

# Governance Report

SECOND QUARTER 2019 | 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 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 – Q2 2019

The second quarter of 2019 was marked by renewed hostilities between China and the United States and a change in direction by several central banks. Overall, the main stock and bond markets continued their progression. Going their own way, several Asian stock markets posted a decline resulting from greater sensitivity to current economic tensions and deceleration of the Chinese economy.

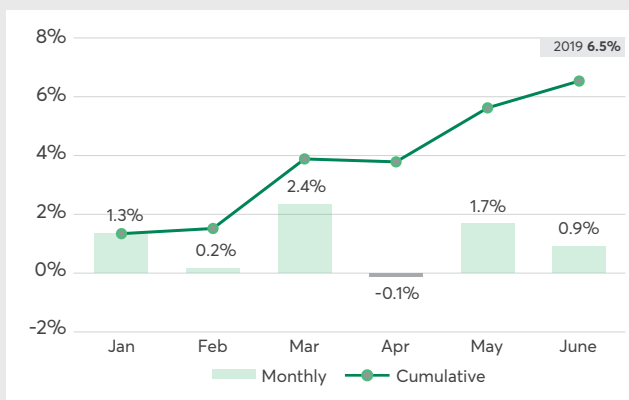
In Canada, the stock market posted one of the highest growths with a 2.59% return for the MSCI Canada Index (total return). This gain is partly a result of the strong performance by the financial and technology sectors. As for the Bank of Canada, the governor's speech, which was both cautious and confident about the Canadian economy, fostered an increase in the Canadian bond market. Furthermore, the lifting of tariffs on Canadian aluminum and steel offers encouraging signs for the signing of the economic agreement between Canada, the United States and Mexico.

In the United States, growth of the U.S. economy exceeded expectations. Nonetheless, the Federal Reserve has some uncertainties regarding the world economy, which could translate into two reductions of the key rate in 2019 according to the forecasts by Desjardins economists. As for equities, the U.S. stock market continued its growth with a performance amounting to 2.02% over the quarter.

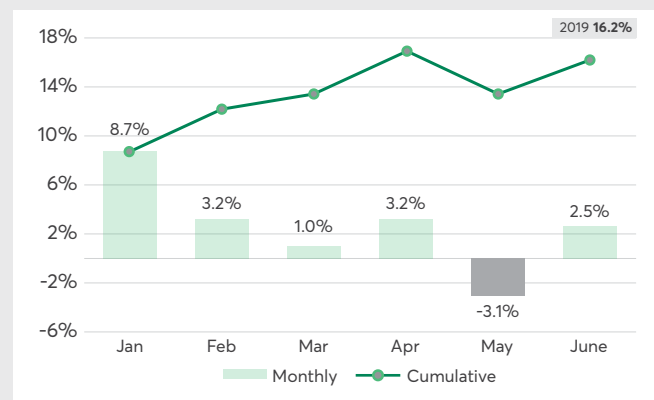
In Europe, the European Central Bank continues to closely monitor inflation data, which remains low and could result in an easing of monetary policy. In addition, the uncertainties regarding Brexit persist after Theresa May, the prime minister of the United Kingdom, resigned in June. Regarding emerging markets, the Chinese economy is showing signs of a slowdown, caused in part by the tariff escalation with the United States, while the economic results in India were not up to expectations. The MSCI Emerging index (total return) is down slightly by 1.6%.

## Returns – Main Indices

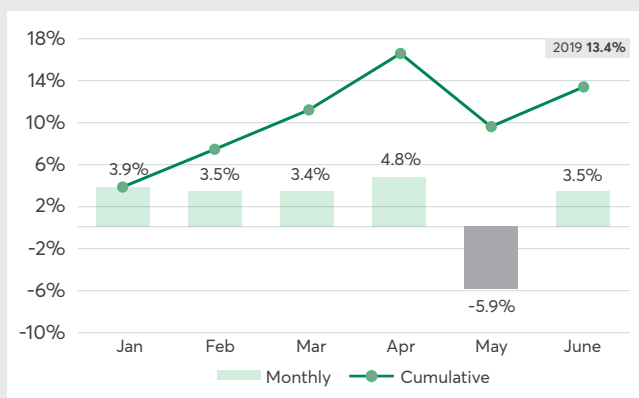
Canadian Fixed Income (FTSE TMX Universe)



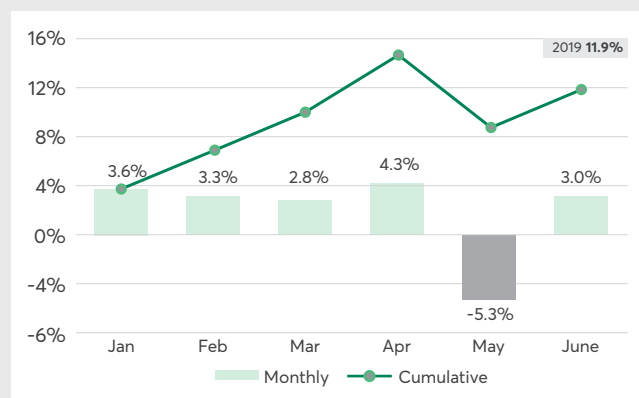
Canadian Equities (S&P/TSX)



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 second quarter of 2019. 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 underperformed their respective benchmarks. Added value ranged between -0.55% and -1.34%.
- The fixed income component had positive contributions from allocation to both Canadian and foreign bonds this quarter. Bond funds posted returns between 3.85% (Desjardins Global Corporate Bond Fund) and 1.09% (Desjardins Short-term Income Fund).
- As for the equity component, all funds except two posted positive returns. The fund that contributed the most was the Desjardins American Equity Growth Fund (5.50%). The Desjardins Emerging Markets Opportunities Fund contributed the least (-3.90%).

### Gross Rates of Return (%)

June 30, 2019

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>	9.25	1.79	2.52	6.03	5.83	6.35	5.44	5.77	N/A
Benchmark*	8.57	1.62	2.26	6.51	5.53	5.54	5.01	5.54	N/A
0226 Melodia Diversified Growth <sup>(1)</sup>	9.94	1.95	2.46	5.59	6.43	7.36	6.07	6.35	N/A
Benchmark*	9.19	1.80	2.17	6.26	5.98	6.38	5.54	6.07	N/A
0228 Melodia Balanced Growth <sup>(1)</sup>	10.64	2.13	2.40	5.15	6.97	8.29	6.57	6.87	N/A
Benchmark*	9.81	1.97	2.06	5.98	6.40	7.20	6.04	6.59	N/A
0230 Melodia Aggressive Growth <sup>(1)</sup>	11.70	2.38	2.30	4.48	7.71	9.66	7.34	7.66	N/A
Benchmark*	10.72	2.24	1.90	5.54	6.98	8.40	6.74	7.37	N/A
0232 Melodia Maximum Growth <sup>(1)</sup>	12.42	2.56	2.25	4.04	8.19	10.53	7.78	8.16	N/A
Benchmark*	11.33	2.41	1.78	5.22	7.35	9.20	7.18	7.87	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 Short-Term Income	Desjardins Canadian Equity Value	Desjardins American Equity Growth
Desjardins Canadian Bond	Desjardins Canadian Equity	Desjardins American Equity Value
Desjardins Enhanced Bond	Desjardins Tactical Balanced Fund (Growth portion)	Desjardins Overseas Equity Growth
Desjardins Global Corporate Bond		Desjardins Overseas Equity
Desjardins Emerging Markets Bond		Desjardins Global Small Cap Equity
Desjardins Global Inflation Linked Bond		Desjardins Emerging Markets Opportunities
Desjardins Tactical Balanced Fund (Income portion)		Desjardins Tactical Balanced Fund (Growth portion)

# A la carte Funds – Performance review

## Gross Rates of Return (%)

June 30, 2019

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>	1.04	0.14	0.50	2.03	1.71	1.53	1.42	1.43	1.34	
0288 Desjardins Short-Term Income (DGIA)	2.83	0.23	1.07	4.05	2.44	2.06	1.91	2.09	N/A	
0289 Desjardins Canadian Bond (DGIA)	6.59	1.02	2.63	7.35	4.03	2.76	3.41	3.96	N/A	
0290 Desjardins Enhanced Bond (AllianceBernstein)	7.41	1.13	2.79	7.84	4.00	2.98	3.69	3.99	N/A	
0375 Desjardins Global Bond (Lombard Odier)	6.04	1.40	2.79	7.18	4.24	2.74	N/A	N/A	N/A	
0234 Desjardins Global Tactical Bond (PIMCO)	8.85	1.78	3.54	9.65	5.91	7.21	6.57	5.52	N/A	
<b>CANADIAN EQUITY</b>										
0343 Desjardins Canadian Equity Income (Lincluden)	11.50	1.01	0.65	2.25	5.36	6.41	6.44	5.67	10.67	
0292 Desjardins Canadian Equity (DGIA)	16.44	2.00	2.83	3.33	5.58	7.04	4.69	3.98	N/A	
0208 Desjardins Canadian Small Cap Equity (Fiera) <sup>2</sup>	16.16	2.28	2.25	-0.95	4.09	2.26	2.41	1.43	N/A	
<b>FOREIGN EQUITY</b>										
0331 Desjardins Global Equity Dividend (Epoch)	7.88	2.08	-0.34	6.69	5.42	6.50	7.37	8.33	10.84	
0344 Desjardins Global Equity Growth (Baillie Gifford)	15.87	3.23	2.99	5.06	12.19	17.40	12.51	13.88	15.07	
0297 Desjardins Global Small Cap Equity (Lazard)	13.17	2.26	2.14	-7.99	4.30	7.74	4.90	8.18	N/A	
<b>RESPONSIBLE INVESTMENT FUNDS</b>										
0440 Desjardins Responsible Fixed Income	N/A	1.01	2.54	N/A	N/A	N/A	N/A	N/A	N/A	
0347 Desjardins SocieTerra Environmental Bond (Mirova)	7.59	2.05	3.55	8.46	4.81	3.16	4.02	N/A	N/A	
0441 Desjardins Responsible Growth	N/A	3.13	3.73	N/A	N/A	N/A	N/A	N/A	N/A	
0348 Desjardins SocieTerra Cleantech Equity (Impax)	18.54	4.61	3.75	9.64	9.35	13.38	11.87	11.71	11.19	

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 2019

At this time, three underlying mandates composing of the Melodia Funds and two funds from the *A la carte* funds are being monitored closely:

- The Desjardins Global Inflation Linked Bond Fund, sub-advised by BlackRock, is being monitored because the mandate will be revised in the third quarter of 2019.
- The Desjardins Global Corporate Bond Fund, sub-advised by AllianceBernstein, is being monitored because of its underperformance relative to its benchmark.
- The Desjardins Global Small Cap (Lazard) Fund, which is an underlying of the Melodia Funds and offered *A la carte*, is being monitored due to overall performance below expectations.
- The Desjardins SocieTerra Environmental Bond (Mirova) is being monitored since the departure of its portfolio manager.

**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