

Responsible Investment Policy



Responsible Annuities



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DESJARDINS:

More than 30 years of experience in responsible investment

Responsible investment (RI), also known as “sustainable investment” or “socially responsible investment”, consists of incorporating environmental, social and governance (ESG) factors into the selection and management of investments.

Desjardins is a responsible investment pioneer. In 1990, it launched the Desjardins Environment Fund, one of the first of its kind in Canada.

Back then, taking extra-financial criteria into consideration was a significant challenge to investment management practices. But the innovative approach favoured by Desjardins was in complete harmony with its mission and values—that of contributing to the economic and social well-being of individuals and communities.

While almost unheard of in the early '90s, ESG-based investment management is now experiencing strong growth across the globe.

Desjardins also aims to maintain best practices. This is 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. There are now more than 200 signatories. These signatories from every part of the world manage more than 25% of global premiums and more than US\$14 trillion¹.

Desjardins Insurance may make amendments to the RI Policy at its discretion to reflect changing community positions on environmental, social or governance issues, as well as any other related issues.

¹ The PSI Initiative “UNEP FI Principles for Sustainable Insurance”

Our responsible investment practices

ESG factors

Environmental, social and governance factors are based on the notions of sustainable development² and corporate social responsibility.

The nature and materiality of ESG issues vary a great deal from one company to another. These issues are particularly affected by the company's sector of activity and geographic location. Our portfolio managers focus their attention on the factors most likely to have a significant impact on the results of the companies they are analyzing.



Examples of elements considered for each criterion

 Environmental	Climate change <ul style="list-style-type: none"> Greenhouse gas emissions Resilience to climate change 	Natural resource use <ul style="list-style-type: none"> Protection of biodiversity Water supply 	Pollution and waste <ul style="list-style-type: none"> Pollutant emissions Product sustainability Reclaiming of residual materials 	Environmental opportunities <ul style="list-style-type: none"> Renewable energy supply Energy efficiency
	Human capital <ul style="list-style-type: none"> Subcontracting Occupational health and safety Competency development 	Responsibility for products and services <ul style="list-style-type: none"> Privacy protection Responsible purchasing Product reliability 	Social acceptability <ul style="list-style-type: none"> Management of impacts on communities 	Social opportunities <ul style="list-style-type: none"> Access to high-quality food Drugs for large-scale diseases Access to basic financial services
 Social	Corporate governance <ul style="list-style-type: none"> Independence and expertise of boards of directors Executive compensation Shareholder rights 	Governance practices <ul style="list-style-type: none"> Diversity Financial and extra-financial disclosure Aggressive tax strategy Corruption Lobbying 		
	 Governance			

² Brundtland, G. (1987). Report of the World Commission on Environment and Development: Our Common Future. United Nations General Assembly document A/42/427, <https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf>

Responsible Annuities management

When an annuity is purchased, Desjardins Insurance invests the client's premium and then pays them an annuity in the form of regular payments for a predetermined period or until their death. Desjardins Insurance pools all the premiums paid by investors and invests them using a responsible investment approach.

Our own investments are managed by Desjardins Global Asset Management (DGAM), a Desjardins subsidiary that signed on to the Principles for Responsible Investment (PRI)³.

Our beliefs when it comes to investment management

Desjardins fosters an economic development respectful of people and the environment, where "money is at the service of human development."

We believe that economic players have a responsibility toward their communities and their territories, and must act accordingly. This is why Responsible Annuities seek to promote business practices and corporate governance that are more respectful of communities and the environment.

Numerous studies show that companies that are concerned with ESG issues are better equipped to manage risks, thereby improving their return potential. Act responsibly, yes, but not at the expense of profitability!



Our commitments

Desjardins wishes to continue developing its responsible investment expertise. To do so, we make the following commitments:

- Maintaining exemplary practices and staying abreast of changes in ESG issues.
- Annual public reporting on non-financial results drawing on best practices.
- Contributing to the training of dealer representatives.
- Informing and educating the public about responsible investment.

³ <https://www.unpri.org/about-us/about-the-pri>

Implementation strategies

Objective and application of the RI Policy

The Responsible Investment Policy for Responsible Annuities (the "RI Policy") describes the approaches that we take when selecting securities. It also presents monitoring and managing investments levers that our portfolio managers are using to improve the ESG practices of the companies in which they are investing.

The RI Policy applies to all investments of responsible annuity premiums. Approaches may vary by asset classes and underlying strategies.

Our responsible investment strategies are implemented at two key times:

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

For the sake of simplicity and for the rest of the document, we use the term "Responsible Annuities" to refer to investments of Responsible Annuity premiums.

Selection process

Exclusions

Exclusions based on the nature of the activities carried out

Companies in certain sectors are immediately excluded due to the activities they carry out.

Weapons: Responsible Annuities do not invest in companies whose activities are connected with the production of weapons or military equipment prohibited by international humanitarian law (IHL). Weapons explicitly prohibited by IHL include cluster munitions, anti-personnel mines, non-detectable fragment weapons, incendiary weapons, blinding lasers, chemical weapons and biological weapons. In addition, they do not invest in companies whose activities are related to the production of nuclear weapons.

Also, Responsible Annuities do not invest in companies whose activities are connected with the manufacture of automatic or semi-automatic weapons intended for civilian use, as well as in companies that generate a major portion of their revenue⁴ from the sale or distribution of such weapons.

Tobacco and vaping: Responsible Annuities do not invest in companies whose activities are connected with the processing or production of tobacco and vaping products. Companies that generate a significant amount of revenue⁴ from the sale of tobacco products and vaping are also excluded.

Nuclear: Responsible Annuities do not invest in companies that generate a major portion of their revenue⁴ from the extraction of uranium or the production of nuclear energy.

There are, however, two exceptions to this rule. Investments may be considered if the activities are deemed beneficial to people, such as in the case of medical equipment manufacturing. In addition, Responsible Annuities may invest in green bonds and sustainable bonds issued by companies engaged in nuclear energy production, to help them invest in renewable energy for an energy transition.

⁴ We generally consider anything more than 10% of a company's total revenue to be a major portion.

Fossil fuels: Responsible Annuities do not invest in companies that generate a major portion of their revenue⁴ from petroleum, natural gas or thermal coal extraction or production, from the operation of gas and petroleum storage and transportation infrastructure, from oil refining, or from energy production from coal.

In the latter case, investments might be considered if the company publicly shows a commitment to reducing, within a reasonable time horizon, the portion of coal in its energy mix for the purpose of making an energy transition. For example, Responsible Annuities may invest in green bonds or sustainable bonds issued by companies engaged in coal-based energy production, to help them invest in renewable energy for an energy transition. For more information on coal-related activities, please refer to [Desjardins's Position on Coal](#).

The direct distribution of petroleum or natural gas products to the end consumer and the distribution of energy produced from coal are not excluded. Similarly, renewable natural gas production activities (e.g., biogas and waste reclamation) are not part of this exclusion.

Exclusions based on ESG factors

Responsible Annuities do not invest in a company that does not meet the minimum ESG factors management requirements for its activity sector or the geographic region in which it operates. The purpose of this approach is to exclude laggards that are not very open to improving their practices.

Also, in accordance with the [10 principles of the United Nations Global Compact](#)⁵, Responsible Annuities do not invest in companies involved in major controversies regarding their fundamental responsibilities in the areas of human rights, labour, the environment or anti-corruption.

Exclusions on sovereign issuers

Responsible Annuities apply exclusion criteria to the specificities of sovereign issuers. The following are thus excluded:

Human rights:

Sovereign debt of States that are not parties to the following universal human rights instruments⁶:

- International Convention on the Elimination of All Forms of Racial Discrimination.
- International Covenant on Civil and Political Rights.
- Convention on the Elimination of All Forms of Discrimination against Women.
- Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment.
- Convention on the Rights of the Child.
- Convention on the Rights of Persons with Disabilities.

Debt issued by countries in the bottom 10% of Freedom House's annual Global Freedom Report⁷, whether because of their performance in terms of political rights or civil liberties.

Nuclear weapons: sovereign debt of States that are not parties to the Treaty on the Non-Proliferation of Nuclear Weapons⁸.

Climate change: sovereign debt of States that are not parties to the Paris Climate Agreement⁹.

Fossil fuels: sovereign debt of emerging countries with large fossil fuel reserves¹⁰.

Note that Responsible Annuities could invest in green, social or sustainable bonds issued by those countries.

⁴ We generally consider anything more than 10% of a company's total revenue to be a major portion.

⁵ <https://www.unglobalcompact.org/what-is-gc/mission/principles>

⁶ OHCHR | Core International Instruments

⁷ Countries and Territories | Freedom House

⁸ UNODA Treaties

⁹ The Paris Agreement | UNFCCC

¹⁰ Countries with reserves greater than 1,000,000 kg of oil equivalent per capita are excluded.

Choosing securities

When selecting securities, Responsible Annuities portfolio managers may use many approaches beyond looking at traditional financial considerations.

Best-of-sector approach

In the Best-of-sector approach, portfolio managers select the companies that stand out from their peers in the management of ESG factors. Companies are compared on a sector basis. This allows portfolio managers to choose the most avant-garde companies in each sector in order to maintain optimal portfolio diversification.

Best-in-universe approach

In the Best-in-universe approach, portfolio managers select the companies that stand out from their peers in their management of ESG factors, irrespective of their sector. It allows portfolio managers to disregard certain market sectors or segments where no company meets their minimum expectations.

Best-effort approach

The Best-effort approach aims to select companies that are willing to improve their management of ESG factors. This approach applies especially to smaller companies or to companies operating in emerging markets. It is usually accompanied by a dialogue that aims to help the companies incorporate sustainable development into their practices or improve the disclosure of their environmental and social performance.



Thematic investing

Thematic investing is aimed at companies whose activities contribute to a more sustainable economy. Renewable energy, sustainable transport, biodiversity and healthy eating are examples of themes in this category.

Impact investing

Impact investing consists in investing with the intention of generating a beneficial and measurable impact on the community and the environment. To meet this objective, portfolio managers invest in companies whose products and services respond to specific environmental or social challenges.

Issuer monitoring

Responsible Annuities portfolio managers regularly monitor the issuers in which they invest. First of all, they make sure their financial performance meets our expectations. Secondly, they ensure that the issuers continue to meet our ESG criteria.

Stewardship

In accordance with its mission and values, Desjardins has chosen to be an engaged player with issuers in which Responsible Annuities invest. Dialogue, and where applicable, exercising voting rights and shareholder proposals are the levers that our portfolio managers use to improve practices and disclosure regarding ESG issues.

Dialogue

Engaging in a dialogue with an issuer is a powerful lever for change, based on a constructive relationship. Our portfolio managers identify the issues that they would like to see improved and then target the companies that they want to establish a business relationship with. They may also take part in collaborative dialogues with other portfolio managers and investors when deemed appropriate.

Exercising voting rights

Exercising voting rights allows shareholders to express themselves on all the topics brought to the shareholders' meeting in the form of proposals. Most proposals are submitted by management and deal with electing directors and compensating senior officers. Particularly, we pay attention to two important factors: director independence and board diversity.

We are also called to vote on proposals submitted by other shareholders. Each proposal is evaluated by looking at the established practices in the company concerned and in comparable companies.

The Responsible Annuities Policy on the Exercise of Proxy Voting Rights as well as recorded votes are available on the Web.¹¹



Shareholder proposal

When dialogue proves ineffective, we can draft a shareholder proposal to be submitted at the shareholders' meeting. When we bring our concerns to all the shareholders like this, we sometimes maximize our chances of being heard by management and ultimately reaching our objectives.

Divestment

Divesting from an issuer which we have selected at the end of a rigorous process is an exceptional act. 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 of our Responsible Investment Policy.

¹¹ <https://www.desjardins.com/ressources/pdf/c15-policy-exercise-voting-right-e.pdf>



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.

desjardinslifeinsurance.com/annuity