INTERIM MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE SIX-MONTH PERIOD
ENDED NOVEMBER 30, 2017

FONDS
de solidarité FTQ

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This interim Management Discussion and Analysis ("MD&A") is intended to help the readers assess, through the eyes of management, the Fonds de solidarité FTQ's (the "Fonds") results and financial condition as well as the material changes therein during the six-month period ended November 30, 2017. The interim MD&A complements and supplements the financial statements as at November 30, 2017 and contains financial highlights, but does not contain the financial statements of the Fonds. For ease of understanding, this interim MD&A should be read in conjunction with the financial statements and the notes thereto.

This MD&A contains forward-looking statements that should be interpreted with caution. These statements necessarily involve assumptions, uncertainties and risks; it is therefore possible that, due to a number of factors, they will not materialize. Legislative or regulatory changes, economic and business conditions and the level of competition are examples of major factors that may influence, sometimes significantly, the accuracy of the forward-looking statements in this MD&A. This MD&A is dated December 21, 2017.

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 interim MD&A.

You can get a copy of the financial statements as at November 30, 2017 and a copy of the annual documents, at no cost, as follows:

- by visiting our website (fondsftq.com) or the SEDAR website (sedar.com)
- at your request:
  - by calling Saving Services at 514 383-3663 or toll free at 1 800 567-3663;
  - by writing us at P.O. Box 1000, Youville Station, Montréal, Québec H2P 2Z5.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fonds and are intended to help you understand the Fonds' financial performance for the past five financial years and the six-month period ended November 30, 2017. This information is derived from the Fonds' audited financial statements. Financial data for the six-month period ended November 30, 2017 and the financial years ended May 31, 2017, 2016, 2015 and 2014 are in accordance with International Financial Reporting Standards ("IFRS"). Financial data for the financial year ended May 31, 2014 have been restated in accordance with IFRS. Financial data for the financial year ended May 31, 2013 are in accordance with Canadian generally accepted accounting principles ("GAAP") effective at that time. The Fonds' results are discussed under "Results of operations" on page 6.

RATIOS AND SUPPLEMENTAL DATA

Six-month period or years ended

(in millions of dollars, unless otherwise specified)	**November 30, 2017 (IFRS) (six-month period)**	May 31, 2017 (IFRS)	May 31, 2016 (IFRS)	May 31, 2015 (IFRS)	May 31, 2014 (IFRS)	May 31, 2013 (GAAP)
Revenues[a]	**598**	1,269	691	1,149	940	256
Net income[b]	**501**	1,081	513	985	772	458
Comprehensive income[b]	**506**	1,085	498	992	773	N/A
Fair value of development capital investments[c]	**9,019**	8,483	7,571	7,112	6,415	6,144
Net assets	**13,695**	13,116	11,750	11,150	10,131	9,301
Issues of shares	**328**	900	774	667	787	855
Redemption of shares	**263**	614	678	643	730	542
Class A shares outstanding (number, in thousands)	**348,249**	346,264	338,320	335,197	334,234	332,441
Number of shareholders (number)	**645,664**[d]	645,664	618,551	610,605	613,958	615,664
Total operating expense ratio[e] (%)	**0.65**	1.35	1.36	1.36	1.51	1.44
Trading expense ratio[f] (%)	**0.01**	0.02	0.01	0.01	0.02	0.02
Portfolio turnover rate[g]:						
Development capital investments (%)	**3.33**	6.39	9.92	6.05	7.14	8.44
Other investments (%)	**35.63**	62.92	97.18	119.55	167.36	115.57

a For the six-month period ended November 30, 2017 and the financial years ended May 31, 2017, 2016, 2015 and 2014, revenues include realized and unrealized gains and losses, distributions, and rental, fee and other income, which is not the case for the financial year ended May 31, 2013.

b Net income corresponds to revenues less total operating expenses and income taxes. Comprehensive income is obtained by deducting (adding) the remeasurement of the net defined benefit liability from (to) net income.

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

d As at May 31, 2017.

e The total operating expense ratio is obtained as follows: for a six-month period, by dividing total operating expenses included in the determination of net income for the six-month period by net assets attributable to security holders of the Fonds at the end of that six-month period; for a year, by dividing total operating expenses included in the determination of net income for the year by the average net assets attributable to security holders of the Fonds for the year. The total operating expense ratio for the six-month period ended November 30, 2017 is presented on a non-annualized basis.

f The trading expense ratio is obtained as follows: for a six-month period, by dividing transaction costs by net assets attributable to security holders of the Fonds at the end of the six-month period; for a year, by dividing transaction costs by the average net assets attributable to security holders of the Fonds for the year.

g Portfolio turnover rate reflects the number of changes made to the composition of the portfolio. For example, a portfolio turnover rate of 100% would mean that the Fonds purchased and sold all the securities in its portfolio once during the financial year. There is not necessarily a relationship between a high turnover rate and the portfolio's performance. The portfolio turnover rate for the six-month period ended November 30, 2017 is presented on a non-annualized basis.

CHANGE IN NET ASSETS PER SHARE

Six-month period or years ended

(in dollars)	November 30, 2017 (IFRS) (six-month period)	May 31, 2017 (IFRS)	May 31, 2016 (IFRS)	May 31, 2015 (IFRS)	May 31, 2014 (IFRS)	May 31, 2013 (GAAP)
Net assets per share, beginning of six-month period/year[a]	**37.88**	34.73	33.26	30.31	27.98	26.59
Impact of the transition to IFRS					0.02	
Net assets per share, beginning of six-month period/year after impact of the transition to IFRS[a]	**37.88**	34.73	33.26	30.31	28.00	26.59
Increase from operations[b]:						
Interest, dividends and distributions, rental, fee and other income and interest on notes[c]	**0.51**	1.14	1.09	1.02	1.08	0.79
Realized gains[d]	**0.36**	0.45	0.51	0.67	0.53	0.30
Unrealized gains	**0.85**	2.14	0.46	1.74	1.21	0.77
Total operating expenses[e]	**(0.26)**	(0.51)	(0.47)	(0.44)	(0.45)	(0.40)
Income tax	**(0.02)**	(0.05)	(0.07)	(0.05)	(0.06)	(0.05)
Increase (decrease) from other comprehensive income	**0.02**	0.01	(0.04)	0.02	0.01	
Variance from issues and redemption of shares	**(0.02)**	(0.03)	(0.01)	(0.01)	(0.01)	(0.02)
Net assets per share, end of six-month period/year[a]	**39.32**	37.88	34.73	33.26	30.31	27.98

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

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

c For the six-month period ended November 30, 2017 and the financial years ended May 31, 2017, 2016, 2015 and 2014, this item includes distributions as well as rental, fee and other income.

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

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

ECONOMIC CONDITIONS AND OUTLOOK

According to International Monetary Fund ("IMF") forecasts, global gross domestic product ("GDP") will grow 3.6% in 2017, up from 3.2% in 2016. Growth is expected to increase 0.5% and 0.3% in developed and emerging economies, respectively. Since President Trump's election in November 2016, business activity indicators, in particular the Purchasing Managers' Index ("PMI"[1]), and confidence indexes have stabilized at historical highs, suggesting more sustained economic growth for the rest of the year and for 2018. However, the protectionist measures that the Trump administration is implementing are negatively impacting the progress of the North American Free Trade Agreement ("NAFTA") negotiations, which increases the risk that it will not be renewed by the three countries.

Europe

Economic growth in the Eurozone accelerated in the first three quarters of 2017 to 2.4% on an annualized basis, compared to 1.8% in 2016. According to the IMF, we should expect a rather moderate growth of 1.9% in 2018. On the one hand, PMI indicators have stabilized at a six-year high since May 2017, which positively impacts industrial production. Hiring by businesses pushed the Eurozone unemployment rate down 0.4% compared to May 2017, to 8.8%, its lowest level since 2009. That unemployment rate helped boost consumer confidence indexes to sixteen-year highs and drove growth in consumption. On the other hand, budget deficits and high debt levels of certain countries continued to restrict economic growth in the Eurozone. Inflation was stable in the Eurozone over the last six months, going from 1.4% in May to 1.5% in November 2017. In addition, the European Central Bank held its overnight deposit rate steady at -0.40%, but it announced that it will continue to compress its quantitative easing program by lowering, starting in January 2018, its bond purchase amount from €60 billion to €30 billion per month until September 2018.

In the United Kingdom, Prime Minister May called for early general elections and ended up with a minority government following the June vote. This further complicates the negotiations with her European counterparts about Brexit, which have barely moved forward. Although the results of the exit negotiations with the European Union will only be known in one to two years, their effects are already beginning to be felt.

United States

U.S. economic growth accelerated in the first three quarters of 2017 on an annualized basis compared to 2016, from 1.5% to 2.5%. This acceleration was mainly attributable to increases in consumption, business investment and net exports. The IMF is forecasting growth of 2.3% in 2018, on the basis of favourable financial conditions as well as consumer and business leader confidence indexes, which are at historical highs. The tax cuts recently approved by Congress with the passing of the tax reform bill could also positively influence growth. The devastating hurricanes in September negatively impacted economic activity in Texas, Louisiana and Florida. These very short term effects should not have a permanent impact on economic growth.

President Trump has had a tumultuous presidency since being sworn in, and his approval rating is at its lowest since January. In addition, the White House has not yet managed to get healthcare reform passed. These developments in Washington have not prevented market participants from driving stock indexes to record highs, as witnessed by the S&P 500 index, which is up 10.9% (in US$) since May 31. Furthermore, the Trump administration's protectionist tendencies have slowed down the NAFTA negotiations despite advances on several aspects since September. U.S. negotiators put forward half a dozen requirements that may be difficult for Canada and Mexico to agree to, and because of this, negotiations were extended to March 2018. In November 2017, the U.S. unemployment rate was 4.1%, compared to 4.3% in May. The labour force participation rate was 62.7%, the same level as in May. Economists expect the unemployment rate to remain low in 2018 and 2019. The inflation rate increased from 1.9% in May to 2.2% in November 2017. The U.S. Federal Reserve (the "Fed") is beginning to worry that more persistent factors, such as new technology, are responsible for the modest level of inflation despite an economy that seems to have reached full employment. At its December 13, 2017 meeting, the Fed decided to raise its key rate from 1.25% to 1.50%, the third increase of the year.

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[1] The Purchasing Managers' Index is a composite indicator of a country's manufacturing activity. It takes into account the manufacturing sector's new orders, production, employment, deliveries and inventories.

Canada

The Canadian economy continued to accelerate in 2017, with annualized growth of 3.2% for the first three quarters, compared to 1.5% in 2016. Following volatile GDP growth in 2016 caused by the Alberta forest fires, the rebound in growth may be explained by the resumption of activities in Fort McMurray, a short-term increase in consumption stimulated by the new Canada child benefit and the real estate boom in Ontario, as well as record automobile sales in the United States, which increased the pace of production in Ontario. However, the high level of Canadian household debt and lower real estate activity, caused in particular by new restrictions on uninsured mortgages to slow down soaring prices, could restrain future economic growth. Growth in energy exports continues to further contribute to GDP. However, the rising uncertainty surrounding NAFTA negotiations could slow down business investment. The imposition of countervailing and anti-dumping duties by the U.S. Department of Commerce reflects the aggressive approach that the White House has adopted to address trade issues.

The unemployment rate continued to fall over the last six months, reaching 5.9% in November 2017 (6.6% in May 2017), its lowest level since 2007. The labour force participation rate remained stable, demonstrating that the job market is healthy. Inflation climbed from 1.3% in May to 2.1% in November 2017. Strong economic growth prompted two key rate hikes by the Bank of Canada, in July and in September, pushing it from 0.50% to 1.00%. The Bank of Canada remains concerned by the Canadian dollar's appreciation and the effect on household debt of rising rates and new measures adopted to stifle real estate speculation. Several economists believe that the key rate could be raised in 2018. Stimulated by recent key rate increases, short-term (2 years) and long-term (10 years) interest rates in Canada have gone up since May 31, 2017 from 0.69% to 1.43% and from 1.42% to 1.89%, respectively. During the same period, provincial and investment-grade corporation credit spreads trended down. The Canadian dollar appreciated significantly against the U.S. dollar, from US$0.74 as at May 31, to US$0.83 in September, to end up at US$0.78 as at November 30.

Québec

After healthy economic growth of 1.7% in 2016, economists forecast a 2.5% growth by the end of 2017, followed by more moderate growth of 2.0% in 2018. Despite a 0.4% GDP decrease in May resulting in particular from the construction strike in Québec and a temporary lack of robustness in the economy, strong advances in consumption, government spending as well as investments in machinery and equipment boosted GDP growth, which was up 2.9% on an annualized basis for the January to August period. In addition, housing starts for the first 11 months of the year were up 23% over those of 2016. The economy's performance in 2017 was the strongest since 2000.

The budget surplus for 2016-2017 provides the Québec government with additional flexibility, which enabled it to announce in its latest budget investments of $10.7 billion by 2021-2022. In addition, countervailing and antidumping duties of up to 27% imposed last spring by the United States on softwood lumber were recently lowered by the U.S. Department of Commerce, and are now amounting to a maximum of 21%. To date, the impact on the softwood lumber industry has been offset by the price increase caused by a sharp rise in U.S. demand. Over the last six months, the unemployment rate decreased and stood at 5.4% in November 2017 (6.0% in May 2017), a historical low for Québec. The Fonds will certainly continue to play a major role, particularly by contributing to creating and maintaining jobs in Québec and by working with Québec companies that are looking to innovate and willing to expand abroad while generating economic spinoffs for Québec.

To conclude, the return to global economic stability and the synchronization of growth between developed and emerging economies generate optimism among market participants and pushed stock indexes to new highs. The Fonds, like other financial institutions, is continuously monitoring the situation to anticipate risks that could negatively impact its return.

MANAGEMENT DISCUSSION OF FINANCIAL PERFORMANCE

RESULTS OF OPERATIONS

FONDS RESULTS

For the six-month period ended November 30, 2017, the Fonds posted comprehensive income of $506 million, compared to $470 million for the corresponding period of the prior year. The return to the shareholder for the six-month period was 3.8%, compared to 4.0% for the corresponding period of the prior year. This return is mainly explained by the good performance of the Development Capital Investments portfolio and, to a lesser extent, of the Other Investments portfolio, which benefited from the solid stock market performance but was negatively affected by the appreciation of the Canadian dollar and the impact of the increase in interest rates on the bond portfolio. Overall, both portfolios profited from the favourable financial market conditions that prevailed during the six-month period, which were similar to those in the corresponding period of the prior year. The Fonds' net assets amounted to $13.7 billion as at November 30, 2017 compared to $13.1 billion as at May 31, 2017. The return to the shareholder was 8.9% for the last 12 months (compared to 7.5% for the corresponding period in 2016). The value of the Fonds' shares increased by $1.44 compared to the value announced on July 5, 2017 to stand at $39.32 as at January 5, 2018.

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 it tends to limit its loss potential in a bear market.

RETURN BY SECTOR

Six-month periods ended November 30

	2017			2016		
	Assets under management* $M	**Weight %**	**Gross return %**	Assets under Management* $M	Weight %	Gross return %
Development capital investments						
Private securities and specialized funds	**6,044**	**43.9**	**5.8**	5,497	44.7	5.2
Listed securities	**1,425**	**10.4**	**9.2**	1,074	8.7	7.4
	7,469	**54.3**	**6.4**	6,571	53.4	5.5
Other investments**						
Fixed-income securities	**3,116**	**22.7**	**(0.2)**	2,752	22.4	0.1
Shares and other securities	**3,166**	**23.0**	**4.9**	2,981	24.2	6.6
	6,282	**45.7**	**2.4**	5,733	46.6	3.4
	13,751	**100.0**	**4.5**	12,304	100.0	4.7

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

** 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 and other securities, including international infrastructure funds.

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 better diversify the Fonds' 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 6.4% for the six-month period, compared to a gross return of 5.5% for the corresponding period in 2016. Taking into account this return and given the level of mission-driven investments made by the Fonds, the assets in this sector represented \$7.5 billion at the end of the six-month period or 54.3% of assets under management as at November 30, 2017 (respectively, \$6.6 billion and 53.4% as at November 30, 2016).

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 6.4% of the Investments sector for this six-month period is largely explained by the following:

- The gross return of 5.8% generated by our private securities and specialized funds portfolio during the six-month period (compared to 5.2% for the corresponding period in 2016). 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 six-month period (of which a significant portion results from the increase in value of our ownership interest in Atrium following a third-party offer to purchase) in a solid economic growth environment in Québec;
- The gross return of 9.2% generated during the six-month period by our listed securities portfolio (compared to a gross return of 7.4% for the corresponding period of the prior year). The performance for the six-month period is in large part explained by the return on Québec small-cap securities.

Other Investments Sector

The Other Investments sector manages the Fonds' assets that are not invested in partner companies. Other investments consist of the following portfolios: cash and money market, bonds, shares and other securities, including international infrastructure funds. 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 risk-return profile of the Fonds, diversify the Development Capital Investments portfolio and ensure that the Fonds maintains a sufficient level of liquidities to meet all its obligations.

For the six-month period, the Other Investments sector earned a gross return of 2.4%, compared to a gross return of 3.4% for the corresponding period in 2016. The assets of this sector amounted to \$6.3 billion, or 45.7% of the Fonds' assets under management as at November 30, 2017 (respectively, \$5.7 billion and 46.6% as at November 30, 2016).

The evolution of bond interest rates (Canada bond rates and credit spreads) and exchange rates as well as stock market performance are determining factors in analyzing the performance of the Other Investments sector. Results for this sector are influenced by the behaviour of the financial markets and the conditions affecting the economic environment. The gross return of 2.4% of the Other Investments sector for the six-month period is mainly explained by the following:

- The solid performance of Canadian stock markets and foreign stock markets, which contributed to the gross return of 4.9% on the shares and other securities portfolios. These portfolios had generated a gross return of 6.6% for the corresponding period of the prior year. The lower performance for this six-month period is mainly explained by the appreciation of the Canadian dollar against the U.S. dollar, which had an unfavourable impact on the global shares return translated into Canadian dollars;
- The negative gross return of 0.2% on our fixed-income securities portfolio for the six-month period, compared to the positive gross return of 0.1% for the corresponding period in 2016. The return for this six-month period is essentially explained by a decrease in value of bonds held in the portfolio caused by the increase in interest rates on Government of Canada securities, partly offset by interest income generated by the portfolio and the tightening of credit spreads.

TOTAL OPERATING EXPENSES

Total operating expenses consist mainly of expenses related to assets under management, saving services, subscription activities, economic training, systems and controls, including their improvement, the investing process 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. On average, the Fonds was able to maintain its total operating expense ratio at a lower level than the management expense ratio of Canadian balanced funds[2], which stands at approximately 1.1% on a six-month basis.

For the six-month period ended November 30, 2017, the ratio of total operating expenses attributable to security holders of the Fonds (on a non-annualized basis), calculated using the method prescribed by the Regulation, was 0.6% (0.6% for the corresponding period in 2016). Expressed in dollars, total operating expenses amounted to $89 million for the six-month period ended November 30, 2017, up $10 million compared to the corresponding period of the prior year. This increase results essentially from the implementation of the main strategic orientations of the Fonds (attributable to the hiring of new personnel, among other factors) as well as budgeted salary and employee benefits increases.

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

Cash Flows

Cash flows from operating activities of the Fonds were a net cash outflow of $78 million for the six-month period, compared to a net cash outflow of $9 million for the corresponding six-month period in 2016. Changes in these cash flows mainly resulted from our current operations.

Cash flows from financing activities of the Fonds were a net cash inflow of $66 million for the six-month period, compared to a net cash inflow of $21 million for the corresponding six-month period in 2016. These cash flows for the two six-month periods resulted from issues of shares amounting to $329 million[3] ($283 million for the corresponding six-month period in 2016), less redemptions of shares of $263 million[4] ($262 million for the corresponding six-month period in 2016). Cash flows from investing activities were a net cash outflow of $6 million for the six-month period, compared to a net cash outflow of $2 million for the corresponding six-month period in 2016.

As at November 30, 2017 and May 31, 2017, the Fonds had a $60 million line of credit available for its working capital requirements. This line of credit was not drawn during the six-month period ended November 30, 2017 and the year ended May 31, 2017, and its outstanding balance was therefore nil as at November 30, 2017 and May 31, 2017.

Balance Sheet and Off-Balance Sheet Items

Development capital investments shown on the balance sheet increased from $7.5 billion as at May 31, 2017 to $8.0 billion as at November 30, 2017. This $528 million increase mainly resulted from the increase in value of development capital investments during the six-month period and net investments of $151 million (investments of $452 million less divestitures of $301 million).

On a commitment basis, the Fonds made development capital investments of $526 million during the six-month period, compared to $287 million for the corresponding period in the prior year. Funds committed but not disbursed remained stable at $1.0 billion as at November 30, 2017 and May 31, 2017.

In addition, other investments shown on the balance sheet also remained stable during the six-month period and amounted to $6.2 billion as at November 30, 2017 ($6.2 billion as at May 31, 2017).

As part of managing its assets, the Fonds may use derivative financial instruments to facilitate the management of portfolios, increase its revenues, manage its market risks, modify asset allocation and manage foreign exchange hedging. The use of derivative financial instruments is governed by a guideline and risk budgets.

MISSION OF THE FONDS, OBJECTIVES AND STRATEGIES

Since the most recent MD&A as at May 31, 2017, there have been no material changes to the Fonds' mission, objectives, business model and strategies.

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2 Source: Bloomberg (based on a sample of 186 Canadian retail balanced funds).

3 This amount is presented on a cash basis and therefore includes the net change in share subscriptions between May 31, 2017 and November 30, 2017.

4 This amount is presented on a cash basis and therefore includes the change in amounts payable between May 31, 2017 and November 30, 2017.

REPORT ON OPERATIONS

The Savings Market Development Sector

The first six months of the 2017-2018 financial year saw an increase in all automatic subscription indicators. Enrolment in the Fonds for automatic savings increased 9% over the corresponding period in 2016. The Fonds also recorded a 3% increase in conversions to payroll deduction.

Subscriptions through automatic savings since June 1, 2017 amounted to $253 million, up $24 million from the corresponding period in 2016. This is the result of the efforts of the local representative (“LR”) network and the subscription team. In addition, VRSP-related activities prompted 216 new employers to offer payroll deduction to their employees in order to comply with the *Voluntary Retirement Savings Plans Act*. Adding to this lump-sum subscriptions, which were $75 million, subscriptions for six-month period totaled $328 million ($283 million for the corresponding period in 2016).

With regard to our objective of lowering the age of Fonds shareholders, 55% of new shareholders were under age 40 and the average age of new shareholders for the six-month period was 39.

The volume of redemptions for the six-month period was $263 million ($260 million for the corresponding six-month period in 2016).

The Investments Sector

In keeping with its mission, the Fonds made investments during the six-month period that contributed to creating, maintaining or protecting quality jobs in various sectors of the Québec economy. In the current economic context, the Fonds continues to play an active role in developing and growing Québec companies. Accordingly, during the six-month period, the Fonds invested $526 million ($287 million in the corresponding six-month period in 2016) on a commitment basis to support development projects in the Québec economy. Here are a few examples of the Fonds’ contribution to Québec’s economic development during the six-month period.

In the consumer products sector, the Fonds invested $55 million in New Look Vision Group to support its acquisition of IRIS. The company’s renowned banners include New Look Eyewear, Vogue Optical, Greiche & Scaff and, with this acquisition, IRIS. Its total network is made up of over 300 branches specialized in eye care, which makes it the largest player in the optical products sector in Canada.

In support of the aerospace industry, one of the sectors of excellence identified by the Fonds, $50 million were committed to Héroux-Devtek for the acquisition of an Airbus subsidiary. Héroux-Devtek is a Québec-based company specializing in the design, development, manufacture and repair and maintenance of landing gear components for the aerospace market. The head office of this company, the world’s third-largest landing gear company, is located in Longueuil. After this transaction, Héroux-Devtek will have 1,697 employees around the world, including 590 in Québec.

The Fonds continues to support the technology sector, as evidenced by its $3.9 million investment in LeddarTech, a Québec-based company that develops and markets an innovative LiDAR sensor technology for use in intelligent transportation systems, traffic management and autonomous and semi-autonomous driving solutions. This investment will allow LeddarTech to intensify the development and marketing of its LiDAR sensors for automobiles.

The Fonds reinvested $9.4 million in Clementia Pharmaceuticals inc., a biopharmaceutical specialized in research for solutions to treat people suffering from debilitating bone diseases for which there is little medication available. This investment will be used to pursue various clinical studies. Through its constant investments in this sector, the Fonds is a predominant player in the Canadian biotechnology field.

INTEGRATED MANAGEMENT OF THE FONDS’ ASSETS

Since the most recent annual MD&A as at May 31, 2017, there have been two material changes to the integrated management of the Fonds’ assets. First, the management of the internal bonds portfolio, which had been outsourced to an external manager on an interim basis, has now been backsourced to the Fonds. Second, the Fonds disposed of its investments in companies that own coal reserves for energy purposes and added these companies to its list of excluded stocks and bonds. Besides these two elements, there have been no material changes to the integrated management of the Fonds’ assets.

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, 2017, this minimum threshold was 62% 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. It should be noted that it was announced that the investment rule threshold will be gradually raised (by 1% per year starting in 2016) to 65% in 2020.

If the Fonds does not meet the investment rule minimum threshold, issues of shares 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, 2017, the value of the average qualified investments[5] was $7.5 billion or 65.7% of the average net assets of the previous financial year (compared to 65.4% as at May 31, 2016). Since the minimum threshold of the investment rule was reached as at May 31, 2017, the amount of share issues giving rise to labour-sponsored fund tax credits for the 2017-2018 financial year will not be limited by the investment rule.

As at November 30, 2017 and May 31, 2017, 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.

RECENT DEVELOPMENTS

As it has been the case in the past, as well as stated in its Short Form Prospectus published last July, the Fonds may limit the number of shares it issues. In light of its capital-raising objectives for the current financial year, the Fonds will announce by press release, a share issue cap in the weeks ahead. The announcement will only affect shareholders who make lump-sum contributions. The Fonds will continue to accept deposits from shareholders enrolled in payroll deduction and pre-authorized withdrawals.

In addition, in order to make the Fonds' shares accessible to the greatest number of shareholders, the Fonds will be limiting annual contributions to $12,500 per shareholder as of January 1, 2018.

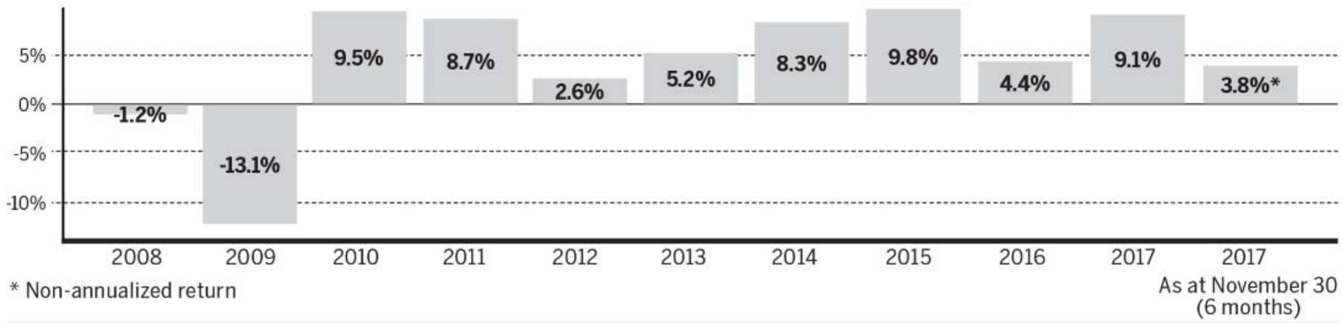
[5] These investments include funds committed but not disbursed as well as guarantees and suretyships.

PAST PERFORMANCE

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

YEAR-BY-YEAR RETURNS TO THE SHAREHOLDER

The following chart shows the annual return to the shareholder and illustrates how such return has changed from period to period for the last ten financial years ended May 31 and the six-month period ended November 30, 2017.



The return to the shareholder is calculated by taking into account the non-annualized change in the value per share over the relevant financial year (annual return) or six-month period (return for the six-month period).

ANNUAL COMPOUND RETURNS TO THE SHAREHOLDER

At the current value of $39.32 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
4.5%	7.6%	7.8%	8.9%

The annual compound return to the shareholder is calculated by taking into account the annualized change in the value per share over each of the periods indicated.

Since the inception of the Fonds, the annual compound return to the shareholder has been 4.2 %.

ANNUAL COMPOUND RETURNS TO THE SHAREHOLDER (INCLUDING TAX CREDITS)

A shareholder who would have invested an equal amount each year through payroll deduction would have earned, at the current value of $39.32 per share and including the Québec and federal labour-sponsored tax credits (15% at the Québec level and 15% at the federal level, except for the 2015 tax year, for which it was 10% at the federal tax level), an annual compound return of 17.7% and 13.7% for a 7-year and 10-year period, respectively. In addition to this return, the shareholder can receive additional tax benefits if he transfers his Fonds shares to an RRSP.

SUMMARY OF INVESTMENT PORTFOLIO

As at November 30, 2017, the Fonds' assets under management were comprised of the following categories of the Development Capital Investments and Other Investments portfolios:

Asset classes	% of net assets
Development Capital Investments	
Private securities	32.8
Specialized funds	11.3
Listed securities	10.4
	54.5
Other Investments	
Cash and money market	2.2
Bonds	20.5
Shares	22.7
International infrastructure funds	0.5
	45.9

The following table presents the issuers of the top 25 positions held by the Fonds as at November 30, 2017, of which 19 are part of the Development Capital Investments portfolio and 6 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, for the Other Investments portfolio, debt and equity securities are not aggregated.

Issuers	% of net assets
Development Capital Investments (19 issuers)*	34.1
Other Investments (6 issuers)**	11.8
	45.9

* The 19 issuers representing, as a group, 34.1% of the Fonds' net assets are (in alphabetical order):

- Acquisition Glacier II inc.
- Agropur Dairy Cooperative
- Camso inc.
- Cogeco Communications inc.
- Corporation Financière L'Excellence ltée
- Entreprises québécoises publiques[6]
- Fonds immobilier de solidarité FTQ II, s.e.c.[6]
- Fonds immobilier de solidarité FTQ inc.[6]
- Fonds régionaux de solidarité FTQ, s.e.c.[6]
- Gestion TForce inc.
- La Coop fédérée
- Metro inc.
- Osisko Gold Royalties Ltd
- Société de gestion d'actifs forestiers Solifor, société en commandite[6]
- SSQ Financial Group[7]
- Teralys Capital Fonds de Fonds, s.e.c.[6]
- TMX Group Limited
- Transcontinental inc.
- Trencap, s.e.c.

** The 6 issuers representing, as a group, 11.8% of the Fonds' net assets are:

Province of Ontario	3.9%
Province of Québec	3.2%
Canada Housing Trust No 1	2.4%
Province of Alberta	0.8%
Government of Canada	0.8%
Financement-Québec	0.7%

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

6 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.

7 Includes all the Fonds' investments in SSQ, Life Insurance Company inc. and SSQ, Mutual Holding inc.

TRENDS AND OUTLOOK

TRENDS IN THE SAVINGS MARKET AND RRSP

On September 6, 2017, the Bank of Canada raised its key rate from 0.75% to 1.0%. It had already increased it by 25 basis points in July (from 0.50% to 0.75%). These increases are justified by the country's more widespread and sustained economic growth, as well as by the strength of the labour market and consumer spending. However, these key rate hikes could impact mortgage and credit margin rates and thereby prompt Canadians to save more.

These measures are timely because Canadian household debt levels reached a historical high of 169.0% at the end of 2016 (compared to 166.5% at the end of 2015). This is also the case in Québec, where the ratio of debt to personal disposable income reached 155.3% for 2016 (compared to 155.0% for 2015). In 2016, the savings rate went down to 3.5% in Canada (compared to 4.8% in 2015) and 5.0% in Québec (compared to 5.2% in 2015). Despite this situation, Québec and Canadian households managed to do well, thanks primarily to low interest rates and a healthy labour market. However, if economic conditions were to change suddenly, this situation could deteriorate. The low household savings rate also has an impact on Québecers' RRSP contributions, which are far from maximized. In addition, it seems that an increasing number of Québec savers are looking to purchase products with a higher return potential while taking into account their risk tolerance level. According to a SOM survey[8], the mutual funds (riskier) holding rate went from 24% in 2013 to 30% in 2016, while the term savings products (less risky) holding rate went from 51% in 2013 to 43% in 2016.

In this context, we believe that the Fonds, with its economic development mission, will continue to be an advantageous choice in 2017-2018 for any individual looking to contribute to an RRSP, in particular because of its tax credits, which are still a distinctive benefit, the competitive return of its shares (8.9% for the 12-month period ending November 30, 2017), the implementation of an alternative strategy to VRSPs (through payroll deduction), the personalized support by the Fonds' employees and its engaged LR network.

OUTLOOK FOR THE FONDS[9]

There have been no material changes to the outlook presented in our most recent annual MD&A.

8 Annual survey of 1,000 RRSP holders in Québec.

9 The outlook presented in this interim MD&A reflects the Fonds' expectations with respect to future events, based on information available to the Fonds as at December 21, 2017, 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 risks within a framework taking into account the nature of our activities and the risks we can reasonably assume considering the desired risk-return profile and stakeholder expectations. To that end, we capitalize on a structured process to identify, measure and control the significant risks with which we must contend.

Note to readers*: The following paragraphs and the sections on market risk, credit and counterparty risk and liquidity risk form an integral part of the financial statements on which an unmodified opinion was expressed in an independent auditors' report dated December 21, 2017.*

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 the *Other Investments Portfolio Policy* for the assets managed by the Other Investments sector. All these policies fall under the umbrella of the *Sustainable Development Framework Policy* and the *Integrated Risk Management Policy*. 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 risk-return profile is reached. The Fonds may use derivative financial instruments to facilitate the management of portfolios, increase its revenues, manage its market risks, modify asset allocation and manage foreign exchange hedging. The use of derivative financial instruments is governed by a guideline and risk budgets.

During the six-month period ended November 30, 2017, 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 all managed in accordance with their degree of importance. The Fonds' integrated risk profile was updated in May 2016, which allowed prioritizing the key financial and non-financial risks of the Fonds, before and after considering the effectiveness of the controls implemented to mitigate the Fonds' exposure to these risks. Following the integrated risk profile update, a mitigation strategy was developed for some of these risks, and action plans were developed and began to be deployed. The *Integrated Risk Management Policy* was updated during the year ended May 31, 2017, and the qualitative statements related to the risk appetite and tolerance framework were updated during the six-month period ended November 30, 2017. In addition, the Fonds produces on a quarterly basis a risk scorecard. This scorecard, which is integrated into its corporate scorecard, enables management to monitor the development of risks related to its business objectives and strategies

In the normal course of business, the Fonds is exposed to various risks; the main risks are presented in the following sections.

MARKET RISK

Market risk is the risk of a financial loss arising from a change in the fair value of financial instruments as a result of their exposure to financial markets. More specifically, this risk varies with financial market conditions and certain parameters of these markets, such as volatility, which 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 have a negative impact on the value of the Fonds' shares.

In selecting its integrated and overall financial asset allocation, the Fonds takes into account three types of market risk, namely interest rate risk, stock market risk and foreign exchange risk. More specifically, the Fonds manages market risk by allocating its financial assets across several asset classes. In addition, it invests in various industries and geographic areas, within the limits allowed by its Incorporation Act.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument change as a result of fluctuations in bond interest rates (Canada bond rates and credit spreads).

The Fonds is exposed to this risk as interest rate fluctuations have a direct impact on the fair value of bonds held in the Other Investments portfolio and of some bonds held in the Development Capital Investments portfolio. This risk is however partly controlled through the active management of a portion of the bonds portfolio, whereby the portfolio exposure in terms of maturities and issuers is regularly revised based on anticipated changes in interest rates and credit spreads.

The Fonds performs sensitivity analyses to specifically inform management that a material level of interest rate risk exposure has been reached. The following table presents a sensitivity analysis for the interest rate risk to which the Fonds' financial assets are exposed.

Sensitivity of the Fonds' Results to Interest Rate Risk

(in millions of dollars)	November 30, 2017	May 31, 2017
Change in bond interest rates*		
1% increase in bond interest rates	**(239)**	(234)
1% decrease in bond interest rates	**239**	234

* This analysis is performed on bonds held by the Fonds presented under Other Investments in the financial statements and some bonds presented under Development Capital 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 protecting assets.

Also, to inform management that a material level of interest rate risk exposure has been reached, the Fonds classifies its interest-rate-sensitive financial instruments based on their terms to maturity. This classification is based on contractual maturities. For information about this classification, please refer to the "Breakdown by maturity" section of Note 6, "Other investments", to the financial statements, which presents separate breakdowns by maturity for bonds, money market instruments and derivative financial instruments, and to the "Breakdown by maturity of loans, bonds and advances at fair value" section of Note 7, "Development capital investments".

STOCK MARKET RISK

Stock market risk is the risk that the fair value of a financial instrument changes as a result of price fluctuations on stock markets. Stock market fluctuations affect the Fonds' financial assets as they have a direct impact on fair value measurement of listed shares.

The Fonds retains the services of specialized managers to manage the majority of listed shares held in the Other Investments portfolio and some listed shares held in the Development Capital Investments 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.

The Fonds performs sensitivity analyses to specifically inform management that a material level of stock market risk exposure has been reached. The following table presents a sensitivity analysis for the stock market risk to which the Fonds' listed shares are exposed.

Sensitivity of the Fonds' Results to Stock Market Risk

(in millions of dollars)	November 30, 2017	May 31, 2017
Change in listed share prices*		
10% increase in listed share prices	**450**	441
10% decrease in listed share prices	**(450)**	(441)

* 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.

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the fair value of a financial instrument denominated in a foreign currency changes as a result of exchange rate fluctuations.

Exchange rate fluctuations have an impact on the securities denominated in foreign currencies held by the Fonds that are translated into Canadian dollars at the prevailing exchange rate. Exchange rate fluctuations also have an impact on the results of certain companies in which the Fonds has invested. The net impact of an appreciation or a depreciation of the Canadian dollar against other currencies may be negative or positive for these companies, depending on whether they are importing or exporting goods or services.

In general, the Fonds has not been hedging its currency exposure for a few years. For the Fonds, the currency hedging ratio for a specific portfolio is determined based on a risk-management-oriented approach and not on the enhancement of returns. A currency exposure generally brings a diversification effect that reduces volatility and protects the capital of financial assets in bear markets. However, when capital protection is limited in an environment in which the Canadian dollar is greatly undervalued against the U.S. dollar, the Fonds implements a complementary overlay hedging strategy with respect to the financial assets denominated in U.S. dollars held in the global shares portfolios of the Other Investments sector. The overall foreign exchange risk management strategy enables the Fonds to meet its current financial objectives and its risk appetite and tolerance, as set out in the *Integrated Financial Assets Management Policy*.

The Fonds performs sensitivity analyses to specifically inform management that a material level of foreign exchange risk exposure has been reached. The following table presents a sensitivity analysis for the foreign exchange risk to which the Fonds is exposed with respect to the securities denominated in foreign currencies it holds.

Sensitivity of the Fonds' Results to Foreign Exchange Risk

(in millions of dollars)	**November 30, 2017**	May 31, 2017
Change in exchange rates*		
10% appreciation of the Canadian dollar	**(299)**	(285)
10% depreciation of the Canadian dollar	**299**	285

* 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.

Also, to inform management that a material level of foreign exchange risk exposure has been reached, the Fonds calculates its net exposure to currencies as a percentage of assets under management.

Fonds' Net Exposure to Currencies*

	November 30, 2017	May 31, 2017
	%	%
Canadian dollar	**78.3**	78.0
U.S. dollar	**14.3**	13.8
Euro	**2.6**	2.7
Other	**4.8**	5.5
	100.0	100.0

* This classification takes into account all the securities held by the Fonds presented under Development Capital Investments and Other Investments in the financial statements. It also takes into account the use, if any, of foreign currency forward contracts. However, it does not take into account funds committed but not disbursed amounting to $149 million ($189 million as at May 31, 2017) and denominated in foreign currencies, mainly in U.S. dollars.

SENSITIVITY OF THE FONDS' RESULTS TO MARKET RISK RELATED TO UNLISTED FINANCIAL INSTRUMENTS IN DEVELOPMENT CAPITAL INVESTMENTS

The value of unlisted financial instruments in development capital investments is established using approved and accepted valuation techniques. These techniques are based on a set of assumptions that take into account market conditions as at the valuation date, such as economic growth and credit spreads, but also other assumptions specific to each investment. For information about sensitivity analyses on unlisted financial instruments in development capital investments, please refer to the "Sensitivity of the fair value of financial instruments categorized within Level 3" section of Note 9, "Fair value of financial instruments", to the financial statements.

CREDIT AND COUNTERPARTY RISK

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 deterioration in its financial position. The Fonds also includes concentration risk in this risk.

The Fonds' exposure to credit risk results mainly from its mission-driven development capital investments, which are generally unsecured. This risk is usually lower for other investment activities since the counterparties involved (governments, banks, etc.) typically are financially stronger. The Fonds is also exposed to credit risk as a result of its accounts receivable. However, the potential impact of such exposure is low given the amounts involved. The maximum exposure to credit risk related to the above-mentioned financial instruments corresponds to their fair value on the balance sheet, plus funds committed but not disbursed as well as guarantees and suretyships.

The Fonds manages the credit risk related to its development capital investments in several ways, including carrying out a due diligence review to ensure that the credit risk level is acceptable, supporting partner companies throughout their development and monitoring on an ongoing basis investments in companies either held directly or through specialized funds.

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 involve greater credit risk.

Classification of the Development Capital Investments Portfolio (including funds committed but not disbursed)

(fair value in millions of dollars)	**November 30, 2017**	May 31, 2017
Compliant with internal criteria	**8,496**	8,002
Under watch	**464**	438
In turnaround	**47**	32
	9,007	8,472

Issuer and counterparty credit ratings and compliance with exposure limits by borrower or counterparty contribute to the sound management of the credit and counterparty risk of the Other Investments portfolio and to the diversification of assets. These criteria (concentration limits by credit rating), which are set out in the *Other Investments Portfolio Policy*, are 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. The following table presents the breakdown of bonds, money market instruments and over-the-counter derivative financial instruments included in the Other Investments portfolio by credit rating as at November 30, 2017 and May 31, 2017.

Classification of Bonds, Money Market Instruments and Over-the-Counter Derivative Financial Instruments Included in the Other Investments Portfolio

	November 30, 2017*			May 31, 2017*		
(fair value in millions of dollars)	**Bonds**	**Money market instruments**	**Over-the-counter derivative financial instruments**	Bonds	Money market instruments	Over-the-counter derivative financial instruments
AAA/R-1(high)	**578**	**41**		510	37	
AA/R-1 (middle)	**1,019**	**180**	**-**	1,010	180	-
A/R-1 (low)	**983**	**56**	**(1)**	1,005	46	1
BBB/R-2	**245**			235		
	2,825	**277**	**(1)**	2,760	263	1
Weighted average	**AA-**	**R-1 (middle)**	**A**	AA-	R-1 (middle)	A

* Presents credit quality using the Dominion Bond Rating Services (DBRS) rating scale.

Over-the-counter derivative financial instruments held in the Other Investments portfolio expose the Fonds to counterparty risk.

To limit its exposure to counterparty risk, the Fonds ensures that transactions related to over-the-counter derivative financial instruments held in the Other Investments portfolio are carried out under an International Swaps & Derivatives Association Inc. (ISDA) master agreement and entered into with recognized financial institutions.

CONCENTRATION RISK

Concentration risk is the risk that a significant portion of the Fonds' financial commitments is attributable to a specific issuer, financial product, industry or geographic area, which could put the Fonds in a vulnerable position in the event that such issuer, product, industry or area experiences difficulties.

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 these policies enables managing the concentration risk associated with the exposure to an issuer or group of issuers with common characteristics (industries, class of securities, credit ratings, etc.).

Concentration by Issuer

(fair value as a percentage of net assets)	**November 30, 2017**	May 31, 2017
Weight of the five largest investments (Development Capital Investments)	**19.6***	19.8*
Weight of the five largest issuers or counterparties (Other Investments)	**11.1****	11.2**

* The portion attributable to investments that do not constitute a high concentration risk given the large number of investees represented 11.8% as at November 30, 2017 (11.9% as at May 31, 2017).

** 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 concentration risk.

To enable asset diversification, the Fonds ensures to allocate its Development Capital Investments portfolio across various industries. More specifically, 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 considering its mission, the risk allocation mechanism facilitates a more effective monitoring and control of the portfolio profile and sector allocation by risk level. The risk-return 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 risk allocation mechanism and the sector-based allocation of the Development Capital Investments portfolio are determined by taking into account funds committed but not disbursed. In some cases, the terms of the agreements could allow the Fonds not to disburse these committed funds, which protect the Fonds against additional risks.

Given the Québec economic development mission of the Fonds, the Development Capital Investments portfolio consists primarily of Québec-based companies. The return of the Development Capital Investments portfolio is therefore highly influenced by the economic conditions prevailing in Québec. As a result, the Fonds seeks some level of geographic diversification through its Other Investments portfolio governed by the *Other Investments Portfolio Policy*, which forms an integral part of the *Integrated Financial Assets Management Policy*. In addition to allowing for the diversification of development capital investments, the *Other Investments Portfolio Policy* aims at optimizing the Fonds' risk-return profile and providing the liquidity that the Fonds needs to meet all its obligations.

LIQUIDITY RISK

The Fonds must make disbursements on a daily basis—in particular when it redeems shares held by its shareholders, disburses amounts it committed to invest in partner companies, reimburses notes payable and pays expenses. The Fonds is required to redeem its 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 some cases, securities acquired on the market can be subject to resale restrictions, which may reduce 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 a bank line of credit for additional liquidities.

As at November 30, 2017, liquid financial assets, comprised of fixed-income securities (cash, money market and bonds) as well as listed shares held in the Other Investments portfolio and some listed shares held in the Development Capital Investments portfolio, amounted to $7.5 billion ($7.5 billion as at May 31, 2017). This amount represents 54.4 % of assets under management as at November 30, 2017 (56.6% as at May 31, 2017), demonstrating, in management's opinion, that the Fonds has the required liquidities to fulfill all its obligations and commitments, even under potential scenarios that would be less favourable to it.

To manage its liquidity risk, the Fonds also performs scenario simulations over several horizons and analyzes events that may lead to a liquidity crisis. These scenario simulations enable the Fonds to ensure it has sufficient liquidities in any circumstances.

Contractual maturities analysis is also a component of liquidity and financing management. However, this breakdown by maturity is not necessarily representative of how the Fonds manages its liquidity risk and its financing requirements.

The following table presents the contractual cash flow maturities for non-derivative financial liabilities, derivative financial liabilities and other items.

Contractual Maturities

(in millions of dollars)	On demand	Less than 1 year	Total
November 30, 2017			
Non-Derivative Financial Liabilities			
Notes*	616		616
Accounts payable**		199	199
Share redemptions payable***		19	19
Securities sold under repurchase agreements		620	620
	616	838	1,454
Derivative Financial Liabilities		1	1
Other Items			
Funds committed but not disbursed****			
Development capital investments	1,004		1,004
Other investments	19		19
Guarantees and suretyships*****	11		11
	1,034		1,034
	1,650	839	2,489
May 31, 2017			
Non-Derivative Financial Liabilities			
Notes*	630		630
Accounts payable**		151	151
Share redemptions payable***		26	26
Securities sold under repurchase agreements		411	411
	630	588	1,218
Derivative Financial Liabilities		-	-
Other Items			
Funds committed but not disbursed****			
Development capital investments	996		996
Other investments	20		20
Guarantees and suretyships*****	10		10
	1,026		1,026
	1,656	588	2,244

* The notes arising from excess liquidities of regional, local and real estate funds and some other specialized funds are repayable on demand and, as such, have been classified as “On demand”. The notes balance increases or decreases based on the investment and divestiture activities of these funds and has not exposed the Fonds to significant annual net disbursements to date.

** Accounts payable excludes derivative financial liabilities.

*** Share redemptions payable represents all amounts payable to shareholders for which a share redemption request was being processed and no amount had yet been disbursed at the end of the financial year or the six-month period.

**** Most of the funds committed but not disbursed have a maximum disbursement maturity date. However, they may be called on demand and, as such, are classified as “On demand”. In some cases, the terms of the agreements could allow the Fonds not to disburse these committed funds. Although the entire amount of funds committed but not disbursed is classified as “On demand”, the amount that the Fonds will have to disburse over the next 12 months will be less, as the calls for payment from specialized funds to which the Fonds has committed are usually spread over several years. For instance, funds committed but not disbursed gave rise to disbursements of $386 million during the last 12 months.

***** Guarantees and suretyships are irrevocable commitments and are classified as “On demand”. However, in the current conditions, management believes it is unlikely that the Fonds will have to disburse amounts for guarantees and suretyships.

OPERATIONAL RISK

Inherent to all of the Fonds' activities, operational risk is the risk of sustaining losses as a result of the inadequacy or failure of certain processes or systems in place or due to human factors or external events. This risk also includes legal risk and regulatory compliance risk.

Since the most recent annual MD&A, the Fonds has adopted the *Financial Fraud Prevention and Reporting Policy* on June 29, 2017. There have been no other material changes to the level and management of operational risk.

STRATEGIC RISK

Strategic risk, which also 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.

Since the most recent annual MD&A, there have been no material changes to the level and management of strategic risk.

REPUTATION RISK

Reputation risk is the risk that negative information, whether founded or unfounded, will cause expenses, revenue losses, a decrease in liquidity or a decline in the customer base.

Since the most recent annual MD&A, there have been no material changes to the level and management of reputation risk.

GOVERNANCE

The Fonds pays special attention to governance rules both for its investments, for which it requires a transparency, integrity and sound governance framework, and for its own corporate governance. The Fonds believes that implementing and maintaining sound governance practices are essential to managing an organization and reinforce the confidence of investors and its various stakeholders, including shareholders, the federal and provincial governments, the Autorité des marchés financiers, socio-economic players in the various regions of Québec and companies impacting the Québec economy.

The Management Committee, comprised of the President and Chief Executive Officer and executives, is responsible for the overall management of the Fonds' operations. The governance structure that supports the Fonds is as follows:

In July 2017, the Québec Federation of Municipalities, with financial assistance from the Québec government, the RCMs and the Fonds de solidarité FTQ committed to invest to support SMEs in all regions of Québec by facilitating and promoting the creation of 35 fonds locaux de solidarité in territories that are not currently covered.

KEY GOVERNING BODIES

Overall, since the most recent annual MD&A, there have been no material changes to the mandate, the roles and the responsibilities of the key governing bodies of the Fonds (Board of Directors, investment committees and other committees).

RISK GOVERNANCE

As integrated financial assets management is an essential part of its risk governance, the Fonds has put in place a management framework to ensure that risk management and control strategies and resulting operational decisions consider the established acceptable risk level.

The Integrated Risk Management Committee, which is the main committee responsible for all the Fonds' risks, reviews and qualifies the significant risks to which the Fonds is exposed in implementing its strategy. The internal Integrated Risk Management Advisory Committee identifies and analyzes the integrated risk management input parameters to support the Management Committee in defining the integrated risk management framework and in making decisions. The Fonds' risk governance structure is built upon a series of policies approved by the Board of Directors. The Fonds regularly reassesses policies, standards, guidelines, and procedures to incorporate the best possible practices.

Since the most recent annual MD&A, there have been no material changes to the *Sustainable Development Framework Policy*, the *Integrated Risk Management Policy*, the *Integrated Financial Assets Management Policy* and the management framework that governs the procedure for valuing development capital investments.

MANAGEMENT'S REPORT ON INTERNAL CONTROLS

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

Management is responsible for designing and maintaining internal control over financial reporting as well as disclosure controls and procedures. These controls are developed to provide reasonable assurance that the financial information is reliable and that the financial statements are prepared in accordance with IFRS. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect certain misstatements on a timely basis. Management must periodically evaluate control design and effectiveness. The design of internal control over financial reporting has been evaluated using the COSO 2013 (Committee of Sponsoring Organizations of the Treadway Commission) framework, a recognized financial governance framework.

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