HEXAVEST

BY Desjardins Global Asset Management

ESG LETTER
SYSTEMATIC ESG WORLD EQUITY
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OUR EVOLVING ESG METHODOLOGY

Our approach is to invest in companies whose activities and/or product offerings align with our broad sustainability themes, while minimizing negative impact on the environment and communities. We apply positive and negative filters to the investment universe to select companies that meet rigorous ESG criteria, excluding those in controversial sectors, such as fossil fuels, and those with practices deemed harmful. At the end of the fourth quarter, we had removed 530 companies from the investment universe and identified 627 companies eligible for investment. The portfolio had a significantly lower carbon footprint and water use than its benchmark, mainly because of the negative filters used by our ESG methodology. With a robust sustainability profile, the portfolio outperformed the index on most ESG indicators.

ESG METRICS

	Statistic	DGAM	MSCI World
E	Carbon emissions (t CO_2/$B)	6	38
E	Carbon intensity (t CO_2/sales)	14	84
E	Water use (m^3/$M revenue)	286	11,457
E	Waste-recycling ratio	71%	65%
E	Renewable-energy use	50%	49%
E	Reported emissions	95%	97%
S	Fatality rate per 100,000 employees	0.2	0.7
S	Access to low-price products	19%	21%
S	Women managers	35%	32%
S	Salary gap (CEO/average salary)	209	143
G	Sustainability compensation incentives	80%	69%
G	Independent board members	80%	81%
G	CEO and chair separation	61%	52%
G	Board gender diversity	36%	35%

Values are calculated only on the invested portion of the portfolio
Sources: Sustainalytics and LSEG as at December 31, 2025

ACTIVE OWNERSHIP SPOTLIGHT

In our discussions with Barclays, a U.K.-based bank, we first addressed its ambition of becoming net-zero by 2050 through reducing financed emissions and achieving operational carbon neutrality. To achieve this, Barclays relies on two pillars: managing climate risks and creating opportunities to develop sustainable products and services. The bank has a transition plan evaluation system to assess each client annually with detailed scores. Each sector is evaluated according to the nature of its activities, which allows for a better understanding of the real risk as well as the creation of product and service opportunities to support clients.

Regarding how Barclays manages non-aligned clients, exclusion is considered on a case-by-case basis. Barclays prefers to support them in their transition, but some situations require firm decisions. We found this approach to be more nuanced and pragmatic than that of many North American banks. On the issue of business opportunities, sustainability is a source of innovation for Barclays, as evidenced by loans for energy-efficient renovations and financing for green assets in agriculture and the industrial sector. This logic goes beyond regulatory compliance by making the transition into a growth lever for the organization. Our counterparts are clear: this represents significant revenue for the bank and attractive returns for clients.

In terms of transparency, Barclays' reports include detailed indicators on client and portfolio progress. However, challenges remain: data granularity, frequency, external audit, and alignment with standards such as Science-Based Targets. Nevertheless, we are very satisfied with the bank's reporting and transparency.

We also raised questions about geopolitical controversies, particularly financing related to Israel and defence. Barclays has robust policies: it does not directly finance occupied territories or invest in certain companies such as Elbit Systems. Lastly, we discussed sectoral challenges. According to Barclays, some sectors such as automotive, aviation, and U.K. housing are difficult to decarbonize. In housing, they said that success also depends on public policies and landlords.

UPDATE ON IMPROVEMENTS TO OUR METHODOLOGY

We are doing a comprehensive review of our social pillar, with the aim of refining its framework and updating the indicators used to identify companies strongly committed to achieving our social pillar.

Our general methodological changes can be summarized as follows: We made changes to our "Supporting the transition to a low-carbon economy" pillar in the fourth quarter of 2024 and to our "Protecting biodiversity and natural capital" pillar in the second quarter of this year. The next improvement to the social pillar will further strengthen the portfolio's intention of investing in companies that provide solutions or transform their businesses in line with at least one of our sustainability pillars.

PORTFOLIO IN ACTION

ESG leaders at work

Lam Research is a global supplier of semiconductor manufacturing equipment and services. It develops, manufactures, markets, refurbishes, and services semiconductor processing equipment used to manufacture integrated circuits. Its products and services are designed to help its customers build devices used in a variety of electronic products, including cell phones, personal computers, servers, connected objects, motor vehicles, and data storage devices. Lam Research meets a number of our criteria and demonstrates a strong alignment with our pillars through its focus on decarbonizing its value chain and integrating sustainability into its product design.

Climate change pillar:

- Lam Research has a net-zero target by 2040 for scope 1 and 2 emissions and by 2050 for scope 3 emissions.
- The approved SBTi targets are -46% for scope 1 and 2 emissions by 2030, versus 2019, and -64% for scope 3 emissions (products sold) by 2034, versus 2022. This goal is supported by strong integration of sustainability into product development, with improved energy efficiency being central to innovation.
- About 55% of its energy consumption comes from renewable sources, with the goal of reaching 100% by 2030.
- According to MSCI, Lam Research has an implied temperature rise of 1.4°C related to its current and future emissions.

Astellas Pharma is a Japanese company involved primarily in pharmaceutical research, development, manufacturing, and sales. It offers therapies in various disease areas and develops health care solutions that address critical and inadequately covered medical needs.

Climate change pillar:

- The company has a net-zero target by 2050 for scope 1, 2 and 3 emissions.
- Its approved SBTi targets are -63% for scope 1 and 2 emissions and -37.5% for scope 3 emissions by 2030, with 2015 as the base year.

Biodiversity pillar:

Astellas Pharma has a structured water management plan and an effective water reduction strategy, supported by measurable targets. It previously committed to improving its water use productivity by 20% by 2030, a target that it has significantly exceeded, having recorded an 86% improvement in 2024 relative to 2016. MSCI also points out that the company operates in an industry that is highly exposed to water stress and that the practices it uses to manage this risk stand out from those of its peers.

Astellas Pharma is rolling out a series of initiatives to limit the waste produced by its operations. Its efforts are based on increased reuse and recycling, along with clearly defined reduction targets. Since the 2016 base year, the amount of waste generated per unit of revenue has fallen by 45%. The company also ensures proper management of hazardous waste in its value chain by conducting regular inspections of supplier premises.

When an acceptable ESG performance isn’t enough

Johnson & Johnson is a pharmaceutical company that carries out research, development, manufacturing, and marketing of health care products. The company meets our criteria for the climate and biodiversity pillars. It has short-term GHG reduction targets approved by the SBTi, and its implied temperature rise is in line with best practices in its sector. It also has strong water management practices, addressing a material issue in its industry.

Despite these positive elements, Johnson & Johnson does not meet our do-no-harm criteria because of major controversies surrounding the safety of some of its pharmaceutical products. The controversies expose it to significant legal and reputational risks, exacerbated by the lawsuits brought against it.