Responsible Investment Activity Report

2022

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Desjardins Global Asset Management

Accurate and transparent disclosure

At Desjardins Global Asset Management (DGAM), we believe in the importance of promoting sustainable economic prosperity, and all our teams are working hard to have a positive impact on society.

In keeping with this conviction, we publish the annual report to disclose our responsible investment strategy, achievements and objectives in a transparent and comprehensive manner.

This exercise fulfills one of the principles endorsed by all PRI signatories and is consistent with the ESG disclosure guidelines we're asking companies to follow.

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Responsible investment in a time of consistency, credibility and resiliency

NICOLAS RICHARD

President and Chief Executive Officer

It will come as no surprise when I say that market conditions were not conducive to responsible investment (RI) in 2022. In fact, ESG indexes and funds around the world have underperformed compared to traditional equivalents over the past year. Most of these were affected by rising oil prices and the energy sector's resulting outperformance, as applying climate-based exclusions, filters and other constraints often results in underexposure to the energy sector.

In a context of increased geopolitical tensions related to the war in Ukraine, the frequent exclusion of companies involved in manufacturing controversial weapons has been a further blow to the performance of many ESG portfolios. Combined with inflation, rising interest rates and fears of a recession, current market context drove equity investors shift to value stocks and move away from growth stocks. Bond investors favoured a defensive position by focusing on shorter-term securities. Most ESG funds are more heavily weighted towards growth stocks and long-term bonds, since most sustainable investment theses look to leverage long-term opportunities, such as those aimed at fighting climate change.

It is likely that the current economic climate affected the convictions of investors that are less convinced when it comes to RI. To date, no single factor, style or investment approach has outperformed in all phases of the market cycle. RI is certainly not immune to this reality. The past year has therefore provided an opportunity to examine portfolio manager's motivations and convictions when it comes to integrating ESG criteria. At DGAM, we remain firmly focused on our goal of employing a long-term vision to create value. We still believe that in the long term, issuers that adopt responsible practices and those whose business model focuses on sustainable solutions will help create better returns based on risk.

COLLECTIVE EXPERTISE: THE CORNERSTONE OF OUR RI LEADERSHIP

At DGAM, we place a high priority on cultivating a collaborative environment that gets results. To capitalize on the experience and talent of our professionals, we give them tools to hone their ability to generate superior results.

RI is not a passing trend. It is a structural paradigm that goes far beyond ethical values and creates long-term value. We firmly believe that adopting an RI culture requires incentives to move from a short-term view to a long-term investment vision. That is why we align part of our investment professionals' compensation with ESG objectives.

Although our managers have been integrating ESG criteria into their analyses and research for years, RI has recently undergone a dramatic transformation. It now covers a multitude of increasingly complex themes, from biodiversity and relations with First Nations to science-based carbon targets. Ongoing education is essential for us to track ESG trends and strengthen our leadership position. In 2022, we trained all our employees in RI. Based on their level of knowledge and their needs, employees chose from a variety of options, including the Responsible Investment Association course, Sustainable Accounting Standards Board (SASB)'s FSA certification, CFA Institute's ESG certification and ESG training tailored to asset classes such as real estate. These programs are all recognized by the market as credible, in-depth subject matter training courses. Regardless of their role, all DGAM employees are self-sufficient and familiar with ESG issues, which allows them to incorporate these concepts into their duties. Having completed the CFA's ESG certification, I firmly believe that a strong RI culture requires a true understanding of ESG risks and opportunities across all levels of the organization.

We also leverage the diverse and sophisticated expertise of our dedicated RI team to enhance DGAM's capabilities. Our RI specialists are fully integrated into our investment team and complement the skills of our members through active collaboration. This knowledge-sharing structure encourages our portfolio managers to be self-sufficient in ESG integration. It creates the synergy and flexibility we need to innovate and create solutions that meet investor expectations regarding financial goals and social and environmental benefits.

THE EMERGENCE OF BIODIVERSITY AS A KEY ESG PRIORITY

COP15, which was held in Montreal in 2022, showed the world the true extent of the biodiversity emergency we are facing. Our economy depends heavily on protecting biodiversity, since nearly half of the world's GDP is linked to nature in varying degrees. This topic is highly complex, but is just as critical as climate change. Our carbon footprint is no longer the only key metric to be measured and reduced. More than ever, we understand that nature is an ecosystem where all forms of life are interconnected, and that the whole must be considered if we want to see a positive impact on sustainable prosperity.

At DGAM, protecting biodiversity and natural capital was added to our list of priority issues in 2021. Since then, our RI team has put a lot of effort into researching and analyzing this theme to identify the financial repercussions and the implications for issuers. On the basis of this in-depth research, in 2022 we developed a concrete action plan that focuses on ESG engagement and integration related to biodiversity. You will learn more about our plan in this report.

We believe that all industry stakeholders must work together to increase the presence of biodiversity in engagement and investment activities. More than half of CO_2 emissions are absorbed by the world's lands and oceans. We will never meet our climate change goals without a strong commitment to biodiversity. That is why Desjardins Group ("Desjardins") signed the COP15 Statement from the Private Financial Sector, which reaffirms our commitment to protect nature. We encourage the entire industry to take concrete action to protect biodiversity and natural capital.

REGULATION IN RESPONSE TO CRITICISM AND CONFUSION

In addition to the challenging market environment, 2022 also saw a surge in criticism surrounding ESG strategies. Allegations of greenwashing put a spotlight on the confusion about ESG practices and limited industry growth. Fortunately, several regulatory initiatives have been implemented to improve transparency and consistency across the RI industry. As RI becomes standardized and laws are adopted by governments, the inconsistent terminology, greenwashing and debate over the fiduciary obligations of institutional investors will give way to an industry growing into its own. RI will most likely come out the other side as a more coherent, transparent and credible option in the eyes of investors. We are thrilled that Montreal has been chosen to host one of the offices of the International Sustainability Standards Board (ISSB), the organization responsible for setting international business standards for environment-related financial disclosures.

We can't say it enough: investors can play an important role in fostering positive economic prosperity and contributing to a better future. By collectively addressing the imperatives of the UN Sustainable Development Goals (SDGs), we have the power to transform the economy, support targeted transitions and respond to the major global challenges facing us all. More concretely, we have two powerful levers of influence: the responsible allocation of our assets and the engagement with issuers to encourage them to adopt sustainable business practices.

Criticism and praise for responsible investment

CHRISTIAN FELX

Manager and Head of Responsible Investment

In 2021, the explosion of RI was a highlight in our annual trend review. One year later, the context is decidedly different. We are now seeing growing resistance that is calling the validity of RI into question. This highly politicized movement has spurred ongoing debate about the fiduciary duty of portfolio managers, and has been exacerbated by the generally disappointing performance of ESG funds in 2022. To top it all off, the risks of greenwashing, fuelled by unfamiliarity with RI and questionable practices by some managers, are only adding up to the negativity. This situation has spawned a polarized debate between RI supporters and detractors that warrants more nuance. For RI supporters, it is an opportunity to question and realign certain practices to promote the ultimate goal—sustainable prosperity.

AN OVERVIEW OF THE CRITICISM

1. Fiduciary duty

At DGAM, we are convinced that incorporating ESG criteria into investment allocation and selection processes is part of our job as portfolio managers. Whatever RI detractors may think, the underperformance of ESG funds in 2022 has done nothing to shake our belief. RI underperformance can largely be explained by overexposure to growth stocks and the sectoral biases inherent to certain RI approaches. In particular, climate risk management is prompting many investors to avoid or underweight fossil fuel-related sectors. Fossil fuel energy saw strong stock market growth last year, which undermined the relative performance of many ESG funds. At DGAM, we believe that short-term underperformance caused by market cycles has nothing to do with a breach of fiduciary duty. This is especially true given that climate change can have lasting effects on long-term investment performance. The latest *World Economic Forum Global Risks Report* and recent legislative and regulatory developments support this assertion.

Several levers are available to help manage climate risk. Examples include managing financed GHG emissions associated with the portfolio, encouraging shareholder engagement and using green financial instruments. These levers can be used judiciously to build high-performance, diversified investment solutions that allocate capital to all economic sectors. This comprehensive approach is recommended by DGAM. It reduces the risk of relative underperformance in the short term while protecting against the risks associated with the energy transition. After all, it's only a matter of time until politics gets behind Pigou's century-old reflections on the economics of welfare.

Ultimately, sound portfolio management requires taking nonfinancial material risks into consideration.

2. Greenwashing

In portfolio management, greenwashing means presenting information in a distorted way in order to project a positive and exaggerated picture of environmental or social practices in investment. Greenwashing is a real issue that undermines the credibility of RI. DGAM considers it a call for increased oversight rather than an argument against RI. The lack of universal standards combined with growing competition sometimes gives rise to misleading RI claims, intentional or not. The new standards developed by the *International Sustainability Standards Board* (ISSB), a new global framework, will mitigate the risk of greenwashing. Efforts to develop a green taxonomy will further mitigate risk. These changes are welcome.

It should be noted that critics can be too quick to leap to conclusions about greenwashing. These arbitrary accusations stem from unfamiliarity with RI. In reality, approaches vary, and the diversity of perspectives or opinions is not proof of greenwashing. For example, a strong shareholder engagement program may justify a company's inclusion in a portfolio, even though its ESG practices seem inadequate at first glance. Similarly, assessing a manager's integrity based on their shareholder proposal votes, without considering their overall RI approach, shows a lack of judgment. Before jumping to conclusions, wise investors will take their time assessing the various funds available to them. By doing so, they ensure that the portfolio manager they choose reflects their goals and preferences, while recognizing that a variety of legitimate approaches are possible.

3. An unfocused approach undermines results

While more nuanced and less publicized, the scattered approach to RI is an issue that the community needs to consider.

The law of unintended consequences states that human action always has unforeseen consequences. In the case of RI, enthusiasm has propelled the emergence of new stakeholders with many different requirements for a range of complex emerging issues.

Issuers and portfolio managers spend a lot of time and resources to meet expectations. Ironically, many of these efforts are not aimed at pursuing their ultimate goals, but at responding to the many initiatives which are often redundant and, unfortunately, non-standardized. This lack of focus on deploying strategies and achieving results is a major challenge. It undermines all efforts for sustainable prosperity and, in extreme cases, justifies some of the criticism levelled at fiduciary duty and greenwashing.

To address this issue, DGAM has decided to limit its efforts to four key issues. Presented in detail in this activity report, these priorities guide all our RI activities (monitoring, analysis, engagement, research, thought leadership). It's an approach that allows us to focus on meeting our objectives in areas that we understand well.

It goes without saying that the growing interest in responsible finance by all stakeholders is proof that RI is becoming the new normal. This development is beneficial to the industry's maturity and credibility. Recent criticism is a fair rebalancing and will allow for a realignment of certain practices while silencing unjustified negativity.

Finally, this quote—falsely attributed to the German philosopher Schopenhauer—seems particularly apt:

> "*All truth goes through three stages. First, it is ridiculed. Second, it is violently opposed. Third, it is accepted as being self-evident.*"

In light of recent events, it seems clear that we are in the midst of stage two!

Supporting women's leadership in the asset management industry

Desjardins has many initiatives in progress to improve equity, diversity and inclusion across our organization. As a socioeconomic leader, we believe that diversity in all its forms helps us to better meet the needs of our clients, teams and communities.

At DGAM, we want every employee to have access to the same advancement opportunities. We have an action plan in place to encourage equity, diversity and inclusion within our teams. Spread over three years, our plan focuses on actions in three priority areas: gender, age and cultural origin.

SUSTAINED PROGRESS IN 2022

Given that the lack of female representation is a particularly critical issue in the asset management industry, we focused the first steps of our action plan on gender diversity. In 2022, we made concrete progress on the following three categories:

1. **Promote female leadership:** While achieving parity on our board of directors, we encouraged our employees to participate in *Desjardins' female leadership programs*.
2. **Increase the number of women in our candidate pool:** We adapted our job postings to make them more appealing to women and created representative interview panels, ensuring that at least one woman is included.
3. **Educate our teams:** We encouraged our managers to adopt an inclusive leadership style and best management practices. We also worked on promoting the asset management sector to women by offering internships and becoming involved in associations whose mission is to promote gender diversity in the finance.

The more we can increase female representation on our teams, the more we will optimize our decision-making by bringing their assets and diverse perspectives to the table. That is why we encourage our female employees to develop their leadership skills and to make an impact in Desjardins and in our industry.

This first part of our action plan will help us build a fair, diverse and inclusive workplace, which is essential to creating a healthy work environment where everyone can thrive. Our vision and its resulting actions will improve our ability to generate superior results, increase our potential and contribute to our collective expertise.

Proud pioneers of responsible investment in Canada

Sustainable finance has driven our organization for over 30 years. Created in 1990, the Desjardins Environment Fund was the first responsible investment mutual fund in Quebec and the second in Canada. We're proud of our leadership in the responsible investment ecosystem and the extensive expertise our team has developed by adopting a rigorous approach to integrating environmental, social and governance criteria.

WE HELP INVESTORS GROW THEIR ASSETS IN A SUSTAINABLE WAY

Ever since our inception, we've mobilized our resources to keep improving our practices and outperforming our ambitious goals. Over the years, RI has increasingly influenced our strategies and has become the cornerstone of our investment approach. Our clients trust us to speak on their behalf and to defend their interests with the companies they invest in. We've long believed that sustainable value creation for all stakeholders is what's best for investors. By staying true to our principles and supporting clients with their responsible investment efforts, we're helping to shape the society of the future.

DGAM's RI timeline

2011

- Initial internal RI research at DGAM

2013

- DGAM launches an Environmental global equity strategy

2014

- DGAM adopts a Proxy Voting Policy

2015

- DGAM starts managing the Desjardins SocieTerra Canadian Bond Fund and the Desjardins SocieTerra Environment Fund

2016

- DGAM creates a dedicated RI team
- DGAM conducts a research on the carbon footprint of investments in collaboration with CIRANO
- Desjardins launches the Université de Sherbrooke's Chair in Responsible Investment

2017

- DGAM becomes a PRI signatory
- DGAM starts managing the Desjardins SocieTerra Canadian Equity Fund
- Desjardins announces its commitment to fight climate change

2018

- DGAM launches a series of RI Exchange Traded Funds focused on climate change
- DGAM implements real estate responsible investment guidelines
- DGAM adopts a shareholder engagement program
- DGAM adds a climate change expert to its RI team
- DGAM develops an internal ESG analysis model for Canadian provincial bonds

2019

- DGAM adds a product to its RI ETFs that addresses climate change

2020

- DGAM adds finance and governance experts to its RI team
- DGAM publishes its first RI report
- DGAM develops a proprietary ESG rating grid to assess Canadian provincial bonds

2021

- Desjardins develops its corporate positioning on RI
- DGAM joins three initiatives: Climate Engagement Canada, Net Zero Asset Managers and FAIRR
- Desjardins takes part in the Montreal Propel Impact Fund investment committee (previously *Montreal Social Value Fund*)
- DGAM adds experts in ESG data science and natural capital management to its RI team

2022

- DGAM sets capital financed emission reduction targets of 30% by 2025 and 50% by 2030 (vs. 2020) for Desjardins' own funds
- Desjardins launches the SocieTerra Canadian Equity Income Fund managed by DGAM
- DGAM develops an ESG ranking model by country
- DGAM launches a family of ESG indexes

The pillars of our approach reflect our commitment to a sustainable economy

Responsible leadership

We are proud to pave the way for sustainable prosperity and use all our levers of influence to mobilize our community. We do this to create value and promote a long-term, positive performance vision for investors, businesses and society.

Adaptability

We dare to think outside the box to create innovative investment solutions for our clients. We are open to new ideas and adapt our solutions to exceed investor expectations regarding financial objectives as well as social and environmental benefits.

Collective expertise

We cultivate a collaborative, high-performance environment and maintain excellence by leveraging the experience of our investment professionals. We continually improve our capabilities to generate superior results and provide exceptional service.

Commitment

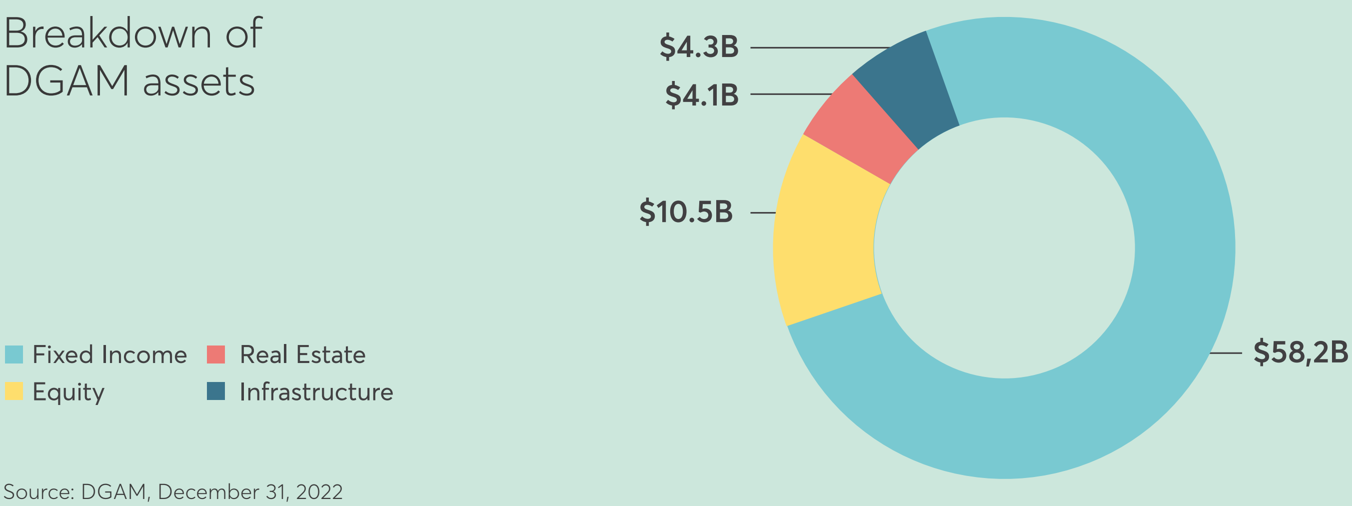
We are committed to acting ethically and with integrity. Accessibility and collaboration are values that are rooted in our DNA. We are fully committed to helping institutional investors make informed decisions in the best interests of their beneficiaries.

One of Canada's leading asset managers

$77B+ in assets under management

130+ employees

Breakdown of DGAM assets



Source: DGAM, December 31, 2022

Maximizing return potential while having a positive impact

As portfolio managers, we believe our foremost responsibility is to protect the long-term interests of our clients and to grow their capital by promoting socially and environmentally responsible corporate governance and practices. In 2017, DGAM formalized its commitment to responsible investment by signing the Principles for Responsible Investment (PRI). In our last Assessment Report from the PRI, we received 90% in the Investment & Stewardship Policy component, which is significantly higher than the category's 60% median score.

OUR PRINCIPLES

RI is an integral part of our fiduciary role

We believe that including ESG criteria in investment allocation and selection is part of our mandate as portfolio managers.

Our approach must focus on action and innovation

To innovate, we need to take action based on facts supported by a comprehensive research process.

Engagement is key

Dialogue and voting activities can have a positive influence on issuers' corporate practices. Our commitments can lead to better ESG risk management by issuers and, ultimately, to improved financial performance.

Sustainable performance requires a long-term vision

Incentives are needed to shift from a short-term perspective to a long-term, forward-looking investment vision.

OUR APPROACH

By using ESG criteria, our investment professionals can go beyond traditional corporate financial analysis. In addition to using exclusions adapted from the UN Global Compact and addressing client concerns, we've developed a proprietary assessment grid for non-financial elements based on ESG criteria. Our grid is inspired by Sustainability Accounting Standards Board (SASB) criteria, among others.

Our RI team works with portfolio managers at various stages of the investment process, from risk management to alpha generation, client support and portfolio construction. Our corporate analysis approach is based on the integration of risk criteria and key ESG opportunities. Our engagement program focuses on material extra-financial factors, including those identified by the Sustainability Accounting Standards Board (SASB), and a list of priority issues that we review annually for relevance and alignment with emerging trends. Lastly, we're involved in many RI initiatives in the areas of education, research and innovation.

Pre-investment

Exclusion of controversial industries

Based on international norms or specific principles.

Assessment of corporate financial health

Based on the traditional fundamental or quantitative approaches used by our investment teams.

Assessment of corporate ESG practices

Using positive and negative screening or our proprietary assessment grid, which includes specific objectives in terms of ESG ratings and carbon footprint.

Post-investment

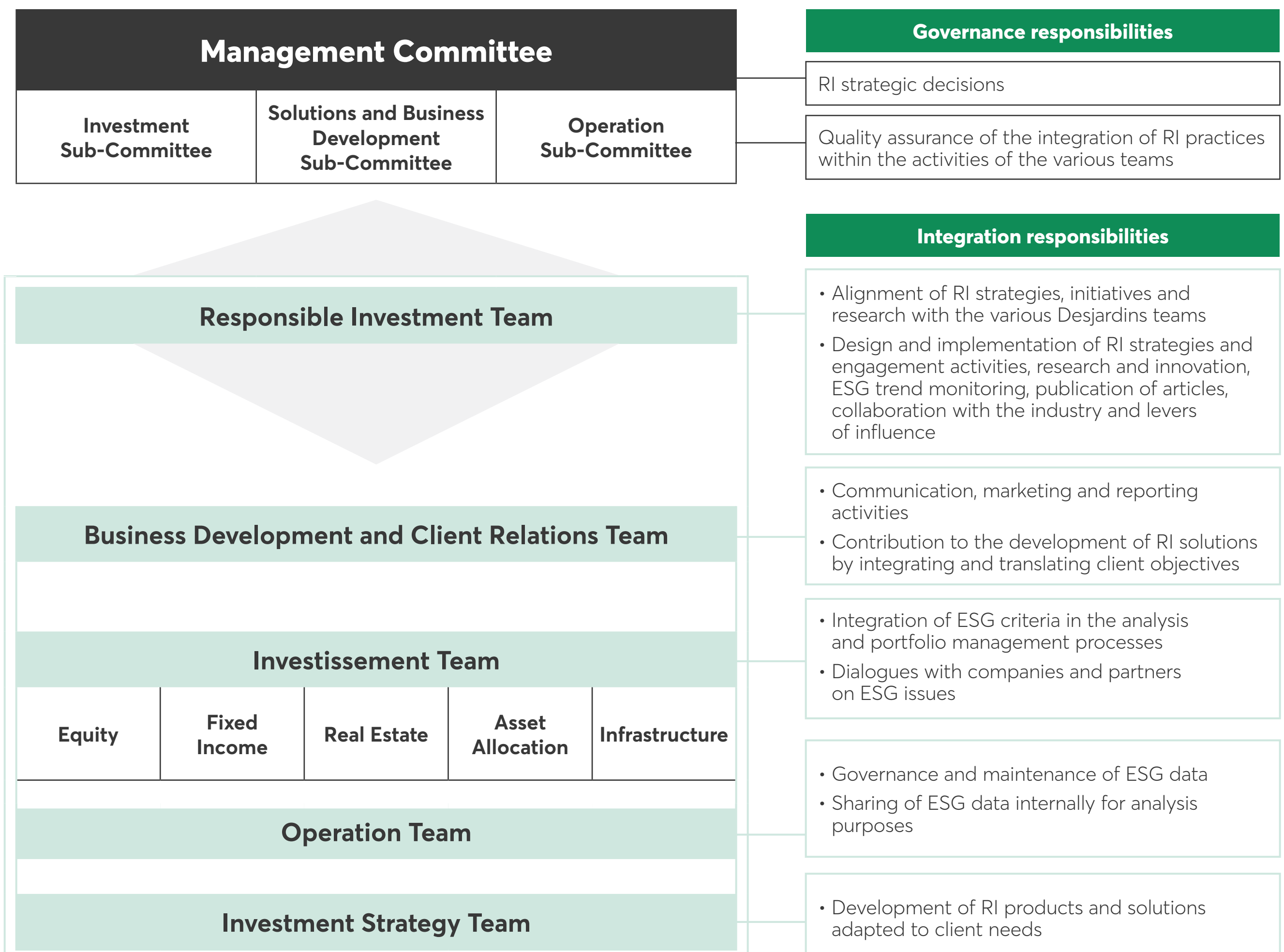
Engagement with issuers

Dialogues, votes and shareholder proposals to improve issuers' sustainable development practices.

OUR GOVERNANCE

Our responsible investment convictions are deeply rooted in our organization. The DGAM Management Committee is actively promoting RI internally through a governance structure that holds all our teams accountable for adopting ESG best practices. Integrating these responsibilities across the board helps us implement our action plan, expand and share knowledge and engage with stakeholders.

RI roles and responsibilities at DGAM



OUR TEAM OF RI SPECIALISTS

DGAM's commitment is reflected in its strong team of 10 professionals exclusively dedicated to RI. These experts come from a variety of fields (finance, engineering, sustainable development, climate change, water management, biodiversity, ESG data science, etc.). The RI team's size and depth of knowledge enable us to define specific roles and responsibilities to create a structure that leverages everyone's expertise.

Our RI specialists are part of the Investment Strategy team, which gives them the scope to influence strategies, develop solutions and put our convictions into action. They continually track ESG issues and work closely with our analysts and managers to ensure that our investment solutions are consistent with best practices in responsible finance. They maintain a strong link with the RI industry and provide training to all DGAM staff. In short, the team focuses on three key areas: 1) ESG integration, 2) innovation, research and development, and continuous improvement, and 3) thought leadership.

Although DGAM has a dedicated team, integrating RI practices is a responsibility shared by all employees. Our entire staff participated in ESG training in 2022. This affirms the importance we place on continuous improvement and developing our collective expertise in this area.

Christian Felx, M. Sc., CFA

Manager and Head of Responsible Investment

Pierre-Alexandre Renaud, M. Sc., CFA

Analyst Responsible Investment

Kim Desmarais, M. Sc.

Analyst Responsible Investment

Oumayma Ouzane, M.Ing.

Analyst Responsible Investment

Véronique Marchetti, CFA

Analyst Responsible Investment

Philippe Laforest, M. Sc.

BI Analyst and ESG Analytics

Geneviève Grenon, Ph. D.

Private Markets, Responsible Investment Advisor

Lila Roumane, MBA

Analyst Responsible Investment

Alexandre Clément, M. Sc.

Consultant

Vacancy

RI Advisor

2022 in figures

WE CONTRIBUTED TO A MORE SUSTAINABLE ECONOMY

40%

reduction in the portfolio carbon footprint for Desjardins' own funds (relative to their benchmark)

$1.7 B

invested in renewable energy infrastructure

$1.9 B

invested in sustainable bonds

96%

of our real estate assets have a sustainability certification such as LEED or BOMA BEST

30% and 50%

reduction targets for portfolio carbon emissions by 2025 and 2030 respectively (compared to 2020)

90%

Our PRI score for the Investment & Stewardship Policy component of our latest assessment report

WE'VE EXPANDED OUR LEVERS OF INFLUENCE

140+

dialogues with companies on ESG issues

3,573

shareholder meetings at which we exercised our voting rights

25+

position papers, new collaborative initiatives and RI speaking engagements

WE'VE DEVELOPED OUR EXPERTISE

1

new ESG assessment grid developed in-house to evaluate countries

10

specialists dedicated exclusively to responsible investment

35+

professionals pursuing FSA or CFA's ESG certification

WE'VE INTRODUCED NEW RESPONSIBLE INVESTMENT SOLUTIONS

1

new ESG fund

- **Desjardins SocieTerra Canadian Equity Income Fund**

10

ESG indexes

- **6 Desjardins common and preferred shares ESG indexes**
- **4 Desjardins bond ESG indexes**

Source: DGAM, December 31, 2022

Supporting our vision of strong leadership

In 2022, we continued work on Desjardins' strategic positioning in responsible investment. Our ambition is strong: to maintain our position as the financial institution most invested in RI education, accessibility and adoption among Canadian investors. This positioning is built on three main axes for which DGAM has set ambitious targets to be achieved by 2024. We've already taken steps to reach these targets.

AXES OF OUR AMBITIONS	ACTIONS IN 2022	DGAM'S TARGETS FOR 2023-2024*
Quality coaching and advice Be recognized as one of Canada's leading RI partners	84% of our investment professionals have taken RI training.	Develop an institutional perception and satisfaction survey on RI (2023 target).
Credibility Be recognized as one of Canada's leading RI experts	We have mapped the level of ESG integration across Desjardins portfolios. The outcome was positive and identified areas for improvement to guide our team's efforts.	Increase the ESG integration rate of Desjardins's equity investments to 90% (2023 target).
Transparency Demonstrate the authenticity and sincerity of the RI process	The Desjardins Group Monitoring Office conducted an internal audit of RI practices across organization, including DGAM. The findings of the first report identified a need for process alignment.	Achieve a score of at least 80% for all components as part of the annual PRI assessment (2024 target).

* Non-exhaustive list

A CLIMATE AMBITION WITH CLEAR TARGETS

Desjardins' 2040 climate ambition, detailed in the *Climate Action Report*, is aligned with our strategic positioning in RI. This ambition is broken down into five-year milestones, the first of which is 2025. The targets for Desjardins' own funds in this timeframe are structured around the following four targets:

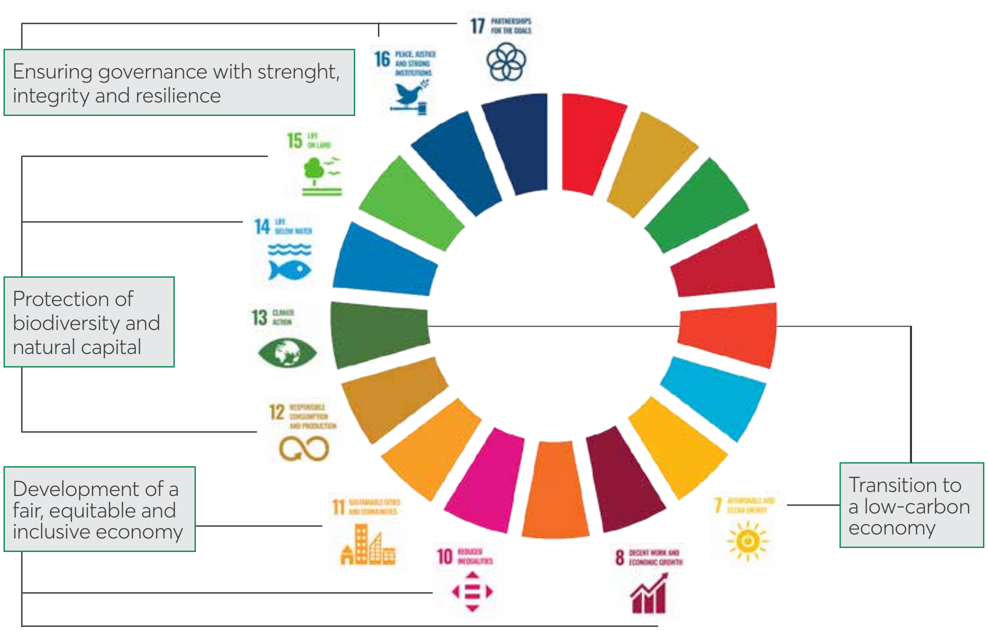
1. Achieve our interim target of reducing portfolio carbon emissions by 30% compared to 2020.
2. Increase our direct investments in renewable energy infrastructure to $2 billion.
3. Achieve sustainable *LEED or BOMA BEST* certification for 100% of our real estate assets.
4. Deploy an engagement strategy with 25 carbon-intensive Canadian companies to encourage them to align their targets with the objectives of the Paris Agreement.

Four themes to meet our sustainable development goals by 2030

At DGAM, we align our decision-making with broad sustainability themes that represent the priority issues identified in our ESG analyses and guide our many engagement activities. These themes also drive our research and the development of innovative ESG investment strategies.

The UN's **Sustainable Development Goals (SDGs)** and Desjardins' ESG risk management practices were both considered when selecting priority issues. Sustainability studies published by various industry stakeholders were also considered.

Our approach focuses on four major interrelated themes that improve the coherence and effectiveness of how we think and act. Each of these themes is linked to specific SDGs, as shown below.



DGAM priority ESG issues

and their link to the *Sustainable Development Goals*

Ensuring governance with strength, integrity and resilience

According to the Institute for Governance of Private and Public Organizations, "governance, in its fiduciary form, consists in implementing all the means for an organization to achieve the ends for which it has been created in a manner that is transparent, effective and meets the expectations of its stakeholders."

For DGAM, companies must have governance that has strength, integrity and resilience so they can create value over the long term. To achieve this, they must follow a set of rules that are conducive to sound governance.

Links with Sustainable Development Goals (SDGs)

EXAMPLES OF AREAS OF INVESTMENT AND INTERVENTION

SDG	Examples
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	• Disclosure of the amounts and jurisdiction in which the company pays taxes under the *GRI 207 standard* • Existence of an anti-corruption plan • Composition of the board of directors that is representative of the population
17 PARTNERSHIPS FOR THE GOALS	• Executive compensation that is linked to environmental and social objectives • Participation to coalitions that strive to advance our environmental and social priorities • ESG data system that makes it possible to establish performance indicators and set targets

We present in the following three areas of governance for which DGAM has established a company assessment process. In addition to these, we also focus on tax transparency, anti-corruption and auditing practices.

STRUCTURE OF THE BOARD OF DIRECTORS

Effective boards institute processes that promote their independence and credibility. Director independence is characterized by a lack of personal interests that conflict with those of the organization. Credibility is demonstrated by relevant experience in the challenges associated with value creation. We therefore favour boards that are made up of both directors who have an understanding of the organization's inner workings (founder, CEO or other senior executives) and independent board members, within a structure that includes mechanisms that ensure the independence of sub-committees.

Our approach

In evaluating a board's independence, our assessment is based on a series of criteria that define how we exercise our voting rights when directors are elected:

- The proportion of non-independent members cannot exceed two thirds of the board (after 12 years, members are no longer considered independent).
- The nominating, compensation and audit committees must be made up of independent directors only.
- The positions of board chair and president and CEO must be separate.
- The board must have diverse skills and experience. We favour 30% female representation and diversity in age, expertise and cultural background.

CASE STUDY

An example for financial institutions to follow

Canadian banks are recognized worldwide for their sound governance practices. At DGAM, the election of directors through proxy voting is an important tool for reporting governance issues to the companies in which we invest. We can also leverage proxy voting to highlight the quality of their practices. In 2022, DGAM voted in favour of all the directors of a Canadian bank whose board structure included every key component in our approach. The proportion of non-independent directors is less than two thirds, women have 40% representation, subcommittee members are independent and the positions of CEO and Board chair are separate. Lastly, this bank's executive compensation program and ESG strategy governance are exemplary.

It is a model that should inspire banks around the world in their own governance practices.

EXECUTIVE COMPENSATION

Adequate compensation of a company's senior executives remains a key factor in attracting, motivating and retaining the best candidates. However, this compensation isn't always aligned with the company's financial performance and sometimes fails to take into account the extra-financial interests of shareholders and various stakeholders.

At DGAM, we're especially sensitive to excessive compensation practices that encourage executives to take a lot of risks to maximize short-term returns.[1] These practices also foster short-sightedness, with measures such as stock repurchase options, layoffs, and undue cost cutting which could have a negative impact in the longer term. In other words, executive behaviours and decisions that impact short-term financial performance are often detrimental to results that are less easily quantifiable and have long-term implications.

Our approach

With respect to a company's executive compensation, we verify the degree to which the following elements are respected:

- Alignment between the company's financial performance and executive compensation.
- Transparency of the evaluation criteria used, at what point they're triggered, the targets set and individual objectives.
- Justification for awarding discretionary amounts, including severance payments.
- Use of performance criteria tied to the company's ESG objectives in the executive incentive compensation program.

[1] IGOPP [Online]. *Pay for Value: Cutting the Gordian Knot*, 2017. Available at: https://igopp.org/pay-for-value

CASE STUDY

A productive dialogue with a newly listed company

In 2021, we began a dialogue with an insurance company. Recently made public, the company had a long way to go in their reporting process. From our very first conversations, the company was open to our requests, confirming their commitment to improving transparency. And they have honoured that commitment. In 2022, the company published its first sustainable development report in line with the SASB standard, including quantifiable and comparable measures and targets for each issue deemed material. For DGAM, the quality of this report rests on firmly implemented best ESG governance practices. The accountability of the company's ESG strategy lies with its board of directors and is deployed via a range of responsibilities that are entrusted to management- and employee-led committees. Board members receive training on ESG issues and the executive compensation program includes ESG performance indicators.

ESG SKILLS ON THE BOARD OF DIRECTORS

Over the years, the number of issues considered material in assessing the quality of business management has expanded. Today, risk management covers environmental, social and governance issues, and investors are requiring companies to demonstrate executive and board member ability to manage such risks. A *recent survey by EY* shows that the way in which boards handle their environmental and social responsibilities varies greatly from one company to another. For example, while 47% of respondents believe that climate risk oversight is a board of directors responsibility, 27% think that it is a governance sub-committee responsibility.

OUR APPROACH

Despite companies' divergent practices, DGAM has defined a series of criteria for assessing corporate ability to integrate ESG risk management under various governance pillars:

- Board members must have a range of ESG skills (climate change, diversity, equity and inclusion, cybersecurity, etc.).
- Directors must receive training on the ESG issues they are least familiar with.
- Managing ESG risks must be incorporated into the responsibilities of the board and its sub-committees, and these issues must be discussed frequently.
- Progress on ESG objectives must be subject to transparent annual reporting, which includes data and targets aligned with industry standards (e.g., TCFD and SASB).
- ESG data published by organizations and their processes must be audited.

THE INITIATIVE WE SUPPORT

CCGG Canadian Coalition for Good Governance

OUR 2022 ACHIEVEMENTS

- 64 dialogues with companies on governance issues.
- Voted against the election of directors in 47% of companies that held them due to a lack of director independence.
- Voted against the auditors of 35% of companies that were renewing their audit contracts because the contract terms exceeded 20 years.
- 36 votes in favour of shareholder proposals demanding the independence of the chair of the board of directors.
- Participated on the Investment Industry Association of Canada's ESG Committee. The objective of this committee is to provide information, discuss important issues related to ESG integration and respond to regulatory opinions and requests for comments.
- DGAM became a signatory of the Call for Stronger Alignment of Regulatory and Standard Setting Efforts around Sustainability Disclosure joint statement. As its name suggests, this initiative calls for a coordinated effort by the various regulatory authorities to align sustainability information disclosure standards.

Transition to a low-carbon economy

According to the 2023 World Economic Forum report, climate change remains the most severe risk the world will face in the short and long term. Egypt's COP27 participants also stressed the need to cap global greenhouse gas emissions by 2025 and reduce them by about 43% by 2030 in order to limit global warming to 1.5 degrees Celsius.[2]

Desjardins has adopted an ambitious plan aiming for net-zero emissions from its financing and investment activities in the transportation, energy and real estate sectors by 2040 (and by 2050 for all other sectors). In 2022, our organization continued to contribute to the collective effort for an equitable transition to a low-carbon economy by adopting new science-based capital targets.

As portfolio manager, DGAM's role is to support Desjardins in achieving its ambitious climate objectives. Our Quantitative Strategy and Responsible Investment teams have created indexes that align with a net-zero trajectory. DGAM is a signatory of the Net Zero Asset Manager Initiative, which commits us to achieving a net carbon neutrality target for our portfolios by 2050. For Desjardins' own funds, interim targets of 30% and 50% have also been set for 2025 and 2030 respectively (compared to 2020).

Links to the Sustainable Development Goals (SDGs)

EXAMPLES OF INVESTMENT OR ACTION AREAS	
	• High proportion of electricity use from renewable energy • Issuers and assets that produce renewable energy
	• High energy efficiency • GHG mitigation technology • Net-zero emissions goals and science-aligned interim targets

[2] Source: UNFCCC. Maintaining a clear intention to keep 1.5°C within reach.

INTEGRATION INTO OUR PORTFOLIOS

We've integrated the management of energy transition and climate risks into our portfolios in various ways. First, we introduced an exclusionary policy for issuers with thermal coal exposure and no credible strategy for transitioning away from coal. We then adopted a new approach to calculating the carbon footprint of our portfolios using industry best practices and science-based targets in line with the *Partnership for Carbon Accounting Financials* (PCAF) and *Science Based Targets Initiative* (SBTi) methodologies.

We use a hybrid carbon footprint reduction approach that's consistent with our reduction targets, but also with the practices of index providers. To make it easier for managers to monitor our portfolios and implement strategies, our approach includes specific parameters:

- For our portfolio managers, financed emission reduction targets have been set at 30% by 2025 and 50% by 2030 (relative to 2020 levels) to limit the temperature increase to 1.5°C.
- For our RI team, SBTi reduction targets will be tracked by calibrating our objectives following index carbon reductions and using a portfolio coverage indicator to determine the number of companies that are formally committed to decarbonizing their value chain (Scope 3 emissions).

Note that DGAM offers a full range of exchange-traded funds (ETFs) aimed at reducing the carbon footprint compared to the benchmark index, as well as several actively managed low-carbon solutions using negative ESG filters. Page 42 of this report provides more details on the various ESG solutions offered by DGAM.

CASE STUDY

A shareholder proposal opens the door to a dialogue on the need to maintain transition efforts

For several years, DGAM has been in an ongoing dialogue with a fossil fuel company that, despite good ESG integration into its business model, seems to have lost momentum in its transition efforts. In response to a shareholder proposal asking the company to set science-based targets and adopt indirect emission targets (Scope 3), we met with management to get a better understanding of its strategy for this year through 2030. The directors explained that accelerating their transition required a radical change of business model, while pointing out that they calculate their indirect emissions and are assessing an alignment strategy. This dialogue led us to conclude that the company's strategy was not consistent with global best practices and that it could invest more effort in its transition program, which prompted us to vote "for" the proposal. We discussed the balance between maximizing shareholder value and ensuring the company's sustainability in a low-carbon world.

SHAREHOLDER ENGAGEMENT

As part of our engagement and voting activities, we assess corporate strategy on climate change from a number of angles:

- Robust governance structure to oversee the integration and deployment of the climate change strategy
- Transparent, detailed disclosure of GHG emissions
- Adherence to a recognized reporting structure
- Net-zero emissions by 2050, with short- and medium-term reduction targets
- Executive compensation tied to measurable results in terms of ESG criteria
- Low-carbon economy transition plan and development of new green technologies

EXERCISING VOTING RIGHTS

Say on Climate proposals are subject to a consultative vote on corporate climate and transition programs. By adopting such a policy, a company shows transparency on its climate strategy and provides shareholders with a consultative vote on the strategy. After gaining momentum in shareholder meetings in 2021, climate consultation gained popularity in 2022. In this context, DGAM decided to review the Say on Climate proposals with an aim to adjust its policies on exercising proxy voting rights. Among other things, we will now support consultative votes involving reduction targets aligned with the objectives of the Paris Agreement. This policy update formalizes our intention to support climate change integration into issuers' business models. Our decision aid criteria allow for a thorough analysis of Say on Climate proposals. This ensures that we fully grasp their nuances and support those that align with our objectives. We generally vote in favour of this type of proposal except in the cases:

- The report is not aligned with a recognized reporting framework, such as the Task Force on Climate-related Financial Disclosures (TCFD).
- The report does not state the company's indirect emissions (Scope 3).
- The reduction targets are not aligned with the goals of the Paris Agreement or science.
- No intermediary targets have been adopted or disclosed.
- The company does not have a strategy for phasing out fossil fuel use and/or production.
- The emissions data is not verified by an independent source.
- No annual reporting to shareholders is planned.
- New intensive fossil fuel projects have been funded.
- No annual reports are presented to shareholders.
- The company does not plan to adopt practices consistent with the above-mentioned guidelines.

INITIATIVES WE SUPPORT

TCFD

NET ZERO ASSET MANAGERS INITIATIVE

BUSINESS AMBITION FOR 1.5°C

PPCA Powering Past Coal Alliance

Climate Action 100+

CLIMATE ENGAGEMENT CANADA

OUR 2022 ACHIEVEMENTS

- 101 dialogues with companies on the issue of transitioning to a low-carbon economy.
- 40% reduction in the carbon footprint of Desjardins' owned funds in relation to their respective indexes.
- \$1.7 billion in renewable energy infrastructure.
- \$1.9 billion in green and sustainable bonds.
- Updated our voting rights policy following our analysis of Say on Climate proposals to reflect our new climate ambitions.
- 39 votes in favour of shareholder proposals dealing with GHG emissions management and the disclosure of climate change risks.

Development of a fair, equitable and inclusive economy

2022 was filled with societal challenges. Inflation and rising food and energy prices have caused a global purchasing power crisis and led to riots in some 30 countries. The unprecedented wave of protests against food prices, fuel prices and the cost of living is proof that food and energy security are linked more than ever to political and social stability.

The last year was also marked by geopolitical upheaval, including the war in Ukraine, which had international repercussions. Faced with these imbalances and ever-increasing inequalities, efforts to build a more just and equitable economy must be stepped up.

To this end, investors play a crucial because of their influence levers, via their asset allocation and dialogue with issuers, public policy-makers and other economic stakeholders.

Links with Sustainable Development Goals (SDGs)

EXAMPLES OF AREAS OF INVESTMENT AND INTERVENTION	
8 DECENT WORK AND ECONOMIC GROWTH	• Job creation and economic development • Engaged employees • Exemplary workplace safety • Supply chain oversight to ensure human rights are respected
10 REDUCED INEQUALITIES	• Ambitious policy, practices and targets for company-wide diversity representation • Encouragement of various suppliers from diverse backgrounds
11 SUSTAINABLE CITIES AND COMMUNITIES	• Community inclusion in decision making • Affordable housing • Access to telecommunications in remote areas

OUR APPROACH TO HUMAN RIGHTS

We believe leaders must consider the interests of all parties concerned to maximize their company's value in the long term, so our ESG analyses include validating business practices related to human rights and stakeholder engagement. To achieve this, we make sure companies have:

- A governance structure that ensures respect for human rights.
- Policies, guidelines and due diligence processes that respect the rights of the employees and those in the supply chain.
- A framework for consulting with stakeholders to ensure that projects are socially acceptable.

CASE STUDY

Promising engagement thanks to a collaborative effort by investors

At the end of 2022, we initiated an engagement plan with a mining company dealing with several severe human rights controversies, including issues in its relations with Indigenous communities. We launched a dialogue to help the company strengthen its diversity and inclusion toolkit and to guide its work on international human rights management. Company leadership was very open to the process, but the controversies remained severe and showed a lack of transparency and insufficient attention to human rights and security issues. To maximize our chance of success, we have joined forces with other investors to put pressure on the company and ensure they take concrete action to mitigate the controversies and improve the transparency of their disclosures. This dialogue is ongoing and shows promise. There is hope for meaningful results.

OUR APPROACH TO EQUITY, DIVERSITY AND INCLUSION (EDI)

Several studies show that there is a positive correlation between a company's financial performance and the diversity of its board of directors and management team.[3] We are particularly active on this issue, as shown by Desjardins' participation in the *30% Club*, our support of the RIA-initiated *Investor Statement on Diversity*, and our involvement in the *Black North* initiative. At DGAM, we assess issuers' EDI performance by verifying the following:

- The existence of programs to promote diversity and better representation of different groups at all levels of the company.
- The percentage of women and ethnic and cultural minorities in decision-making positions in all areas of the company.
- The existence of sponsorship or bursary programs that can help increase the number of people from diverse backgrounds in generally male-dominated fields.
- Implementing ways to counter the conscious and unconscious biases that can hinder the recruitment and advancement of people from diverse backgrounds to decision-making positions.

OUR APPROACH TO CYBERSECURITY

Cyberattacks can substantially compromise company performance. We pay close attention to cybersecurity risks by covering four components in our ESG assessments of issuers:

- Will and ability to incorporate cybersecurity issues into the company's strategy and commitment to making a quality disclosure.
- Cybersecurity culture that ensures that the existing processes are effective.
- Clear processes and mechanisms in place to ensure they are followed and updated as cyberattacks evolve.
- Robust processes in place to ensure business continuity in the event of a cyberattack.

OUR APPROACH TO HUMAN CAPITAL MANAGEMENT

Besides representing substantial costs for companies, human capital is directly tied to their productivity, ability to innovate and success. In our ESG assessment of companies, we carefully assess the policies, practices and data on employee health and safety, as well as workforce management, and programs to attract and retain workers.

INITIATIVES WE SUPPORT

Canadian Investor Statement on Diversity Inclusion

[3] Mckinsey & Company, MSCI, BCG, Deloitte, CIBC and the Government of Canada.

CASE STUDY

A productive and collaborative engagement to achieving a diversity target

In 2022, a mining sector company was identified by investors as underrepresented by women on its board of directors. DGAM quickly decided to lead this engagement collaboratively by joining forces with another 30% Club member. We approached the company with two clear objectives: to convince it to foster greater gender diversity by working towards a 30% female leadership share, and to encourage it to adopt a diversity and inclusion policy with objectives.

The company was very receptive and quickly rectified the situation by achieving 30% female representation on its board, a target it had set for 2024. Although this is positive news and demonstrates the leverage of collaboration, we want to go further by encouraging the company to adopt a policy for diversity. We also want them to hire more women for management roles, which are currently almost exclusively occupied by men.

OUR 2022 ACHIEVEMENTS

- 55 dialogues with companies about developing a fair, equitable, and inclusive economy.
- Support for 92% of shareholder proposals pertaining to human rights.
- Votes against committee member nominations for 833 companies whose boards of directors did not feature 30% female representation (30% for the election of directors and committee chairs).
- Participated as a principal investor and co-investor in the PRI's "Advance" engagement on human rights and social issues.
- Participated in a panel on diversity and inclusion in Canadian institutions as part of the RI Canada 2022 conference.

Protection of biodiversity and natural capital

2022 was a year of forward momentum as biodiversity became a topic of conversation. Biodiversity is, by definition, all life and the variability of living organisms on Earth, while natural capital is the stock of renewable and non-renewable natural resources that combine to yield a flow of benefits to people.[4] The World Economic Forum ranks biodiversity loss and ecosystem collapse as the *fourth global risk* for the next 10 years. According to the organization, nearly 50% of GDP is moderately or severely dependent on nature, with the rest of the GDP affected to a lesser degree.

The *2022 Living Planet Report* found that the global wildlife population has decreased on average by 69% since 1970. This decline is mirrored in natural resources and untouched land. There has been a decline of 47% in the size and condition of ecosystems globally.[5] This crisis has made biodiversity a theme heard frequently at sustainable finance conferences. The double materiality aspect is extremely important as our impact on nature can consequently affect our reliance on nature as well. Geographic locations are also a dynamic that has identified places such as the Amazon or coastal regions as areas with a higher biodiversity impact. As such, change in these locations is more urgent than in other places, such as the middle of a desert.

[4] *Source: https://www.spglobal.com/esg/solutions/nature-risk-profile-methodology.pdf*

[5] *Source: https://globalcanopy.org/insights/insight/whats-next-for-biodiversity-data-in-the-finance-sector/*

FORGING AHEAD

The forward momentum of biodiversity in research and conferences has had an impact on initiatives and working groups in this area and has changed the ways that financial institutions can act. In 2022, we studied 19 initiatives with a broad focus on nature to identify the ones most relevant to DGAM. This in-depth analysis led us to the following conclusions:

INITIATIVES	DGAM'S FINDINGS
• TNFD Taskforce for Nature-related Financial Disclosures • FFB Finance for Biodiversity Pledge	Initiatives to focus on and monitor closely.
• ENCORE Exploring Natural Capital Opportunities, Risks and Exposure	A tool or database to be used.
• Nature Finance • PRI Principles for Responsible Investment • PRB & ILP Principles for Responsible Banking & Investment Leadership Platform • PBAF Partnership for Biodiversity Accounting Financials • CPIC Coalition for Private Investments in Conservation, • CISL University of Cambridge Institute for Sustainability Leadership • Ceres Land Use and Climate Working Group • SBTN Science Based Targets Network	Excellent resources to deepen our understanding.
• CBF Consortium for Biodiversity Footprint • F@B Finance@Biodiversity Community • Align Aligning accounting approaches for nature • BIOFIN The Biodiversity Finance Initiative • WEF Biodiversity Finance Learning Coalition • B4B+ Club Business for Positive Biodiversity Club • C4C Capital for Climate • CFA Conservation Finance Alliance	Not selected due to their local focus, slow progress or lack of information.

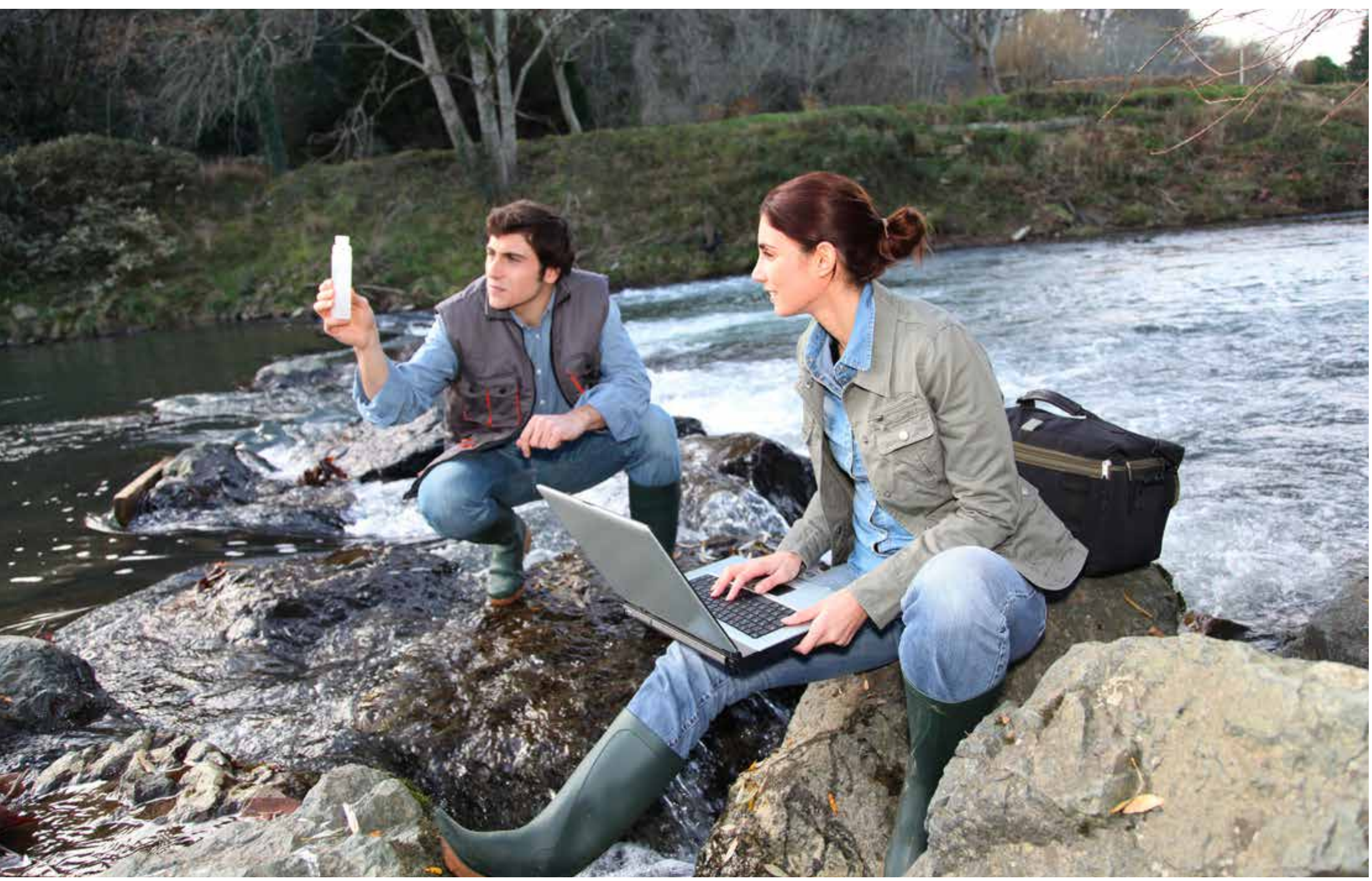
Two initiatives in particular caught our attention. TNFD is a science-based, market-led management and disclosure framework that allows organizations to report and act on their nature-related risks. Currently in its beta phase, the framework is working with the industry to ensure its relevance. The FFB is an initiative of financial institutions that calls on leaders to commit to protecting and restoring biodiversity. A more detailed presentation of this initiative that DGAM has decided to join is included in one of the case studies below.

COP15: AN HISTORIC MOMENT IN MONTREAL

The 15th biodiversity Conference of the Parties (COP15) was held in Montreal in 2022. It was the second part of the conference, the first having been held in Kunming, China in 2021. The meeting brought together delegates from 196 countries to set new goals and an action plan for nature through 2030 to halt and reverse biodiversity loss. This was the first conference that had a day dedicated to finance. More than 100 financial institutions took part. Multiple themes emerged during the conference:

- Climate and biodiversity are not separate issues. Protecting nature while reversing negative effects is the solution to climate change.
- Collaboration is essential.
- Indigenous communities are stewards of ecosystem conservation and must be recognized as such.
- Waiting for perfect data is a recipe for inaction. Data are already available; the more we measure biodiversity metrics, the more data will be available.

The conference ended with the signing of the Kunming-Montreal Global Biodiversity Framework, which calls for action to reduce the negative impacts on biodiversity. The framework contains four long-term goals. The fourth, called Goal D, requires adequate means of application, including financial resources, capacity building, and technical and scientific collaboration. The framework also includes 23 targets to achieve by 2030. Target 15 requires businesses and financial institutions to disclose their risks and impacts on biodiversity.



OUR APPROACH TO BIODIVERSITY AND NATURAL CAPITAL

DGAM's RI team has identified three areas of interest related to this priority issue:

1. Deforestation and land rehabilitation
2. Water quantity and quality
3. Regenerative agriculture and sustainable agribusiness

ESG metrics on these areas are integrated into our internal issuer assessment grid and our engagement strategy. We also discuss these areas with companies and ask them to explain their inclusion of nature-related risks and to provide examples of their zero-deforestation strategy and sustainable agricultural processes. Furthermore, biodiversity best practices are accounted for within our proxy voting activities. For example, we supported a shareholder proposal submitted to a consumer company asking it to report on its efforts to eliminate deforestation in its supply chain. We joined multiple initiatives in 2022, including S&P Global's Framing the Future for Nature and the Ceres Land Use and Climate Working Group meetings. These working groups are sources of research that address various topics and help deepen our understanding of biodiversity.

Links to Sustainable Development Goals (SDGs)

EXAMPLES OF AREAS OF INVESTMENT OR INTERVENTION	
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	• Recycled packaging production • Non-intensive agricultural processes • More efficient industrial process
14 LIFE BELOW WATER	• Water-efficient production • Sustainable aquaculture and fisheries • Water treatment infrastructures
15 LIFE ON LAND	• Commitment and practices to stop deforestation • Sustainable supply chain practices

CASE STUDY

Finance for Biodiversity

In 2020, the Finance for Biodiversity (FFB) initiative was launched in Europe to bring together financial institutions and encourage them to collaborate and commit to protecting and restoring biodiversity. As of December 2022, the pledge had been signed by 126 financial institutions from 21 countries, representing EUR$18.8 trillion in assets. DGAM joined the initiative in November 2022 and has pledged to fulfill the following five commitments by 2024: collaboration and knowledge sharing, engaging with companies, assessing impact, setting targets and reporting publicly on our biodiversity progress in our annual report. While these commitments are ambitious in some respects, they are key to encouraging financial institutions to limit their impacts on biodiversity. Through joining this pledge, DGAM also joined the FFB Foundation, which brings together working groups that aim to help financial institutions meet their commitments.

CASE STUDY

A service provider pushes forward

As biodiversity gains ground, financial institutions and organizations increasingly turn to service providers to learn how to assess ecological risk and the impact of portfolios and projects. During discussions with a world leader in professional services, the head of ecological services mentioned that the company acquired an environmental consulting firm in 2021 to improve its expertise. Since the acquisition, the supplier has added this knowledge to its services and incorporated the impacts of its projects on biodiversity and communities.

The provider has clear objectives targeting biodiversity protection, to identify the projects it wants to be part of and to guide client discussions. An example of biodiversity inclusion is a transport project where rehabilitation of urban and green areas was a pillar to their proposal, even though biodiversity was part of the client's initial request. The company has carved out an enviable position as a leader in integrating biodiversity into all infrastructure projects, and has become a preferred partner in community relations.

THE INITIATIVES WE SUPPORT

FAIRR A COLLER INITIATIVE | Finance for Biodiversity Pledge | Ceres | S&P Global

OUR 2022 ACHIEVEMENTS

- Article published in AIR magazine and two other articles in peer-reviewed journals.
- Participated in a PRI panel on nature and a panel at a COP15 event in Montreal.
- Participated in S&P's Framing the Future for Nature initiative.
- Signed the Finance for Biodiversity Pledge.
- 17 dialogues with companies on the protection of biodiversity and natural capital.

An essential approach to reduce risk, optimize returns and generate positive impact

For DGAM, leadership in responsible investment is not limited to integrating ESG risks when selecting securities. We believe that engagement is an essential driver for portfolio managers to encourage issuers to adopt responsible practices.

Drawing on our power to influence, we focus on mobilizing shareholders to mitigate the risks associated with our investments, optimize our returns and generate positive results for communities. Exercising voting rights, shareholder dialogues and interventions with public decision makers (see Levers of influence section) are effective mechanisms for encouraging issuers to improve their sustainable development practices.

DIALOGUES TO PROMOTE BEST ESG PRACTICES

The numerous dialogues that we have with issuers allow our IR team and our managers to better understand the companies' business model and ESG practices. In some cases, our teams go so far as to visit companies to assess specific issues, such as employee working conditions. Dialogues also allow us to make recommendations to improve risk management and identify opportunities specific to the organization.

VOTING RIGHTS, TO CONVEY A MESSAGE CONSISTENT WITH OUR PRINCIPLES

We consider it part of our fiduciary duty to vote on all proposals submitted to the shareholders' meetings of the companies we hold, in accordance with our principles and those of our clients. DGAM pays particular attention to the exercise of voting rights, which allows us to express our opinion on business practices in a manner consistent with the values of Desjardins and its partners.

Consistent with our *Policy on the Exercise of Proxy Voting Rights* and its guidelines, we do not back proposals that are overly constraining, that do not consider the target company's efforts or that are unsuited or not adapted to its business reality. For example, we do not back proposals aimed at a company that already has a strategy to manage the issue in question (or plans to adopt one). Before making a decision, we take into consideration the content and form of the shareholder proposals submitted.

In the interest of transparency and compliance, we disclose *the votes we cast for Desjardins ETFs* on an annual basis. We also use shareholder proposals as a means of raising awareness of a particular ESG issue within a company and among its shareholders. At DGAM, this activity consists of making a non-binding recommendation, i.e., one that does not prescribe a direct action that could harm the management of the company.

Our 2022 dialogues in figures

Number of interactions	141
Number of companies met	109
Number of issues addressed	32

Dialogues per industrial sector

Sector	%
Financial	19%
Consumer staples	14%
Energy	13%
Materials	9%
Consumer discretionary	9%
Industrial	7%
Utilities	7%
Real estate	6%
Healthcare	6%
Others	5%
Information technology	4%
Communication services	2%

Occurrence of the ESG pillars addressed

Pillar	Occurrences
Transition to a low-carbon economy	101
Ensuring governance with strength, integrity and resilience	64
Development of a fair, equitable and inclusive economy	57
Protection of biodiversity and natural capital	17

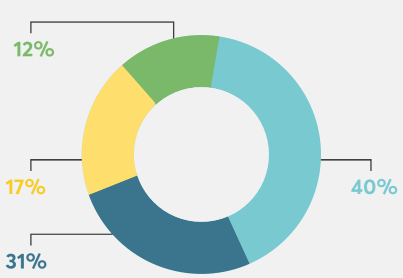
DGAM stakeholders attending

Stakeholder	Number
RI Analyst	94
Consultant	44
Portfolio Manager	34
Financial Analyst	27

Stakeholders met

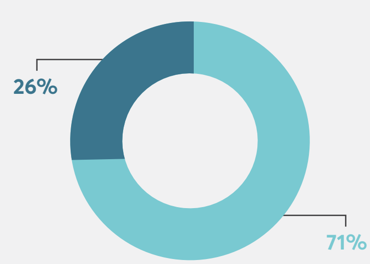
Stakeholder	Number
Senior management	83
Investor relations	60
Internal expert	46
Board	12
External stakeholder	4

Progress on dialogue objectives



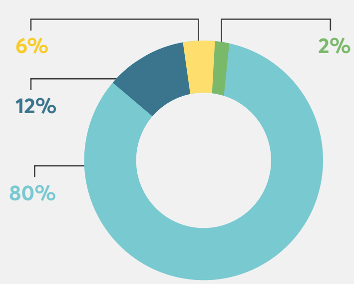
Positive Achieved
Neutral Negative

Geographic allocation of the companies met



Canada United States

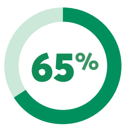
Dialogues per type of meeting



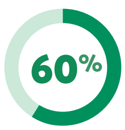
One on one meeting Phone Call
Group meeting Email

Our 2022 votes in figures[6]

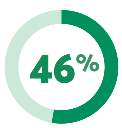
DGAM reviewed **3,573** corporate meetings and **42,264** proposals submitted to a shareholders vote



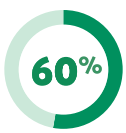
Voted in favour of proposals submitted by management



Proposals concerned the election of directors

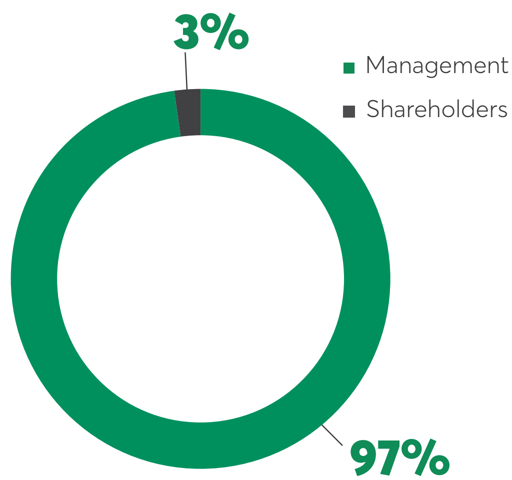


Support of proposals submitted by shareholders

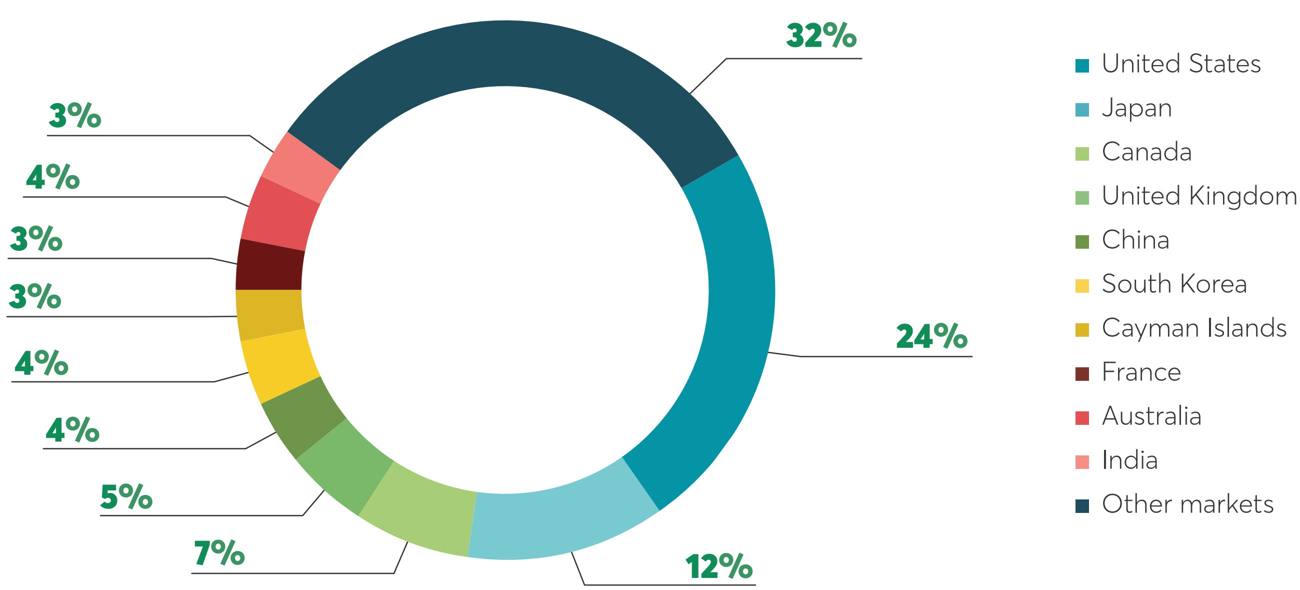


Support of Say on Pay proposals

WHERE PROPOSALS CAME FROM



BREAKDOWN OF SHAREHOLDER MEETINGS BY MARKET WORLDWIDE



[6] The 2022 voting data do not include Hexavest, which was acquired in September 2021.

	CONTEXT FOR 2022	DGAM HIGHLIGHTS
DIVERSITY, EQUITY AND INCLUSION	The rise in the number of women on boards of directors continued in 2022. **The number of S&P/TSX companies with female representation of at least 30% increased from 59% to 68%.** Since gender disclosure rules were introduced, the percentage of women on the boards of S&P/TSX companies has risen from 18% in 2015 to 32% in 2021, and since June 2021, all companies have at least one woman on their board of directors.	DGAM did not back candidates for the chair of the nominating committee or the chair of the board of the **833 companies that did not have 30% female representation on their board** (or at least two women, depending on the region) or not having an action plan and credible targets to this effect.
EXECUTIVE COMPENSATION PLAN	**222 companies held a consultative vote on executive compensation** (*Say on Pay*). Eighteen held the vote for the first time, which marks the fastest increase in the last five years. The lowest approval rate received by a company was 24.4%. Three companies received an approval rate below 50%.	DGAM voted against **55% of *Say on Pay* proposals**. The most common reasons for objection are: • severance pay deemed excessive; • presence of stock options in incentive compensation programs; • an overall dilution rate of stock earmarked for executive compensation greater than 10%.
SHAREHOLDER PROPOSALS	In Canada, **58 shareholder proposals were withdrawn**, compared to 52 in 2021 and 18 in 2020. This high number reflects the **constructive dialogue** that is happening between management and those making the proposals. A large majority **(91%)** of the proposals that were withdrawn focused on environmental and social issues. According to *ISS*, in 2022, **more shareholder proposal votes** were put to the vote on the Canadian market than in a decade.	DGAM **supported 92% of shareholder proposals related to human rights** and **42% of those that focused on environmental issues**.

Source: ISS, DGAM

An approach applicable to all types of mandates

DGAM has developed a responsible investment approach that can be applied to all asset classes, investment approaches (active or passive) and markets (Canadian or global) managed by its portfolio managers and analysts. The various means we use to integrate ESG practices are adapted according to the mandates we manage as well as the objectives and priorities of our clients. We have built an integration model that allows our teams to identify sector- and company-specific risk factors using the standards of the *Sustainable Accounting Standards Board* (SASB) as a guide.

Together, our responsible investment specialists and our management teams collaborate to analyze the ESG practices of issuers and assets, focusing on the major controversies in which some of them are involved and, more importantly, on the way in which they manage the resulting risks. Our research and analysis of the ESG practices of issuers and assets is based on various sources of specialized data from recognized providers, such as *MSCI*, *ISS*, *Refinitiv* and *Trucost*.

The DGAM ESG integration model

INVESTMENT UNIVERSE

Like the S&P/TSX Composite, FTSE Universe and MSCI World indices

CORPORATE FINANCIAL HEALTH ASSESSMENTS

AND

ASSESSMENTS OF CORPORATE ESG PRACTICES

NO CONTROVERSIAL INDUSTRIES

Like tobacco or controversial weapons

SPECIFIC ESG OBJECTIVES

Like ESG rating and carbon intensity

SHAREHOLDER ENGAGEMENT

- Dialogue to improve corporate practices
- Shareholder proposals
- Voting at shareholder meetings to influence decision-making

WE EXCLUDE CONTROVERSIAL SECTORS

We draw on the *United Nations Global Compact* (UNGC) to apply an initial normative exclusion filter to all our portfolios. Additional exclusions can then be applied depending on the objectives and preferences of our various partners and clients.

WE INTEGRATE ESG CRITERIA INTO OUR RESEARCH

In addition to financial analysis, the ESG practices and performance of issuers and asset managers are considered in order to measure risks and identify opportunities likely to have an impact on the value of investments over the long term. Material factors specific to each sector are taken into account, including SASB standards and the Sustainable Development Goals (SDGs). ESG considerations are integrated into the stock selection process, based on a positive or negative screening methodology, or on our internal ESG rating scale which gives issuers a score between 0 and 10. This ESG rating is one of the variables used during portfolio construction.

WE SET SPECIFIC ESG OBJECTIVES

Depending on the mandates we are tasked with, we include an ESG dimension in our portfolio construction objectives. Decarbonization targets and/or ESG ranking are added to the investment objectives of some of our strategies. Our managers integrate these objectives in their investment process, without sacrificing financial objectives.

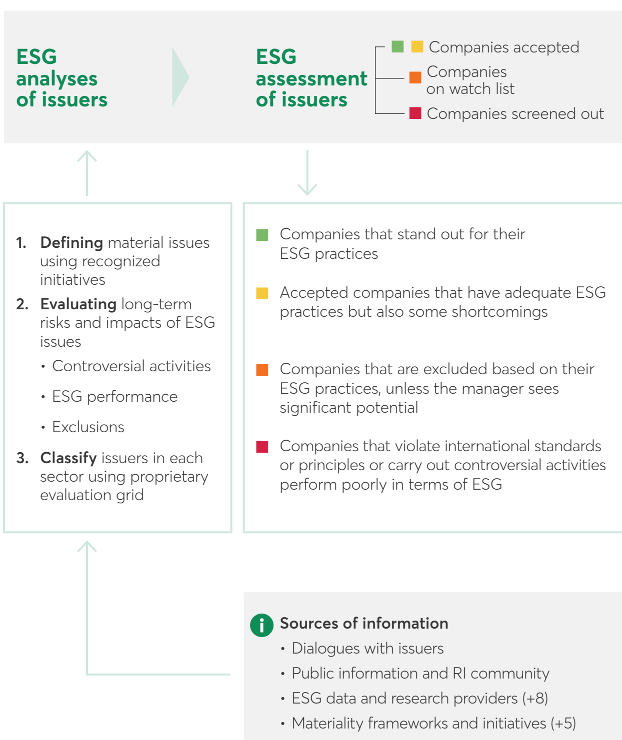
WE AIM TO ACTIVELY ENGAGE WITH ISSUERS, PARTNERS AND DECISION MAKERS

The exercise of voting rights, dialogue with companies and interventions with public decision makers are core levers to encourage issuers to enhance their sustainable development practices. This engagement is also extended to our partners, such as property managers and co-investors, in order to accelerate the management of ESG considerations.

A rigorous methodology and an ESG assessment grid developed by our experts

Our teams use a DGAM-specific methodology to integrate ESG criteria into the management of our portfolios. Our internal ESG rating grid is used to define the material issues for each industry and categorize issuers according to four levels: two levels eligible for investment (one for issuers that stand out, and the other for those with adequate practices but with some shortcomings), one level requiring monitoring and an engagement strategy, and a final level corresponding to those with risks too high to be included in our portfolios.

DGAM'S ESG RATING GRID



DGAM'S ESG PRACTICES ALIGNED WITH INTERNATIONAL STANDARDS

TCFD — TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

PRI — Principles for Responsible Investment

SASB STANDARDS

SUSTAINABLE DEVELOPMENT GOALS

UN GLOBAL COMPACT

A RANGE OF ESG STRATEGIES AND A TAILORED APPROACH

Although our beliefs in sustainable investing encourage us to adopt ESG practices across all of our investment activities, DGAM understands the need to offer solutions adapted to the specific needs of investors. In order to maintain long-term relationships of trust with our clients, we take the time to understand their needs and concerns with respect to responsible investing. We support our clients in their own responsible investment approach by offering a wide range of RI strategies and advice to develop tailor-made solutions, adapted to the objectives and constraints of each client.

DGAM's various responsible investment solutions

STRATEGY	INVESTMENT APPROACH	Exclusions				Integration in fundamental or quantitative analysis	Positive screening based on ESG rating or metrics	Shareholder engagement		Climate approach
		Aligned with UNGC	Coal	Fossil fuels	Other exclusions			Dialogues	Votes	
Private RI Canadian Equity Fund	Active	✓	✓	✓	✓	✓	✓	✓	✓	✓
Desjardins SocieTerra Canadian Bond Fund	Active	✓	✓	✓	✓	✓	✓	✓		✓
Canadian Equity and Corporate Bond Fund – climate transition	Active	✓	✓			✓		✓	✓	✓
Canadian high-dividend Equity Fund	Quantitative	✓	✓					✓	✓	✓
Desjardins RI Global Multifactor - Fossil Fuel Reserves Free ETF	Quantitative multifactor	✓	✓	✓			✓		✓	✓
DGAM Global Private Infrastructure Fund	Active	✓	✓			✓	✓	✓	✓	✓
Private Real Estate Fund	Active	✓	✓			✓		✓		
Systematic ESG World Equity Fund	Active (quantitative)	✓	✓	✓	✓		✓	✓	✓	✓
Systematic ESG Emerging Markets Equity Fund	Active (quantitative)	✓	✓			✓			✓	

The following pages provide some examples of the ESG integration processes used by our portfolio managers as part of their management mandate.

New Desjardins ESG benchmark indexes

Over the past year, DGAM's RI and Quantitative Strategy teams have worked together to develop benchmark indexes that reflect ESG criteria. These indexes help to align investment portfolios with ambitions in terms of climate risk management and the consideration of ESG risks and opportunities in all investment decisions.

THE THREE AXES OF OUR APPROACH

1. No controversial industries	Our ESG benchmark indexes delineate the investment universe for portfolio managers by excluding, among others, issuers whose activities are related to controversial weapons, tobacco production and thermal coal.
2. Investment portfolio decarbonization compared to the 2020 reference year	The new benchmarks are aligned with Desjardins' decarbonization target for financed emissions (and with DGAM's interim reduction targets of 30% by 2025 and 50% by 2030 to achieve carbon neutrality by 2050).
3. Assessment of issuer's ESG practices	Indexes integrate DGAM's proprietary ESG assessment grid. Canadian issuers that we rank as being too high-risk for our portfolios are excluded from the universe. For international issuers, we use a systematic approach to exclude issuers whose ESG practices are considered poor according to DGAM.

WHY CREATE ESG BENCHMARK INDEXES?

By developing our own ESG benchmark indexes, we are making a new tool available to our portfolio managers to help them integrate RI into their investment process. Based on the representative investment universes of recognized underlying market funds, our benchmarks incorporate various financial risk constraints, such as sectoral neutrality and maximum weighting per security.

Benchmark indexes are essential resources for assessing the performance of portfolio managers. However, the ESG constraints of some mandates significantly alter the investment universe compared to the traditional benchmark.

This is particularly the case for portfolios aligned on a carbon neutrality trajectory with a long-term investment horizon. Desjardins ESG indexes provide more consistent benchmarking to assess the work of managers and to measure the impact of ESG decisions on performance.

In the coming months, our teams will build on their efforts to design these ESG indexes to develop investment solutions. It is a promising project to follow.

The 10 Desjardins ESG indexes

1. CANADIAN EQUITIES
2. US EQUITIES
3. INTERNATIONAL EQUITIES
4. EMERGING MARKETS EQUITIES
5. GLOBAL EQUITIES
6. CANADIAN PREFERRED SHARES
7. CANADIAN CORPORATE BONDS
8. SHORT-TERM CANADIAN BONDS
9. MEDIUM-TERM CANADIAN BONDS
10. LONG-TERM CANADIAN BONDS

Fixed income: Specialized tools developed in-house and updated on an ongoing basis

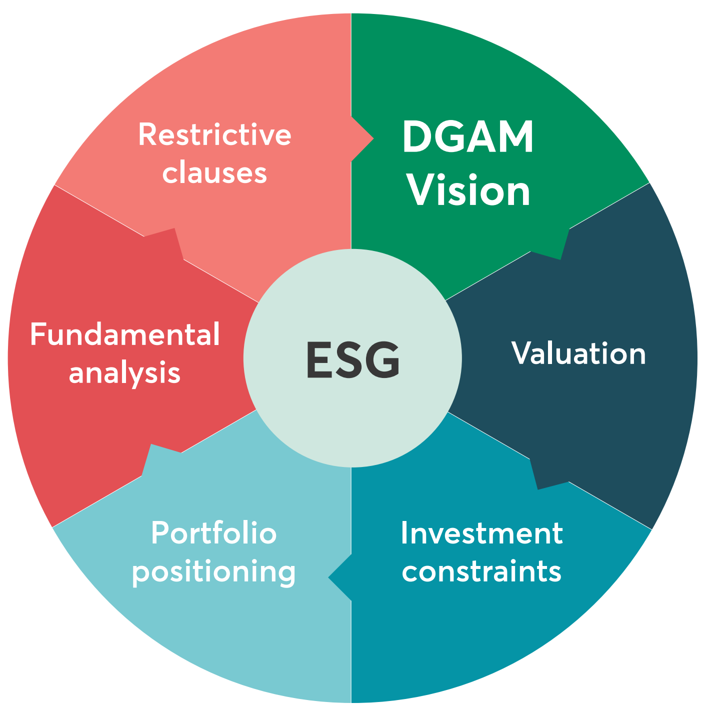
As at December 31, 2022, DGAM managed nearly $58 billion* in fixed income assets, distributed across portfolios with varying financial objectives as well as tax, regulatory and accounting requirements. The management team allocates these assets across a variety of fixed income asset classes (federal, provincial, municipal, corporate bonds and preferred equity) in a predominantly Canadian landscape, and uses an investment approach based on fundamental analysis.

ESG INTEGRATION PROCESS THAT RELIES ON CLOSE AND EFFECTIVE COLLABORATION

One of the key steps in our internal bond credit analysis process includes a fundamental analysis of targeted issuers, with an emphasis on credit quality and business risk, including ESG criteria that could have significant impact on the issuer or the sector.

Internal ESG ratings for issuers are shared with the fixed income team for integration into the analysis of securities and portfolio construction. Our RI specialists review their engagement priorities for debt issuers in their dialogue program on an annual basis. Typically, analysts from the DGAM's fixed income team and the RI team jointly prepare and carry out the dialogues.

Steps in DGAM's credit analysis



*Source: DGAM, December 31, 2022

CASE STUDY

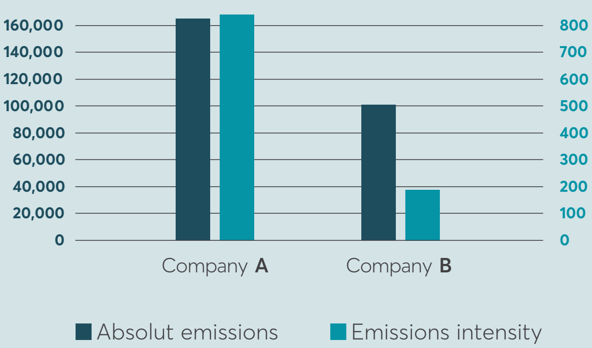
Project to analyze the climate impact of green bonds

In 2022, we began work to determine the climate impact of the various green bonds in our portfolio. Our analysis, which includes absolute emissions and emissions intensity, will help us determine which investments result in the greatest GHG reductions and guide our decision-making.

Our preliminary review has identified two issues so far: the lack of accurate, comparable and reliable data, and the lack of transparent reporting on the use of proceeds. For example, many issuers only disclose the reductions associated with part of the projects that are financed, certain data is contradictory and the horizons for GHG reductions over the period in question are sometimes unclear. That said, our analyses raised some interesting findings.

By comparing two green bonds, one issued by an energy company, the other by a transportation company, we found that the energy efficiency project financed by the first issuer prevented significantly more emissions than the public transit project financed by the second issuer.

GHG reduction (tCO_2eq)



Source: DGAM, 2022

GENEVIÈVE BACHAND

Senior Analyst
Corporate Credit

In 2022, new issues of sustainable bonds totaled almost US$815 billion. This decline compared with 2021 was caused by macroeconomic uncertainty and monetary tightening. A recovery in new issuance is expected in 2023, fuelled in particular by political initiatives and investments in climate adaptation.

FRANCIS SCOTT

Portfolio Manager

While the Canadian market is seeing positive growth in sustainable bond offerings, we would like to see more issuer diversity in our domestic market. Given the Canadian economy's reliance on the energy sector, we encourage the emergence of transitional bonds, because we are agents of change.

OUR NEW ANALYTICAL FRAMEWORK FOR SUSTAINABLE BONDS

DGAM is a major player in the Canadian sustainable bond market, with $1.9 billion invested in this type of security as at December 31, 2022.* Our teams have recognized expertise and are frequently consulted by Canadian capital market stakeholders. We have recently deployed an internal framework for assessing sustainable bonds to identify the key elements of analysis, the basis for our dialogues with issuers and the essential steps for monitoring this type of bond. Even though a bond may be considered sustainable by the market, it is not necessarily so for DGAM. This analytical framework therefore allows us to define the eligibility of sustainable bonds by taking into account various criteria, such as the issuer's credit quality, its ESG rating and its funded projects not related to controversial activities

OUR 2022 ACHIEVEMENTS

- Results for the Desjardins SocieTerra Canadian Bond Fund:
  - 67.5% reduction in carbon intensity compared to the FTSE TMX index (for the portion invested in corporate bonds only);
  - dialogues with issuers representing 34% of portfolio assets.
- $1.9 billion in sustainable bonds in our bond portfolios.
- Developed a methodology for assessing the impact of sustainable bonds.
- Partnership with PolyFinances to research long-term bonds and fossil fuels.

*Source: DGAM, December 31, 2022

Examples of ESG criteria used by DGAM in the evaluation of sustainable bonds

PILLARS	CRITERIA
Issuer engagement	Sustainable bonds linked to climate commitments must demonstrate that their objectives are aligned with the Paris Agreement and targets are aligned with science.
Selection and use of funds	Green bonds should be aligned with the Climate Bond Standard taxonomy.
Management of funds raised	We strongly recommend an external audit for the monitoring and allocation of funds.
Follow-up report	We give preference to quantitative impact indicators, backed by science and linked to the United Nations Sustainable Development Goals.

Canadian equities: Shareholder engagement as a core lever of integration

DGAM has extensive expertise in equity markets, particularly the Canadian equity market. Our Canadian equity team uses fundamental analysis and trend analysis as part of its security selection process. Our managers and analysts dedicated to this asset class have refined their expertise by integrating the material ESG issues specific to each sector of the economy in their analysis and by working closely with the DGAM RI team.

ESG CRITERIA AS A NATURAL COMPLEMENT TO TRADITIONAL FUNDAMENTAL ANALYSIS

Our investment process is based on an agile and clearly defined approach that allows our team to quickly adapt to changing market conditions. We believe that the analysis of our IR team, combined with our approach based on fundamental analysis and investor sentiment, makes it possible to identify the best companies to generate added value.

Our fundamental analysis aims to identify quality companies that have a clear competitive advantage over their peers, good financial health and a strong management team. We seek to identify a strong investment philosophy and drivers that will support long-term growth. Our managers also analyze investor sentiment to identify good entry and exit opportunities and adjust their positions.

The incorporation of ESG criteria is an integral part of the investment process. Managers ensure that environmental, social and governance criteria are taken into account when selecting securities using ESG ratings provided by DGAM's IR team specialists according to their internal methodology. This collaborative approach also includes dialogue with companies.

DGAM's Canadian equity investment process

1 Company research and trend analysis
ESG exclusions and screening

2 In-depth fundamental analysis
Integrated ESG analysis

3 Portfolio construction
Integration of proprietary ESG scores

4 Active portfolio management and risk monitoring
Integrated ESG analysis and dialogues

Portfolio construction

Investment universe

Top pick list

Stock selection

THE PATH FROM A PUBLICLY TRADED COMPANY TO DGAM EQUITY PORTFOLIOS

Each sector of the economy, and even each company, is exposed to specific ESG risks. Our RI team uses an internal assessment methodology that takes into account these risks and their impacts on the long-term value of investments. The analysis results in rating issuers within four categories:

This rating is made available to our portfolio managers, allowing them to easily integrate ESG factors into their analyses.

COMPANY CATEGORIZATION

ELIGIBLE

- Companies that demonstrate outstanding ESG practices
- Eligible companies that demonstrate adequate ESG practices but have certain shortcomings

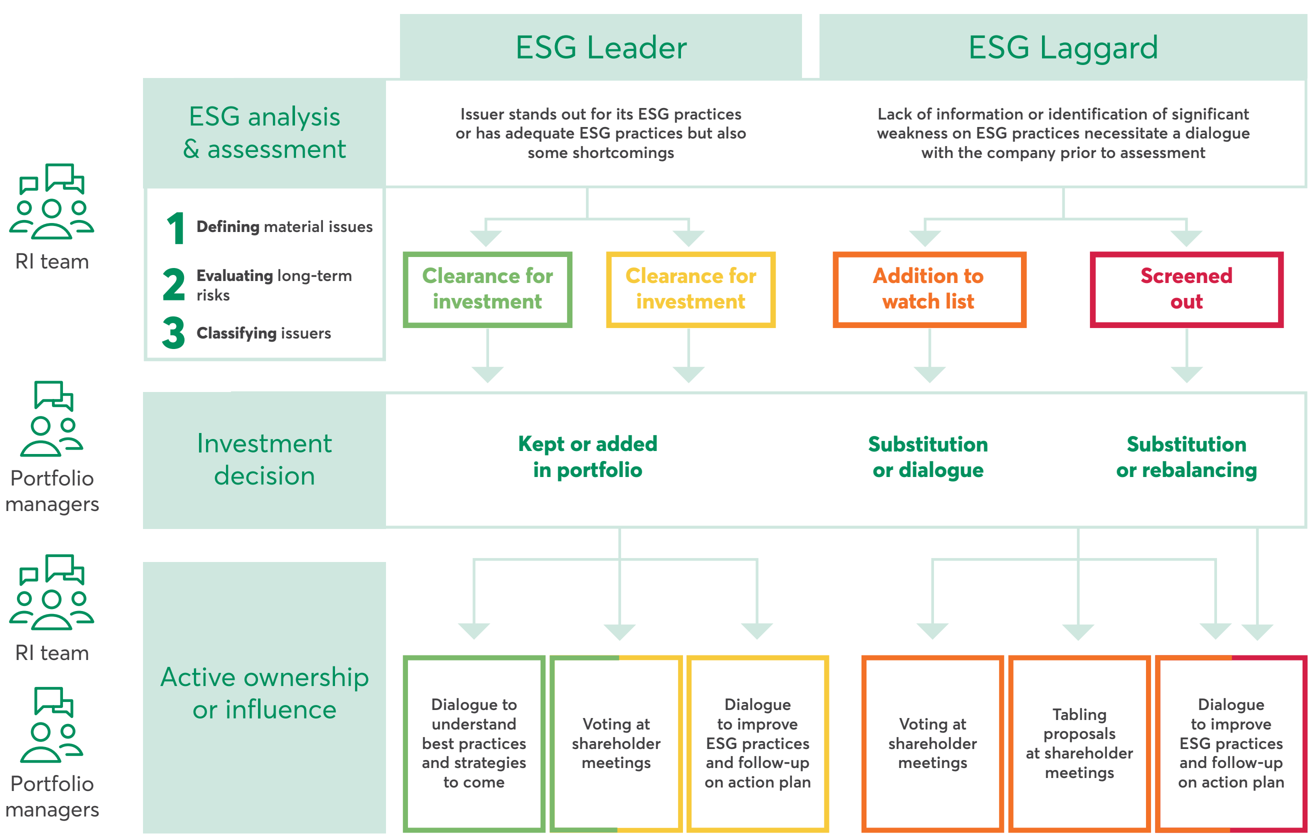
MONITORED

- Companies that are excluded based on the ESG practices, unless the manager sees significant potential

EXCLUDED

- Companies that violate international standards or principles because of controversial activities or poor ESG results

The diagram below illustrates the different paths an issuer can take throughout our portfolio construction process and shareholder engagement programs. A company that is eligible but with certain shortcomings in ESG practices, may be included in our portfolios and then approached through a dialogue. Conversely, a company "on watch list" will either be replaced or retained, but included in our shareholder engagement program as an incentive to improve its ESG practices.



CASE STUDY

ESG integration based on a sustainable business model

We have added a position in an industrial company to some of our portfolios because of the water management services it offers, an issue that is a priority for communities around the world. The company's business model has the potential to generate positive and sustainable benefits for society. Recent scientific research has raised concerns for human health and the environment by identifying "perennial" contaminants, such as polyfluoroalkyl (PFAS) that are the result of the manufacturing process for certain consumer goods with stain-resistant and waterproofing qualities. These contaminants are found in the drinking water in many regions. The company we have added to our portfolio has developed a process to limit the presence of PFAS in the municipal water system. It offers emergency and mobile solutions to adequately address population health issues in the short and long term. This example illustrates not only the integration of ESG analysis into the investment decision-making process, but also the importance of the mission of issuers and their positive impact on society.

OUR 2022 ACHIEVEMENTS

Positive outcomes for the DIM Private RI Canadian Equity Fund

- 36% reduction in carbon intensity versus the S&P/TSX.
- Dialogue with 78% of the companies in our portfolios.

PASQUALE POSTERARO

Portfolio Manager

While the companies that make up the developed markets investment universe are more mature in terms of sustainable practices, this asset class is rife with ESG challenges. In terms of the environment, the integration of a climate change strategy into the business model of issuers has become essential in a long-term perspective. With regard to the social component, relations with communities, particularly First Nations, have raised several controversies with material social impacts in recent years. And finally, sound, transparent and accountable governance remains an essential pillar for sustainable value growth of a company.

ANNE PERREAULT

Senior Portfolio Manager

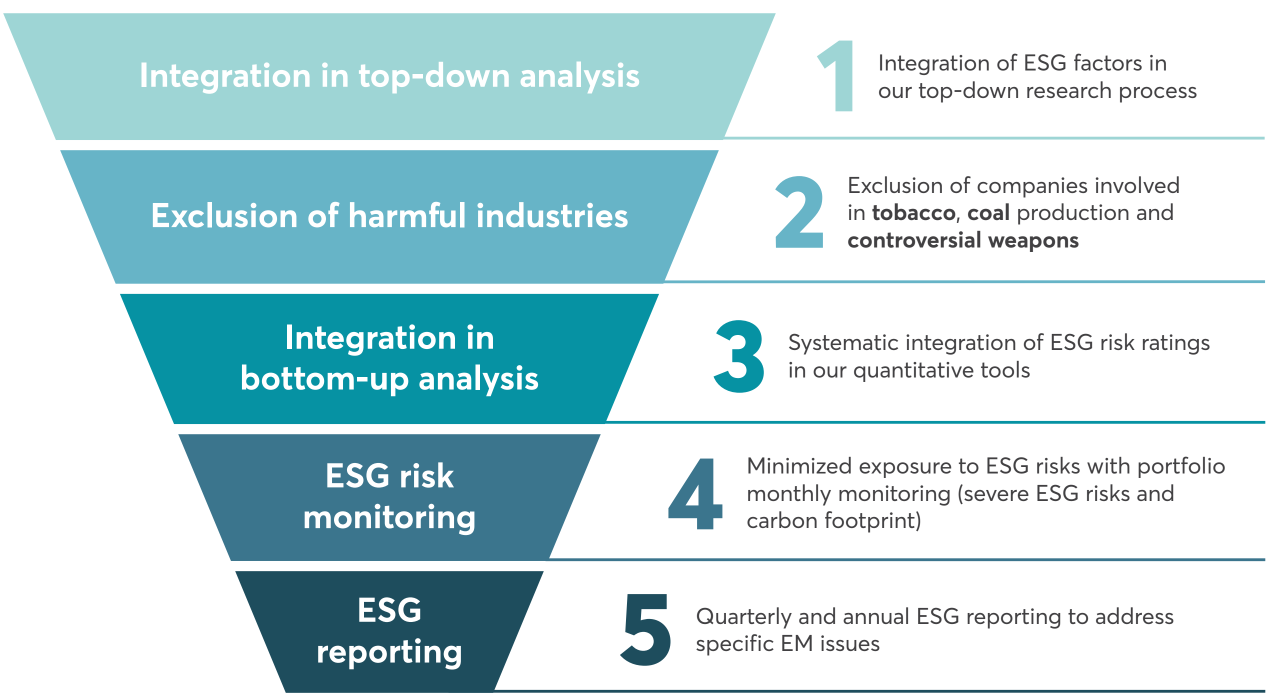
When selecting securities, we give preference to issuers with positive ESG momentum. The ESG analyses of the IR teams and the dialogues that we engage in with companies allow us not only to understand the company's vision, but also to assess the commitment of senior management to ESG practices and the alignment of initiatives with what is being communicated. This approach often allows us to identify investment opportunities, i.e., companies whose RI practices are improving but are not yet reflected in the ratings used by the industry.

Emerging market equities: The art of managing extreme ESG risks

In recent years, our emerging market equity portfolio managers have developed specialized expertise to manage ESG issues, often extreme, specific to emerging countries and their companies. In environmental terms, the biggest polluters on the planet are now emerging countries, and their populations are also the biggest victims. In social terms, inequalities are typically much more flagrant in emerging markets, particularly regarding working conditions, and in some countries, they are at times sufficiently significant to impede stable and sustainable economic development. And yet, stability is vital in countries that rely heavily on foreign investment. In governance terms, corruption is sometimes so widespread within a country that it undermines the value of its publicly traded companies.

INTEGRATION THROUGHOUT THE INVESTMENT PROCESS

Our emerging market managers follow a top-down management style, which means that most investment decisions concern themes, countries, sectors and currencies. As a result, incorporating ESG factors into their analysis on an upstream basis is essential. Buying a basket of Brazilian banks, for instance, requires understanding and assessing Brazil ESG risks and those pertaining to its banking industry in particular, rather than the risks for each bank. That being said, ESG risks associated with a specific bank can also be factored into securities selection.



CASE STUDY

South Africa's never-ending power struggle

In December 2021 and April 2022, South Africa experienced heavy rain that caused floods and landslides, which affected its energy production capacity. According to World Weather Attribution, floods of this intensity are twice as likely in South Africa due to global warming. On the social front, the country has the greatest income inequalities in the world, according to the *World Bank*. Union strikes are recurring, which further affects the availability of electricity, and several incidents of sabotage to electrical equipment have occurred in the past year. In terms of governance, the country is struggling with political inaction and corruption. The unsupportive environment has led to delays in *Eskom*'s expansion and maintenance projects as well as cost overruns that increased the vulnerability of the country's electricity grid. The impact of all these factors culminated this year with historical power outages. These profound ESG vulnerabilities contributed to our under-exposure to the South African market in recent years.

JEAN-BENOIT LEBLANC

Senior Portfolio Manager
Emerging Markets

Our experience in emerging markets has taught us that financial returns depend as much on how well ideas perform as on our ability to avoid countries, sectors and stocks that underperform due to poor management and capital allocation or recurring scandals.

JULIEN TOUSIGNANT

Senior Portfolio Manager
Emerging Markets

For several years, Russia's environmental and governance shortcomings had prompted us to minimize the portfolio's exposure to this country. This caution enabled us to avoid a negative impact on the portfolio when Ukraine was invaded, and then removed from the benchmark. This example illustrates how a top-down integration of ESG factors can contribute to risk management, especially in the case of emerging markets.

THREE EXAMPLES OF THE INTEGRATION OF ESG ISSUES AT THE MACROECONOMIC LEVEL

1. **If a country's economy is highly dependent on oil**
   This makes a country more vulnerable, with the energy transition potentially curbing economic growth in the long term. Our macroeconomic outlook factors in these risks, complementing our traditional analysis (including supply/demand and commodity prices), which may ultimately result in a decision to rein in our portfolio exposure to a country.
2. **If an industry has to tackle significant ESG issues**
   Where all other factors are equal and we consider ESG exposure in particular industry to be above average, our conclusions about its macroeconomic outlook tend to be more negative.
3. **Use of an ESG ranking by country**
   This tool is used to rank and compare countries in order to manage risks and seize opportunities. Its goal is not to exclude countries, but rather to separate the good "students" from the bad. We apply a negatively bias to the bottom of the pack and favour the highest-ranked countries. The portfolio impact of this negative bias varies from ±0.5% to ±1.5%, depending on the size of the country in the benchmark index.

OUR 2022 ACHIEVEMENTS

- The carbon intensity of our portfolio was 43% lower than that of its benchmark.
- Developed an internal ESG ranking model by country based on aggregated ESG data.
- We maintained our quarterly reporting via an ESG newsletter on emerging markets.
- Implemented a collaborative framework with the RI team to optimize engagement activities with companies.

Real estate: Ongoing support to property managers to improve ESG performance

The properties in which our portfolio managers invest are located across Canada and are very diverse: office buildings, industrial and commercial properties, residential properties, land, etc. DGAM has been integrating ESG criteria into real estate investments since 2018. This integration takes place at all stages of the asset management process and for all types of portfolio properties, and requires our real estate investment management team, RI specialists and property managers to work closely together.

AN AMBITIOUS STRATEGIC FRAMEWORK FOR THE INTEGRATION OF ESG ISSUES INTO REAL ESTATE ASSETS

Ongoing engagement with property managers

We hold quarterly meetings with real estate asset managers and work continually with property managers.

Participation in the Global Real Estate Sustainability Benchmark (GRESB) survey

We have been participating in this survey since 2018. In 2022, we maintained our performance with a score of 75 (or 3-star rating).

LEED and BOMA BEST certifications

96% of our real estate portfolio properties is certified sustainable. Certifications include performance improvements in energy efficiency, health and safety management and other criteria that will improve the overall sustainability of buildings.

Promoting ESG best practices with property managers

We have adopted ESG guidelines for each type of real estate property, identifying opportunities and best practices. Our team works closely with property managers to implement changes consistent with these guidelines and enhance their business practices.

Real estate scorecards

We have created ESG scorecards for each property manager, which are used to benchmark all DGAM real estate assets and analyze changes in ESG performance.

Structured communication channels to stay up to date

Our asset managers and IR experts meet monthly to discuss ESG developments and progress, share key trends and implement programs to benefit our portfolio.

CASE STUDY

Private senior homes in Quebec

DGAM has invested in 15 private seniors' residences in Quebec. All of the buildings are managed by Cogir, a real estate manager that has worked for the community since 1995. The company is known for its commitment to excellence, creativity and human touch. In 2016, Jazz Drummondville, one of these residences, was the first in Quebec to offer all of its residents the use of an electric vehicle, free of charge. Following this initiative, DGAM quickly added this service to all residences as well as to three additional multi-unit buildings. This example shows how much we value high standards of operation at seniors' residences. All 15 residences are certified BOMA BEST and offer monthly programming to residents to help them stay active, such as yoga classes, live entertainment and excursions.

FRANK SINCLAIR

Senior Asset Manager,
Real Estate Investments,
Central and Western Canada

Striving to become leaders in ESG integration means addressing these issues in all aspects of the real estate lifecycle. We're currently focusing on significantly reducing our carbon footprint, making meaningful impacts on surrounding communities and having more transparent sustainability policies to ensure effective communication. It'll take a lot of creativity and cooperation with all stakeholders to achieve and hopefully exceed our ever increasing goals, but we're up for the challenge.

VINCENT MORIN

Senior Asset Manager,
Real Estate Investments,
Eastern Canada

ESG performance and progress are important for both existing buildings and all projects under development, which is why we insert ESG clauses in contracts where possible. These clauses set out the levels of certification, energy efficiency improvement and building performance. The transition of all our real estate assets toward carbon emissions reduction and ESG performance improvement can only be achieved through teamwork and ongoing communication among all stakeholders.

DGAM'S PROPRIETARY ESG SCORECARDS AND GUIDELINES FOR REAL ESTATE ASSETS

Our internal scorecards are designed to assess the property manager performance in terms of targets, engagement activities, audits, intensities and coverage of utility data. It highlights progresses made by property managers and potential areas for improvement.

Sample of DGAM's ESG real estate scorecard

Property manager	Category	Relatives Performance*
Desjardins score 4.5/5	**Utility data coverage** (energy, water, waste)	▲
	Certifications (BOMA, LEED, ENERGY STAR)	▲
	Targets (energy, GHG, water, waste)	▲
	Engagement activities (tenant/community engagement)	▲
	Audits (energy, water, waste, health & well-being)	▼
	Intensities (energy, GHG, water and waste diversion)	▲

* Performance is measured relative to the average across DGAM's portfolio by asset class.

INTEGRATING NET-ZERO GOALS INTO REAL ESTATE

Desjardins was the first financial institution to sign the *Business Ambition for 1.5°C campaign*. Because carbon neutrality is a complex goal, it is essential to implement a strategy that allows time to take action and reduce emissions so that we meet the 2030 target and beyond. This issue got us thinking about reducing emissions in our real estate portfolio. To develop a strategy, we looked to a service provider to determine the best way to gather the strategic information we needed. We sent out a request for proposals to find a third party that could take all of our portfolio and building data and help create a decarbonization strategy for each building and for DGAM's real estate portfolio.

OUR 2022 ACHIEVEMENTS

- 96% of our real estate assets are certified sustainable, which brings us closer to our goal of owning only LEED - or BOMA BEST-certified buildings by 2023.
- We maintained our scoring 75 (or 3-star rating) in the *GRESB survey*.
- An RFP was completed and a service provider was hired to create a strategy for reducing emissions of assets held in the portfolio.

Infrastructure: An analysis that integrates ESG factors throughout the investment process

Our infrastructure team monitors many sectors, including renewable energy, utilities, transportation, communication and social infrastructure. Asset managers can leverage the international business network, in place for over a decade, to seize the best investment opportunities for existing or developing projects. After being fully integrated into DGAM in 2021, the team began working closely with the IR team and took a strong approach to integrate ESG criteria into the asset selection process.

A ROBUST PROCESS THAT MEETS DGAM'S HIGH STANDARDS

The infrastructure team has developed a framework based on the belief that ESG factors need to be integrated throughout the investment process. Here are the main steps:

Selection
Identifying ESG risks and opportunities and integrating ESG issues when conducting investment due diligence reviews and selecting assets, managers and partners.

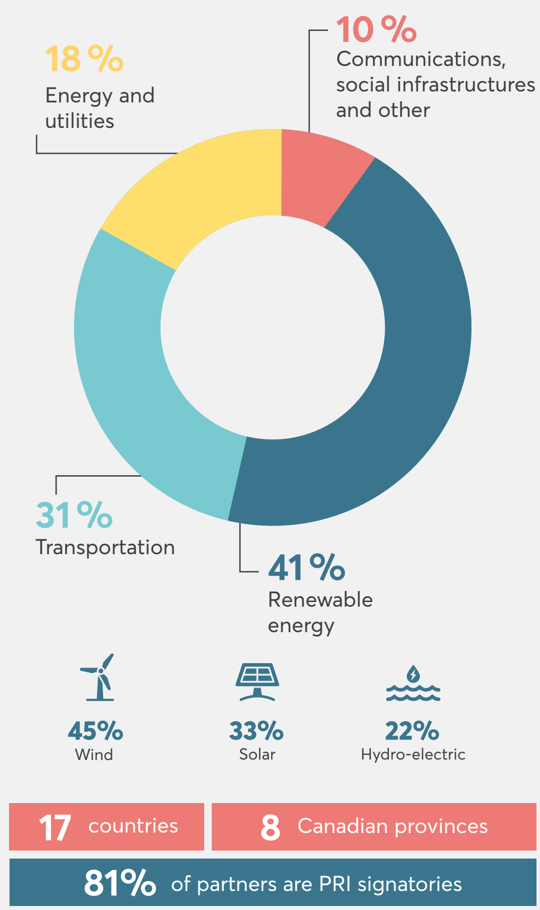
Acquisition
Including ESG criteria in contracts and side letters, where applicable.

Asset management
Monitoring of ESG performance, commitments and action plans.

Reporting
Annual disclosure of our responsible alternative investment activities through PRI.

The team also relies on a comprehensive due diligence questionnaire to support its ESG assessment of potential assets and fund managers. The information collected is used to complete a proprietary assessment grid. The team's discipline and effective assessment process ensure we get an accurate picture of where both assets and partners are in their ESG journey.

Our investments
as at December 31, 2022



BENCHMARKING PARTNERS AGAINST ESG

In 2022, we conducted a comparative assessment of our partners and their ESG strategy and inclusion progress. This step is important, because it enables us to understand the progress of partners and identify those trying to improve their ESG integration. Each partner began their journey at a different point and prioritized needs according to their own projects. A total of 14 partners were assessed on governance, communication, project selection procedures, tracking and reporting, stewardship commitments, climate risks and opportunities, and diversity, equity and inclusion.

Our assessment resulted in an average rating of four out of five stars, confirming that most have made progress in their efforts to include ESG factors in their strategic practices. They will continue to answer similar questions every two years to help us assess progress and identify potential opportunities for engagement.

INFRASTRUCTURE FUND

In 2021, DGAM launched the DGAM Global Private Infrastructure Fund, in which purchases totalled $339 million as at December 31, 2022. This fund seeks to provide a stable investment in a diversified private infrastructure portfolio. The portfolio currently consists of approximately 70% North American investments. The remaining 30% comes from Organization for Economic Co-operation and Development (OECD) countries. Since inception, we have added many direct and indirect investments to the Fund. Approximately 33% of the portfolio is exposed to the renewable energy sector, with the remainder invested in sectors such as transportation, communications, social infrastructure and public services.

ESG due diligence was conducted during the pre-investment screening for all Fund projects. The process asked questions to assess ESG practices, and were all discussed at committee meetings throughout the assessment.

ROBERT BLAIS

Portfolio Manager

Infrastructure will play a crucial role in the post pandemic green economy and in access to critical sectors of healthcare, health services and education, potentially translating into huge investment opportunities.

MÉLISSA BOUCHER

Infrastructure
Asset Manager

The need to cut down GHGs to fight climate change is increasingly reflected in the formal energy transition plans developed by governments. This reality stresses the importance of the renewable energy sector in achieving these goals, including the technologies and resources needed to support the transition.

CASE STUDY

Windsor-Essex Parkway

The Windsor-Essex Parkway is a public-private partnership between Windsor-Essex Mobility Group and the province of Ontario in which DGAM acquired a majority interest in 2022. The parkway has been in service since 2015 and includes a six-lane highway, several service routes and interchanges, 15 bridges, 11 tunnels, and more. This project won a *P3 2022 award* for Best Operational Project in America. The area includes more than 120 hectares of green space, noise abatement measures and approximately 17 kilometres of multi-use lighted trails for pedestrians and cyclists. The project has implemented many environmental protection measures, including the use of native vegetation, monitoring of species at risk and habitat protection. The project also consumes 50% less electricity than initially planned, on average. The parkway is on the traditional territory of the Walpole Island First Nations, which have been involved in the project since the planning phase in 2004. As active consultants and collaborators, they bring knowledge and valuable understanding of the territory that has influenced existing environmental protection programs.

OUR 2022 ACHIEVEMENTS

- Comparative analysis of ESG strategy and process integration for 14 partners.
- Due diligence review for 11 new investment opportunities.
- Renewable energy remained a priority investment, with over $1.7 billion in assets under management.
- Participated in a panel at the Canadian Alternative Investments Forum (CAIP) that included questions on our infrastructure management practices.

Quantitative investment or how to enhance ESG integration through a systematic approach

To meet the needs of investors looking for a more stringent sustainable investment strategy, DGAM offers quantitative solutions using sophisticated ESG screening processes: the Desjardins RI ETFs, Systematic ESG World Equity strategy and Systematic ESG Emerging Markets Equity strategy. The following are details on how we integrate ESG metrics into these last two strategies.

CREATE AN INVESTMENT UNIVERSE COMPOSED SOLELY OF ISSUERS WITH GOOD ESG PERFORMANCE

DGAM uses a proprietary ESG methodology that involves both negative and positive filtering processes. We leverage this sophisticated approach to build ESG universes that can be adjusted to various degrees of intensity for ESG criteria.

Our quantitative strategies invest in universes of companies that are industry leaders based on a number of ESG criteria. These universes of eligible companies are created through a screening approach that consists in excluding the largest carbon emitters and tobacco producers. The portfolio construction process is based on a systematic approach and a multi-factor model that draws on a wide range of sources of alpha that have shown persistence in the past and have an outlook we can rationalize.

Our quantitative approach to portfolio construction is based on the following process:

1. Systematic exclusions.
2. Application of positive and negative filters: this step aims to eliminate companies with harmful practices based on our ESG criteria and reward companies with ESG best practices to end up with a basket of eligible securities for investment.
3. Portfolio construction uses a multi-factor quantitative model to maximize signal exposure while respecting portfolio diversification constraints.

CASE STUDY

Spotlight on the salary gap

While it's important for directors to be adequately compensated to attract and retain the best talent, their compensation has increased exponentially compared to that of the average worker (1,300% since 1978, according to the Economic Policy Institute). This issue has received growing attention from investors. Some countries have made it mandatory to disclose the salary gap. In the United Kingdom, publicly traded companies with at least 250 employees are required to disclose the ratio of the CEO's compensation to that of the median, the bottom quartile and the top quartile of employee compensation. In the United States, the Securities Exchange Commission (SEC) requires publicly traded companies to hold a Say-on-Pay consultative vote on compensation every three years. Although these votes are non-binding, they allow management to know whether shareholders support their compensation program. Our positive screening methodology incorporates this factor by examining the relationship between a CEO's total salary and the average salary of their workforce.

“

NELSON CABRAL

Portfolio Manager

This year, we pursued the development of our internal tools to intensify the integration of ESG constraints in our portfolio construction process. This collaborative effort between the RI and portfolio management teams translates into improved ESG strategies and cutting-edge solutions for our clients.

VÉRONIQUE MARCHETTI

RI Analyst,
Public Markets

The quantity, quality and availability of ESG data has improved considerably in recent years, making it an appropriate part of a systematic quantitative strategy. The forthcoming regulatory projects worldwide will standardize data and further improve their quality.

”

OUR ESG SCREENING METHODOLOGY IN PRACTICE

The ESG screening methodology used for our quantitative strategies includes positive and negative filters. Our negative filters are used to identify companies involved in harmful activities in the ESG spheres. For example, companies with substantial carbon emissions, severe controversies and high mortality rates are systematically prohibited. As a result, 917 companies were removed by our ESG screening methodology as of December 31, 2022. The positive filters reward leaders across several ESG metrics. 373 companies were qualified for investment.

At the end of 2022, the strategy showed carbon and water footprints that were significantly lower than those of the MSCI World Index mainly because of the negative filters applied with our ESG methodology. By eliminating the top carbon emitters, we achieved a 93% reduction in carbon intensity versus the index. As for the portfolio's water consumption, it was 92% lower once the largest water consumers were eliminated. Overall, the portfolio had strong sustainability credentials, outperforming the index across a majority of ESG metrics.

Systematic ESG World Equity strategy in figures

STATISTICS	DGAM	MSCI WORLD
Environment		
Carbon emissions (t CO_2 eq./$B)	14	74
Carbon intensity (t CO_2 eq./sales)	10	120
Water use (m^3/$M of revenue)	70	14,359
Waste-recycling ratio	68%	65%
Renewable-energy use	31%	34%
Reported emissions	98%	93%
Social		
Employee fatalities per 100,000 employees	0.4	0.8
Access to low-price products	17%	25%
Women managers	33%	33%
Salary gap (CEO/average salary)	120	225
Governance		
Sustainability compensation incentives	42%	48%
Independent board members	76%	80%
CEO and chairman separation	78%	48%
Board gender diversity	34%	32%

Calculations are based on the investment portion of the portfolio only.
Sources: Sustainalytics and Refinitiv as of December 31, 2022.

OUR 2022 ACHIEVEMENTS

- Significantly enhanced the internal tools used to build portfolios, enabling optimization to be filtered directly based on ESG criteria.
- Maintained quarterly reporting through the publication of an ESG letter addressing key themes.

Collaborating to increase awareness and mobilize our community

DGAM continued to exert its levers of influence in 2022 by taking part in various initiatives and by playing an active role in the responsible investment ecosystem. Our experts spoke or provided opinions on more than 25 occasions, participating in discussion panels and working groups, and collaborating on media content. Our efforts are reflected in various types of files and projects that are all aimed at creating sustainable value and promoting a long-term vision of performance with positive spin-offs for society.

INTERVENING WITH REGULATORS

We believe that engagement with decision-makers is one of the most effective levers of influence for responsible investment. This is why we actively participate in initiatives of interest to public authorities.

In 2022, DGAM participated in the following initiatives:

- Investment Industry Association of Canada ESG Sub-Committee, which serves as a forum to discuss best practices, debate common issues and help establish IIAC positions on ESG matters.
- We signed the *Call for Stronger Alignment of Regulatory and Standard Setting Efforts around Sustainability Disclosure*, an initiative that aims to coordinate and align disclosure standards.

TAKING PART IN COLLABORATIVE INITIATIVES WITH OTHER INVESTORS

At DGAM, we firmly believe that combining our voice with that of other institutional investors will enable us to be a fundamental driver to advance the adoption of sustainable practices by companies. We took part in several collaborative initiatives in 2022.

Here are a few examples:

- DGAM signed the *Finance for Biodiversity Pledge*, which commits us to collaborate, assess our impact on biodiversity, set targets and establish reports on biodiversity issues by 2024.
- We joined the S&P Global Sustainable initiative, Framing the Future for Nature, which aims to accelerate the shift of capital towards positive results for nature.
- We joined the *PRI Advance* commitment on human rights and social issues for mining companies.
- Desjardins signed the *COP15*, an ambitious statement calling on world leaders to agree on a global framework to halt and reverse biodiversity loss.

INCREASING AWARENESS IN THE FINANCIAL COMMUNITY

We have continued our efforts to foster the acceptance and application of responsible investment principles by taking part as panelists at conferences and ensuring a presence in the media.

Here are five examples of our specialists' contributions:

- Our Head of Responsible Investment, Christian Felx, participated in several panels, including a panel on portfolio decarbonization at the Sustainable Finance Summit, a panel on the International Sustainability Standards Board's disclosure standards and a panel on infrastructure as part of the CAIP Alternative Investments Forum.
- Participated in a panel on nature organized by the PRIs and another panel on biodiversity as part of COP15 in Montreal. DGAM President and COO Nicolas Richard also spoke at the welcome cocktail for COP15 Finance Day.
- Participated in a panel on diversity and inclusion in Canadian institutions as part of the *RI Canada* 2022 conference.
- *Published an article* on the importance of putting biodiversity at the forefront of conversations in the Responsible Investment Association magazine.
- Contributed to a *Globe & Mail article* on the importance of exercising voting rights for engaged investors.

SHARING OUR EXPERTISE AND KNOW-HOW

We believe in doing our part to train and educate the financial community and the next generation of investment professionals.

- DGAM has entered into a partnership with *the Fonds d'investissement étudiant de l'Université de Sherbrooke* to guide students in asset management and responsible investment and is participating in the university partnership with PolyFinances.
- We joined the *CERES Land Use and Climate Working Group*, an organization that supports financial market players in finding solutions and taking action on global sustainability issues.
- Our colleague Julien Tousignant, Emerging Markets Portfolio Manager, is a regular contributor to the *Association québécois de la retraite et des avantages sociaux* sustainable investment training program.
- We sit on the advisory board of the *Montreal Propel Impact Fund* (formerly the Montreal Social Value Fund), the first student-led impact investment group in Quebec.

Complete list of DGAM dialogues in 2022

PRIORITIES	Ensuring governance with strength, integrity and resilience	Developing a fair, equitable and inclusive economy	Protecting biodiversity and natural capital	Transitioning to a low-carbon economy
Consumer staples				
Alimentation Couche Tard	✓	✓		✓
Dollar General	✓	✓	✓	✓
Dollarama Inc.	✓	✓		✓
Empire Company Limited	✓			✓
Estée Lauder		✓	✓	
Loblaw Companies Limited	✓	✓	✓	✓
Metro Inc.	✓	✓		✓
Mondelez	✓		✓	✓
Premium Brands Holdings Corporation	✓			
Saputo Inc.				✓
Target		✓	✓	
Wal-Mart				✓
Consumer discretionary				
Amazon	✓			
BRP Inc.	✓	✓		✓
Canadian Tire Corporation, Limited	✓		✓	
D.R. Horton	✓	✓		✓
Daimler Truck	✓			✓
Dollar Tree		✓		✓
Dollarama Inc.	✓	✓		✓
Hyundai Mobis Co.	✓	✓		
Martinrea International Inc.	✓			✓
McDonalds			✓	
TJX	✓	✓		
Tyson Foods	✓	✓	✓	✓
Energy				
AltaGas Ltd.	✓			
ARC Resources Ltd.		✓		✓
Athabasca Indigenous Midstream LP		✓		✓
bp PLC				✓

PRIORITIES	Ensuring governance with strength, integrity and resilience	Developing a fair, equitable and inclusive economy	Protecting biodiversity and natural capital	Transitioning to a low-carbon economy
Canadian Natural Resources Limited	✓		✓	✓
Cenovus Energy Inc.				✓
Crescent Point Energy Corp.			✓	✓
Enbridge Inc.				✓
Exxon				✓
NuVista Energy Ltd				✓
Parkland Corporation				✓
Pembina Pipeline Corporation				✓
TC Energy Corporation		✓		✓
Tourmaline Oil Corp.	✓			✓
Valero Energy Corp				✓
Vermilion Energy Inc.	✓		✓	✓
Financial				
PSP CAPITAL INC				✓
Bank of America				✓
Bank of Montreal	✓			✓
Canadian Imperial Bank of Commerce				✓
Canadian Western Bank				✓
Citigroup				✓
Definity Financial Corp	✓			✓
First Rep				✓
Laurentian Bank of Canada		✓		✓
National Bank of Canada	✓	✓		✓
Power Corporation of Canada	✓			
Royal Bank of Canada				✓
Sun Life Financial Inc.	✓			✓
The Bank of Nova Scotia	✓	✓		✓
The Toronto-Dominion Bank	✓	✓		✓
TMX Group Limited				✓
U.S. Bancorp				✓

PRIORITIES	Ensuring governance with strength, integrity and resilience	Developing a fair, equitable and inclusive economy	Protecting biodiversity and natural capital	Transitioning to a low-carbon economy
Real estate				
Canadian Core Real Estate				✓
Choice Properties Real Estate Investment Trust	✓			✓
InterRent Real Estate Investment Trust	✓			
Primaris REIT	✓	✓		✓
RioCan Real Estate Investment Trust	✓			✓
Sienna Senior Living Inc.	✓	✓		✓
Industrial				
Air Canada				✓
CAE Inc.	✓	✓		✓
Ontario Line RSSOM	✓	✓	✓	
TFI International Inc.		✓		✓
Waste Connections, Inc.				✓
WSP Global Inc.	✓	✓	✓	✓
Materials				
Agnico Eagle Mines Limited		✓		✓
Barrick Gold		✓		✓
Barrick Gold Corporation	✓	✓		✓
First Quantum Minerals Ltd.	✓	✓		✓
Franco-Nevada Corporation	✓			✓
Newmont Mining Corp.			✓	
Nomad Royalty Co	✓			
Nutrien			✓	
Osisko Mining Corporation				✓
Teck Resources Limited		✓		✓
Wheaton Precious Metals Corp.		✓		
Healthcare				
Abbvie	✓	✓		
Johnson & Johnson	✓			
Pfizer	✓			

PRIORITIES	Ensuring governance with strength, integrity and resilience	Developing a fair, equitable and inclusive economy	Protecting biodiversity and natural capital	Transitioning to a low-carbon economy
Universal Health Services	✓	✓		✓
Utilities				
Alectra Inc.		✓		✓
Brookfield Renewable Partners L.P.				✓
Capital Power Corporation				✓
ENMAX Corporation				✓
FortisBC Inc.		✓		✓
Hydro One Inc.	✓	✓		✓
Ontario Power Generation Inc.	✓			✓
Public Service Enterprise Group				✓
TransAlta Renewables Inc.		✓		✓
Communication services				
Quebecor Inc.	✓	✓		✓
TELUS Corporation		✓		✓
Verizon		✓		✓
Information technology				
Constellation	✓	✓		
Constellation Software		✓		
Costar Group	✓			✓
Microsoft		✓		
OpenText	✓			
Sovereign				
Province de l'Alberta				✓
Government of Canada				✓
OMERS		✓		
Ottawa	✓	✓		✓
Ville de Vancouver		✓		✓
Others				
Verra Verified Carbon Standard				✓
CPPIB	✓	✓		✓

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