2021

Responsible Investment Activity Report

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Desjardins Global Asset Management

Accurate and transparent disclosure

At Desjardins Global Asset Management, 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 is the way forward

NICOLAS RICHARD

President and Chief Executive Officer

Most investors will remember 2021 as the year of post-pandemic recovery—a time of uncertainty, but also of hope for a return to normalcy. The global vaccination campaign, the reopening of society, new COVID-19 variants, labour market challenges and rising inflation have created a great deal of volatility in the stock markets. As a result, investor interest in responsible finance has intensified. The pandemic has highlighted the need to align our investment processes with corporate governance and environmental and social issues. The link between financial and sustainability objectives is becoming increasingly clear: our industry's responsible investment (RI) practices are moving towards a more sophisticated and integrated approach.

Mindful of investors' environmental, social and governance (ESG) concerns, Desjardins Global Asset Management (DGAM) is stepping up its efforts to maintain its status as an RI leader in institutional portfolio management and thus continue to support a green and equitable recovery. 2021 was a year of milestones, and we're building on that momentum. We have the necessary resources, tools and ambition to deepen our knowledge, develop new skills and pursue innovation in RI.

EXTENDED RI BUSINESS INTELLIGENCE

DGAM has had a dedicated RI team since 2016. The team is actively involved in all our investment activities and has the necessary leeway to influence the direction and evolution of our strategies and solutions.

In 2021, we renewed our commitment to making RI expertise a core part of our business model. We recruited new talent to expand our ability to deliver on the growing expectations of our clients and partners.

For example, we established new positions dedicated to ESG data science and alternative asset classes, and adopted a comprehensive RI training program to be rolled out to all employees in 2022.

NEW AND INNOVATIVE SOLUTIONS

In our 2020 RI Activity Report, we noted that the addition of a new infrastructure investment team would allow us to leverage proximity to the RI team and accelerate the application of ESG criteria to the infrastructure asset class.

This goal has been achieved, as evidenced by the implementation of a new systematic ESG analysis methodology for our infrastructure portfolios. Because of these efforts, we were able to launch our first infrastructure fund, which is based on a rigorous ESG framework, in late 2021.

In May 2021, we launched an exchange-traded fund (ETF) focused on emerging markets and weighted by market capitalization. This strategy emphasizes low-carbon companies, incorporates ESG filters and draws on the United Nations Global Compact to exclude controversial sectors. The new product is designed to meet the needs of individual and institutional investors interested in the fight against climate change.

The acquisition of Montreal-based asset management firm Hexavest in September was also a source of innovation. The team launched the Hexavest Emerging Market Systematic ESG Equity Fund in October 2021. Combined with a similar strategy for developed markets, this fund allows us to offer global equity portfolios to clients who wish to invest in stocks made up entirely of ESG leaders.

DEVELOPING OUR EXPERTISE

We firmly believe that the key to RI innovation is to be proactive and to have the means to take action. That's why we encourage our investment professionals to do some research. In 2021, we completed a comprehensive ESG analysis of Canadian provinces and developed a new evaluation methodology that now allows us to assign internal ratings to this type of issuer. This is a valuable tool for DGAM, as few portfolio managers can effectively evaluate the ESG practices of government issuers.

SCIENCE-BASED REDUCTION

In 2021, Desjardins Group took a formal position on RI to play a proactive role in the fight against climate change. While DGAM was already committed to decarbonizing portfolios relative to their benchmarks, last year gave us the opportunity to raise our climate ambitions. Our work on a CIRANO study assessing how adopting science-based targets affects the risk/return profile of portfolios allowed Desjardins Group to set formal carbon reduction targets for 2025 and 2030. Desjardins Group also became the first Canadian financial institution to join the Business Ambition for 1.5 °C campaign, and DGAM signed on to the Net Zero Asset Managers initiative.

INITIATIVES IN LINE WITH OUR AMBITIONS

Shareholder engagement is key to DGAM's RI process, and as the Canadian leader in this domain, we can use our influence in a number of ways to maximize the impact of this engagement. We participated in many projects in 2021, including becoming a founding member of the Climate Engagement Canada initiative. This allows us to work with the financial community to promote a fair and equitable climate transition for Canadian businesses. With our partners at Desjardins Group, we also participated in the Canadian cohort of the *Impact Frontiers* program, which is helping investors gain a deeper understanding of ESG impact measurement challenges and establish a framework and processes for developing and managing impact investment solutions. This initiative will lay the groundwork for DGAM's own impact investment strategy to be implemented in 2022.

LOOKING TO THE FUTURE

This year promises to bring new ESG initiatives and opportunities to promote a fair and equitable economy. Building on our expertise and business intelligence as responsible asset managers, we'll continue to foster innovation in RI and educate our staff in order to maintain our leadership position in this domain. Our commitment to portfolio management that combines financial performance with RI is the focus of all our professionals. As we continue to use our expertise to identify the best investment opportunities for our clients, our carbon footprint reduction targets will help us further support the fight against climate change. In 2022, we remain firmly committed to helping our clients achieve their RI goals, deploying our levers of influence, continuing our quest for innovation in investment solutions and accelerating the positive impact of our activities on society.

Responsible investment, from fringe solution to mainstream

CHRISTIAN FELX
Head of Responsible Investment

Responsible investment is on the rise. A growing number of investors are opting for investment solutions that promote sustainable prosperity. What's more, the fact that all stakeholders are taking a greater interest in responsible finance shows that RI is emerging as the new normal. And yet, plenty of people were still opposed to using ESG criteria just two years ago. How can we explain this turnaround, and what can we expect in the coming months?

MORE SOPHISTICATED APPROACHES

RI strategies have come a long way, which is a big reason why RI has gained mainstream recognition in recent years. Portfolio managers have moved from rule-based exclusionary strategies to more sophisticated strategies based on analytical frameworks. This development has bridged the gap between sustainability and financial performance. We now know that using ESG criteria for investment allocation and selection can identify risks and opportunities that are sometimes overlooked by traditional financial analysis. This new paradigm is completely in line with a manager's fiduciary duty and has made it possible to debunk, once and for all, the myth of underperformance that sceptics had long maintained.

FIGHTING CLIMATE CHANGE: TIME FOR AN INCLUSIVE APPROACH

To overcome issues related to climate change, the consensus is that we must move toward a low-carbon economy. This transition has already begun. For businesses and investors, this means assessing risks and opportunities and all the challenges associated with long-term and uncertain issues.

We need an inclusive approach that works with issuers from all sectors of the economy. The role of an asset manager is to assess a company's ESG strategy in order to ensure its long-term financial performance. The role of an issuer is to ensure its sustainability while having a positive impact on society and the environment.

CONSTRUCTIVE ENGAGEMENT WITH ISSUERS AND ASSETS

Issuer engagement has emerged as a lever of influence in the ESG community. While we can't take credit for all the positive outcomes of a successful dialogue, the benefits for all stakeholders are clear. The fact that companies are increasingly open to discussing ESG issues shows that they benefit from constructive dialogue with investors. These discussions help inform our investment decisions—a failed dialogue can be a red flag for an issuer's ability to manage the extra-financial issues.

In addition to this dialogue, ESG considerations are now commonly included in voting policies, and investors use this tool to convey messages that are consistent with their beliefs. However, issuers must receive feedback for this process to be effective. Sometimes, the dialogue can lead investors to explain their position in exchange for commitments from the issuer.

The bottom line is that constructive engagement ensures better alignment between stakeholder objectives. This is evidenced by the many discussions there have been about carbon neutral targets in recent months. Investors won't be able to meet their financial and climate goals without a similar commitment from issuers.

TOWARD THE ADOPTION OF COMPARABLE, CREDIBLE AND UNIVERSAL ESG DATA

Regulatory bodies are moving to regulate ESG data disclosure, and this is a welcome development. Asset managers have been vocal about the poor quality of data and the lack of universal standards for a long time. However, with the increasing number in data providers and improved issuer disclosure, the quantity and quality of ESG data has significantly increased.

Nevertheless, coverage remains uneven across regions and asset classes, and the proliferation of frameworks and data sources means that investors must be vigilant and careful.

The time has come to promote compliance with a few credible and universal standards. The recent creation of the *International Sustainability Standards Board* (ISSB) is definitely a step in the right direction.

RI IS EXPANDING ACROSS ASSET CLASSES AND STRATEGIES

Data availability initially favoured ESG integration in traditional liquid asset classes. More recently, we've seen a move into alternative asset classes, including real estate and infrastructure. Procedures and guidelines have been established for the incorporation of ESG criteria into the investment process. Furthermore, green buildings and wind farms are becoming available to investors, who now have access to responsible investment solutions across all asset classes.

Passive and systematic solutions have also been gaining momentum. Improved disclosure and quantitative data quality have made it possible to implement sophisticated portfolio screening and construction rules for customized solutions.

THE IMPORTANCE OF DIVERSIFIED EXPERTISE

Despite its explosive growth, lack of knowledge remains the biggest barrier to universal adoption of RI. It is of particular concern that not enough people have the skills required to assess the quality and impact of different investment solutions.

Education and training will be key in this regard. Many university programs now cover responsible finance, and financial institutions have developed comprehensive in-house training programs. Beyond knowledge development, top portfolio managers are also interested in promoting diversity in all forms, including diversity of expertise. Such an approach facilitates the exchange of ideas necessary for innovation. That's how DGAM has been able to build a strong RI team with the knowledge and credibility to support the development of all its investment professionals.

Brief overview of a few emerging trends

CARBON NEUTRAL BY 2050

The quest for carbon neutrality will shape the RI landscape in the coming years, from data collection to investment decisions and engagement activities.

THE "S" IS KEY

Human rights and environmental (intergenerational) inequities are central to many ESG issues. Exacerbated by the pandemic, the social aspect of RI will be given special attention by investors.

THE NEED FOR TRANSPARENCY

Greenwashing concerns have drawn the attention of regulators as investors demand proof that their investments have delivered the intended results. Greater transparency will be required to demonstrate the authenticity and sincerity of any RI process.

IMPACT INVESTING

In addition to ESG integration, the market is gradually turning to impact investment solutions and processes to measure and understand the impact of RI practices.

NEW TECHNOLOGIES

Artificial intelligence, mass data processing and unstructured data analysis are being applied to RI. These technologies will enhance data analysis and make investment decisions more efficient.

Proud pioneers of responsible investment in Canada

Sustainable finance has driven our organization for over 30 years. We're proud of our leadership in the responsible investment ecosystem and the extensive expertise our team has developed by adopting the highest environmental, social and governance standards.

WE HELP INVESTORS GROW THEIR ASSETS IN A SUSTAINABLE WAY

Ever since our inception in 1998, we've mobilized our resources to keep improving our practices and outperforming our ambitious goals. Over the years, RI has increasingly influenced our strategies. 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

1990
- Desjardins launches its Environment Fund

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
- DGIA 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

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 rating grid to assess issuers' ESG practices

2021
- Desjardins develops its corporate positioning on RI
- DGAM joins three initiatives: Climate Engagement Canada, Net Zero Asset Managers and FAIRR
- Desjardins takes part of the Montreal Social Value Funds' investment committee
- DGAM adds experts in ESG data science and natural capital management to its RI team

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

Expertise

DGAM is one of Canada's largest asset managers, with over 100 employees in Montreal, Quebec City and Toronto and over $90 billion in assets under management for institutional clients across Canada.

Solutions

We have internal capabilities in equities, fixed income and real assets (infrastructure, real estate) available in a wide variety of investment vehicles. We also offer customized multi-asset solutions, such as strategic and tactical allocation.

Responsible investment

We're leveraging our cooperative values to support the sustainable and responsible growth of our partners' and clients' assets.

Collaboration

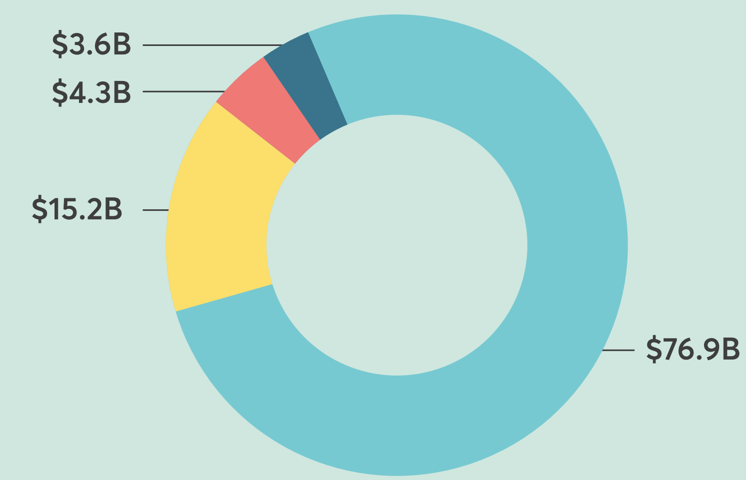
Collaboration between our specialists and our clients allows us to design customized solutions.

One of Canada's leading asset managers

$90B+ in assets under management | **100+** employees

Breakdown of DGAM assets

as at December 31, 2021



- Fixed Income
- Real Estate
- Equity
- Infrastructure

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). We've received an A+ rating in Strategy and Governance for the past two years.[1]

OUR PRINCIPLES

RI is an integral part of our fiduciary role	Our approach must focus on action and innovation	Engagement is key	Sustainable performance requires a long-term vision
We believe that including ESG criteria in investment allocation and selection is part of our mandate as portfolio managers.	To innovate, we need to take action based on facts supported by a comprehensive research process.	Dialogue and voting activities can have a positive influence on corporate practices. What we do can benefit all stakeholders.	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 from the UN Global Compact and addressing client concerns, we've developed a proprietary ESG assessment grid.

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 Susatainability 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.

1 PRI reporting is the largest global reporting project on responsible investment. It was developed with investors, for investors. Signatories are required to report on their responsible investment activities annually.

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

Management Committee
- Investment Solutions Sub-Committee
- Business Development Sub-Committee
- Operation Sub-Committee

Governance responsibilities
- RI strategic decisions
- Quality assurance of the integration of RI practices within the activities of the various teams

Integration responsibilities

Responsible Investment Team*
- Alignment of RI strategies, initiatives and research with the various Desjardins teams
- Design and implementation of RI strategies and engagement activities, research and innovation, ESG trend monitoring, publication of articles, collaboration with the industry and levers of influence

Business Development and Client Relations Team*
- Communication, marketing and reporting activities
- Contribution to the development of RI solutions by integrating and translating client objectives

Investissement Team*
Equity | Fixed Income | Real Estate | Infrastructure | Asset Allocation
- Integration of ESG criteria in the analysis and portfolio management processes
- Dialogues with companies and partners on ESG issues

Operation Team
- Governance and maintenance of ESG data
- Sharing of ESG data internally for analysis purposes

Investment Solution Team*
- Market analysis and development of RI products and solutions adapted to client needs

* Participates to DGAM RI training program

OUR TEAM OF RI SPECIALISTS

While our entire staff is responsible for implementing RI practices, DGAM has recruited ten professionals from a variety of backgrounds such as finance, engineering, sustainable development, climate change, water management and ESG data science. These RI specialists are part of the investment strategy team, which allows them to influence strategies and put our convictions into action. They monitor ESG issues on an ongoing basis and work closely with our analysts and managers to ensure that our investment solutions are in line with sustainable development principles. RI specialists also assist in the development of solutions to ensure the integration of ESG criteria into strategies and the credibility of RI portfolios. They maintain close ties with the RI ecosystem and provide training to all DGAM employees.

2021 in figures

WE CONTRIBUTED TO A MORE SUSTAINABLE ECONOMY

38%
reduction in the carbon footprint of Desjardins portfolio companies (relative to their benchmark)

$1.5 B
invested in renewable energy infrastructure

$1.9 B
invested in sustainable bonds

97%
of our real estate assets have a sustainability certification such as LEED or BOMA BEST

Net-zero carbon emissions
represents the new target for our portfolios by 2050

3 stars
awarded to our real estate portfolios by GRESB

WE'VE EXPANDED OUR LEVERS OF INFLUENCE

+100
dialogues with companies on ESG issues

3,680
shareholder meetings at which we exercised our voting rights

40+
position papers, new collaborative initiatives and RI speaking engagements

WE'VE DEVELOPED OUR EXPERTISE

1
new ESG assessment grid developed in-house to evaluate provincial bonds

10
specialists dedicated exclusively to responsible investment

15+
professionals pursuing FSA or CFA ESG certification

WE'VE INTRODUCED NEW RESPONSIBLE INVESTMENT SOLUTIONS

3
new funds with ESG strategies

- **Desjardins RI Emerging Markets – Low CO_2 ETF**
- **DGAM Global Private Infrastructure Fund**
- **Hexavest Systematic ESG Emerging Markets Equity Fund**

Supporting our vision of strong leadership

In 2021, we led Desjardins Group's responsible investment strategic positioning initiative. This gave rise to an ambitious goal: to remain the financial institution most committed to engaging Canadian investors in responsible investment (RI) education, democratization and adoption. This positioning is built on three main pillars for which DGAM has set ambitious targets to be achieved by 2024.

PILLARS OF OUR AMBITIONS	DGAM'S TARGETS FOR 2024*
Quality coaching and advice Be recognized as one of Canada's leading RI partners	• Train and coach all our investment experts on the RI transition • Systematize RI-related discussions in service delivery and improve client support
Credibility Be recognized as one of Canada's leading RI experts	• Systematize the integration of ESG criteria in 100% of our investment solutions and all of our asset classes • Include 25 carbon-intensive Canadian companies in our shareholder engagement initiative to urge them to align their objectives with those of the Paris Agreement • Set carbon reduction targets aligned with the Science Based Targets Initiative (SBTi)[2] for our portfolios
Transparency Demonstrate the authenticity and sincerity of the RI process	• Formalize our investment and shareholder engagement policies to make them more precise • Implement ESG disclosure consistent with industry best practices as recommended by the CFA Institute

* Non-exhaustive list

2 Science-aligned targets as defined by a joint initiative between CDP, UNGC, WRI and WWF to develop methods and criteria for achieving the goals of the Paris Agreement.

Four pillars to meet our sustainable development goals by 2030

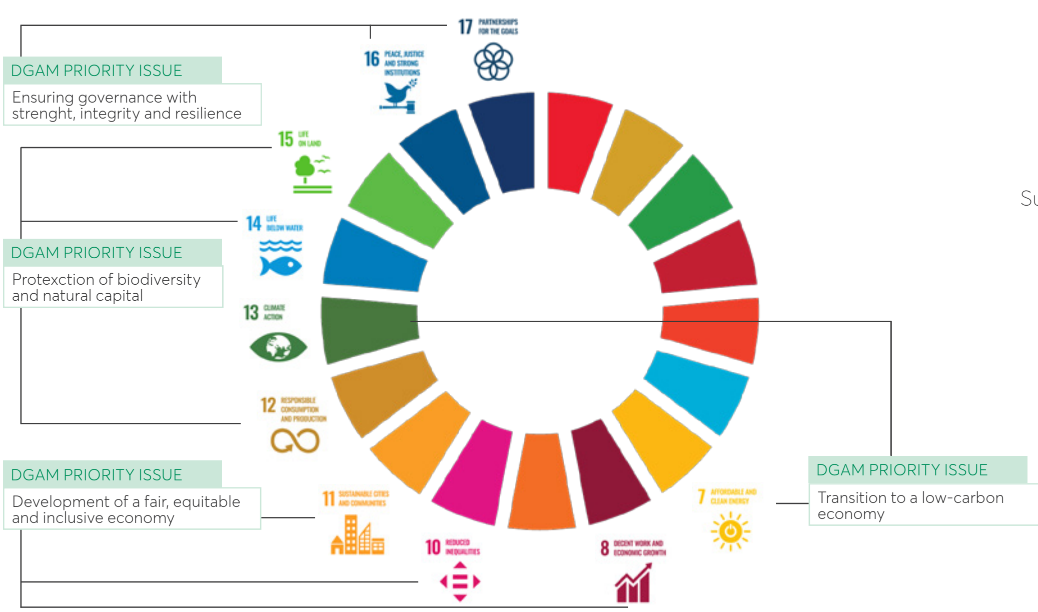
At DGAM, we align our decision-making with broad sustainability themes that represent the priority issues identified in our ESG analyses and guide our many engagement activities. These themes also drive our research and the development of innovative ESG investment strategies.

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

We revised our approach in 2021, streamlining our priority issues from six to four. This allowed us to regroup all issues into four major interconnected themes to make our discussions and decision-making more effective. Each of these themes corresponds to specific SDGs, as shown below..

SOLÈNE HANQUIER
Leader of ESG Strategies

"By investing their money responsibly and urging issuers to adopt sustainable business practices, investors can do a lot to foster positive economic prosperity and help create a better future. Collectively responding to the UN's call to action will allow us to transform the economy, support the necessary transitions and address the major global challenges facing humanity."



DGAM priority ESG issues
and their link to the Sustainable Development Goals

Transition to a low-carbon economy

The topic of climate change was marked by the COP26 held in Glasgow, UK, in 2021. Hailed as "the COP of the last chance", many agreements were signed at the conference to bring the world in line with the goals of the Paris Agreement. Among the many commitments made at the event, more than 40 countries pledged to phase out thermal coal by 2030,[3] and more than 100 countries pledged to reduce methane emissions and end deforestation by 2030.[i]

Desjardins Group is committed to a just transition to a low-carbon economy. Since 2015, we've made several pledges in connection with the Paris Agreement, including reducing the carbon footprint of our investments and increasing investment in renewable energy infrastructure. In 2021, we reaffirmed our commitment to fighting climate change by joining two key initiatives: *Business Ambition for 1.5°C*, which aims to limit global warming to 1.5°C, and *SBTi*, which develops science-aligned reduction methods and criteria. Desjardins Group has also adopted an *ambitious plan*[ii] to address the climate emergency by 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). Meanwhile, DGAM has joined the *Net Zero Asset Managers initiative*, pledging to achieve net-zero emissions for its portfolios by 2050.

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

3 According to the International Energy Agency, coal-fired power generation accounts for 30% of global CO_2 emissions.

INTEGRATION INTO OUR PORTFOLIOS

We've integrated the 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 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 their alignment with index provider practices and by using a portfolio coverage indicator to determine the number of companies that are formally committed to achieving net-carbon goals.

Note that DGAM offers a full range of Exchange Traded Funds (ETFs) aimed at reducing carbon footprint relative to benchmark, including an ETF with no fossil fuel exposure.

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
- 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 policy. By adopting such a policy, a company shows transparency on its climate strategy and provides shareholders with a consultative vote on the strategy. We participated in investor consultations with the Canadian Coalition for Good Governance and ISS to evaluate how investors perceive this issue. From these consultations, we concluded that there is currently no consensus on a systematic voting method in Canada or elsewhere. To prevent greenwashing, we decided to institute decision-making criteria to stringently analyze *Say on Climate* proposals so as to grasp the nuances and ensure that we support proposals that are consistent with our standards. We generally vote against such proposals in the following cases:

- The report is not aligned with a recognized reporting framework, such as the Task Force on Climate-Related Financial Disclosure (TCFD).
- The report does not state the company's indirect emissions (Scope 3) or does not plan to provide them.
- The reduction targets are not aligned with the goals of the Paris Agreement or science.
- The emissions data is not verified by an independent source.
- No annual reporting to shareholders is planned.

CASE STUDY

Conclusive research on the need for higher reduction targets and issuer responsibility

In 2021, we partnered with CIRANO, a Montreal-based research centre, to assess the impact of adopting science-based carbon reduction targets (as recommended by SBTi) on portfolio risk/return characteristics. The purpose was to determine whether emission reduction targets could be achieved without affecting the financial performance of equity (common or preferred) and corporate bond portfolios. The study simulated portfolio progress toward the goal of net-zero emissions by 2040/2050 based on parameters related to issuer commitments to climate change and the likelihood of meeting reduction targets.

It yielded two findings:

1. Intermediate targets (by 2025 and 2030) aligned with the Paris Agreement goals are feasible, as significant carbon footprint reductions can be achieved without forcing portfolio managers to make difficult trade-offs.
2. Beyond 2030, managers and issuers will both be responsible for achieving long-term carbon neutral targets and the goals of the Paris Agreement, confirming the importance of shareholder engagement activities in encouraging companies to set and achieve ambitious science-based goals.

INITIATIVES WE SUPPORT

CASE STUDY

A dialogue that's bearing fruit thanks to industry advocacy and DGAM's ongoing efforts

DGAM has been in dialogue for several years with a fossil fuel company that's lagging behind its peers in climate risk management. The company was particularly reluctant to set ambitious GHG reduction targets. It now seems to have changed its mind due to the pressure Canadian investors are putting on the fossil fuel sector. In fact, several issuers in the Canadian energy sector are included in the *Climate Action 100+* initiative that we're participating in. In summer 2021, Imperial Oil, Suncor Energy, Canadian Natural Resources, Cenovus Energy and MEG Energy, which account for 90% of oil sands production in Canada, announced the creation of *Oil Sands Pathways to Net Zero*,[iii] an alliance aimed at becoming carbon neutral by 2050. Following this announcement, the laggard company contacted us to discuss its ESG practices and how to integrate climate issues into its business model. They've hired consultants to draft an ambitious climate strategy that they believe will be among the best in the industry. We've had the opportunity to discuss establishing interim targets to achieve zero emissions by 2050 and including Scope 3 emissions in the company's strategy. As a result of this dialogue and Climate Action 100+ advocacy efforts, the company is now ready to incorporate the energy transition into its business model and equip itself to manage the associated risks and opportunities.

OUR 2021 ACHIEVEMENTS

- 69 dialogues with companies on the issue of transitioning to a low-carbon economy.
- Signature of the *RIA Investor Statement on Climate Change*.
- 38% reduction in the carbon footprint of Desjardins Group's owned funds in relation to their respective indexes.
- $1.5 billion in renewable energy infrastructure.
- $1.9 billion in green and sustainable bonds.
- Work performed to establish a new, science-based target (SBTi) for carbon footprint reduction.
- Signature of the *Net Zero Asset Managers* initiative.
- Joined *Climate Engagement Canada*.
- 46% of votes in favour of shareholder proposals dealing with GHG emissions management and the disclosure of climate change risks.

PRIORITY ESG ISSUES

Development of a fair, equitable and inclusive economy

Prior to the pandemic, investors did not address social issues as much as governance and environmental issues. This was likely due to the difficulty in getting mature data, demonstrating the impact of these issues on corporate performance, and getting quantitative measurements of issuers' performance in this area.

The pandemic put a spotlight on the persistent social and economic inequalities in our societies. Companies also became aware of the importance of retaining their workforce, ensuring the health and safety of their employees, and offering conditions that enable a better work-life balance. The challenges involved in managing human capital can expose companies to reputational risks, but employee mobilization on social issues is also an opportunity for companies to take a stand for a more fair, equitable and inclusive economy.

The last few years have seen renewed awareness of the racism that persists in our modern societies, particularly after the public outcry over the death of George Floyd in the United States. Many companies have been encouraged to overhaul their diversity policies, as numerous studies[iv] found a correlation between diversity and better financial performance.

It is also important for investors to contribute to a fair transition that seeks to protect the livelihoods of workers and communities. Inequality can destabilize social systems and affect all sectors of the economy. In a post-pandemic recovery, our role as an investor is to foster a sustainable and positive transformation through capital allocation and responsible investment.

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.

OUR APPROACH TO EQUITY, DIVERSITY AND INCLUSION (EDI)

Several studies show that there is a positive connection between a company's financial performance and the diversity of its board of directors and its management team.[v] We are particularly active on this issue, as shown by Desjardins Group's 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.

CASE STUDY

Taking the needs of Indigenous communities into account

Created to commemorate residential school victims, the National Day for Truth and Reconciliation reminds us of the importance of encouraging reflection on the history and the realities of Indigenous peoples, and encourages us to work together to advance Indigenous reconciliation in investment processes. In 2021, DGAM participated in a series of initiatives to broaden our collective understanding of this issue. We took part in a Mining Association of Canada study on the value of relations with Indigenous peoples, workshops on reconciliation dialogues organized by Reconciliation Canada, and a roundtable organized by the *Reconciliation and Responsible Investment Initiative* (RRII) to develop the "Investing for Today, Tomorrow, and Future Generations: A Guide for Indigenous Investors." In our infrastructure projects, we promoted several co-investment projects with communities, such as the White River hydroelectric project in Northern Ontario, jointly owned by Regional Power and Pic Mobert First Nation, and the Grand Renewable Solar project near St. Catharines, Ontario, in which the Six Nations community is a partner. In Quebec, the Rivière-du-Moulin wind farm is being developed in partnership with the Innu and Huron-Wendat communities.

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 workers.

INITIATIVES WE SUPPORT

30% Club
GROWTH THROUGH DIVERSITY

Montreal SOCIAL VALUE FUND

RIA
Canadian Investor Statement on Diversity Inclusion

BLACKNORTH INITIATIVE

OUR 2021 ACHIEVEMENTS

- 55 dialogues with companies about developing a fair, equitable, and inclusive economy.
- Support for 78% of shareholder proposals pertaining to human rights.
- Votes against committee member nominations for 841 companies whose boards of directors did not feature 30% female representation (30% for the election of directors and committee chairs).
- Participation in four initiatives pertaining to Indigenous reconciliation and training on this issue for our teams.
- Publication of an *article in Finance et Investissement* explaining our gender diversity integration approach.
- Participation in a panel on diversity and inclusion at the Finance Montréal Sustainable Finance Summit.

CASE STUDY

Scaling up engagement tools to achieve satisfactory outcomes in the area of female representation

A company in the consumer sector had been under fire for several years from the responsible investor community due to the lack of female representation on its board of directors (only one of twelve directors was a woman). We addressed this issue with the company in 2019. In 2020, having seen no improvement and having failed to establish a dialogue with the company's management, we initiated and sent the company a letter co-signed by several members of the 30% Club, which went unanswered. Our request for dialogue was finally heeded in 2021. Despite some openness, management had no firm plan, which convinced us to start drafting a shareholder resolution to propose a diversity policy that included a 30% female representation target. This approach paid off, since it prompted the company to appoint another woman to its board, and draft a diversity policy calling for a target of 30% by the 2024 general meeting. Satisfied with these results, we deemed that it was no longer needed to file our shareholder proposal.

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	
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

Below, we present 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.

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.
- The positions of board chair and president and CEO must be separate.
- The board mu st have diverse skills and experience. We favour 30% female representation and diversity in age, expertise and cultural background.

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.[vi] 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.

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.

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*[vii] 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.

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

CASE STUDY

An exemplary dialogue with a company that wants to maintain its good practices following an acquisition

DGAM was contacted by a leading oil and gas business that had just finished acquiring a competitor with poor ESG practices. We spoke with the company's management about its asset integration plan and the best way to encourage good ESG practices among new resources to keep the company's overall performance from deteriorating. During the consultation, we stressed the importance of including the ESG strategy in the responsibilities of the board of directors and the new CEO. We also advised the organization on its strategy for including ESG factors in a long-term vision, and discussed the need to thoroughly communicate it to investors and stakeholders.

CASE STUDY

A vote by shareholders prompts a company to adopt compensation consistent with best governance practices

Since 2018, DGAM has been engaged in positive dialogue with a company in the real estate industry on several aspects of its governance. After over 50% of investors (including DGAM) voted against a consultative vote on executive compensation in 2021, the company's board, the human resources department and the compensation committee met with us and many investors to overhaul its compensation program. Not only did the company respond to our demands, but it ensured that its compensation plan was in line with the best practices in the industry. Among other things, its new plan provides no discretionary compensation to senior executives, stipulates compensation aligned with the median of peers for the CEO, uses separate performance metrics for the short-and long-term components, and includes ESG performance metrics.

OUR 2021 ACHIEVEMENTS

- An article sharing our vision of a consultative vote on compensation was published in *Investment Executive*.
- 64 dialogues with companies on governance issues.
- Voted against the election of directors in 34% of companies that held them due to a lack of director independence.
- Voted against the auditors of 37% of companies that were renewing their audit contracts because the contract terms exceeded 20 years.
- 20 votes in favour of shareholder proposals demanding the independence of the chair of the board of directors.

Protection of biodiversity and natural capital

Biodiversity is defined as everything that makes up nature, including fauna, flora, earth, air and water. Essentially, it includes all forms of life on earth. Natural capital represents the value placed on biodiversity. The Natural Capital Coalition defines biodiversity as the stocks of renewable and non-renewable resources that provide products and services essential to human well-being. The combination of the two terms attests to the changes that have impacted natural areas over the past century.[viii]

Approximately 50% of natural ecosystems are affected by human activities, such as agriculture, urban life, the exploitation and consumption of natural resources, and infrastructure.[ix] For this reason, we added the theme of biodiversity and natural capital protection to our list of priority issues in 2021. Over the past year, our RI team has focused its efforts on researching and analyzing the new theme to fully understand its financial impact and implications for the companies we have in our portfolios. The work will help us refine our approach and deploy a robust action plan on ESG engagement and integration in 2022.

FINANCIAL REPERCUSSIONS

Over 50% of the world's GDP is influenced by or depends on biodiversity. Between 2017 and 2018, natural disasters cost more than $505 billion in economic losses, less than half of which was insured.[x] The data illustrate not only the importance of the biodiversity issue, but also that changes to natural environments can have an impact on society. Some problems have already led to social repercussions, particularly with respect to climate change, deforestation and pollution. In 2019, the gap between global financial needs for biodiversity and actual financing totalled US$824 billion.[xi] The World Economic Forum's Global Risks Report 2020 identified biodiversity loss as one of the top five threats facing humanity in the next 10 years.

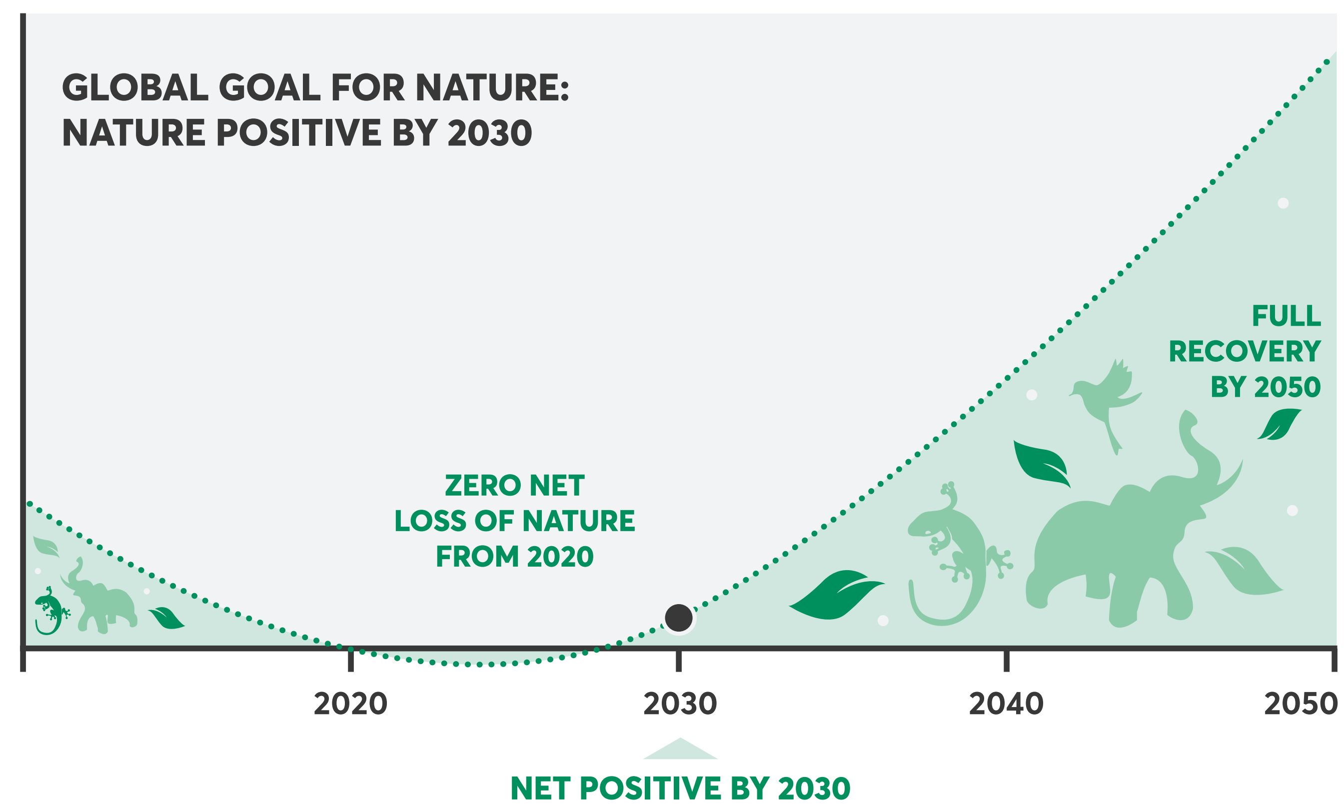
CALL FOR GLOBAL ACTION

The recent focus on climate change shows that biodiversity loss is a critical issue for climate change and, accordingly, lessening climate change and transitioning to carbon neutrality cannot happen without undertaking the biodiversity crisis. We must therefore get to work on conserving biodiversity as quickly as possible. COP26 highlighted the need to stimulate climate action and restore deforested lands by taking on the Bonn Challenge. The *United Nations Biodiversity Conference* (COP15), which started in 2021 and will continue in 2022, identifies the measures needed to stop biodiversity degradation and loss.

Global Goal for Nature is an ambitious initiative backed by many organizations, including *Business for Nature, The Nature Conservancy* and the *World Business Council for Sustainable Development* (WBCSD). The initiative has three goals:

1. Stop the destruction of nature as of 2020.
2. Achieve a net positive impact by 2030.[xii]
3. Ensure full biodiversity recovery by 2050.

Indicators of biodiversity



Source: Naturepositive.org, 2021.

BIODIVERSITY AND NATURAL CAPITAL ON INVESTORS' AGENDA

As the issue is becoming increasingly important for shareholders, numerous initiatives have been launched, with more than 15 deployed worldwide in 2021. Initiatives such as the _Taskforce on Nature-related Financial Disclosures_ (TNFD), _Finance for Biodiversity Initiative_ (F4B) and _Partnership for Biodiversity Accounting Financials_ (PBAF) are particularly effective in supporting global commitment to reducing biodiversity impacts. In 2022, DGAM will evaluate which initiatives it will join to collaborate on this issue.

OUR APPROACH TO BIODIVERSITY AND NATURAL CAPITAL

The DGAM's RI team has identified biodiversity and natural capital as one of the main priorities in 2021. We have researched areas of impact, various programs and their goals, how these changes will affect investors, ways to implement change, and other topics. As such, we have identified three areas of interest related to biodiversity:

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

We continue to explore these areas to identify opportunities for change within DGAM portfolios. Our research focuses on risk management, analysis of exposure of our investments and identification of opportunities consistent with best practices. ESG metrics for these three focus areas have been integrated into our internal issuer assessment grid and included in our dialogues with consumer companies, where we ask companies to explain and provide examples of their zero deforestation strategy and their sustainable agricultural processes.

Links to Sustainable Development Goals (SDGs)

EXAMPLES OF AREAS OF INVESTMENT OR INTERVENTION	
12 Responsible consumption and production	• Water-efficient production • Sustainable aquaculture and fisheries • Water treatment infrastructures
14 Life below water	• Recycled packaging production • Non-intensive agricultural processes • More efficient industrial process
15 Life on land	• Commitment and practices to stop deforestation • Sustainable supply chain practices

CASE STUDY

Dialogue with a food sector company on the need to increase the traceability of its ingredients

Over the past two years, we have been in discussions with this company on three axes of influence:

1. motivating them to use sustainably sourced ingredients;
2. encouraging them to adopt a goal to end deforestation in their supply chain; and
3. urging them to increase their supply of plant-based proteins.

DGAM was not the only investor to make such requests, the company had received similar shareholder proposals. Added to this pressure was the fact that the company was in the process of being evaluated by the _Farm Animal Investment Risk and Return_ (FAIRR) initiative, a collaborative network that focuses on ESG research and analysis related to animal protein and animal welfare practices, and was undergoing evaluation by the _Business Benchmark for Animal Welfare_. In 2021, our dialogue and the efforts of the ESG community paid off, as the company announced commitments related to its supply chain, including ending deforestation, sustainably sourcing its key ingredi ents, and planning to obtain certification from a recognized organization for some of its foods.

CASE STUDY

FAIRR, a key agricultural commitment for DGAM

The FAIRR initiative facilitates collaboration among investors on material agricultural issues. It is the most dynamic network of investors focused on ESG risks in the global food sector. FAIRR works closely with investors to research and analyze data from multiple animal protein producers and manufacturers to minimize risk while increasing benefits.

Since 2021, DGAM has been a member of the FAIRR initiative and has signed the _Where's the beef?_ statement, which aimed to put agriculture on the COP26 agenda and urged livestock companies to set emission reduction targets.

Livestock farming accounts for about 14.5% of global emissions,[xiii] yet approximately 86% of the largest meat and dairy producers have not set or declared reduction targets.[xiv] The statement was signed by 88 investors representing $11.9 trillion in assets.

THE INITIATIVE WE SUPPORT

OUR 2021 ACHIEVEMENTS

- Addition of biodiversity and natural capital protection to our list of priority ESG topics.
- Membership to the FAIRR initiative.
- Addition of a resource with theoretical knowledge and professional expertise in water management and sustainable agriculture to the RI team to strategically manage this issue.
- 12 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.

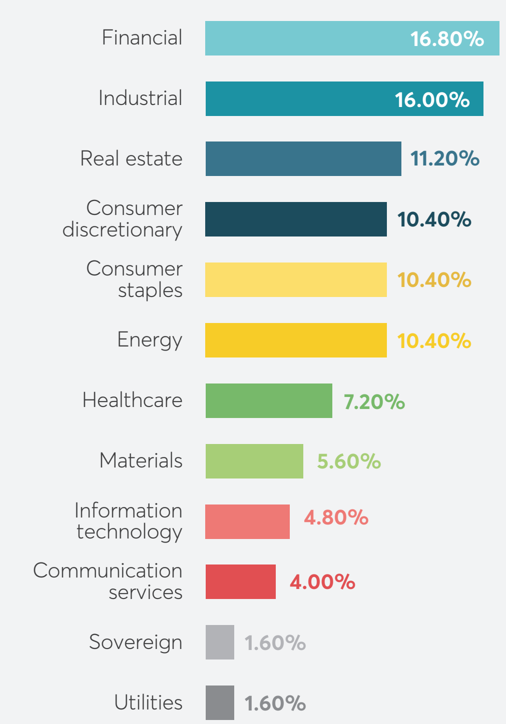
Our 2021 dialogues in figures

Number of interactions **125**

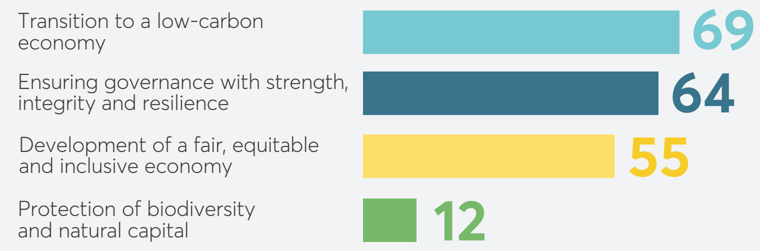
Number of compagnies met **96**

Number of issues addressed **22**

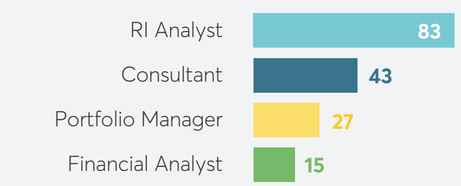
Dialogues per industrial sector



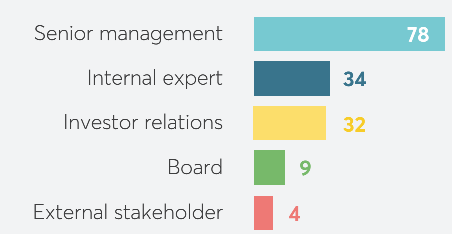
Occurrence of the ESG pillars addressed



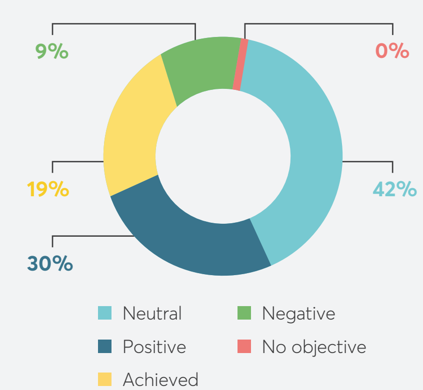
DGAM stakeholders attending



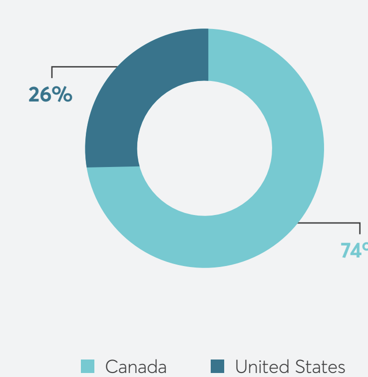
Stakeholders met



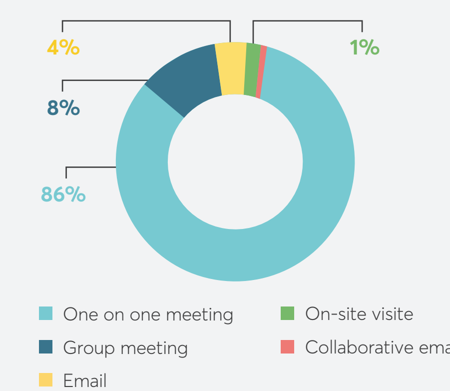
Progress on dialogue objectives



Geographic allocation of the compagnies met



Dialogues per type of meeting



Our 2021 votes in figures[4]

DGAM reviewed **3,680** corporate meetings and **42,975** proposals submitted to a shareholders vote

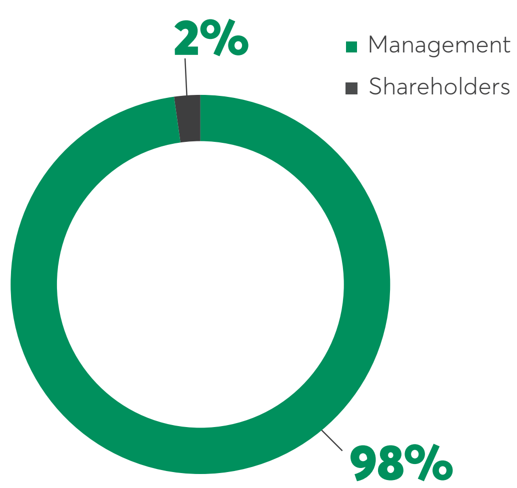
66% Voted in favour of proposals submitted by management

59% Proposals concerned the election of directors

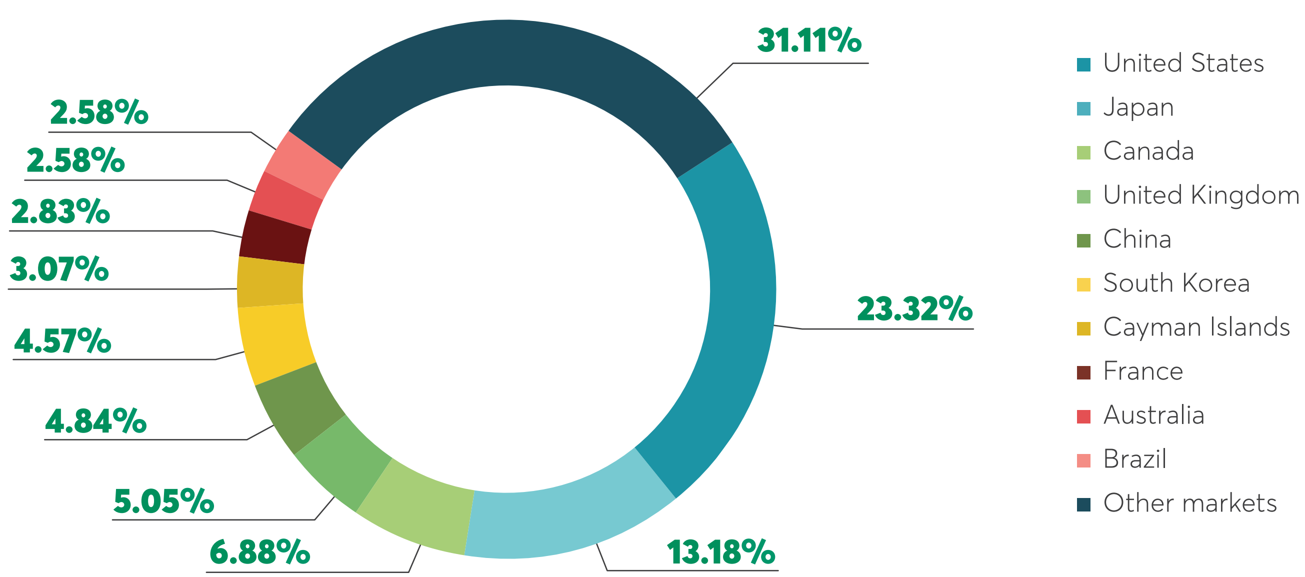
53% Support of proposals submitted by shareholders

55% Support of Say on Pay proposals

WHERE PROPOSALES CAME FROM



BREAKDOWN OF SHAREHOLDER MEETINGS BY MARKET WORLDWIDE



4 The 2021 voting data do not include Hexavest, which was acquired in September 2021.

	CONTEXT FOR 2021	DGAM HIGHLIGHT
DIVERSITY, EQUITY AND INCLUSION	The presence of women on boards of directors continued to increase in 2021. The number of S&P/TSX companies with at least 30% female representation climbed from **49%** to **59%**, and as of December 31, 2021, all S&P/TSX companies had at least one female executive.	DGAM did not back candidates for the chair of the nominating committee or the chair of the board of the **841 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	**14** Canadian companies adopted a *Say on Pay* consultative vote on executive compensation for the first time. Across all of these votes, the lowest approval rating a company received was **24%** in 2021, the lowest approval rate in the last five years.	DGAM voted against 43% 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, **52** shareholder proposals were withdrawn in 2021, representing **66%** of the proposals submitted. In spite of this, 2021 was the year in which the highest number of ESG proposals were put to the vote since 2013.	DGAM supported **78%** of shareholder proposals related to human rights and **33%** of those that focused on environmental issues.

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 tabaco 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 take these objectives into consideration in their investment process, without sacrificing financial objectives.

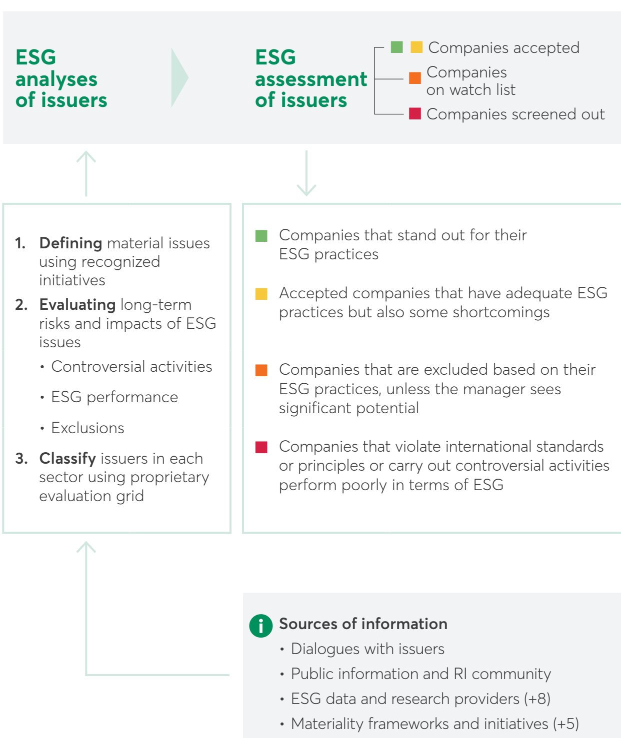
WE ARE ACTIVELY ENGAGED WITH ISSUERS, PARTNERS AND DECISION MAKERS

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

		Exclusions						Shareholder engagement		
STRATEGY	INVESTMENT APPROACH	Aligned with UNGC	Coal	Fossil fuels	Other exclusions	Integration in fundamental or quantitative analysis	Positive screening based on ESG rating or metrics	Dialogues	Votes	Climate approach
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	✓	✓			✓		✓		
Hexavest Systematic ESG World Equity Fund	Active (quantitative)	✓	✓	✓	✓		✓	✓	✓	✓
Hexavest 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.

ESG INTEGRATION

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

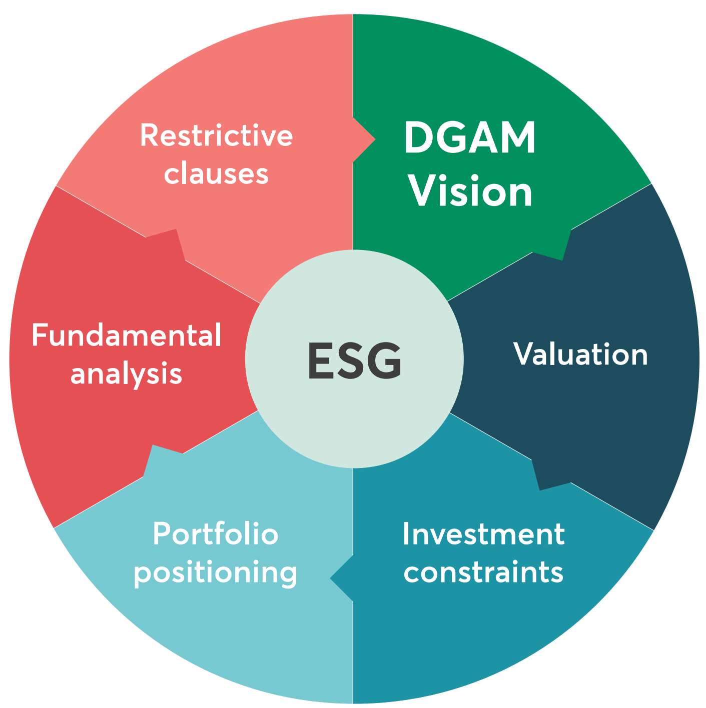
DGAM manages nearly $70 billion in fixed income assets, distributed across portfolios with varying financial objectives as well as tax, regulatory and accounting requirements. The management team allocates these assets across a variety of fixed income asset classes (federal, provincial, municipal, corporate 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



CASE STUDY

Evaluating ESG practices of the provinces

Since 2020, DGAM has incorporated an ESG component in its analysis of the Canadian provinces. This allows us to identify the environmental, social and governance factors that may have an impact on the value of our inve stments. The criteria taken into consideration are shaping our opinion on the maturity of government practices on issues such as climate change, water management, social inequalities, demographics, civic engagement and crime.

Example of ESG data analyzed for provincial bonds

ENVIRONMENT

- GHG emissions
- Final energy demands
- Amounts of water used
- Amounts of waste

SOCIAL

- Life expectancy
- Child mortality rate
- Gini coefficient
- Suicide rate
- Gender and ethnicity-based pay gap
- Employment rate gap (population vs. Aboriginal population)
- University education rate

GOVERNANCE

- Crime severity index
- Hate crimes
- Voter turnout in provincial elections

GENEVIÈVE BACHAND
Senior Credit Analyst

The growth of the sustainable bond market is undeniable. In 2021, newly issued bonds totalled US$1.024 billion world-wide, compared to US$600 million the year before. The market is expected to grow steadily to US$1.5 trillion by 2022, according to S&P Global. Investor interest in sustainable bonds is very strong.

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.

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, 2021. 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 2021 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 38% of portfolio assets.
- $1.9 billion in sustainable bonds in our bond portfolios.
- Development of an internal analytical framework for sustainable bonds.
- Refinement of our ESG assessment methodology for Canadian provinces.
- Analysis and dialogues regarding the first issues of bonds linked to sustainable development in Canada (Sustainability Linked Bond).

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 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
Integrated ESG analysis and dialogues

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.

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.

ISSUER CATEGORIZATION

ELIGIBLE

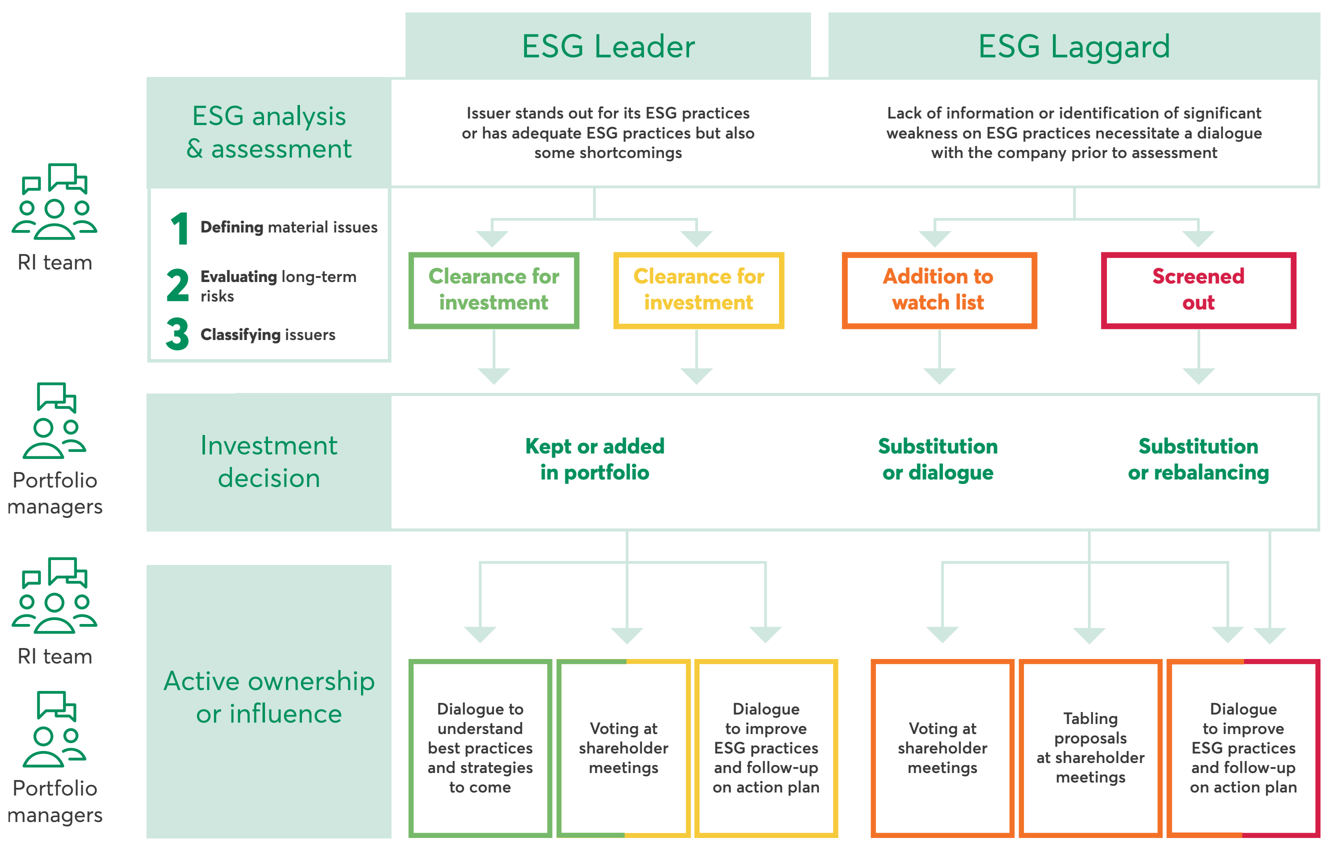
- Companies that demonstrate outstanding ESG practices
- Eligible companies that demonstrate adequate ESG practices but have certain shortcomings

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



CASE STUDY

When shareholder engagement leads to investment

At DGAM, shareholder engagement occurs not only once a company has been added to the portfolio, but also before, i.e., as part of the in-depth security analysis process. In 2021, our RI team and our Canadian equity portfolio managers took part in a dialogue with the senior management of a major company in the consumer sector. They were able to demonstrate to us that the material challenges for their industry were integrated into their business model, in addition to an ability to fix concrete objectives and develop the means to achieve them. While this company has successfully positioned itself as an ESG leader in recent years, it continues to strive for improvement and shows a desire to maintain its leadership on an international scale. Management's openness resulted in an open and transparent dialogue with our team, leading to the decision by our managers to initiate a position in the company's stock.

OUR 2021 ACHIEVEMENTS

Positive outcomes for the DIM Private RI Canadian Equity Fund:

- 29% reduction in carbon intensity versus the S&P/TSX.
- Dialogue with 46% 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
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.

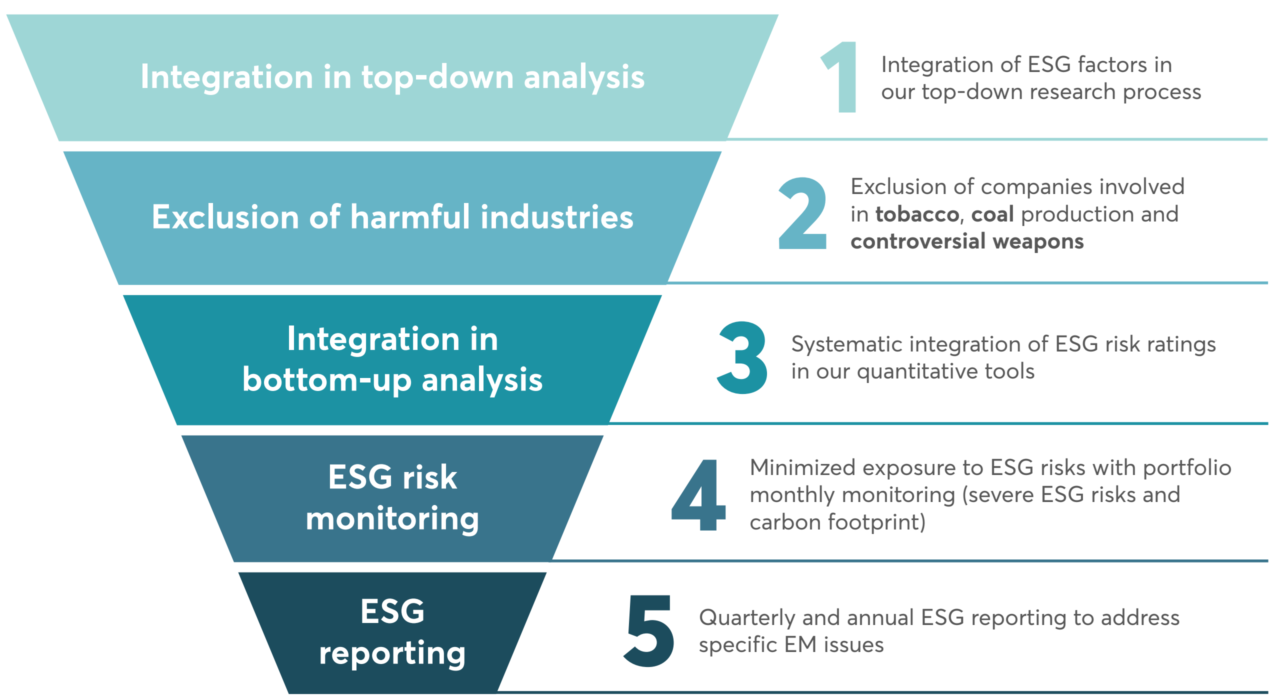
”

Emerging market equities: The art of managing extreme ESG risks

In recent years, our emerging market equity 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 topdown 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

India, the world's third largest GHG emitter

Poor air quality has a stark economic and social impact in India. In the fall of 2021, the government had to close six coalfired power plants for several days to reduce smog around Delhi; schools closed, truck traffic was restricted to transporting essential goods and construction was halted. Our research has shown that approximately 2 million Indians die each year from conditions associated with air pollution.[xv] The economic costs are also significant: according to the World Economic Forum, the drop in productivity, retail sales and tourism detracted around 3% from the country's GDP in 2019. Incorporating this ESG risk into our portfolio resulted in underweighting two of the most polluting sectors in India, utilities and energy, as well as trimming our exposure to materials.

JEAN-BENOIT LEBLANC

Portfolio Manager

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

Portfolio Manager

Our field research has strengthened our conviction that investors have a special responsibility when making investment decisions in emerging markets. For example, extreme pollution is very apparent in China and India, and there are frequent fatal incidents in factories and mine sites in South Africa and Brazil. Many deaths that could have been prevented if international safety standards had been followed.

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. **If an industry's ESG risks are country-specific**
   Turkey's ESG risks, for instance, expose its banking sector to higher risk despite typically better than average governance. Conversely, banks in India have rather opaque practices, but an improved regulatory environment will be factored in.

OUR 2021 ACHIEVEMENTS

- The carbon intensity of our portfolio was 28% lower than that of its benchmark.
- Addition of real-time ESG data (stock scores and portfolio carbon footprint) in our trading system.
- Quarterly reporting via an ESG newsletter on emerging markets.
- Construction of an ESG ranking by country and by sector based on an aggregation of multiple ESG corporate data points.

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

The properties in which our 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 2021, we improved on our performance with a score of 75 (or 3star rating).

LEED and BOMA BEST certifications

97% 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 managers and IR experts meet monthly to discuss ESG developments and progress, share key trends and implement programs to benefit our portfolio.

CASE STUDY

Complexe Desjardins: A model of real estate sustainability

Located at 150 SaintCatherine Street West, Complexe Desjardins is Montreal's largest, most visited multifunctional building. In 2019, the Complexe Desjardins shopping centre came in third in the Best Performing Electrobacs in Quebec in the Shopping Centres category. Electrobac is a collection program for recycling electronic devices to cut down on waste. In addition, the Complexe was named among the "Winners for Improved Energy Performance in 2020" under the Building Energy Challenge, organized by the Building Owners and Managers Association (BOMA). The Complexe is also a hub of local community involvement with over 200 free public activities each year. Desjardins acquired a 50% stake in this building in 1976 and has been its sole owner since 1996. This is one of the toprated buildings in our real estate asset assessment grid and is a leading example of sustainable practices.

Transaction details:

- Acquisition date: 1976
- Location: Montreal, Quebec
- ESG features:
  - BOMA BEST Gold certification
  - Multiple recycling program partnerships
  - Urban agriculture and rooftop beehives
  - 14 electric vehicle (EV) charging stations and 1 superstation with 4 terminals
  - Emissions reduction: 30% since 2017

“

FRANK SINCLAIR
Portfolio Manager

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 everincreasing goals, but we're up for the challenge.

PIERRE GAGNON
Portfolio Manager

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.

In 2021, we also introduced ESG guidelines, which we provide to building managers to help them hone their sustainable development practices. These guidelines include information on certification, energy and carbon, water and waste management, health and wellness, site connectivity, stakeholder engagement, climate change risks and reporting. Lastly, they also provide indicators for expectations and exemplary measures.

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.

OUR 2021 ACHIEVEMENTS

- 97% 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.
- Scoring 75 (or 3-star rating) in the GRESB survey.
- Creation and provision of ESG guidelines to property managers to help them improve their practices.

Infrastructure: Central to postpandemic transformation and the new normal

Our infrastructure team monitors many sectors, including renewable energy, utilities, transportation, communication and social infrastructure. Portfolio 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 integrating 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.

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

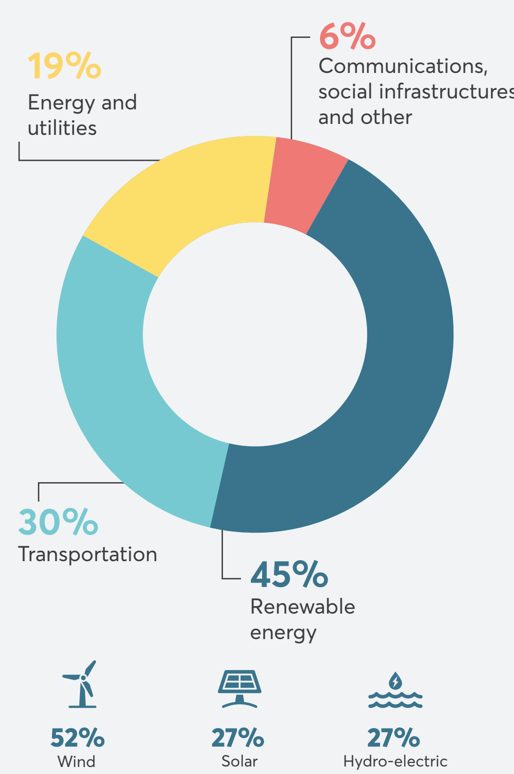
Acquisition
Including ESG criteria in contracts and side letters, where applicable.

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, 2021



24 countries | **6** Canadian provinces
77% of partners are PRI signatories

WHAT TO EXPECT FROM THE POSTPANDEMIC GREEN ECONOMY?

After two years of the pandemic, government balance sheets are now more fragile than ever, highlighting the need for capital from the private sector. This environment has also led to significant changes in energy transition, transportation electrification and energy efficiency, which now rank prominently in our infrastructure asset class.

Accelerating government commitments

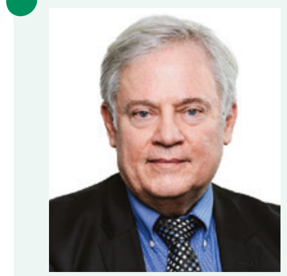
According to BloombergNEF, global energy transition investments have ramped up significantly (from $595 billion in 2020 to $755 billion in 2021), while solar and wind energy are now the most cost-effective energy sources in the vast majority of countries.[xvi] For example, U.S. President Joe Biden has proposed a $2.3 trillion climate infrastructure plan,[xvii] while Canada has launched a $22 billion green infrastructure initiative.[xviii] In terms of telecommunications, the pandemic has emphasized the need for reliable networks and the importance of making them accessible in rural communities.

Highlighting persistent social and economic inequities

COVID19 has cast light on existing and persistent social and economic inequalities, revealing that we're far from achieving equitable access to sustainable infrastructure. The health situation has disproportionately affected people with low incomes and in underserved communities. It has stressed the importance of social infrastructure in healthcare, sanitation, housing and education.

Revealing the critical importance of resilient infrastructure for future generations

This new awareness creates private sector opportunities for investment in green and social infrastructure. Oxford Economics and Global Infrastructure Hub estimate the gap between infrastructure needs and the current pace of investment at $15 billion.[xix]



ROBERT BLAIS
Portfolio Manager

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

MÉLISSA BOUCHER
Advisor

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

Power Sustainable Energy Infrastructure Partnership

The Power Sustainable Energy Infrastructure Partnership is an investment platform dedicated to the North American renewable energy sector. With an investment of $330 million, Desjardins Group is the main investor in the Partnership. Through Potential Renewables and Nautilus Solar Energy, Power Sustainable Capital's wholly owned subsidiaries and integrated owner/operators of renewable energy assets, the Partnership will initially deploy $1 billion in assets under development, construction and operation in North America. The Partnership's core belief is that ESG performance is critical to sustainable value creation and economic success. Renewable assets are essential for communities and for reaching government energy goals.

Transaction details:

- Acquisition date: 2021
- Location: North America
- Partners: Power Sustainable Capital Inc., GreatWest Lifeco, National Bank of Canada, Après-demain SA
- ESG features:
  - Energy capacity of over 1 GW and potential capacity of 1.6 GW
  - Provides power to more than 340,000 households for the benefit of the local economy
  - Emissions reduction: over 1.8 million metric tonnes of CO_2 per year

OUR 2021 ACHIEVEMENTS

- A major milestone was reached with $1.5 billion in assets under management in renewable energy infrastructure.
- Formal integration of ESG issues into the investment and asset monitoring process by developing our due diligence questionnaire (to assess fund managers and assets) and a list of performance indicators to be monitored.
- Launch of the Global Private Infrastructure Fund including ESG considerations.

ESG INTEGRATION

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, Hexavest Systematic ESG World Equity strategy and Hexavest 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 ESG LEADERS

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.

Both Hexavest 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 multifactor 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 multifactor quantitative model to maximize signal exposure while respecting portfolio diversification constraints.

OUR ESG SCREENING METHODOLOGY IN PRACTICE

Hexavest's ESG screening methodology used for its 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, 898 companies were removed by our ESG screening methodology as of December 31, 2021. The positive filters reward leaders across several ESG metrics. 378 companies were qualified for investment.

At the end of 2021, 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 99.9% lower once the largest water consumers were eliminated. Overall, the portfolio had strong sustainability credentials, outperforming the index across a majority of ESG metrics.

CASE STUDY

Water use: A crucial factor

According to the United Nations,[xx] 785 million people lack basic drinking water supply services. Unsurprisingly, two economic sectors have a disproportionate responsibility in this regard. The Utilities sector is by far the largest consumer of water in the MSCI World Index, followed by Materials. In the Utilities sector, water is often used to generate boiler steam for turbines and for cooling.In the Materials sector, water is used to process minerals and chemicals, with tailings as the result. Companies have a central role to play when it comes to water consumption; we believe that they should seek to minimize their withdrawal from municipal sources, wells, or nearby lakes and rivers. Water consumption data are therefore central to our ESG screening methodology. More specifically, the water use metric measures total water withdrawal in cubic metres per US$1 million of net sales. Companies can be excluded or rewarded on the basis of this metric, which is obtained from their sustainability reports. Companies that are among the top consumers in the MSCI World Index or the top consumers relative to their industry peers are excluded, while those that consume less water are rewarded. Thus, our portfolio has a significantly lower water footprint than its index.

NELSON CABRAL
Portfolio Manager

It's now possible to meet the growing needs of investors looking to invest in more environmentally friendly companies that help advance social progress and have sound governance, while maintaining an ambitious return target.

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. It's becoming increasingly easy for portfolio managers to integrate ESG data at multiple stages of the investment process, with varying degrees of significance and impact.

Hexavest Systematic ESG World Equity strategy in figures

STATISTICS	HEXAVEST	MSCI WORLD
Environment		
Carbon emissions (t CO_2 eq./$B)	7	59
Carbon intensity (t CO_2 eq./sales)	8	120
Water use (m³/$M of revenue)	58	11,975
Waste-recycling ratio	74%	68%
Renewable-energy use	35%	40%
Reported emissions	98%	88%
Social		
Employee fatalities per 100,000 employees	0.2	1.0
Access to low-price products	19%	22%
Women managers	35%	32%
Salary gap (CEO/average salary)	177	240
Governance		
Sustainability compensation incentives	24%	34%
Independent board members	76%	79%
CEO and chairman separation	70%	51%
Board gender diversity	31%	30%

OUR 2021 ACHIEVEMENTS

- Creation of a new ESG investment universe for emerging markets and launched the Hexavest Systematic ESG Emerging Markets Equity strategy.
- Addition of six new criteria to our ESG universe creation methodology, improving integration of "S" variables (women in management positions, CEO/average salary gap and donations per million in revenue) and "G" variables (separate roles for CEO and board chair, compensation linked to sustainable development and long-term objectives).
- Launch of our new quarterly ESG newsletter covering critical ESG issues.

Collaborate to increase our impact and mobilize our community

DGAM continued to exert its levers of influence in 2021 by taking part in various initiatives and by playing an active role in the responsible investment ecosystem. Moreover, our experts have voiced on position or taken part in more 40 collaborations, including participating in discussion panels or working groups, or by collaborating on articles published in the media. 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 2021, we signed the *Global Investor Statement* to G20 governments in anticipation of COP26. This letter, which was signed by 457 investors representing US$41 trillion in assets, called on governments to accelerate their actions to tackle the climate crisis.

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 two examples of our specialists' contributions:

- Wrote an article published in the March issue of *Finance et investissement* setting out our approach to integrate diversity in our investment process.
- Took part in an event held by the *Institute of Corporate Directors* to discuss the fundamental changes that sustainable finance brings to world capital markets.

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. For example, we sit on the consulting committee of the *Montreal Social Value Fund*, the first student-led impact investing group in Quebec.

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 2021. Here are three examples:

- Desjardins is one of the 35 founding signatories of the *Canadian Investment Statement on Climate Change*, which commits Canadian financial institutions contribute to the fight against climate change through their investment practices.
- DGAM became a signatory of *FAIRR*, an investor network focusing on ESG risks in the global food sector.
- We joined the *Climate Action 100+* initiative—a coalition of globally recognized investors that encourages major greenhouse gas emitters to take measures to fight climate change.

Complete list of DGAM dialogues in 2021

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 Inc.	✓	✓	✓	
CVS Health			✓	✓
Empire Company Limited	✓	✓	✓	✓
Les Aliments Maple Leaf Inc.	✓	✓		✓
Metro Inc.				✓
Mondelēz International	✓	✓	✓	
Restaurant Brands International Inc.	✓	✓		
Saputo Inc.	✓	✓		✓
The North West Company Inc.	✓	✓		
Consumer discretionary				
Aritzia Inc.	✓	✓		
Dollarama Inc.		✓		
Dollar General		✓	✓	
Dollar Tree		✓		
D.R. Horton Inc.	✓	✓		
Gildan Activewear Inc.		✓		✓
McDonald's	✓	✓		
Target	✓	✓	✓	
TJX	✓	✓		
Energy				
Canadian Natural Resources Limited				✓
Cenovus Energy Inc.	✓			✓
Imperial Oil Limited	✓			✓
TC Energy Corporation				✓
Enbridge Inc.				✓
EOG Resources Inc.				✓
Pembina Pipeline Corporation	✓			✓
Suncor Énergie Inc.	✓			✓
Tidewater Renewables Ltd	✓			✓
Valero Energy Corp.	✓			✓

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
Finance				
National Bank of Canada				✓
Definity Financial Corp.	✓			✓
Dream Impact Trust	✓			
Element Fleet Management Corp.	✓			✓
National Bank of Canada				✓
First Republic Bank	✓	✓		✓
World Bank Group		✓		
TMX Group Limited	✓			
iA Financial Group	✓			
Intact Financial Corporation		✓		
Bank of Nova Scotia				✓
Toronto-Dominion Bank	✓			✓
Power Corporation of Canada	✓			
Canada Mortgage and Housing Corporation				✓
U.S. Bancorp	✓			✓
Desjardins Securities	✓			
Real estate				
AIMCo Realty Investors LP		✓		✓
Allied Properties Real Estate Investment Trust	✓			
Canadian Apartment Properties Real Estate Investment Trust				✓
Granite Real Estate Investment Trust	✓			
Dream Office Real Estate Investment Trust	✓			
InterRent Real Estate Investment Trust		✓		✓
Minto Apartment Real Estate Investment Trust	✓			
Choice Properties Real Estate Investment Trust				✓
RioCan Real Estate Investment Trust	✓			
SmartCentres Real Estate Investment Trust	✓			

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
Industry				
Calgary Airports	✓			✓
Aéroport de Montréal		✓		
Greater Toronto Airports Authority		✓		✓
Boyd Group Services Inc.	✓			✓
Carbon Streaming Corp.		✓		✓
Canadian Pacific Railway Ltd.				✓
Canadian National Railway Company				✓
Reliance Construction of Canada Ltd.			✓	✓
CoStar Group	✓			
Finning International Inc.	✓	✓		
GDI Integrated Facilities Services	✓			
GFL Environmental Inc.	✓	✓		✓
SNC-Lavalin Group Inc.		✓		✓
H2O Innovation Inc.				✓
Lion Electric Company	✓	✓		✓
Savaria Corporation	✓			
Stantec Inc.				✓
TFI International Inc.	✓			✓
Materials				
Barrick Gold Corporation		✓	✓	
First Quantum Minerals Ltd.		✓	✓	✓
Agnico Eagle Mines Limited		✓		✓
Newmont Mining Corp.			✓	✓
Nutrien Ltd	✓			✓
Wheaton Precious Metals Corp.	✓	✓		
Health				
AbbVie	✓			✓
Biogen	✓	✓		✓
Johnson & Johnson	✓	✓		

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
Pfizer		✓		
Universal Health Services	✓	✓		
Ventas Canada Finance Limited		✓		✓
Utilities				
DTE Energy				✓
Public Service Enterprise Group				✓
Telecommunications				
AT&T Inc.	✓	✓		
Québecor Inc.	✓	✓		✓
Rogers Communications Canada Inc.				✓
TELUS Communications Inc.		✓		
Verizon Communications Inc.	✓	✓		✓
Sovereign				
Government of Alberta				✓
Government of Canada				✓
Information technology				
CGI Inc.	✓	✓		✓
Microsoft	✓	✓		
Nuvei	✓			

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