69            | 0.69                | 0.69                | 0.69                |
| Management expense ratio before waivers or absorptions (%) | 0.69            | 0.69                | 0.69                | 0.69                |
| Trading expense ratio (%) <sup>(7)</sup>                   | —               | —                   | —                   | —                   |
| Portfolio turnover rate (%) <sup>(8)</sup>                 | 15.95           | 13.10               | 32.80               | 39.49               |
| Net asset value per unit (\$)                              | 20.64           | 20.50               | 24.28               | 24.50               |
| Closing market price <sup>(9)</sup>                        | 20.70           | 20.53               | 24.13               | 24.47               |

<sup>(1)</sup> This information is derived from the ETF's Annual Audited Financial Statements and Interim Unaudited 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 June 30, 2023

### Portfolio Top Holdings

|   | % of Net<br>Asset Value |
|---|-------------------------|
| Cash, Money Market and Other Net Assets   | 5.1                     |
| DISH DBS Corp., 5.88%, due November 15, 2024  | 1.4                     |
| Sprint Corp., 7.63%, due February 15, 2025  | 1.1                     |
| Cooper-Standard Automotive Inc., 13.50%,<br>due March 31, 2027  | 1.0                     |
| CCO Holdings Capital Corp., 5.13%, due May 1, 2027  | 0.9                     |
| Ford Credit Canada Ltd., 4.54%, due August 1, 2026  | 0.9                     |
| Intelsat Jackson Holdings SA, 6.50%, due March 15, 2030   | 0.9                     |
| Tenet Healthcare Corp., 4.88%, due January 1, 2026  | 0.9                     |
| CCO Holdings Capital Corp., 4.75%, due March 1, 2030  | 0.8                     |
| CCO Holdings Capital Corp., 5.00%, due February 1, 2028   | 0.7                     |
| DISH Network Corp., 11.75%, due November 15, 2027   | 0.7                     |
| Mauser Packaging Solutions Holding Co., 7.88%,<br>due August 15, 2026                                     | 0.7                     |
| Bausch Health Americas Inc., 9.25%, due April 1, 2026   | 0.6                     |
| CommScope Inc., 8.25%, due March 1, 2027  | 0.6                     |
| Nexstar Escrow Inc., 5.63%, due July 15, 2027   | 0.6                     |
| Albertsons Cos LLC / Safeway Inc / New Albertsons LP /<br>Albertson's LLC, 4.63%,<br>due January 15, 2027 | 0.5                     |
| American Airlines Group Inc., 5.50%, due April 20, 2026   | 0.5                     |
| Bausch Health Americas Inc., 5.50%, due November 1, 2025  | 0.5                     |
| CCO Holdings Capital Corp., 4.25%, due February 1, 2031   | 0.5                     |
| CenturyLink Inc., 5.13%, due December 15, 2026  | 0.5                     |
| CSC Holdings LLC, 6.50%, due February 1, 2029   | 0.5                     |
| Live Nation Entertainment Inc., 4.75%, due October 15, 2027   | 0.5                     |
| RHP Hotel Properties LP / RHP Finance Corp., 4.75%,<br>due October 15, 2027                               | 0.5                     |
| Standard Industries Inc./NJ, 4.75%, due January 15, 2028  | 0.5                     |
| Tenet Healthcare Corp., 5.13%, due November 1, 2027   | 0.5                     |
|   | 21.9                    |

Net asset value .....\$1,048,496,895

### Term Allocation

|                          | % of Net<br>Asset Value |
|--------------------------|-------------------------|
| Under one year           | 0.6                     |
| From 1 year to 5 years   | 57.6                    |
| From 5 years to 10 years | 41.1                    |
| More than 10 years       | 0.7                     |

### Credit Quality

|     | % of Net<br>Asset Value |
|-----|-------------------------|
| BBB | 5.3                     |
| BB  | 53.4                    |
| B   | 30.7                    |
| CCC | 10.6                    |

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



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