Responsible Investment Policy

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Desjardins Global Asset Management Inc.
1 Complexe Desjardins, South Tower, 20th Floor
P.O. Box 153, Desjardins Station, Montreal, Québec H5B 1B3

dgam.ca

Desjardins
Global Asset Management

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1. Statement and Objectives

Desjardins Global Asset Management (DGAM) is committed to deploying responsible investment (RI) best practices in its portfolio management. DGAM is convinced that by taking environmental, social and governance (ESG) criteria into account it can better manage risks and act on opportunities across asset classes to enhance a portfolio's long-term return potential. The firm is of the view that RI creates value and promotes a long-term performance vision that is positive for investors, companies, and society. RI is an integral part of DGAM's mandate as a portfolio manager and is consistent with its commitment to sustainable prosperity.

In this context, this policy sets out the framework enabling DGAM to incorporate RI into its asset management. It has the following objectives:

- Oversee implementation of the RI strategy in its operations;
- Formalize DGAM's expectations of its investment professionals and external portfolio managers in terms of integration of RI best practices;
- Clarify the RI roles and responsibilities of stakeholders; and
- Define monitoring and reporting mechanisms for RI activities.

2. Convictions

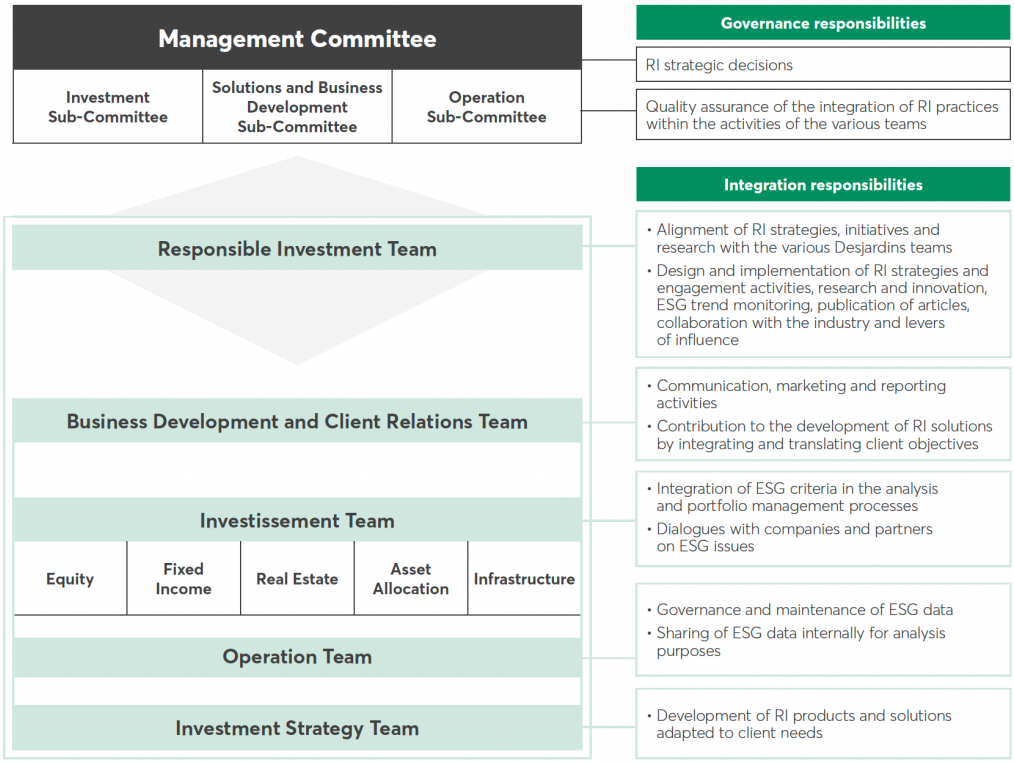
- **RI is a part and parcel of our fiduciary role**: We think that taking ESG criteria into account in our asset allocation and portfolio construction is an integral part of our mandate as an asset manager.
- **Our approach hinges on action and innovation**: To innovate, it is essential to act grounded in facts and exhaustive research.
- **Engagement is an essential practice**: Dialogue and voting can have a positive impact on issuers' business practices. Our undertakings can lead to better management of ESG risks by issuers and, ultimately, better financial performance.
- **Sustainable performance requires a long-term investment vision**: Incentives must be created to transition from a short-term perspective to a long-term, future-oriented vision.

3. Governance

3.1 Roles and Responsibilities

DGAM's RI convictions are deeply rooted within the firm. DGAM's Executive Committee is committed to promoting RI internally with a governance structure whereby all teams are accountable for the adoption of ESG best practices. Through transversal integration of responsibilities, we ensure implementation of our strategy, development and sharing of knowledge and mobilization of our internal resources.

RI roles and responsibilities at DGAM



DGAM has created a team of professionals dedicated to RI. They come from a variety of complementary fields, such as finance, sustainable development, climate change, water management, biodiversity and ESG data science. They are a key component of the investment strategy team and work closely with our analysts and portfolio managers.

3.2 Compensation Linked to ESG Performance

Since 2022, the incentive compensation (bonus) program for all Desjardins employees has included an assessment of the organization's ESG performance. All members of DGAM's senior management team have one or more annual objectives related to the firm's ESG performance. As for the investment teams, a portion of their variable compensation program is linked directly to their portfolios' ESG performance.

4. Thematic Pillars

DGAM integrates ESG considerations into all portfolio management processes, with the exception of investments that are less suited to ESG integration, such as commodities and traditional index management. Our approach takes inspiration from the Principles for Responsible Investment (PRI), to which we have been a signatory since 2017.

Our decision-making process is aligned with four broad sustainability themes representing the priority issues covered by our ESG analysis, research, strategy design and engagement activities. Companies that take into account the risks and opportunities associated with these themes can enhance their long-term performance.

4.1 Transition to a Low-carbon Economy

DGAM supports Desjardins Group's commitments to the Paris Agreement and takes a long-term view of climate-related risks in the management of its investments, such as by implementing the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).

4.2 Development of a Fair, Equitable and Inclusive Economy

DGAM prioritizes three areas of action to support a coordinated international response to social inequality issues:

- Equity, diversity and inclusion (EDI): We support initiatives such as the Canadian Investor Statement on Diversity & Inclusion and we encourage issuers to adopt policies and strategies that promote EDI within their organizations.
- Human rights: We encourage issuers to align their operations with recognized national and international standards, such as the United Nations Universal Declaration of Human Rights.
- Relations with indigenous peoples: We encourage issuers to consider the rights of indigenous peoples, including the right to free, prior and informed consent as set out in the United Nations Declaration on the Rights of Indigenous Peoples.

4.3 Protection of Biodiversity and Natural Capital

In line with commitments related to our endorsement of the Finance for Biodiversity Pledge, DGAM studies the risks that degradation of biodiversity and natural capital creates for its portfolios and engages actively with issuers to encourage them to integrate biodiversity into their ESG approach.

4.4 Assurance of Strong, Honest and Resilient Governance

DGAM asks issuers to comply with the rules of good governance set out in its Policy on the Exercise of Proxy Voting Rights and the best practices established by the Canadian Coalition for Good Governance.

5. ESG Strategy

5.1 Preinvestment Strategy

5.1.1 ESG Integration Approach

As a complement to our financial analysis, we consider the ESG practices and performance of issuers, managers, and real estate and infrastructure assets in the portfolios we manage; in this way, we can measure risks and identify opportunities that could affect the value of such assets over the long term.

We take into account the material ESG criteria specific to each sector, drawing particular inspiration from the standards of the Sustainability Accounting Standards Board (SASB). ESG factors are integrated into the asset selection process according to our proprietary ESG

assessment methodology. This internal ESG ranking is one of the criteria we use to select investments and to construct portfolios. Issuers and assets that stand out from the ESG perspective are eligible for all our portfolios. Conversely, depending on the mandate, issuers or assets that fall short of our criteria may be eligible if they are added to our shareholder engagement program with the objective of improving their ESG practices.

Our ESG research and analysis are based on sources such as specialized data from recognized suppliers and insights obtained from our dialogues with public and private issuers.

5.1.2 Specific ESG Objectives

As a function of the mandates given to us, we integrate an ESG dimension into our portfolio construction objectives. Decarbonization and/or ESG rating targets are added to the investment objectives of some of our strategies. Our managers incorporate these goals into their investment process without sacrificing financial goals.

5.1.3 Exclusions

Exclusions are an exceptional measure. DGAM excludes the securities of a number of corporations, such as those whose activities are subject to applicable legislation in Canada or to international conventions. DGAM may also exclude issuers on the basis of other ESG considerations as it sees fit.

Issuers in the following industries are excluded from most of our portfolios:

- **Armaments**: Operations involving the production of weapons or military devices prohibited by international humanitarian law;
- **Tobacco**: Operations involving the processing or production of tobacco products; and
- **Other ESG considerations:** Issuers involved in major controversies related to human rights, labour, environment and anti-corruption according to the United Nations Global Compact.

Additional exclusions may apply to management mandates in accordance with the specific objectives, criteria and preferences of partners and clients.

5.2 Postinvestment Strategy

DGAM has adopted an active engagement strategy involving issuers and partners. Dialogue, proxy voting and submission of shareholder proposals are the fundamental levers used to encourage issuers and partners to improve their sustainability practices. Such engagement also includes regulatory authorities and various stakeholders (property managers, co-investors, non-governmental organizations, financial community, trade unions, etc.).

5.2.1 Issuer Dialogues

DGAM's engagement approach applies to all asset classes and includes a dialogue process whereby investment professionals meet with issuers and asset managers. The objectives of the dialogues are predefined according to DGAM's four thematic pillars and are updated annually.

The selection criteria for priority dialogues include the issuer's geographic location, the relative importance of its ESG issues, its weighting in DGAM portfolios, and relations with its executives. For private markets, dialogues are based on the expectations and engagement established during the selection process.

Five categories of benefits are identified as priorities:

- Improving ESG disclosure
- Mitigating ESG risks
- Capturing ESG opportunities
- Aligning with internationally recognized standards
- Promoting positive societal benefits

The dialogues target the issuer's stakeholders according to the issues to be discussed:

- Communication with the board of directors: issuer's governance, sustainability and critical ESG management issues;
- Communication with senior management: strategic questions on ESG management; and
- Communication with internal experts: operational details on ESG management and data collection.

The interactions take various forms, including correspondence, one-to-one meetings, meetings that include other investors and visits to the issuer's premises.

5.2.2 Tracking Progress

DGAM has developed processes to measure and report on the progress and outcomes of its dialogues. We measure progress on the objectives of the dialogues according to a rating scale composed of four levels: negative, neutral, positive and achieved.

Information from such dialogues is integrated into an internally managed database that is available to the investment teams. This information is also used to disclose our activities and progress to our clients and the public.

5.2.3 Escalation Process

When dialogues on important issues are unsuccessful, DGAM uses a variety of levers that are part of a formal escalation process:

- Collaboration with other investors
- Support for a shareholder proposal
- Vote against the election or re-election of one or more directors
- Submission of a shareholder proposal
- Partial or complete divestment

DGAM favours dialogue over divestment to maintain its ability to guide issuers and to encourage them to adopt best practices. Divestment is a last resort that is used when other strategies fail to achieve progress and the issuer shows no openness to improving its ESG practices.

5.2.4 Voting Rights

Proxy voting allows DGAM to express its views on matters on the agenda of shareholder meetings, whether annual or special. DGAM pays special attention to voting and recognizes that it has a duty to make a proper, consistent decision on each proposal, in line with its ambition to provide responsible leadership and to pave the way for sustainable prosperity. We are guided by our

Policy on the Exercise of Proxy Voting Rights, which includes sustainability as a building block of sound business management.

5.3 ESG Approach by Asset Class

DGAM's approach to RI applies to all assets under management, with the exception of investments less suited to ESG integration. The methods used to integrate ESG factors are adapted to the asset classes and markets that the portfolios invest in.

5.3.1 Fixed Income

The bond analysis process includes a fundamental analysis of targeted issuers, with a focus on credit quality and business risk, including ESG factors that could have a material impact on the issuer or the sector. Internal ESG rankings of issuers are provided to the portfolio managers, who include them in their analysis and portfolio construction.

DGAM uses a proprietary framework to assess sustainable bonds; it identifies the key elements of analysis, the basis for dialogues with issuers and the essential steps for monitoring such bonds. This framework is used to determine sustainable bond eligibility on the basis of criteria such as the issuer's credit quality, ESG rating and financed projects involving no controversial activities.

5.3.2 Equities

ESG criteria are integrated into the company selection process according to a proprietary ESG assessment methodology based on ESG indicators or DGAM's internal ESG ranking. ESG rankings and metrics are provided to the portfolio managers, who incorporate them effectively into their analysis and portfolio construction.

5.3.3 Real Estate

ESG factors are integrated into all stages of the real estate asset management process, from acquisition to disposition, whether assets are held directly or through managers. They are also used for selection and supervision of property managers. Targets are set and ESG performance is monitored for all assets in the portfolio. A proprietary grid is used to analyze building managers' performance in terms of targets, engagement activities, audits, footprint and availability of utility-related data. ESG guidelines are provided to property managers to help them improve their sustainability practices.

5.3.4 Infrastructure

ESG factors are integrated into all stages of the infrastructure asset management process, whether assets are held directly or through investment funds. They are included in the process used to select assets, managers and partners, as well as in fund contracts and supplementary letters when assets are acquired. ESG performance, commitments and action plans are monitored on a regular basis. The portfolio managers use a due diligence questionnaire in their ESG assessment, and the information collected is used to complete a proprietary assessment grid.

5.4. Selection of External Managers

The selection criteria for external portfolio managers favour managers who demonstrate an approach that takes ESG factors into account. For mandates with specific ESG objectives, DGAM

selects managers whose approach is based on the conviction that consideration of ESG factors creates value.

The team has developed a proprietary ESG questionnaire that is sent to all our managers. An ESG assessment grid focusing exclusively on responsible investment has also been developed. The grid is used to assess the quality of managers on the basis of a number of responsible investment criteria. Responses to the ESG questionnaire as well as the team's periodic conversations with managers serve as inputs for the assessment of managers.

6. Collaboration

DGAM deploys its levers of influence by taking part in various initiatives and playing an active role in the RI ecosystem. The aim is to create sustainable value and to promote a long-term performance vision that has a positive impact on society. We prioritize initiatives that define and promote rigorous RI and sustainability practices, including integration of ESG factors and transparency, and that are consistent with our four priority ESG issues. Our efforts include mainly the following:

- **Collaborative initiatives**: We combine our voice with that of other institutional investors to encourage issuers to adopt sustainable practices.
- **Initiatives involving regulatory authorities**: We actively participate in initiatives involving public authorities.
- **Outreach to the financial community**: We take part in conferences as panelists and have a media presence.
- **Sharing of our expertise and know-how**: We support a variety of initiatives to educate the financial community and the next generation of investment professionals.
- **Support for RI research**: We collaborate on research projects to advance RI practices.

The list of the initiatives we take part in and the organizations we collaborate with is updated annually in our *Responsible Investment Activity Report*

7. Disclosure

DGAM thinks that it is essential to report on its RI activities in a transparent and honest manner and ensures that its results and progress are disclosed regularly:

- **RI activity reports**: We provide quarterly reports to our clients and publish an annual activity report.
- **Voting report**: We disclose our proxy votes for the issuers we hold in our portfolios on an annual basis.
- **Accountability to the Principles for Responsible Investment (PRI):** We complete the PRI questionnaire annually and post the partial report on our website.
- **Climate change**: DGAM's activities in the fight against climate change are included in Climate Action at Desjardins, Desjardins Group's TCFD report.

8. Responsibility

DGAM's Board of Directors adopts the Responsible Investment Policy and any amendments thereto. The Responsible Investment Department is responsible for the application of the Policy. The DGAM Executive Committee is responsible for overseeing the application of the Policy.

9. Effective Date and Revision

This policy was adopted on June 21, 2023, and is reviewed on an annual basis.
Date of last revision: September 27, 2023