



DESJARDINS
PRIVATE
MANAGEMENT

DIM Private Funds and Portfolios

**Policy on the Exercise
of Proxy Voting Rights**

2013



Desjardins

Cooperating in building the future

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Introduction

1.1

Desjardins Investment Management ("DIM") is the manager of DIM Private Funds and is also one of its securities advisors. DIM is also a securities advisor for segregated client portfolios. All DIM shares are directly held by the Fédération des caisses Desjardins du Québec (the "Fédération"). The Fédération is a component of the Desjardins Group (the "Group"), the largest cooperative financial group in Canada.

1.2

The Group always endeavours to maintain its reputation for integrity at a high level for that is the foundation upon which is built the trust of its members, customers, and business partners in addition to the community and government officials.

1.3

The Group, its management, and its employees subscribe to rigorous and demanding standards of ethics and rules of conduct aimed, on one hand, at strengthening the protection of its members', customers', and components' interests and, on the other hand, at incorporating the values listed below in all decisions and actions.

1.3.1

The values of the International Co-operative Alliance:

- Self-help, self-responsibility and responsibility for others;
- Democracy;
- Equality;
- Fairness;
- Solidarity;
- Ethical values of honesty, openness, social responsibility, and caring for others.

1.3.2

The Group's standing organizational values:

- Money at the service of human development;
- Personal commitment;
- Democratic action;
- Integrity and rigour;
- Solidarity with the community.

1.4

The Group also adheres to the general principles of responsible investment and sustainable development and feels that companies should be guided by initiatives of the United Nations and international bodies or organizations, as well as by repositories, standards, guides and codes of conduct or other generally accepted social responsibility, environment or sustainable development tools.

1.5

The Group nonetheless feels that each business is responsible for determining when and in what way to adhere to them.

Preamble

2.1

The primary responsibility of DIM, in its capacity as manager of DIM Private Funds and of segregated portfolios (collectively "the Funds and DIM"), is to protect the medium and long-term interest of unitholders and to ensure their capital grows by investing wisely in profitable companies or in companies that offer attractive profitability perspectives.

2.2

This policy guides the DIM in its specific role as manager of the Funds and of segregated portfolios. It lays down the conditions that the DIM Private Funds and DIM as manager of segregated portfolios undertake to uphold with regard to the exercise of voting rights related to securities held in the Funds' portfolios with the overarching concern being the interest of the unitholders and segregated security owners.

2.3

In addition to economics-based decisions, the prosperity of companies or other issuers of securities held by the Funds also depends on factors not related to finance. Companies have responsibilities toward their surrounding communities. Corporate social-responsibility issues are increasingly at the heart of risk management. More specifically, they affect protection of reputation and corporate image, management of environmental risk and possible serious concomitant financial impacts, access to financing, capacity to recruit and retain personnel, and ultimately corporate capacity to hold on to markets and sustain operations.

General Provisions

3.1

Purpose and Scope of the Policy

3.1.1

The single specific purpose of this Policy is to define conditions governing the exercise of proxy voting rights attached to securities held in the portfolios of Funds and segregated portfolios at any meeting of holders of these securities.

3.2

General Principles of Interpretation

3.2.1

The primary responsibility of DIM, in its capacity as manager of the Funds manager of segregated portfolios, is to protect the medium and long-term interest of unitholders and to ensure their capital grows by investing wisely in profitable companies or in companies that offer attractive profitability perspectives. These companies are usually joint stock corporations whose securities are listed for trading on a recognized securities exchange. However, several DIM Private Funds do not invest directly in companies because they comprise units from other investment funds. This Policy therefore does not apply to those products since the voting rights are attached only to the direct holding of listed securities in the portfolios of funds and segregated portfolios.

3.2.2

DIM, either directly or through its agents, ensures the protection of the medium and long-term interests of Fund unitholders and holders of securities by fully exercising the rights attached to the securities held in the portfolios. These rights include obtaining adequate up-to-date information on the status of the security issuer, the opportunity to communicate with its board of directors as deemed necessary, and exercising voting rights during meetings of security holders. DIM, acting on behalf of Funds and holders of securities, does not intend however to take the place of governments, regulatory agencies, or portfolio managers, or intervene in the internal governance of the issuers concerned.

3.2.3

In accordance with the values of the Group, DIM states that achieving profitability must be done while respecting communities and not overstepping corporate social responsibility, particularly as regards the environment and human rights.

3.2.4

The rules should always be applied taking into account each company's specific situation. This Policy is a guide that each person responsible for exercising voting rights should reflect upon. Though the specific situation of a company is not an absolute, it should be considered when the vote is taken. It is important in particular to consider the impact of any proposal on the value of a company and on its operational capacity and to avoid unduly restricting the board of directors' freedom to manoeuvre or imposing obligations that are foreign to the corporate mission. Also, the programs and measures already in place in the company must be taken into account to avoid duplicating them with the creation of new obligations with substantially the same purpose.

3.2.5

Certain factors can limit the exercise of proxy voting rights attached to securities issued by a non-Canadian and non-American entity. For example, proposal transmission times can be too short to enable review; in certain countries, proxy voting is impossible.

3.2.6

In its endeavours to make the unitholders' capital grow, the Fund manager or portfolio manager may commit securities through loaning operations. In the course of these transactions, it is possible that the proxy voting rights attached to securities loaned are transferred to the borrower, depending on rules applicable at the place where the transaction is carried out. This being the case, the manager will decide whether it is in the interest of the Funds and unitholders to recall loaned securities in order to exercise the proxy voting right or to maintain the securities loan transaction.

3.2.7

This Policy covers several subjects on which the Funds or DIM as manager can be called to exercise proxy voting rights. It cannot however be exhaustive and foresee all possible situations. Furthermore, the legal context or the management practices in use in certain countries may render application of a position irrelevant or counterproductive. In exceptional situations or where required by circumstance, the Funds will exercise their proxy voting rights in the most constructive manner possible, in keeping with the spirit of the general values and principles of the Policy. In addition, all votes of this type will be re-examined annually to ensure that exceptions are always justified.

SECTION IV

Rules of Sound Governance

4.1

The Board of Directors

4.1.1

The Board of Directors ("BD") sees to the promotion of the company's interests. The board appoints the president and chief executive officer, defines his or her responsibilities, and evaluates performance. It defines strategic corporate orientations, sees to it that monitoring and control mechanisms are put in place and ensures follow-up. It is desirable that these functions be assumed completely independently of corporate management, whose interests can diverge from those of the company and, by the same token, those of shareholders.

4.1.2

Directors must be independent of the management of the company they administer.

4.1.3

Board member election and/or appointment mechanisms must facilitate representation on the BD that reflects shareholder makeup as closely as possible and in this respect, promote the nomination of people from various backgrounds as company directors. Shareholders must have the opportunity to elect new board members on an annual basis. However, as it is preferable to maintain continuity within the BD, the replacement of the entire board should be considered only as an exceptional measure, which should be warranted by equally exceptional circumstances.

4.1.4

Based on the election method currently in use by most companies, directors can still be elected even though fewer shareholders vote for them than abstain. DIM Private Funds consider that candidates who receive fewer FOR votes than abstentions do not have true shareholder support, and should step down.

4.1.5

If the BD chooses to appoint an audit committee, a nominating committee or a compensation committee, the committee should be made up of independent directors. Similarly, the BD must also ensure the external auditor is independent of corporate management.

4.1.6

The Funds and DIM will generally vote in favour of proposals that create conditions in which the BD can work efficiently, competently and independently of corporate management.

Position

When the Funds and DIM exercise their voting rights and no special situation in a company justifies a contrary vote:

- 4.1.A) They will vote FOR proposals whose effect is to create or maintain a proportion of at least a two-thirds majority of independent directors. They will vote AGAINST any non-independent candidates if their election reduces the proportion of independent administrators below two-thirds.
- 4.1.B) They will vote FOR any proposal requesting the BD to amend the company bylaws or to adopt a governance policy that promotes as much as possible the nomination and election of directors who are independent of management.
- 4.1.C) They will vote FOR any proposal aimed at establishing a majority vote when there is only one candidate for a given vacant position, or a plurality vote standard when there is more than one candidate per vacant position.
 - 4.1.C.1) They will vote FOR any proposal requesting the BD to adopt a company bylaw, a governance policy or any other measure to the effect that any nominee appointed as director with fewer votes than the number of abstentions be required to step down and that the BD shall have the power to accept or refuse such resignation, depending on the circumstances, and, if necessary, appoint a replacement.
- 4.1.D) They will vote FOR proposals whose effect is to create or maintain an audit committee, a nominating committee or a compensation committee made up exclusively of independent external directors. The compensation committee will not be authorized to have more than one out of every three members working as a president and CEO chief executive officer of a public corporation.
- 4.1.E) They will vote IN FAVOUR of any proposal with a view to disclosing all fees paid to the external auditor, separating audit fees from fees for other services.
- 4.1.F) They will SUPPORT the election of directors individually. They will vote AGAINST proposals requesting the election of director slates. They will favour proposals aimed at implementing an annual election of all directors.
- 4.1.G) They will vote FOR any proposal whose effect shall be to separate the functions of chair of the board and president and chief executive officer and/or assign the function of chairing the BD to an independent director. In smaller companies or in situations that justify both positions being held by the same individual, they will request that the position of senior administrative officer be created and held by an independent director who will oversee the efficient carrying out of the board's work or put in place any mechanisms that will ensure the independence of the BD, particularly with regard to issues related to the selection of directors and the compensation of management.
- 4.1.H) They will vote AGAINST the directors in question, or the entire BD, depending on the situation, if those directors have failed in the proper execution of their office or if they have demonstrated incompetence or negligence in conducting the company's business.
- 4.1.I) They will vote AGAINST the appointment or reappointment of a director if they believe that the individual cannot in all likelihood devote sufficient time to the work of a director.

SECTION IV

Rules of Sound Governance (continued)

4.2

Director and Management Compensation

4.2.1

The compensation plan shall contribute to aligning the interests of directors and managers with the long-term interests of the company and its shareholders.

4.2.2

The compensation plan must take into account market conditions and the necessity of attracting competent people.

4.2.3

The incentive (variable) portion of any compensation should be linked to objective factors such as increased income or profitability, shareholders' return on investment, or other similar measurements. Other factors linked to exercising corporate social responsibility as defined in Section V of this Policy, may also be considered.

4.2.4

Shareholders should always be able to express their opinions on director and management compensation plans. Director compensation plans should be addressed in separate proposals from management compensation plans.

4.2.5

The Funds and DIM are generally opposed to stock option plans for directors, since as opposed to shareholding, such plans do not feature any down-trading risks, and the yields they provide are often the result of a bull market rather than the corporation's individual performance. However, they realize that under certain circumstances, such as with start-up companies wishing to attract seasoned directors, such plans may prove useful. Regardless, these plans should never apply to both the directors and company management.

Position

When the Funds and DIM exercise their voting rights and no special situation in a company justifies a contrary vote:

- 4.2.A) They will SUPPORT authorizing the compensation committee to seek independent expertise as required. They will vote FOR any proposal requesting the disclosure of identity of consultants as well as of the full amounts of any fees paid to them, separating fees for work on compensation from fees paid for other purposes.
- 4.2.B) They will vote FOR proposals whose effect is to create or maintain a director or management compensation plan based on achieving objectives consistent with the long-term interests of the company and its shareholders; these objectives may be financial, but may also be linked to exercising the company's social and environmental responsibilities.
- 4.2.C) They will vote AGAINST the creation of stock option plans for managers or directors, and will vote AGAINST any addition to existing plans, except for start-up and small cap companies (based on the cap defined by the Canadian market), in which case they will review proposals regarding such plans on a case-by-case basis, particularly taking into account the cost of the plan, the dilutive effect, and the reasonableness of the plan with respect to the terms and conditions of participation and the linking of the plan to the performance of the company. Neither the arrangements of the plan nor the option exercise price may be amended without the consent of the shareholders.
- 4.2.D) They will vote FOR any proposal that approves presenting in the financial statements expenses related to options granted.
- 4.2.E) They will review proposals regarding loan programs for management on a case-by-case basis and will ask in particular that the requested interest rate be at least equal to the market rate.
- 4.2.F) They will review proposals regarding severance payments on a case-by-case basis and will oppose those that appear to be excessive or unjustified (golden parachutes).
- 4.2.G) They will vote FOR any proposal supporting disclosure of director and management compensation plan.
- 4.2.H) They will vote FOR any motion requesting an advisory vote on the compensation of directors and senior management.
- 4.2.I) They will vote AGAINST directors who do not own any of the corporation's stock after one year within the BD.
- 4.2.J) They will vote FOR proposals requesting the disclosure of a fairness report or a ratio between the total compensation of the highest paid employees and average employee compensation.

SECTION IV

Rules of Sound Governance (continued)

4.3

Takeover Bid Protection

4.3.1

The Fédération will generally consider takeover bids on a case-by-case basis and shareholder interest will be the main reference criterion.

Position

When the Funds and DIM exercise their voting rights and no special situation in a company justifies a contrary vote:

- 4.3.A) They will vote FOR shareholder rights plans that give shareholders fair treatment in a takeover bid and that allow the company enough time to consider alternatives to the bid. They will vote AGAINST shareholder rights plans whose obvious goal is to protect management or that create unfair conditions for some shareholders.
- 4.3.B) They will vote AGAINST any defensive measures consisting in selling the company's best assets, unless that is shown to be in the best interest of the shareholders.
- 4.3.C) They will vote FOR going private transactions, leveraged buy-outs, and other purchase transactions if they adequately compensate shareholders.
- 4.3.D) They will vote AGAINST lock-up arrangements whose obvious aim is to prevent competing bids that might be more advantageous for shareholders.
- 4.3.E) They will vote AGAINST greenmail¹ payment. The price paid for the company's shares must be the same for all shareholders.
- 4.3.F) They will vote AGAINST reincorporation proposals whose only purpose is to counter a takeover; they will nonetheless support reincorporation based on financial, business, or economic reasons.

4.4

Shareholders' Rights

4.4.1

The Funds and DIM wish to preserve the principle that each share in a company conveys the same rights, especially voting rights, and to avoid a company's being controlled by a minority of shareholders holding a majority of voting rights.

4.4.2

The Funds and DIM generally support secret ballot voting to allow shareholders to vote as freely as possible.

4.4.3

The Funds and DIM generally support simple majority votes but believe supermajority votes are sometimes justified.

4.4.4

The Funds and DIM are generally favourable to the practice of cumulative voting.

4.4.5

Shareholders should also have access to full and accurate information about the company.

4.4.6

Shareholders must be able to consider each proposal submitted to them independently of all other proposals.

4.4.7

All measures resulting in the creation of new shares or the modification of features of existing shares should be dealt within proposals to shareholders because they directly affect shareholders' rights. Nonetheless, it may be desirable to empower directors to create new shares for various purposes when company interests so justify, such as securing a stock split or financing restructuring or acquisitions.

4.4.8

Shareholders must be able to submit proposals at shareholders' meetings; they must also have the chance to justify such proposals to allow shareholders to make informed decisions. However, such proposals must not have the effect of imposing undue constraints on directors' or managements' freedom to act. Neither must they have the effect of diluting directors' fiduciary responsibilities to the company or of creating obligations towards individuals who are not shareholders.

Position

When the Funds and DIM exercise their voting rights and no special situation in a company justifies a contrary vote:

- 4.4.A) They will vote AGAINST creating or extending dual-class share structures (restricted shares, multiple-voting shares, etc.) and vote FOR abolishing such structures.
- 4.4.B) They will OPPOSE the practice of linked proposals, except in cases where it is clearly demonstrated that both resolutions are consistent with shareholders' interests and that it is logical to adopt them simultaneously.
- 4.4.C) They will vote FOR establishing or maintaining the practice of cumulative voting.
- 4.4.D) They will vote FOR proposals authorizing directors to create new shares. However, they will generally vote AGAINST proposals requesting an increase of more than 50 percent in the number of shares, unless the proposal specifically indicates why the new shares are required.
- 4.4.E) They will vote AGAINST issuing "blank cheque"² preferred shares whose conditions can be determined by the BD without shareholder consultation, unless it is clearly established that doing so is in the shareholders' interest.

¹ Greenmail payment is a financial practice in which an investor acquires a significant interest in a company and then threatens to launch a takeover bid if the interest is not bought back at a price above the going market price.

² Blank cheque preferred shares are shares whose characteristics (voting, dividend, conversion, etc.) are determined at the sole discretion of the board of directors. They usually carry a fixed dividend and are better secured than common shares.

Corporate Social Responsibility

5.1

Human Rights and Labour Rights

5.1.1

The Funds and DIM endorse the United Nations' position that even though companies should not replace governments and international agencies in the promotion of human rights and labour rights, they are nonetheless responsible for ensuring their operations do not impede the exercise of these rights.

5.1.2

The Funds and DIM generally support proposals fostering respect for human rights in Canada and in other areas of the world when the proposals are based on universal principles established by the United Nations Universal Declaration of Human Rights, International Labour Organization (ILO) conventions, the Charter of Rights and Freedoms in the Canadian Constitution, or other instruments with recognized universality.

5.1.3

The Funds and DIM also believe that companies should call on internationally recognized human rights certification agencies to guide and assess performance in these matters.

Position

When the Funds and DIM exercise their voting rights and no special situation in a company justifies a contrary vote:

- 5.1.A) They will vote FOR adopting rules of conduct or measures affecting any of the following issues:
 - 5.1.A.1) Labour rights as set forth by the ILO and particularly prohibition of forced labour, prohibition of labour for children, prohibition of discrimination in hiring and in working conditions, and rights of association and collective bargaining.
 - 5.1.A.2) Policies against discrimination based on sex, skin colour, ethnic origin, religion, sexual orientation.
 - 5.1.A.3) Fundamental rights in areas of conflict.
 - 5.1.A.4) Assurance of adequate working conditions in all company facilities and by its subcontractors throughout the world.
- 5.1.B) They will vote FOR any resolution calling on an internationally recognized certification organization to monitor human rights compliance in company facilities and those of its subcontractors, and to draft suitable recommendations.

5.2

Sustainable Development

5.2.1

The Group, to which the Funds and DIM fully belong, subscribes to the United Nations Environment Program Declaration of Financial Institutions regarding the Environment and Sustainable Development, which considers sustainable development to be a fundamental aspect of sound business management.

5.2.2

The Funds and DIM feel that companies should use the tools developed by the international community to direct their approach to sustainable development, initiatives of the United Nations and international bodies or organizations, as well as by repositories, standards, guides and codes of conduct or other generally accepted social responsibility, environment or sustainable development tools.

5.2.3

The Funds and DIM recognize, however, that companies may need time to adapt to such international instruments.

5.2.4

The Funds and DIM generally expect that the companies they invest in to take the necessary measures to protect the environment, as concerns both their activities and their products or their services. They should subscribe to the precautionary principle, as defined by Québec Sustainable Development Act, the guiding principles adopted by the Government of Canada, as well as international customary rights. Generally, they should adopt a cautious stance toward health and the environment and assess all possible options, rather than analyzing one set of risks related to a preferred option.

5.2.5

The companies should produce regular environmental performance reports disclosing any environmental risks and responsibilities, particularly with regard to the environmental impact of their activities, products or services, as well as their new infrastructure construction or operational growth projects.

Position

When the Funds and GDP exercise their voting rights and no special situation in a company justifies a contrary vote:

- 5.2.A) They will vote FOR any proposal to subscribe to or to approve compliance with initiatives of international bodies or organizations, as well as repositories, standards, guides and codes of conduct or other generally accepted tools.
- 5.2.B) They will vote FOR any proposal encouraging companies to produce an environmental report of their current or future operations, as well as those requiring the adoption of quantifiable objectives related to pollution load reduction.

Corporate Social Responsibility (continued)

5.3

Support for the Community

5.3.1

Support for the community is at the heart of the Desjardins mission. Desjardins has been a living expression of this for more than a century. The position of the Funds and DIM on this issue can be summed up in one broad and all-encompassing sentence: The Funds and DIM are in favour of companies being socially and economically involved in the community.

5.3.2

A company's ultimate purpose is to prosper economically. Experience has shown that a company solidly rooted in the community is sounder, more resilient, and more likely to prosper in the long term.

5.3.3

The Funds and DIM also support the practice of social responsibility reports where companies account for their overall impact on a community, once again inasmuch as these efforts remain proportionate to the company's resources.

Position

When the Funds and DIM exercise their voting rights and no special situation in a company justifies a contrary vote:

- 5.3.A) They will vote FOR any proposal aimed at developing or maintaining the company's social or economic involvement, inasmuch as it is proportionate to the company's financial capabilities and resources.
- 5.3.B) They will vote FOR any proposal requiring publication of a social responsibility report showing how the company exercised its social responsibility.

5.4

Financial Ethics

5.4.1

The Group was founded on the will to create capital and to make it available on reasonable terms and conditions to people who need it. The requirement to meet that need is equally important today throughout the world. The Funds and GDP wish to reaffirm and continue to live by these broad principles.

5.4.2

Moreover, the globalization of financial operations has revealed the role and the responsibility of financial institutions with respect to certain practices which may sometimes be legitimate but can also be used for illicit purposes to corrupt political process or support criminal activity. The Funds and DIM believe that illegal use of the international financial system by some must be vigorously denounced.

Position

When the Funds and DIM exercise their voting rights and no special situation in a company justifies a contrary vote:

- 5.4.A) They will vote FOR any proposal aimed at eliminating usury or abusive interest rates.
- 5.4.B) They will vote FOR any proposal aimed at implementing micro-credit for people and groups for whom such financial tools are essential.
- 5.4.C) They will vote FOR any proposal aimed at countering the use of financial tools for illicit purposes, be it in Canada or internationally.
- 5.4.D) They will OPPOSE all financial contributions to political parties, but, when such contributions are made, they will SUPPORT all proposals requiring their disclosure in whatever country the contribution is made. They will vote FOR any motion requesting disclosure of contributions or payments made to organizations whose main activities include lobbying.
- 5.4.E) They will vote FOR any proposal aimed at prohibiting or countering corruption, whatever the country it may take place in.

SECTION VI

Policy Implementation

6.1

Information and Communications

6.1.1

The First Vice-presidency, Wealth Management and Life and Health Insurance is responsible for implementing the Policy on the Exercise of Proxy Voting Rights for Private Funds insurances and Portfolios Managed by DIM. Any change in the orientation of this Policy must be submitted to the General Secretariat, Desjardins Group, for analysis and recommendation to the Fédération's Corporate Governance Commission.

6.1.2

The First Vice-presidency, Wealth Management and Life and Health Insurance shall publicize the results of the exercise of voting rights on the Internet at the latest by August 31 each year for the 12 months ending the preceding June 30th. The following information will be provided on the site for each of the proposals:

- Name of issuer;
- Ticker symbol of securities;
- CUSIP number of securities;
- Date of meeting;
- Summary of the question or questions put to a vote;
- Identity of proposer (issuer, management of the issuer or other);
- If the Funds and DIM voted or not on each of these issues;
- How the Funds and DIM voted, as applicable;
- Whether the Funds and DIM voted for or against the issuer's management recommendation.

6.1.3

Unitholders who so request will be sent a print copy of this Policy and Proxy Voting Procedures quickly and free of charge. Unitholders may also obtain a print copy of the file available on the Web site as soon as it is uploaded.

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