

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

Canadian Equity Funds

National Bank Small Cap Fund

For the period ended December 31, 2011

This annual management report of fund performance contains financial highlights, but does not contain the annual financial statements of the mutual fund. A copy of the annual financial statements can be obtained on request, and at no cost, by calling 1-888-270-3941 or 514-871-2082, by writing to us at National Bank Securities Advisory Service, 500, Place d'Armes, 12th floor, Montreal, Quebec, H2Y 2W3, by visiting our website at www.nbc.ca/financial_reports, by visiting SEDAR's website at www.sedar.com, 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 Objectives and Strategies

The National Bank Small Cap Fund aims to provide long-term growth and capital preservation.

The Fund invests primarily in common stock of small capitalization listed on recognized markets. Fund investments also include other variable-yield investments as well as securities issued by the governments of Canada and Canadian provinces. 30% of Fund assets may be invested in international equities.

The portfolio advisor favours security selection over sector rotation and initially invests a limited proportion of assets in companies with growth potential, making further investments if expectations are confirmed. Generally, the Fund invests in medium or large capitalization only if they show growth potential.

Risks

The Fund endured a year of extreme volatility, on increased uncertainty about the future of Europe, following the collapse of governments in Greece and Italy. In addition, investors worried about the slowing pace of growth in some emerging markets, China in particular, which impacted large on the shares of small company stocks within growth related sectors such as Materials.

The global investment risk of each of the Fund's securities remains as described in the latest simplified prospectus. It suits investors who are seeking higher returns, who wish to add a dynamic growth component to their portfolio, and are willing to tolerate an above average level of risk.

Results of Operations

For the twelve-month period ended December 31, 2011, the National Bank Small Cap Fund Investor Series units returned -16.73% compared to -16.43% for the Fund's benchmark, the S&P/TSX Small Cap Index (CA\$). Unlike the index, the Fund's performance is calculated after fees and expenses. Please see the *Past Performance* section for returns of the Advisor Series, F Series, O Series and the R Series. Returns of the Advisor Series, the F Series, the O Series and the R Series may vary mainly because of fees and expenses.

Stock indexes ended the year 2011 largely in negative territory, despite a fourth quarter rally, which helped recoup some of the declines that were registered during the previous six months. Needless to say, investors were not comforted by two consecutive monthly declines in employment during October and November that solidified the view of the central bank, which revised its projection for economic growth in 2012 lower. In doing so, the Bank of Canada also cited the growing pains in Europe, as well as the sub-par performance of the U.S. economy.

For their part, Canadian stock exchanges failed to keep pace with their U.S. peers, despite the good performance of the Energy sector, which did however help small cap stocks outperform large cap names during the final quarter. For the year however, small cap stocks still trailed their larger peers, as appetite for riskier investments diminished. Apart from Financials Services, which ended the year with moderate gain on the back of a solid performance by Real Estate Investment Trusts, all other sectors ended the period with losses. By far, the Materials sector declined the most, on fears that emerging markets growth was slowing, which impacted greatly on mining and metals stocks. Elsewhere Health Care and Energy stocks also declined sharply, the first on liquidity concerns and the second as a consequence of declining natural gas prices, which fell by 32.15% over the year.

Under such circumstances, the Fund performed largely in line with the index. Being relatively underweight the Mining and Metals sector, as well as being overweight in the Consumer Discretionary and Technology sectors proved beneficial to the Fund's overall performance. In contrast, being underweight in the Financial Services sector, particularly in Real Estate Investment Trusts, as well as the Utilities sector impacted negatively on performance.

Individually, Forzani Group, Mediagrif, Northgate Minerals, Cogeco Cable and Enghouse Systems contributed most on the upside, while Transat, Great Basin Gold, Transglobe, Eastern Platinum and Lake Shore Gold contributed most on the downside.

Recent Developments

The Fund's sector allocations did not vary greatly during the year, as the portfolio manager continued to favour the Industrials, Consumer Discretionary and Technology sectors at the expense of Mining and Metals stocks. The main changes to the Fund's largest positions were primarily the result of acquisitions (Forzani Group and Northgate Minerals), profit-taking (Transglobe and Aurico Gold) or significant outperformance (Mediagrif and Enghouse).

Heading into the New Year, the portfolio manager remains cautious in the current environment. In his view, markets remain oblivious to the problems in Europe, which he believes will be worse off in 2012, despite the recent announcements and refinancing plans. As such, he is continuing to deploy cash into new positions and securities already in the portfolio that he views as being largely immune from these problems.

Such opportunities in his view are currently found in North America, especially in the U.S., where the economy seems to have turned a corner. In this context, he has recently increased the Fund's exposure to the Materials sector, by purchasing stocks that have reached lows, which reflect an extremely pessimistic outlook. On the other hand, the portfolio manager is continuing to avoid real estate trusts, whose recent price appreciation and current valuations are based primarily on their monthly distribution and not on their fundamental values. Overall, the portfolio manager expects small cap stocks to outperform in 2012, based on their reasonable valuations, low debt and the prospects of continued mergers and acquisitions activity.

Accounting Standards Changes

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that all publicly accountable enterprises would be required to report under International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) for fiscal years beginning on or after January 1, 2011. However, in January 2011, the AcSB approved a deferral of the effective date of entry in force of IFRS from January 1, 2011 to January 1, 2013 for investment companies that are currently applying the Accounting Guideline AcG-18 "Investment Companies".

In December 2011, the AcSB decided to defer the date of application of IFRS to January 1, 2014 to ensure that investment companies will not have to modify their actual accounting treatment for entities in which they have control while the IASB is completing the standard about investment companies it plans to publish.

Consequently, the Funds will publish their first audited financial statements in accordance with IFRS for the year ending December 31, 2014 and will present comparative figures in accordance with IFRS for the year ending December 31, 2013, including an opening balance sheet as at January 1, 2013.

In order to prepare for the transition to IFRS, management has established a project, formed a dedicated project team and put in place a formal governance structure. The project team reports on a regular basis to the executive committee and the steering committee, committees that are made up of senior levels of management from all relevant departments. To date, the project has proceeded as planned.

Management has developed a detailed project plan, assessed the resource requirements for its implementation and continued staff training. It has already identified the main differences between existing Canadian GAAP and current IFRS. Exceptions and optional exemptions on the transition date have also been analyzed. In addition, management has identified the following main differences that would likely affect the funds financial statements:

Scope	Current treatment under Canadian GAAP	IFRS treatment
Classification of holders' units/shares – Funds with more than one series.	Units/shares are presented as equity instruments.	Units/shares are presented in liabilities.
Classification of holders' units/shares – Funds with one series.	Units/shares are presented as equity instruments. No distinction is made between retained earnings and the capital issued.	Units/shares are presented as equity instruments. Distinction to be made between retained earnings and the capital issued.
Consolidation of financial statements of controlled entities in the financial statements of the Funds.	The Funds are exempt from consolidation with AcG-18.	Consolidation is applicable for controlling Funds. The financial statements of the two entities have to be consolidated. The Funds must meet very specific criteria to consolidate their financial statements. Consequently, only a minority of the Funds are affected by the consolidation. The consolidation will not affect the data of the Funds' daily evaluations. However, the IASB issued in August 2011 an exposure draft that will allow for the Funds to be exempt from consolidation under certain conditions.
Presentation of the statement of cash flows in the financial statements.	No statement of cash flows to be presented.	Presentation of the statement of cash flows in the financial statements of each of the Funds.
Future income taxes – Trust Funds.	No future income taxes to be presented.	Recognition of assets or future income taxes liabilities if applicable.

Management has completed an evaluation on how adoption of IFRS will impact information technology and required developments have been made. It is currently assessing how adoption of IFRS will impact operations, internal controls and preparing financial statements.

The implementation phase has begun. The Funds will produce their statement of financial position (opening balance) as at January 1st, 2013 «transition date». In order to present the interim financial statements as at June 30, 2014 under IFRS, the comparative financial statements, those as at June 30, 2013, will be prepared with IFRS over the coming period.

At this point, management does not expect that the transition to IFRS will have a significant impact on net assets or net asset value per unit or the Funds commercial agreements. Rather, it expects that this transition will impact the presentation and disclosure of financial statements. Please note that the requirements in effect at the time of first publication of IFRS financial statements (December 31, 2014), economic conditions prevailing at that date, as well as various choices of accounting policies adopted are factors that will influence the final impact of IFRS on the statement of financial position of the Funds.

Related Party Transactions

National Bank of Canada (“the Bank”) and its affiliated companies’ roles and responsibilities related to the Fund are as follows:

Trustee

Natcan Trust Company (“NTC”), a wholly owned subsidiary of the Bank, is the Fund’s trustee. In this capacity, it is the legal owner of the Fund’s investments.

Fund Manager

The Fund is managed by National Bank Securities Inc. (“NBS”), which is a wholly-owned subsidiary of the Bank. Therefore, NBS 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 Fund reimbursed the Fund Manager for operating expenses, at cost, incurred in administering the Fund, including trustee, record-keeping, custodial, legal, audit, investor servicing, and securityholder reporting fees.

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

Portfolio Advisor

Management of the Fund’s portfolio has been delegated by NBS to Natcan Investment Management Inc. (“Natcan”), a corporation of which the Bank is the majority shareholder. In that capacity, Natcan provides the Fund with portfolio management services, including trading, carrying out transactions and brokerage services. The fees payable to Natcan are calculated by applying a percentage to the average net asset value under management for each month.

Performance fees may be payable by NBS if the performance criteria set for the National Bank Funds are met.

Distribution of Fund Units

NBS acts as Distributor for the Fund. In this capacity, NBS buys, sells and swaps securities through Bank branches and the National Bank Securities Advisory Service in Canadian provinces and territories, and through external registered representatives. Fund units are also offered by National Bank Direct Brokerage Inc., CABN Investments Inc. National Bank Financial Inc. and other affiliated entities. Each month, brokers receive a commission representing a percentage of the average daily value of the securities held by their clients.

Transfer Agent and Custodian

Natcan Trust Company (“NTC”) acts as registrar for the Fund’s securities and the names of unitholders. 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.

Brokerage Fees

The Fund may pay broker’s commissions at market rates to a corporation affiliated with NBS. The brokerage fees paid by the Fund for the period are as follows:

	Year ended December 31, 2011
Total brokerage fees	\$1,551,941.40
Brokerage paid to National Bank Financial	\$95,184.85

Holdings

As at December 31, 2011, National Bank Securities held 40,316.95 Fund units for a value of \$329,389.49, which represented 0.07% of the net asset value of the Fund at that date. Transactions between National Bank Securities and the Fund were carried out in the normal course of business and at the Fund’s net asset value as at the transaction date.

As at December 31, 2011, National Bank Trust held 227,537.37 Fund units for a value of \$2,789,608.22, which represented 0.62% of the net asset value of the Fund at that date. Transactions between National Bank Trust and the Fund were carried out in the normal course of business and at the Fund’s net asset value as at the transaction date.

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;

- c) Purchasing or selling securities to another investment fund managed by the manager or a company in the same group;
- d) 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);
- e) 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 National Bank Securities 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 National Bank Securities and without taking into account any consideration relevant to an entity related to National Bank Securities. 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 Bank provides the Fund with certain services, including accounting, reporting and portfolio valuation services. The costs incurred for these services are paid by the manager to the Bank.

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 past five years.

Investor Series / Advisor Series

The Fund's Net Assets per Unit⁽¹⁾

	2011 December 31	2010 December 31	2009 December 31 (15 months)	2008 September 30	2007 September 30
Net Assets, beginning of year	\$ 48.70	\$ 40.23	\$ 28.45	\$ 47.09	\$ 37.74
Increase (decrease) from operations					
Total revenue	\$ 0.56	\$ 0.40	\$ 0.46	\$ 0.43	\$ 0.42
Total expenses	\$ (1.09)	\$ (1.01)	\$ (0.80)	\$ (0.83)	\$ (1.07)
Realized gains (losses)	\$ 3.82	\$ 4.07	\$ 1.38	\$ 1.47	\$ 7.81
Unrealized gains (losses)	\$(11.12)	\$ 4.90	\$ 12.90	\$(14.33)	\$ 2.92
Transaction costs on purchase and sale investments	\$ (0.13)	\$ (0.11)	\$ (0.15)	\$ (0.11)	\$ (0.11)
Total increase (decrease) from operations⁽²⁾	\$ (7.96)	\$ 8.25	\$ 13.79	\$(13.37)	\$ 9.97
Distributions:					
From income (excluding dividends)	\$ —	\$ —	\$ —	\$ —	\$ —
From dividends	\$ —	\$ —	\$ —	\$ —	\$ —
From capital gains	\$ 2.59	\$ 0.13	\$ 1.07	\$ 5.50	\$ 0.73
Return of capital	\$ —	\$ —	\$ —	\$ —	\$ —
Total annual distributions⁽³⁾	\$ 2.59	\$ 0.13	\$ 1.07	\$ 5.50	\$ 0.73
Net Assets as at December 31, 2011 and last day of years shown	\$ 37.82	\$ 48.70	\$ 40.23	\$ 28.45	\$ 47.09

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The net asset value per security presented in the financial statements differ from the net asset value calculated for security pricing purposes. The differences are explained in the notes to the financial statements.

⁽²⁾ 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 financial period.

⁽³⁾ Distributions were paid in cash or reinvested in additional units of the Fund, or both.

Ratios and Supplemental Data

	2011 December 31	2010 December 31	2009 December 31 (15 months)	2008 September 30	2007 September 30
Total net asset value (000's) ⁽¹⁾	\$ 446,003	\$ 528,971	\$ 516,891	\$ 322,843	\$ 408,947
Number of units outstanding ⁽¹⁾	11,729,712	10,835,185	12,776,188	11,245,131	8,652,643
Management expense ratio ⁽²⁾	2.39 %	2.37 %	2.35 %	2.36 %	2.37 %
Management expense ratio before waivers or absorptions	2.39 %	2.39 %	2.41 %	2.36 %	2.37 %
Trading expense ratio ⁽³⁾	0.29 %	0.25 %	0.39 %	0.30 %	0.24 %
Portfolio turnover rate ⁽⁴⁾	52.46 %	35.79 %	75.19 %	58.86 %	56.28 %
Net asset value per unit	\$ 38.02	\$ 48.82	\$ 40.46	\$ 28.71	\$ 47.26

⁽¹⁾ This information is provided as at December 31, 2011 and last day of years shown.

⁽²⁾ Management expense ratio is based on total expenses for the period indicated (excluding commissions and other portfolio transaction costs) and is expressed as an annualized percentage of the daily average net asset value during the period.

⁽³⁾ 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 period.

⁽⁴⁾ The Fund's portfolio's turnover rate indicates how actively the Fund's portfolio adviser 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 period. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Financial Highlights

F Series

The Fund's Net Assets per Unit⁽¹⁾

	2011 December 31	2010 December 31	2009 December 31 (15 months)	2008 September 30	2007 September 30
Net Assets, beginning of year	\$ 10.35	\$ 8.43	\$ 5.86	\$ 13.07	\$ 10.35
Increase (decrease) from operations					
Total revenue	\$ 0.12	\$ 0.09	\$ 0.10	\$ 0.17	\$ 0.11
Total expenses	\$ (0.10)	\$ (0.10)	\$ (0.17)	\$ (0.32)	\$ (0.14)
Realized gains (losses)	\$ 0.82	\$ 0.86	\$ 0.30	\$ 0.57	\$ 2.79
Unrealized gains (losses)	\$ (2.48)	\$ 1.12	\$ 2.75	\$ (5.51)	\$ 1.04
Transaction costs on purchase and sale investments	\$ (0.03)	\$ (0.02)	\$ (0.03)	\$ (0.05)	\$ (0.02)
Total increase (decrease) from operations⁽²⁾	\$ (1.67)	\$ 1.95	\$ 2.95	\$ (5.14)	\$ 3.78
Distributions:					
From income (excluding dividends)	\$ —	\$ —	\$ —	\$ —	\$ —
From dividends	\$ —	\$ —	\$ —	\$ —	\$ —
From capital gains	\$ 0.57	\$ 0.02	\$ 0.23	\$ 4.43	\$ 0.14
Return of capital	\$ —	\$ —	\$ —	\$ —	\$ —
Total annual distributions⁽³⁾	\$ 0.57	\$ 0.02	\$ 0.23	\$ 4.43	\$ 0.14
Net Assets as at December 31, 2011 and last day of years shown	\$ 8.12	\$ 10.35	\$ 8.43	\$ 5.86	\$ 13.08

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⁽²⁾ 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 financial period.

⁽³⁾ Distributions were paid in cash or reinvested in additional units of the Fund, or both.

Ratios and Supplemental Data

	2011 December 31	2010 December 31	2009 December 31 (15 months)	2008 September 30	2007 September 30
Total net asset value (000's) ⁽¹⁾	\$ 658	\$ 757	\$ 420	\$ 218	\$ 94
Number of units outstanding ⁽¹⁾	80,557	72,991	49,500	36,850	7,149
Management expense ratio ⁽²⁾	1.06 %	1.05 %	1.03 %	0.89 %	1.15 %
Management expense ratio before waivers or absorptions	1.06 %	1.95 %	2.72 %	0.89 %	1.54 %
Trading expense ratio ⁽³⁾	0.29 %	0.25 %	0.39 %	0.30 %	0.24 %
Portfolio turnover rate ⁽⁴⁾	52.46 %	35.79 %	75.19 %	58.86 %	56.28 %
Net asset value per unit	\$ 8.17	\$ 10.37	\$ 8.48	\$ 5.92	\$ 13.12

⁽¹⁾ This information is provided as at December 31 of years shown.

⁽²⁾ Management expense ratio is based on total expenses for the period indicated (excluding commissions and other portfolio transaction costs) and is expressed as an annualized percentage of the daily average net asset value during the period.

⁽³⁾ 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 period.

⁽⁴⁾ The Fund's portfolio's turnover rate indicates how actively the Fund's portfolio adviser 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 period. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Financial Highlights

O Series

The Fund's Net Assets per Unit⁽¹⁾

	2011 December 31	2010 December 31	2009 December 31 (15 months)	2008 September 30	2007 September 30
Net Assets, beginning of year	\$ 15.29	\$ 12.34	\$ 8.42	\$ 13.61	\$ 10.66
Increase (decrease) from operations					
Total revenue	\$ 0.18	\$ 0.13	\$ 0.15	\$ 0.12	\$ 0.12
Total expenses	\$ —	\$ —	\$ (0.26)	\$ (0.23)	\$ (0.01)
Realized gains (losses)	\$ 1.20	\$ 1.26	\$ 0.45	\$ 0.41	\$ 2.17
Unrealized gains (losses)	\$ (3.58)	\$ 1.54	\$ 4.18	\$ (3.99)	\$ 0.81
Transaction costs on purchase and sale investments	\$ (0.04)	\$ (0.03)	\$ (0.05)	\$ (0.03)	\$ (0.03)
Total increase (decrease) from operations⁽²⁾	\$ (2.24)	\$ 2.90	\$ 4.47	\$ (3.72)	\$ 3.06
Distributions:					
From income (excluding dividends)	\$ —	\$ —	\$ —	\$ —	\$ —
From dividends	\$ —	\$ —	\$ —	\$ —	\$ —
From capital gains	\$ 0.80	\$ 0.04	\$ 0.33	\$ 1.60	\$ 0.22
Return of capital	\$ —	\$ —	\$ —	\$ —	\$ —
Total annual distributions⁽³⁾	\$ 0.80	\$ 0.04	\$ 0.33	\$ 1.60	\$ 0.22
Net Assets as at December 31, 2011 and last day of years shown	\$ 12.19	\$ 15.29	\$ 12.34	\$ 8.42	\$ 13.61

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⁽²⁾ 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 financial period.

⁽³⁾ Distributions were paid in cash or reinvested in additional units of the Fund, or both.

Ratios and Supplemental Data

	2011 December 31	2010 December 31	2009 December 31 (15 months)	2008 September 30	2007 September 30
Total net asset value (000's) ⁽¹⁾	\$ 47,277	\$ 58,239	\$ 49,603	\$ 30,822	\$ 40,904
Number of units outstanding ⁽¹⁾	3,857,175	3,799,294	3,998,073	3,629,086	2,993,545
Management expense ratio ⁽²⁾	0.02 %	0.02 %	0.02 %	0.04 %	0.04 %
Management expense ratio before waivers or absorptions	0.02 %	0.03 %	0.02 %	0.04 %	0.04 %
Trading expense ratio ⁽³⁾	0.29 %	0.25 %	0.39 %	0.30 %	0.24 %
Portfolio turnover rate ⁽⁴⁾	52.46 %	35.79 %	75.19 %	58.86 %	56.28 %
Net asset value per unit	\$ 12.26	\$ 15.33	\$ 12.41	\$ 8.49	\$ 13.66

⁽¹⁾ This information is provided as at December 31 of years shown.

⁽²⁾ Management expense ratio is based on total expenses for the period indicated (excluding commissions and other portfolio transaction costs) and is expressed as an annualized percentage of the daily average net asset value during the period.

⁽³⁾ 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 period.

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Financial Highlights

R Series

The Fund's Net Assets per Unit⁽¹⁾

	2011 December 31
Net Assets, beginning of year	\$ —
Increase (decrease) from operations	
Total revenue	\$ 0.08
Total expenses	\$ (0.11)
Realized gains (losses)	\$ (0.01)
Unrealized gains (losses)	\$ (0.66)
Transaction costs on purchase and sale investments	\$ (0.02)
Total increase (decrease) from operations⁽²⁾	\$ (0.72)
Distributions:	
From income (excluding dividends)	\$ —
From dividends	\$ —
From capital gains	\$ 0.01
Return of capital	\$ 0.35
Total annual distributions⁽³⁾	\$ 0.36
Net Assets as at December 31, 2011 and last day of years shown	\$ 7.81

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The net asset value per security presented in the financial statements differ from the net asset value calculated for security pricing purposes. The differences are explained in the notes to the financial statements.

⁽²⁾ 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 financial period.

⁽³⁾ Distributions were paid in cash or reinvested in additional units of the Fund, or both.

Ratios and Supplemental Data

	2011 December 31
Total net asset value (000's) ⁽¹⁾	\$ 34
Number of units outstanding ⁽¹⁾	4,299
Management expense ratio ⁽²⁾	2.35 %
Management expense ratio before waivers or absorptions	57.45 %
Trading expense ratio ⁽³⁾	0.29 %
Portfolio turnover rate ⁽⁴⁾	52.46 %
Net asset value per unit	\$ 7.85

⁽¹⁾ This information is provided as at December 31 of years shown.

⁽²⁾ Management expense ratio is based on total expenses for the period indicated (excluding commissions and other portfolio transaction costs) and is expressed as an annualized percentage of the daily average net asset value during the period.

⁽³⁾ 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 period.

⁽⁴⁾ The Fund's portfolio's turnover rate indicates how actively the Fund's portfolio adviser 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 period. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Management Fees

The Fund pays annual management fees to the 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. A portion of the management fees paid by the Fund covers trailer fees and sales commissions paid to brokers. The remainder of the management fees primarily covers investment management and general administration services. 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 Fee	Distribution	Others [†]
Investor Series		2.00%	62.50%	37.50%
Advisor Series* and R Series	Front end	2.00%	25.00%	75.00%
	Back end		62.50%	37.50%
	Low-Load 1 to 3 years 4 years plus		25.00%	75.00%
F Series		0.75%	0.00%	100.00%
O Series		n.a.**	0.00%	100.00%

^(*) Excluding sales commissions paid on the Advisor Series with low load and back end fees, which are not paid for out of the management fees.

^(**) There are no management fees paid by the Fund. Unitholders in the O Series pay a negotiated administration fee directly to National Bank Securities.

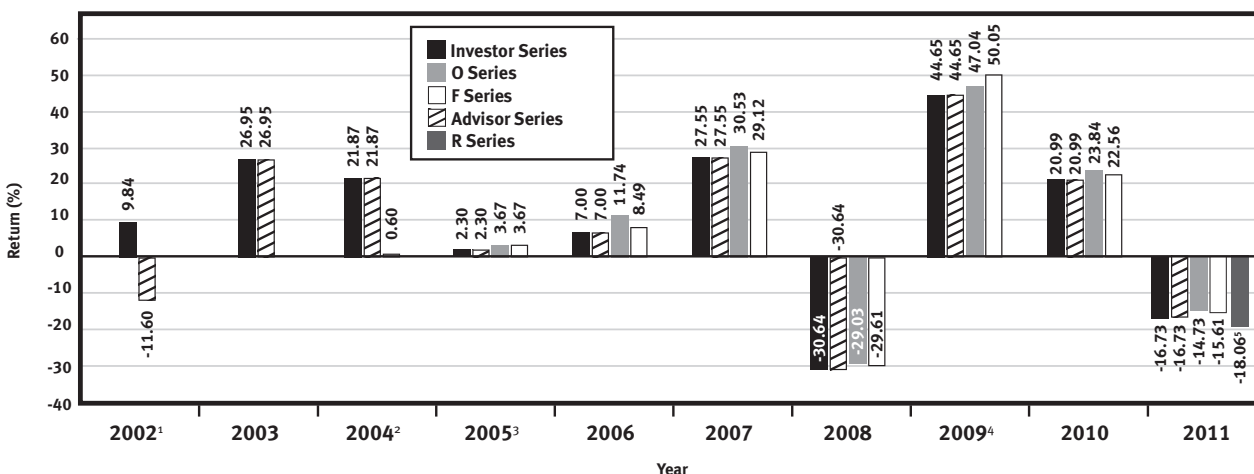
^(†) Includes all costs related to management, investment advisory services, general administration and profit.

Past Performance

Information on the Fund's past performance is presented in the graphs below. The graphs assume that fund distributions during the periods presented were reinvested in full in additional fund securities and do not take into account sales, redemption charges, distributions, or optional charges that would have reduced returns. Past performance of a Fund or series of a Fund does not necessarily indicate how it will perform in the future.

Annual Returns

The following bar chart shows the Fund's annual performance in each of the last years shown and illustrates how the Fund's performance has changed from year to year. It shows in percentage terms how an investment made on the first day of the period would have increased or decreased by the last day of the period for each year.



¹Returns for the Advisor Series from February 8, 2002 (inception date) to September 30, 2002.

²Returns for the F Series from April 1, 2004 (inception date) to September 30, 2004.

³Returns for the O Series from March 1, 2005 (inception date) to September 30, 2005.

⁴Returns for the 15-month period from October 1, 2008 to December 31, 2009.

⁵Returns for the R Series from May 27, 2011 (inception date) to December 31, 2011.

Annual Compounded Performance

The following table shows the National Bank Small Cap Fund annual compound total return for the indicated periods ended on December 31, 2011. The annual compound total return is compared to the Fund's benchmark, the S&P/TSX Small Cap Index (CA\$) calculated on the same compound basis. 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.

Investor Series ¹	10 years	5 years	3 years	1 year
National Bank Small Cap Fund	7.11%	2.59%	19.40%	-16.73%
S&P/TSX Small Cap Index (CA\$)	5.65%	0.17%	22.39%	-16.43%

¹Inception date: February 25, 1988.

Advisor Series ²	Since inception	5 years	3 years	1 year
National Bank Small Cap Fund	6.87%	2.59%	19.40%	-16.73%
S&P/TSX Small Cap Index (CA\$)	5.44%	0.17%	22.39%	-16.43%

²Inception date: February 8, 2002.

F Series ³	Since inception	5 years	3 years	1 year
National Bank Small Cap Fund	5.90%	3.97%	21.02%	-15.61%
S&P/TSX Small Cap Index (CA\$)	3.14%	0.17%	22.39%	-16.43%

³Inception date: April 1, 2004.

O Series ⁴	Since inception	5 years	3 years	1 year
National Bank Small Cap Fund	6.77%	5.17%	22.21%	-14.73%
S&P/TSX Small Cap Index (CA\$)	2.07%	0.17%	22.39%	-16.43%

⁴Inception date: March 1, 2005.

R Series ⁵	Since inception
National Bank Small Cap Fund	-18.06%
S&P/TSX Small Cap Index (CA\$)	-17.43%

⁵Inception date: May 27, 2011.

The S&P/TSX Small Sap Index (CA\$) is capitalization weighted and consists of small cap companies trading on the Toronto Stock Exchange that meet criteria relating to minimum size, liquidity and issuer rating.

Summary of Investment Portfolio

Portfolio Top Holdings

	% of Net Asset Value
Aecon Group Inc.	5.0
Cash and cash equivalents	4.6
TransForce Inc.	4.6
Garda World Security Corp. Class A.	3.9
Mediagrif Interactive Technologies Inc.	3.6
Atrium Innovations Inc.	3.5
Stella-Jones Inc.	3.1
AuRico Gold Inc.	3.0
MartinRea International Inc.	2.9
Cogeco Cable Inc.	2.8
Héroux-Devtek Inc.	2.6
Uni-Select Inc.	2.5
KIT Digital Inc.	2.3
Enghouse Systems Ltd.	2.2
Transglobe Energy Corp.	2.2
Dundee Precious Metals Inc.	2.0
Crew Energy Inc.	2.0
Canaccord Capital Inc.	1.9
FirstService Corp.	1.9
Mullen Group Ltd.	1.9
Gran Tierra Energy Inc.	1.9
Trinidad Drilling Ltd.	1.7
Avion Gold Corp.	1.7
Angle Energy Inc.	1.7
City National Corp.	1.7
	67.2

Fund net asset value. \$493,971,746

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the investment fund. A quarterly update is available. Consult our Web site www.nbc.ca/financial_reports.

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.

Sector Allocation

	% of Net Asset Value
Materials	21.0
Industrials	20.8
Energy	18.8
Information Technology	14.7
Consumer Discretionary	8.3
Financials	6.9
Consumer Staples	3.5
Health Care	1.4
Cash and cash equivalents	4.6

Asset Mix

	% of Net Asset Value
Canadian Equities	83.7
Foreign Equities	11.7
Cash and cash equivalents	4.6