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INVESTMENT SOLUTIONS

QUARTERLY COMMENTARY AS OF DECEMBER 31, 2017

PERFORMANCE (3 months)	DFS GIF - CONSERVATIVE	DFS GIF - MODERATE	DFS GIF - BALANCED	DFS GIF - GROWTH	DFS GIF - MAXIMUM GROWTH
Series 6	1.88	2.18	2.82	3.05	3.46
Series 7	2.22	2.50	2.77	3.34	3.73

Portfolio Managers: Desjardins Global Asset Management, Alliance Bernstein, Franklin Bissett, BlackRock, Fidelity Investments Canada ULC, Aberdeen Asset Management, Baillie Gifford Overseas

Inception Date: February 24, 2014

CONTRIBUTORS TO PERFORMANCE

Desjardins Short-Term Income Fund

- Allocation in credit (overweighting in corporate bonds).
- Selection of issuers and issues (particularly NVCC bonds).
- Positioning in this sector farther from the curve and the latter flattened.
- Duration shorter than the benchmark since the publication of the November 2017 employment numbers, and the rates have since increased.

DGIA Canadian Bond Fund

- Sector allocation (provincial and corporate bonds)
- Duration

Desjardins Enhanced Bond Fund

- Underweight Canada
- European high yield corporate exposure
- Country exposure to US

Franklin Bissett Canadian Equity Fund

- Individual holdings in the Information Technology sector
- In Information Technology, Enghouse Systems (19.3%) was a positive contributor. Other notable contributors to performance in the fourth quarter included Canadian Imperial Bank of Commerce (13.4%) in Financials and Dollarama (15.1%) in Consumer Discretionary.

Desjardins Canadian Equity Fund

- The sectors that contributed positively to the fund's performance are energy (+0.21% compared with the benchmark), utilities (+0.05%) and consumer staples (+0.02%).
- Some securities that contributed to the added value of the portfolio compared with the benchmark:
 - In the energy sector, Parex Resources Inc. saw a 20.66% return, adding 5 basis points to the overall portfolio.
 - In the utilities sector, Boralex Inc. climbed 10.06%, helping create 4 basis points.
 - In the financial sector, CIBC's stock performed at 13.44%, contributing to increasing the portfolio value by 14 basis points.

Fidelity True North® Fund

- Investments in information technology and utilities

BlackRock® CDN U.S. Equity Index Fund

N/A



CONTRIBUTORS TO PERFORMANCE (continued)

Desjardins Overseas Equity Value Fund

- Overweight to Japan's Sysmex (Achieved good results and outlook on inventory in China improved)
- Overweight to Hong Kong's AIA (Rose along with sector, on news that Beijing continued to curb financial risk by tightening rules on foreign investments and asset management products, but eased foreign ownership limits on certain financial firms)

Desjardins Overseas Equity Growth Fund

- Stock selection in the IT (Tencent, Mercadolibre, AMS) and Financials (AIA, SBI) sectors was the most significant source of positive performance
- Tencent, the Chinese online platform, continues to go from strength to strength. Its core products in social and gaming remain very popular (e.g. WeChat didn't exist seven years ago but now has almost 1 billion monthly users) and it continues to invest in exciting new growth companies (e.g. in Q4 it took stakes in Snapchat and Spotify).

DETRACTORS FROM PERFORMANCE

Desjardins Short-Term Income Fund

- Overweighting in federal securities relative to provincial securities, which performed better.
- Holdings of BBB-rated securities lower than the benchmark.

DGIA Canadian Bond Fund

- Provincial bond selection: Ontario underperformed the other provinces during the period
- Flattening of the yield curve

Desjardins Enhanced Bond Fund

- Active non-Canadian dollar currency exposure, specifically a modest basket of emerging market currencies and a long position in USD
- Canada yield curve positioning
- Country exposure to Mexico

Franklin Bissett Canadian Equity Fund

- Negative security selection + interaction and sector allocation, most notably impacted by individual holdings in the Energy sector.
- In Energy, Crew Energy (-29.1%) was a detractor to relative performance. Other notable detractors included Restaurant Brands International (-2.7%) in Consumer Discretionary, Onex (-4.2%) in Financials, Metro (-5.8%) in Consumer Staples and Toromont Industries (-3.4%) in Industrials.
- From a sector allocation standpoint, the most notable detractor to performance was being underweight the outperforming Health Care sector.

Desjardins Canadian Equity Fund

- Underweighting in the health sector and the overweighting of securities in the consumer discretionary sector contributed negatively to the fund's relative performance (at -0.19% and -0.15% respectively).
- The poor performance stems in part from our underweight position in Canopy Growth Corporation (177.43%) and from our position in Linamar Corporation (-3.68%), which drove down the fund's performance by 15 and 6 basis points respectively.
- A slowdown in performance of Osisko Mining Inc. (-22.78%) and Birchcliff Energy Ltd. (26.82%) has had a negative impact, driving the fund's relative performance down 6 and 4 basis points respectively.

Fidelity True North® Fund

- Investments and underweight positioning in financials
- Investments in health care
- Allocation to cash



DETRACTORS FROM PERFORMANCE (continued)**BlackRock® CDN U.S. Equity Index Fund**

N/A

Desjardins Overseas Equity Value Fund

- Non-benchmark exposure to the UK's Inmarsat weighed on returns due to mixed earnings report and cost concerns associated with their in-flight connectivity network roll out.
- Overweight exposure to Check Point Software (Weakened as operational challenges in the US weighed on sentiment).

Desjardins Overseas Equity Growth Fund

- The portfolio has an overweight allocation to Consumer Discretionary stocks and this sector was a source of weakness in performance terms over the quarter.
- The underweight allocation to 'Energy' and 'Materials' stocks impacted relative performance during a period when the oil price appreciated substantially.

MAJOR CHANGES TO PORTFOLIO**Desjardins Short-Term Income Fund**

- Increased holdings of federal agency bonds in the short portion of the yield curve.
- Duration shorter than the benchmark since the publication of the November 2017 employment numbers.

DGIA Canadian Bond Fund

- We increased active risk for corporate credit by 50% by increasing the allocation by about 3%. It now represents roughly 40% of the total portfolio.
- We significantly increased the CMB allocation (federal agencies) in the 10-year portion of the portfolio.
- We accelerated the NHA purchase program for valuation reasons.
- We gradually reinvested the cash in the 1-to-2 year portion for valuation reasons, given market expectations of key rate increases.

Desjardins Enhanced Bond Fund

- Modestly increased Canadian duration underweight
- Reduced emerging market currency exposure; modestly increased US dollar exposure
- Modestly added to European exposure to take advantage of hedging benefit and steepness of the curve

Franklin Bissett Canadian Equity Fund

- Trading activity was once again uncharacteristically slow in the fourth quarter as there were few opportunities to rebalance during the quarter. There were, however, two new additions to the Fund as CGI Group and Sleep Country Canada were introduced during the fourth quarter, while Calfrac Well Services was eliminated.
- With ongoing dislocations presenting attractive opportunities in the Canadian equity market, we believe we will be able to continue to deliver on our long-term absolute, relative and risk-adjusted return objectives. The Fund has been actively managed through several market regimes of strong and weak sentiment and varying sources of market leadership. The Canadian equity market closed out 2017 at an all-time high, and while it continues to present attractive investment opportunities in certain sectors and individual circumstances, on the whole the strong advance naturally tempers our enthusiasm for go-forward absolute returns.



MAJOR CHANGES TO PORTFOLIO (continued)**Desjardins Canadian Equity Fund**

- Purchased shares in Wheaton Precious Metals Corp., 0.76%
- Purchased shares in Royal Bank of Canada, 0.73%
- Purchased shares in Empire Company Ltd., 0.72%
- Sold our entire position in Cenovus Energy Inc., -0.88%
- Sold our entire position in IGM Financial Inc., -0.63%
- Sold our entire position in Industrial Alliance Insurance and Financial Services Inc., -0.61%.

Fidelity True North® Fund

- At the end of the quarter, the Fund maintained its largest overweight exposures to the information technology and consumer staples sectors. The financials, energy, and materials sectors accounted for the Fund's largest underweight exposures. At the industry group level, the Fund's largest overweight exposures were to software & services and food & staples retailing companies. In contrast, banks and oil & gas storage & transportation stocks represented the largest underweight exposures.
- Portfolio manager Maxime Lemieux is constructive on equity markets despite some uncertainty about Canada's economic growth. He observes that in the near term, earnings growth has supported equity prices. He has been closely monitoring the credit environment in Canada, looking for indications of when the credit cycle may end. Globally, Max is cautious about the Chinese economy given the high level of corporate leverage and, consequently, the impact a macroeconomic shock could have on China's economy and on the rest of the world. He has positioned the portfolio to be higher quality and lower beta than the broader market to mitigate downside risk in the event of a market correction.

BlackRock® CDN U.S. Equity Index Fund

N/A

Desjardins Overseas Equity Value Fund

- Introduced Yum China, a leading restaurant-chain operator, given its mix of brands and their potential to benefit from attractive prospects in China.
- Exited City Developments as it traded at full valuation, following a robust recovery in its share price, which reflected a positive outlook for the Singaporean property market.
- Exited Telus to fund better opportunities elsewhere.

Desjardins Overseas Equity Growth Fund

The portfolio follows a long-term strategy and few changes are made in any quarter

New Buys:

- **NVIDIA** – This chip design company has a dominant market share in the high-end gaming market, and we are excited about its opportunities in the emerging fields of virtual reality, artificial intelligence, and autonomous driving.

Complete sales:

- **Exor** – This holding company was sold because we came to the view that the investment philosophy and risk appetite of the Agnelli family (who control Exor) is becoming less aligned with our own.

The Contract and Information Folder contains important information on the Desjardins Financial Security Guaranteed Investment Funds Plan - Helios2 and the DFS Guaranteed Investment Funds. Please read it carefully before investing. Helios2 is a trademark owned by Desjardins Financial Security Life Assurance Company. DFS Guaranteed Investment Funds is a registered trademark owned by Desjardins Financial Security Life Assurance Company. DFS Guaranteed Investment Funds are established by Desjardins Financial Security Life Assurance Company.

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