



#### Page 1

Desjardins: more than 30 years of responsible investment experience

#### Page 2

Our responsible investment practices

#### Page 3

Purpose and application of the Responsible Investment Policy

Our approaches to responsible investment

### Page 8

**Appendices** 

- 1. 2024 Canadian RI Trends Report Responsible Investment Association
- 2. https://www.fondsdesjardins.com/funds/prices-performance/
- 3. Desjardins also offers other investment products that integrate ESG factors such as market-linked guaranteed investments (MLGIs), exchange-traded funds (ETFs) and guaranteed investment funds (GIFs).
- 4. About the PRI | PRI Web Page | PRI

# Desjardins: more than 30 years of responsible investment experience

Responsible investment (RI) is about integrating environmental, social and governance (ESG) factors in investment selection and management process. Responsible investment is also known as sustainable investing or socially responsible investing.

Desjardins is a pioneer in the field of responsible investment. In 1990, we launched the Desjardins Environment Fund, one of the first responsible investment funds in Canada.

Back then, investment management practices usually didn't take extra-financial criteria into account. But this innovative approach was in complete alignment with Desjardins Group's values and mission, which is to contribute to the economic and social well-being of people and communities.

Although most people hadn't heard of basing investment management decisions on ESG factors in the early 1990s, the approach is quickly gaining momentum all over the world. For example, 71% of Canadian assets are managed using this approach.<sup>1</sup>

Over the years, Desjardins has continued to be a pioneer in the realm of responsible investment. Our Desjardins Sustainable Funds and Portfolios are regularly enhanced with many investment products to meet a variety of needs.<sup>23</sup>

We're also committed to upholding exemplary practices. For this reason, Desjardins Investments Inc. ("Desjardins Investments"), the manager and sponsor of Desjardins Funds, has been a signatory of the Principles for Responsible Investment (PRI) since 2010. The Principles for Responsible Investment were launched by investors in partnership with the United Nations Environment Programme Finance Initiative and the United Nations Global Compact. They currently have more than 5,300 signatories.<sup>4</sup> Located all around the globe, these signatories have the equivalent of more than US\$128 trillion in assets under management.<sup>4</sup>

# Our responsible investment practices

### Our investment management beliefs

Desjardins promotes economic development that's good for people and the environment, putting money at the service of human development.

We believe that economic players are responsible for respecting communities and the environment, and that they need to act accordingly. That's why Desjardins Funds always seeks to promote business and corporate governance practices that are in the interest of communities and the environment.

Many studies show that when businesses are concerned about ESG issues, they're better equipped to manage risk and seize opportunities, which tends to have a positive impact on returns.<sup>5</sup> In other words, acting responsibly doesn't bring down profits.

## Our responsibilities as a fund manager

As the manager of Desjardins Funds, Desjardins Investments is primarily responsible for protecting the medium- and long-term interests of our investors, while taking steps to grow their capital by investing in issuing companies with strong performance potential.





Desjardins's benefit to holders of Desjardins Sustainable Funds and Portfolios is twofold:

> Aim to offer an attractive return potential and seek to contribute to the transition to a more sustainable economy.

# Portfolio manager monitoring and selection

Our selection criteria favours portfolio managers who are recognized for the quality of their approach and past performance, including ESG. Ideally, we want all of our managers to be PRI signatories.

For the Desjardins Sustainable lineup, we have minimum requirements that lead us to choose portfolio managers who firmly believe that companies that place ESG factors at the heart of their business management processes create more value in the long run.

Our manager selection and monitoring process is based on an exclusive methodology that's primarily made up of a due diligence questionnaire about ESG factors with 9 sections. Answers to the questionnaire are assessed through the lens of best management practices over the years and practices encouraged by renowned organizations such as the UN Principles for Responsible Investment (PRI), the International Corporate Governance Network (ICGN) and the Net Zero Asset Managers initiative (NZAM).

A summary of some of the public industry research examining the connections between ESG factors, company profitability and investment returns. I PRI

#### Our commitments

Desjardins intends to maintain its position as a recognized leader in the field of responsible investment. Accordingly, we're committed to:

- Maintaining exemplary practices and keeping up with new ESG issues
- Publishing an annual report highlighting our activities and shareholder engagement, while drawing inspiration from best practices such as the PRI framework
- Contributing to dealer representative training programs
- Raising awareness and informing the public about responsible investment, including people who hold Desjardins Funds

# Purpose and application of the Responsible Investment Policy

## Scope

The Desjardins Funds Responsible Investment Policy (the "RI Policy") outlines our approach to securities selection of the Desjardins Funds line-up of mutual funds. It also outlines our stewardship levers that we are using to improve the ESG practices of the issuers we invest in.

The RI Policy applies to all Desjardins Funds to varying degrees, depending on the intensity of ESG approaches deployed in the strategies. Some approaches apply at the firm level while others are more strategy-specific. Within Desjardins Funds we distinguish between the following:

 Desjardins Sustainable Funds, which are managed with ESG objectives and use several responsible investment approaches. The RI approaches are specific to each individual Desjardins Sustainable Fund.<sup>6</sup> The Desjardins Sustainable Portfolios benefit from the implementation strategies applicable to each of the Desjardins Sustainable Funds in which they invest.<sup>7</sup>

6. For more information on the responsible investment approaches used in the Desjardins SociéTerre Funds, please refer to Table 2 in the appendix and to the Desjardins SociéTerre Funds strategies in the prospectus.

 The Sustainable Portfolios invest primarily in the Sustainable Funds Funds, see here for more information see: <a href="https://www.fondsdesjardins.com/funds/market-insight/sustainable/index.isp">https://www.fondsdesjardins.com/funds/market-insight/sustainable/index.isp</a>  The traditional Desjardins Funds use ESG approaches, but in a limited way: they are mainly exclusions, with less stringent requirements (see table 1 on exclusions in the appendix), and benefit from Desjardins Investment's policy on voting rights, which integrates ESG elements.

## Our priority ESG issues

We care about sustainable development. We firmly believe that putting ESG factors at the heart of our overall investing process can help us mitigate risks and make the most of RI opportunities. Accordingly, we're committed to taking a proactive approach that will benefit individual businesses and their performance, in addition to generating positive spinoffs for the planet and society as a whole. This includes fighting climate change, protecting nature and making sure human rights are respected. By considering all three of these themes in our overall investing process, our goal is to mitigate, prevent and improve the negative impacts associated with each issue.

Our <u>annual report</u> contains even more information on the approaches we've adopted and what we've achieved in relation to these three themes.

# Our approaches to responsible investment

This section describes the main responsible investment approaches we use. The definitions are inspired by the document "Definitions for Responsible Investment Approaches" by the Principles for Responsible Investment, the CFA Institute and the Global Sustainable Investment Alliance (GSIA).

# Screening

Screening approach consists in applying rules based on defined criteria that determine whether an investment is permissible. The screening criteria can be negative (used to exclude certain securities) or positive (used to establish desirable attributes, as in the best-in-class approach).

8. <u>Definitions for Responsible Investment Approaches</u>

#### **Exclusions**

#### - Exclusions based on the nature of business activities

Businesses in certain sectors are automatically excluded due to the nature of their activities. These exclusions may apply to Desjardins Funds as a whole or be specific to the Desjardins Sustainable lineup. In the latter case, the exclusions will be placed in a green box.

**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, antipersonnel 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 Desjardins Sustainable lineup does not invest in businesses with activities related to the production of components, support services or delivery platforms for nuclear weapons or the production of automatic or semi-automatic firearms intended for civilian use. The Desjardins Sustainable lineup does not invest in businesses that derive a major share of their revenue from the sale or distribution of automatic or semi-automatic firearms for civilian use.<sup>9</sup>

**Tobacco and vaping**: No Desjardins Funds invests in businesses linked to tobacco processing or production or vaping products.

For the Desjardins Sustainable lineup, businesses that derive a major share of their revenue from the sale or distribution of tobacco and/or vaping products are also excluded.

**Nuclear energy**: The Desjardins Sustainable lineup does not invest in businesses that generate a major portion of their revenue from uranium extraction or nuclear energy production.

There are two exceptions to this rule, however. We may still consider investing in businesses with connections to the nuclear sector if their activities are considered to benefit people, such as medical equipment manufacturing. The Desjardins Sustainable lineup could also invest in green bonds and sustainable bonds issued by companies involved in nuclear energy production to help them invest and transition to renewable energy.

#### **Fossil fuels**

The Desjardins Sustainable line does not invest in companies that generate a major portion of their revenue 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.

It also doesn't invest in businesses that use thermal coal to generate electricity in any significant amount based on total installed capacity. However, we may still consider investing in businesses that derive energy from thermal coal if they publicly announce that they're committed to reducing the amount of coal in their energy mix and commit to the energy transition within a reasonable timeframe, as outlined in the IPCC and Paris agreements. In addition, the Desjardins Sustainable line may invest in green bonds or sustainable bonds issued by companies that carry out activities in the production of energy from thermal 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.

<sup>9.</sup> We generally consider anything more than 10% of a company's total earnings to be a major share.

Generally, we consider a significant portion of total installed capacity to be when the power generated is more than 10% or 5 GW of total installed capacity.

#### - Exclusions based on ESG factors

The Desjardins Sustainable lineup doesn't invest in companies that do not meet the minimum ESG management requirements in the industry or geographic region where they operate. This approach aims to exclude late adopters that aren't open to improving their practices.

What's more, in accordance with the 10 principles of the United Nations Global Compact, Desjardins Funds never invests in businesses involved in major controversies over their fundamental responsibilities with respect to human rights, labour laws, the environment or the fight against corruption and that failed to demonstrate the prompt implementation of mechanisms to solve the controversy.

#### - Sovereign bond exclusions

The Desjardins Sustainable lineup has specific exclusion criteria for sovereign bonds. The following are excluded:

**Human rights**: Sovereign bonds from countries that are not included in universal instruments related to the following human rights:<sup>12</sup>

- 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 of the Rights of the Child
- Convention on the Rights of Persons with Disabilities

Bonds issued by countries in the bottom 10% of Freedom House's annual *Global Freedom Report*,<sup>13</sup> because of their political rights and civil liberties track record.

**Nuclear weapons**: Sovereign bonds from countries that have not signed the Treaty on the Non-Proliferation of Nuclear Weapons.<sup>14</sup>

**Climate change**: Sovereign bonds from countries that are not part of the Paris Agreement on climate change.<sup>15</sup>

**Fossil fuels**: Sovereign bonds from emerging economies with significant fossil fuel reserves.<sup>16</sup>

The Desjardins Sustainable lineup could still invest in green, social or sustainable bonds issued by these countries.



The approaches described below (best-in-class, ESG integration, thematic investing and impact investing) are used for Desjardins Sustainable Funds. The table included in the appendix specifies the approaches used across each fund.

#### Best-in-class

The best-in-class approach is a positive screening method that consists in selecting issuers with the best relative ESG performance compared to their peer group. Businesses are generally compared to other companies in the same sector. This means portfolio managers can choose the most forward-thinking issuers from each sector to ensure maximum portfolio diversification. This positive screening approach can also be applied across an entire category (by business size, for example).

 $<sup>11. \ \ \, \</sup>underline{https://www.unglobalcompact.org/what-is-gc/mission/principles}$ 

For more information on these treaties, please visit: https://www.ohchr.org/ en/core-international-human-rights-instruments-and-their-monitoringbodies

<sup>13.</sup> Countries and Territories | Freedom House

<sup>14.</sup> UNODA Treaties Database.

<sup>15.</sup> The Paris Agreement | UNFCCC

This does not include countries with reserves greater than 1,000,000 kg of oil equivalent per capita.

# **ESG** integration

ESG integration means ongoing consideration of ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.

Environmental, social and governance factors are based on sustainable development<sup>17</sup> and corporate social responsibility.

The nature and importance of ESG issues vary a great deal across businesses. These issues are most notably influenced by activity sector and geographic location. Our portfolio managers focus their attention on factors that are most likely to have a major impact on the results of businesses under analysis.



#### Examples of elements considered for each criterion

	Climate change	Natural resource use	Pollution and waste	Environmental opportunities		
<b>Environmental</b>	<ul> <li>Greenhouse gas emissions</li> <li>Resilience to climate change</li> </ul>	<ul><li>Protection of biodiversity</li><li>Water supply</li></ul>	<ul><li>Pollutant emissions</li><li>Product sustainability</li><li>Reclaiming of residual materials</li></ul>	<ul><li>Renewable energy supply</li><li>Energy efficiency</li></ul>		
		Responsibility for				
S	Human capital	products and services	Social acceptability	Social opportunities		
	Subcontracting	Privacy protection	Management     of impacts on	Access to     bigh quality food		
	<ul> <li>Occupational health and safety</li> </ul>	<ul> <li>Responsible purchasing</li> </ul>	communities	high-quality food  • Drugs for		
	Competency	Product reliability		large-scale diseases		
Carial	development	,		<ul> <li>Access to basic financial services</li> </ul>		
Social				Title Icial Sci Vices		
	Corporate governance		Governance practices			
	<ul> <li>Independence and expertise of boards of directors</li> <li>Executive compensation</li> <li>Shareholder rights</li> </ul>		• Diversity			
			<ul><li>Financial and extra-financial disclosure</li><li>Aggressive tax strategy</li></ul>			
<b>(G)</b>						
			Corruption			

Governance

Lobbying

<sup>17.</sup> G. Brundtland, Report of the World Commission on Environment and Development: Our Common Future. United Nations General Assembly document A/42/427, 1987. https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf

## Thematic investing

Thematic investing is an investment approach that involves selecting businesses based on specific trends and themes related to ESG issues. Renewable energy, sustainable transportation, biodiversity and healthy food are examples of themes included in this approach.

## Impact investing

Impact investing consists in investing with the intention to generate positive, measurable social and/or environmental impact alongside a financial return. It involves selecting businesses with products and services that help solve specific environmental or social issues.

# Stewardship

Stewardship refers to the use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend.

Portfolio managers for Desjardins Funds regularly followup with issuers to ensure their financial performance is in line with our expectations, especially for the Desjardins Sustainable lineup. They also make sure that issuers continue to meet our guidelines with respect to ESG issues.

In accordance with its mission and cooperative values, Desjardins has decided to be actively involved with issuers of shares and bonds held by Desjardins Funds. One of the goals of this involvement is to improve ESG practices, namely through our approach to stewardship, which includes leveraging our right to vote, engaging in dialogue and making shareholder proposals. For more information on our stewardship approach, please refer to the Desjardins Funds Stewardship Policy.<sup>18</sup>

Approaches to stewardship are applied differently to the Desjardins Funds and the Desjardins Sustainable Funds.

# **Engaging in dialogue with issuers from the Desjardins Sustainable lineup**

Engaging in dialogue with issuers consists in speaking with them about ESG issues that could have an impact on the long-term value of the business or that present systemic risks for the community and our ability to maintain a diversified portfolio. The purpose of such a dialogue is to set clear expectations for the issuer and encourage them to improve their ESG-factor management practices, which will help protect long-term investment values. Based on constructive relationships, engaging with issuers is a powerful lever for change.

In fact, dialogue is an approach we use across the entire Desjardins Sustainable lineup, namely by encouraging Desjardins Sustainable portfolio managers to set clear expectations and keep a detailed record of their conversations with issuers. We can take part in collaborative engagement initiatives, and we encourage to do so when appropriate.

# Exercising voting rights on all affected Desjardins Funds

By exercising their voting rights, shareholders can weigh in on a host of matters presented at shareholder meetings via proposals. Most proposals are submitted by management on topics such as electing board members and compensating principal officers. Director independence and Board diversity are two issues we pay special attention to.

We're also called to vote on proposals submitted by other shareholders.

The Desjardins Funds Policy on the Exercise of Proxy Voting Rights.<sup>19</sup> as well as recorded votes, are available on the Desjardins Funds website. Voting rights apply to all Desjardins Funds that grant proxy voting rights.<sup>20</sup>

<sup>19.</sup> DF Voting-rights-policy EN 2023

<sup>20.</sup>FD - Liste de fonds FR 2024 (in French only)

#### **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.



# **Appendices:**

# Table 1: Summary of exclusions applicable to Desjardins Funds

- Outright exclusions
- **Exclusions with income risk tolerance thresholds:** Investments valued at more than 10% of a company's total revenues is generally considered to be a major portion. Thermal coal is considered to be a significant energy source as soon as the total installed capacity is equivalent to 5 GW or 10% of power generated.

		Desjardins Funds	Desjardins Sustainable lineup
UN Global Compact	Businesses that are not aligned with our ESG criteria*	•	•
	Production	•	•
Tobacco and vaping	Sales, distribution		•
Weapons or military devices prohibited under international human rights laws	Production	•	•
Nuclear weapons	Component manufacturing, support services, delivery platforms	**	•
Automatic or	Production		•
semi-automatic civilian weapons	Sales, distribution		•
Nuclear	Uranium mining, nuclear energy production***		•
Thermal coal	Electric power generation, mining****		•
Oil and gas	Mining, production and refinement, transportation or storage infrastructure		•
Sovereign bonds	Conditions****		•

<sup>\*</sup> Exception: Businesses that quickly resolve any controversial findings could still be included in the investment universe.

\*\*\*\*\* Exceptions: We could still invest in green, social or sustainable bonds issued by these countries.

<sup>\*\*</sup> Exceptions: Companies located in countries that have access to nuclear weapons as defined by the Treaty on the Non-Proliferation of Nuclear Weapons are still eligible for inclusion.

<sup>\*\*\*</sup> We may consider investing in businesses if their activities are deemed beneficial to people, such as in the case of manufacturing medical equipment. The Desjardins Sustainable lineup could also invest in green bonds and sustainable bonds issued by companies involved in nuclear energy production to help them invest and transition to renewable energy.

<sup>\*\*\*\*</sup> Exceptions: We may still consider investing in the business if they publicly announce their commitment to reducing the amount of coal in their energy mix and commit to the energy transition as recommended by the IPCC and the Paris Agreement. The Desjardins Sustainable lineup could also invest in green bonds or sustainable bonds issued by companies that derive energy from coal to help them invest in renewable energy sources and commit to the energy transition.

Table 2: Responsible investment approaches used by each of the Desjardins Sustainable Funds as at March 31,  $2025^{21}$ 

	Exclusions	ESG integration	Best-in-class	Stewardship/ dialogue	Thematic investing	Impact investing
Desjardins Sustainable Short-Term Income Fund		•	•	•		
Desjardins Sustainable Canadian Bond Fund		•	•	•		
Desjardins Sustainable Canadian Corporate Bond Fund		•	•	•		
Desjardins Sustainable Environmental Bond Fund		•	•	•	•	
Desjardins Sustainable Global Corporate Bond Fund		•	•	•		
Desjardins Sustainable Canadian Equity Fund		•	•	•		
Desjardins Sustainable Emerging Markets Bond Fund		•	•	•		
Desjardins Sustainable Canadian Equity Income Fund		•	•	•		
Desjardins Sustainable American Small Cap Equity Fund		•		•		
Desjardins Sustainable Low Volatility Global Equity Fund		•	•	•		
Desjardins Sustainable International Equity Fund		•		•		
Desjardins Sustainable Global Dividend Fund		•	•	•		
Desjardins Sustainable Diversity Fund		•		•	•	
Desjardins Sustainable Global Opportunities Fund		•	•	•		
Desjardins Sustainable Positive Change Fund		•	•	•	•	•
Desjardins Sustainable International Small Cap Equity Fund		•		•		
Desjardins Sustainable Cleantech Fund		•		•	•	
Desjardins Sustainable Emerging Markets Equity Fund	•	•		•		

<sup>21.</sup> The Desjardins Sustainable Global Managed Bond Fund and the Desjardins Sustainable Global Balanced Fund are funds of funds. These funds and Desjardins Sustainable Portfolios benefit from Responsible investment approaches implemented by their underlying funds.



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The Desjardins Funds are not guaranteed, their value fluctuates frequently and their past performance is not indicative of their future returns. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The Desjardins Funds are offered by registered dealers.

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