

Participating Life Insurance



STABLE RETURNS BASED ON EXPERTISE AND DIVERSIFICATION

Desjardins Insurance's participating life insurance is a permanent life insurance coverage plus a tax-efficient investment component that pays dividends. This increases the value of the policy, which maximizes the policyowner's assets.

Participating account

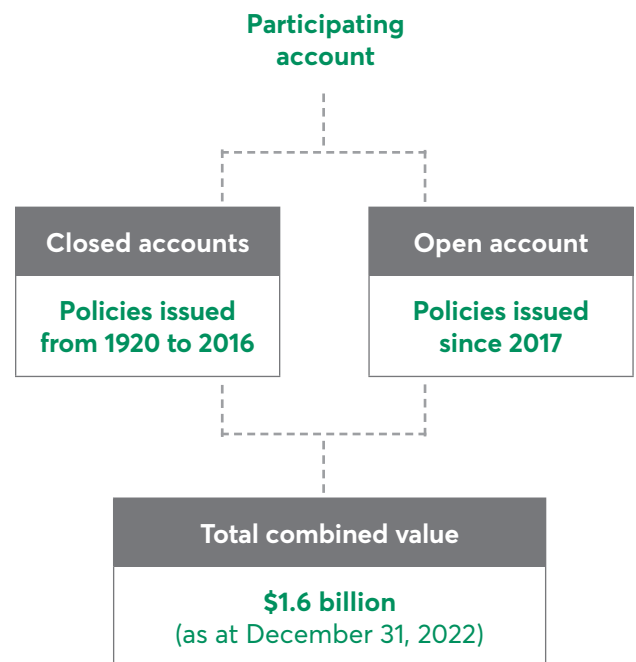
Desjardins Insurance has over 100 years of expertise managing participating life insurance policies.

Participating life insurance premiums pay by all policyowners are pooled and deposited in a separate account called a participating account. This account is managed separately from all other Desjardins Insurance accounts.

" We have "closed" accounts, which contain participating policies issued or acquired by Desjardins Insurance before 2017. We also have an "open" account, for all policies issued since 2017.

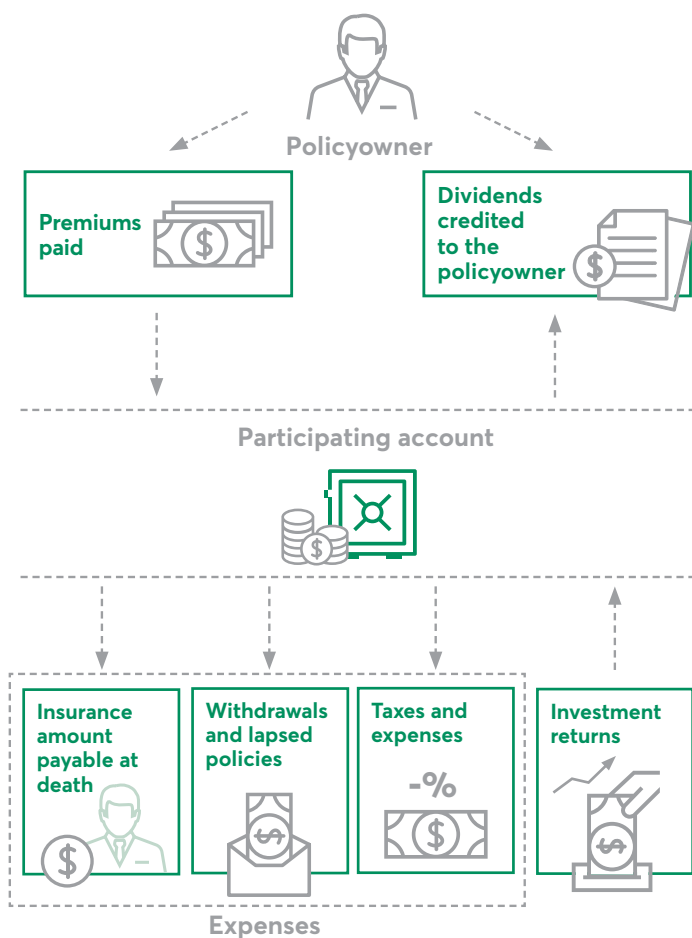
This new open account is managed separately, with a different dividend scale and interest rate than the closed accounts.

As at December 31, 2022, the total value of closed and open participating accounts was \$1.6 billion.



How dividends are calculated

Dividends are calculated each year according to the financial performance of the dividend scale, which is calculated using the following factors:



Each year, dividends are attributed to policyowners when the participating account outperforms the assumptions used to determine the guaranteed values.

Dividend distributions are based on contributions and distributed fairly among policyowners according to their share of the participating account's profits.

Dividends are not guaranteed as they are subject to investment returns, mortality rates, taxes and expenses paid by the insurer. Once they are credited, they cannot be taken away.

A diversified investment strategy

The premiums paid by policyowners are invested in a separate fund for life insurance policies whose goal is to secure the payment of annual dividends, amounts payable at death and cash surrender values.

Founded in 1998, Desjardins Global Asset Management (DGAM) has extensive in-house expertise in fixed income, equities and real assets (infrastructure and real estate) and manages over \$75 billion¹ in assets on behalf of institutional clients. The team of over 100 investment professionals have developed in-dept investment strategies and integrates prudent risk management and responsible investment practices into its investment process, which results in long-term value creation for their clients.

DGAM has been an active signatory of the Principles for Responsible Investment (PRI) since 2017, with one of its representatives serving on the PRI network's advisory committee. The PRI, which is the world's leading proponent of responsible investment, works to understand the investment implications of ESG² criteria and to support its international network of investor signatories into their investment decisions.



¹ As at September 30, 2022

² Incorporating ESG criteria helps identify the various issues companies may be exposed to. The companies selected act in accordance with the best ESG practices possible in their industries. **E** refers to "Environment," e.g., climate change; **S** refers to "Social," e.g., workplace health and safety; and **G** refers to "Governance," e.g., diversity on boards of directors.

A new asset management strategy for the open account

DGAM professionals invest in a range of asset classes to benefit from diversification and market growth while reducing volatility. The team develops in-depth investment strategies and integrates prudent risk management and responsible investment practices into its investment process. By having DGAM as the asset manager, policyowners benefit from exposure to asset classes, such as real estate and infrastructure, that are normally reserved for larger investors. This results in long-term value creation.

Composition of the participating accounts (as at March 31, 2023):

ASSET CLASS	INVESTED ASSETS (\$M)	% OF TOTAL	MIN %*	MAX %*
Cash and short-term investments	–	0.0	0.0	10.0
Government bonds	4.5	18.0	20.0	50.0
Corporate bonds	2.2	9.0		
High-yield credit	2.3	9.0		
Commercial mortgages and loans	4.5	18.0	10.0	35.0
Preferred shares	1.2	5.0	0.0	10.0
Common shares	2.6	11.0	5.0	30.0
Private equity	1.5	6.0	0.0	15.0
Private debt	1.5	6.0	0.0	15.0
Infrastructure	2.2	9.0	0.0	15.0
Real estate	1.5	6.0	0.0	15.0
Specialized strategy (Market neutral)	0.8	3.0	0.0	10.0
TOTAL	24.8	100.0		

*Given that this new strategy will be rolled out gradually, the minimums and maximums may not be respected while the portfolio is being built.

The portfolio is made up of the following asset classes:

Government bonds

The government bond portfolio forms the strategy's defensive core. This asset class mainly provides yield while reducing portfolio risk.

Corporate bonds and high-yield credit

The portfolio holds bonds issued by Canadian and foreign companies in various sectors of the economy. These investment-grade or high-yield securities enhance the portfolio's performance with credit spreads that, on a historical basis, largely cover the additional credit risk. Investments in the high-yield portion could also include leveraged loans, which are publicly-traded. Leveraged loans have characteristics similar to those of high-yield bonds in terms of credit risk and expected long-term return, but they diversify credit exposure since they are floating-rate, rather than fixed-rate, instruments.

Commercial mortgages and loans

The vast majority of the commercial mortgages and loans portfolio consists of mortgages granted to businesses and public agencies for various types of properties in Canada's major urban centres. These assets play a role similar to that of corporate bonds, while generating additional returns because of their lack of liquidity.

Preferred shares

Preferred shares, often regarded as a cross between common stocks and corporate bonds, are another way to obtain a high and generally stable yield. The role of such assets includes diversification of the fixed income portion of the portfolio.

Common shares

Common shares provide exposure to global economic growth. Stock market exposure also makes it possible to benefit from portfolio companies' efforts to improve their profit margins. Equity exposure involves acceptance of fluctuations in a company's valuation levels and fluctuations related to economic cycles. To ensure diversification, the portfolio is exposed to 3 categories of equities: Canadian, U.S. and international (other developed markets and emerging markets).

Alternative investments (private equity, private debt, infrastructure, real estate)

Alternative investments refer to private, off-market investments in companies or real assets, such as real estate and infrastructure. As with common stocks, investors benefit from exposure to economic growth as well as enhanced returns on value-creation activities made possible by full control of assets and judicious use of leverage. These investments also offer good diversification potential vis-à-vis more traditional assets.

Specialized strategies

We round out the portfolio with specialized strategies designed to be independent of the market's overall direction. A portion of the portfolio is allocated to a market-neutral strategy that invests in long-short pairs of similar securities, such as shares of 2 companies in the same sector. Holding a long position in the one security at the same time as a short position in the other security neutralizes general market effects and sector dynamics. The only risk the investor is exposed to is the manager's ability to choose, on average, the security that will do better than the other. Because pairs trading is a substantially self-funding strategy (the proceeds of the short sale being used to purchase the long position), the return of the strategy is the net return of the pairs plus the return of a simultaneous money market investment.

Monitored returns

Great news! The dividend scale interest rate is increased to **6.20%**. This rate will remain in effect until June 30, 2024. It will then be reassessed based on changes to the various factors on July 1 of each year.

The interest rate is just one factor used to calculate the dividends paid to a policy. A higher interest rate doesn't necessarily mean that the policy's values (dividends, cash surrender values and amount payable at death) will be higher. Many other factors affect the dividend scale, such as mortality, expenses, taxes paid by the insurer and policy lapses. The illustration report shows the policies' projected values, which are not guaranteed.

To minimize market fluctuations, a smoothing method is also applied to spread investment gains and losses over several years. This method reduces volatility and helps stabilize the interest rate.



Financial performance

The investment return smoothing method used to mitigate performance variations isn't the only way we protect the long-term stability of the dividend scale interest rate. We also rely on a robust portfolio composition that focuses on asset class diversification to reduce volatility.

The following table and graph show the stability of our interest rates despite market fluctuations, compared to the S&P/TSX Index, Government of Canada 10-year bond yields and the Consumer Price Index (CPI).

Dividend scale interest rates for the open account since 2017

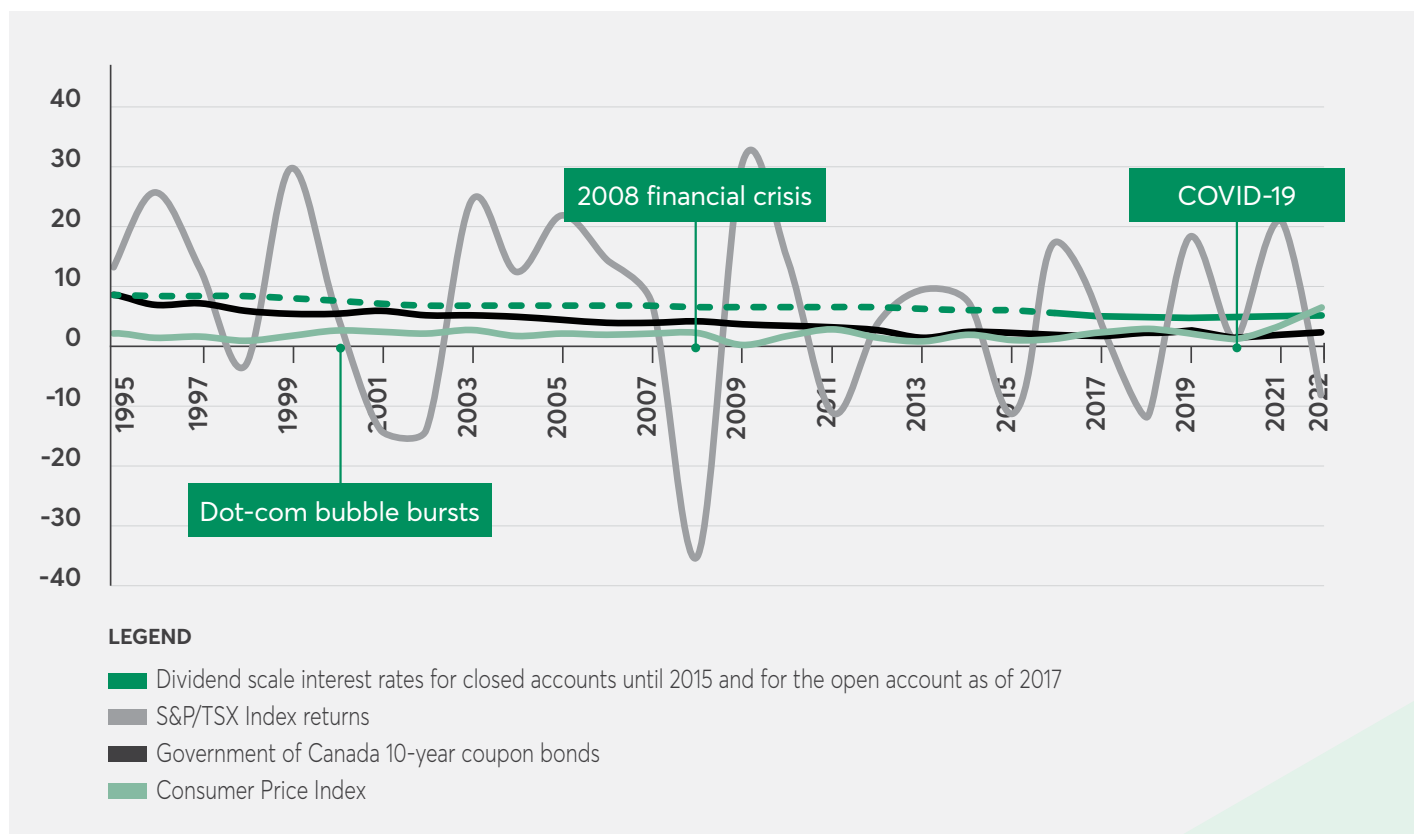
YEAR	Open account dividend scale interest rate	S&P/TSX Index returns	Government of Canada 10-year Coupon Bond	Consumer Price Index
2017	5.00%	6.03%	1.00%	1.60%
2018	5.00%	-11.64%	2.00%	2.30%
2019	5.00%	19.13%	2.25%	1.90%
2020	5.00%	2.17%	1.25%	0.70%
2021	5.75%	21.74%	1.50%	3.40%
2022	5.75%	-8.66%	2.50%	6.80%

Data as at December 31 of each year, except for the Consumer Price Index, which is obtained by averaging the indexes for the 12 months of the calendar year.

Sources: TSX® Copyright (2023). TSX Inc. All rights reserved.

STATISTICS CANADA (2023). Consumer Price Index is taken from CANSIM table 18-10-0005-01.

BANK OF CANADA (2023). Benchmark Canada Bonds



Stability and expertise

The financial stability and performance of Desjardins Group, of which Desjardins Insurance is a part, has consistently earned high ratings from leading rating agencies that are on par with or exceed those of the 5 major Canadian banks and other insurance companies:

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

Desjardins Group has \$407.1 billion in assets under management, over 7.5 million members and clients, and 58,774 employees across Canada.*

Accountability

Protecting our policyowners' interests is a top priority. Our Board of Directors reviews the actuarial report each year to ensure that the projected dividends are in line with the company's dividend policies and fair to all participating life insurance policyowners.

* As at December 31, 2022, unless otherwise indicated.

Desjardins Insurance

Choosing Desjardins Insurance means choosing the strength and stability of one of the country's leading life insurers, with expertise in life and health insurance and retirement savings backed by more than a century of experience.



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