

BEUTEL GOODMAN MANAGED FUNDS

INDEPENDENT REVIEW COMMITTEE ASSESSMENT REPORT TO MANAGER

February 5, 2018

TO: Beutel, Goodman & Company Ltd., Manager of:

**Beutel Goodman Canadian Equity Fund
Beutel Goodman Total World Equity Fund
Beutel Goodman North American Focused Equity Fund
Beutel Goodman Fundamental Canadian Equity Fund
Beutel Goodman Canadian Dividend Fund
Beutel Goodman Small Cap Fund
Beutel Goodman Income Fund
Beutel Goodman Long Term Bond Fund
Beutel Goodman Corporate/Provincial Active Bond Fund
Beutel Goodman Balanced Fund
Beutel Goodman Money Market Fund
Beutel Goodman American Equity Fund
Beutel Goodman International Equity Fund
Beutel Goodman World Focus Equity Fund
Beutel Goodman Global Equity Fund
Beutel Goodman Global Dividend Fund
Beutel Goodman Short Term Bond Fund**

The Independent Review Committee (the “IRC”) of the Beutel Goodman Managed Funds is providing this report to you, as manager of the Funds for the period covered by this report, as required under the Canadian Securities Administrators’ National Instrument 81-107 *Independent Review Committee for Investment Funds* (“NI 81-107”). This report covers the period from January 1 to December 31, 2017 (the “Period”).

For the Period, the IRC has reviewed and assessed the adequacy and effectiveness of the following items.

Standing Instructions and Manager’s Policies and Procedures

The IRC has reviewed and assessed the adequacy and effectiveness of:

1. your written policies and procedures relating to conflicts of interest;
2. the standing instructions it has provided to you as manager of the Funds;
3. compliance by you, as the manager, and the Funds’ with any conditions imposed by the IRC in a recommendation or approval it has provided to you as the manager; and
4. any subcommittee to which the IRC has delegated any of its functions.

As at November 1, 2007 and as subsequently amended, you received positive recommendations or approvals, and standing instructions from the IRC, with respect to the following conflict of interest matters. In each case, the standing instructions required that you comply with the related policy and procedures of each of these conflict of interest matters.

1. Personal Trading
2. Soft Dollar Arrangements
3. Allocation of Trades
4. Trade Errors
5. Gifts
6. Fund Valuation
7. Expense Allocation
8. Increase in Management Fees
9. Inter-Fund Trading

As manager of the Funds, you advised the IRC that, for the Period, you were not aware of any instance in which the manager acted in a conflict of interest matter regarding any of the Funds that was not covered by a standing instruction for which the IRC of the Funds had given its positive recommendation. You also advised the IRC that you were not aware of any instance in which you engaged in any related party transaction, as defined in section 5.2(1) of NI 81-107, relating to the Funds during the Period which would have required the approval of the IRC.

The IRC reviewed the attached Managed Funds' Conflict of Interest Matters Policy (the "Policy") and had no requested amendments.

The IRC is satisfied with the adequacy and effectiveness of your policies and procedures relating to conflicts of interest and the standing instructions, and your compliance with them.

The IRC and its Members

The IRC has reviewed and assessed its effectiveness as a committee, as well as the effectiveness and contribution of each of its members. This review included a consideration of the:

1. IRC's written charter;
2. competencies and knowledge each member is expected to bring to the IRC;
3. level of complexity of the issues reasonably expected to be raised by members in connection with the matters under review by the IRC; and
4. ability of each member to contribute the necessary time required to serve effectively on the IRC.

Having considered these factors, the IRC is satisfied with its effectiveness as a committee, as well as the effectiveness and contribution of each of its members.

The IRC's Independence and Compensation

The IRC has reviewed and assessed the independence and the compensation of its members. Each member of the IRC provided to you a certificate indicating his or her independence. The IRC is satisfied that the members are independent, as required by NI 81-107. The IRC is also satisfied with the amount of compensation currently provided to it and therefore has set its compensation at \$20,000 per member for the period May 1, 2018 to April 30, 2019.

SIGNED by the members of the Independent Review Committee of the Beutel Goodman Managed Funds on the 5th day of February, 2018.



Jeff Norton, Chair



Gary Brent



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Policy

This policy applies to:

1. Beutel, Goodman & Company Ltd. (BG or the Manager), as manager and trustee of the Beutel Goodman Managed Funds, a family of public mutual funds whose units are offered for sale to the public under a prospectus and annual information form (the Funds); and
2. the Funds.

This policy is designed to ensure that the Manager of the Beutel Goodman Managed Funds complies with National Instrument 81-107 *Independent Review Committee for Investment Funds* of the Canadian Securities Administrators (NI 81-107) by establishing an Independent Review Committee (IRC) for each of its Funds to review and advise on conflict of interest matters involving related entities.

Effective May 1, 2007, an IRC for each Fund was appointed to review and advise on certain investments of the Funds, with a view to ensuring that each of the Fund's investment decisions are based on the best interests of the Fund and are made free from any influence of a related entity. The IRC's mandate, as set out in its Charter, consists of reviewing and advising on the Funds' conflict of interest matters, and certain other matters, and the Manager's written conflict of interest policies and procedures, and providing its recommendations or approvals as required.

This policy identifies actual or potential conflict of interest matters, as defined below, the procedures to address them and the controls established to prevent or detect violations of the procedures. This policy also identifies certain other matters that the IRC is required to consider under securities legislation.

Procedures*1. Definition and Identification of Conflict of Interest Matters*

This policy applies in respect of any conflict of interest matter, as defined in NI 81-107, relating to the Manager or an entity related to the Manager.

A 'conflict of interest matter' is defined as

- (a) a situation where a reasonable person would consider a manager, or an entity related to the manager, to have an interest that may conflict with the manager's ability to act in good faith and in the best interests of the investment fund; or
- (b) any of the following conflict of interest or self-dealing matters requiring the approval of the IRC: an inter-fund or self-dealing trade, a transaction in securities

of a connected or related issuer or related registrant, or an investment in securities of an issuer underwritten by a related party (collectively, Related Transactions).

The Manager has identified the conflict of interest matters set out in section 2 of the procedures to this policy relating to each of the Funds that come within this definition. Certain procedures set out below for certain identified conflict of interest matters refer to procedures contained in policies of the Beutel Goodman Internal Compliance Manual which apply to BG. They are referred to as policies of the Manager or Beutel Goodman. The Manager reviews on an ongoing basis whether any additional matters are to be identified as 'conflict of interest matters' that should be also governed by this policy. Compliance is responsible for identifying potential conflict of interest matters. If Compliance identifies such an additional matter, it will notify BG's Management Committee and the IRC in writing of the potential additional conflict of interest matter, and its proposed resolution of the matter.

2. Conflict of Interest Matters

Personal Trading

The trading by Access Persons (defined in the Beutel Goodman Personal Trading Policy as employees or officers of BG who have access to non-public information concerning portfolio holdings, trading activities or the on-going investment process) for their personal account in securities of issuers that are, or are contemplated to be, in the holdings of the Funds is a conflict of interest matter because such personal trading may conflict with the Access Person's and Manager's ability to act in good faith and in the best interests of the Funds. There is the potential for Access Persons to engage in front running and trading on the basis of non-public information such as, holdings of a Fund and potential transactions of a Fund. All employees and officers of BG are considered Access Persons.

The Manager has in place its Personal Trading Policy to manage potential conflicts of interest regarding personal trading by Access Persons. In summary and as set out in more detail in the Personal Trading Policy, Access Persons who want to trade in securities for their personal account must:

- Pre-clear in writing all personal trades in accordance with the procedures set out in the Personal Trading Policy
- Submit to Compliance within 30 days of the calendar quarter a written quarterly transaction record, identifying the personal trades made that quarter
- Instruct their dealer to provide copies to Compliance of all trade statements
- Sign a certificate of compliance (Compliance Certificate), on joining BG and annually thereafter, agreeing to comply and certifying compliance with the Personal Trading Policy
- Not trade in prohibited transactions as outlined in section 3 of the Procedures to the Personal Trading Policy

- Not trade in a security during the blackout periods as outlined in section 3 of the Procedures to the Personal Trading Policy.

Equity and WRAP trading prepare and post electronically a daily list of securities of issuers in which personal trading is prohibited (prohibited trading list). Compliance reviews and signs all quarterly transaction records, reconciling the submitted records with the dealers' statements and the written pre-clearances. Compliance also ensures that the Compliance Certificates are signed and provides a quarterly report to Management Committee on compliance with the Personal Trading Policy. BG's Management Committee is responsible for imposing sanctions, if any, on Access Persons who violate the requirements of the Personal Trading Policy.

Soft Dollar Arrangements

Soft Dollar Arrangements are considered conflict of interest matters because a Fund pays commission dollars, in exchange for the executing broker providing services or paying invoices submitted by the Manager. Because of these arrangements, the executing broker has the potential ability to pay for things that are not for the benefit of the Fund.

The Manager has a Soft Dollar Arrangements Policy to ensure that the Manager obtains best execution for clients, minimizes transaction costs, uses client brokerage to benefit clients and provides uniform disclosure and recordkeeping of brokerage. The Soft Dollar Arrangements Policy has the following procedures for managing conflict of interest matters that relate to soft dollar arrangements:

- Section 3 Soft Dollar Budget and Broker Selection
- Section 4 Requested Client Disclosure
- Section 5 Client-Directed Brokerage
- Section 6 Prohibited Soft Dollar Usage.

The Managing Director, Operations, and Managing Director, Equities, review and approve in writing all requests for services to be paid in soft dollars. All soft dollar arrangements are in writing and are retained by Equity Trading. The Equity Trading Department posts an electronic report of all soft dollar arrangements on a quarterly basis in the S: drive and notifies Compliance, Management Committee and portfolio managers (Canadian equities) when new reports are available for review. Compliance will review these processes, the use of and the amount of client brokerage commissions and the client disclosures on a periodic basis and report any deficiencies to Management Committee.

With respect to client disclosure, the Managing Director, Equities and the Managing Director, Private Client Group (for Private Client Group clients) are responsible for reviewing any quarterly client soft dollar disclosure and any client-directed brokerage.

Allocation of Trades (including IPOs)

Section 3 *Equity Trade Allocations* of the Manager's Equity Trading Policy, Section 3 *Fixed Income Trade Allocations* of the Manager's Fixed Income Trading Policy, and Section 2 *Standards of Fairness*, including Schedule 1 *Standards Directed to Assure Fairness in the Allocation of Investment Opportunities Among Clients* of the Manager's Portfolio Management Policy, contain the procedures regarding any potential conflict of interest relating to trade allocations. Unfair allocation of trades by the Manager to Fund clients is a potential conflict of interest because it violates the Manager's fiduciary duty to act fairly and in the best interests of its clients.

Internal audit conducts fixed income trading audits at each quarter end, reviewing records of trade instructions for executed trades; verification that trade orders are dated and time stamped; and that account cash positions and securities positions are reconciled on a monthly basis.

Equity trading and compliance receive an automated daily trade cost analysis by email from ITG (our current order management system provider) which details our daily equity trades and trade statistics so we can monitor best execution and trading costs in real time, as well as investigate outliers.

Internal audit conducts the following quarterly audits: (i) to confirm that trading activity has been conducted on a basis consistent with portfolio manager instructions, (ii) to confirm daily trade orders and trading blotters are signed off by a portfolio manager, (iii) monthly reconciliations of account cash and securities positions, as approved by the relevant department manager/supervisor, and (iv) review of a random selection of outstanding order reports to confirm the fair allocation of investment opportunities and that issues, if any, have been reported to Compliance as required.

Questionable transactions and significant deficiencies are reported to Management Committee on a timely basis and appropriate steps are taken to correct the problem. Internal audit provides Compliance with a quarterly report as to trading audits completed.

Trade Errors

Section 6 *Equity Trade Errors* and Section 8 *Equity Post-Settlement Errors* of the Manager's Equity Trading Policy, and Section 4 *Fixed Income Trade Errors* of the Manager's Fixed Income Trading Policy, outline the procedures for handling trading errors. Trading errors are a potential conflict of interest matter because if they are not managed properly, they can compromise the ability of the Manager to act fairly and in the best interests of its clients.

The Procedures require that, where a trade error occurs, it must be:

1. corrected by the Manager as soon as practicable, normally in a manner that the client incurs no loss

2. reported to Compliance and, if considered material by Compliance, reported to Management Committee
3. reviewed by Compliance or Management Committee, as appropriate, so as to provide the necessary additional procedures to prevent or discourage errors.

For post-settlement errors, the Procedures require that Compliance must pre-clear the use of the error account. Portfolio managers and traders must retain written records regarding any errors and their remedy. Trading keeps a record of all trading errors.

Related Transactions - Securities of Related/Connected Issuers and Inter-fund Trades

i) Investments in securities of related/connected issuers and related registrants

Investments by the Funds in securities of issuers that are related or connected to the Manager or investments by the Funds in registrants related to the Manager are conflict of interest matters that are managed by Section 6 *Duty to Client* of the Beutel Goodman Portfolio Management Policy and the Conflicts of Interest Disclosure Statement.

Investing in securities of related or connected issuers, or in related registrants, is a conflict of interest matter because investing in these entities with whom the Manager has a relationship could compromise the ability of the Manager to act fairly and in the best interests of the Funds.

The Conflicts of Interest Disclosure Statement (the “Statement”) describes identified conflicts of interest, including relationships with parties related or connected to BG, and how BG intends to respond to such conflicts. The Portfolio Management Policy requires that the Statement be distributed to all new clients, and thereafter, if there are material changes. The Statement (including amendments) is also distributed to staff who are to inform Compliance if trades in the listed related registrants or in securities of any of the listed related or connected issuers are contemplated to ensure that Compliance is alerted to any such contemplated trade.

The Funds do not currently hold, nor have any intention of holding in the foreseeable future, any investments in securities of related or connected issuers or in related registrants.

ii) Inter-fund Trades

The Funds cannot engage in inter-fund trades except as described below and subject to the approval of the IRC of the standing instruction relating to inter-fund trading by the Funds. The IRC has approved a standing instruction relating to inter-fund trading by the Funds.

BG, as portfolio manager of a Fund, may purchase a security of any issuer from, or sell a security of any issuer to, another of the Funds, if, at the time of the transaction:

- (1) the Fund is purchasing from, or selling to, another Fund;
- (2) the IRC has approved the transaction by way of standing instruction;
- (3) the bid and ask price of the security is readily available;
- (4) the Fund receives no consideration and the only cost for the trade is the nominal cost incurred by the Fund to print or otherwise display the trade;
- (5) the transaction is executed at the current market price of the security, as defined below;
- (6) the transaction is subject to market integrity requirements, as defined below; and
- (7) the Fund keeps certain written records of every trade.

The “current market price of the security” means:

- (i) if the security is an exchange-traded security or a foreign-traded security,
 - (A) the closing sale price on the day of the transaction as reported on the exchange upon which the security is listed or the quotation trade reporting system upon which the security is quoted, or
 - (B) if there are no reported transactions for the day of the transaction, the average of the highest current bid and lowest current ask for the security as displayed on the exchange upon which the security is listed or the quotation trade reporting system upon which the security is quoted, or
 - (C) if the closing sale price on the day of the transaction is outside of the closing bid and closing ask, the average of the highest current bid and lowest current ask for the security as displayed on the exchange upon which the security is listed or the quotation trade reporting system upon which the security is quoted, or
- (ii) for all other securities, the average of the highest current bid and lowest current ask determined on the basis of reasonable inquiry.

“Market integrity requirements” means

- (i) if the security is an exchange-traded security, the purchase or sale
 - (A) is printed on a marketplace that executes trades of the security; and
 - (B) complies with the market conduct and display requirements of the marketplace, its regulation services provider and securities regulatory authorities; or
- (ii) if the security is a foreign exchange-traded security, the purchase or sale complies with the requirements that govern transparency and trading of

foreign exchange-traded securities on the foreign exchange or foreign quotation and trade reporting system; or

- (iii) for all other securities, the purchase or sale is through a dealer, if the purchase or sale is required to be reported by a registered dealer under applicable securities legislation.

The Manager will provide an annual written report to the IRC in the first quarter of every calendar year, indicating all inter-fund trades that have taken place under the standing instruction in the previous year.

Gifts

Giving, receiving or soliciting gifts are identified as conflict of interest matters under this policy because giving, receiving or soliciting gifts may result in the Manager (or its employees or officers, or a related entity, or its employees or officers) having an interest that may conflict with the Manager's ability to act in good faith and in the best interests of the Fund.

Section 6 *Duty to Client* of the Manager's Portfolio Management Policy, and Section 5 *Conflicts of Interest* of the Manager's Corporate Oversight Policy, in the sub-section Gifts, entertainment, contributions or other payments, outline the relevant procedures.

Fund Valuation

The Manager's Portfolio Valuation Policy is designed to ensure that all client portfolios and investments reflect current, fair and accurate market valuations for accurate performance calculations and fee billing purposes. Fund valuation is a potential conflict of interest matter because the Manager's interest in valuating the Funds to show good performance for obtaining a good ranking and attracting more investment may conflict with the Manager's ability to act in good faith and in the best interests of the Funds to provide unitholders with accurate performance calculations for investment decision-making purposes.

The Portfolio Valuation Policy sets out the procedures for the Funds for portfolio pricing, price overrides/manual pricing, valuation of portfolio securities and portfolio pricing errors. Under 'Monitoring' in the Portfolio Valuation Policy, the Managing Director, Operations, reviews daily a report of daily price changes in the Funds. If there has been an error in the calculation of a Fund's net asset value, the error is corrected retroactively, subject to certain materiality thresholds determined by the Managing Director, Operations.

If there has been an error in the calculation of a fund's NAV, the error is corrected retroactively, subject to certain materiality thresholds as determined by the Managing Director, Operations. Current practice materiality thresholds are set at 50 basis points and are reviewed on an annual basis. If there is an error of 50 basis points or more in the

net asset value, the error is always corrected with fund NAVs being restated and client accounts being reimbursed. If the error is less than 50 basis points in the net asset value, the error may be corrected, depending on the materiality of the transactions and the amount of time since the error occurred.

Expense Allocation

The management fees are charged based on the rates set out in the prospectus for each Fund. BG pays certain operating expenses of each Fund. These expenses include custodial, legal, regulatory and audit and securities reporting. In return, each Fund pays BG a fixed administration fee as set out in the prospectus for the Funds. The administration fee is subject to applicable taxes, including HST and may vary by class of units and by Fund. If operating expenses charged to a Fund are to be increased from the prior year, the Manager will obtain the IRC's recommendation for the increased expenses charged to that Fund prior to the Manager charging those expenses to the Fund. Any increase must be within the limits set out in the prospectus. The Manager does a review of the operating expenses on an annual basis. The Manager, Fund Accounting, reviews allocations of expenses on a quarterly basis. Expense allocations are verified annually by an external audit.

Increase in Management Fees

The management fees for the Funds are set out in the prospectus for each Fund. The Manager must obtain the recommendation of the IRC for any increase in these management fees. The Manager must also obtain the prior approval of securityholders for any such increase.

Proxy Voting

Proxy voting matters may be considered conflict of interest matters where a Fund invests in shares of a public issuer related to the Manager (for example, Affiliated Managers' Group, Inc.) and the Manager engages in proxy voting on behalf of the Fund for the shares owned by the Fund in that related party. The Funds currently do not make such investments. However, in the event that a Fund does contemplate making such an investment, the Manager will obtain the IRC's written recommendation on the Fund's proxy voting procedures as an identified conflict of interest matter.

3. Other Matters

The Manager must obtain the written approval of the IRC for any change in the auditor of a Fund. The IRC must follow the procedures for the approval as set out in NI 81-107.

The Manager must also obtain the written approval of the IRC for certain reorganizations with, or transfers of assets to, another mutual fund, as described in section 5.1(f) of National Instrument 81-102 *Mutual Funds*. The IRC must follow the procedures for the approval as set out in NI 81-107.

4. Education

On an annual basis, and more frequently, on a reasonable basis, in the event of a significant change in the business of the Manager or the Funds, or in securities legislation governing the IRC, the Manager and IRC will provide IRC members with educational and informational programs that enable the members to understand the roles of the IRC and the member. The Manager may provide members such programs that will enable them to understand the nature and operation of the Manager's and the Funds' business, as the Manager considers useful or necessary.

5. Record-keeping

The Manager will retain all records relating to conflict of interest matters for seven years.

Monitoring

Identified conflict of interest matters will be monitored in accordance with the relevant policies as set out above under each identified conflict of interest matter.

The Manager will present standing instructions for each identified conflict of interest matter annually to the IRC for its recommendation or approval to the effect that the Manager will manage a particular identified conflict of interest matter in accordance with the Manager's relevant policy and procedures governing that identified conflict of interest matter. Each standing instruction of the Manager to the IRC will either directly or through a cross-reference in the standing instruction to the relevant BG Policy: 1) identify the conflict of interest matter; 2) explain why it is a conflict; 3) discuss what actions the Manager must take pursuant to the standing instruction; and 4) discuss the circumstances under which a standing instruction is not valid.

The IRC must approve the Manager's procedures for managing identified conflict of interest matters that are Related Transactions. The IRC must recommend the Manager's procedures for all other identified conflict of interest matters.

If the IRC is satisfied with the standing instructions regarding the conflict of interest matters to be approved or recommended by it, it will approve or recommend the Manager's standing instruction.

If the IRC is not satisfied with such a standing instruction, the Manager must report the conflict to the IRC on a timely basis each and every time the conflict arises. The IRC must approve the conflict of interest matter. If the IRC does not approve the conflict of interest matter, then the IRC will decide whether to report the matter to securities regulators. If the IRC withdraws a standing instruction, they can provide an amended instruction or require separate approval for each occurrence. The IRC is only obligated to advise the securities regulators if the Manager fails to comply with the terms of approval or with a disapproval on a matter that requires approval. If the Manager ignores a

recommendation, then the IRC can force the Manager to disclose the dispute to the unit holders.

In addition to identified conflict of interest matters that are Related Transactions, the IRC must approve in writing a change in the auditor of a Fund and certain reorganizations or asset transfers set out in section 5.1(f) of National Instrument 81-102 *Mutual Funds*.

Failure to obtain IRC approval on the conflict of interest matters and any other matters requiring IRC approval under NI 81-107, or a violation of any condition to the IRC's approval for these matters is a violation of securities law and may result in an investigation of the Manager by, or a sanction of the Manager from, securities regulators.

Reporting

1. Manager

Compliance will report quarterly to the IRC on the identified conflict of interest matters, including the standing instructions and how those instructions were relied upon, and any violations of the relevant procedures for each conflict of interest matter and any instances where it has not followed the IRC's recommendation. Compliance will also provide to the IRC an annual report on these matters.

2. IRC Assessment Report

The IRC must provide a written annual report to the Manager of the results of its assessment as soon as practicable after completion of that assessment, in accordance with NI 81-107 requirements. Compliance will review the report and request approval from the Management Committee of the Manager as to any changes required as a result of the report. Once approved by the Management Committee, Compliance will report to the IRC on these proposed changes. Compliance will then implement the changes.

3. This Policy

On an annual basis, Compliance reviews with the Management Committee of the Manager this policy and any changes to this policy. On an annual basis, the Manager refers this policy and any changes to the IRC for its review. The Manager approves this policy and any changes to this policy on an annual basis.

Compliance reports to the Manager on the IRC's recommendations on this policy.