HEXAVEST

BY Desjardins Global Asset Management

ESG LETTER
SYSTEMATIC ESG WORLD EQUITY
Q4 2023

ESG METRICS

	Statistic	DGAM	MSCI World
E	Carbon emissions (t CO_2/$B)	9	60
E	Carbon intensity	10	98
E	Water use (m^3/$M revenue)	139	8,247
E	Waste-recycling ratio	67%	64%
E	Renewable-energy use	38%	37%
E	Reported emissions	95%	93%
S	Fatalities per 100,000 employees	0.5	0.7
S	Access to low-price products	16%	22%
S	Women managers	33%	33%
S	Salary gap (CEO/average salary)	189	182
G	Sustainability compensation incentives	64%	67%
G	Independent board members	77%	80%
G	CEO and chair separation	66%	47%
G	Board gender diversity	33%	33%

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

STOCKS ADDED OR REMOVED FOR ESG REASONS

Company	Change	Reason
Paychex	Removed	Board independence
Inditex	Added	Lower carbon intensity vs. peers

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, whereas our positive filters reward leaders across several E, S and G metrics. Accordingly, 922 companies had been removed from the investable universe and 408 companies had successfully qualified for investment as at December 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. Overall, the portfolio had strong sustainability credentials and outperformed the index across most ESG metrics.

ACTIVE OWNERSHIP SPOTLIGHT

We engaged with Magna, a global automotive supplier, during the fourth quarter. The company has calculated its scope 3 emissions and will release them in its coming CDP report. It has also submitted its emission-reduction targets to SBTi. Magna sends a detailed questionnaire to most of its suppliers to obtain information on working conditions, human rights and health and safety standards. We encouraged Magna to disclose risks related to its supply chain.

QUARTERLY ESG THEME

SEPARATION OF CEO AND BOARD CHAIR ROLES

A company's CEO is responsible for its day-to-day operations, whereas its chair leads the board of directors, which is responsible for strategy, managerial oversight and protection of shareholder interests. To maximize board effectiveness and independence, we think these positions should be held by two persons. Separation of CEO and chair roles is therefore part of our screening methodology.

We reward companies on this basis, in accordance with information obtained from regulatory filings, corporate websites and annual reports. Companies that separate the role of CEO and board chair are rewarded. In this respect, our portfolio surpasses the level of the MSCI World Index.

Learn more about this topic on the next page.

CEO and chair separation	
MSCI WORLD Index	47%
DGAM ESG Filtered MSCI World Equity	60%
Systematic ESG World Equity Portfolio	66%

Sources: MSCI and Refinitiv as at December 31, 2023

PROMOTING SEGREGATION OF DUTIES

Effectively applying governance best practices to a systematic equity portfolio

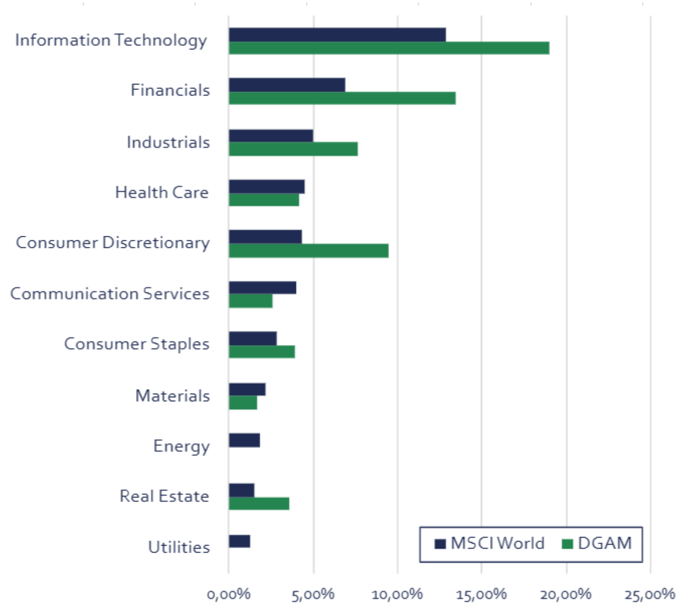
The separation of CEO and chair roles has been the subject of much debate over the years. The trend has been to move away from the dual CEO-chair role. Separation allows both persons to focus on their roles. The board can unbiasedly oversee management evaluation, executive compensation and succession planning, and eliminate potential conflicts of interest. In line with best practices, DGAM generally votes in favour of shareholder proposals to split these roles.

Many jurisdictions deem it a best practice to separate the two roles, but few have gone the route of legislating it. In the United Kingdom, the UK Corporate Governance Code states that one individual should not exercise both roles. That being said, it allows for exemptions to the rule in unique circumstances that must be explained and disclosed. There are notable regional differences. In the MSCI World Index, France, the United States and Spain have the lowest percentage of companies with separate CEO and chair roles.

The chart on the right shows the CEO-chair separation metric for each sector of the MSCI World Index versus our portfolio. As the chart shows, our portfolio outperforms the index in the information technology, financials, industrials, consumer discretionary, consumer staples and real estate sectors. The portfolio does not currently hold any energy or utility companies.

Here are two portfolio companies that stand out in this area.

CEO AND CHAIR SEPPARATION



Source: MSCI and Refinitiv as at December 31, 2023

Two tech firms as examples

Apple, the tech behemoth that designs, manufactures and markets electronic products and offers related services, has a corporate governance framework that explicitly separates the CEO and chair roles. Apple prefers to separate the two functions; one that focuses solely on running the company, and another that drives accountability at the board level.

Start-ups often combine the two roles, but that was never the case at Apple. The late Steve Jobs never held both roles simultaneously. He briefly held the role of chair after stepping down from his CEO duties.

	Apple	Nvidia
Country	United States	United States
Sector	Information technology	Information technology
Portfolio weight	5.1%	3.8%

Source: Refinitiv as at December 31, 2023

Nvidia designs, develops and markets graphic processors and related software. The company's board has an independent lead director rather than a chair. The lead director provides independent oversight of the company's management and affairs.