

Responsible Investment Policy

DESJARDINS FUNDS



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More than 30 years of experience in responsible investment

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DESJARDINS:

More than 30 years of experience in responsible investment

Responsible investment (RI), also known as “sustainable investment” or “socially responsible investment”, consists of incorporating environmental, social and governance (ESG) factors into the selection and management of investments.

Desjardins is a responsible investment pioneer. In 1990, it launched the Desjardins Environment Fund, one of the first of its kind in Canada.

Back then, taking extra-financial criteria into consideration was a significant challenge to investment management practices. But the innovative approach favoured by Desjardins was in complete harmony with its mission and values—that of contributing to the economic and social well-being of individuals and communities.

While almost unheard of in the early '90s, ESG-based investment management is now experiencing strong growth across the globe. For example, more than 47%¹ of assets in Canada are managed using this approach.

True to its mission, Desjardins has remained at the forefront of responsible investment. Its range of **Desjardins SocieTerra Funds** and **SocieTerra Portfolios** is constantly expanding, and includes an array of products that meet a variety of needs.^{2,3}

Desjardins also aims to maintain best practices. This is why Desjardins Investments Inc., the manager and sponsor of Desjardins Funds, has been a signatory of the Principles for Responsible Investment (PRI)⁴ since 2010. The PRI is an initiative launched by investors in partnership with the United Nations Environment Programme Finance Initiative and the United Nations Global Compact that has more than 3,800 signatories today. These signatories from every part of the world manage more than US\$120 trillion.

¹ <https://www.riacanada.ca/research/2022-canadian-ri-trends-report/>

² fondsdesjardins.com/funds/prices-performance/index.jsp

³ Desjardins also offers different investment products that include ESG considerations, such as market-linked guaranteed investments (MLGIs), exchange traded funds (ETFs) and guaranteed investment funds (GIFs).

⁴ <https://www.unpri.org/pri/about-the-pri>

Our responsible investment practices




ESG factors

Environmental, social and governance factors are based on the notions of sustainable development⁵ and corporate social responsibility.

The nature and materiality of ESG issues vary a great deal from one company to another. These issues are particularly affected by the company's sector of activity and geographic location. Our portfolio managers focus their attention on the factors most likely to have a significant impact on the results of the companies they are analyzing.



Examples of elements considered for each criterion

 Environmental	Climate change <ul style="list-style-type: none"> Greenhouse gas emissions Resilience to climate change 	Natural resource use <ul style="list-style-type: none"> Protection of biodiversity Water supply 	Pollution and waste <ul style="list-style-type: none"> Pollutant emissions Product sustainability Reclaiming of residual materials 	Environmental opportunities <ul style="list-style-type: none"> Renewable energy supply Energy efficiency
	 Social	Human capital <ul style="list-style-type: none"> Subcontracting Occupational health and safety Competency development 	Responsibility for products and services <ul style="list-style-type: none"> Privacy protection Responsible purchasing Product reliability 	Social acceptability <ul style="list-style-type: none"> Management of impacts on communities
 Governance	Corporate governance <ul style="list-style-type: none"> Independence and expertise of boards of directors Executive compensation Shareholder rights 		Governance practices <ul style="list-style-type: none"> Diversity Financial and extra-financial disclosure Aggressive tax strategy Corruption Lobbying 	

⁵ Brundtland, G. (1987). Report of the World Commission on Environment and Development: Our Common Future. United Nations General Assembly document A/42/427, <https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf>

Our ESG priorities

We are convinced that taking ESG factors into account throughout the investment process can help mitigate the risks and seize the opportunities associated with the challenges of sustainable development. We prioritize a proactive approach to themes that, beyond individual company performance, can have systemic effects on the planet and society: climate change, nature and human rights. Taking these three themes into account throughout our investment process aims both to mitigate or avoid the negative effects inherent in each issue, and to contribute to their improvement.

Our beliefs when it comes to investment management

Desjardins fosters an economic development respectful of people and the environment, where "money is at the service of human development."

We believe that economic players have a responsibility toward their communities and their territories, and must act accordingly. This is why Desjardins Funds seek to promote business practices and corporate governance that are more respectful of communities and the environment.

Numerous studies show that companies that are concerned with ESG issues are better equipped to manage risks, thereby improving their return potential. Act responsibly, yes, but not at the expense of profitability!

Our responsibilities as a fund manager

As the manager of Desjardins Funds, the primary responsibility of Desjardins Investments Inc. is to safeguard the medium- and long-term interests of holders, while seeking to grow their capital by investing in issuing companies with good potential for profitability.



Desjardins offers its Desjardins SocieTerra Fund and SocieTerra Portfolio holders a double advantage:

- Aim to offer an attractive return potential
- Seek to contribute to the transition to a more sustainable world

Selecting portfolio managers

Desjardins prides itself for its portfolio manager selection process.

First, our approach and our criteria favour portfolio managers renowned for the quality of their approach and results including the incorporation of ESG factors. We aim to have all of our portfolio managers be signatories to the PRI.

For the SocieTerra line, we choose portfolio managers that deeply believe that taking ESG factors into account in corporate management creates value.

Our commitments

Desjardins intends to remain a recognized leader in responsible investment. To do so, we make the following commitments:

- Maintaining exemplary practices and staying abreast of changes in ESG issues.
- Annual public reporting of our activities and results in terms of shareholder engagement by making use of best practices, notably the PRI framework.
- Contributing to the training of dealer representatives.
- Informing the general public, including Desjardins Funds holders, and raising awareness about what responsible investment is.

Implementation strategies

Objective and application of the RI Policy

The Desjardins Funds Responsible Investment Policy (the "RI Policy") describes the approaches we take when selecting securities. It also presents stewardship levers that we are using to improve the ESG practices of the issuers in which they are investing.

The RI Policy applies to all Desjardins Funds. The approaches will vary, however, depending on the fund. Desjardins SocieTerra Funds, which are RI funds, are managed using ESG objectives. SocieTerra Portfolios benefit from the implementation strategies applicable to each Desjardins SocieTerra Fund in which they invest.

Traditional Desjardins Funds make use of responsible investment strategies, but with lower requirements regarding certain aspects.

Our responsible investment strategies are implemented at two key times:

- When selecting securities, to exclude or choose issuers based on certain criteria.
- When monitoring and managing investments, in order to encourage issuers to improve their practices regarding ESG issues, which could represent a major risk to their long-term financial returns.

Desjardins SocieTerra Funds, which are RI funds, are managed using ESG objectives.

Selection process

Exclusions

Exclusions based on the nature of the activities carried out

Companies in certain sectors are immediately excluded due to the activities they carry out.

Weapons: No Desjardins Fund invests in companies whose activities are connected with the production of weapons or military equipment prohibited by international humanitarian law (IHL). Weapons explicitly prohibited by IHL include cluster munitions, anti-personnel mines, non-detectable fragment weapons, incendiary weapons, blinding lasers, chemical weapons and biological weapons. For nuclear weapons, the exclusion is based on the 1968 *Treaty on the Non-Proliferation of Nuclear Weapons*.

In addition, the SocieTerra line does not invest in companies whose activities are connected with the manufacturing of automatic or semi-automatic weapons intended for civilian use, or in companies that generate a major portion of their revenue⁶ from the sale or distribution of such weapons.

Tobacco and vaping: The Desjardins Funds do not invest in companies whose activities are connected with the processing or production of tobacco and vaping products, and the SocieTerra line also excludes companies that generate a major portion of their revenue⁶ from the sale and distribution of tobacco and vaping products.

Nuclear: The SocieTerra line does not invest in companies that generate a major portion of their revenue⁶ from the extraction of uranium or the production of nuclear energy.

There are, however, two exceptions to this rule. Investments may be considered if the activities are deemed beneficial to people, such as in the case of medical equipment manufacturing. In addition, the SocieTerra line may invest in green bonds and sustainable bonds issued by companies that carry out activities in the production of nuclear energy in order to help them invest in renewable energies for the purpose of transitioning to a low-carbon energy mix.

⁶ We generally consider anything more than 10% of a company's total revenue to be a major portion.

Fossil fuels: The SocieTerra line does not invest in companies that generate a major portion of their revenue⁶ from petroleum, gas or thermal coal extraction or production, from the operation of infrastructures dedicated to the transportation or storage of oil and gas, from oil and gas refining, or from energy production from coal.

In the latter case, investments might be considered if the company publicly shows a commitment to reducing, within a reasonable time horizon, the portion of coal in its energy mix for the purpose of making an energy transition. In addition, the SocieTerra line may invest in green bonds or sustainable bonds issued by companies that carry out activities in the production of energy from coal in order to help them invest in renewable energies for the purpose of transitioning to a low-carbon energy mix.

The direct distribution of petroleum or natural gas products to the end consumer and the distribution of energy produced from coal are not excluded. Similarly, renewable natural gas production activities (e.g., biogas and waste reclamation) are not part of this exclusion.

Exclusions based on ESG factors

The SocieTerra line does not invest in a company that does not meet the minimum ESG factors management requirements for its activity sector or the geographic region in which it operates. The purpose of this approach is to exclude laggards that are not very open to improving their practices.

Also, in accordance with the 10 principles of the United Nations Global Compact,⁷ the Desjardins Funds do not invest in companies involved in major controversies regarding their fundamental responsibilities in the areas of human rights, labour, environment or anti-corruption and that failed to demonstrate the prompt implementation of mechanisms to solve the controversy.

⁶ We generally consider anything more than 10% of a company's total revenue to be a major portion.

⁷ <https://www.unglobalcompact.org/what-is-gc/mission/principles>

⁸ OHCHR | Core International Instruments

⁹ Countries and Territories | Freedom House

¹⁰ UNODA Treaties

¹¹ The Paris Agreement | UNFCCC

¹² Countries with reserves greater than 1,000,000 kg of oil equivalent per capita are excluded.

Exclusions on sovereign issuers

For SocieTerra funds and portfolios, exclusion criteria apply to the specificities of sovereign issuers. The following are thus excluded:

Human rights:

Sovereign debt of States that are not parties to the following universal human rights instruments.⁸

- International Convention on the Elimination of All Forms of Racial Discrimination.
- International Covenant on Civil and Political Rights.
- Convention on the Elimination of All Forms of Discrimination against Women.
- Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment.
- Convention on the Rights of the Child.
- Convention on the Rights of Persons with Disabilities.

Debt issued by countries in the bottom 10% of Freedom House's annual Global Freedom Report⁹, whether because of their performance in terms of political rights or civil liberties.

Nuclear weapons: sovereign debt of States that are not parties to the Treaty on the Non-Proliferation of Nuclear Weapons¹⁰.

Climate change: sovereign debt of States that are not parties to the Paris Climate Agreement¹¹.

Fossil fuels: sovereign debt of emerging countries with large fossil fuel reserves¹².

Note that the SocieTerra line could invest in green, social or sustainable bonds issued by those countries.

Securities selection

When selecting issuers, Desjardins Funds portfolio managers use many approaches beyond looking at traditional financial considerations.¹³

Best-of-sector approach

In the Best-of-sector approach, portfolio managers select the companies that stand out from their peers in the management of ESG factors. Companies are compared on a sector basis. This allows portfolio managers to choose the most avant-garde companies in each sector in order to maintain optimal portfolio diversification.

Best-in-universe approach

In the Best-in-universe approach, portfolio managers select the companies that stand out from their peers in their management of ESG factors, irrespective of their sector. It allows portfolio managers to disregard certain market sectors or segments where no company meets their minimum expectations.

Best-effort approach

The Best-effort approach aims to select companies that are willing to improve their management of ESG factors. This approach applies especially to smaller companies or to companies operating in emerging markets. It is usually accompanied by a dialogue that aims to help the companies incorporate sustainable development into their practices or improve the disclosure of their environmental and social performance.



Thematic investing

Thematic investing is aimed at companies whose activities contribute to a more sustainable economy. Renewable energy, sustainable transport, biodiversity and healthy eating are examples of themes in this category.

Impact investing

Impact investing consists in investing with the intention of generating a beneficial and measurable impact on the community and the environment. To meet this objective, portfolio managers invest in companies whose products and services respond to specific environmental or social challenges.

¹³ The approach used for each Desjardins Fund by portfolio managers is described in the Desjardins Funds Simplified Prospectus of the respective Desjardins Fund.

Issuer monitoring

Desjardins Funds portfolio managers regularly monitor the issuers in which they invest. First of all, they make sure their financial performance meets our expectations. Secondly, they ensure that the issuers continue to meet our ESG criteria.

Stewardship

In accordance with its mission and values, Desjardins has chosen to be an engaged player with issuers in which Desjardins Funds have stocks or bonds. This commitment, which aims to improve ESG practices, takes the form of stewardship activities, of which the exercise of voting rights, dialogue and shareholder proposals are levers.

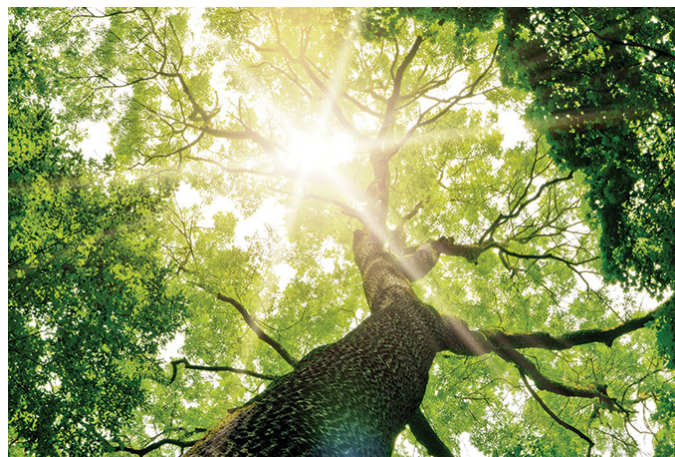
Our approach to stewardship is described in the Desjardins Funds Stewardship Policy.¹⁴

Exercising voting rights

Exercising voting rights allows shareholders to express themselves on all the topics brought to the shareholders' meeting in the form of proposals. Most proposals are submitted by management and deal with electing directors and compensating senior officers. Particularly, we pay attention to two important factors: director independence and board diversity.

We are also called to vote on proposals submitted by other shareholders. Each proposal is evaluated by looking at the established practices in the company concerned and in comparable companies.

The Desjardins Funds Policy on the Exercise of Proxy Voting Rights as well as recorded votes, are available on the Desjardins Funds website.¹⁵



Dialogue

Dialogue with issuers consists of an exchange on ESG considerations that may impact the long-term value of the company and, beyond that, the community. The aim of the dialogue is to set expectations towards the issuer in order to encourage it to improve its management of ESG factors and thereby contribute to protecting the long-term value of investments.

Based on constructive relationships, dialogue with issuers is a powerful lever for change. We encourage portfolio managers to set clear expectations and document the follow-up to their dialogues with issuers. We can take part in collaborative dialogue initiatives, and we encourage our portfolio managers to do so when appropriate.

Shareholder proposal

When dialogue proves unsuccessful, a number of escalation measures exist, including the drafting of a shareholder proposal to be put to the vote at the shareholders' meeting. When we bring our concerns to all the shareholders like this, we sometimes maximize our chances of being heard by management and ultimately reaching our objectives.

Divestment

Divesting from an issuer which we have selected at the end of a rigorous process is an exceptional act. Divestment is generally preceded by various unsuccessful stewardship initiatives. Divestment can arise in the event of a major crisis, poor behaviour or a serious breach of the principles of our Responsible Investment Policy.

¹⁴ <https://www.fondsdesjardins.com/information/stewardship-policy.pdf>

¹⁵ [fondsdesjardins.com/funds/legal-financial-publications/index.jsp](https://www.fondsdesjardins.com/funds/legal-financial-publications/index.jsp)



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