Management discussion and analysis

This annual management discussion and analysis (MD&A) supplements the financial statements and contains financial highlights but does not reproduce the full annual financial statements of Capital régional et coopératif Desjardins (CRCD). It presents management's assessment of CRCD's results for the period reported in the financial statements, as well as its financial position and any material changes to it.

CRCD's annual and compounded returns expressed in this MD&A are net of expenses and income taxes while returns by activity or investment profile represent returns before expenses and income taxes.

This disclosure document contains management's analysis of forward-looking statements. Caution should be exercised in the interpretation of this analysis and these statements since management often makes reference to objectives and strategies that contain risks and uncertainties. Due to the nature of CRCD's operations, the associated risks and uncertainties could cause actual results to differ from those anticipated in forward-looking statements. CRCD disclaims any intention or obligation to update or revise such statements based on any new information or new event that may occur after the reporting date.

Copies of the annual financial statements may be obtained free of charge, on request, by calling 514 281-2322 or (toll free) 1 866 866-7000, extension 5552322, by writing to 2 Complexe Desjardins, P.O. Box 760, Desjardins Station, Montréal, Québec H5B 1B8, or from our website at www.capitalregional.com or SEDAR at www.sedar.com.

Interim financial information may be obtained in the same way.

1.0 Highlights

1.1 Commitments throughout Québec

CRCD and its ecosystem[1] make a real contribution to the economic development of the regions. As at December 31, 2019, the funds committed per region were as follows:

ABITIBI-TÉMISCAMINGUE*

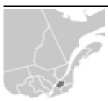
$25M → **31** companies
$1M → **1** cooperative

BAS-SAINT-LAURENT*

$25M → **25** companies
$0.2M → **1** cooperative

CAPITALE-NATIONALE

$89M → **44** companies
$3M → **2** cooperatives



CENTRE-DU-QUÉBEC

$60M → **23** companies
$12M → **2** cooperatives

CHAUDIÈRE-APPALACHES

$124M → **41** companies
$2M → **4** cooperatives

CÔTE-NORD*

$4M → **9** companies

ESTRIE

$94M → **33** companies
$4M → **4** cooperatives

GASPÉSIE–ÎLES-DE-LA-MADELEINE*

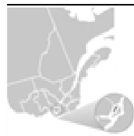
$7M → **8** companies

LANAUDIÈRE

$24M → **11** companies
$1M → **1** cooperative

LAURENTIDES

$21M → **7** companies



LAVAL

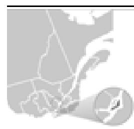
$15M → **10** companies

MAURICIE*

$16M → **13** companies
$1M → **1** cooperative

MONTÉRÉGIE

$199M → **57** companies
$82M → **3** cooperatives

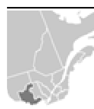


MONTRÉAL

$297M → **80** companies
$101M → **3** cooperatives

NORD-DU-QUÉBEC*

$3M → **15** companies



OUTAOUAIS

$7M → **6** companies

SAGUENAY–LAC-SAINT-JEAN*

$66M → **66** companies
$2M → **4** cooperatives

OUTSIDE QUÉBEC (ex Europe)

$2M → **2** companies

EUROPE

$13M → **6** companies

FUNDS

$92M → **16** funds

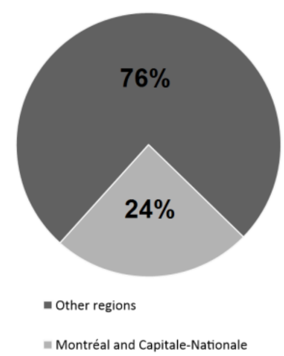
IN TOTAL

529
COMPANIES COOPERATIVES AND FUNDS

$1,394M
BENEFITTING SMES

80,000
JOBS CREATED OR MAINTAINED

76%
OF COMPANIES AND COOPERATIVES BASED IN QUÉBEC ARE FROM REGIONS OTHER THAN MONTRÉAL AND CAPITALE-NATIONALE

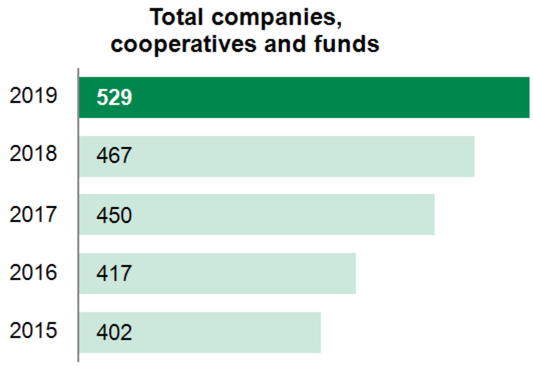


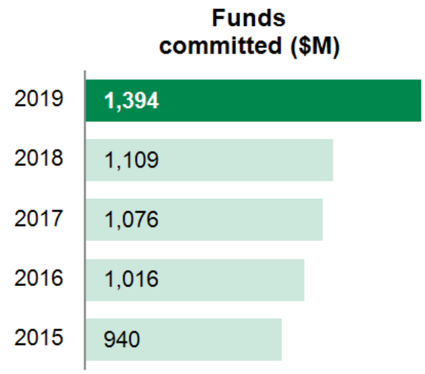
* Resource region

[1] *See the Entrepreneurial ecosystem section for a detailed description of the main funds of the ecosystem.*

1.2 CRCD and its ecosystem support companies and cooperatives

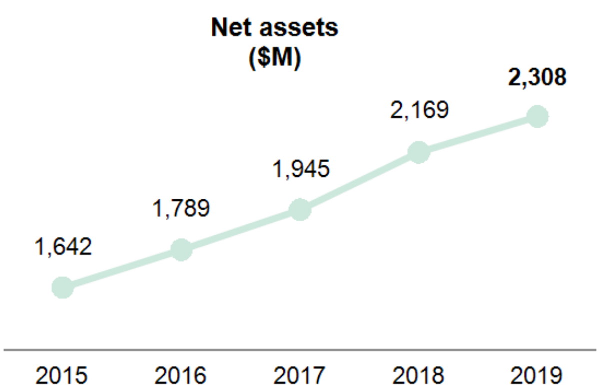
AS AT DECEMBER 31

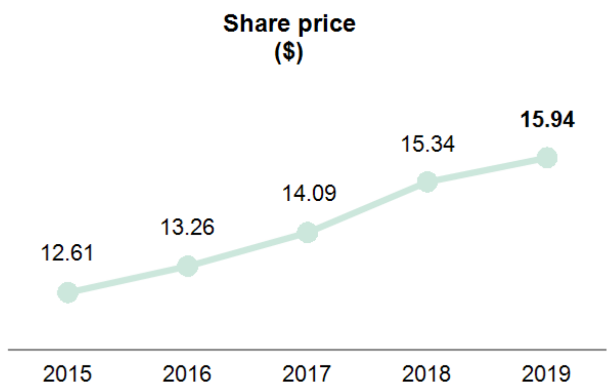


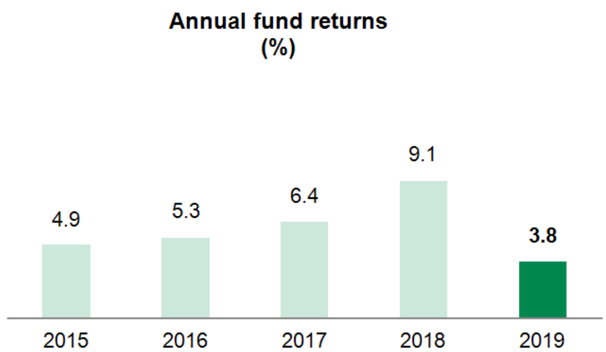


1.3 CRCD financial data

AS AT DECEMBER 31







2.0 CRCD financial highlights

The following charts present key financial data and are intended to assist in understanding CRCD's financial results for the preceding five fiscal years. This information is derived from CRCD's audited separate annual financial statements.

2.1 Ratios and supplemental data

(in thousands of $, unless indicated otherwise)	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**	**Dec. 31, 2015**
Revenue	**55,210**	70,285	51,392	44,449	45,269
Gains on investments	**63,703**	138,632	96,541	78,869	64,035
Net earnings	**81,302**	174,894	112,757	85,957	74,806
Net assets	**2,308,466**	2,168,804	1,945,342	1,789,417	1,642,076
Common shares outstanding (number, in thousands)	**144,849**	141,391	138,080	134,944	130,183
Total operating expense and common share issue expense ratio[(1)] (%)	**1.6**	1.6	1.9	2.2	2.0
Portfolio turnover rate:					
- Investments impacting the Québec economy (%)	**10**	17	16	11	19
- Other investments (%)	**101**	163	87	126	131
Trading expense ratio[(2)] (%)	**-**	-	-	-	-
Number of shareholders (number)	**109,364**	107,862	105,614	104,317	102,222
Issues of common shares – Class A "Issuance"	**140,017**	141,179	134,850	133,401	149,882
Exchanges of common shares – Class B "Exchange"	**199,445**	-	-	-	-
Common share issue expenses, net of related taxes	**-**	2,523	2,396	1,579	1,750
Redemptions of common shares	**81,657**	90,088	89,285	70,438	83,324
Investments impacting the Québec economy at cost	**1,014,864**	838,258	828,255	787,142	738,596
Fair value of investments impacting the Québec economy	**1,249,967**	1,080,069	1,033,951	921,518	817,199
Funds committed but not disbursed	**237,009**	192,169	183,606	189,121	171,082

(1) The ratio of total operating expenses and common share issue expenses is calculated by dividing total expenses (before income taxes) as shown on the separate statements of comprehensive income and common share issue expenses as shown on the separate statements of changes in net assets by net assets as at the end of the period or by average net assets for the financial year, pursuant to Section 68 of the *Regulation respecting Development Capital Investment Fund Continuous Disclosure*.

(2) Trading expense includes brokerage fees and other portfolio transaction costs. These expenses are not material to CRCD.

2.2 Changes in net assets per common share

(in $)	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Net assets per common share, beginning of year	**15.34**	14.09	13.26	12.61	12.05
Increase attributable to operations	**0.58**	1.28	0.84	0.66	0.59
Interest, dividends, distributions and negotiation fees	**0.39**	0.51	0.38	0.34	0.35
Operating expenses	**(0.25)**	(0.21)	(0.24)	(0.26)	(0.23)
Income taxes	**(0.01)**	(0.03)	(0.02)	(0.03)	(0.03)
Realized gains (losses)	**0.25**	0.79	0.06	0.18	0.29
Unrealized gains (losses)	**0.20**	0.22	0.66	0.43	0.21
Difference attributable to common share issues and redemptions	**0.02**	(0.03)	(0.01)	(0.01)	(0.03)
Net assets per common share, end of year	**15.94**	**15.34**	**14.09**	**13.26**	**12.61**

3.0 Overview

CRCD ended fiscal 2019 with net earnings of $81.3 million ($174.9 million in 2018), representing a return of 3.8% (9.1% in 2018), resulting in an increase in net assets per share to $15.94 based on the number of common shares outstanding at the end of the fiscal year, compared with $15.34 at the end of fiscal 2018. CRCD aims to strike an appropriate balance between shareholder return and its mission of Québec economic development. The financial asset management strategy adopted by CRCD several years ago provides the benefits of strong complementarity between the Investments impacting the Québec economy and Other investments portfolios. In fact, CRCD has generated positive annual returns for over ten years.

Investments impacting the Québec economy posted a return of 3.2% in 2019, compared with a return of 19.7% in 2018. The majority of partner companies performed well during fiscal 2019. However, incidental difficulties encountered by certain major portfolio companies, particularly in the second half of the year, weighed on performance of the Investments impacting the Québec economy portfolio. Note that in 2018, CRCD benefited from major divestitures that had a positive impact on performance. As at December 31, 2019, the cost of Investments impacting the Québec economy totalled $1,014.9 million, of which $263.8 million was disbursed during fiscal 2019. As at December 31, 2019, commitments made but not disbursed, which represent investments already agreed upon with companies, cooperatives or funds and that will be disbursed by CRCD at a later date, amounted to $237.0 million. New commitments for the year amounted to $308.7 million. In addition, due to the favourable turnaround in the stock and bond markets, CRCD's Other investments portfolio recorded a return of 8.4% for fiscal 2019, compared with a return of 1.3% for fiscal 2018.

During the year, issues of Class A "Issuance" common shares totalled $140.0 million, including the balance of the 2018 issue and substantially all of the maximum authorized amount for the 2019 issue. For more information, please see the Subscriptions section of this MD&A. Share redemptions totalled $81.7 million. CRCD also exchanged Class A "Issuance" shares for Class B "Exchange" shares for a total amount of $199.4 million. Net assets amounted to $2,308.5 million and shareholders numbered 109,364 as at December 31, 2019. As at December 31, 2019, the balance of shares eligible for redemption totalled $999.7 million.

3.1 Our vision for Québec entrepreneurship

Québec faces a huge challenge: developing and growing existing businesses. Businesses in Québec tend to remain too small and to overleverage themselves, resulting in a less-than-optimal capital structure. Undercapitalization has significant repercussions on their performance, including low productivity and a low level of activity in international markets, which ultimately lowers Québec's ability to create and retain its fair share of highly paid jobs – jobs that are needed to maintain a healthy economy for the province.

Together with its manager Desjardins Capital Management Inc. (Desjardins Capital or DC), CRCD, in carrying out its mission, aims to stand tall and play a unique role on these diverse issues that guide its actions every day.

3.2 Growing businesses stronger

From the support, networking or training we offer our partner companies through to enhancing our product offering and sharing our business network, CRCD, through its manager, DC, acts on many levels to grow Québec SMEs and cooperatives.

As a leading player on the Québec development capital scene, we contribute to the vitality of the Québec economy by financing companies' growth initiatives, energizing the regions, and supporting jobs and business successions to build a strong Québec now and for future generations. A Québec leader in business transfers, DC has already completed several hundred transactions contributing to the continuity and sustainability of Québec's flagship companies. In addition, we support start-up or early-stage companies that use technological or industrial innovations and capitalize on new uses of existing technologies.

We also support Québec SMEs in their expansion in Europe with the new Desjardins Capital Transatlantic, L.P. fund which began operations during fiscal 2018. This fund makes a new area of expertise available to Québec entrepreneurs, well beyond financial concerns, through support for international development with a team on the ground. A DC representative, working with some 100 employees, is based in France to support Québec entrepreneurs who want to develop new markets by setting up offices or acquiring competitors in Europe.

A real catalyst in the business development process of our existing and potential partners, we maintain close relationships with entrepreneurs throughout the province by creating numerous networking opportunities. These meetings make it possible to bring together entrepreneurs, business partners and experts who have questions on topical matters such as growth challenges and business succession issues.

Our support goes far beyond sharing our vast internal network and external business relationships. Various agreements have been negotiated, with Desjardins Group as well as other specialized external firms, to offer value-added services to our entrepreneurs in achieving their objectives.

Furthermore, we provide our partner companies with tailored support for implementing and monitoring sound SME governance practices, which represents undeniable value added. Very active in this area, we have a network of nearly 250 directors with skills and expertise unequalled in the industry. Their role is to help entrepreneurs set up a governance forum to support business growth and strategy. They have access to work tools and are regularly trained and evaluated to ensure they can effectively meet the needs of the companies they work with. Our entrepreneurial governance model, based on agility, simplicity, strategic thinking and alignment with business needs, is a unique type of support greatly appreciated by partner entrepreneurs.

3.3 Economic conditions

ECONOMIC ENVIRONMENT IN 2019 AND OUTLOOK FOR 2020

Global economy

The global economy slowed considerably in 2019. This slowdown stemmed in part from the uncertainties surrounding trade tensions. As a result, world trade stagnated or declined for much of the year. The deterioration was particularly marked in the eurozone, where the main economy, Germany, almost fell into recession. The eurozone's real GDP growth in 2019 is estimated at 1.2%, following a 1.9% gain in 2018, and in Germany, real GDP slipped from 1.5% to 0.6%. In the United Kingdom, the Brexit issue monopolized the news throughout 2019, creating uncertainty that weighed heavily on the British economy. Real GDP growth in the U.K. increased 1.4% in 2019. In China, the economy continued to slow due to both structural factors and economic problems, such as U.S. tariffs. China's real GDP growth went from 6.7% in 2018 to 6.1% in 2019.

Despite the slowdown in the global economy and many uncertainties, 2019 was a very good year for investors: bond yields fell sharply and stock markets rallied, erasing the downturn of the last few months of 2018, and even setting new records. It should be noted that the less favourable economic environment led several central banks, including the U.S. Federal Reserve (the Fed) and the European Central Bank (ECB), to resume monetary easing programs. Although the Canadian economy was resilient, benefiting from the sharp decline in bond rates, among other things, the Bank of Canada nevertheless kept its monetary policy unchanged throughout 2019. That helped the Canadian dollar appreciate against the U.S. dollar, and spurred renewed investor confidence at the end of the year.

The world economy is expected to continue growing rather slowly in 2020. Global GDP growth is expected to slip from 3.6% in 2018 to 2.9% in 2019 and 2.9% in 2020. The trade tensions will not be fully resolved, and uncertainty over trade issues will continue to hinder business investment and undermine the manufacturing sector. There are likely to be negative, but probably temporary, economic effects associated with the emergence of the coronavirus in China and elsewhere. So the financial markets are likely to remain highly volatile as investors continue to be concerned over the political situation in the U.S. Bond rates should remain low and monetary policies are expected to remain unchanged throughout 2020. The Canadian dollar is expected to remain relatively stable.

United States

The United States began 2019 on the right foot, posting a 3.1% annualized gain in real GDP. The situation then calmed, with a marked slowdown in exports and business investment. This was a direct result of the Sino-American trade war, which escalated for much of the year. Moreover, the positive effects of the 2018 tax cuts were short-lived. Consumption was less affected and, despite some ups and downs, household confidence remained fairly good, aided by the strong labour market. The U.S. unemployment rate fell to 3.5%, its lowest level since 1969. Interest rate cuts helped the housing market recover after several difficult quarters. Real GDP growth in 2019 is estimated at 2.3%, following a gain of 2.9% in 2018.

The U.S. economy is expected to grow rather slowly in 2020 as it continues to be affected by the tariffs introduced in 2018, despite the trade agreement reached between China and the United States. Real GDP is expected to grow by 1.8% in 2020. In 2020, the media's attention may be highly focused on the federal election campaign.

Canada

The Canadian economy experienced some major upheavals in 2019. The year got off to a bad start when the Alberta government imposed a reduction in oil production in response to transportation constraints, but the subsequent return to normal in the energy sector boosted real GDP growth in the spring. The Canadian economy then began to grow at a more moderate pace starting in the second half of 2019 as various factors influenced real GDP. Consumer spending and residential investment continued to expand on the strength of a robust labour market, high household confidence and low interest rates. On the other hand, global trade tensions curbed exports and eroded business confidence. However, there were encouraging developments in late 2019 due to the trade agreement between China and the United States as well as the imminent ratification of the Canada-U.S.-Mexico Agreement (CUMA). Real GDP is expected to have grown approximately 1.7% in 2019. This forecast suggests a continued decline, as real GDP grew 3.2% in 2017 and 2.0% in 2018.

Economic growth in 2020 is expected to remain moderate, at close to 1.6%. Even though trade tensions will ease, they will continue to have adverse effects. The housing market is nevertheless expected to continue to trend upward, which could rekindle concerns about overheated markets in some regions. By holding steady on its key interest rates, the Bank of Canada should continue to support household consumer spending, especially since the unemployment rate will likely remain close to its all-time low.

Québec

In 2019, Québec's international exports suffered from the slowdown in the global economy as well as trade disputes. The U.S. tariffs on Canadian steel and aluminum imposed from May 2018 to May 2019 dealt a severe blow to the industry. The ban on Canadian meat exports to China from late June 2019 to early November also had an adverse effect on Québec producers. Exporters faced many problems over the past year, but the province's economy continued to expand rapidly. In 2019, Québec posted the strongest rate of real GDP growth of all the provinces. For the third year in a row, in 2019 the Québec economy grew at a rate of 2.5% to 3.0%, a particularly strong result given the turbulence in the global economy. Households continued to underpin the economy. They are benefiting from an improved labour market, which can be seen in accelerating wage growth. Strong job creation drove the unemployment rate down to 5.1% in 2019, below the national rate and that of almost all the other provinces. The Québec housing market continues to grow, and has been spared the correction that affected some Canadian markets two years ago. Sales of existing properties peaked in 2019, with the average price rising by about 5%. So the year ended on a high note for the residential sector. In sum, the Québec economy continues to post excellent results in several respects. However, a slower pace of growth is expected in 2020, given the slowdown underway in the world's major economies and the negative impacts this will have on foreign trade.

4.0 Management's discussion of financial performance

4.1 Operating results

CRCD's NET RESULTS AND RETURNS

CRCD reported net earnings of $81.3 million for the year ended December 31, 2019, representing a return of 3.8%, compared with net earnings of $174.9 million (return of 9.1%) for the previous year. Accordingly, net assets per share increased to $15.94 based on the number of common shares outstanding at the end of the fiscal year, compared with $15.34 at the end of fiscal 2018. For illustrative purposes, at a price of $15.94 effective February 13, 2020, shareholders who invested seven years earlier would obtain an annual after-tax return of more than 12.6%, taking into account the 50% income tax credit as per the rate applicable on February 13, 2013.

CRCD's performance is driven primarily by Investments impacting the Québec economy and Other investments, which generated returns of 3.2% and 8.4%, respectively, while expenses, net of administrative charges received and income taxes, had an impact of 1.9% on CRCD's performance.

CRCD's asset allocation strategy allows it to enjoy a more balanced overall portfolio profile, while actively contributing to Québec's economic development.

Return by activity

	2019			
	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Activities related to Investments impacting the Québec economy(1)	1,192	53.9	3.2	1.7
Other investments and cash	1,020	46.1	8.4	4.0
	2,212	100.0	5.7	5.7
Expenses, net of administrative charges			(1.8)	(1.8)
Income taxes			(0.1)	(0.1)
CRCD's return			**3.8**	**3.8**

(1) Includes Investments impacting the Québec economy, amounts receivable on disposal of investments, financial liabilities and foreign exchange contracts.

Return by activity

	2018			
	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Activities related to Investments impacting the Québec economy(1)	1,070	52.6	19.7	10.4
Other investments and cash	965	47.4	1.3	0.6
	2,035	100.0	11.0	11.0
Expenses, net of administrative charges			(1.7)	(1.7)
Income taxes			(0.2)	(0.2)
CRCD's return			9.1	9.1

(1) Includes Investments impacting the Québec economy, amounts receivable on disposal of investments, financial liabilities and foreign exchange contracts.

INVESTMENTS IMPACTING THE QUÉBEC ECONOMY

Investments of $269.7 million and disposals of $105.2 million were made for a net balance of $164.5 million. Combined with realized and unrealized net gains of $6.1 million, these net investments brought the fair value of the investment portfolio, including foreign exchange contracts, to $1,250.6 million as at December 31, 2019 ($1,080.0 million as at December 31, 2018). The $269.7 million in investments made during the year consisted of an aggregate amount of $134.6 million invested primarily in six companies, as well as $57.6 million in the funds comprising the entrepreneurial ecosystem, as described below.

Investments impacting the Québec economy should also be measured taking into account funds committed but not disbursed, which amounted to $237.0 million as at December 31, 2019, compared with $192.2 million as at December 31, 2018. Total commitments at cost as at December 31, 2019 amounted to $1,251.9 million in 143 companies, cooperatives and funds, of which $1,014.9 million was disbursed. As at December 31, 2019, backed by its entrepreneurial ecosystem, CRCD supported growth in 529 companies, cooperatives and funds.

During fiscal 2019, Investments impacting the Québec economy generated a contribution of $35.1 million, for a return of 3.2%, compared with $200.2 million in 2018 (a 19.7% return). The majority of partner companies performed well during fiscal 2019, although incidental difficulties encountered by certain major portfolio companies weighed on performance. Note that in 2018, CRCD benefited from major divestitures that had a positive impact on performance.

Contribution generated by Investments impacting the Québec economy

(in thousands of $)	**2019**	**2018**
Revenue	29,033	43,144
Gains and losses	6,069	157,072
	35,102	200,216

Revenue, consisting of interest, dividends and negotiation fees related to Investments impacting the Québec economy, provides a solid income base that promotes overall portfolio profitability. The $14.1 million decrease in revenue compared with 2018 stemmed mainly from higher dividends paid by certain companies during the previous year, which was non-recurring in 2019. Negotiation fees, which amounted to $3.5 million for the year ended December 31, 2019 ($3.0 million for the year ended December 31, 2018), are earned by DC, the manager, and a credit for that amount is applied against the management fees paid to DC by CRCD. Negotiation fees are included in the contribution generated by the Investments impacting the Québec economy as they are included in the profitability analysis of the investments. The profile of the investments held by CRCD is changing and the amounts injected into its ecosystem funds continue to grow (see the following section for more details). Therefore, investments held by these ecosystem funds generate revenue in addition to the revenue generated by CRCD's direct investments. This revenue, of which CRCD's share amounted to $16.5 million for fiscal 2019 ($14.3 million in 2018), is reported as Gains and losses as it makes a positive contribution to the fair value of CRCD's interest in these funds.

CRCD accounts for its Investments impacting the Québec economy at fair value. Two comprehensive portfolio reviews are carried out each year, with one covering the six-month period ending June 30 and the other covering the six-month period ending December 31.

CRCD recorded a realized and unrealized gain of $6.1 million for the fiscal year, compared with $157.1 million for fiscal 2018. For more information, please see Entrepreneurial ecosystem performance in the following section.

As at December 31, 2019, the overall risk level of the Investments impacting the Québec economy portfolio had deteriorated slightly compared with its December 31, 2018 level, as discussed in the Credit and counterparty risk section.

ENTREPRENEURIAL ECOSYSTEM

CRCD invests directly in Québec companies and also fulfils its economic development role via investments through the funds it has helped create with its manager, each of which has a specific mission. With this approach of seeking capital from various partners, CRCD can leverage its resources, thereby enhancing its positive impact on Québec's economic development.

MAIN FUNDS OF THE ENTREPRENEURIAL ECOSYSTEM

CAPITAL RÉGIONAL ET COOPÉRATIF DESJARDINS

Desjardins Capital PME s.e.c.	**Desjardins Capital Transatlantique L.P.**
Capital croissance PME s.e.c.	**Capital croissance PME II s.e.c.**
Desjardins – Innovatech S.E.C.	**Société en commandite Essor et Coopération**

These funds, which are also managed by CRCD's manager, DC, are detailed below:

- On January 1, 2018, DC created the Desjardins Capital PME s.e.c. fund. (DCPME) in partnership with Desjardins Private Management. The fund's main goal is to invest in Québec's small- and medium-sized businesses, with an investment limit not exceeding $10 million. This sustainable fund is an open-ended limited partnership, allowing the number of limited partners to vary. The limited partners' commitments are made on an annual basis. As at December 31, 2019, CRCD's interest in DCPME was 40%. As at December 31, 2019, CRCD had disbursed $72.2 million ($30.4 million as at December 31, 2018) allowing a total of 119 companies and funds to benefit from $210.5 million committed by the DCPME fund.
- On July 4, 2018, DC created two funds jointly with France-based Groupe Siparex: the Desjardins Capital Transatlantic, L.P. fund (DC Transatlantic) and the Siparex Transatlantique – Fonds professionnel de Capital Investissements fund. The purpose of these funds is to co-invest in SMEs in Québec and Europe to support them in their marketing or acquisition efforts on both sides of the Atlantic. CRCD and other investor partners such as Export Development Canada (EDC), Groupe Siparex and French public investment bank BPIFrance committed a total of €75 million, or approximately $110 million, to the two funds. CRCD has a 60.7% interest in DC Transatlantic, which is managed by DC. As at December 31, 2019, CRCD had disbursed $11.3 million ($5.1 million as at December 31, 2018) of its total commitment of $33.2 million (€22.8 million), allowing seven companies to benefit from $14.2 million committed by the fund.
- The objective of the Société en commandite Essor et Coopération (Essor et Coopération), established on January 1, 2013, is to support the creation, growth and capitalization of cooperatives in Québec. CRCD and other partners, including three from the cooperative sector, have made commitments totalling $89.9 million. CRCD has a 94.6% interest in the Essor et Coopération fund. Since the fund's inception, CRCD has disbursed $36.2 million of its total commitment of $85 million. As at December 31, 2019, Essor et Coopération had committed $48.8 million in 23 cooperatives.
- CRCD is also the sponsor of the Desjardins-Innovatech S.E.C. fund (DI). DI has undertaken to inject a total of $85 million to support Québec technology or innovation businesses through each stage of their development. CRCD's interest in DI is 54.5%. In addition to this interest, CRCD has agreed to make an additional investment in the form of a note for a maximum amount of $5.0 million in DI of which $0.7 million was disbursed in 2019 for a total disbursement of $2.4 million. This note does not affect the units held by CRCD in this fund. DI helps create innovative business accelerators in partnership with specialized organizations located in various regions of Québec, enabling it to support businesses from the embryonic stage through the commercialization phase. As at December 31, 2019, DI had committed $66.1 million to support a total of 61 companies and funds.
- The Capital croissance PME s.e.c. fund (CCPME), created on July 1, 2010, had an investment policy similar to that of the DCPME fund, which is to make capital available to Québec companies, with an investment limit not exceeding $5 million. CRCD and the Caisse de dépôt et placement du Québec (CDPQ), as sponsors of the fund, agreed to invest, on a 50/50 basis, a total initial amount of $220 million. The 2014 renewal of this agreement resulted in the creation of Capital croissance PME II s.e.c. fund (CCPME II), which allowed an additional $320 million to be committed, increasing the total commitments in the two funds to $540 million. As at December 31, 2019, CRCD had disbursed $251.8 million of its total commitment of $270 million. As CCPME II's investment period closed on November 30, 2017, funds committed but not disbursed will be used for reinvestment and to pay the fund's operating expenses until its scheduled winding-up date of November 30, 2023. A total of 228 companies and funds benefited from $195.7 million committed by the CCPME funds as at December 31, 2019. Since their inception, these funds have committed $461.1 million to 375 companies.

In all, as at December 31, 2019, CRCD and its ecosystem supported the growth of 529 companies, cooperatives and funds in various industries spanning all Québec regions with commitments of $1,394 million, while helping to create and retain over 80,000 jobs. Of that total, 26 cooperatives benefited from commitments of $208.7 million.

Given the size of the amounts allocated to these funds and to better manage and track operations, CRCD monitors changes in asset allocation and performance by investment profile.

Each investment profile includes assets held by CRCD together with similar assets held by the funds in its ecosystem based on CRCD's proportionate share in each fund.

The investment profiles related to Investments impacting the Québec economy are:

- Debt: investments in the form of advances and/or mainly unsecured loans and/or preferred shares;
- Equity: investments comprising common shares and units of limited partnerships that may be combined with advances and/or mainly unsecured loans and preferred shares in companies other than those included under the Venture capital profile;
- External funds: investments in funds outside CRCD's entrepreneurial ecosystem;
- Venture capital: investments in companies in pre-startup, startup or post-startup stages;

Return by investment profile

	2019			
	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Debt	**366**	**16.5**	**9.2**	**1.3**
Equity	**683**	**30.9**	**(0.7)**	**(0.2)**
External funds	**46**	**2.1**	**13.5**	**0.3**
Venture capital	**79**	**3.6**	**6.5**	**0.2**
Investment profiles subtotal	**1,174**	**53.1**	**3.2**	**1.6**
Other asset items held by ecosystem funds	**18**	**0.8**	**(0.1)**	**-**
Ecosystem total	**1,192**	**53.9**	**3.2**	**1.6**

Return by investment profile

	2018			
	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Debt	313	15.4	5.5	0.8
Equity	650	31.9	26.9	9.0
External funds	41	2.0	18.6	0.4
Venture capital	54	2.7	12.4	0.2
Investment profiles subtotal	1,058	52.0	19.8	10.4
Other asset items held by ecosystem funds	12	0.6	(12.2)	-
Ecosystem total	1,070	52.6	19.7	10.4

CRCD's 3.2% return for fiscal 2019 stems mainly from the Debt and Equity profiles, which represent the core volume of assets under management as at December 31, 2019. The Debt profile, with a 9.2% return, posted a higher return compared with 2018, owing to lower corporate bond rates between the two years. The return spread of the Equity profile between the two years is mainly due to the incidental difficulties experienced by certain major portfolio companies in that class. Note, however, that the majority of partner companies performed well during fiscal 2019.

OTHER INVESTMENTS

Managing the Other investments portfolio involves the portion of assets not earmarked for Investments impacting the Québec economy, including temporarily available cash resources prior to their investment in companies.

CRCD has implemented management strategies for the Other investments portfolio to optimize potential returns while retaining the required liquidity to meet liquidity needs arising from redemption requests from shareholders and Investments impacting the Québec economy it expects to make. This portfolio, consisting primarily of liquid assets, includes fixed-income securities, global equity funds, Canadian equity funds, real estate funds and market neutral equity funds. This portfolio provides stable current revenue for CRCD and ensures sound diversification.

As at December 31, 2019, CRCD's Other investments portfolio, including cash but excluding foreign exchange contracts, totalled $998.9 million ($1,041.5 million in 2018) and consisted of the following:

Other investments portfolio

	As at December 31, 2019		As at December 31, 2018	
	Fair value ($M)	% of portfolio	Fair value ($M)	% of portfolio
Cash and money market instruments	53.0	5.3	63.6	6.1
Bonds	536.0	53.7	642.0	61.6
Global equity funds	174.1	17.4	149.3	14.3
Canadian equity funds	62.8	6.3	90.2	8.7
Real estate funds	112.1	11.2	96.4	9.3
Market neutral equity funds	60.9	6.1	-	-
Portfolio total	**998.9**	**100.0**	**1,041.5**	**100.0**

As at December 31, 2019, 75% of portfolio bond securities were government guaranteed (79% as at December 31, 2018).

The Other investments portfolio represented 43% of total net assets at the end of fiscal 2019 (48% as at December 31, 2018), a decrease mainly arising from significant divestments in the Investments impacting the Québec economy portfolio during the second half of 2019. Commitments already made but not disbursed of $237.0 million, representing 10% of net assets, will eventually be covered from CRCD's Other investments portfolio and allocated to Investments impacting the Québec economy.

CRCD expects Other investments to represent nearly 35% of total net assets over the long term. In keeping with its core mission, this will allow an increase in funds allocated to Investments impacting the Québec economy.

Contribution generated by Other investments

(in thousands of $)	2019	2018
Revenue	**29,273**	29,696
Gains and losses	**57,634**	(18,440)
	86,907	11,256

Revenue consists mainly of interest and distributions related to Other investments. Interest income (primarily from bonds) is recognized at the bond rate in effect at the acquisition date.

Gains of $57.6 million in fiscal 2019 stemmed mainly from the following financial assets:

- The bond portfolio posted a $20.8 million increase in value, owing to key rates ending the year down from December 31, 2018, but also to narrower credit spreads fuelled by the central banks' accommodative tone in the first half of the year and the trade agreement between the United States and China that followed.
- Stock market growth slowed over the second half, but nonetheless closed the year with comfortable gains totalling $14.8 million for Canadian equity funds and $18.1 million for global equity funds. As portfolio equity funds have low volatility, CRCD did not fully benefit from the favourable stock market environment during 2019.

CRCD's financial asset management strategy aims to diversify the market risks associated with the Other investments portfolio through the use of Canadian and global securities unrelated to bond markets. Moreover, CRCD aims to match the average maturity of the bond portfolio with the average maturity of expected cash outflows, thereby limiting the long-term effect of bond rates on CRCD's results.

CAPITAL RAISING

CRCD offers its common shares for subscription through the Desjardins caisse network in Québec, and via AccèsD Internet.

Under its constituting act, share issues are limited to an amount equal to the preceding issue period's redemptions, up to a maximum of $150 million. However, certain measures provided under the Act have been applied to CRCD by the government for each of the 2018, 2019 and 2020 issue periods. Each issue period lasts 12 months and runs from March 1 to the last day of February of the following year.

CRCD obtained the right to issue $140 million in Class A "Issuance" shares for each of the 2018, 2019 and 2020 issues and allocate a 35% tax credit rate for the purchase of such shares. To allow as many shareholders as possible to buy such shares, the maximum annual subscription amount allowable was capped at $3,000 per investor, for a tax credit of $1,050.

In connection with these same measures, new provisions were applied to allow a shareholder who defers the redemption of eligible shares for a further seven years the option to take advantage of a new tax credit. CRCD is authorized, for the 2018, 2019 and 2020 issue periods only, to exchange its current Class A "Issuance" shares for new Class B "Exchange" shares up to an annual maximum of $100 million. These provisions allow CRCD shareholders who have never redeemed shares to exchange their current eligible Class A "Issuance" shares, up to a value of $15,000 annually, for new Class B "Exchange" shares which they will also be required to hold for seven years, as consideration for a provincial tax credit of 10% of the amounts exchanged.

These provisions were implemented in the fall of 2018 and exchange requests for the maximum authorized amount of $100 million for the 2018 taxation year were accepted in February 2019. The share exchange process relating to the 2019 taxation year was conducted last spring and the acceptance of applications for a total allowable amount of $100 million was completed in July 2019.

Accordingly, CRCD's share capital now comprises two classes of shares: Class A "Issuance" and Class B "Exchange". Class A shares are issued to raise capital, while Class B shares are designed to be exchanged for Class A shares.

The minimum holding period for CRCD shares, regardless of their class, before a shareholder would normally be eligible for a redemption is seven years to the day from the date of purchase. Note, however, that shareholders who withdraw some or all of their shares after the seven-year holding period may no longer claim a tax credit for any subscription or exchange for which the tax credit would apply in the current tax year or in any subsequent tax year.

A special tax is payable by CRCD if it fails to comply with the authorized issuance or exchange amounts, and control mechanisms have been implemented by CRCD to ensure compliance. No special tax was paid for fiscal 2019 or 2018.

As at December 31, 2019, CRCD had $1,728.7 million in share capital for 144,849,327 common shares outstanding.

During the year, CRCD raised $140.0 million, including the balance of $0.4 million from the 2018 issue and substantially all of the maximum authorized amount of $139.6 million for the 2019 issue. The $0.4 million balance for the 2019 issue was sold in January 2020.

For fiscal 2019, redemptions of common shares totalled $81.7 million ($90.1 million in 2018).

As at December 31, 2019, the balance of shares eligible for redemption totalled $999.7 million. During fiscal 2020, additional shares valued at approximately $205 million will also become eligible for redemption bringing total potential redemptions to approximately $1,205 million. This amount will be reduced by the amount equal to the subscriptions for Class B "Exchange" shares accepted as well as the amount of shares redeemed during fiscal 2020.

As at December 31, 2019, shareholders numbered 109,364 compared with 107,862 as at December 31, 2018.

CRCD's policy is to reinvest income from operations and proceeds from disposals rather than pay dividends to its shareholders in order to increase the capital available for investment in eligible entities and to create share value appreciation.

EXPENSES AND INCOME TAXES

Expenses

(in thousands of $)	2019	2018
Management fees	**19,007**	18,908
Other operating expenses	**5,548**	4,732
Shareholder services	**11,089**	6,305
	35,644	29,945

CRCD has entrusted the management of its operations, including the management of its Investments impacting the Québec economy and Other investments portfolios, to DC, pursuant to the terms of a management agreement concluded between them. Under this agreement, CRCD pays Desjardins Capital management fees equivalent to a maximum rate of 1.75% (1.95% for the year ended December 31, 2018) of CRCD's annual average assets' value, after deduction of any amounts payable related to Investments impacting the Québec economy and Other investments. An adjustment is made to the management fees to avoid double billing relative to CRCD's interest in some funds. DC and CRCD have agreed that, for a given fiscal year, an adjustment could be made to allow CRCD to benefit from the economies of scale achieved by DC in particular with regard to the growth of CRCD's assets. The negotiation fees arising from portfolio companies are earned by DC, and their amount is deducted from the management fees payable by CRCD. There was no significant change in management fees between the two years. Furthermore, the 0.2% reduction in the maximum management fee rate accorded by DC reduces the effect of CRCD's growing assets.

There was no significant change in other operating expenses between the two years.

The $4.8 million increase in shareholder services resulted mainly from an increase in share distribution due to the revised agreement executed on January 1, 2019 between CRCD and the Fédération des caisses Desjardins du Québec with regard to compensation paid by CRCD to the Desjardins caisse network. Under this agreement, CRCD now pays the caisses a fee for all shareholder advisory services, determined annually based on CRCD's net assets and the degree to which share transactions are automated. Under the renegotiated agreement, share issuance costs have been eliminated and DC agreed to a 0.2% decrease in the maximum management fee rate.

Income taxes for fiscal 2019 amounted to $2.0 million, down compared with the previous fiscal year ($4.1 million in 2018.) The nature of the income has a significant impact on tax expense since, unlike interest income, dividends are generally not taxable and capital gains are eligible for tax deductions and refund mechanisms.

LIQUIDITY AND CAPITAL RESOURCES

For fiscal 2019, cash inflows from issues net of redemptions amounted to $58.4 million (net cash inflows of $46.9 million in 2018). Operating activities combined with fees for the development of an intangible asset generated net cash outflows of $52.8 million (net cash outflows of $35.1 million in 2018).

Cash outflows for Investments impacting the Québec economy amounted to $263.8 million for fiscal 2019 ($176.4 million in 2018). The Other investments portfolio posted a net cash inflow of $108.8 million compared with net investments of $163.3 million for fiscal 2018.

As at December 31, 2019, cash and cash equivalents totalled $46.8 million ($41.3 million as at December 31, 2018).

CRCD had an authorized line of credit of $200 million as at December 31, 2019. In the event that liquidity needs exceed expectations, this line of credit could be used on a temporary basis to cover CRCD's obligations. This additional flexibility optimizes the level of liquid assets held and reduces the risk of having to dispose of assets hastily under potentially less advantageous conditions. The line of credit was undrawn during fiscal 2019 and fiscal 2018.

Given the management approach for Other investments of matching the average maturity of bonds held with the average maturity of its expected cash outflows, CRCD does not anticipate any shortfall in liquidity in the short or medium terms and expects to be able to redeem eligible shares issued at least seven years earlier from those shareholders who make such a request.

4.2 CRCD's vision, mission, strategic priorities and strategies

CRCD was founded on the July 1, 2001 effective date of the *Act constituting Capital régional et coopératif Desjardins* adopted on June 21, 2001 by Québec's National Assembly, on the initiative of Desjardins Group. The manager, DC, manages its affairs.

MISSION

CRCD strives to value and nurture the best of Québec entrepreneurship that is part of the collective wealth that is ours to have and to hold. With that in mind, CRCD's mission is to:

> *Energize our entrepreneurship. Prioritize Québec ownership. Grow our collective wealth and make it last for generations to come. By crossing over our walkways to tomorrow, together we can contribute to the vitality of an entire economy.*

CRCD'S VISION AND STRATEGIC PRIORITIES

Strategic planning initiatives were carried on throughout fiscal 2018 and were presented to the decision-making bodies, including CRCD's Board of Directors and the Board of Directors of DC. This approach allowed us to flesh out CRCD's 2024 ambitions and update our strategic priorities. The 2024 strategic plan was approved by CRCD's Board of Directors in late fiscal 2019.

CRCD's vision is to "Be the #1 choice of entrepreneurs: the go to for SMEs."

To achieve this, CRCD is building on ten DC strategic priorities for the 2024 horizon, which align within the following orientations:

- Accelerate the shift to client focus: by delivering a distinctive and innovative offering for entrepreneurs and reviewing ways of doing business to boost execution capacity and achieve growth objectives;
- Champion its cooperative difference: by increasing DC's presence in collective entrepreneurship and promoting development of a sustainable and responsible economy;
- Leverage the strengths of the broader Desjardins cooperative movement: by identifying capitalization opportunities for the DC ecosystem, developing partnerships within Desjardins Group, consolidating market share and finding new growth prospects in Québec;
- Other priorities specific to DC and relevant to CRCD: to grow visibility, acquire, retain and develop talent, and maintain CRCD' risk/return and capitalization balance;
- Specific CRCD priorities: increase CRCD's capitalization and visibility and improve digital shareholder experience.

STRATEGIES

DC organizes its teams to optimize efficiency and control management fees. This administrative organization aims to appropriately fulfil our mandate of driving regional and cooperative development and Québec's economic development in general.

CRCD monitors changes in asset allocation and performance by investment profile to better manage operations. Each investment profile includes the assets held by CRCD and similar assets held by the funds in its ecosystem according to their respective interests.

CRCD aims for a balance between its mission to drive regional economic development and reasonable long-term return for the shareholders. Using a global approach to managing its financial assets, CRCD manages its portfolio of Investments impacting the Québec economy jointly with its Other investments portfolio. This allows CRCD to balance its overall investment portfolio and limit volatility in share price due to changing economic conditions over the entire holding period.

To do this, CRCD's strategy for managing financial assets is as follows:

- CRCD takes an integrated and overall approach to managing its financial assets, which means that target asset allocation must include diversification to reduce the risks inherent in certain asset classes within the investment portfolios.
- The objective is to optimize the after tax risk/return ratio of CRCD's financial assets in compliance with its role as an economic development agent, to limit six-month fluctuations in the price of its shares and secure reasonable returns for shareholders.
- A sufficient portion of CRCD's financial assets must be invested in liquid securities to meet any share redemption requests that exceed issues of shares.
- A sufficient portion of CRCD's financial assets must be invested in securities that generate current income to meet its expenses.

Lastly, CRCD is required to fulfil its mission within certain guidelines, including, as at December 31, 2019, having invested 64% (63% as at December 31, 2018) of its average net assets in eligible Québec companies. This percentage for fiscal years beginning after December 31, 2019 will be 65%. In addition, 35% of eligible investments must be made in Québec's resource regions or in eligible cooperatives. If these requirements are not met, the authorized issue of capital for the capitalization period following the end of the fiscal year could be reduced. As at December 31, 2019 and 2018, all of those rules were met.

4.3 Governance

BOARD OF DIRECTORS

In accordance with CRCD's constituting act, the Board of Directors (the "Board") is made up of 13 directors, the majority of whom are independent persons. Furthermore, the Board must be chaired by an independent director. The following is a snapshot of the Board as of the date of this report, with two directorships vacant:

Bernard Bolduc,
BBA Finance
Chair of the Board of CRCD and
President, Altrum inc.

Marc Barbeau,
CPA, CA, M. Fisc.
Secretary of the Board of CRCD
and President and Chief Executive Officer, Ovivo Inc.

Linda Labbé,
CPA, CA
Desjardins Group Relations Director
and
Corporate Director

Charles Auger,
BBA Finance
Vice-President, Operations, Chocolats Favoris

Éric Charron,
BBA Finance
Adm.A, Pl.Fin.
General Manager, Caisse Desjardins de Gatineau

Lucie Demers,
CPA, CGA, CBV
Corporate Director

Marlène Deveaux,
B.A., M.A., ASC
President and Chief Executive Officer,
Revêtement sur métaux inc.

Muriel McGrath,
BA, ICD.D
President,
MC² Consilium inc.

Marcel Ostiguy,
BBA
Corporate Director

Louis Roy,
BBA, MBA, DAE
Director of Business Intelligence,
Revenu Québec

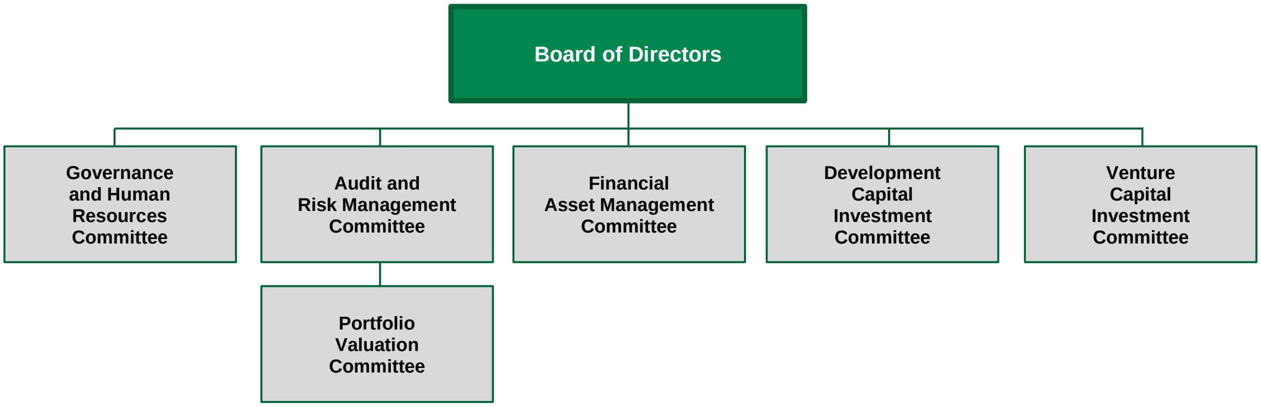
Louis-Régis Tremblay,
Eng., ICD.D
Management Consultant and Corporate Director

The Board has the general authority to manage the affairs of CRCD and oversee the fulfilment of its mission. In this capacity, it is responsible for guiding and overseeing all of CRCD's affairs and risks, including strategic risk oversight.

The Board is involved in and makes decisions on matters such as governance, strategic planning, investment, financial reporting, financial asset management, risk management, capitalization, general meetings of shareholders and contracts.

To this end, the Board is supported by six committees that regularly report to it and make appropriate recommendations. Also, the manager reports on outsourced activities through its executives who attend meetings of the Board and the committees.

The governance structure is as follows:



Other than the specific mandates assigned from time to time by the Board, the main responsibilities of the committees are described below.

Governance and Human Resources Committee

The Governance and Human Resources Committee's mandate is to provide oversight of the application of the rules relating to governance, independence, conflict of interest management, ethics and professional conduct. It is in particular responsible for drawing up skills and experience profiles for the Desjardins Group Relations Director and Board members. It also recommends to the Board an evaluation process for the performance of the Chair of the Board, the Desjardins Group Relations Director, the Board, the Committees and the Manager. Furthermore, the Committee ensures that a succession plan is in place for the Desjardins Group Relations Director, and for the Chief Operating Officer and other key positions of Desjardins Capital.

This Committee also oversees general reputation risk and conflict of interest risks. It is informed of the reputational risk associated with the investment, which is monitored by the investment committees.

Audit and Risk Management Committee

The Audit and Risk Management Committee's general mandate is to assist the Board of Directors in its oversight and accountability roles with aspects relating to the quality, reliability and integrity of financial reporting and continuous disclosure. It ensures that the Manager has implemented and maintains effective internal control over financial reporting, safeguarding of assets and fraud detection. It receives annual certification of the Manager's internal control environment in connection with the operations outsourced by CRCD. It verifies that the manager implements and maintains adequate compliance mechanisms relating to legal and statutory requirements that may have a material effect on financial reporting Its role also includes a component related to the work, performance, independence, appointment and recommendation of the independent auditor.

The Committee is also responsible for monitoring CRCD's overall integrated risk management process and specifically monitors compliance risk at the regulatory and legislative level as well as for shareholder accountability and public disclosure, outsourcing risk (excluding external managers), operational risk related to the processing of transactions and systems, and internal and external fraud risk. It is informed of market risks related to interest rates, foreign currencies and stock markets, which are monitored by the Financial Asset Management Committee and credit and counterparty risk of Investments impacting the Québec economy, which is supervised by the investment committees.

Financial Asset Management Committee

The Financial Asset Management Committee's mandate is to coordinate and align CRCD's financial asset management to optimize the risk/return balance. The Committee monitors CRCD's performance and ensures that CRCD complies with the legislative and regulatory requirements relating to financial assets. It also oversees the implementation of and compliance with CRCD's Global Financial Asset Management Policy and related guidelines. The Committee is made up of individuals who possess a range of complementary expertise and sufficient financial, accounting and economic knowledge and skills to fully understand the nature of CRCD's financial assets and the resulting financial risks.

The Committee also monitors market risks related to interest rates, foreign currencies and stock markets, geographic and sector concentration risk related to net assets, liquidity risk, and outsourcing risk relating to the use of external managers. It is informed of the sector concentration risk of Investmerts impacting the Québec economy and the credit and counterparty risk of the Investments impacting the Québec economy that are under the supervision of the investment committees.

Portfolio Valuation Committee

The Portfolio Valuation Committee's mandate is to review all relevant information concerning the valuations of CRCD's Investments impacting the Québec economy portfolio on a semi-annual basis in order to provide reasonable assurance to the Audit and Risk Management Committee and the Board that the valuation process complies with the requirements of the *Regulation respecting Development Capital Investment Fund Continuous Disclosure*. It also reviews, from time to time, the Fair Value Methodology and recommends to the Audit and Risk Management Committee and the Board such changes as it deems necessary. The majority of this committee's members are independent qualified valuators in accordance with the above Regulation.

Investment committees

The general mandate of the Development Capital and Venture Capital investment committees is to evaluate, authorize or recommend and oversee transactions related to Investments impacting the Québec economy within the limits of the decision-making process approved by the Board and in accordance with CRCD's mission. The members of these committees are selected based on their expertise and experience in the sectors targeted by the various policies governing investment activities and on their ability to assess the quality of an investment, detect risks and contribute to its future growth in value.

The Development Capital Investment Committee reviews financing requests for subordinated debt, equity or a combination of subordinated debt and equity for companies that have demonstrated positive financial results and require capital for growth or other projects.

The Venture Capital Investment Committee reviews financing requests for convertible debt, equity or a combination of convertible debt and equity to support companies with high value creation potential in the pre-startup, startup or post-startup stage.

These committees also have a role in overseeing investment-related reputation risk, sector concentration risk related to Investments impacting the Québec economy, credit and counterparty risk related to Investments impacting the Québec economy, risk associated with the appointment and performance monitoring of external directors and operational risk related to the investment process. They are informed of the strategic risk associated with the Investments impacting the Québec economy portfolio's allocation by region, which is supervised by the Board.

Attendance record and compensation

The following table presents the attendance record and compensation of CRCD's directors and external committee members for fiscal 2019.

Name	Board of Directors	Governance and Human Resources Committee	Audit and Risk Management Committee	Financial Asset Management Committee	Portfolio Valuation Committee	Development Capital Investment Committee	Venture Capital Investment Committee	**Compensation**
(Number of meetings)	***9***	***7***	***4***	***4***	***2***	***23***	***12***	
Directors and external committee members active as at the date of this MD&A								
Charles Auger	9/9						12/12	30,000
Marc Barbeau	9/9			4/4		18/23		44,600
Bernard Bolduc	6/8		3/3			20/23		39,784
Éric Charron	9/9			4/4				26,000
Lucie Demers	9/9		4/4		2/2			34,000
Marlène Deveaux	9/9	3/3				16/17		32,117
Linda Labbé	7/9	3/4	3/3	4/4				40,625
Muriel McGrath	8/8						12/12	31,000
Marcel Ostiguy	9/9			3/4				26,000
Louis Roy	8/8						9/9	22,751
Louis-Régis Tremblay	9/9			3/3		22/23		38,550
Mario Lavallée*				2/2				4,663
George Rossi*					2/2			8,400
Michel Rouleau*						23/23		21,400
Sébastien Mailhot*					2/2			8,400
Michel Martineau*					2/2			8,400
Anne-Marie Renaud*						15/16		14,188
Normand Tremblay*							12/12	14,800
Directors and external committee members no longer in office as at the date of this MD&A								
Chantal Bélanger	8/8	7/7	4/4		2/2			44,479
Jean-Claude Gagnon	1/1		1/1					7,000
Jacques Jobin	1/1						3/3	9,000
Sylvie Lalande	8/8	7/7						64,864
Bruno Morin	1/1	3/3	1/1	1/1		6/6		17,500
Guy Delisle*						6/6		5,500
Thom Skinner*							3/3	3,700
TOTAL COMPENSATION								**597,721**

* External committee member

EXPLANATORY NOTES TO TABLE:

Compensation includes fees in connection with meetings of the Board of Directors and the committees, training sessions and working meetings of the special committees. Only external committee members receive fees for meetings.

The Chair of the Board of Directors and the Desjardins Group Relations Director receive an annual retainer of $70,000 and $45,000, respectively. They receive no other compensation as a director, chair, member or contact person of a committee.

4.4 Risk management

POLICIES AND PRACTICES

Sound risk management practices are critical to the success of CRCD. An integrated risk management policy has been put in place to provide the capacity to anticipate and be proactive in mitigating the impact of risk events.

> **NOTE TO THE READER**
>
> The following sections regarding market risks, credit and counterparty risks, concentration risks and liquidity risks have been reviewed by CRCD's independent auditor as part of the audit of the separate financial statements concerning which an independent auditor's report was issued on February 13, 2020.

MARKET RISKS

Market risks pertain to CRCD's role in the capital markets and, indirectly, to general changes in economic conditions. They also pertain to the impact of capital market movements on the value of CRCD's assets. The various risks that make up market risks directly impacting CRCD are listed below.

In accordance with CRCD's global financial asset management approach, the impact of the interest rate and stock market risks and their interrelatedness are taken into account when determining overall asset allocation.

Interest rate risk

Interest rate fluctuations have an impact on the market value of fixed-income securities and real estate funds held in the portfolio for which fair value is determined based on market conditions. The fair value of these assets as at December 31, 2019 was $965.1 million ($986.5 million as at December 31, 2018). Fixed-income securities held in the Other investments portfolio include money market instruments and bonds. Fixed-income securities held in the Investments impacting the Québec economy portfolio include loans and advances and preferred shares.

Money market instruments with a fair value of $46.0 million ($51.2 million as at December 31, 2018) are not valued based on changes in interest rates, given their very short maturities.

Bonds with a fair value of $536.0 million ($642.0 million as at December 31, 2018) are directly affected by changes in interest rates. A 1% increase in interest rates would have resulted in a $37.1 million decrease in net earnings, representing a 1.7% decrease in CRCD's share price as at December 31, 2019 ($39.9 million for 1.9% as at December 31, 2018). Similarly, a 1% decrease in interest rates would have had the opposite effect, resulting in a $40.2 million increase in net earnings, representing a 1.8% increase in the share price ($42.9 million for 2.0% as at December 31, 2018). CRCD's financial asset management strategy aims to diversify the portfolio securities, resulting in limited exposure to long-term bonds. Given that CRCD matches the maturities of bonds held in its portfolio with the average maturity of expected cash outflows, the long-term effect of interest rates on results should be limited.

Real estate funds with a fair value of $112.1 million ($96.4 million as at December 31, 2018) may also be affected by interest rate fluctuations. However, unlike bonds, there is no direct correlation between changes in interest rates and changes in fair value of this asset class.

In the Investments impacting the Québec economy portfolio, loans and advances and preferred shares for which CRCD also holds participating shares in the same company and those that are discounted, totalling a fair value of $243.9 million ($225.6 million as at December 31, 2018), are not sensitive to changes in interest rates. Conversely, the other loans and advances and preferred shares included in the portfolio, totalling a fair value of $271.0 million ($197.0 million as at December 31, 2018), are sensitive to changes in interest rates. However, the interest rate risk related to the other loans and advances and preferred shares held in the portfolio is limited given the amounts in question.

Stock market risk

Stock market trends have a twofold impact on CRCD. In addition to the direct impact on the market values of publicly traded stocks, the valuations of some private portfolio companies may also be affected by changes in stock prices.

As at December 31, 2019, global and Canadian equity funds, valued at $236.9 million ($239.5 million as at December 31, 2018), held in the Other investments portfolio, consisted primarily of listed equities. Accordingly, a 10% increase or decrease in the quoted market prices of listed equities would have resulted in a $23.7 million increase or decrease in net earnings, representing a 1.1% increase or decrease in CRCD's share price.

Market neutral equity funds, valued at $60.9 million at December 31, 2019 (nil as at December 31, 2018), are less exposed to stock market fluctuations as they minimize market risk. Furthermore, since these funds represent low exposure for the portfolio, any fluctuation would not have a significant direct impact on CRCD's net earnings.

The Investments impacting the Québec economy portfolio included listed equities in the amount of $23.9 million ($18.4 million as at December 31, 2018). Accordingly, for these investments a 10% increase or decrease in the quoted market prices of listed equities would have resulted in a $2.4 million increase or decrease in net earnings, representing a 0.1% increase or decrease in CRCD's share price.

Currency risk

Changes in currency values have an impact on the activities of a number of CRCD's partner companies. The net effect of an appreciation in the Canadian dollar is not necessarily always negative for these companies, nor is a depreciation necessarily positive. However, rapid fluctuations in the Canadian dollar heighten the difficulties faced by these companies.

Currency fluctuations impact the fair value of assets valued initially in a foreign currency and subsequently translated into Canadian dollars at the prevailing rate of exchange. In the portfolio of Investments impacting the Québec economy, assets whose values fluctuate due to changes in foreign exchange rates represented a fair value of $80.4 million or 3.5% of net assets as at December 31, 2019, compared with $76.4 million or 3.5% of net assets at December 31, 2018.

CRCD aims to systematically hedge currency risk for assets measured in foreign currency, unless the exposure stems from the long-term expected returns of certain asset classes. A $19 million line of credit has been granted to CRCD for its foreign exchange contract transactions. As at December 31, 2019, CRCD held foreign exchange contracts under which it will be required to deliver US$51.7 million (US$53.1 million as at December 31, 2018) at the rate of CAD/USD 1.3142 (CAD/USD 1.3615 as at December 31, 2018), as well as foreign exchange contracts under which it will be required to deliver €8.6 million (€3.6 million as at December 31, 2018) at the rate of CAD/EUR 1.4666 (CAD/EUR 1.5685 as at December 31, 2018) on March 31, 2020. As at December 31, 2019, CRCD had nil collateral on its foreign exchange contracts ($4.5 million as at December 31, 2018).

As at December 31, 2019, the net exposure of CRCD's Investments impacting the Québec economy portfolio and accounts receivable to foreign currencies was thus limited to $0.9 million ($1.8 million as at December 31, 2018). Any fluctuation in the Canadian dollar will therefore not have a significant impact on CRCD's results.

For the Other investments portfolio, the net exposure of investments to foreign currencies amounted to $205.5 million (137.4 million as at December 31, 2018). Accordingly, a 10% decrease (increase) in value of the Canadian dollar relative to all of the other foreign currencies would have resulted in a $20.6 million increase (decrease) in net earnings, representing a 0.9% increase (decrease) in CRCD's share price.

CREDIT AND COUNTERPARTY RISKS

In pursuing its Investments impacting the Québec economy mission, CRCD is exposed to credit and counterparty risks related to potential financial losses if a partner company fails to fulfill its commitments or experiences a deterioration of its financial position. By diversifying its investments by investment profile, and by limiting the potential risk of each partner company, CRCD has limited portfolio volatility due to the possibility of negative events.

CRCD does not generally require guarantees to limit credit risk on its loans. Requiring guarantees would contravene the eligibility rules for Investments impacting the Québec economy.

The maximum credit risk is the carrying amount of the financial instruments at the end of the reporting period, in addition to funds committed but not disbursed.

Investments impacting the Québec economy, except those carried out through funds, are first ranked by risk from 1 to 9 based on the criteria defined by Moody's RiskAnalyst tool. Subsequently, all the investments are reviewed monthly to identify those that meet the criteria for a ranking of 10.

Investments impacting the Québec economy made as funds are reported in the Low to acceptable risk category due to the structure of this type of product, and because they generally involve no leverage.

The table below shows the slight deterioration in the Investments impacting the Québec economy portfolio, ranked by risk (fair value amounts):

Rating		As at December 31, 2019 (in thousands of $)	As at December 31, 2019 (as a %)	As at December 31, 2018 (in thousands of $)	As at December 31, 2018 (as a %)
1 to 6.5	Low to acceptable risk	**1,180,364**	**94.5**	1,031,104	95.5
7 to 9	At risk	**51,724**	**4.1**	33,458	3.1
10	High risk and insolvent	**17,879**	**1.4**	15,507	1.4

Furthermore, CRCD is exposed to credit risk on financial instruments not recognized in assets, which are funds committed but not disbursed in connection with the Investments impacting the Québec economy portfolio. The table below shows the breakdown, by risk rating, of funds committed but not disbursed as at the reporting date:

Rating		As at December 31, 2019 (in thousands of $)	As at December 31, 2019 (as a %)	As at December 31, 2018 (in thousands of $)	As at December 31, 2018 (as a %)
1 to 6.5	Low to acceptable risk	**234,455**	**98.9**	191,969	99.9
7 to 9	At risk	**2,554**	**1.1**	-	-
10	High risk and insolvent	**-**	**-**	200	0.1

For the bond portfolio, which represented 54.0% of the fair value of the Other investments portfolio (62.4% as at December 31, 2018), credit risk is managed by diversification across numerous issuers with credit ratings as follows:

Rating[1]	As at December 31, 2019 (in thousands of $)	As at December 31, 2018 (in thousands of $)
AAA	**226,045**	295,820
AA	**176,336**	242,163
A	**80,991**	56,401
BBB	**52,660**	47,571

[1] Credit risk ratings are established by recognized credit agencies.

Consistent with the global financial asset management policy, money market instruments have a minimum credit rating of R-1 (low), thus limiting the credit risk associated with these financial instruments.

Counterparty risk is limited to the immediate short term and is associated with CRCD's counterparty when entering into cash transactions.

Counterparty risk is low for foreign exchange contracts given the amounts in question and that the contract counterparty is the Fédération des caisses Desjardins du Québec.

CONCENTRATION RISKS

Concentration risks arise from the possibility that a significant portion of CRCD's Investments impacting the Québec economy portfolio or Other investments portfolio might become concentrated in a single entity, industry, region or financial product, which could render CRCD vulnerable to any financial difficulties experienced by such entity, industry, region or financial product.

Risk of concentration in an entity

Pursuant to its constituting act, policies and internal guidelines, the amount that CRCD may invest in any one entity or in a group of associates is limited to a percentage of its assets for both the Investments impacting the Québec economy and Other investments portfolios.

The concentration of the five largest Investments impacting the Québec economy and the five largest Other investments is as follows (percentages are based on fair asset value and funds committed but not disbursed):

	As at December 31, 2019		As at December 31, 2018	
	% of portfolio	% of net assets	% of portfolio	% of net assets
Investments impacting the Québec economy[(1)]	**33.5**	**21.6**	33.5	19.7
Other investments[(2)]	**44.8**	**19.2**	48.8	23.1

(1) CRCD's interest in the ecosystem funds accounted for 64% (63% as at December 31, 2018) of the five largest Investments impacting the Québec economy.
(2) Government issuers and issues guaranteed by government entities represented 47% (70% as at December 31, 2018) of the five largest issuers or counterparties in the Other investments portfolio.

Risk of concentration by region

In keeping with its mission of Québec economic development, the Investments impacting the Québec economy portfolio chiefly comprises businesses whose employees are, in the majority, residents of Québec. Furthermore, at least 35% of its investments must be made in companies located in the resource regions or in eligible cooperatives. Portfolio performance therefore depends heavily on economic conditions in Québec and the resource regions. As at December 31, 2019, the Investments impacting the Québec economy portfolio represented 55.1% of net assets (51.3% as at December 31, 2018).

CRCD has adopted a global financial asset management and investment guidelines policy to govern the holding of foreign securities within the Other investments portfolio. As at December 31, 2019, the Other investments portfolio included a portion of foreign securities resulting primarily from its interest in global equity funds, plus 79.4% in Canadian securities (86.8% as at December 31, 2018). Other investments portfolio performance therefore depends heavily on economic conditions in Canada. As at December 31, 2019, the Other investments portfolio represented 43.2% of net assets (48.0% as at December 31, 2018).

Risk of concentration in a financial product

The global financial asset management policy favours global integrated management of the Investments impacting the Québec economy and Other investments portfolios. The policy establishes limits by asset class and these limits are applied by the manager. As at December 31, 2019, bond securities represented 23.2% of net assets (29.6% as at December 31, 2018). The lower percentage allocated to this asset class stems from the increase in the weighting for Investments impacting the Québec economy and the addition of new asset classes in order to diversify and strike an overall portfolio balance between risk and return and meet CRCD's cash requirements.

The portfolio summary presented at the end of this MD&A also provides relevant information for assessing concentration risk.

LIQUIDITY RISKS

CRCD must maintain sufficient liquid assets to fund share redemptions and committed Investments impacting the Québec economy. If it failed to do so, CRCD would be dependent on the markets and could be forced to carry out transactions under unfavourable conditions. With liquid investments that should represent approximately 30% of assets under management, and using a management approach that ensures that the average maturity of bonds is close to the average maturity of expected outflows, CRCD can confirm that liquidity risks are adequately covered. Furthermore, credit facilities have been put in place to provide greater cash management flexibility. The credit facilities were undrawn during fiscal 2019 and 2018.

Given the anticipated increase in the balance of the redeemable shares of CRCD, new temporary measures announced by the Québec government in March 2018 allow eligible CRCD shareholders to commit their redeemable capital for an additional seven-year period. With an authorized annual amount of $100 million until 2020, this initiative will ensure greater availability of capital for Investments impacting the Québec economy and reduce cash requirements related to share redemptions. See the Capital raising section for more information.

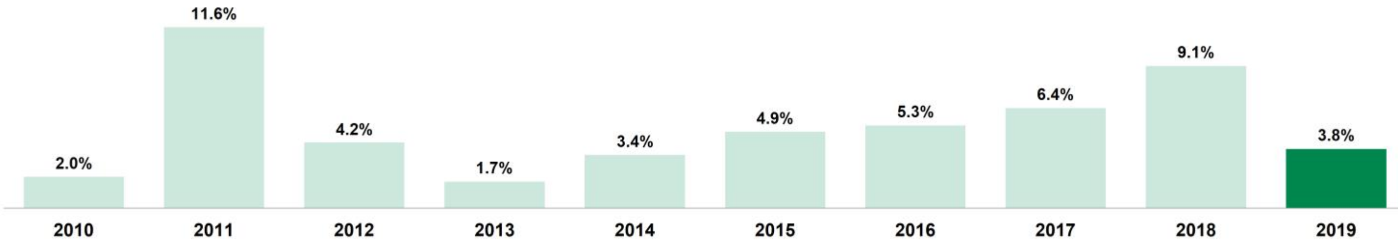
CRCD, through its balanced financial strategy and integrated risk management, has the necessary sources of funding to cover its financial obligations and pursue its mission among Québec businesses.

5.0 Past performance

This section presents CRCD's historical returns. These returns do not include the $50 administration fee paid by shareholders or the tax credit they enjoy as a result of their investment. Past performance is not necessarily indicative of future returns.

5.1 Annual returns

The following chart shows CRCD's annual returns and illustrates the change in returns from one period to the next for the past ten fiscal years. Annual return is calculated by dividing income (loss) per share for the period by the share price at the beginning of the period.



5.2 Compounded return of the common share as at December 31, 2019

The compounded return is calculated based on the annualized change in the price of the share over each of the periods shown.

10 YEARS	7 YEARS	5 YEARS	3 YEARS	1 YEAR
5.1%	4.8%	5.7%	6.3%	3.9%

6.0 Portfolio summary

6.1 Core investment profiles

As at December 31, 2019, assets in CRCD's Investments impacting the Québec economy and Other investments portfolios were allocated, on a fair value basis, as follows:

Investment profile	% of net assets
INVESTMENTS IMPACTING THE QUÉBEC ECONOMY*	
Debt	17.6
Equity	30.9
External funds	2.2
Venture capital	3.7
Other asset items held by ecosystem funds	0.7
Total – Investments impacting the Québec economy	**55.1**
OTHER INVESTMENTS	
Cash and money market instruments	2.3
Bonds	23.2
Global equity funds	7.5
Canadian equity funds	2.7
Real estate funds	4.9
Market neutral equity funds	2.6
Total – Other investments	**43.2**

* Including foreign exchange contracts

Net assets are made up of 98.3% investment profiles and 1.7% other asset items.

6.2 Main investments held

As at December 31, 2019, on a fair value basis, the issuers of the 25 main investments held by CRCD were as follows:

Issuers as at December 31, 2019	% of net assets
Investments impacting the Québec economy – 14 issuers*	31.2
Government of Canada	6.1
Desjardins IBrix Low Volatility Global Equity Fund	3.8
Desjardins Global Dividend Fund	3.8
Canada Housing Trust	3.0
Bentall Kennedy Prime Canadian Property Fund	2.6
Fiera Properties CORE Fund	2.3
Province of Ontario	2.1
Province of Québec	2.1
CC&L market neutral funds	1.8
Province of Manitoba	1.5
BMO Low Volatility Canadian Equity ETF	1.4

*** The 14 issuers which collectively represented 31.2% of CRCD's net assets are:**

Agropur Cooperative
Avjet Holding Inc.
Capital croissance PME II s.e.c.
DC Immo 1ère S.E.C.
Desjardins - Innovatech S.E.C.
Desjardins Capital PME s.e.c.
Exo-s Inc.
Fournier Industries Group Inc.
Groupe Solotech inc.
La Coop fédérée
Liberty Spring Inc.
Norbec Group Inc. (10080233 Canada Inc.)
SJM Group Inc.
Télécon Inc.

This summary of CRCD's portfolio may change at any time due to transactions carried out by CRCD.

February 13, 2020

7.0 Management's report

February 13, 2020

CRCD's separate financial statements together with the financial information contained in this annual report are the responsibility of the Board of Directors, which delegates the preparation thereof to management.

In discharging its responsibility for the integrity and fairness of the financial statements, management has ensured that the manager maintains an internal control system to provide reasonable assurance that the financial information is reliable, that it provides an adequate basis for the preparation of the financial statements and that the assets are properly accounted for and safeguarded.

Furthermore, the Desjardins Group Relations director and CRCD's Chief Financial Officer have certified that the method used to determine the fair value of each of the Investments impacting the Québec economy complies with the requirements of the Autorité des marchés financiers and have confirmed the reasonableness of the aggregate fair value of the portfolio of Investments impacting the Québec economy.

The Board of Directors fulfils its responsibility for the financial statements principally through its Audit and Risk Management Committee. The Committee meets with the independent auditor appointed by the shareholders with and without management present to review the financial statements, discuss the audit and other related matters and make appropriate recommendations to the Board of Directors. The Committee also analyzes the management discussion and analysis to ensure that the information therein is consistent with the financial statements.

The financial statements present the financial information available as at February 13, 2020. Prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, these statements have been audited by PricewaterhouseCoopers LLP.

The Board of Directors has approved the separate financial statements, together with the information in the management discussion and analysis. The financial information presented elsewhere in this report is consistent with CRCD's separate financial statements.

(signed) Yves Calloc'h, CPA, CA
Chief Financial Officer