INTERIM MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE SIX-MONTH PERIOD
ENDED NOVEMBER 30, 2014

FONDS
de solidarité FTQ

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This interim Management Discussion and Analysis ("MD&A") is intended to help the readers assess, through the eyes of management, the Fonds de solidarité FTQ's (the "Fonds") results and financial condition and the material changes therein during the six-month period ended November 30, 2014. The interim MD&A complements and supplements the financial statements as at November 30, 2014 and contains financial highlights, but does not contain the financial statements of the Fonds. To facilitate the understanding of events and uncertainties presented herein, this interim MD&A should be read together with the financial statements and the notes thereto.

The financial information presented in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Fonds adopted this accounting framework for the year beginning June 1, 2014, as required by Canadian securities laws and the Accounting Standards Board of Canada. Previously, the Fonds prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the CPA Canada Handbook – Accounting ("Part V").

The financial information presented in this interim MD&A has been restated to reflect the adoption of IFRS as at June 1, 2013, the date of transition, in a manner consistent with the financial statements. The financial information for periods prior to June 1, 2013 has not been restated and has been prepared in accordance with Part V. Note 28 to the financial statements discloses the impact of the transition to IFRS on the financial position, financial performance and cash flows reported by the Fonds. It also presents the nature and impact of the significant changes in accounting policies from the accounting policies used to prepare the financial statements of the Fonds in accordance with Part V for the period ended November 30, 2013.

This MD&A contains forward-looking statements about the Fonds' activities, results, and strategies that should be interpreted with caution. These forecasts necessarily involve assumptions, uncertainties and risks; it is therefore possible that a number of factors may cause them not to materialize. Legislative or regulatory changes, economic and business conditions and the level of competition are some examples of major factors that may influence, sometimes significantly, the accuracy of the forward-looking statements in this MD&A. This MD&A is dated December 23, 2014.

The Fonds is subject to the *Regulation Respecting Development Capital Investment Fund Continuous Disclosure* (the "Regulation") and, as such, applies the requirements of this Regulation, notably to its financial statements and its MD&A. The Regulation was updated to reflect the transition to IFRS.

You can get a copy of the financial statements as at November 30, 2014 by visiting our website (*fondsftq.com)* or the SEDAR website (*sedar.com*), or at your request, and at no cost, by calling us at 514-383-3663 or toll free at 1-800-567-3663, or by writing to us at 8717, Berri Street, Montréal, Québec H2M 2T9. You can also get a copy of the annual documents in this same manner.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fonds and are intended to help you understand the Fonds' financial performance for the past five financial years and the six-month period ended November 30, 2014. This information is derived from the Fonds' audited financial statements. Financial data for the six-month period ended November 30, 2014 are in accordance with IFRS. Financial data for the financial year ended May 31, 2014 have been restated to conform to IFRS for purposes of comparison with the data for the current year. The impact of this accounting restatement on the value of the shares for presentation purposes means that applying IFRS, if they had been effective at that time, would have had an impact of $0.02 on the value of the Fonds' shares. In addition, for the financial year ended May 31, 2014, certain revenues that were previously presented as a reduction of expenses were reclassified to revenues. Financial data for the years that began prior to June 1, 2013 are in accordance with Part V. The Fonds' results are discussed under "Results of operations" on page 5.

RATIOS AND SUPPLEMENTAL DATA

Six-month period or years ended

(in millions of dollars, unless otherwise specified)	**November 30, 2014 (IFRS) (six-month period)**	May 31, 2014 (IFRS)	May 31, 2013 (Part V)	May 31, 2012 (Part V)	May 31, 2011 (Part V)	May 31, 2010 (Part V)
Revenues[a]	**431**	937	256	247	256	222
Net income[b]	**354**	769	458	215	650	600
Net assets	**10,484**	10,131	9,301	8,525	8,178	7,294
Class A shares outstanding (number, in thousands)	**334,346**	334,234	332,441	320,629	315,504	305,951
Total operating expense ratio[c] (%)	**0.63**	1.51	1.44	1.46	1.47	1.54
Portfolio turnover rate[d]**:**						
Development capital investments (%)	**2.42**	7.14	8.44	12.09	11.38	7.93
Other investments (%)	**65.32**	167.36	115.57	158.61	172.57	233.20
Trading expense ratio[e] (%)	**0.01**	0.02	0.02	0.02	0.02	0.03
Number of shareholders (number)	**613,958**[f]	613,958	615,664	594,287	583,235	577,511
Issues of shares	**257**	787	855	767	698	660
Redemptions of shares	**264**	729	542	620	465	341
Fair value of development capital investments[g]	**6,644**	6,415	6,144	5,757	5,207	4,784

a For the six-month period ended November 30, 2014 and the financial year ended May 31, 2014, revenues include realized and unrealized gains and losses, distributions, rental income, fees and other income, which is not the case for the financial year ended May 31, 2013 and the prior years.

b Net income corresponds to revenues less total operating expenses and income taxes. To arrive at comprehensive income, the remeasurement of the net defined benefit liability is deducted from (or added to) net income.

c The total operating expense ratio is obtained as follows: for a six-month period, by dividing total operating expenses in net income for the six-month period by the net assets attributable to security holders of the Fonds at the end of that six-month period; for a year, by dividing total operating expenses in net income for the year by the average net assets attributable to security holders of the Fonds for that year. The total operating expense ratio for the six-month period ended November 30, 2014 is presented on a non-annualized basis.

d The portfolio turnover rate reflects the number of changes made to the composition of the portfolio. A portfolio turnover rate of 100% means, for example, that the Fonds purchased and sold all the securities in its portfolio once during the financial year. There is not necessarily a relationship between a high turnover rate and the portfolio's performance. The portfolio turnover rate for the six-month period ended November 30, 2014 is presented on a non-annualized basis.

e The trading expense ratio represents transaction costs expressed, for the six-month period, as an annualized percentage of net assets at the end of the six-month period and, for the year, as a percentage of average net assets.

f As at May 31, 2014.

g These investments include funds committed but not disbursed as well as guarantees and suretyships.

CHANGE IN NET ASSETS PER SHARE

Six-month period or years ended

(in dollars)	**November 30, 2014 (IFRS) (six-month period)**	May 31, 2014 (IFRS)	May 31, 2013 (Part V)	May 31, 2012 (Part V)	May 31, 2011 (Part V)	May 31, 2010 (Part V)
Net assets per share, beginning of six-month period/year[a]	**30.31**	27.98	26.59	25.92	23.84	21.78
Impact of the transition to IFRS	**-**	0.02	-	-	-	-
Net assets per share, beginning of six-month period/year after impact of the transition to IFRS[a]	**30.31**	28.00	26.59	25.92	23.84	21.78
Increase from operations[b]:	**1.06**	2.32	1.41	0.68	2.10	2.01
Interest, dividends and distributions and rental income, fees and other income[c]	**0.46**	1.06	0.79	0.78	0.82	0.74
Realized gains	**0.23**	0.56	0.30	0.16	0.26	0.22
Unrealized gains	**0.60**	1.21	0.77	0.22	1.48	1.51
Total operating expenses[d]	**(0.20)**	(0.45)	(0.40)	(0.39)	(0.38)	(0.37)
Income tax and capital tax	**(0.03)**	(0.06)	(0.05)	(0.09)	(0.08)	(0.09)
Decrease from other comprehensive income	**(0.01)**	-	-	-	-	-
Variance from issues and redemptions of shares	**-**	(0.01)	(0.02)	(0.01)	(0.02)	(0.02)
Variance from the transfer of Class G shares	**-**	-	-	-	-	0.07
Net assets per share, end of six-month period/year[a]	**31.36**	30.31	27.98	26.59	25.92	23.84

a The amount of net assets per share is based on the actual number of shares outstanding at the relevant time.

b The increase from operations is based on the weighted-average number of shares outstanding during the relevant six-month period or financial year.

c For the six-month period ended November 30, 2014 and the financial year ended May 31, 2014, this item includes distributions as well as rental income, fees and other income.

d For the year ended May 31, 2013 and the prior years, distributions as well as rental income, fees and other income were presented as a reduction of total operating expenses.

ECONOMIC CONDITIONS AND OUTLOOK

World and the United States

Over the last few months, the downward trend in prices for commodities such as copper, gold and especially oil, geopolitical crises around the world, particularly persistent conflicts in Ukraine and the Middle East, and more recently, the Ebola epidemic in West Africa have all contributed, in one way or another, to casting a shadow over the global economic outlook. The economic conditions in many emerging countries, particularly in Latin America, also continues to be a source of concern, due to the major depreciation of their currency, high inflation or significant capital flight, among other factors. The situation has many economists worried that in the coming quarters these countries will lose their ability to continue playing the role of economic engine that they have played in the global economy in recent years.

In the Eurozone, the situation is not much better. In the last few months, economic growth has been very weak: among other things, German real GDP contracted, which was a hard pill to swallow, as this country had always been the pillar of the zone's economy for the previous quarters. Facing persistent economic weakness in the Eurozone, the European Central Bank has taken action in recent months by implementing new monetary easing measures. Despite this, in the current conditions, most economic indicators seem to suggest that the Eurozone economy will continue to have tepid growth in the coming quarters.

All this uncertainty surrounding the global economic outlook can be felt on the stock markets: the latter were highly volatile in the last few months and, despite that, many stock indexes reached new highs.

After recording a decrease in GDP in the first quarter of 2014, in particular due to poor weather conditions during the winter, the U.S. economy rebounded in the second quarter. This recovery is explained notably by sustained growth in real consumption, particularly in durable goods, faster growth in business investment and a greater change in inventory. U.S. GDP continued to grow in the third quarter, but at a slower pace than in the previous quarter. Despite some apprehensions regarding the ability of the U.S. economy to continue to firm up in the coming quarters, economists generally seem relatively optimistic that it will do just that. Several economic indicators such as manufacturing and non-manufacturing indexes also seem to point to sustained economic growth for the coming quarters. Recent gains in the labour market (monthly average of 258,000 net hires for the last six months) drove down the unemployment rate, which was 5.8% in November 2014, compared to 6.3% in May 2014.

In the U.S. real estate sector, existing home sales grew somewhat after a temporary downturn during the winter of 2014, while new home sales and housing starts remained fairly weak during the same period. Many specialists in this sector believe that the situation should improve in the coming year. Furthermore, last spring, several economists expected inflation to rise in the United States, but inflation has actually stayed relatively low and stable for the last six months, and in all likelihood, the situation should not change much in the coming year. In addition, given that the unemployment rate fell below 6% and the bond purchase program has ended, economists expect that, as long as economic growth continues and inflation remains weak, the Fed will be in a position to order the first increase in the key interest rate toward the middle of 2015. It is important to remember that this rate has remained unchanged at 0.25% since December 2008.

Canada and Québec

After a rough start to the year, the Canadian economy recovered in the second quarter of 2014 and continued to grow in the third quarter, albeit at a slower pace. However, it is important to point out that this economic growth was very asymmetrical, as the Western provinces posted higher growth than Ontario, Québec and the Atlantic provinces. The recovery of the U.S. economy, which started in spring 2014, explains some of the robustness of the Canadian economy over the recent months. More specifically, starting in the second quarter of 2014, Canada saw an increase in consumer and business spending as well as a steep increase in the volume of exports. This growth in the volume of exports stems from the positive contribution of many sectors, including automobiles and parts, which did particularly well. Despite this good news, many economists wonder if the Canadian economy will have the capacity to maintain this pace of growth in the coming quarters, particularly on the exports front, given the concerns about the capacity of the U.S. economy to continue to firm up, the decline in oil prices and the difficulties seen in Europe and several emerging countries.

Overall, in the last six months, the Canadian unemployment rate inched down from 7.0% in May 2014 to 6.6% in November 2014. Many economists believe that it should continue to fall in the coming quarters as long as the Canadian economy continues to grow. In general, inflation has remained weak in Canada in recent months. The annual variation in the Canadian CPI has been 2.2% on average since May 2014. In the opinion of many experts, inflation should edge up slightly in 2015.

The Canadian real estate market showed strong resilience in the last six months. After slowing at the beginning of the year, home sales started to go up in spring 2014. According to many economists, they should gradually slow over the coming quarters mainly due to the anticipated intensification of tensions related to accessibility. Lastly, to the extent that the economic recovery continues across the country in the coming quarters, the Bank of Canada may be prompted to modify its monetary policy, particularly by raising the discount rate (which has been at 1% since September 2010). Many economists believe that such an increase will likely not happen before fall 2015.

During the last six months, short-term (2 years) and long-term (10 years) Canadian government bond rates posted a slight decrease. During the same period, investment-grade corporation credit spreads trended up while provincial credit spreads remained relatively stable. The Canadian dollar traded at $US0.88 on November 30, 2014, compared with $US0.92 on May 31, 2014. In light of current conditions, we forecast that the Canadian dollar will fluctuate between $US0.85 and $US0.91, and that interest rates on Canadian 10-year and 30-year bonds should vary in a range not exceeding plus or minus 50 basis points.

In Québec, despite a sharp improvement in exports, economic growth remained weak during the last six months, notably due to the weakness in household consumption and business investment. The unemployment rate was 7.6% in November 2014, down from 8.0% in May 2014; this rate is higher than for Canada (6.6%) and for Ontario (7.0%). According to many economists, economic growth in Québec should remain weak in the coming months, especially given the current fiscal austerity context. The Fonds will therefore definitely continue to play an important role in contributing to creating and maintaining jobs in Québec and by working with Québec companies that have the will and the desire to expand abroad while generating economic spinoffs for Québec.

Despite the positive signs suggesting an economic recovery built on a stronger foundation that seem to be appearing on the horizon in North America, economic and financial issues still abound elsewhere in the world, particularly in Europe and emerging countries. Put another way, the road to greater stability on a global scale is still littered with obstacles of all kinds. This situation is giving rise to many economic uncertainties that should continue to impact the performance of many financial institutions, including the Fonds.

MANAGEMENT DISCUSSION OF FINANCIAL PERFORMANCE

RESULTS OF OPERATIONS

RESULTS FOR THE FONDS

For the six-month period, the Fonds posted comprehensive income of $351 million, compared to $415 million for the corresponding period of the prior year. The Fonds' return was 3.5% for the six-month period, compared to the return of 4.4% posted for the same period a year ago. The value of the Fonds' shares increased by $1.07 compared to the value in effect since July 4, 2014 to stand at $31.36 as at January 5, 2015. The Fonds' net assets amounted to $10.5 billion as at November 30, 2014 compared to $10.1 billion as at May 31, 2014. For the last 12 months (from December 1, 2013 to November 30, 2014), the Fonds generated a return of 7.4%, the same as for the corresponding period in 2012-2013.

As a result of its mission, a significant portion of the Fonds' portfolio is comprised of private securities and specialized funds. Consequently, the Fonds did not benefit from the full effect of the increase in global stock markets that occurred during the last few months. In general, the Fonds' asset allocation tends to limit its return potential in a bull market, while the opposite occurs in a bear market.

FONDS RETURN

Six-month periods ended November 30

	2014 (IFRS)			2013 (IFRS)		
	Assets under management at end of period* $M	**Weight %**	**Return %**	Assets under management at end of period* $M	Weight %	Return %
Development capital investments	**5,201**	**49.5**	**3.5**	4,998	51.4	6.6
Other investments**	**5,308**	**50.5**	**4.8**	4,725	48.6	3.4
	10,509	**100.0**	**4.2**	9,723	100.0	5.1
Other income			**0.1**			0.0
Total operating expenses			**(0.6)**			(0.7)
Income tax			**(0.1)**			(0.1)
Fonds return (six-month period)			**3.5**			4.4
Fonds return (last 12 months)			**7.4**			7.4

***** Assets under management at end of period refer to the fair value, at the end of the six-month period, of the assets managed by the Investments and Other Investments sectors and used to generate revenues presented in the Statement of Comprehensive Income. This amount differs from the amount of assets presented in the financial statements, which includes, unlike assets under management, notes from the liquidity surpluses of regional and local funds and certain specialized funds, among other things.

****** Other investments represent the remaining assets not invested in partner companies. Managed by the Other Investments sector, they consist of the following portfolios: cash and money market, bonds, shares, international infrastructure funds, high-income securities and absolute return strategies.

SECTOR RESULTS

Investments sector

The assets managed by the Investments sector are essentially mission-driven development capital investments made by the Fonds in public and private companies in the form of shares, units or loans. To stabilize its return, the Fonds favours a fair balance between investments in the form of loans—that are usually unsecured and provide a current return through interest payments—, investments in shares—that potentially generate a higher return but involve an increased level of volatility—, and investments in specialized fund units—that allow the Fonds to better diversify its portfolio while bringing private and foreign capital inflows to Québec. Development capital investments are governed by the Fonds' *Investment Policy*, which is an important component of its *Integrated Financial Assets Management Policy*.

The Investments sector earned a gross return of 3.5% for the six-month period, compared to the gross return of 6.6% generated for the corresponding period in 2013. Taking into account this return and given the level of mission-driven investments made by the Fonds, the assets in this sector represented $5.2 billion at the end of the six-month period or 49.5% of assets under management as at November 30, 2014 (51.4% as at November 30, 2013).

The performance of the Investments sector is influenced by various factors, particularly the behaviour of the financial markets as well as the economic and business conditions in which our partner companies operate, and by the dynamic management of our investments. The gross return of 3.5% of the Investments sector for the most recently ended six-month period is largely explained by the following:

- the return of 3.4% generated by our private securities and specialized funds portfolio during the six-month period (compared to 3.0% for the corresponding period in 2013). Overall, this performance is attributable to the general strength of the portfolio, which produced interest and dividend revenues and, in addition, generated an increase in value during the six-month period in a low economic growth environment in Québec. The depreciation of the Canadian dollar over the last six months is a factor that contributed positively to this increase in value;
- the return of 4.0% generated by our portfolio of listed securities during the six-month period. This return was earned in an environment in which the Canadian stock markets were very volatile and, in general, did not perform as well as in the corresponding period of the prior year, when conditions were much more favourable, which enabled our portfolio to generate a return of 23.2%.

Other Investments sector

The Other Investments sector manages the Fonds' assets that are not invested in partner companies. Other investments consist of the following portfolios: cash and money market, bonds, shares, international infrastructure funds, high-income securities and absolute return strategies. Other investments are managed in accordance with the *Other Investments Portfolio Policy*, which is an integral part of the *Integrated Financial Assets Management Policy*. The *Other Investments Portfolio Policy* is designed to optimize the return/risk ratio of the Fonds, diversify the development capital investments portfolio and ensure that the Fonds has a liquidity level that is sufficient to meet all its obligations.

The changes to portfolios initiated during the year ended May 31, 2014 as part of the revision of the *Other Investments Portfolio Policy* (in particular reducing the target bond allocation to increase the target equity allocation, adopting an active management approach for Canadian equities and adding low-volatility and high-dividend shares to optimize the Fonds' return/risk ratio) were completed on June 30, 2014.

For the six-month period, the Other Investments sector earned a gross return of 4.8%, up from the gross return of 3.4% recorded for the corresponding period in 2013. The assets of this sector represented $5.3 billion, or 50.5% of the Fonds' assets under management as at November 30, 2014 (48.6% as at November 30, 2013).

The evolution of interest rates and the performance of the stock markets are the determining factors in analyzing the performance of the Other Investments sector. Accordingly, the results achieved by this sector are influenced by the behaviour of the financial markets and the conditions affecting the economic environment. The gross return of 4.8% of the Other Investments sector for the year is largely explained by the following:

- the good performance of foreign stock markets which, combined with the depreciation of the Canadian dollar, led to a return of 6.2% for the shares and other securities[1] portfolios. These portfolios had generated a return of 9.7% for the corresponding period of the prior year, when economic conditions were characterized by a widespread increase in stock markets;
- the positive return of 3.5% on our fixed-income portfolio for the six-month period, compared to the negative return of 1.0% for the corresponding period in 2013. This return is essentially explained by the interest income generated by the portfolio and the decrease in interest rates for Government of Canada securities, which increased the value of bond securities in the portfolio.

[1] Other securities are comprised of the following portfolios: international infrastructure funds, high-income securities and absolute return strategies.

RETURN BY ASSET CLASS

Six-month periods ended November 30

	2014 (IFRS)			2013 (IFRS)		
	Assets under management at end of period $M	**Weight %**	**Return %**	Assets under management at end of period $M	Weight %	Return %
Development capital investments						
Private securities and specialized funds	**4,269**	**40.6**	**3.4**	3,963	40.8	3.0
Listed securities	**932**	**8.9**	**4.0**	1,035	10.6	23.2
Other investments						
Fixed-income securities	**2,587**	**24.6**	**3.5**	2,742	28.2	(1.0)
Shares and other securities	**2,721**	**25.9**	**6.2**	1,983	20.4	9.7
	10,509	**100.0**	**4.2**	9,723	100.0	5.1

TOTAL OPERATING EXPENSES

Total operating expenses consist mainly of expenses related to assets under management, shareholder services, subscription activities, economic training, systems and controls and their improvement, the process of investing in companies, personnel and all other resources the Fonds requires to achieve its mission and meet its objectives. Although it is essential that the Fonds has available resources to achieve its mission, it is also fundamental that it controls its expenses. Year after year, the Fonds was able to maintain its total operating expense ratio at a lower level than the management expense ratio of Canadian balanced funds[2], which stands at approximately 1.2% on a six-month basis.

For the six-month period ended November 30, 2014, the ratio of total operating expenses to net assets attributable to security holders of the Fonds at the end of the six-month period (on a non-annualized basis), calculated using the method prescribed in the Regulation, was 0.6% (0.7% for the corresponding period of the previous year). Expressed in dollars, total operating expenses amounted to $66.0 million for the six-month period ended November 30, 2014, down $2.0 million compared to the corresponding period of the prior year.

ANALYSIS OF CASH FLOWS, BALANCE SHEET AND OFF-BALANCE SHEET ITEMS

Cash flows

Cash flows from operating activities of the Fonds totalled $39 million for the six-month period, up from $13 million for the corresponding period in the prior year. Changes in these cash flows mainly resulted from our current operations.

Cash flows from financing activities were a negative total amount of $26 million for the six-month period, compared to a positive total amount of $20 million for the corresponding period in 2013. In addition, cash flows from investing activities of the Fonds represented a net cash outflow of $4 million for the six-month period, the same as for the corresponding period in 2013.

As at November 30, 2014, the Fonds had lines of credit of $80 million available for its working capital requirements. These lines of credit were not used during the six-month period, and their outstanding balance was nil as at November 30, 2014.

2 Source: Bloomberg (based on a sample of 168 Canadian retail balanced funds)

Balance sheet and off-balance sheet items

Balance sheet development capital investments increased from $5.4 billion as at May 31, 2014 to $5.6 billion as at November 30, 2014. This $190 million increase results mainly from our net disbursed investments of $70 million (disbursed investments of $210 million less disinvestments of $140 million) and the increase in value of development capital investments during the six-month period.

On a commitment basis, the Fonds made development capital investments of $240 million during the six-month period, compared to $69 million for the corresponding period of the previous year. Funds committed but not disbursed increased from $963 million as at May 31, 2014 to $1.0 billion as at November 30, 2014.

In addition, balance sheet other investments increased by $121 million during the six-month period to $5.2 billion as at November 30, 2014 ($5.1 billion as at May 31, 2014). This increase is mainly attributable to the increase in value of securities held in the portfolio as a result of the stock market appreciation.

The Fonds uses derivative financial instruments in particular to increase its revenues or reduce its financial risks, to safeguard the value of its assets, to facilitate the management of its portfolios, to modify its asset allocation and to enhance its returns within allocated risk limits.

MISSION OF THE FONDS, OBJECTIVES AND STRATEGIES

As part of the 2014-2015 Québec budget tabled on June 4, 2014, the Government of Québec decided to set a limit on share issues by tax-advantaged funds for the 2014-2015 fiscal year. The limit for the Fonds will amount to $650 million in shares giving rise to labour-sponsored fund tax credits and will have no impact on its share return or its ability to redeem its shares. However, it will reduce both the ability of the Fonds to invest in Québec SMEs and, the ability of Quebec workers to save for retirement.

Except for the foregoing, there have been no material changes in the Fonds' mission, objectives, strategies and business model since the issuance of the last annual MD&A.

PHASE-OUT OF THE FEDERAL TAX CREDIT

In the budget tabled on March 21, 2013, the Government of Canada announced its intention to phase out through 2017 the 15% tax credit it grants to labour-sponsored fund shareholders. Despite the representations and proposals made by the two Québec-based labour-sponsored funds (the Fonds and Fondaction CSN), the Government of Canada passed Bill C-4 in December 2013 without amending the measures set out in the March 2013 budget. More specifically, according to these measures, the federal income tax credit remains at 15% until the taxpayer's 2014 tax year (therefore including any contributions made during the first 60 days of 2015 and applied to the 2014 tax year), and will then be phased out through 2017. The Québec tax credit of 15% remains in place. Consequently, for the taxpayer's 2014 tax year, total credits will continue to be 30%. Despite this decision by the Government of Canada, the Fonds will continue to make representations and proposals to convince federal government to change its decision in future budgets.

It is important to highlight that the phase-out of the federal labour-sponsored fund tax credit will not affect the ability of the Fonds to seek a reasonable return, its ability to comply with the 60% rule or its ability to satisfy the eligible requests for redemption from its shareholders, as a significant part of its assets is liquid. In addition, it should be noted that the Fonds' share value does not depend on the federal tax credit, on the size of the Fonds, on the annual subscriptions or on the redemption requests to the Fonds, but depends exclusively on the value of the Fonds' assets, which are solid.

According to a KPMG-SECOR analysis, the Fonds' business model will remain viable despite the feared decrease in subscription caused by this hidden tax hike. However, should subscriptions decrease, the Fonds will have to reduce its investments in Québec companies to maintain the equilibrium of its model. In addition, should subscriptions decrease while redemptions maintain their trend, the financial impact of the measure would be, for the Fonds, a potential decrease in its assets that would be gradual and slow. The Fonds' assets will nevertheless continue to be very substantial, and their decrease will have no impact on the equilibrium of the model mentioned above, in particular the Fonds' ability to redeem shares from its shareholders. The conclusions of the KPMG-SECOR analysis show the potential disruptive effect of the federal government's decision on the financing of Québec job-creating companies.

Put another way, the federal government's decision, which will represent a significant tax increase for Québec workers who save (annual increase of $418 for the average Fonds shareholder who invests $2,785 per year), could reduce subscriptions and, consequently, job-creating investments in the Québec economy.

60% RULE

The 60% rule set out in the Fonds' Incorporation Act stipulates that the Fonds' average unsecured investments in qualified business enterprises must represent at least 60% of its average net assets of the previous financial year. The Fonds may invest the remaining assets in other financial vehicles for asset diversification and sound management purposes. The calculation method for this rule is based on the value of the Fonds' assets, which depends in part on interest rate fluctuations and on the performance of stock markets and the economy in general.

As at May 31, 2014, the value of average qualified investments[3] amounted to $5.8 billion, or 65.1% of the average net assets of the previous financial year (compared to 66.0% as at May 31, 2013). Since the minimum percentage prescribed was reached as at May 31, 2014, the amount of share issues for the 2014-2015 year will not be limited by the 60% rule. However, as noted previously, as part of the 2014-2015 Québec budget tabled on June 4, 2014, the Government of Québec decided to limit share issues by tax-advantaged funds for the 2014-2015 fiscal year. This limit for the Fonds amounts to $650 million in shares giving rise to a tax benefit.

As at November 30, 2014 and May 31, 2014, the Fonds was also in compliance with all other limits and rules set out by its Incorporation Act. The Fonds expects to comply with all the limits and rules set out in its Incorporation Act over the next several years.

RECENT DEVELOPMENTS

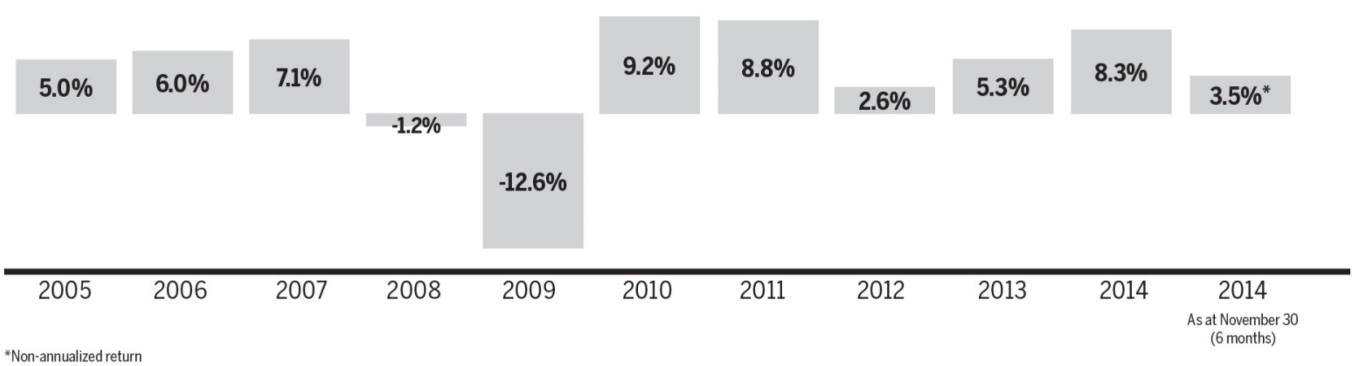
The Fonds adopted the IFRS for the year beginning June 1, 2014, as required by Canadian securities laws and the Accounting Standards Board of Canada. Note 28 to the financial statements at as November 30, 2014 discloses the impact of the transition to IFRS on the financial position, financial performance and cash flows reported by the Fonds. It also presents the nature and impact of the significant changes in accounting policies.

PAST PERFORMANCE

This section presents the past performance of the Fonds. The past performance of the Fonds does not necessarily indicate how it will perform in the future.

YEAR-BY-YEAR RETURNS OF THE FONDS

The following chart shows the Fonds' annual performance and illustrates how the Fonds' performance has changed from year to year for the last ten financial years ended May 31 and the six-month period ended November 30, 2014.



3 These investments include funds committed but not disbursed as well as guarantees and suretyships.

The annual performance of the Fonds is calculated by dividing net income (net loss) per share for the financial year by net assets per share at the beginning of the financial year. Such performance sometimes differs from the annual compound return to the shareholder because the annual performance of the Fonds is calculated taking into account share issues and redemptions made during the year, which have a dilutive or accretive effect on net income (net loss) per share, as the case may be. The non-annualized performance for the six-month period ended November 30, 2014 is calculated by dividing net income per share for the six-month period by net assets per share at the beginning of the six-month period.

ANNUAL COMPOUND RETURNS TO THE SHAREHOLDER

At the current value of $31.36 per share, a shareholder who has invested at the beginning of each of the periods indicated below earns the following annual compound returns:

10 years	5 years	3 years	1 year
3.7%	5.9%	6.5%	7.4%

The annual compound return to the shareholder is calculated by taking into account the annualized change in the value per share over the periods indicated. This return sometimes differs from the annual performance of the Fonds since, as explained above, it does not take into account the dilutive or accretive effect of share issues and redemptions made during the year.

Since the inception of the Fonds, the annual compound return to the shareholder has been 3.9%.

ANNUAL COMPOUND RETURNS TO THE SHAREHOLDER (INCLUDING TAX CREDITS)

Let’s take, for example, a shareholder who has invested an equal amount each year through payroll deduction. Including the Québec and federal labour-sponsored fund tax credits (each amounting to 15%) that this shareholder has received, at the current value of $31.36 per share, this shareholder earned an annual compound return of 16.1% and 11.5% for a 7-year and 10-year period, respectively. In addition to this return, the shareholder can receive additional tax benefits if he transfers his Fonds shares to an RRSP.

SUMMARY OF INVESTMENT PORTFOLIO

As at November 30, 2014, the Fonds' assets under management were broken down between the following categories of the development capital investments and other investments portfolios:

Asset classes	% of net assets
Development capital investments	
Private securities	30.2
Specialized funds	10.5
Listed securities	8.9
	49.6
Other securities	
Cash and money market	2.0
Bonds	22.7
Shares	25.0
High-dividend shares[4]	0.4
International infrastructure funds	0.5
	50.6

The following table presents the issuers of the top 25 positions held by the Fonds as at November 30, 2014, of which 18 are part of the development capital investments portfolio and 7 are part of the other investments portfolio. When the Fonds holds more than one class of securities of an issuer, those classes are aggregated. However, with respect to other investments, debt and equity securities of an issuer are not aggregated.

Issuers	% of net assets
Development capital investments (18 issuers)*	30.0
Other investments (7 issuers)**	13.7
	43.7

* The 18 issuers representing, as a group, 30.0% of the Fonds' net assets are (in alphabetical order):

- Camoplast Solideal inc.
- Cogeco Câble inc.
- Corporation Financière L'Excellence ltée
- Entreprises québécoises publiques[5]
- FinTaxi, s.e.c.
- Fonds immobilier de solidarité FTQ inc.[5]
- Fonds immobilier de solidarité FTQ I, s.e.c.[5]
- Fonds immobilier de solidarité FTQ II, s.e.c.[5]
- Gestion TFI inc.
- La Coop fédérée
- Metro inc.
- Société de gestion d'actifs forestiers Solifor, société en commandite[5]
- Société en commandite Groupe CH
- SSQ Financial Group[6]
- TMX Group Limited
- Transcontinental inc.
- Trencap s.e.c.
- VC, société en commandite

** The 7 issuers representing, as a group, 13.7% of the Fonds' net assets are:

Province of Ontario	4.6%
Province of Québec	3.0%
Government of Canada	2.3%
Financement-Québec	1.5%
Canada Housing Trust No 1	0.9%
Hydro-Québec	0.8%
Canadian Imperial Bank of Commerce	0.6%

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Fonds.

4 High-dividend shares are included in the high-income securities portfolio.

5 Despite their relatively important weight in the overall portfolio of the Fonds, these issuers do not constitute a significant concentration risk given the large number of investee.

6 Includes all of the Fonds' investments in SSQ, Life Insurance Company Inc. and its subsidiary, SSQ General Insurance Company Inc. Includes also the Fonds' investment in SSQ, Mutual Holding Inc.

CONTRIBUTION TO QUÉBEC'S ECONOMIC DEVELOPMENT

In keeping with its mission, the Fonds made investments over the six-month period that contributed to creating, maintaining or saving quality jobs in various sectors of the Québec economy. In the current economic conditions, the Fonds continues to play an active role in the development and growth of Québec companies. As such, during the six-month period, the Fonds invested $240 million, on a commitment basis, to support development projects in the Québec economy. Here are a few examples of the Fonds' contribution to Québec's economic development during the six-month period.

To support Maibec Inc. in a project aimed at broadening its market position and increasing its purchasing power, the Fonds reinvested $10 million in this company, which employs over 650 people in Québec. The Fonds invested close to $5 million in Rudsak Inc., an investment that will help it pursue expansion plans for its store network. This company already has over 300 employees in Québec. The Fonds also participated, for an amount of $20 million, in the project involving the combination of Osisko Gold Royalties Ltd. and Virginia Mines Inc. to create a new leading intermediate royalty company with two world-class gold royalty assets in Québec.

The Fonds also participated with the Caisse de dépôt et placement du Québec and Investissement Québec in recapitalizing the Fonds Anges Québec capital, s.e.c., (the Fonds contributed $15 million of the total $85 million) in order for entrepreneurs to have access to the capital they need for projects that required seed or start-up capital. To that end, Anges Québec works closely with a number of key Québec organizations interested in the development and growth of technological innovations. So far, Anges Québec members have invested and reinvested in over 50 promising businesses in the seed or start-up stage.

TRENDS AND OUTLOOKS

TRENDS IN THE SAVINGS MARKET AND RRSP

The debate on retirement plans, on which the D'Amours report (Innovating for a Sustainable Retirement System – Summary) is still the primary reference, continues in the current context of fiscal austerity in Québec and discussions on taxation and programs. In addition, the act respecting VRSPs (Voluntary Retirement Savings Plans) came into force on July 1, 2014, and its implementation will span a long period of time. This obviously reminds us of the importance of Quebecers personally taking responsibility for their savings.

A careful analysis of the behaviour of investors in Canada and Québec shows that they seem to have a more favourable perception of stock and financial markets in 2014 than they had the previous year. This boost in investor confidence in stock and financial markets across the country is largely explained by the very good returns the markets have provided in recent years. Despite everything, many investors point out that they still remember the financial crisis of 2008-2009 and that, although stock markets increased in recent years, they continue to be very conservative when it comes to selecting savings products; this conservatism is increased even further in today's context of stock market volatility and uncertain global economic outlook for the coming quarters.

For the next RRSP campaign, the Fonds' shares (which generated a return of 7.4% for the 12-month period ended November 30, 2014) will be part of the good choices of financial products available to Québec's savers, given their low volatility and their advantageous return enhanced by the savings from the tax credit to which they give rise. The local representative (LR) network and the Fonds' employees will continue their ongoing work of raising awareness on the importance of saving early in life and the advantages of systematic savings.

FONDS OUTLOOK[7]

The phase-out of the federal income tax credit and the $650 million limit imposed by the Government of Québec on the Fonds' issues of shares giving rise to labour-sponsored fund tax credits will not, strictly speaking, affect the overall strength of the Fonds' assets, the share value, the return to shareholders or the ability of the Fonds to redeem shares, even in the long-term.

There have been no material changes to the other outlooks presented in our last annual MD&A.

RISK MANAGEMENT

Sound risk management practices are vital to the success of the Fonds. We manage our risk within a framework taking into account the nature of our activities and the risks we can reasonably assume considering the desired return/risk ratio and stakeholder expectations. To that end, we capitalize on a structured process to determine, measure and control the significant risks with which we must contend.

Notice to readers: *The following paragraphs and the sections on market risk, credit and counterparty risk and liquidity risk form an integral part of the financial statements on which an unmodified opinion was expressed in an independent auditors' report dated December 23, 2014.*

The Fonds manages all its financial instruments in an integrated, comprehensive manner in accordance with the standards set out in the *Integrated Financial Assets Management Policy*. The *Integrated Financial Assets Management Policy* is complemented by the *Investment Policy* for the development capital investments managed by the Investments sector and by the *Other Investments Portfolio Policy* for the assets managed by the Other Investments sector. These policies, which were adopted by the Board of Directors, set goals, guidelines and several limits so that the Fonds' management can ensure that the target return/risk profile is reached. The Fonds uses derivative financial instruments in particular to increase its revenues or reduce its financial risks, to safeguard the value of its assets, to facilitate the management of its portfolios, to modify its asset allocation and to enhance its returns within allocated risk limits.

During the six-month period ended November 30, 2014, the Fonds continued to implement its integrated risk management framework. This process, which was undertaken a few years ago, is essentially aimed at providing the Fonds' management with an overall vision of all risks to ensure that they are managed in accordance with their degree of importance. The production of an integrated risk profile allowed prioritizing the key financial and non-financial risks to which the Fonds is exposed, before and after considering the effectiveness of the controls implemented to mitigate the Fonds' exposure to these risks. A mitigation strategy was developed for some of these risks, and action plans were set up and deployed. In addition, the Fonds produces on a quarterly basis a risk scorecard. This scorecard, which is integrated into its corporate scorecard, allows management to monitor the evolution of risks with respect to its business objectives and strategies.

The integrated risk management approach was also designed to improve risk governance, monitoring and reporting. To that end, the Board of Directors of the Fonds adopted, in May 2012, the *Integrated Risk Management Policy*, a policy that sets out the Fonds' requirements in that regard while specifying the responsibilities of the main stakeholders involved. This policy has been in effect since June 1, 2012.

In addition, as the Fonds chose to manage its risks using the principle of subsidiarity, the Fonds' business sectors have started to review their procedures and processes to integrate the management of the risks identified in the *Integrated Risk Management Policy* into the management of their operations. The review of processes, which has already been completed in the Other Investments and Investments sectors, has continued in two other sectors (Shareholder Services and Information Technologies) during the six-month period.

In the normal course of business, the Fonds is exposed to various risks; the principal ones are presented hereafter.

[7] The outlook presented in this MD&A reflects the Fonds' expectations with respect to future events, based on information available to the Fonds as at December 23, 2014, and presupposes certain risks, uncertainties and assumptions. Many factors, several of which are beyond our control, may cause the Fonds' actual results, performance, or achievements to differ materially from explicit or implicit expected future results, performance, or achievements.

MARKET RISK

Market risk, which is inherent to the Fonds' participation in financial markets, represents the risk of losses in value arising from fluctuations in interest rates, exchange rates and prices of listed financial instruments. More specifically, this risk varies with the financial markets' conditions and certain parameters of these markets, such as volatility, that may lower the value of the Fonds' financial assets and thus have a negative impact on its balance sheet and results. Difficult economic or financial conditions may thus have a negative impact on the value of the Fonds' shares.

The Fonds manages market risk by allocating its financial assets across several classes. In addition, it invests in various industries (governments and government agencies; finance and services to communities; information technologies, telecommunications and health; consumer discretionary and consumer staples; industries; energy and materials) and geographic areas, within the limits allowed by its Incorporation Act.

The Fonds' financial assets are especially sensitive to listed share prices and fluctuations in bond interest rates (Canada bond rates and credit spreads). The Fonds' financial assets are also sensitive to exchange rate fluctuations, but since most of its transactions are in Canadian dollars, the Fonds' direct exposure to currency risk is reasonable. Furthermore, hedging mechanisms such as foreign currency forward contracts may be used.

The Fonds performs sensitivity analyses and simulations to inform senior management of material levels of market risk exposure. It uses derivative financial instruments to reduce its market risk exposure and safeguard the value of its assets. The following table presents a sensitivity analysis for each of the three market risk categories to which the Fonds' financial assets are exposed, namely changes in interest rates, listed share prices and exchange rates. These analyses reflect the changes made to the hedging level for the Fonds' exposure to interest rate risk and currency risk.

As part of the revision of the other investments portfolio, the target equity allocation was increased. This change increased the sensitivity of the Fonds' assets to changes in stock markets. In addition, the phase-out of the foreign currency hedge on global equities increased the exposure to foreign exchange risk.

SENSITIVITY OF THE FONDS' RESULTS TO MARKET RISK

(in millions of dollars)	**November 30, 2014 (IFRS)**	May 31, 2014 (IFRS)	June 1, 2013 (IFRS)
Change in bond interest rates*			
1% increase in bond interest rates	**(180)**	(180)	(179)
1% decrease in bond interest rates	**180**	180	179
Change in listed share prices**			
10% increase in listed share prices	**356**	333	253
10% decrease in listed share prices	**(356)**	(333)	(253)
Change in exchange rates***			
10% appreciation of the Canadian dollar	**(234)**	(216)	(95)
10% depreciation of the Canadian dollar	**234**	216	95

* This analysis is performed on bonds held by the Fonds presented under Other investments in the financial statements. In this analysis, the impact on results takes into account the use of interest rate forward and futures contracts aimed at safeguarding assets.

** This analysis is performed on listed shares held by the Fonds presented under Development capital investments and Other investments in the financial statements. In this analysis, the impact on results takes into account the use of stock index futures.

*** This analysis is performed on securities denominated in foreign currencies held by the Fonds presented under Development capital investments and Other investments in the financial statements. In this analysis, the impact on results takes into account the use of foreign currency forward contracts.

The value of unlisted financial instruments in the development capital investments portfolio is established using approved and accepted valuation techniques. These techniques are based on a set of assumptions that take into account market conditions such as economic growth and credit spreads as at the valuation date. Since the assumptions used are highly interrelated, a sensitivity analysis that isolates the impact of one of these variables on the unlisted securities portfolio is not considered to fairly represent the sensitivity of the results. In addition, the fair value of certain financial instruments, in particular other investments and listed securities in the development capital investments portfolio, is determined based on external information and, consequently, no other reasonably possible assumption can be applied to the valuation techniques. Despite this, management assessed the situation for loans, bonds and advances as well as for unlisted securities valued using the capitalization of cash flows method, and determined that using possible alternative assumptions would not result in significantly different fair values.

CREDIT AND COUNTERPARTY RISK

The Fonds' exposure to credit risk stems mainly from its mission-driven development capital investments, which are generally unsecured. Its other investment activities generally entail less of this risk since the counterparties concerned are typically more financially solid (governments, banks, etc.).

Credit risk is the potential for loss due to the failure of a partner company (financial instruments presented under Development capital investments), issuer or counterparty in a transaction (financial instruments presented under Other investments) to honour its contractual obligations or due to a degradation of its financial position. The Fonds manages this risk through several means, including a due diligence process to ensure that the credit risk level is acceptable.

The Fonds maintains a sound diversification of its assets through the *Integrated Financial Assets Management Policy*. Compliance with this policy therefore enables managing the concentration risk associated with the exposure to an issuer or group of issuers with common characteristics (industries, credit ratings, etc.).

EXPOSURE TO CREDIT AND COUNTERPARTY RISK

(fair value as a percentage of net assets)	**November 30, 2014 (IFRS)**	May 31, 2014 (IFRS)	June 1, 2013 (IFRS)
Weight of the five largest investments (Development capital investments)	**17.4***	17.1*	19.5*
Weight of the five largest issuers or counterparties (Other investments)	**12.3****	13.0**	14.2**

* The portion attributable to investments that do not constitute a significant concentration of credit risk given the large number of investees represented 9.1% as at November 30, 2014 (8.9% as at May 31, 2014 and 9.6% as at June 1, 2013).

** All of these securities are issued or guaranteed by the governments of Québec, Ontario and Canada.

The summary of investment portfolio presented previously also discloses relevant information on the credit and counterparty risk concentration level.

For the development capital investments portfolio, the Fonds approves on an annual basis targets by industries, in keeping with its internal structure. These targets are set using a risk allocation mechanism. It should be noted that the actual results may however differ from the industry targets determined based on the investment opportunities on the market. Based on an optimal risk level defined by the Fonds for this portfolio as a whole by taking into account its mission, the risk allocation mechanism facilitates a more effective monitoring and control of the portfolio profile and sector allocation by risk level. The return/risk balance of this portfolio is achieved through a sector-based risk allocation mechanism that takes into account the higher risk of our investments in certain sectors.

The Fonds regularly re-examines the status of its development capital investments to ensure that they are adequately classified in one of the following three categories: compliant with internal criteria, under watch or in turnaround. To deal with the more difficult situations, an internal committee closely monitors investments that entail greater credit risk.

CLASSIFICATION OF THE DEVELOPMENT CAPITAL INVESTMENTS PORTFOLIO

(fair value in millions of dollars)	**November 30, 2014 (IFRS)**	May 31, 2014 (IFRS)	June 1, 2013 (IFRS)
Compliant with internal criteria	**5,299**	5,142	4,989
Under watch	**309**	285	293
In turnaround	**26**	17	24
	5,634	5,444	5,306

For the other investments portfolio, issuer and counterparty ratings and compliance with exposure limits by borrower or counterparty contribute to the sound management of the credit and counterparty risk of the portfolio and to the diversification of assets. These criteria are set based on the risks specific to each asset class and reduce the risk that our results will be materially affected in the event of a payment default. As at November 30, 2014, the weighted average credit rating of bonds was AA-, as it was as at May 31, 2014 and as at June 1, 2013.

CLASSIFICATION OF BONDS INCLUDED IN THE OTHER INVESTMENTS PORTFOLIO*

(fair value in millions of dollars)	**November 30, 2014 (IFRS)**	May 31, 2014 (IFRS)	June 1, 2013 (IFRS)
AAA	**423**	459	445
AA	**824**	775	707
A	**847**	966	976
BBB	**312**	310	264
	2,406	2,510	2,392

* Presented using the Standard and Poor's rating scale.

LIQUIDITY RISK

The Fonds must make disbursements on a daily basis—when it redeems shares held by shareholders, disburses amounts it committed to invest in partner companies, reimburses notes payable and pays expenses. It is worth noting that the Fonds is required to redeem shares only in the circumstances set out in its Incorporation Act, or to purchase them by agreement in exceptional situations provided under a policy adopted for such purpose by the Board of Directors and approved by the Minister of Finance of Québec.

The Fonds must be able to obtain the liquidity required to meet its commitments. Liquidity risk is therefore related to the potential for loss due to its inability to meet such commitments. In certain cases, securities acquired on the market can be subject to resale restrictions, thus potentially reducing their liquidity.

The Fonds' Incorporation Act provides that part of the financial assets of the Fonds may be invested in marketable securities on organized markets, such as stock and bond markets, so it can easily obtain cash. The Fonds also has access to bank credit facilities for additional liquidities.

As at November 30, 2014, the ratio of liquid assets[8] as a percentage of assets under management was 59.5% (59.2% as at May 31, 2014 and 53.8% as at June 1, 2013), demonstrating, in management's opinion, that the Fonds has the required liquidity to fulfill all its obligations and commitments, even under potential scenarios that would be less favourable to it.

OPERATIONAL RISK

Inherent to all the Fonds' activities, operational risk is the risk of sustaining losses as a result of the inadequacy or failure of certain processes or systems in place or due to human factors or external events. This risk also includes legal risk and regulatory compliance risk. Since the issuance of the last annual MD&A, there have been no material changes in the level and management of operational risk.

OTHER RISKS

The Fonds is also exposed to other risks, such as strategic and reputation risks, which could result in negative financial consequences. Since the issuance of the last annual MD&A, there have been no material changes in the management of these risks.

With respect to strategic risk, the phase-out of the tax credit announced by the federal government in its March 2013 budget, which will be effective as of January 1, 2015 (for the 2015 tax year, the total tax credit granted to taxpayers will decrease from 30% to 25%), will force the Fonds to adapt and review its short-, medium- and long-term development strategies by taking into account a potential reduction in subscriptions. As explained previously in this MD&A, the phase-out of the federal tax credit does not affect the equilibrium of the Fonds' model (ability to redeem shares, to keep sufficient liquidities, to seek a reasonable return, to comply with the 60% rule, etc.), but it will force the Fonds to adapt its annual investment volumes to the subscription amounts it will collect year after year. Should subscriptions decrease while redemptions maintain their trend, the financial impact of the measure would be, for the Fonds, a potential decrease in its assets that would be gradual and slow. The Fonds' assets will nevertheless continue to be very substantial, and their decrease will have no impact on the equilibrium of the model mentioned above, in particular the Fonds' ability to redeem shares from its shareholders.

In addition, the limit that the Government of Québec decided to set on share issues by tax-advantaged funds for the 2014-2015 fiscal year (for the Fonds, this limit will amount to $650 million in shares giving rise to labour-sponsored fund tax credits) will reduce both the ability of the Fonds to invest in Québec SMEs and the ability of Quebec workers to save for retirement. However, this limit will have no impact on its share return or its ability to redeem its shares.

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8 Liquid financial assets are comprised of fixed-income securities (cash, money market and bonds), listed shares of the other investments portfolio and certain listed shares of the development capital investments portfolio.

Reputation risk evolved favourably in the last few months, in particular as a result of the announcement of proposed changes to the Fonds' governance, the arrival of Robert Parizeau as a director and his appointment as Chairman of the Board of Directors, the appointment of Gaétan Morin as new President and Chief Executive Officer and the good financial results generated by the Fonds.

GOVERNANCE

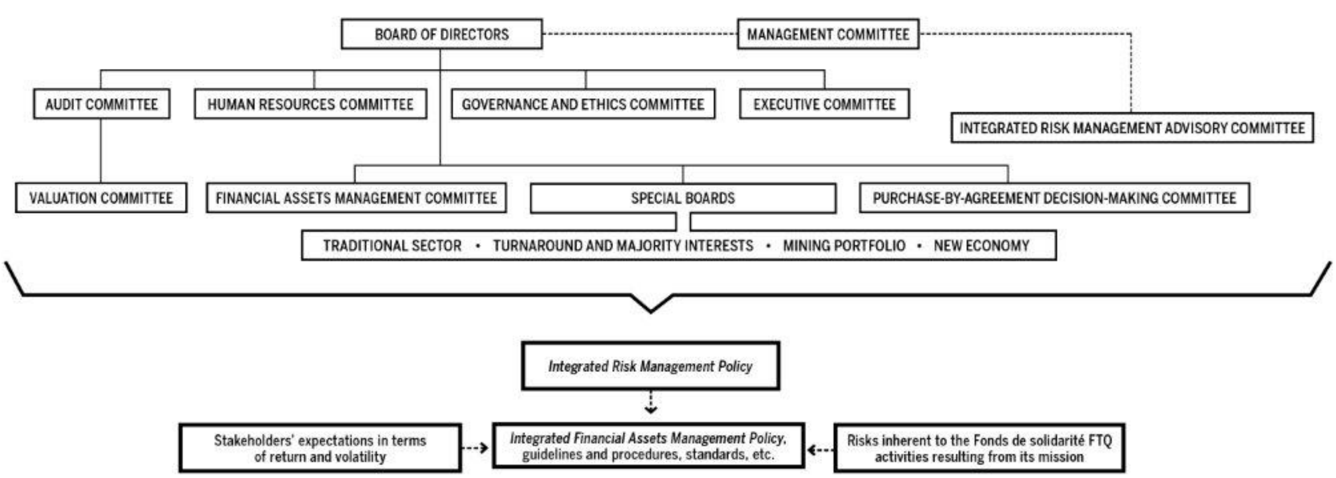
On February 6, 2014, the Fonds announced an important governance reform project that includes the following proposals:

1. Presidency of the Board of Directors AND all the Board's committees (including those authorizing regional and real estate fund investments) reserved for a member independent from both the Fonds and the FTQ[9].
2. Reconfiguration of the Board of Directors in particular to increase from 17 to 19 the number of directors, a majority of which must now be elected each year by the shareholders.
3. Enshrinement of the rule adopted in 2009 requiring any investment to be approved by an Investment Board made up of a majority of members independent from the Fonds and the FTQ[9]; since 2009, this rule has granted a veto to the independent members, including at the real estate funds. Furthermore, in order to increase the power of these Boards, the amount at which an investment must be submitted to the Board of Directors will be increased.
4. Creation of three new committees composed of a majority of members independent from the Fonds and the FTQ[9], namely (i) Governance and Ethics, (ii) Human Resources and (iii) Risk Management.
5. The duration of Board members terms will be limited to 12 years.

After the announcement of this reform, several actions were taken by the Fonds to implement these changes. Robert Parizeau, who joined the Board of Directors in February 2014, became its first independent Chairman on May 14, 2014. In addition, two of the proposed new committees, the Governance and Ethics Committee and the Human Resources Committee, have already been formed. Through its budget tabled on June 4, 2014, the Government of Québec announced that, in light of the principles presented by the Fonds, it will propose amendments to the Fonds' Incorporation Act. These amendments were tabled before the National Assembly on November 26, 2014 as part of Bill 28.

RISK GOVERNANCE

The Management Committee, comprised of the President and CEO and executives, is responsible for the global management of the Fonds' operations. Because risk governance is an essential part of integrated financial assets management, the Fonds has put in place a management framework to ensure that risk management and control strategies and resulting operational decisions take the established level of acceptable risk into account. An Integrated Risk Management Advisory Committee has also been set up. The governance structure that supports the Fonds, in particular with respect to risk management, was as follows as at November 30, 2014:



9 Including FTQ-affiliated unions

The Fonds' governance structure also includes the decision-making boards of the Fonds immobilier de solidarité FTQ. Furthermore, in order to bring into action its regional and local commitment, the Fonds created, several years ago, within its investment network of all the administrative regions of Québec, the Fonds régionaux de solidarité FTQ and the Fonds locaux de solidarité FTQ.

The Fonds' risk governance structure is built upon a series of policies approved by the Board of Directors. The Fonds regularly reassesses policies, standards, guidelines, and procedures to incorporate the best possible practices. Since the issuance of the last annual MD&A, there have been no material changes to the *Integrated Risk Management Policy* and the *Integrated Financial Assets Management Policy*.

Since the issuance of the last annual MD&A, there have been no material changes in the mandate, roles and responsibilities of the main governing bodies of the Fonds (Board of Directors and other committees); however, these mandates, roles and responsibilities are currently being reviewed in light of the creation of new committees. In addition, in the last few months, the Governance and Ethics Committee tasked a sub-committee with analyzing the decision-making process with respect to investment files (including the authorization of an investment, but also any changes to a file and any disinvestment as well as the periodic follow-up of approved files) in order to make recommendations to the Committee.

The recommendations arising from this analysis will have an impact on the scope of the mandate, the roles, the responsibilities and the composition of the various governance bodies of the Fonds.

VALUATION FRAMEWORK

During the last six-month period, the Fonds updated its valuation principles. The changes did not have a material impact on the value of the development capital investments portfolio. The update to the valuation principles was approved by the Audit Committee in November 2014.

Since the issuance of the last annual MD&A, there have been no material changes in the management framework that governs the procedure for valuing development capital investments.

MANAGEMENT'S REPORT ON INTERNAL CONTROLS

The Fonds has had for several years a financial compliance framework program commonly known as *Confor*. While not required to apply *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, the Fonds has decided to base its work upon the principles stated in this regulation, thereby demonstrating its willingness to respect best practices in financial governance.

Management is responsible for designing and maintaining internal control over financial reporting as well as disclosure controls and procedures. These controls are developed to provide reasonable assurance that the financial information is reliable and that the financial statements are prepared in accordance with IFRS. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect certain misstatements on a timely basis. Management must periodically evaluate control design and effectiveness. The design of internal control over financial reporting has been evaluated using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework, a recognized financial governance framework.

During the six-month period, no change has occurred that has materially affected, or is reasonably likely to materially affect, internal controls.