

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

## Protected Funds

# National Bank Protected Global 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](http://www.nbc.ca/financial_reports), by visiting SEDAR's website at [www.sedar.com](http://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 Protected Global Fund returned 1.89% compared to 2.26% for the Fund's benchmark, the MSCI World Index (CA\$). Unlike the index, the Fund's performance is calculated after fees and expenses.

Global equities swung in both directions during the first half of the year, rising early on expectations of a global economic and earnings recovery but pressured lower later by a number of factors that included political unrest in the Middle East and North Africa, a triple disaster (earthquake, tsunami and nuclear meltdown) in Japan and last but not least, an increased probability of defaults in Europe.

After rising during January and February, stocks sunk deep into the red during March, following the Tohoku earthquake in Japan. However, most global stock indices managed to rally back from oversold levels during April, as investors became convinced that the quake's impact on the global supply chain will be limited. Late in the period, uncertainty related to European debt seeped back into the markets temporarily, but lifted shortly thereafter, following the adoption of austerity measures in Greece that led to a relief rally that sent most indices to end the period higher.

From a sector perspective, seven out of the ten sectors ended the period on the upside, with defensive industries such as Health Care, Telecommunications and Consumer Staples reclaiming the lead from cyclical sectors, such as Technology and Materials that sunk back into negative territory. Investors sold those economically sensitive stocks during the last three months, on signs that global economic growth was slowing. In contrast, money flowed back into defensive stocks, those that offer investors refuge during uncertain economic times. Elsewhere, Utilities shares experienced a difficult period, on reverberations from the nuclear crisis at Fukushima, while Energy and Financial shares rallied, in reaction to the release of better than expected earnings results.

Under these circumstances, the Fund outperformed, however, the level of outperformance failed to put it above the index on a gross basis. That being said, security selection within the Consumer Discretionary (BMW, Time Warner Cable and Ross Stores), Information Technology (EMC and Accenture), Financials (Allianz, Moody's and AXA) and Health Care (United Healthcare, CIGNA and Allergan) sectors contributed positively to returns. In addition, the Fund benefited from its overweight position in Health Care and its underweight in Financials, however, security selection within the Industrials sector hindered. Geographically, exposure to North America and the Pacific regions added value, while exposure to Europe was neutral. The Fund avoided a lot of the downside by not being invested in any of the so called PIGS (Portugal, Ireland, Greece and Spain) countries and by strongly underweighting European banks.

The Fund's net assets declined by \$122 million to June 30, 2011, a decrease of 12.01% from December 31, 2010. This was mainly due to the decrease in sales throughout the half.

## **Recent Developments**

During the first half of 2011, the portfolio manager repositioned the Fund to a more defensive stance, as investor sentiment appeared too complacent, amidst all the uncertainty that began engulfing the globe in March. When complacency began to turn into caution following the disaster in Japan and the resurfacing of the debt crisis in Europe, investors began adjusting their proper portfolios more defensively. Further adjustments were made in the April and May in reaction to the U.S. economic recovery hitting a soft patch and signs of further credit tightening in China rendering the Fund somewhat more defensive.

When making changes, the portfolio manager continued to focus on companies that possess strong pricing power, given that the bulk of the cost cutting that was exploited during the last couple of years in order to grow earnings has been exhausted. Notable additions to the Fund that featured companies with strong pricing power include BASF, Michelin and BMW.

Geographically, the portfolio manager continued to steer away from Japan, which remains the Fund's largest underweight. Japan is still reeling from the aftermath of the tsunami catastrophe and any recovery will be very gradual due to the intractable radiation problem and recurring power shortages that the portfolio manager expects will continue throughout the summer. Similarly, the Fund remains underweight in Europe, where the threat of sovereign defaults continues to loom large. The portfolio manager does not foresee any swift solution to this problem in the near future, given the extent of budget deficits in these regions and despite recent cuts.

Overall, preference will continue to be allocated to quality companies that are able to generate high levels of free cash flow and possess attractive valuation, two metrics that the portfolio manager thinks will provide the best margin of safety. As such, the Fund remains overweight in the Technology and Health Care sectors and underweight in the Financials and Utilities sectors.

Going forward, the portfolio manager believes that developments relating to the situation in Europe, the potential of a Chinese economic slowdown coupled with an unstable employment situation and housing market in the U.S. could have an impact on the value of the Fund.

## **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.

### **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.

### **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 shareholder's equity per share<sup>(1)</sup>

	Period ended June 30, 2011	2010 December 31	2009 December 31 (15 months)	2008 September 30	2007 September 30	2006 September 30
Shareholder's equity, beginning of year	\$ 5.81	\$ 5.65	\$ 6.19	\$ 8.27	\$ 7.78	\$ 7.60
<b>Increase (decrease) from operations</b>						
Total revenue	\$ 0.02	\$ 0.07	\$ 0.17	\$ 0.31	\$ 0.26	\$ 0.13
Total expenses	\$ (0.18)	\$ (0.31)	\$ (0.26)	\$ (0.29)	\$ (0.33)	\$ (0.30)
Realized gains (losses)	\$ 0.09	\$ 0.59	\$ (1.58)	\$ (0.89)	\$ 0.54	\$ (0.06)
Unrealized gains (losses)	\$ 0.18	\$ (0.42)	\$ 0.94	\$ (1.17)	\$ 0.15	\$ 0.46
Transaction costs on purchase and sale investments	\$ —	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ —
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.11</b>	<b>\$ (0.08)</b>	<b>\$ (0.75)</b>	<b>\$ (2.06)</b>	<b>\$ 0.60</b>	<b>\$ 0.23</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
From dividends	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
From capital gains	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Return of capital	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Shareholder's equity as at June 30, 2011 and last day of years shown</b>	<b>\$ 5.92</b>	<b>\$ 5.81</b>	<b>\$ 5.65</b>	<b>\$ 6.19</b>	<b>\$ 8.27</b>	<b>\$ 7.78</b>

<sup>(1)</sup> This information is derived from the Fund's unaudited interim financial statements and audited annual financial statement. 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.

<sup>(2)</sup> Shareholder's equity and distributions are based on the actual number of shares outstanding at the relevant time. The increase or decrease from operations is based on the weighted average number of shares outstanding over the financial period.

<sup>(3)</sup> Distributions were paid in cash or reinvested in additional shares of the Corporation, or both.

## Ratios and Supplemental Data

	Period ended June 30, 2011	2010 December 31	2009 December 31 (15 months)	2008 September 30	2007 September 30	2006 September 30
Total net asset value (000's) <sup>(1)</sup>	\$ 894	\$ 1,015	\$ 2,828	\$ 4,577	\$ 6,970	\$ 8,054
Number of shares outstanding <sup>(1)</sup>	150,932	174,781	500,490	738,441	841,876	1,035,381
Management expense ratio <sup>(2)</sup>	3.92 %	3.89 %	3.88 %	3.90 %	3.90 %	3.90 %
Management expense ratio before waivers or absorptions	6.16 %	5.71 %	5.04 %	4.52 %	4.33 %	4.34 %
Trading expense ratio <sup>(3)</sup>	— %	0.23 %	0.24 %	0.20 %	0.14 %	0.14 %
Portfolio turnover rate <sup>(4)</sup>	— %	193.59 %	101.86 %	80.22 %	70.89 %	50.88 %
Net asset value per share	\$ 5.92	\$ 5.81	\$ 5.65	\$ 6.20	\$ 8.28	\$ 7.78

<sup>(1)</sup> This information is provided as at June 30, 2011 and last day of years shown.

<sup>(2)</sup> 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.

<sup>(3)</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 period.

<sup>(4)</sup> 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 a shareholder 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 <sup>†</sup>
Investor Series	3.45%	36.23.%	63.77%

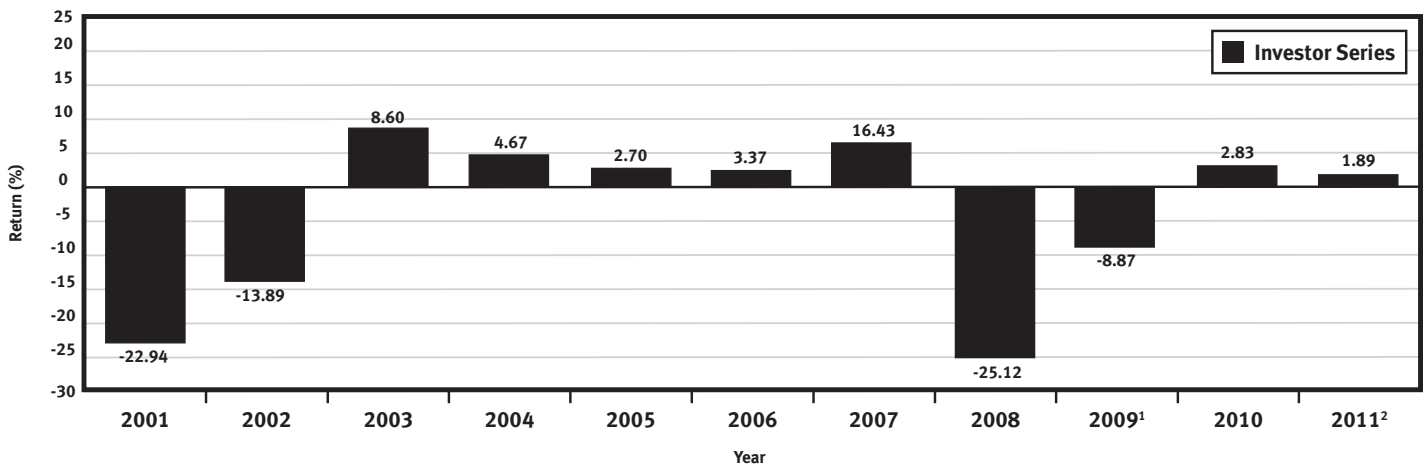
<sup>†</sup> Includes all costs related to management, investment advisory services, general administration and profit.

## 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.



<sup>1</sup> Returns for the 15-month period from October 1, 2008 to December 31, 2009.

<sup>2</sup> Returns for the period from January 1, 2011 to June 30, 2011.

# Summary of Investment Portfolio

## Portfolio Top Holdings

	% of Net Asset Value
National Bank Global Equity Fund .....	100.3
Cash & Other Assets .....	1.7
	102.0
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Fund Net Asset Value .....	\$893,954

## Weighting by Country

	% of Net Asset Value
Americas .....	61.6
Europe .....	26.3
Asia Ex-Japan .....	6.3
Japan .....	4.1
Cash & Other Assets .....	1.7

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](http://www.nbc.ca/financial_reports).

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### 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.