Responsible Investment Policy

Desjardins Funds
2021

Desjardins
Wealth Management
Investments

DESJARDINS:

30 years of experience in responsible investment

Responsible investment (RI), also known as "sustainable investment" or "socially responsible investment", consists of incorporating environmental, social and governance (ESG) factors into the selection and management of investments.

Desjardins is a responsible investment pioneer. In 1990, it launched the Desjardins Environment Fund, one of the first of its kind in Canada.

Back then, taking extra-financial criteria into consideration was a significant challenge to investment management practices. But the innovative approach favoured by Desjardins was in complete harmony with its mission and values—that of contributing to the economic and social well-being of individuals and communities.

While almost unheard of in the early '90s, ESG-based investment management is now experiencing strong growth across the globe. For example, more than 60%[1] of assets in Canada are managed using this approach.

True to its mission, Desjardins has remained at the forefront of responsible investment. Its range of **Desjardins SocieTerra Funds** and **SocieTerra Portfolios** is constantly expanding, and includes an array of products that meet a variety of needs.[2, 3]

Desjardins also aims to maintain best practices. This is why Desjardins Investments Inc., the manager and sponsor of Desjardins Funds, has been a signatory of the Principles for Responsible Investment (PRI)[4] since 2010. The PRI is an initiative launched by investors in partnership with the United Nations Environment Programme Finance Initiative and the United Nations Global Compact that has more than 3,000 signatories today. These signatories from every part of the world manage more than US$100 trillion.

1 https://www.riacanada.ca/research/2020-canadian-ri-trends-report/

2 fondsdesjardins.com/funds/prices-performance/index.jsp

3 Desjardins also offers different investment products that include ESG considerations, such as market-linked guaranteed investments (MLGIs), exchange traded funds (ETFs) and guaranteed investment funds (GIFs).

4 https://www.unpri.org/pri/about-the-pri

Our responsible investment practices

ESG factors

Environmental, social and governance factors are based on the notions of sustainable development[5] and corporate social responsibility.

The nature and materiality of ESG issues vary a great deal from one company to another. These issues are particularly affected by the company's sector of activity and geographic location. Our portfolio managers focus their attention on the factors most likely to have a significant impact on the results of the companies they are analyzing.

Examples of elements considered for each criterion

	Climate change	Natural resource use	Pollution and waste	Environmental opportunities
Environmental	• Greenhouse gas emissions • Resilience to climate change	• Protection of biodiversity • Water supply	• Pollutant emissions • Product sustainability • Reclaiming of residual materials	• Renewable energy supply • Energy efficiency

	Human capital	Responsibility for products and services	Social acceptability	Social opportunities
Social	• Subcontracting • Occupational health and safety • Competency development	• Privacy protection • Responsible purchasing • Product reliability	• Management of impacts on communities	• Access to high-quality food • Drugs for large-scale diseases • Access to basic financial services

	Corporate governance	Governance practices
Governance	• Independence and expertise of boards of directors • Executive compensation • Shareholder rights	• Diversity • Financial and extra-financial disclosure • Aggressive tax strategy • Corruption • Lobbying

5 Brundtland, G. (1987). Report of the World Commission on Environment and Development: Our Common Future. United Nations General Assembly document A/42/427, https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf

Our beliefs when it comes to investment management

Desjardins fosters an economic development respectful of people and the environment, where "money is at the service of human development."

We believe that economic players have a responsibility toward their communities and their territories, and must act accordingly. This is why Desjardins Funds seek to promote business practices and corporate governance that are more respectful of communities and the environment.

Numerous studies show that companies that are concerned with ESG issues are better equipped to manage risks, thereby improving their return potential. Act responsibly, yes, but not at the expense of profitability!

Our responsibilities as a fund manager

As the manager of Desjardins Funds, the primary responsibility of Desjardins Investments Inc. is to safeguard the medium- and long-term interests of holders, while seeking to grow their capital by investing in issuing companies with good potential for profitability.

Selecting portfolio managers

Desjardins prides itself for its portfolio manager selection process.

First, our approach and our criteria favour portfolio managers renowned for the quality of their approach and results including the incorporation of ESG factors. All Desjardins Funds portfolio managers are also PRI signatories.

For the SocieTerra line, we choose portfolio managers that deeply believe that taking ESG factors into account in corporate management creates value.

Desjardins offers its Desjardins SocieTerra Fund and SocieTerra Portfolio holders a double advantage:

- Maximizing their return potential
- Maximizing the potential of companies to have a positive impact on their community

Our commitments

Desjardins intends to remain a recognized leader in responsible investment. To do so, we make the following commitments:

- Maintaining exemplary practices and staying abreast of changes in ESG issues.
- Annual public reporting of our activities and results in terms of shareholder engagement by making use of best practices, notably the PRI framework.
- Contributing to the training of dealer representatives.
- Informing the general public, including Desjardins Funds holders, and raising awareness about what responsible investment is.

Implementation strategies

Objective and application of the RI Policy

The Desjardins Funds Responsible Investment Policy (the "RI Policy") describes the approaches we take when selecting securities. It also presents shareholder engagement levers that our portfolio managers are using to improve the ESG practices of the companies in which they are investing.

The RI Policy applies to all Desjardins Funds. The approaches will vary, however, depending on the fund. Desjardins SocieTerra Funds, which are RI funds, are managed using the highest standards for this product category. SocieTerra Portfolios benefit from the implementation strategies applicable to each Desjardins SocieTerra Fund in which they invest.

Traditional Desjardins Funds make use of responsible investment strategies, but with lower requirements regarding certain aspects.

Our responsible investment strategies are implemented at two key times:

- When selecting securities, to exclude or choose companies based on certain criteria.
- When monitoring and managing investments, in order to encourage companies to improve their practices regarding ESG issues, which could represent a major risk to their long-term financial returns.

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Selection process

Exclusions

Exclusions based on the nature of the activities carried out

Companies in certain sectors are immediately excluded due to the activities they carry out.

Weapons: No Desjardins Fund invests in companies whose activities are connected with the production of weapons or military equipment prohibited by international humanitarian law (IHL). Weapons explicitly prohibited by IHL include cluster munitions, anti-personnel mines, non-detectable fragment weapons, incendiary weapons, blinding lasers and biological weapons. For nuclear weapons, the exclusion is based on the 1968 *Treaty on the Non-Proliferation of Nuclear Weapons*.

In addition, the SocieTerra line does not invest in companies whose activities are connected with the manufacturing of automatic or semi-automatic weapons intended for civilian use, or in companies that generate a major portion of their revenue[6] from the sale or distribution of such weapons.

Tobacco: The Desjardins Funds do not invest in companies whose activities are connected with the processing or production of tobacco products, and the SocieTerra line also excludes companies that generate a major portion of their revenue[6] from the sale of tobacco products.

Nuclear: The SocieTerra line does not invest in companies that generate a major portion of their revenue[6] from the extraction of uranium or the production of nuclear energy.

There are, however, two exceptions to this rule. Investments may be considered if the activities are deemed beneficial to people, such as in the case of medical equipment manufacturing. In addition, the SocieTerra line may invest in green bonds and sustainable bonds issued by companies that carry out activities in the production of nuclear energy in order to help them invest in renewable energies for the purpose of transitioning to a low-carbon energy mix.

6 We generally consider anything more than 10% of a company's total revenue to be a major portion.

Fossil fuels: The SocieTerra line does not invest in companies that generate a major portion of their revenue[6] from petroleum, natural gas or thermal coal extraction or production, from the operation of gas and petroleum storage and transportation infrastructure, from oil refining, or from energy production from coal.

In the latter case, investments might be considered if the company publicly shows a commitment to reducing, within a reasonable time horizon, the portion of coal in its energy mix for the purpose of making an energy transition. For example, the SocieTerra line may invest in green bonds or sustainable bonds issued by companies that carry out activities in the production of energy from coal in order to help them invest in renewable energies for the purpose of transitioning to a low-carbon energy mix.

The direct distribution of petroleum or natural gas products to the end consumer and the distribution of energy produced from coal are not excluded. Similarly, renewable natural gas production activities (e.g., biogas and waste reclamation) are not part of this exclusion.

Exclusions based on ESG factors

The SocieTerra line does not invest in a company that does not meet the minimum ESG factors management requirements for its activity sector or the geographic region in which it operates. The purpose of this approach is to exclude laggards that are not very open to improving their practices.

Also, in accordance with the 10 principles of the United Nations Global Compact,[7] the Desjardins Funds do not invest in companies involved in major controversies regarding their fundamental responsibilities in the areas of human rights, labour, environment or anti-corruption.

Choosing companies

When selecting companies, Desjardins Funds portfolio managers use many approaches beyond looking at traditional financial considerations.[8]

Best-of-sector approach

In the Best-of-sector approach, portfolio managers select the companies that stand out from their peers in the management of ESG factors. Companies are compared on a sector basis. This allows portfolio managers to choose the most avant-garde companies in each sector in order to maintain optimal portfolio diversification.

Best-in-universe approach

In the Best-in-universe approach, portfolio managers select the companies that stand out from their peers in their management of ESG factors, irrespective of their sector. It allows portfolio managers to disregard certain market sectors or segments where no company meets their minimum expectations.

Best-effort approach

The Best-effort approach aims to select companies that are willing to improve their management of ESG factors. This approach applies especially to smaller companies or to companies operating in emerging markets. It is usually accompanied by a dialogue that aims to help the companies incorporate sustainable development into their practices or improve the disclosure of their environmental and social performance.

Thematic investing

Thematic investing is aimed at companies whose activities contribute to a more sustainable economy. Renewable energy, sustainable transport, biodiversity and healthy eating are examples of thematics in this category.

Impact investing

Impact investing consists in investing with the intention of generating a beneficial and measurable impact on the community and the environment. To meet this objective, portfolio managers invest in companies whose products and services respond to specific environmental or social challenges.

7 https://www.unglobalcompact.org/what-is-gc/mission/principles

8 The approach used for each Desjardins Fund by portfolio managers is described in the Desjardins Funds Simplified Prospectus of the respective Desjardins Fund.

Company monitoring

Desjardins Funds portfolio managers regularly monitor the companies in which they invest. First of all, they make sure the company's financial performance meets our expectations. Secondly, they ensure that the company continues to meet our ESG criteria.

Shareholder engagement

In accordance with its mission and values, Desjardins has chosen to be an engaged player with companies in which Desjardins Funds have stocks or bonds. Exercising voting rights, dialogue and shareholder proposals are the three levers that our portfolio managers use to improve practices and disclosure regarding ESG issues.

Exercising voting rights

Exercising voting rights allows shareholders to express themselves on all the topics brought to the shareholders' meeting in the form of proposals. Most proposals are submitted by management and deal with electing directors and compensating senior officers. Particularly, we pay attention to two important factors: director independence and board diversity.

We are also called to vote on proposals submitted by other shareholders. Each proposal is evaluated by looking at the established practices in the company concerned and in comparable companies.

The Desjardins Funds Policy on the Exercise of Proxy Voting Rights as well as recorded votes, are available on the Desjardins Funds website.[9]

Dialogue with companies

Engaging in a dialogue with a company is a powerful lever for change, based on a constructive relationship. Our portfolio managers identify the issues that they would like to see improved and then target the companies that they want to establish a business relationship with. They may also take part in collaborative dialogues with other portfolio managers and investors when deemed appropriate.

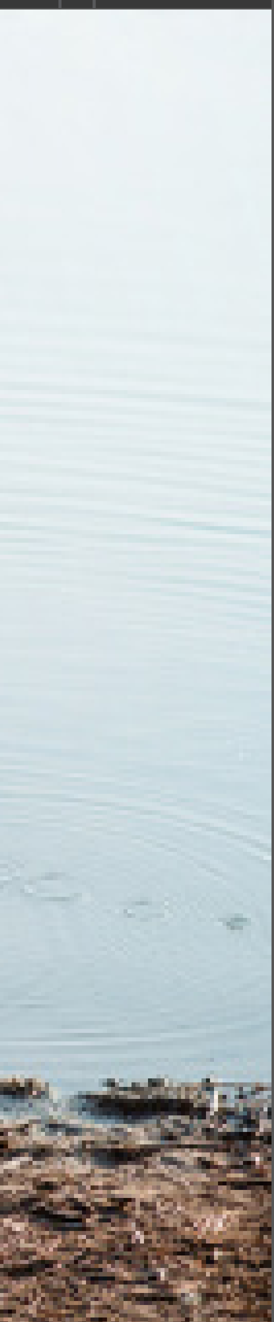
Shareholder proposal

When dialogue proves ineffective, we can draft a shareholder proposal to be submitted at the shareholders' meeting. When we bring our concerns to all the shareholders like this, we sometimes maximize our chances of being heard by management and ultimately reaching our objectives.

Divestment

Divesting from a company which we have selected at the end of a rigorous process is an exceptional act. Divestment is generally preceded by various unsuccessful shareholder engagement initiatives. Divestment can arise in the event of a major crisis, poor behaviour or a serious breach of the principles of our Responsible Investment Policy.

9 fondsdesjardins.com/funds/legal-financial-publications/index.jsp



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