

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended December 31, 2019

Fixed Income Private Portfolio

NBI Canadian Diversified Bond Private Portfolio

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 Canadian Diversified Bond Private Portfolio's investment objective is to provide a high level of current income and sustained capital growth. The Fund invests, directly or through investments in securities of other mutual funds, in a portfolio consisting primarily of Canadian government and corporate bonds across a range of maturities.

The portfolio manager selects securities following an in-depth credit analysis of each security and an assessment of the risk profile, relative return and economic outlook. Once the security selection is complete, the portfolio manager ensures the portfolio is diversified across the different maturities. It is expected that investments in debt securities of foreign companies will not exceed approximately 40% 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, 2019, the NBI Canadian Diversified Bond Private Portfolio's Advisor Series units returned 5.98% compared to 6.87% 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. Please see the *Past Performance* section for the returns of all of the Fund's series, which may vary mainly because of fees and expenses.

The Fund's net asset value rose by 168.76% over the period, from \$155.05 million as at December 31, 2018 to \$416.72 million as at December 31, 2019.

The increase stemmed mainly from unit purchases by investors in the Fund.

Global bonds benefitted from the major uncertainty brought on by the trade war and the associated volatility in equity markets. Investors, unsure of what President Trump would tweet each day, were weary of market volatility and thus the safety of government bonds was an enticing solution. The second and third quarters of the year were particularly strong ones for global bonds, as the market saw no end in sight to the trade war. However, the asset class gave back some gains in the fourth quarter as some concrete solutions on the U.S.-China trade front began to appear, and a rotation back into risk assets saw capital flow into equity indices, many of which recorded record highs just before the end of the year.

Despite some losses in the fourth quarter, by year's end global bonds were still an impressive asset to own, though more so in the corporate and high yield bond space rather than government debt. Within government issues, European periphery bonds were some of the best performers as 10-year bond yields in Italy and Greece fell by 130 and 290 basis points, respectively, with Portugal not far behind. Mexican 10-year bond yields lost 177 bps and, notably, those of Australia lost just over 100. U.S. 10-year yields ended the year down 77 bps after reaching a bottom of 1.46% in September, while Canadian 10-years lost just 27, with its lowest point of 1.09% achieved in August. Emerging market debt also performed well with some USD denominated issues gaining as much as 15%.

During the period, the U.S. and Canadian yield curve inverted in March for the first time since 2007, reaching its most prominent inversion in August before returning to its usual self towards the end of the year. In U.S., corporate bonds outperformed their government peers as credit spreads tightened by 59 bps while high yield did even better as spreads narrowed by 172 bps. Sector wise, Telecoms and Banks outperformed whereas Utilities underperformed.

In Canada, the overall Canadian Bond Universe Index ended 2019 with a return of 6.87%. With interest rates lower on the year, all sectors posted gains for the period. High yield bonds (lower than BBB-rated) outperformed other corporate bonds, returning about 10.4% all in, compared to 8.1% for all Canadian corporate bonds. Sector wise, the Energy and Infrastructure sectors led the other sectors, gaining respectively 11.2% and 11.4% whereas Securitized assets and the Financial sector underperformed, gaining however 4.7% and 5.2%. Provincials and municipals largely outperformed federal bonds as well as longer-term issues overall.

Under these circumstances, the Fund underperformed the benchmark. Being underweight federal bonds was a source of value added, as they lagged due to the risk-on atmosphere. Spread movements and an overweight in corporate bonds were the largest positive catalysts to performance and value added. However, duration positioning detracted value. Within corporate bonds, names in the Financials and Energy sectors provided major value this year.

Recent Developments

During the year, the portfolio manager increased the Fund's exposure to provincial bonds while decreasing exposure to federal bonds. The portfolio manager increased the weighting in AA-rated bonds while reducing the weighting in AAA-rated bonds. The Fund's weighting in Energy and Telecoms was also increased at the expense of banks. The Fund still has a shorter duration than the benchmark, remains underweight federal bonds and overweight municipals and corporate securities.

A tentative U.S./China trade deal has lifted immediate concerns about global economic conditions but the lingering impact of trade uncertainty and the limited scope of the apparent deal will continue to weigh on business conditions. Manufacturing and business investment remain weak. In Canada, the passage of the USMCA trade agreement will bring some relief on this front. The portfolio manager believes moderate overall growth should continue, including a modest lift from federal tax cuts and spending. With inflation running near target, the portfolio manager expects the Bank of Canada to remain in wait-and-see mode before adding stimulus to the economy but is biased to easing should growth disappoint. In this environment, the portfolio manager does not expect to see significant upward pressure on longer term bond yields from current levels. The Canadian consumer is fatigued with high debt loads, Canadian fiscal policy is mildly stimulative and monetary policy is neutral but could shift to be more accommodative in coming months. Rising commodity prices (especially oil) will be a positive. All in all, Canada should avoid recession this year. Core inflation in Canada remains elevated but should reverse in coming months.

The low yield environment is set to continue and the portfolio manager believes demand for higher yielding investments will remain a dominant theme in 2020. However, credit spreads have narrowed from earlier attractive levels and provide less break-even protection than in the recent past. Given the elevated state of economic and geopolitical risks, the portfolio manager could see increased volatility going forward and will remain disciplined at managing credit risk exposures.

On April 30, 2019, the Fund's independent review committee (the "IRC") was reduced to three members when André Godbout resigned as an IRC member. On May 22, 2019, the Fund's IRC was increased to five members when Norman Turnbull and Robert Martin were appointed as IRC members.

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 Manager pays the operating expenses of the Fund other than its “Fund costs” (defined below) (the “variable operating expenses”), in exchange for the Fund’s payment to the Manager of annual fixed-rate administration fees with respect to each series of the Fund.

The administration fees are equal to a specified percentage of the net asset value of each series of the Fund, calculated and paid in the same manner as the Fund’s management fees. The variable operating expenses payable by the Manager include, but are not limited to: transfer agency and recordkeeping costs; custodial costs; accounting and valuation fees; audit fees and legal fees; costs of preparing and distributing financial reports, simplified prospectuses, annual information forms, Fund Facts, continuous disclosure material and other securityholder communications; and costs of trustee services relating to registered tax plans, as applicable.

In addition to administration fees, the Fund shall also pay certain Fund costs, namely: taxes (including, but not limited to, GST/HST and income taxes); costs of compliance with any changes to existing governmental or regulatory requirements introduced after August 1, 2013; costs of compliance with any new governmental or regulatory requirements, including any new fees introduced after August 1, 2013; interest and borrowing costs; costs related to external services that were not commonly charged in the Canadian mutual fund industry as at August 1, 2013; Independent Review Committee costs, including compensation paid to IRC members, travel expenses, insurance premiums and costs associated with their continuing education; and variable operating expenses incurred outside of the normal course of business of the Fund.

The Manager may, from time to time and at its sole discretion, decide to absorb a portion of a series’ management fees, administration fees or Fund costs.

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

Distribution and Dealer Compensation

National Bank Financial Inc. (“NBF”) acts as principal distributor for the Fund. NBF may receive, depending on the distributed series, a monthly commission representing a percentage of the average daily value of the securities held by its 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:

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

The Manager has implemented policies and procedures to make sure that the conditions applicable to each of the above transactions are met. The applicable standing instructions require that these transactions be carried out in accordance with 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

NBT 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 [†]
Advisor Series			
Front-end load	0.85%	76.47%	23.53%
Series F	0.37%	—	100.00%

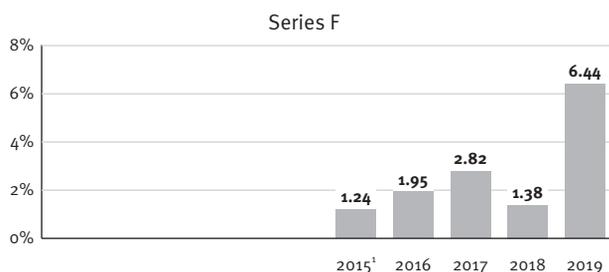
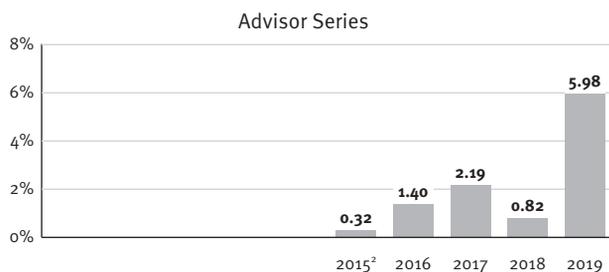
^(†) Includes all costs related to management, investment advisory services, general administration and profit.

Past Performance

The performance of each series of the Fund is presented below and 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 charts indicate the performance for each the Fund's series in existence greater than one year during the years shown, and illustrate how the performance has changed from year to year. They show, 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.



⁽¹⁾ Returns for the period from May 21, 2015 (commencement of operations) to December 31, 2015.

⁽²⁾ Returns for the period from July 14, 2015 (commencement of operations) to December 31, 2015.

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, 2019, compared with the following benchmark:

- FTSE Canada Universe Bond Index (CAD)

NBI Canadian Diversified Bond Private Portfolio

	1 year	3 years	5 years	10 years	Since inception
Advisor Series¹	5.98%	2.97%	–	–	2.38%
Benchmark	6.87%	3.57%	–	–	3.33%
Series F²	6.44%	3.52%	–	–	2.98%
Benchmark	6.87%	3.57%	–	–	3.50%

¹Commencement of operations: July 14, 2015

²Commencement of operations: May 21, 2015

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 reflects 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.

Advisor Series

Net Assets per Unit⁽¹⁾

Commencement of operations: July 14, 2015

Accounting Period Ended	2019 December 31	2018 December 31	2017 December 31	2016 December 31	2015 December 31
Net Assets, Beginning of Accounting Period Shown ⁽⁴⁾	9.83	9.95	9.92	9.97	10.00
Increase (Decrease) from Operations (\$)					
Total revenue	0.29	0.30	0.29	0.29	0.13
Total expenses	(0.10)	(0.10)	(0.10)	(0.10)	(0.05)
Realized gains (losses)	0.11	(0.16)	(0.02)	0.02	(0.01)
Unrealized gains (losses)	0.20	0.01	0.06	(0.23)	0.12
Total Increase (Decrease) from Operations (\$) ⁽²⁾	0.50	0.05	0.23	(0.02)	0.19
Distributions (\$)					
From net investment income (excluding dividends)	0.18	0.20	0.19	0.18	0.06
From dividends	—	—	—	—	—
From capital gains	0.03	—	—	0.02	—
Return of capital	—	—	—	—	—
Total Annual Distributions (\$) ⁽³⁾	0.21	0.20	0.19	0.20	0.06
Net Assets, End of Accounting Period Shown (\$) ⁽⁴⁾	10.21	9.83	9.95	9.92	9.97

Ratios and Supplemental Data

Accounting Period Ended	2019 December 31	2018 December 31	2017 December 31	2016 December 31	2015 December 31
Total net asset value (000's of \$) ⁽⁵⁾	21,725	14,353	19,379	21,014	7,787
Number of units outstanding ⁽⁵⁾	2,128,116	1,459,410	1,946,720	2,118,933	781,032
Management expense ratio (%) ⁽⁶⁾	1.01	1.02	1.02	1.01	1.03
Management expense ratio before waivers or absorptions (%)	1.01	1.02	1.02	1.01	1.04
Trading expense ratio (%) ⁽⁷⁾	—	—	—	—	—
Portfolio turnover rate (%) ⁽⁸⁾	237.89	159.74	88.63	114.25	58.27
Net asset value per unit (\$)	10.21	9.83	9.95	9.92	9.97

Series F

Net Assets per Unit⁽¹⁾

Commencement of operations: May 21, 2015

Accounting Period Ended	2019 December 31	2018 December 31	2017 December 31	2016 December 31	2015 December 31
Net Assets, Beginning of Accounting Period Shown ⁽⁴⁾	9.88	9.99	9.95	10.00	10.00
Increase (Decrease) from Operations (\$)					
Total revenue	0.29	0.30	0.29	0.29	0.17
Total expenses	(0.05)	(0.05)	(0.05)	(0.05)	(0.03)
Realized gains (losses)	0.11	(0.14)	(0.01)	0.02	(0.01)
Unrealized gains (losses)	0.12	0.04	0.08	(0.20)	—
Total Increase (Decrease) from Operations (\$) ⁽²⁾	0.47	0.15	0.31	0.06	0.13
Distributions (\$)					
From net investment income (excluding dividends)	0.23	0.24	0.24	0.23	0.12
From dividends	—	—	—	—	—
From capital gains	0.02	—	—	0.02	—
Return of capital	—	—	—	—	—
Total Annual Distributions (\$) ⁽³⁾	0.25	0.24	0.24	0.25	0.12
Net Assets, End of Accounting Period Shown (\$) ⁽⁴⁾	10.26	9.88	9.99	9.95	10.00

Ratios and Supplemental Data

Accounting Period Ended	2019 December 31	2018 December 31	2017 December 31	2016 December 31	2015 December 31
Total net asset value (000's of \$) ⁽⁵⁾	394,990	140,697	103,340	83,113	29,173
Number of units outstanding ⁽⁵⁾	38,493,350	14,245,070	10,348,100	8,356,727	2,918,103
Management expense ratio (%) ⁽⁶⁾	0.47	0.46	0.46	0.47	0.48
Management expense ratio before waivers or absorptions (%)	0.47	0.46	0.46	0.47	0.48
Trading expense ratio (%) ⁽⁷⁾	—	—	—	—	—
Portfolio turnover rate (%) ⁽⁸⁾	237.89	159.74	88.63	114.25	58.27
Net asset value per unit (\$)	10.26	9.88	9.99	9.95	10.00

- ⁽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. Since calculating an average daily allocation of the trading expenses would take considerable effort, an average monthly allocation has been used instead for the accounting periods prior to 2016.
- ⁽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, 2019

Portfolio Top Holdings

	% of Net Asset Value
Province of Ontario, 2.90%, due June 2, 2028	12.1
Province of Quebec, 3.75%, due September 1, 2024	2.7
Province of Ontario, 4.60%, due June 2, 2039	2.6
Government of Canada, 2.25%, due June 1, 2029	2.0
Province of Ontario, 2.70%, due June 2, 2029	1.9
Canada Housing Trust, 1.75%, due June 15, 2022	1.8
Province of Ontario, 2.90%, due June 2, 2049	1.7
Government of Canada, 2.00%, due June 1, 2028	1.6
Government of Canada, 2.75%, due December 1, 2048	1.4
Canada Housing Trust, 2.65%, due March 15, 2022	1.1
Cash, Money Market and Other Net Assets	0.9
Canada Housing Trust, 1.20%, due June 15, 2020	0.8
Canada Housing Trust, 2.40%, due December 15, 2022	0.8
Government of Canada, 2.00%, due September 1, 2023	0.8
Province of Alberta, 2.90%, due December 1, 2028	0.8
Canada Housing Trust, 2.35%, due September 15, 2023	0.7
Canada Housing Trust, 2.90%, due June 15, 2024	0.7
Government of Canada, 1.50%, due September 1, 2024	0.7
Province of Ontario, 6.50%, due March 8, 2029	0.7
Province of Quebec, 5.00%, due December 1, 2041	0.7
Bank of Montreal, 2.85%, due March 6, 2024	0.6
Bank of Nova Scotia, Floating, due December 8, 2025	0.6
Province of Ontario, 3.50%, due June 2, 2043	0.6
Province of Quebec, 3.50%, due December 1, 2045	0.6
Royal Office Finance LP, 5.21%, due November 12, 2032	0.6
	39.5

Net asset value \$416,715,020

Asset Mix

	% of Net Asset Value
Provincial Bonds	35.4
Canadian Corporate Bonds	30.2
Federal Bonds	19.7
Municipal Bonds	10.6
US Bonds	1.7
Mortgage Backed Securities	0.8
Asset Backed Securities	0.7
Cash, Money Market and Other Net Assets	0.9

Term Allocation

	% of Net Asset Value
Under one year	4.7
From 1 year to 5 years	36.1
From 5 years to 10 years	32.2
More than 10 years	27.0

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.