

Frequently asked questions | National Bank Investments

National Bank Investments | Fixed-Rate Administration Fees

Answers to your questions

1. What is the administration fee announcement about?

National Bank Investments Inc. (“NBI”) has announced its intent to pay, beginning on or about January 1st, 2015, the operating expenses of the National Bank and Westwood Mutual Funds (the “National Bank Mutual Funds”)¹, except the fund costs detailed in the answer to question 7. In return, the National Bank Mutual Funds will pay a fixed-rate administration fee to NBI.

The introduction of the fixed-rate administration fee requires prior approval of securityholders of certain series of certain National Bank Mutual Funds, as set out in the answer to question 8.

2. What is a “fixed-rate administration fee”?

Presently, National Bank Mutual Funds’ Management Expense Ratio (MER) consists of management fees, operating expenses and applicable taxes.

A fixed-rate administration fee payable to NBI will replace the operating expenses, except the funds costs detailed in question 7. In effect, a significant portion of the MER will now be fixed.

3. How do investors benefit from fixed-rate administration fees?

The adoption of fixed-rate administration fees will result in greater predictability and clarity of expenses and allows securityholder protection from future potential increases in certain operating expenses.

By fixing the majority of a National Bank Mutual Fund’s operating expenses as a percentage of its net assets, NBI will bear the risk that the cost of the included services will increase, or that those costs might remain the same while overall assets under management decrease. This could happen, for example, in poorly performing financial markets or during a period of net redemptions.

On the other hand, if a National Bank Mutual Fund’s net assets increase or if NBI is able to provide these services or to arrange for others to provide these services more efficiently, then NBI may benefit from the implementation of fixed-rate administration fees.

4. Will investors be paying more or less for the National Bank Mutual Funds?

The fixed-rate administration fee established for each National Bank Mutual Fund is less than or equal to the actual operating expenses paid by each National Bank Mutual Fund during the last six-month period, ending June 30, 2014.

5. Will the National Bank Mutual Funds’ MER remain competitive with those of other funds?

The MER of each National Bank Mutual Fund is continuously monitored by NBI to ensure that the National Bank Mutual Funds remain competitive with other similar funds offered in Canada. NBI is committed to

¹ National Bank Global Tactical Bond Fund, National Bank U.S. Dividend Fund and National Bank Floating Rate Income Fund are already subject to fixed-rate administration fees, and National Bank Income Fund and National Bank Asset Allocation Fund are not affected by this fixed-rate administration fee implementation.

the optimisation of investment returns achieved by the National Bank Mutual Funds from the perspective of their asset allocation, diversification, underlying fund strategies and, of course, their MER.

6. What will be included in the fixed-rate administration fees?

The operating expenses payable by NBI will include, but are not limited to, transfer agency and recordkeeping costs, custodial costs, accounting and valuation fees, audit fees, legal fees, the costs of preparing and distributing financial reports, simplified prospectuses, annual information forms, fund facts, continuous disclosure materials and other investor communications as well as the costs of trustee services relating to registered tax plans. NBI will pay these expenses, provided they are incurred in the normal course of business of the National Bank Mutual Funds.

7. Which costs are not covered by the fixed-rate administration fees?

The fixed-rate administration fees do not include the following fund costs, which will continue to be paid by the National Bank Mutual Funds: taxes, the costs of complying with any change to existing regulatory requirements and/or any new regulatory requirements, including any new fees introduced after September 23, 2014, interest and borrowing costs, fees and expenses related to external services that were not commonly charged in the Canadian mutual fund industry as at September 23, 2014, fees and expenses related to the board of directors of National Bank Funds Corporation, National Bank AltaFund Investment Corp. and National Bank Dividend Income Fund Inc., fees and expenses of the Independent Review Committee and operating expenses that are incurred outside the normal course of business of the National Bank Mutual Funds.

8. Where can I find the fixed-rate administration fee rates for the National Bank Mutual Funds?

National Bank Mutual Funds' fixed-rate administration fees will vary from one fund to the other. The details of the fixed rate administration fee will be presented in the documentation which will be sent to securityholders.

Securityholders of all series of the National Bank Mutual Funds, other than *Advisor Series* and *T5 Series*, will receive a written notice in mid-October providing the details of the introduction of the fixed-rate administration fee, as required by securities regulations.

The introduction of fixed-rate administration fees requires prior securityholder approval for *Advisor Series* and *T5 Series* securities of the National Bank Mutual Funds. Securityholders of record on or about October 31, 2014 in *Advisor Series* and *T5 Series* securities will receive meeting materials in November. Meetings for these securityholders will be held on or about December 16, 2014.

9. What is the effective date of fixed-rate administration fees?

It is expected that fixed-rate administration fees will be implemented on January 1, 2015, or such other date as may be determined by NBI as appropriate.

10. What are the next steps before implementation?

On or about October 16th :

A detailed notice will be mailed to securityholders of record of *Investor Series*, *M Series*, *Institutional Series*, *R Series*, *F Series*, *F5 Series* and *O Series* securities on or about September 30th, 2014.

On or about November 18th :

The Notice of Special Meeting, Management Information Circular, and Proxy Voting Form will be mailed to securityholders of record of *Advisor Series* and *T5 Series* securities on or about October 31st, 2014.

On or about December 16th :

Special meetings of securityholders will be held and votes will be counted to determine whether the proposed introduction of fixed-rate administration fees has been approved by securityholders of *Advisor Series* and *T5 Series* securities.

On or about January 1st , 2015:

Implementation of fixed-rate administration fees.²

11. Was the introduction of fixed-rate administration fees reviewed by an independent third party?

National Bank Mutual Funds' Independent Review Committee reviewed the introduction of fixed-rate administration fees and determined that, if implemented, it would achieve a fair and reasonable result for the National Bank Mutual Funds.

12. What is the Transitional Adjustment Period?

The transitional adjustment period will extend from January 1st , 2015 to December 31st , 2015. If in any month during this period the aggregate month-end net asset value of all of the series of the National Bank Mutual Funds subject to fixed-rate administration fees since January 1, 2015 falls below 90% of their value at the close of business on January 1st , 2015, NBI will be entitled to receive a transitional adjustment payment for that month, in addition to the fixed-rate administration fee.

In all cases, in the event that the transitional adjustment payment is payable in any month, the maximum amount that a participating series' fixed-rate administration fee may increase is 0.06% for the year ending on December 31, 2015. The transitional adjustment payment is payable monthly.

The transitional adjustment payment for any month will be allocated proportionately among all of the series subject to the fixed-rate administration fee based on the fixed-rate administration fee payable for that month by each such series, and therefore each series will pay its proportionate share of a transitional adjustment payment regardless of whether such series' net asset value has remained constant, increased or decreased since January 1st , 2015.

13. What other sources of information are available?

Visit www.nbc.ca to access all the documentation relevant to fixed-rate administration fees.

All information pertaining to the changes proposed as part of the special meetings will be provided to current investors, and potential investors can obtain this information from National Bank Investments Inc. prior to the special meetings. The time and place of the special meetings will appear in the notice of meetings and management circular which shall be mailed to securityholders. In addition, this information will be posted on www.sedar.com and will be available from your advisor or from National Bank Investments Inc.

National Bank Mutual Funds (hereinafter the « Funds ») are offered by National Bank Investments Inc., a wholly owned subsidiary of National Bank of Canada. Commissions, trailing commissions, management fees and expenses all may be associated with investments in our Funds. Please read the prospectus of the Funds before investing. The Funds' securities are not insured by the Canada Deposit Insurance Corporation or by any other government deposit insurer. For money market Funds, there can be no assurances that a Fund will be able to maintain its net asset value per security at a constant amount or that the full amount of the investment in a Fund will be returned. The Funds are not guaranteed, their values change frequently and past performance may not be repeated.

² If the proposed introduction of fixed-rate administration fees for a particular fund does not receive the required approval from securityholders of any voting series, such fund will continue to bear its own operating expenses. In addition, if approval from securityholders of voting series is not obtained from all of the relevant funds, then NBI, at its discretion, may elect not to proceed with the introduction of fixed-rate administration fees, even if the change can be implemented for the funds or some series of the funds and even if securityholders of some funds have approved the introduction of fixed-rate administration fees.