

# Governance Report

SECOND QUARTER 2020 | JUNE

## What's inside this report?

- Economic Commentary
- Foresight Funds Performance Review
- 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 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 – Q2 2020

The gradual reopening of economies, large stimulus packages and growing hope for a new vaccine led to a strong rebound for the main stock markets around the world. The initial data on the global economy suggest a quicker recovery than expected.

The upsurge in COVID-19 cases at the end of the quarter especially in the United States may nonetheless slow down economic recovery at the end of the quarter. The pandemic is currently the primary source of uncertainty on the financial markets, and there is every reason to believe that it will take several years before the economic environment returns to normal.

Like many other countries around the globe, Canada experienced one of the worst recessions in its history, prompting one of the U.S. credit rating agencies to lower its rating. However, we should see the Canadian economy start to recover in May as lockdown measures are lifted. This was followed by a significant increase in the Canadian stock market fuelled in part by a sharp increase in the materials and technology sectors.

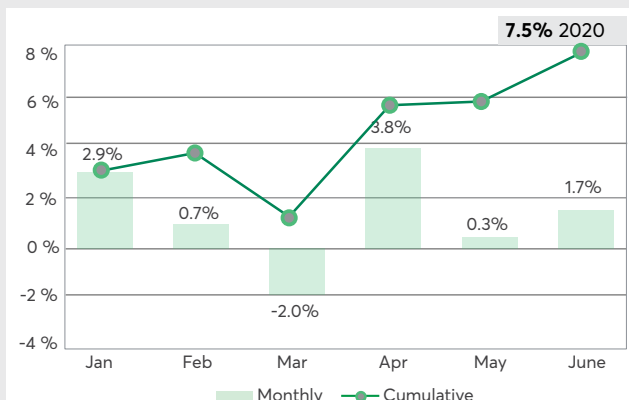
In the United States, the technology sector contributed substantially to the best quarterly performance for the U.S. stock market in more than two decades. Furthermore, the U.S. Federal Reserve remains committed to using all the tools at its disposal to support the economy. Low interest rates and securities purchasing should continue for a while.

The first country affected by the pandemic, China, was also one of the first economies to recover. Industrial production has already recovered to almost the same level as before the crisis. However, relations between China and a number of countries, including the United States, have deteriorated as a result of the coming into force of the national security act imposed by the Chinese regime on Hong Kong and the crackdown on demonstrators there.

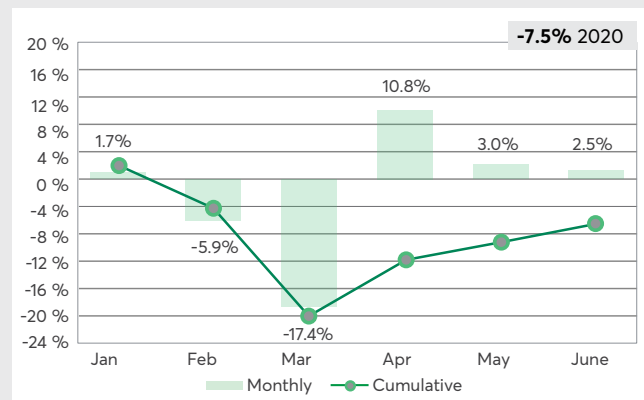
The Canadian dollar appreciated against most international currencies. Compared to the U.S. dollar, the value of the Canadian dollar increased by 4.5% over the quarter, decreasing the value of assets denominated in foreign currencies.

## Returns – Main indices

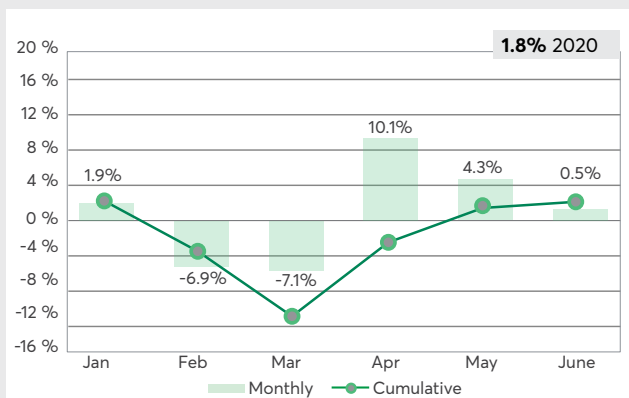
**Canadian fixed income (FTSE Canada Universe Bond)**



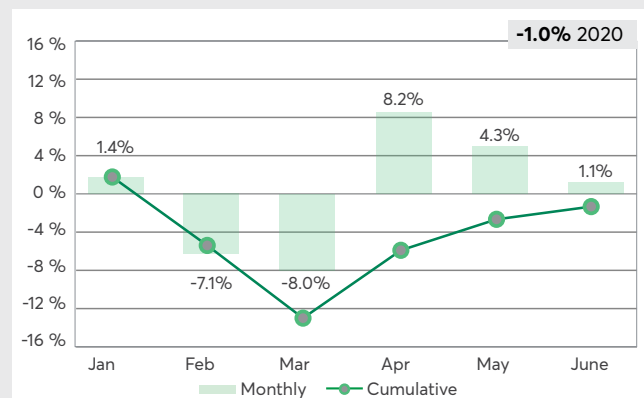
**Canadian equities (S&P/TSX)**



**American equities (S&P 500 CAD)**



**World equities (MSCI World Net CAD)**



# Melodia Funds – Performance Review

- All five Melodia Funds recorded positive absolute returns during the second quarter of 2020. 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 funds outperformed their respective benchmarks. Their added value ranged between 0.14% and 1.97%.
- Regarding the fixed income component, all bond funds generated positive returns in the second quarter of 2020. Returns varied between 4.24% (Desjardins Global Bond Fund) and 8.70% (Desjardins Floating Rate Income Fund).
- As for the equity component, all equity funds posted positive returns. The fund that contributed the most to performance was the Desjardins Overseas Equity Growth Fund (34.29%). The Desjardins American Equity Value Fund contributed the least (9.52%).

## Gross Rates of Return (%)

June 30, 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 <sup>(1)</sup>	2.13	2.15	10.74	5.96	5.99	5.88	6.25	5.55	7.14
Benchmark*	2.76	1.51	8.29	5.82	6.17	5.63	5.61	5.17	N/A
0226 Melodia Diversified Growth <sup>(1)</sup>	1.50	2.18	11.87	5.98	5.78	6.28	7.01	6.05	7.84
Benchmark*	1.74	1.55	9.27	5.40	5.83	5.79	6.13	5.51	N/A
0228 Melodia Balanced Growth <sup>(1)</sup>	0.79	2.22	12.93	5.90	5.52	6.61	7.69	6.44	8.47
Benchmark*	0.70	1.60	10.25	4.96	5.47	5.92	6.63	5.82	N/A
0230 Melodia Aggressive Growth <sup>(1)</sup>	-0.32	2.25	14.48	5.75	5.11	7.05	8.67	7.02	9.53
Benchmark*	-0.86	1.66	11.72	4.26	4.89	6.06	7.35	6.24	N/A
0232 Melodia Maximum Growth <sup>(1)</sup>	-0.97	2.29	15.66	5.73	4.88	7.36	9.31	7.37	10.13
Benchmark*	-1.92	1.71	12.71	3.76	4.49	6.14	7.82	6.49	N/A

<sup>(1)</sup> Returns including historical returns of underlying funds and/or strategy.

<sup>(1)</sup> 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 (%)

June 30, 2020

FUNDS	Annualized Returns								
	YTD	1 mth	3 mths	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	10 yrs
<b>FIXED INCOME</b>									
0213 DGIA Money Market <sup>1</sup>	1.18	0.21	0.70	2.20	2.12	1.88	1.70	1.58	1.50
0288 Desjardins Short-Term Income (DGIA)	3.81	0.74	2.86	4.55	4.30	3.14	2.68	2.44	2.65
0289 Desjardins Canadian Bond (DGIA)	7.06	2.17	7.21	7.76	7.55	5.26	3.99	4.27	4.84
0290 Desjardins Enhanced Bond (AllianceBernstein)	3.50	2.37	7.98	4.84	6.33	4.28	3.44	3.92	4.86
0375 Desjardins Global Bond (Lombard Odier)	5.72	2.05	7.55	7.61	7.39	5.35	3.94	N/A	N/A
0234 Desjardins Global Tactical Bond (PIMCO)	-0.95	2.04	8.61	3.80	6.97	5.39	6.49	6.12	N/A
<b>CANADIAN EQUITY</b>									
0343 Desjardins Canadian Equity Income (Lincluden)	-18.60	1.45	10.28	-13.05	-5.71	-1.17	1.17	2.22	7.21
0292 Desjardins Canadian Equity (DGIA)	-5.52	2.14	15.70	-0.44	1.43	3.54	5.12	3.64	6.44
0208 Desjardins Canadian Small Cap Equity (Fiera) <sup>2</sup>	-3.95	3.86	33.70	6.21	2.57	4.79	3.23	3.16	N/A
<b>FOREIGN EQUITY</b>									
0331 Desjardins Global Equity Dividend (Epoch)	-11.23	-0.34	8.35	-4.76	0.80	1.91	3.57	4.83	10.53
0344 Desjardins Global Equity Growth (Baillie Gifford)	9.20	5.63	23.09	19.26	11.94	14.50	17.87	13.83	16.23
0297 Desjardins Global Small Cap Equity (Lazard)	-9.05	0.42	18.91	-1.88	-4.98	2.20	5.25	3.51	12.01
<b>RESPONSIBLE INVESTMENT FUNDS</b>									
0440 Desjardins Responsible Fixed Income	5.25	2.00	6.91	6.31	N/A	N/A	N/A	N/A	N/A
0347 Desjardins SocieTerra Environmental Bond (Mirova)	1.89	1.72	5.19	3.74	6.07	4.45	3.31	3.96	N/A
0441 Desjardins Responsible Growth	2.65	2.24	16.59	11.36	N/A	N/A	N/A	N/A	N/A
0348 Desjardins SocieTerra Cleantech Equity (Impax)	-3.30	1.65	17.74	5.98	7.79	8.22	11.48	10.67	11.86

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

<sup>1</sup> 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.

<sup>2</sup> 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 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"><li>• Has the investment team been stable?</li><li>• Are the portfolio managers and research analysts experienced? Do they have complementary skills?</li><li>• Does the ownership structure align the employees' interests with those of clients?</li></ul>	<ul style="list-style-type: none"><li>• What are the aspects and characteristics of the investment process and how is it applied?</li><li>• Is the investment process clearly defined and consistently applied?</li></ul>	<ul style="list-style-type: none"><li>• Are the portfolio holdings consistent with the style of the approach?</li><li>• How diversified is the portfolio, what is the concentration by sector and how many securities are held?</li></ul>	<ul style="list-style-type: none"><li>• What are the sources of outperformance and underperformance?</li><li>• Is the volatility of the fund appropriate given the mandate?</li></ul>

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 – Q2 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 Canadian Equity Income (Lincluden), which is offered A la carte, is being monitored due to certain changes to the investment process.
- 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