

Governance Report

FIRST QUARTER 2018 | MARCH

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The Foresight Solution

Our group retirement product and service offer for small to medium-sized businesses is known as Foresight. Since its launch, the Foresight solution has been evolving to better meet the needs of the market. The revamped solution includes the Melodia Funds, in which fund manager selection, governance and monitoring are provided by investment experts at the Desjardins Group. In addition, the Melodia Funds provide exposure to non-traditional asset classes, which optimize performance by increasing diversification.

Your Responsibilities as a Plan Sponsor

The Capital Accumulation Plan (CAP) guidelines* enacted by the Joint Forum of Financial Market Regulators outline the duties and responsibilities of retirement savings plan sponsors (employers). The purpose of these guidelines is to make sure that plan participants (employees) receive enough information to make informed investment decisions. The advantage of the Foresight solution is that you can delegate these responsibilities to Desjardins experts committed to giving you the very best in governance services.

* When we refer to the CAP guidelines we also refer to the Defined Contribution Pension Plan Guideline issued by CAPSA, if applicable.

Economic Commentary – Q1 2018

Optimism fuelled stock markets at the start of the year, but sentiment turned in early February. Positive employment data for the United States triggered fears that the U.S. Federal Reserve (Fed) would raise its key interest rate faster and more aggressively than previously expected. In addition, Canadian and U.S. bond yields moved higher due to inflationary pressure and monetary tightening in North America. The U.S. stock market experienced a sharp correction, followed by the Canadian and international markets. This correction lasted about a week before markets again rallied on strong U.S. and global economic outlooks.

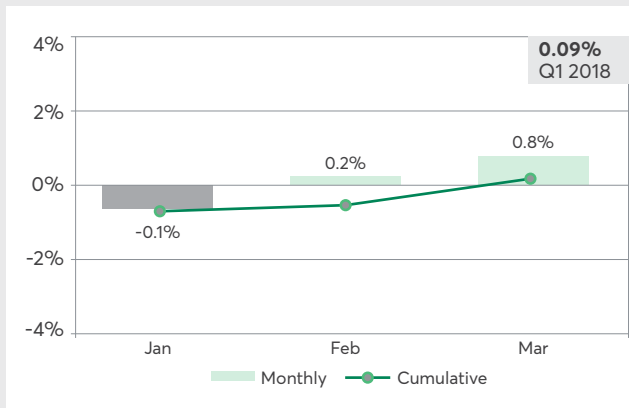
Market volatility has remained high since the February correction. The announcement of U.S. protectionist measures against China once again sent markets lower in March on investor anxiety over a trade war between the two countries.

In Canada, despite surging oil prices, the energy sector lost nearly 10%. This contributed to the underperformance of the Canadian stock market, which fell 4.52% on the quarter. The Bank of Canada raised its overnight rate to 1.25% in January but has left it unchanged since then. Total annual inflation climbed from 1.7% to 2.2% in February.

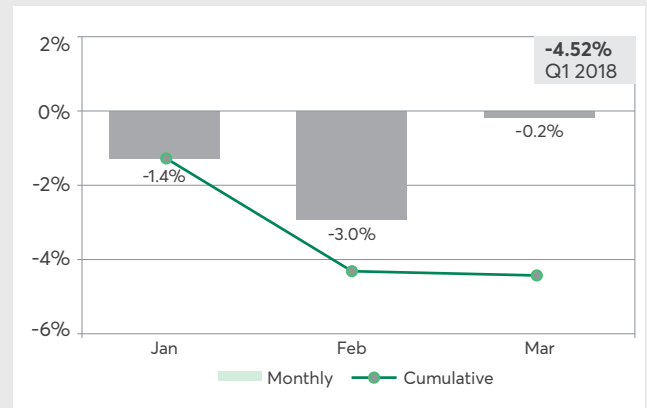
The U.S. stock market fell 0.76% in U.S. dollars, but gained 2.1% in Canadian dollars as the loonie continued to lose ground to the greenback. A solid economic forecast led the Fed to bump up its key rate 0.25% in March to 1.75%. Emerging markets performed well, driven by international trade and higher corporate earnings in these economies.

Returns – Main Indices

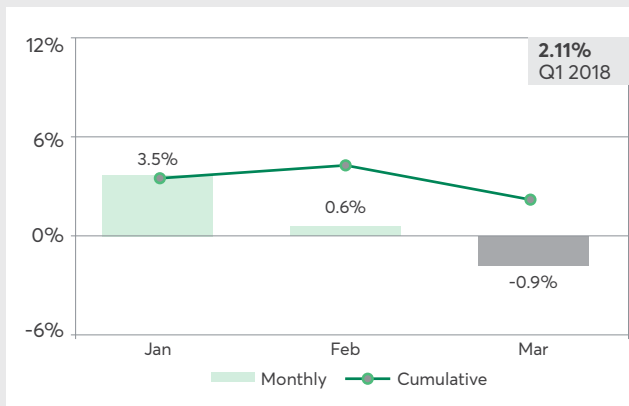
Canadian Fixed Income (FTSE TMX Universe)



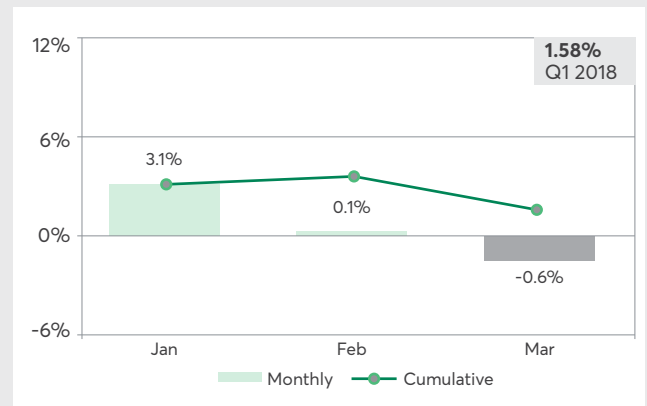
Canadian Equities (S&P/TSX)



American Equities (S&P 500 CAD)



World Equities (MSCI World Net CAD)



Melodia Funds – Performance Review

- All five Melodia Funds recorded positive absolute returns during the first quarter of 2018. On a relative basis, all Melodia Funds outperformed their respective benchmarks during the quarter.
- Over the last twelve months, all Melodia Funds generated positive returns and all five funds outperformed their respective benchmarks. Added value ranged between 2.33% and 4.95%.
- For a fifth quarter in a row, the Melodia Funds with the largest portion allocated to equity (Aggressive and Maximum) recorded the most positive absolute performance.
- The bond component had mixed contributions from allocation to both Canadian and foreign bonds this quarter. Bond funds posted returns between -1.64% (Desjardins Global Corporate Bond Fund) and 0.27% (Desjardins Enhanced Bond Fund).
- As for the equity component, the Canadian funds had a bad quarter with negative returns for all funds. International funds registered better performance than Canadian funds. The fund that contributed the most to performance was the Desjardins Overseas Equity Growth Fund (7.35%). The Desjardins Canadian Equity Fund contributed the least (-4.01%).

Gross Rates of Return (%)

March 31, 2018

FUND	Annualized Returns								
	YTD	1 mth	3 mths	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	10 yrs
0224 Melodia Moderate Growth ¹	0.69	0.24	0.69	6.11	7.33	4.48	6.07	7.05	N/A
Benchmark*	0.02	0.09	0.02	3.78	5.52	3.52	5.49	6.19	N/A
0226 Melodia Diversified Growth ¹	0.91	0.17	0.91	7.56	8.92	5.36	6.86	7.77	N/A
Benchmark*	0.01	-0.10	0.01	4.55	6.75	4.19	6.16	7.11	N/A
0228 Melodia Balanced Growth ¹	1.11	0.08	1.11	8.88	10.33	6.06	7.54	8.81	N/A
Benchmark*	0.01	-0.28	0.01	5.28	7.96	4.83	6.83	8.00	N/A
0230 Melodia Aggressive Growth ¹	1.41	-0.03	1.41	10.69	12.45	7.13	8.60	10.47	N/A
Benchmark*	0.00	-0.57	0.00	6.29	9.75	5.73	7.81	9.55	N/A
0232 Melodia Maximum Growth ¹	1.62	-0.09	1.62	11.88	13.74	7.74	9.25	11.46	N/A
Benchmark*	-0.01	-0.75	-0.01	6.93	10.94	6.29	8.45	10.51	N/A

¹ Returns including historical returns of underlying funds and/or strategy.

¹ Returns calculated before December 2013 are simulated according to the allocation of Melodia funds in force before this date.

* See benchmark on the funds pages.

Past performance is no assurance or indicator of future returns.

Governance

Desjardins Governance Process – The Four P's

Our meticulous monitoring program is done by a dedicated team of investment experts and includes rigorous processes to select and monitor fund managers.

When selecting fund managers, we examine the objectives and constraints that managers will face and then seek managers most likely to successfully meet all requirements. It is imperative that their risk-return strategies correspond to the investment policies, guidelines and overall needs of our plan sponsors with principles in line with ours.

A combination of factors will be taken into consideration, such as the manager's innovative and proven philosophy under various circumstances, adherence to the portfolio's investment policy / strategies and long-term performance. As a result, we only select top-quality fund managers with complementary management styles to offer a well-balanced, diversified selection of funds.

Every quarter, an analysis is conducted on each of the funds offered on our platform. Four main criteria, the four P's, are used: People, Process, Portfolio and Performance.

People	Process	Portfolio	Performance
<ul style="list-style-type: none"> • Has the investment team been stable? • Are the portfolio managers and research analysts experienced? Do they have complementary skills? • Does the ownership structure align the employees' interests with those of clients? 	<ul style="list-style-type: none"> • What are the aspects and characteristics of the investment process and how is it applied? • Is the investment process clearly defined and consistently applied? 	<ul style="list-style-type: none"> • Are the portfolio holdings consistent with the style of the approach? • How diversified is the portfolio, what is the concentration by sector and how many securities are held? 	<ul style="list-style-type: none"> • What are the sources of outperformance and underperformance? • Is the volatility of the fund appropriate given the mandate?

This analysis allows us to determine our level of comfort with each of the funds. Funds that do not meet one or more of these criteria are placed on a watch list, which means they are monitored more closely and a specific correction plan is put in place.

Executive Summary – Q1 2018

At this time, three underlying mandates composing the Melodia Funds are being followed closely:

- The Desjardins Global Corporate Bond Fund, sub-advised by AllianceBernstein, is being monitored due to its changes to upper management.
- The Desjardins Global Inflation Linked Bond Fund, sub-advised by BlackRock, is being monitored since it is the new mandate manager.
- The Desjardins Overseas Equity Value Fund, sub-advised by Aberdeen, is being monitored due to its underperformance and important organisational changes.

All the other mandates adequately meet our four governance criteria.

No changes are recommended at this time, but in keeping with our good governance practices, rigorous monitoring of these mandates will be done and we will keep you informed of any developments.