

# Governance Report

FOURTH QUARTER 2020 | DECEMBER

## 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 members (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 – Q4 2020

The global economy continues to be seriously affected by the spread of COVID-19. A resurgence in many parts of the world has resulted in a temporary deterioration of the global economic outlook because of the measures implemented to curb the pandemic. However, the beginning of vaccination campaigns in many countries has contributed to advances on the main global stock markets.

In Canada, the steep rise in oil prices and the strong growth of the financial sector helped boost the stock market, which posted growth of 8.7% during the quarter<sup>1</sup>. Like many of the other central banks, the Bank of Canada maintained very favourable financing conditions to help the economy get through the pandemic and foster quick post-COVID growth.

In the United States, the US presidential election created its share of uncertainty. Joe Biden's victory should lead to many changes in economic, health and environmental policy. On the equity side, the technology and finance sectors contributed to the 8.8% growth of the MSCI USA Index in Canadian dollars (total return). The Canadian dollar appreciated against the US dollar, reducing returns for US dollar-denominated assets.

The level of volatility on the global financial markets remains relatively high due to uncertainty tied to the COVID-19 pandemic.

The fourth quarter capped a tumultuous 2020. After an excellent 2019, the financial markets were keeping pace at the beginning of 2020, until the COVID-19 pandemic hit. After posting sharp retreats in February and March, the stock markets made a strong comeback thanks to government recovery programs, central bank interventions and the reopening of economies. The markets then fluctuated in line with the evolution of the pandemic and progress in the development and distribution of the various vaccines.

All in all, 2020 was a positive year for the main stock and bond markets. As such, the US stock markets posted growth of 28.6% for the year, fuelled by the strong gains in technology stocks<sup>2</sup>. The Canadian stock market was slowed down by the energy sector and grew 3.5% in 2020<sup>3</sup>. On the bond side, the central banks' highly accommodative monetary policies put downward pressure on key rates, including in Canada, where this context contributed to the FTSE Canada Universe Bond Index's 8.7% return for the year.

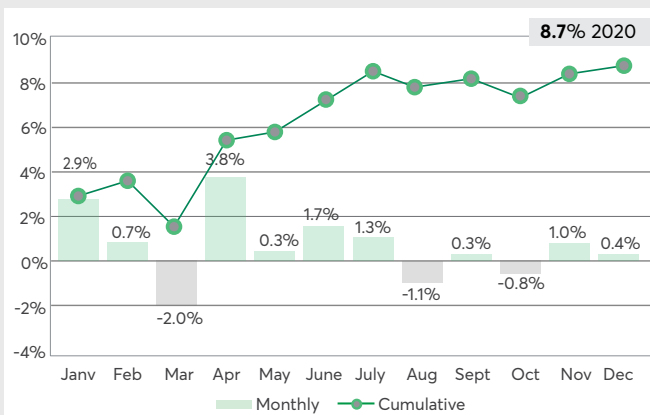
<sup>1</sup> Based on the MSCI Canada Index quarterly return (total return).

<sup>2</sup> Based on the MSCI USA Index annual return in Canadian dollars (total return).

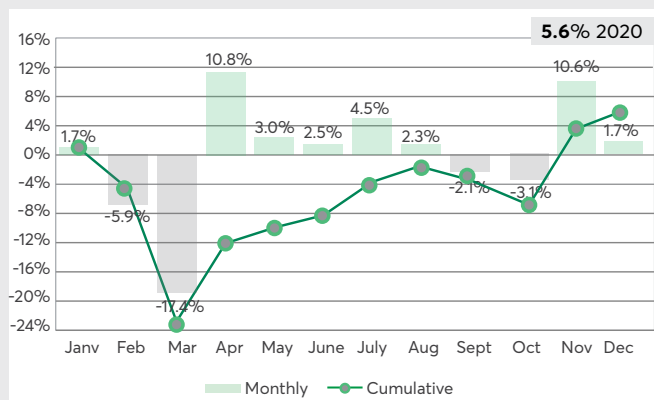
<sup>3</sup> Based on the MSCI Canada Index annual return (total return).

## Returns – Main Indices

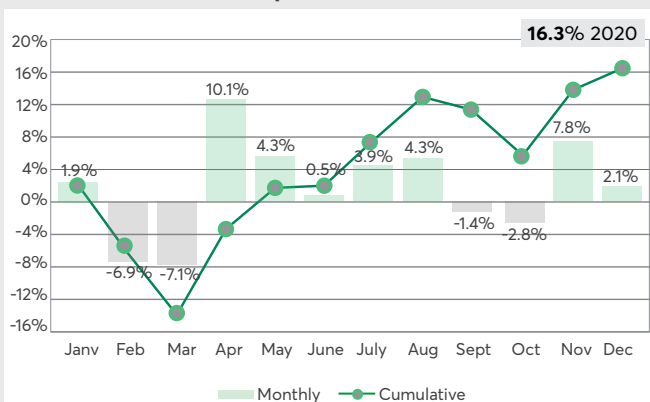
Canadian fixed income (FTSE Canada Universe Bond)



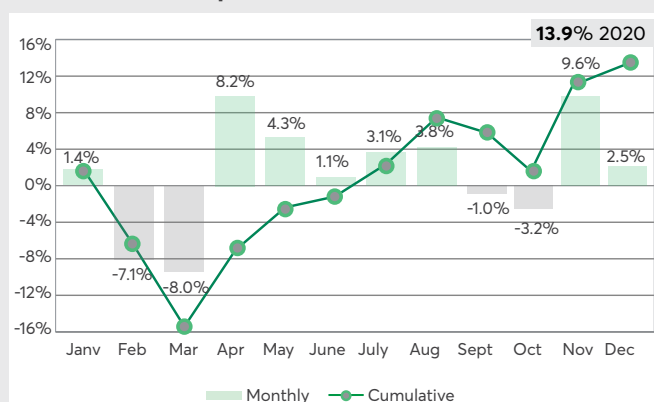
Canadian equities (S&P/TSX)



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 fourth 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 1.74% and 3.59%.
- Regarding the fixed income component, all bond funds generated positive returns in the fourth quarter of 2020. Returns varied between 1.14% (Desjardins Canadian Bond Fund) and 6.16% (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 (18.29%). The Desjardins Overseas Equity Fund contributed the least (7.70%).

### Gross Rate of Return (%)

December 31, 2020

FUND	YTD	1 mths	3 mths	1 yrs	Annualized Returns				
					2 yrs	3 yrs	4 yrs	5 yrs	10 yrs
0224 Melodia Moderate Growth <sup>(1)</sup>	11.00	1.54	5.34	11.00	12.17	7.51	7.86	7.22	7.12
Benchmark*	9.26	1.21	3.95	9.26	10.53	6.78	6.68	6.24	6.55
0226 Melodia Diversified Growth <sup>(1)</sup>	11.84	1.77	6.28	11.84	13.31	8.06	8.73	8.07	7.77
Benchmark*	9.65	1.46	4.87	9.65	11.37	7.16	7.26	6.87	7.21
0228 Melodia Balanced Growth <sup>(1)</sup>	12.59	1.99	7.21	12.59	14.40	8.58	9.52	8.77	8.35
Benchmark*	10.00	1.70	5.78	10.00	12.20	7.51	7.82	7.47	7.65
0230 Melodia Aggressive Growth <sup>(1)</sup>	13.57	2.31	8.56	13.57	16.01	9.31	10.62	9.83	9.35
Benchmark*	10.47	2.07	7.14	10.47	13.41	8.01	8.62	8.32	8.59
0232 Melodia Maximum Growth <sup>(1)</sup>	14.32	2.53	9.46	14.32	17.14	9.84	11.36	10.48	9.91
Benchmark*	10.74	2.31	8.05	10.74	14.20	8.33	9.13	8.86	9.12

<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 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 Emerging Markets

# À la carte Funds – Performance review

## Gross Rate of Return (%)

December 31, 2020

	Annualized Returns								
	YTD	1 mths	3 mths	1 yrs	2 yrs	3 yrs	4 yrs	5 yrs	10 yrs
<b>FONDS</b>									
<b>FIXED INCOME</b>									
0213 DGIA Money Market <sup>1</sup>	1.55	0.02	0.11	1.55	1.81	1.79	1.63	1.57	1.49
0288 Desjardins Short-Term Income (DGIA)	5.69	0.31	0.76	5.69	4.62	3.68	2.98	2.76	2.73
0289 Desjardins Canadian Bond (DGIA)	9.16	0.48	1.10	9.16	8.22	5.85	5.07	4.43	4.77
0290 Desjardins Enhanced Bond (AllianceBernstein)	6.82	0.78	2.13	6.82	7.80	5.33	4.74	4.36	4.75
0375 Desjardins Global Bond (PGIM)	11.98	0.98	3.53	11.98	9.94	6.88	5.80	N/A	N/A
0234 Desjardins Global Tactical Bond (PIMCO)	7.71	1.56	5.12	7.71	11.14	7.23	7.86	8.44	N/A
<b>CANADIAN EQUITY</b>									
0343 Desjardins Canadian Equity Income (Lincluden)	-7.99	1.92	7.70	-7.99	4.68	0.41	1.56	5.57	7.18
0292 Desjardins Canadian Equity (DGIA)	7.24	1.54	8.65	7.24	14.71	5.93	5.82	8.04	5.68
0208 Desjardins Canadian Small Cap Equity (Fiera) <sup>2</sup>	20.42	5.55	15.08	20.42	24.37	10.75	7.97	9.06	N/A
<b>FOREIGN EQUITY</b>									
0331 Desjardins Global Equity Dividend (Epoch)	-2.42	0.90	6.83	-2.42	6.28	3.78	5.32	5.21	9.87
0344 Desjardins Global Equity Growth (Baillie Gifford)	34.38	3.16	11.90	34.38	30.40	18.90	20.56	16.75	16.58
0297 Desjardins Global Small Cap Equity (Lazard)	8.11	4.76	16.12	8.11	14.89	4.50	7.33	5.85	11.65
<b>RESPONSIBLE INVESTMENT FUNDS</b>									
0440 Desjardins Responsible Fixed Income	8.40	0.50	1.66	8.40	N/A	N/A	N/A	N/A	N/A
0347 Desjardins SocieTerra Environmental Bond (Mirova)	7.90	0.39	3.01	7.90	8.72	5.98	5.20	4.78	N/A
0441 Desjardins Responsible Growth	24.19	3.09	11.18	24.19	N/A	N/A	N/A	N/A	N/A
0348 Desjardins SocieTerra Cleantech Equity (Impax)	30.79	6.52	19.00	30.79	30.36	16.75	17.06	15.94	13.62

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

<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 – Q4 2020

**At this time, two underlying mandate 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 overall performance below expectations.
- The Desjardins Global Small Cap Equity, which is an underlying of the Melodia Funds and offered À la carte, is being monitored due to overall performance below expectations.
- The Desjardins Global Equity Dividend fund (Epoch), which is offered À la carte, is being monitored due to certain changes to the investment process.

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

DESJARDINS INSURANCE refers to Desjardins Financial Security Life Assurance Company.

DESJARDINS, DESJARDINS INSURANCE and related trademarks are trademarks of the Fédération des caisses Desjardins du Québec used under licence by Desjardins Financial Security Life Assurance Company.

200, rue des Commandeurs, Lévis (QC) G6V 6R2 / 1-866-647-5013

desjardinslifeinsurance.com