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.

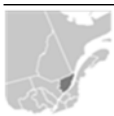
1.0 Highlights

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, 2020, the funds committed were as follows:

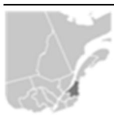
ABITIBI-TÉMISCAMINGUE*
$27M → 33 companies

BAS-SAINT-LAURENT*
$29M → 29 companies
$0.2M → 1 cooperative



CAPITALE-NATIONALE
$107M → 49 companies
$7M → 4 cooperatives

CENTRE-DU-QUÉBEC
$65M → 23 companies
$13M → 2 cooperatives



CHAUDIÈRE-APPALACHES
$130M → 45 companies
$2M → 4 cooperatives

CÔTE-NORD*
$3M → 6 companies

ESTRIE
$113M → 37 companies
$5M → 4 cooperatives

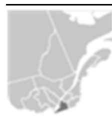
GASPÉSIE–ÎLES-DE-LA-MADELEINE*
$6M → 8 companies

LANAUDIÈRE
$23M → 11 companies
$0.6M → 1 cooperative

LAURENTIDES
$25M → 7 companies

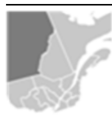
LAVAL
$57M → 11 companies

MAURICIE*
$8M → 12 companies
$0.6M → 1 cooperative



MONTÉRÉGIE
$213M → 53 companies
$81M → 4 cooperatives

MONTRÉAL
$324M → 86 companies
$102M → 3 cooperatives



NORD-DU-QUÉBEC*
$4M → 16 companies

OUTAOUAIS
$7M → 7 companies

SAGUENAY–LAC-SAINT-JEAN*
$68M → 63 companies
$2M → 6 cooperatives

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

EUROPE
$13M → 6 companies

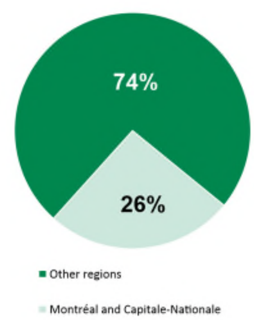
FUNDS
$62M → 16 funds

IN TOTAL

551
COMPANIES, COOPERATIVES AND FUNDS

$1,499M
BENEFITTING SMES

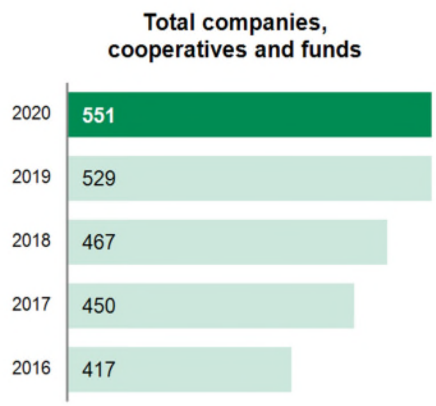
74%
OF COMPANIES AND COOPERATIVES BASED IN QUÉBEC ARE FROM REGIONS OTHER THAN MONTRÉAL AND THE CAPITALE-NATIONALE.

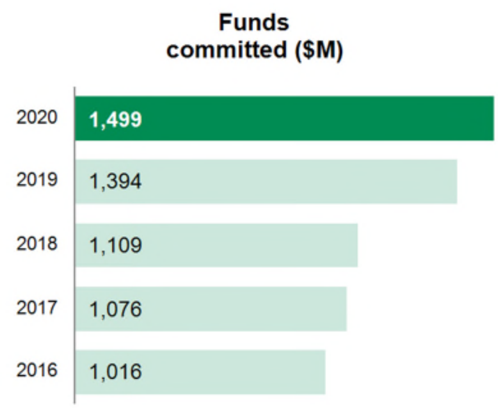


*Resource region
[(1)]See the Entrepreneurial ecosystem section for a detailed description of the main features of the ecosystem.

1.2 CRCD and its ecosystem support companies and cooperatives

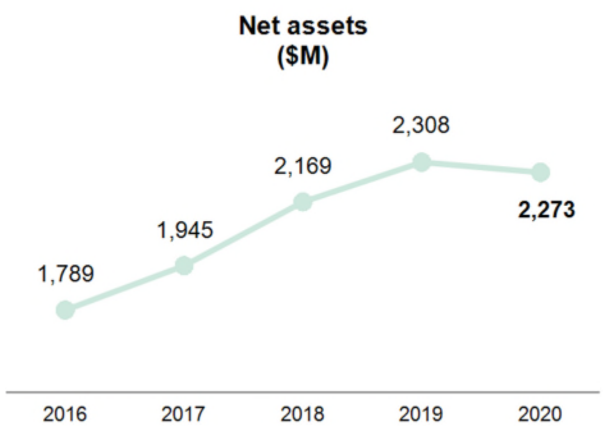
AS AT DECEMBER 31

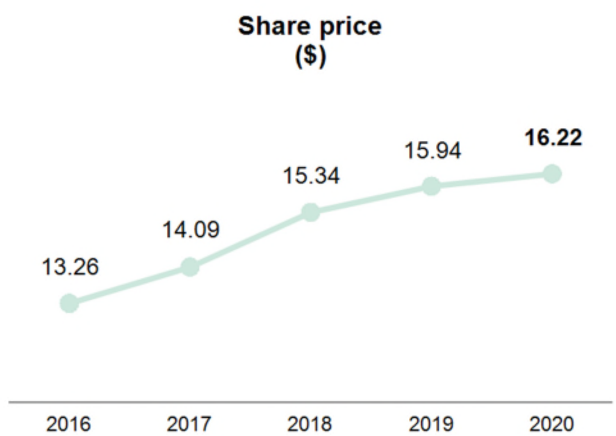


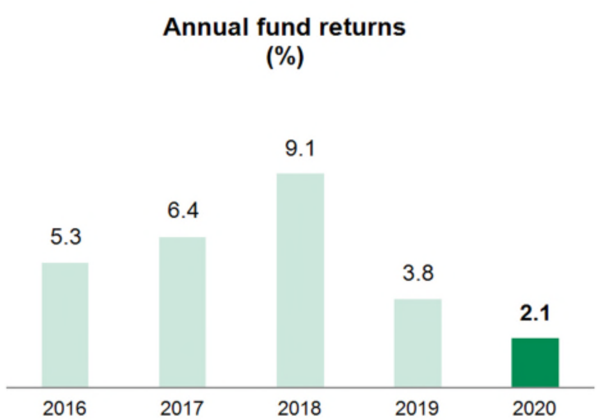


1.3 CRCD financial data

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, 2020**	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**
Revenue	**48,233**	55,210	70,285	51,392	44,449
Gains on investments	**38,471**	63,703	138,632	96,541	78,869
Net earnings	**46,429**	81,302	174,894	112,757	85,957
Net assets	**2,272,798**	2,308,466	2,168,804	1,945,342	1,789,417
Common shares outstanding (number, in thousands)	**140,110**	144,849	141,391	138,080	134,944
Total operating expense ratio and common share issue expense ratio(1) (%)	**1.8**	1.6	1.6	1.9	2.2
Portfolio turnover rate:					
– Investments impacting the Québec economy (%)	**13**	10	17	16	11
– Other investments (%)	**100**	101	163	87	126
Trading expense ratio(2) (%)	**-**	-	-	-	-
Number of shareholders (number)	**109,286**	109,364	107,862	105,614	104,317
Issues of common shares – Class A "Issuance"	**139,842**	140,017	141,179	134,850	133,401
Exchanges of common shares – Class B "Exchange"	**-**	199,445	-	-	-
Common share issue expenses, net of related taxes	**-**	-	2,523	2,396	1,579
Redemptions of common shares	**221,939**	81,657	90,088	89,285	70,438
Investments impacting the Québec economy at cost	**1,108,055**	1,014,864	838,258	828,255	787,142
Fair value of investments impacting the Québec economy	**1,298,331**	1,249,967	1,080,069	1,033,951	921,518
Funds committed but not disbursed, including guarantees and suretyships	**238,226**	237,009	192,169	183,606	189,121

(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, 2020**	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2016**
Net assets per common share, beginning of year	**15.94**	15.34	14.09	13.26	12.61
Increase attributable to operations	**0.34**	0.58	1.28	0.84	0.66
Interest, dividends, distributions and negotiation fees	**0.35**	0.39	0.51	0.38	0.34
Operating expenses	**(0.27)**	(0.25)	(0.21)	(0.24)	(0.26)
Income taxes	**(0.02)**	(0.01)	(0.03)	(0.02)	(0.03)
Realized gains (losses)	**0.56**	0.25	0.79	0.06	0.18
Unrealized gains (losses)	**(0.28)**	0.20	0.22	0.66	0.43
Difference attributable to common share issues and redemptions	**(0.06)**	0.02	(0.03)	(0.01)	(0.01)
Net assets per common share, end of year	**16.22**	**15.94**	**15.34**	**14.09**	**13.26**

3.0 Recent events

CRCD and its manager, Desjardins Capital Management Inc. (Desjardins Capital or DC) are closely monitoring developments in the health crisis caused by the COVID-19 pandemic. This unprecedented crisis has raised much uncertainty, in particular with regard to the economic situation, both in Québec and abroad.

We continue to support our entire service offering. Like all of Desjardins Group, CRCD's top priority is the health and safety of our employees, shareholders, directors, partners and clients. Since the beginning of the pandemic, all employees of DC have been working remotely.

We are there for our partner companies and to support the growth of SMEs and cooperatives across all regions of Québec.

4.0 Overview

CRCD ended fiscal 2020 with net earnings of $46.4 million ($81.3 million in 2019), representing a return of 2.1% (3.8% in 2019), resulting in an increase in net assets per share to $16.22 based on the number of common shares outstanding at the end of the fiscal year. 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 is designed to provide a balanced overall profile and limit volatility in periods of substantial market turbulence or due to unfavourable events at partner companies. In fact, CRCD has generated positive annual returns for over ten years.

Investments impacting the Québec economy posted a return of 3.6% in 2020, compared with a return of 3.2% in 2019. The positive performance of the Investments impacting the Québec economy portfolio was largely a reflection of our partner companies' resilience and creativity in the face of the health crisis, particularly in the second half of the year. While expectations at the end of the first six months of the year were that Québec SMEs would be hard hit by fallout from the pandemic, many reinvented themselves; in particular, optimizing production methods, reviewing business models, accelerating their digital shift and moving ahead with acquisitions.

As at December 31, 2020, the cost of Investments impacting the Québec economy totalled $1,108.1 million, of which $174.8 million was disbursed during fiscal 2020. As at December 31, 2020, commitments made but not disbursed which, in the analyses that follow, represent investments made in or guarantees and suretyships granted to companies, cooperatives or funds amounted to $238.2 million. New commitments for the year came to $176.0 million.

The Other investments portfolio recorded a return of 4.8%. This positive performance was due to significant securities weighting in the bond market, which performed well throughout the year, and during the first six months in particular. The low volatility equity funds held by CRCD did not fully benefit from the stock market rally in the second half of 2020 and ended the year with a negative return. In 2019, return on the Other investments portfolio was 8.4%.

During the year, issues of Class A "Issuance" common shares totalled $139.8 million, including the balance of the 2019 issue and substantially all of the maximum authorized amount for the 2020 issue. Share redemptions totalled $221.9 million compared with $81.7 million in 2019, an increase driven by the pandemic environment. Net assets amounted to $2,272.8 million and shareholders numbered 109,286 as at December 31, 2020. As at December 31, 2020, the balance of shares eligible for redemption totalled $1,002.0 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, Desjardins Capital, 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

Be it through the support, networking or training provided to our partner companies or through enhancing our product offering and sharing our business network, we take action 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 or board committees. 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. Directors 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

2020 Economic environment and 2021 outlook

Global economy

The global economy was hard hit by the COVID-19 pandemic in 2020. The year began on a generally positive note in the first months, but the situation worsened in China starting in February and followed by most other countries in March. The drop in tourism, the temporary closure of several services, and then the necessary health and lockdown measures, either suggested or imposed by the public authorities of several countries, caused significant declines in real GDP in the first and second quarters. This confirmed a global recession. Most economies recovered in the late spring and summer as the most restrictive lockdown measures were eased, but a second wave of COVID-19 in the fall led to the implementation of new health restrictions. For 2020, real GDP is estimated to have declined by 6.8% in the eurozone, including a 5.3% setback in Germany and an 8.3% drop in France. In the United Kingdom, the decline is estimated at 9.9%. Although China was the first to be affected by COVID-19, it was also one of the few countries to register economic growth, posting an annual gain of 2.3%.

Much like the world's governments, the central banks have reacted vigorously to limit the negative consequences of the pandemic. The U.S. Federal Reserve (the Fed) and the Bank of Canada lowered their key interest rates by 150 basis points in March, bringing them close to zero. They also implemented new programs, including massive injections of liquidity, to ensure the smooth functioning of the financial markets and avoid a credit crunch. These actions by the central banks drove federal bond rates down and helped stock markets rally quickly after a brutal correction in the late winter of 2020. In the final analysis, 2020 proved to be a good year for investors despite the economic downturn.

After the plunge in 2020, global real GDP is expected to grow fairly well in 2021. If the vaccination campaign goes well and the pandemic subsides in 2021, global real GDP is expected to grow by 5.5% following a 4.1% drop in 2020. This economic rebound will owe much to a broad-based low interest rate environment and the numerous assistance measures implemented by governments to support household incomes and limit the damage to businesses. However, much depends on how the COVID-19 situation develops, and there could be even stronger growth if the vaccines are distributed rapidly. Abundant liquidity and low interest rates may continue to support the value of financial assets.

United States

The trade truce between China and the United States in early 2020 seemed to bode well. However, the spread of COVID-19 beginning in March brought an end to the longest economic cycle in U.S. history. The implementation of health and lockdown measures, mostly by the states and local governments, led to the complete loss of more than 22 million jobs in March and April 2020. On an annualized basis, real GDP fell 5.1% in the first quarter and 31.4% in the second quarter, representing the worst results since quarterly data began being published in 1947. The U.S. economy began to improve in May as the main health and lockdown measures were eased, but also due to federal government support through the CARES Act and the extraordinary monetary policy implemented by the Fed. Real GDP jumped 33.4% in the third quarter, and the economy recovered just over half of the jobs that were lost in the late winter of 2020. Since the U.S. implemented fewer new severe health measures, unlike many other advanced countries, its economy did not suffer unduly from the subsequent waves of COVID-19 in the early summer and fall. Real GDP increased by 4.0% (at an annualized rate) in the last quarter of 2020.

The U.S. economy is expected to grow fairly rapidly in 2021, returning to a more normal level of activity after the problems of 2020. A new US$935 billion relief package adopted at the very end of 2020 will support the economy. The easing of trade tensions and the Biden administration's implementation of other fiscal measures to stimulate the economy should also support growth, as should the policy stance adopted by the Fed. The new administration's protectionist intentions and changes in its relations with China will also need to be monitored. Real GDP is projected to grow by 4.7% in 2021 (annual rate) after contracting 3.5% in 2020.

Canada

As elsewhere in the world, the Canadian economy was severely affected by the COVID-19 pandemic in 2020. The health measures implemented across the country in the spring of 2020 resulted in historic real GDP declines in the first and second quarters of 2020. However, the federal government introduced several support measures for individuals and businesses. These measures, and in particular the government's support for household income, have made a big difference in how the situation developed. Beginning in May, the strong financial position of households allowed them to participate fully in the Canadian economy's recovery. Not only did retail trade quickly recover the lost ground, but the housing market has demonstrated great vitality since the spring lockdown. As a result, the reopening of the economy led to an exceptional rebound in real GDP in the third quarter. Beginning in the fourth quarter, the economy moved into the recovery phase, characterized by weaker output growth. In addition, new restrictive measures were introduced in several regions of the country in the fourth quarter to curb the spread of a second wave of COVID-19. In the end, Canadian real GDP declined 5.4% in 2020.

The recovery phase of the Canadian economy is expected to continue into 2021. Of course, how the pandemic develops is still likely to be the source of some economic uncertainties, including a temporary decline in real GDP in the first quarter. That said, the vaccination campaign has begun and should not only support the country's economic recovery, starting in the spring, but also reduce uncertainties. However, the pandemic will have impacts that will be felt in some sectors well after 2021. But for 2021 as a whole, Canadian real GDP is projected to grow 4.9%.

Québec

Québec also experienced an unprecedented drop in real GDP in 2020. The first wave of the pandemic, which led to the closure of all non-essential activities in the spring, caused an abrupt deterioration in economic indicators. Last year, the unemployment rate rose from 4.5% in February to peak at 17.6% in April, retail sales collapsed, and exports were down. Real GDP plunged by almost 10% in March and about 15% in April, only to rebound sharply in May with the gradual reopening of facilities and businesses. Real GDP continued to recover over the summer, so the recovery is well underway. Some economic indicators, including retail sales and existing home sales, have already exceeded the levels reached in February 2020. Financial support from the federal government made a difference for Québec households whose incomes have, overall, risen sharply since the spring of 2020.

However, the second wave of the pandemic has already brought some turmoil. The closure of certain types of businesses in regions that have been on high alert since October has caused job losses in the affected sectors. The measures taken to control the growth in COVID-19 cases slowed economic recovery in the last quarter of 2020. Another decline in real GDP is expected in early 2021, but it will be less dramatic than in the spring of 2020 because the restrictions are less severe, particularly in the manufacturing and construction sectors. After a roller-coaster year and an approximately 5% decline in real GDP in 2020, 2021 begins on a difficult footing. The progress made in the vaccination campaign allows us to be more optimistic about the economic recovery that will follow, but some sectors that will have been severely affected by the closures will have difficulty recovering.

5.0 Management's discussion of financial performance

5.1 Operating results

CRCD's NET RESULTS AND RETURNS

CRCD reported net earnings of $46.4 million for the year ended December 31, 2020, representing a return of 2.1%, compared with net earnings of $81.3 million (return of 3.8%) for the previous year. Accordingly, net assets per share increased to $16.22 based on the number of common shares outstanding at the end of the fiscal year, compared with $15.94 at the end of fiscal 2019. For illustrative purposes, at the current price of $16.22, shareholders who invested on March 1, 2014 would obtain an annual after-tax return of more than 11.5%, taking into account the 45% income tax credit as per the rate applicable at that time.

CRCD's results stem primarily from Investments impacting the Québec economy and Other investments, which generated returns of 3.6% and 4.8%. In 2019, returns were 3.2% and 8.4%, respectively. Expenses, net of administrative charges and income taxes, had an impact of 2.0% on CRCD's 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

	2020			
	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Activities related to Investments impacting the Québec economy[1]	1,292	57.3	3.6	2.0
Other investments and cash	962	42.7	4.8	2.1
	2,254	100.0	4.1	4.1
Expenses, net of administrative charges			(1.9)	(1.9)
Income taxes			(0.1)	(0.1)
CRCD return			**2.1**	**2.1**

	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 return			**3.8**	**3.8**

(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 $188.8 million and disposals of $157.5 million were made for a net balance of $31.3 million. Combined with realized and unrealized net gains of $17.0 million, these net investments brought the fair value of the investment portfolio, including foreign exchange contracts, to $1,298.9 million as at December 31, 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 $34.6 million, and a $79.1 million aggregate investment in three companies, mainly accounted for the investments of $188.8 million made during the year.

Investments impacting the Québec economy should also be measured taking into account funds committed but not disbursed, which amounted to $238.2 million as at December 31, 2020, compared with $237.0 million as at December 31, 2019. Total commitments at cost as at December 31, 2020 amounted to $1,346.3 million in 169 companies, cooperatives and funds, of which $1,108.1 million was disbursed. As at December 31, 2020, backed by its entrepreneurial ecosystem, CRCD supported growth in 551 companies, cooperatives and funds.

During fiscal 2020, Investments impacting the Québec economy generated a contribution of $43.4 million, for a return of 3.6%, compared with a contribution of $35.1 million in 2019 (return of 3.2%) despite an economic environment clouded with uncertainty by the health crisis.

Contribution generated by Investments impacting the Québec economy

(in thousands of $)	2020	2019
Revenue	28,899	29,033
Gains and losses	14,491	6,069
	43,390	35,102

Revenue includes interest, dividends and negotiation fees related to Investments impacting the Québec economy. Negotiation fees, which amounted to $3.1 million for the year ended December 31, 2020 ($3.5 million 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 $16.7 million for fiscal 2020 ($16.5 million 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.

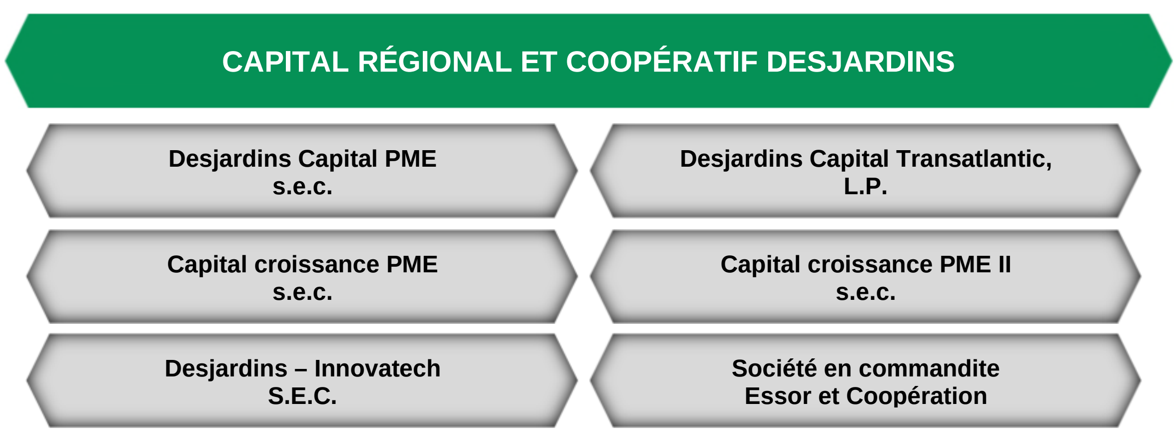
CRCD recorded a realized and unrealized gain of $14.5 million for the fiscal year, compared with $6.1 million for fiscal 2019. For more information, please see Entrepreneurial ecosystem performance in the following section.

As at December 31, 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 generally 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. As at December 31, 2020, CRCD's interest in the DCPME fund was 39.8%, while the interests of the other two limited partners, Desjardins Private Management (DPM) and DHF, were 53.6% and 6.6%, respectively. Since inception of the fund, CRCD has disbursed $99.8 million ($72.2 million as at December 31, 2019) allowing a total of 155 companies to benefit from $280.0 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 $117 million, to the two funds. CRCD has a 60.7% interest in DC Transatlantic, which is managed by DC. As at December 31, 2020, CRCD had disbursed $11.7 million ($11.3 million as at December 31, 2019) of its total commitment of $35.5 million (€22.8 million), allowing eight companies to benefit from $16.1 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 December 31, 2020, Essor et Coopération had committed $33.2 million in 26 cooperatives.

- CRCD is also a 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 $0.5 million was disbursed in 2020 for a total disbursement of $2.9 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, 2020, DI had committed $61.0 million to support a total of 55 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, 2020, CRCD had disbursed $255.0 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 192 companies and funds benefited from $162.1 million committed by the CCPME funds as at December 31, 2020. Since their inception, these funds have committed $459.9 million to 376 companies.

In total, as at December 31, 2020, CRCD and its ecosystem supported the growth of 551 companies, cooperatives and funds in various industries spanning all Québec regions with commitments of $1,499 million. Of that total, 31 cooperatives benefited from commitments of $214 million. In this way, CRCD and its ecosystem have helped to create and retain many thousands of 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

	2020			
	Average assets under management ($M)	Weighting (%)	Return 1 year (%)	Contribution 1 year (%)
Debt	**424**	**18.8**	**6.9**	**1.2**
Equity	**705**	**31.3**	**1.2**	**0.4**
External funds	**47**	**2.1**	**(6.7)**	**(0.2)**
Venture capital	**99**	**4.4**	**14.0**	**0.5**
Investment profiles subtotal	**1,275**	**56.6**	**3.6**	**1.9**
Other asset items held by ecosystem funds	**17**	**0.7**	**4.8**	**-**
Ecosystem total	**1,292**	**57.3**	**3.6**	**1.9**

	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

The 3.6% return on the Investments impacting the Québec economy portfolio in fiscal 2020 stemmed mainly from the Debt and Equity investment profiles, which represented the core volume of assets under management as at December 31, 2020. The Debt profile posted a lower return compared with 2019. The decrease was due to the higher credit risk of certain investments and, to a lesser extent, the lower weighted average interest rate on the debt portfolio. The return spread of the Equity profile between the two years is mainly due to the incidental difficulties experienced during fiscal 2019 by certain major portfolio companies in that class. Note, however, that the majority of partner companies performed positively during fiscal 2020, despite the health crisis.

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 December 31, 2020, CRCD's Other investments portfolio, including cash, but excluding foreign exchange contracts, totalled $924.2 million ($998.9 million in 2019) and consisted of the following:

Other investments portfolio

	As at December 31, 2020		As at December 31, 2019	
	Fair value ($M)	% of portfolio	Fair value ($M)	% of portfolio
Cash and money market instruments	38.5	4.2	53.0	5.3
Bonds	526.8	57.0	536.0	53.7
Global equity funds	117.6	12.7	174.1	17.4
Canadian equity funds	66.6	7.2	62.8	6.3
Real estate funds	111.7	12.1	112.1	11.2
Market neutral equity funds	63.0	6.8	60.9	6.1
Portfolio total	**924.2**	**100.0**	**998.9**	**100.0**

As at December 31, 2020, 75% of portfolio bond securities were government guaranteed (75% as at December 31, 2019).

The Other investments portfolio represented 41% of total net assets at the end of fiscal 2020 (43% as at December 31, 2019), a decrease mainly arising from divestments made from the portfolio to meet requests for the redemption of shares of CRCD. Commitments already made but not disbursed of $238.2 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 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 $)	2020	2019
Revenue	**21,955**	29,273
Gains and losses	**23,980**	57,634
	45,935	86,907

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 $7.3 million for fiscal 2020, compared with 2019, owing to lower average effective interest rates between the two years combined with the decrease in the portfolio due to divestments.

Gains of $24.0 million in fiscal 2020 stemmed mainly from the following financial assets:

- The bond portfolio recorded an increase in value of $45.4 million, as key rates shed 122 basis points, mainly during the first six months of 2020, in response to the impact of the global health crisis.

- Following a major setback in the first half of 2020, stock markets have since returned to their pre-COVID-19 levels, driven mainly by certain sectors that have fared better, technology in particular. The low volatility equity funds held by CRCD did not fully benefit from the stock market rally in the second half of 2020. The fiscal year ended with impairments of $19.2 million in global and Canadian equity funds and $3.1 million in real estate funds, with that sector continuing to feel pressure. The market-neutral equity strategy funds performed as expected in turbulent times with a gain of $0.8 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 cost of 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 or exchange. 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 2020 or 2019.

As at December 31, 2020, CRCD had $2,272.8 million in share capital for 140,110,229 common shares outstanding.

During the year, CRCD raised $139.8 million in Class A "Issuance" shares, including the $0.3 million balance from the 2019 issue and substantially all of the authorized amount of the 2020 issue, or $139.5 million. The $0.5 million balance for the 2020 issue was sold in January 2021.

The exchange registration period for the 2020 taxation year took place in the fall of 2020 and acceptance of applications was completed and recognized in January 2021. The authorized amount of $100 million was fully sold.

In fiscal 2020, redemptions of common shares totalled $221.9 million ($81.7 million in 2019). This 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 December 31, 2020, the balance of shares eligible for redemption totalled $1,002.0 million. During fiscal 2021, additional shares valued at approximately $84.6 million will also become eligible for redemption bringing total potential redemptions to approximately $1,087 million. This amount will be reduced by $100 million for exchange requests accepted in January 2021 and the amount of shares that may be redeemed in fiscal 2021.

As at December 31, 2020, shareholders numbered 109,286 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.

EXPENSES AND INCOME TAXES

Expenses

(in thousands of $)	2020	2019
Management fees	**21,321**	19,007
Other operating expenses	**5,160**	5,548
Shareholder services	**11,270**	11,089
	37,751	35,644

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 DC 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 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. The increase in management fees is consistent with the increase in CRCD's average value of assets under management and arose mainly from greater economies of scale in 2019 due to timing differences in growth-related expenses.

There was no significant change in other operating expenses and shareholder services between the two fiscal years. 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 subscription and redemption transactions are automated.

Income taxes amounted to $2.5 million in fiscal 2020, up from the previous year ($2.0 million in 2019). 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

In fiscal 2020, cash outflows from share issues net of redemptions amounted to $82.1 million (net cash inflows of $58.4 million in 2019). The increase between the two years was due mainly to the higher volume of share redemptions during fiscal 2020, and the first six months, in particular. Operating activities combined with fees for the development of an intangible asset generated net cash inflows of $57.0 million (net cash outflows of $52.8 million in 2019).

Cash outflows for Investments impacting the Québec economy amounted to $174.8 million for fiscal 2020 ($263.8 million in 2019). The Other investments portfolio generated net cash inflows of $74.5 million, compared with net cash inflows of $108.8 million for fiscal 2019.

As at December 31, 2020, cash and cash equivalents totalled $21.6 million ($46.8 million as at December 31, 2019).

CRCD had an authorized line of credit of $250 million as at December 31, 2020. This line of credit was drawn down during fiscal 2020 but was undrawn as at December 31, 2020 (undrawn in fiscal 2019).

In the event that cash requirements exceed expectations, as occurred due to a higher than expected volume of share redemptions during the year, this line of credit is 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.

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 building bridges to the future, we're working together to energize our 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;
- Achieve other priorities specific to DC and relevant to CRCD: to grow visibility, acquire, retain and develop talent, and maintain CRCD's risk/return and capitalization balance;
- Achieve specific CRCD priorities: increase CRCD's capitalization and visibility and improve digital shareholder experience.

While the uncertain economic environment caused by the health crisis disrupted growth and development activities during the first six months of 2020, we saw a gradual return to normal during the second half of the fiscal year. We have our feet on the ground to continue supporting our partner companies and sustain the growth of SMEs and cooperatives across all regions of Québec.

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, 2020, having invested 65% (64% as at December 31, 2019) of its average net assets in eligible Québec companies. This percentage for fiscal years beginning after December 31, 2020 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, 2020 and 2019, all of those rules were met.

5.3 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 one directorship vacant:

Bernard Bolduc
BBA Finance

President of the Board of CRCD and President, Altrum Inc.

Marlène Deveaux
BA, MA, ASC

Vice-president of the Board of CRCD and President and Chief Executive Officer, Revêtement sur métaux 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, AdmA, PlFin.

General Manager, Caisse Desjardins de Gatineau

Lucie Demers
CPA, CGA, CBV

Corporate Director

Muriel McGrath
BA, ICD.D

President, MC2 Consilium inc.

Anne-Marie Renaud
BSc, ICD.D, CEC, ACC

Corporate Director and Executive Coach

Louis Roy
BBA, MBA, DAE

Director of Business Intelligence, Revenu Québec

Jean-Guy Senécal
FCPA, FCA, BBA

Corporate Director

Louis-Régis Tremblay
Eng, ICD.D.

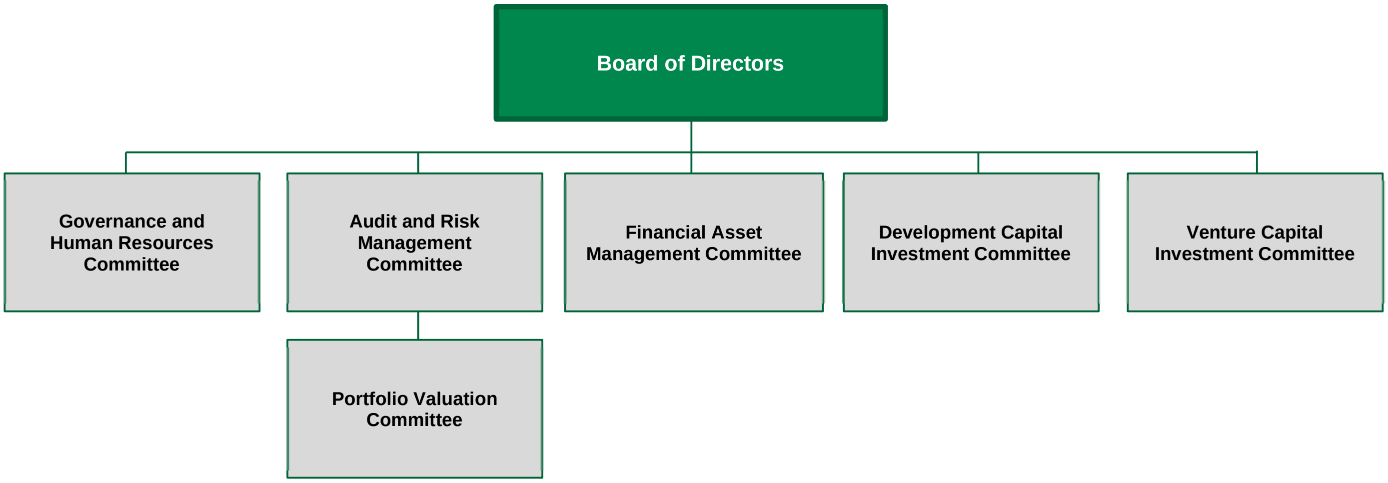
Management Consultant and Corporate Director

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, shareholder relations 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 directors and committee members, the Board and its Chair, the committees and their chairs, the Desjardins Group Relations Director and the Manager. Furthermore, the Committee ensures that a succession plan is in place for the Desjardins Group Relations Director.

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, recommending to the Board changes to the Risk Management Policy, and more specifically monitors all operational and regulatory risks. It is informed of market risks related to interest rates, foreign currencies and stock markets, which are monitored by the Financial Asset Management Committee.

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 also responsible for recommending to the Board the appointment of portfolio advisors. 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 and liquidity risk. It is informed of the sector concentration risk of Investments 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, and credit and counterparty risk related to Investments impacting the Québec economy. They are informed of the strategic risk associated with the investment eligibility requirements set out in CRCD's constituting act, 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 2020.

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)	***18***	***6***	***4***	***4***	***3***	***25***	***9***	
Directors and external committee members active as at the date of this MD&A								
Charles Auger	17/18						9/9	30,000
Marc Barbeau	17/18	1/1		4/4		23/25		52,251
Bernard Bolduc	17/18	5/5	1/1			5/5		67,085
Éric Charron	16/18			4/4				26,000
Lucie Demers	17/18		4/4		3/3			35,861
Marlène Deveaux	18/18	4/4				5/5		27,872
Linda Labbé	18/18	6/6	4/4	4/4	1/1			48,750
Muriel McGrath	18/18	4/4					9/9	40,582
Anne-Marie Renaud	12/13					24/25		30,159
Louis Roy	18/18						9/9	30,000
Jean-Guy Senécal	13/13		3/3		2/2			32,074
Louis-Régis Tremblay	18/18			4/4		25/25		40,440
Sophie Fortin*						8/8		7,487
Sébastien Mailhot*					3/3			9,600
George Rossi*					3/3			9,600
Michel Rouleau*						25/25		22,000
Normand Tremblay*							9/9	12,550
Paul Vokaty*							5/5	7,303
Directors and external committee members no longer in office as at the date of this MD&A								
Mario Lavallée*				4/4				11,000
Michel Martineau*					1/1			2,700
Marcel Ostiguy	5/5			1/1				6,180
Nathalie Pilon	11/11		2/2	2/2				20,622
TOTAL COMPENSATION								**570,116**

* 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.

As at the date of this MD&A, the Chair of the Board of Directors and the Desjardins Group Relations Director receive an annual retainer of $70,000 and $50,000 respectively. They receive no other compensation as a director, chair, member or contact person of a committee.

5.4 Risk management

Policies and practices

Sound risk management practices are critical to the success of CRCD. The integrated risk management policy adopted by CRCD provides 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 11, 2021.

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 December 31, 2020 was $975.7 million ($965.1 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 $31.5 million ($46.0 million as at December 31, 2019) are not valued based on changes in interest rates, given their short maturities.

Bonds with a fair value of $526.8 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 $37.7 million decrease in net earnings, representing a 1.7% decrease in CRCD's share price as at December 31, 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 $41.1 million increase in net earnings, representing a 1.9% 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, 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 $111.7 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 $243.8 million ($243.9 million as at December 31, 2019), are not sensitive to changes in interest rate. Conversely, the other loans and advances and preferred shares included in the portfolio, totalling a fair value of $305.7 million ($271.0 million as at December 31, 2019), are sensitive to changes in interest rates. As a result, for those interest-rate-sensitive loans and advances and preferred shares, a 1% increase in interest rates would have resulted in a $4.8 million decrease in net earnings, representing a 0.2% decrease in CRCD's share price ($4.8 million for 0.2% as at December 31, 2019). A 1% decrease in interest rates would have had the opposite effect, resulting in a $5.0 million increase in net earnings, representing a 0.2% increase in CRCD's share price ($5.0 million for 0.2% as at December 31, 2019).

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, 2020, global and Canadian equity funds, valued at $184.2 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 $18.4 million increase or decrease in net earnings, representing a 0.8% increase or decrease in CRCD's share price.

Market-neutral equity funds, valued at $63.0 million as at December 31, 2020 ($60.9 million as at December 31, 2019), are less exposed to stock market fluctuations as they minimize market risks. 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 $19.4 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 $1.9 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 $102.9 million or 4.5% of net assets as at December 31, 2020, compared with $80.4 million or 3.5% of net assets as 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 December 31, 2020, CRCD held foreign exchange contracts under which it will be required to deliver US$69.6 million (US$51.7 million as at December 31, 2019), at the rate of CAD/USD 1.2820 (CAD/USD 1.3142 as at December 31, 2019), as well as foreign exchange contracts under which it will be required to deliver €7.6 million (€8.6 million as at December 31, 2019) at the rate of CAD/EUR 1.5667 (CAD/EUR 1.4666 as at December 31, 2019) on March 31, 2021. As at December 31, 2020, CRCD had nil collateral on its foreign exchange contracts (nil at December 31, 2019).

As at December 31, 2020, the net exposure of CRCD's Investments impacting the Québec economy portfolio and accounts receivable to foreign currencies was thus limited to $2.6 million ($0.9 million as at December 31, 2019). 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 $111.5 million ($205.5 million as at December 31, 2019). Accordingly, a 10% decrease (increase) in value of the Canadian dollar relative to all other foreign currencies would have resulted in a $11.2 million increase (decrease) in net earnings, 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 December 31, 2020, the impacts generated by the COVID-19 pandemic are only partially reflected in credit risk for investments impacting the Québec economy and funds committed but not disbursed. In fact, as risk ratings are updated on the basis of the annual financial statements of our partner companies, the overall effects of the pandemic on risk ratings will be reflected during fiscal 2021.

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

		As at December 31, 2020		As at December 31, 2019	
Rating		(in thousands of $)	(as a %)	(in thousands of $)	(as a %)
1 to 6.5	Low to acceptable risk	**1,188,307**	**91.5**	1,180,364	94.5
7 to 9	At risk	**71,664**	**5.5**	51,724	4.1
10	High risk and insolvent	**38,360**	**3.0**	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:

		As at December 31, 2020		As at December 31, 2019	
Rating		(in thousands of $)	(as a %)	(in thousands of $)	(as a %)
1 to 6.5	Low to acceptable risk	**225,945**	**94.9**	234,455	98.9
7 to 9	At risk	**5,815**	**2.4**	2,554	1.1
10	High risk and insolvent	**6,466**	**2.7**	-	-

For the bond portfolio, which represented 57.4% 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:

	As at December 31, 2020	As at December 31, 2019
Rating [(1)]	(in thousands of $)	(in thousands of $)
AAA	**184,694**	226,045
AA	**198,429**	176,336
A	**90,467**	80,991
BBB	**53,196**	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 December 31, 2020		As at December 31, 2019	
	% of portfolio	% of net assets	% of portfolio	% of net assets
Investments impacting the Québec economy[1]	**35.6**	**24.1**	33.5	21.6
Other investments[2]	**38.7**	**15.6**	44.8	19.2

(1) CRCD's interest in the ecosystem funds accounted for 67% (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 51% (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 December 31, 2020, the Investments impacting the Québec economy portfolio represented 57.8% 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 December 31, 2020, the Other investments portfolio includes a portion of foreign securities resulting primarily from its interest in global equity funds and comprises 89.5% of Canadian securities (79.4% as at December 31, 2019). Other investments portfolio performance therefore depends heavily on economic conditions in Canada. As at December 31, 2020, the Other investments portfolio represented 40.7% 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 December 31, 2020, bond securities represented 23.2% of net assets (23.2% as at December 31, 2019).

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 the 2020 issue period, 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, 2019 and 2020 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.

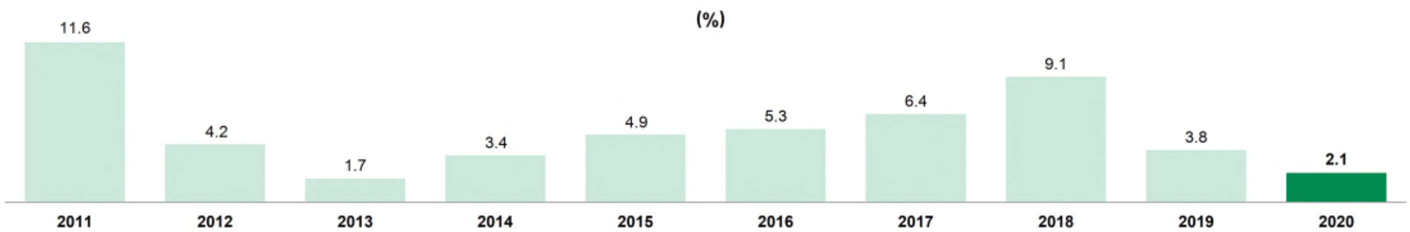
CRCD, through its balanced financial strategy and integrated risk management, has the necessary sources of funding to cover its financial obligations and pursue its mission among Québec businesses.

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 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.



6.2 Compounded return of the common share as at December 31, 2020

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
5.0%	4.8%	5.2%	4.8%	1.8%

7.0 Portfolio summary

7.1 Core investment profiles

As at December 31, 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	19.4
Equity	30.7
External funds	1.9
Venture capital	5.0
Other asset items held by ecosystem funds	0.8
Total – Investments impacting the Québec economy	**57.8**
OTHER INVESTMENTS	
Cash and money market instruments	1.7
Bonds	23.2
Global equity funds	5.2
Canadian equity funds	2.9
Real estate funds	4.9
Market neutral equity funds	2.8
Total – Other investments	**40.7**

* Including foreign exchange contracts

Net assets comprise 98.5% investment profiles and 1.5% other asset items.

7.2 Main investments held

As at December 31, 2020, on a fair value basis, the issuers of the 25 main investments held by CRCD were as follows:

Issuers as at December 31, 2020	% of net assets
Investments impacting the Québec economy – 14 issuers*	32.5
Government of Canada	4.8
Canada Housing Trust	3.2
Desjardins IBrix Low Volatility Global Equity Fund (I-Class Units)	2.8
Bentall Kennedy Prime Canadian Property Fund	2.5
Desjardins Global Dividend Fund (I-Class Units)	2.4
Fiera Properties CORE Fund	2.4
Province of Ontario	2.2
Hydro-Québec	2.0
CC&L market neutral funds	1.8
Province of Saskatchewan	1.5
Fidelity Canadian Low Volatility Equity Institutional Trust	1.5

* The 14 issuers which collectively represented 32.5% of CRCD's net assets are:
9349-6347 Québec inc. (Habitations Trigone)
Agropur Coopérative
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.
Groupe Solotech inc.
Gecko Alliance Group Inc.
Fournier Industries Group Inc.
Norbec Group Inc.
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.

February 11, 2021

8.0 Management's report

February 11, 2021

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 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 February 11, 2021. 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