



## **INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE**

For the period ended June 30, 2018

Short-Term and Income Fund

### **NBI Jarislowsky Fraser Select 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.

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This interim management report of fund performance contains financial highlights, but does not contain the complete interim financial statements of the investment fund. You can get a copy of the interim 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.nbc.ca/financial\\_reports](http://www.nbc.ca/financial_reports), by visiting SEDAR's website at [www.sedar.com](http://www.sedar.com), or by contacting your advisor. You may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Results of Operations

For the six-month period ended June 30, 2018, the NBI Jarislowsky Fraser Select Income Fund's Advisor Series units returned 0.30% compared to 0.97% for the Fund's blended benchmark. The broad-based index, the FTSE TMX Canada Universe Bond Index (CAD), returned 0.61%. 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 dropped by 9% over the period, from \$242 million as at December 31, 2017 to \$220 million as at June 30, 2018.

In North America, the FTSE Canada Universe Bond Index ended the semester with a modest gain, long-term bonds finishing ahead of their shorter term peers, which have been impacted by the Bank of Canada rate hike at the beginning of the year. Corporate bonds for their part, outperformed provincial, municipal and federal issues, despite record levels of issuance. In corporate bonds, Industrials, Real Estate and Securitized assets stood out as did BBB-rated issuers. Conversely, Financials, Communications and Energy sectors lagged, as well as safer AAA/AA-rated issuers.

In January, the Bank of Canada hiked its benchmark rate by 25 basis points (bps) to 1.25% – a move that was widely expected by the market given the strong economic data released during the fourth quarter of 2017. Economic data released in the first quarter were also robust, particularly the unemployment rate, which was coming off its lowest point in 40 years as it stayed below 6% all the way through May.

While renegotiations of the North American Free Trade Agreement (NAFTA) proved to be a hot topic during the first half of 2018, concerns gradually subsided in the months that followed. The trade conflict between Canada and the U.S. intensified after the Trump Administration decided to go through with its planned tariffs on steel and aluminum at the beginning of June. It didn't take long for Canada to retaliate, however, as it announced on the same day that it would hit back with retaliatory tariffs of up to \$16.6 billion on steel, aluminum and other goods.

Overall, the S&P/TSX Index increased by roughly 2% in the first half of the year. The top performers during the first half of the year were by far the Information Technology sector, up by over 22%, followed by Industrials, which gained 6.6%. On the other hand, the index's biggest drags were Utilities and Telecommunication Services names, down 6.2% and 5% respectively.

Given this context, the Fund failed to keep up with its blended benchmark due in part to the allocation effect. The Fund was underweight bonds, which was the worst performing asset class, and overweight Canadian equities and foreign equity. Bonds slightly trailed the index over the period, as did Canadian equities. However, this was offset by the better-performing foreign equity component. The fixed income allocation has the duration pegged at seven years and two months.

### Recent Developments

In terms of recent transactions on the fixed income portion of the Fund, activity in credit markets was brisk during the period, especially on the new issuance front. The portfolio manager participated in a select group of new issues, including the inaugural debt issues from Keyera Corp. Corporate wise, additions included new issues from BP Capital Markets via a 7-year maple issue, as well as deposit notes from CIBC and TD. The new issue Green bonds from CPPIB Capital Inc. as well as the Province of Quebec were added. The fund exited from Capital Desjardins last quarter. On the Equity side positions in General Electric and Jean Coutu Group–A were exited.

The portfolio manager's approach has been, and continues to be, somewhat different. While he looks at both cyclical and secular trends as inputs to his decision-making process, he also uses information gathered from numerous company interviews and expected returns for each holding generated by his models to give him insight into when it is time to reduce exposure to an asset class, a sector, and even an individual company. This is an ongoing process. As it stands, the indicators he follows are pointing to a higher risk of recession today compared to 12 months ago. Economic fundamentals remain reasonably robust; however, the continued strength of the U.S. dollar is making it more challenging for many exporting countries to compete. Yield curves, especially in the U.S. are close to flat. Similarly, the overall level of risk for the markets (trade, geopolitics, interest rates, national politics) has increased. All of this points towards taking a cautious approach.

### Related Party Transactions

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

#### Fund Manager

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

The Fund reimbursed NBI for operating expenses, at cost, 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 NBI as consideration for its services.

#### Distribution and Dealer Compensation

Fund securities are offered by National Bank Direct Brokerage (a division of National Bank Financial Inc., an indirect wholly owned subsidiary of the Bank), CABN Investments Inc. National Bank Financial Inc. and other affiliated entities. Each month, brokers receive a commission representing a percentage of the average daily value of the securities held by their clients.

#### Brokerage Fees

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

	Period ended June 30, 2018
Total brokerage fees	11,867.28
Brokerage fees paid to National Bank Financial	234.16

#### 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, NBI, 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>
Advisor Series*			
Front-end load	1.40%	53.57%	46.43%
Low load - 1 to 3 years	1.40%	17.86%	82.14%
Low load - 4 years and more	1.40%	53.57%	46.43%
Series E	0.65%	-	100.00%
Series F	0.65%	-	100.00%

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

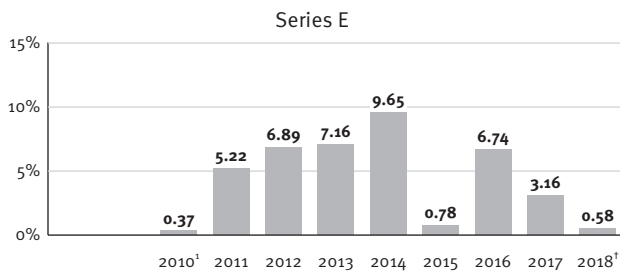
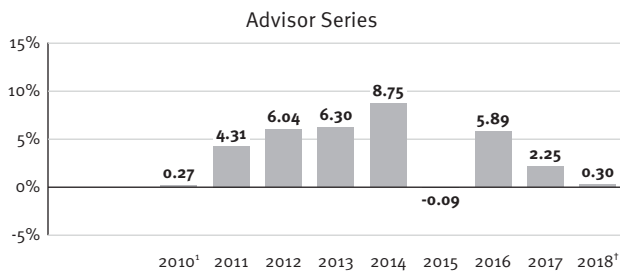
<sup>(†)</sup> Excluding sales commissions paid on the Advisor Series with the low sales charge option, which are not included in the management fees.

## Past Performance

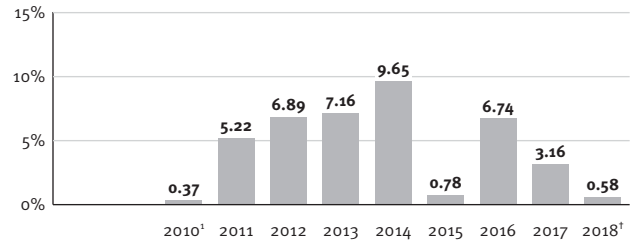
The performance of each series of the Fund presented below is calculated as of December 31 of each year. It assumes that all distributions made in the periods shown were reinvested in additional securities and does not take into account sales, redemption charges, distributions, or optional charges that 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.



Series F



<sup>(1)</sup> Returns for the period of October 7, 2010 (commencement of operations) to December 31, 2010.

<sup>(†)</sup> Returns for the period from January 1, 2018 to June 30, 2018.

## 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<sup>(1)</sup> Commencement of operations: October 7, 2010

Accounting Period Ended	2018 June 30	2017 December 31	2016 December 31	2015 December 31	2014 December 31	2013 December 31
<b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(4)</sup>	10.42	10.61	10.43	10.87	10.40	10.17
<b>Increase (Decrease) from Operations (\$)</b>						
Total revenue	0.16	0.33	0.36	0.38	0.38	0.38
Total expenses	(0.08)	(0.18)	(0.17)	(0.18)	(0.17)	(0.17)
Realized gains (losses)	0.05	(0.13)	0.13	0.02	0.07	0.05
Unrealized gains (losses)	(0.12)	0.21	0.27	(0.28)	0.57	0.30
<b>Total Increase (Decrease) from Operations (\$)</b> <sup>(2)</sup>	0.01	0.23	0.59	(0.06)	0.85	0.56
<b>Distributions (\$)</b>						
From net investment income (excluding dividends)	0.01	0.02	0.09	0.09	0.09	0.10
From dividends	0.07	0.14	0.10	0.11	0.10	0.11
From capital gains	—	—	0.01	—	0.01	—
Return of capital	0.13	0.27	0.23	0.24	0.23	0.19
<b>Total Annual Distributions (\$)</b> <sup>(3)</sup>	0.21	0.43	0.43	0.44	0.43	0.40
<b>Net Assets, End of Accounting Period Shown (\$)</b> <sup>(4)</sup>	10.24	10.42	10.61	10.43	10.87	10.40

### Ratios and Supplemental Data

Accounting Period Ended	2018 June 30	2017 December 31	2016 December 31	2015 December 31	2014 December 31	2013 December 31
Total net asset value (ooo's of \$) <sup>(5)</sup>	127,744	140,910	125,323	116,553	85,863	45,262
Number of units outstanding <sup>(5)</sup>	12,479,878	13,518,313	11,810,192	11,172,700	7,900,779	4,353,911
Management expense ratio (%) <sup>(6)</sup>	1.61	1.66	1.62	1.63	1.62	1.66
Management expense ratio before waivers or absorptions (%)	1.65	1.67	1.63	1.63	1.63	1.66
Trading expense ratio (%) <sup>(7)</sup>	0.01	0.03	0.01	0.01	0.01	0.01
Portfolio turnover rate (%) <sup>(8)</sup>	18.37	36.13	39.74	15.95	20.89	19.77
Net asset value per unit (\$)	10.24	10.42	10.61	10.43	10.87	10.40

### Series F/E

Net Assets per Unit<sup>(1)</sup> Commencement of operations: October 7, 2010

Accounting Period Ended	2018 June 30	2017 December 31	2016 December 31	2015 December 31	2014 December 31	2013 December 31
<b>Net Assets, Beginning of Accounting Period Shown</b> <sup>(4)</sup>	11.10	11.20	10.92	11.28	10.69	10.36
<b>Increase (Decrease) from Operations (\$)</b>						
Total revenue	0.17	0.35	0.38	0.40	0.39	0.39
Total expenses	(0.04)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
Realized gains (losses)	0.06	(0.14)	0.14	0.02	0.07	0.05
Unrealized gains (losses)	(0.13)	0.22	0.29	(0.31)	0.60	0.33
<b>Total Increase (Decrease) from Operations (\$)</b> <sup>(2)</sup>	0.06	0.34	0.72	0.02	0.97	0.68
<b>Distributions (\$)</b>						
From net investment income (excluding dividends)	0.06	0.11	0.19	0.18	0.18	0.19
From dividends	0.07	0.16	0.10	0.12	0.10	0.11
From capital gains	—	—	0.01	—	0.01	—
Return of capital	0.09	0.19	0.15	0.16	0.14	0.10
<b>Total Annual Distributions (\$)</b> <sup>(3)</sup>	0.22	0.46	0.45	0.46	0.43	0.40
<b>Net Assets, End of Accounting Period Shown (\$)</b> <sup>(4)</sup>	10.94	11.10	11.20	10.92	11.28	10.69

### Ratios and Supplemental Data

Accounting Period Ended	2018 June 30	2017 December 31	2016 December 31	2015 December 31	2014 December 31	2013 December 31
Total net asset value (ooo's of \$) <sup>(5)</sup>	91,919	101,368	87,218	63,016	49,582	27,337
Number of units outstanding <sup>(5)</sup>	8,401,451	9,136,168	7,787,501	5,772,345	4,396,412	2,557,879
Management expense ratio (%) <sup>(6)</sup>	0.78	0.83	0.79	0.81	0.81	0.85
Management expense ratio before waivers or absorptions (%)	0.80	0.84	0.80	0.81	0.81	0.85
Trading expense ratio (%) <sup>(7)</sup>	0.01	0.03	0.01	0.01	0.01	0.01
Portfolio turnover rate (%) <sup>(8)</sup>	18.37	36.13	39.74	15.95	20.89	19.77
Net asset value per unit (\$)	10.94	11.10	11.20	10.92	11.28	10.69

- <sup>(1)</sup> This information is derived from the Fund's Annual Audited Financial Statements and Interim Unaudited 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 the Advisor Series, 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. For Series F and E, the distribution from dividends and from capital gains as at December 31, 2014 have been adjusted to reflect a non-material correction related to a transposition errors.
- <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.
- <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 June 30, 2018

### Portfolio Top Holdings

	% of Net Asset Value
Government of Canada, 1.00%, due June 1, 2027	3.0
Toronto-Dominion Bank	2.2
Royal Bank of Canada, 2.03%, due March 15, 2021	2.0
Canadian Imperial Bank of Commerce, 1.85%, due July 14, 2020	1.8
Bank of Montreal, 2.27%, due July 11, 2022	1.8
Canada Housing Trust, 2.35%, due June 15, 2027	1.8
Royal Bank of Canada	1.7
Government of Canada, 2.00%, due June 1, 2028	1.7
Government of Canada, 2.25%, due June 1, 2025	1.7
Province of Ontario, 1.95%, due January 27, 2023	1.7
Province of Ontario, 6.50%, due March 8, 2029	1.7
Bank of Nova Scotia, 2.09%, due September 9, 2020	1.6
Bank of Nova Scotia	1.5
Government of Canada, 1.50%, due June 1, 2026	1.4
Province of Ontario, 2.60%, due June 2, 2025	1.4
Wells Fargo & Co., 3.87%, due May 21, 2025	1.4
BP Capital Markets PLC, 3.50%, due November 9, 2020	1.3
Enbridge Inc.	1.3
Fortis Inc., 4.10%, Series M	1.3
Province of Alberta, 2.20%, due June 1, 2026	1.3
Province of Ontario, 2.40%, due June 2, 2026	1.3
Toronto-Dominion Bank, 3.90%, Series 1	1.2
Intact Financial Corp., 4.70%, due August 18, 2021	1.2
Transcanada Trust, Floating, due May 18, 2077	1.2
Cash, Money Market and Other Net Assets	0.7
	39.2

Net asset value ..... \$219,663,186

### Asset Mix

	% of Net Asset Value
Corporate Bonds	29.8
Canadian Equity	20.6
Provincial Bonds	14.5
Federal Bonds	12.1
Preferred Shares	9.9
US Equity	4.4
Foreign Bonds	3.2
International Equity	2.2
US Bonds	2.2
Municipal Bonds	0.4
Cash, Money Market and Other Net Assets	0.7

### Sector Allocation

	% of Net Asset Value
Corporate Bonds	30.0
Provincial Bonds	14.5
Financials	13.5
Federal Bonds	12.1
Energy	7.0
Industrials	3.9
Foreign Bonds	3.2
Consumer Staples	2.4
US Bonds	2.2
Information Technology	2.2
Utilities	1.8
Telecommunication Services	1.8
Health Care	1.5
Consumer Discretionary	1.4
Materials	1.4
Municipal Bonds	0.4
Cash, Money Market and Other Net Assets	0.7

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.nbc.ca/financial\\_reports](http://www.nbc.ca/financial_reports).



### **BANKING**

Simplifying your day-to-day banking transactions.



### **FINANCING**

Helping you carry out the projects that are important to you.



### **INVESTING**

Customizing solutions and advice for your short-term projects and retirement plans.



### **PROTECTING**

Insuring you and your assets for your peace of mind.



### **TRANSFERRING**

Making sure your estate is transferred to your loved ones.



### **DOING BUSINESS**

Helping decision-makers grow their business.