2008 ANNUAL REPORT

# WORKING TOGETHER TO SHAPE OUR DESTINY

Desjardins
Pension Plan

Money working for people

**VISIT THE DESJARDINS GROUP**
**PENSION PLAN WEB SITE:** **www.rcd-dgp.com**

**DESJARDINS GROUP RETIREMENT COMMITTEE**
**Head office:**
**Fédération des caisses Desjardins du Québec**
100, rue des Commandeurs, Lévis (Québec) G6V 7N5
**E-mail address:** crmd@desjardins.com

*The inside sheets of this annual report are printed on recycled paper.*
*The masculine has been used for the sole purpose of facilitating reading.*

# TABLE OF CONTENTS



# 2008 HIGHLIGHTS

## RETURN ON ASSETS

The Pension Plan has recorded a 4th quartile negative return of 23.8% for 2008 following three consecutive years of 1st quartile returns.

## FINANCIAL SITUATION

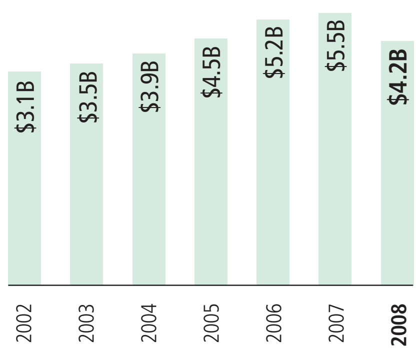
The results of the most recent actuarial valuation as at December 31, 2006 demonstrated the Plan's financial stability. A new actuarial valuation will be filed as at December 31, 2009 and, although the results for 2008 have an influence on the Plan's financial situation, it will benefit from the relief announced by the government.

## NET ASSETS OF $4.2B AS AT DECEMBER 31, 2008

The Plan's net assets as at December 31, 2008 amount to **$4.2 billion.** The DGPP **ranks 8th** among private pension plans in Canada.

### CHANGES IN THE PLAN'S NET ASSETS

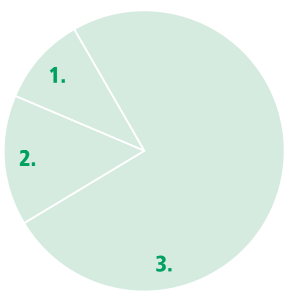
$1.1B increase in net assets over six years




### MEMBERS AS AT DECEMBER 31, 2008

Total number of particpants: 49,123

| | | |
|---|---|---|
| **1.** | **5,035** | Deferred pensions |
| **2.** | **7,327** | Retirees |
| **3.** | **36,761** | Active members |



# MESSAGE FROM THE COMMITTEE CHAIR

**INTRODUCTION – ECONOMIC AND FINANCIAL CONTEXT**

**DENIS PARÉ**
**Chair**

2008 was marked by an unprecedented financial crisis in the American, Canadian and international markets, which had and continues to have substantial repercussions worldwide. The outlook for global economic growth remains uncertain; a number of countries have gone into recession, and others have seen growth plummet. Note that the problems in the U.S. housing market were the catalyst for this crisis, which has had negative repercussions for the performance of financial markets. Financial institutions' securities, known for their secure and fundamental value, have been the most adversely affected by market uncertainty.

In the widespread turmoil, the crisis did not leave Canadian pension funds and all of their counterparts worldwide unscathed; the vast majority of such funds were hard hit. The substantial drop in market values will have a considerable effect on plans' solvency and capitalization ratios; it is already forcing governments to step in to stabilize the situation, allowing pension plans to maintain their long-term vision and investment strategies.

**FINANCIAL PERFORMANCE – A DIFFICULT YEAR FOR THE PLAN**

In this context and for the first time in five years, 2008 was a particularly difficult year for the Plan. However, we must not overlook the fact that a long-term horizon is required to manage a pension plan efficiently and optimally. A plan should never be subject to short-term investment decisions that are based on market movements.

The Plan recorded a negative return of 23.8% in 2008 following three consecutive years of 1st quartile performance, returning 14.4% in 2005, 15.2% in 2006 and 3.4% in 2007. In addition to the generalized slide by the world's stock markets, our 2008 return is also due to underperformance by some traditional portfolio managers who had and continue to have an investment policy in which the selection of securities is based on fundamental analysis. The financial sector's slide is in part due to the troubled performance of some key managers. We still have confidence in them and will assess their performance over a horizon of at least three to five years.

The Canadian dollar's rapid, unexpected slide in 2008, combined with our defensive currency hedging policy, also had a substantial impact on us. Lastly, the real estate crisis also had a direct effect on our real estate holdings and their return. Keep in mind that our real estate returns are excellent over a three- to five-year horizon.

Also note that the bulk of the 2008 drop in stock market prices occurred in the second half of the year.

**MOBILIZING FOR HIGH-LEVEL GOVERNANCE – THOROUGHNESS IN SERVING MEMBERS**

Given 2008's highly volatile situation, the Retirement Committee has slowed the pace of investment considerably.

The investment team reviewed all investment policies and business practices, and assessed every key portfolio manager so as to thoroughly grasp the various risks associated with the Plan during this highly volatile period of upheaval. The Plan's risk management was completely overhauled in the fall of 2008.

Moreover, all asset classes and securities in the portfolio were reviewed and are now covered by new investment plans approved by the Investment Committee. Some changes can be expected, but the Retirement Committee is staying focused on its long-term horizon and remains confident in existing policies, which have previously delivered solid performance. The Retirement Committee has also completed its strategic three-year plan and developed a 2009 business plan featuring 37 initiatives.

The Government of Québec has reiterated its confidence in defined benefit pension plans as a key component of workers' financial security, to ensure their quality of life upon retirement. On January 16, 2009, the Government adopted temporary relief for the next three years to finance solvency deficiencies; by doing so, it is shielding the competitiveness of such plans' employers, fostering the sustainability of defined benefit pension plans. Over the long term, both retirees and active members will benefit from this decision which will limit a potential increase in contributions. The Pension Plan's next actuarial valuation, to be submitted to the Régie des rentes du Québec with an effective date of December 31, 2009, at the latest, could include this relief.

**CUSTOMER SATISFACTION – IMPROVED COMMUNICATIONS AND DAILY PRESENCE**

In June 2008, the Retirement Committee launched a Web site to keep Pension Plan members and retirees informed. The site was developed in conjunction with the Plan's employer. Among other things, it includes a detailed description of the redesign of plan benefits, which is effective for services as of the beginning of 2009. The Web site includes a benefit simulator for members who can use the data from their latest annual statement to access it.

Moreover, to improve customer satisfaction, in November, the Plan's Bureau added the "DGPP Member Services Team" to its ranks. Complementing the Web site, the team supports members and their manager upon retirement or termination of membership. At the beginning of 2009, requests from all components, pensioners and members with deferred pensions were channelled to this team, to ensure that the Plan is managed soundly and effectively.

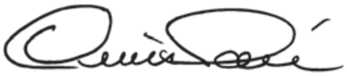
**ACKNOWLEDGEMENTS**

I would like to thank the following people for their valuable contributions to the Retirement Committee: Pierre Grenon, representative for the employers and Chair of the Audit, Professional Practices and Compliance Committee, and Simon Garneau, representative for active members, who both left the Committee in 2008. I would like to welcome Pierre Leblanc, representative for the employers, and Vincent Coulombe, Mario Lévesque and Sylvain Rouleau, representatives of active members.

I would also like to thank all the members of the Retirement Committee, the Chief Financial Officer of Desjardins Group and the team at the Desjardins Group Pension Plan Executive Department, for their dedication and unremitting work.

2008 was a very difficult year for pension plans, especially ours. In many ways, it is a year of lessons to remember and use to secure financial success and our long-term commitments to members. Periods of extensive upheaval, such as experienced in 2008, call for caution and patience.

DENIS PARÉ, CHAIR



# PENSION PLAN PERFORMANCE REVIEW

For at least fifteen months, we have been dealing with an unprecedented financial crisis that was originally triggered by the problems in the American housing market. It subsequently evolved, shifting from a financial recession to a corporate recession, characterized by a rising jobless rate, flagging manufacturing activity worldwide and a decline in corporate earnings. This is why, like the vast majority of the world's pension funds, the Plan had a very difficult 2008, recording an overall return of -23.8%. In addition to the economic situation, the 4th quartile performance was caused by the difficulty of adding value by active management, the costs arising from currency protection and underweighting of bonds in favour of real estate.

We must also stress that, over the last five years, the Plan has delivered three 1st quartile performances according to its benchmark universe, thanks to its real estate allocation.

A number of initiatives were instituted in 2008 to deal with the situation. More than ever, we must stay on course with our long-term liability-driven investment strategy. Given market instability and the uncertainty that is currently looming over the world's economy, we firmly believe that the Desjardins Group Pension Plan must not change its long-term investment strategies on the basis of irrational short-term market movements.

## PLAN'S HISTORICAL RETURNS

| Year | Return | Quartile |
|---|---|---|
| 2008 | -23.8% | 4th |
| 2007 | 3.4% | 1st |
| 2006 | 15.2% | 1st |
| 2005 | 14.4% | 1st |
| 2004 | 9.9% | 3rd |
| 2003 | 14.4% | 2nd |

## ASSET ALLOCATION

| Asset class | Return as at Dec. 31, 2008 | Allocation as at Dec. 31, 2008 | Optimal target allocation 2012 |
|---|---|---|---|
| **Money market** | **3.0%** | **0.8%** | **1.0%** |
| Universe bonds | 3.8% | 20.5% | 6.0% |
| Long-term bonds | 4.9% | 1.7% | 14.0% |
| Real estate debt | N.A. | 2.2% | 0.0% |
| Emerging markets debt | -23.0% | 1.2% | 2.0% |
| Hedge funds | -14.1% | 5.7% | 7.0% |
| **Total fixed income** | **-1.5%** | **31.3%** | **29.0%** |
| Canadian equity | -38.4% | 15.2% | 12.0% |
| U.S. equity | -25.3% | 5.9% | 0.0% |
| EAFE equity | -36.8% | 10.5% | 8.0% |
| Global equity | -34.4% | 8.9% | 15.5% |
| Emerging markets equity | -44.0% | 1.9% | 2.5% |
| **Total stock market** | **-35.5%** | **42.4%** | **38.0%** |
| Infrastructure | -7.1% | 3.9% | 10.0% |
| Private investments | -5.6% | 5.7% | 7.0% |
| Real estate | -12.7% | 15.9% | 15.0% |
| **Total alternative investments** | **-10.6%** | **25.5%** | **32.0%** |
| **Grand total** | **-23.8%** | **100.0%** | **100.0%** |

## ECONOMIC CONTEXT

The current recession, which officially began in the United States in December 2007, is a deep one which is affecting most of the world's economies. The recession promises to be worse than the 2001 recession; it has already lasted longer and seen more job losses. To date, the size of the decline in corporate earnings is similar to 2001, while no one is able to predict exactly how long it will last, or how far its adverse impacts will reach. It is clear that the economic problems that have been afflicting the United States for a year now have spread to the rest of the world, affecting most industries. The hard-hitting consequences of this unprecedented crisis are lashing the returns of most pension funds. Our Plan was not spared.

Early 2009 is promising to be difficult. The recovery plans that various governments around the world have announced may not yield concrete results in the very near future. A number of economists are predicting that a widespread recovery will be likely as of 2010. This situation could result in downside pressure on interest rates and highly volatile stock markets before we see a rebound. The Plan's portfolio is very well positioned to capitalize on this situation.

## FIXED-INCOME SECURITIES

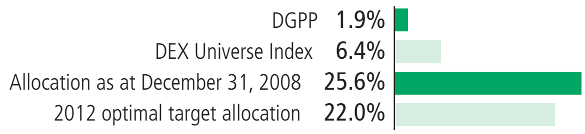
Although, in the past, the Plan was well served by its strategy of diversification through emerging market debt and by adding hedge funds to its fixed-income portfolio, 2008 saw different, disappointing results. Moreover, investors' flight to safe-haven securities widened yield spreads on corporate bonds to levels never seen before.

Bonds have been overvalued with respect to their historic values for over five years. This divergence is prompting many experts to wonder whether we have entered into a new era, in which governments are able to borrow at low real costs and inflation is perfectly controlled. The recession we are currently undergoing and the scant optimism as to a recovery in the near future have taken rates down, widening the gap with their equilibrium levels.

The government debt that is now being used to stimulate the economy and rescue financial institutions will end up increasing the bonds outstanding in the markets. The excess supply could put the performance of bond markets under pressure for the years to come. The only scenario that would allow rates to stay at current levels would be a lengthy recession and strong, sustained deflation.

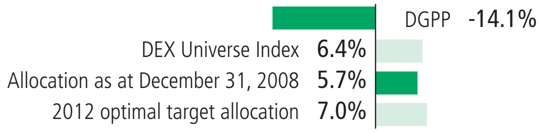
### BOND PORTFOLIO

The bond portfolio's 1.9% rate of return is 450 basis points lower than its reference index, the DEX Universe Index. Unlike 2007, the investment strategy targeting corporate bonds and emerging market debt did not yield the expected results. Negative returns were recorded in both segments.




### HEDGE FUND PORTFOLIO

The DGPP hedge fund portfolio was designed to produce low-volatility returns with a profile similar to bonds and an equivalent risk. It should usually hold up during periods of crisis that capital markets may go through. Overall, hedge funds were unable to fulfill their commitments in 2008, falling victim to such things as investor panic and negative media coverage. The industry is currently undergoing profound restructuring. This will force many managers of hedge funds that survive the crisis to get back to simpler, more liquid and transparent concepts.



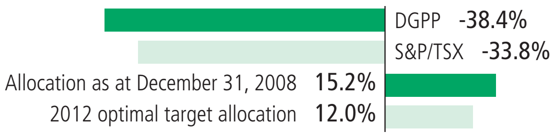

## SECURITIES

Over the five years that preceded 2008, the stock markets recorded excellent returns and made a substantial contribution to the Plan's solid performance. Starting in the fall of 2007, the effects of the American housing crisis, which turned into a large-scale economic crisis, began to put pressure on the economy. The American and international markets began a long slide that steepened in the last quarter of 2008. Tied to commodity prices, Canada's stock market held up until the summer of 2008 before capitulating, following the dizzying descent recorded by oil prices in the market.

The stock market correction was sharply magnified by the deepening financial crisis, deterioration in the economic outlook and loss of confidence by the majority of investors. These factors could keep the indexes close to current levels in the short term. Volatility will remain very elevated and new lows could still be reached. However, once risk aversion returns to more normal levels, most investors will probably return to the markets. Stock prices should probably start to rise.

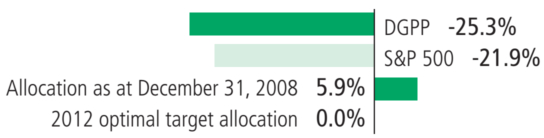
#### CANADIAN EQUITY PORTFOLIO

Following five years of sustained growth, in which the Canadian market posted performance superior to the markets of other developed nations, the rapid tumble by commodity prices and the financial sector's poor performance were at the root of the spectacular slide recorded in 2008. During this time, the S&P/TSX index lost 33.8% of its value, more than two thirds of that in the 4th quarter. For the Plan, active management trimmed 460 additional basis points in 2008. The presence of small-cap securities and overweighting in financial securities is behind the drop in value. This portfolio was restructured over the summer; the repositioning should allow the portfolio to capitalize on a potential rebound.



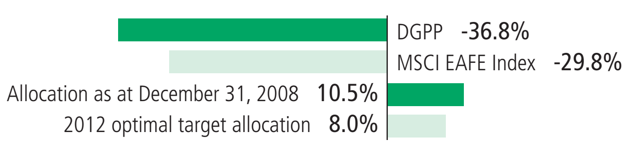

#### U.S. EQUITY PORTFOLIO

The S&P500 index tumbled 38.5% in 2008, dropping 22.5% during the final quarter alone and posting its worst return since the Great Depression. It should be noted here that the pullback is only 21.9% for Canadian investors, who were helped by the drop in the Canadian dollar. 2008's financial institution shakeout and sharp drop by commodities have marked the history of the U.S. stock market. The mortgage and credit crisis created victims among both consumers and institutions associated with the various aspects of credit for housing. The Plan's portfolio incurred a deficit of 340 basis points compared with the benchmark index. As with the Canadian equity portfolio, the overweighting in financial sector securities, in the past renowned for their solid fundamental value, is responsible for much of the lost value. On the other hand, the small- and mid-cap stock portfolio did well under the circumstances, adding over 450 basis points, thanks to solid active management.



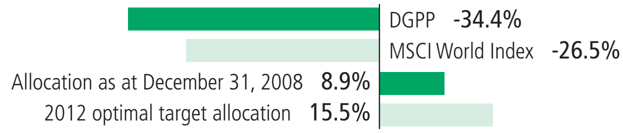

#### INTERNATIONAL EQUITY PORTFOLIO

The credit crisis and stock market tumble spread around the world. Many European banks have met the same fate as American banks. The MSCI EAFE Index posted a loss of 44.9% in local currency and 29.8% in Canadian dollars. The Plan's portfolio was also hurt in this asset class. The deficit in comparison with the MSCI EAFE Index is almost 700 basis points. All strategies were affected, but growth securities strategies and small and mid-cap strategies recorded the largest reverses. The market is currently offering a number of excellent opportunities and the Plan is positioned to recover the value lost in 2008.



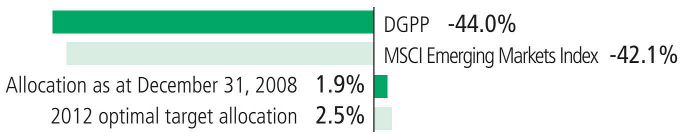

#### GLOBAL EQUITY PORTFOLIO

The MSCI World Index was not spared the declines in value experienced by the other stock markets. This index's Canadian dollar performance is -26.5%. The Plan's active management led to a deficit of 800 basis points in comparison with the index. Once again, overweighting in financial services is behind most of the damage the portfolio incurred. A portfolio manager review is underway and we will take the required action to ensure we are in good position for the recovery.




#### EMERGING MARKETS EQUITY PORTFOLIO

Following five outstanding years with growth of 202%, emerging market equities saw returns contract sharply in 2008, with the index declining by 42.1%. The remarkable economic growth posted by China and India, primarily sustained by U.S. consumers in recent years, suddenly slowed sharply. The economic decoupling theory proved unfounded. The Plan's portfolio is slightly below the index.



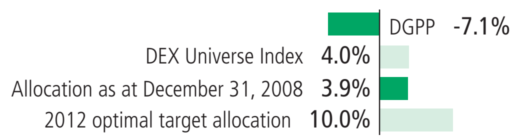

## ALTERNATIVE INVESTMENTS

Alternative investments continued to have a key place in the Plan's portfolio. Note that, for this asset class, the investment strategy is based on a long-term investment horizon (5 to 10 years). Excellent past returns, especially for real estate, allowed the Plan to rank in the 1st quartile in the pension fund universe for three consecutive years. In 2008, this asset class did not escape the crisis, yielding negative returns for the first time in 10 years.

We remain confident in this asset class, as alternative classes, especially infrastructure, constitute an excellent means of shielding retirement plan liabilities from inflation and long-term interest rate fluctuations.

#### INFRASTRUCTURE

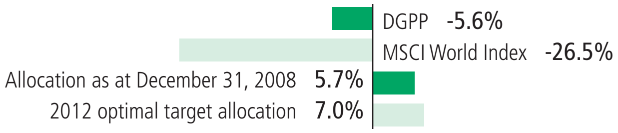
Initiated at the end of 2006, this asset class is in the process of being built. With an optimal target of 10% in 2012, it currently represents 3.9% of the Plan's assets. However, the closing of credit markets and widening of risk premium have limited partners' ability to deploy capital and put downside pressure on the value of portfolio assets in 2008. The Plan is on the lookout for investment opportunities. A number of proposals are now being examined.



**PRIVATE INVESTMENT**

After five consecutive years of positive returns, and an outstanding 2007, 2008 saw returns on private investment fall. The economic context, precariousness of the stock markets at the end of the year and adoption of new accounting standards explain the declines the sector incurred during the year.

Despite the transition that began in the last few years to substantially reduce the weighting of venture capital in favour of more mature, less risky assets, the -11.2% return on venture capital has continued to curtail value compared with the -3.9% recorded by business buyouts. The portfolio's -5.6% performance compares positively with the performance of its reference index, the MSCI World Index, which posted a return of -26.5%. Note that private investment delivered solid 11%, 20% and 11% performances in the three previous years.

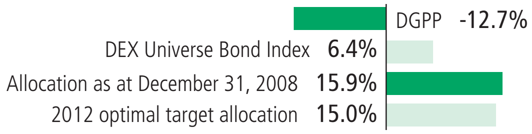



**Private investment distribution as at December 31, 2008**

| | |
|---|---|
| **Business buyouts** | **80%** |
| Industrials | 46% |
| Consumption | 24% |
| Communications | 14% |
| Technologies | 7% |
| Natural resources | 5% |
| Health sciences | 4% |
| **Venture capital** | **20%** |
| Technologies | 74% |
| Health sciences | 26% |

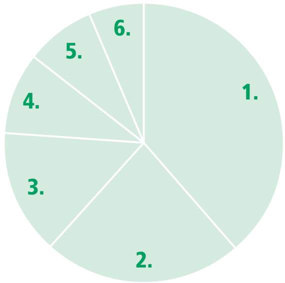
**REAL ESTATE**

The sizeable real estate up cycle that began after the 2001 recession reversed in 2008. Limited to subprime U.S. residential mortgage loans at the beginning of the crisis, the credit problems spread, leaving almost no market untouched. While it is not as pronounced in Canada for now, the drop in market values is affecting the whole world. This tough market context explains the year's -12.7% return. However, the asset class is still recording good performance over 10 years, with a return of 13.9%. The Plan's real estate portfolio is solid and based on quality partnerships that will help us achieve our long-term return goals.



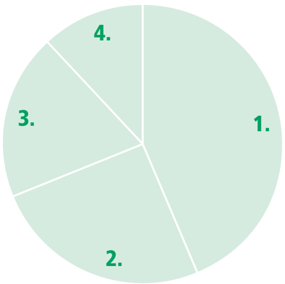

**Sector distribution of real estate as at December 31, 2008**

1. **38.8%** Offices
2. **23.0%** Commercial
3. **14.4%** Residential
4. **9.6%** Hotels
5. **8.0%** Industrial
6. **6.2%** Other




**Regional distribution of real estate at December 31, 2008**

1. **43.8%** Canada
2. **25.2%** Europe
3. **19.3%** United States
4. **11.7%** Other




**CURRENCY HEDGING**

The Plan's currency hedging policy is not speculative. It is a risk mitigation measure, designed to minimize an increase or decrease in the value of the Plan's foreign investments arising from Canadian dollar fluctuation. In addition to this protection, active management further minimizes the risk. This initiative was especially profitable in 2007, when Canada's currency posted strong growth against the currencies of developed markets. 2008 was very different, however. Currency hedging was lashed by the Canadian dollar's slide against the two major currencies, the American dollar and euro. The Plan's deficit is 250 basis points.

# LIABILITY-DRIVEN INVESTMENT

Defined benefit pension plans have encountered funding problems over the last seven years. Lower interest rates were a predominant risk factor, since fluctuations in pension plan liabilities are very sensitive to this economic variable. Funding management requires us to find permanent solutions to minimize risks and ensure long-term sustainability for this type of plan.

In 2008, the Retirement Committee renewed its liability-driven investment policy adopted in 2007. This approach consists of examining immunization strategies with respect to a portion of the Plan's liabilities, namely liabilities for retired members. It comprises two components. The first is to establish the ideal allocation of retirement fund assets within fixed income securities, taking into account the proportion of liabilities for retirees. The second is to define the optimal allocation within the set of fixed income products available based on the liability structure to be protected (allocation of disbursements over time, growth due to inflation, etc.) and the risk/return relationship permitted by the investment policy. The "liability-driven investment" approach has helped establish a target long-term asset allocation for 2012. The relevant changes will be implemented as appropriate over a period of three to five years, increasing the value of the pension fund while reducing the risk of a deficit. In addition, pension expense will fluctuate less from year to year.

# PENSION PLAN INTEGRATED RISK PROFILE

The Plan's integrated risk management is an ongoing process. Established in 2006, the risk profile was revised in 2008 to comply with the annual review of changes in the Plan's overall risk. The risk profile includes the possibility of implementing action plans integrated into the business plan to handle and thereby reduce the Plan's risks.

### LIST OF THE MAIN RISKS IN ORDER OF IMPORTANCE

1. Solvency deficiency
2. Market volatility
3. Insufficient liquidity in certain asset classes
4. Management of suppliers and partners
5. Faulty investment policies or strategies
6. Risk of default by an issuer/collateral risk
7. Retention of expertise and succession planning
8. Risk related to pension expense
9. Unfavourable political, legal or fiscal changes
10. Capitalization deficiency
11. Policies and decisions regarding human resource management
12. Unfavourable changes in accounting or actuarial standards

# MAIN INITIATIVES AND RESULTS OF THE 2008 BUSINESS PLAN

The Plan's 2008 business plan was achieved at 98%.

### ITS MAIN INITIATIVES WERE

1. Put in place the new 2008 asset allocation with 15 new products or mandates representing $1,495M in transactions
2. Review all investment policies, evaluate all key managers and establish new investment plans for 2009 – 2011
3. Actively manage Plan risk:
   - Revision of overall Plan risk
   - Evaluation of the Plan operating risk
   - Evaluation of the process for determining Plan financial statements
4. Integration of the DGPP Member Services Team into the Plan's Bureau to improve customer service
5. Creation of the Plan Web site (informational section) in conjunction with the Plan's employer

# GOVERNANCE

## ROLES AND RESPONSIBILITIES

**Board of Directors of the Fédération des caisses Desjardins du Québec**

The Fédération des caisses Desjardins du Québec (FCDQ) represents all Desjardins employers with respect to the Desjardins Group Pension Plan. The Fédération's Board has decision-making power in certain areas, including the Plan Regulation, the nature and terms of benefit payments to members and retirees, contribution rates and the use of the surplus. Through its Board of Directors, the FCDQ stands surety for the obligations (employee pensions) resulting from the participation of all Desjardins Group employers in the Plan.

**Desjardins Group Retirement Committee**

By virtue of the powers vested in it by the *Supplemental Pension Plans Act* and by the Plan Regulation, the Retirement Committee is in charge of the sound administration of the Plan, its management and the payment of promised benefits to members and their survivors. Committee members representing employees, employers and retirees share the role of Pension Plan trustees.

Employer representatives are appointed by the Fédération's Board of Directors. Members' and retirees' representatives are elected democratically by the group that they represent.

**Investment Committee**

Reporting to the Retirement Committee, which establishes investment policy, the Investment Committee has the mandate to ensure the execution, respect and follow-up of the policy as well as coordinate the activities of the fund managers to whom management mandates are entrusted.

**Audit, Professional Practices and Compliance Committee (APPCC)**

The APPCC also reports to the Retirement Committee; its mandate basically consists of the analysis and presentation of the financial statements and the quality of the accounting principles used, the management of risks related to financial information, internal control systems, the processes related to internal and external audit, the processes applied to these audits, the management of regulatory compliance, the rules of ethics and professional practice, the complaint handling policy, and governance.

## INTERNAL BY-LAW

In 2007, the Retirement Committee adopted an Internal By-law to comply with the new requirements of Québec's Supplemental Pension Plans Act. The Internal By-law sets out the operating methods and responsibilities of the Retirement Committee. It is reviewed by the Retirement Committee each year and addresses the following 10 items:

- Respective duties and obligations of Retirement Committee members
- Rules of ethics governing Retirement Committee members
- Rules governing the appointment of the Chair, Vice-Chair and Secretary
- Meeting procedure and frequency
- Measures to be taken for Retirement Committee member training
- Measures taken to manage risk
- Internal controls
- Books and records to be kept
- Rules to be applied when selecting, remunerating, supervising and evaluating delegates, representatives and service providers
- Standards that apply to the services rendered by the Committee, including those relating to communication with members

## REPORTING

**Training of members**

The four new members of the Retirement Committee, who took office in 2008, received a day of training on June 3, 2008. APPCC members took a professional development course on October 29, 2008, in the context of the annual meeting of Desjardins Group boards and professional practice and ethics committees.

**Reporting on complaints**

Under the Plan's complaint handling policy, the Audit, Professional Practices and Compliance Committee received no complaints in 2008. There were, moreover, no pending complaints as at December 31, 2008.

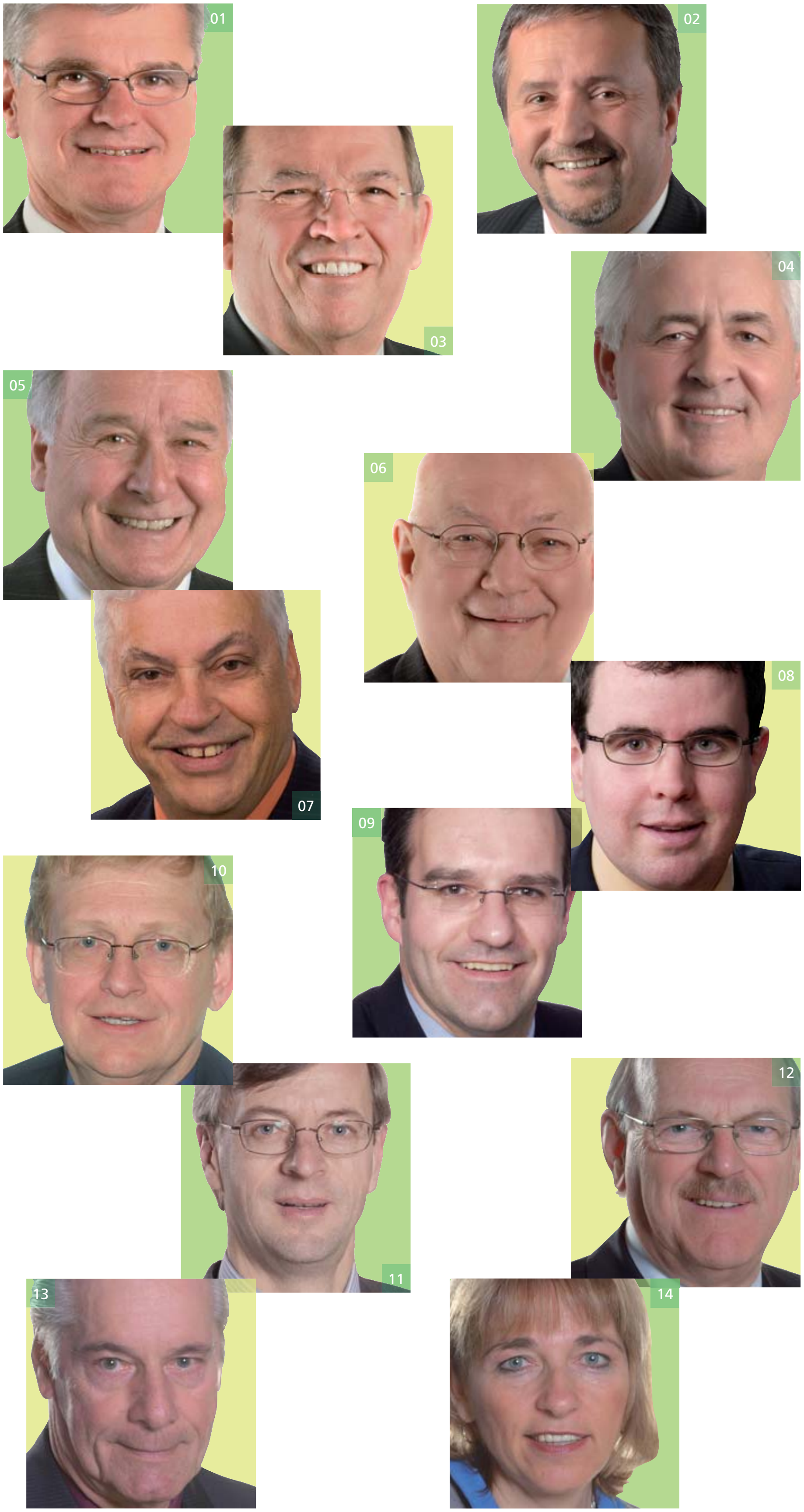
**Number of meetings held in 2008 by the Retirement Committee and its sub-committees**

- Retirement Committee: **5 meetings**
- Investment Committee: **9 meetings**
- Audit, Professional Practices and Compliance Committee: **4 meetings**

**Total: 18 meetings**

Attendance rate of 94% among members of the 3 Committees

# MEMBERS OF THE RETIREMENT COMMITTEE




## REPRESENTATIVES FOR THE EMPLOYERS:

**01 DENIS PARÉ 1,3**
**Committee Chair**
President, Council of Representatives
Cantons de l'Est

**02 JACQUES BARIL 1,3**
**Committee Vice-Chair**
**Chair, Investment Committee**
President, Council of Representatives
Est de Montréal

**03 THOMAS BLAIS 2,3**
**Committee Secretary**
President, Council of Representatives
Caisses populaires de l'Ontario

**04 SERGES CHAMBERLAND 1,3**
President, Council of Representatives
Saguenay–Lac-St-Jean–Charlevoix–Côte-Nord

**05 NORMAN GRANT 2,3**
**Chair, Audit, Professional Practices and Compliance Committee**
President, Council of Representatives
Bas-Saint-Laurent and
Gaspésie–Îles-de-la-Madeleine

**06 PIERRE LEBLANC 1,3**
President, Council of Representatives
Mauricie

## REPRESENTATIVE OF RETIREES AND MEMBERS ENTITLED TO A DEFERRED PENSION:

**07 NORMAND DESCHÊNES 2**
Desjardins retiree

## REPRESENTATIVES FOR ACTIVE MEMBERS:

### CAISSE REPRESENTATIVES:

**08 SYLVAIN ROULEAU**
Assistant Manager, Services to Individuals
Caisse populaire Desjardins
du Piémont Laurentien

**09 VINCENT COULOMBE**
Manager, Investment Financing
Caisse populaire Desjardins
de Charlesbourg

### REPRESENTATIVE FOR THE FÉDÉRATION:

**10 CLÉMENT ROBERGE 1**
Vice-President Finance Division-Network
Fédération des caisses
Desjardins du Québec

### REPRESENTATIVE FOR THE AFFILIATED CORPORATIONS:

**11 MARIO LÉVESQUE**
Actuarial Advisor,
Product Development and Pricing,
AssurFinance for Individuals,
Desjardins Financial Security

## EXTERNAL MEMBER:

**12 REYNALD-N. HARPIN 1**
Investment Consultant
Corporate Director

## OBSERVERS:

**13 YVON LESIÈGE**
Desjardins retiree

**14 JOHANNE ROCK**
General Manager of the Caisse
populaire Desjardins de East Angus

**1** Member of the Investment Committee
**2** Member of the Audit, Professional Practices and Compliance Committee
**3** Member of the Board of Directors of the Fédération des caisses Desjardins du Québec

# FINANCIAL STATEMENTS

## TO THE MEMBERS OF THE DESJARDINS GROUP PENSION PLAN RETIREMENT COMMITTEE

The enclosed financial information is drawn from the consolidated financial statements of the Desjardins Group Pension Plan as at December 31, 2008, on which, PricewaterhouseCoopers has expressed an unqualified opinion dated February 20, 2009.

In order to better comprehend the financial position of the Pension Plan and the change in consolidated net assets available for benefits, the financial information should be read in conjunction with the audited consolidated financial statements.

**DESJARDINS GROUP PENSION PLAN**
Consolidated net assets available for benefits
**As at December 31, 2008**
(in thousands of dollars)

| | **2008** | 2007 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Investments, at fair value | | |
| Bonds | **836,212** | 1,018,585 |
| Shares | **1,541,588** | 2,287,694 |
| Pooled funds | **608,931** | 747,707 |
| Private investments and infrastructure | **400,658** | 285,917 |
| Mortgages | **14,541** | 15,164 |
| Real estate | **675,764** | 707,039 |
| Cash and money market | **233,350** | 570,535 |
| | **4,311,044** | 5,632,641 |
| Accounts receivable | **30,871** | 31,357 |
| Derivative financial instruments | **10,700** | 11,273 |
| Securities borrowed or purchased under resale agreements | **131,972** | 338,013 |
| | **4,484,587** | 6,013,284 |
| **Liabilities** | | |
| Accounts payable | **23,890** | 25,335 |
| Derivative financial instruments | **14,100** | 4,261 |
| Commitments related to securities loaned or sold under repurchase agreements | **248,468** | 531,565 |
| | **286,458** | 561,161 |
| **Consolidated net assets available for benefits** | **4,198,129** | 5,452,123 |

**Approved by the Retirement Committee,**

_______________, administrator _______________, administrator

# FINANCIAL STATEMENTS

**DESJARDINS GROUP PENSION PLAN**
Change in consolidated net assets available for benefits
**For the year ended December 31, 2008**
(in thousands of dollars)

| | 2008 | 2007 |
|---|---|---|
| | $ | $ |
| **Increase in assets** | | |
| Investment income | | |
| Bonds | 45,390 | 52,103 |
| Shares | 76,500 | 52,607 |
| Private investments and infrastructure | 6,194 | 7,414 |
| Mortgages | 998 | 1,071 |
| Real estate | 3,332 | 4,669 |
| Cash and money market | 9,323 | 14,153 |
| Other income | 372 | 47 |
| | 142,109 | 132,064 |
| Changes in fair market value of investments and derivative financial instruments | (1,443,542) | 53,940 |
| | (1,301,433) | 186,004 |
| Contributions | | |
| Employers | 177,869 | 165,796 |
| Administrative expenses | (6,081) | (5,734) |
| | 171,788 | 160,062 |
| Employees | 99,705 | 92,988 |
| Contributions net of administrative expenses | 271,493 | 253,050 |
| Transfer agreements and merger of retirement plans | 3,871 | 3,514 |
| | 275,364 | 256,564 |
| | (1,026,069) | 442,568 |
| **Decrease in assets** | | |
| Benefits paid to members | | |
| Benefits | 133,929 | 120,530 |
| Reimbursements | 51,793 | 46,120 |
| Transfers to other plans | 2,030 | 1,930 |
| | 187,752 | 168,562 |
| Investment management, custodian fees and transaction costs | 37,988 | 41,015 |
| Performance award fees | 2,185 | 7,092 |
| | 227,925 | 216,669 |
| **Increase (decrease) in net assets** | (1,253,994) | 225,899 |
| **Net assets available for benefits at the beginning of the year** | 5,452,123 | 5,226,224 |
| **Net assets available for benefits at the end of the year** | 4,198,129 | 5,452,123 |

# FINANCIAL SITUATION OF THE PENSION PLAN

Québec's *Supplemental Pension Plans Act* stipulates that each pension plan must submit an actuarial valuation at least once every three years.

The Plan's most recent actuarial valuation, done on December 31, 2006, showed that the Plan was in excellent financial shape. Its capitalization ratio was 103.6% and its solvency ratio was 98.8%, placing it within the 1st quartile in the Canadian pension fund universe.

The solvency ratio indicates a plan's capacity to meet its obligations in the event of liquidation. The capitalization ratio is mainly used to establish the Plan's contribution strategy, since the valuation on this basis assumes that the Plan will exist in perpetuity.

The next actuarial valuation must be filed with the Régie des rentes du Québec as at December 31, 2009 at the latest.

The worldwide financial crisis that has been battering stock markets since the third quarter of 2007 is hurting pension fund returns and, as a result, their capitalization ratios and to an even greater extent their solvency ratios. This situation could, at least over the short and medium range, have an impact on the financing required for defined benefit plans. Responding to this unprecedented crisis, on January 16, 2009, the Government of Québec passed tax relief to finance solvency deficiencies so as to give plans some flexibility and the opportunity to remedy this situation in the years to come. The temporary relief will help keep the contributions the Plan requires to make up the solvency deficiency at reasonable levels when the next actuarial valuation is filed. The relief is in place for three years, from December 31, 2008 to December 31, 2011.

# ORGANIZATION CHART OF THE DGPP EXECUTIVE DEPARTMENT

The DGPP Executive Department reports to Desjardins Group's Senior Vice-President and Chief Financial Officer, Raymond Laurin.

**RAYMOND LAURIN**
Senior Vice-President and Chief Financial Officer of Desjardins Group

**SYLVAIN GAREAU**
Executive Director Desjardins Group Pension Plan

**EXECUTIVE DIRECTOR**
Sylvain Gareau

**ADMINISTRATIVE ASSISTANT**
Sylvie Labrie

**LEGAL AND TAX COUNSEL**
Patrick Chillis

**ADMINISTRATIVE ASSISTANT**
Nancy Nolin

**SUPPORT AGENT** (TEMPORARY)
Marie-Josée Fradette

**SUPPORT AGENT** (TEMPORARY)
Marie-Pier Guay-Bégin

**ASSET MANAGEMENT**
**CHIEF INVESTMENT OFFICER**
François Girouard

**INVESTMENT MANAGER, PRIVATE EQUITY AND INFRASTRUCTURE**
Maxime Durivage

**INVESTMENT MANAGER, REAL ESTATE**
Frédéric Angers

**INVESTMENT MANAGER, TRADITIONAL INVESTMENTS**
Jean-Philippe Cazelais

**INVESTMENT TECHNICIAN**
Barbara Ferschke

**LIABILITY MANAGEMENT AND GOVERNANCE**
**CHIEF ACTUARY**
Alain Vallée

**ADVISOR, LIABILITY AND GOVERNANCE**
Recruiting

**TEAM LEADER DGPP MEMBER SERVICES**
Marie-Josée Veilleux

**ADMINISTRATIVE ASSISTANT**
Linda Leblond

**CONTROLLER**
Marielle Bussières

**ADVISORS**
- Nathalie Couture
- Marie-Claude Harvey
- Carole Lachapelle
- Suzanne Roy
- Jolyane S. Pelletier

**SUPPORT AGENTS**
- Annie Foucher
- Michèle Normandeau

# PLAN SUMMARY

The following Plan summary takes into account the 2009 redesign of the Plan. A detailed description of benefits is available on the Plan Web site at the following address: www.rcd-dgp.com.

**MEMBERSHIP:** Mandatory for employees aged 25 years and up; optional for those under 25.

**CONTRIBUTIONS:** 4.25% of contributory earnings up to 65% of the MPE and 7.65% of the remainder.

**INTEREST ON CONTRIBUTIONS:** The net rate of return on the adjusted value of the Plan's assets for one calendar year; it applies from the following April 1 until March 31 of the subsequent year.

### ANNUAL INTEREST RATE PAID ON CONTRIBUTIONS (%)

| 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| 9.20 | 15.20 | 16.22 | 9.17 | 3.49 | 3.03 |

| 2005 | 2006 | 2007 | 2008 | 10-year average |
|---|---|---|---|---|
| 2.98 | 4.81 | 11.26 | 10.08 | 8.64 |

**NORMAL RETIREMENT AGE:** 65 years

**NORMAL RETIREMENT PENSION (payable at 65 and subject to the maximum pension clause):**

Salary 5 = Average salary for the best five years

MPE 5 = Average of the maximum pensionable earnings eligible for the CPP or QPP for the year of retirement and the previous four years

**For service prior to 2009, it is determined as follows:**
(1.3% of salary 5 up to MPE 5 x years credited) +
(2% of salary 5 in excess of MPE 5 x years credited)

**For service beginning in 2009, it is determined as follows:**
(1.5% of salary 5 up to MPE 5 x years credited) +
(2% of salary 5 in excess of MPE 5 x years credited)

**NORMAL FORM OF PENSION:**

**a) Member with spouse:** Joint and survivor annuity equal to 60% of the amount of the retiree's pension. In addition, a guaranteed period of 10 years starting on the date on which pension payment begins, for an amount corresponding to 60% of the retiree's pension.

**b) Member without spouse:** Life annuity, guaranteed 15 years.

**EARLY RETIREMENT:**

**a) Eligibility:** Age 55 and termination of service with all Desjardins Group employers.

**b) Actuarial reduction at the time of retirement before age 65:** For service prior to 2009: 3% per year remaining to age 65 or, if more advantageous, the 85 point rule at age 57 (reduction of 0.25% per month to yield the 85 rule plus 0.25% a month to reach age 57).

For service beginning in 2009: 4% per year remaining to age 62.

**ANNUAL INDEXATION OF RETIREES' BENEFITS:**
As per the increase in the CPI, but not exceeding 3%.

**DEATH BENEFITS:**

**a) Death before retirement:** The benefit is the value of the credits to which the member would have been entitled if he had stopped working immediately prior to his death.

**b) Death after retirement:** The benefit depends on the form of pension chosen by the member.

**EMPLOYMENT TERMINATION BENEFITS:** A deferred pension is payable from age 65 and equal to the credited annuity and the annuity provided by the member's excess contributions. For members under the age of 55, it is possible to transfer this amount into an authorized retirement instrument, subject to the locking-in rules stipulated in the applicable law. The transfer options are also subject to the requirements and limitations set out in the *Income Tax Act*.

***50% rule:*** Upon employment termination, death or retirement, an additional amount is paid to the member, equal to the employee's excess contributions on 50% of the value of the member's vested annuity ("excess contributions").

***175% rule:*** For service beginning in 2009, a minimum benefit will be paid in the event of the transfer of accrued entitlements. It will equal 175% of regular contributions made by a Plan member for that period, with accrued interest.

**TRANSITIONAL MEASURE FOR THE 2009 REDESIGN:** The transitional measure applies to all members who will be entitled to an unreduced pension benefit before the end of 2013 for service prior to 2009, regardless of whether the member opts to retire then or after 2013. The member will, for his full service, receive an annuity that is at least equal to the benefit the Plan would have delivered without the redesign.

Desjardins
Pension Plan

Money working for people

www.rcd-dgp.com