

Governance Report

FIRST QUARTER 2020 | MARCH

What's inside this report?

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- Governance Update

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 latest solution includes the Melodia Funds, in which fund manager selection, governance and monitoring are provided by investment experts at 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 2020

The crisis caused by the COVID-19 pandemic led to a downward revision of the economic outlooks, and they remain very uncertain. This resulted in a significant pullback for all stock markets around the world.

The Canadian market was doubly affected. In addition to the pandemic, the dispute between Saudi Arabia and Russia caused oil prices to fall to their lowest levels in almost 2 decades, accentuating the Canadian oil industry's problems.

The COVID-19 pandemic crisis will end the longest growth cycle in U.S. history. In order to stimulate the economy, the U.S. government implemented a plan to offer US\$2,300 billion in support: nearly three times the amount of the stimulus package for the 2008 financial crisis.

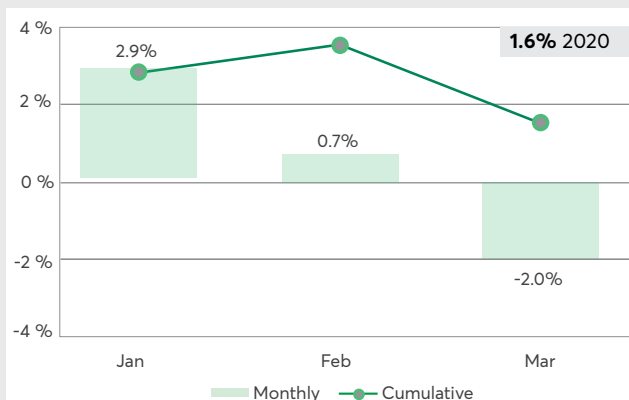
The unprecedented stimulus packages from governments and the recent data on the spread of COVID-19 contributed to an initial rebound at the end of March that continued during the first weeks of April.

In response to the expected drop in the global economy, the Federal Reserve and the Bank of Canada decreased their key rates by 150 basis points over the quarter to a target rate of 0 to 0.25%. Combined with the securities purchasing programs, these actions by the central banks contributed positively to bond performance.

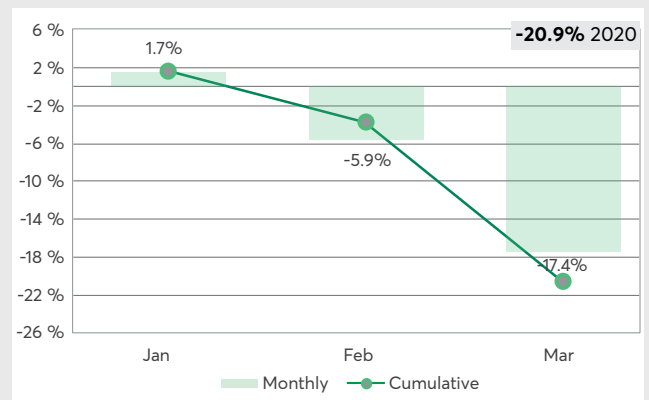
Most international currencies, including the Canadian dollar, fell against the U.S. dollar. Often considered a safe haven, U.S. currency remains attractive in periods of uncertainty.

Returns – Main indices

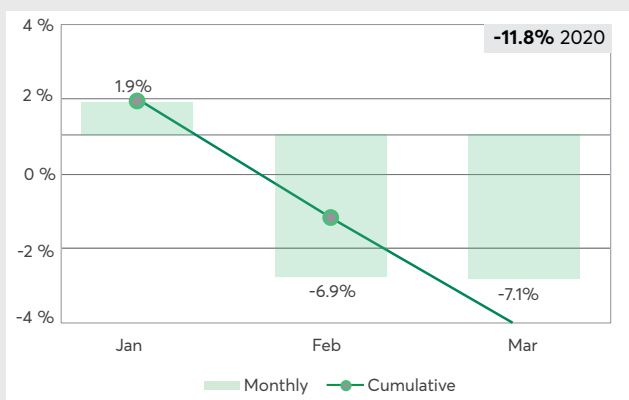
Canadian fixed income (FTSE Canada Universe Bond)



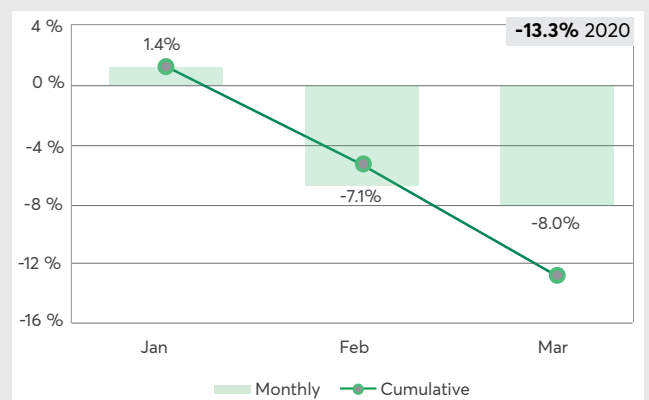
Canadian equities (S&P/TSX)



American equities (S&P 500 CAD)



World equities (MSCI World Net CAD)



Melodia Funds – Performance Review

- All five Melodia Funds recorded negative returns during the first quarter of 2020. On a relative basis, all Melodia Funds underperformed their respective benchmarks during the quarter.
- Over the last twelve months, all Melodia Funds generated negatives returns and all funds underperformed their respective benchmarks. Their added value ranged between -1.83% and -0.23%.
- Regarding the fixed income component, all bond funds generated negative returns in the first quarter of 2020. Returns varied between -16.19% (Desjardins Floating Rate Income Fund) and -0.15% (Desjardins Canadian Bond Fund).
- As for the equity component, all equity funds posted negative returns. The fund that contributed the most to performance was the Desjardins Overseas Equity Growth Fund (-3.84%). The Desjardins Canadian Equity Value Fund contributed the least (-32.13%).

Gross Rates of Return (%)

March 31, 2020

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⁾	-7.77	-7.67	-7.77	-1.90	1.26	2.85	4.25	3.18	N/A	
Benchmark*	-5.11	-5.29	-5.11	-0.07	2.83	3.14	4.16	3.24	N/A	
0226 Melodia Diversified Growth ⁽¹⁾	-9.27	-8.31	-9.27	-2.93	0.72	2.95	4.74	3.48	N/A	
Benchmark*	-6.89	-6.21	-6.89	-1.45	2.21	2.99	4.45	3.40	N/A	
0228 Melodia Balanced Growth ⁽¹⁾	-10.75	-8.97	-10.75	-3.98	0.18	3.00	5.13	3.67	N/A	
Benchmark*	-8.66	-7.14	-8.66	-2.83	1.58	2.80	4.72	3.52	N/A	
0230 Melodia Aggressive Growth ⁽¹⁾	-12.93	-9.96	-12.93	-5.50	-0.63	3.01	5.71	3.96	N/A	
Benchmark*	-11.27	-8.52	-11.27	-4.91	0.61	2.47	5.08	3.65	N/A	
0232 Melodia Maximum Growth ⁽¹⁾	-14.38	-10.63	-14.38	-6.53	-1.18	3.00	6.02	4.08	N/A	
Benchmark*	-12.98	-9.45	-12.98	-6.30	-0.05	2.22	5.30	3.71	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.

Composition of the Melodia Funds

FIXED INCOME	CANADIAN EQUITY	FOREIGN EQUITY
Desjardins Canadian Bond	Desjardins Canadian Equity Value	Desjardins American Equity Growth
Desjardins Enhanced Bond Fund	Desjardins Canadian Equity	Desjardins American Equity Value
Desjardins Global Total Return Bond Fund	Desjardins Tactical Balanced Fund (Growth portion)	Desjardins Overseas Equity Growth
Desjardins Global Bond Fund		Desjardins Overseas Equity
Desjardins Global Tactical Bond Fund		Desjardins Global Small Cap Equity
Desjardins Floating Rate Income Fund		Desjardins Emerging Markets Opportunities
Desjardins Tactical Balanced Fund (Income portion)		Desjardins Emerging Markets
		Desjardins Tactical Balanced Fund (Growth portion)

À la carte Funds – Performance review

Gross Rates of Return (%)

March 31, 2020

FUNDS	Annualized Returns								
	YTD	1 mth	3 mths	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	10 yrs
FIXED INCOME									
0213 DGIA Money Market ¹	0.48	0.09	0.48	1.99	1.97	1.71	1.61	1.50	1.45
0288 Desjardins Short-Term Income (DGIA)	0.93	-0.66	0.93	2.73	3.05	2.10	2.18	1.91	N/A
0289 Desjardins Canadian Bond (DGIA)	-0.13	-3.45	-0.13	3.16	4.14	3.21	2.86	2.47	N/A
0290 Desjardins Enhanced Bond (AllianceBernstein)	-4.15	-7.16	-4.15	-0.21	2.26	1.97	2.28	2.00	N/A
0375 Desjardins Global Bond (Lombard Odier)	-1.70	-4.41	-1.70	2.85	3.65	3.03	N/A	N/A	N/A
0234 Desjardins Global Tactical Bond (PIMCO)	-8.80	-11.41	-8.80	-0.52	2.54	3.54	5.38	4.27	N/A
CANADIAN EQUITY									
0343 Desjardins Canadian Equity Income (Lincluden)	-26.18	-20.00	-26.18	-20.65	-8.14	-5.14	-0.30	-0.09	5.61
0292 Desjardins Canadian Equity (DGIA)	-18.34	-15.52	-18.34	-11.51	-2.89	-1.68	2.32	0.52	N/A
0208 Desjardins Canadian Small Cap Equity (Fiera) ²	-28.16	-23.87	-28.16	-18.77	-9.17	-5.97	-2.35	-2.76	N/A
FOREIGN EQUITY									
0331 Desjardins Global Equity Dividend (Epoch)	-18.07	-11.10	-18.07	-12.39	-1.94	-0.52	2.13	2.52	8.30
0344 Desjardins Global Equity Growth (Baillie Gifford)	-11.29	-9.12	-11.29	-0.21	2.59	8.85	11.73	8.98	13.03
0297 Desjardins Global Small Cap Equity (Lazard)	-23.52	-17.59	-23.52	-15.72	-11.06	-2.86	0.02	0.12	N/A
RESPONSIBLE INVESTMENT FUNDS									
0440 Desjardins Responsible Fixed Income	-1.55	-4.77	-1.55	1.97	N/A	N/A	N/A	N/A	N/A
0347 Desjardins SocieTerra Environmental Bond (Mirova)	-3.14	-6.67	-3.14	2.12	3.46	3.05	2.55	N/A	N/A
0441 Desjardins Responsible Growth	-11.96	-9.22	-11.96	-0.93	N/A	N/A	N/A	N/A	N/A
0348 Desjardins SocieTerra Cleantech Equity (Impax)	-17.87	-13.37	-17.87	-6.62	-0.53	4.05	7.62	7.37	9.44

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

¹ DGIA Management Inc. has managed this fund since November 23, 2012. Between September 2003 and November 2012 the fund was managed by Fiera Capital Corporation.

² Desjardins Investments Inc. has managed this fund since July 13, 2016. Between June 2011 and July 2016 the fund was managed by Fiera Capital Corporation.

* 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 carried out 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 2020

At this time, three underlying mandate composing the Melodia Funds and one fund from the A la carte funds are being monitored closely:

- The Desjardins Canadian Equity Value Fund, which is an underlying of the Melodia Funds, is being monitored due to overall performance below expectations.
- The Desjardins American Equity Value Fund, which is an underlying of the Melodia Funds, is being monitored due to a departure from the team.
- The Desjardins Tactical Balanced Fund, which is an underlying of the Melodia Funds, had an exit recommendation filed in April 2020.
- The Desjardins Global Equity Dividend (Epoch), which is offered A la carte, is being monitored due to certain changes to the investment process.

All the other underlying mandates of the Melodia Funds and the A la carte funds 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.

Desjardins Insurance refers to Desjardins Financial Security Life Assurance Company.

*Registered trademark owned by Desjardins Financial Security Life Assurance Company