

# ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended December 31, 2019

Specialized Fund

## **NBI Science and Technology 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.

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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](http://www.nbinvestments.ca), by visiting SEDAR's website at [www.sedar.com](http://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 Science and Technology Fund aims to aggressively seek capital appreciation for investors over the long term (greater than five years) primarily by investing in global companies whose activities are partially focused on scientific and technological research.

The portfolio manager analyzes stocks through a growth style and a bottom-up approach, focusing on company and security specific characteristics to select investments for the Fund. The portfolio manager will endeavour to maximize returns by investing in a diversified portfolio of companies in industries including but not limited to the telecommunications, biotechnology, environmental technology, health care and computer industries.

### Risks

The Fund's risk level was modified from "medium to high" to "medium" during the year. This change aims to more accurately reflect the Fund's actual risk level.

### Results of Operations

For the twelve-month period ended December 31, 2019, the NBI Science and Technology Fund's Investor Series units returned 35.74% compared to 37.71% for the Fund's blended benchmark. The broad-based index, the MSCI World Index (CAD), returned 21.22%. Unlike the indices, 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 34.67% over the period, from \$75.99 million as at December 31, 2018 to \$102.33 million as at December 31, 2019.

The increase stemmed mainly from market fluctuations.

Information Technology stocks were the best performers both in the US and across the world; the S&P 500 IT sector gained 50%, while the MSCI EAFE IT sector gained 38%. Apple was one of the biggest winners, gaining nearly 90% this year. Microsoft's CEO Satya Nadella, in his fifth year as CEO of the company in 2019, continued to drive the company forward, helping it to the 57% gain in 2019. Xerox Holdings also made major waves, gaining 92% while AMD gained 149%. Some major laggards included HP which gained under 4% and Oracle, up 19%.

Under these circumstances, the Fund underperformed its blended benchmark. Security selection was in most part the main contributor to performance.

The Fund's largest detractors were overweight positions in Oracle and Alphabet and an underweight position in Microsoft. On the other hand, an overweight position in Shopify and MasterCard were among the Fund's top contributors to relative performance.

### Recent Developments

Over the year, the portfolio manager added new positions in Salesforce, ADV Micro Devices and Micron Technology. He completely sold positions in Facebook Inc., Service Now Inc. and Intuit, among others. He also added to positions in SAP, Becton Dickinson and Johnson and Johnson while reducing positions in Apple Inc., MasterCard Inc., Microsoft Corp.

The global economy could find its footing and reaccelerate in a synchronous manner. The U.S. could lead the global charge as consumption remains the main driver of growth, though it could moderate due to limited spare capacity in these later stages of the cycle. Healthy demand and receding North American trade tensions could buoy the Canadian economy and help to facilitate the rotation towards exports and business investment.

Looking abroad, transitory factors that were exacerbated by trade tensions could dissipate and both the European and Japanese economies could recalibrate. The Chinese economy could stabilize thanks to numerous monetary and fiscal stimulus measures, thereby enhancing the global outlook.

This environment of moderate growth could keep inflation stable, which could allow the major central banks to maintain stimulative policies. These measures could nurture growth and extend the economic cycle. This backdrop could bode well for equities and commodities at the expense of fixed income and the U.S. dollar.

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

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.

#### Brokerage Fees

The Fund may pay broker's commissions at market rates to a corporation affiliated with NBII. The brokerage fees paid by the Fund for the period are as follows:

	Period ended December 31, 2019
<b>Total brokerage fees</b>	19,236.49
<b>Brokerage fees paid to National Bank Financial</b>	-

#### 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 <sup>†</sup>
Investor Series	2.00%	62.50%	37.50%
Advisor Series*			
Front-end load	2.00%	62.50%	37.50%
Back-end load - 1 to 6 years	2.00%	25.00%	75.00%
Back-end load - 7 years and more	2.00%	62.50%	37.50%
Low load - 1 to 3 years	2.00%	25.00%	75.00%
Low load - 4 years and more	2.00%	50.00%	50.00%

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

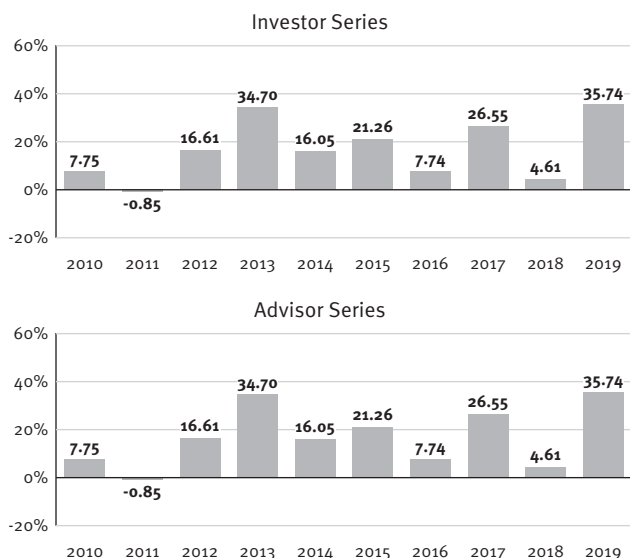
<sup>(\*)</sup> Excluding sales commissions paid on the Advisor Series with the low sales charge option and deferred sales charge option, which are not paid for out of the management fees.

#### 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.



The **MSCI World Index** is designed to measure global developed market equity performance and is made up of approximately 1,500 companies listed on stock exchanges in the 22 developed countries that make up the MSCI national indexes.

## 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 benchmarks:

The blended benchmark (the "Benchmark") is composed of:

- MSCI World Health Care Index (CAD) (10%)
- MSCI World Information Technology Index (CAD) (90%)

The broad-based index is the MSCI World Index (CAD).

### NBI Science and Technology Fund

	1 year	3 years	5 years	10 years	Since inception
<b>Investor Series<sup>1</sup></b>	35.74%	21.58%	18.61%	16.41%	–
Benchmark	37.71%	23.28%	20.07%	17.74%	–
Broad-based index	21.22%	11.32%	11.22%	11.82%	–
<b>Advisor Series<sup>2</sup></b>	35.74%	21.58%	18.61%	16.41%	–
Benchmark	37.71%	23.28%	20.07%	17.74%	–
Broad-based index	21.22%	11.32%	11.22%	11.82%	–

<sup>1</sup>Commencement of operations: August 3, 1995

<sup>2</sup>Commencement of operations: June 12, 2009

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 Descriptions

The **MSCI World Health Care Index** is a capitalization weighted index that monitors the performance of health care stocks from around the world.

The **MSCI World Information Technology Index** is a free-float weighted equity index that measures the returns of securities in the global information technology sector.

## 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 / Advisor\* Series

<sup>(1)</sup> The Advisor Series was created on June 12, 2009.

Net Assets per Unit<sup>(1)</sup> Commencement of operations: August 3, 1995

Accounting Period Ended	2019 December 31	2018 December 31	2017 December 31	2016 December 31	2015 December 31
<b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(4)</sup>	25.66	24.52	19.36	18.01	14.84
<b>Increase (Decrease) from Operations (\$)</b>					
Total revenue	0.36	0.34	0.32	0.26	0.24
Total expenses	(0.77)	(0.67)	(0.55)	(0.40)	(0.39)
Realized gains (losses)	1.97	2.43	3.53	0.89	1.64
Unrealized gains (losses)	7.48	(1.05)	1.87	0.49	1.65
<b>Total Increase (Decrease) from Operations (\$)</b> <sup>(2)</sup>	9.04	1.05	5.17	1.24	3.14
<b>Distributions (\$)</b>					
From net investment income (excluding dividends)	—	—	—	—	—
From dividends	—	—	—	—	—
From capital gains	—	—	—	—	—
Return of capital	—	—	—	—	—
<b>Total Annual Distributions (\$)</b> <sup>(3)</sup>	—	—	—	—	—
<b>Net Assets, End of Accounting Period Shown (\$)</b> <sup>(4)</sup>	34.78	25.66	24.52	19.36	18.01

### 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 \$) <sup>(5)</sup>	102,331	75,987	72,568	57,135	58,112
Number of units outstanding <sup>(5)</sup>	2,941,786	2,964,297	2,961,542	2,951,328	3,234,538
Management expense ratio (%) <sup>(6)</sup>	2.54	2.54	2.51	2.48	2.52
Management expense ratio before waivers or absorptions (%)	2.54	2.54	2.51	2.49	2.52
Trading expense ratio (%) <sup>(7)</sup>	0.02	0.02	0.03	0.04	0.08
Portfolio turnover rate (%) <sup>(8)</sup>	18.48	31.73	38.61	20.07	32.55
Net asset value per unit (\$)	34.79	25.63	24.50	19.36	17.97

<sup>(4)</sup> 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.

<sup>(2)</sup> 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. For all series created before 2016, the detailed calculation of the total Increase (Decrease) from Operations as at December 31, 2015 has been adjusted to reflect the proper allocation between the following items: Total revenue, Total expenses, Realized gain (losses) and/or Unrealized gain (losses). It is a non-material correction related to a programming error in the ratio calculation.

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

<sup>(4)</sup> The net assets are calculated in accordance with IFRS.

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

<sup>(6)</sup> 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.

<sup>(7)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the 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. The trading expense ratio history has been adjusted to include the trading expenses from its underlying funds. The calculation method described above has been used.

<sup>(8)</sup> 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
Apple Inc.	14.8
iShares Global Tech ETF	10.0
MasterCard Inc., Class A	10.0
Alphabet Inc., Class A	8.5
Oracle Corp.	8.2
Keyence Corp.	7.6
Analog Devices Inc.	7.4
SAP SE	6.9
Taiwan Semiconductor Manufacturing Co. Ltd., ADR	4.8
Microsoft Corp.	3.0
Cash, Money Market and Other Net Assets	2.0
Johnson & Johnson	1.8
Becton Dickinson and Co.	1.7
Varian Medical Systems Inc.	1.7
Roche Holding AG NPV	1.6
Mettler-Toledo International Inc.	1.5
Shopify Inc., Class A	1.4
Advanced Micro Devices	1.2
Micron Technology Inc.	1.1
Worldline SA/France	1.0
CommScope Holding Co. Inc.	0.9
Salesforce.com	0.9
Square Inc., Class A	0.7
UnitedHealth Group Inc.	0.7
Novo Nordisk A/S, Class B	0.6
	100.0

Net asset value ..... \$102,331,135

### Regional Allocation

	% of Net Asset Value
United States	64.1
Exchange Traded Funds	10.0
Japan	7.6
Germany	6.9
Taiwan	4.8
Switzerland	1.6
Canada	1.4
France	1.0
Denmark	0.6
Cash, Money Market and Other Net Assets	2.0

### Sector Allocation

	% of Net Asset Value
Software	19.1
Computer & Peripherals	14.7
Semiconductors & Equipment	14.5
IT Services	11.0
Exchange Traded Funds	10.0
Electronic Equipment & Instruments	9.1
Interactive Media & Services	8.5
Pharmaceuticals	4.1
Health Care Equipment & Supplies	3.3
Internet Software & Services	1.4
Communication Equipment	0.9
Financial Services	0.7
Health Care Providers & Services	0.7
Cash, Money Market and Other Net Assets	2.0

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](http://www.nbinvestments.ca).