

National Bank Protected Funds

SECURITIES OF THE INVESTOR SERIES

Annual Information Form dated December 19, 2008

National Bank Protected Canadian Bond Fund
National Bank Protected Retirement Balanced Fund
National Bank Protected Growth Balanced Fund
National Bank Protected Canadian Equity Fund
National Bank Protected Global Fund

THE FUNDS AND THE SECURITIES DESCRIBED IN THIS ANNUAL INFORMATION FORM ARE NOT REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.

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Introduction

This Annual Information Form contains information about the National Bank Protected Funds. In this Annual Information Form, “you” and “your” refer to the investor. “We”, “our”, and “us” refer to National Bank Securities Inc., the manager of the funds. The head office of each fund is located at 1100 University, 10th Floor, Montreal, Quebec, H3B 2G7.

We refer to all of the mutual funds described herein as the “National Bank Protected Funds” or “funds” and, individually, a “fund”. If you invest in the funds, you purchase units of a trust and are a unitholder. Units are sometimes called “securities” and holders of units are sometimes called “securityholders”.

When the Funds Were Formed and Other Major Events

The National Bank Protected Funds were each created under a declaration of trust pursuant to the laws of the Province of Ontario on January 20, 1998. The funds have all issued *Investor Series* securities.

On July 23, 1999, the declarations of trust for each of the funds were amended by replacing the word “InvesNat” with “National Bank” in the names of the funds.

On July 23, 1999, Natcan Investment Management Inc. became the portfolio adviser of all the National Bank Protected Funds.

On January 29, 2001, the declarations of trust for each of the National Bank Protected Funds were amended by adding a reference to the guarantee in the investment objectives of each fund.

On April 1, 2004, Natcan Trust Company became the trustee, registrar and custodian of the National Bank Protected Funds.

As of March 31, 2005, the National Bank Protected Funds ceased to accept new subscriptions, the only units being issued by the funds since then being those issued upon a reinvestment of distributions in additional units.

On January 13, 2006, the declaration of trust of the National Bank Protected Global RSP Fund was amended by removing the word “RSP” from the name of this fund.

Investment Restrictions

Regular Practices and Restrictions

We manage the funds in accordance with applicable securities laws. Each fund has adopted the standard investment restrictions and practices imposed by law, including National Instrument 81-102 – Mutual Funds (“National Instrument 81-102”). These restrictions and practices are designed to ensure that the investments we make for each fund are diversified and relatively liquid, and to ensure that the funds are properly administered.

The investment objectives of a fund cannot be changed unless unitholders approve the change at a meeting specifically held for that purpose.

Exceptions Regarding Investment Restrictions and Regular Practices

Under National Instrument 81-107 – Independent Review Committee for Investment Funds (“National Instrument 81-107”), we established an independent review committee (“IRC”). The IRC is fully operational and complies with applicable securities legislation, including National Instrument 81-107. For more information about the IRC, please see the section entitled “Portfolio Governance – Independent Review Committee” in this Annual Information Form.

Subject to obtaining the approval of the IRC and compliance with the conditions set out in National Instrument 81-102 and National Instrument 81-107, Canadian securities legislation allows regular practices

and investment restrictions to be varied. In accordance with the requirements of National Instrument 81-102 and National Instrument 81-107, the IRC has provided its approval in respect of the following actions:

- a) purchasing or holding securities of a related issuer, including those of National Bank of Canada;
- b) investing in the securities of an issuer where an entity related to the Manager acts as an underwriter in the distribution of the securities or at any time during the 60-day period following the completion of the distribution of such securities;
- c) purchasing securities from or selling securities to another investment fund managed by the same Manager or an affiliate of the Manager;
- d) purchasing debt securities from or selling debt securities to related dealers that are principal dealers in the Canadian debt securities secondary market (in accordance with the exemption regarding debt securities described hereunder).

The Manager has implemented policies and procedures to ensure that the conditions applicable to each of the transactions noted above are met. The IRC has granted its approval in respect of such transactions in the form of standing instructions. The IRC will review these related party transactions at least annually.

Debt Securities

Each of the National Bank Protected Funds has received an exemption from the Canadian Securities Administrators to engage in certain transactions in debt securities which, without the exemption, would be prohibited. Pursuant to such exemption, a fund may, with the approval of the IRC as described in National Instrument 81-107 and subject to compliance with certain other provisions of National Instrument 81-107, purchase from or sell to related dealers that are principal dealers in the Canadian debt securities market, non-government debt securities or government debt securities in the secondary market, provided that the purchase or sale is consistent with, or is necessary to meet, the investment objectives of the Funds.

Non-exchanged Traded Related Issuer Securities

The National Bank Protected Funds have received an exemption from the Canadian Securities Administrators allowing them, provided that certain conditions are met, to purchase non-exchange traded related issuer securities on the secondary market. In particular, the investment must be approved by the IRC as described in National Instrument 81-107 and is subject to certain other provisions of National Instrument 81-107 and must be consistent with, or necessary to meet, the investment objective of the portfolio.

The National Bank Protected Funds have also filed an application for exemption with the Canadian Securities Administrators in order to be allowed to purchase non-exchange traded related issuer securities on the primary market if certain conditions are met, in particular the approval of the IRC.

Description of Securities of the Funds

The funds may issue an unlimited number of securities of any number of series. The securities of a series belong to the same class and carry equal rights and privileges. All securities of a particular series have the right to participate equally in the distributions the fund makes. When a fund is liquidated, all securities of a particular series have the right to participate equally in the assets remaining in the fund after payment of any liabilities.

Securityholders of each series are entitled to one vote per whole security at a meeting of securityholders of the particular series. Fractions of securities may be issued and they carry the same rights and privileges and are subject to the same restrictions and conditions applicable to whole securities, but do not carry any voting rights.

Since March 31, 2005, it is no longer possible for you to purchase new units of the National Bank Protected Funds or switch your units from a National Bank Protected Fund to another National Bank Protected Fund. Nonetheless, you may still receive your distributions in additional units and you may still request to redeem

units of your National Bank Protected Funds according to the procedure established by National Bank Securities.

You may redeem fund securities and switch securities from one National Bank Protected Fund to another National Bank Mutual Fund, other than a Protected Fund. However, if you switch from a National Bank Protected Fund to another National Bank Mutual Fund, other than a Protected Fund, you will lose the guarantee applicable to the National Bank Protected Funds.

The capital you invest in securities of the National Bank Protected Funds that you hold on the maturity date or your date of death is guaranteed by National Bank Life Insurance Company. This means that if the value of your fund securities has gone down 10 years after you bought them or reset your reference date, National Bank Life Insurance Company will pay you the difference between the net asset value of the securities when you bought them, and the net asset value of the securities on the maturity date, less redemptions. If you die before the maturity date and before your 70th birthday, National Bank Life Insurance Company will pay the difference between the net asset value of the securities when you bought them and the net asset value of the securities on your date of death, less redemptions. The guarantee does not apply to any securities of the funds that you redeem before the maturity date, or before your date of death if you die before the maturity date and before your 70th birthday.

As of March 31, 2005, National Bank Life Insurance Company, the insurance company who guarantees the value of your National Bank Protected Fund units, ceased to accept any voluntary reset of your reference date. Moreover, the automatic resetting of the guarantee for a 10-year period on maturity date is no longer available since March 31, 2005. Please note that the guarantees of your National Bank Protected Funds, namely the 10-year period of guarantee on the value of your National Bank Protected Funds as indicated in your account statement and the guarantee in case of death if prior to your 70th birthday, remain in force and will stay in force after March 31, 2005. However, the aforesaid guarantees will end on March 31, 2015 at the latest.

These rights may only be changed as permitted by law and the applicable declaration of trust.

Voting

The funds may hold units of an underlying mutual fund and could exercise the voting rights associated with those units. However, we may cause the voting rights attached to the units of the underlying mutual fund to be flowed through to the unitholders of the fund in proportion to the unitholders' holdings in the fund.

Investor Meetings

None of the funds hold regular meetings. We are required to convene a meeting of securityholders to ask them to consider and approve, by not less than a majority of the votes cast at the meeting (either in person or by proxy), any of the following material changes, if they are ever proposed for a fund:

- a change in the basis of the calculation of the fees or expenses charged to the fund, which may result in an increase in these charges to the fund or its securityholders, unless certain conditions under National Instrument 81-102 are met;
- the introduction of new fees or expenses to be charged to the fund, which may result in an increase in charges to the fund or its securityholders;
- a change in the fund's manager, unless the new manager is affiliated with the current manager;
- a change in the investment objectives of the fund;
- a change in the fund's auditor;
- a merger with another mutual fund or transfer of assets to another mutual fund, if, as a result:
 - the fund no longer exists; and
 - the securityholders become securityholders of the other mutual fund;

(unless the IRC of the fund has approved the change and all other conditions set forth under National Instrument 81-102 have been met, in which case securityholder approval will not be required, but a written notice will be sent to you at least 60 days before the effective date of the merger or transfer of assets);

- a merger with another mutual fund or acquisition of assets of this other mutual fund, if, as a result:
 - the fund continues to exist;
 - the securityholders of the other mutual fund become securityholders of the fund; and
 - the change would be considered material by a reasonable investor in determining whether to purchase or continue to hold securities of the fund;
- a reduction in the frequency that we calculate the fund's net asset value;
- any other matter which is required to be submitted to a vote of the securityholders by the fund's constating documents, or any other document, or by applicable law.

How we Calculate the Net Asset Value of Securities

Whether you're switching or redeeming funds, we base the transaction on the value of a fund security. The price of a security is called the "net asset value". The net asset value per security of each fund is established at 4 p.m. Eastern Standard Time (or such other time as may be determined by the trustee of the funds) on each day where the Toronto Stock Exchange is open for trading.

Here is how we calculate the net asset value per security of a fund:

- we take all the investments and other assets of the fund;
- we subtract the liabilities and its proportionate share of common fund liabilities, to give the net asset value for the fund;
- we divide that number by the total number of securities held by investors in that fund, to give the net asset value per security.

The price for redemptions of securities of a fund is the next net asset value per security determined after the receipt of the redemption order.

The price of each security of a fund will generally increase or decrease on each valuation day as a result of changes in the value of the portfolio securities owned by the fund. When distributions are declared by a fund, the net asset value of that fund will decrease by the amount of the distributions on the payment date.

National Instrument 81-106 requires that the net asset value of an investment fund be calculated using the fair value of the investment fund's assets and liabilities. However, it does not provide that the net asset value be calculated in accordance with the requirements of the Handbook of the Canadian Institute of Chartered Accountants (the "CICA Handbook"). Therefore, the Fund's valuation principles differ in certain respects from the requirements of the CICA Handbook, which provides valuation using the bid price of exchange-traded portfolio securities. As described below, we intend on using the closing price rather than the bid price to evaluate exchange-traded portfolio securities.

We use the following principles in calculating the net asset value of assets held by the funds:

- for cash, bills, demand notes and accounts receivable, prepaid expenses, cash distributions received and interest accrued and not yet received, we use their full value. If we determine that an asset is not worth its full amount, we will determine a reasonable value;
- for assets or liabilities in a foreign currency, we apply the Bank of Canada noon exchange rate to determine the value in Canadian funds. If that exchange rate is not available, we will use a rate that we determine to be appropriate;
- for bonds, debentures and other debt instruments, we use their closing price on the valuation day when available. For notes and money market instruments, we use the current market value. To determine the

current market value, we may use the cost of the investments, taking into account accrued interest which is recorded separately from the investment. We record the difference between the cost and the proceeds from the sale of short-term instruments as income;

- for securities listed on a stock exchange, we use their closing price on the valuation day when available. If none is available, we use the average of the latest ask or bid price or any other similar quote that we determine best reflects the value of the asset;
- for securities that are not listed on a stock exchange, we use the price or yield equivalent quotations that we determine best reflect the value of the asset;
- for long positions in clearing corporation options, options on futures, over-the-counter options, debt-like securities and listed warrants, we use the current market value;
- we show the premium received when a covered clearing corporation option, option on futures or over-the-counter option is written as a deferred credit. The value of the deferred credit is equal to the current market value of an option that would have the effect of closing the position. We treat any difference resulting from the revaluation as an unrealized gain or loss. We deduct the deferred credit when we calculate the net asset value of each fund;
- The value of a standardized future will be the gain or loss on the standardized future that would be realized if, on the valuation day, the position in the standardized future were to be closed, unless daily limits are in effect, in which case the value of the standardized future will be based on the current value of the underlying interest.
- for conventional mortgages, we use a method that will produce a principal amount that results in the same yield as conventional mortgages sold by major lending institutions, if such amount can be determined on a valuation day; and
- for mortgages guaranteed under the *National Housing Act* (Canada), we use the market value.

Where these principles cannot apply, for instance because there is an interruption of normal trading of a security at a securities exchange, we will determine the net asset value in a manner that we think is fair. Over the last three years, we have deviated from the foregoing principles in circumstances where there were important fluctuations of certain markets combined with closure of a specific market. For example, this kind of situation occurred in the context where the global stock markets slid significantly while the U.S. markets were closed. In such circumstances, it was determined that the last closing prices of certain types of securities traded on the U.S. market were not representative of their fair value and could therefore not be used, as would normally be the case, in the context of the daily valuation of the portfolio securities. The manager therefore had to take various facts into account to reduce the value of such securities to reflect their fair value. We have delegated responsibility for valuation of fund securities and fund accounting to Natcan Trust Company.

Purchasing, Switching and Redeeming Securities

Since March 31, 2005, the National Bank Protected Funds no longer allow the purchase of units. The only units which are issued by the funds since then are those issued upon reinvestment of distributions in additional units. However, redemptions of units of the funds and certain switches remain possible.

The National Bank Protected Fund securities referred to herein may be redeemed and switched through:

- National Bank Securities Inc., a mutual fund dealer registered in each of the provinces and territories of Canada;
- CABN Investments Inc., a mutual fund dealer in Quebec;
- National Bank Direct Brokerage Inc., a full service securities broker;
- National Bank Financial Inc. and National Bank Financial Ltd., both unrestricted practice brokers and securities advisors; and
- other registered dealers.

The minimum redemption amount for the funds is \$50. We do not charge any fee when you purchase, redeem, switch or convert securities of the funds if these transactions are completed through National Bank Securities Inc. You may have to pay fees when you purchase, redeem or transfer your securities through another registered dealer.

Partial redemptions of units of the National Bank Protected Funds lower the guaranteed amount. This amount is calculated by dividing the value of the redeemed units by the total net asset value of the units before the redemption. This amount is then multiplied by the guaranteed amount. We process partial redemptions of units in the order in which you bought them, starting with the units you purchased first.

How to Redeem Securities

If we receive your request to redeem securities before 4 p.m. Eastern Standard time at our head office, we will redeem the securities at their net asset value. If we receive your request to redeem after 4 p.m. Eastern Standard time at our head office, we will redeem the securities at their net asset value calculated on the following valuation day.

You may redeem all your securities. If you hold less than \$500 for a particular fund, you will be required to redeem your investment in that fund.

You may request the redemption of securities of your funds:

- at a branch of National Bank of Canada;
- at a branch of National Bank Financial Inc. or National Bank Financial Ltd.;
- at a CABN Investments Inc. office;
- at National Bank Direct Brokerage Inc.;
- through a registered dealer;
- by telephone; or
- over the Internet.

You may reach us at 514 871-2082 or toll free at 1 888 270-3941.

You may redeem securities of the funds by telephone or over the Internet. You may need to provide certain documents. If we need more information from you, we will let you know. You may also redeem securities of the funds in person, at your National Bank of Canada branch. We will send the money to the specified address. If you prefer, we can also deposit the money into an account with National Bank of Canada, without charge.

If you bought your securities through a registered dealer, you may instruct the dealer to send us a request to redeem securities. This request may be sent to us electronically in accordance with our requirements. Your dealer will send the request to us on the day he receives your request. We will mail the money from the redemption to the dealer or deposit it into the dealer's account, without charge.

We will pay you as soon as possible for securities redeemed, at the latest within three business days following the valuation day that is used to calculate the net asset value of the securities sold.

Under some circumstances, we may purchase back on your behalf the securities you redeemed before we pay you for the securities. This will happen if we do not receive the instructions necessary to complete the transaction within ten business days of the redemption. If we buy the securities back for less than you redeemed them for, we will pay the excess to the fund. If we purchase the securities back for more than you redeemed them for, we will collect the difference plus costs, charges and expenses from the dealer who placed the order. The dealer may have the right to collect this amount from you under the terms of your account agreement.

We do not charge any fees when you redeem securities of the fund.

When we Might Refuse to Redeem Securities

Under some exceptional circumstances, we might suspend your right to redeem your securities:

- if there is interruption of trading at a securities exchange in or outside of Canada where the fund has securities, or exposure through derivatives, representing more than 50% of its total assets, and if the securities are not traded on any other exchange that is a reasonably practical alternative for the fund; or
- if the Canadian Securities Administrators consent.

In such cases, you may withdraw your request to redeem or wait until the suspension is lifted to redeem your securities. If your right to redeem your securities is suspended and you do not withdraw your redemption request, we will redeem your securities at their net asset value determined once the suspension is lifted.

Switching Between Securities

You may redeem securities of the funds and use the proceeds to purchase securities of any National Bank Mutual Fund other than the National Bank Protected Funds, so long as you meet the minimum investment requirements for the new National Bank Mutual Fund. However, you will no longer benefit from the guarantee applicable to the National Bank Protected Funds. If the new mutual fund is offered in series, we will purchase securities of the same series as you redeemed if the requirements and minimum initial investment are met. See the features and the minimum initial investment requirements under *Purchasing, Switching and Redeeming Securities* in the Simplified Prospectus of the National Bank Mutual Fund you wish to purchase. You may have to pay fees when you switch units through a registered dealer.

The tax implications for switching between funds are the same as for redeeming funds (see *Canadian Federal Income Tax Considerations*). Switching may lead to a capital gain or loss for tax purposes in an unregistered plan.

Canadian Federal Income Tax Considerations

The following is a summary as at the date hereof of the principal Canadian federal income tax considerations generally applicable to the funds and individual unitholders (other than trusts) who, at all relevant times, are resident in Canada, deal at arm's length with the funds and hold their securities as capital property.

This is a general summary and is not intended as advice to any investor. You should seek independent advice about the income tax consequences of investing in securities of a fund and the receipt of guarantee payments and death benefits, based on your own circumstances.

This summary is based on the current provisions of the *Income Tax Act* (Canada), the regulations thereunder ("Regulations"), specific proposals to amend the *Income Tax Act* (Canada) and Regulations announced by the Minister of Finance (Canada) prior to the date of this Annual Information Form, the current published administrative practices and assessing policies of the Canada Revenue Agency ("CRA"), and a private memorandum from the CRA regarding certain tax considerations applicable to the funds. This summary does not take into account or anticipate any other changes in law whether by legislative, regulatory, administrative or judicial action. Furthermore, this summary does not take into account provincial or foreign income tax legislation or considerations.

The funds qualify, and are expected to continue to qualify at all times in the future, as mutual fund trusts under the *Income Tax Act* (Canada). This summary assumes that each of the funds will, at all material times, qualify as a mutual fund trust under the *Income Tax Act* (Canada).

How the Funds are Taxed

Each fund distributes enough net income and net realized gains to unitholders each year so that it does not have to pay income tax. If a fund does pay income tax on a net realized capital gain that is not distributed to unitholders, it may recover the income tax paid to the extent provided in the *Income Tax Act* (Canada). The

funds will not be able to deduct management fees that are in respect of insurance premiums paid by National Bank Securities Inc.

A fund cannot allocate losses to unitholders. However, it may deduct losses from capital gains and net income realized in other years, depending on the nature of the losses.

Steps have been taken to enact new tax rules that deal with investments in certain foreign entities. If the fund invests in securities of such entities, these new tax rules may require that it include in income for each year income or gains computed in accordance with certain rules in the *Income Tax Act* (Canada), whether or not any income or gain is actually realized on such securities. Any such amounts would be reflected in distributions to unitholders out of the fund's income. If enacted as proposed, the new rules will take effect for taxation years that begin after 2006.

A fund may be subject to withholding and other kinds of tax payable in other countries in which the funds have invested. Usually, you are able to claim a foreign tax credit against these taxes (see *Taxation of Unitholders*).

All of a fund's deductible expenses, including expenses common to all series of the fund and management fees and other expenses specific to a particular series of securities of the fund, will be taken into account in determining the income or loss of the fund as a whole and applicable taxes payable by the fund as a whole.

Generally, a fund will include gains and deduct losses on income account in connection with derivative activities and will recognize such gains or losses for tax purposes at the time they are realized by the fund.

Taxation of Unitholders

If you hold units in a registered plan, your income from investment is generally exempt from tax until you withdraw the money.

If you hold funds outside a registered plan, you must include the net income and the taxable portion of net realized capital gains paid or payable to you from the funds each year in your income tax return, whether you received the amounts as cash or as new units.

If the funds designate part of the income paid or payable to you as taxable dividends from a taxable Canadian corporation, these designated amounts will be considered taxable dividends received by you for the year. An enhanced dividend tax credit is available for certain eligible dividends from taxable Canadian corporations.

We also designate net taxable gains, income from foreign sources and foreign taxes paid. We do this so that you can claim any foreign tax credit to which you are entitled. Each year, we will let you know how much of these amounts are payable to you.

You may have to pay tax on net realized gains and accrued income. This is the case even if the gains accrued or were realized before you bought your units. The distribution of net gains and accrued income will lower the net asset value of your units. If we reinvest the distribution in additional units, the aggregate adjusted cost base of your units will increase. This will reduce the capital gain or increase the capital loss when you sell the units.

If the distributions you receive exceed the net income and net realized gains of the fund for the year, the surplus is considered to be a return of capital. You will not have to pay tax on the surplus. This surplus will reduce the adjusted cost base of your units.

If you hold units outside a registered plan and receive a payment from National Bank Life Insurance Company because the value of your fund securities has gone down 10 years after you bought them or reset your reference date (a "guarantee payment"), or because you die before the maturity date and before your 70th birthday (a "death benefit"), the amount of that payment will not be included in your income.

If you hold units in a registered plan and the registered plan receives a guarantee payment or death benefit from National Bank Life Insurance Company, negative tax consequences may occur. Where you hold units in a registered retirement savings plan ("RRSP") or registered retirement income fund ("RRIF") that received a death benefit, you must include the amount of that payment in your income as income from the RRSP or RRIF

in the year of death. Where you hold units in a deferred profit sharing plan ("DPSP") or registered education savings plan ("RESP") that receives a death benefit, the amount of that payment will be treated as any other amount paid to a DPSP or RESP.

Where you hold units in an RRSP or RRIF that receives a guarantee payment, there will be no net inclusion of the amount of the payment in your taxable income and no negative tax consequences to the RRSP or RRIF provided that the payment is made in the same calendar year that the right to the payment arises; however, you will be required to include the amount in computing your income and will be entitled to claim an offsetting deduction. Where you hold units in a DPSP that receives a guarantee payment, the DPSP may be immediately subject to an additional tax under the *Income Tax Act* (Canada) equal to the fair market value of the right to receive that guarantee payment, but may receive an offsetting deduction for the same amount when the payment is received. There will therefore be no negative consequences to the DPSP provided that the payment is made in the same calendar year that the right to the payment arises. Where you hold units in an RESP that receives a guarantee payment, the RESP may be subject to a penalty tax under the *Income Tax Act* (Canada), if the payment is not made before the end of the month in which it becomes payable. In addition, the RESP becomes "revocable" under the *Income Tax Act* (Canada) and may lose its status as an RESP if it receives a guarantee payment because the right to receive that amount from National Bank Life Insurance Company is not a "qualified investment" under the *Income Tax Act* (Canada) for an RESP (see below).

If you redeem your units or switch them to units of another fund, you may realize a capital gain or loss. A capital gain occurs if the proceeds from the redemption exceed the adjusted cost base of your units and any costs of sales. A capital loss occurs if the proceeds from the sale are less than the adjusted cost base of your units and any costs of sales. Generally, you must include one-half of the capital gains in your income and may deduct a capital loss from a capital gain.

You may have to pay alternative minimum tax because of gains or taxable dividends payable to you.

Everyone's tax situation is different. You should consult your tax advisor about your situation.

Eligibility of the Securities for Registered Plans

Securities of the funds described in this document are qualified investments under the *Income Tax Act* (Canada) for RRSPs, RRIFs, DPSPs and RESPs. Each of the funds is a registered investment under the *Income Tax Act* (Canada).

If you hold units in a registered plan that receives a guarantee payment, the right to receive that amount from National Bank Life Insurance Company is not a "qualified investment" for an RRSP, RRIF, DPSP or RESP under the *Income Tax Act* (Canada). The consequences of this are described above, under *Taxation of Unitholders*.

Everyone's tax situation is different. You should consult your tax advisor about your situation.

Distribution Policy

Each fund makes payments, called distributions, to its investors. Distributions consist of net income or, depending on the fund, net income and net realized capital gains. In certain circumstances, distributions may also include a return of capital. All distributions will be invested in additional units of the same fund, unless you ask us to pay them to you directly. However, if the amount to be distributed is less than \$50, it will automatically be reinvested in units of the fund in question.

Distributions paid directly lower the guaranteed amount in proportion to the amount of distributions paid. The amount of this reduction is calculated by dividing the amount of distributions paid (A) by the sum of the total net asset value of the units on the distribution date (B) and the amount of distributions paid (A) and by multiplying the result by the guaranteed amount prior to the distribution (C), as follows :

$$\text{Reduction} = \frac{A}{B + A} \times C$$

Responsibility for Mutual Fund Operations

Manager

National Bank Securities Inc., a mutual fund dealer in each of the Canadian provinces and territories, has entered into a management agreement with Natcan Trust Company, the trustee of each fund, that appoints National Bank Securities Inc. as manager of the funds. We are responsible for the management of the business and affairs of the funds.

We are also responsible for the investment decisions for the funds, but have retained the services of a portfolio adviser to assist us in discharging this duty.

Under the management agreement, we are also responsible for:

- office space and facilities;
- clerical help;
- statistical, bookkeeping and internal accounting; and
- internal auditing services.

The funds are responsible for paying us management fees. The head office of National Bank Securities Inc. is located at 1100 University Street, 10th Floor, Montreal, Quebec, H3B 2G7. Our telephone number is (514) 871-2082 or 1 (888) 270-3941. Our website is www.nbc.ca, Personal Services, Investment Solutions and our e-mail address is securities@nbc.ca.

The funds are responsible for all expenses and costs they incur, including the expenses and costs listed below:

- income taxes and other taxes;
- charges for registrar and transfer agency services;
- brokerage commissions or other fees in connection with the purchase and sale of portfolio securities;
- fees and expenses related to having the securities qualify for sale to the public in all jurisdictions;
- fees and expenses related to continuous disclosure obligations;
- distribution crediting services;
- services related to communication with securityholders;
- operating and administrative costs;
- interest expenses;
- audit and legal fees;
- insurance costs;
- bank account charges;
- safekeeping charges; and
- investor servicing costs.

The management agreement may be terminated by either party at any time with at least 60 days' notice. If a party has not respected the terms of the agreement and has not remedied the situation within 30 days of receipt of a prior notice to this effect, either party may terminate the agreement.

We cannot change the manager of a fund without the approval of the securities authorities and of a majority of the securityholders at a meeting of securityholders. We do not need such approvals to change the manager to an affiliate of National Bank Securities Inc.

Directors and Officers of National Bank Securities Inc.

Here is a list of the directors and officers of National Bank Securities Inc. We've included their names, the cities in which they live, their positions with National Bank Securities Inc. and their principal positions over the past five years.

Name and municipality of residence	Position with National Bank Securities Inc.	Principal occupation over the past five years
Charles Guay ¹ Montreal, Quebec	President and Chief Executive Officer and Director	Senior Vice-President, Marketing and Investment Solutions, National Bank of Canada. Prior thereto, Chairman of the Board, National Bank Securities Inc.; Senior Vice President, Wealth Management, National Bank of Canada; President and Chief Executive Officer, National Bank Securities Inc. and Senior Vice President, Mutual Funds, National Bank of Canada.
Marc Kneupp ¹ Montreal, Quebec	Chief Financial Officer and Director	Vice-President, Financial Performance Management Wealth Management, National Bank of Canada. Prior thereto, Executive Vice President, Finance and Administration, National Bank Securities Inc.; Vice President, Finance and Administration, Mutual Funds, National Bank of Canada; Vice President, Operational Transformation Program, National Bank of Canada.
Éric Laflamme ¹⁻² Brossard, Quebec	Chairman of the Board and Director	President and Chief Executive Officer, National Bank Trust Inc. and Natcan Trust Company and Vice-President Strategic Projects, National Bank of Canada. Prior thereto, President and Chief Executive Officer, National Bank Trust Inc. and Natcan Trust Company and Vice-President, Trust Services, National Bank of Canada; Vice-President, Personal Trust Services, National Bank Trust Inc. and Natcan Trust Company.
Martin Lavigne ¹ Boucherville, Quebec	Director	Senior Vice-President, Third Party Business Solutions, National Bank of Canada. Prior thereto, President and Chief Executive Officer, National Bank Securities Inc.; Vice-President, Mutual Funds, National Bank of Canada; Senior Vice President, Sales and Products, National Bank Securities Inc.; District Vice President, Fidelity Investments.
Jean-Denis Côté Longueuil, Quebec	Director	Corporate director.
Yanic Chagnon Boucherville, Quebec	Vice-President, Product Management	Senior Manager, Investment Solutions, National Bank of Canada. Prior thereto, Products Manager, Investment Solutions, National Bank of Canada
Renée Piette Montreal, Quebec	Chief Compliance Officer and Officer responsible of the principal establishment in Quebec	Compliance Manager, Wealth Management, National Bank of Canada.
John Shepherd Kennedy Aurora, Ontario	Provincial Compliance Officer, Ontario	Provincial Compliance Manager, Ontario, National Bank Securities Inc.
Brigitte Roby Saint-Hubert, Quebec	Manager, Registration Department	Manager, Registration and Corporate Secretary's Office, National Bank of Canada.
Réjean Lévesque ¹ Montreal, Quebec	Director	Executive Vice-President, Personal and Commercial Banking, National Bank of Canada. Prior thereto, Senior Vice-President, Electronic Payment Solutions and Operations, National Bank of Canada; Senior Vice-President, Retail Financial Solutions, National Bank of Canada; Senior Vice-President, Operational Transformation Program, National Bank of Canada; Senior Vice-President, Northern and Eastern Quebec, National Bank of Canada.
Gilles Corriveau Montreal, Quebec	Director	Vice President, Strategy, Enigma Communications Inc.

Name and municipality of residence	Position with National Bank Securities Inc.	Principal occupation over the past five years
Denis Gauthier ³ Candiac, Quebec	Director	Senior Vice-President and General Manager, Wealth Management, National Bank Financial Inc. and Ltd. Prior thereto, Senior Vice-President and Manager, National Bank Financial Inc. and Ltd; Senior Vice-President and Regional Manager, South Quebec, National Bank Financial Inc.
Edgar Arsenaault Dieppe, New Brunswick	Regional Compliance Officer, Atlantic	Mutual Fund Representative and Regional Compliance Manager (Atlantic), National Bank Securities Inc.; Compliance Manager National Bank of Canada. Prior thereto, secretary and co-owner 512879 New Brunswick Ltd, a barber.
Christophe Armantier Montreal, Quebec	Alternate Chief Compliance Officer	Senior Compliance Officer, National Bank Securities Inc. Prior thereto, Senior Analyst, Projects and Information System, National Bank Trust Inc.
Martin-Pierre Boulianne ¹ Montreal, Quebec	Corporate Secretary	Senior Manager and Assistant Secretary, National Bank of Canada. Prior thereto, Lawyer, McCarthy Tétrault LLP.
Geneviève Gagnon Montreal, Quebec	Assistant Corporate Secretary	Senior Legal Advisor, National Bank of Canada. Prior thereto, Lawyer and President, Service-Conseil GLG Inc. a consulting firm; Lawyer, Miller Thomson Pouliot s.e.n.c.r.l. and Charette Nantel Inc.; Legal Counsel, Investment Funds, Standard Life Assurance Company.
Marie-Hélène Bourque Montréal, Quebec	Assistant Corporate Secretary	Legal Advisor, National Bank of Canada. Prior thereto, articling student, with the Legal Affairs Department, National Bank of Canada; student at the Bar Association of Quebec and student at the Law Faculty of the Université de Montreal.
Nancy Paquet La Prairie, Quebec	Vice President, Advisor Distribution	Prior thereto, Manager, Wealth Management, Caisse populaire Desjardins de Saint-Augustin-de-Desmaures; Manager, BMO Harris Private Bank; Associate, Gestion conseil Caron; Senior Consultant and Mutual Fund Representative, Standard Life Ltd.
Shauna Clarke Calgary, Alberta	Alternate Alberta Compliance Officer	Sale and Service Manager, National Bank of Canada. Prior thereto, Personal Banker and Customer Service Manager, National Bank of Canada.
Pierre Laboursodière Saint-Lambert, Quebec	Vice President, Business Development	Prior thereto, Regional Manager, CIBC.
Lucio Riccio Calgary, Alberta	Alberta Compliance Officer	Regional Manager, National Bank of Canada. Prior thereto, Regional Sales Vice-President, Western Canada, Altamira Financial Services Ltd.; Sales Advisor, Altamira Financial Services Ltd.

¹. Also a director or officer of National Bank of Canada, an affiliate of the Manager providing services to the funds or the Manager in relation to the funds. The position with this affiliate is mentioned under "Principal occupation over the past five years".

². Also a director or officer of National Bank Trust Inc. and Natcan Trust Company, affiliates of the Manager providing services to the funds or the Manager in relation to the funds. The position with these affiliates is mentioned under "Principal occupation over the past five years".

³. Also a director or officer of National Bank Financial Inc. and National Bank Financial Ltd., affiliates of the Manager providing services to the funds or the Manager in relation to the funds. The position with these affiliates is mentioned under "Principal occupation over the past five years".

Portfolio Adviser

We have retained Natcan Investment Management Inc. as portfolio adviser for all the funds. National Bank of Canada owns a majority of the voting shares of Natcan Investment Management Inc. We may terminate the portfolio management agreement with Natcan Investment Management Inc. at any time. However, Natcan Investment Management Inc. will have 30 days to close our account, in order to ensure an efficient transition.

The head office of Natcan Investment Management Inc. is located at 1100 University Street, Suite 400, Montreal, Quebec, H3B 2G7. We pay Natcan Investment Management Inc. a fee based on a percentage of the net asset values of the funds it manages. The funds do not pay any fees to Natcan Investment Management Inc.

The following is a list of the directors and officers of Natcan Investment Management Inc. who are responsible for the day-to-day management of the funds. Included are their names, titles, length of service and business experience for the last five years.

Name	Title	Length of service	Previous positions in last five years
Richard Lévesque	Vice President, Money Market	Since 1993	N/A
Marc-André Lewis	Senior Vice President, Fixed Income	Since 2005	From 2004 to 2005: Trader, Internal Managers at National Bank of Canada. From 2002 to 2004: Quantitative Analyst, ALM at National Bank of Canada. From 2001 to 2002: Trader, Funding at National Bank of Canada.
Frédéric Dion	Vice President, Fixed Income	Since 2007	From 2005 to 2007: Trader/Quantitative Analyst – Macrorisk, National Bank of Canada From 2004 to 2005: Senior Trader – Foreign Reserve Management, Bank of Canada From 2003 to 2004: Economist, Bank of Canada.
Christian Cyr	Senior Vice President, Small Capitalization	Since 2000	N/A
Hélène Bond	Vice President, Canadian Equity	Since 1999	N/A
Lambros Piscopos	Senior Vice President, Global Equity	Since 2004	From 2001 to 2004: Partner and Portfolio Manager at Investors Group Investment Management.
Markus Köbler	Vice President, Global Equity	Since 2004	From 2003 to 2004: Vice President, EAFE Investments at TAL Global Asset Management Inc. From 1998 to 2003: Investment Officer, International Common Stocks at Canadian National Railway Company (CN).
Justin Nightingale	Vice President, Global Equity	Since 2004	From 2000 to 2004: Analyst, North American Equity Team & Global Financial Services Team at Investors Group Investment Management.

Our team of financial analysts researches and monitors market conditions and indexes and then provides investment guidelines to the portfolio adviser. The decisions made by these individuals are not subject to the oversight, approval or ratification of a committee.

Distributors

The National Bank Protected Funds are no longer being distributed. National Bank Securities Inc. was a distributor of the funds. As such, we had entered into distribution agreements with each fund. Under these agreements, we were responsible for decisions regarding the distribution and sale of the funds. National Bank Securities Inc., as manager of the funds, had also concluded distribution agreements with National Bank Financial Inc., National Bank Financial Ltd., National Bank Direct Brokerage Inc., CABN Investments Inc. and other dealers for the distribution of the National Bank Protected Funds.

National Bank Financial Inc. distributed funds to institutional clients throughout Canada and to retail clients in Quebec and New Brunswick and National Bank Financial Ltd. distributed funds to retail clients in all provinces in Canada except Quebec and New Brunswick.

Decisions Regarding Brokerage Arrangements

The portfolio adviser of each fund makes all decisions related to the purchase and sale of portfolio securities and the execution of those transactions, including the selection of the market and dealer and the negotiation of commissions, where applicable. Our objective is to minimize transaction costs, including commissions.

The portfolio adviser of each fund may negotiate most portfolio transactions directly with the issuer of the securities, Canadian banks or other dealers acting as principal. Brokerage fees are usually paid at the most favourable rate available to each fund, as permitted by the rules of the appropriate stock exchange, where applicable. Brokerage business may be allocated by the portfolio adviser to National Bank Financial Inc. as well as to National Bank of Canada or National Bank Direct Brokerage Inc. These transactions must be made in accordance with all regulatory requirements. The portfolio adviser is not under a contractual obligation to any party to allocate brokerage business and attempts to allocate brokerage business on an equitable basis, based on best execution, price and service.

The portfolio adviser may place orders with dealers or brokers that place orders for securities of the funds with National Bank Securities Inc., or that provide research, statistical or other services to the funds or the portfolio manager. The portfolio adviser will do this if the execution and prices offered by these dealers or brokers are comparable to the terms offered by other dealers and brokers.

Over the course of the last year, the following companies have provided certain investment decision-making services, in the nature of research analysis and reports concerning securities and portfolio strategies and statistical and other similar services to the portfolio adviser, in return for the allocation of brokerage transactions: Accountability Research, Advanced Technical Analysis, Bloomberg, Computerized Portfolio Management Services Inc., DBRS, Elliott Wave International, Equity Research Associates, Fidessa LatentZero, International Strategy & Investment Group, Jantzi Research Inc., MSCI Barra, Ned Davis Research Group, Phases & Cycles, RiskMetrics Group Inc., Standard & Poor's, Strategic Analysis, T.S. Orslan, The Gartman Letter, Thomson Reuters, Veritas, Investment Research Corporation and Yelton Fiscal Inc.

Trustee, Custodian, Registrar and Transfer Agent

Natcan Trust Company is the trustee and custodian of the funds and, as such, holds the securities and other assets of the funds. In accordance with the terms of the Custodian Agreement entered into between the National Bank Mutual Funds and Natcan Trust Company, the assets, other than foreign assets, are held by Natcan Trust Company at its head office indicated below. This agreement may be terminated by either party upon 90 days' prior notice, or immediately in the event of either party's insolvency. Sub-custodians appointed by Natcan Trust Company may hold certain assets, as provided by the sub-custodian agreement. Natcan Trust Company is also registrar and transfer agent of the National Bank Mutual Funds, in accordance with the terms of the Registrar and Transfer Agent Agreement entered into between National Bank Securities Inc. and Natcan Trust Company. This agreement may be terminated by either party upon 30 days' prior notice. The head office of Natcan Trust Company is 1100 University Street, 12th Floor, Montreal, Quebec, H3B 2G7.

Auditors

Samson Bélair/Deloitte & Touche s.e.n.c.r.l. are the auditors of the funds. The head office of Samson Bélair/Deloitte & Touche s.e.n.c.r.l. is located at 1 Place Ville-Marie, Suite 3000, Montreal, Quebec, H3B 4T9.

Conflicts of Interest

Principal Holders of Securities

As of December 1, 2008, there were no holders of more than 10% of the voting securities of any series of a National Bank Protected Fund. The following table shows the holders who owned more than 10% of the voting securities of National Bank Securities Inc. on December 1, 2008. They are the owners of record and the beneficial owners.

Investor	Name of Entity	Class or Series	Number of Securities Owned	Percentage of Series
National Bank Acquisition Holdings Inc. ¹	National Bank Securities Inc.	Class A Preferred Shares	6,286,000	100%
National Bank Acquisition Holdings Inc. ¹	National Bank Securities Inc.	Class B Preferred Shares	1,980,820	100%
Natcan Acquisition Holdings Inc. ²	National Bank Securities Inc.	Common Shares	1,230,990	100%

¹ National Bank Acquisition Holdings Inc. is a wholly-owned subsidiary of National Bank of Canada.

² Natcan Acquisition Holdings Inc., is a wholly-owned subsidiary of National Bank of Canada.

As at December 1, 2008 the percentage beneficially owned, directly or indirectly, in aggregate, by all the members of the IRC of securities of each class or series of a fund was less than 10% and of each class or series of voting or equity securities of National Bank, the manager or any company that provides services to the funds or the manager, did not exceed 0,05%.

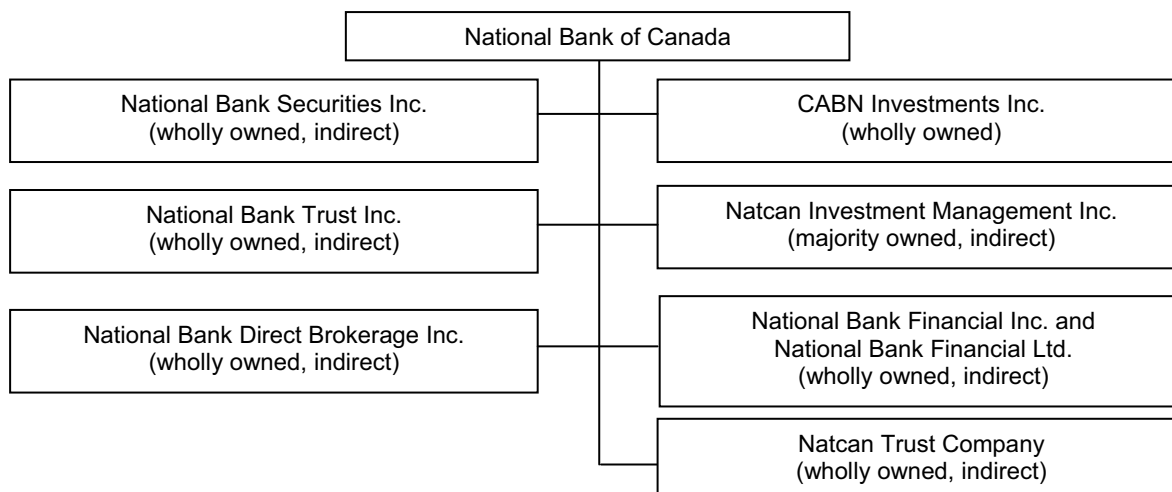
As at December 1, 2008, the percentage beneficially owned, directly or indirectly, in aggregate, by all the directors and senior officers of National Bank Securities of securities of each class or series of a fund was less than 10% and of each class or series of voting or equity securities of National Bank, the manager or any person or company that provides services to the funds or the manager, did not exceed 0,05%.

Affiliated Companies

CABN Investments Inc., National Bank Financial Inc., National Bank Financial Ltd. and National Bank Direct Brokerage Inc. are dealers through which securities will be acquired and are members of the National Bank of Canada group. They may receive commissions from or charge fees to securityholders who buy fund securities from them in the same way as any dealer that is not affiliated with us.

Natcan Investment Management Inc. is the portfolio adviser for all National Bank Protected Funds. Natcan Trust Company is the trustee, registrar, transfer agent and custodian of the funds. National Bank Trust Inc. is also a member of the National Bank of Canada group of companies. No other person or company that provides services to the funds, or to us in our capacity as manager of the funds, is affiliated with us. No particular agreement has been contracted with CABN Investments Inc., other than the one for the sale of the funds and the distribution agreement.

Please see the audited financial statements of the funds for the amount of fees paid by the funds to National Bank Securities Inc. and other affiliates.



Fund Governance

General

National Bank Securities Inc. is responsible for fund governance. In addition to the policies set out in this Annual Information Form, we comply with the standing instructions and the code of ethics of National Bank of Canada.

All employees in the National Bank of Canada group of companies must do what is best for clients and avoid conflicts of interest. These policies describe how employees must deal with conflicts of interest, privacy and confidentiality.

Policies and Practices

We are responsible for the day-to-day administration and operation of the National Bank Protected Funds. We have hired a portfolio adviser to provide investment advice and portfolio management for the funds.

We monitor securities transactions made by the portfolio adviser on a daily basis. We also comply with National Instrument 33-102 – Regulation of Certain Registrant Activities, established by the Canadian Securities Administrators. National Instrument 33-102 applies to the sale of securities by financial institutions such as the National Bank of Canada.

Independent Review Committee

As required by National Instrument 81-107, the funds have an independent review committee (“IRC”). The IRC reviews conflict of interest matters submitted by the fund manager to which the fund manager is confronted in operating the mutual funds it manages and reviews and comments on the fund manager's written policies and procedures regarding conflict of interest matters. The IRC complies with National Instrument 81-107.

The members of the IRC all have expertise in the financial services industry:

- Jean-François Bernier is Senior Vice President and Managing Director of a securities brokerage firm. He was previously Director of Capital Markets for the Quebec Securities Commission (currently the Autorité des marchés financiers). Mr. Bernier has a background as a lawyer.
- Jean Durivage was the manager of institutional investor services for a securities brokerage firm, prior to which he was Senior Vice President and corporate director of a major brokerage firm.
- André D. Godbout was Senior Executive Vice President and a corporate director of a securities brokerage firm. He has an MBA and a background as a lawyer.
- Yves Julien is a corporate financial consultant and has held a number of executive positions in a securities brokerage firm.
- Jacques Valotaire is a Fellow of the *Ordre des comptables agréés du Québec*. Having first practiced as an auditor and a consultant, he later migrated towards the insurance industry, where he held several executive positions with a prominent Canadian property and casualty insurance group.

The IRC has a written mandate describing its powers, duties and standard of care. The aggregate compensation paid to the members of the IRC of National Bank Protected Funds for the period between November 1, 2007 and September 30, 2008 was \$104,271. Such costs are allocated by the manager among all of the mutual funds managed by the manager and/or its affiliates as is considered fair and reasonable by the manager.

Pursuant to National Instrument 81-107, the IRC of the funds will assess, at least annually, the adequacy and effectiveness of the following:

- The manager's policies and procedures regarding conflict of interest matters;
- Any standing instruction the IRC has provided to the manager regarding the conflict of interest matters related to the funds;
- The compliance of the manager and the funds with any conditions imposed by the IRC in a recommendation or approval it has provided to the manager; and
- Any sub-committee to which the IRC delegated any functions.

In addition, the IRC will review and assess, at least annually, the independence and compensation of its members, its effectiveness as a committee, and the contribution and effectiveness of each member.

The IRC will prepare, at least annually, an annual activity report within the time period prescribed under National Instrument 81-107. You may obtain this report free of charge by calling us at (514) 871-2082 or, toll-free, at 1 (888) 270-3941 or by asking your dealer. You may also obtain a copy of this report by visiting our Website at www.nbc.ca, by sending an email to National Bank Securities at securities@nbc.ca or by visiting the Website www.sedar.com.

Risk Management

We use a variety of methods to manage risk, including:

- mark-to-market security valuation;
- fair-value accounting;
- effective exposure reporting;
- daily reconciliation of cash balances; and
- monthly reconciliation of security positions.

Policies for Derivative Transactions

The funds may use derivative instruments that are consistent with their investment objectives and not contrary to their investment restrictions, to the extent, and for the purposes, permitted by Canadian Securities Administrators from time to time.

The manager is responsible for setting policies that set out the objectives and goals for the use of derivatives by the funds as well as the risk management procedures applicable to the use of derivatives. The portfolio adviser or another affiliate of the manager engaged to manage the use of derivatives by the funds (either, the "Derivatives Specialist") will be required to comply with the policies set by the manager with respect to the use of derivatives and adopt procedures related to the measuring, monitoring and reporting of fund leverage and cash cover requirements. Any derivative trade entries must be reviewed at the time of the initial entry by a qualified staff member of the Derivatives Specialist. All derivative instruments will be checked specifically by the Derivatives Specialist for compliance with derivatives rules and to ensure that they are suitable for a portfolio within the context of that portfolio's investment objectives and strategies. The Derivatives Specialist will be required to comply with any trading limits and other controls established by the manager for the use of derivatives by the funds.

Valuation of derivative securities will be carried out on each valuation date. On a daily basis, the Derivatives Specialist will review any variations in the value of an instrument held by the funds. Variations beyond a prudent threshold level will result in a review of the pricing of the individual instrument to verify the accuracy of the price.

The manager will review, at least annually, the policies and procedures regarding the use of derivatives by the funds to ensure the risks associated with these transactions are being properly managed.

Securities Lending Operations, Repurchase Agreements and Reverse Repurchase Agreements

National Bank Securities Inc. hopes to enter into a mandate agreement in connection with securities lending operations, repurchase agreements and reverse repurchase agreements (the “agreement”) on behalf of the National Bank Protected Funds with the custodian of the funds, Natcan Trust Company (the “agent”), as agent, to manage securities lending operations, repurchase agreements and reverse repurchase agreements for the National Bank Protected Funds.

The agreement will comply with the relevant provisions of National Instrument 81-102. National Bank Securities Inc. manages the risks associated with securities lending operations, repurchase agreements and reverse repurchase agreements. The agreement will also provide that the agent must:

- engage in securities lending operations, repurchase agreements and reverse repurchase agreements with dealers and institutions in Canada and abroad, having solid credentials and having first undergone a stringent credit evaluation (the “counterparts”);
- maintain controls, procedures and internal books, including a list of approved counterparts based on generally accepted solvency standards, limits pertaining to operations and credit for each counterpart and diversification standards for property given as security; and
- determine daily the market value of the securities lent by a fund in connection with a securities lending operation or sold by a fund in connection with a repurchase agreement and the liquid assets or other securities held by the fund. In the event the value of the security is less than 102% of the market value of the lent or sold securities, the agent will ask the counterpart to provide other liquid assets or securities given as security to the fund to cover the shortage.

At least once a year, National Bank Securities Inc. will review these policies and procedures so that the risks associated with lending operations, repurchase agreements and reverse repurchase agreements are duly managed.

Proxy Voting

Natcan Investment Management Inc., as portfolio adviser for the funds, manages the proxy voting on behalf of the funds in accordance with detailed guidelines established in its proxy voting policy. Natcan Investment Management Inc. has adopted this policy to ensure that all votes in respect of securities held by its clients are exercised in accordance with the best interests of its clients. The following description is a summary of such policy.

Natcan Investment Management Inc. has retained RiskMetrics Group Inc. to provide in-depth analysis and voting recommendations with respect to all proxy proposals. RiskMetrics Group Inc. is a leading authority on proxy voting and corporate governance issues in Canada, and provides advisory and voting services to leading pension funds, investment managers and other institutional shareholders.

Natcan Investment Management Inc. thoroughly reviews and considers the recommendations of RiskMetrics Group Inc. and generally votes as recommended by it, though in some cases Natcan Investment Management Inc. may decide to vote differently in the best interests of shareholders.

In order to balance the interests of clients in exercising proxies with a desire to avoid conflicts of interests or the perception of conflicts of interests, Natcan Investment Management Inc. has adopted a Code of Ethics and Standards of Professional Conduct. These standards will allow the firm to respect its fiduciary duty as well as set guidelines for the voting of proxies in accordance with Natcan Investment Management Inc.’s business judgement, uninfluenced by considerations other than the best interests of shareholders, free from any influence by National Bank and without taking into account any consideration relevant to National Bank or any of its associates or affiliates.

Natcan Investment Management Inc. has also established guidelines to help determine when to support or oppose a proposal by a corporation or a shareholder. Such guidelines relate namely to issues concerning the board of directors (including its size and composition, mandate, separation of roles, cumulative voting and nomination processes), board committees, auditors, management and director compensation (including incentive plans, CEO and senior executive compensation, golden parachutes and stock option plans), capital

structure, various takeover protection measures, various shareholders' rights issues, disclosure policies and corporate social responsibility. While Natcan Investment Management Inc. will generally vote in accordance with the guidelines, there may be circumstances where it believes it is in the best interests of shareholders to vote differently. The ultimate direction in which proxies will be voted rests entirely with Natcan Investment Management Inc., in the best economic interest of shareholders.

Due to the volume and diversity of securities held by its clients, Natcan Investment Management Inc. has retained RiskMetrics Group Inc. to provide administrative services as a proxy voting agent. Natcan Investment Management Inc. has adopted proxy voting procedures to ensure that clients' proxies are voted by RiskMetrics Group Inc. in accordance with Natcan Investment Management Inc.'s decision.

A copy of Natcan Investment Management Inc.'s proxy voting policy may be obtained on request, at no cost, by calling toll free 1 888 270-3941 or by e-mailing securities@nbc.ca. Any securityholder may also obtain, free of charge, any of the funds' proxy voting records for the most recent period ended June 30, upon request at any time after August 30 of this year. The policy and proxy voting records are also available on National Bank of Canada's website www.nbc.ca.

Conflicts of Interest

The National Bank Protected Funds may be subject to various conflicts of interest given that Natcan Investment Management Inc., the portfolio adviser, is involved in many management and advisory activities. It makes investment decisions or gives advice relating to assets of any fund independently of other clients or its own investments, if any. However, Natcan Investment Management Inc. may make the same investment or give the same advice for a fund and one or more of its other clients. It may sell a security for one client and buy it for another at the same time. Natcan Investment Management Inc. or its employees may have an interest in securities bought or sold for a client.

Where there is a limited supply of a security, Natcan Investment Management Inc. uses its best efforts to divide investment opportunities fairly, but cannot guarantee absolute equality. In some cases, these and other conflicts of interest could adversely affect one or more funds.

Legal and Administrative Proceedings

On May 9, 2008, a motion to institute proceedings was filed with the Superior Court of Quebec, District of Montréal, by Mr. Robert Beauregard and 4779263 Canada Inc. (collectively the "Plaintiffs") against Natcan Investment Management Inc., National Bank of Canada, 9130-1564 Québec inc., National Bank Securities Inc. and Pascal Duquette (collectively the "Defendants"). The Plaintiffs are suing the Defendants for wrongful dismissal and illegitimate removal as a shareholder, for an approximate amount of \$22,200,000. The National Bank Protected Funds are not involved in this lawsuit.

Material Contracts

The material contracts entered into by the funds are as follows:

- the amended and restated Master Declaration of Trust dated as of May 4, 2006;
- the Master Management Agreement dated May 4, 2006, as amended May 16, 2008, between the trustee, National Bank Funds Corporation and National Bank Securities Inc., described under the heading *Manager*;
- the Discretionary Portfolio Management Agreement between National Bank Securities Inc. and Natcan Investment Management Inc. dated May 4, 2006, described under the heading *Portfolio Manager*; and
- the Custodian and Depositary Agreement dated May 4, 2006 between each of the National Bank Mutual Funds and Natcan Trust Company, described under the heading *Trustee, Custodian, Registrar and Transfer Agent*.

You can examine any of these agreements during regular business hours at the following address:

National Bank Securities Inc.
National Bank Securities Advisory Service
1100 University Street, 10th Floor
Montreal (Quebec) H3B 2G7

Internet Site

We provide an Internet site to our clients and, to this end, we have taken steps to ensure that the site is equipped with security features to ensure the confidentiality of transactions. We have also taken steps to comply with the rules of the Canadian Securities Administrators, including rules relating to trading on the Internet and electronic delivery of documents.

National Bank Protected Funds

National Bank Securities Inc.
1100 University Street, 10th Floor
Montreal (Quebec) H3B 2G7
Telephone : 514 871-2082 or toll free 1 888 270-3941

Additional information about the National Bank Protected Funds is available in the funds' management reports of fund performance and financial statements.

You can get a copy of these documents, at your request and at no cost, by calling toll free 1 888 270-3941, from your dealer or by e-mail at securities@nbc.ca.

These documents and other information about the National Bank Protected Funds, such as information circulars and material contracts, are also available on the National Bank of Canada website www.nbc.ca or at www.sedar.com.