Shareholder Engagement Activities

2021

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Desjardins
Global Asset Management

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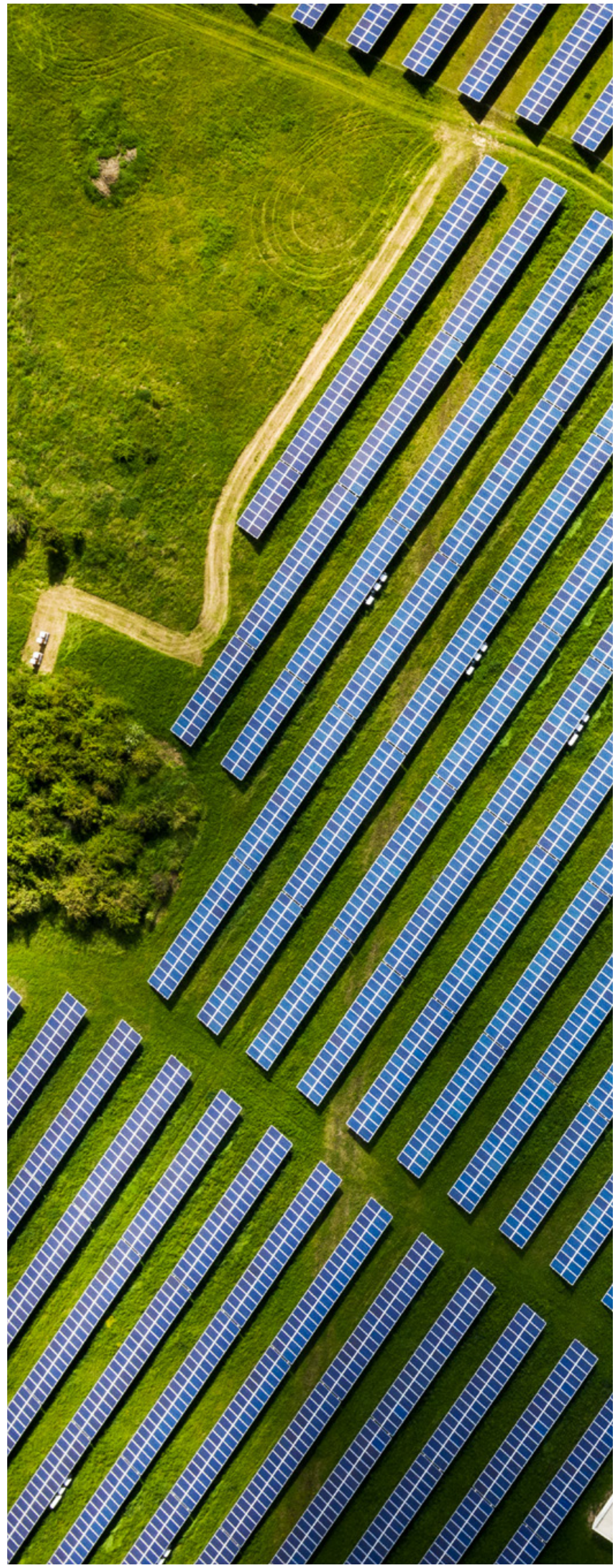


NOTE:

Unless otherwise specified, all data presented in this report is from DGAM's source and at December 31, 2021.

2021 highlights

38%

carbon footprint reduction for companies held in Desjardins' portfolios

$1.5B

of infrastructure investments in renewable energy

Development of a **proprietary** ESG criteria analysis grid for provinces

Launch of an **Infrastructure Fund** with ESG integration

$1.9B

in sustainable bonds

A RI team composed of **10** ESG professionals

97%

of real estate assets certified sustainable

Carbon footprint of responsible investment solutions at least

25%

lower than its reference index

Dialogues with

+100

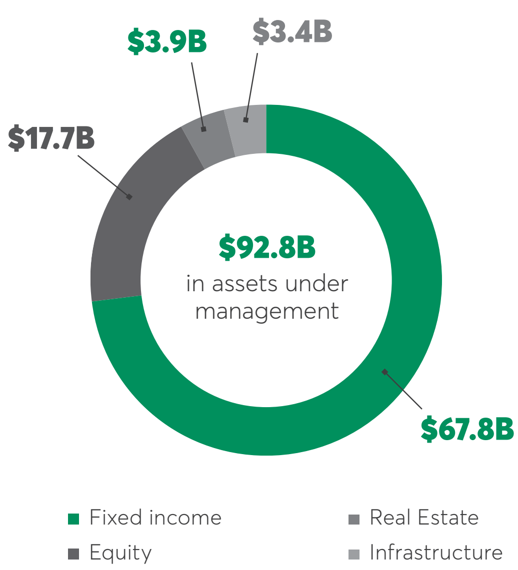
companies on ESG

About DGAM

Desjardins Global Asset Management

Founded in 1998, Desjardins Global Asset Management (DGAM) is one of Canada's leading asset managers, with in-house expertise in equities, fixed income and real assets (infrastructure and real estate) in a variety of investment vehicles. DGIA manages over C$92 billion (as of December 31, 2021) in institutional assets on behalf of insurance companies, pension funds, endowments, not-for-profit organizations and corporations across Canada.

With offices in Montreal, Quebec City and Toronto, our team of over 80 investment professionals uses a collaborative approach and combines innovation, accessibility and discipline to design solutions tailored to the unique needs of our clients. We integrate our cooperative values into our investment process to ensure that we help our partners and clients grow their assets in a sustainable and responsible manner.



Our commitment

DGAM combines the stability and expertise of its teams with ongoing support for its partners and clients, making it a preferred ally for sustainable and responsible asset growth.

Our investment pillars

ETHICS AND INTEGRITY

DGAM seeks to contribute to the advancement of society in accordance with Desjardins' cooperative values. Integrity and commitment form the foundation of all its business and management practices.

RESPONSIBLE INVESTMENT

We strongly believe that incorporating environmental, social and governance (ESG) criteria into our investment management practices can yield equally high returns. Our goal is to help our clients grow their assets by maintaining an optimal risk-return ratio while contributing to sustainable prosperity for communities and future generations.

COLLABORATION

The team fosters collaboration with its specialists, partners, and clients. In a world that is constantly changing, DGAM takes an agile approach, tailoring its investment solutions to clients' evolving needs.

Shareholder engagement

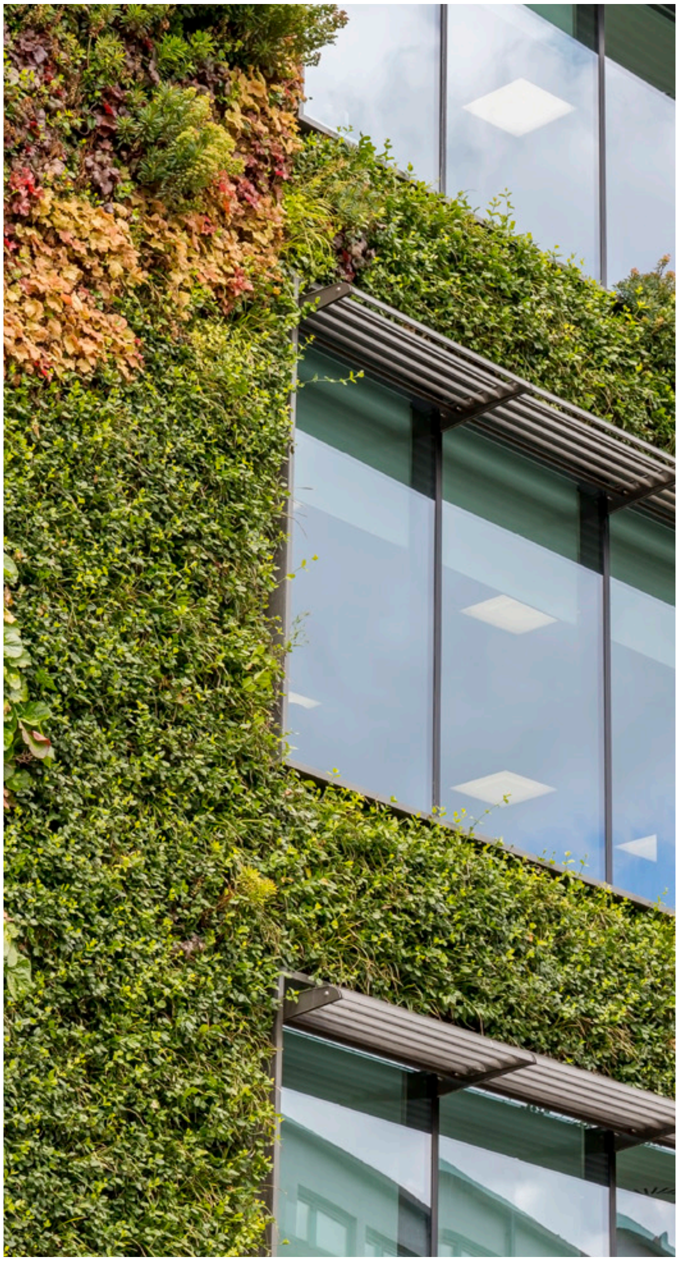
DGAM's engagement with issuers

DGAM's leadership in responsible investment is not limited to including ESG risks when selecting securities. With its power to influence, DGAM draws on shareholder engagement[1], an effective mechanism for reducing risk, optimizing returns, and generating a positive impact on society and the environment. Exercising proxy voting rights, shareholder dialogue, and intervention with public decision makers are core levers that allow DGAM to encourage companies to enhance their sustainable development practices.

Exercising voting rights

By exercising voting rights, DGAM can vote on all issues submitted each year at shareholders' meetings. DGAM pays close attention to key issues, as it recognizes that it has a duty to state a coherent, adequate opinion on all proposals submitted to the shareholders' meetings of portfolio companies, in keeping with Desjardins' values and those of its partners and clients.

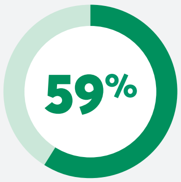
DGAM's Policy on the Exercise of Proxy Voting Rights applies to all of its funds and portfolios and defines conditions governing the exercise of voting rights for securities held in the portfolios at any shareholders' meeting. In keeping with the regulatory obligations in force, we disclose all votes exercised for DGAM Funds and Desjardins ETFs each year.



1 UN PRI, A Practical Guide to Active Ownership in Listed Equity. 2018.

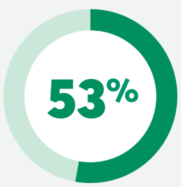
Here are a few numbers and key statistics on the voting rights exercised by DGAM from January 1 to December 31, 2021:

DGAM reviewed **3,680** corporate meetings and **42,975** proposals submitted to a shareholders' vote.



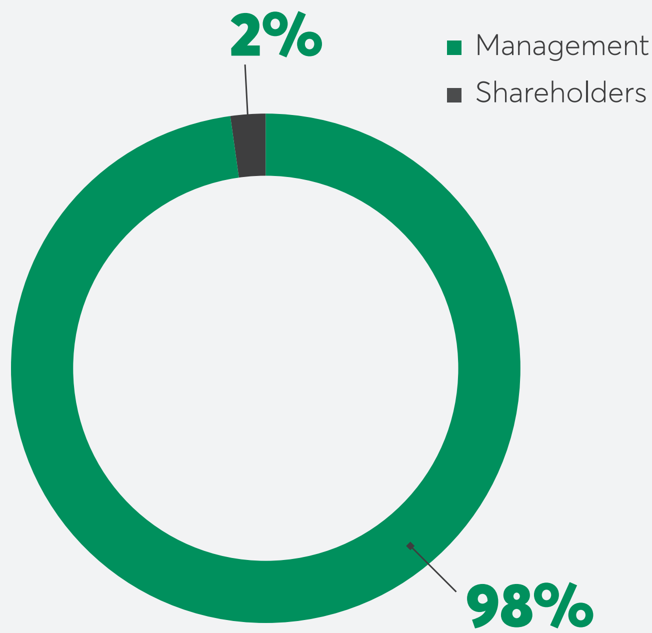
Proposals dealt with the election of directors

Voted in favour of proposals submitted by management

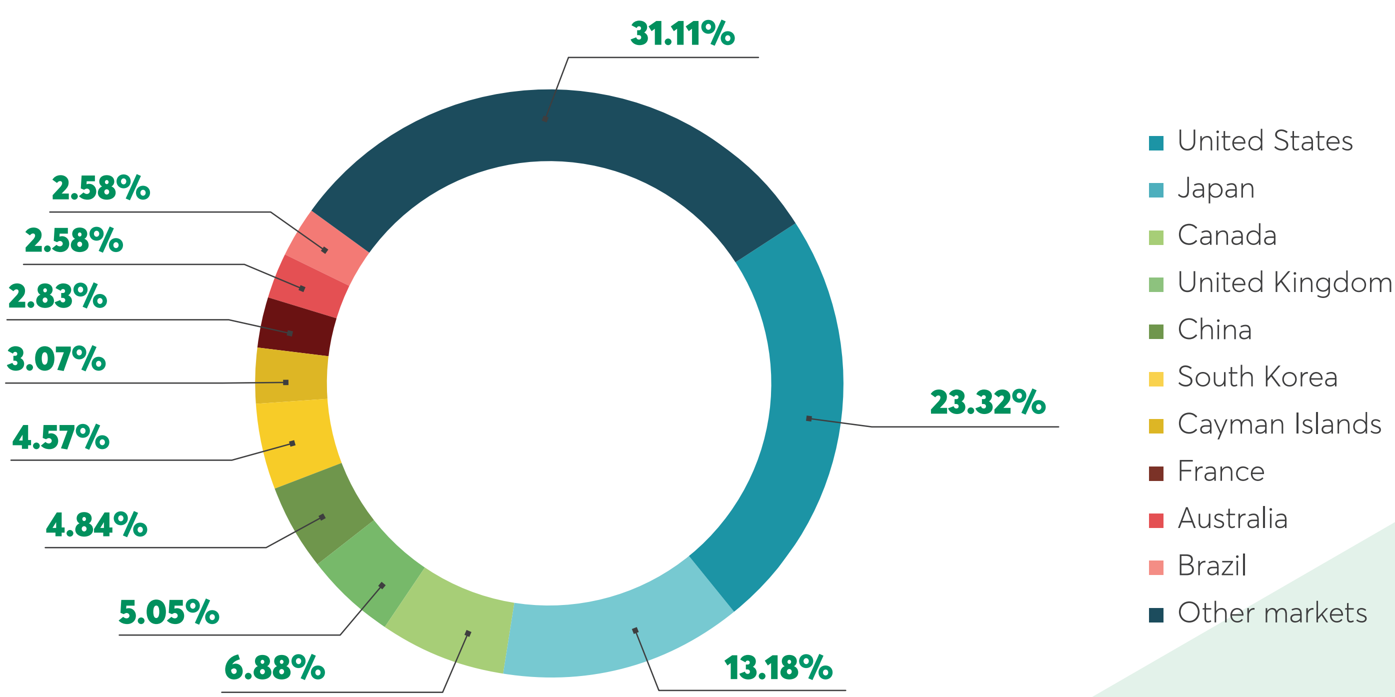


Support of the proposals submitted by shareholders

WHERE PROPOSALS CAME FROM



BREAKDOWN OF SHAREHOLDER MEETINGS BY MARKET WORLDWIDE



Priority ESG issues

When assessing a company from the perspective of responsible investment and ESG criteria, DGAM specialists consider a wide range of risk issues. This may be from a reputational, operational, or financial point of view. They have selected five priority issues on which they focus their analysis and, if applicable, interventions with the companies involved.

- Climate change;
- Diversity and inclusion;
- Executive compensation;
- Privacy and cybersecurity;
- Responsible supply chain;
- Human rights and stakeholder engagement.

For each issue, we have laid out:

- Brief description of what the issue represents for a company and for selecting securities that comply with ESG criteria;
- Snapshot of the process our team of responsible investment specialists uses when assessing a company;
- Description of interventions pertaining to that issue in the context of our shareholder engagement;
- Presentation of a portfolio company that is exemplary in its management of that issue.

Here are a few examples in the areas of climate change, responsible supply chain and, human rights and stakeholder engagement.

Climate change

According to the 16th edition of the World Economic Forum's *Global Risks Report*, climate change remains the biggest risk[2]. From the perspective of portfolio management, climate change features both opportunities and risks. The Task Force on Climate-related Financial Disclosures (TCFD) puts climate risks into two broad categories: the risks associated with the transition to a low-carbon economy and the risks associated with the physical effects of climate change[3].

Transitioning to a low-carbon economy is a substantial challenge. With more and more countries adopting policies to limit GHG emissions, companies are under intense pressure to act and take the required measures to publicize what the company is doing to combat climate change[4]. In May 2021, Millani assessed the quantity and quality of disclosure according to TCFD standards by issuers listed on the index. It found that 23% of the companies follow TCFD recommendations[5]. Moreover, while two-thirds of the companies on the S&P/TSX Composite Index report their GHG emissions, only 27% have reduction targets, which is well below the percentages seen in other developed market indexes[6].

2 The Global Risks Report 2021 | World Economic Forum (weforum.org).

3 Task Force on Climate-Related Financial Disclosures (2017). *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures.*

4 Sommet sur le climat : « nous ne pouvons nous résigner à ce futur », dit Biden | Radio-Canada.ca.

5 Reports | Millani | ESG Integration.

6 Sean Cleary & Andrew Hakes, *Assessing Current Canadian Corporate Performance on GHG Emissions, Disclosures and Target Setting*, Institue for Sustianable Finance April 2021.

Our approach

We assess corporate strategy on climate change from various angles:

- Transparent, detailed disclosure of GHG emissions according to Scopes 1, 2 and 3[7];
- Adherence to a recognized reporting structure, such as those proposed by the Carbon Disclosure Project (CDP), Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB);
- Ambition to reach net-zero emissions by 2050, with short- and medium-range reduction targets;
- Robustness of the governance structure for overseeing the incorporation and deployment of the strategy to address climate change;
- Measurable results tied to executive compensation;
- Plan to transition to a low-carbon economy and development of new green technologies.

As an asset manager, DGAM also discloses information on climate change risks and opportunities, in accordance with TCFD directives.

Our shareholder engagement

DGAM voted for 33 shareholder proposals covering the management of GHG emissions or disclosing climate risks in 2020. For example, we voted in favour of the proposal asking Chevron Corp. in the US to publish a detailed report on its climate change lobbying activities to ensure it is aligned with the objectives of the Paris Agreement[8].

7 Scope 1 emissions are under the company's direct control; Scope 2 covers indirect emissions from producing the energy the company uses; Scope 3 represents emissions generated upstream and downstream from the company's operations.

8 Chevron investors back proposal for more emissions cuts | Reuters.

Case study

Dialogue with a construction engineering company

Since 2018, we have engaged in discussions with the management of an engineering company about incorporating sustainable development principles upstream into all its projects and setting ambitious goals for reducing its carbon footprint. Given the company's major exposure to large-scale public and private infrastructure projects, taking the principles into account at the project design phase is essential for transitioning to a low-carbon economy. DGAM encouraged the company to promote resilience to climate change in all these projects. Since then, the management has set ambitious new targets to address climate change and now plays a leadership role in incorporating sustainable development principles.

Responsible supply chain

A company's performance is largely dependent on its ability to control the risks associated with the activities of its network of external partners. A company must be vigilant along the entire supply chain to ensure that the third parties it deals with conduct themselves not only ethically, but also responsibly from a social and environmental perspective. Any lapse could be harmful to its reputation, its ability to keep operating and its financial performance[9].

Our approach

Respect for human rights and working conditions, protection of natural resources and biodiversity, and contributing to the efforts to reduce GHGs, including Scope 3 emissions[10], are some of the considerations we focus on when assessing a company's approach to its supply chain.

We strive to determine:

- Management's level of knowledge of issues specific to the supply chain;
- The mechanisms in place to mitigate risk, measurement parameters, the targets and the disclosure process.

Once our process is complete, we should be able to validate whether a company has a supplier code of conduct, if a supplier audit system makes it possible to verify that their employees are treated fairly and equitably and whether Scope 3 GHG emissions are recorded on their balance sheet or whether zero-deforestation targets have been set.

Our shareholder engagement

DGAM backed 61% of responsible supply chain resolutions[11] in 2020. Among others, we voted for the shareholder proposal submitted to **Skechers U.S.A., Inc**., an American footwear company, about adopting a human rights policy that also covers labour issues in its supply chain.

9 https://www.lapresse.ca/international/2021-02-18/exploitation-des-enfants/les-geants-du-chocolat-poursuivis-aux-etats-unis.php

10 Scope 3 emissions are defined as indirect third-party emissions upstream and downstream from a company's operations, especially in the production of raw materials, transportation and disposing of end-of-life products.

11 In keeping with its Policy on the Exercise of Proxy Voting Rights and these guidelines, DGAM did not back proposals that were overly constraining, did not consider the organization's efforts or were unsuited or adapted to that company.

Dialogue with a retail company

In dialogues with corporate management, we discussed supply chain issues with 11 companies. Since 2016, DGAM has been working with a retail company's management to influence them to consider responsible supply chain choices and adopt best practices in ESG disclosure and employee relations. Our goal is to improve our supplier audit process to ensure compliance with labour standards. Since our first engagement, the company has made significant progress. It has begun to review its supplier code of conduct and has implemented a third-party supplier audit program. The code addresses quality and safety standards, employment standards, ethical and environmental business practices, supplier monitoring and implementation of the code, and supplier disclosure. As a result, its ESG report is now aligned with the Sustainability Accounting Standards Board (SASB) framework. This allows the company to set clear targets and measure its progress. As an engaged investor, DGAM continues to encourage this company to improve its reporting and supply chain audit process.

Human rights and stakeholder engagement

The World Economic Forum declared that "the purpose of a company is to engage all its stakeholders in shared and sustained value creation[12]." As such, companies have the responsibility to ensure they are aware of human rights issues and engage all stakeholders in the decision-making process to discuss scenarios involving workers and the communities in which they operate. Aside from reputational risk, companies that do not consider stakeholders are exposed to operational risks that could lead to production delays or cancelled projects, financial risks that could lead to a loss of investment or fines, and legal risks that could result in proceedings. According to a Harvard Kennedy School study, the loss of a social license to operate[13] can lead to losses in the order of US$10 million per week for a large mining project[14]. A report by EY also rated social acceptability as the leading risk of the ten major risks mining companies face[15].

Our approach

At DGAM, we believe that to maximize a company's long-term value, its leaders must consider the interests of all parties concerned. Therefore, in the framework of our ESG criteria analysis, we validate corporate practices in the area of respect for human rights and stakeholder mobilization. From this perspective, we evaluate:

- Governance that guarantees respect for human rights;
- Policies, guidelines and due diligence processes that respect the rights of company employees, and those in their supply chains;
- Stakeholder consultation framework to ensure projects' social acceptability.

Our shareholder engagement

The DGAM Policy on the Exercise of Proxy Voting Rights supports the United Nations' position that companies have a responsibility to ensure that their operations do not infringe human rights, as stipulated in the United Nations Universal Declaration of Human rights, International Labour Organization conventions, and the Canadian constitution. We voted in favour of 121 shareholder proposals in 2020 that directly concerned environmental and social issues, representing an approval rate of 53% of all proposals submitted. We supported 13 proposals that dealt solely with human rights. Nine of these involved demands for more thorough reporting on human and civil rights from the perspective of the activities of the company and its supply chain. The other four dealt with strengthening standards governing labour management and human rights in general.

12 *Davos 2020 Manifesto: The Universal Purpose of a Company in the Fourth Industrial Revolution | World Economic Forum (weforum.org)*

13 Social licence to operate (SLTO) is a term used by Jim Cooney in "*Corporate Social Responsibility – The Social Licence to Operate a Mine*", International Resource Journal, November 2012.

14 *Cost of Company-Community Conflict in the Extractives*, Harvard Kennedy School, 2014.

15 Ernst & Young, *Top 10 business risks and opportunities* - 2020, September 2019.

Case study

Dialogue with a retail company

Human rights are among the topics of our engagement with an American retailer, individually and in collaboration with other investors through the Interfaith Center on Corporate Responsibility (ICCR). The discussions have been around the company's practices and due diligence process with respect to human rights. For example, given the political and human rights issues facing the Uyghur population in China's Xinjiang province, we asked the company to take appropriate steps to ensure that none of its direct or indirect suppliers is associated with the humanitarian crisis. The retailer has updated its policy for cotton procurement and pledged to no longer accept products containing cotton from the province of Xinjiang, regardless of where the product is manufactured. We believe this is an important first step.

Contact

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