

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended December 31, 2020

Short Term and Income Fund

NBI Income Fund

Notes on forward-looking statements

This report may contain forward-looking statements concerning the Fund, its future performance, its strategies or prospects or about future events or circumstances. Such forward-looking statements include, among others, statements with respect to our beliefs, plans, expectations, estimates and intentions. The use of the expressions "foresee", "intend", "anticipate", "estimate", "assume", "believe" and "expect" and other similar terms and expressions indicate forward-looking statements.

By their very nature, forward-looking statements imply the use of assumptions and necessarily involve inherent risks and uncertainties. Consequently, there is a significant risk that the explicit or implicit forecasts contained in these forward-looking statements might not materialize or that they may not prove to be accurate in the future. A number of factors could cause future results, conditions or events to differ materially from the objectives, expectations, estimates or intentions expressed in such forward-looking statements. Such differences might be caused by several factors, including changes in Canadian and worldwide economic and financial conditions (in particular interest and exchange rates and the prices of other financial instruments), market trends, new regulatory provisions, competition, changes in technology and the potential impact of conflicts and other international events.

The foregoing list of factors is not exhaustive. Before making any investment decision, investors and others relying on our forward-looking statements should carefully consider the foregoing factors and other factors. We caution readers not to rely unduly on these forward-looking statements. We assume no obligation to update forward-looking statements in the light of new information, future events or other circumstances unless applicable legislation so provides.

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1-888-270-3941 or 514-871-2082, by writing to us at National Bank Investments Advisory Service, 500, Place d'Armes, 12th floor, Montreal, Quebec, H2Y 2W3, by visiting our website at www.nbinvestments.ca, by visiting SEDAR's website at www.sedar.com, or by contacting your advisor. You may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Management Discussion of Fund Performance

Investment Objective and Strategies

The NBI Income Fund's investment objective is to achieve a reasonably high return (higher than that for five-year guaranteed investment certificates) and income for the investor by investing mainly in fixed income securities. The Fund invests primarily in Canadian (federal and provincial) government bonds and investment grade corporate bonds.

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

Risks

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

Results of Operations

For the twelve-month period ended December 31, 2020, the NBI Income Fund returned 8.82% compared to 8.68% for the Fund's benchmark, the FTSE Canada Universe Bond Index (CAD). Unlike the benchmark, the Fund's performance is calculated after fees and expenses.

The Fund's net asset value rose by 4.37% over the period, from \$105.24 million as at December 31, 2019 to \$109.84 million as at December 31, 2020.

Bond markets were certainly impacted by the COVID-19 pandemic but performed well amid significant monetary easing. Corporate credit spreads relative to government bonds blew out in March, as the economic shutdown threatened corporate health and liquidity seized up in the tumultuous market environment. However, they returned relatively rapidly near pre-pandemic levels, as quantitative easing programs helped support credit markets and market sentiment improved.

These developments caused the 10-year Canada bond yield to drop by 100 bps to 0.68% and the yield curve (short-term bond yields vs their long-term peers) to steepen, allowing the FTSE Canada Universe Bond Index to generate a return of 8.68% for 2020. Municipal and provincial bonds for their part, outperformed corporate and federal bonds, yielding 10.13% and 9.86% respectively, compared to 8.74% and 7.28% for the other two asset classes. However, the big winners for the period were long-term issues which outperformed those with shorter maturities.

Among corporate bonds, BBB-rated issuers also stood out higher rated issuers. On a sector basis, Infrastructure and Communications outperformed other sectors, gaining 10.44% and 10.49% respectively, while securitized securities and financial sector-related securities lagged behind with 6.53% and 6.91%.

In this context, the Fund outperformed its benchmark for the period. Being underweight federal bonds was a source of value added, as they underperformed in 2020. Taking advantage of credit spreads movements between corporate and government bonds, yield curve positioning, and higher returns of the Fund's holdings relative to the benchmark, were also positive contributors. However, the shorter duration positioning detracted value as rates declined sharply. On the sectorial front, selection in Communication Services issuers was profitable while the one in Industrial names has been detrimental. Selection in municipal bonds also detracted some value but it was offset somewhat by strong selection in the provincial space.

Recent Developments

The portfolio manager expects the global economy to continue to heal and stabilize at reasonably healthy levels, with the sheer abundance of monetary and fiscal stimulus acting as a critical source of support even as the coronavirus continues to circulate across the globe. Economic gains have been driven by the factory sector that's demonstrated a growing resilience to the pandemic, thanks to the synchronous recovery in global demand and trade flows. Factory strength has counteracted a more tepid revival in the services sector that's been plagued by the latest spike in Covid cases and the flood of new restrictions that have been aimed at the high-touch services space.

While it goes without saying that the latest virus trends are worrisome, there are reasons for optimism. The unrelenting backstop from both central banks and governments has been and will continue to be instrumental in guiding the economy back to health. Moreover, the end of the pandemic is now in sight. In November, three vaccine candidates revealed positive results in clinical trials and inoculations began in December. While widespread distribution and vaccination will take some time, there now appears to be a light at the end of the tunnel.

As such, while the recovery may be restrained in the near-term, it won't be derailed, and a profound economic revival is almost certain to unfold in the coming year. As populations get inoculated and large parts of the global economy reopen, the powerful revitalization in consumer and business confidence should unleash massive amounts of pent-up demand and set the stage for an impressive rebound in activity in the latter part of 2021.

Under these circumstances, the pace of economic activity may improve, inflation expectations should rise, the U.S. dollar could weaken, and commodity prices may rise.

During the period, the portfolio manager increased exposure to provincial and corporate bonds, while decreasing exposure to federal bonds. He reduced the weighting of AAA-rated bonds in favour of A-rated bonds. Exposure to Infrastructure and Real Estate sectors has also been raised at the expense of Industrials.

At the end of the year, the Fund had an underweight exposure to federal bonds while being overweight municipals and corporates. It had a slightly longer duration than the index, as the portfolio manager expects that bond yields may slightly decline on the short-term horizon given the potential for economic disappointment.

On April 30, 2020, the Fund's independent review committee (the "IRC") was reduced to three members when Jacques Valotaire and Jean-François Bernier resigned as IRC members. On July 1, 2020, the Fund's IRC was increased to four members when Marie Desroches was appointed as IRC member.

Related Party Transactions

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

Trustee, Custodian, and Registrar

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

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

Agent for securities lending transactions

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

Fund Manager

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

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

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

Distribution and Dealer Compensation

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

Independent Review Committee Approvals and Recommendations

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

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

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

Registered Plan Trust Services

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

Administrative and Operating Services

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

Management Fees

The Fund pays annual management fees to the Fund manager for its management services. The fees are calculated based on a percentage of the Fund’s daily net asset value before applicable taxes and are paid on a monthly basis. A portion of the management fees paid by the Fund covers maximum annual trailer fees and sales commissions paid to brokers. The remainder of the management fees primarily covers investment management and general administration services. The breakdown of major services provided in consideration of the management fees, expressed as an approximate percentage of the management fees is as follows:

Series	Management Fees	Distribution	Others [†]
Investor Series	1.00%	50.00%	50.00%

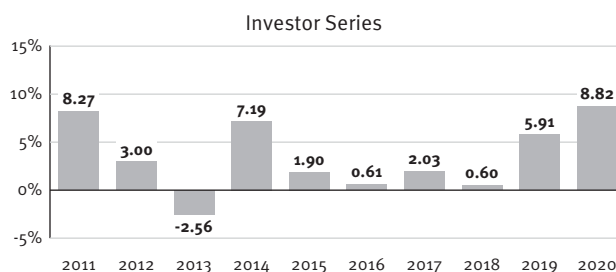
^(†) Includes all costs related to management, investment advisory services, general administration and profit.

Past Performance

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

Annual Returns

The bar chart indicates the performance for the Fund’s series during the years shown, and illustrates how the performance has changed from year to year. It shows, in percentage terms, how much an investment made on January 1 (or made commencing from the start of the series) would have grown or decreased by December 31 of that year, or by June 30, as applicable.



Annual Compounded Performance

The following table shows the Fund’s annual compound returns for each series in existence greater than one year and for each of the periods ended on December 31, 2020, compared with the following benchmark:

- FTSE Canada Universe Bond Index (CAD)

NBI Income Fund

	1 year	3 years	5 years	10 years	Since inception
Investor Series ¹	8.82%	5.06%	3.54%	3.52%	–
Benchmark	8.68%	5.61%	4.19%	4.49%	–

¹Commencement of operations: February 19, 1970

A discussion of the Fund’s relative performance in comparison to the index (or indices) can be found in the *Results of Operations* Section of this report.

Index Description

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

Financial Highlights

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

Investor Series

Net Assets per Unit⁽¹⁾

Commencement of operations: February 19, 1970

Accounting Period Ended	2020	2019	2018	2017	2016
	December 31	December 31	December 31	December 31	December 31
Net Assets, Beginning of Accounting Period Shown ⁽⁴⁾	8.83	8.50	8.62	8.65	8.77
Increase (Decrease) from Operations (\$)					
Total revenue	0.26	0.27	0.27	0.26	0.27
Total expenses	(0.10)	(0.10)	(0.09)	(0.10)	(0.10)
Realized gains (losses)	0.21	0.12	(0.06)	0.10	0.03
Unrealized gains (losses)	0.40	0.22	(0.08)	(0.08)	(0.13)
Total Increase (Decrease) from Operations (\$) ⁽²⁾	0.77	0.51	0.04	0.18	0.07
Distributions (\$)					
From net investment income (excluding dividends)	0.16	0.17	0.17	0.16	0.18
From dividends	—	—	—	—	—
From capital gains	0.13	—	—	0.04	—
Return of capital	—	—	—	—	—
Total Annual Distributions (\$) ⁽³⁾	0.29	0.17	0.17	0.20	0.18
Net Assets, End of Accounting Period Shown (\$) ⁽⁴⁾	9.31	8.83	8.50	8.62	8.65

Ratios and Supplemental Data

Accounting Period Ended	2020	2019	2018	2017	2016
	December 31	December 31	December 31	December 31	December 31
Total net asset value (000's of \$) ⁽⁵⁾	109,843	105,242	108,940	126,617	146,559
Number of units outstanding ⁽⁵⁾	11,797,360	11,917,343	12,810,482	14,687,899	16,937,290
Management expense ratio (%) ⁽⁶⁾	1.11	1.11	1.11	1.11	1.11
Management expense ratio before waivers or absorptions (%)	1.11	1.11	1.12	1.12	1.30
Trading expense ratio (%) ⁽⁷⁾	—	—	—	—	—
Portfolio turnover rate (%) ⁽⁸⁾	127.79	106.48	94.44	172.86	350.92
Net asset value per unit (\$)	9.31	8.83	8.50	8.62	8.65

⁽¹⁾ This information is derived from the Fund's Annual Audited Financial Statements. The net assets per unit presented in the financial statements might differ from the net asset value calculated for fund pricing purposes. The differences are explained in the notes to the financial statements.

⁽²⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase or decrease from operations is based on the average number of units outstanding over the accounting period.

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

⁽⁴⁾ The net assets are calculated in accordance with IFRS.

⁽⁵⁾ This information is provided as at the last day of the accounting period shown.

⁽⁶⁾ Management expense ratio is based on total expenses including sales taxes for the accounting period indicated (excluding commission, other portfolio transaction costs and withholding taxes) and is expressed as an annualized percentage of daily average net value during the accounting period.

⁽⁷⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the accounting period. The trading expense ratio includes, if necessary, the trading expenses from its underlying funds, as described in Article 15.2 of Regulation 81-106.

⁽⁸⁾ The Fund's portfolio turnover rate indicates how actively the Fund portfolio's manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the accounting period. The higher a Fund's portfolio turnover rate in an accounting period, the greater the trading costs payable by the Fund in the accounting period, and the greater the chance of an investor receiving taxable capital gains in the accounting period. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

Summary of Investment Portfolio

As of December 31, 2020

Portfolio Top Holdings

	% of Net Asset Value
Province of Ontario, 4.65%, due June 2, 2041	3.0
Province of Ontario, 2.60%, due June 2, 2027	2.9
Government of Canada, 0.50%, due September 1, 2025	2.3
Province of Ontario, 2.90%, due June 2, 2028	2.1
Province of Ontario, 4.70%, due June 2, 2037	2.1
Province of Ontario, 5.60%, due June 2, 2035	2.1
Government of Canada, 2.00%, due December 1, 2051	1.6
Province of Ontario, 2.65%, due December 2, 2050	1.3
Province of Alberta, 2.90%, due December 1, 2028	1.2
Province of Quebec, 4.25%, due December 1, 2043	1.2
Royal Office Finance LP, 5.21%, due November 12, 2032	1.2
Province of Ontario, 3.50%, due June 2, 2043	1.1
Canada Housing Trust, 2.35%, due June 15, 2023	1.0
Sun Life Financial Inc., 2.58%, due May 10, 2032	0.9
Province of Saskatchewan, 2.20%, due June 2, 2030	0.9
Province of Ontario, 2.70%, due June 2, 2029	0.9
Toronto-Dominion Bank, Floating, due April 22, 2030	0.8
Province of Alberta, 2.05%, due June 1, 2030	0.8
Province of Alberta, 3.10%, due June 1, 2050	0.8
Province of Ontario, 2.05%, due June 2, 2030	0.8
TransCanada Pipelines Ltd., 3.80%, due April 5, 2027	0.8
Province of Ontario, 2.60%, due September 8, 2023	0.7
Province of Quebec, 5.00%, due December 1, 2038	0.7
TransCanada Pipelines Ltd., 8.05%, due February 17, 2039	0.7
Cash, Money Market and Other Net Assets	0.5
	32.4

Net asset value \$109,843,435

Asset Mix

	% of Net Asset Value
Canadian Corporate Bonds	38.2
Provincial Bonds	36.0
Federal Bonds	10.6
Municipal Bonds	10.6
US Bonds	2.3
Asset Backed Securities	1.0
Mortgage Backed Securities	0.8
Cash, Money Market and Other Net Assets	0.5

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

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the investment Fund. A quarterly update is available. Please consult our Web site at www.nbinvestments.ca.