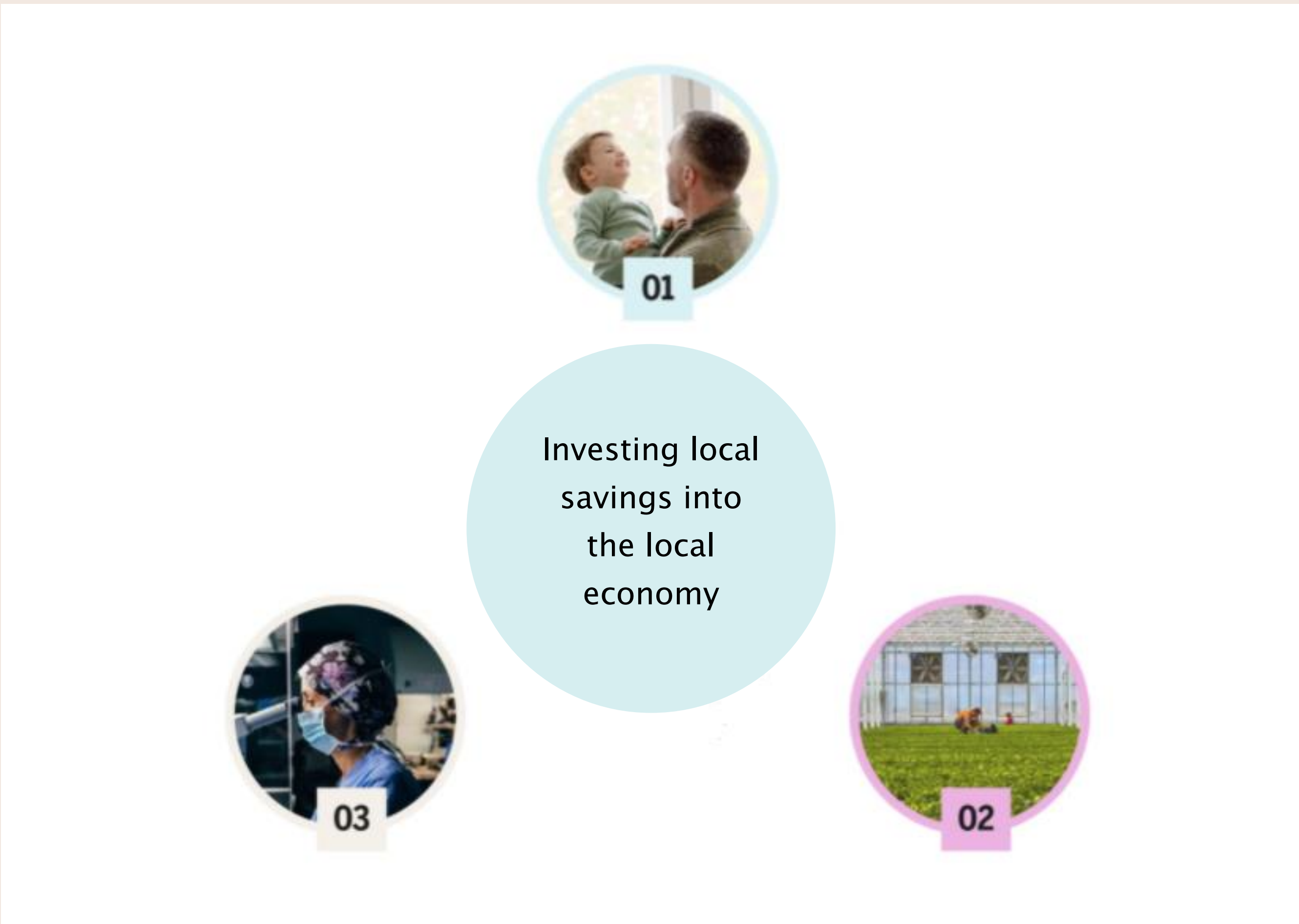
FONDS de solidarité FTQ

INVESTING IN A
BETTER SOCIETY



INTERIM MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE SIX-MONTH PERIOD ENDED NOVEMBER 30, 2021

FONDS de solidarité FTQ

INVESTING IN A
BETTER SOCIETY

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INTERIM MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SIX-MONTH PERIOD ENDED NOVEMBER 30, 2021

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") consolidated results and financial condition as well as the material changes therein during the six-month period ended November 30, 2021. The interim MD&A complements and supplements the consolidated financial statements of the Fonds (the "financial statements") and contains financial highlights, but does not contain the financial statements. For ease of understanding, this 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, the level of competition and the health situation 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 23, 2021.

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.

You can get a copy of the financial statements as at November 30, 2021 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, Chabanel Station, Montréal, Québec H2N 0B5.

GENERAL DESCRIPTION OF THE FONDS

The Fonds is a development capital investment fund with union roots created in 1983 on the initiative of the Fédération des travailleurs et travailleuses du Québec by the *Act to Establish the Fonds de solidarité des travailleurs du Québec* (F.T.Q.). Its core activities are to collect the savings of Québec residents and use them mainly to make development capital investments, as specified by the Regulation, in the form of unsecured risk capital, in accordance with its mission and objectives. These investments are internally classified by the Fonds in three categories : development capital, venture capital and strategic capital. The remaining savings collected are invested in cash and money market, bonds, and shares portfolios (together, the “other investments”). Furthermore, since May 2019, the Fonds has acted as investment fund manager for the FlexiFonds funds, a family of three mutual funds distributed by the mutual fund dealer FlexiFonds de solidarité FTQ inc. As part of the FlexiFonds funds’ investment mandate, the Fonds has issued to them since June 2019 Class C shares, whose value is equal to the value of Class A shares. In this MD&A, unless otherwise indicated, the value of the Fonds’ shares and the return to the shareholder refer to the value and the return of Class A shares and Class C shares.

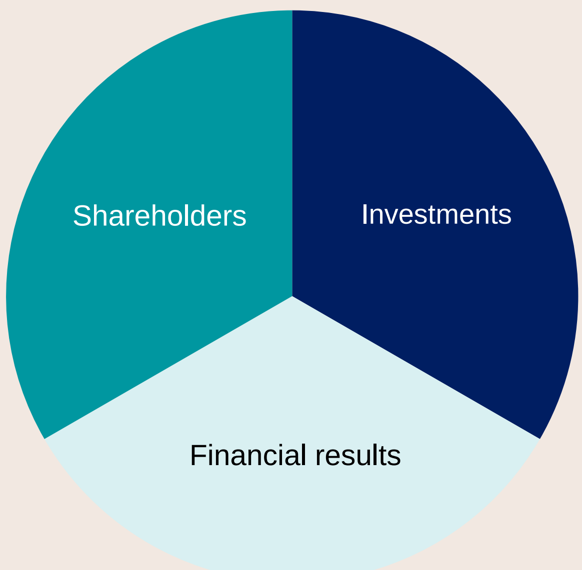
REVIEW OF THE SIX-MONTH PERIOD ENDED NOVEMBER 30, 2021

+$848M
Comprehensive income for the six-month period

$18.3B
Net assets as at November 30, 2021

$545M
Subscriptions for the six-month period

$665M
Investments in the six-month period, on a commitment basis, in 38 partner companies



Over 51,000
Number of new savers contributing through automatic savings methods

Asthuce
Since its creation in March 2020, Asthuce performed **146** support interventions

$55.77
Share value as at November 30, 2021

+$2.56
compared to May 31, 2021

4.8%
Return to the shareholder for the six-month period

10 years: 7.9% 5 years: 9.1% 3 years: 10.3% 1 year: 13.6%

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, and financial data are in accordance with International Financial Reporting Standards ("IFRS"). The Fonds' results are discussed under "Results of operations" on page 12.

RATIOS AND SUPPLEMENTAL DATA

Six-month period or years ended.

(in millions of $, unless otherwise specified)	**November 30, 2021 (six-month period)**	May 31, 2021	May 31, 2020	May 31, 2019	May 31, 2018	May 31, 2017
Revenues	**1,007**	3,101	469	1,370	1,206	1,269
Net income[a]	**848**	2,847	219	1,147	1,001	1,081
Comprehensive income[a]	**848**	2,889	230	1,134	1,006	1,085
Fair value of development capital investments[b]	**12,026**	11,437	10,390	9,958	9,288	8,483
Net assets	**18,309**	17,186	13,794	15,627	14,329	13,116
Issues of Class A shares	**527**	1,162	961	897	833	900
Redemption of Class A shares[c]	**270**	684	3,044	733	626	614
Class A shares outstanding (number, in thousands)	**326,957**	322,025	311,363	355,953	351,789	346,264
Number of shareholders – Class A shares (number)	**734,580**	723,501	707,935	694,357	667,417	645,664
Issues of Class C shares	**18**	25	20			
Redemption of Class C shares	**–**	–	–			
Class C shares outstanding (number, in thousands)	**1,327**	981	460			
Total operating expense ratio[d] (%)	**0.85**	1.52	1.49	1.31	1.38	1.35
Trading expense ratio[e] (%)	**0.00**	0.02	0.02	0.01	0.01	0.02
Portfolio turnover rate[f]:						
Development capital investments (%)	**9.33**	8.16	5.44	13.99	12.22	6.39
Other investments (%)	**17.86**	47.94	76.40	83.88	69.90	62.92

a 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.

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

c For the years (and six-month periods, as appropriate) ended since May 31, 2020, unlike prior years, redemptions of Class A shares comprise redemptions processed during the year and the change in redemptions in process at the end of the year, thus representing all redemption requests received during the year. In prior years, redemptions of Class A shares only comprised redemptions processed during the year, as the change in redemptions in process at the end of the year was not material.

d Total operating expense ratio is obtained as follows: for a six-month period, by dividing total operating expenses for the six-month period presented in the Statements of Comprehensive Income by the net assets of the Fonds at the end of that six-month period; for a year, by dividing total operating expenses for the year presented in the Statements of Comprehensive Income by the average net assets of the Fonds for the year. Average net assets correspond to the average of net assets at the end of the interim period and net assets at the end of the financial year. Total operating expense ratio for the six-month period ended November 30, 2021 is presented on a non-annualized basis.

e Trading expense ratio is obtained as follows: for a six-month period, by dividing transaction costs for the six-month period by the net assets of the Fonds at the end of the six-month period; for a year, by dividing transaction costs for the year by the average net assets of the Fonds for the year. Trading expense ratio for the six-month period ended November 30, 2021 is presented on a non-annualized basis.

f 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 period. 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, 2021 is presented on a non-annualized basis.

CHANGE IN NET ASSETS PER SHARE[a]

Six-month period or years ended

(in $)	**November 30, 2021 (six-month period)**	May 31, 2021	May 31, 2020	May 31, 2019	May 31, 2018	May 31, 2017
Net assets per share, beginning of year[b]	**53.21**	**44.24**	43.90	40.73	37.88	34.73
Increase from operations[c]:						
Interest, dividends and distributions, fee, rental and other income and interest on notes	**0.92**	**1.72**	1.49	1.37	1.27	1.14
Realized gains	**0.56**	**2.11**	0.99	2.54	1.25	0.45
Unrealized gains (losses)	**1.62**	**5.97**	(1.17)	(0.05)	0.94	2.14
Total operating expenses	**(0.48)**	**(0.80)**	(0.64)	(0.56)	(0.56)	(0.51)
Income tax	**(0.01)**	**(0.01)**	(0.06)	(0.07)	(0.03)	(0.05)
Increase (decrease) from other comprehensive income	**0.00**	**0.13**	0.03	(0.04)	0.01	0.01
Variance from issues and redemption of shares	**(0.05)**	**(0.15)**	(0.30)	(0.02)	(0.03)	(0.03)
Net assets per share, end of year[b]	**55.77**	**53.21**	44.24	43.90	40.73	37.88

a Since June 2019, the Fonds has issued Class C shares to the FlexiFonds funds, and net assets per Class A share and net assets per Class C share are identical. Data for the years (and six-month periods, as appropriate) ended since May 31, 2020 present the change in net assets per Class A share and per Class C share, while data for the prior years present the change in net assets per Class A share.

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

c The increase from operations is based on the weighted-average number of shares outstanding during the relevant financial year.

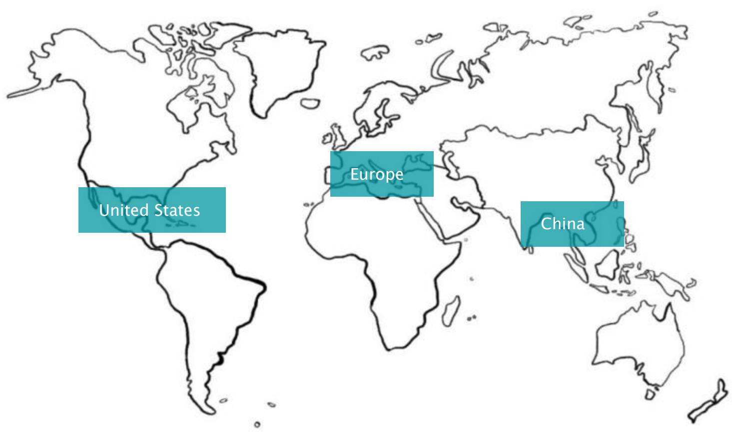
ECONOMIC CONDITIONS AND OUTLOOK

EUROPE

- Consecutive GDP growth of 8.7% and 9.1% in the second and third quarters of 2021, bringing the **Euro zone** economy very close to its pre-pandemic size.
- Inflation rate exceeding the target of the European Central Bank, which however maintains an expansive monetary policy.
- GDP growth of 0.1% in the **United Kingdom** in October, bringing the economy to 0.8% below its level before the beginning of the pandemic.
- Expansive monetary policy maintained by the Bank of England, which believes that the hike in inflation will be temporary.

CHINA

- Slowdown in the pace of the Chinese economy caused by supply issues, especially with energy, and a zero-tolerance policy with respect to COVID-19. The debt crisis experienced by real estate giant Evergrande added uncertainty, but growth outlook remains respectable.
- GDP increase of 4.8% and 0.8% in the second and third quarters of 2021.
- Trade balance reached a cyclical high in October due to renewed momentum of exports.
- Increase in the industrial product price index. China contributes to supporting inflation in industrialized countries.



UNITED STATES

- Annualized growth rate of 6.7% and 2.1% in the second and third quarter of 2021, pushing GDP over its level before the beginning of the pandemic.
- Continued increase in the number of jobs throughout the six-month period. According to November data, the most recent at time of writing, over 85% of the 25 million jobs lost during the recession have been recovered. Unemployment rate went down from a high of 14.8% in February 2020 to 4.2% in November 2021.
- In July, there were still over 10 million job vacancies. The gap between labour supply and demand drives up salaries.
- Inflation rate in increasing. In November, it was 6.8% for the overall index, and 4.9% excluding food and energy.
- Announcement by the Federal Reserve in November that it would ease its monetary policy. It now recognizes the more persistent nature of inflation and states that the unemployment rate would have to decrease further before it would increase its key rate.
- Stock market return (S&P 500 index) of 9.4% for the Fonds' six-month period, supported by higher profitability outlook resulting from reopening the economy and the virtually unfailing support from the central bank.

CANADA

- Decrease of 3.2% in the Canadian economy in the second quarter of 2021 (impact of the impulse of the third wave of the pandemic) and increase of 6.1% in the third quarter (impact of consumer spending, job creation and income growth).
- Employment returned to its level before the beginning of the pandemic in September 2021, and jobs were added during the two following months. The outlook is good, as job vacancies continue to be greater than available labour. However, a continuing labour shortage could slow down the growth pace.
- The Bank of Canada recognized in October that inflation pressures are not likely to be temporary and announced that it would discontinue its federal government bond purchase program. It will raise its key rate as soon as the production level meets the potential level. This announcement drove up short-term interest rates.
- Decrease in the federal government deficit during the first six months of its current fiscal year, and economic growth outlook should contribute to reducing the gap between public revenues and spending during the last six months of its fiscal year.
- The rate for two-year federal government bonds increased from 0.32% at the end of May to 0.99% as at November 30. Rates for longer maturities first decreased following the increase in COVID-19 cases at the beginning of the Fonds' six-month period before essentially returning to their starting point. The 10-year rate increased by 8 basis points, and the 30-year rate went down by 14 basis points. Changes in interest rates led to a small 0.3% gain on the bond market since the beginning of the Fonds' financial year, while the stock market (S&P/TSX index) posted a 6.1% gain.

QUÉBEC

- Continued recovery in the first six-month period of 2021, with an annualized growth rate of 6.3% (7.7% in the first quarter and 3.4% in the second quarter). The economy returned to its production level before the beginning of the pandemic.
- Employment returned to its level before the beginning of the pandemic in November only as the recovery in part-time jobs caused a two-month lag.
- Continued hike in inflation rates during the six-month period, to 5.2% in November 2021. Price levels increase more in Québec than across the country (inflation rate of 4.7% in Canada in November 2021).
- Economic conditions indicate that growth will continue in Québec. The update on the budget confirmed this interpretation. The Government of Québec raised its growth rate forecast for 2021 from 4.2% to 6.5%. The deficit was cut by $5.4 billion as revenues were higher than originally expected.

RECENT DEVELOPMENTS

COVID-19 pandemic

The Fonds monitors very closely the development of the COVID-19 pandemic crisis. There still remain many uncertainties about the development of this crisis and its future impact on the economy and society on many fronts.

The Fonds continues to conduct its business with its shareholders and partners despite the crisis while preserving the safety of its employees. Remote operations are continuing for the moment and virtually all the Fonds' employees are still working remotely. The Fonds therefore maintains its activities and continues to provide services to shareholders, employers and partner companies. In addition, the Fonds has actively contributed to the vaccination effort at the Saint-Michel vaccination centre.

Statement by the Quebec Financial Centre for a Sustainable Finance

On October 4, 2021, the Fonds and over 20 Québec institutions representing over $900 billion in assets under management signed the *Statement by Quebec Financial Centre for a Sustainable Finance*, in connection with the first edition of the Sustainable Finance Summit, a Finance Montréal initiative. Concretely, the Fonds is committed to 1) developing a local expertise in sustainable finance; 2) promoting the growth of funds managed by locally established managers with a leading-edge expertise in responsible investment; and 3) strengthening the integration of ESG factors in operations and internal processes.

MANAGEMENT DISCUSSION OF FINANCIAL PERFORMANCE

RESULTS OF OPERATIONS

FONDS RESULTS

For the six-month period ended November 30, 2021

Comprehensive income of $848M

November 30, 2020: $1.6B

Return to the shareholder for the six-month period of 4.8%

(13.6% for the last 12 months)

Return to the shareholder for the six-month period ended November 30, 2020: 11.0%

Net assets of $18.3B as at November 30, 2021

As at May 31, 2021: $17.2B

Share value of $55.77 as at November 30, 2021

As at May 31, 2021: $53.21 *(+$2.56)*
As at November 30, 2020: $49.11 *(+$6.66)*

This return of 4.8% for the six-month period is explained by the solid performance of both the private securities and specialized funds portfolio of Development Capital Investments and the Other Investments portfolio, mainly variable-income securities, which grew in conditions characterized by an increase in stock markets combined with a depreciation of the Canadian dollar against the U.S. dollar.

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

	2021			2020		
	Assets under management* $M	**Weight %**	**Gross return %**	Assets under management* $M	Weight %	Gross return %
Development capital investments						
Private securities and specialized funds	**8,831**	**48.2**	**7.9**	7,816	50.2	11.9
Listed securities	**1,027**	**5.6**	**(8.9)**	811	5.2	29.2
	9,858	**53.8**	**6.2**	8,627	55.4	14.3
Other investments**						
Fixed-income securities	**3,519**	**19.2**	**0.3**	3,429	22.0	2.6
Variable-income securities	**4,930**	**27.0**	**9.9**	3,524	22.6	14.1
	8,449	**46.2**	**5.4**	6,953	44.6	8.4
	18,307	**100.0**	**5.8**	15,580	100.0	11.7

* Assets under management 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 Statements 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 other specialized funds.

** The Other Investments sector manages the remaining assets not invested in partner companies, which consist of the cash and money market, bonds and shares portfolios.

SECTOR RESULTS

The 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 diversification by investing in the form of loans, in shares and is specialized fund units. Loans are unsecured, with some exceptions, and provide a current return through interest payments. Shares potentially generate a higher return but involve an increased level of volatility. Finally, specialized funds 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 integral part of the *Integrated Financial Assets Management Policy*.

The Investments sector earned a positive gross return of 6.2% for the six-month period, compared to a gross return of 14.3% for the corresponding period in 2020. Taking into account this return and given the level of mission-driven investments made by the Fonds, the assets in this sector represented $9.9 billion at the end of the six-month period or 53.8% of assets under management as at November 30, 2021 (respectively, $8.6 billion and 55.4% as at November 30, 2020).

Performance of the Investments sector is influenced by various factors, particularly financial markets behaviour as well as economic and business conditions in which our partner companies operate, and by the dynamic management of our investments. The gross return of 6.2% of the Investments sector for this six-month period is largely explained by the following:

- Gross return of 7.9% generated by our private securities and specialized funds portfolio during the six-month period (compared to 11.9 % for the corresponding period in 2020). This return is mainly explained by the economic recovery that continued throughout the six-month period, notably as a result of the good employment performance that supported consumer spending by households and the continuation of several government support measures during that period;
- Negative gross return of 8.9% generated during the year by our listed securities portfolios (compared to a gross return of 29.2% for the prior year). This performance is explained in particular by the negative return on the securities of a certain small-cap Québec-based companies due to special market circumstances related to the pandemic.

The Other Investments Sector

The Other Investments sector manages the Fonds' assets that are not invested in its partner companies. These assets consist of the cash and money market, bonds and shares 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 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 5.4%, compared to the gross return of 8.4% recorded for the corresponding period in 2020. The assets of this sector amounted to $8.4 billion, or 46.2% of the Fonds' assets under management as at November 30, 2021 (respectively, $7.0 billion and 44.6% as at November 30, 2020).

The evolution of bond interest rates (bond rates and credit spreads) and exchange rates as well as stock market performance are determining factors in analyzing Other Investments sector's performance. Results for this sector are influenced by financial markets behaviour and the conditions affecting the economic environment. The gross return of 5.4% of the Other Investments sector for the six-month period is mainly explained by the following:

- Solid performance by the Canadian and global stock markets, which contributed to the gross return of 9.9% for share portfolios, compared to a gross return of 14.1% in the corresponding period in the prior year. Stock markets ignored the hike in interest rates, preferring to focus on the higher profitability outlook resulting from the reopening of the economy and the virtually unfailing support from central banks; The depreciation of the Canadian dollar against the U.S. dollar also had an favourable impact on the U.S. shares return translated into Canadian dollars.
- Positive gross return of 0.3% on our fixed-income securities portfolio for the six-month period, compared to the positive gross return of 2.6% for the corresponding period in 2020. The return for the six-month period is essentially explained by the fact that interest income was greater than the decrease in the value of the bonds held in the portfolios caused by the increase in interest rates.

TOTAL OPERATING EXPENSES

Total operating expenses consist mainly of expenses related to personnel, assets under management, shareholder services, subscription activities, economic training, systems and controls, the investing process and all other resources the Fonds requires to achieve its mission and meet its objectives. In addition, the Fonds provides services (accounting, valuation, taxation, legal, etc.) to certain related companies and earns revenues from such services. Striving to control how its expenses evolve, the Fonds was able to maintain its total operating expense ratio at a lower level than the management expense ratio of Canadian balanced funds[1], which stands at approximately 1.0% on an six-month basis, despite having to incur mission-specific expenses that are related to its DNA. These expenses, which are specific to it and affect its total operating expense ratio, enable the Fonds to fully achieve its mission, be a savings tool of choice for the middle class, offer economic training, support partner companies and act as a vital socioeconomic player for Québec.

For the six-month period ended November 30, 2021, the total operating expense ratio, calculated using the method prescribed by the Regulation, was 0.85% (0.69% for the corresponding period in 2020). Expressed in dollars, total operating expenses amounted to $156 million for the six-month period ended November 30, 2021, up $48 million compared to the corresponding period of the prior year. This increase is mainly explained by the adoption of an accounting interpretation affecting the accounting for configuration costs related to cloud computing solutions, which had a non-recurring impact, especially on depreciation expense. Without this extraordinary item, the total operating expense ratio would have been 0.71%. In addition, there was an increase in fees resulting from a higher volume of IT projects and a budgeted increase in salaries and benefits. For the six-month period, the fact that the increase in total operating expenses was greater than the increase in net assets drove up the total operating expense ratio.

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1 Source: Fundata (Canadian retail neutral balanced funds using the services of an advisor).

ANALYSIS OF CASH FLOWS, FINANCIAL POSITION AND FUNDS COMMITTED BUT NOT DISBURSED

Cash Flows

Cash flows from operating activities of the Fonds were a net cash outflow of $425 million for the six-month period, compared to a net cash inflow of $733 million for the corresponding six-month period in 2020. 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 $276 million for the six-month period, compared to a net cash outflow of $868 million for the corresponding six-month period in 2020. These cash flows for the two six-month periods resulted from issues of shares amounting to $544 million[2] ($634 million for the corresponding six-month period in 2020), less redemptions of shares of $268 million[3] ($1,502 million for the corresponding six-month period in 2020). Cash flows from capital investing activities were a net cash outflow of $7 million for the six-month period, compared to a net cash outflow of $12 million for the corresponding six-month period in 2020.

As at November 30, 2021 and May 31, 2021, 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, 2021 and the year ended May 31, 2021, and its outstanding balance was therefore nil as at November 30, 2021 and May 31, 2021.

Financial Position and Funds Committed but not Disbursed

As at November 30, 2021, the Fonds' net assets amounted to $18.3 billion compared to $17.2 billion as at May 31, 2021. This change is due to the following items : comprehensive income for the six-month period of $848 million, share issues of $545 million and share redemptions for the six-month period of $270 million.

Development capital investments appearing on the statement of financial position increased from $10.0 billion as at May 31, 2021 to $10.4 billion as at November 30, 2021. This $438 million increase resulted from the appreciation of $310 million recorded on development capital investments during the six-month period, and from net investments of $128 million (investments of $511 million less divestitures of $383 million).

On a commitment basis, the Fonds made development capital investments of $665 million during the six-month period, compared to $252 million for the corresponding period in the prior year. Funds committed but not disbursed amounted to $1,574 million as at November 30, 2021 ($1,424 million as at May 31, 2021).

In addition, other investments shown on the statement of financial position increased by $832 million during the six-month period to $8.4 billion as at November 30, 2021 ($7.5 billion as at May 31, 2021). This increase is mainly explained by the proceeds from the divestitures of development capital investments during the year as well as revenues generated by the Other Investments portfolio.

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

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[2] This amount is presented on a cash basis and excludes shares issued as part of share-based compensation.

[3] This amount is presented on a cash basis and therefore includes the change in amounts payable between May 31, 2021 and November 30, 2021.

MISSION OF THE FONDS, OBJECTIVES AND STRATEGIES

There have been no material changes to the Fonds' mission, objectives, business model and strategies since the most recent annual MD&A as at May 31, 2021.

REPORT ON OPERATIONS

THE SAVINGS MARKET DEVELOPMENT SECTOR AND FLEXIFONDS FUNDS

In early May 2021, the Fonds had announced that it was extending the suspension of Class A share subscriptions through lump-sum contributions beyond May 31. The announcement of such measures resulted in a spike in the number of savers contributing through automatic savings methods. As a result, over 51,000 new savers now contribute through automatic savings methods: over 24,000 through preauthorized withdrawals and over 27,000 through payroll deduction. The Fonds continues to be popular among younger savers: 65% of new savers were under age 40, and 29% were under age 25.

The six-month period was however marked by the implementation of an early cap as a result of the strong demand for Class A shares, which caused the Fonds to stop accepting as of June 11 new agreements to purchase shares through preauthorized withdrawals and requests to increase contributions through preauthorized withdrawals.

In these conditions, the Fonds recorded $527 million in subscriptions for Class A shares during the six-month period ($625 million for the corresponding period in 2020).

During the six-month period, over 20,000 Class A share redemption requests were received and processed, for a total amount of $270 million ($404 million for the corresponding period in 2020), of which over $215 million were redemptions for retirement.

Here are a few examples of activities carried out during the six-month period by the Savings Market Development Sector.

- Fonds: Developed a targeted advertising campaign filled with neutral personal finance tips and hints that promotes the "Positively invested" content platform to pursue one of the components of the Fonds' mission, namely making workers aware of the importance of retirement savings, and thus maintain the recognition of the Fonds in that regard. In addition, Employer Services experienced a dramatic increase in enrolment requests while efforts continued to retain employers that currently offer contributing through payroll deduction.
- FlexiFonds funds: Developed a general public advertising campaign combining both television commercials, advertising on the Web and out-of-home advertising as well as relational activities with savers focused on the positive impact of local savings. This campaign started on November 1, 2021 and will continue until May 2022.
- Local representatives ("LRs"): Significant efforts to gain new payroll deduction enrolments through virtual blitzes and LR training program focused on how the FlexiFonds funds work and their exclusive distribution by FlexiFonds de solidarité FTQ inc.

INVESTMENTS

The Fonds made during the six-month period investments that contributed to creating, maintaining or protecting jobs in various sectors of the Québec economy. The Fonds continues to play an active role in developing and growing Québec companies. Accordingly, during the six-month period, the Fonds invested $665 million ($252 million in the corresponding period in 2020) 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.

- Participation of $9.2 million in the ownership transfer of French company EMKA Technologies ("EMKA") to David Brunet, a Québec engineer and entrepreneur. A world leader in the design and production of scientific instruments for preclinical respiratory, cardiovascular and neurological research, EMKA has offices in Europe, the United States, China, Japan and Canada (Montréal).
- Acquisition of a stake in Groupe Crête by the Fonds and the Fonds régionaux de solidarité FTQ Laurentides to support the growth of the family-owned forestry business founded in 1949 and now FSC® (Forest Stewardship Council®) certified. An uncontested leader in the transformation of lumber into value-added products, Groupe Crête operates two plants and is a major economic driver in the Lanaudière and Laurentides regions, supporting over 325 direct and indirect jobs.
- Support of $28.7 million, in the form of a private placement, of its partner company mdf commerce in connection with the acquisition of U.S. company Periscope. This transformational step for the Longueuil company will strengthen its leadership position in the North American public e-procurement market.
- Investment of $17.4 million in the transaction that allowed NuChem Sciences, a drug discovery in chemistry contract research company located in Montréal, to acquire OmegaChem of Lévis. As a result of this transaction, the new group became Canada's largest contract research organization in drug discovery in chemistry.
- Financing of $10 million that will allow Cook it, the Montréal-based company that launched Québec's first meal kit in 2014, to modernize its Ville Saint-Laurent factory by investing in operational technologies and automation equipment. In addition to increasing productivity, these efforts will improve customer experience and allow employees to focus on higher value-added tasks.

The Fonds régionaux FTQ ("FRS") invested a total of $83.7 million on a commitment basis during their first six-month period ended September 30, 2021 ($52.3 million for the corresponding six-month period in 2020). Overall, 64 investments were made, including 53 in new companies. Here are a few examples of the FRS' contribution to the economic development of Québec and its regions in the last months.

- Investment of $5.0 million in Umano Medical, a company based in the Chaudière-Appalaches region that develops, produces and commercialized hospital beds. The ease with which hospital staff can clean beds to prevent infections is one of the many characteristics that enable this company to stand out on the market.
- Investment of $3.0 million in Accès location d'équipements, a company located in Sainte-Julie that specializes in leasing, selling and maintaining lift equipment used mainly in the construction industry. For a third consecutive year, the company was among Canada's Best Managed Companies.
- Investment of $850k by the Côte-Nord region, which recently partnered with CJB, a company founded in 2015 by a young general construction contractor that is rapidly growing. Despite the size of its market, CJB is a vital player for the industry in Havre-Saint-Pierre, whether for maintenance, renovation, construction or civil works.

The Fonds locaux de solidarité ("FLS") continue to support Québec companies in a considerable variety of projects, industries and regions. Here are a few examples of the FLS' contribution to the economic development of Québec and its regions in the last months.

- Financing of $10,000 by the FLS de la MRC de Sept-Rivières in a project conducted by Les Jardins Secrets d'Océane, a family-owned farm that produces fruits, vegetables, herbs, teas, herbal teas and natural products without chemical contaminants. The $740,000 project consisted in developing the first growth of spirulina at the farm in covered basins.
- Financing of $100,000 by the FLS de MTL Centre-Ouest to Hart Print, a company that offers a digital printing service on aluminum cans with environmentally friendly ink, as part of a project to modernize its plant and install equipment to improve productivity.

Lastly, during the nine-month period ended September 30, 2021, the Fonds immobilier de solidarité had investments of $183 million authorized, of which a large portion is dedicated to the construction of 14 new projects with a total cost of $1.3 billion. Here are a few examples of investments authorized in the last months by the decision-making bodies of the Fonds immobilier de solidarité FTQ that contribute to the economic development of Québec and its regions.

- New mixed-use project with Devimco Immobilier near the Longueuil métro station that will include four towers with overt 1,600 residential units, a 12,000 square feet food court and commercial space exceeding 15,000 square feet. This project is intended to create a living environment focused on diversity of uses, density and mobility by offering a direct access to a public transit system, which contributes to reducing greenhouse gas emissions.
- Two new residential rental and commercial projects dedicated to 55 years and over clients under the CLORIA connected communities banner. Each having 120 rental units, the two buildings in Trois-Rivières and Beloeil are in addition to the CLORIA project in Terrebonne, the first partnership between the Fonds immobilier and Cloriacité Investissements. The CLORIA banner proposes commodities adapted to the effects of the COVID-19 pandemic, such as dedicated spaces for receiving packages, door systems with microchips that can be locked with smartphones as well as common areas with coworking spaces and outside gardens.
- In its role as a socially responsible investor, the Fonds immobilier granted a patient capital loan to Centre-à-Nous for the construction of a 74,311 square feet building. Centre à Nous, located in the MRC de l'Assomption, offers affordable rental space and multi-purpose rooms to organizations working to improve the well-being of people with various issues such as Aide Homme – Centre de ressources pour hommes du Sud de Lanaudière, Fin à la faim and Cancer-Aide Lanaudière Sud.

INTEGRATED MANAGEMENT OF THE FONDS' ASSETS

Since the most recent annual MD&A as at May 31, 2021, 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, 2021, this minimum threshold was 65% 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, 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, 2021, the investment rule percentage was 73.3% (compared to 65.3% as at May 31, 2020). Since the minimum threshold of the investment rule was reached as at May 31, 2021, the amount of share issues giving rise to labour-sponsored fund tax credits for the 2021-2022 financial year will not be limited by the investment rule.

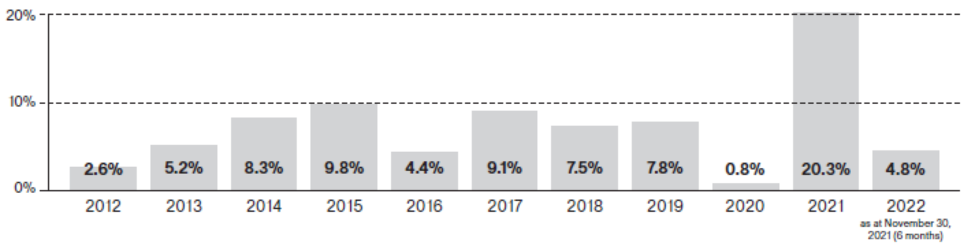
As at November 30, 2021 and May 31, 2021, in addition to the investment rule, the Fonds complied with all other limits and rules set out in its Incorporation Act. The Fonds expects to comply with all the limits and rules set out in its Incorporation Act over the next several years.

PAST PERFORMANCE[4]

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, 2021.



The annual 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 $55.77 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
7.9%	9.1%	10.3%	13.6%

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 4.7%.

ANNUAL COMPOUND RETURNS TO THE SHAREHOLDER (INCLUDING TAX CREDITS)[5]

A shareholder who would have invested an equal amount each year through payroll deduction would have earned, at the current value of $55.77 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 19.5% and 15.6% 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.

4 The Fonds has issued Class C shares since June 2019 and, as a result, the return reported by the Fonds for the financial years (and six-month periods) ended since May 31, 2020 represents the return for Class A shares and the return for Class C shares, which are identical. For prior years, the return reported by the Fonds represents only the return for Class A shares.

5 Only Class A shares give rise to labour-sponsored fund tax credits.

SUMMARY OF INVESTMENT PORTFOLIO

As at November 30, 2021, 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	32.3
Specialized funds	15.9
Listed securities	5.6
	53.8
Other Investments	
Fixed-income securities	19.2
Variable-income securities	26.9
	46.1

The following table presents the issuers of the top 25 positions held by the Fonds as at November 30, 2021, of which 17 are part of the Development Capital Investments portfolio and 8 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 representing, as a group, 45.4% of the Fonds' net assets

Development Capital Investments

17 issuers representing, as a group **34.0**% of the Fonds' net assets (in alphabetical order):

- Beneva[6]
- CAE inc.
- Canam Group Inc.
- CH Group Limited partnership
- Coveo Solutions inc.
- Fonds immobilier de solidarité FTQ inc.[7]
- Fonds immobilier de solidarité FTQ II, s.e.c.[7]
- Fonds régionaux de solidarité FTQ, s.e.c.[7]
- Groupe Robert Solutions inc.
- Groupe Solmax inc.
- Héroux-Devtek inc.
- Novacap TMT V Co-Investment (Nuvei), L.P.
- Société de gestion d'actifs forestiers Solifor, société en commandite[7]
- Sollio Cooperative Group
- Teralys Capital Fonds de Fonds, s.e.c.[7]
- TForce Holdings Inc.
- Trencap, L.P.

Other Investments

8 issuers representing, as a group, **11.4**% of the Fonds' net assets:

Province of Ontario	3.5%
Government of Canada	2.2%
Province of Québec	2.0%
Province of Alberta	0.9%
Apple Inc.	0.9%
Province of British Columbia	0.7%
Microsoft Corp.	0.6%
Toronto-Dominion Bank	0.6%

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

6 The interest in Beneva is held through the Fonds' investments in SSQ, Société financière inc. and SSQ, Life Insurance Company Inc.

7 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.

FONDS OUTLOOK

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

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 23, 2021.*

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*, which includes the *Investment Policy* and the *Other Investments Portfolio Policy*. All these policies fall under the umbrella of the *Sustainable Development Framework Policy* and the *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, in certain cases, manage foreign exchange hedging. The use of derivative financial instruments is governed by a guideline.

During the six-month period ended November 30, 2021, the Fonds continued to deploy its risk management model. 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. To ensure this, the Fonds' integrated risk profile, which enables 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, was updated during the year ended May 31, 2021. Afterwards, a mitigation strategy and intensity were determined for some of these risks, and action plans (including several initiatives) were developed and/or updated. This work represents a continuation of the action plans developed during the year ended May 31, 2020. Certain initiatives have started to be deployed during the year ended May 31, 2021, while others have been or will be deployed during the current financial year. In addition, during the six-month period ended November 30, 2021, the Fonds continued to pay special attention to market, credit and counterparty and liquidity risk management. To this end, the Fonds closely monitored the evolution of the main indicators related to these various risks to help senior management make decisions while ensuring that the Fonds' operations and financial strength were not undermined.

The main measures taken to manage these risks are described hereinafter. 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 the Fonds' business objectives and strategies. The corporate scorecard can also be used to monitor the performance of the FlexiFonds funds.

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 financial position 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. Furthermore, the Fonds performs Value at Risk, scenario and sensitivity analyses to inform the relevant governing bodies about changes in market risks.

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 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 $)	**November 30, 2021**	May 31, 2021
Change in bond interest rates*		
1% increase in bond interest rates	**(264)**	(270)
1% decrease in bond interest rates	**264**	270

* 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 uncertainty that remains about the development of the COVID-19 pandemic could increase the volatility of the fair value of financial instruments in the coming six-month periods.

The Fonds retains the services of specialized managers to manage all the listed shares held in the Other Investments portfolio. An active approach is currently 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 shares portfolios. It should be noted that the new *Other Investments Portfolio Policy* was approved in March 2021 and that it includes a new target allocation. This new target allocation for the Other Investments portfolio is implemented in a prudent and orderly manner, with the objective of having it fully implemented by May 31, 2022. Under this new policy, risk monitoring and benchmark indexes will be adapted to reflect the new allocation.

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 $)	**November 30, 2021**	May 31, 2021**
Change in listed share prices*		
10% increase in listed share prices	**653**	547
10% decrease in listed share prices	**(653)**	(547)

* This analysis is performed on listed shares as well as Level 2 unlisted shares and units 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.

** Comparative figures as at May 31, 2021 were adjusted to include Level 2 unlisted shares and units in the analysis.

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.

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 $)	**November 30, 2021**	May 31, 2021
Change in exchange rates*		
10% appreciation of the Canadian dollar	**(500)**	(409)
10% depreciation of the Canadian dollar	**500**	409

* 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*

(as a %)	**November 30, 2021**	May 31, 2021
Canadian dollar	**72.5**	75.8
U.S. dollar	**20.5**	17.5
Euro	**2.5**	2.4
Other	**4.5**	4.3
	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 $246 million ($252 million as at May 31, 2021) 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 analysis 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), or 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. Due to the nature of these investments, when economic conditions are challenging, the credit quality of the Fonds' partner companies tends to deteriorate, which increases the potential risk of capital losses. 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 statement of financial position, 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 $)	**November 30, 2021**	May 31, 2021
Compliant with internal criteria	**11,262**	10,847
Under watch	**712**	538
In turnaround	**42**	42
	12,016	11,427

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 the Fonds' 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, 2021 and May 31, 2021.

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

	November 30, 2021**			May 31, 2021**		
(fair value in millions of $)	**Bonds**	**Money market instruments**	**Over-the-counter derivative financial instruments**	Bonds	Money market instruments	Over-the-counter derivative financial instruments
AAA/R-1 (high)	**603**	**264**		660	147	
AA/R-1 (middle)	**1,632**	**176**		1,670	180	
A/R-1 (low)	**529**	**12**	**(2)**	541	11	(1)
BBB/R-2	**276**			304		
	3,040	**452**	**(2)**	3,175	338	(1)

* Under current policies, all bonds must have a minimum credit rating of "BBB (low)", and all money market instruments must have a minimum credit rating of "R-1 (low)". In addition, the weighted average credit rating for each of the bond portfolios must be at least "A". For over-the-counter derivative financial instruments, the credit rating of financial institutions acting as counterparts must be at least "A".

** Presents credit quality using the DBRS Morningstar rating scale.

Over-the-counter derivative financial instruments held in the portfolios 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*. Compliance with this policy 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 % of net assets)	**November 30, 2021**	May 31, 2021
Weight of the five largest investments (Development Capital Investments)	**20.8***	19.7*
Weight of the five largest issuers or counterparties (Other Investments)	**9.5****	10.1**

* The portion attributable to investments that do not constitute a high concentration risk given the large number of investees represented 10.9% as at November 30, 2021 (10.2% as at May 31, 2021).

** Securities issued or guaranteed by government issuers (Canada or provinces) represented 8.6% as at November 30, 2021 (10.1% as at May 31, 2021).

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*. 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 (Class A shares) and the FlexiFonds funds (Class C shares), disburses amounts it committed to invest in partner companies, reimburses notes payable and pays expenses. The Fonds is required to redeem its Class A 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. That being said, possible Class A share redemptions include redemptions by shareholders who are already eligible for share redemptions. To be classified in this category, redemptions must meet either of the following criteria: i) shares must be held by shareholders who are aged 65 and older or will reach the age of 65 in the next 12 months; or ii) shares must be held by shareholders who have already redeemed shares for retirement purposes in the past. These shares can therefore be unconditionally redeemed in the next 12 months and are designated as "latent redemptions". As at November 30, 2021, latent redemptions amounted to $2.1 billion ($1.7 billion as at May 31, 2021). This latent redemptions amount does not take into account the revaluation of the Fonds shares. Class C share subscriptions and redemptions are not subject to the same restrictions as those for Class A shares and are made in accordance with the *FlexiFonds Funds Rebalancing Policy*. As at November 30, 2021, net assets for Class C shares (eligible for redemption) amounted to $74 million ($52 million as at May 31, 2021).

The Fonds must therefore 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, 2021, in management's opinion, the Fonds has the required liquidities to fulfill all its obligations and commitments, even under potential scenarios that would be less favourable to it : 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 certain listed shares held in the Development Capital Investments portfolio, amounted to $9.5 billion ($8.7 billion as at May 31, 2021). This amount represents 52.1% of assets under management as at November 30, 2021 (50.4% as at May 31, 2021). The slight increase in the liquidity ratio is explained by the growth in assets under management mainly in the Other Investments portfolio.

To manage its liquidity risk, the Fonds also performs scenario simulations and analyzes events that may lead to a lack of liquidities. It is important to specify that these scenario simulations generally exclude the listed shares in the Development Capital Investments portfolio as holding on a long-term basis development capital investments forms part of the Fonds' mission. The Fonds ensures that internal controls are maintained to manage liquidity risk in accordance with prudent commercial practices. Among such controls, the Fonds has a *Liquidity Risk Management Policy* requiring that two liquidity ratios be met. As at November 30, 2021, the thresholds set out in the *Liquidity Risk Management Policy* for these two ratios were met.

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 $)	On demand	Less than 1 year	1 to 5 years	Total
November 30, 2021				
Non-Derivative Financial Liabilities				
Notes [a]	**650**			**650**
Accounts payable [b]		**601**		**601**
Share redemptions payable [c]		**22**		**22**
Securities sold under repurchase agreements		**706**		**706**
	650	**1,329**		**1,979**
Derivative Financial Liabilities		**3**		**3**
Other Items				
Funds committed but not disbursed [d]				
Development capital investments	**1,544**		**30**	**1,574**
Guarantees and suretyships [e]	**10**			**10**
	1,554		**30**	**1,584**
	2,204	**1,332**	**30**	**3,566**
May 31, 2021				
Non-Derivative Financial Liabilities				
Notes [a]	608			608
Accounts payable [b]		416		416
Share redemptions payable [c]		19		19
Securities sold under repurchase agreements		466		466
	608	901		1,509
Derivative Financial Liabilities		4		4
Other Items				
Funds committed but not disbursed [d]				
Development capital investments	1,404		20	1,424
Guarantees and suretyships [e]	9			9
	1,413		20	1,433
	2,021	905	20	2,946

a 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.

b Accounts payable excludes derivative financial liabilities.

c 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.

d Most of the funds committed but not disbursed have a maximum disbursement maturity date. However, they may generally be called on demand and are, except when there are specific conditions stipulating when such amounts may be disbursed, classified as “On demand”. In some cases, the terms of the agreements could allow the Fonds not to disburse these committed funds. Although the major part of the 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 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 $781 million during the last 12 months.

e 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, regulatory compliance risk and cybersecurity risk.

Since the most recent annual MD&A, 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

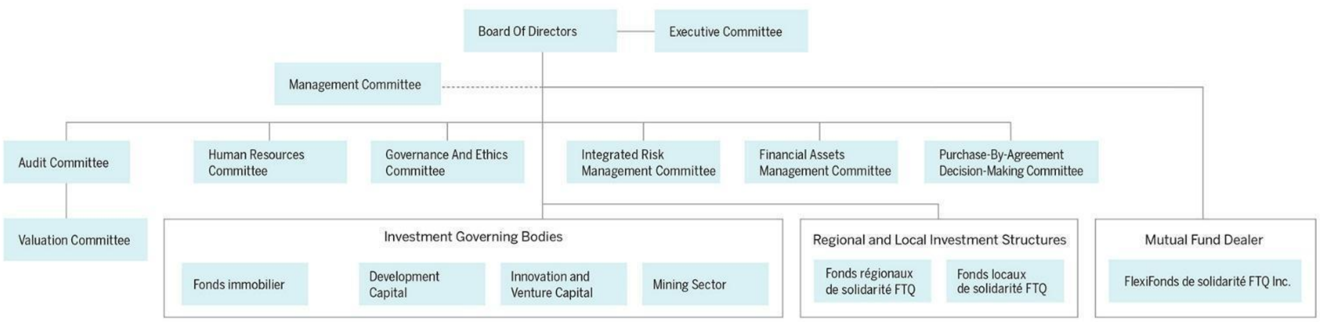
Reputation risk is the risk that negative information, whether founded or unfounded, will cause expenses, revenue losses, a decrease in liquidity or a decline in the customer base.

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 ("AMF"), socioeconomic 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:



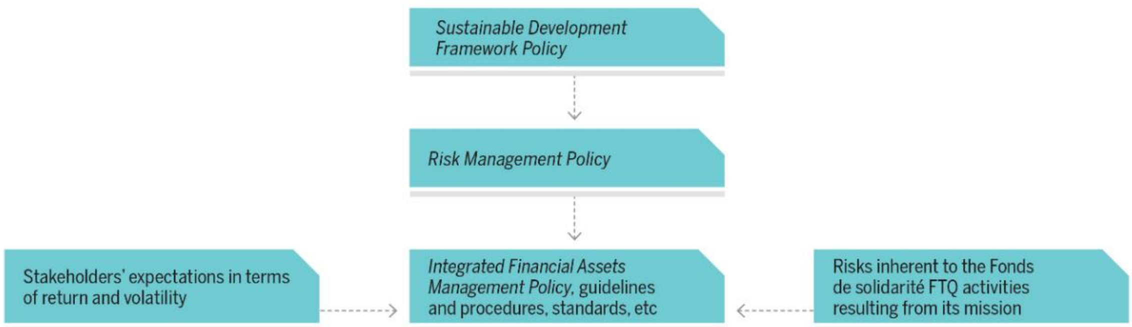
KEY GOVERNING BODIES

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 governing bodies 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 above-mentioned 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. Internally, the Chief Risk Officer, a position held by the Executive Vice-President, Finance, identifies and analyzes the risk management input parameters to support the Management Committee in defining the risk management framework and in making decisions. The Chief Risk Officer may be supported, when required, by certain persons at the Fonds in the performance of his duties. 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 *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. 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.