

# ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended December 31, 2023

Short Term and Income Fund  
**NBI Income Fund**

## Notes on forward-looking statements

This report may contain forward-looking statements concerning the Fund, 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.

---

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-888-270-3941 or 514-871-2082, by writing to us at National Bank Investments Advisory Service, 500, Place d'Armes, 12th floor, Montreal, Quebec, H2Y 2W3, by visiting our website at [www.nbinvestments.ca](http://www.nbinvestments.ca), by visiting SEDAR+'s website at [www.sedarplus.ca](http://www.sedarplus.ca), or by contacting your advisor. You may also contact us using one of these methods to request a copy of the investment fund'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 Income Fund's investment objective is to achieve a reasonably high return (higher than that for five-year guaranteed investment certificates) and income for the investor by investing mainly in fixed income securities. The Fund invests primarily in Canadian (federal and provincial) government bonds and investment grade corporate bonds.

The portfolio manager's security selection is based on an analysis of economic conditions in Canada and their impact on yields. Shorter or longer term issues will be favored depending on whether interest rates are expected to rise or fall. It is expected that investments in foreign securities will not exceed approximately 30% of the Fund's assets.

### Risks

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

### Results of Operations

For the twelve-month period ended December 31, 2023, the NBI Income Fund returned 6.15% compared to 6.69% for the Fund's benchmark, the FTSE Canada Universe Bond Index (CAD). Unlike the benchmark, the Fund's performance is calculated after fees and expenses.

The Fund's net asset value dropped by 6.18% over the period, from \$72.04 million as at December 31, 2022 to \$67.59 million as at December 31, 2023.

The new year got off to a roaring start on rising hopes for a soft landing for developed economies as inflationary pressures showed signs of abating and the Federal Reserve downshifted its pace of tightening.

North American bond yields continued to rise in the third quarter (especially longer-term bonds) as the curve steepened on the theme of higher-for-longer interest rates.

The last quarter of 2023 saw a reversal in the trend compared to most of the rest of the year, with yields falling significantly and the yield curve steepening despite the continuing theme of higher-for-longer interest rates and a general risk off tone. The combination of several global monetary authorities hinting that rate hikes were coming to an end along with softer inflation and employment data caused markets to pivot towards lower rates. Central banks attempted to push back but it did not stop the markets from pricing in multiple interest rate cuts starting in early 2024.

In this context, the fund underperformed its benchmark for the period. Carry was one of the major contributors to the fund's performance over the period, with spread management and duration positioning also proving to be drivers for the strong performance. Security selection helped and came from our positions within the Financial and Energy sectors.

### Recent Developments

Central banks are now likely finished hiking interest rates for this cycle. Monetary policy is restrictive and will lead to softer growth in 2024.

The U.S. economy should operate below potential, but the portfolio manager expects Canada to enter a shallow recession. Inflation has declined from very elevated levels over the past year and if it continues to fall the Bank will become more confident in hitting their two percent inflation target, which will allow them to eventually begin the process of loosening monetary policy.

The market is expecting multiple rate cuts in 2024 which will provide support in avoiding a hard landing in the economy. During the year, interest rates and credit spreads are expected to stay low, but we should see volatility and opportunities as central banks transition to interest rate cuts, elevated bond supply, and geopolitical risks. While recent data has shown improvements on the inflation front, more work still needs to be done to support the central bank's changing policy. The portfolio manager expects the Bank of Canada and the Federal Reserve of the United States to lower interest rates in the range of 75 to 125 basis points in 2024.

On May 1, 2023, the Fund'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 of Canada ("the Bank") and its affiliated companies' roles and responsibilities related to the Fund are as follows:

#### Trustee, Custodian, and Registrar

Natcan Trust Company ("NTC"), a direct or indirect wholly-owned subsidiary of the Bank, is the Fund's trustee. In this capacity, it is the legal owner of the Fund's investments.

NTC acts as registrar for the Fund's securities and the names of securityholders. NTC also acts as the Fund's custodian. The fees for NTC's custodial services are based on the standard rates in effect at NTC.

#### Agent for securities lending transactions

NTC acts as the agent for securities lending transactions acts on behalf of the Fund in administering securities lending transactions entered into by the Fund. NTC is an affiliate of the Manager.

#### Fund Manager

The Fund is managed by National Bank Investments Inc. ("NBII"), which is a wholly-owned subsidiary of the Bank. Therefore, NBII provides or ensures the provision of all general management and administrative services required by the Fund's current operations, including investment consulting, the arrangement of brokerage contracts for the purchase and sale of the investment portfolio, bookkeeping and other administrative services required by the Fund.

The operating expenses of the Fund do not include fees and expenses directly related to the funds' portfolio transactions, income and other taxes payable by the funds or to which they may be subject, or borrowing costs, if any. The portfolio manager assumes all the other expenses of the funds incurred in administering the Fund, including trustee, recordkeeping, custodial, legal, audit, investor servicing, and securityholder reporting fees

As described under the heading *Management Fees*, the Fund pays annual management fees to NBII as consideration for its services.

#### Portfolio Manager

The Manager has appointed National Bank Trust Inc. ("NBT"), an indirect wholly-owned subsidiary of the Bank, as the portfolio manager for the Fund. A flat fee is payable annually to NBT for its management services.

#### Distribution and Dealer Compensation

NBII acts as principal distributor for the Fund. In this capacity, NBII buys, sells and swaps securities through Bank branches and the National Bank Investments Advisory Service in Canadian provinces and territories, and through external registered representatives. Fund securities are also offered by National Bank Financial Inc. (including its division National Bank Direct Brokerage), CABN Investments (a division of NBII) and other affiliated entities. Brokers may receive, depending on the distributed series, a monthly commission representing a percentage of the average daily value of the securities held by their clients.

## Independent Review Committee Approvals and Recommendations

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

- Purchasing or holding the securities of a related issuer, in particular, those of National Bank of Canada;
- Investing in the securities of an issuer when an entity related to the manager acts as an underwriter for the placement or at any time during the 60-day period after the end of the placement;
- Purchasing or selling securities to another investment Fund managed by the manager or a company in the same group;
- Purchasing or selling debt securities on the secondary market, through related brokers that are main brokers in the Canadian debt securities market (in accordance with an exemption received from the Canadian Securities Administrators);
- Entering into foreign exchange transactions (including both spot transactions and forward transactions) with National Bank of Canada.

The Manager has implemented policies and procedures to make sure that the conditions applicable to each of the above transactions are met. The applicable standing instructions require that these transactions be carried out in accordance with NBII policies, which specify, in particular, that investment decisions pertaining to these related party transactions must be made free from any influence by an entity related to NBII and without taking into account any consideration relevant to an entity related to NBII. Furthermore, the investment decisions must represent the business judgment of the securities advisor, uninfluenced by considerations other than the best interest of the Fund and must achieve a fair and reasonable result for the Fund.

## Registered Plan Trust Services

NTC receives a fixed amount per registered account for services provided as trustee for registered plans.

## Administrative and Operating Services

The provision of certain services was delegated by the Fund Manager, NBII, to National Bank Trust Inc. ("NBT"), a wholly-owned indirect subsidiary of the Bank. These include accounting, reporting and portfolio valuation services. The fees incurred for these services are paid to NBT by the Fund manager.

## Management Fees

The Fund pays annual management fees to the Fund manager for its management services. The fees are calculated based on a percentage of the Fund's daily net asset value before applicable taxes and are paid on a monthly basis. Under the *Distribution* heading, expenses include the broker's compensation consisting of the maximum annual trailer fees and sales commissions paid to brokers. Under the *Other* heading, the fees relate mainly to investment management, investment advisory services, general administration and profit. The breakdown of major services provided in consideration of the management fees, expressed as an approximate percentage of the management fees is as follows:

Series	Management Fees	Distribution	Others <sup>†</sup>
Investor Series	1.00%	50.00%	50.00%
Series F	0.60%	—	100.00%

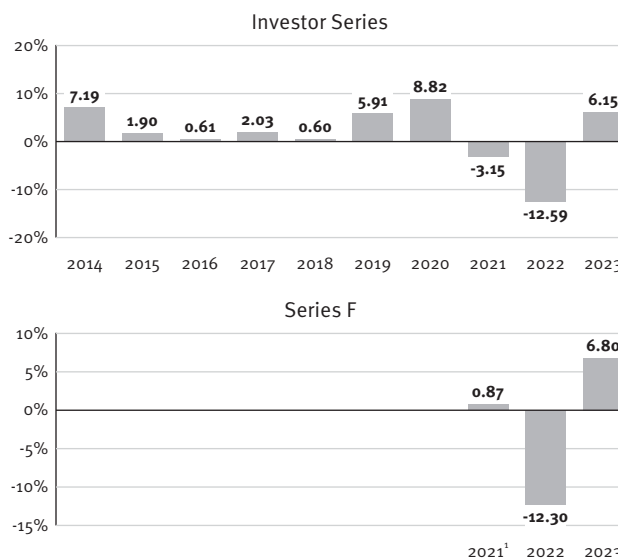
<sup>†</sup> Includes all costs related to management, investment advisory services, general administration and profit.

## Past Performance

The performance of each series of the Fund is presented below and calculated as at December 31 of each year. It assumes that all distributions made in the periods shown were reinvested in additional securities and does not take into account sales, redemption charges, distributions, or optional charges that would have reduced returns. Past performance of a series of a Fund does not necessarily indicate how it will perform in the future.

## Annual Returns

The bar charts indicate the performance for each the Fund's series in existence greater than one year during the years shown, and illustrate how the performance has changed from year to year. They show, in percentage terms, how much an investment made on January 1 (or made commencing from the start of the series) 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 June 22, 2021 (commencement of operations) to December 31, 2021.

## Annual Compounded Performance

The following table shows the Fund's annual compound returns for each series in existence greater than one year and for each of the periods ended on December 31, 2023, compared with the following benchmark:

- FTSE Canada Universe Bond Index (CAD)

### NBI Income Fund

	1 year	3 years	5 years	10 years	Since inception
<b>Investor Series<sup>1</sup></b>	6.15%	(3.50)%	0.70%	1.57%	—
Benchmark	6.69%	(2.80)%	1.30%	2.42%	—
<b>Series F<sup>2</sup></b>	6.80%	—	—	—	(2.23)%
Benchmark	6.69%	—	—	—	(2.45)%

<sup>1</sup> Commencement of operations: February 19, 1970

<sup>2</sup> Commencement of operations: June 22, 2021

A discussion of the Fund'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 **FTSE Canada Universe Bond Index** is composed of over 900 bonds with a term to maturity of more than one year and tracks the performance of the Canadian Bond market.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the accounting periods shown.

### Investor Series

Net Assets per Unit <sup>(1)</sup>		Commencement of operations: February 19, 1970				
Accounting Period Ended	2023 December 31	2022 December 31	2021 December 31	2020 December 31	2019 December 31	
<b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(4)</sup>	7.57	8.85	9.31	8.83	8.50	
<b>Increase (Decrease) from Operations (\$)</b>						
Total revenue	0.27	0.25	0.26	0.26	0.27	
Total expenses	(0.08)	(0.09)	(0.10)	(0.10)	(0.10)	
Realized gains (losses)	(0.38)	(0.35)	0.03	0.21	0.12	
Unrealized gains (losses)	0.65	(1.15)	(0.51)	0.40	0.22	
<b>Total Increase (Decrease) from Operations (\$)</b> <sup>(2)</sup>	0.46	(1.34)	(0.32)	0.77	0.51	
<b>Distributions (\$)</b>						
From net investment income (excluding dividends)	0.19	0.17	0.16	0.16	0.17	
From dividends	—	—	—	—	—	
From capital gains	—	—	0.01	0.13	—	
Return of capital	—	—	—	—	—	
<b>Total Annual Distributions (\$)</b> <sup>(3)</sup>	0.19	0.17	0.17	0.29	0.17	
<b>Net Assets, End of Accounting Period Shown (\$)</b> <sup>(4)</sup>	7.84	7.57	8.85	9.31	8.83	

### Ratios and Supplemental Data

Accounting Period Ended	2023 December 31	2022 December 31	2021 December 31	2020 December 31	2019 December 31
Total net asset value (000's of \$) <sup>(5)</sup>	51,501	54,202	94,178	109,843	105,242
Number of units outstanding <sup>(5)</sup>	6,566,760	7,160,823	10,639,615	11,797,360	11,917,343
Management expense ratio (%) <sup>(6)</sup>	1.11	1.11	1.11	1.11	1.11
Management expense ratio before waivers or absorptions (%)	1.11	1.11	1.11	1.11	1.11
Trading expense ratio (%) <sup>(7)</sup>	—	—	—	—	—
Portfolio turnover rate (%) <sup>(8)</sup>	97.05	117.94	95.79	127.79	106.48
Net asset value per unit (\$)	7.84	7.57	8.85	9.31	8.83

### Series F

Net Assets per Unit <sup>(1)</sup>		Commencement of operations: June 22, 2021		
Accounting Period Ended	2023 December 31	2022 December 31	2021 December 31	
<b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(4)</sup>	8.59	10.02	10.00	
<b>Increase (Decrease) from Operations (\$)</b>				
Total revenue	0.31	0.29	0.15	
Total expenses	(0.06)	(0.06)	(0.04)	
Realized gains (losses)	(0.44)	(0.45)	(0.01)	
Unrealized gains (losses)	0.73	(0.02)	(0.11)	
<b>Total Increase (Decrease) from Operations (\$)</b> <sup>(2)</sup>	0.54	(0.24)	(0.01)	
<b>Distributions (\$)</b>				
From net investment income (excluding dividends)	0.25	0.20	0.07	
From dividends	—	—	—	
From capital gains	—	—	—	
Return of capital	—	—	—	
<b>Total Annual Distributions (\$)</b> <sup>(3)</sup>	0.25	0.20	0.07	
<b>Net Assets, End of Accounting Period Shown (\$)</b> <sup>(4)</sup>	8.91	8.59	10.02	

### Ratios and Supplemental Data

Accounting Period Ended	2023 December 31	2022 December 31	2021 December 31
Total net asset value (000's of \$) <sup>(5)</sup>	16,093	17,841	145
Number of units outstanding <sup>(5)</sup>	1,807,105	2,075,816	14,483
Management expense ratio (%) <sup>(6)</sup>	0.67	0.68	0.69
Management expense ratio before waivers or absorptions (%)	0.67	0.68	0.70
Trading expense ratio (%) <sup>(7)</sup>	—	—	—
Portfolio turnover rate (%) <sup>(8)</sup>	97.05	117.94	95.79
Net asset value per unit (\$)	8.91	8.59	10.02

- <sup>(1)</sup> This information is derived from the Fund's Annual Audited Financial Statements. The net assets per unit presented in the financial statements might differ from the net asset value calculated for fund pricing purposes. The differences are explained in the notes to the financial statements.
- <sup>(2)</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>(3)</sup> Distributions were paid in cash or reinvested in additional units of the Fund, or both.
- <sup>(4)</sup> The net assets are calculated in accordance with IFRS.
- <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. The management expense ratio includes, if necessary, the management expenses from its underlying funds, as described in Article 15.2 of Regulation 81-106.
- <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 Fund's portfolio turnover rate indicates how actively the Fund portfolio's manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the accounting period. The higher a Fund's portfolio turnover rate in an accounting period, the greater the trading costs payable by the Fund 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 a Fund.

## Summary of Investment Portfolio

As of December 31, 2023

### Portfolio Top Holdings

	% of Net Asset Value
Government of Canada, 1.50%, due June 1, 2031	6.1
Government of Canada, 2.75%, due June 1, 2033	5.1
Government of Canada, 2.50%, due December 1, 2032	2.7
Canada Housing Trust, 3.65%, due June 15, 2033	2.6
Government of Canada, 2.00%, due June 1, 2032	2.6
Province of Ontario, 3.65%, due June 2, 2033	2.2
Government of Canada, 1.50%, due December 1, 2031	1.9
Province of Ontario, 1.35%, due December 2, 2030	1.8
Royal Office Finance LP, 5.21%, due November 12, 2032	1.5
Government of Canada, 3.25%, due September 1, 2028	1.2
Government of Canada, 1.75%, due December 1, 2053	1.1
Province of Ontario, 3.50%, due June 2, 2043	1.1
Canada Housing Trust, 1.90%, due March 15, 2031	1.0
Canada Housing Trust, 3.55%, due September 15, 2032	0.9
Province of Ontario, 2.25%, due December 2, 2031	0.9
Province of Ontario, 4.65%, due June 2, 2041	0.9
Province of Ontario, 5.60%, due June 2, 2035	0.9
Province of Quebec, 4.25%, due December 1, 2043	0.9
Province of Newfoundland, 5.60%, due October 17, 2033	0.9
Government of Canada, 0.25%, due March 1, 2026	0.8
Province of Ontario, 2.15%, due June 2, 2031	0.8
Cash, Money Market and Other Net Assets	0.8
City of Toronto, 3.25%, due June 24, 2046	0.8
Government of Canada, 2.00%, due December 1, 2051	0.6
TransCanada Pipelines Ltd., 8.05%, due February 17, 2039	0.6
	40.7

Net asset value ..... \$67,594,007

### Asset Mix

	% of Net Asset Value
Canadian Corporate Bonds	34.3
Federal Bonds	31.5
Provincial Bonds	23.2
Municipal Bonds	7.3
US Bonds	2.3
Asset Backed Securities	0.3
Foreign Bonds	0.2
Mortgage Backed Securities	0.1
Cash, Money Market and Other Net Assets	0.8

The above table shows the top 25 positions held by the Fund. In the case of a Fund with fewer than 25 positions, all positions are indicated.

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the investment Fund. A quarterly update is available. Please consult our website at [www.nbinvestments.ca](http://www.nbinvestments.ca).

If this investment Fund invests in other investment funds, please consult the prospectus and other information about the underlying investment funds on the website indicated above or on SEDAR+'s website at [www.sedarplus.ca](http://www.sedarplus.ca).