

Participating Life Insurance



INVESTMENT STRATEGY FOR PARTICIPATING ACCOUNTS

Why choose Desjardins Insurance?

When you choose Desjardins Insurance, you give your clients the strength and stability of a company specializing in life and health insurance and retirement savings that over 5 million Canadians count on each day to ensure their financial security.¹ You're also choosing Desjardins Group, the largest cooperative financial group in North America and one of the country's best capitalized financial institutions.

Strength and stability

Desjardins Insurance is part of Desjardins Group, whose financial strength and stability are well recognized by credit rating agencies. Desjardins Group has earned credit ratings comparable to or better than those of the 5 major Canadian banks and other insurance companies:

- Standard and Poor's: A+
- Moody's: Aa2
- DBRS: AA
- Fitch: AA-

With \$422.9 billion in assets under management, Desjardins Group offers products and services to 7.7 million members and clients and employs 56,165 people across Canada.²

Investment expertise

Policyowners benefit from the expertise of **Desjardins Global Asset Management Inc. (DGAM)** specialized portfolio management team. Founded in 1998, DGAM has extensive expertise in fixed income, equities and real assets (infrastructure and real estate) and manages more than \$90 billion in assets on behalf of institutional clients.³ Team of over 80 investment professionals has developed in-depth investment strategies. Prudent risk management and responsible investment practices are incorporated into the investment process, creating long-term value for clients. DGAM has been an active signatory of the Principles for Responsible Investment (PRI) since 2017.

DGAM teams up with reputable sub-managers for certain asset classes, particularly for high-yield credit and some alternative investments.

¹ Source: Home – DFS – Desjardins Life Insurance

² Source: Quick Facts about our Cooperative | Desjardins, data as at December 31, 2023

³ Source: DGAM. In Canadian dollars as at March 31, 2024.

Our investment strategy

The investment strategy for the participating life insurance product is based on an in-depth understanding of the role and behaviour of each asset class. This approach means classes can be combined to take advantage of the portfolio's long-term horizon and low need for liquidity. The goal is to achieve a relatively high return while maintaining a low-to-moderate risk tolerance.

The strategy requires smart risk-taking, essential to achieving higher investment returns.

- Asset classes and management mandates are selected to expose the portfolio to a variety of well-compensated long-term risks, including those related to interest rate fluctuations (duration risk), exposure to global economic growth, credit and asset illiquidity.
- Risks are taken in a controlled manner and diversified to address multiple factors, such as within an asset class, between asset classes and over time.

Unlike strategies traditionally seen with a low-to-moderate risk tolerance, the strategy developed for the participating life insurance product substitutes part of the investments that would typically be made in fixed income and common shares for an alternative investment mix and a specialized strategy called "market neutral."

- First, this approach helps reduce expected volatility, thanks to greater diversification. It takes into account new sources of return and the value created by alternative investments, which generally rely less on fluctuations in interest rates and the stock markets.
- Second, the strategy focuses exposure to fixed income in niches with higher expected returns, while carefully managing the associated risks and taking the appropriate mitigation measures.

Active management

Our investment strategy for the participating life insurance product also uses active management.

With active management, managers carefully select the securities they want in their portfolio based on their convictions, while controlling the risks inherent to these securities. The goal is to outperform pure index management, which systematically buys all the securities in an index without any special analysis.

This approach has several advantages:

- It improves the risk-return profile of a portfolio compared to pure index management.
- It increases the portfolio's expected returns more than the marginal and non-marginal effect on estimated volatility.

A number of active strategies are considered in the participating life insurance product:

- Quantitative or fundamental management of publicly traded assets
- Tactical asset allocation (overlay of futures)
- Active management of all alternative investments by default (no passive management)

Choosing specific strategies provides another level of diversification, notably with respect to the signals used in different active management approaches. For example, traditional strategies for common shares focus on fundamental analysis of companies, such as their business plans, profitability, management quality, and so on, while tactical asset allocation strategies place more emphasis on analyzing the expected economic conditions.

Composition of participating accounts

As at December 31, 2023

Asset class	Amount invested (\$M)	Percentage (%)	Target range (%)
Money market	0	0	0 to 5
Government bonds	6.1	17.9	35 to 55
Corporate bonds	3.1	9.1	
Mortgages and commercial loans	6.1	17.9	
High-yield bonds	1.5	4.4	5 to 20
Bank loans	1.5	4.4	
Private debt	2.0	5.9	0 to 10
Fixed income	20.3	59.5	50 to 70
Preferred shares	1.7	5.0	0 to 10
Common shares	3.8	11.1	5 to 20
Private equity	2.1	6.2	15 to 30
Infrastructure	3.1	9.1	
Real estate	2.1	6.2	
Specialized strategy (market neutral)	1.0	2.9	0 to 5
Variable income	13.8	40.5	30 to 50
TOTAL	\$34.1M	100.0	

Source: DGAM

Notes:

The table above reflects cash investments in the portfolio, which in turn reflect the strategy for the desired portfolio (longer horizon). Futures are used to exercise controlled tactical deviations (over the short term) but aren't represented in the table as they can change quickly.

Common share holdings reflect mandates assigned by region. The inclusion of off-benchmark securities (for example, if the Canadian equity mandate held some US securities) could paint a slightly different picture.

Rate of return
on investments
in participating
accounts

8.19%

NET OF FEES

2023 returns



About the asset classes

Government bonds

The government bond portfolio is the defensive core of the strategy. This asset provides regular interest coupons while reducing portfolio risk.

Corporate bonds and high-yield

The portfolio contains bonds issued by Canadian and foreign companies in various sectors. These high-quality, high-return securities can enhance the portfolio's performance by providing credit spreads that historically cover most of the additional credit risk. High-yield securities may include bank loans traded in secondary markets. These loans have similar characteristics to high-yield bonds in terms of their credit risk and expected long-term returns. Since they are variable-rate instruments rather than fixed rate, they're used to diversify exposure to credit risk.

Commercial mortgages and loans

The portfolio contains mostly mortgages issued to businesses and public sector entities for different types of real estate in Canada's major urban centres. These assets play a similar role to corporate bonds, while providing additional compensation due to their illiquidity.



Quality of the bond and bank loan portfolio

Credit ratings	Provincial bonds (\$)	Corporate bonds (\$)	High-yield bonds (Alliance Bernstein) (\$)	Bank loans (Alphafixe Fund) (\$)	Total (\$)	Total (%)
AAA	0	10,199	0	0	10,199	0
AA+ to AA-	5,829,101	771,409	0	0	6,600,510	54
A+ to A-	238,920	1,302,523	1,477	0	1,542,920	13
BBB+ to BBB-	0	981,619	203,401	404,679	1,589,699	13
BB+ to BB-	0	0	714,571	886,002	1,600,573	13
B+ to B-	0	0	621,324	242,194	863,518	7
TOTAL	6,068,021	3,065,750	1,540,773	1,532,875	12,207,419	100%

Source: DGAM



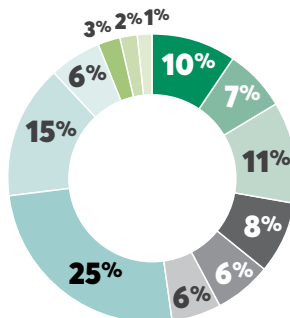
Preferred shares

These securities are often presented as a cross between common shares and corporate bonds. Preferred shares typically provide high, stable dividend payments. This type of asset class is used to optimise portfolio diversification. At this time, the portfolio includes only Canadian securities.

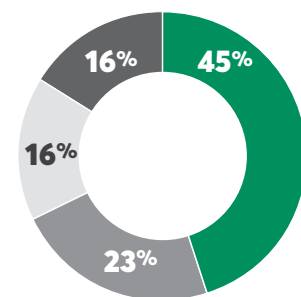
Common shares

Common shares enable the portfolio to benefit from growth in the global economy and in profit margins. Stock market exposure also enables investors to capitalize on portfolio companies' efforts to improve their profit margins. Owning shares requires accepting fluctuations in companies' valuations and in the economic cycle. The portfolio is diversified across Canadian, US and international equities (other developed and emerging markets).

Common shares by sector



Common shares by geographic area



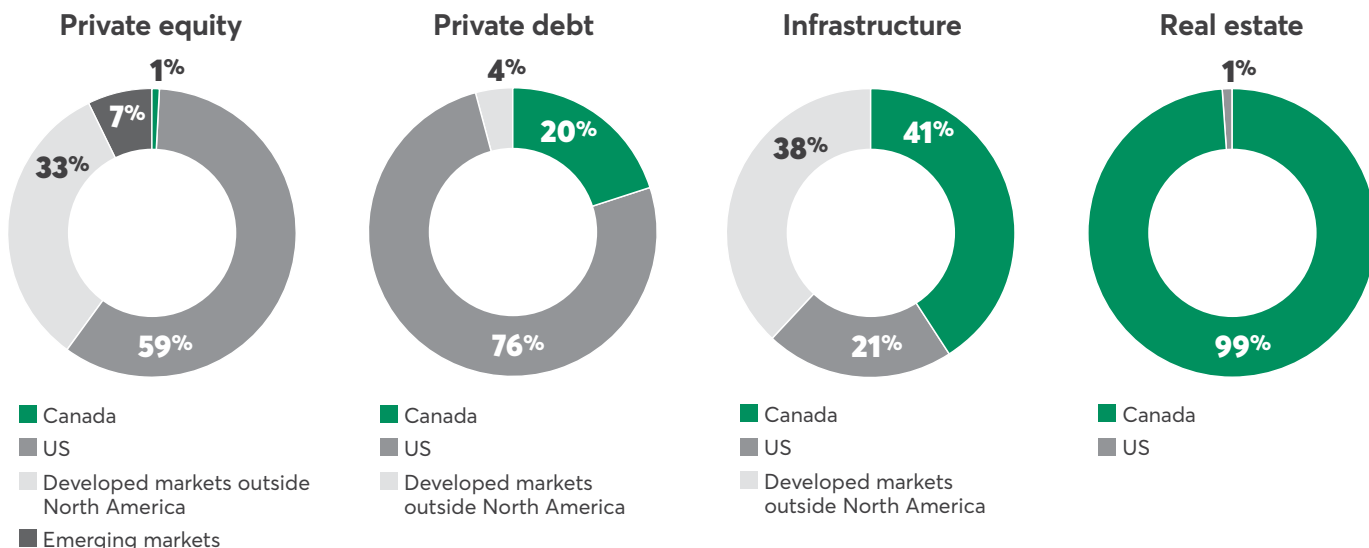
- Energy
- Materials
- Industry
- Consumer discretionary
- Consumer staples
- Health
- Finance
- Information technology
- Telecommunications service
- Community services
- Real estate
- Others

- Canadian common shares
- US common shares
- International common shares
- Emerging markets common shares

As at December 31, 2023. Source: DGAM

Alternative investments

Alternative investments are investments in private companies (outside the markets), real estate assets or infrastructure. Like with common shares, investors benefit from exposure to economic growth, but also from higher returns thanks to the value created by full asset control and discerning use of financial leveraging. These investments also offer good diversification compared to more traditional assets.



As at September 30, 2023. Source: DGAM.

Specialized strategies

Specialized strategies round out the portfolio. They're designed to be independent of market direction. Our portfolio includes a market neutral strategy that matches long (buy) and short (sell) positions in the stocks of companies that are typically within the same industry. This approach gives investors positive, stable, low-volatility return potential, whether the market is up or down.



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