

INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

Short-term and Income Funds

National Bank Short Term Canadian Income Fund

For the period ended June 30, 2011

This interim management report of fund performance contains financial highlights, but does not contain interim or annual financial statements of the mutual fund. A copy of the interim or 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 investment 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

Results of Operations

For the six-month period ended June 30, 2011, the National Bank Short Term Canadian Income Investor Series units returned 0.62% compared to 0.69% for the Fund's benchmark, the DEX 182 Day T-Bill 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 R Series. Returns of the R Series may vary mainly because of fees and expenses.

The net asset value of the Fund rose from \$177.9 million as at December 31, 2010 to \$197.5 million as at June 30, 2011, an increase of 11%. The increase stemmed mainly from an increase in net sales.

Short-term interest rates edged upward early in the first quarter only to plunge in subsequent months, particularly in May and June. At the start of the year, the release of robust economic figures and surging commodity prices hinted at an increase in inflation and a potential key rate hike from the Bank of Canada. Although these predictions failed to materialize, they nevertheless served to drive down demand for money market securities, thereby explaining the rise in yields.

The decline in rates that occurred at the end of the period was brought on by investors' substantial aversion to risk, due to prevailing uncertainty overseas (Middle East/North Africa, Japan, Greece) and the release of worse-than-expected economic indicators in several industrialized countries, although the situation was less problematic in Canada. These circumstances turned investor interest away from riskier asset classes toward fixed-income securities (money market and bond issues). The Bank of Canada's decision to hold steady on its bellwether rate in the second quarter, due to the ongoing uncertainty in the eurozone and fears of a worldwide slowdown in economic growth, also helped keep short-term rates down.

In this context, 90-day T-Bill rates dropped from 1.00% to 0.90% while 1-year issues went down from 1.40% to 1.15% between the end of 2010 and the end of June 2011. Canadian 2-year bonds dipped from 1.68% to 1.56%.

Over the past six months, the Fund's average duration was increased from 96 days to 144 days, to take advantage of the higher rates offered on longer term securities. Although this strategy allowed us to increase the Fund's return while bearish trends prevailed for rates, a similar or longer duration than the benchmark (182 days) could have allowed us to further enhance the Fund's performance when renewing matured securities at lower rates.

Over the period, the portfolio's overweight in floating-rate notes (29% of the Fund,) and its holdings in corporate bonds maturing between July 2011 and June 2013 (which was increased from 18.3% to 26.3%) had a positive impact on the Fund's performance, particularly owing to the higher returns they generated compared to Government of Canada T-Bills. This positive contribution, however, was partially offset by the Fund's shorter duration compared to its benchmark. This factor, combined with its fees, made it impossible for the Fund to beat the benchmark's performance. A longer duration would have helped further enhance the Fund's return, as shorter term securities must be replaced more frequently and also at lower rates when rates trend downward.

Recent Developments

The consensus among economists is that the Bank of Canada could raise its key rate in the next few quarters. However, if worldwide economic circumstances and European sovereign debt issues remain a concern, then Governor of the Bank of Canada may opt to stay the course for the time being.

In the event that the key rate is increased (which could also result in upward movement in short-term interest rates), the portfolio manager plans to shorten the Fund's duration to the 120 to 140-day range compared to 182 days for the benchmark. A shorter duration will allow adjustments to be made to the portfolio as needed. Conversely, should the world economy stagnate and no rate increase be announced, the duration may be increased by purchasing issues maturing in 1 1/2 to 3 years (particularly corporate bonds), instead of 6 to 9 months, to take advantage of the higher returns they offer and their more promising growth potential.

For the remainder of the year, the manager plans to keep an average duration between 140 and 150 days and reduce it to the 120-140-day range should the Bank of Canada start increasing its key rate.

In this context, corporate bonds maturing between one and two years will be favored to enhance the portfolio returns while the current position in Government of Canada and Provincial T-Bills will be maintained.

Future Accounting Standards

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 Accounting Guideline AcG-18, "Investment Companies".

The deferral of the transition date to IFRS has been put in place 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.

Consequently, the Funds will publish their first audited financial statements in accordance with IFRS for the year ended

December 31, 2013 and will present comparative figures in accordance with IFRS for the year ended December 31, 2012, including an opening balance sheet as at January 1, 2012.

Given the deferral of the effective transition date to IFRS, management is closely monitoring the evolution of the standards and is adjusting its project consequently. In the periods preceding the first fiscal year in which IFRS will be adopted, the impact of transitioning to IFRS on the financial statements of the Funds will be disclosed as they become known.

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 certain 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

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.

Securities of related issuers, underwriting between related parties, transactions between funds and main trading activities between related parties

The Fund followed the standing instructions of its Independent Review Committee, which approved the following related party transactions:

- a) Purchasing or holding the securities of a related issuer, in particular, those of National Bank of Canada;
- b) 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).

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 period ended June 30, 2011 and the past five years.

Investor Series

The Fund's Net Assets per Unit⁽¹⁾

	Period ended June 30, 2011	2010	2009	2008	2007	2006
Net Assets, beginning of year	\$ 9.91	\$ 9.96	\$ 10.01	\$ 10.11	\$ 10.14	\$ 10.17
Increase (decrease) from operations						
Total revenue	\$ 0.12	\$ 0.17	\$ 0.18	\$ 0.40	\$ 0.47	\$ 0.43
Total expenses	\$ (0.03)	\$ (0.05)	\$ (0.05)	\$ (0.08)	\$ (0.08)	\$ (0.07)
Realized gains (losses)	\$ (0.04)	\$ (0.02)	\$ (0.06)	\$ (0.03)	\$ (0.05)	\$ —
Unrealized gains (losses)	\$ 0.01	\$ (0.03)	\$ 0.02	\$ (0.05)	\$ 0.03	\$ (0.03)
Transaction costs on purchase and sale investments	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total increase (decrease) from operations⁽²⁾	\$ 0.06	\$ 0.07	\$ 0.09	\$ 0.24	\$ 0.37	\$ 0.33
Distributions:						
From income (excluding dividends)	\$ 0.09	\$ 0.10	\$ 0.15	\$ 0.33	\$ 0.40	\$ 0.36
From dividends	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
From capital gains	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Return of capital	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total annual distributions⁽³⁾	\$ 0.09	\$ 0.10	\$ 0.15	\$ 0.33	\$ 0.40	\$ 0.36
Net Assets as at June 30, 2011 and December 31 of years shown	\$ 9.88	\$ 9.91	\$ 9.96	\$ 10.01	\$ 10.11	\$ 10.14

⁽¹⁾ This information is derived from the Fund's unaudited interim financial statements and audited annual financial statements. The net assets value per security presented in the financial statements differs 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 weighted 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

	Period ended June 30, 2011	2010	2009	2008	2007	2006
Total net asset value (000's) ⁽¹⁾	\$ 197,562	\$ 178,030	\$ 29,287	\$ 18,404	\$ 27,686	\$ 25,499
Number of units outstanding ⁽¹⁾	19,992,002	17,956,200	2,939,857	1,837,641	2,736,806	2,513,890
Management expense ratio ⁽²⁾	0.47 %	0.47 %	0.47 %	0.79 %	0.76 %	0.68 %
Management expense ratio before waivers or absorptions	0.52 %	0.56 %	0.52 %	0.90 %	0.88 %	0.88 %
Trading expense ratio ⁽³⁾	— %	— %	— %	— %	— %	— %
Portfolio turnover rate ⁽⁴⁾	215.32 %	235.94 %	140.45 %	125.89 %	79.56 %	— %
Net asset value per unit	\$ 9.88	\$ 9.91	\$ 9.96	\$ 10.01	\$ 10.12	\$ 10.14

⁽¹⁾ This information is provided as at June 30, 2011 and 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

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 period ended June 30, 2011.

R Series

The Fund's Net Assets per Unit⁽¹⁾

	Period ended June 30, 2011
Net Assets, beginning of year	\$ —
Increase (decrease) from operations	
Total revenue	\$ 0.02
Total expenses	\$ (0.01)
Realized gains (losses)	\$ —
Unrealized gains (losses)	\$ —
Transaction costs on purchase and sale investments	\$ —
Total increase (decrease) from operations⁽²⁾	\$ 0.01
Distributions:	
From income (excluding dividends)	\$ 0.01
From dividends	\$ —
From capital gains	\$ —
Return of capital	\$ 0.01
Total annual distributions⁽³⁾	\$ 0.02
Net Assets as at June 30, 2011 and December 31 of years shown	\$ 9.99

⁽¹⁾ This information is derived from the Fund's unaudited interim financial statements and audited annual financial statements. The net assets value per security presented in the financial statements differs 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 weighted 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

	Period ended June 30, 2011
Total net asset value (000's) ⁽¹⁾	\$ 5
Number of units outstanding ⁽¹⁾	501
Management expense ratio ⁽²⁾	0.45 %
Management expense ratio before waivers or absorptions	0.45 %
Trading expense ratio ⁽³⁾	— %
Portfolio turnover rate ⁽⁴⁾	215.32 %
Net asset value per unit	\$ 9.99

⁽¹⁾ This information is provided as at June 30, 2011 and 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 cover 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 and R Series	0.30%	0.00%	100.00%

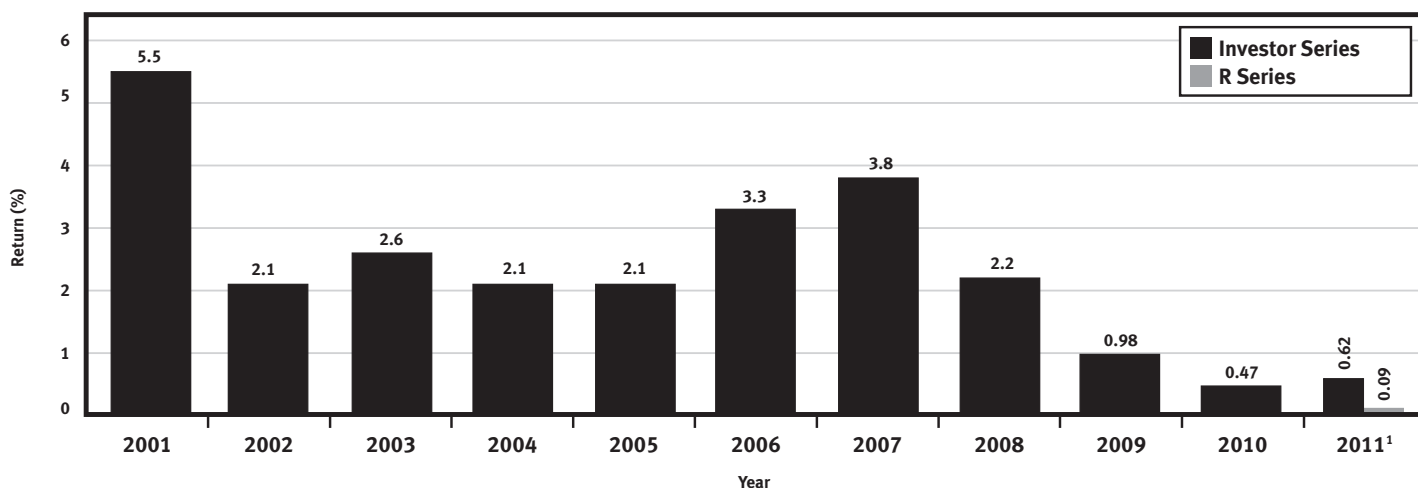
[†] Includes all costs related to management, investment advisory services, general administration and profit.

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 January 1 would have increased or decreased by December 31 for each year.



¹ Returns for the Investor Series for the period from January 1, 2011 to June 30, 2011; returns for the R Series for the period from May 27, 2011 (inception date) to June 30, 2011.

Summary of Investment Portfolio

Portfolio Top Holdings

	% of Net Asset Value
Cash & Others	4.9
Hydro-Québec, Floating, due August 11, 2011	4.4
General Electric Capital Canada Funding Co., 5.29%, due August 17, 2012	4.2
Alberta Capital Finance Authority, Floating, due July 11, 2011	4.1
Bank of Nova Scotia, 3.03%, due June 4, 2012	3.4
Alberta Capital Finance Authority, Floating, due July 4, 2011	2.9
Royal Bank of Canada, 1.33%, due October 4, 2011	2.8
Aéroports de Montréal, 6.35%, due April 16, 2012	2.6
Hydro-Québec, Floating, due August 22, 2011	2.6
Province of Ontario, Floating, due July 28, 2011	2.5
Bank of Montreal, Floating, due September 12, 2011	2.5
Deutsche Bank AG, 1.17%, due September 12, 2011	2.5
Greater Toronto Airport, 6.25%, due January 30, 2012	2.1
Manulife Financial Corp., 1.17%, due August 11, 2011	1.9
Société des Transports de Montréal, 1.14%, due July 15, 2011	1.8
HSBC Bank Canada, 1.17%, due August 30, 2011	1.8
Province of Quebec, 6.00%, due October 1st, 2012	1.7
Toronto-Dominion Bank, 1.30%, due September 1st, 2011	1.7
Hydro-Québec, due February 15, 2012	1.6
Caterpillar Financial Services Corp., 5.20%, due June 3, 2013	1.6
Wells Fargo Financial Canada, 5.20%, due September 13, 2012	1.6
Toyota Credit Canada Inc., 5.05%, due July 27, 2012	1.6
Royal Bank of Canada, 4.53%, due May 7, 2012	1.6
Canadian Imperial Bank of Commerce, Floating, due July 20, 2011	1.5
Canadian Imperial Bank of Commerce, Floating, due July 8, 2011	1.5
	61.4

Fund Net Asset Value \$197,567,275

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.

Allocation by Term

	% of Net Asset Value
Maturing in 1 month	24.7
Maturing in 2 months	13.1
Maturing in 3 months	15.7
Maturing in 6 months	12.4
Maturing in 1 year	15.1
Maturing in over 1 year	14.1
Cash & Other Assets	4.9

Asset Mix

	% of Net Asset Value
Corporate Bonds	33.3
Provincial Bonds	28.7
Short Term Notes	16.0
Banker's Acceptance	7.7
Commercial Papers	6.2
Canadian T-Bills	2.0
Government Bonds	1.2
Cash & Other Assets	4.9