HEXAVEST

BY Desjardins Global Asset Management

ESG LETTER
SYSTEMATIC ESG WORLD EQUITY
Q1 2023

ESG METRICS

	Statistic	DGAM	MSCI World
E	Carbon emissions (t CO_2/$B)	12	68
E	Carbon intensity	8	109
E	Water use (m^3/$M revenue)	66	10,947
E	Waste-recycling ratio	70%	65%
E	Renewable-energy use	28%	35%
E	Reported emissions	94%	93%
S	Fatalities per 100,000 employees	0.5	0.8
S	Access to low-price products	15%	22%
S	Women managers	33%	33%
S	Salary gap (CEO / average salary)	115	179
G	Sustainability compensation incentives	43%	51%
G	Independent board members	76%	80%
G	CEO and chairman separation	74%	49%
G	Board gender diversity	36%	32%

Values are calculated only on the invested portion of the portfolio.
Sources: Sustainalytics and Refinitiv as at March 31, 2023

STOCKS ADDED OR REMOVED FOR ESG REASONS

Company	Change	Reason
Everest Re	Added	Independent board members
Fortinet	Added	Lower waste intensity

OUR ESG METHODOLODY IN PRACTICE

Our ESG screening methodology includes positive and negative filters. Our negative filters are used to identify companies involved in harmful activities, while our positive filters reward leaders across several E, S and G metrics. Thus, 914 companies had been removed from the investable universe and 399 companies had successfully qualified for investment as at March 31.

At the end of the quarter, the portfolio had carbon and water footprints that were significantly lower than those of the benchmark, mainly because of our ESG methodology's negative filters. Over all, the portfolio had strong sustainability credentials and outperformed the index across most ESG metrics.

ACTIVE OWNERSHIP SPOTLIGHT

We engaged with Dollarama during the last quarter to discuss various ESG issues. The company is working on its 2022 sustainability report, for which our analyst provided guidance, such as setting a net-zero emissions target, as opposed to the intensity-based reduction targets in place, and aligning the reporting with TCFD and SASB. Dollarama also announced the hiring of a full-time employee who will oversee the company's ESG efforts, a decision we consider very positive.

QUARTERLY ESG THEME

SUSTAINABILITY-LINKED OBJECTIVES IN EXECUTIVE COMPENSATION

In a previous letter, we argued that executive compensation should be aligned with the board's long-term objectives. We think the same is true for sustainability-linked objectives. Therefore, we have incorporated sustainability-linked compensation into our methodology. More specifically, we have added a metric to identify companies that embed sustainability-linked objectives into their remuneration policies at the executive level.

Companies that tie executive compensation to sustainability targets are preferred in our ESG filtering methodology. This information is obtained from their sustainability reports or financial disclosures. Our portfolio trails the MSCI World Index on this metric. Note that our negative filtering methodology excludes 416 names, leaving 180 eligible companies and limiting the metric's impact on our portfolio. Learn more about this topic on the next page.

Percentage of companies that tie sustainability objectives to executive compensation	
MSCI WORLD Index	51%
DGAM ESG Filtered MSCI World Equity	56%
Systematic ESG World Equity Portfolio	43%

Sources: MSCI and Refinitiv as at March 31, 2023

THE RISE OF SUSTAINABILITY GOALS IN PAY

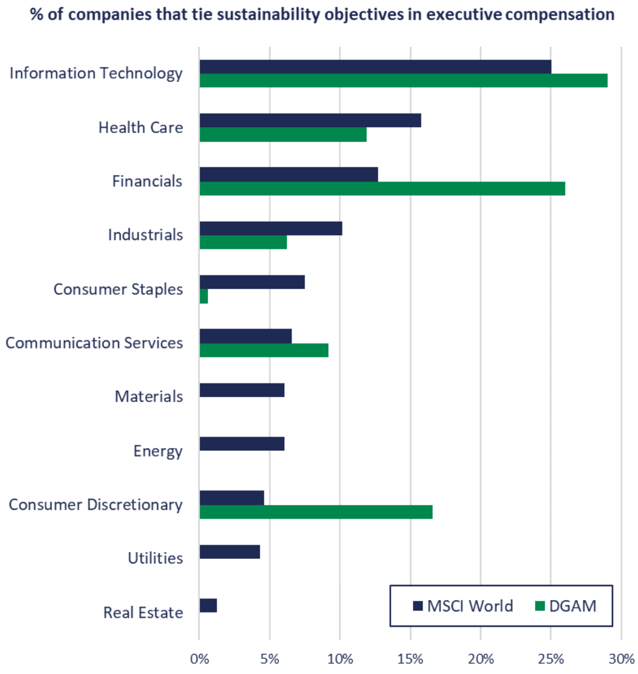
The challenges of integrating companies that link compensation to sustainability objectives

The number of investors who want companies to link executive compensation to sustainability objectives is on the rise; more importantly, so is the number of companies formalizing an official remuneration policy tying compensation to ESG goals. In fact, a study done by WTW found that 77% of large companies surveyed in Europe and North America have ESG objectives in their compensation plans.

Linking compensation to ESG goals sends a strong signal to investors about the importance of sustainability for the firm, while embedding sustainability objectives in the firm's corporate strategy. It is imperative, however, that these sustainability goals be material to the firm, durable and auditable by an external party, and that they be reviewed periodically to ensure relevancy and validity. They should ideally be long-term and readily available to all stakeholders.

The chart on the right shows the proportion of companies linking sustainability objectives to executive compensation in each sector of the MSCI World Index versus our portfolio. As the chart shows, our portfolio outperforms the index across the consumer discretionary, financials, information technology and communication services sectors. The portfolio does not currently hold any energy or utility companies, and companies held in the real estate and materials sectors do not have ESG goals linked to executive pay.

We have chosen to elaborate on two portfolio companies that stand out in this area.



Source: MSCI and Refinitiv as at March 31, 2023

Bank of Montreal and Hermès lead the way

Bank of Montreal is a financial services provider. The company links a portion of its executive variable pay to ESG goals in order to manage risks and opportunities related to sustainable finance, climate change, human rights, and diversity and inclusion. Deploying capital to address barriers faced by minority-owned businesses and minority communities, and creating an Energy Transition Group to support clients in their energy transition are examples of the sustainability-linked objectives used to determine variable compensation.

	BMO	Hermès
Country	Canada	France
Sector	Financials	Consumer discretionary
Portfolio weight	1.8%	2.3%
Percentage of variable pay linked to ESG objectives	25%	10%

Source: Refinitiv as at March 31, 2022

Hermès designs, manufactures and markets luxury products. The company also includes corporate social responsibility criteria in its compensation policy. Some of its objectives are related to decoupling energy consumption from revenue growth, launching diversity and inclusion initiatives that foster a respectful workplace, and reenergizing local communities outside big cities with quality jobs and developing projects that benefit such communities.

Source of all data and information: DGAM as at March 31, 2022, unless otherwise specified.

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