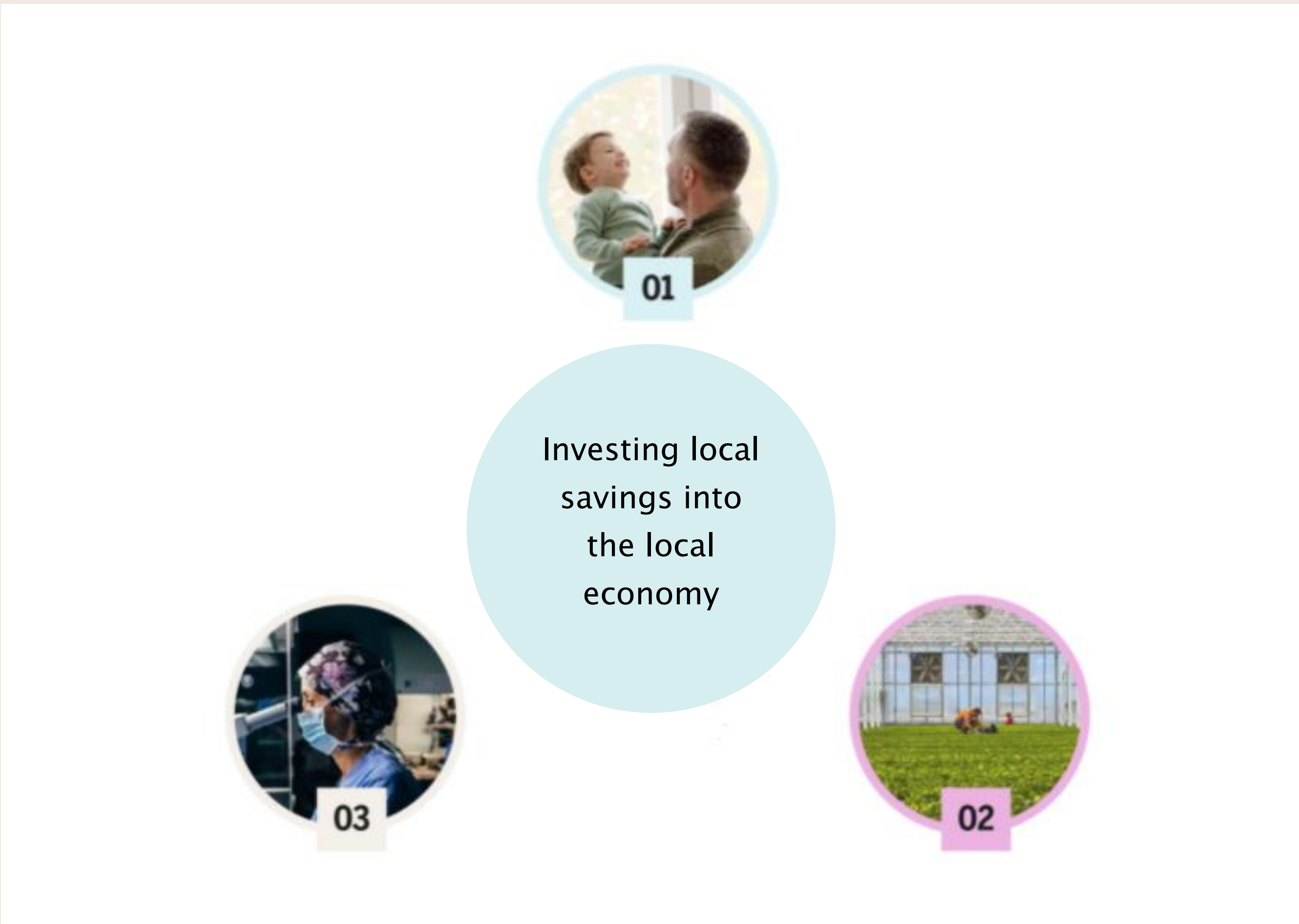
FONDS de solidarité FTQ

INVESTING IN A
BETTER SOCIETY



ANNUAL MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED MAY 31, 2022

FONDS de solidarité FTQ

INVESTING IN A BETTER SOCIETY

TABLE OF CONTENTS

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MAY 31, 2022

This Management Discussion and Analysis ("MD&A") is intended to help the readers assess, through the eyes of management, the consolidated results and financial position of the Fonds de solidarité FTQ (the "Fonds"), as well as the material changes therein during the financial year ended May 31, 2022. The annual 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 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 June 22, 2022.

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 May 31, 2022 and a copy of the interim documents, at no cost, as follows:

- by visiting our designated 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 fixed-income securities and share 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.

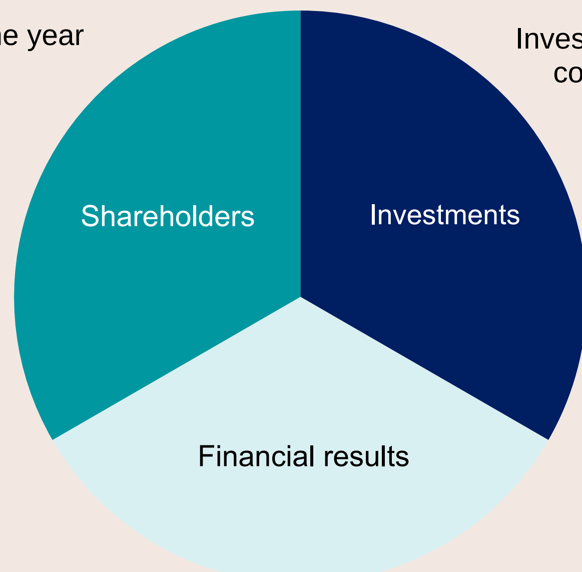
REVIEW OF THE YEAR ENDED MAY 31, 2022

$(196)M
Comprehensive income for the year

$17.4G
Net assets as at May 31, 2022

$1,093M
Subscriptions for the year

$1,408M
Investments in the financial year, on a commitment basis, in 87 partner companies



Over 45,000
Number of new savers contributing through automatic savings methods

Asthuce[1]
Since its creation in March 2020, Asthuce performed **212** support interventions

$52.61
Share value as at May 31, 2022
-$0.60
compared to May 31, 2021

Return to the shareholder for the year:
-1.1%
Annual compound returns to the shareholder:
10 years: **7.1%** 5 years: **6.8%** 3 years: **6.2%**

---

1 Asthuce is a dedicated team of Fonds experts whose mandate is to help partner companies and offer them smart and practical solutions to solve strategic and operational issues that capitalize on the human aspect as a driver of change.

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 10.

RATIOS AND SUPPLEMENTAL DATA

Years ended May 31

(in millions of $, unless otherwise specified)	2022	2021	2020	2019	2018
Revenues	44	3,101	469	1,370	1,206
Net income[a]	(248)	2,847	219	1,147	1,001
Comprehensive income[a]	(196)	2,889	230	1,134	1,006
Fair value of development capital investments[b]	12,037	11,437	10,390	9,958	9,288
Net assets	17,421	17,186	13,794	15,627	14,329
Issues of Class A shares	1,063	1,162	961	897	833
Redemption of Class A shares[c]	662	684	3,044	733	626
Class A shares outstanding (number, in thousands)	329,617	322,025	311,363	355,953	351,789
Number of shareholders – Class A shares (number)	748,371	723,501	707,935	694,357	667,417
Issues of Class C shares	30	25	20		
Redemption of Class C shares	–	–	–		
Class C shares outstanding (number, in thousands)	1,538	981	460		
Total operating expense ratio[d] (%)	1.65	1.52	1.49	1.31	1.38
Trading expense ratio[e] (%)	0.01	0.02	0.02	0.01	0.01
Portfolio turnover rate[f]:					
Development capital investments (%)	6.19	8.16	5.44	13.99	12.22
Other investments (%)	42.21	47.94	76.40	83.88	69.90

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 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 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.

e Trading expense ratio is obtained by dividing transaction costs for the year by the average net assets of the Fonds for the year.

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.

CHANGE IN NET ASSETS PER SHARE[a]

Years ended May 31

(in $)	2022	2021	2020	2019	2018
Net assets per share, beginning of year[b]	**53.21**	**44.24**	**43.90**	**40.73**	**37.88**
Increase from operations[c]:					
Interest, dividends and distributions, fee, rental and other income and interest on notes	1.77	1.72	1.49	1.37	1.27
Realized gains	0.96	2.11	0.99	2.54	1.25
Unrealized gains (losses)	(2.59)	5.97	(1.17)	(0.05)	0.94
Total operating expenses	(0.91)	(0.80)	(0.64)	(0.56)	(0.56)
Income tax	0.01	(0.01)	(0.06)	(0.07)	(0.03)
Increase (decrease) from other comprehensive income	0.16	0.13	0.03	(0.04)	0.01
Variance from issues and redemption of shares	-	(0.15)	(0.30)	(0.02)	(0.03)
Net assets per share, end of year[b]	**52.61**	**53.21**	**44.24**	**43.90**	**40.73**

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 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

The global economic cycle was shaping up to follow its course in a relatively synchronized manner, with a vast majority of economies experiencing solid growth in their activities, but the Russian invasion of Ukraine resulted in world crude oil prices soaring by the end of February. Consequently, consumer purchasing power decreased and European economies, which were hit harder, slowed down further. The International Monetary Fund has thus forecast a severe recession for the emerging European countries.

Concurrently, lockdowns imposed in China as a result of a COVID-19 zero tolerance government policy crippled Chinese activities, but also weakened the links of the global manufactured goods supply chain.

These two events contribute to delaying the expected decrease in inflation in major developed economies, which are already facing high inflation rates. Both in Canada and in the United States, two already overheating economies, inflation rates greatly exceed the central banks' targets, as high tensions on the labour market create significant wage pressures that businesses can pass through to consumers on top of the price increase of other inputs.

At 5.1% as of May, the Canadian unemployment rate reached its lowest level in almost 50 years, while overall employment is already higher by 497,000 jobs, or 2.6%, compared the level before the 2020 recession. The situation of the Québec labour market is also favourable, with employment already exceeding by 0.6% its pre-recession level. Given the more significant impact of population ageing in Québec, the conditions brought the unemployment rate way below national average, at only 4.2% as of May, its lowest level since data are collected by the statistics agency.

The Federal Reserve and the Bank of Canada have begun to raise their policy interest rates, which are respectively 0.88% and 1.63% as of June 15. However, faced with more persistent than expected inflationary pressures, the monetary authorities will have no choice but to increase the cost of money several times between now and the end of the year. From its current level of 6.8% in April, inflation in Canada should slightly decrease by the end of the year but without going back to the very definition of price stability, being a rate of 2.0%. In fact, without a recession in the near term, unemployment rates will remain low, which will pave the way to continued significant wage pressures.

	United States		Canada		Québec	
Calendar year	2021	2022 Q1	2021	2022 Q1	2021	2022 Q1
Real GDP	5.7%	-1.4%	4.6%	3.1%	6.2%	N/A
Inflation	4.7%	8.0%	3.4%	5.8%	3.8%	5.7%
Unemployment	5.1%	3.6%	7.0%	5.3%	6.1%	4.7%

	Year ended May 31, 2022	Year ended May 31, 2022
Yield to maturity of 10-year bonds	2.8%	2.9%
Stock index[1]	-0.3%	7.9%
Bond index[2]	-8.6%	-8.6%

1 S&P 500 stock index in the United States, and S&P TSX stock index in Canada.
2 Bloomberg Barclay Aggregate bond index in the United States, and FTSE TMX bond index in Canada.

RECENT DEVELOPMENTS

Global uncertainty

Several global uncertainties persist and cause volatility on financial markets. As a backdrop, some negative effects of the pandemic are still felt in most sectors of economic activity, in particular supply chain and labour scarcity issues. At the same time, geopolitical tensions arising from the war in Ukraine affect global trade and fuel the steep rise in oil prices. Finally, after having stimulated the global economy over the last two years, central banks must now fight rising inflation and tighten their monetary policies. In that context, financial market instability is possible as long as the economic growth outlook will remain rather mixed.

MANAGEMENT DISCUSSION OF FINANCIAL PERFORMANCE

RESULTS OF OPERATIONS

FONDS RESULTS

For the year ended May 31, 2022

Comprehensive income of $(196)M

May 31, 2021: $2,889M

Return to the shareholder for the year of -1.1%

1st six-month period: 4.8%; 2nd six-month period: -5.7%

Return to the shareholder for the year ended May 31, 2021: 20.3%

1st six-month period: 11.0%; 2nd six-month period: 8.3%

Net assets of $17.4G as at May 31, 2022

As at May 31, 2021: $17.2G

Share value of $52.61 as at May 31, 2022

As at November 30, 2021: $55.77 *(-$3.16)*
As at May 31, 2021: $53.21 *(-$0.60)*

This negative return of (1.1)% for the year is explained by the performance of both the listed securities portfolios, as a result of a strongly bullish stock market environment, mostly during the second six-month period of the financial year of the Fonds, and the fixed-income securities portfolio, which was hardly hit by the significant increase in interest rates, also mostly during the second six-month period of the financial year of the Fonds.

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. This asset allocation did have the anticipated effect in the second six-month period, when stock markets were strongly bullish.

RETURN BY ASSET CLASSES

Years ended May 31

	2022			2021		
	Assets under management* $M	Weight %	Gross return %	Assets under management* $M	Weight %	Gross return %
Development capital investments* **						
Private securities and specialized funds	8,688	49.8	9.1	8,164	47.6	22.3
Listed securities	1,026	5.9	(31.8)	1,354	7.9	75.5
	9,714	55.7	2.6	9,518	55.5	30.1
Other Investments **						
Fixed-income securities	3,148	18.0	(8.1)	3,577	20.8	(1.3)
Shares	4,579	26.3	2.1	4,061	23.7	26.4
	7,727	44.3	(2.7)	7,638	44.5	12.0
	17,441	100.0	0.2	17,156	100.0	21.8

* Assets under management refer to the fair value, at the end of the year, of the assets classified in the Development Capital Investments and Other Investments classes 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 class comprises the remaining assets not invested in partner companies (fixed-income securities and share portfolios).

*** Since May 31, 2022, listed securities have included certain unlisted shares and units categorized within Level 2 of the fair value hierarchy. Comparative figures for the year ended May 31, 2021 have been modified to reflect this change in category.

RESULTS BY ASSET CLASSES

Development Capital Investments

The Development Capital Investments asset class, which is managed by the Private Equity and Impact Investments sector (formerly Investments sector), comprises 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*.

For the year, development capital investments earned a positive gross return of 2.6%, compared to a positive gross return of 30.1% generated for the prior year. Taking into account this return and given the level of mission-driven investments made by the Fonds, development capital investments represented $9.7 billion at the end of the year or 55.7% of assets under management as at May 31, 2022 (respectively, $9.5 billion and 55.5% as at May 31, 2021).

The performance of development capital investments 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 positive gross return of 2.6% for this year is largely explained by the following:

- Positive gross return of 9.1% generated by our private securities and specialized funds portfolio during the year, compared to a positive gross return of 22.3% for the prior year. This return is explained in part by the good employment performance, which supported consumer spending by households, and the continuation of several government support measures during the period;
- Negative gross return of (31.8)% during the year by our listed securities portfolios, compared to a positive gross return of 75.5% for the prior year. The performance for the year is explained in particular by the negative return on the securities of many Québec-based companies in a strongly bullish stock market environment, mostly during the second six-month period of the financial year of the Fonds.

Other Investments

The Other Investments class comprises assets not invested by the Fonds in partner companies (fixed-income securities and share 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 year, other investments had a gross negative return of (2.7)% compared to the gross positive return of 12.0% earned for the prior year. As at May 31, 2022, other investments amounted to $7.7 billion, or 44.3% of the Fonds' assets under management (respectively, $7.6 billion and 44.5% as at May 31, 2021).

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 the other investments' performance. Results for other investments are influenced by financial markets behaviour and the conditions affecting the economic environment. The negative gross return of (2.7)% for the year is mainly explained by the following:

- Negative gross return of (8.1)% on our fixed-income securities portfolio for the year, compared to a negative gross return of (1.3)% for the prior year. The return for this year is essentially explained by a decrease in the value of bonds held in the portfolio caused by interest rate increases, in particular during the second six-month period;
- The performance by Canadian and global stock markets, which contributed to the positive gross return of 2.1% on the share portfolios, compared to a positive gross return of 26.4% for the prior year. This positive gross return is mainly explained by the performance of the Canadian stock market, while global shares recorded a negative return for the period due to a sharp decrease in the second six-month period, partially offset by the depreciation of the Canadian dollar against all other currencies, which has benefited the global share portfolio returns, when converted into Canadian dollars.

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[2], which stands at approximately 2.1% on an annual 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 year ended May 31, 2022, the total operating expense ratio, calculated using the method prescribed by the Regulation, was 1.6% (1.5% for the prior year). Expressed in dollars, total operating expenses amounted to $294 million for the year ended May 31, 2022, up $45 million compared to the prior year. This increase is partly explained by the adoption of an accounting interpretation affecting the accounting for configuration costs related to cloud computing solutions, which essentially had a one-time impact of $23 million on depreciation expense. In addition, there was an increase in professional fees and a budgeted increase in salaries and benefits. For the year, the fact that the increase in total operating expenses was greater than the increase in net assets drove up the total operating expense ratio.

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 outflow of $618 million for the year, compared to a net cash inflow of $641 million for the prior year. Changes in these cash flows mainly resulted from our current operations.

---

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

Cash flows from financing activities of the Fonds were a cash inflow of $449 million for the year, compared to a cash outflow of $597 million for the prior year. These cash flows for the two years resulted from issues of shares amounting to $1,091 million[3] ($1,185 million for the prior year), less redemptions of shares of $642 million[4] ($1,782 million for the prior year).

Cash flows from capital investing activities were a net cash outflow of $26 million for the year, compared to a net cash outflow of $26 million for the prior year.

As at May 31, 2022, the Fonds had an unsecured $650 million credit facility, in the form of a revolving credit, that can be used to finance its ongoing operations, matures in March 2024 and is renewable for a maximum period of 2 years. Until this credit facility was obtained, in March 2022, the Fonds had a $60 million line of credit. The credit facility and the line of credit have not been used during the year ended May 31, 2022 and the year ended May 31, 2021, and its outstanding balance was therefore nil as at May 31, 2022 and 2021.

Financial Position and Funds Committed but not Disbursed

As at May 31, 2022, the Fonds' net assets amounted to $17.4 billion compared to $17.2 billion as at May 31, 2021. This change is due to the following items: comprehensive income for the year of $(196) million, issues of shares of $1,093 million and redemptions of shares for the year of $662 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 May 31, 2022. This $442 million increase is explained by net investments of $646 million (investments of $1,202 less divestitures of $556 million, at cost) and the depreciation of $204 million recorded on development capital investments during the year.

On a commitment basis, the Fonds made development capital investments of $1,408 million during the year, compared to $1,133 million for the prior year. Funds committed but not disbursed amounted to $1,582 million as at May 31, 2022 ($1,424 million as at May 31, 2021).

In addition, other investments shown on the statement of financial position increased by $111 million during the year to $7.7 billion as at May 31, 2022 ($7.5 billion as at May 31, 2021). This increase is mainly attributable to net subscriptions (issues of shares less redemptions of shares).

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.

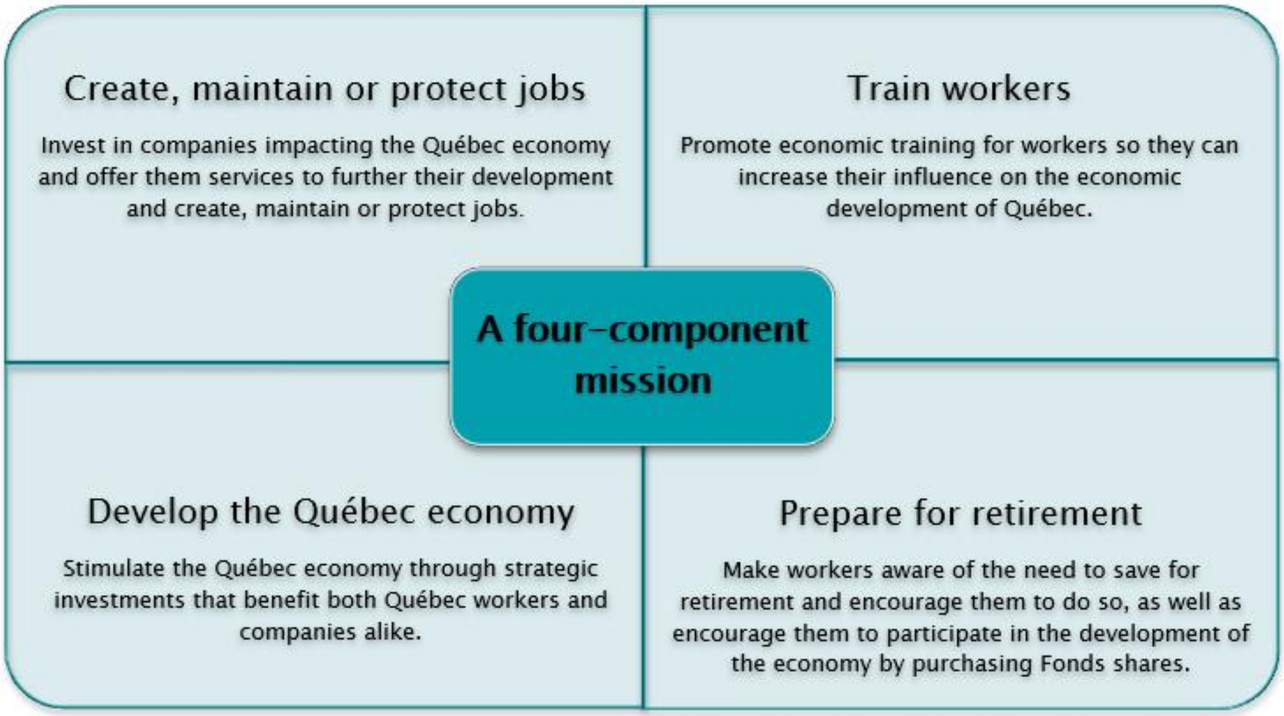
---

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

4 This amount is presented on a cash basis and therefore includes the change in amounts payable between May 31, 2021 and May 31, 2022.

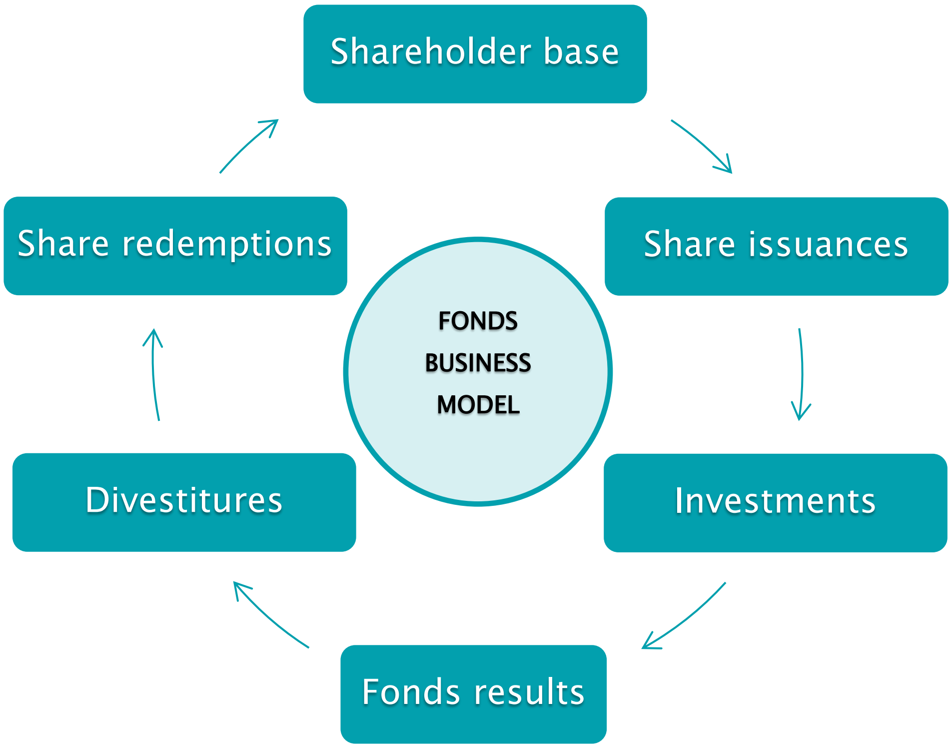
MISSION OF THE FONDS, OBJECTIVES AND STRATEGIES

MISSION AND OBJECTIVES



The Fonds' mission is supported by both levels of government, as the Fonds Class A shares qualify for RRSPs and give rise to both Québec and federal labour-sponsored fund tax credits.

BUSINESS MODEL USED BY THE FONDS TO ACHIEVE ITS MISSION



When shareholders buy shares of the Fonds, an entire process is set into motion. A portion of the money collected from shareholders (in consideration of which the Fonds issues them shares) is first invested by the Fonds, pursuant to its mission, in shares, units or loans in private and public companies in Québec, or in companies that generate economic spinoffs in Québec. The investments made by the Fonds in compliance with its mission represent the Development Capital Investments portfolio, and the companies in which the Fonds invests become partner companies of the Fonds. Pursuant to the Fonds' Incorporation Act, this portion invested in partner companies must comply with the investment rule[5]. To ensure sound diversification of its financial assets, the other portion of the money collected but not invested in Fonds partner companies is invested in other financial instruments in a way that allows the Fonds to meet its liquidity needs and to produce current revenue sufficient to cover expenses and generate a reasonable return to the shareholders. All these other financial investments represent the Other Investments portfolio. The Fonds' interests in partner companies are qualified as patient capital as they are intended to be held over an investment horizon generally ranging from 5 to 7 years, depending on the financial instrument used. The sums raised when an interest held by the Fonds is sold or bought back (divestiture) are reinvested in other companies or used to reimburse shareholders who request a share redemption, in accordance with our retirement or early retirement criteria. On average, shareholders request a redemption approximately 13 years after their first share purchase. During this 13-year average period, given the Fonds' investment horizon, the shareholders' money would therefore have been invested in development capital nearly 2 times.

Since 2018, the Fonds has been committed to a just energy transition. The Fonds' action plan has four components: i) reduce by 25% the carbon intensity of its investments in listed companies by 2025; ii) assist businesses with the transition; iii) invest in a low-carbon economy; iv) take a leadership role in ensuring a just energy transition. The Fonds also announced that it will no longer invest in Québec oil exploration and production. Since the launch of this action plan, the Fonds has reported on the measures taken in connection with it in its Operations and Sustainability Report.

Furthermore, 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

---

5 For more on this, please see the "Investment rule" section of this MD&A.

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.

STRATEGIES

The Fonds is continuously adapting its strategies to always meet the evolving needs of Québec's savers and economy as well as the expectations of its stakeholders.

The ongoing review of the Fonds' strategic orientation enables it to continue increasing its socioeconomic impact, to optimize its current activities in the short and medium term and to evolve its business model in the longer term.

During the last fiscal year, following the appointment of the new President and Chief Executive, the Fonds began a strategic review process. This review is continuing, and the phased deployment of the results of such review will start in the next few months. It will enable the Fonds to further enhance its impact on society, and more specifically develop the saving reflex among workers and advance sustainable development in Québec through the deployment of strategic capital in businesses. The Fonds' ambition is to accelerate its growth and optimize its financial returns in order to contribute to enhance its impact on society.

More than ever, the Fonds has the will to assist Québec society with its savings needs and its shift to a more environmentally friendly and citizen-centric economy.

THE SAVINGS MARKET DEVELOPMENT SECTOR

Once again having to limit the amount of share issues, the Fonds decided to not reopen lump-sum contributions and had to end new preauthorized withdrawals at the beginning of the year. The orientations of the Savings Market Development sector had to be directed toward converting lump-sum contributors into contributors through payroll deduction and increasing our presence with employers already offering contributions through payroll deduction.

These conditions encouraged us to learn more about the profile of these businesses and the retirement savings status of their employees. The identified needs and opportunities will incite us, starting next year, to make additional efforts in workplaces where our impact will be the most beneficial for Québec workers, in particular with those who do not have access to other savings solutions and those whose salary is below the average salary in Québec.

Furthermore, the Fonds had set the goal to become the benchmark in terms of local savings in Québec, by promoting investments in local businesses, local jobs and prosperity for Québec as a whole, as well as the local contents of the FlexiFonds products.

In addition to continuing the development of its digital platform (access to RRIF, joint account and account transfer), FlexiFonds de solidarité FTQ inc. made significant marketing efforts and increased its presence on various general public medias.

THE PRIVATE EQUITY AND IMPACT INVESTMENTS SECTOR

The numerous global uncertainties that remain have an impact on our partner companies and Québec businesses. New issues appeared or became more significant. Our businesses are still facing inflation, supply chain disruptions and challenges in recruiting or retaining their talents. Québec businesses needed financial support, and the Fonds and its network were there to offer them that type of support during these turbulent times. With its network, the Fonds invested over $1.5 billion during the last financial year.

But, over and above the dollars invested, many partner companies also benefited from our support offering. Since the creation of Asthuce, in March 2020, we did over 212 support interventions across Québec by leveraging the Fonds' internal expertise (business intelligence team, Economic Training Centre, Labour Relations team, etc.) as well as the provincial and regional Québec consulting ecosystem.

Our support interventions, which focus on people, have targeted issues directly related to the human transition (such as occupational safety and health, well-being in the workplace, communications, employee engagement), but also digital and environmental transition issues.

Since its creation, in 1983, the Fonds has been performing before each investment a social audit of future Fonds partners. This year, we implemented systematic ESG (environmental, social and governance) due diligence reviews for each new transaction. The social dimension of ESG was already largely covered by the social audit, but we developed new tools to better cover areas related to the environment and governance of our investments.

In addition to ensuring a sound management of our risks, this ESG audit of our partner companies enables us to offer them targeted support to increase their ESG maturity level through approaches focused on governance or social responsibility and accountability or on the integration of the environmental and/or social impact into their business models.

We also continued to work alongside the governments' offering. In this context, we carried out eleven transactions in partnership with Export Development Canada ("EDC"). This partnership results from discussions between the two organizations that began before the economic crisis, with the objective of collectively helping more businesses grow in an ever more competitive global market.

In 2018, we had decided to become an impact investor. The implementation of strengthened ESG audits was part of the required steps to successfully complete this shift. The Fonds also decided to change the name of its sector in charge of development capital investments from Investments to Private Equity and Impact Investments.

REPORT ON OPERATIONS

THE SAVINGS MARKET DEVELOPMENT SECTOR AND FLEXIFONDS FUNDS

The 2021-2022 financial year was marked by the implementation of an early cap on Class A share issues at the beginning of June 2021. Due to that cap, savers can only start to subscribe to the Fonds through payroll deduction. In addition, the Fonds reiterated in March 2022 that it would extend for an indefinite period the suspension of lump-sum contributions and new preauthorized withdrawal agreements. Due to this, the Fonds welcomed many new savers contributing through payroll deduction. Consequently, Employer Services also experienced a significant increase in employer account opening requests. In addition to going back to in-person training activities, local representatives ("LRs") stepped up to the plate to get new payroll deduction enrolments.

Highlights – Class A shares:

- $1,063 million in issues of shares ($1,162 million for the prior year)
- Over 77,000 new savers through payroll deduction (63,000 for the prior year)
- Over 13,800 employers now offering payroll deduction to their employees
- $662 million in redemptions ($684 million for the prior year), including close to $545 million in redemptions for retirement
- 1,744 active LRs (up 43 compared to the prior year)
- 212 new LRs

In addition, given the cap on Class A share issues, the year was marked by the predominance of the promotion of the FlexiFonds funds to both our savers and the general public. Here are a few examples of marketing activities carried out during the financial year for the FlexiFonds funds:

- Targeted and sustained relational activities (email, mail, telemarketing) throughout the year, with a peak during the RRSP season. The FlexiFonds funds recorded subscriptions of over $30 million through relational activities during that season only (late January to early March 2022).
- General public advertising campaign deployed throughout the financial year, which combined television commercials, advertising on the Web and out-of-home advertising and focused on the positive impact of local savings. This campaign took place from November 1, 2021 to May 31, 2022.

PRIVATE EQUITY AND IMPACT INVESTMENTS

The Fonds continues to play an active role in developing and growing Québec companies. Accordingly, during the financial year, the Fonds invested $1.4 billion ($1.1 billion in the prior year) 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 financial year:

- Support in the form of a private equity investment of $15 million by the Fonds and the Fonds régionaux de solidarité FTQ Montréal in G.C.M. Consultants, a Montréal-based firm providing consulting services in mechanical reliability for the industrial sector. This capital will help the firm ensuring its long-term existence at a time when the third generation of its shareholder base takes over.
- Investment of $86 million in Master Group, a Canadian leader in the heating, ventilation, air conditioning and refrigeration industry, through a direct investment and a continuation vehicle put in place by Novacap including several institutional investors, such as the Fonds, with a total value of $1.1 billion, so that it can complete several acquisitions. This equity investment follows Master Group's acquisition of VAD, which is based in the United States. The move marks the company's expansion into the U.S. market, after a successful expansion in Canada, from coast to coast.
- Financing granted to a young couple of entrepreneurs to acquire the Chez Ashton restaurants. This true Québec City region institution, which has 23 branches, was acquired by Emily Adam and Jean-Christophe Lirette, who already have several years of experience in the fast food industry.
- Following a $218 million reinvestment by the Fonds in Trencap alongside Caisse de dépôt et placement du Québec ("CDPQ"), Énergir has become a company wholly owned by Québec investors through Noverco. Énergir is a diversified energy business, with half of its assets now involved in the production and distribution of electricity and renewable energies and in providing energy services.
- First financing granted to CarbiCrete amounting to $5 million as part of a financing round totalling US$18 million. The investment was made to support the continuation of the development and the beginning of the marketing of a technology to produce concrete without cement. This technology uses industrial residues while permanently sequestering CO_2 within the resulting concrete products. For every tonne of concrete produced using this process, 150 kg of CO_2 are abated/removed.

The Fonds régionaux FTQ ("FRS") invested a total of $187.9 million on a commitment basis during their financial year ended March 31, 2022 ($150.9 million for the 2020-2021 financial year). Overall, 131 investments were made, including 95 in new companies. A large portion of these investments were related to entrepreneurial succession. Here are few examples of Québec businesses that operate and continue to develop in the regions with the commitment of the FRS to their succession projects:

- Investment of $1.5 million in Les Habitations Mont-Carleton, a company from the Gaspésie-Îles-de-la-Madeleine region specializing in building prefab houses and buildings. It designs, builds, installs, finishes and transports its products in its regional market, which covers Québec and the Maritimes.
- Investment of $1.5 million in Conceptions & Dessins Daniel, located in Saint-Joseph-de-Beauce, in the Chaudière-Appalaches region. This company manufactures custom acoustic enclosures and aboveground tanks for generators. The unique design of these shelters reduces noise to comply with the standards in effect where the equipment is installed.
- Investment of $2 million in the Laurentides region to support the family succession at Groupe Contant. With its five branches where it acts as a retailer of BRP (Sea-Doo, Ski-Doo and Can-Am), KTM, Kawasaki, Honda and other brands of recreative vehicles, Groupe Contant has become the largest BRP dealer in Canada.

During their financial year ended December 31, 2021, the fonds locaux de solidarité FTQ ("FLS") invested a total of $8.6 million. Overall, 282 investments were made, including 261 in new companies. Here are a few examples of the FLS' contribution to the economic development of Québec and its regions in the last months.

- Financing of $100,000 by the FLS de la MRC Les Moulins in Positech Innovations, a manufacturing company specializing in the design of postural products for wheelchair users. This financing helped the company complete a close to $3.5 million project to acquire new equipment to expand its services offering without resorting to subcontracting while increasing its effectiveness.
- Financing of $12,500 by the FLS de la MRC de Rivière-du-Loup granted to Probiosphère, a company that produces bacteria granules to treat wastewater using sludge, as part of a $705,000 project to relocate its plant and add equipment to increase its production capacity.

During its financial year ended December 31, 2021, the Fonds immobilier de solidarité FTQ had investments totalling $270.5 million authorized, including 18 new projects across Québec. Among these are the following:

- An industrial project in partnership with Groupe De Bertin on 196,000 square feet of land located in the Lebourgneuf business area in Québec City. This project involves the construction of a building with spaces that will be leased to technology companies.
- The Fonds immobilier also continued to play its role of socially responsible investor and authorized investments amounting to $23.3 million for 14 new social, community or affordable housing projects. Among others, it supports Maison Cross Roads, an organization that offers programs and social and community reintegration to men and women who have been in conflict with the law. This project involves the construction of a 3-story building that will include 15 three and a half apartments, a community room and offices for the supporting staff.

As at December 31, 2021, the Fonds immobilier had 54 projects under development or construction valued at $4.9 billion, 84 buildings under asset management, and 1.8 million square feet of land to be developed. It had investments totalling $174 million for social, community or affordable housing projects, which enabled it to provide 6,353 quality housing units. Its real estate management department managed two buildings in Montréal and 21 rental sites across Québec.

POLICY FOR INVESTMENT OUTSIDE QUÉBEC[6]

Over the years, the Fonds made investments pursuant to the *Policy for Investment Outside Québec* that have had significant economic spinoffs for Québec. During the financial year, the Fonds invested $168 million ($114 million in the prior year) under this policy. Almost all of this amount was invested in three venture capital investment funds specialized in life sciences, 5AM Opportunities II, 5AM Ventures VII and Amplitude Ventures II; four other investment funds, Fulcrum Capital Partners VI, which specializes in majority interests in various industries, Georgian Growth Fund VI, which specializes in the technology industry, Lios I Fund, which specializes in businesses contributing to a more resilient and sustainable food system, and Sagard Private Equity Canada, which specializes in the services and manufacturing sector; and a pool, spa and outdoor furniture distribution company, 1000137577 Ontario inc.

---

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

THE FONDS' INVESTMENT NETWORK

Since its inception in 1983, the Fonds has built a solid investment network that helps entrepreneurs achieve their ambitions by giving them access to patient capital based on their needs. A true business, ideas, talent and knowledge hub, this network offers the Fonds' partner companies the opportunity to share their concerns with other SMEs, learn from past experiences and forge new business ties. The Fonds' investment network, which covers all of Québec, comprises five levels of investment.

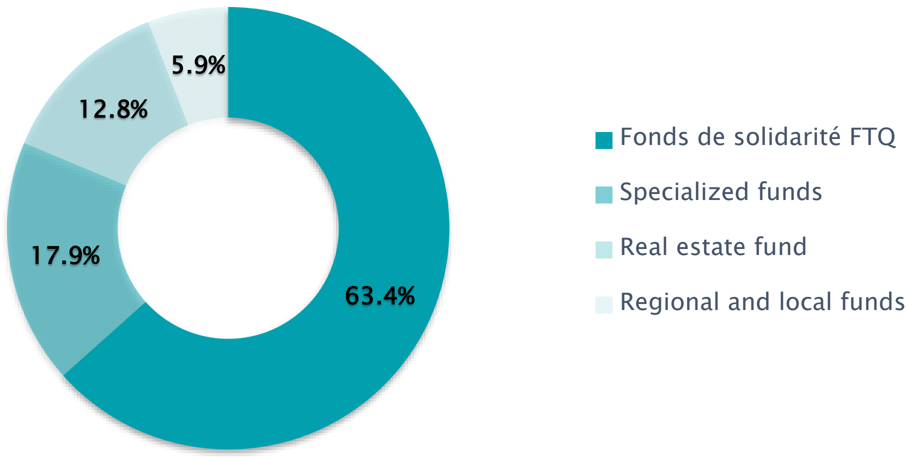
Fonds de solidarité FTQ *$5 million and up*	The Fonds generally offers $5 million and up for large companies. The Fonds is involved in the financing of mergers, acquisitions, expansions, new market development or buy-back of a shareholder's interest, among others.
Fonds régionaux de solidarité FTQ *$100k to $5M*	The Fonds régionaux de solidarité FTQ generally offer capital ranging from $100,000 to $5 million to meet the needs of businesses in their region.
Fonds locaux de solidarité *Under $100k*	The fonds locaux de solidarité, created by the Fonds and the Québec Federation of Municipalities, meet the needs of smaller businesses that want financing of up to $100,000.
Fonds immobilier de solidarité FTQ	The Fonds immobilier de solidarité FTQ specializes in investing in real estate development projects. Its main objective is to create and protect jobs through the construction or major renovation of office buildings and residential, commercial, industrial and institutional properties.
Other specialized funds	The other specialized funds form an investment network in Québec and abroad that invests in assorted industries. The Fonds' commitment to this network is continuing, with the ongoing goal to facilitate Québec SMEs' access to capital in all their stages of development.

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

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

DISTRIBUTION OF DEVELOPMENT CAPITAL INVESTMENTS BY NETWORK COMPONENTS (AT COST)

As at May 31, 2022



INTEGRATED MANAGEMENT OF THE FONDS' ASSETS

Integrated Financial Assets Management Policy

Applies to all the Fonds' financial assets.

Objective: Manage financial assets in an integrated and comprehensive way to ensure sound diversification and an optimal risk-return profile while complying with the mission of the Fonds and meeting the expectations of its stakeholders.

Investment Policy

Applies to development capital investments managed by the Private Equity and Impact Investments sector.

Other Investments Portfolio Policy

Applies to other investments. These assets are allocated in ways that are complementary to development capital investments to obtain, overall, the desired risk-return profile.

The *Integrated Financial Assets Management Policy* and the *Other Investments Portfolio Policy* were both updated and approved by the Board of Directors during the financial year ended May 31, 2021. Following the implementation of the credit facility in the form of a revolving credit, in March 2022, these policies were once again updated and approved by the Board of Directors by the end of the financial year ended May 31, 2022. These updated policies continue to be deployed according to the planned schedule.

The *Integrated Financial Assets Management Policy* and related policies take into account actual and expected changes in the Fonds' business, particularly the potential increase in redemptions due to ageing shareholders and the progressive increase in the size of mission-driven development capital investments. In fact, the weight of investments disbursed by the Fonds, which was 55.7% as at May 31, 2022, should continue to gradually increase in coming years.

PRIVATE EQUITY AND IMPACT INVESTMENTS

During the 2021-2022 financial year, the Fonds continued to deploy the orientations developed as part of its strategic plan. This deployment took place within the risk management framework implemented a few years ago and managed by the Private Equity and Impact Investments sector, which helped improve portfolio quality.

In the current economic conditions marked by rising inflation, supply chain disruptions and geopolitical uncertainty, the Fonds intends more than ever to play an active role with businesses. To enable risk diversification, the Fonds will continue to allocate its Development Capital Investments portfolio across Québec's various economic sectors. The Fonds is also very present at the regional and local level, where it invests through the Fonds régionaux de solidarité FTQ and the fonds locaux de solidarité. The Fonds is also present in the real estate sector through the Fonds immobilier de solidarité FTQ.

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

Generally, the Fonds holds a minority interest in the companies in which it invests. Over the years, this investing approach has enabled the Fonds to develop extensive knowledge of the various sectors in which it invests. This expertise is highly valued by its partner companies.

Multidisciplinary teams support our investment specialists with their expertise: legal, tax, business valuation, market study, business intelligence analysis, due diligence, labour relations and public market departments. A due diligence committee ensures that material risks are known, understood and appropriately mitigated. In addition, to deal with more difficult situations, the Portfolio Planning and Investment Support department, together with the Legal Affairs department and the Turnaround department, very closely monitor investments that entail greater risk.

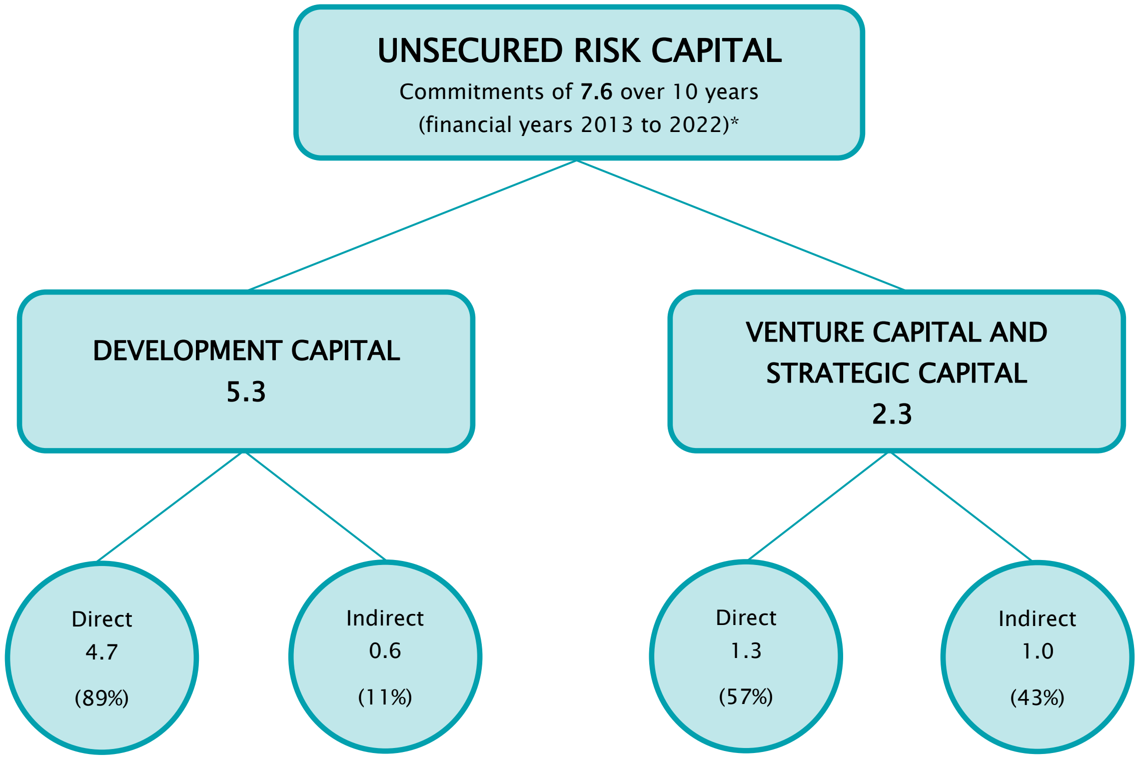
The Fonds invests in the form of unsecured risk capital (development capital) in companies. To have an accurate idea of the Fonds' efforts in Québec's economic development, we must go beyond the image given by the portfolio as at a particular date and look at amounts invested in the form of unsecured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

As the following graph illustrates, during the financial years 2013 to 2022, i.e. a 10-year period, the Fonds has committed $7.6 billion of unsecured risk capital (development capital) to companies. Of this amount, $2.3 billion has been invested in venture capital[7] either directly in private companies ($1.3 billion) or indirectly in private funds ($1.0 billion), in Québec and Canada. The investments made by the Fonds in private funds have had a structuring effect on the Québec venture capital industry and allowed these private funds to raise several additional billions of dollars.

---

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

(IN BILLIONS OF $)



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

OTHER INVESTMENTS

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

As at May 31, 2022, the Other Investments portfolio consists of the fixed-income securities and share portfolios. These portfolios are all managed by external specialized managers.

An active approach is adopted by the managers for bond assets and Canadian shares, while a passive approach, including the replication of alternative beta indexes, is preferred for managing global shares. The Fonds successfully reduced the carbon intensity of its public investments beyond its 25% objective and well before the original target date (2025). To do this, the Fonds implemented some initiatives, including establishing a passive management global shares mandate replicating the MSCI World Low Carbon ESG Target Screened Index and withdrawing from companies whose production of oil sands represents a significant part of their total production.

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.

The work on the *Other Investments Portfolio Policy* resulted, in May 2021, in the approval by the Board of Directors of a new target allocation for the Other Investments portfolio, which is gradually deployed. A temporary exemption to the *rebalancing guideline* was also approved by the members of the Financial Assets Management Committee to ensure an optimal transition of assets to the new target allocation for the Other Investments portfolio. This exemption will be lifted once the deployment of the updated policies is completed.

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, 2022, 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, 2022, the investment rule percentage was 76.2% (compared to 73.3% as at May 31, 2021). Since the minimum threshold of the investment rule was reached as at May 31, 2022, the amount of share issues giving rise to labour-sponsored fund tax credits for the 2022-2023 financial year will not be limited by the investment rule.

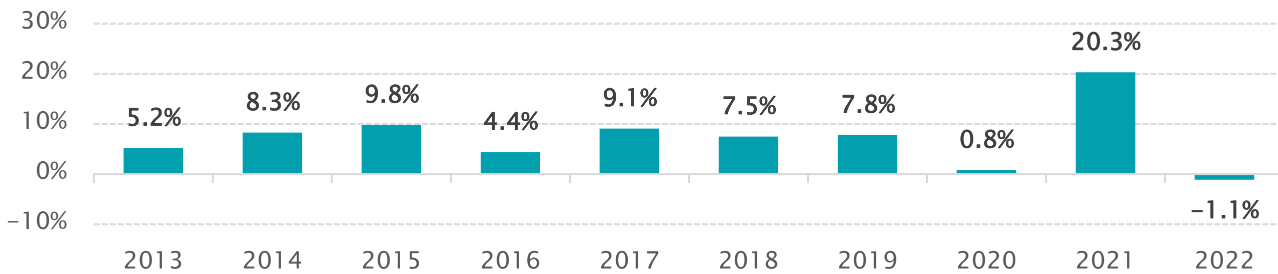
As at May 31, 2022, in addition to the investment rule, the Fonds complied with all other limits and rules set out in its Incorporation Act. The Fonds expects to comply with all the limits and rules set out in its Incorporation Act over the next several years.

PAST PERFORMANCE[8]

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 10 financial years ended May 31.



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).

ANNUAL COMPOUND RETURNS TO THE SHAREHOLDER

At the current value of $52.61 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
7.1%	6.8%	6.2%	-1.1%

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 4.5%.

ANNUAL COMPOUND RETURNS TO THE SHAREHOLDER (INCLUDING TAX CREDITS)[9]

A shareholder who would have invested an equal amount each year through payroll deduction would have earned, at the current value of $52.61 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 16.8% and 13.9% 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.

8 The Fonds has issued Class C shares since June 2019 and, as a result, the return reported by the Fonds for the financial years 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.

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

SUMMARY OF INVESTMENT PORTFOLIO

As at May 31, 2022, 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	33.6
Specialized funds	16.2
Listed securities	5.9
	55.7
Other Investments	
Fixed-income securities	18.1
Shares	26.3
	44.4

The following table presents the issuers of the top 25 positions held by the Fonds as at May 31, 2022, 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, 46.6% of the Fonds' net assets

Development Capital Investments

17 issuers representing, as a group 35.9% of the Fonds' net assets (in alphabetical order):

- Beneva[10]
- CAE inc.
- Canam Group Inc.
- CH Group Limited partnership
- Fonds immobilier de solidarité FTQ inc.[11]
- Fonds immobilier de solidarité FTQ II, s.e.c. [11]
- Fonds régionaux de solidarité FTQ, s.e.c. [11]
- 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[11]
- Sollio Cooperative Group
- Teralys Capital Fonds de Fonds, s.e.c. [11]
- TForce Holdings Inc.
- Transcontinental inc.
- Trencap, L.P.

Other Investments

8 issuers representing, as a group, 10.7% of the Fonds' net assets:

Province of Ontario	3.0%
Government of Canada	2.3%
Province of Québec	2.0%
Apple Inc.	0.8%
Province of British Columbia	0.7%
Canada Housing Trust No 1	0.7%
Province of Alberta	0.6%
Microsoft Corp.	0.6%

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

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

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

FONDS OUTLOOK[12]

Given its mission and investment strategies, the Fonds is anticipating an average annual net return of 3.5% to 4.0% on a long-term horizon. This return does not take into account the tax credits granted to shareholders upon purchasing shares of the Fonds and is subject to volatility on a six-month and annual basis.

While the Fonds is confident it will reach its return objective over a long period, the annual return depends on current economic conditions and the ups and downs of the stock and financial markets. Therefore, the Fonds' return for the 2022-2023 financial year will be influenced by stock and financial market returns. The return for private securities is also linked to the overall performance of the economy and may be lower than their historic average returns, particularly because of an increase in the cost of credit, adverse impact of economic conditions, the volatility of the Canadian dollar compared to the U.S. dollar and the effects of foreign competition.

As mentioned previously, the ongoing review of the Fonds' strategic orientations will enable it to continue increasing its socioeconomic impact and to optimize its current activities in the short and medium term and to evolve its business model in the longer term. Furthermore, the strategic review process undertaken during the 2021-2022 financial year will enable the Fonds to further enhance its impact on society, and more specifically develop the saving reflex among workers and advance sustainable development in Québec through the deployment of strategic capital in businesses.

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 June 22, 2022.*

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 year ended May 31, 2022, 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, 2022. Afterwards, a mitigation strategy was 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, 2021. Certain initiatives have started to be deployed during the year ended May 31, 2022, while others will be deployed during the next financial year. In addition, during the financial year ended May 31, 2022, 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

---

12 The outlook presented in this MD&A reflects the Fonds' expectations with respect to future events, based on information available to the Fonds as at June 22, 2022, 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.

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 $)	**May 31, 2022**	May 31, 2021
Change in bond interest rates*		
1% increase in bond interest rates	**(228)**	(270)
1% decrease in bond interest rates	**228**	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 numerous global uncertainties that remain (the negative effects of the pandemic that linger on, in particular its impact on the supply chain and labour scarcity, the geopolitical tensions caused by the war in Ukraine and their impact on trade and oil prices as well as the rising inflation and the tightening of monetary policies) could increase volatility in 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 during the next financial year. 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 $)	**May 31, 2022**	May 31, 2021**
Change in listed share prices*		
10% increase in listed share prices	**561**	547
10% decrease in listed share prices	**(561)**	(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.

** 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 $)	**May 31, 2022**	May 31, 2021
Change in exchange rates*		
10% appreciation of the Canadian dollar	**(479)**	(409)
10% depreciation of the Canadian dollar	**479**	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 %)	**May 31, 2022**	May 31, 2021
Canadian dollar	**72.2**	75.8
U.S. dollar	**20.2**	17.5
Euro	**2.5**	2.4
Yen	**1.8**	1.5
Other	**3.3**	2.8
	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 $311 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, which are generally unsecured. 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 $)	**May 31, 2022**	May 31, 2021
Compliant with internal criteria	**11,336**	10,847
Under watch	**659**	538
In turnaround	**32**	42
	12,027	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 May 31, 2022 and May 31, 2021.

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

	May 31, 2022**			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)	**513**	**291**		660	147	
AA/R-1 (middle)	**1,557**	**30**		1,670	180	
A/R-1 (low)	**458**	**11**	**(1)**	541	11	(1)
BBB/R-2	**254**			304		
	2,782	**332**	**(1)**	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)	**May 31, 2022**	May 31, 2021
Weight of the five largest investments (Development Capital Investments)	**23.1***	19.7*
Weight of the five largest issuers or counterparties (Other Investments)	**8.8****	10.1**

* The portion attributable to investments that do not constitute a high concentration risk given the large number of investees represented 12.4% as at May 31, 2022 (10.2% as at May 31, 2021).

** Securities issued or guaranteed by government issuers (Canada or provinces) represented 8.0% as at May 31, 2022 (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 May 31, 2022, latent redemptions amounted to $2.3 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 May 31, 2022, net assets for Class C shares (eligible for redemption) amounted to $80 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 has a $650 million credit facility, in the form of a revolving credit, for additional access to liquidities.

As at May 31, 2022, 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 8.5 billion ($8.7 billion as at May 31, 2021). This amount represents 48.9% of assets under management as at May 31, 2022 (50.4% as at May 31, 2021). The slight decrease in the liquidity ratio is mainly explained by the growth in assets under management and the lower performance of liquid listed securities.

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 May 31, 2022, 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
May 31, 2022				
Non-Derivative Financial Liabilities				
Notes [a]	904			904
Accounts payable [b]		455		455
Share redemptions payable [c]		39		39
Securities sold under repurchase agreements		955		955
	904	1,449		2,353
Derivative Financial Liabilities		1		1
Other Items				
Funds committed but not disbursed [d]				
Development capital investments	1,552	14	16	1,582
Guarantees and suretyships [e]	10			10
	1,562	14	16	1,592
	2,466	1,464	16	3,946
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 $889 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.

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

- A culture of integrity;
- Competent, well-trained staff;
- Identification of succession for critical positions and knowledge transfer programs;
- Segregation of incompatible duties;
- Adoption of a concept of independence inspired by the guidelines of the Canadian Securities Administrators and *Regulation 52-110 respecting Audit Committees*, under which an independent member is independent from the Fonds, the FTQ and its affiliated unions;
- Delegation of decision-making authority to Investment Committees whose majority of members are independent;
- Monitoring of the development capital investment valuation process;
- Monitoring of the due diligence review process;
- Monitoring of financial fraud risk;
- Framework program of financial compliance;
- Framework program of regulatory compliance;
- Internal audit function;
- Monitoring of technology development and information security;
- Business continuity program, in the event of business interruption;
- Ongoing monitoring of changes in applicable legislation, regulations and standards, including the Fonds' compliance therewith, and ongoing monitoring of market best practices;
- Risk identification and assessment when new products or activities are implemented.

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

The Fonds also has a *Financial Fraud Prevention and Reporting Policy*, and all the Fonds employees attended a training session on that topic.

With cyber threats growing year after year, the Fonds continues to make all the necessary efforts to manage risks associated with them. Several monitoring and control mechanisms were implemented during the last years to manage cyber security threats, and the Fonds' information security teams continue to adapt them based on new attack techniques used. During the year ended May 31, 2022, the Fonds had implemented the majority of initiatives set out in its information security program. Other initiatives planned in project to protect against data exfiltration, which was launched in 2020, also continue to be deployed in accordance with the plan. A complete physical security review of the Fonds' building was also performed, and physical security was significantly enhanced. The Fonds continues to prioritize protecting its information assets and capitalizes on defence strategies inspired by best practices and a qualified and outstanding information security personnel that has subject matter expertise.

Management has approved the deployment of operational incident management throughout the organization, thus putting an end to the pilot project. Training and support have begun and will continue gradually throughout the next financial year so that the first line of defence areas can become very familiar with approach.

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.

As the Fonds operates in a highly regulated environment, this risk is managed through monitoring and strategic and operational planning processes that seek input from all levels of the organization; the resulting plans are submitted to the Board of Directors for approval. The Management Committee periodically monitors the business plans and strategic objectives of the Fonds and each sector. Any strategic decision or change to the Fonds' already adopted orientations that could have a material impact is authorized beforehand by the appropriate governing bodies, based on the powers delegated to them.

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.

The Fonds controls and manages reputation risk through the following, among others: proper training, legal and financial due diligence reviews for all its development capital investments, sound governance practices, the application of policies and procedures, the presence of a Chief Risk Officer, who may be supported, when required, by certain persons at the Fonds in the performance of his duties, and ownership of the codes of ethics and conduct by all management and unionized personnel as well as directors. The Fonds is a responsible corporate citizen that takes ethical, social and environmental aspects into consideration when making investment decisions. In that respect, the Fonds implemented the *Sustainable Development Framework Policy* a few years ago. The Fonds also has a voting rights policy with regards to public companies and a code of conduct for international business dealings. The Fonds also ensures that any financial information released outside the organization is accurate and validated beforehand.

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

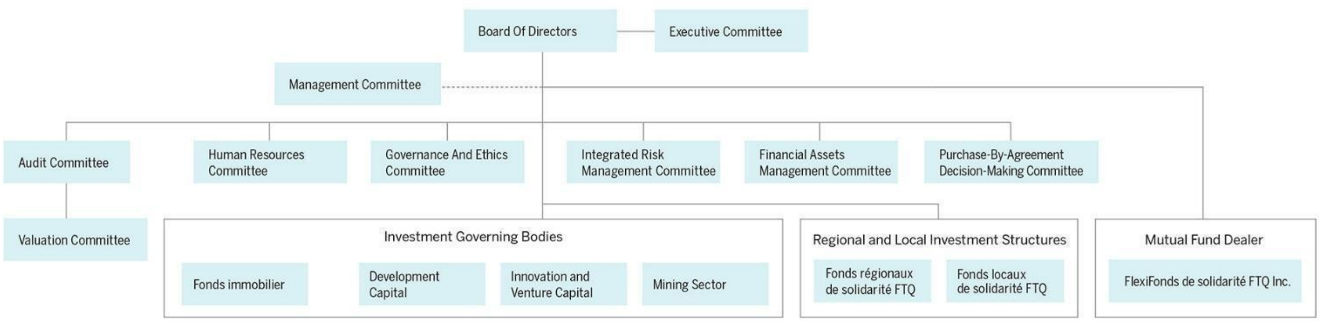
The application of this policy is monitored by a Disclosure Committee comprised of employees of the Fonds. The main responsibilities of this Committee are to set disclosure guidelines, to implement, keep up to date and enforce the *Disclosure Policy*, and to ensure that relevant and effective disclosure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

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

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

BOARD OF DIRECTORS

The Board of Directors carries out the following duties:

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

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

EXECUTIVE COMMITTEE

The Executive Committee is composed of at least seven directors, including i) the Chairman of the Board of Directors, ii) the First Vice-Chair of the Board of Directors, iii) the President and Chief Executive Officer, iv) a member appointed by the FTQ, and v) the Presidents of the Development Capital, Innovation and Venture Capital and Real Estate Investment Committees.

This committee may only deliberate or make decisions if a majority of independent members are present. It may exercise all the powers of the Board of Directors with the exception of distributing shares, granting options, dismissing or replacing directors, declaring or authorizing dividend payments, and adopting, amending or revoking bylaws. In exceptional cases, for instance where urgency so requires, the Executive Committee may authorize an investment after such investment has received a favourable recommendation from an Investment Committee.

Governance and Ethics Committee

The Governance and Ethics Committee is composed of at least three members appointed by the Board of Directors of the Fonds, including a member appointed by the FTQ, a majority of which must be independent. The Chair of the committee, who must be independent, is selected by the Board of Directors. The Vice-Chair of the committee, also selected by the Board of Directors, must be one of the members appointed by the FTQ.

This committee is responsible for supporting the Board of Directors in the implementation of a continuing education and self-assessment program, in addition to the overall aspects of the Fonds' general governance, in particular with respect to appointments to the governing bodies of the Fonds. More specifically, it determines the terms and conditions for the election of members of the Board of Directors at the shareholders' meeting. It also ensures, with the Fonds' management, that directors, governing body members and all employees of the Fonds and its network maintain on an ongoing basis ethical culture and practices. The Governance and Ethics Committee also reviews certain continuous disclosure documents to be filed with the AMF or distributed to shareholders.

Human Resources Committee

The Human Resources Committee is composed of at least three members appointed by the Board of Directors of the Fonds, including a member appointed by the FTQ, a majority of which must be independent. The Chair of the committee, who must be independent, is selected by the Board of Directors. The Vice-Chair of the committee, also selected by the Board of Directors, must be one of the members appointed by the FTQ.

This committee is tasked with overseeing general human resources practices and ensuring proper orientation with respect to compensation, performance and succession planning for the Fonds and its network, in particular the real estate fund, the regional funds and the local funds. More specifically, the committee: i) proposes to the Board of Directors the appointment of the President and Chief Executive Officer, his/her employment conditions and his remuneration, and assesses his performance; ii) examines with the President and Chief Executive Officer issues related to the compensation of the Fonds' management and participates in management's assessment and succession planning; and iii) oversees the negotiation of the collective agreement with the Fonds' employees.

Audit Committee

The Audit Committee is composed of at least three members of the Board of Directors, who must all be independent in accordance with the Fonds' Incorporation Act and *Regulation 52-110 respecting Audit Committees*.

This committee's mandate includes i) recommending for approval by the Board of Directors the audited consolidated financial statements; the MD&A; the audited annual statement of development capital investments, at cost; the unaudited annual statement of other investments; and the unaudited annual index of the share of the Fonds in investments made by the specialized funds, at cost; ii) approving the principles for valuing development capital investments and receiving the Valuation Committee's report; iii) enquiring about the effectiveness of internal controls implemented by management; iv) enquiring about the compliance and risk management process for preparing the Fonds' financial statements and providing feedback; and v) monitoring the deployment of the fraud prevention program. The Audit Committee also ensures the Fonds complies with the laws, regulations and agreements that govern its operations and that may have a material financial impact. The Audit Committee makes recommendations to the Board of Directors when necessary. An internal audit function, which is mandated by the Audit Committee, is in place, which allows benefiting from an independent assurance function.

Integrated Risk Management Committee

The Integrated Risk Management Committee is composed of at least five members appointed by the Board of Directors of the Fonds, a majority of which must be independent, and includes at least: i) three independent members of the Board of Directors, of which one must be the Chair of the Financial Assets Management Committee; and ii) two members appointed by the FTQ. The

Chair of the committee, who must be an independent director, is selected by the Board of Directors of the Fonds. The Vice-Chair of the committee must be one of the two members appointed by the FTQ.

The primary mandate of this committee is to supervise the Fonds' general risk management practices and to support the Board of Directors by making recommendations to ensure that the Fonds applies proper oversight and risk management practices. The main components of its mandate are: ensuring that the Fonds adopts an integrated and comprehensive view of all the risks, considers the interrelationships and interdependencies between these risks and manages these risks in accordance with their degree of importance; overseeing the implementation of the *Risk Management Policy* and periodically reviewing the risk management orientations and framework policies; ensuring that the risks to which the Fonds is exposed are clearly identified and reviewing the measures taken by management to adequately manage them; and examining, recommending to the Board of Directors and monitoring the quantitative and qualitative risk appetite statements as well as risk tolerance levels.

Financial Assets Management Committee

The Financial Assets Management Committee is composed of at least five members, including the President and Chief Executive Officer, appointed by the Board of Directors of the Fonds. A majority of its members must be independent. The Chair of the committee, who must be an independent director, is selected by the Board of Directors of the Fonds.

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

Investment Committees

The Investment Committees ("IC") comprise the Development Capital IC, the Innovation and Venture Capital IC, the Mining Sector IC as well as the Boards of the Fonds immobilier de solidarité FTQ (which are considered, for operational purposes, as an IC).

These committees are composed of a minimum of five members and a maximum of nine members (except for the Boards of the Fonds immobilier de solidarité FTQ, for which there is no maximum number of members). A majority of their members must be independent.

The ICs authorize, up to a certain level, investments and divestitures. They examine the annual objectives and budgets of their respective sectors and perform twice yearly an overall review of the portfolio for which they are responsible.

The authorization of the Board of Directors, or of the Executive Committee where the urgency of a situation so requires, is needed, on recommendation of the IC for the relevant sector, when an investment exceeds the following thresholds:

- $15 million for investments under the responsibility of the Mining Sector IC;
- $20 million for investments under the responsibility of the Innovation and Venture Capital IC;
- $35 million for investments under the responsibility of the Development Capital IC and the Boards of the Fonds immobilier de solidarité FTQ.

Valuation Committee

The Valuation Committee is composed of a majority of independent qualified valuators. This committee is mandated to review the private investment valuation process and provide a reasonable assurance that the procedure used for valuing the Development Capital Investments portfolio complies with the procedure set out in the *Regulation Respecting Development Capital Investment Fund Continuous Disclosure*. The Valuation Committee reports on its review to the Audit Committee twice yearly.

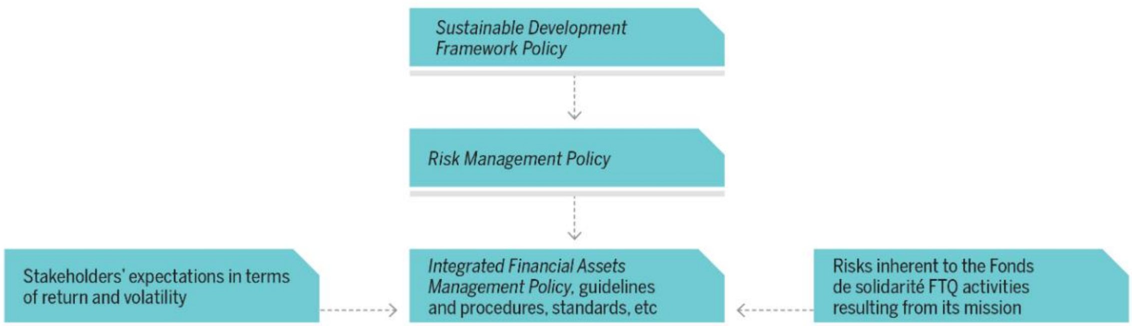
Purchase-by-Agreement Decision-Making Committee

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

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.



The adoption of the *Sustainable Development Framework Policy* is part of the Fonds' integrated risk management approach, which allows it to systematically consider environmental, social, governance and sustainable development factors alongside financial factors. The Fonds prioritizes a responsible investment approach and takes into account these factors and socially responsible investment principles in controlling the risks it intends to assume.

The implementation process of the integrated risk management framework that was launched a few years ago and led to the adoption by the Board of Directors of the *Risk Management Policy* (see the "Risk Management" section) also had an impact on the risk governance structure. The Risk Management Policy specifies the roles and responsibilities of the Fonds' governing bodies, internal committees and main stakeholders involved. The Board of Directors of the Fonds confirms its responsibility for integrated risk management while delegating to the Integrated Risk Management Committee the monitoring of certain activities and their results. The *Risk Management Policy* and its guidelines set out the organization's requirements with respect to the integrated management of all types of risks, ensures that risk management is closely related to the "total" risk appetite and determines an approach whereby all significant risks and their interrelations are considered in the development of the organization and the maintenance of the risk-return profile. As previously mentioned, during the 2021-2022 financial year, the Fonds has updated its integrated risk profile, which enables prioritizing its key financial and non-financial risks, before and after considering the effectiveness of the controls implemented to mitigate the Fonds' exposure to these risks. Afterwards, a mitigation strategy was 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, 2021.

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

VALUATION FRAMEWORK

Development capital investments and other investments are recorded on the statement of financial position at their fair value[13]. However, the majority of the Fonds' development capital investments are made in private companies or specialized funds for which a fair value must be established because the securities issued by these companies or funds are not traded on organized, public markets. Qualified valuators employed by the Fonds determine the fair value of these investments. These valuators report to the Executive Vice-President, Finance and follow a structured process comprising several verification and validation steps to ensure the quality, uniformity and integrity of the work performed and of the resulting fair value.

The management framework that governs the procedure for valuing development capital investments is set out in the *Regulation Respecting Development Investment Fund Continuous Disclosure*. In particular, the Regulation specifies the minimum qualifications required for qualified valuators employed by the Fonds as well as the governing body responsible for approving the valuation principles used. The Regulation also requires that all relevant information about the valuations (excluding publicly traded issuers valued using market prices) be provided to an independent valuation committee. In addition, regulations require that the Chief Executive Officer and the Chief Financial Officer of an investment fund sign on a six-month period basis a certification stating that the valuation procedure set out in the Regulation was complied with and confirming the aggregate fair value of the Development Capital Investments portfolio. This certification has been signed and submitted to the Audit Committee on a six-month period basis since May 31, 2009. For the six-month period ended May 31, 2022, the certification was signed by the President and Chief Executive Officer and the Executive Vice-President, Finance of the Fonds.

During the year, minor changes were made to the Fonds' valuation principles. The valuation principles were approved by the Audit Committee in May 2022.

FINANCIAL GOVERNANCE

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

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

During the year, the Fonds undertook the necessary work to evaluate the design and effectiveness of its internal control using the following recognized frameworks: i) COSO 2013 (issued by the Committee of Sponsoring Organizations of the Treadway Commission) for internal control over financial reporting and disclosure controls and procedures, ii) and the 5th edition of COBIT (Control Objectives for Information and Related Technologies), issued by ISACA (Information Systems Audit and Control Association), for information technology general controls.

Regulations require that the Chief Executive Officer and the Chief Financial Officer confirm their responsibility for controls by signing a certification to this end. Accordingly, for the year ended May 31, 2022, the President and Chief Executive Officer and Executive Vice-President, Finance of the Fonds signed a certification confirming their responsibility in that regard. These certifications are available on SEDAR. A mechanism for sub-certification by several Fonds executives and managers also supports these certifications.

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

---

13 Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the reporting date.

MANAGEMENT'S REPORT ON INTERNAL CONTROLS

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

Internal control over financial reporting comprises all the processes and controls in place, including policies and procedures, that govern the maintenance of accounting records and the preparation of financial statements to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President, Finance, evaluated the design and effectiveness of internal control over financial reporting. Based on this evaluation, management concluded that, as at May 31, 2022, internal control over financial reporting was adequately designed and effective and did not contain any material weaknesses. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect certain misstatements on a timely basis.

CONCLUSIONS ON THE DESIGN AND EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures include the processes and mechanisms designed to provide reasonable assurance that financial information for external purposes is recorded, processed, summarized and reported within the required time period for review and approval by management and that it is disclosed externally within the time periods specified in the applicable regulations and legislation. Management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President, Finance, evaluated the design and effectiveness of disclosure controls and procedures. Based on this evaluation, management concluded that, as at May 31, 2022, disclosure controls and procedures were adequately designed and effective.