Responsible Investment Activity Report

2023

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Desjardins
Global Asset Management

Accurate and transparent disclosure

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

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

This exercise fulfills one of the principles endorsed by all signatories to the Principles for Responsible Investment (PRI) and is consistent with the environment, social and governance (ESG) disclosure guidelines we ask companies to follow.

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Maintaining trust and reaffirming our convictions in a context of RI mistrust

NICOLAS RICHARD

President and Chief Executive Officer

As the RI field continues to mature, some institutional investors have expressed criticism and mistrust. Accusations of greenwashing and the anti-ESG movement have at times been offset by input from credible, influential actors. In addition, the moderate discourse of leaders, despite their conviction in the merits of RI, reflects the political context that has cast a shadow over RI's progress and adoption by the financial industry. We need to ask how we should act and react to this contextual backlash, which comes just as standards and regulations are about to take effect.

PROVIDING A COUNTERBALANCE BY REAFFIRMING OUR CONVICTIONS

As the RI industry undergoes rapid transformation, it should come as no surprise that criticism is emerging - a development that is normal and welcome in a relatively new field. Of course, such criticism needs to be addressed by those who feel strongly about RI, including us. RI isn't declining; it's evolving.

At DGAM, we regard the current context not as an obstacle but as an opportunity to consolidate our resilience, perseverance and values. In other words, we're not going backward, quite the contrary, in fact. We're proudly maintaining our unwavering commitment by integrating RI into our practices, developing our expertise and harmonizing our methods by relying on science and adapting our approach as the industry continues to mature.

INNOVATING BY DEEPENING OUR KNOWLEDGE

Over the past year, DGAM's perseverance in integrating ESG considerations has been illustrated by our teams' efforts to enhance their expertise. Our RI team has explored our four priority issues in depth (see *page 18* of this report); it has conducted and taken part in research, developed policies and actively engaged in many promising collaborative projects, including Nature Action 100 and the PRI's Nature Reference Group.

Assessment and integration of new data, including Scope 3 emissions, and analysis of the impact of various climate scenarios on debt issued by energy-sector companies have also enriched our understanding of the outcomes and benefits of our integration efforts.

BUILDING ON OUR LEADERSHIP TO KEEP MOVING FORWARD

The context of mistrust that marked 2023 has not slowed our progress toward achieving a number of objectives. We have increased the ESG integration rate in Desjardins Group's own funds to 89%, aligned Desjardins RI ETFs with consistent decarbonization trajectories, developed a priority engagement plan involving 50 companies and launched dialogues with companies in emerging markets. We have also demonstrated RI leadership with our work on the double materiality of biodiversity factors and our contributions to numerous articles, panels, roundtables and other levers of influence to advance the know-how of our industry as a whole.

In fact, our sustained and continuous efforts allowed us to maintain a score of 90% in the 2023 PRI Assessment Report (Policy Governance and Strategy module), which is significantly higher than the median for our category and confirms our position as an RI leader.

In this era of political risk and skepticism, we consider rigour, research, process harmonization and scientific data essential to maintain the credibility of RI. By staying the course with our commitments, we will continue to progress toward sustainable economic prosperity. The DGAM team is collectively mobilized to respond to current challenges with determination and integrity.

Focusing on the interconnectivity of ESG priorities: informed thinking on trends and opportunities

It goes without saying that the four priority ESG issues – and all the themes they encompass – require immediate attention from portfolio managers and institutional asset owners. As the global RI community matures and our understanding and analysis become more refined, specialists are being trained and topics are being studied in greater depth. When such complex issues are addressed by increasingly specialized experts, priority themes tend to be explored in isolation even though they are interconnected and vital components of a comprehensive plan for a sustainable future.

The specialists on DGAM's RI team have joined forces to gain an overview of priority ESG issues, to identify emerging trends and to combine strategic opportunities into a collective, comprehensive reading of RI.

1 Transitioning to a low-carbon economy

In recent years, sustained economic growth, rising inflation and high interest rates have created obstacles and challenges for a number of climate strategies. We think that other obstacles may emerge and that economic volatility may prompt some companies to temper their climate ambitions as we still await regulation to oversee the transition and to create incentives for companies to decarbonize their operations. Here are some transition trends we'll be monitoring:

- **Accelerating the deployment of renewable energy will be crucial to achieve decarbonization targets.** According to the *International Energy Agency*, global energy demand is growing by 2 to 3% annually, of which 85% is attributable to emerging markets. Achieving carbon neutrality requires, above all, reducing the carbon footprint related to energy consumption. Indeed, 60% of electricity is produced from fossil fuels, versus 12% for solar and wind, 15% for hydroelectricity, and 9% for nuclear[1].
- **Understanding the impact of the chronic physical risks stemming from rising temperatures will become urgent.** In 2023, Canada's historic wildfires highlighted the magnitude of the concrete and dramatic impacts our planet is already facing. In Europe, according to the *Copernicus* Climate Change Service, the global temperature recorded in January 2024 was 0.7°C higher than the 1991-2020 average, making it the hottest January on record. The physical risks of global warming are upon us, and in our view will be further analyzed and discussed in the coming year.
- **The advent of regulations and the harmonization of disclosure standards will be celebrated.** We have observed that regulation and harmonization of standards, which have been awaited for a number of years, are solutions being discussed widely by the RI community. In 2024, we will finally welcome the implementation of a number of laws, including a Canadian law based on the report of the *Office of the Superintendent of Financial Institutions on climate scenario analysis for financial institutions*. We should also see harmonization of corporate emissions-disclosure standards and the coming of obligations to consider Scope 3 emissions in climate strategies.
- **Institutional investors may revert to divestment.** Progress and data on company emissions indicate that some emitters will miss their decarbonization targets. As investors see the misalignment of such companies' trajectories, it would not be surprising if some decided to divest from such businesses, if not entire sectors. If dialogue and engagement don't make convincing progress, divestment could again become a way of reducing a portfolio's exposure to climate risks. Other investors may opt for more insistent dialogue and accelerated engagement efforts, depending on the resources available to them.

Our observations suggest that the sustainable finance industry agrees that investors, issuers and regulators all need to tackle this matter in order to keep the targets achievable, otherwise decarbonization may not happen in the real economy at the same pace as it does in portfolios. The transition will then become a new obstacle to the development of a just and equitable economy.

[1] Source: *Our World in Data*

2 Development of a just, equitable and inclusive economy

After being neglected in recent years, with environmental factors attracting most of the attention, social factors are finally gaining ground. In 2023, global inflation increased inequality, while geopolitical conflicts detracted from food security. In this context, with the World Bank deeming 2023 the year of inequality, social factors are becoming more prominent in dialogues with issuers.

- **All eyes will be on new human rights legislation.** Canada, the European Union, the United Kingdom, France, Germany, Norway, Australia and California have adopted, or are in the process of adopting, legislation to combat forced labour and child labour in supply chains. As a result, companies will face due diligence and disclosure obligations. The European Parliament further adopted an environmental and human rights due-diligence directive that includes key provisions requiring companies to address their adverse impacts on human rights and the environment.
- **The rights of Indigenous peoples will be integrated into the fight against climate change.** Respect for the rights of Indigenous peoples is still a very sensitive topic in Canada and wherever significant efforts are needed to gain the trust of Indigenous communities. This priority will be intertwined with the transition to a net-zero economy. However, this target cannot be achieved without the participation of Indigenous peoples. Moreover, the stability of the supply chains of the minerals required for the transition depends on it. Canada has been a pioneer and sent a strong signal by launching a $5-billion loan guarantee program for Indigenous peoples for major energy and natural resource projects in their territories. Economic reconciliation and the inclusion of Indigenous peoples will be a vital part of many dialogues.

Social issues are also set to become closely linked to another priority theme that is gaining ground: biodiversity. The most vulnerable communities, often those that are economically disadvantaged, are the most affected by biodiversity loss, which has direct implications for people's health, well-being and livelihoods.

3 Protection of biodiversity and natural capital

Biodiversity is an ESG issue that has undoubtedly become as much of a priority as the climate over the past two years. Now that the need to protect natural capital has been recognized is a given, the conversation will gradually turn to other essential aspects of biodiversity.

- **We will be hearing much more about biodiversity.** In 2021, the climate conversation converged on the theme of a fair and equitable transition. Today, a similar convergence is seen, as the conversation shifts partially to biodiversity. If COP15, held in Montreal in 2022, raised global awareness of the urgency of protecting natural capital, COP16 in 2024 could awaken markets to the need to value nature and all the services that can be derived from it.
- **Nature will increasingly be recognized as a solution to climate change.** Discussions about biodiversity are increasingly turning to the fact that mitigating biodiversity loss contributes to the fight against climate change. Ecosystem degradation affects natural carbon stocks and storage, and can release carbon. In the coming years, we expect to see closer integration of biodiversity and climate-management efforts, reflecting growing recognition of their interdependence and the need for a holistic approach to address the major challenges of managing biodiversity and climate.
- **Integrating biodiversity into financial-sector decision making will be of paramount importance.** The complex theme of biodiversity highlights the challenges inherent in collection of reliable data and the lack of metrics. Financial institutions are looking at the Global Biodiversity Framework and especially targets 14, 15 and 19, which are directly relevant to them. Being ready to integrate and respond to these targets is becoming crucial. The focus will be on how we can integrate biodiversity into decision making in a credible way, with an integrated vision of the ecosystem. Financial institutions need to consider how to capitalize on such initiatives, by providing financing or offering nature-based solutions. These challenges will prompt us to rethink our approaches and to explore new ways of protecting biodiversity while ensuring long-term financial viability.

Protection of natural capital has become a priority issue but is a complex matter requiring consideration of multiple aspects, including deforestation, water management and plastic pollution. Much work remains to be done on disclosure and data. Part of the solution will certainly be found in regulation and governance of companies.

4 Ensuring strong, honest, resilient governance

Many elections will take place in 2024 around the world[2]. The results are likely to shape public policy in a context of social inequality accentuated by inflation and high interest rates. The economy has also entered the era of artificial intelligence (AI), which has the potential to transform the business world. This context will affect investors' engagement priorities and voting in the years to come.

- **Executive compensation will remain a topical issue.** Amid inflationary pressures that are reducing consumers' purchasing power, investors are looking for a better alignment of compensation with long-term corporate performance. In addition, the adoption of ambitious ESG targets will lead to a focus on integration of ESG factors into executive compensation. Companies will need to be more transparent about their goals, the reasons why these factors are important to their long-term strategy, and how they determine paid incentives.
- **The rise of AI will bring its share of ethical challenges.** New technologies will become an increasingly important ESG theme. We expect to see an increase in shareholder proposals to technology companies but also to companies in other sectors, such as telecommunications and industrials. Such proposals will require more transparency on the use of AI and its impact on human capital management. The expertise of board members and executives in the ethical use of AI, the protection of trade secrets and potential financial levers will become key issues in governance dialogues.

The linkages between the four priority ESG themes are supported by a common trend: the imminent and desirable advent of regulatory frameworks and disclosure standards, supported by global legislation. Formalizing and harmonizing standards will have a significant impact on the fight against greenwashing as it will be more difficult for companies to mislead investors and to make mistakes. Aligning disclosure frameworks and standards is a major step toward better management of ESG priorities and creation of sustainable economic prosperity.

[2] Source: *TIME. The Ultimate Election Year: All the Elections Around the World in 2024, December 2023*

ABOUT DESJARDINS GLOBAL ASSET MANAGEMENT

Proud pioneers of RI in Canada

Sustainable finance has driven our organization for more than 30 years. The Desjardins Environment Fund, created in 1990, was the first RI mutual fund in Quebec and the second in Canada. We're proud of our leadership in the RI ecosystem and the extensive expertise our team has developed with its rigorous approach to integrating ESG criteria.

WE HELP INVESTORS INCREASE THEIR ASSETS IN A SUSTAINABLE WAY

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

DGAM's RI timeline

2011
- Initial internal RI research at DGAM

2013
- DGAM launches an Environmental global equity strategy

2014
- DGAM adopts a Proxy Voting Policy

2015
- DGAM starts managing the Desjardins SocieTerra Canadian Bond Fund and the Desjardins SocieTerra Environment Fund

2016
- DGAM creates a dedicated RI team
- DGAM conducts a research on the carbon footprint of investments in collaboration with CIRANO
- Desjardins launches the Université de Sherbrooke's Chair in Responsible Investment

2017
- DGAM becomes a PRI signatory
- DGAM starts managing the Desjardins SocieTerra Canadian Equity Fund
- Desjardins announces its commitment to fight climate change

2018
- DGAM launches a series of RI Exchange Traded Funds focused on climate change
- DGAM implements real estate responsible investment guidelines
- DGAM adopts a shareholder engagement program
- DGAM adds a climate change expert to its RI team

2019
- DGAM adds a product to its RI ETFs that addresses climate change

2020
- DGAM adds finance and governance experts to its RI team
- DGAM publishes its first RI report
- DGAM develops a proprietary ESG rating grid to assess Canadian provincial bonds
- DGAM develops an in-house methodology 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 in the Montreal Propel Impact Fund investment committee (previously *Montreal Social Value Fund*)
- DGAM adds experts in ESG data science and natural capital management to its RI team

2022
- DGAM sets capital financed emission reduction targets of 30% by 2025 and 50% by 2030 (vs. 2020) for Desjardins' own funds
- Desjardins launches the SocieTerra Canadian Equity Income Fund managed by DGAM
- DGAM develops an ESG ranking model by country
- DGAM launches a family of ESG indexes

2023
- DGAM aligns Desjardins RI ETFs with decarbonization trajectories
- DGAM conducts double materiality analysis of biodiversity factors for public equities held in its portfolios
- DGAM adopts a priority engagement plan for 50 companies and launches an engagement plan for emerging markets.
- DGAM joins Nature Action 100 initiative and PRI Nature Reference working group

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

Responsible leadership

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

Adaptability

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

Collective expertise

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

Commitment

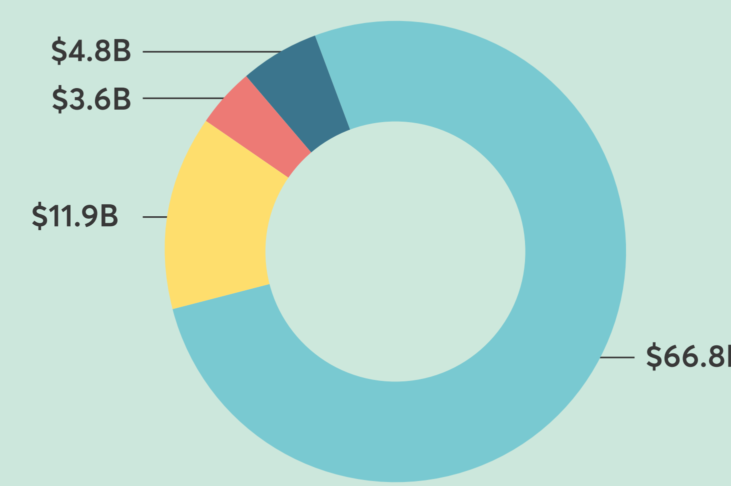
We're committed to acting ethically and with integrity. Accessibility and collaboration are values rooted in our DNA. We're fully committed to helping institutional investors make informed decisions in the best interests of their beneficiaries.

One of Canada's leading asset managers

$87B+ in assets under management

130+ employees

Breakdown of DGAM assets



Fixed Income | Real Estate | Equity | Infrastructure

Source: DGAM, December 31, 2023

Going from words to action with an immersive, adapted tool

The principles of equity, diversity and inclusion (EDI) are central to Desjardins Group's concerns. For our organization, EDI is not just a fast-growing trend; It is a commitment rooted in the belief that an equitable, diverse and inclusive workplace better meets the needs of members, clients and communities.

Since 2018, Desjardins has made great strides toward the creation of an organization that is representative of its members and fosters a safe, inclusive environment. Today, its vision goes beyond the boundaries of conventional inclusion to embrace a broader, bolder perspective. We aspire to be inclusive of everyone, at all levels of our business and in every interaction.

DESJARDINS' FOUR GUIDING PRINCIPLES OF EDI ENGAGEMENT

1. Promote inclusive leadership
2. Combat discrimination
3. Ensure equal opportunities
4. Share our commitment and requirements with members, clients and suppliers

Why is this important?

Research shows that organizations that embrace diversity and inclusion prosper and excel in terms of performance and innovation. In 2018, a McKinsey study showed that diversity within teams enhances financial performance by 25 to 35%. When the sense of inclusion and equity is strong, the benefits also manifest themselves in customer satisfaction and talent retention. The latest data support the strategic importance for Desjardins to resolutely pursue its commitment to EDI, not only for its employees' well-being but also for its own financial health and sustainability.

Committing to equity, diversity and inclusion means welcoming all people, accepting them for who they are, valuing their differences and being enriched by them.

Putting words into action to ensure consistent dialogue

As one of Canada's leading asset managers, DGAM requires its issuers to adopt EDI best practices. For the sake of consistency, we also recognize the moral and strategic imperatives of applying the same principles to our own organizational management. By embodying the values we promote, ensuring equity and fostering inclusion at all levels, we strengthen our credibility and legitimacy as an RI leader. Consistency in our words and actions is vital to establish lasting relationships of trust with our partners.

A skills-development pathway

Desjardins has adopted an ambitious 2022-2024 plan to achieve its diversity and inclusion commitments. The key component of this plan is a flagship initiative: the Equity, Diversity and Inclusion Pathway offered to all employees in the organization as a powerful lever to build a more inclusive organization collectively.

The main objective of the program is to consolidate participants' confidence in their skills. It encompasses not only their individual aptitudes but also their collective ability to build a collaborative environment where all employees feel entitled to express their true identity while contributing meaningfully. With the goal of building healthy, safe spaces for dialogue, the Pathway is designed to offer an immersive three-step training experience for all employees and managers.

The Pathway offers a range of activities adapted to different functions and profiles:

- Videos to develop EDI knowledge
- Digital videos to foster curiosity, kindness, empathy, listening and courage
- Self-directed activities to build confidence and the courage to be oneself
- Group workshops and concrete exercises focusing on self-awareness and its impact on one's environment
- Guide, management tools and modulated activities for managers

Delivering on our EDI commitments depends on our ability to equip ourselves with tangible tools. The Pathway we have put in place represents an important step in that direction. In 2023, all employees completed the first phase of the Pathway, and a number of teams held group workshops. We plan to roll out the second phase of the Pathway in 2024. By providing our employees with immersive, adapted training, we not only build their confidence and our capabilities but we also create the foundation for a work environment where diversity is celebrated, inclusion is encouraged and all employees have the opportunity to reach their full potential.

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 increase their capital by promoting socially and environmentally responsible corporate governance and practices. In 2017, DGAM formalized its commitment to responsible investment by becoming a signatory to the PRI. In the 2023 PRI Assessment Report, we maintained a score of 90% for the Policy, Governance and Strategy module, which is significantly higher than our category's median, of about 60%.

OUR PRINCIPLES

RI is an integral part of our fiduciary role

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

Our approach must focus on action and innovation

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

Engagement is key

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

Sustainable performance requires a long-term vision

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

OUR APPROACH

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

Our RI team works with portfolio managers at every stage of the investment process, including risk management, alpha generation, client support and portfolio construction. Our corporate analysis is based on integration of risk criteria and key ESG opportunities. Our engagement program focuses on material extra-financial factors, including those identified by the 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.

Exclusion of controversial industries Based on international norms or specific principles.	Pre-investment
Assessment of corporate financial health Based on the traditional fundamental or quantitative approaches used by our investment teams.	Pre-investment
Assessment of corporate ESG practices Based on positive and negative screening and our proprietary analysis methodology, which includes specific objectives in terms of ESG ratings and carbon footprint.	Pre-investment
Engagement with issuers Dialogues, votes and shareholder proposals to improve issuers' sustainable development practices.	Post-investment

OUR GOVERNANCE

Our RI convictions are deeply rooted in our organization. The DGAM Management Committee actively promotes 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.

Rôles et responsabilités en IR chez DGIA

Management Committee

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

Governance

RI strategic decisions

- Quality assurance of the integration of RI practices within the activities of the various teams
- Deployment of reporting activities and contribution to the development of RI solutions
- Governance, maintenance and sharing of ESG data internally

Responsible Investment Team

Integration responsibilities

- 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

Investment Team

- Equity
- Fixed Income
- Real Estate
- Asset Allocation
- Infrastructure

- Integration of ESG criteria in the analysis and portfolio management processes
- Dialogues with companies and partners on ESG issues

Investment Strategy Team

- Development of RI products and solutions adapted to client needs and market analysis

OUR TEAM OF RI SPECIALISTS

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

The team members continually track ESG issues and work closely with our analysts and managers to ensure our investment solutions are consistent with best practices in responsible finance. They maintain a strong link with the RI industry and provide training to all DGAM staff. In short, the team focuses on three key areas:

1. ESG integration;
2. innovation, research and development, and continuous improvement; and
3. thought leadership.

Even though DGAM has a dedicated team, integrating RI practices is a responsibility shared by all employees. In fact, almost all our staff participated in ESG training in 2023, given the importance we place on continuous improvement and development of our collective expertise in this area.

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HIGHLIGHTS AND ACHIEVEMENTS

2023 in figures

WE CONTRIBUTE TO A MORE SUSTAINABLE ECONOMY

14.4%
reduction in financed emissions from the equity and corporate bond portfolio of Desjardins' own funds (in absolute terms relative to the 2020 reference year)

48%
reduction in the carbon intensity of our portfolios (in t CO_2 eq./$M) relative to the 2020 reference year

$1.9B
invested in renewable energy infrastructure

$1.6B
invested in sustainable bonds

98%
of our real estate assets have a sustainability certification, such as LEED or BOMA BEST

24
of the top 25 polluters in Canada were met

WE EXPAND OUR LEVERS OF INFLUENCE

159
dialogues with companies on ESG issues

2,427
shareholder meetings at which we exercised our voting rights

28
position papers, new collaborative initiatives and RI speaking engagements

WE DEVELOP OUR EXPERTISE

10
professionals are dedicated exclusively to responsible investment

Almost 100%
of our investment professionals have completed RI training

37
professionals are pursuing FSA or CFA's ESG certification

Source: DGAM, December 31, 2023

Supporting our vision of strong leadership

In 2023, we continued to work on Desjardins' strategic positioning in responsible investment. Our ambition is strong: to maintain our position as the financial institution most invested in RI education, accessibility and adoption among Canadian investors. This positioning is built on three main axes for which DGAM has set ambitious targets to be achieved in 2024. We've already taken steps to reach these targets.

AXES OF OUR AMBITIONS	ACTIONS IN 2023	DGAM'S TARGETS FOR 2024*
Quality coaching and advice Be recognized as one of Canada's leading RI partners	Nearly 100% of our investment professionals have completed RI training.	Conduct a survey of institutional client perception and satisfaction with respect to RI.
Credibility Be recognized as one of Canada's leading RI experts	In 2023, we brought the level of ESG integration of Desjardins' own funds to 89%. In addition, some funds have been transferred to asset classes with a higher level of ESG integration.	Continue to increase the ESG integration rate of investments by Desjardins' own funds to reach the 90% target.
Transparency Demonstrate the authenticity and sincerity of the RI process	In 2022, Desjardins' Supervisory Office conducted an internal audit of RI practices for the entire organization, including DGAM. In 2023, an action plan was put in place to harmonize processes, among other things.	Achieve a score of at least 80% for all components as part of the annual PRI assessment

* Non-exhaustive list

A CLIMATE AMBITION WITH CLEAR TARGETS

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

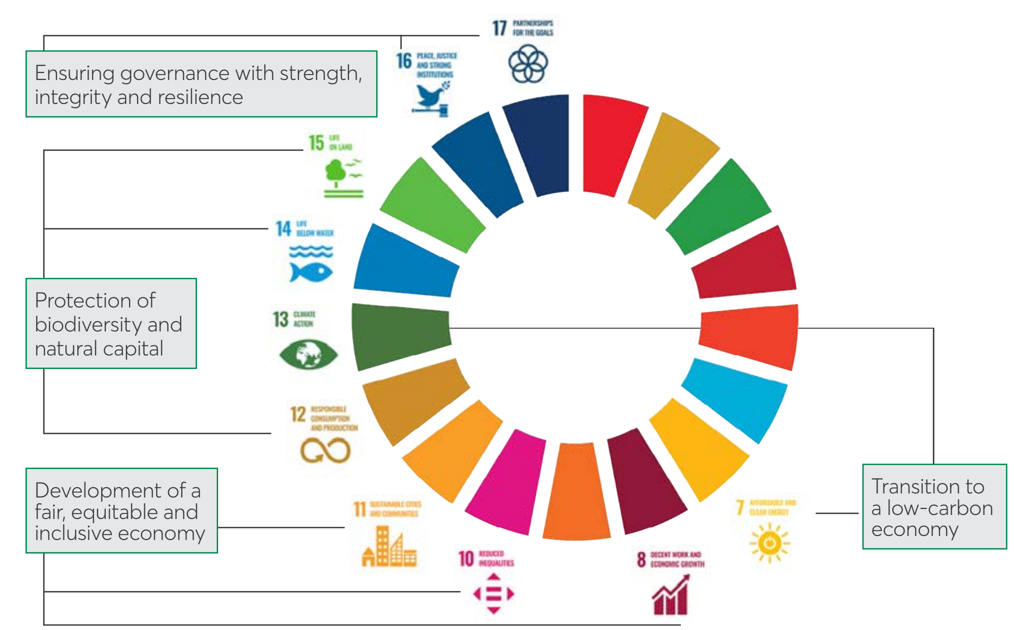
1. Achieve our interim target of reducing portfolio carbon emissions by 30% compared to 2020.
2. Increase our direct investments in renewable energy infrastructure to $2 billion.
3. Achieve sustainable *LEED or BOMA BEST* certification for 100% of our real estate assets.
4. Deploy an engagement strategy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

Four themes to meet our sustainable development goals by 2030

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

The UN's **Sustainable Development Goals (SDGs)** and Desjardins' ESG risk management practices, including those related to financed emissions-reduction targets and the Net Zero Asset Managers initiative, were both considered when we selected priority issues. Sustainability studies published by various RI industry stakeholders were also considered.

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



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

Transition to a low-carbon economy

A number of records were broken in 2023 in terms of extreme temperatures and natural disasters. According to the latest report from the *World Meteorological Organization*, 2023 was the hottest year on record, with an average Earth surface temperature 1.45°C above the pre-industrial era reference temperature. Extreme heat waves have been seen all over the world, including in Canada, where the most devastating wildfire season was recorded. More than 17 million hectares burned there in the summer of 2023, or seven million more than the annual average of the past 10 years,[4] causing large clouds of pollution in major North American cities. Despite these major climate impacts, a *study by Millani* confirms that only 10% of Canadian GHG emitters disclose the capital they deploy for the energy transition and climate-related objectives.

The importance of climate action is growing every year within the financial industry. DGAM is proud to have met its clients' expectations by developing investment tools and solutions to help achieve climate goals. Desjardins Group has adopted an ambitious plan to achieve net-zero emissions with its financing and investment activities in the transportation, energy and real estate sectors by 2040, and by 2050 for all other sectors.

In 2023, our organization continued to contribute to the collective effort for a fair transition to a low-carbon economy by following a decarbonization trajectory for our financed emissions and modernizing our RI ETF lineup to incorporate a net-zero financed emissions target.

In its role as a portfolio manager, DGAM supports Desjardins, its members and its clients as they strive to achieve their ambitious climate objectives. DGAM is a signatory to the Net Zero Asset Managers Initiative, which commits us to achieving net carbon neutrality for our portfolios by 2050. For Desjardins' own funds, interim targets of 30% and 50% have also been set for 2025 and 2030, respectively (compared to 2020). In 2023, we reduced the absolute financed emissions of Desjardins' own equity and corporate bond portfolio by more than 14.4% in relation to our 2020 baseline. This reduction also represents a decrease of more than 48% in the carbon intensity of our assets under management compared to 2020.

[4] Source: *Canadian Interagency Forest Fire Centre*

Links to the Sustainable Development Goals (SDGs)

EXAMPLES OF INVESTMENT OR ACTION AREAS	
	• Issuers that use a high proportion of electricity use from renewable energy • Issuers and assets that produce renewable energy
	• Development of operations related to the transmission, distribution and generation of renewable or alternative energies • Issuers that provide GHG mitigation technology • Issuers with net-zero emissions goals and science-aligned interim targets

INTEGRATION INTO OUR PORTFOLIOS

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

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

- For our portfolio managers of Desjardins' own fund, targets for the reduction of financed Scope 1, 2 and 3 emissions (phased-in according to PCAF standards) have been set at 30% by 2025 and 50% by 2030 (relative to 2020 levels), in order to limit temperature rise to 1.5°C.
- For our RI team, SBTi reduction targets will be tracked by calibrating our objectives following index carbon reductions and using a portfolio coverage indicator to determine the number of companies that are formally committed to decarbonizing their value chain (Scope 3 emissions).

DGAM has modernized its full range of RI exchange-traded funds (ETFs), which aim for a reduced carbon footprint relative to their benchmarks. As a result, Desjardins members and clients can invest in solutions that incorporate DGAM's ESG best practices and align with their portfolios' gradual decarbonization trajectory. *Page 68* of this report provides more details on Desjardins RI ETFs.

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 Scope 1, 2 and 3 GHG emissions
- Adherence to a recognized reporting structure, such as ISSB S1 and S2
- Net-zero emissions by 2050, with short- and medium-term reduction targets
- Executive compensation tied to measurable results in terms of ESG criteria
- Low-carbon economy transition plan and development of new green technologies

CASE STUDY

Collaborative engagement leads to formal climate engagement

Since 2022, DGAM has led a Climate Engagement Canada (CEC) initiative involving a company in the consumer staples sector. In 2023, three meetings were held with the company and an investor letter was sent to it. The letter specified DGAM's expectations of the company's climate strategy: adoption of a science-based net-zero emissions target aligned with the Paris Agreement. The expectations also included gradual reduction of Scope 1, 2 and 3 emissions with the goal of achieving net-zero emissions by 2050.

During the discussions that the investor letter led to, the company said it was working to deploy a strategy to reduce its GHG emissions through its supply chain. Because this initiative was not consistent with industry best practices, DGAM said some members of the CEC initiative were prepared to table a shareholder proposal to move the dialogue forward more quickly. Through further discussions with company management, we succeeded in advancing the dialogue. In its 2023 meeting circular, the company committed to adopting a science-based climate strategy by 2025.

EXERCISING VOTING RIGHTS

Say-on-climate proposals from management and climate-strategy proposals from shareholders are subject to a consultative vote on corporate climate and transition programs. By adopting such a policy, a company shows transparency on its climate strategy and provides shareholders with a consultative vote on the strategy. After gaining traction at shareholder meetings in 2021, climate consultation became more prevalent in 2022, momentum that continued into 2023.

In this context, DGAM decided to review the climate proposals with the goal of adjusting its policies on *exercising proxy voting rights*, which came into effect in January 2023. Among other things, we will now support consultative votes involving reduction targets aligned with the objectives of the Paris Agreement.

This policy update formalizes our intention to support climate change integration into issuers' business models. Our decision-aid criteria allow for a thorough analysis of say-on-climate proposals. This ensures that we fully grasp their nuances and support those that align with our objectives. We generally vote in favour of this type of proposal, except in the following cases:

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

THE INITIATIVES WE SUPPORT

OUR 2023 ACHIEVEMENTS

- 82 dialogues with companies on the issue of transitioning to a low-carbon economy.
- 14.4% reduction in the absolute financed emissions of Desjardins' own equity and corporate bond portfolio compared to the 2020 base year.
- More than 48% reduction in the carbon intensity of assets under management (t CO_2 eq./$M) compared to the 2020 base year.
- $1.9 billion in renewable energy infrastructure.
- $1.6 billion in green and sustainable bonds.
- Analysis of the impact of various climate scenarios on debt with different maturities issued by energy sector companies.
- 54% of votes in favour of shareholder proposals dealing with GHG emissions management and disclosure of climate-change risks.

PIERRE-ALEXANDRE RENAUD

Senior Advisor, Responsible Investment

As an asset manager, we need to analyze material factors in determining the risk-return profile of our investments. Climate change represents significant chronic and acute risks but also opportunities for companies seeking to respond to climate challenges by developing a resilience, adaptation and mitigation model. To limit global warming to 1.5°C, every actor in the economy must participate in the just transition to carbon neutrality.

Development of a fair, equitable and inclusive economy

The World Bank declared 2023 the year of inequality. Indeed, the year was marked by a multitude of social issues, such as growing inequalities, challenges related to quality jobs, widespread inflation and geopolitical conflicts that affected people's food security.

Despite more accommodative monetary policies and lower commodity prices, inflation had a significant impact on people around the world in 2023. The widespread rise in prices affected both the purchasing power of households and the financial outlook of companies. In addition, global economic growth was slow in 2023, with increasing regional disparities leading to higher unemployment and deteriorating job quality, amid insufficient labour in some countries. According to the International Labour Organization, young workers have been particularly affected, as evidenced by their unemployment rate, which is three times that of adults. Amid these imbalances and growing inequalities, efforts to build a fairer and more equitable economy must be stepped up. To that end, investors play a key role because they have important levers of influence: allocation of their assets and dialogue with issuers, public decision makers and other economic actors.

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 think 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 that end, we make sure companies have the following:

- 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.
- Concrete initiatives to ensure a better understanding of issues related to the representation of Indigenous peoples and communities and their economic development.

CASE STUDY

Focusing on the "S" is imperative for a fair climate transition

Achieving the net-zero target by 2050 hinges on a significant increase in the production of copper, lithium, iron ore and other metals used to build wind farms, electric cars and power lines. The mining industry's ability to meet this demand is hampered, however, by opposition from local communities and an increasingly difficult permitting process. A number of mining projects have been shut down or blocked to preserve wilderness areas or to settle disputes related to irreversible environmental damage and inadequate consultation of affected local communities.

Government and community opposition to mining projects will intensify if the industry doesn't improve its environmental and social record. Permits will be increasingly difficult to obtain and major projects will be cancelled if local communities and Indigenous peoples are not convinced that mining companies respect high environmental standards, their rights and titles, and their economic development.

Mining companies must redouble their efforts to protect the environment, build trust and engage in meaningful consultation with communities, such as by investing in infrastructure and programs to improve living conditions. Above all, it is vital that they comply with international standards, such as the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), and that they obtain free, prior and informed consent before implementing projects. The energy transition depends on mining companies' ability to manage the industry's material social factors responsibly.

CASE STUDY

A dialogue highlighting the discussions needed for a just and equitable climate transition

We've had a constructive and fruitful dialogue with one of Canada's largest wind energy producers. In 2022, a number of questions remained unanswered, including matters of carbon neutrality and the proportion of carbon credits that would be used. The company responded that it first needed to clarify its climate ambitions. In 2023, a new meeting with the company's president allowed us to get clear answers. Ultimately, the company opted for a target of net-zero emissions by 2045 and the addition of Scope 3 emissions to the target.

Conversion to natural gas has led to a massive loss of jobs in the region where the company operates. It was therefore necessary to address the issues of a just transition in the context of this dialogue. The company has distinguished itself by deploying employment support and education programs for young people and the unemployed after the closure of its last coal-fired plants. Specific reintegration programs for Indigenous peoples were also put in place after the units were closed, in collaboration with the Government of Alberta. Today, the company is working to broaden and deepen its partnerships with Indigenous peoples.

Continuing this dialogue is vital for a better understanding of the execution of the company's transition plan, including the technologies that will be used, the projects intended to increase renewable energy production and the integration of partnerships with Indigenous communities into the company's future projects.

OUR APPROACH TO EQUITY, DIVERSITY AND INCLUSION (EDI)

Several studies show that there is a positive correlation between a company's financial performance and the diversity of its board of directors and management team.[5] We are particularly active on this issue, as shown by Desjardins' participation in the 30% Club, our support of the RIA-initiated Investor Statement on Diversity, and our involvement in the Black North initiative. At DGAM, we assess issuers' EDI performance by verifying the following:

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

[5] McKinsey & Company, MSCI, BCG, Deloitte, CIBC and the Government of Canada.

OUR APPROACH TO CYBERSECURITY

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

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

OUR APPROACH TO HUMAN CAPITAL MANAGEMENT

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

THE INITIATIVES WE SUPPORT

30% Club
GROWTH THROUGH DIVERSITY

BLACKNORTH INITIATIVE

advance

RIA

Canadian Investor Statement on Diversity Inclusion

OUR 2023 ACHIEVEMENTS

- 80 interactions and 71 dialogues with companies about developing a fair, equitable and inclusive economy.
- Support for 97% of shareholder proposals pertaining to human rights.
- Votes against committee member nominations for 438 companies whose boards of directors did not have 30% female representation (30% for the election of directors and committee chairs).

LILA ROUMANE
Senior Advisor,
Responsible Investment

“*A just transition aims to protect and strengthen the rights of people and workers and to respect the rights, sovereignty and knowledge of Indigenous peoples. It relies on the willingness of regulators and businesses to work with communities to ensure their sustainability.*”

Protection of biodiversity and natural capital

Biodiversity became a prominent topic of conversation in the lead-up to the 2022 Biodiversity Conference of the Parties (COP15) and the adoption of the Kunming-Montreal Global Biodiversity Framework. Since then, biodiversity has grown in relevance and importance for financial institutions and investors.

Biodiversity is, by definition, all life and the variability of living organisms on Earth, while natural capital is the stock of renewable and non-renewable natural resources that combine to yield a flow of benefits to people. The *World Economic Forum* ranks biodiversity loss and ecosystem collapse as the third global risk for the next 10 years, which is an increase in relevance compared to previous years. According to the organization, more than half of GDP ($58 trillion), is moderately or severely dependent on nature, with the remainder affected to a lesser degree.[6]

In 2023, the Stockholm Resilience Centre assessed nine planetary boundaries and found that six of them had been crossed beyond the safe operating level. These boundaries are interrelated processes within the Earth's complex system.[7] This crisis has made biodiversity a theme heard frequently at sustainable finance conferences. In addition, discussions commonly linked positive biodiversity change as a solution to climate change because ecosystem degradation can affect natural carbon stocks and sequestration, and can also release carbon.[8] The 2023 Climate Conference of the Parties (COP28) saw multiple commitments from countries to end deforestation in their rainforests by 2030.[9]

The double materiality aspect of biodiversity is extremely important as our impact on nature can consequently affect our reliance on nature as well. Location-specific considerations are crucial, as areas of high biodiversity, such as the Amazon or coastal regions, can have compounding negative impacts. Thus, change in these locations is more urgent than in other places, such as the middle of a desert.

[6] Source: *PwC, April 2023*
[7] Source: *STOCKHOLM RESILIENCE CENTRE. Planetary boundaries*
[8] Source: *FINANCE FOR BIODIVERSITY FOUNDATION. Unlocking the biodiversity-climate nexus, October 2023*
[9] Source: *WORLD RESOURCES INSTITUTE. Outside the Spotlight, Forests and Nature Saw Important Wins at COP28, December 2023*

FORGING AHEAD - ENCORE REVIEW

As our knowledge of biodiversity and what it means to integrate it into financial decisions grows, research can take you only so far before you need to look at your own practices. Therefore, our first step is taking a high-level view of biodiversity impacts and dependencies within our portfolio. To start, we reviewed available tools to look at the double materiality and decided to move forward with *ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure)*, a tool that aids in the identification of nature-related risks in sectors and sub-sectors. This risk is not related to company-specific data, however. Instead, it provides a sector or potential impact view as well as a useful entry point into nature-related assessments. ENCORE is maintained by Global Canopy, UNEP FI and UNEP WCMC, organizations working toward better visibility and integration of biodiversity into financial institutions. The tool is used by multiple financial institutions to understand dependencies and impacts.

We wanted a high-level view of our portfolios, so we applied the ENCORE tool to S&P/TSX and S&P 500 securities, covering a large portion of our public portfolio investments. The sector analysis found that a larger impact could be found in the energy, materials, utility, industrials and consumer sectors. When looking at dependencies on nature, we found similar sectors had an average moderate dependency with a few exceptions: utilities had only a low dependency, and health care was added to the sectors with moderate dependency.

The factors affecting the high impact and dependency of each sector were varied. The main impact factors that reoccurred in multiple sectors were water pollutants, water use and terrestrial ecosystem use. The use of water is widespread throughout sectors, and water treatment does not always occur and does not remove all pollutants. Furthermore, the use and impact on terrestrial ecosystems are common in resource-extraction sectors, such as mining and energy. When reviewing the dependencies and their factors, ENCORE identified a few sub-sectors as having a high or very high dependency. These sectors include health care (pharmaceuticals and biotechnology) for their use of water, consumer staples (alcohol production) for their reliance on water and materials (forest products) for their reliance on timber and wood. The end results from ENCORE were not a surprise but a validation of where our impacts and dependencies can be found, and they were in line with the materiality review that is completed by public market analysts during the review of sectors.

EXPOSURE BY SUB-SECTORS OF HIGH IMPACT

In conjunction with our ENCORE analysis, the *Taskforce on Nature-related Disclosure (TNFD)* released its disclosure recommendations and guidance on assessing, reporting and acting on biodiversity risks and opportunities in September 2023. The TNFD ran four beta-versions between March 2022 and September 2023, during which the first official version was launched. It completed a total of 200 pilot studies and received more than 3,400 comments on the framework, with the aim of making it as relevant as possible to financial institutions. In addition to the official launch of the framework, the TNFD released *additional guidance for financial institutions*, which identifies sectors that should be considered for disclosure owing to their high impacts and dependencies on nature-related risks. TNFD's recommendation is that we disclose our percentage exposure to these sub-sectors. The table below documents the sub-sectors as well as their impacts and dependencies on biodiversity factors (as detailed in ENCORE). Results are reported for publicly traded securities investments of Desjardins own funds' assets under management.

The table shows that, for this part of AUM, less than 12% of the investments are made in the very-high-impact sectors defined by the TNFD. Although not representing a very high percentage, all impacts have an environmental effect and must not be discounted. The sub-sectors documented here are consistent with the results of the ENCORE review and were used to identify sectors that require further assessment to understand how we can monitor and evaluate our risks and opportunities, and companies within these sectors that we can engage with in order to positively affect their biodiversity strategy.

Legend

Very low · Low · Medium · High · Very high

SECTOR	SUB-SECTORS/INDUSTRIES	DEPENDENCIES	IMPACTS										AUM of Desjardins' own funds
			Disturbances	GHG emissions	Non-GHG air pollutants	Water pollutants	Water use	Solid waste	Soil pollutants	Terrestrial ecosystem use	Freshwater ecosystem use	Marine ecosystem use	
Consumer discretionary	Automobiles	Medium	Medium	High	Medium	High	High	High	High	Very low	Very low	Very low	0.79%
	Textiles, apparel and luxury goods	Medium	Very low	Very low	High	Medium	Very high	Medium	Medium	High	Very low	Very low	0.03%
Consumer staples	Beverages and food products (includes agriculture)	Low	High	High	High	Medium	High	Very low	Low	Very high	Very low	Medium	0.39%
	Personal care products	Medium	Very low	High	Medium	Medium	High	High	Medium	Very low	Very low	Very low	0.11%
Energy	Oild, gas and consumable fuels	Medium	High	High	High	High	Very high	High	High	Very high	Very high	Very high	2.98%
Health care	Pharmaceuticals	High	Very low	Very low	Medium	High	High	High	High	Very low	Very low	Very low	0.12%
Industrials	Construction services (includes passenger airlines)	Medium	Medium	High	Medium	High	High	High	High	Very low	Very low	Very low	1.00%
	Transport and associated services (includes passenger airlines)	Medium	High	High	High	High	High	High	High	Very low	Very low	Very low	3.64%
Information Technology	Semiconductors and semiconductor equipment	Low	Very low	High	Very low	High	High	Very low	High	Very low	Very low	Very low	0.14%
Materials	Chemicals	Low	Very low	High	High	High	High	High	High	High	Very low	Very low	0.09%
	Construction materials	Low	High	High	Medium	Medium	High	High	Very low	Very high	High	High	0.01%
	Containers and packaging	Medium	Very low	High	Medium	Medium	High	High	Medium	Very low	Very low	Very low	0.03%
	Metals and minerals	Medium	High	High	High	High	Very high	High	High	Very high	High	Very low	0.20%
	Paper and forest products	High	Very low	Very low	Medium	High	Very high	Very low	High	Very low	Very low	Very low	0.03%
Utilities	Sewerage, waste collection, treatment and disposal	Medium	Very low	Very low	Very low	Low	High	Very low	Low	High	High	Very low	0.17%
	Electric utilities, gas utilities, independent power and renewable electricity producers, and water utilities	Medium	High	High	High	High	Very high	Medium	High	Very high	Very high	High	1.89%

OUR APPROACH TO BIODIVERSITY AND NATURAL CAPITAL

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

1. Deforestation and land rehabilitation
2. Quantity and quality of water
3. Regenerative agriculture and sustainable agro-industry

These areas of interest have become our starting points to investigate biodiversity issues. ESG metrics in these areas are integrated into our internal assessment methodology and company assessments, and are taken into account when we conduct proxy voting activities. For example, we supported a shareholder proposal submitted to a consumer goods manufacturer asking it to report on its efforts to eliminate deforestation from its supply chain. In addition, specific engagements related to biodiversity were added to the 2023 engagement plan.

Eleven companies were selected in high-impact and high-dependency sectors. Although other engagements were completed in biodiversity, these companies were selected for dialogues on their biodiversity practices. The sectors included energy, utilities, consumer staples and materials. All the sectors vary in materiality, as do the topics discussed. The table below details the range of topics and how frequently they were discussed in 2023.

Number of times the topics were discussed during a dialogue in 2023

Continued knowledge gathering on this evolving theme is necessary. Working groups, conferences and webinars are some of the best sources of information. In 2022, we joined the *Ceres Land Use and Climate Working Group*. In continuing our work with Ceres, we joined the *Food Emissions 50 (FE50)* initiative, which conducts engagement with the top 50 emitters in the food sector in North America. It provides additional research and benchmarking of companies, and an investor group working on similar issues for knowledge sharing and learning purposes.

By becoming a signatory to the *Finance for Biodiversity (FFB) Pledge*, we joined the *Finance for Biodiversity Foundation* and participated in their working groups throughout 2023. The Finance for Biodiversity Foundation has five working groups that focus on engagement with companies, impact assessment, public policy advocacy, target setting and positive impacts. All working groups were assigned to personnel responsible for acquiring industry knowledge relevant to their role at Desjardins. Within the impact assessment working group, we took part in the publication of the report *Unlocking the biodiversity-climate nexus*, which details the interconnectivity between climate and biodiversity. We have also joined the *PRI Nature Reference* working group to make asset managers aware of industry best practices through examples and guidance documents. All these working groups are sources of research that address various topics and deepen our understanding of biodiversity.

Links to the Sustainable Development Goals (SDG's)

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

CASE STUDY

Targets set by mining

Biodiversity has started to be an important part of some dialogues and in the objectives of many companies. For example, a dialogue was conducted in 2023 to understand how biodiversity is a priority for a mining company. The company, which strives to be transparent about its ESG integration, has set a 2030 target to respect nature. Its objective, reflected in its commitments to water and biodiversity, strives to better manage the land and to have a positive effect on the ecosystem. The commitment to water is through responsible management of water and water quality. This approach has led to the tracking of water usage and to monitoring aquatic health and any changes to species population. Regarding nature, the objective is to convert and restore three hectares for each hectare affected by its mining activities. To further this target, the company tracks wildlife patterns and land conservation ratios. Thus, the dialogue showcased positive actions by a company that sees its effects on nature and is working to create a nature-positive future. Examples of actions taken can be shared between companies and sectors to show best practices, which can increase overall forward momentum.

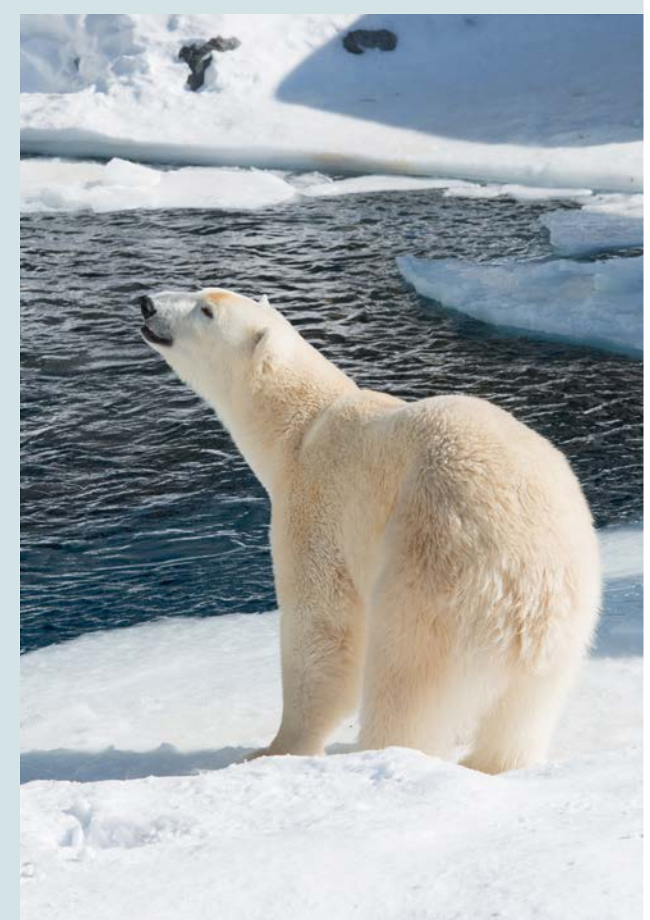
CASE STUDY

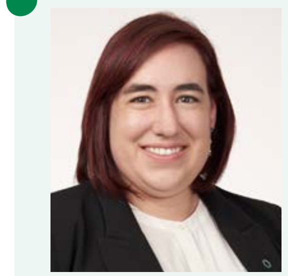
Nature Action 100

Nature Action 100 was launched in 2023 as the first international engagement initiative focused on biodiversity. The aim of the initiative is to bring together corporate ambition and action to reverse nature loss.

This initiative, which mirrors Climate Action 100+, identified 100 companies in eight key sectors deemed systemically important to reversing our negative biodiversity trend. The eight sectors are biotechnology and pharmaceuticals; chemicals; household and personal goods; consumer goods retail; food, ranging from meat and dairy producers to processed foods; food and beverage retail; forestry and packaging; and metals and mining. The companies are globally diverse with a large portion in the United States.

DGAM joined the Nature Action 100 initiative in September 2023. We decided to choose one Canadian company to pursue engagement with in 2024. We have been joined by five other investors in this group engagement. All information gathered will be used to benchmark the companies on their progress toward biodiversity-positive action.





GENEVIÈVE GRENON

Advisor,
Responsible Investment
Private Markets

Biodiversity and its integration into responsible investment is a vital component of a holistic approach to environmental issues. We can no longer act only on emissions; rather, we must integrate all ecosystem services into decisions. But acting without understanding the complexity of the issue can lead to chaotic results and wrong decisions. Therefore, assessing, understanding, working together and moving forward with a complete grasp of the issues will allow us to better address biodiversity and work toward nature-positive solutions.

THE INITIATIVES WE SUPPORT

FAIRR A COLLER INITIATIVE

Finance for Biodiversity Pledge

Ceres

Nature Action 100

OUR 2023 ACHIEVEMENTS

- Took part in the drafting of a FFB report titled Unlocking the Biodiversity-Climate Nexus and an article in a peer-reviewed journal.
- Took part in five panel presentations, including events organized by Finance Montreal, Millani and the RIA Conference.
- Signed the Food Emissions 50 and Nature Action 100 initiatives.
- Conducted 23 dialogues with companies on the protection of biodiversity and natural capital.

Ensuring governance with strength, integrity and resilience

Fiduciary duty is the obligation to act in the best interests of a beneficiary.[10] The governance of an organization is the crux of this accountability; in particular, it makes it possible to assess and foster an organization's transparency, effectiveness and social responsibility. Without good governance, an organization, whether public, private or other, cannot deploy its business model fully, establish a healthy, inclusive culture, develop its competitive strengths and achieve growth. Thus, an organization's structure, mission and philosophy generate a number of concrete economic and financial benefits.

In 2023, ESG considerations continued to gain ground in corporate governance, and very few companies abandoned their corporate social responsibility strategy. ESG integration into business practices aims to ensure that organizations take into account material extra-financial factors that can affect their financial performance. Over the past year, Canadian regulators have begun consultations with insurers and financial institutions with the goal of increasing and harmonizing ESG and climate disclosure. This initiative – and the regulatory measures it implies – will encourage organizations to improve their know-how in this area.

Given the high inflation and financial pressures workers have had to cope with in recent years, compensation aligned with the performance of senior management is more relevant than ever. Even so, only 12 companies in the S&P 500 Index (2.5% of the total capitalization of the index) had their say-on-pay compensation proposals rejected by shareholders, although *ISS recommended an "against" vote for 9.6%* of them. This matter is central to our engagement with issuers and our ESG assessment methodology.

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

[10] Source: *The Canadian Encyclopedia*

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

STRUCTURE OF THE BOARD OF DIRECTORS

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

Our approach

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

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

CASE STUDY

Say-on-pay voting, an essential shareholder tool

In 2023, in a say-on-pay vote, we voted against a resolution on the compensation of senior management of a materials-sector company owing to its problematic pay practices. Large bonuses were given to the CEO and to the executive chairman without predetermined parameters or conditions and in cash, a practice deemed detrimental to corporate governance. We had the opportunity to speak with company management before the shareholders' meeting to ascertain the reasons for the payments. Management cited achievement of a number of key growth criteria and undertook to end the one-time bonuses. The explanations did not persuade our team to vote in favour of the resolution, which failed for the second year in a row, with nearly 75% of shareholders voting against it. Moreover, the nomination of the compensation committee chair was withdrawn from the ballot shortly before the meeting. It was only the second time that a Canadian company has lost two consecutive pay votes.

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. These practices also foster short-sightedness, with measures such as stock repurchase options, layoffs, and undue cost cutting which could have a negative impact in the longer term. In other words, executive behaviours and decisions that impact short-term financial performance are often detrimental to results that are less easily quantifiable and have long-term implications.

Our approach

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

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

ESG SKILLS ON THE BOARD OF DIRECTORS

Over the years, the number of issues considered material for an assessment of the quality of business management has expanded. Today, risk management includes environmental, social and governance issues, and investors require that company executives and board members demonstrate the ability to manage such risks. A *survey by EY* shows that the ways in which boards handle their environmental and social responsibilities vary greatly. For example, 47% of respondents think climate-risk oversight is a board responsibility, but 27% think it is a governance sub-committee responsibility.

Our approach

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

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

THE INITIATIVE WE SUPPORT

CCGG Canadian Coalition for Good Governance

OUR 2023 ACHIEVEMENTS

- Conducted 40 dialogues with companies on governance issues.
- Voted against the election of directors in 44% of companies that held them, owing to a lack of director independence.
- Voted against the auditors of 41% of companies that were renewing their audit contracts because the contract terms exceeded 20 years.
- Voted 100% in favour of shareholder proposals demanding the independence of the chair of the board of directors.

KIM DESMARAIS

Senior Advisor,
Responsible Investment

Governance is the foundation of any entity and serves to balance the interests of a company's shareholders, stakeholders and management. Transparent, honest management creates bonds of trust with investors. It's therefore essential that good governance practices be incorporated into a company's culture to preserve and increase capital over the long term.

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

For DGAM, leadership in RI 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.

In 2023, we adopted an engagement plan covering 50 companies for which dialogue is deemed a priority. The objectives of the dialogues are predefined, and progress is monitored closely by the RI team. Even so, our approach to managing priority dialogues is flexible. The priority engagement plan is based on specific criteria, including alignment with Desjardins' commitments to the energy transition as well as collaborative engagement led or co-led by DGAM, the diversity of issues covered, our ability to influence issuers and our investment teams' interest in certain issuers. In addition to the engagement plan, we conduct ad hoc engagement when we think a conversation with the issuer is needed to refine our analysis or to encourage the issuer to improve its ESG practices.

DIALOGUES TO PROMOTE BEST ESG PRACTICES

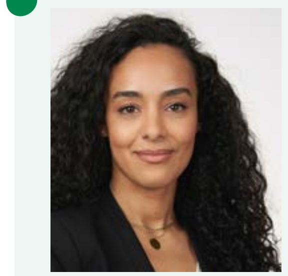
The numerous dialogues that we have with issuers allow our RI team and our managers to better understand the companies' business model and ESG practices. In some cases, our teams go so far as to visit companies to assess specific issues, such as employee working conditions. Dialogues also allow us to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



OUMAYMA OUZANE

Senior Advisor, Responsible Investment

> *“Engagement with issuers is part and parcel of our approach to RI, whether through dialogue or proxy voting. To achieve our ambitious goals, we must work with companies to encourage them to adopt innovative ESG practices so that they can manage risk and create value over the long term.”*

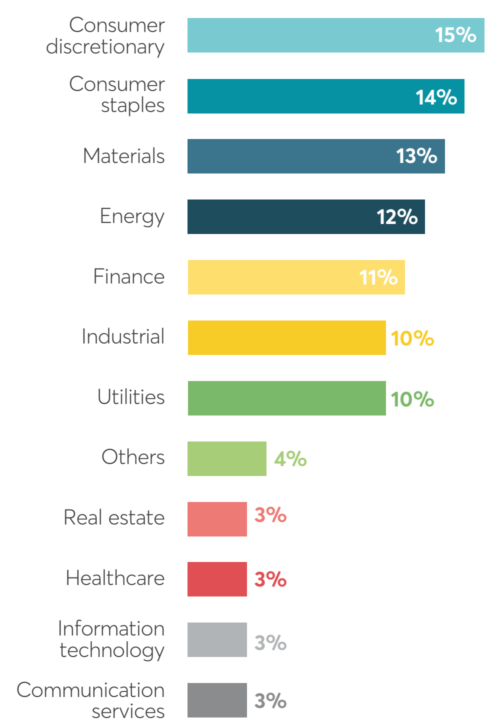
Our 2023 dialogues in figures

Number of interactions **159**

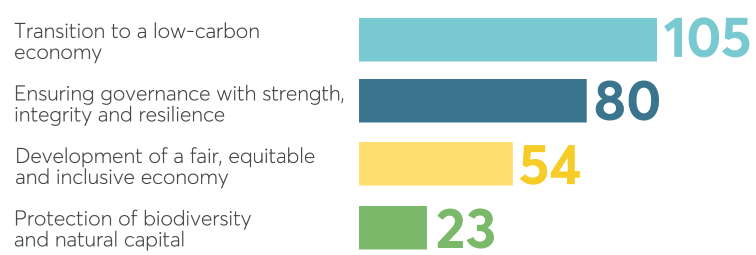
Number of companies met **128**

Number of issues addressed **29**

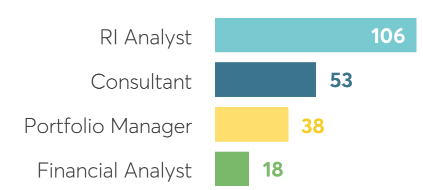
Dialogues per industrial sector



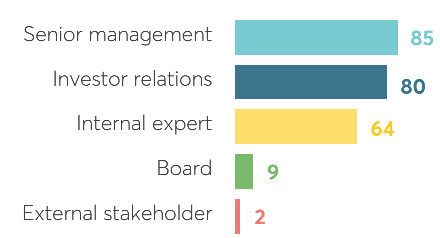
Occurrence of the ESG pillars addressed



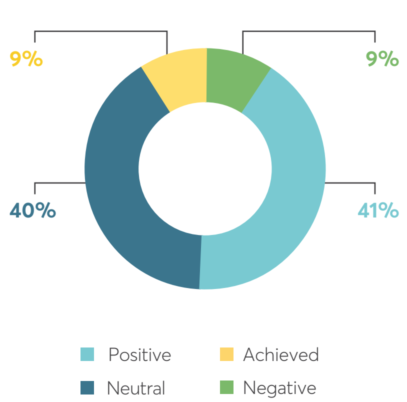
DGAM stakeholders attending



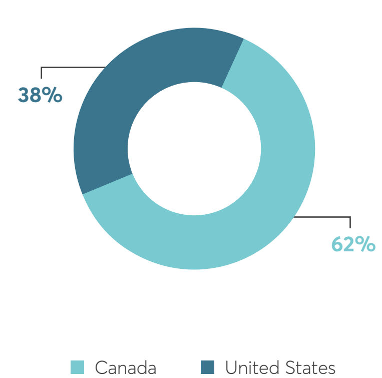
Stakeholders met



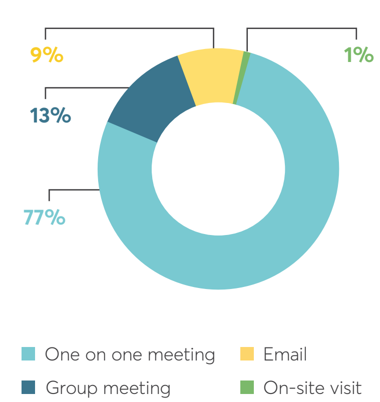
Progress on dialogue objectives



Geographic allocation of the companies met



Dialogues per type of meeting



Our 2023 votes in figures

DGAM reviewed **2,427** corporate meetings and **30,356** proposals submitted to a shareholders vote

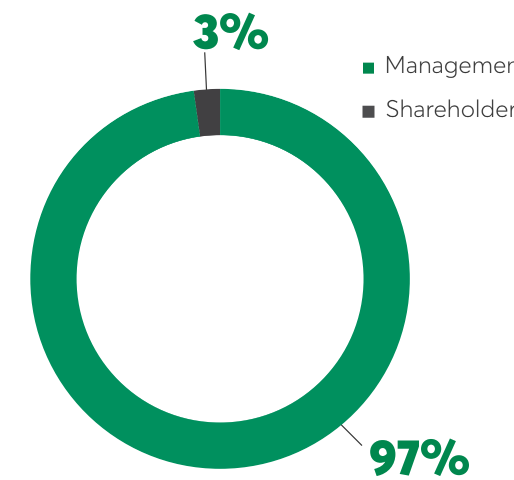
67% Voted in favour of proposals submitted by management

66% Proposals concerned the election of directors

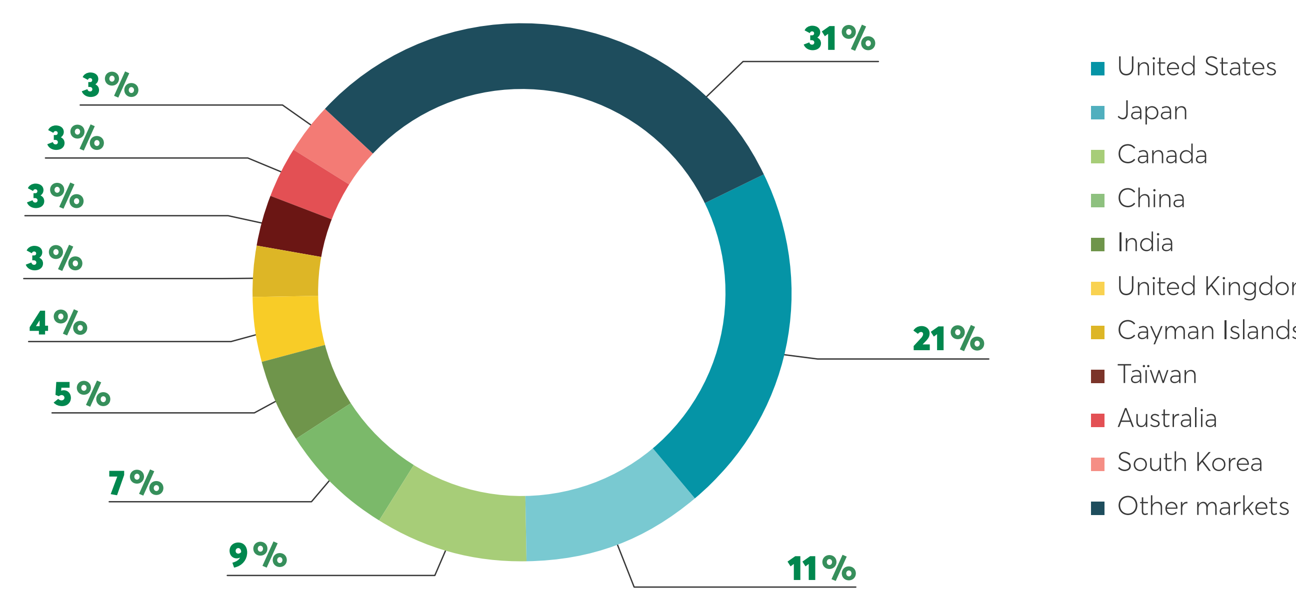
48% Support of proposals submitted by shareholders

47% Support of Say on Pay proposals

WHERE PROPOSALS CAME FROM



BREAKDOWN OF SHAREHOLDER MEETINGS BY MARKET WORLDWIDE



	CONTEXT FOR 2023	DGAM HIGHLIGHTS
DIVERSITY, EQUITY AND INCLUSION	The increase in the number of women on boards of directors continued in 2023. **The number of S&P/TSX companies with female representation of at least 30% increased from 68% to 84%.** Since gender disclosure rules were introduced, the percentage of women on the boards of S&P/TSX companies has risen from 18% in 2015 to 32% in 2021, and, since June 2021, all companies have had at least one woman on their boards of directors.	DGAM did not back candidates for the chair of the nominating committee or the chair of the board of the **438 companies that did not have 30% female representation on their board** (or at least two women, depending on the region) or did not have an action plan and credible targets to that end.
EXECUTIVE COMPENSATION PLAN	Eleven additional **Canadian companies have adopted say-on-pay voting on executive compensation**, for a total of 171 in the country. The lowest approval rate one company received was 25%, and two others received an approval rate below 50%.	**DGAM voted against 53% of say-on-pay proposals.** The most common reasons for objection were: • severance pay deemed excessive; • presence of stock options in incentive compensation programs; and • an overall dilution rate of stock earmarked for executive compensation greater than 10%.
SHAREHOLDER PROPOSALS	In Canada, 52 shareholder proposals were withdrawn, compared to 58 in 2022, 52 in 2021 and 18 in 2020. As the trend continues, this high number reflects the constructive dialogue happening between management and those making the proposals. A majority (63%) of the proposals that were withdrawn focused on environmental and social issues.	DGAM supported **97% of shareholder proposals related to human rights and 54% of those that focused on environmental issues.**

Sources: ISS and DGAM

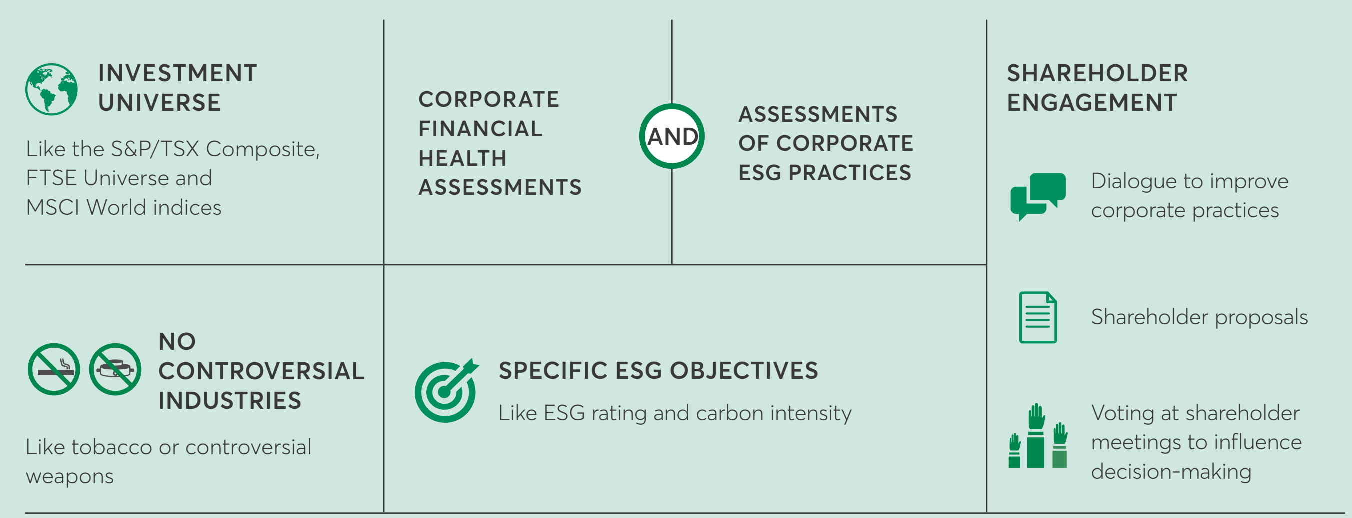
A methodology applicable to all types of mandates

DGAM has developed an ESG integration model that can be used for all the asset classes, management approaches (active or passive) and markets (Canadian or global) covered by its managers and analysts. The different ways we integrate ESG practices are adapted to the mandates we manage and to our clients' goals and priorities. We have built a methodology that allows our teams to identify the risk factors specific to each sector and company, drawing particular inspiration from the standards of the Sustainability Accounting Standards Board (SASB).

Together, our RI specialists and 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 important, on the way in which they manage the resulting risks.

Our research and analysis of the ESG practices of issuers and assets are based on various sources of specialized data from recognized providers, such as MSCI, Sustainalytics, ISS, LSEG (formerly Refinitiv) and Trucost.

The DGAM ESG integration model



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, according to a positive or negative screening methodology, or our internal ESG rating scale, which gives issuers a score from 0 to 10. This ESG rating is one of the variables used during portfolio construction.

WE SET SPECIFIC ESG OBJECTIVES

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

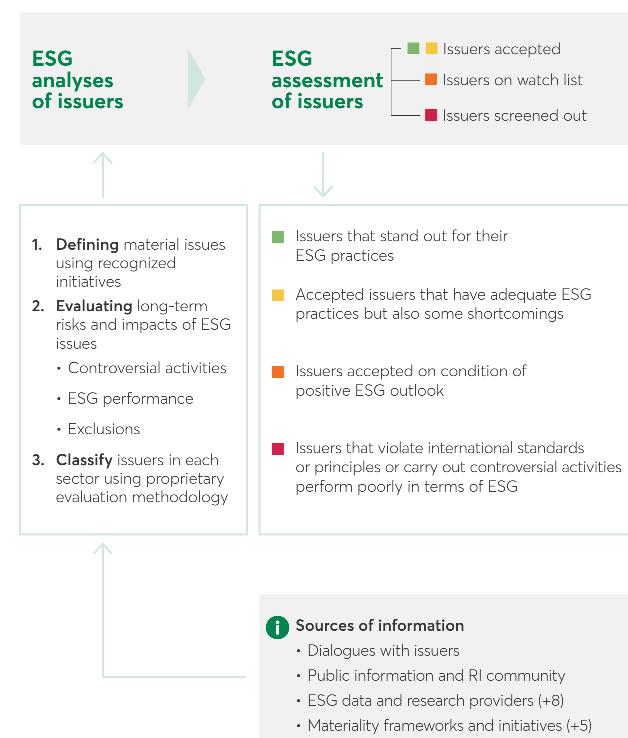
WE ARE ACTIVELY ENGAGED WITH ISSUERS, PARTNERS AND DECISION MAKERS

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 also extends 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 IN-HOUSE ESG METHODOLOGY



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

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

As at December 31, 2023, DGAM managed nearly $66.8 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 impacts on the issuer or the sector.

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

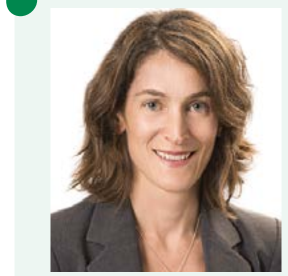
Steps in DGAM's credit analysis

*Source: DGAM, December 31, 2023

CASE STUDY

Climate transition impact analysis project

In 2023, we took an in-depth look at the energy-transition theme and its future impacts on the management of our fixed income portfolios. Our objective was to provide a realistic overview of the changing energy sector (regulation, technology, demand, etc.) and to properly identify the risks and opportunities associated with holding debt issued by this sector. The results of the analysis contribute into our ongoing thought process and are reflected directly in our stock selection and investment strategies.



GENEVIÈVE BACHAND
Senior Credit Analyst

Sustainable bond issuance totalled nearly US$946 billion globally in 2023, up 2% on a year-over-year basis. We expect a similar increase in 2024. Green bonds are still the main vehicle issued by companies and governments, and Europe continues to dominate in terms of volume. Decarbonization and commitments to net-zero emissions remain key themes.

FRANCIS SCOTT
Portfolio Manager

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

OUR ANALYTICAL FRAMEWORK FOR SUSTAINABLE BONDS

DGAM is a major player in the Canadian sustainable bond market, with $1.6 billion invested in this type of security as at December 31, 2023.* 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 2023 ACHIEVEMENTS

- Collaboration with an issuer on an innovative structure for a sustainability-linked bond; we commented on the materiality and robustness of the performance indicators as well as on the proposed coupon structure.
- Adoption of science-based responsible benchmarks (SBTi) under certain mandates with the objective of reducing exposure to GHG emissions and achieving a target of net-zero financed emissions by 2050.
- $1.6 billion in sustainable bonds in our bond portfolios as at December 31, 2023.
- 86% reduction in the carbon intensity of the SocieTerra Canadian Bond Fund relative to the FTSE Canadian Universe Bond Index.

*Source: DGAM, December 31, 2023

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.

Bottom-up global equities: Shareholder engagement as a core lever of integration

DGAM has extensive expertise in the equity markets, particularly the Canadian and U.S. equity markets. Our bottom-up global equities team uses fundamental, financial and ESG analysis for its stock selection process. Our managers and analysts who specialize in this asset class and our RI team have refined their expertise and acquired detailed knowledge of the ESG risks and opportunities specific to each sector of the economy.

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 adapt quickly to changing market conditions. We think the analysis of our RI 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 to adjust their positions.

ESG criteria are thus essential in managers' investment decisions. To calculate the potential return on a security, financial analysts and the RI team work together to establish the ranking of a potential security, incorporating ESG ratings and momentum. This process is framed by our internal methodology inspired by SASB standards and takes into account our priority issues. This collaborative approach also includes dialogues with companies.

DGAM's bottom-up global investment process

1. Company research and trend analysis
   ESG exclusions and screening
2. In-depth fundamental analysis
   Integrated ESG analysis
3. Portfolio construction
   Integration of proprietary ESG scores
4. Active portfolio management and risk monitoring
   Integrated ESG analysis and dialogues

Portfolio construction

Investment universe

Top pick list

Stock selection

THE PATH FROM A PUBLICLY TRADED COMPANY TO DGAM EQUITY PORTFOLIOS

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

COMPANY CATEGORIZATION

ELIGIBLE

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

MONITORED

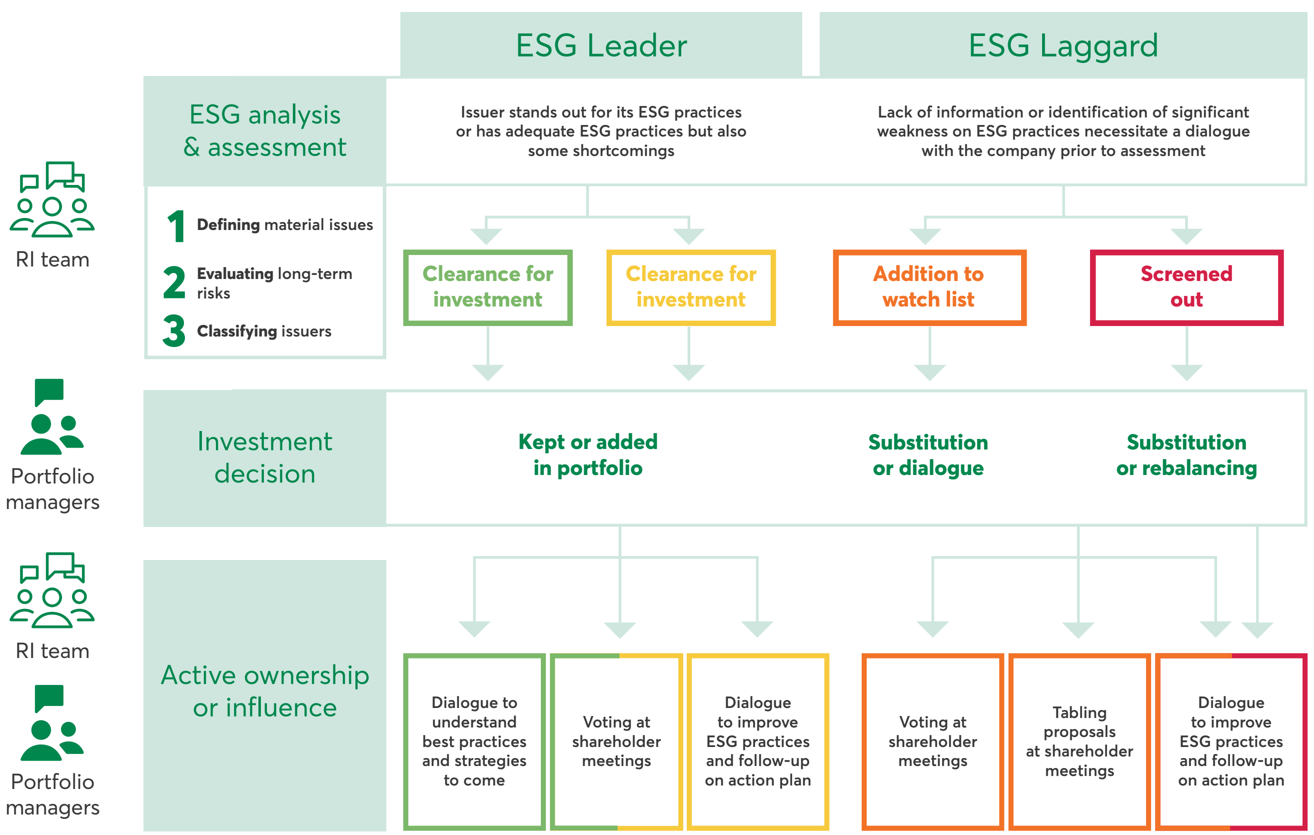
- Companies eligible on condition of positive ESG outlook

EXCLUDED

- Companies that violate international standards, with controversial activities or poor ESG performance

This rating is integrated into a company's full assessment, and the assessment 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 a watch list will be replaced or retained but included in our shareholder engagement program as an incentive to improve its ESG practices.



CASE STUDYS

ESG integration for sustainable growth

A fast-food company in Canada's consumer discretionary sector lagged its peers in integrating ESG considerations into its business model. We have been interacting with the company for several years and communicate regularly with its management team. In recent years, our dialogues have focused on gender diversity on the board of directors and climate strategy.

Until 2022, the company's board had a female representation of 8%, although we encourage companies to reach a proportion of at least 30%. After a number of conversations, the company undertook to adopt a policy that included a 30% target to be achieved by 2025. The target has already been reached: female representation increased to 17% in 2022 and then to 30% in 2023.

As for climate strategy, the company's lack of clear climate targets put it at the bottom of its peer group. Since then, it has adopted an interim science-based target to be achieved by 2030. Our discussions with the management team gave us confidence in the company's action plan, especially because, despite strong growth in the number of outlets opened in 2022, the target has been maintained.

These improvements gave the company an ESG boost and enabled us to classify it as an investment-eligible issuer according to our internal ESG methodology.

ANNE PERREAULT
Senior Portfolio Manager

We're focusing on shareholder engagement more than ever in our ESG practices. Companies that significantly underperform their peers in integrating ESG factors into their long-term vision require special attention. Engagement provides an opportunity to monitor their progress, discuss the industry's material issues and assess positive momentum.

PASQUALE POSTERARO
Portfolio Manager

Sustainable finance involves rigorous due diligence to assess the environmental and social impact of potential investments, and incorporates such factors into financial analysis. Companies that have strong practices are more likely to demonstrate resilience, innovation and adaptability in a rapidly changing global landscape.

OUR 2023 ACHIEVEMENTS

Outcomes for the SocieTerra Canadian Equity Fund:

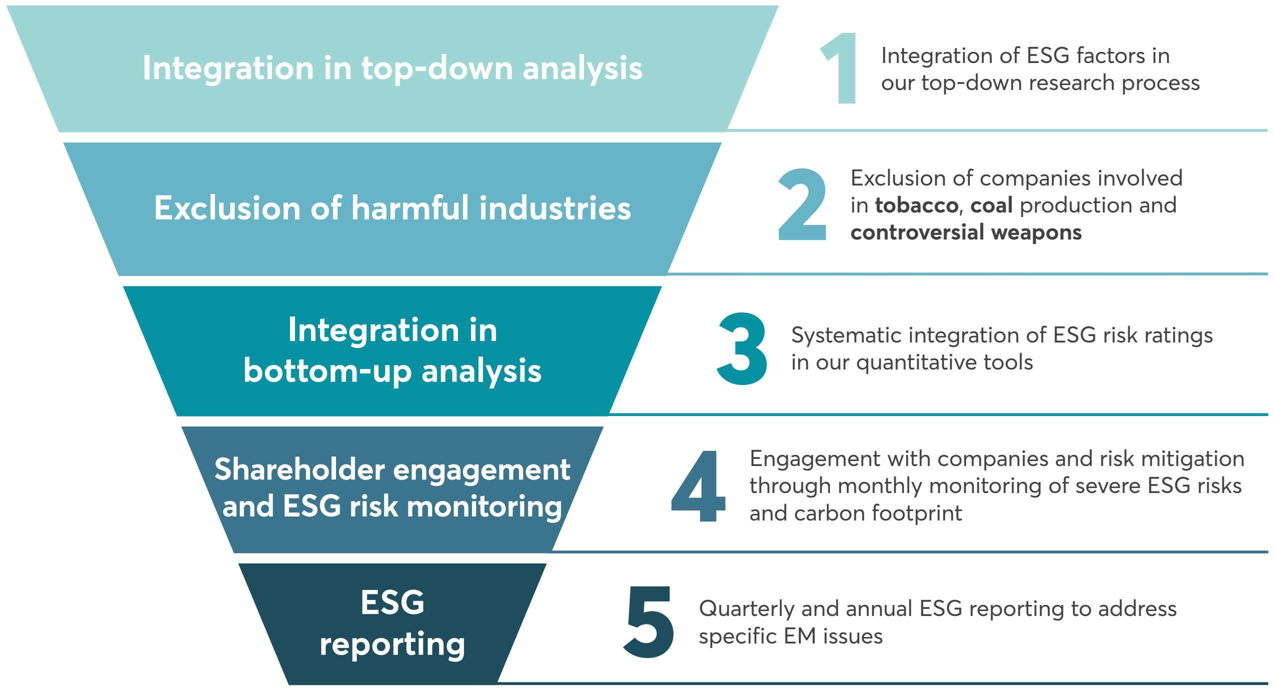
- 61% lower carbon intensity versus the S&P/TSX.
- Dialogue with 20 companies representing 55% of portfolio holdings.

Emerging market equities: The art of managing extreme ESG risks

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

INTEGRATION THROUGHOUT THE INVESTMENT PROCESS

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



CASE STUDY

Deterioration of governance in Poland

The Law and Justice party held power from 2015 to 2023 on a social and conservative platform. Even so, some measures announced over the years rolled back democratic and social gains. Examples include a reduction in legislative and judicial power, setbacks in the right to abortion and same-sex marriage, and attacks on press freedom. Moreover, for a number of months the European Union blocked the payment of funds to Poland under its recovery plan for Europe on the grounds that the country contravened the rule of law. The concerns relate to the process for appointing Supreme Court judges and government procedures and investigations against some judges.

The Law and Justice party also passed a law to create a government commission to investigate Russian influence on the government's previous decisions, just before the elections scheduled for the fall of 2023. This move was deemed unconstitutional by many observers. The aim seemed to be to block the candidacy of opposition leader and former Prime Minister Donald Tusk, but if failed to achieve its objective. With a record turnout in the election, Tusk once again became Prime Minister, heading a centrist liberal coalition formed by three parties. The coalition's pro-European approach is likely to put the country's governance back on track in the coming years, although the conservative President Andrjez Duda could complicate the process. We see this changing of the guard in the government as positive, and it makes us all the more comfortable investing in the country's businesses.

THREE EXAMPLES OF INTEGRATION OF ESG ISSUES AT THE MACROECONOMIC LEVEL

1. **A country whose economy is highly dependent on oil**
   Such a country is vulnerable because the energy transition can potentially curb 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 reduce our portfolio's exposure to a country.
2. **An industry that has to tackle significant ESG issues**
   Where all other factors are equal and we consider ESG exposure in a particular industry to be above average, our conclusions about its macroeconomic outlook tend to be more negative.
3. **Use of an ESG ranking by country**
   This tool is used to rank and compare countries with a view to managing risks and capitalizing on opportunities. Its goal is not to exclude countries but rather to separate the wheat from the chaff. We apply a negative bias to the bottom of the pack and favour the highest-ranked countries. The portfolio impact of this negative bias varies from ±0.5% to ±1.5%, depending on the size of the country in the benchmark index.

OUR 2023 ACHIEVEMENTS

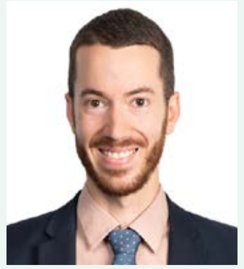
- The carbon intensity of our portfolio was 57% lower than that of its benchmark.
- We updated our internal ESG ranking model by country by aggregating multiple ESG data.
- We maintained our quarterly reporting via an ESG newsletter on emerging markets.
- We implemented a shareholder engagement plan for emerging market issuers in collaboration with our external partners.

“

JEAN-BENOIT LEBLANC

Senior Portfolio Manager, Emerging Markets

Our experience in emerging markets has taught us that financial returns depend as much on the performance of our ideas as on our ability to avoid countries, sectors and securities that underperform owing to inadequate management, misallocation of capital or repeated scandals.



JULIEN TOUSIGNANT

Portfolio Manager, Emerging Markets

Successful engagement with companies in emerging countries requires an approach adapted to the specific context of each country. The local business environment, culture and regulations must be taken into account. In addition to these specificities, the language barrier, the lack of corporate disclosure and the sometimes less-established modes of governance often make it more complex to engage in dialogue with companies in emerging countries. For these reasons, we have partnered with two firms specializing in shareholder engagement to carry out our engagement efforts.

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Top-down global equities: successfully integrating ESG criteria when stock selection is secondary

Top-down management of equity portfolios is an investment process based on the analysis of major market segments, such as regions, countries, sectors and industries. Stock selection plays a secondary role. That being said, RI in the equity market is essentially based on information specific to individual securities. This challenge has not prevented the managers on our top-down global equity team from deploying a credible RI practice adapted to their management style.

INTEGRATION OF ESG FACTORS IN THE SELECTION OF COUNTRIES, SECTORS AND INDUSTRIES

Consideration of material ESG factors is done within the framework of three analytical pillars: the macroeconomic environment, valuation and sentiment. For example, if a sector is likely to be affected by new privacy protection legislation, or if a country benefits from improved corporate governance standards, the portfolio managers will take such factors into account in their research and analysis, which may influence their investment decision positively or negatively. All research reports produced by our managers and analysts include an analysis of ESG considerations.

INTEGRATION INTO SECURITY SELECTION

The managers use quantitative tools to support their portfolio construction process, including a stock selection model. This model classifies companies according to the main families of fundamental indicators, and an ESG risk rating represents one of the families in the model. Thus, companies' ESG risk has a systematic impact on their rank among their peers and can ultimately determine their presence in the portfolio. This ESG integration approach is complemented by our strategy of shareholder engagement with portfolio companies that present certain issues covered by our dialogue plan.

ESG integration at two key steps in the portfolio construction process

1	**Investment universe** (MSCI World) ≈ **1,700 stocks**	
2	**Top-down decisions**	Allocation by region, country, sector, industry and currency, incorporating ESG factors into fundamental analysis and research.
3	**Top-down portfolio** (adjustment of index weightings) ≈ **1,700 stocks**	
4	**Final portfolio ≈ 325 stocks**	Optimization to reduce the number of securities, favouring companies ranked highly in the security selection model, with ESG ratings representing the most heavily weighted variable.
5	**Currency overlay and derivatives**	

CASE STUDY

Renewable energy: a year of depreciation and headaches

Companies in the renewable energy sector, particularly those involved in offshore wind farms, had a challenging year. BP, the British energy giant, and Equinor, a Norwegian energy company, announced a large write-down of a wind project off the coast of New York State, and have since announced the end of the project. Shell abandoned a project off the coast of Massachusetts, preferring to pay a penalty rather than continue the project.

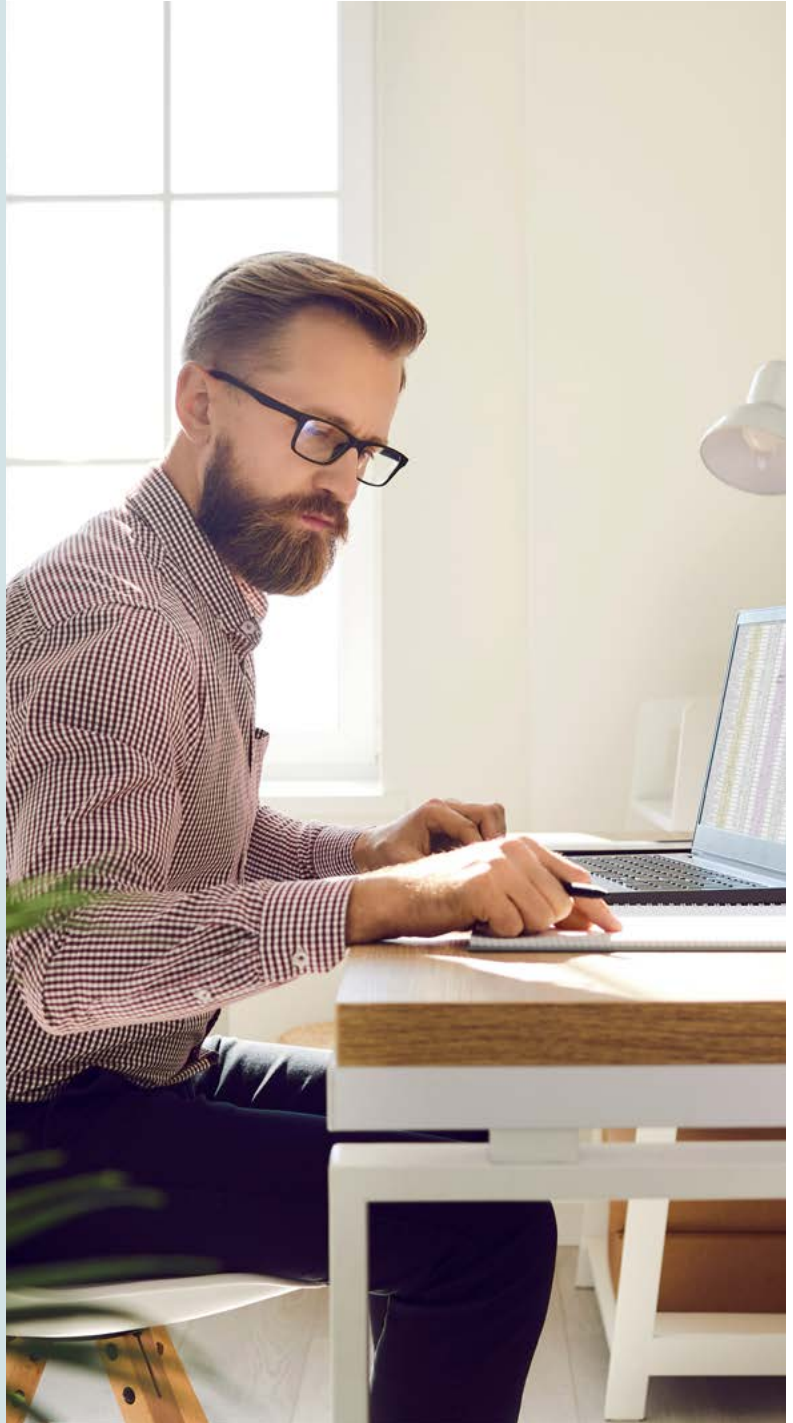
Returns on investments in renewable energy projects have declined in recent years, but this depreciation is largely reflected in company valuations. Orsted's estimates of its forward 12-month price-earnings ratio has fallen to its lowest level in more than five years. Although the company has abandoned some projects off the coast of New Jersey, it has seen fit to pursue a major project in the North Sea, off Britain's coast.

There are a number of reasons why the industry, which is set to play an important role in the decarbonization of electricity grids globally, had such a challenging year. Supply chains proved problematic, with inflation wreaking havoc on the cost of materials. The costs of financing major projects have risen in tandem with interest rates. Electricity prices, usually agreed upon when a contract is signed, don't reflect the new reality of higher project costs and are difficult to revise with local authorities, who do not want to raise prices for the end consumer. BP and Equinor tried to renegotiate their contract with the state of New York but saw their requests denied. In the United States, companies face delays of up to five years in obtaining construction permits.

Despite the recent structural headwinds, the industry is expected to keep growing because it remains a key driver that will enable governments to meet their ambitious emission-reduction targets.

OUR 2023 ACHIEVEMENTS

- The portfolio's carbon intensity was 18% lower than its benchmark's at the end of 2023.
- We implemented quarterly reporting through the inclusion of a new section on ESG considerations in management reports.
- We significantly increased in the number of dialogues completed with the addition of companies outside North America to the engagement plan.



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MARC CHRISTOPHER LAVOIE

Manager, Global Top-down Strategies

Integrating ESG factors into a top-down process like ours means we have to rethink how we conduct our fundamental analysis across all our decision-making pillars. For example, in some cases, it's appropriate to adjust our valuation criteria when ESG practices suggest higher growth, which may result in higher ratios. Thus, ESG integration requires adopting a long-term horizon to assess the return potential of securities.

CHRISTIAN CRÊTE

Senior Portfolio Manager

Several years ago, we realized how useful quantitative models are in supporting our ESG integration decisions. Our testing of historical data convinced us to assign a higher weight to ESG variables compared to any other variable in our stock-ranking models. This approach ensures we can systematically identify companies with best practices during portfolio construction.

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Real Estate: Ongoing collaboration to improve ESG performance

Our portfolio managers invest in a diverse range of buildings across Canada, including office, industrial, commercial and residential properties, and land. DGAM has been integrating ESG criteria into its 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 collaborate closely.

AN AMBITIOUS STRATEGIC FRAMEWORK TO INTEGRATE ESG ISSUES INTO REAL ESTATE ASSETS

Ongoing engagement with property managers

The real estate asset managers, with the support of the RI team, work closely with building managers to manage the properties and integrate ESG considerations.

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

We've been taking part in this survey since 2018. We improved our performance in 2023 with a rating of 77, allowing us to maintain a 3-star rating.

LEED and BOMA BEST certifications

98% of our real estate portfolio properties is certified sustainable. Certifications include performance improvements in energy efficiency, health and safety management and other criteria that improve the overall sustainability of buildings.

Promoting ESG best practices with property managers

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

Integration of green leases

The integration of green leases into our portfolio began in 2022 for industrial, commercial and office buildings. In 2023, the real estate team entered into green leases for more than 2,134,000 square feet, or 18% of its portfolio. As leases expire, they are replaced by green leases where possible.

Structured communication channels to stay up to date

Our asset managers and RI experts meet monthly to discuss ESG developments and progress; they also share key trends and implement programs to benefit our portfolio.

INTEGRATING CARBON REDUCTION INTO REAL ESTATE

Desjardins was the first financial institution to sign on to the *Business Ambition for 1.5°C campaign.* As carbon neutrality is a complex goal, it is essential to implement a strategy that allows time to take action and reduce emissions so that we meet the targets for 2030 and beyond.

The validated SBTi objectives are inclusive to DGAM's real estate portfolio. Therefore, throughout 2023 and into 2024 we have worked with engineering firm WSP to gain a better understanding of what decarbonization means for properties. The project provided a high-level perspective on the portfolio and identified the measures that should be included in a decarbonization plan. The project took place in three stages. First, to gain additional clarity and understanding of our portfolio, 15 property audits were completed. Next, individual strategies were developed for all properties included in the project. Lastly, all information was amalgamated into a portfolio report. The report draws clear conclusions about the measures that will reduce carbon emissions the most. The study will be used to create a decarbonization roadmap into 2030 for our real estate portfolio.

OUR 2023 ACHIEVEMENTS

- With 98% of our real estate assets certified sustainable, we are getting closer to our goal of owning only LEED- or BOMA BEST-certified buildings.
- We scored 77 in the GRESB survey, allowing us to maintain a 3-star rating.
- A year-long project between our team and WSP improved our understanding of the pathways to reducing the carbon emissions of our real estate portfolio.

CASE STUDY

DGAM invests in the future

Carbon emissions and how to decrease them are becoming more prevalent topics in the real estate industry.

There are two ways of reducing operational emissions:

1. retrofit buildings to reduce emissions or
2. build in a way that ensures the building is a net zero from day one.

Our team has invested in Cathedraltown Business Park in Markham, Ontario. It's a cutting-edge project for a 40-foot clear height, modern industrial complex that aims to meet the Zero Carbon Building - Design Standard. The project was designed by Triovest Sustainable Solutions and is the result of a partnership between Triovest, Hydro-Québec and Desjardins Financial Security.

The building has many eco-friendly features, such as motion-activated LED lighting, an R40 roof, R30 cladding, air heat pumps with electric energy recovery ventilators (ERVs) and a roof prepared for future installation of solar panels. In addition, the main building's electrical panel and transformer were upgraded to allow for electrification.

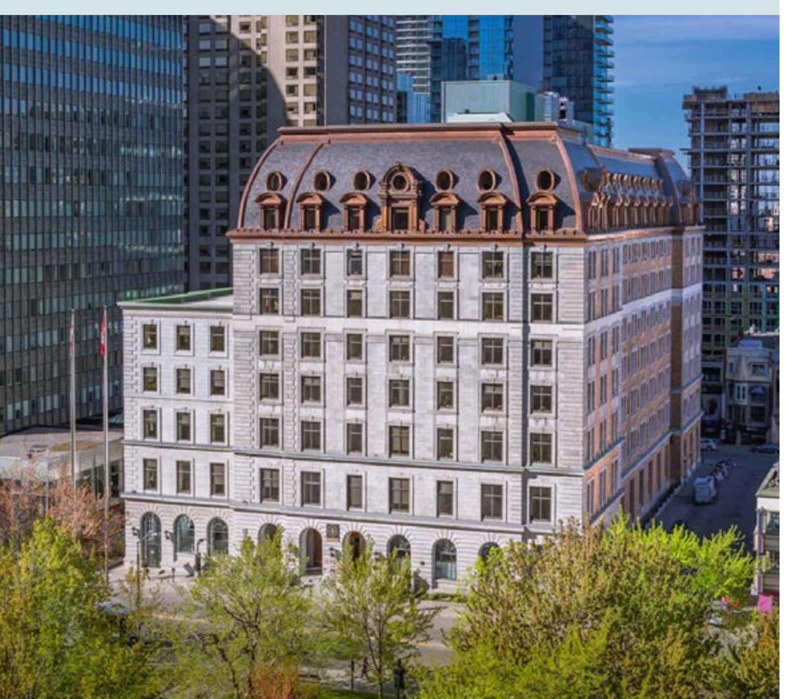
The property's three buildings, with a total area of 891,545 square feet, will be constructed simultaneously. Our team and partners have identified this development as an opportunity to showcase the value-creating potential of sustainable industrial development when all stakeholders are involved.

CASE STUDY

Le Windsor, a historical site

Desjardins Financial Security became a co-owner of Le Windsor in 1990 and acquired all its shares in 2018. This building is steeped in Montreal history, having first opened in 1878 as the Windsor Hotel. It was designed by architect William Boyington, occupied an entire block and offered 382 rooms. It attracted famous people, such as Queen Elizabeth II, John F. Kennedy and Jean Lesage. Today only the annex part of the building is still standing. Between 1985 and 1992, it was transformed into office and reception spaces. In 1995, Le Windsor received the BOMA Office Building of the Year Award in the historic buildings category. In recent years, the building has been certified LEED level 4 and BOMABest Platinum, the highest levels of certification available. Work is also under way to monitor water and energy consumption and emissions and to establish reduction targets. Satisfaction surveys are conducted with tenants to identify areas of improvement.

In 2022, Le Windsor won a Building Energy Challenge award for its emissions targets and emissions-reduction targets from 2018 to 2022. In 2023, five new electric car charging stations were added to the indoor parking garage, in addition to the existing two and the bicycle parking. Other initiatives include the integration of green clauses in tenant leases to ensure compliance with sustainable development norms along with the inclusion of guidelines for cleaning, management and waste-removal contracts.



TONY ROY

Vice-President and Head of Real Estate Investments

Investors are an integral part of the solution to reducing the impacts of climate change. Our investment approach takes environmental factors into account as soon as we consider acquiring a property, but also during the management of the asset, after it is acquired. This approach guides our exposure to different assets and our choice of partners, who must also integrate environmental considerations. Our tenants are also encouraged to contribute to our efforts through various clauses in our leases. We firmly believe that investing in our assets to increase their energy performance and to reduce their carbon emissions is an economically viable strategy in the long term.

EMILIANO OMERI

Asset Manager, Real Estate Investments, Central and Western Canada

As real estate asset managers, we're responsible for fostering sustainable growth within our properties, communities and beyond. The strategic integration of sustainable practices into our investments and operations enables us to create lasting value while contributing positively to our planet. Our commitment to ESG principles guides our decisions, ensuring we prioritize the sustainable well-being of our stakeholders and of the planet. Although there are many challenges ahead, there are also opportunities, and we're on the path to a better future for all.

Infrastructure: Integrating ESG factors throughout the investment process

Our infrastructure team monitors many sectors, including renewable energy, utilities, transportation, telecommunications and social infrastructure. Our asset managers can leverage our international business network, in place for more than a decade, to seize the best investment opportunities for existing or developing projects. Since 2021, the team has worked closely with the RI team and has taken a strong approach in order to integrate ESG criteria throughout the life of an asset or fund.

A ROBUST PROCESS THAT MEETS DGAM'S HIGH STANDARDS

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

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

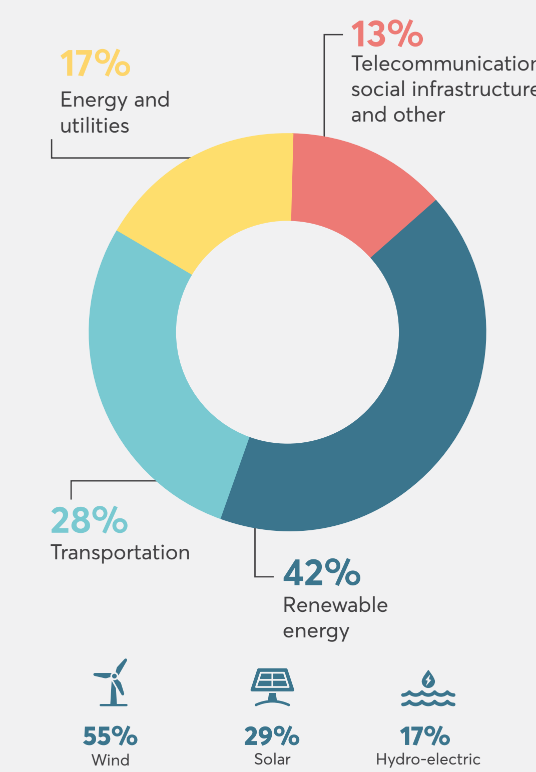
Acquisition
Including ESG criteria in contracts and side letters, where applicable.

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

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

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

Our investments
as at December 31, 2023



18 countries | **8** Canadian provinces

82% of partners are PRI signatories

BENCHMARKING ASSETS AGAINST ESG

In 2023, we worked to address the ESG integration gaps identified in the portfolio's asset management and monitoring. The infrastructure team has already integrated ESG criteria into engagement and discussion with partners and projects. Even so, to understand our assets, it is important to know the metrics tracked and the extent of information and policies available for projects. In total, we assessed 27 assets against 43 questions covering four categories for each of the E, S and G themes. The issues addressed included environmental assessment, greenhouse gas emissions, climate-change risks and resilience, biodiversity, health and safety, human capital management, equity, diversity and inclusion, community relations and outreach, corporate and ESG governance, risk management systems, data security and ethical business practices.

The evaluation led to an average rating of 3.5 stars out of 5 stars, showing that the assets in the portfolio have made progress in integrating ESG criteria into reporting. The evaluation also highlighted that diversifying our portfolio results in variations in indicators, such as water or waste, but that over all there are similar indicators across sectors. These results led to the finalization of a draft of key performance indicators that combines the measures established during the asset evaluation with industry best practices. The key-indicators project is scheduled to run until 2024, starting with an initial evaluation.

EVALUATION BY THE PRI

In 2021, the infrastructure team took part in the PRI survey by submitting its 2020 ESG practices for evaluation, highlighting the importance of transparency throughout mandatory reporting. The evaluation of this first submission delineated the shortcomings of the team's practices and the road ahead. Since 2021, the members of the infrastructure team have made efforts to improve their knowledge of responsible investment and ESG criteria. With assistance from the RI team, they have integrated ESG criteria into all aspects of their work. Integration began with a thorough review of new acquisitions and efforts to incorporate the process into the existing portfolio.

When we took part in the PRI survey again in 2023, the infrastructure team received a score of 76% for its practices, an increase of nearly 40 points. This score shows progress in integration of ESG criteria into our due diligence, material assessment, evaluation of third-party operators, monitoring and disclosure. Surveillance is the one aspect where integration is slower, but work is already under way to increase our coverage.

GUILLAUME MORENCY
Manager and Head of Infrastructure Investments

"The integration of ESG criteria is central to our infrastructure investment process, from the formulation of our investment thesis to our long-term ownership of assets. With support from the DGAM RI team, we're deepening our understanding of current and future environmental and social issues so that we can adjust and improve our practices accordingly.

JULIE CHARTIER
Asset Manager, Infrastructure

With its worldwide exposure, RI strategy and strong influence, DGAM's infrastructure team is a key player in reaching net-zero goals and thereby supporting a sustainable future for future generations."

CASE STUDY

Cordia: An energy transition solution

In 2022, DGAM co-invested, on behalf of its DGAM Global Private Infrastructure Fund and the Desjardins Group Pension Plan, a total of US$60 million in Cordia, a collective energy platform offering services across the United States. This platform is managed by KKR, a global investment firm that considers sustainability part of its fiduciary duties and is committed to responsible investing. Cordia is an energy-transition company that provides heating, cooling and other energy solutions to more than 700 customers across multiple cities. In addition to its expertise in collective energy, Cordia has also worked to integrate innovative technologies, including microgrids, fuel cells and energy-storage systems. In total, the system has a capacity of 64 MW over 79 kilometres of distribution lines that serve customers in several sectors, including commercial and industrial, government, health care and residential. Cordia manages the entire lifecycle of energy infrastructure so that customers can focus on what they do best.

This investment was viewed by DGAM as an opportunity to support a transition-focused, proactive approach to achieving sustainability goals. Cordia is dedicated to reaching net-zero emissions by 2050 through various initiatives to reduce greenhouse gases. The initiatives involve incorporating renewable energy into multiple plants, electrifying chillers and boilers at specific energy centres and optimizing equipment usage. In addition, multiple initiatives to improve water conservation and quality are under way, including groundwater abstraction and reuse in San Francisco, leading to a 30% decrease in domestic water usage.

Cordia has launched multiple initiatives in the area of social responsibility, such as enhancing employees' internal satisfaction, promoting health and safety, fostering diversity, integrating ESG criteria into supplier and contractor priorities, and raising community awareness. In addition, a cybersecurity risk management roadmap was developed with a multiyear plan to evaluate internal systems and educate employees.

OUR 2023 ACHIEVEMENTS

- We evaluated the ESG practices and available metrics for 27 assets.
- We achieved a score of 76% in the PRI evaluation.
- We ensured renewable energy remained a priority investment, with more than $1.9 billion in assets under management.

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, the Systematic ESG World Equity strategy and the 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 negative and positive filtering processes. We leverage this sophisticated approach to build ESG universes that can be adjusted to various degrees of intensity for ESG criteria.

Our quantitative strategies invest in universes of companies that are industry leaders in terms of a number of ESG criteria. These universes of eligible companies are created with a screening approach that excludes 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 and have an outlook we can rationalize.

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

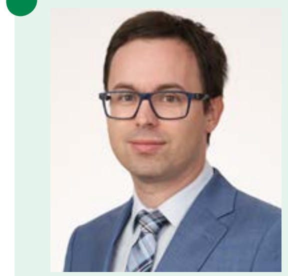
1. Systematic exclusions.
2. Application of positive and negative filters to eliminate companies with harmful practices on the basis of our ESG criteria and to reward companies with ESG best practices in order to create a basket of securities eligible for investment.
3. Portfolio construction using a multifactor quantitative model to maximize signal exposure while respecting diversification constraints.

CASE STUDY

Renewable energy: essential to a sustainable future

The relevance of renewable energies is a given. Energy needs (electricity and heating) are the largest source of greenhouse gas emissions, accounting for about 60% worldwide.[12] Increasing the use of renewable energy at the corporate level would allow for a collective reduction in emissions and help meet the limit on temperature rise set by the Paris Agreement. We think that all companies need to join this global effort, and that they may find that, by using renewable energy as a substitute for fossil fuels, they can lower their energy costs.

[12] Source: United Nations.



NELSON CABRAL
Portfolio Manager

A recent Sustainalytics survey of asset owners shows again this year that investor ESG demand continues to evolve and advance. Europe has adopted new regulations that are more specific and stringent, and it would not be surprising if similar regulation were developed in Canada in the coming years. Thus, the solutions we offer investors must remain flexible to meet their current and future needs.

VÉRONIQUE MARCHETTI
Senior Advisor, Responsible Investment

The quality of data on companies' indirect emissions continues to improve. More and more companies are disclosing their Scope 3 emissions, and estimates from data providers now adequately cover developed and emerging markets alike. Dissemination of such information to the market will have a significant effect on investor demand. For that reason, we're preparing for it now.

OUR ESG SCREENING METHODOLOGY 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 ESG metrics. For example, companies with high carbon emissions, controversial issues and high workplace mortality rates are systematically excluded. As at December 31, 2023, our approach had excluded 922 companies. Our positive filters favour the inclusion of leaders in several ESG criteria. We had deemed 408 companies eligible for investment at the end of 2023.

At the end of 2023, the portfolio had carbon and water footprints that were significantly lower than those of the MSCI World Index, mainly because of our ESG methodology's negative filters. By eliminating the main carbon emitters, we reduced the portfolio's carbon intensity by 89% in relation to the index. The portfolio's water consumption was reduced by 98% after the largest water consumers were eliminated. Over all, the portfolio had strong sustainability credentials and outperformed the index across most ESG metrics.

Systematic ESG World Equity strategy in figures

STATISTICS	DGAM	MSCI WORLD
Environment		
Carbon emissions (t CO_2 eq./$B)	9	60
Carbon intensity (t CO_2 eq./sales)	10	98
Water use (m^3/$M of revenue)	139	8,247
Waste-recycling ratio	67%	65%
Renewable-energy use	38%	37%
Reported emissions	95%	93%
Social		
Employee fatalities per 100,000 employees	0.5	0.7
Access to low-price products	16%	22%
Women managers	33%	33%
Salary gap (CEO/average salary)	189	182
Governance		
Sustainability compensation incentives	64%	67%
Independent board members	77%	80%
CEO and chairman separation	66%	47%
Board gender diversity	33%	33%

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

OUR 2023 ACHIEVEMENTS

- We integrated Scope 3 emissions into our data sources and our entire strategy information chain, from portfolio construction to reporting.
- We maintained quarterly reporting through the publication of an ESG letter addressing key themes.

Modernization of responsible investment ETFs

In recent years, DGAM has collaborated with CIRANO in order to adopt decarbonization objectives without affecting the financial performance of its portfolios. This approach represents an evolution of the low-carbon strategies we launched in 2018 and stems from our clients' desire to set ambitious targets that will help combat climate change. More specifically, it is part of a strategy to achieve carbon neutrality targets by 2050. This work has enabled us to modernize Desjardins responsible investment ETFs and align them with our climate-risk management ambitions.

WHY MODERNIZE RI ETFs?

- In 2018, DGAM launched a suite of responsible investment ETFs aimed at reducing the carbon intensity of the portfolios by 25% compared to traditional market indexes. At the time, this approach was aligned with the industry's best practices for decarbonization.
- Since then, the methodologies and standards for portfolio decarbonization have evolved. Today, best practices aim for an absolute reduction in financed emissions rather than a reduction in carbon intensity, in relative terms.
- DGAM has modified its RI ETFs to align with these new practices, to modernize its suite of investment solutions and to maintain its RI leadership. Emissions reduction is now based on financed emissions in absolute terms according to a trajectory of net-zero emissions by 2050 (instead of carbon intensity metrics). ETF risk management is based on a rigorous process that includes active risk constraints and maximum weighting by security and sector.
- DGAM has also modernized its approach to quantitative multifactor strategies, which involves five RI ETFs, by leveraging in-house expertise. After the 2021 acquisition of Hexavest, which used a different multifactor portfolio construction methodology, a convergence of methodologies was carried out. The standardization of processes has increased control over active risk by balancing the factor exposures of all the portfolios concerned.

NOTRE MÉTHODOLOGIE ARTICULÉE EN FONCTION DE TROIS AXES

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

DESJARDINS RI ETFS

NAME	TICKER	INVESTMENT STYLE
Canada – Net-Zero Emissions Pathway ETF	DRMC	Active systematic
USA – Net-Zero Emissions Pathway ETF	DRMU	Active systematic
Developed ex-USA ex-Canada – Net-Zero Emissions Pathway ETF	DRMD	Active systematic
Emerging Markets – Net-Zero Emissions Pathway ETF	DRME	Active systematic
Canada Multifactor – Net-Zero Emissions Pathway ETF	DRFC	Active systematic multifactor
USA Multifactor – Net-Zero Emissions Pathway ETF	DRFU	Active systematic multifactor
Developed ex-USA ex-Canada Multifactor – Net-Zero Emissions Pathway ETF	DRFD	Active multifactor
Emerging Markets Multifactor – Net-Zero Emissions Pathway ETF	DRFE	Active multifactor
Global Multifactor – Fossil Fuel Reserves Free ETF	DRFG	Active multifactor
Active Canadian Bond – Net-Zero Emissions Pathway ETF	DRCU	Active

Collaborating to increase awareness and mobilize our community

DGAM continued to exert its levers of influence in 2023 by taking part in various initiatives and by playing an active role in the responsible investment ecosystem. Our experts spoke or provided opinions on more than 28 occasions, participating in discussion panels and working groups, and collaborating on media content. Our efforts are reflected in various types of files and projects that are all aimed at creating sustainable value and promoting a long-term vision of performance with positive spinoffs for society.

INTERVENING WITH REGULATORS

We think engagement with decision makers is one of the most promising RI levers of influence. That's why we take part actively in initiatives involving public authorities.

In 2023, DGAM took part in the following initiatives:

- DGAM and other Desjardins business segments took part in the Office of the Superintendent of Financial Institutions' consultations on new climate change regulation and the impacts on financial institutions, including the *Guideline on Climate Risk Management* and the *standardized climate scenario exercise*. We also took part in the AMF's consultation on its *Draft Climate Risk Management Guideline*.
- DGAM also participated in the *International Sustainability Standards Board's (ISSB) Consultation on Agenda Priorities*, specifically on priorities related to biodiversity and the level of priority to be given to natural capital.

TAKING PART IN COLLABORATIVE INITIATIVES WITH OTHER INVESTORS

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

- DGAM joined the *Nature Action 100* initiative, the first international initiative focused on biodiversity-related commitments. It aims to reverse the damage caused to nature by combining biodiversity ambitions with actions taken by companies.
- We joined the PRI's *Nature Reference Group*, which works to convey industry best practices to asset managers through examples and guidance documents.
- We also took part in five *Finance for Biodiversity Foundation* working groups throughout 2023. These groups focus on engagement with businesses, assessment of benefits, public policy advocacy and the definition of objectives and positive impacts.
- DGAM took part in the *public consultation on two approaches to proposed amendments to the Canadian Securities Administrators' (CSA) disclosure requirements and governance guidelines*. These amendments, which address the selection of board candidates, as well as board renewal and diversity, would require disclosure on aspects of diversity other than representation of women, while maintaining the specific obligations of such representation.

INCREASING AWARENESS IN THE FINANCIAL COMMUNITY

We have continued our efforts to foster the acceptance and application of responsible investment principles by taking part in conferences as panelists and ensuring a presence in the media. Here are five examples of our specialists' contributions:

- We took part in the writing of an FFB report titled *Unlocking the biodiversity-climate nexus* and an article on biodiversity published in a peer-reviewed journal.
- Two members of our RI team were panelists at sessions on collaborative engagement and investor influence at Canadian conferences:

the RIA's panel on Engagement & Investor Influence: The Latest Developments in Canada and the Better together? Collective vs. individual engagement panel at the RI Canada Conference.

- We took part in five roundtables on integrating the theme of biodiversity, including events organized by Finance Montreal and Millani and at the RIA Conference on Innovations in Agriculture.
- In collaboration with organizations such as SHARE, Investors for Paris Compliance (I4PC) and the Mouvement d'éducation et de défense des actionnaires (MÉDAC), DGAM took part in the development of a number of shareholder proposals aimed at improving the RI ecosystem.

SHARING OUR EXPERTISE AND KNOW-HOW

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

- DGAM entered into a partnership with the Université de Sherbrooke Student Investment Fund to provide students with asset management and RI guidance. We also take part in the university's partnership with PolyFinances.
- We joined the Land Use and Climate Working Group of CERES, an organization that helps financial market participants find solutions and take action on sustainability issues globally.
- Our colleague Julien Tousignant, Portfolio Manager, Emerging Markets, is a regular contributor to the sustainable investing training program of the Association québécoise de la retraite et des avantages sociaux.
- Two members of our RI team took part in a PRI working group on the data needs of investors and the development of a data disclosure framework. The meetings focused mainly on decision-making needs and integration of data related to biodiversity and human rights.
- A member of the RI team became Vice-Chair of the Industry Leaders Advisory Panel (ILAP) of the Climate Engagement Canada (CEC) initiative. ILAP brings together representatives from Canada's leading financial institutions to provide informed leadership on sustainable finance and to advance CEC's overall strategic goal of accelerating Canada's transition to net zero.

Appendix

Complete list of DGAM's dialogues in 2023

Complete list of DGAM's dialogues in 2023

Priorities	Development of a fair, equitable and inclusive conomy	Ensuring governance with strength, integrity and resilience	Protection of biodiversity and natural capital	Transition to a low carbon economy
Consumer staples				
AHOLD DELHAIZE			✓	✓
Alimentation Couche-Tard Inc.	✓			
Ambev Sa			✓	✓
Carrefour			✓	
Dollar General	✓			✓
Empire Company Limited				✓
Maple Leaf Foods Inc.				✓
Metro Inc.			✓	
Mondelez International	✓		✓	✓
Nestlé	✓	✓	✓	
Saputo Inc.			✓	
The EsteeLauder Companies Inc.				✓
The Procter & Gamble Company			✓	✓
Consumer discretionary				
ALIBABA	✓	✓	✓	
Alibaba Group Holdings Ltd	✓	✓		
Aritzia Inc.				✓
AUTOZONE	✓			✓
BRP Inc.	✓			
Compagnie Credit Ford du Canada	✓			
Dollarama Inc.	✓			
General Motors Financial of Canada, Ltd.	✓			✓
Gildan Activewear Inc.	✓	✓		✓
Glacier Credit Card Trust		✓		
Honda Canada Finance Inc.		✓		✓
Hyundai	✓			
Intercontinental Hotels		✓		✓
McDonald's Corporation	✓			
Nike	✓			
Sony	✓			
TJX	✓			
Toyota Credit Canada Inc.	✓			✓

Priorities	Development of a fair, equitable and inclusive conomy	Ensuring governance with strength, integrity and resilience	Protection of biodiversity and natural capital	Transition to a low carbon economy
Energy				
ARC Resources Ltd.	✓			
California Resources Corp				✓
Canadian Natural Resources Limited	✓			✓
Cenovus Energy Inc.	✓			✓
Crescent Point Energy Corp.				✓
Enagas				✓
Imperial Oil Limited				✓
Suncor Energy Inc.	✓			✓
TC Energy Corporation		✓		✓
Tourmaline Oil Corp.	✓			✓
Financials				
Bank of America				✓
Bank of Montreal		✓		✓
Brookfield Corporation		✓		✓
Citizens Financial Group		✓		
Colliers International Group Inc.		✓		
Crombie REIT		✓		✓
HSBC Holdings PLC				✓
iA Financial Corporation Inc.				✓
National Bank of Canada		✓		✓
Royal Bank of Canada	✓			✓
Sun Life Financial Inc.		✓		✓
The Toronto-Dominion Bank		✓		✓
Trisura Group Ltd.		✓		✓
Real estate				
Crombie REIT	✓	✓		✓
Primaris REIT		✓		✓
RioCan REIT	✓			
Sienna Senior Living Inc.		✓		
Industrials				
Air Canada				✓

Priorities	Development of a fair, equitable and inclusive conomy	Ensuring governance with strength, integrity and resilience	Protection of biodiversity and natural capital	Transition to a low carbon economy
ATS Automation Tooling Systems Inc.	✓			✓
Boyd Group Services Inc.		✓		
CAE Inc.	✓	✓		
Canadian National Railway Company	✓	✓		
Canadian Pacific Railway Limited	✓			✓
Crescent Point Energy Corp.	✓			✓
GFL Environmental Inc.		✓		✓
Lion Electric Co	✓			✓
Ritchie Bros. Auctioneers Incorporated	✓	✓		
Stantec Inc.		✓		✓
TFI International Inc.			✓	✓
Waste Connections, Inc.	✓			✓
WSP Global Inc.	✓			
Materials				
Agnico Eagle Mines Limited	✓	✓		
ANTOFAGASTA			✓	✓
Avery Dennison Corp.		✓		✓
Barrick Gold Corporation	✓			
CCL Industries Inc.				✓
First Quantum Minerals Ltd.	✓			✓
Franco-Nevada Corporation				✓
Grupo Mexico		✓	✓	
Impala Platinum	✓	✓		✓
Ivanhoe Mines Ltd.	✓		✓	
Nutrien Ltd.	✓			
Pan American Silver Corp.	✓			✓
Sherwin Williams	✓			
Sherwin-Williams Co.	✓	✓		✓
Wheaton Precious Metals Corp.	✓			✓
Health care				
Abbvie	✓	✓		
CVS Health	✓			
Johnson & Johnson	✓	✓		
Sienna Senior Living Inc.	✓			

Priorities	Development of a fair, equitable and inclusive conomy	Ensuring governance with strength, integrity and resilience	Protection of biodiversity and natural capital	Transition to a low carbon economy
Universal Health Services				✓
Utilities				
Algonquin Power & Utilities Corp.				✓
AltaGas Ltd.				✓
Brookfield Infrastructure Partners L.P.				✓
Capital Power Corporation			✓	✓
EDF Renewables		✓		✓
Energir Inc.		✓	✓	✓
EPCOR Utilities Inc.		✓		✓
Fortis Inc.	✓		✓	
Hydro One Limited	✓		✓	
Innergex Renewable Energy Inc.	✓			✓
Northland Power Inc.				✓
Ontario Power Generation Inc.			✓	✓
Superior Plus Corp.				✓
TransAlta Corporation	✓			✓
Communication services				
AT&T	✓	✓		
Rogers Communications Inc.	✓			✓
TELUS Corporation		✓		
Verizon			✓	
Information technology				
Alphabet	✓			
Amazon	✓			
Costar Group	✓	✓		✓
Meta Platfforms Inc	✓			
Microsoft	✓			
Oracle	✓			
Sovereign				
British Columbia	✓	✓		✓
MFA of BC		✓		
Ministère des Finances du Canada				✓
Others				
Power Sustainable PSEIP		✓		

Contact

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