

# Stewardship Policy



DESJARDINS FUNDS



**Desjardins**  
Wealth Management  
Investments

# Desjardins Group's commitment to responsible investment

Desjardins promotes economic development that is good for people and the environment, where "money is at the service of human development." We believe that economic players have responsibilities toward communities and their territories, and must act accordingly.

Desjardins Investments Inc. ("Desjardins Investments"), the manager and sponsor of Desjardins Funds, has been a signatory of the Principles for Responsible Investment (PRI)<sup>1</sup> since 2010.

It is the primary responsibility of Desjardins Investments, in its capacity as the manager of Desjardins Funds, to protect the medium- and long-term interests of holders while aiming to ensure their capital grows by investing in companies that offer attractive profitability prospects. Monitoring the issuers in our portfolios is essential to doing that.

## Stewardship: Our beliefs and commitments

For investors, stewardship consists of exercising influence on issuers, policymakers, asset managers and other stakeholders with the goals of mitigating risk, optimizing return potential, and generating sustainable outcomes for holders and the community.

Environmental, social and governance (ESG) factors are central to these goals. These factors can negatively affect the value of the securities in our portfolios and have systemic effects on the communities and the planet, but they are also a source of opportunities.

Responsible investment (RI) approaches for asset selection (such as ESG integration and positive or negative screening) and stewardship approaches are fundamentally related and feed into each other. Responsible investment requires the rigorous application of both.

Stewardship tools may include engaging with issuers, either individually or collaboratively with other investors, exercising voting rights, engaging with public decision-makers, or contributing to industry thought leadership in other ways.

Desjardins Group's commitment to responsible investment .....	1
Stewardship: Our beliefs and commitments .....	1
Our priority themes .....	2
Engagement .....	4
Exercising voting rights .....	5
Escalation .....	6
Engagement with public decision-makers and industry groups .....	6
Disclosure .....	7
Conflicts of interest .....	7

1. PRI | Home (unpri.org)

Desjardins members and clients who choose responsible investment are seeking, above all, to contribute to positive outcomes on the environment and society. This Stewardship Policy aims to meet this expectation. We believe that stewardship is essential for ensuring the long-term value of investments while also fostering sustainable outcomes for holders and the community.

## Policy objectives and scope

The Stewardship Policy presents our beliefs and approach to stewardship. It was developed using the framework provided by the Principles for Responsible Investment (PRI) and will be adjusted over time to reflect new developments in the field and best practices more generally.

The Stewardship Policy applies to all Desjardins Funds. However, the goals vary, depending on the fund. Desjardins Sustainable Funds, which are RI funds, are managed using ESG objectives. Traditional Desjardins Funds use stewardship-related strategies; however, their approaches are less developed on certain aspects.

## Carefully selected portfolio managers

Desjardins Investments uses an open architecture that relies on a rigorous portfolio manager selection process. Our selection approach and criteria favour portfolio managers known for the quality of their approach and results, including those related to stewardship. We aim for all of our portfolio managers to be PRI signatories.

For the Desjardins Sustainable line, we choose portfolio managers who are able to demonstrate that their processes support the belief that stewardship is an essential part of the investment process and creates value. During the portfolio manager selection and monitoring process, we also make sure that their practices are consistent with our Stewardship Policy.

# Our priority themes

Our stewardship approach supports three priority themes: climate, nature and human rights. We believe these three issues could have negative effects on the long-term value of portfolio security holdings and a systemic impact on communities and the planet.

## Climate

The science is clear: since the 1800s, human activities have been the main driver of climate change, which poses risks for society, the environment and the economy. We recognize that climate change can have negative effects on the value of portfolio assets. Conversely, the transition to a decarbonized economy is an unprecedented source of opportunities.

As a stakeholder with strong socioeconomic beliefs and as the manager of Desjardins Funds, Desjardins Investments recognizes the role it needs to play in achieving the goals of the *Paris Agreement*<sup>2</sup> and ensuring a just and orderly energy transition.

We are committed to supporting the international goal of reaching net zero by 2050, which is consistent with worldwide efforts aiming to limit global temperature increases to 1.5°C above pre-industrial levels by 2100.

Concretely, Desjardins Investments has set a net zero by 2050 ambition for Desjardins Funds, which it plans to achieve by prioritizing the reduction of greenhouse gas emissions in the real economy. Desjardins Investments has also joined the Net Zero Asset Managers initiative<sup>3</sup>.

2. Paris Agreement | United Nations

3. The Net Zero Asset Managers initiative – An international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions



## Nature and biodiversity

Biodiversity refers to all the different kinds of life found on Earth or in a specific habitat. Nature is our most valuable asset. We depend on complex ecosystems for food, drink and shelter, as well as for regulating the climate and even producing oxygen. Without these ecosystems, our society cannot survive. That's why we absolutely must take them into account when making economic and financial decisions.

According to the World Economic Forum's *Global Risks Report 2023*,<sup>4</sup> biodiversity loss is one of the biggest threats facing humanity. As such, it is a risk to the long-term value of the assets held in Desjardins Funds portfolios.

As the manager of Desjardins Funds and in the interest of holders, we recognize this risk and believe it is our duty to take nature into account when making investment decisions. This consideration aims to use our investment processes to protect, mitigate negative impacts to and restore biodiversity. We also recognize that climate and nature are closely linked. Climate change could become the main cause of environmental degradation and biodiversity loss on land and in the sea in the coming decades. At the same time, biodiversity is essential for achieving climate goals, as it contributes to mitigation and adaptation measures.

We are signatories of the Finance for Biodiversity Pledge,<sup>5</sup> the financial sector's commitment to biodiversity.

## Human rights

Human rights are defined as the rights of individuals to well-being, dignity and equality. Universal human rights are described in the International Bill of Human Rights, which consists of the Universal Declaration of Human Rights; the International Covenant on Civil and Political Rights; the International Covenant on Economic, Social and Cultural Rights; the International Labour Organization fundamental conventions; and other international and regional instruments relating to human rights.

As the manager of Desjardins Funds, we are responsible for ensuring human rights are taken into account throughout all our investment processes, in accordance with the United Nations Guiding Principles on Business and Human Rights.

This consideration aims to mitigate and prevent the negative impacts of human rights violations, and to improve living conditions for people and communities. When considering human rights, some of the objectives sought include the implementation of acceptable working conditions, access to quality basic goods and services, and the development of sustainable and inclusive communities.

We are also signatories of PRI Advance,<sup>6</sup> an engagement initiative in which institutional investors work together to take action on human rights and social issues.

4. WEF\_The\_Global\_Risks\_Report\_2022.pdf (weforum.org)

5. Finance for Biodiversity Pledge

6. PRI | Advance: Engagement approach (unpri.org)

# Engagement

## Engagement with issuers

Engagement with issuers consists of talking with the issuer about ESG considerations that may impact the long-term value of the company and, beyond that, the community. The purpose of engagement is to establish expectations to encourage the issuer to improve its ESG practices, and in doing so, to help protect the long-term value of investments.



"By engaging with companies, investors set expectations with them, define goals and track the outcomes. Engagement is a powerful driver of change in responsible investment, with the potential to create value for holders and the community."

### Engagement for the Desjardins Sustainable product line

For the Desjardins Sustainable line, our portfolio managers systematically engage with issuers on ESG considerations. Engagement can happen with all types of issuers (corporations, governments) in all asset classes (equities and fixed income) held in Desjardins Sustainable Funds.

We encourage portfolio managers to formulate clear expectations and document the follow-up of their engagement with issuers. For our priority themes, we formalize our expectations, ensuring alignment with science and industry frameworks.

We analyze portfolio managers' reports on engagement on a quarterly basis, focusing our attention on outcomes. We also hold discussions with portfolio managers when necessary.

Expectations can be adjusted based notably on the region the issuer belongs to and its level of maturity with respect to ESG issues. For example, ESG disclosure requirements vary by region, with more advanced requirements in certain regions in the world than in others. In less advanced regions, the portfolio manager will encourage the issuer to disclose its ESG practices, while in other regions, the portfolio manager will attach more importance to the implementation of ESG strategies.

Engagement with issuers of securities held in Desjardins Sustainable Funds may be about:

- The way issuers treat systemic challenges like climate, nature and human rights in their business model. For example, as part of our climate strategy, we identify the issuers with the highest carbon emissions financed in our portfolios and we ensure that our portfolio managers engage with these issuers so that their decarbonization pathway is compatible with our net zero ambition.
- Seeking specific information about ESG issues related to the sector the issuer operates in. For example, human rights issues in the textile industry supply chain or the protection of soils and forests in the agri-food sector.
- The issuer's governance structure, in particular the independence, diversity and compensation of the board of directors.
- Information sharing and disclosure by issuers, encouraging them to meet industry norms and standards in this area.
- Follow-up on outcomes of previous discussions on ESG themes, with special attention whenever outcomes appear to be negative.
- Seeking an explanation about a controversy involving a security held in Desjardins Sustainable Funds. For example, if an incident occurs (like an accident, human rights violation, etc.), we speak to the manager(s)<sup>7</sup> of the portfolio in which the security is held to make sure they obtain adequate answers to our questions from the issuer.

7. A security may be held in several funds managed by several different portfolio managers.

## Collaborative engagement

Collaborative engagement occurs when a group of investors come together to engage with the issuers of the securities in their portfolios. Collaborative engagement is complementary to individual engagement; it is not a substitute for it. In recent years, numerous collaborative engagement initiatives have taken shape.

As the manager of Desjardins Funds, we believe that collaborating with investors can lead to the achievement of shared goals, in particular when it comes to addressing systemic challenges. To contribute to collaborative engagement initiatives, we analyze several criteria:

- Their alignment with our priority themes;
- Their level of ambition;
- Their potential benefits and advantage compared to individual engagement;
- Their relevance in terms of the Desjardins Funds investment universe.

Following this analysis, we may also encourage our portfolio managers to participate in certain collaborative engagement initiatives.

## Exercising voting rights

By exercising voting rights, shareholders can take a position on all matters submitted each year at shareholder meetings. Most proposals are submitted by management and deal with items such as electing directors and compensating principal officers. We are also called to vote on proposals submitted by other shareholders.

As the manager of Desjardins Funds, we devote special attention to these proposals, because we recognize that it is our duty to make informed and independent decisions in the interest of Desjardins Funds holders. We strive to exercise all of the voting rights we are entitled to through Desjardins Funds. To do this, we use the policies in effect to recall securities that are on loan through our securities lending operations.



"By casting votes in line with our voting rights policy (see text box), we send a clear signal to the market. This enables us to be a steward of change in terms of environmental, social and governance issues."

## Our voting rights policy

We developed the Desjardins Funds Policy on the Exercise of Proxy Voting Rights in 2005 and this policy is updated on a regular basis.<sup>8</sup> It sets forth our position on proposals submitted by management or other shareholders at shareholder meetings.

The policy provides a breakdown of our various positions for each of our priority ESG themes. For example, this includes our position to vote in favour of the appointment of women to boards of directors and the publication of reports by companies on diversity, human rights and consultations with Indigenous Peoples. On the environment, our positions are to vote in favour of the disclosure of strategies relating to environmental issues, such as climate change and deforestation, and baseline criteria for energy or climate transition plans.

Link to the voting rights policy

[https://www.fondsdesjardins.com/information/droit\\_vote\\_en.pdf](https://www.fondsdesjardins.com/information/droit_vote_en.pdf)

## Shareholder resolutions

Among shareholders' rights and privileges, shareholder resolutions can be one way to make a company and its shareholders more aware of a specific ESG issue. The activity involves drawing up a recommendation that is submitted to all company shareholders. Desjardins Funds can submit shareholder resolutions and take a stand on proposals submitted by other investors when exercising our voting rights.

## Voting considerations for shareholder resolutions

We believe that voting on shareholder resolutions is a lever for change. It can mobilize shareholders, focus efforts on a call to action, engage a set of shareholders around this action and demonstrate that the company has been encouraged to make these changes.

Generally, we seek to add our voice to those of other shareholders by supporting, as a matter of principle, shareholder resolutions that are consistent with our positions as described in the Policy on the Exercise of Proxy Voting Rights. This means we support shareholder resolutions that would intensify efforts on our priority themes. Before deciding, we take into consideration the substance and form of the shareholder resolutions submitted.

## Escalation

Engagement with an issuer can sometimes be unsuccessful, such as when little progress is made, a regression is observed, or the issuer is reluctant to engage and respond to questions. In such cases, escalation measures can be used, including:

- Sharing and documenting concerns: This can take the form of a formal letter sent to the company's board of directors and/or management team.
- Using voting power: Arranging a meeting with the issuer's responsible executives prior to an annual general meeting (AGM) and explaining to them our intention to vote against some management proposals, like the election of certain members of the board of directors.

- Filing or co-filing a shareholder resolution: This is done ahead of the AGM. This option is used to require the company to take a position on an issue at its shareholder meeting. Sometimes, once submitted, a shareholder resolution can also be used as a bargaining tool with a company, resulting in the implementation of a new measure before the meeting is even held.
- Totally or partially divesting: Total divestment from an issuer that was selected through a rigorous process is an extraordinary measure. Divestment is generally preceded by various unsuccessful shareholder engagement initiatives. Divestment can arise in the event of a major crisis, poor behaviour or a serious breach of the principles to which we have subscribed in the Desjardins Funds Responsible Investment Policy.<sup>9</sup>

## Engagement with public decision-makers and industry groups

As a leading proponent and pioneer of responsible investment, we wish to promote and bolster the conditions in which our responsible investment work happens. To do this, we engage with public decision-makers and industry groups in various ways:

- Contributions to the regulatory environment, like engagement with the regulator and responding to consultations from the regulator;
- Leadership and contributions to industry standards, discussions and education initiatives with, for example, an active presence in Canada's Responsible Investment Association, or through more targeted initiatives relating to specific topics;
- Public communications through the media to share our beliefs and/or concerns;
- Support for public statements relating to our priority themes or specific issues.

## Disclosure

Transparency is an essential pillar that enables us to demonstrate that we are genuine in our approach. We are committed to disclosing the outcomes of our stewardship activities—for example, through the Desjardins Funds Annual Report on Responsible Investment.

We attach particular importance to monitoring progress, and we seek to document the benefits of our stewardship activities. Since the industry's tools are still being built, we are committed to a continuous improvement process where we aim following best practices as they are identified.

For Desjardins Sustainable Funds, we disclose data from engagement activities conducted by our portfolio managers, along with case studies that document the items presented in our approach.

For all Desjardins Funds, we publish the highlights and key statistics from the annual voting campaign, and we illustrate our positions through examples. In addition, we publish the outcomes of all voting activity under Desjardins Funds, in compliance with current regulatory expectations.<sup>10</sup>

As part of our engagement with decision-makers, we disclose our partnerships, our collaborations and the main collaborations of our portfolio managers.



## Conflicts of interest

We recognize that conflicts of interest may arise in the course of our stewardship activities. We are obligated to act in the best interest of holders, which involves having appropriate supervision policies and procedures in place to prevent, identify and manage conflicts of interest. Our mechanisms for preventing, identifying and managing conflict of interest are designed to comply with the regulation to which we are subject as the manager of Desjardins Funds, in order ultimately to support the priority dedicated to the best interests of holders.

As part of our due diligence process, we also check whether the portfolio managers we have mandated have mechanisms in place for preventing and managing conflicts of interest while performing the stewardship work we entrust them with.

10. On this page of the Desjardins Funds website: [Desjardins Funds \(issproxy.com\)](https://www.desjardins.com/issproxy.com)





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