# Management discussion and analysis

This interim Management Discussion and Analysis ("MD&A") supplements the financial statements and contains financial highlights but does not reproduce the complete interim 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 interim 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.

Annual financial information may be obtained in the same way.

# 1.0 Highlights

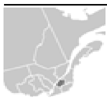
## 1.1 Commitments throughout Québec

CRCD and its ecosystem(1) make a real contribution to the economic development of the regions. As at June 30, 2020, the funds committed per region were as follows:

**ABITIBI-TÉMISCAMINGUE***
$27M → **33** companies

**BAS-SAINT-LAURENT***
$26M → **27** companies
$0.2M → **1** cooperative

**CAPITALE-NATIONALE**
$102M → **45** companies
$5M → **3** cooperatives



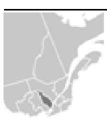
**CENTRE-DU-QUÉBEC**
$66M → **24** companies
$12M → **2** cooperatives

**CHAUDIÈRE-APPALACHES**
$127M → **43** companies
$2M → **4** cooperatives

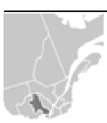
**CÔTE-NORD***
$4M → **8** companies

**ESTRIE**
$97M → **33** companies
$4M → **4** cooperatives

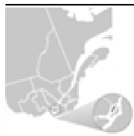
**GASPÉSIE–ÎLES-DE-LA-MADELEINE***
$7M → **8** companies



**LANAUDIÈRE**
$27M → **12** companies
$1M → **1** cooperative

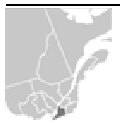


**LAURENTIDES**
$19M → **6** companies

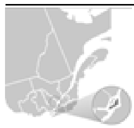


**LAVAL**
$15M → **8** companies

**MAURICIE***
$15M → **12** companies
$1M → **1** cooperative



**MONTÉRÉGIE**
$296M → **59** companies
$2M → **3** cooperatives



**MONTRÉAL**
$410M → **81** companies
$3M → **3** cooperatives

**NORD-DU-QUÉBEC***
$3M → **15** companies

**OUTAOUAIS**
$7M → **6** companies

**SAGUENAY–LAC-SAINT-JEAN***
$68M → **65** companies
$1M → **4** cooperatives

**OUTSIDE QUÉBEC (ex Europe)**
$2M → **2** companies

**EUROPE**
$13M → **6** companies

**FUNDS**
$65M → **16** funds

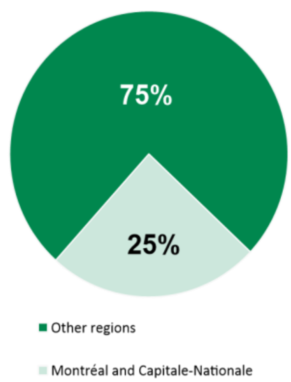
**IN TOTAL**

**535**
**COMPANIES, COOPERATIVES AND FUNDS**

**$1,429M**
**BENEFITTING SMEs**

**80,000**
**JOBS CREATED OR MAINTAINED**
*(as at December 31, 2019)*

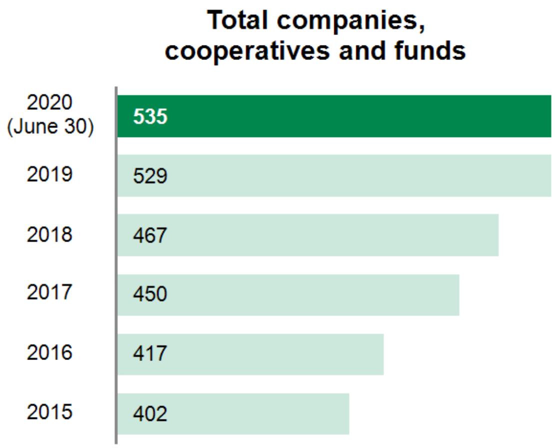
**75%**
**OF COMPANIES AND COOPERATIVES BASED IN QUÉBEC ARE FROM REGIONS OTHER THAN MONTRÉAL AND CAPITALE-NATIONALE.**

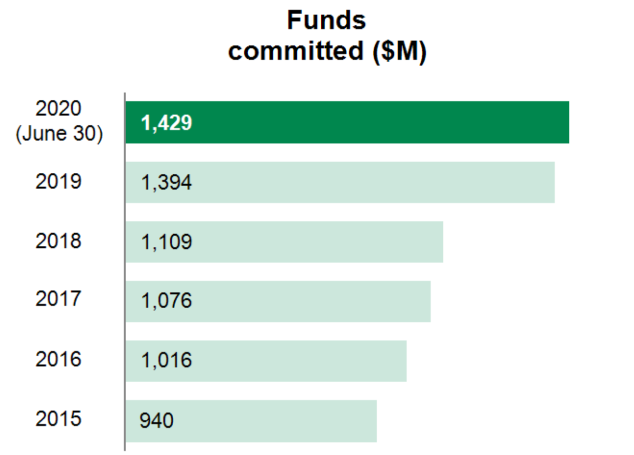



**Resource region*
*(1)See the Entrepreneurial ecosystem section for a detailed description of the main features of the ecosystem.*

## 1.2 CRCD and its ecosystem support companies and cooperatives

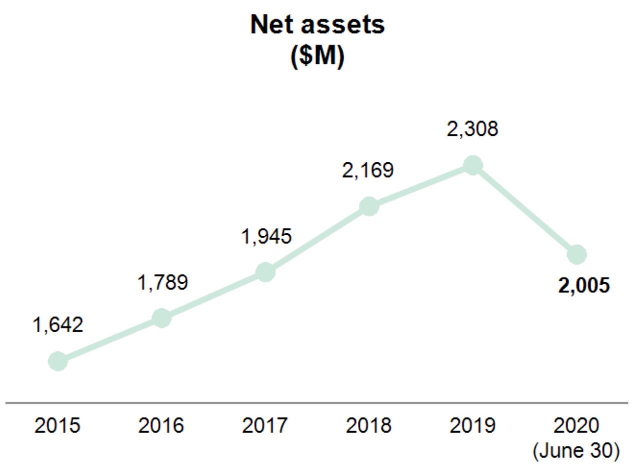
AS AT JUNE 30, 2020 AND DECEMBER 31

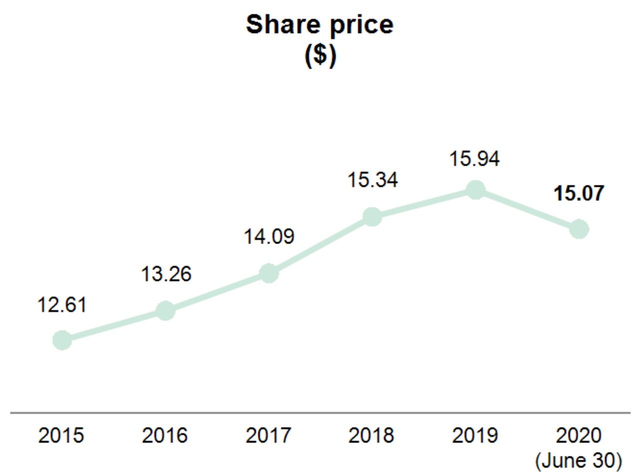


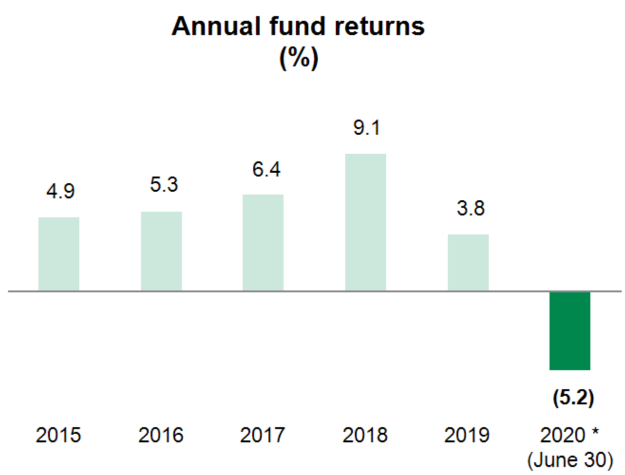




## 1.3 CRCD financial data

AS AT JUNE 30, 2020 AND DECEMBER 31




*Negative non-annualized return for the six-month period ended June 30, 2020.

## 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 and for the six-month period ended June 30, 2020. This information is derived from CRCD's audited separate annual financial statements.

### 2.1 Ratios and supplemental data

| (in thousands of $, unless indicated otherwise) | June 30, 2020 (6 months) | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|---|---|---|---|
| Revenue | **20,931** | 55,210 | 70,285 | 51,392 | 44,449 | 45,269 |
| Gains (losses) on investments | **(118,551)** | 63,703 | 138,632 | 96,541 | 78,869 | 64,035 |
| Net earnings (loss) | **(115,597)** | 81,302 | 174,894 | 112,757 | 85,957 | 74,806 |
| Net assets | **2,005,084** | 2,308,466 | 2,168,804 | 1,945,342 | 1,789,417 | 1,642,076 |
| Common shares outstanding (number, in thousands) | **133,071** | 144,849 | 141,391 | 138,080 | 134,944 | 130,183 |
| Total operating expense ratio and common share issue expense ratio(1) (%) | **2.0** | 1.6 | 1.6 | 1.9 | 2.2 | 2.0 |
| Portfolio turnover rate: | | | | | | |
| – Investments impacting the Québec economy (%) | **8** | 10 | 17 | 16 | 11 | 19 |
| - Other investments (%) | **68** | 101 | 163 | 87 | 126 | 131 |
| Trading expense ratio(2) (%) | **-** | - | - | - | - | - |
| Number of shareholders (number) | **105,355** | 109,364 | 107,862 | 105,614 | 104,317 | 102,222 |
| Issues of common shares – Class A "Issuance" | **294** | 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 |
| Redemption of common shares | **188,079** | 81,657 | 90,088 | 89,285 | 70,438 | 83,324 |
| Investments impacting the Québec economy at cost | **1,065,239** | 1,014,864 | 838,258 | 828,255 | 787,142 | 738,596 |
| Fair value of investments impacting the Québec economy | **1,131,563** | 1,249,967 | 1,080,069 | 1,033,951 | 921,518 | 817,199 |
| Funds committed but not disbursed | **188,578** | 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 $) | June 30, 2020 (6 months) | Dec. 31, 2019 | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|---|---|---|---|
| **Net assets per common share, beginning of period/year** | **15.94** | 15.34 | 14.09 | 13.26 | 12.61 | 12.05 |
| Increase (decrease) attributable to operations | **(0.83)** | 0.58 | 1.28 | 0.84 | 0.66 | 0.59 |
| Interest, dividends, distributions and negotiation fees | **0.15** | 0.39 | 0.51 | 0.38 | 0.34 | 0.35 |
| Operating expenses | **(0.14)** | (0.25) | (0.21) | (0.24) | (0.26) | (0.23) |
| Income taxes | **0.01** | (0.01) | (0.03) | (0.02) | (0.03) | (0.03) |
| Realized gains (losses) | **0.36** | 0.25 | 0.79 | 0.06 | 0.18 | 0.29 |
| Unrealized gains (losses) | **(1.21)** | 0.20 | 0.22 | 0.66 | 0.43 | 0.21 |
| **Difference attributable to common share issues and redemptions** | **(0.04)** | 0.02 | (0.03) | (0.01) | (0.01) | (0.03) |
| **Net assets per common share, end of period/year** | **15.07** | **15.94** | **15.34** | **14.09** | **13.26** | **12.61** |

## 3.0 Recent events

### COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic and two days later, the Gouvernement du Québec declared a public health emergency throughout Québec. Like all of Desjardins Group, CRCD's top priority is the health and safety of our employees, shareholders, directors, partners and clients.

In response to the government's and Desjardins's recommendations, CRCD's manager, Desjardins Capital Management Inc. (Desjardins Capital or DC), adopted a number of preventive measures to slow the spread of COVID-19 while maintaining all of our services. Since the beginning of the pandemic, all employees of DC have been working remotely.

### MAIN FINANCIAL RELIEF MEASURES FOR PARTNER COMPANIES

Today, more than ever, our entrepreneurs need us and we're right there, offering them our support. Canada's entire economy is feeling the financial repercussions of the COVID-19 pandemic, and that is especially true among entrepreneurs. Because we care about our partner companies' ability to maintain operations, we offered flexibility for those at risk of potential financial difficulties as a direct consequence of the current situation. Our team has been engaged and constantly in touch with entrepreneurs since the start of this crisis. We are monitoring the situation in real time and continue to update our support measures based on developments. This allows us to be fully attentive to our partners in today's changing environment.

### ANNUAL GENERAL MEETING OF CRCD

Given the exceptional circumstances, CRCD's Annual General Meeting, initially scheduled for the Québec City Convention Centre, took place, as announced, on Friday, March 27, 2020, but via online webcast only. In particular, shareholders were able to vote live on the two nominees for election as directors or by using the form of proxy.

### IMPACTS OF THE PANDEMIC

The pandemic is disrupting the global economy in general and causing heightened stock market volatility. Please see the Economic environment section for further information.

The measures introduced by various levels of government to combat the spread of the virus (including social distancing, closure of non-essential businesses, travel restrictions, household confinement, and cancellations of gatherings and events) could have a longer-term adverse impact on businesses, which would affect CRCD's financial position, profitability, and results of operations. However, it is too early to assess any such impact over the longer horizon. The various government programs available and the relief measures introduced by CRCD should help to mitigate any impact.

The Board of Directors of CRCD has met regularly since the beginning of the pandemic to monitor its evolution and impacts on CRCD's operations. In fact, capital market uncertainty and volatility led to an increase in the volume of share redemptions processed by CRCD during the first half of 2020 ($188.1 million compared to $50.6 million for the same period last year). The Board of Directors is monitoring redemptions, as volume peaked mainly from mid-March to the end of May.

While CRCD has the necessary liquidity to honour all of the redemptions requested by its shareholders, a continued higher volume of redemptions could affect CRCD's ability to adequately fulfill its economic development mission, while continuing to provide reasonable returns for shareholders over the long term. However, as the current pace of redemptions has stabilized and returned to a level comparable to the last few years', CRCD anticipates no difficulty in pursuing its mission.

Lastly, given the uncertainties and risks that COVID-19 poses for local, national and global economies, as well as for its partner companies and operations, CRCD has been obliged to revise the rollout schedule for its 2020 strategic priorities.

# 4.0 OVERVIEW

CRCD ended the first six months of 2020 with a net loss of $115.6 million (earnings of $93.5 million for the same period in 2019), representing a negative non-annualized return of 5.2% (positive return of 4.4% as at June 30, 2019), decreasing net assets by $0.87 per share to $15.07 based on the number of shares outstanding as at June 30, 2020. CRCD aims to strike an appropriate long-term 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.

Investments impacting the Québec economy posted a negative non-annualized return of 9.6% for the six-month period ended June 30, 2020, compared with a return of 4.1% for the same period a year earlier. This performance resulted primarily from the lower profitability of several companies which were significantly impacted by the economic turbulence, with businesses in the following three sectors being hardest hit: Retail Trade (B2C), Automotive, and Arts, Entertainment and Recreation. That said, the health crisis and shuttering of a portion of the economy spared some of our partner companies which performed well, particularly in the three areas of Transportation, Logistics and Warehousing, Civil Engineering, and Professional, Scientific and Technical Services. That said, the health crisis and shuttering of a portion of the economy spared some of our partner companies which performed well, particularly in the three areas of Transportation, Logistics and Warehousing, Civil Engineering, and Professional, Scientific and Technical Services. As at June 30, 2020, the cost of Investments impacting the Québec economy totalled $1,065.2 million, of which $90.3 million was disbursed during the first six months of fiscal 2020. As at June 30, 2020, funds committed but not disbursed, which represent investments already agreed upon with companies, cooperatives or funds to be disbursed by CRCD at a later date, amounted to $188.6 million. New commitments for the year amounted to $40.3 million.

The Other investments portfolio recorded a non-annualized return of 2.2%. This performance was due to significant securities weighting in the bond market, which performed well during the last six months. Global and Canadian equity funds were impacted by the equity markets. For the same period in 2019, non-annualized return on the Other investments portfolio was 6.6%

During the six-month period, issues of Class A “Issuance” common shares totalled $0.3 million, namely the balance of the 2019 issue which was completed on January 23, 2020. The subscription period for the 2020 issue will begin in the fall. Share redemptions totalled $188.1 million, which represents a significant increase driven by the pandemic environment, compared with $50.6 million for the same period of the previous year. Net assets amounted to $2,005.1 million and shareholders numbered 105,355 as at June 30, 2020. Furthermore, as at June 30, 2020, the balance of shares eligible for redemption amounted to $962.8 million. For more information, please see the Subscriptions section of this MD&A.

### 4.1 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. The COVID-19 crisis is creating a sense of urgency around several areas such as productivity, automation and the digital shift.

Together with its manager, 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.

### 4.2 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, we have 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 Desjardins Capital Transatlantic, L.P. fund which began operations in 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 in Europe by setting up offices or acquiring competitors.

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. The pandemic is prompting us to adapt our practices in this regard.

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.

Our offering, which has been unique over the years, is once again proving itself in our ability to support our entrepreneurs in the current environment, particularly through networks that have enabled portfolio companies to help each other and also leverage opportunities arising from the pandemic landscape.

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 provide personalized support to entrepreneurs to help set up advisory committees or board of directors. We offer them on-site training as well as advice tailored to their situation. In addition, we can call on a vast network of experienced directors whose role is to help entrepreneurs set up a governance forum to support business strategy and growth. 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.

## 4.3 Economic conditions

### ECONOMIC ENVIRONMENT IN 2020

#### Global economy

The global economy was showing signs of improving at the start of the year, due in part to reduced trade tensions between China and the United States. However, this changed with the outbreak of COVID-19 in China. First it was the Chinese economy that experienced some real problems, posting a 33.8% annualized decline in real GDP in the first quarter. For the global economy, the initial consequences were falling Chinese demand and supply problems. However, as the coronavirus spread to many other countries and became a full-blown pandemic, economic development around the world faced even greater problems. However, as the coronavirus spread to many other countries and became a full-blown pandemic, economic development around the world faced even greater problems. The decline in tourism, the temporary closure of several services and the required health and lockdown measures, either suggested or imposed by the public authorities of many countries, led to major declines in real GDP in the first quarter and an annualized drop of 13.6% in the eurozone. Outside of China, the situation deteriorated even more in the second quarter, with annualized contractions of approximately 40% of the activity in several countries, confirming a global recession. However, May brought evidence that household and business confidence had begun to improve. The global economy is expected to rally in the second half of 2020 and in 2021, although it will take time to reach pre-crisis levels. The possibility of a significant second wave of COVID-19, however, poses a very significant risk to the global economy.

The pandemic provoked a dramatic plunge in the equity markets and a substantial widening of credit spreads in the first quarter of 2020, but this was followed by a major rebound in the value of high-risk assets in the second quarter. The main U.S. stock market indices posted their strongest quarterly gains since the start of the new millennium, with technology stocks leading the way. Credit spreads also narrowed sharply, driving appreciable gains in the bond markets. This good performance by the financial markets was largely due to the actions taken by central banks which, in addition to dramatically lowering interest rates, supported demand for all financial assets by injecting massive amounts of liquidity and even buying certain riskier assets directly. Initiatives to re-open several economies have also helped reassure investors.

In an environment where inflation and economic activity are expected to recover very gradually and where health risks are likely to persist, the U.S. Federal Reserve (the Fed) and the Bank of Canada are committed to using all the tools at their disposal to support the economic recovery and the smooth functioning of financial markets. Key interest rates should therefore remain stable in North America for the next few quarters, and this will help keep bond rates very low. Abundant liquidity and low interest rates may continue to underpin value for all financial assets.

#### United States

The U.S. economy was growing quite strongly at the start of 2020. Markets and consumer and business confidence were supported by the key interest rate cuts announced in 2019 and the truce in the trade war with China. However, starting in mid-March a rapid increase in COVID-19 cases changed everything. Voluntary or imposed lockdown measures caused a significant drop in economic activity. After a decrease of 5.0% in the first quarter at an annualized rate, the US real GDP fell 32.9% in the second quarter, the worst drop since 1950. Millions of jobs were quickly lost, and the unemployment rate jumped. The U.S. was thus officially declared in recession. However, job creation was already staging a comeback in May, and some indicators had begun to pick up. The U.S. economy is expected to rally as early as the third quarter of 2020 and grow strongly in 2021. This improvement is supported, among other things, by the federal government’s assistance plan and the measures taken by the Fed. The recent rise in COVID-19 cases, however, risks hampering the resumption of activity.

Canada

The Canadian economy was hard hit by the adverse impacts of COVID-19. Lockdown measures introduced in all the provinces have severely disrupted production in Canada and resulted in historic fluctuations in the economy. This resulted in a 2.1% decline in real GDP for the first quarter as a whole (8.2% annualized). In the wake of a very negative month in April, the gradual easing of restrictions across the country allowed the Canadian economy to begin recovering as early as May. However, the recovery will be slow and gradual. Although real GDP by industry flipped positive in May and June, the very negative base effects stemming from the drop in real GDP in March and April will produce a very negative average for the second quarter. Our scenario therefore assumes a 12.0% (or 40.0% annualized) decline in real GDP for the second quarter as a whole. Needless to say, this will represent a historic drop in Canada's real GDP. We will therefore need to wait until the third quarter before seeing evidence of economic recovery in the quarterly results. On average, real GDP is expected to decline by approximately 6% for 2020 as a whole. The recovery should continue next year, when real GDP could grow approximately 5.0%. This being said, uncertainties abound. The direction taken by the pandemic will clearly be a determining factor in the performance of the Canadian economy going forward, and a second wave of COVID-19 cannot be ruled out.

Québec

In Québec, much like elsewhere in the world, the economic indicators for March began to reflect the beginning of the lockdown measures. This led to a sharp drop in economic activity starting in the first quarter. Real GDP fell by 2.7% (or 10.3% on an annualized basis), the steepest quarterly decline since the indicators began being reported in 1981. Household consumption expenditure plunged 11.1%, non-residential business investment slipped 2.6%, and residential expenditures fell 4.9%. In addition, Québec exports fell by 11.8% (at an annualized rate) in the first quarter. These figures reflect the magnitude of the shock that began in March for households and businesses. Educational and cultural institutions as well as non-essential businesses remained closed in April, with the exception of residential construction. April GDP fell 14.8%, more than the 9.6% drop in March, and the second-quarter plunge will be even deeper, although May and June are expected to be positive due to the gradual re-opening of the economy. The unemployment rate continues to fall from April's peak of 17.0%, and household confidence has begun to rally. However, the damage caused by COVID-19 will leave deep scars, and it will take several quarters before economic activity can fully recover.

# 5.0 Management's discussion of financial performance

## 5.1 Operating results

### CRCD'S NET RESULTS AND RETURNS

CRCD ended the first half of the year on June 30, 2020 with a net loss of $115.6 million, or a negative non-annualized return of 5.2%, compared with net earnings of $93.5 million (non-annualized return of 4.4%) for the same period in 2019. Based on the number of common shares outstanding, net assets per share pulled back to $15.07 as at the end of the six-month period, compared with $15.94 at the end of fiscal 2019. For illustrative purposes, at a price of $15.07 effective August 13, 2020, shareholders who invested seven years earlier would obtain an annual after-tax return of more than 12.5%, taking into account the 50% income tax credit as per the rate applicable on August 13, 2013.

CRCD's performance is driven primarily by Investments impacting the Québec economy and Other investments, which generated a negative non-annualized return of 9.6% and a non-annualized return of 2.2%, respectively, for the six-month period ended June 30, 2020. Returns for the same period in 2019 were 4.1% and 6.6%, respectively. Expenses, net of administrative charges and income taxes, had an impact of 0.8% on CRCD's negative non-annualized return.

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

| | As at June 30, 2020 | | | |
|---|---|---|---|---|
| | Average assets under management ($M) | Weighting (%) | Non-annualized return 6 months (%) | Non-annualized contribution 6 months (%) |
| Activities related to Investments impacting the Québec economy[(1)] | 1,206 | 57.0 | (9.6) | (5.3) |
| Other investments and cash (bank overdraft) | 910 | 43.0 | 2.2 | 0.9 |
| | 2,116 | 100.0 | (4.4) | (4.4) |
| Expenses, net of administrative charges | | | (0.9) | (0.9) |
| Income taxes | | | 0.1 | 0.1 |
| **CRCD's return** | | | **(5.2)** | **(5.2)** |

| | As at June 30, 2019 | | | |
|---|---|---|---|---|
| | Average assets under management ($M) | Weighting (%) | Non-annualized return 6 months (%) | Non-annualized contribution 6 months (%) |
| Activities related to Investments impacting the Québec economy[(1)] | 1,145 | 52.8 | 4.1 | 2.1 |
| Other investments and cash | 1,022 | 47.2 | 6.6 | 3.2 |
| | 2,167 | 100.0 | 5.3 | 5.3 |
| Expenses, net of administrative charges | | | (0.9) | (0.9) |
| Income taxes | | | - | - |
| **CRCD's return** | | | **4.4** | **4.4** |

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

#### INVESTMENTS IMPACTING THE QUÉBEC ECONOMY

The pandemic environment has impacted our portfolio companies. Relief measures such as moratoriums on capital, interest and management fees were made available to our companies to support them in continuing operations. In all, 257 companies have taken advantage of these relief measures. In addition, CRCD limited new investments during the second quarter to focus on companies already in its portfolio that required reinvestment to continue their business operations. As we focused our efforts on companies already in our portfolio, the pace of new investments eased during the second quarter, slowing our growth plan.

As of the date of this report, the various levels of government have relaxed certain measures announced last March to limit the spread of the virus. The partial lifting of these measures is allowing the economy to re-open to a degree.

Investments of $99.2 million and disposals of $87.1 million were made for a net balance of $12.1 million. Combined with realized and unrealized net losses of $130.6 million, these net investments brought the fair value of the investment portfolio, including foreign exchange contracts, to $1,132.1 million as at June 30, 2020 ($1,250.6 million as at December 31, 2019). Investments in the funds comprising the entrepreneurial ecosystem, as described below, in the amount of $19.1 million, and a $47.0 million aggregate investment in three companies, mainly accounted for the investments of $99.2 million made during the first half of the year.

In measuring the Investments impacting the Québec economy, funds committed but not disbursed are also to be taken into account, amounting to $188.6 million as at June 30, 2020, compared with $237.0 million as at December 31, 2019. Total commitments at cost as at June 30, 2020 amounted to $1,253.8 million in 142 companies, cooperatives and funds, of which $1,065.2 million was disbursed. As at June 30, 2020, backed by its entrepreneurial ecosystem, CRCD supported growth in 535 companies, cooperatives and funds.

During the first six months of fiscal 2020, Investments impacting the Québec economy generated a negative contribution of $117.3 million, for a negative non-annualized return of 9.6%, compared with a contribution of $44.9 million for the same period of 2019 (a non-annualized return of 4.1%).

**Contribution generated by Investments impacting the Québec economy**

| (in thousands of $) | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|---|---|---|
| Revenue | 13,847 | 14,864 |
| Gains and losses | (131,129) | 30,044 |
| | **(117,282)** | 44,908 |

Revenue includes interest, dividends and negotiation fees related to Investments impacting the Québec economy. Negotiation fees, which amounted to $1.6 million for the six months ended June 30, 2020 ($1.5 million for the same period in 2019), 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 $7.9 million for the first six months of fiscal 2020 ($7.3 million for the same period in 2019), 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.

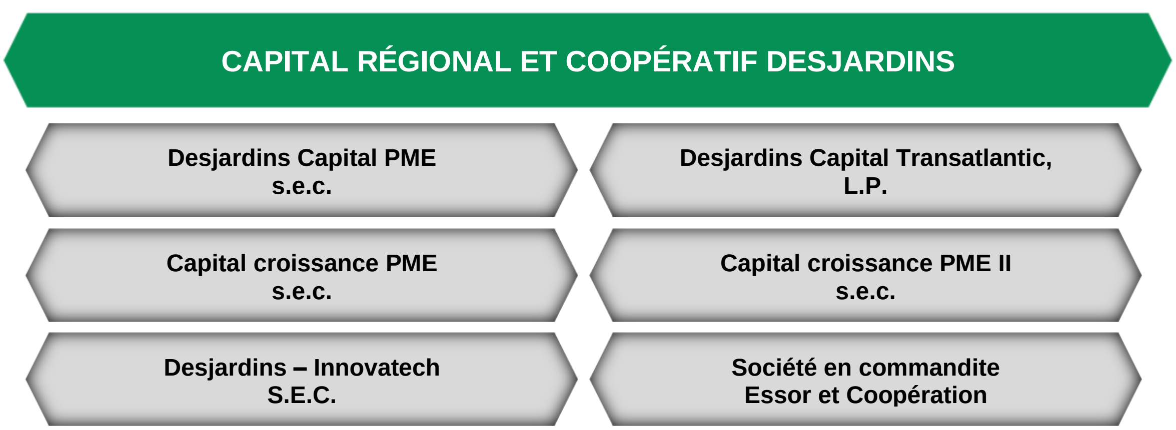
CRCD recorded in its results for the six-month period a realized and unrealized loss of $131.1 million compared with a gain of $30.0 million for the same period in 2019. For more information, please see Entrepreneurial ecosystem performance in the following section.

As at June 30, 2020, the overall risk level of the Investments impacting the Québec economy portfolio had deteriorated compared with its December 31, 2019 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




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

- The main goal of the Desjardins Capital PME s.e.c. fund (DCPME), created on January 1, 2018, 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. On January 1, 2020, Desjardins Holding financier inc. (DHF) became a limited partner of the DCPME fund. CRCD's interest in the DCPME fund is 39.9%, while the interests of the other two limited partners, Desjardins Private Management (DPM) and DHF, are 56.6% and 3.5%, respectively. As at June 30, 2020, CRCD had disbursed $84.8 million ($72.2 million as at December 31, 2020) allowing a total of 135 companies and funds to benefit from $244.9 million committed by the DCPME fund.

- Jointly with France-based Groupe Siparex, on July 4, 2018, DC created two funds: 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 $114 million, to the two funds. CRCD has a 60.7% interest in DC Transatlantic, which is managed by DC. As at June 30, 2020, CRCD had disbursed $11.3 million ($11.3 million as at December 31, 2019) of its total commitment of $34.8 million (€22.8 million), allowing eight companies to benefit from $15.7 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 $39.0 million of its total commitment of $85 million. As at June 30, 2020, Essor et Coopération had made commitments totalling $46.0 million to support 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 $0.4 million was disbursed during the first six months of 2020 for a total disbursement of $2.8 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 June 30, 2020, DI had made commitments of $64.1 million to support a total of 57 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 June 30, 2020, CRCD had disbursed $251.0 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 213 companies and funds benefited from $183.4 million committed by the CCPME funds as at June 30, 2020. Since their inception, these funds have committed $461.4 million to 376 companies.

In total, as at June 30, 2020, CRCD and its ecosystem supported the growth of 535 companies, cooperatives and funds in various industries spanning all Québec regions with commitments of $1,429 million. Of that total, 26 cooperatives benefited from commitments of $31.2 million. As at December 31, 2019, CRCD and its ecosystem helped to create and retain 80,000 jobs.

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**

| | As at June 30, 2020 | | | |
|---|---|---|---|---|
| | Average assets under management ($M) | Weighting (%) | Non-annualized return 6 months (%) | Non-annualized contribution 6 months (%) |
| Debt | **411** | **19.4** | **0.6** | **0.1** |
| Equity | **640** | **30.2** | **(17.1)** | **(5.3)** |
| External funds | **49** | **2.3** | **0.4** | **-** |
| Venture capital | **90** | **4.3** | **(2.3)** | **(0.1)** |
| **Investment profiles subtotal** | **1,190** | **56.2** | **(9.7)** | **(5.3)** |
| Other asset items held by ecosystem funds | **16** | **0.8** | **2.9** | **-** |
| **Ecosystem total** | **1,206** | **57.0** | **(9.6)** | **(5.3)** |

| | As at June 30, 2019 | | | |
|---|---|---|---|---|
| | Average assets under management ($M) | Weighting (%) | Non-annualized return 6 months (%) | Non-annualized contribution 6 months (%) |
| Debt | 347 | 16.0 | 5.3 | 0.8 |
| Equity | 657 | 30.3 | 3.5 | 1.1 |
| External funds | 43 | 2.0 | 4.3 | 0.1 |
| Venture capital | 78 | 3.6 | 4.6 | 0.2 |
| **Investment profiles subtotal** | 1,125 | 51.9 | 4.1 | 2.1 |
| Other asset items held by ecosystem funds | 20 | 0.9 | 2.1 | - |
| **Ecosystem total** | 1,145 | 52.8 | 4.1 | 2.1 |

CRCD's negative non-annualized return of 5.2% for the first six months ended June 30, 2020 stemmed primarily from the Equity investment profile, which recorded a negative non-annualized return of 17.1%. This performance resulted primarily from the difficulties faced by companies operating in the three sectors hardest hit by the pandemic, namely, in order, Arts, Entertainment and Recreation, Retail Trade (B2C) and Automotive. The Debt profile, with a non-annualized return of 0.6%, posted a lower return compared with the same period in 2019, with the decrease stemming from two main factors, namely increased credit risk of several portfolio companies, which led to discounts on their fair values, and higher corporate rates between the two periods.

### 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 a current revenue stream for CRCD and ensures sound diversification.

As at June 30, 2020, CRCD's Other investments portfolio, including cash (bank overdraft) but excluding foreign exchange contracts, totalled $820.5 million ($1,003.0 million as at June 30, 2019) and consisted of the following:

### Other investments portfolio

| | As at June 30, 2020 | | As at June 30, 2019 | |
|---|---|---|---|---|
| | **Fair value ($M)** | **% of portfolio** | **Fair value ($M)** | **% of portfolio** |
| Cash (bank overdraft) and money market instruments | (59.1) | (7.2) | 32.7 | 3.3 |
| Bonds | 560.0 | 68.3 | 602.6 | 60.1 |
| Global equity funds | 102.4 | 12.5 | 163.0 | 16.2 |
| Canadian equity funds | 44.6 | 5.4 | 74.0 | 7.4 |
| Real estate funds | 110.3 | 13.4 | 100.2 | 10.0 |
| Market neutral equity funds | 62.3 | 7.6 | 30.5 | 3.0 |
| **Portfolio total** | **820.5** | **100.0** | **1,003.0** | **100.0** |

As at June 30, 2020, 74% of portfolio bond securities were government-guaranteed (73% as at June 30, 2019).

The Other investments portfolio represented 40.9% of total net assets at the end of the first six months of 2020 (45% as at June 30, 2019), a decrease mainly arising from the bank overdraft totalling $80.6 million as at June 30, 2020, and divestments made from the portfolio to meet requests for the redemption of shares of CRCD. Commitments already made but not disbursed of $188.6 million, representing 9% of net assets, will eventually be covered from CRCD's Other investments portfolio and allocated to Investments impacting the Québec economy.

CRCD expects the Other investments portfolio over the long term to represent close to 35% of total net assets. 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 $) | **Six months ended June 30, 2020** | **Six months ended June 30, 2019** |
|---|---|---|
| Revenue | **8,325** | 10,755 |
| Gains and losses | **12,578** | 57,168 |
| | **20,903** | 67,923 |

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.

Current income declined $2.4 million for the first six months of 2020, compared with 2019, owing to lower average effective interest rates between the two periods combined with the decrease in the portfolio, due to divestments.

Gains of $12.6 million in the first six months of 2020 stemmed mainly from the following financial assets:

- The bond portfolio recorded an increase in value of $41.6 million, as key rates have shed 127 basis points since the beginning of the year in response to the impact of the global health crisis.

- The stock markets reacted conversely, affecting in particular global and Canadian equity funds, which suffered declines in value of $26.3 million, and to a lesser extent real estate funds, with a $4 million decline in value. The market-neutral equity strategy funds performed as expected in turbulent times with a gain of $1 million.

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. Furthermore, CRCD seeks to match the average maturity of the bond portfolio with the average maturity of expected cash outflows, thereby limiting the long-term effect of changes in bond rates on CRCD's results.

### SUBSCRIPTION

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.

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. For the first six months of 2020 and for fiscal 2019, no special tax was paid.

As at June 30, 2020, CRCD had $1,606.2 million in share capital for 133,070,603 outstanding common shares.

During the six-month period, CRCD raised $0.3 million through Class A "Issuance" shares, namely the balance of the 2019 issue which was completed on January 23, 2020 ($0.4 million for the first half of 2019). The 2020 subscription period will begin in the fall.

The exchange registration period for the 2020 tax year is scheduled to begin in the fall and applications will be accepted in early 2021.

During the first six months of 2020, common share redemptions totalled $188.1 million ($50.6 million for the same period of 2019). This significant increase was driven by the pandemic environment which generated considerable uncertainty in the markets and triggered an upswing in redemptions, mainly from March through May.

As at June 30, 2020, the balance of shares eligible for redemption amounted to $962.8 million. No new shares will become eligible for redemption during the second half of 2020 as the sale of the 2013 issue shares was completed before June 30, 2013. This balance will be reduced by the amount of any shares redeemed during the second half of 2020 and by subscriptions accepted for Class B "Exchange" shares during the first six months of 2021.

As at June 30, 2020, shareholders numbered 105,355 compared with 109,364 as at December 31, 2019.

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.

While CRCD is authorized under the Act, for the 2021 issue period, to issue Class A "Issuance" shares for an amount equal to the preceding issue period's redemptions at the cost, up to a maximum of $150 million, this amount may be reduced if CRCD fails to comply with investment targets (see section 5.2, CRCD's vision, mission, strategic priorities and strategies for more details).

### EXPENSES AND INCOME TAXES

**Expenses**

| (in thousands of $) | Six months ended June 30, 2020 | Six months ended June 30, 2019 |
|---|---|---|
| Management fees | **11,646** | 9,701 |
| Other operating expenses | **2,519** | 2,752 |
| Shareholder services | **5,579** | 5,818 |
| | **19,744** | 18,271 |

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% (1.75% for the year ended December 31, 2019) 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 other 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. Despite CRCD's asset reduction, the increase in management fees arose mainly from the fact that for the same period in 2019, certain timing differences in growth-related expenses generated greater economies of scale.

There was no significant change in other operating expenses and shareholder services between the two periods. The main expense under shareholder services is the compensation paid by CRCD to the caisses for all shareholder advisory services, determined annually based on CRCD's net assets and the degree to which share transactions are automated.

Income tax recovery amounted to $1.8 million for the first six months of fiscal 2020, an increase compared with  the same period in 2019 ($0.4 million for the first six months of 2019). The nature of the income has a significant impact on the income tax expense (recovery) 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 the six-month period ended June 30, 2020, cash outflows from issues net of redemptions amounted to $187.8 million (net cash outflows of $50.3 million in 2019), with the increase between the two periods due mainly to the higher volume of share redemptions during the first half of 2020. Operating activities combined with fees for the development of an intangible asset generated net cash inflows of $72.9 million (net cash inflows of $26.8 million in 2019).

Cash outflows related to Investments impacting the Québec economy amounted to $90.3 million for the first six months of 2020 ($83.9 million in 2019). The Other investments portfolio generated net cash inflows of $74.0 million, compared with net cash inflows of $76.3 million for the same period in 2019.

As at June 30, 2020, cash and cash equivalents totalled ($68.1 million) ($46.8 million as at December 31, 2019).

CRCD has an authorized line of credit of $200 million as at June 30, 2020. This line of credit was drawn down during the first six months of the current fiscal year and draw downs totalled $80.6 million as at June 30, 2020 (undrawn in fiscal 2019). Subsequent to June 30, 2020, the Board of Directors of CRCD authorized an increase in the amount of the line of credit to $250 million.

In the event that cash requirements exceed expectations, as occurred due to a higher than expected volume of share redemptions during the six-month period, this line of credit may be used, on a temporary basis, to meet 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.

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 from those shareholders who make such a request.

## 5.2 CRCD's mission, vision, strategic priorities and strategies

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

CRCD's vision, mission, objectives and strategies remain substantially similar to those described in its most recent annual MD&A. In the current pandemic environment, CRCD is maintaining these, although certain strategic initiatives may be delayed.

Under the Act, CRCD must fulfil its mission within certain guidelines which include having eligible investments representing not less than 65% of its average net assets for the previous fiscal year by the end of the 2020 fiscal year. Following CRCDs evaluation of the Investments impacting the Québec economy portfolio, this benchmark had not been met as at June 30, 2020. If, as at December 31, 2020, despite the monitoring of the situation, CRCD fails to comply with this requirement, the subscription amount for Class A shares for the next capitalization period would be limited to 87.5% of the amount otherwise authorized.

## 5.3 Governance

### BOARD OF DIRECTORS

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 the oversight of which is specifically conferred upon it.

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 committee roles and responsibilities remain substantially similar to those described in the most recent annual MD&A.

Note, however, that amendments to the governance of CRCD will be made in 2021 as provided for in *Bill 41, An Act respecting mainly the implementation of certain provisions of the Budget Speeches of 17 March 2016, 28 March 2017, 27 March 2018 and 21 March 2019*, assented to by the National Assembly of Québec on March 17, 2020. The Bill amends several provisions of the *Act constituting Capital régional et coopératif Desjardins*. Over the past few years, CRCD has implemented many of these provisions through amendments to its bylaws and charters; however, those relating to the composition of its Board of Directors are not required to come into force until the next annual general meeting scheduled for March 2021.

Accordingly, the new composition of the Board of Directors will be as follows:

- Six persons appointed by the President of the Fédération des caisses Desjardins du Québec;
- Three persons elected by the General Meeting of Shareholders;
- Three persons appointed by the previously appointed nine members, of whom two shall be deemed by those members to be representative of the eligible entities described in the Act;
- One Desjardins Group Relations director appointed by the twelve directors.

## 5.4 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 audited by CRCD's independent auditor as part of the audit of the separate financial statements in respect of which an independent auditor's report was issued on August 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 these 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 June 30, 2020 was $972.7 million ($956.6 million as at December 31, 2019). 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 $21.6 million ($46.0 million as at December 31, 2019) are not valued based on changes in interest rates, given their very short maturities.

Bonds with a fair value of $560.0 million ($536.0 million as at December 31, 2019) are directly affected by changes in interest rates. A 1% increase in interest rates would have resulted in a decrease of $38.4 million in net earnings, representing a 1.8% decrease in CRCD's share price as at June 30, 2020 ($37.1 million for 1.7% as at December 31, 2019). Similarly, a 1% decrease in interest rates would have had the opposite effect, resulting in a $41.6 million increase in net earnings, representing a 2.0% increase in the share price ($40.2 million for 1.8% as at December 31, 2019). CRCD's financial asset management strategy aims to diversify the portfolio securities, thereby limiting 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 $110.3 million ($112.1 million as at December 31, 2019) 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 $232.5 million ($243.9 million as at December 31, 2019), 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 $281.0 million ($271.0 million as at December 31, 2019), 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 private portfolio companies may also be affected by changes in stock prices.

As at June 30, 2020, global and Canadian equity funds, valued at $147.0 million ($236.9 million as at December 31, 2019), 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 $14.7 million increase or decrease in net earnings, representing a 0.7% increase or decrease in CRCD's share price.

Market-neutral equity funds, valued at $62.3 million as at June 30, 2020 ($60.9 million as at December 31, 2019), 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 $16.4 million ($23.9 million as at December 31, 2019). Accordingly, for these investments a 10% increase or decrease in the quoted market prices of listed equities would have resulted in a $1.6 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 Investments impacting the Québec economy portfolio, assets whose values fluctuate due to changes in foreign exchange rates represented a fair value of $62.4 million or 3.1% of net assets as at June 30, 2020, compared with $80.4 million or 3.5% of net assets at December 31, 2019.

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 $10 million line of credit has been granted to CRCD for its foreign exchange contract transactions. As at June 30, 2020, CRCD held foreign exchange contracts under which it will be required to deliver US$37.8 million (US$51.7 million as at December 31, 2019) at the rate of CAD/USD 1.3694 (CAD/USD 1.3142 as at December 31, 2019), as well as foreign exchange contracts under which it will be required to deliver €8.3 million (€8.6 million as at December 31, 2019) at the rate of CAD/EUR 1.5438 (CAD/EUR 1.4666 as at December 31, 2019) on September 30, 2020. As at June 30, 2020, CRCD had nil collateral on its foreign exchange contracts (nil as at December 31, 2019).

As at June 30, 2020, the net exposure of CRCD's Investments impacting the Québec economy portfolio and accounts receivable to foreign currencies was thus limited to $1.6 million ($0.9 million as at December 31, 2019). Any fluctuation in the Canadian dollar would 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 $97.1 million ($205.5 million as at December 31, 2019). Accordingly, a 10% decrease (increase) in value of the Canadian dollar relative to all of the other foreign currencies would have resulted in a $9.7 million increase (decrease) in net income, representing a 0.5% 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. As at June 30, 2020, the impacts generated by the COVID-19 pandemic for the great majority of Investments impacting the Québec economy and undisbursed committed funds have not been reflected in credit risk. As these impacts are relatively recent, the financial documents of our portfolio companies do not, for the most part, reflect the effects of the COVID-19 pandemic.

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 deterioration in the Investments impacting the Québec economy portfolio, ranked by risk ratings (fair value amounts):

| Rating | | As at June 30, 2020 (in thousands of $) | As at June 30, 2020 (as a %) | As at December 31, 2019 (in thousands of $) | As at December 31, 2019 (as a %) |
|---|---|---|---|---|---|
| 1 to 6.5 | Low to acceptable risk | **1,033,342** | **91.3** | 1,180,364 | 94.5 |
| 7 to 9 | At risk | **65,693** | **5.8** | 51,724 | 4.1 |
| 10 | High risk and insolvent | **32,528** | **2.9** | 17,879 | 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 June 30, 2020 (in thousands of $) | As at June 30, 2020 (as a %) | As at December 31, 2019 (in thousands of $) | As at December 31, 2019 (as a %) |
|---|---|---|---|---|---|
| 1 to 6.5 | Low to acceptable risk | **184,170** | **97.7** | 234,455 | 98.9 |
| 7 to 9 | At risk | **1,875** | **1.0** | 2,554 | 1.1 |
| 10 | High risk and insolvent | **2,533** | **1.3** | - | - |

For the bond portfolio, which represented 68.2% of the fair value of the Other investments portfolio (54.0% as at December 31, 2019), credit risk is managed by diversification across numerous issuers with credit ratings as follows:

| Rating[1] | As at June 30, 2020 (in thousands of $) | As at December 31, 2019 (in thousands of $) |
|---|---|---|
| AAA | **214,829** | 226,045 |
| AA | **200,672** | 176,336 |
| A | **89,663** | 80,991 |
| BBB | **54,773** | 52,660 |

[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 Fédération des caisses Desjardins du Québec.

### CONCENTRATION RISKS

Concentration risks arise from the possibility that a significant portion of the Investments impacting the Québec economy portfolio or the Other investments portfolio might become concentrated in a single entity, region or financial product, which could render CRCD vulnerable to any financial difficulties experienced by such entity, 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 June 30, 2020 | | As at December 31, 2019 | |
|---|---|---|---|---|
| | % of portfolio | % of net assets | % of portfolio | % of net assets |
| Investments impacting the Québec economy[(1)] | **36.6** | **24.1** | 33.5 | 21.6 |
| Other investments[(2)] | **41.6** | **18.7** | 44.8 | 19.2 |

(1) CRCD's interest in the ecosystem funds accounted for 64% (64% as at December 31, 2019) of the five largest Investments impacting the Québec economy.
(2) Government issuers and issues guaranteed by government entities represented 56% (47% as at December 31, 2019) 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 June 30, 2020, the Investments impacting the Québec economy portfolio represented 57.0% of net assets (55.1% as at December 31, 2019).

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 June 30, 2020, the Other investments portfolio includes a portion of foreign securities resulting primarily from its interest in global equity funds and comprises 88.2% of Canadian securities (79.4% as at December 31, 2019). Other investments portfolio performance therefore depends heavily on economic conditions in Canada. As at June 30, 2020, the Other investments portfolio represented 40.9% of net assets (43.2% as at December 31, 2019).

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 June 30, 2020, bond securities represented 27.9% of net assets (23.2% as at December 31, 2019). The increase in the percentage attributed to this class of securities is due to a decrease in net assets as at June 30, 2020, compared with December 31, 2019, and a decrease in the fair value attributed to other classes of securities, including global and Canadian equity funds.

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.

Given the significant balance of 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 provided greater availability of capital for Investments impacting the Québec economy by reducing cash requirements related to share redemptions. See the Subscription section for more information.

This initiative was well received by shareholders as the amounts authorized for the 2018 and 2019 exchanges have been fully subscribed. The pandemic environment in the first half of 2020 resulted in an increase in requests for redemptions of shares. The credit facilities put in place several years ago were therefore drawn down in the first half of 2020 (undrawn in fiscal 2019) in order to provide greater cash management flexibility to maintain the amounts available for commitments to Investments impacting the Québec economy.

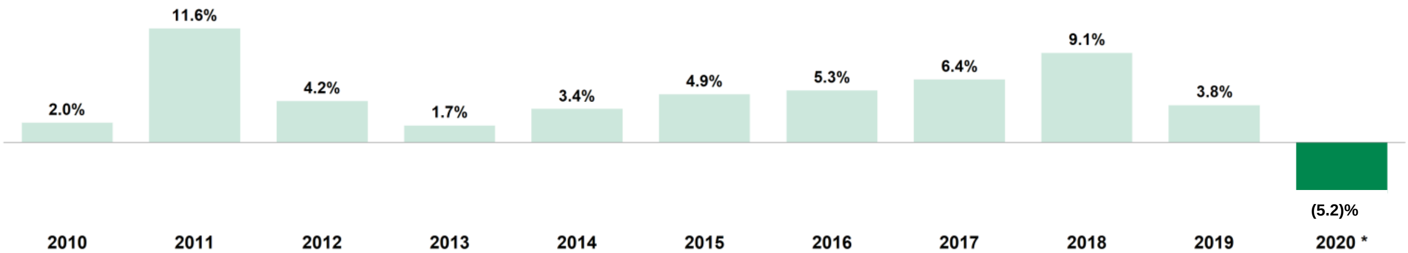
CRCD, through its balanced financial strategy and integrated risk management, has the necessary sources of funding to cover its financial obligations and pursue its mission among Québec businesses.

## 6.0 Past performance

This section presents the 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.

### 6.1 Annual return

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 and for the six-month period ended June 30, 2020. Annual return is calculated by dividing income (loss) per share for the period by the share price at the beginning of the period.




*Negative non-annualized return for the six-month period ended June 30, 2020.

### 6.2 Compounded return of the common share as at June 30, 2020

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

| 10 YEARS | 7 YEARS | 5 YEARS | 3 YEARS | 1 YEAR |
|---|---|---|---|---|
| 4.4% | 4.0% | 4.3% | 3.0% | (5.9)% |

## 7.0 Portfolio summary

### 7.1 Core investment profiles

As at June 30, 2020, 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 | 20.7 |
| Equity | 28.3 |
| External funds | 2.4 |
| Venture capital | 4.8 |
| Other asset items held by ecosystem funds | 0.8 |
| **Total – Investments impacting the Québec economy** | **57.0** |
| **OTHER INVESTMENTS** | |
| Cash (bank overdraft) and money market instruments | (2.9) |
| Bonds | 27.9 |
| Global equity funds | 5.1 |
| Canadian equity funds | 2.2 |
| Real estate funds | 5.5 |
| Market neutral equity funds | 3.1 |
| **Total – Other investments** | **40.9** |

* Including foreign exchange contracts

Net assets are made up of 97.9% investment profiles and 2.1% other asset items.

### 7.2 Main investments held

As at June 30, 2020, on a fair value basis, the issuers of the 25 main investments held by CRCD were as follows:

| Issuers as at June 30, 2020 | % of net assets |
|---|---|
| Investments impacting the Québec economy – 14 issuers* | 33.0 |
| Canada Housing Trust | 5.4 |
| Government of Canada | 5.1 |
| Bentall Kennedy Prime Canadian Property Fund | 2.9 |
| Desjardins IBrix Low Volatility Global Equity Fund (I-Class Units) | 2.7 |
| Fiera Properties CORE Fund | 2.6 |
| Desjardins Global Dividend Fund (I-Class Units) | 2.5 |
| Hydro-Québec | 2.2 |
| Province of Ontario | 2.2 |
| CC&L market neutral funds | 2.1 |
| Province of Saskatchewan | 1.7 |
| Province of Manitoba | 1.5 |

| * The 14 issuers which collectively represented 33.0% of CRCD's net assets are: |
|---|
| Agropur Cooperative |
| Avjet Holding Inc. |
| Capital croissance PME II s.e.c. |
| Desjardins - Innovatech S.E.C. |
| Desjardins Capital PME s.e.c. |
| Exo-s Inc. |
| Groupe ameublement E-Solutions inc. |
| Groupe Filgo inc. |
| Fournier Industries Group Inc. |
| Norbec Group Inc. |
| SJM Group Inc. |
| Groupe Solotech inc. |
| Société en commandite Essor et Coopération |
| Sollio Cooperative Group (prev. La Coop fédérée) |

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

August 13, 2020

## 8.0 Management's report

August 13, 2020

CRCD's separate financial statements together with the financial information contained in this interim 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 General Manager and 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 August 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