

# Participating Life Insurance



## STABLE RETURNS BASED ON EXPERTISE AND DIVERSIFICATION

Desjardins Insurance's participating life insurance provides permanent life insurance coverage plus a tax-efficient investment component that pays dividends. This increases the value of the contract, which maximizes the policyholder's assets.

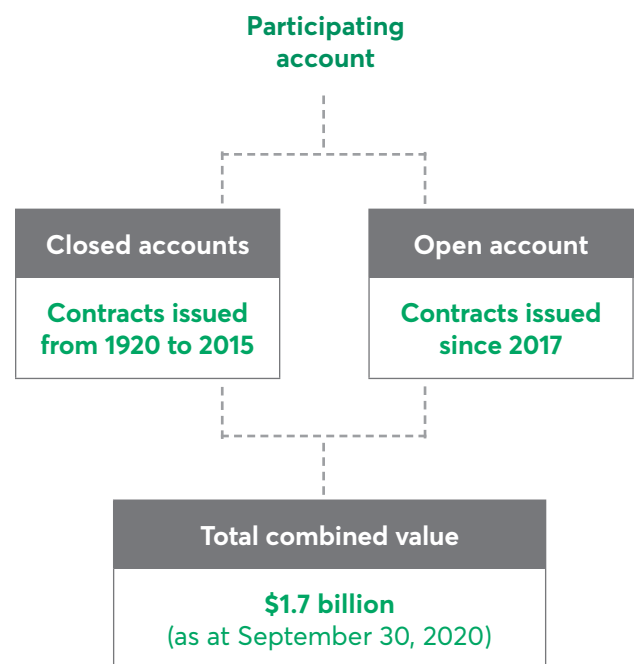
## Participating account

Desjardins Insurance has been offering Canadians a range of participating life insurance products for over 100 years.

All premiums paid by participating policyowners are managed in a separate account, called the "participating account." We have "closed" accounts, which contain participating contracts issued or acquired by Desjardins Insurance before 2017. We also have an "open" account, for all contracts issued since 2017.

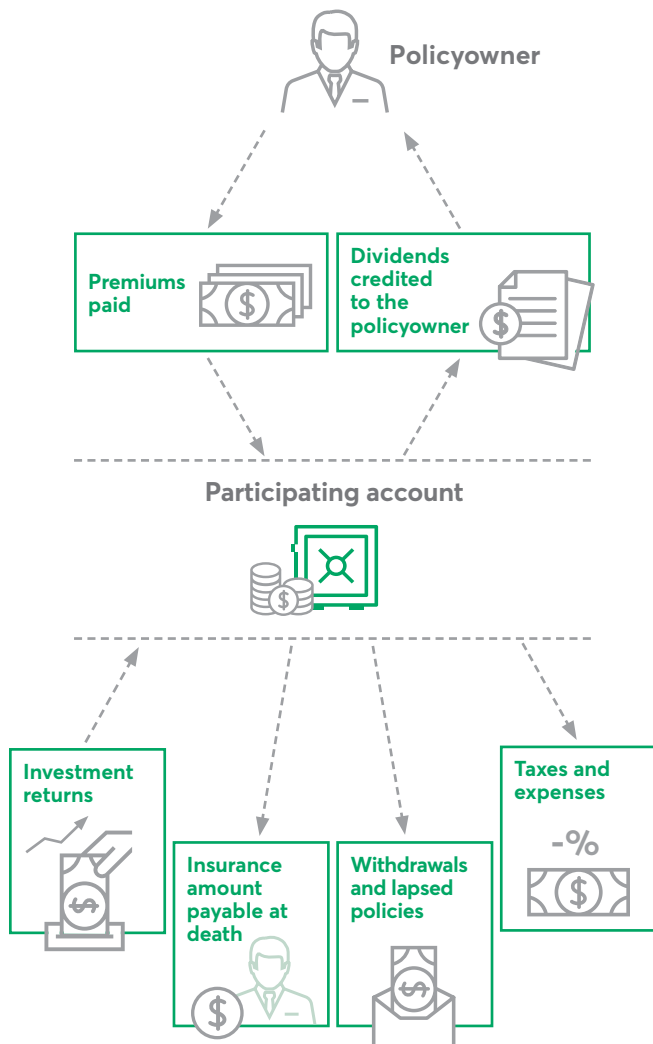
This new open account is managed separately, with a different dividend scale and interest rate than the closed accounts.

As at September 30, 2020, the total value of closed and open participating accounts was \$1.7 billion.



## How dividends are calculated

Dividends are calculated each year according to the financial performance of the dividend scale, which is calculated using the following factors:



Each year, dividends are attributed to policyowners when the participating account outperforms the assumptions used to determine the guaranteed values.

Dividend distributions are based on contributions and distributed fairly among policyowners according to their share of the participating account's profits.

While dividends are not guaranteed, once they are credited, they cannot be taken away.

## A diversified investment strategy

The premiums paid by policyowners are invested in a separate fund for life insurance policies whose goal is to secure the payment of annual dividends, amounts payable at death and cash surrender values.

The fund is managed by Desjardins Group's asset manager, Desjardins Global Asset Management (DGAM), one of Canada's leading asset managers.<sup>1</sup> An expert in this area, it has helped develop a long-term investment and strict risk management strategy.

DGAM has been an active signatory of the Principles for Responsible Investment (PRI) since 2017, with one of its representatives serving on the PRI network's advisory committee. PRI, which is the world's leading proponent of responsible investment, advocates for an improved understanding of the impact of ESG<sup>2</sup> factors on investments and supports international signatories as they incorporate them into their investment decisions.



<sup>1</sup> DGAM Corporate PowerPoint Presentation – October 2020

<sup>2</sup> Incorporating ESG criteria helps identify the various issues companies may be exposed to. The companies selected act in accordance with the best ESG practices possible in their industries. **E** refers to "Environment," e.g., climate change; **S** refers to "Social," e.g., workplace health and safety; and **G** refers to "Governance," e.g., diversity on boards of directors.

# A new asset management strategy for the open account

The open account's asset allocation is based on established targets. These targets may be revised periodically as the different asset classes evolve, while respecting Desjardins Insurance's investment policy.

Below is a breakdown of the participating accounts:

ASSET CLASS	TARGET%	MIN%*	MAX%*
<b>Fixed income</b>	<b>60.0%</b>		
Cash and short-term investments	0.0	0.0	10.0
Bonds:	29.5	20.0	50.0
Government bonds	7.0		
Corporate bonds	22.5		
Commercial mortgages	24.5	10.0	35.0
Preferred shares	6.0	0.0	10.0
<b>Variable income</b>	<b>40.0%</b>		
Common shares	10.0	5.0	30.0
Non-traditional investments:	30.0	10.0	40.0
Real estate	9.0	5.0	25.0
Private investments and infrastructure	16.0	5.0	25.0
Specialized strategies	5.0	0.0	10.0
<b>TOTAL</b>	<b>100.0%</b>		

\* Given that this new strategy will be rolled out gradually, the minimums and maximums may not be respected while the portfolio is being built.

DGAM, through its teams of experts in institutional investing, invests in a range of asset classes to profit from market growth while reducing volatility through diversification. This allows clients to benefit from exposure to asset classes that are normally reserved for institutional investors.

## The portfolio is made up of the following asset classes:

### Government bonds

The government bond portfolio primarily contains Canadian provincial bonds with different maturities.

### Corporate bonds

The corporate bond portfolio contains bonds issued by Canadian and foreign companies in various sectors. These high-quality securities and high-return securities improves the portfolio's performance.

### Commercial mortgages

The mortgage portfolio contains mortgages issued to businesses and public agencies for different types of properties in Canada's major urban centres.

### Preferred shares

The preferred share portfolio offers consistent, generally stable and fiscally advantageous current earnings. Securities are selected based on quality and the degree to which they represent their sector.

### Common shares

The common share portfolio is mainly invested in large cap companies around the world to take advantage of growth opportunities while ensuring geographic diversification.

### Real estate

The buildings in the portfolio are high quality institutional assets that generate an ongoing, predictable cash flow. They also offer the potential cash flow growth and asset appreciation in the long term.

### Private investments and infrastructure

Private investments and infrastructure generally have an attractive risk/reward profile. The infrastructure investments offer long-term, stable cash flows and have a low correlation with the other asset classes. They tend not to be very sensitive to economic cycles and can help protect against inflation.

### Specialized strategies

The specialized Canadian Equity market neutral strategy is designed to provide stable absolute returns in all market cycles. With a low market correlation, it aligns perfectly with rigorous risk management and portfolio diversification.

## Monitored returns

**On January 1, 2021**, the dividend scale interest rate on our open account will increase from **5% to 5.75%**. This rate will remain in effect until December 31, 2021, at which point it will be reassessed based on changes to the various factors.

The interest rate is just one factor used to calculate the dividends paid to a policy. A higher interest rate doesn't necessarily mean that the policy's values (dividends, cash surrender values and amount payable at death) will be higher. Many other factors affect the dividend scale, such as mortality, expenses, taxes paid by the insurer and policy lapses. The illustration report shows the policies' projected values, which are not guaranteed.

To minimize market fluctuations, a smoothing method is also applied to spread investment gains and losses over several years. This method reduces volatility and helps stabilize the interest rate.



# Financial performance

Desjardins Insurance has over 100 years of expertise managing participating life insurance contracts.

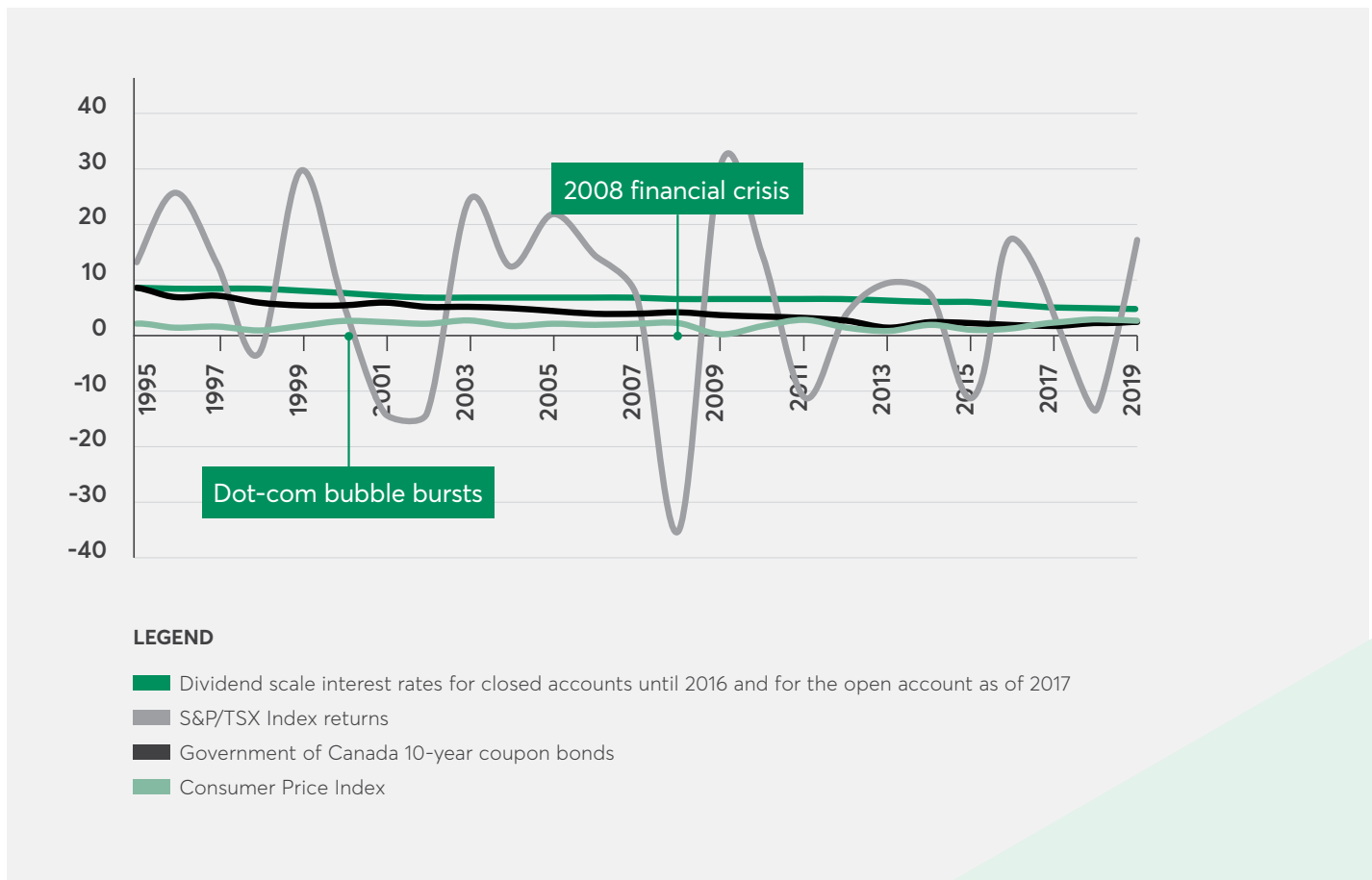
The following table and graph show the stability of our interest rates despite market fluctuations, compared to the S&P/TSX Index, Government of Canada 10-year bond yields and the Consumer Price Index (CPI).

## Dividend scale interest rate for the open account as of 2017

YEAR	Open account dividend scale interest rate	S&P/TSX Index returns	Government of Canada 10-year Coupon Bond	Consumer Price Index
2017	5.00%	6.03%	1.00%	1.60%
2018	5.00%	-11.64%	2.00%	2.30%
2019	5.00%	19.13%	2.25%	1.90%
2020	5.00%	n/a	n/a	n/a
2021	5.75%	n/a	n/a	n/a

Data as at December 31 of each year, except for the Consumer Price Index, which is obtained by averaging the indexes for the 12 months of the calendar year.

Sources: TSX® Copyright (2019). TSX Inc. All rights reserved.  
 STATISTICS CANADA (2019). Consumer Price Index is taken from CANSIM table 326-0021.  
 BANK OF CANADA (2019). Benchmark Canada Bonds



## Stability and expertise

The financial stability and performance of Desjardins Group, of which Desjardins Insurance is a part, has consistently earned high ratings from leading rating agencies that are on par with or exceed those of the five major Canadian banks and other insurance companies:

- Standard and Poor's (A+)
- Moody's (Aa2)
- DBRS (AA)
- Fitch (AA-)

Desjardins Group has \$313 billion in assets under management, over 7 million members and clients, and 47,849 employees across Canada.\*

## Accountability

Protecting our policyowners' interests is a top priority. Our Board of Directors reviews the actuarial report each year to ensure that the projected dividends are in line with the company's dividend policies and fair to all participating life insurance policyowners.

\* As at December 31, 2019.

## Choose Desjardins Insurance

Choose the strength and stability of a company specialized in life and health insurance and retirement savings, that is backed by over a century of experience and is one of the country's leading life insurers.



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