



DESJARDINS FUNDS 2016

# RESPONSIBLE INVESTMENT POLICY



**Desjardins**  
Wealth Management  
INVESTMENTS

Cooperating in building the future

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## 1. STATEMENT

The purpose of this policy is to define the decisions and actions of Desjardins Investments Inc. (hereinafter “we” or “us”) in the area of responsible investment. This policy is based on:

- The mission, vision and values of Desjardins Group (hereinafter “Desjardins”), which advocate economic development that is respectful of people and the environment, where money is “at the service of human development”
- Desjardins’s policy on its commitment to sustainable development.

This policy is designed to be consistent with:

- Desjardins’s priorities in the area of social and cooperative responsibility and its policy on financial education
- The Desjardins Promise, which views innovations in sustainable development as a means of ensuring customer satisfaction and standing out from the competition
- The seventh cooperative principle of the International Co-operative Alliance, of which Desjardins is a member, which states that “co-operatives work for the sustainable development of their communities through policies approved by their members”
- Our desire to offer Desjardins and its members potential business opportunities arising from Quebec’s *Sustainable Development Act* and any related strategies and action plans
- The Statement by Financial Institutions on the Environment and Sustainable Development (United Nations Environment Programme), which Desjardins signed in 2003
- Desjardins’s membership in the Carbon Disclosure Project
- The growing expectations of Desjardins’s members, clients and other stakeholders with regard to sustainable development and Desjardins’s social responsibilities.

Lastly, this policy is in line with our status as a signatory to the Principles for Responsible Investment (PRI), an international initiative supported by the United Nations.

## 2. OBJECTIVES

The policy has the following objectives:

- To define what we mean by the term “responsible investment” and other related terminology
- To provide a framework for the incorporation of responsible investment in our activities
- To provide a framework for monitoring and accountability mechanisms.

### 3. TERMINOLOGY

**Shareholder engagement:** A strategy whereby shareholders, acting within their rights and entitlements, use their influence to encourage companies to take action on environmental, social and governance (ESG) issues or problems. Techniques include engaging in dialogue with the company, submitting shareholder proposals and exercising voting rights.

**Environmental, social and governance (ESG) criteria:**

*Environmental criteria* consider the direct or indirect impact of a company's activity on the environment.

*Social criteria* consider the direct or indirect impact of a company's activity on stakeholders with regard to universal rights (human rights, international labour standards, anti-corruption, etc.).

*Governance criteria* consider the way in which a company is led, managed and controlled, in particular the relationships between the company and its shareholders, its board of directors and its management.

The term "extra-financial factors" is sometimes also used to refer to ESG criteria.

**Divestment:** A strategy whereby shares in a company are sold and put on a blacklist until the company makes the change being called for.

**Dialogue:** A strategy whereby a shareholder (or their representative) uses verbal and written exchanges with the company to build a relationship that allows the shareholder to raise concerns, ask for information or seek a change in behaviour.

**Exercising of voting rights:** A strategy whereby shareholders exercise the full rights attached to their shares, either directly or by proxy, without seeking to replace the role of governments, regulators or portfolio managers or interfering in the internal management of the issuing company.

**Responsible investment:** The incorporation of ESG criteria, in addition to the usual financial criteria, into the investment selection and management process. There are a range of responsible investment strategies: negative screening, norms-based screening, incorporation of ESG criteria into financial analysis models, selecting best-in-class ESG companies, shareholder engagement (including dialogue with issuers), positive screening, and high-impact investing.

**Stakeholders:** Actors (individuals or groups) whose interests may be affected, either positively or negatively, by our activities. Identifying and engaging with stakeholders is part of ISO standard 26000, published in 2010, which provides guidance on corporate social responsibility.

**Shareholder proposal:** A proposal or resolution put forward by shareholders seeking to have the company publish information, adopt or implement policies or practices, etc. The resolution is presented at the company's annual or special general meetings and put to a shareholder vote.

**Company (or corporation):** A legally incorporated commercial or industrial business that has a legal identity separate from its owners.

## 4. SPECIFICS OF THE POLICY

### 4.1. INTRODUCTION

Desjardins Investments is a component of Desjardins Group, the leading cooperative financial group in Canada. We specialize in the management of specialized savings products.

Desjardins has high standards of integrity, which form the foundation of the relationship of trust the organization has with its members, clients and business partners, as well as the community and government authorities. Its officers and employees are bound by strict ethical and professional conduct standards designed to further protect the interests of its members, clients and components, and also to promote the values of the International Cooperative Alliance through its decisions and actions. These values are:

- Self-help
- Self-responsibility
- Democracy
- Equality
- Equity
- Solidarity
- An ethical code based on honesty, openness, social responsibility and caring for others

Desjardins also has a set of permanent values:

- Money at the service of human development
- Personal commitment
- Democratic action
- Integrity and rigour
- Solidarity with the community
- Inter-cooperation

This policy provides a framework for us in our role as a manager of specialized savings products. It defines the conditions that must be met by Desjardins's funds (hereinafter the "Funds") and market-linked guaranteed investment products (hereinafter "MLGs") with respect to responsible investment and in the interests of the holders of Desjardins's Funds and MLGs (hereinafter "product holders").

### 4.2. GUIDING PRINCIPLES

As a manager of specialized savings products, our primary responsibility is to protect the medium- and long-term interests of our product holders while growing their money by investing in companies with attractive growth prospects.

The prosperity of a company depends on its strategies, on economic factors and on its own specific financial factors. But it also depends on extra-financial factors, as companies have a social responsibility to the communities and regions they operate in.

We believe that consideration of ESG criteria can have a positive influence on a company's long-term financial performance. That's why we require the corporate social responsibility practices of the companies we invest in to be based on recognized local, national or international standards and strategies, taking into account the industry sector and geographic coverage of the company's activities.

Generally speaking, we expect the issuing companies we invest in to have sound governance practices. Our positions on the matter are outlined in the Desjardins Funds [Policy on the Exercise of Proxy Voting Rights](#).

We also believe that companies should regularly publish reports disclosing ESG information to investors, covering their activities, products and services, infrastructure and expansion plans.

#### **4.2.1. SCOPE**

This policy applies to the specialized savings products for which we use a responsible investment approach.

Depending on the product, this approach means being consistent and transparent in our use of different combinations of strategies: negative screening, norms-based screening, ESG incorporation, shareholder engagement, positive screening and high-impact investment.

### **4.3. ADOPTION OF RESPONSIBLE INVESTMENT PRACTICES**

We make the following commitments:

- To take responsible investment strategies and ESG criteria into account when designing investment policies
- To inform and educate our stakeholders, including our members, clients, officers and employees, about ESG factors and impacts and the measures adopted under this policy
- To implement processes to measure and disclose ESG performance so that product holders can make assessments
- To support internal skills development in the area of ESG analysis

Responsible investment practices take many forms and can be adopted using one or more of the strategies described in the following sections.

#### **4.3.1. NEGATIVE SCREENING**

The following criteria are used to screen out investments associated with negative environmental or social impacts or side effects:

- Companies whose activities are related to the manufacture or production of tobacco products
- Companies whose activities are related to nuclear power generation
- Companies whose activities are related to the production or distribution of assault weapons or large-capacity magazines

Exceptions may be considered if the company's activities are deemed beneficial to society, for example medical equipment manufacturing.

Negative screening criteria may also be used to screen out holding companies that own one or more companies that meet these criteria.

### 4.3.2. NORMS-BASED SCREENING

We screen out companies whose activities may violate the terms of international treaties to which Canada is a party. We will immediately screen out companies whose activities are related to the production or distribution of weapons or military equipment prohibited by international humanitarian laws, including:

- Cluster munitions
- Anti-personnel mines
- Nuclear weapons

### 4.3.3. INCORPORATION OF EXTRA-FINANCIAL FACTORS

We work with our partners, portfolio manager and sub-managers to incorporate extra-financial criteria into the selection and management processes for our responsible investment products. These criteria are taken into account alongside traditional financial factors, but their weighting may vary from one asset class to another, and may be adapted based on product or instrument type or investment strategy.

### 4.3.4. SHAREHOLDER ENGAGEMENT

We believe it is our responsibility to take an interest in the companies in which our specialized savings products are invested. Shareholders play a role in the governance of the companies they own shares in. There are a number of ways we exert influence:

- Exercising voting rights at shareholder meetings: This is one way we can voice our position on issues raised at shareholder meetings.
- Engaging in dialogue to improve practices: Engaging in dialogue with targeted issuing companies is part of our annual planning process. We set objectives for the practices we would like to improve and build constructive relationships with these companies.
- Submitting shareholder proposals to effect change: when active dialogue doesn't produce results, a shareholder proposal in the form of a resolution presented at a shareholder meeting can be an effective way to voice our positions.
- We may engage in dialogue independently, in collaboration with investment partners, or as part of a coalition.
- Owing to our status, we will not engage in dialogue with companies in the Canadian finance industry.

### 4.3.5. DIVESTMENT

Divestment means selling a company's shares and putting it on a blacklist until it improves its practices.

We turn to divestment after multiple shareholder engagement strategies have not yielded the results we were aiming for. In these cases, we have come to the conclusion that we cannot exert any influence on the company to change practices that we deem unacceptable from an ESG standpoint.

We may also use a divestment strategy based on ESG criteria in special cases, for example during a major crisis or in the event of a serious violation of our principles.

#### 4.3.6. POSITIVE SCREENING

Some of our savings products use positive screening as an investment strategy, where we create specialized savings products that focus on one or more specific ESG issues.

#### 4.3.7. HIGH-IMPACT INVESTMENT

We also use selective screening strategies to create specialized products based on investments that address social needs while also providing appropriate returns.

### 5. REPORTING

We publicly report on our responsible investment results and activities on an annual basis, following industry best practices, particularly those promoted by the Principles for Responsible Investment.

### 6. INFORMATION, EDUCATION AND COMMUNICATION

We recognize that responsible investment is still a relatively new concept for individual investors in Canada. With that in mind, we support initiatives to raise awareness about responsible investment and educate investors. We also help create professional development programs for our representatives. We also regularly share the results of responsible investment activities with our clients, with Desjardins members and with the general public.

### 7. RESPONSIBILITY, ENFORCEMENT AND REVIEW

The Investment Solutions Division is responsible for this policy.

It is reviewed as needed, no less than every three years.

### 8. ANCILLARY DOCUMENTS

N/A

### 9. EFFECTIVE DATE

The policy comes into effect on the date it is adopted by the Board of Directors.

### 10. APPENDICES

N/A



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