MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED MAY 31, 2015

FONDS de solidarité FTQ

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This 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 financial year ended May 31, 2015. The annual MD&A complements and supplements the financial statements and contains financial highlights, but does not contain the complete annual financial statements of the Fonds. To facilitate the understanding of events and uncertainties presented herein, this MD&A should be read together with the financial statements and the notes thereto.

The financial information presented in this 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 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 year ended May 31, 2014.

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 June 23, 2015.

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 annual financial statements 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 P.O. Box 1000, Youville Station, Montréal, Québec H2P 2Z5. You can also get a copy of the interim 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. This information is derived from the Fonds' audited financial statements. Financial data for the financial year ended May 31, 2015 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

Years ended May 31

(in millions of dollars, unless otherwise specified)	**2015 (IFRS)**	2014 (IFRS)	2013 (Part V)	2012 (Part V)	2011 (Part V)
Revenues[a]	**1,149**	940	256	247	256
Net income[b]	**985**	772	458	215	650
Net assets	**11,150**	10,131	9,301	8,525	8,178
Class A shares outstanding (number, in thousands)	**335,197**	334,234	332,441	320,629	315,504
Total operating expense ratio[c] (%)	**1.36**	1.51	1.44	1.46	1.47
Portfolio turnover rate[d]**:**					
Development capital investments (%)	**6.05**	7.14	8.44	12.09	11.38
Other investments (%)	**119.55**	167.36	115.57	158.61	172.57
Trading expense ratio[e] (%)	**0.01**	0.02	0.02	0.02	0.02
Number of shareholders (number)	**610,605**	613,958	615,664	594,287	583,235
Issues of shares	**667**[f]	787	855	767	698
Redemption of shares	**643**	730	542	620	465
Fair value of development capital investments[g]	**7,112**	6,415	6,144	5,757	5,207

a For the financial years ended May 31, 2015 and 2014, revenues include realized and unrealized gains and losses, distributions, rental, fee 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: 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.

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.

e The trading expense ratio represents transactions costs expressed as a percentage of average net assets.

f According to the 2014-2015 Québec budget tabled before the National Assembly on June 4, 2014, the amount of share issues giving rise to labour-sponsored fund tax credits that the Fonds could make during the financial year ended May 31, 2015 was limited to $650 million. The Fonds complied with this limit and also issued $17 million in shares that do not give rise to tax credits and are not subject to this limit; these shares were issued pursuant to the provisions regarding the acquisition of replacement shares set out in the Home Buyers' Plan and the Lifelong Learning Plan.

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

CHANGE IN NET ASSETS PER SHARE

Years ended May 31

(in dollars)	**2015 (IFRS)**	2014 (IFRS)	2013 (Part V)	2012 (Part V)	2011 (Part V)
Net assets per share, beginning of year[a]	**30.31**	27.98	26.59	25.92	23.84
Impact of the transition to IFRS	**-**	0.02	-	-	-
Net assets per share, beginning of year after impact of the transition to IFRS[a]	**30.31**	28.00	26.59	25.92	23.84
Increase from operations[b]:	**2.94**	2.31	1.41	0.68	2.10
Interest, dividends and distributions and rental, fee and other income[c]	**1.02**	1.08	0.79	0.78	0.82
Realized gains[d]	**0.67**	0.53	0.30	0.16	0.26
Unrealized gains	**1.74**	1.21	0.77	0.22	1.48
Total operating expenses[e]	**(0.44)**	(0.45)	(0.40)	(0.39)	(0.38)
Income tax and capital tax	**(0.05)**	(0.06)	(0.05)	(0.09)	(0.08)
Increase from other comprehensive income	**0.02**	0.01	-	-	-
Variance from issues and redemption of shares	**(0.01)**	(0.01)	(0.02)	(0.01)	(0.02)
Net assets per share, end of year[a]	**33.26**	30.31	27.98	26.59	25.92

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 financial year.

c For the financial years ended May 31, 2015 and 2014, this item includes distributions as well as rental, fee and other income.

d For the financial year ended May 31, 2013 and the prior years, distributions were presented under realized gains.

e For the financial year ended May 31, 2013 and the prior years, rental, fee and other income was presented as a reduction of total operating expenses.

ECONOMIC CONDITIONS AND OUTLOOK

World and the United States

Over the last 12 months, the sharp decline in energy prices and the changing geopolitical situation in the Ukraine, the Middle East, and more recently, Greece, all contributed in one way or another to dampening the outlook for global GDP. These conditions pushed the International Monetary Fund to reduce its 2015-2016 global growth forecast in mid-January. The gloomy outlook for global economic growth for the coming quarters, combined with fears about the impact of falling oil prices on inflation, prompted several central banks, particularly in Asia and Europe, to ease their monetary policy. This situation also drove several currencies down against the U.S. dollar.

The situation in the Eurozone is hardly any better. Economic growth over the last 12 months remained sluggish: Germany's real GDP contracted in the second quarter of 2014, which was a hard blow to a country that had been an economic pillar in the zone in previous quarters. However, the German economy rebounded in the fourth quarter of 2014 only to slow in the following quarter. Facing persistent weakness in the Eurozone economy and inflation hovering around zero, the European Central Bank (ECB) finally initiated its own version of large-scale quantitative easing. The program involves monthly purchases by the ECB of 60 billion euros in member country bonds until September 2016. A total of over 1,000 billion euros will therefore be injected into the system if the program runs for its scheduled duration. With this program, the ECB is foremost targeting a decrease in borrowing rates in the most problematic countries (Italy, Spain, Portugal and Greece). Despite this quantitative easing program, economists agree that the increase in real GDP will remain relatively moderate in the Eurozone in 2015.

All this uncertainty on the global economic outlook can be felt on the stock markets, which have been highly volatile over the last 12 months, with several indexes reaching new highs despite that.

After recording a decrease in GDP in the first quarter of 2014, the U.S. economy experienced two strong quarters that are mainly due to sustained growth in real consumption and faster growth in business investment. However, in the fourth quarter of 2014, the U.S. economy started to show signs it was losing steam, and then declined in the first quarter of 2015. This situation stems in particular from bad weather conditions during winter 2015 as well as the labour conflict in West Coast ports that seems to have disrupted supply chains and deliveries. Despite this slowdown in the U.S. economy and several somewhat disappointing economic indicators (e.g. deterioration in the trade balance and the confidence index, lower-than-expected retail sales), economists generally remain optimistic on the U.S. economy's real capacity to continue growing in the coming quarters, supported by robust domestic demand and strong investment spending.

Job creation in the United States progressed steadily over the last 12 months, further lowering the unemployment rate: it was 5.5% in May 2015, compared to 6.3% in May 2014. According to several economists' projections, the unemployment rate should continue to decrease over 2015. The average savings rate has been 5.1% in the United States since May 31, 2014, up from the average savings rate for the same period last year. The annual change in consumer prices in the United States slipped into negative territory in January 2015, where it could remain until the middle of summer. When inflation starts to climb again, the U.S. Federal Reserve (the Fed) could decide to begin raising its key interest rate (which has been unchanged at 0.25% since December 2008). However, according to several experts, such an increase should not happen before the end of 2015.

Canada and Québec

After a rough start to the year, the Canadian economy recovered in the second quarter of 2014, and this growth continued through the third quarter, albeit at a slower pace. However, starting in fall 2014, the Canadian economy began to feel the backlash from the sharp drop in energy prices and the decrease in foreign trade, as evidenced by the deceleration of growth in GDP in the last quarter of 2014 and the decline in GDP in the first quarter of 2015. This also led to an inversion of the asymmetry of the country's economic growth from the Western provinces to Ontario and Québec. This is the context in which the Bank of Canada surprised market participants at its January 21, 2015 meeting by announcing its decision to lower the discount rate by 25 basis points (from 1.00% to 0.75%). The Bank of Canada specifically noted the sharp decrease in oil and other commodities prices as well as economic difficulties across the country in general to justify its decision. Economists agree that Canadian economic growth should continue to slow down in the coming months as the negative impact of the sharp decrease in oil prices will continue to be felt. That said, thanks to the expected gradual recovery of energy prices combined with more robust foreign trade, economic conditions should improve afterwards.

Overall, in the last 12 months, the Canadian unemployment rate inched down from 7.0% in May 2014 to 6.8% in May 2015. It should continue on this path in the coming months as long as the Canadian economy continues to expand. In general, inflation has remained weak in Canada over the last 12 months. Bumpy oil prices will continue to be a determining factor in the evolution of inflation across the country in the coming months. Even though prices at the pump started to climb again in February 2015, the annual total inflation rate should remain very weak for the coming months, according to many economists. We will likely have to wait until 2016 for total inflation to go back around the median target.

The Canadian real estate market showed strong resilience for much of 2014. After slowing at the beginning of the year, housing starts and home sales started to go up in spring 2014. The situation then reversed course in the fourth quarter of 2014, as evidenced by the drop in residential housing starts for both single-family homes and multi-unit buildings. According to many experts, the real estate market could continue to slow down a little more in the coming quarters.

During the last 12 months, short-term (2 years) and long-term (10 years) Canadian government bond interest rates posted a decrease. During the same period, investment-grade corporation credit spreads trended up while provincial credit spreads trended down. The Canadian dollar traded at $US0.80 on May 31, 2015, compared to $US0.92 on May 31, 2014. However, it should be noted that it fluctuated during the last 12 months and reached its lowest level ($US0.78 in March 2015) since the 2008-2009 recession. This downward movement and volatility in the Canadian dollar against the US dollar mainly stems from falling oil prices, increased investor appetite for US dollars and diverging expectations in terms of direction of the two central banks: the Fed and the Bank of Canada. In light of the current context, we believe that the Canadian dollar could continue to experience wide swings in the coming months, 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 12 months, notably due to the weakness in household consumption and business investment. The unemployment rate was 7.6% in May 2015, down from 7.9% in May 2014; this rate is higher than for Canada (6.8%) and for Ontario (6.5%). According to many economists, despite the difficulties arising from current budget cuts, the Québec economy should experience a slight acceleration in 2015 thanks to low oil prices and a weak Canadian dollar. Similar to 2014, Québec's economic growth in 2015 should be largely driven by exports that, despite falling sharply in the first quarter, should recover in the coming months. The Fonds will therefore definitely continue to play an important role, particularly by contributing to creating and maintaining jobs in Québec and by working with Québec companies who have the will and desire to expand abroad while generating economic spinoffs for Québec.

Despite the positive signs suggesting than an economic recovery built on stronger ground may be on the horizon in North America, and more specifically in the United States, economic and financial issues still abound around the world, particularly in Europe and several 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 financial year ended May 31, 2015, the Fonds posted comprehensive income of $992 million, compared to $773 million for the previous year. The Fonds' return was 9.7% for the year, compared to a return of 8.3% for the previous year. The value of the Fonds' shares increased by $2.97 compared to the value in effect since July 4, 2014 and by $1.90 compared to January 2015 to stand at $33.26 as at July 6, 2015. The Fonds' net assets amounted to $11.1 billion as at May 31, 2015 compared to $10.1 billion as at May 31, 2014. The number of shareholders stood at 610,605 as at May 31, 2015.

As a result of its mission, a significant portion of the Fonds' portfolio is comprised of private securities and specialized funds. 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[1]

Years ended May 31

	2015 (IFRS)			2014 (IFRS)		
	Assets under management at end of year* $M	**Weight %**	**Return %**	Assets under management at end of year* $M	Weight %	Return %
Development capital investments	**5,692**	**50.9**	**10.1**	5,007	49.2	9.8
Other investments**	**5,487**	**49.1**	**12.1**	5,168	50.8	9.7
	11,179	**100.0**	**11.1**	10,175	100.0	9.8
Rental, fee and other income			**0.2**			0.2
Total operating expenses			**(1.4)**			(1.5)
Income tax			**(0.2)**			(0.2)
Fonds return (annual)			**9.7**			8.3
Fonds return (1st six-month period)			**3.5**			4.4
Fonds return (2nd six-month period)			**6.0**			3.8

* Assets under management at end of period refer to the fair value, at the end of the year, 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.

[1] The annual return 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. The non-annualized return of the Fonds for a six-month period is calculated by dividing net income (net loss) per share for the six-month period by net assets per share at the beginning of the six-month period.

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 10.1% for the year, compared to the gross return of 9.8% generated for the prior year. Taking into account this return and given the level of mission-driven investments made by the Fonds, the assets in this sector represented $5.7 billion at the end of the year or 50.9% of assets under management as at May 31, 2015 (49.2% as at May 31, 2014).

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 10.1% of the Investments sector for the most recently ended year is largely explained by the following:

- The return of 11.1% generated by our private securities and specialized funds portfolio during the year (compared to 7.1% for the previous year). Overall, this performance is attributable to the general strength of the portfolio, which produced interest revenues, dividends and distributions and, in addition, generated an increase in value during the year in a low economic growth environment in Québec. The depreciation of the Canadian dollar over the last 12 months is a factor that contributed positively to this increase in value;
- The return of 5.3% generated by our portfolio of listed securities during the year. 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 prior year, when conditions were much more favourable, in particular for small-cap companies, which had enabled our portfolio to generate a return of 21.5%.

Other Investments sector

The Other Investments sector manages the Fonds' assets that are not invested in partner companies. Other investments consist of the cash and money market, bonds, shares, international infrastructure funds, high-income securities and absolute return strategies[2] portfolios. 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 year, the Other Investments sector earned a gross return of 12.1%, up from the gross return of 9.7% recorded for the prior year. The assets of this sector represented $5.5 billion, or 49.1% of the Fonds' assets under management as at May 31, 2015 (50.8% as at May 31, 2014).

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 12.1% 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 16.9% for the shares and other securities[3] portfolios. These portfolios had generated a return of 19.3% for the prior year, when economic conditions were characterized by a widespread increase in stock markets;
- The return of 7.2% on our fixed-income portfolio for the year, compared to the return of 3.1% for the prior year. 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.

2 The phase-out of the absolute return strategies portfolio was completed in April 2015.

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

RETURN BY ASSET CLASS

Years ended May 31

	2015 (IFRS)			2014 (IFRS)		
	Assets under management at end of year $M	**Weight %**	**Return %**	Assets under management at end of year $M	Weight %	Return %
Development capital investments						
Private securities and specialized funds	**4,762**	**42.6**	**11.1**	4,155	40.8	7.1
Listed securities	**930**	**8.3**	**5.3**	852	8.4	21.5
Other investments						
Fixed-income securities	**2,687**	**24.0**	**7.2**	2,649	26.0	3.1
Shares and other securities	**2,800**	**25.1**	**16.9**	2,519	24.8	19.3
	11,179	**100.0**	**11.1**	10,175	100.0	9.8

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[4], which stands at approximately 2.3% on an annual basis.

For the financial year ended May 31, 2015, the ratio of total operating expenses to average net assets attributable to security holders of the Fonds, calculated using the method prescribed in the Regulation, was 1.4% (compared to 1.5% for the previous year). The decrease in the ratio is attributable to an increase in average net assets, but also by a decrease in total operating expenses which, expressed in dollars, amounted to $146.9 million for the year ended May 31, 2015, down $2.6 million compared to the previous year.

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

Cash flows

Cash flows from operating activities of the Fonds were a total negative amount of $15 million for the year, compared to a total negative amount of $39 million for the prior year. Changes in these cash flows mainly resulted from our current operations.

Cash flows from financing activities of the Fonds totalled $23 million for the year, compared to $54 million for the prior year. These cash flows for the two years resulted from issues of shares amounting to $668 million[5] ($787 million for the previous year) less redemptions of shares totalling $645 million[6] ($733 million for the previous year). Cash flows from investment activities of the Fonds represented a net cash outflow of $6 million for the year, compared to $8 million for the previous year.

As at May 31, 2015, the Fonds had lines of credit of $80 million available for its working capital requirements. These lines of credit were not used during the year, and their outstanding balance was nil as at May 31, 2015.

Balance sheet and off-balance sheet items

Balance sheet development capital investments increased from $5.4 billion as at May 31, 2014 to $6.1 billion as at May 31, 2015. This $650 million increase mainly resulted from our net disbursed investments of $290 million (disbursed investments of $603 million less disinvestments of $313 million) and the increase in value of development capital investments during the year.

On a commitment basis, the Fonds made development capital investments of $640 million during the year, compared to $548 million for the prior year. Funds committed but not disbursed increased from $963 million as at May 31, 2014 to $1.0 billion as at May 31, 2015.

4 Source: Bloomberg (based on a sample of 149 Canadian retail balanced funds).
5 This amount is presented on a cash basis and therefore includes the net change in share subscriptions between May 31, 2014 and May 31, 2015.
6 This amount is presented on a cash basis and therefore includes the change in amounts payable between May 31, 2014 and May 31, 2015.

In addition, balance sheet other investments increased by $309 million during the year to $5.4 billion as at May 31, 2015 ($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 may use derivative financial instruments in particular to facilitate the management of portfolios, increase its revenues, safeguard the value of its assets and manage its market risks.

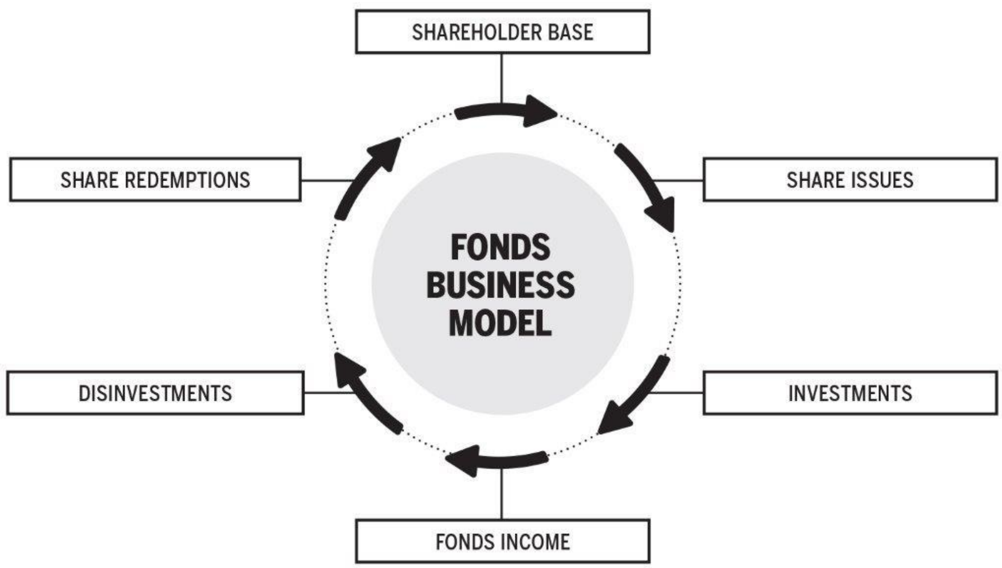
MISSION OF THE FONDS, OBJECTIVES AND STRATEGIES

MISSION AND OBJECTIVES

The Fonds is a union-based development capital investment fund that was born out of the Fédération des travailleurs et travailleuses du Québec. Created in 1983 under the *Act to Establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, the Fonds endeavours to collect the savings of FTQ members and Québec residents who want to participate in creating and maintaining jobs, in order to improve the situation of workers and to stimulate the Québec economy. The Fonds' mission also includes raising awareness and encouraging workers to save for retirement as well as providing them economic training.

The Fonds' mission is supported by both levels of government since shares of the Fonds qualify for RRSPs and give rise to both Québec and federal tax credits.

The business model the Fonds uses to achieve its mission can be illustrated as follows:



When shareholders buy shares of the Fonds, an entire process is set into motion. A portion of the money collected from shareholders (in consideration of which the Fonds issues them shares) is first invested by the Fonds, pursuant to its mission, in shares, units or loans in private and public companies in Québec, or in companies that generate economic spinoffs in Québec. The investments made by the Fonds in compliance with its mission represent the development capital investments portfolio, and the companies in which the Fonds invests become partner companies of the Fonds. Pursuant to the Fonds' Incorporation Act, this portion invested in partner companies must comply with the investment rule[7]. To ensure sound diversification of its financial assets, the other portion of the money collected but not invested in Fonds partner companies is invested in other financial instruments in a way that allows the Fonds to meet its liquidity needs, to produce current revenue sufficient to cover expenses and to contribute to the generation of a reasonable return to the shareholders. All of these other financial investments represent the other investments portfolio. The Fonds' interests in partner companies are qualified as patient capital as they are intended to be held over an investment horizon generally ranging from 5 to 7 years, depending on the financial instrument used. The sums raised when an interest held by the Fonds is sold or bought back (disinvestment) are reinvested in other companies or used to reimburse shareholders who request a share redemption, in accordance with our retirement or early retirement criteria. On average, shareholders request a redemption approximately 10 years after their first share purchase. During this 10-year average period, given the Fonds' investment horizon, the shareholders' money would therefore have been invested in development capital more than 1.5 times.

[7] For more on this, please see the "Investment rule" section of this 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 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 remained at 30%; however, for the 2015 tax year, the tax credits to which the taxpayer will be entitled will be 25% (15% provincial and 10% federal). In other words, for the 2015 tax year, the maximum tax credit will be $1,250, which corresponds to an annual subscription of $5,000. Despite this decision by the Government of Canada, the Fonds continues to make representations and proposals to convince the 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 investment 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 ultimately represent a significant tax increase for Québec workers who save (annual increase of $402 for the Fonds shareholder who contributed on average $2,677 for the 2014 tax year), could reduce subscriptions and, consequently, job-creating investments in the Québec economy.

LIMITATION ON FONDS SHARE ISSUES

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 amounted to $650 million in shares giving rise to labour-sponsored fund tax credits and had no impact on its share return or its ability to redeem its shares. However, it reduced the ability of Québec workers to save for retirement. It should be noted that this limit ceased to be in effect as of June 1, 2015.

STRATEGIES

The Fonds was created by the FTQ over 30 years ago to proactively meet the needs of Québec society: creating jobs to battle unemployment and offering financing options during a period of high interest rates by setting up an innovative and solidary business model. Therefore, by mobilizing Quebecers' savings and channeling it toward Québec companies seeking prosperity, we became a key player in Québec's economic development.

The context in which the Fonds operates has obviously changed a great deal since its creation and, over time, we have developed strategies to adapt to these changes. More recently, conditions have been gloomier for the Québec society and economy:

- Québec's GDP grows slower than other Canadian provinces, mainly due to less favourable demographics;
- Governments have less and less flexibility, triggering a reflection on the State's role in certain sectors.

More recently, the Fonds has weathered a stormy period, particularly marked by the announcement of the phase-out of the federal tax credit. Given this, the success of recent fundraising campaigns and the increase in the share value are not enough – it is more important than ever for the Fonds to undertake some self-reflection so that it remains an essential player at the forefront of meeting the needs of the Québec of tomorrow.

The Fonds therefore launched an extensive strategic review during the 2014-2015 financial year to ensure that:

- In the medium-term, it continues increasing its socio-economic impact and optimizing is current activities, and
- In the long-term, it adapts its business model to take into account the possibility of permanently losing the federal tax credit while maintaining its proactive and structuring role in Québec's economic development and wealth creation by mobilizing Quebecers' savings.

This strategic review is expected to be finalized in fall 2015.

The Shareholder Services sector

The 2014-2015 financial year was marked by the limit imposed on share issues by the Fonds and the expected decrease in the federal tax credit. These two challenges were not enough to prevent the Fonds from collecting $650 million giving rise to labour-sponsored fund tax credits (the maximum allowed by the Government of Québec) and to further strengthen its relationship with its shareholders, particularly with young savers. In addition, it is worth noting that the Fonds also issued $17 million in shares that do not give rise to tax credits and are not subject to this limit; these shares were issued pursuant to the provisions regarding the acquisition of replacement shares set out in the Home Buyers' Plan and the Lifelong Learning Plan.

To avoid being affected by this limit and to be certain they could contribute to the Fonds, shareholders who so wished could elect to contribute automatically to their RRSP, either through payroll deduction or by pre-authorized bank withdrawals. Incredible efforts were undertaken by all the Fonds' teams to thoroughly inform our shareholders about this situation. Our LRs (local representatives), who receive continuous training so they can provide top-notch service to our shareholders, played a critical role in the last campaign. Hundreds turned out to put their shoulders to the wheel. The number of workplace blitzes reached an all-time high. The LRs' personalized approach and their proximity to shareholders paid off: 18,041 shareholders signed up for payroll deduction in 2014-2015.

In fall 2014, we went back to an "education" advertising phase. Focusing on the benefits of automatic savings, this phase was critical in the context of the limit. We also intensified our relationship-building activities with our shareholders, whether through mailings, electronically or by telephone. The Fonds has a shareholder base that is loyal and committed: it was crucial to retain this strong relationship. In winter 2015, our traditional "sign-up" and "loyalty-building" advertising phases were released in the media. They allowed us to raise interest in subscribing to shares of the Fonds during the RRSP period and to offer an alternative savings solution (automatic savings) once the limit was reached.

The total number of new shareholders was 18,727 for the 2014-2015 financial year; the Fonds therefore had a total of 610,605 shareholders as of May 31, 2015. The annual volume of subscriptions through systematic savings, which continues to represent the largest proportion of the Fonds' subscriptions, was $428 million.

Online transactions were not outdone: 6,550 new shareholders signed up through the Fonds' website, and total lump-sum subscriptions of over $118 million were collected through various virtual channels.

The volume of redemptions was $643 million as at May 31, 2015 ($730 million as at May 31, 2014). a level below our expectations for the year. The Fonds' excellent return and the ongoing increase in the share value no doubt encourage shareholders to delay cashing out.

SÉCURIFONDS, a financial services firm and subsidiary of the Fonds, continues to enjoy a strong success. Its mission involves supporting our shareholders as they prepare for retirement. Over 4,000 shareholders are currently using SÉCURIFONDS, which now manages assets of $102 million.

Since July 2014, the Fonds' payroll deduction has been an alternative solution to the Voluntary Retirement Savings Plan (VRSP), which will be implemented over a few years. All companies with five or more employees will therefore have to comply with the *Voluntary Retirement Savings Plans Act* and offer their employees a way to save for retirement. By setting up the Fonds' payroll deduction in their companies, employers will not need to set up a VRSP. Our teams are currently working with companies in this process that allows them to comply with the Act and offer a beneficial savings option to their employees.

As noted previously, the Government of Québec announced in its March 2015 budget that it was lifting the limit imposed on the Fonds' share issues. In this context, our marketing activities aimed at encouraging shareholders to subscribe will continue until the end of February 2016 and will certainly allow a larger number of shareholders to contribute to their Fonds RRSP.

Integrated management of the Fonds' assets

The Fonds implemented the *Integrated Financial Assets Management Policy*, which applies to all the Fonds' financial assets. The objective of this policy is to manage the financial assets in an integrated and comprehensive way to ensure sound diversification and an optimal return/risk profile while complying with the mission of the Fonds and meeting the expectations of its stakeholders. The *Integrated Financial Assets Management Policy* is complemented by the *Investment Policy* for the development capital investments managed by the Investments sector and the *Other Investments Portfolio Policy* for the assets managed by the Other Investments sector. The assets in the other investments portfolio are allocated in a way that is complementary to the portfolio of mission-driven investments made in partner companies in order to allow the Fonds to obtain, overall, the desired return/risk ratio.

The *Integrated Financial Assets Management Policy* takes into account actual and expected changes in the Fonds' business, particularly the expected increase in redemptions due to aging shareholders and the increase in the size of the portfolio of mission-driven development capital investments. In fact, the weight of investments disbursed by the Fonds, which was 51% as at May 31, 2015, should gradually increase. Following the strategic review being undertaken by the Fonds, changes could be made to the *Integrated Financial Assets Management Policy* in the coming years in order to preserve the desired balance between the various components of the Fonds' balance sheet, to maintain the desired return/risk ratio and to continue meeting stakeholders' expectations.

The Investments sector

The Investments sector's strategies, which support the Fonds' achievement of its mission regarding development capital investments in Québec's economy, are integrated in the global perspective defined by the *Integrated Financial Assets Management Policy*, which includes the *Investment Policy*, and vary, among other things, depending on fluctuations of the investment rule which the Fonds must follow pursuant to its Incorporation Act (for more on this, see the "Investment rule" section).

To enable risk diversification, the Fonds allocates its investment portfolio among various economic sectors, including the real estate sector, through the *fonds immobilier de solidarité FTQ*. To bring into action its regional and local commitment, the Fonds invests in all regions of Québec through the *fonds régionaux de solidarité FTQ* and the *fonds locaux de solidarité FTQ*.

Generally, the Fonds holds a minority interest in the companies in which it invests. Over the years, this approach to investing has allowed the Fonds to develop extensive knowledge of the various sectors in which it invests, and its partner companies highly value the expertise this has allowed it to develop.

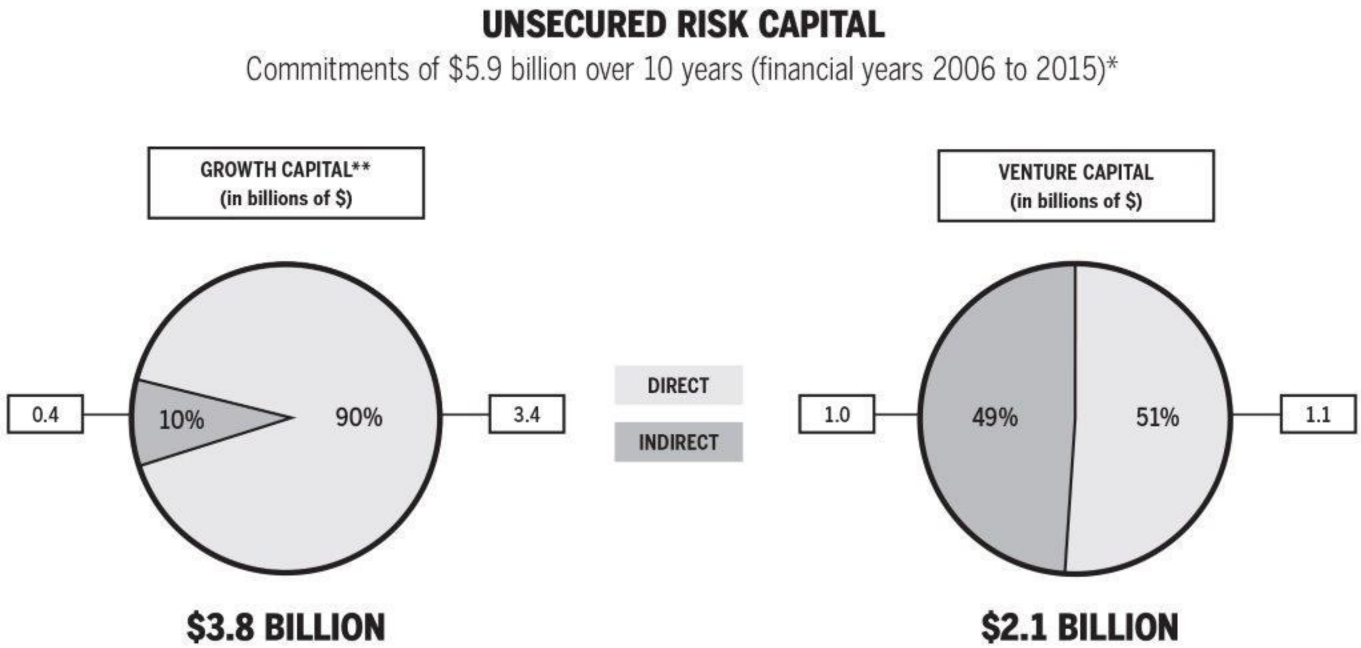
Every year the Fonds undertakes an analysis to determine the sectors that will be prioritized given the behaviour of the financial markets and the economic and business conditions of the various sectors, as well as based on the dynamic management of its investments. The priorities are determined within the risk management framework implemented by the Investments sector several years ago, which helped improve the quality of the portfolio and stabilizing the return.

Multidisciplinary teams support our investment specialists with their expertise: legal, tax, business valuation, market study, due diligence, labour relations and public market departments. A due diligence committee reviews all files submitted to governing bodies to identify the associated risks taking into consideration the Fonds' mission. In addition, to deal with more difficult situations, the Vice-President, Due Diligence and Administration, together with the Vice-President, Legal Affairs, very closely monitor investments that entail greater risk.

To fulfill its Québec economic development and job creation mission, the Fonds invests significantly in the form of unsecured risk capital (development capital) in partner companies. To have an accurate idea of the Fonds' efforts in Québec's economic development, we must go beyond the image given by the portfolio as at a particular date and look at amounts invested in the form of unsecured risk capital (development capital) over a certain period.

As the following graph illustrates, during the financial years 2006 to 2015, i.e. a 10-year period, the Fonds has committed $5.9 billion of unsecured risk capital (development capital) to partner companies. Of this amount, $2.1 billion has been invested in venture capital[8] either directly in private companies ($1.1 billion) or indirectly in private funds ($1.0 billion) in Québec and Canada. The investments made by the Fonds in private funds had a structuring effect on the Québec venture capital industry and allowed these private funds to raise several additional billions of dollars.

[8] Venture capital comprises high-risk investments made directly or indirectly by the Fonds in companies in the start-up or early development stage, particularly in the new economy sector.



*On a commited fund basis, excluding investments in real estate funds and in listed securities acquired on the secondary market.

**Represents development capital investments made by the Fonds that are not venture capital (includes investments made both in the form of equity and unsecured subordinated debt).

The Other Investments sector

In managing the balance of assets not invested in partner companies (presented under "Other Investments" in the financial statements), the Other Investments sector is governed by the *Other Investments Portfolio Policy,* which forms an integral part of the *Integrated Financial Assets Management Policy.* The objective of the *Other Investments Portfolio Policy* is to optimize the Fonds' return/risk ratio, diversify development capital investments and provide the liquidity necessary for the Fonds' to meet all its obligations.

The assets of the Other Investments sector are managed internally by a team of specialists and externally by specialized managers. The internal team of specialists manages the cash and money market portfolio, part of the bond portfolio and the high-income portfolio. The portfolios that are managed internally represented $2.1 billion as at May 31, 2015, or 38% of the total amount of other investments (40% as at May 31, 2014). To improve the overall performance of these portfolios, the Fonds' specialists have some latitude in implementing tactical strategies on the market; these transactions must comply with the *Other Investments Portfolio Policy* and the guidelines authorized by the Financial Assets Management Committee.

For portfolios managed externally, the Fonds retains the services of specialized managers to manage all the shares held in the other investments portfolio and to actively manage a portion of the bond portfolio. An active approach is adopted by the external managers for Canadian shares, while a passive approach, including the replication of alternative beta indexes, is preferred for managing the global equities portfolios. International infrastructure funds are also managed externally.

In addition, the Other Investments sector may use derivative financial instruments to facilitate the management of its portfolios, increase the Fonds' revenues and manage its market risks. The internal manager is also authorized to manage overlay management tactical allocation and market opportunities portfolios in accordance with predetermined risk budgets that have been approved by the appropriate governing bodies.

INVESTMENT RULE

The investment rule, set out in the Fonds' Incorporation Act, stipulates that the Fonds' qualified development capital investments must respect the minimum threshold of the investment rule at the end of each financial year. As at May 31, 2015, this minimum threshold was 60% of the Fonds' 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 the investment 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.

If the Fonds does not meet the investment rule minimum threshold, the share issues giving rise to labour-sponsored fund tax credits for the following financial year are limited to a prescribed percentage of the total value of the shares issued during the previous financial year, except for shares acquired through payroll deduction or by employer contributions set out in agreements concluded before the end of the prior year.

As at May 31, 2015, the value of the average qualified investments[9] amounted to $6.3 billion or 65.1% of the average net assets of the previous financial year (compared to 65.1% as at May 31, 2014 and 66.0% as at May 31, 2013). Since the minimum threshold of the investment rule was reached as at May 31, 2015, the amount of share issues giving rise to labour-sponsored fund tax credits for the 2015-2016 financial year will not be limited by the investment rule.

As at May 31, 2015, in addition to the investment rule, the Fonds was in compliance with all other limits and rules set out in 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.

It should be noted that in the most recent Québec budget, it was announced that the investment rule threshold will be gradually raised (by 1% per year starting in 2016) to 65% in 2020.

RECENT DEVELOPMENTS

ACCOUNTING POLICIES – INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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 May 31, 2015 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.

AMENDMENTS TO THE ACT TO ESTABLISH THE FONDS DE SOLIDARITÉ DES TRAVAILLEURS DU QUÉBEC (F.T.Q.)

The proposed amendments to the *Act to Establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)* were adopted by the National Assembly on April 20, 2015. These amendments were mainly related to the governance framework of the Fonds (for more information, see the "Governance" section on page 25).

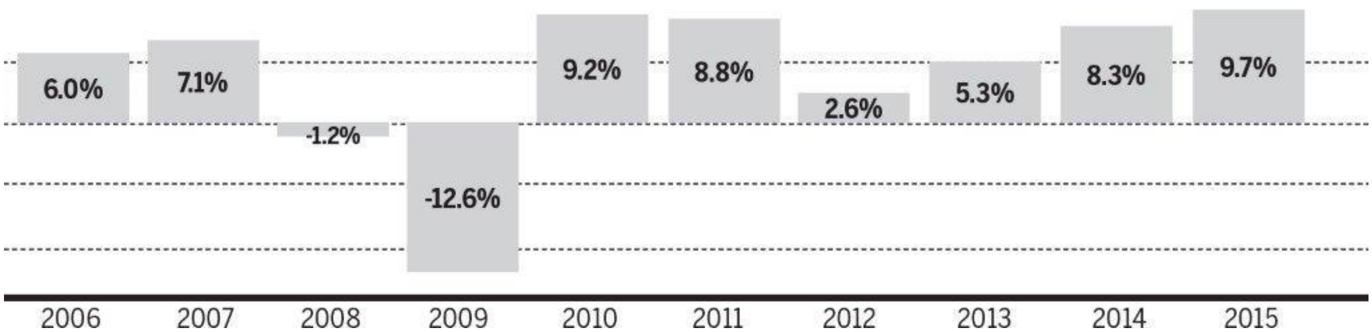
9 These investments include funds committed but not disbursed as well as guarantees and suretyships.

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 return and illustrates how the Fonds' return has changed from year to year for the last ten financial years.



The annual return 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 return sometimes differs from the annual compound return to the shareholder because the annual return of the Fonds does not take into account other comprehensive income but takes 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.

ANNUAL COMPOUND RETURNS TO THE SHAREHOLDER

At the current value of $33.26 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
4.0%	6.9%	7.7%	9.8%

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 return of the Fonds since it takes into account other comprehensive income but 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 4.0%.

ANNUAL COMPOUND RETURNS TO THE SHAREHOLDER (INCLUDING TAX CREDITS)

A shareholder who invested, for instance, an equal amount each year through payroll deduction earned, at the current value of $33.26 per share and including the Québec and federal labour-sponsored fund tax credits (15% at the provincial level and 15% at the federal level) an annual compound return of 17.4% and 12.3% 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. It should be noted that the phase-out of the federal tax credit that is effective with the 2015 tax year will have a downward impact on this return going forward.

SUMMARY OF INVESTMENT PORTFOLIO

As at May 31 2015, 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	31.7
Specialized funds	11.1
Listed securities	8.3
	51.1
Other investments	
Cash and money market	2.3
Bonds	21.8
Shares	24.3
High-dividend shares[10]	0.3
International infrastructure funds	0.5
	49.2

The following table presents the issuers of the top 25 positions held by the Fonds as at May 31, 2015, 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 in the development capital investments portfolio, those classes are aggregated. However, with respect to the other investments portfolio, debt and equity securities of an issuer are not aggregated.

Issuers	% of net assets
Development capital investments (18 issuers)*	32.0
Other investments (7 issuers)**	13.1
	45.1

* The 18 issuers representing, as a group, 32.0% of the Fonds' net assets are (in alphabetical order):

- Camoplast Solideal inc.
- Cogeco Câble inc.
- Corporation Financière L'Excellence ltée
- Entreprises québécoises publiques[11]
- FinTaxi, s.e. c.
- Fonds immobilier de solidarité FTQ inc.[11]
- Fonds immobilier de solidarité FTQ I, s.e.c.[11]
- Fonds immobilier de solidarité FTQ II, s.e.c.[11]
- Fonds régionaux de solidarité FTQ, s.e.c.[11]
- Gestion TFI inc.
- Metro inc.
- Société de gestion d'actifs forestiers Solifor, société en commandite[11]
- Société en commandite Groupe CH
- SSQ Financial Group[12]
- TMX Group Limited
- Transcontinental inc.
- Trencap s.e. c.
- VC, société en commandite

** The 7 issuers representing, as a group, 13.1% of the Fonds' net assets are:

Province of Ontario	4.5%
Province of Québec	3.1%
Government of Canada	1.8%
Financement-Québec	1.2%
Province of British Columbia	0.9%
Canada Housing Trust No 1	0.9%
Hydro-Québec	0.7%

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

[10] High-dividend shares are included in the high-income securities portfolio.
[11] 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 investees.
[12] Includes all the Fonds' investments in SSQ, Life Insurance Company Inc. and its subsidiary, SSQ General Insurance Company Inc. as well as 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 financial year that contributed to creating, maintaining or saving quality jobs in different sectors of the Québec economy. In the current, still uncertain economic conditions, the Fonds continues to play an active role in the development and growth of Québec companies. As such, during the financial year, the Fonds invested $640 million, on a commitment basis, to support Québec entrepreneurs in their development projects. Here are a few examples of the Fonds' contribution to Québec's economic development during the financial year.

The economic growth of Québec successful companies hinges on their expansion into new markets. By participating in the historic $470 million transaction in Agropur Dairy Cooperative, the Fonds' $75 million investment fits perfectly with this strategy and demonstrates how important it is to the Fonds to develop Québec's agrifood companies of all sizes. This transaction supports the company's growth strategy and finances announced acquisitions. The Cooperative's members include 3,473 milk producers that employ some 8,000 people.

The Fonds joined a mainly Québec-based consortium for the acquisition of Montreal Gateway Terminals. This $60 million investment reflects the Fonds' desire to support Québec's maritime sector and strategic infrastructures, and it will bring back to Québec the ownership and decision centre of a strategic infrastructure. In addition, a Fonds/Government of Québec joint project, announced in the last Québec budget, will be created to support the Québec maritime strategy. In connection with this project, the Fonds will provide a $100 million envelope and the Government of Québec will provide a $200 million envelope over the next five years.

The transaction with ATIS Group is a good example of the vitality of the Québec manufacturing sector. The $39 million investment the Fonds made in this company is intended to repatriate the company's ownership to Québec, and it will allow the company to launch its strategic growth plan in full force. ATIS Group is one of the largest door and window manufacturers in Canada and has 1,400 employees, including 900 in Québec.

Present in the media sector for many years now, the Fonds has partnered with Média-Participations, a strategic European partner, to invest a total of $7.5 million (of which $4.9 million is provided by the Fonds) in Frima, a flagship of the gaming and entertainment industry in Québec. With this $4.9 million investment, the Fonds is supporting over 300 quality jobs in one of the largest production company in the Québec City region. Through this partnership, Frima expects to make targeted acquisitions in Canada and abroad. In addition, the Fonds invested $5 million in COLO-D, a new economy company in Drummondville, to support its growth in the development of data centres.

During their financial year ended March 31, 2015, the *fonds régionaux de solidarité FTQ* invested a total of $48.1 million on a commitment basis, up 32.8% from the $36.1 million invested in the previous year. In total, 84 investments were made, of which 58 were in new companies.

During its financial year ended December 31, 2014, the *fonds immobilier de solidarité FTQ* invested in 14 new real estate projects in various regions of Québec and various sectors (residential, commercial, offices and industrial). The authorized investments totalled $114 million. Among them, an investment of $2.5 million was authorized for the construction of a commercial building located on Rue de l'Évêché in Rimouski. In addition, a $7.2 million investment was authorized for the Urbania 2 residential project, which will be built according to Transit-Oriented Development principles near the Montmorency metro station and will be part of a group of buildings creating a new downtown in Laval.

POLICY FOR INVESTMENT OUTSIDE QUÉBEC[13]

Over the years, the Fonds made investments pursuant to the *Policy for Investment Outside Québec* that have had significant economic spinoffs for Québec. During the financial year, the Fonds invested $47.7 million ($20.1 million in the previous year) in accordance with this policy.

Five investments totalling $32.2 million ($3.7 million in the previous year) were made in companies meeting the companies impacting the Québec economy criteria. One of these investments, for $17.0 million, was made in AJ Walter Aviation Limited to support the development of its Montréal-based sister company (AJW Technique), which is one of its suppliers. Another investment of $4.0 million was made in Zymeworks Inc., which develops several cancer treatment products. In addition, two investments totalling $10.2 million were made in companies in the life sciences sector. Lastly, following an investment made last year, an additional $1.0 million was invested in Adetel Group.

[13] Since 1998, the Fonds has been authorized by the Minister of Finance of Québec to invest outside Québec provided certain clearly defined conditions are met, notably with regards to economic spinoffs in Québec. The main groups of eligible investments are private funds outside Québec, companies impacting the Québec economy and large-scale investment projects (financing for expansion, modernization, productivity improvement).

An investment of $14.3 million ($16.4 million for the previous year) was made in a private fund outside Québec. More specifically, this investment was made in Forbion Capital Fund III C.V., a Dutch fund specialized in life sciences that invests in companies in phases ranging from the end of pre-clinical activities to pre-commercialization that are active in developing drugs, medical technologies and diagnostics.

In addition, an investment of $1.2 million (none for the previous year) was made in the category of companies undertaking large-scale projects in Québec. This investment in Gladius Pharmaceuticals Inc. will allow it to create five new jobs in its Montréal office and pursue its plans to discover and develop antibiotics to treat life-threatening, multi-drug-resistant bacterial infections.

THE FONDS' INVESTMENT NETWORK

Since its inception in 1983, the Fonds has built a solid investment network that provides entrepreneurs who follow their ambitions with patient capital based on their needs. A veritable business hub brimming with ideas, talent and knowledge, this network offers the Fonds' partner companies the opportunity to share their concerns with other SMEs, learn from past experiences and forge new business ties. The Fonds' investment network, which covers all of Québec, revolves around five levels of investment:

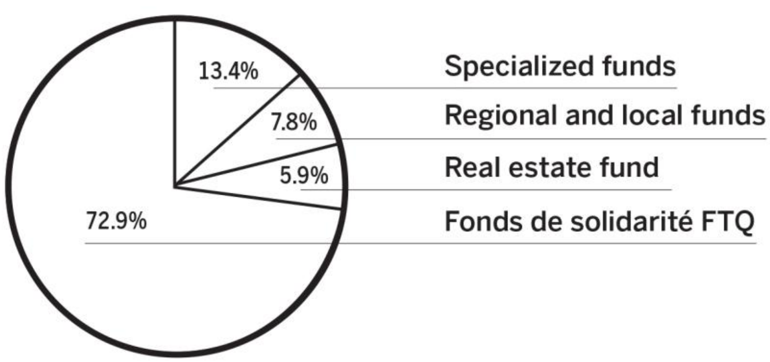
- The Fonds generally offers $2 million and up for large companies. The Fonds is involved in the financing of mergers, acquisitions, expansions, development of a new market or buy-backs, among others.
- The *fonds régionaux de solidarité FTQ* generally offer capital ranging from $100,000 to $3 million to meet the needs of businesses in their region.
- The *fonds locaux de solidarité FTQ*, created by the Fonds and the Québec Federation of Municipalities, generally offer $5,000 to $100,000 to small businesses.
- The *fonds immobilier de solidarité FTQ* specializes in real estate investment and development. Its main objective is to create and save jobs through building or renovating major office buildings and commercial, industrial, institutional and residential properties.
- The other specialized funds form an investment network in Québec and abroad that invests in assorted industries. The Fonds' commitment to this network continued in 2014-2015, with the ongoing goal to facilitate Québec SMEs' access to capital in all their stages of development.

Québec entrepreneurs have access to the entire Fonds investment network through its website: www.fondsftq.com. In addition to searching for our financing projects and for members of our teams of experts, this one-stop shop for investment provides details on the Fonds, the regional funds, the local funds and the real estate fund.

The following graph shows the breakdown of the Fonds' investments based on its various network components:

DISTRIBUTION OF INVESTMENTS BY NETWORK COMPONENTS (AT COST)

As at May 31, 2015



TRENDS AND OUTLOOK

TRENDS IN THE VENTURE CAPITAL INDUSTRY[14]

Investment activity in the Québec venture capital market posted an increase for a second consecutive year. Investments by venture capital funds totalled $604 million as at December 31, 2014, surpassing the $599 million invested in 2013. The amount invested in Québec in 2014 was the highest since 2007, a record year in the cycle prior to the 2008-2009 financial crisis.

It should be noted that the North American market saw an increase in activity in 2014 compared to the previous year. Canadian activity was up 21% from 2013 to 2014, reaching a total amount of $2.4 billion. However, with an increase of only 0.8%, Québec lost some of its share of the Canadian market, which went from 31% in 2013 to 25.5% in 2014.

The sharp decrease in amounts invested by foreign funds mainly explains the weak growth in total amounts invested in 2014 in Québec. In fact, amounts invested by private independent funds, government funds, labour-sponsored funds and other tax-advantaged funds were up 19%, (from $406 million in 2013 to $484 million in 2014), but amounts invested by foreign funds were down 38% (from $193 million in 2013 to $120 million in 2014).

The allocation of these investments by sector also changed compared to 2013, when the non-technology and clean technology sectors were the big winners, with 36% and 34% of total venture capital invested in Québec, respectively. In 2014, the information technology (IT) and life sciences sectors made a comeback. In total, these two sectors attracted 54% of amounts invested. Investments totalled $225 million in the IT sector (73% more than in 2013) and $104 million in the life sciences sector (56% more than in 2013).

TRENDS IN THE SAVINGS MARKET AND RRSP

In Québec, as soon as the Liberal government took office in April 2014, a process to improve public finances was put in place with the objective to quickly return to a balanced budget. For this government, a major factor in achieving this objective is the aging population, which will lead to massive retirements that will put increasing pressure on pension plans[15].The conclusions of the D'Amours Report, which examined the viability of these plans, are therefore still quite present.

Since July 1, 2014, the Voluntary Retirement Savings Plans Act has been in effect, and its implementation will span a few years. As such, the necessity for citizens to take charge of their personal savings remains more than ever a hot topic. Despite this observation, the current financial position of the citizens does not really allow them to do so. While disposable income has risen in recent years in both Québec and Canada, the personal debt rate continued to go up and the savings rate in Québec has remained significantly lower than that of Canada (in 2013: 2.7% in Québec compared with 5.2% in Canada)[16].

The trend did not improve in 2014, as the percentage of Quebecers having contributed to their registered retirement savings plan (RRSP) is the same as in 2013 (62% compared to 66% in 2012)[17]. Despite all this, tax free savings accounts (TSFAs) remain very popular as a tool for financing medium-term projects (increase of 89% from 2009 to 2013)[18], because withdrawals are less restrictive than with an RRSP.

These findings are a reminder of the importance of the Fonds' mission for the Québec population. The phase-out of the federal tax credit and the limit imposed in 2014-2015 by the Government of Québec on the Fonds' share issues giving rise to the labour-sponsored fund tax credits do not seem to have affected the trust of the Fonds' shareholders and the Québec population in general; the last subscription campaign was successful and the limit was achieved on February 18, 2015. The strength of our roughly 2,000 LRs and our customer service, combined with a competitive return, should favourably position the Fonds for the next financial year, especially since the above-mentioned limit on the Fonds' share issues giving rise to labour-sponsored fund tax credits ceased to be in effect as of June 1, 2015.

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[14] The information presented in this section only concerns the venture capital category and is therefore not representative of the Fonds' overall development capital investments. In addition, most of the information presented in this section covers the 2014 calendar year, which is different than the Fonds' financial year.

[15] Statistics Canada, Canadian Economic Observer: Projected trends to 2031 for the Canadian labour force.

[16] Institut de la statistique du Québec and Statistics Canada.

[17] SOM-REER, *Le marché des REER et des CELI pour l'année d'imposition 2014*.

[18] Canada Revenue Agency (data extracted from income tax returns and related schedules filed by individuals).

FONDS OUTLOOK[19]

Notice to readers: *The following outlook does not take into consideration the potential impact of the implementation of new strategic directions on subscriptions and their redeployment as investments as well as on operating expenses.*

Based on current financial and economic outlooks, and given our mission and investment strategy, we are anticipating an average annual return of 2.5% to 3% on a long-term horizon. This return does not take into account the tax credits granted to shareholders upon purchasing shares of the Fonds and is subject to significant volatility on a six-month and annual basis.

While the Fonds is confident it will reach its return objective over a long period, the annual return depends on current economic conditions and the ups and downs of the stock and financial markets. Therefore, the Fonds' return over the 2015-2016 year will be greatly influenced by stock market returns. The return for private securities is also linked to the general performance of the economy and may be lower than their historic average returns, particularly because of an increase in the cost of credit, adverse impact of economic conditions, the volatility of the Canadian dollar compared to the U.S. dollar and the effects of foreign competition. The Fonds is targeting a ratio of total operating expenses to average net assets similar to the ratio achieved for the financial year ended May 31, 2015.

With projected share issues higher than forecasted redemptions, net assets should increase during the 2015-2016 financial year. Net subscriptions (share issues less redemptions) could even be greater than in the 2014-2015 financial year, given the absence of a limit and despite the reduction in the federal tax credit. However, it should be noted that net subscriptions should become negative thereafter, due to the combined impact of the reduction in the federal tax credit on share issues and the forecasted increase in share redemptions. In particular, as a result of the increase in the investment rule threshold from 60% to 61% in 2016, announced in the most recent Québec budget (more specifically, the investment rule threshold will increase 1% per year starting in 2016 to reach 65% in 2020), the volume of investments made by the Fonds should be higher than the volume recorded in the 2014-2015 financial year.

The phase-out of the federal tax credit 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. However, as mentioned previously, the federal government's decision, which will represent a significant tax hike for Québec workers who save, could reduce subscriptions and, consequently, decrease the Fonds' job-creating investments in the Québec economy.

[19] 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 June 23, 2015, 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.

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 June 23, 2015.*

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. In addition, the Fonds may use derivative financial instruments in particular to facilitate the management of portfolios, increase its revenues, safeguard the value of its assets and manage its market risks.

During the year ended May 31, 2015, 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*, which 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, was completed in two other sectors (Shareholder Services and Information Technologies) during the financial year.

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

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; financials and utilities; information technology, telecommunications services and healthcare; consumer discretionary and consumer staples; industrials; energy and materials) and geographic areas, within the limits allowed by its Incorporation Act.

The Fonds' financial assets are sensitive to listed share prices, fluctuations in bond interest rates (Canada bond rates and credit spreads) and fluctuations in exchange rates.

The Fonds performs sensitivity analyses and simulations to inform senior management of material levels of market risk exposure. It may use derivative financial instruments to manage its market risk. 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.

As part of the revision of the other investments portfolio, the implementation of which was completed on June 30, 2014, 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)	**May 31, 2015 (IFRS)**	May 31, 2014 (IFRS)	June 1, 2013 (IFRS)
Change in bond interest rates*			
1% increase in bond interest rates	**(186)**	(180)	(179)
1% decrease in bond interest rates	**186**	180	179
Change in listed share prices**			
10% increase in listed share prices	**364**	333	253
10% decrease in listed share prices	**(364)**	(333)	(253)
Change in exchange rates***			
10% appreciation of the Canadian dollar	**(246)**	(216)	(95)
10% depreciation of the Canadian dollar	**246**	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, if any, 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, if any, 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, if any, 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*, which is complemented by the *Investment Policy* for development capital investments and by the *Other Investments Portfolio Policy* for the assets managed by the Other Investments sector. 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)	**May 31, 2015 (IFRS)**	May 31, 2014 (IFRS)	June 1, 2013 (IFRS)
Weight of the five largest investments (Development capital investments)	**18.9***	17.1*	19.5*
Weight of the five largest issuers or counterparties (Other investments)	**11.5****	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 10.4% as at May 31, 2015 (8.9% as at May 31, 2014 and 9.6% as at June 1, 2013).

** All of these securities are issued or guaranteed by government issuers (Canada or provinces).

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)	**May 31, 2015 (IFRS)**	May 31, 2014 (IFRS)	June 1, 2013 (IFRS)
Compliant with criteria	**5,818**	5,142	4,989
Under watch	**236**	285	293
In turnaround	**40**	17	24
	6,094	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 May 31, 2015, 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)	**May 31, 2015* (IFRS)**	May 31, 2014** (IFRS)	June 1, 2013** (IFRS)
AAA	**402**	459	445
AA	**924**	775	707
A	**892**	966	976
BBB	**220**	310	264
	2,438	2,510	2,392

***** Presented using the Dominion Bond Rating Services (DBRS) rating scale.

****** 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 May 31, 2015, the ratio of liquid assets[20] as a percentage of assets under management was 57.6% (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.

[20] 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.

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.

Effective policies, standards and procedures are implemented to manage this risk. Control principles and mechanisms are monitored and periodically revised with a view to continuous improvement. The Fonds' operational risk management and the effectiveness of its management framework are underpinned by the following guiding principles:

- Competent, well-trained staff;
- A succession management program;
- A culture of integrity;
- Segregation of incompatible duties;
- Adoption of a concept of independence inspired by the securities regulations applicable to public companies;
- Delegation of decision-making authority to Investment Committees whose majority of members are independent from the Fonds, the FTQ and its affiliated unions;
- Monitoring of the development capital investment valuation process;
- Monitoring of the due diligence process;
- Implementation of a framework program of financial compliance;
- Implementation of a framework program of regulatory compliance;
- Implementation of an internal audit function;
- Monitoring of technology development and information security;
- A planning process for resumption of activities in the event of business interruption;
- Continuous monitoring of changes in applicable legislation, regulations and standards, including the Fonds' compliance therewith;
- Risk identification and assessment when new products or activities are implemented.

Codes of ethics and conduct define, among other things, the rules of conduct to be followed by employees, officers and directors to avoid, for instance, conflict of interest situations. All employees or officers must, in the execution of their duties, put the interests of the Fonds ahead of their own or those of third parties. They must also avoid placing themselves in a conflict of interest situation, either real, potential or apparent. The codes of ethics and conduct prohibit, among others, certain personal trading deemed conflictual, including receiving certain gifts and using any advantage, information or interest related to the Fonds that would be incompatible with the professional duties and responsibilities of an employee. In addition, the codes forbid the disclosure by directors and employees, for purposes other than the execution of their duties, of confidential information obtained through such execution. Each year, all employees must complete a statement of interests held and a statement on the compliance of their conduct with the code.

The code of ethics and conduct for management and unionized personnel was updated in 2014, and training was provided to all employees. An ethics hotline managed by an accounting firm is in place and allows employees to anonymously report cases of non-compliance with the code involving financial or accounting information or illegal acts.

A few years ago, the Fonds undertook an analysis of the risk of fraud and misconduct to which it is exposed. Although this risk was not assessed as high following this analysis, recommendations to improve its control environment were implemented by the Fonds over the past few years.

OTHER RISKS

The Fonds is also exposed to other risks such as strategic and reputation risks, which could result in negative financial consequences.

Strategic risk, which includes competitive risk and risk associated with regulatory changes, refers to the possibility of incurring losses as a result of ineffective strategies, lack of integrated business strategies or the inability to adapt the strategies to changes in the business environment. This risk is managed through monitoring and strategic and operational planning processes that seek input from all levels of the organization; the resulting plans are submitted to the Board of Directors for approval. The Management Committee periodically monitors the business plans and strategic objectives of the Fonds and each sector. Any strategic decision or change to the Fonds' already adopted orientations that could have a material impact is authorized beforehand by the appropriate governing bodies, based on the powers delegated to them.

With respect to strategic risk, the phase-out of the tax credit announced by the federal government in its March 2013 budget, which has been effective since January 1, 2015 (for the 2015 tax year, the total tax credits granted to taxpayers will be 25%, compared to 30% previously), 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 investment 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, as previously mentioned in this MD&A, the Fonds launched, during the 2014-2015 financial, an extensive strategic review process to ensure that, in the medium-term, it continues increasing its socio-economic impact and optimizing its current activities and, in the long-term, it adapts its business model to take into account the possibility of permanently losing the federal tax credit. This strategic review process should be finalized in fall 2015.

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 amounted to $650 million in shares giving rise to labour-sponsored fund tax credits) reduced the ability of Québec workers to save for retirement. However, this limit had no impact on the return of the Fonds or its ability to redeem its shares. It should be noted that this limit ceased to be in effect as of June 1, 2015.

Reputation risk is the risk that negative publicity, whether founded or unfounded, will cause expenses, revenue losses, a decrease in liquidity or a decline in the customer base. The Fonds controls and manages reputation risk through the following, among others: proper training, legal and financial due diligence for all its capital development investments, sound governance practices, the application of policies and procedures, and ownership of the codes of ethics and conduct by all officers and employees. The Fonds is a responsible corporate citizen that takes ethical, social and environmental aspects into consideration when making investment decisions. In that respect, the Fonds has implemented in August 2014 the *Sustainable Development Policy*. The Fonds also has a voting rights policy with regards to public companies and a code of conduct for international business dealings. The Fonds also ensures that any financial information released outside the organization is accurate and validated beforehand.

Reputation risk evolved favourably during the year, as evidenced by the strengthening of the message on the relevance of the Fonds in the Godbout report and the Québec budget, tabled in March 2015, as well as the adoption, on April 20, 2015, by the National Assembly of the amendments to the *Act to Establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, which will enable the Fonds to complete the implementation of its new governance. These amendments to the Act reflect the recommendations of the special committee on governance of the Board of Directors of the Fonds issued in February 2014.

The Fonds has had for a few years a *Disclosure Policy* concerning all financial and non-financial information issued and/or disclosed externally and the information that is communicated internally to a large number of employees. The main objectives of this policy are to provide a disclosure framework and standards, to ensure that information disclosed is rigorously prepared and validated, to make the Fonds' employees aware of disclosure principles, and to specify the roles and responsibilities of the main participants in the disclosure process.

The application of this policy is monitored by a Disclosure Committee comprised of members of the Fonds' management. The main responsibilities of this Committee are to set disclosure guidelines, to implement and keep up to date the *Disclosure Policy* and ensure it is complied with, and to ensure that relevant and effective disclosure controls and procedures are in place. The Disclosure Committee reports its activities to the Audit Committee.

Given the growing use of social media by the Fonds and its employees, the Fonds has had a *Social Media Policy* for a few years. This policy governs the use of these tools to prevent any harm or damage to the image or the reputation of the Fonds resulting from such use. All employees were trained following the implementation of this policy.

GOVERNANCE

Further to the announcement, in February 2014, of the important reform of the Fonds' governance, the Fonds has implemented several elements designed to strengthen its governance:

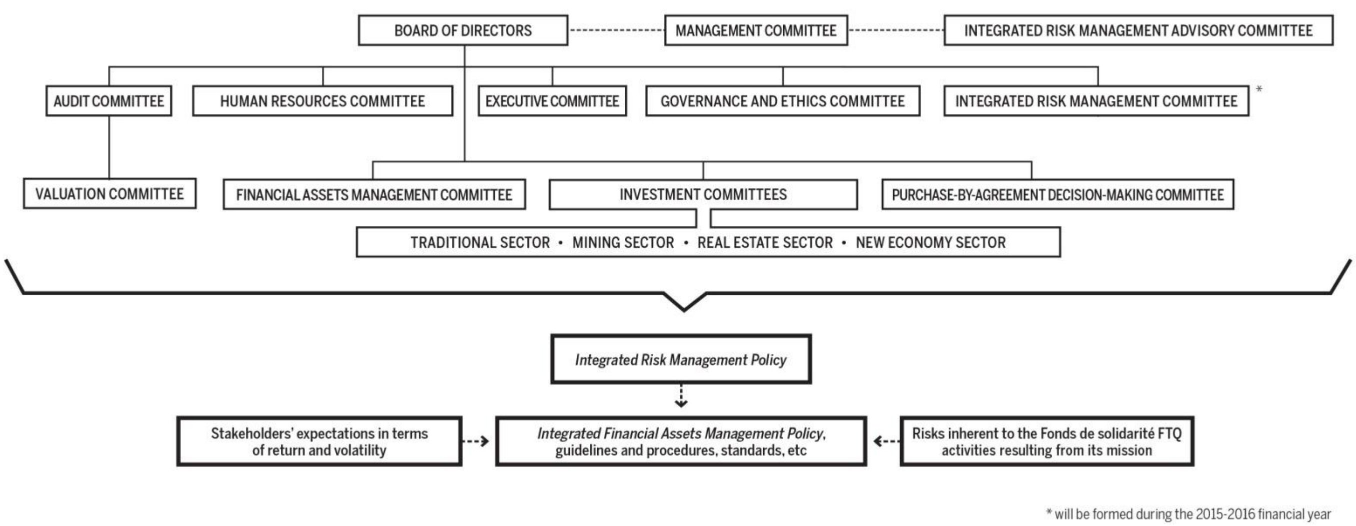
- Presidency of the Board of Directors and all the Board's committees (including those authorizing regional and real estate fund investments) reserved for a member independent from the Fonds, the FTQ and its affiliated unions;
- Creation of two new committees composed of a majority of members independent from the Fonds, the FTQ and its affiliated unions, namely the Governance and Ethics Committee and the Human Resources Committee;
- Implementation of a working group composed of independent members to review the decision-making process for investments, and whose work has an immediate impact on the scope of the mandate, roles, responsibilities and composition of the various governance bodies of the Fonds.

In connection with this ongoing reform at the Fonds, Robert Parizeau, Chairman of the Board of Directors of the Fonds, and Gaétan Morin, President and Chief Executive Officer of the Fonds, supported before the National Assembly's Committee on Public Finance in January 2015 the amendments proposed to the *Act to Establish the Fonds de solidarité des travailleurs du Québec (F.T.Q)*, which were finally adopted on April 20, 2015. The amendments enshrine the reforms already made by the Fonds since 2009 whereby all investments must first be recommended by an investment committee made up of a majority of members independent from the Fonds, the FTQ and its affiliated unions. In addition, the number of members of the Board of Directors is increased from 17 to 19; the majority of these members will have to be elected annually by the shareholders for a term not exceeding 12 years.

The Fonds has therefore launched a call for nominations ahead of its Annual General Meeting of Shareholders to be held on September 26, 2015. A notice of the call for nominations has been published in Québec's major dailies and on the Fonds' website for the four director positions that will be voted on at the Annual Meeting from among the candidates selected following the call for nominations. The criteria for director eligibility and the nomination procedure are available on the Fonds' website. As regards the seven independent directors recommended to the Board of Directors by the Fonds' Governance and Ethics Committee, a notice of meeting for the Annual Meeting and a proxy circular will be made available to shareholders in August 2015.

RISK GOVERNANCE

The Management Committee, comprised of the President and Chief Executive Officer and executives, is responsible for the global management of the Fonds' operations. Because integrated financial assets management is an essential part of risk governance, 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. The governance structure that supports the Fonds, in particular with respect to risk management, is as follows:



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.

The implementation process of the integrated risk management framework that was launched a few years ago and led to the adoption by the Board of Directors of the *Integrated Risk Management Policy* in May 2012 (see the "Risk Management" section) also had some effects on the risk governance structure. The roles and responsibilities of the Fonds' governing bodies, internal committees and main stakeholders involved were specified in this policy. The Board of Directors of the Fonds thus reconfirmed its responsibility for integrated risk management while delegating to the Integrated Risk Management Committee, once formed, the monitoring of some work and their results in that respect. The *Integrated Risk Management Policy* sets out the organization's requirements with respect to the integrated management of all types of risks, ensures that risk management is closely related to the "total" risk appetite and determines an approach whereby all significant risks and their interrelations are considered in the development of the organization and the maintenance of the return/risk balance. Integrated risk management is the responsibility of the Executive Vice-President, Finance, who chairs the Integrated Risk Management Advisory Committee, composed of internal members, and will be supported in his duties by a Vice-President, Integrated Risk Management and Financial Strategies, a position that will be filled during the 2015-2016 financial year.

The *Integrated Financial Assets Management Policy*, which is under the *Integrated Risk Management Policy*, is a key piece of the risk governance framework. The objective of this policy is to manage financial assets in an integrated and comprehensive way to ensure sound diversification and an optimal return/risk profile while complying with the mission of the Fonds and meeting the expectations of its stakeholders. The *Integrated Financial Assets Management Policy* is complemented by the *Investment Policy* for the development capital investments managed by the Investments sector and the *Other Investments Portfolio Policy* for the assets managed by the Other Investments sector. The purpose of these policies is to set out the investment principles and rules for financial assets as well as to define the roles and responsibilities of the persons involved and the monitoring procedure to be applied. Policies are complemented by guidelines to specify how investment managers must proceed, including, without limitations, discretionary limits, diversification requirements, quality standards as well as return and risk objectives.

KEY GOVERNING BODIES

BOARD OF DIRECTORS

The Board of Directors carries out the following duties:

- Ensuring the Fonds' mission, Incorporation Act and any other law it is subject to are followed while adhering to its values of solidarity and responsibility;
- Approving the main directions, policies and business strategies of the Fonds, notably in regards to integrated financial assets management and integrated risk management;
- Ensuring there are controls over the Fonds' management, including over risk management, and ensuring a culture of integrity;
- Approving investment recommendations for which it is responsible and monitoring them;
- Ensuring that the Fonds, as an investor, behaves as a socially responsible entity;
- Evaluating the Fonds' performance on a regular basis.

Members of the Board of Directors are nominated or elected according to the rules set out in the Fonds' Incorporation Act. In carrying out its mandate, the Board delegates part of its responsibilities to boards and committees to support it in maintaining the highest standards. The Fonds' committees report their activities at least once a year to the Board of Directors.

INVESTMENT BOARDS AND COMMITTEES

Investment Boards and Committees are responsible for decisions related to development capital investments. These Investment Boards and Committees comprise the three Investment Committees for the Traditional, New Economy and Mining sectors as well as the Decision-Making Boards of the *fonds immobilier de solidarité FTQ* (which are similar, for operational purposes, to an Investment Committee). Each development capital investment of $15 million or more ($10 million or more for the Real Estate sector) must be authorized by the Board of Directors, or the Executive Committee if the Board of Directors is unable to meet in a timely fashion; in addition, each of these investments must be recommended by the corresponding Investment Board or Committee. All investments below these thresholds are under the authority of the Investment Committee overseeing the economic sector or the Decision-Making Boards of the *fonds immobilier de solidarité FTQ*. All majority interest investments must be authorized by the Board of Directors on the recommendation of the appropriate Investment Committees. The three Investment Committees and the Decision-Making Boards of the *fonds immobilier de solidarité FTQ* are composed of a majority of members who are independent from the Fonds, the FTQ and its affiliated unions.

EXECUTIVE COMMITTEE

The Executive Committee is composed of at least seven directors, including (i) the Chairman of the Board of Directors, (ii) the First Vice-Chair of the Board of Directors, (iii) the President and Chief Executive Officer, (iv) a member appointed by the FTQ, and (v) three independent members who sit on the Board of Directors. The Executive Committee only deliberate or make decisions if a majority of independent members are present. It may exercise all the powers of the Board of Directors with the exception of distributing shares, granting options, dismissing or replacing directors, declaring or authorizing dividend payments, and adopting, amending or revoking bylaws.

AUDIT COMMITTEE

The Audit Committee is comprised entirely of members who are independent from the Fonds, the FTQ and its affiliated unions in accordance with the Fonds' Incorporation Act and *Regulation 52-110 respecting Audit Committees*, and its mandate includes recommending the audited financial statements and MD&A for approval by the Board of Directors; approving the principles for valuing development capital investments and receiving the Valuation Committee's report; enquiring about the effectiveness of internal controls implemented by management and the fact that they are not overridden; enquiring about the compliance and risk management process for preparing the Fonds' financial statements and providing feedback. The Audit Committee also ensures the Fonds complies with the laws, regulations and agreements that govern its operations and that may have a material financial impact. The Audit Committee makes recommendations to the Board of Directors when necessary. An internal audit function monitored by the Audit Committee was put in place, which allows benefiting from an independent assurance function.

HUMAN RESOURCES COMMITTEE

Composed of a majority of independent directors (from the Fonds, the FTQ and its affiliated unions), this new committee is tasked with proposing to the Board of Directors the appointment of the President and Chief Executive Officer, his employment conditions and his remuneration, as well as assessing his performance. More broadly, the Committee will have to examine issues related to the compensation of the Fonds' management as well as evaluate and plan management's succession. Its mandate will also include overseeing the negotiation of the collective agreement with the Fonds' employees. Furthermore, the mandate of the Committee includes monitoring the general human resources practices within the Fonds' network, in particular at the real estate fund, the regional funds and the local funds.

GOVERNANCE AND ETHICS COMMITTEE

Composed of a majority of independent directors (from the Fonds, the FTQ and its affiliated unions), this new committee had first been mandated in the short-term to steer the implementation of the Fonds' governance reform. This committee is also responsible for supporting the Board of Directors in the implementation of a continuing education and self-assessment program, in addition to the overall aspects of the Fonds' general governance, in particular with respect to appointments to the governing bodies of the Fonds. More specifically, it determines the terms and conditions for the election of members of the Board of Directors at the shareholders' meeting. It also ensures, with the Fonds' management, that directors, governing body members and all employees of the Fonds maintain on an ongoing basis ethical culture and practices. The Governance and Ethics Committee also reviews certain continuous disclosure documents to be filed with the Autorité des marchés financiers or distributed to shareholders.

INTEGRATED RISK MANAGEMENT COMMITTEE

The primary mandate of this committee, which will be implemented during the 2015-2016 financial year, will be to supervise the Fonds' integrated risk management general practices by making recommendations to ensure that the Fonds applies proper oversight and integrated management practices to its risk exposures. It will also have to ensure that the risks to which the Fonds is exposed are clearly identified, review the measures taken by management to adequately manage them, including examining the integrated risk profile and its action plans, and review the quantitative and qualitative risk appetite statements as well as the risk tolerance levels. This committee will coordinate with the Financial Assets Management Committee.

INTEGRATED RISK MANAGEMENT ADVISORY COMMITTEE

The Integrated Risk Management Advisory Committee, composed of internal members, supports the Management Committee in the implementation of the integrated risk management framework and its decisions, in accordance with the requirements of the *Integrated Risk Management Policy*.

FINANCIAL ASSETS MANAGEMENT COMMITTEE

This committee is responsible for monitoring the implementation, compliance with and updating of the *Integrated Financial Assets Management Policy*, including the *Investment Policy* and the *Other Investments Portfolio Policy*. Its primary mandate is to ensure that asset management is coordinated and aligned. In this capacity, it recommends the main investment orientations to the Board of Directors. This committee also monitors performance and changes in the return/risk ratio, ensures that the Fonds' asset management is in compliance with all its policies and approves the guidelines required to manage its financial assets. This committee makes recommendations to the Board of Directors when necessary.

PURCHASE-BY-AGREEMENT DECISION-MAKING COMMITTEE

The Purchase-by-Agreement Decision-Making Committee, composed of internal members, was set up in accordance with Section 8 of the Fonds' Incorporation Act. Its main duty is authorizing the purchase by agreement of the shares and fractional shares of the Fonds in accordance with the *Purchase-by-Agreement Policy* adopted by the Board of Directors and approved by the Minister of Finance of Québec.

VALUATION COMMITTEE

Composed of a majority of qualified valuators independent from the Fonds, the FTQ and its affiliated unions, the Valuation Committee is mandated to review the private investment valuation process and provide a reasonable assurance that the procedure used for valuing the development capital investments portfolio complies with the procedure set out in the *Regulation Respecting Development Capital Investment Fund Continuous Disclosure*. The Valuation Committee reports on its review to the Audit Committee twice yearly.

VALUATION FRAMEWORK

Development capital investments and other investments are recorded on the balance sheet at their fair value[21]. However, the majority of the Fonds' development capital investments are made in private companies or specialized funds for which a fair value must be established because the securities issued by these companies or funds are not traded on organized, public markets. Qualified valuators employed by the Fonds determine the fair value of these investments. These valuators report to the Executive Vice-President, Finance and follow a structured process comprising several verification and validation steps to ensure the quality, uniformity and integrity of the work performed and of the resulting fair value.

The management framework that governs the procedure for valuing development capital investments is set out in the *Regulation Respecting Development Investment Fund Continuous Disclosure*. In particular, the Regulation specifies the minimum qualifications required for qualified valuators employed by the Fonds as well as the governing body responsible for approving the valuation principles used. The Regulation also requires that all relevant information about the valuations (excluding publicly traded issuers valued using market prices) should be provided to an independent valuation committee. In addition, regulations require that the Chief Executive Officer and the Chief Financial Officer of an investment fund sign on a half-year basis a certification stating that the valuation procedure set out in the Regulation was complied with and confirming the aggregate fair value of the development capital investments portfolio. This certification has been signed and submitted to the Audit Committee on a half-year basis since May 31, 2009. For the six-month period ended May 31, 2015, the certification was signed by the President and Chief Executive Officer and the Executive Vice-President, Finance of the Fonds.

FINANCIAL GOVERNANCE

While not required to apply MI 52-109 issued by the Canadian Securities Administrators, the Fonds has decided to base its work upon the principles stated in this rule, thereby demonstrating its willingness to respect best practices in financial governance. Our financial compliance framework program commonly known as Confor applies to controls providing reasonable assurance that the financial information prepared and reported is reliable and that the financial statements are prepared in accordance with IFRS issued by the International Accounting Standards Board.

Management is responsible for designing and maintaining adequate internal control over financial reporting and disclosure controls and procedures. It must also periodically evaluate their design and effectiveness.

[21] Using fair value is a best practice recognized by venture capital firms and private equity funds. In short, fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

During the year, the Fonds undertook the necessary work to evaluate the design and effectiveness of internal control over financial reporting and disclosure controls and procedures using the new COSO framework (issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission), and, for information technology controls, the COBIT (Control Objectives for Information and Related Technology) framework, two recognized financial governance frameworks. The necessary work to comply with the new COSO 2013 framework was completed by the Fonds during the year; the Fonds previously used the 1992 version of the COSO framework.

Regulations require that the President and Chief Executive Officer and the Chief Financial Officer confirm their responsibility for controls by signing a certification to this end. Accordingly, for the year ended May 31, 2015, the Fonds' President and Chief Executive Officer and Executive Vice-President, Finance signed a certification confirming their responsibility in that regard. These certifications are available on SEDAR. A mechanism for sub-certification by several Fonds executives and managers also supports these certifications.

Management's conclusions on the design and effectiveness of internal control over financial reporting and disclosure controls and procedures are presented hereafter.

MANAGEMENT'S REPORT ON INTERNAL CONTROLS

CONCLUSIONS ON THE DESIGN AND EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting comprises all the processes and controls in place, including policies and procedures, that govern the maintenance of accounting records and the preparation of financial statements to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS issued by the International Accounting Standards Board. Management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President, Finance, evaluated the design and effectiveness of internal control over financial reporting. Based on this evaluation, management concluded that, as at May 31, 2015, internal control over financial reporting was adequately designed and effective and did not contain any material weaknesses. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect certain misstatements on a timely basis. During the year ended May 31, 2015, there was no change in the Fonds' internal control over financial reporting that has materially affected, or is reasonably likely to affect, the Fonds' internal control over financial reporting.

CONCLUSIONS ON THE DESIGN AND EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures include the processes and mechanisms designed to provide reasonable assurance that financial information for external purposes is recorded, processed, summarized and reported within the required time period for review and approval by management and that it is disclosed externally within the time periods specified in the applicable regulations and legislation. Management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President, Finance, evaluated the design and effectiveness of disclosure controls and procedures. Based on this evaluation, management concluded that, as at May 31, 2015, disclosure controls and procedures were adequately designed and effective.