

Governance Report

FOURTH QUARTER 2019 | DECEMBER

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 – Q4 2019

The fourth quarter of 2019 was marked by renewed optimism in the markets on the heels of a first agreement between China and the United States. The easing of trade tensions contributed to the widespread advance at the world's main global stock markets, particularly those of emerging markets, which gained 9.5% over the quarter. In Canada, the rise in oil prices contributed to strong performance in the energy sector. Overall, the Canadian stock market posted a 2.7% gain during the quarter according to the MSCI Canada Index (net return). For bonds, the Bank of Canada maintained the status quo on the country's monetary policy, despite stronger than anticipated inflation. The FTSE Canada Universe Bond Index posted a decline of -0.85% for the quarter.

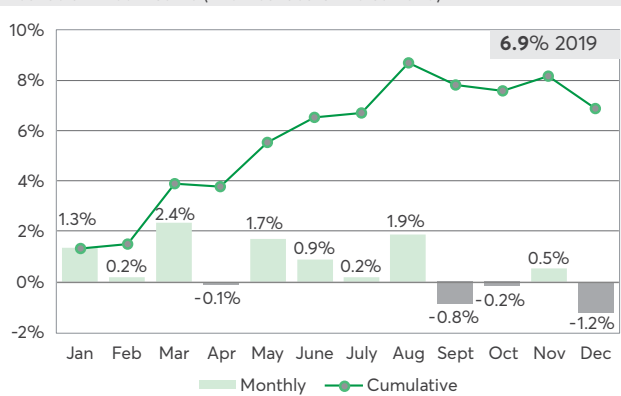
In the United States, echoing the improvement in U.S.-China relations, the country's main indexes posted record highs. The MSCI USA Index net return in Canadian dollars advanced 6.73% over the quarter. As to the proceedings to impeach President Donald Trump, the House of Representatives' vote in favour does not seem to have had a major impact on the markets, given that the Senate is expected to vote against impeachment.

In Europe, the election of a Conservative majority to Britain's Parliament lowered the likelihood of a no-deal Brexit, which would have had a negative impact on the country's economy. In the euro zone, Germany managed to avoid a technical recession, posting annualized GDP growth of 0.3% last summer. Despite this, the MSCI Europe Index net return in Canadian dollars is up 4.49% for the quarter.

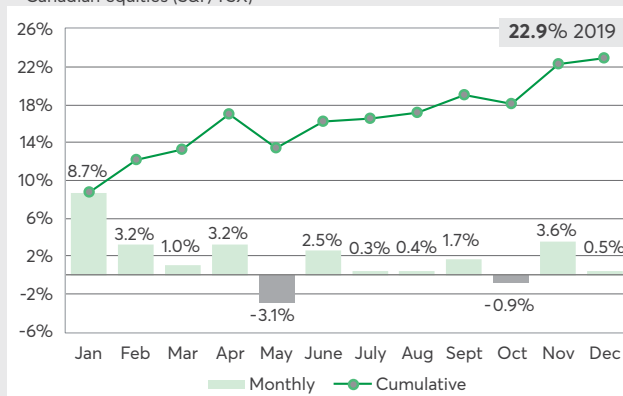
The year 2019 was an excellent one for the main stock and bond markets. In that respect, the Canadian (22.9%), U.S. (24.3%), international (21.7%) and emerging stock markets (18.1%) all ended the year up sharply. The situation was similar for bonds, including a 6.87% rise in the FTSE Canada Universe Bond Index. The central banks contributed substantially to these strong results by favouring an expansionary monetary policy. Moreover, the trade wars between the United States and several countries have mostly resulted in the signing of economic accords or agreements, sparking promising signs for global economic growth.

Returns – Main indexes

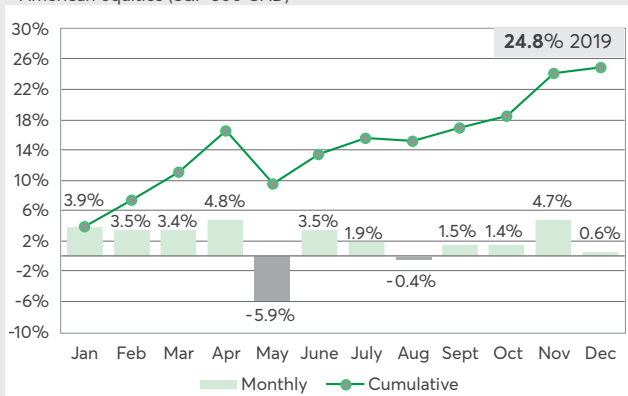
Canadian Fixed Income (FTSE TMX Universe)
Canadian fixed income (FTSE Canada Universe Bond)



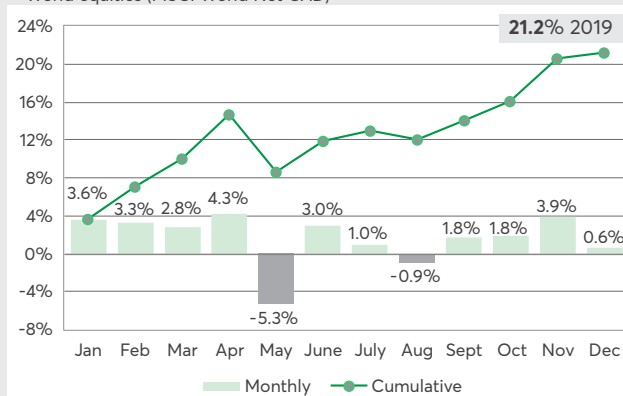
Canadian Equities (S&P/TSX)
Canadian equities (S&P/TSX)



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



World Equities (MSCI World Net CAD)
World equities (MSCI World Net CAD)



Melodia Funds – Performance Review

- All five Melodia Funds recorded positive absolute returns during the third 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. Their added value ranged between 1.54% and 2.25%.
- Regarding the fixed income component, three of the six bond funds generated positive returns in the fourth quarter of 2019. Returns varied between -0.66% (Desjardins Global Bond Fund) and 4.52% (Desjardins Floating Rate Income Fund).
- As for the equity component, all funds posted positive returns. The fund that contributed the most to performance was the Desjardins Overseas Equity Growth Fund (13.10%). The Desjardins Tactical Balanced Fund contributed the least (2.76%).

Gross Rates of Return (%)

December 31, 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 ⁽¹⁾	13.35	0.10	2.23	13.35	5.80	6.84	6.30	6.02	N/A	
Benchmark*	11.80	-0.28	1.48	11.80	5.57	5.83	5.50	5.45	N/A	
0226 Melodia Diversified Growth ⁽¹⁾	14.80	0.27	2.89	14.80	6.22	7.71	7.15	6.78	N/A	
Benchmark*	13.13	-0.11	2.12	13.13	5.93	6.47	6.19	6.11	N/A	
0228 Melodia Balanced Growth ⁽¹⁾	16.25	0.44	3.55	16.25	6.63	8.52	7.84	7.44	N/A	
Benchmark*	14.45	0.06	2.75	14.45	6.29	7.10	6.84	6.75	N/A	
0230 Melodia Aggressive Growth ⁽¹⁾	18.50	0.70	4.54	18.50	7.24	9.65	8.91	8.44	N/A	
Benchmark*	16.44	0.31	3.71	16.44	6.81	8.01	7.79	7.68	N/A	
0232 Melodia Maximum Growth ⁽¹⁾	20.02	0.88	5.22	20.02	7.66	10.38	9.54	9.07	N/A	
Benchmark*	17.77	0.48	4.36	17.77	7.14	8.60	8.39	8.28	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 (%)

December 31, 2019

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	2.06	0.15	0.50	2.06	1.91	1.65	1.57	1.50	1.41	
0288 Desjardins Short-Term Income (DGIA)	3.56	0.00	0.37	3.56	2.69	2.09	2.04	2.01	N/A	
0289 Desjardins Canadian Bond (DGIA)	7.29	-1.04	-0.55	7.29	4.23	3.74	3.28	3.32	N/A	
0290 Desjardins Enhanced Bond (AllianceBernstein)	8.80	-0.78	-0.22	8.80	4.59	4.05	3.76	3.66	N/A	
0375 Desjardins Global Bond (Lombard Odier)	7.94	-0.26	-0.69	7.94	4.42	3.82	N/A	N/A	N/A	
0234 Desjardins Global Tactical Bond (PIMCO)	14.67	1.51	2.67	14.67	6.99	7.92	8.63	6.88	N/A	
CANADIAN EQUITY										
0343 Desjardins Canadian Equity Income (Lincluden)	19.09	1.20	2.64	19.09	4.90	4.96	9.26	6.39	9.69	
0292 Desjardins Canadian Equity (DGIA)	22.71	0.21	3.00	22.71	5.28	5.36	8.24	5.41	N/A	
0208 Desjardins Canadian Small Cap Equity (Fiera) ²	28.45	3.14	8.23	28.45	6.21	4.12	6.39	5.45	N/A	
FOREIGN EQUITY										
0331 Desjardins Global Equity Dividend (Epoch)	15.74	0.59	4.23	15.74	7.02	8.04	7.21	8.50	10.46	
0344 Desjardins Global Equity Growth (Baillie Gifford)	26.54	1.84	10.63	26.54	11.84	16.28	12.72	14.15	14.49	
0297 Desjardins Global Small Cap Equity (Lazard)	22.09	0.07	5.73	22.09	2.74	7.07	5.30	8.49	N/A	
RESPONSIBLE INVESTMENT FUNDS										
0440 Desjardins Responsible Fixed Income	N/A	-0.71	-0.31	N/A	N/A	N/A	N/A	N/A	N/A	
0347 Desjardins SocieTerra Environmental Bond (Mirova)	9.53	-0.51	-1.16	9.53	5.04	4.31	4.01	N/A	N/A	
0441 Desjardins Responsible Growth	N/A	0.66	6.65	N/A	N/A	N/A	N/A	N/A	N/A	
0348 Desjardins SocieTerra Cleantech Equity (Impax)	29.92	1.95	10.33	29.92	10.31	12.81	12.49	14.07	11.01	

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 Ps

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 Ps, 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 – Q4 2019

At this time, one underlying mandate composing the Melodia Funds and two funds from the *À la carte* funds are being monitored closely:

- The Desjardins Global Small Cap (Lazard) Fund, which is an underlying fund of the Melodia Funds and offered *À 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 *À 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.