

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended December 31, 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.

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.nbc.ca/financial_reports, 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 Jarislowsky Fraser Select Income Fund's investment objective is to provide regular income and to achieve moderate capital growth by investing, directly and indirectly, in a diversified portfolio comprised primarily of Canadian fixed income and equity securities.

The portfolio manager analyzes investment-grade fixed income securities denominated in Canadian or foreign currency and invests this portion of the fund mainly in corporate and government bonds. The Fund may also invest in equity securities, such as common and preferred shares and the portfolio manager selects mainly high quality equities of Canadian issuers. The Fund may invest approximately 30% of its net assets in equity or fixed income securities of foreign issuers.

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, 2018, the NBI Jarislowsky Fraser Select Income Fund's Advisor Series units returned -2.99% compared to -1.17% for the Fund's blended benchmark. The broad-based index, the FTSE Canada Universe Bond Index (CAD), returned 1.41%. 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 20.31% over the period, from \$242.28 million as at December 31, 2017 to \$193.06 million as at December 31, 2018.

The decline stemmed mainly from net redemptions by unitholders of the Fund.

Global financial markets ended 2018 on a mitigated note and sentiment remained fragile as deepening pessimism on the state of the global economy and the prospect for a drawn-out U.S. government shutdown overshadowed some signs of optimism regarding U.S.-China trade discussions. In stark contrast to the calm and rewarding market conditions witnessed in 2017, volatility reasserted itself throughout 2018 amid a myriad of global economic and geopolitical developments that stifled risk appetite – with nearly all asset classes ending the year in negative territory, except government bonds among others. As such, bond market sentiment swung dramatically in the final quarter of the year as yields fell, retracing much of the rising trend experienced since the beginning of the year. Risk-off sentiment accelerated into the year-end with equity markets selling off broadly and corporate spreads widening.

In this context, Canadian equities, like most of the rest of the world, posted losses for 2018. The S&P/TSX Composite Index which finished the year down 8.89%, was mainly hampered by the Energy, Consumer Discretionary and Health Care sectors. The Energy sector was the largest laggard as it was impacted by a drop of more than 24% in oil prices. Information Technology, Real Estate and Consumer Staples were the only sectors that stood out with positive returns.

Canadian preferred shares have not been spared, especially in the fourth quarter. The market correction was driven mainly by sales of preferred share mutual fund and ETFs. This was exacerbated by a lack of liquidity as buyers remained on the sidelines in the face of market uncertainty, while many large institutional investors sold several issues at the same time, prompting a drop in the market. Falling 5-Year Government of Canada bond yields (which is detrimental for fixed-reset preferred shares which represent $\frac{3}{4}$ of the market), combined with investors' tax-loss selling also put more pressure on the asset class in December. In this context, fixed-rate perpetual preferred shares outperformed floating-rate and fixed-resets for the period. The Banking sector figured among the top performers while Communication Services and Insurance sectors lagged.

During the year, the U.S. Federal Reserve maintained its path towards normalization, applying a total of four rate hikes while the Bank of Canada intervened three times amidst increasing economic activity and inflationary pressure. These circumstances put some pressure on short-term rates which rose during the period while mid to long-term rates slightly fell, due to the downward move of the last two months, which resulted in a flattening of the yield curve.

Amid significant market volatility, the FTSE Canada Universe Bond Index managed to post gains in 2018, with short and mid-term issues (1.91%) finishing ahead of their longer-term peers (0.31%), despite the year-end reversal. Federal bonds for their part, outperformed corporate, provincial and municipal issues. In corporate bonds, Securitized assets, Real Estate and the Financial sectors stood out as did AAA/AA-rated issuers. Conversely, Energy, Infrastructure and Telecommunication sectors lagged, as well as A-rated issuers.

In this tumultuous environment, the Fund's bond performance was somewhat in line with its benchmark. The Fund's Canadian equity exposure performed relatively well despite the decline in the markets, due to the overall stock selection, in companies such as Bank of Nova Scotia, Enbridge, Innergex, and Canadian Natural Resources Ltd. The addition of foreign equities also proved to be profitable, especially Australia & New Zealand Banking Group, Roche, Novartis and Vodafone.

Conversely, the Fund's positioning in preferred shares detracted value, as this asset class underperformed in the fourth quarter.

Recent Developments

The portfolio manager doesn't believe that the fourth quarter correction in stock markets will extend far into 2019. Economic fundamentals are still relatively sound and leading indicators, while pointing to slower growth, are not suggesting that the next global recession will occur within the 12-18 months. There is, however, much uncertainty for investors to consider, and therefore market volatility will likely continue. The exit of the United Kingdom from the European Union (Brexit) should continue worrying investors, with British Prime Minister May setting the parliamentary vote in January – which may not solve anything. There is still potential for further escalation in the U.S./China trade scuffle, and the path of interest rate increases is by no means carved in stone. In this context, the portfolio manager thinks that the current volatility will provide excellent opportunities to acquire quality securities at better valuations, and ultimately increase potential gains.

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. ("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 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 (a division of NBII), 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 NBII. The brokerage fees paid by the Fund for the period are as follows:

	Period ended December 31, 2018
Total brokerage fees	23,939.58
Brokerage fees paid to National Bank Financial	857.77

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 NBI 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 NBI and without taking into account any consideration relevant to an entity related to NBI. 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 [†]
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%

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

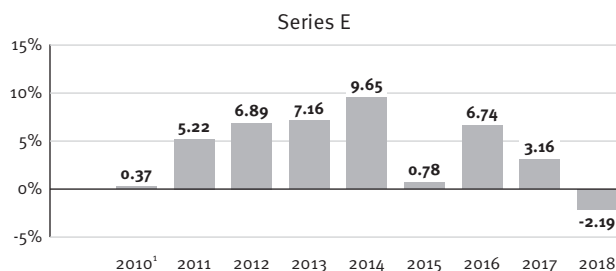
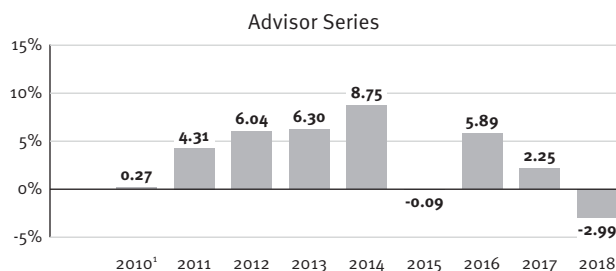
^(†) Excluding sales commissions paid on the Advisor Series with the low sales charge option, which are not included in the management fees.

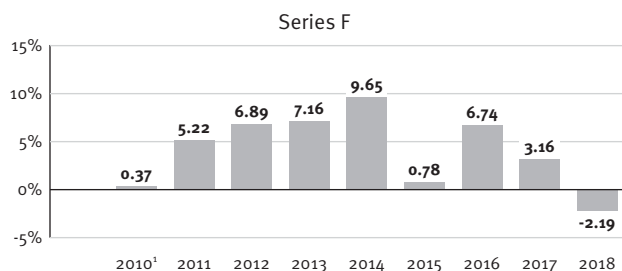
Past Performance

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.





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

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, 2018, compared with the following benchmarks:

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

- FTSE Canada Universe Bond Index (CAD) (75%)
- S&P/TSX Capped Composite Index (CAD) (25%)

The broad-based index is the FTSE Canada Universe Bond Index (CAD).

NBI Jarislowsky Fraser Select Income Fund

	1 year	3 years	5 years	10 years	Since inception
Advisor Series¹	(2.99)%	1.65%	2.68%	–	3.67%
Benchmark	(1.17)%	3.04%	3.75%	–	4.01%
Broad-based index	1.41%	1.86%	3.54%	–	3.59%
Series E¹	(2.19)%	2.51%	3.54%	–	4.52%
Benchmark	(1.17)%	3.04%	3.75%	–	4.01%
Broad-based index	1.41%	1.86%	3.54%	–	3.59%
Series F¹	(2.19)%	2.51%	3.54%	–	4.52%
Benchmark	(1.17)%	3.04%	3.75%	–	4.01%
Broad-based index	1.41%	1.86%	3.54%	–	3.59%

¹Commencement of operations: October 7, 2010

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 **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.

The **S&P/TSX Capped Composite Index** is a subset of the S&P/TSX and reflects share price fluctuations of a group of companies listed on the Toronto Stock Exchange (TSX) and weighted by market capitalization.

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: October 7, 2010

Accounting Period Ended	2018	2017	2016	2015	2014
	December 31	December 31	December 31	December 31	December 31
Net Assets, Beginning of Accounting Period Shown ⁽⁴⁾	10.42	10.61	10.43	10.87	10.40
Increase (Decrease) from Operations (\$)					
Total revenue	0.32	0.33	0.36	0.38	0.38
Total expenses	(0.16)	(0.18)	(0.17)	(0.18)	(0.17)
Realized gains (losses)	0.11	(0.13)	0.13	0.02	0.07
Unrealized gains (losses)	(0.57)	0.21	0.27	(0.28)	0.57
Total Increase (Decrease) from Operations (\$) ⁽²⁾	(0.30)	0.23	0.59	(0.06)	0.85
Distributions (\$)					
From net investment income (excluding dividends)	0.03	0.02	0.09	0.09	0.09
From dividends	0.13	0.14	0.10	0.11	0.10
From capital gains	—	—	0.01	—	0.01
Return of capital	0.26	0.27	0.23	0.24	0.23
Total Annual Distributions (\$) ⁽³⁾	0.42	0.43	0.43	0.44	0.43
Net Assets, End of Accounting Period Shown (\$) ⁽⁴⁾	9.70	10.42	10.61	10.43	10.87

Ratios and Supplemental Data

Accounting Period Ended	2018	2017	2016	2015	2014
	December 31	December 31	December 31	December 31	December 31
Total net asset value (000's of \$) ⁽⁵⁾	111,412	140,910	125,323	116,553	85,863
Number of units outstanding ⁽⁵⁾	11,483,126	13,518,313	11,810,192	11,172,700	7,900,779
Management expense ratio (%) ⁽⁶⁾	1.61	1.66	1.62	1.63	1.62
Management expense ratio before waivers or absorptions (%)	1.62	1.67	1.63	1.63	1.63
Trading expense ratio (%) ⁽⁷⁾	0.01	0.03	0.01	0.01	0.01
Portfolio turnover rate (%) ⁽⁸⁾	42.51	36.13	39.74	15.95	20.89
Net asset value per unit (\$)	9.70	10.42	10.61	10.43	10.87

Series F/E

Net Assets per Unit⁽¹⁾ Commencement of operations: October 7, 2010

Accounting Period Ended	2018	2017	2016	2015	2014
	December 31	December 31	December 31	December 31	December 31
Net Assets, Beginning of Accounting Period Shown ⁽⁴⁾	11.10	11.20	10.92	11.28	10.69
Increase (Decrease) from Operations (\$)					
Total revenue	0.35	0.35	0.38	0.40	0.39
Total expenses	(0.08)	(0.09)	(0.09)	(0.09)	(0.09)
Realized gains (losses)	0.12	(0.14)	0.14	0.02	0.07
Unrealized gains (losses)	(0.62)	0.22	0.29	(0.31)	0.60
Total Increase (Decrease) from Operations (\$) ⁽²⁾	(0.23)	0.34	0.72	0.02	0.97
Distributions (\$)					
From net investment income (excluding dividends)	0.12	0.11	0.19	0.18	0.18
From dividends	0.14	0.16	0.10	0.12	0.10
From capital gains	—	—	0.01	—	0.01
Return of capital	0.18	0.19	0.15	0.16	0.14
Total Annual Distributions (\$) ⁽³⁾	0.44	0.46	0.45	0.46	0.43
Net Assets, End of Accounting Period Shown (\$) ⁽⁴⁾	10.41	11.10	11.20	10.92	11.28

Ratios and Supplemental Data

Accounting Period Ended	2018	2017	2016	2015	2014
	December 31	December 31	December 31	December 31	December 31
Total net asset value (000's of \$) ⁽⁵⁾	81,647	101,368	87,218	63,016	49,582
Number of units outstanding ⁽⁵⁾	7,839,208	9,136,168	7,787,501	5,772,345	4,396,412
Management expense ratio (%) ⁽⁶⁾	0.78	0.83	0.79	0.81	0.81
Management expense ratio before waivers or absorptions (%)	0.79	0.84	0.80	0.81	0.81
Trading expense ratio (%) ⁽⁷⁾	0.01	0.03	0.01	0.01	0.01
Portfolio turnover rate (%) ⁽⁸⁾	42.51	36.13	39.74	15.95	20.89
Net asset value per unit (\$)	10.42	11.10	11.20	10.92	11.28

- ⁽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. 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.
- ⁽³⁾ 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.
- ⁽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, 2018

Portfolio Top Holdings

	% of Net Asset Value
Province of Ontario, 2.90%, due June 2, 2028	4.2
Government of Canada, 1.00%, due June 1, 2027	2.9
Royal Bank of Canada, 2.03%, due March 15, 2021	2.3
Canadian Imperial Bank of Commerce, 2.90%, due September 14, 2021	2.1
Canada Housing Trust, 2.35%, due June 15, 2027	2.0
Government of Canada, 2.25%, due June 1, 2025	2.0
Bank of Montreal, 2.27%, due July 11, 2022	1.8
Bank of Nova Scotia, 2.09%, due September 9, 2020	1.7
Wells Fargo & Co., 3.87%, due May 21, 2025	1.7
Toronto-Dominion Bank	1.6
Bank of Nova Scotia	1.5
Bank of Nova Scotia, 3.10%, due February 2, 2028	1.4
BP Capital Markets PLC, 3.50%, due November 9, 2020	1.4
Fédération des caisses Desjardins, 3.06%, due September 11, 2023	1.4
Province of Ontario, 1.95%, due January 27, 2023	1.4
Toronto-Dominion Bank, 1.91%, due July 18, 2023	1.3
Enbridge Inc.	1.3
Canada Housing Trust, 2.65%, due December 15, 2028	1.3
Intact Financial Corp., 4.70%, due August 18, 2021	1.3
TransCanada Trust, Floating, due May 18, 2077	1.3
Royal Bank of Canada	1.2
Fortis Inc., 4.10%, Series M	1.2
TransCanada Corp., 4.90%, Series 15	1.2
Toronto-Dominion Bank, 3.90%, Series 1	1.1
Cash, Money Market and Other Net Assets	1.0
	41.6
Net asset value	\$193,058,993

Asset Mix

	% of Net Asset Value
Corporate Bonds	32.6
Canadian Equity	19.5
Provincial Bonds	16.0
Federal Bonds	11.7
Preferred Shares	9.2
US Equity	4.7
US Bonds	1.8
Foreign Bonds	1.7
International Equity	1.3
Municipal Bonds	0.5
Cash, Money Market and Other Net Assets	1.0

Sector Allocation

	% of Net Asset Value
Corporate Bonds	32.6
Provincial Bonds	16.0
Financials	13.7
Federal Bonds	11.7
Energy	5.6
Industrials	3.5
Consumer Staples	2.3
Information Technology	2.2
US Bonds	1.8
Utilities	1.8
Foreign Bonds	1.7
Communication Services	1.7
Materials	1.4
Health Care	1.3
Consumer Discretionary	1.2
Municipal Bonds	0.5
Cash, Money Market and Other Net Assets	1.0

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.nbc.ca/financial_reports.