

# Annual report on responsible investment

FOR RESPONSIBLE ANNUITIES

 **Desjardins**  
Insurance  
Life • Health • Retirement





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## More than 30 years of experience in responsible investment

Responsible investment (RI) is about incorporating environmental, social and governance (ESG) factors into investment selection and management. Responsible investment is also known as "sustainable investment" or "socially responsible investment."

Desjardins is a pioneer in responsible investment. In 1990, we launched the Desjardins Environment Fund, one of the first 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 almost no one had heard of ESG-based investment management in the early '90s, today it is growing rapidly across the globe.

We're also committed to upholding exemplary practices. That's why Desjardins Insurance, which offers responsible annuities, has been a signatory of the Principles for Sustainable Insurance (PSI) since 2019. The PSI is an initiative launched in partnership with the United Nations Environment Programme Finance Initiative. It now has more than 200 signatories from all regions across the globe. All told, they manage more than 25% of the premiums worldwide and more than US\$14 trillion.<sup>1</sup>



<sup>1</sup> Principles for Sustainable Insurance – United Nations Environment – Finance Initiative ([unepfi.org](http://unepfi.org))



# Education and support in responsible investment: Priorities in our missions

Desjardins is committed to spreading the word about responsible investment through targeted initiatives with advisors and the general public:

- We offer responsible investment training to better educate our advisors on how RI can help members and clients reach their financial goals while generating positive outcomes for the environment and communities. At the end of 2023, a total of 4,563 advisors had completed the training.
- We have produced several educational videos available in-house.
- We help explain the concepts and issues related to responsible investment through a partnership with ÉducÉpargne, of which we're a founding member. We also do it through various media appearances by our experts.

## Transparency is one of our RI pillars

This is our first report on responsible investment for responsible annuities. Its goal is to explain how our approach to responsible investment translates into concrete actions.

As of September 6, 2022, all new annuities purchased at Desjardins are automatically invested in assets that meet strict environmental, social and governance (ESG) criteria. This decision makes Desjardins the first institution in Canada to turn our entire range of individual savings annuities into responsible annuities.

Responsible annuity premiums are invested using a responsible investment approach described in the [Responsible Investment Policy for Responsible Annuities](#).

At the end of December 2023, assets under management for responsible annuity premiums totalled \$249 million and included 1,025 responsible annuity contracts.



### **RESPONSIBLE INVESTMENT**

LETS US GO BEYOND  
TRADITIONAL  
FINANCIAL ANALYSIS  
BY INTEGRATING  
ESG CRITERIA INTO  
HOW WE SELECT  
AND MANAGE  
SECURITIES.

# Our responsible investment approach for responsible annuities

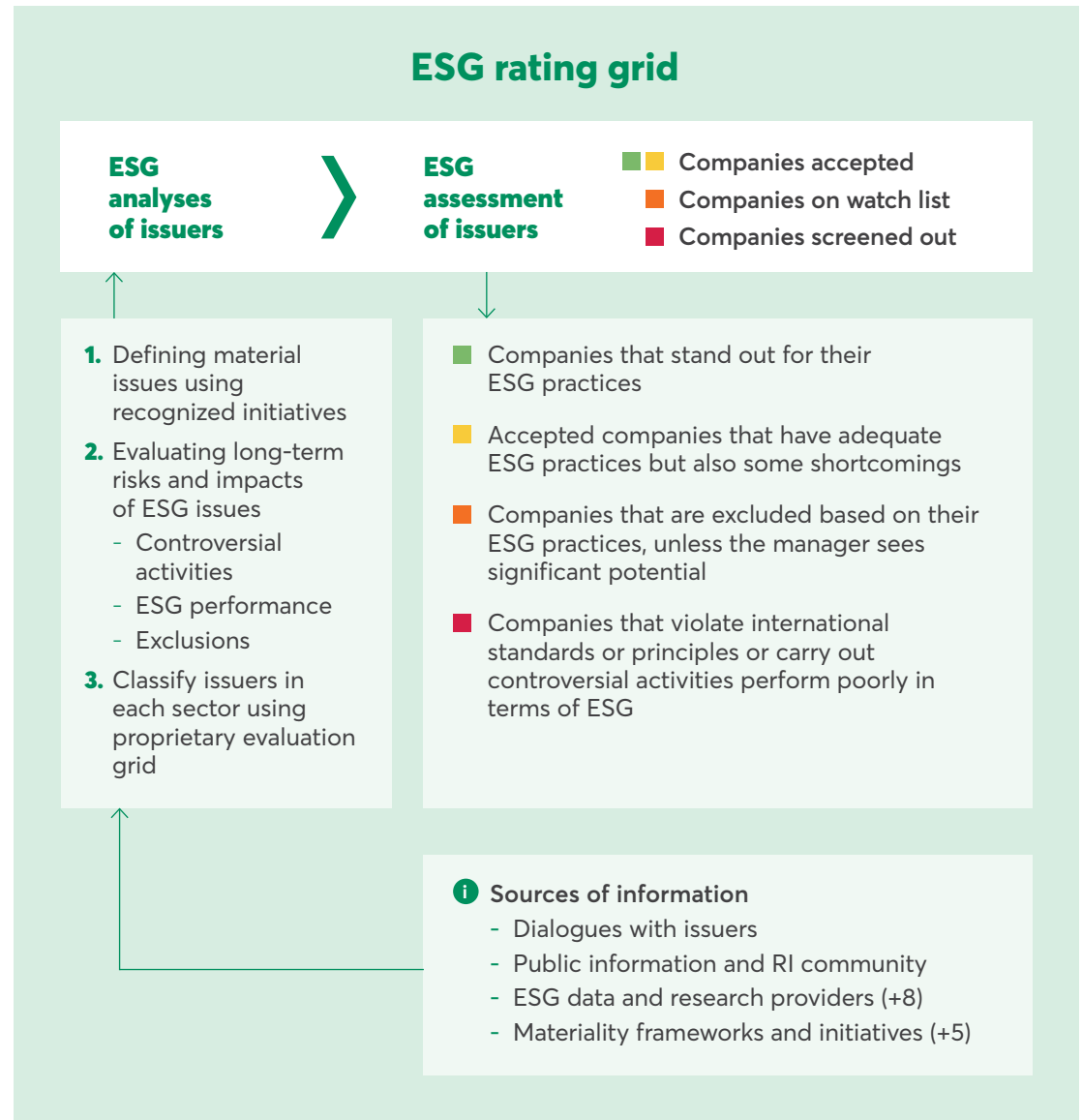


The Responsible Investment Policy applies to everything we invest in using responsible annuity premiums. Approaches can vary depending on asset class and underlying strategies. Our responsible investment strategies are implemented at 2 key times:

- When selecting securities, to exclude or choose companies based on certain criteria.
- When monitoring and managing investments, to encourage companies to improve their practices on ESG issues that could be a major risk to their long-term financial returns.

## A rigorous methodology and an ESG assessment grid developed by our experts<sup>2</sup>

When managing the responsible annuity portfolio, Desjardins uses its own methodology to incorporate ESG criteria into portfolio management. Our internal ESG rating grid is used to define the material issues for each industry and categorize issuers according to 4 levels: 2 levels eligible for investment (1 for issuers that stand out, and the other for those with adequate practices but with some shortcomings), another level requiring monitoring and an engagement strategy with the issuer, and a final level corresponding to those with risks too high to be included in our portfolios.



<sup>2</sup> 2022 Responsible Investment Activity Report



## Our specific approaches by asset class

### A portfolio composed mainly of fixed-income securities

#### Portfolio asset allocation by type of issuer



15% Infrastructure

35% Governments

50% Corporate

Source: Desjardins as at December 31, 2023

### Fixed income: ESG tools developed in-house and continually updated

We invest in various categories of fixed-income securities (federal, provincial, municipal and corporate bonds, and preferred shares) that are mostly Canadian, and we use an investment approach based on fundamental analysis.

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 impact on the issuer or the sector.

The responsible investment team shares internal ESG ratings for issuers 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 on an annual basis. Typically, analysts from the DGAM's fixed income team and the RI team jointly prepare and carry out the dialogues.

We've also identified 50 issuers from the realm of Canadian public markets and set ESG improvement goals for them. Typically, analysts from the fixed-income team and the responsible investment team jointly prepare and engage in dialogue with issuers. The purpose of this dialogue is to raise awareness and influence the companies in the portfolio about potential improvements to their ESG practices.

### Special focus: Green or sustainable bonds

#### What is a green or sustainable bond?

Green bonds are debt securities created to finance projects that focus on environmental issues such as the development of renewable energy sources, energy efficiency, sustainable waste management, sustainable uses of soil, preservation of biodiversity, sustainable transportation and sustainable water management. Sustainable bonds are debt securities created to finance projects that address social and environmental issues.



## Analysis of the climate impact of green bonds

In 2022, we began work to determine the climate impact of the various green bonds in our portfolio. Our analysis, which includes absolute emissions and emissions intensity, helped us determine which investments result in the greatest greenhouse gas (GHG) reductions and will guide our decision-making. Our preliminary review has identified 2 issues: the lack of accurate, comparable and reliable data, and the lack of transparent reporting on the use of proceeds. For example, many issuers only disclose the GHG reductions associated with part of the projects that are financed, certain data is contradictory, and the horizons for GHG reductions over the period in question are sometimes unclear.

## Infrastructure: an analysis that integrates ESG factors throughout the investment process

The infrastructure team has developed a framework based on the firm belief that ESG criteria need to be integrated throughout the investment process.

Here are the main steps:

### Selection

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

### Acquisition

Including ESG criteria in acquisition documents, as the case may be.

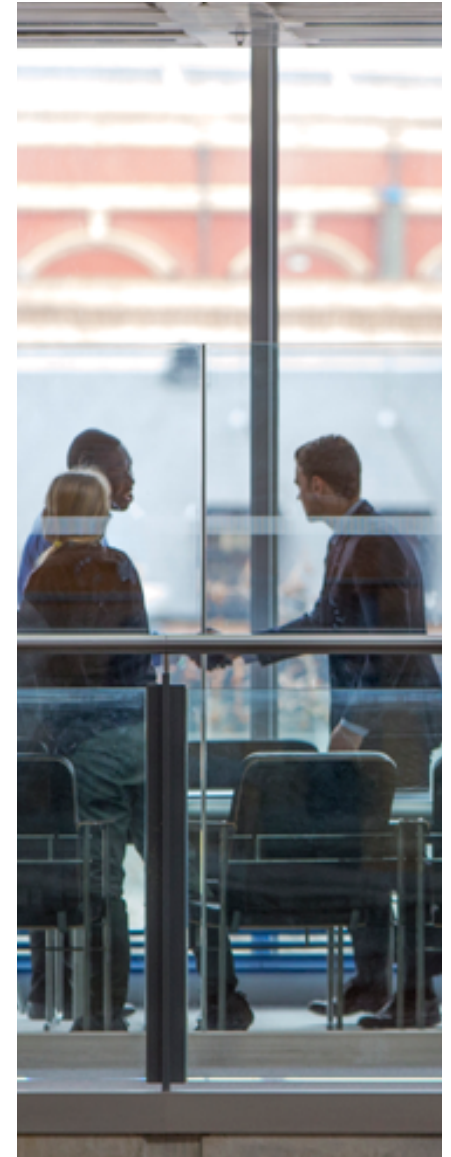
### Asset management

Monitoring ESG performance, commitments and action plans.

### Reporting

Disclosing our responsible alternative investment activities annually under the UN's Principles for Responsible Investment (PRI).<sup>3</sup>

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 provide us with an accurate picture of where assets and partners are in their ESG journey.



<sup>3</sup> [PRI | Home \(unpri.org\)](https://www.unpri.org/)



## Nature and biodiversity

### COP15 in Montreal: Desjardins commits to sustainability

In December 2022, the 15th Conference of the Parties (COP15) was held in Montreal as part of the UN's Convention on Biological Diversity. During this conference, participants adopted the Kunming-Montreal Global Biodiversity Framework, which aims to preserve nature and halt and reverse biodiversity loss to put nature on a path to recovery by 2050. The framework presents a number of global targets to be reached by 2030, and is a major step in the fight against climate change. Accordingly, Desjardins decided to take action along with other major players in the financial sector. More specifically, we've supported the financial sector's declaration, which calls on governments to reach an agreement that will bring clarity and elicit action among all major economic players—including those in financial sector—to halt and reverse nature loss. What's more, in November 2022, Desjardins Global Asset Management (DGAM) signed the Finance for Biodiversity Pledge. The goal of this commitment is to factor biodiversity restoration and protection into our portfolio management.

### Considering biodiversity issues in investments

We've identified 3 areas of interest related to biodiversity:

- 1 deforestation and land rehabilitation.
- 2 water quantity and quality.
- 3 regenerative agriculture and sustainable agribusiness.

ESG metrics on these 3 areas are integrated into our internal grid for assessing issuers and our engagement strategy. In this context, we discuss with issuers about how they manage nature-related risks and we ask them to provide examples of their zero-deforestation strategy and sustainable agricultural processes. Furthermore, biodiversity best practices are taken into account in our proxy voting activities.

In the context of infrastructure investments, biodiversity is factored into the pre-investment and asset management stages, during which relevant biodiversity indicators are analyzed and measured as part of the project. For example, information provided for a wind farm includes waste water, total waste and quantity of recycled waste, the number of oil spills that occur each year and the number of dead birds.





# Climate

Climate change is one of the most serious issues of our time. It exposes our ecosystems, health, infrastructure, economy and communities to a multitude of risks. The transition to a low-carbon economy can present challenges, but it also gives us unique opportunities to become more resilient, use clean energy and resources more efficiently, and develop new products, services and markets. The next decade will be a period of critical change as these trends materialize. The time for action is now.

Desjardins Group has adopted an ambitious plan that aims for net-zero emissions for its financing and investment activities in the transportation, energy and real estate sectors by 2040 (and by 2050 for the other sectors).<sup>4</sup>

The drivers used to achieve this goal include:

- Dialogue with issuers to assess their alignment trajectories with net-zero targets.
- Collaborative engagement. Sometimes, discussions with issuers are organized collaboratively, when shareholders join forces to speak with a single, unified voice to companies.

### **Climate Engagement Canada, a collaborative initiative**

Climate Engagement Canada is a financial initiative that fosters dialogue between the financial community and issuers to promote a just transition to a net-zero economy.

Climate Engagement Canada focuses on certain companies listed in Canada. These companies are identified as the top reporting or estimated issuers, or as companies that can contribute significantly to the transition to a low-carbon future and become sectoral and organizational climate action leaders in Canada. These companies operate across the Canadian economy in the oil and gas, utilities, mining, agriculture and food, transportation, materials, industrials, and consumer discretionary industries.

DGAM is actively involved in the Climate Engagement Canada initiative.

### **What is net zero?**

Net zero simply means cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere, by oceans and forests, for instance.

### **Why is net zero important?**

Science clearly shows that in order to avert the worst impacts of climate change and preserve a livable planet, global temperature increase needs to be limited to 1.5°C above pre-industrial levels. Currently, the Earth is already about 1.1°C warmer than it was in the late 1800s, and emissions continue to rise. To keep global warming to no more than 1.5°C, as called for in the Paris Agreement, emissions need to be reduced by 45% by 2030 and reach net zero by 2050.

<sup>4</sup> [Desjardins target for net zero emissions by 2040](#)



## Case study: Collaborative engagement with a Canadian transportation company in 2023

As part of the Climate Engagement Canada collaborative initiative (see above), Desjardins is co-directing dialogue with this transportation company. Our aim was to confirm that the company's strategy is aligned with its net-zero emissions target. The company aspires to align with the Paris Agreement's scenario for limiting global warming to 1.5°C by setting science-based targets (through the Science Based Targets initiative [SBTi]).

In this context, the questions focused on the concrete operational breakdown of the company's strategy to decarbonize its operations. The company presented its short-term strategy, which includes optimization of travel, process electrification and upgrades to its locomotives to improve energy efficiency. In the longer term, the company seems to be targeting hydrogen as an alternative fuel by multiplying partnerships and research and development activities for the technology required.

The dialogue confirmed the company is sincere in its decarbonization efforts. Conversations will continue with the company to make sure the strategy is implemented and results are aligned with the targets.

Given the wildfires and floods Canada experienced in 2023, we also deemed it appropriate to ask the company about their analysis of the impact of climate change and the associated physical risks for their network. The company explained that every time a rail line is built or renovated, it analyzes how to adapt the infrastructure to extreme weather conditions.



# Case study: Credible climate plan and governance with strength, integrity and resilience for its implementation

In 2023, Desjardins had a dialogue with a Canadian telecommunications company. The purpose of the conversation was to ensure the credibility of the company's strategies for reaching the objectives derived from its climate ambition.

By the end of 2022, the company had committed to achieving net-zero emissions by 2050 and reducing its emissions by 50% by 2030.

The company confirmed they had its objectives validated by the SBTi to ensure they met scientific requirements.

During our meeting, we wanted to learn more about the strategies for carrying out these objectives. The company said they intended to:

- Increase the energy efficiency of its operations, network and data centres.
- Proceed with the electrification of its vehicles.
- Using a greener energy mix by increasingly switching to renewable energy in its operations across the country.
- Take steps to influence its suppliers so they set their own science-based targets.

The company also announced its participation in the Business Ambition for 1.5°C campaign. It's a call to action from by a global coalition of United Nations organizations, companies and sector leaders, in partnership with Race to Zero and SBTi. Lastly, the company presented several projects underway to develop adaptation strategies to protect certain communities against the effects of climate change.

After this conversation, we concluded that the company's climate plan was credible. However, we reiterated our governance expectations: a company must govern with strength, integrity and resilience to execute its strategies. We believe that there's still progress to be made, mainly due to the directors' lack of independence. As shareholders for mandates other than responsible annuities, we voted against appointing candidates to the board of directors.





# Desjardins: A name you can count on!

Desjardins Group is the leading cooperative financial group in Canada and one of the country's best capitalized financial institutions. Desjardins Group enjoys credit ratings comparable to those of several major Canadian and international banks and is recognized as one of the most stable financial institutions in the world according to *The Banker* magazine.

**To find out more about responsible annuities, talk to your advisor today.**

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