

Governance Report

SECOND QUARTER 2021 | JUNE

What's inside this report?

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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 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 2021

Pandemic developments continue to have a major impact on global economic growth. The regions that were most affected by the second and third waves of COVID-19 have had a harder time in their economic recoveries than other countries. However, the markets remain optimistic as vaccination campaigns make headway and public health restrictions loosen. Nearly all stock markets around the world posted strong performances for the quarter.

In Canada, the quarter ended on a positive note with an 8.41% return for the MSCI Canada Index (total return). The financial and information technology sectors played a major role in this impressive performance. The Bank of Canada (BoC) slowed the pace of its bond purchases in April, then opted for the status quo in June. Positive developments in the public health crisis suggest that the Canadian economy will see a strong rebound this summer. The BoC should therefore continue to gradually tighten its monetary policy while reducing its bond purchases. The FTSE Canada Universe Bond Index posted a 1.66% gain for the quarter.

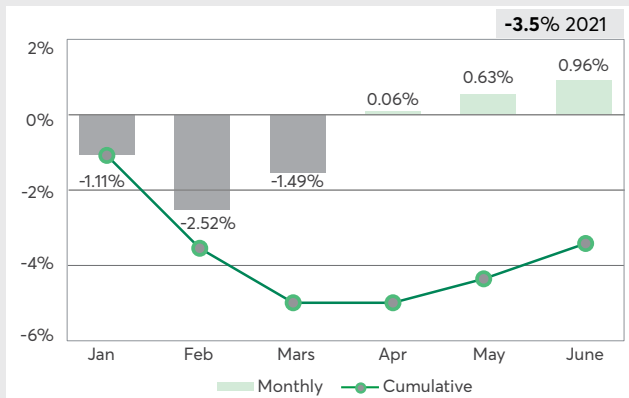
The US stock markets fared well thanks to the information technology sector's performance. The MSCI USA Index posted a return of 7.18% for the period. As for bonds, the Federal Reserve adopted a more optimistic tone, even signalling that the robust outlooks for inflation and the labour market could justify normalizing its monetary policy sooner.

The slow pace of vaccination campaigns in emerging countries and tightened financial conditions in China have had a negative impact on economic growth outlooks for those countries. The stock markets were hampered by the 3.50% quarterly return on the MSCI Emerging Markets Index (CAD) (total return).

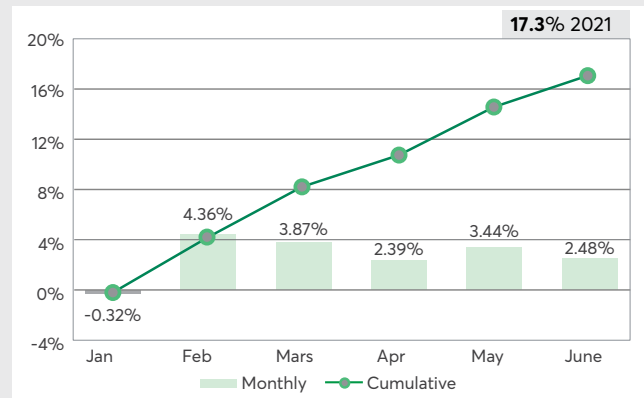
With an updraft from domestic monetary policy and rising commodity prices, the Canadian dollar appreciated against most foreign currencies, including the US dollar, trimming returns on foreign currency denominated assets.

Returns – Main indices

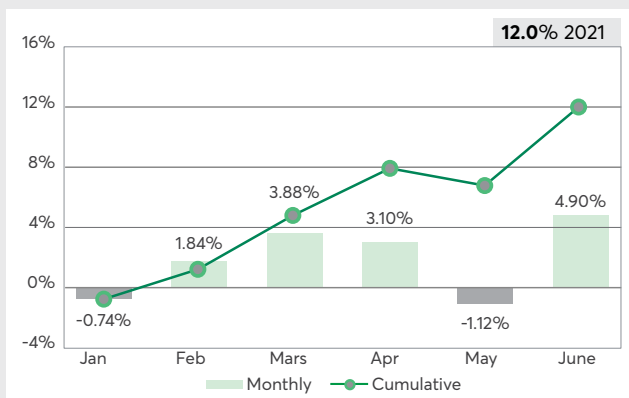
Canadian fixed income (FTSE Canada Universe Bond)



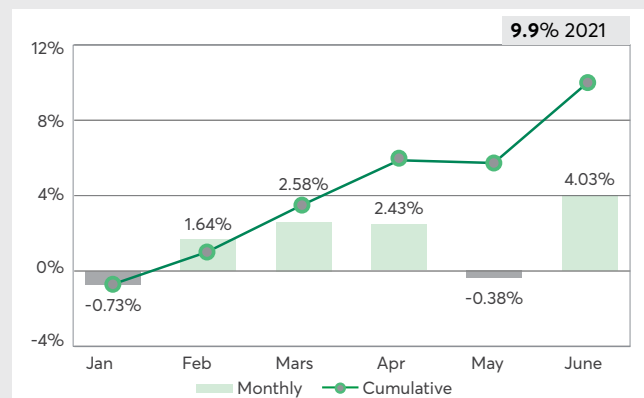
Canadian equities (S&P/TSX)



American equities (S&P 500 CAD)



World equities (MSCI World Net CAD)



Melodia Funds – Performance Review

- All five Melodia Funds (except one) recorded positive absolute returns during the second quarter of 2021. 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 2.89% and 3.11%.
- Regarding the fixed income component, all bond funds generated positive returns in the second quarter of 2021. Returns varied between 1.25% (Desjardins Global Bond Fund) and 4.08% (Desjardins Emerging Markets Bond 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 Fund (8.76%). The Desjardins Emerging Markets Fund contributed the least (1.07%).

Gross Rates of Return (%)

June 30, 2021

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⁾	2.51	1.74	3.51	11.41	8.65	7.77	7.23	7.26	7.17	
Benchmark*	2.07	1.72	3.19	8.52	7.16	6.95	6.34	6.18	6.54	
0226 Melodia Diversified Growth ⁽¹⁾	3.95	1.96	3.91	14.55	10.18	8.63	8.29	8.48	7.92	
Benchmark*	3.50	1.98	3.68	11.54	8.43	7.70	7.20	7.19	7.33	
0228 Melodia Balanced Growth ⁽¹⁾	5.41	2.17	4.34	17.75	11.67	9.45	9.29	9.63	8.67	
Benchmark*	4.95	2.23	4.17	14.63	9.69	8.44	8.03	8.19	7.94	
0230 Melodia Aggressive Growth ⁽¹⁾	7.50	2.51	4.99	22.48	13.81	10.61	10.72	11.30	9.90	
Benchmark*	7.15	2.62	4.91	19.40	11.57	9.52	9.25	9.66	9.11	
0232 Melodia Maximum Growth ⁽¹⁾	8.88	2.75	5.41	25.69	15.28	11.40	11.68	12.40	10.63	
Benchmark*	8.64	2.87	5.40	22.66	12.81	10.22	10.05	10.63	9.80	

⁽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 Dividend Growth Fund	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 Emerging Markets Bond		iShares Core S&P Small-Cap ETF
iShares Global Government Bond Index ETF (CAD- Hedged)		Desjardins International Equity Value Fund
		iShares MSCI EAFE Small-Cap ETF

À la carte Funds – Performance review

Gross Rates of Return (%)

June 30, 2021

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	0.17	0.00	0.07	0.53	1.36	1.59	1.54	1.46	1.44
0288 Desjardins Short-Term Income (DGIA)	-0.50	-0.17	0.19	1.30	2.91	3.29	2.68	2.40	2.49
0211 DGIA Bond	-3.51	0.95	1.68	-2.34	2.66	4.20	3.33	2.67	4.00
0290 Desjardins Enhanced Bond (AllianceBernstein)	-2.33	1.03	2.15	0.80	2.80	4.45	3.40	2.90	4.19
0375 Desjardins Global Bond (PGIM)	0.32	1.79	2.98	6.26	6.93	7.01	N/A	N/A	N/A
0234 Desjardins Global Tactical Bond (PIMCO)	1.19	1.43	3.55	10.03	6.87	7.98	6.53	7.19	N/A
CANADIAN EQUITY									
0292 Desjardins Canadian Equity (DGIA)	17.40	2.64	8.43	33.25	15.18	11.09	10.28	10.23	7.69
0208 Desjardins Canadian Small Cap Equity (Fiera) ²	14.97	3.98	10.03	44.14	23.73	14.89	13.48	10.36	10.00
FOREIGN EQUITY									
0331 Desjardins Global Equity Dividend (Mondrian)	9.96	2.09	3.75	20.87	7.29	7.09	6.35	6.82	10.86
0344 Desjardins Global Equity Growth (Baillie Gifford)	8.25	5.55	6.23	33.21	26.04	18.62	18.92	20.79	17.21
0297 Desjardins Global Small Cap Equity (Lazard)	15.35	2.98	6.21	37.11	15.99	7.37	9.99	10.97	13.08
RESPONSIBLE INVESTMENT FUNDS									
0440 Desjardins Responsible Fixed Income	-2.46	0.89	1.60	0.47	3.35	N/A	N/A	N/A	N/A
0347 Desjardins SocieTerra Environmental Bond (Mirova)	-1.47	0.53	0.31	4.34	4.04	5.49	4.42	3.51	N/A
0441 Desjardins Responsible Growth	7.95	3.46	5.91	30.60	20.60	N/A	N/A	N/A	N/A
0348 Desjardins SocieTerra Cleantech Equity (Impax)	10.27	4.28	6.77	49.15	25.73	20.12	17.25	18.17	15.03

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 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 – Q2 2021

At this time, three underlying mandates composing the Melodia Funds and two funds from the À 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 Enhanced Bond Fund, which is an underlying of the Melodia Funds and offered À la carte, is being monitored due to a disappointing performance.
- The Desjardins Global Small Cap Equity, which is an underlying of the Melodia Funds and offered À la carte, is being monitored due to a disappointing performance.

All the other underlying mandates of the Melodia Funds and the À la carte funds adequately meet our four governance criteria.