

SOMMAIRE

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SOCIALLY RESPONSIBLE INVESTING – A CHOICE THAT PAYS!



At Desjardins Funds, we believe companies that are mindful of the environmental and social aspects of their business achieve greater financial success over the long term.

Desjardins Funds socially responsible investment (SRI) products provide substantial returns as they focus on influencing business practices

that impact the environment and communities. Water use and respect for biodiversity, human rights and working conditions, along with executive compensation and shareholders' rights are all factors that influence the investment decisions of our SRI product portfolio managers.

When you choose to invest in Desjardins Funds' SocieTerra Portfolios, you promote socially responsible investment products that seek out companies that support sustainable development and offer attractive return potential.

CRITERIA AND STRATEGY

Two types of analyses are applied to companies selected for inclusion in the socially responsible investment (SRI) fund portfolios – a traditional analysis based on financial criteria and an analysis that focuses on environmental, social and governance (ESG) considerations. Our analysis of ESG factors is tailored to each industry based on its respective issues.

Our selection process identifies companies that demonstrate better risk management through mindfulness of the ESG effects of their activities. We believe that proactive management of ESG factors has a positive impact on the long-term financial value of a company and on portfolio return potential for its shareholders.

Desjardins Funds has also decided not to include in its SRI portfolios companies associated with certain activities that can cause serious prejudice to human beings and their environment. For that reason, companies operating in the tobacco, weapons and nuclear industries are barred from inclusion in the SocieTerra Portfolios.

THE INFLUENCE OF SHAREHOLDER ENGAGEMENT

The SocieTerra Portfolios apply ESG selection criteria because shareholder engagement is a lever that Desjardins Funds uses to help bring about change within companies. The three forces that drive our shareholder engagement strategy to influence business practices are dialogue, shareholder resolutions and exercising voting rights.

Targeting companies such as Encana, Enbridge and Crescent Point Energy, we apply our shareholder engagement strategy when we feel that improvement is needed on either the environmental, social or governance (ESG) level. This makes the Desjardins Funds an agent of change and encourages companies

to improve their practices for the wellbeing of our society. As a strategy, it requires time and patience, but it is proving to be essential in obtaining results.

If that's important to you, you too can influence companies to be socially responsible... and enjoy a substantial return. There's no time like the present to take action and talk it over with your Desjardins advisor. There's a SocieTerra Portfolio that matches your investor profile.



ENGAGING COMPANIES IN DIALOGUE HOW DID WE DO IN 2012?

The following table reports the Corporate Engagement Program's results of our dialogue with companies. Those dialogues were conducted between the fall of 2011 and the fall of 2012. Those dialogues targeted companies held in the Desjardins Environment Fund portfolio.

Legend: Dialogue underway ↗ Stable → Declining ↘ On Target ↑

Company and sector	Dialogue trend	Goals of dialogue	Evolution in 2011-2012
Cenovus (Energy)	→	<ul style="list-style-type: none"> – Acknowledge right of free, prior and informed consent (FPIC) for Indigenous Peoples 	<ul style="list-style-type: none"> – Cenovus identifies the strategic importance of innovation and environmental performance. To date, oil sands companies have been hesitant to commit to FPIC so there is an opportunity to display leadership. – In November 2011, NEI Investments participated in the Cenovus sustainability report stakeholder panel.
Enbridge (Energy)	↘	<ul style="list-style-type: none"> – Seek free, prior and informed consent from First Nations 	<ul style="list-style-type: none"> – For several years, Enbridge has been encouraged to obtain FPIC for the proposed Northern Gateway Pipeline. Enbridge is now offering ownership stakes in the pipeline, and negotiations with First Nations continue, but several First Nations continue to express strong opposition to the project. As the company was unwilling to change its approach, NEI Investments, Vancity and Desjardins Funds filed a shareholder proposal asking Enbridge to address the implications of continuing opposition for the future of the project. The proposal went to a vote at the company AGM in May, and received 28% support. Based on the strong support for the resolution, the Enbridge board has offered to meet with us. We will determine next steps based on the results of these discussions. – During the summer of 2012, the National Transportation Safety Board published a report about the 2010 Kalamazoo incident. This report emphasised on serious practice problems and security issues existing at the time. The company has since proceeded with several adjustments. We felt challenged by those issues and we will address them in our discussions with the company.



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Company and sector	Dialogue trend	Goals of dialogue	Evolution in 2011-2012
Encana (Energy)	↗	<ul style="list-style-type: none"> – Address water risks for hydraulic fracturing operations 	<ul style="list-style-type: none"> – Input was provided on Encana's sustainability report. The company has improved its handling of concerns around hydraulic fracturing operations in North America, stating a preference for baseline water testing and urging suppliers to disclose fluids used in the extraction process, and participated in the CDP Water initiative. It has an evaluation process to identify and minimize toxic chemical use and is involved in a leading-edge project in Horn River, BC where non-potable water is used for fracking operations. The company has since confirmed that it will be making its chemical management system tool available for free to its industry peers in order to encourage broad improvement on chemical handling in the industry.
Suncor Energy (Energy)	↗	<ul style="list-style-type: none"> – Seek free, prior and informed consent of Aboriginal people impacted by oil sands operations – Link compensation with ESG performance 	<ul style="list-style-type: none"> – In 2011 feedback was provided on the Suncor sustainability report. In April 2012, the company was met in order to provide input on its sustainability agenda. – In February 2012 Suncor joined peer companies to launch COSIA, the Canadian Oil Sands Innovation Alliance. COSIA aims to develop collaborative solutions to oil sands environmental challenges. The company continues to show leadership through participation in the Boreal Leadership Council (BLC), but has not committed to FPIC. – Although NIE Investments voted against the compensation package at the 2012 AGM, the linkage of compensation to ESG performance in the proxy circular has improved, and disclosure now includes specific indicators and reveals the percentage of pay that depends on environmental performance. But the company still does not disclose the targets against which performance was judged. NEI Investments will write to the company to explain the rationale for their vote.



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Company and sector	Dialogue trend	Goals of dialogue	Evolution in 2011-2012
Talisman (Energy)	↗	<ul style="list-style-type: none"> – Address water risks in hydraulic fracturing operations – Implement policy on free, prior and informed consent of Indigenous Peoples 	<ul style="list-style-type: none"> – Talisman has significantly increased its level of disclosure and commitment to best practices for hydraulic fracturing (fracking) operations. The representatives of the company were met in February 2012 to discuss risks associated with shale gas production. The company has publicly disclosed a set of guiding principles that will govern all of its fracking operations. It is as a positive step, and will focus future engagement on implementation of the principles, and reporting on compliance. The status of the company's Quebec operations was also discussed, including steps the company could take to secure its social license to operate. – Talisman has an industry-leading policy that incorporates the principle of FPIC. NEI Investments seeks to understand how this policy is being implemented both internationally and in Canada. In May 2012, a delegation of Achuar from Peru was met to hear their perspective on the implementation of Talisman's FPIC policy.
Barrick Gold (Mining)	↗	<ul style="list-style-type: none"> – Disclose results of human rights impact assessments – Seek free, prior and informed consent of Indigenous Peoples 	<ul style="list-style-type: none"> – Barrick has been engaged on the need to become more proactive in addressing security-related issues by conducting comprehensive and transparent human rights impact assessments (HRIAs). The company is now moving forward in this area. Company representatives have been met in February 2012 to discuss the progress of plans to implement an HRIA program across Barrick's entire operations, with external expert review. Barrick needs to make this process transparent and participative for local communities. NEI Investments also encourages the company to adopt a FPIC policy to ensure social license for operations impacting indigenous peoples. – Following the appointment of a new CEO and the announcement that business strategy would be reviewed, NEI Investments wrote to the company to emphasize the importance for the long-term value of the company of continuing the new sustainability initiatives.



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Goldcorp (Mining)	↗	<ul style="list-style-type: none"> – Seek free, prior and informed consent of Indigenous Peoples – Develop and implement appropriate grievance mechanisms to ensure social license to operate 	<ul style="list-style-type: none"> – Goldcorp has been engaged on follow-up on the recommendations of the 2010 Marlin mine human rights assessment. NEI Investments met with the company in February 2012 to discuss a range of issues including land acquisition, water policy and efforts to encourage dialogue between mine-affected communities and the government. They will pursue further discussions on wider application of human rights impact assessment across the company's operations, and on sustainable mine closure. Goldcorp will also be encouraged to adopt a FPIC policy to ensure social license at operations impacting indigenous peoples. To enhance the diversity and skillset of the Board, Goldcorp has appointed a female director from Mexico. The company has taken voluntary steps to increase the level of royalties paid to communities impacted by the Marlin mine. – In July 2012, NEI Investments participated in a briefing for responsible investors from Goldcorp's CEO and representatives of the board and sustainability management staff.
Potash (Mining)	↗	<ul style="list-style-type: none"> – Develop and implement corporate water strategy – Address risks associated with exports from Western Sahara 	<ul style="list-style-type: none"> – NEI Investments has re-initiated contact with Potash following the hiatus in engagement during the attempted takeover by BHP Billiton. Potash is a responder to the CDP Water initiative and has undertaken water balance assessments for its sites. They met with the company in March 2012 to discuss water strategy and water-related stakeholder relations challenges. – They also discussed Potash's efforts to mitigate risks relating to export of resources from the disputed territory of Western Sahara, following divestment by the Norwegian Pension Fund Global. Potash is encouraged to explore opportunities to extend benefit from phosphate exports to displaced members of the Saharawi community, and to implement human rights due diligence in accordance with the UN Guiding Principles.

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Bombardier (Industrials)	↗	<ul style="list-style-type: none"> Assess exposure to conflict minerals and support efforts to certify minerals exported from the Democratic Republic of Congo 	<ul style="list-style-type: none"> Bombardier responded to the suggestion in 2011 of investigating supply chain relationships that could be impacted by emerging regulations on conflict minerals from the Democratic Republic of Congo (DRC). NEI Investments met with the company in June 2012 to discuss progress in implementing its supply chain policy. Bombardier is moving to the stage of verifying supplier self-assessments of compliance with the policy, and expects to enhance disclosure on compliance in future. The conflict minerals issue is being integrated within the company's wider supply chain work.
Finning (Industrials)	↗	<ul style="list-style-type: none"> Improve climate change disclosure and set greenhouse gas emission targets 	<ul style="list-style-type: none"> Finning has begun to provide information to investors through the Carbon Disclosure Project (CDP), but the company has not yet set GHG targets. Company representatives were met in May 2012 to discuss Finning's plans to improve the coordination of its sustainability activities and enhance its ESG disclosure, including its CDP response. The next steps will be determined based on Finning's next information submission to CDP.
Gildan (Consumer)	↑	<ul style="list-style-type: none"> Assess supply chain risk to protect human rights and improve working conditions 	<ul style="list-style-type: none"> Gildan is a Canadian leader in supply chain management, verification and disclosure. Representatives of the company were met in May 2012 to discuss the integration of recent acquisitions (GoldToeMoretz and Anvil) to Gildan's supply chain management system. The company appears to have robust systems for conducting CSR due diligence and integrating acquisitions to its own supply chain system.

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Tim Horton (Consumer)	↗	<ul style="list-style-type: none"> – Assess forest impacts in the supply chain 	<ul style="list-style-type: none"> – Tim Horton continues to roll out the implementation of its supply chain management system. The company was met in May 2012 to discuss disclosure and management of risks to forest biodiversity associated with commodities within the supply chain. Tim Horton is already taking steps to address impacts associated with its most-used forest products such as coffee paper cups. A follow up with the company is planned to learn more about its exposure to palm oil and soy. – The Forest Footprint Disclosure project was introduced; it is a global initiative to encourage companies to report on forest commodities in the supply chain.
Research in Motion (Information Technology)	↑	<ul style="list-style-type: none"> – Implement a supplier code of conduct – Respond to the challenge of conflict minerals 	<ul style="list-style-type: none"> – RIM adopted a code of conduct in 2011 and is now working on implementation. On the issue of conflict minerals sourced from the Congo, RIM is transparent on its approach which includes working with industry on a certification scheme and supporting progressive legislation. A follow up on this issue when U.S. regulations are clarified is planned.
Rogers Communications (Telecommunications)	↘	<ul style="list-style-type: none"> – Ensure implementation of supplier code of conduct – Adopt a precautionary response to product safety 	<ul style="list-style-type: none"> – Rogers adopted a supplier code of conduct in 2010, and requirements based on this code are now included in the RFP process when seeking suppliers but an audit program is still being developed to ensure adherence. Given recent scientific and government announcements about potential health risks of cellphone usage, we will be continuing to suggest that the company take a more proactive stance on educating consumers. The company was met in April 2012, but concerns remain about the quality of Rogers' disclosure on these issues.

