

# Beutel Goodman Corporate/Provincial Active Bond Fund

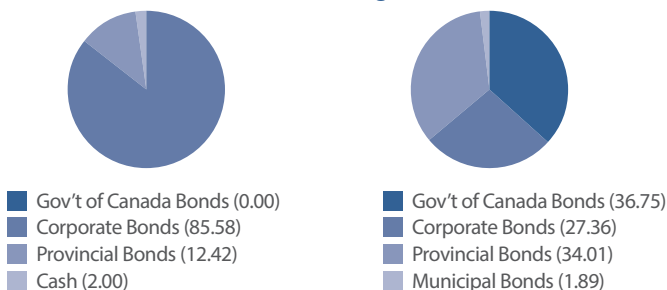
## Top 10 Holdings (%)

BNK OF MONTREAL DPNT	1.610 OCT 28 21	6.20
BELL CANADA	3.350 JUN 18 19	6.20
ONTARIO PROV	2.900 DEC 02 46	5.50
CIBC DPNT	1.900 APR 26 21	5.30
TRANSCANADA PIPELINE	7.900 APR 15 27	4.50
TD BANK DPNT	2.045 MAR 08 21	4.20
WESTCOAST ENERGY	7.150 MAR 20 31	3.90
BNK NOVA SCOTIA DPNT	2.130 JUN 15 20	3.40
ONTARIO PROV	4.650 JUN 02 41	3.20
INTER PIPELINE LTD	2.608 SEP 13 23	2.80

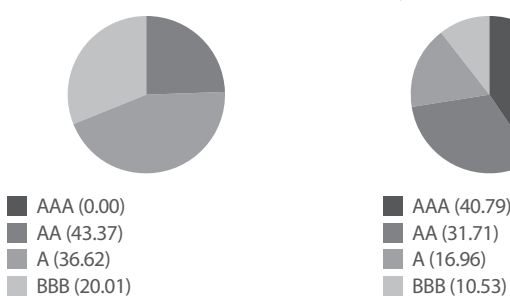
## BG Corp/Prov Active Bond Fund

## FTSE TMX Canada Universe Bond

### Sector Weights (%)



### Bond Quality (%)



## Performance % (ANNUALIZED) to December 31, 2017

BG Corp/Prov Bond Fund	Current Quarter	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
Total Portfolio	2.26	3.75	3.83	3.00	3.99	2.95	5.14
FTSE TMX Canada Universe Bond Index	2.02	2.52	2.09	2.56	4.09	3.01	4.67
Management Effect	0.24	1.23	1.74	0.44	-0.10	-0.06	0.48

## Performance % (ANNUAL) to December 31, 2017

BG Corporate/Provincial Bond Fund	2017	2016	2015	2014	2013
Total Portfolio	3.75	3.91	1.36	7.01	-1.11
FTSE TMX Canada Universe Bond Index	2.52	1.66	3.52	8.79	-1.19
Management Effect	1.23	2.25	-2.16	-1.78	0.08

## Portfolio Characteristics

	Beutel Goodman Corp/Prov Bond Fund	FTSE TMX Canada Bond Universe
Average Term	10.81 YEARS	10.50 YEARS
Average Duration	7.53 YEARS	7.59 YEARS
Yield	2.88 %	2.47 %

## Investment Strategy

The Fund seeks long-term capital appreciation and a high rate of income by actively managing a portfolio primarily consisting of instruments of Canadian corporate and Government bond issuers.

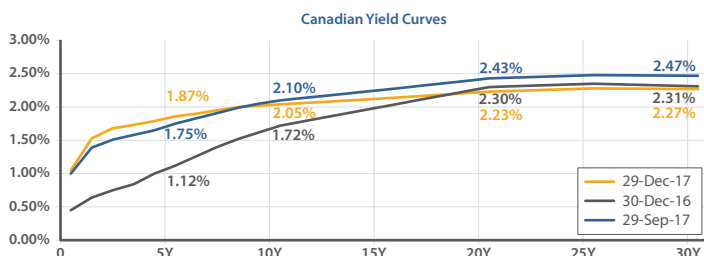
## Market Overview

Canadian interest rates were virtually unchanged across the curve on average during the quarter, but there were significant and opposing movements in the short versus the long end of the curve. Yields in the 1 to 5 year area of the curve increased by 14 basis points, as a December speech and interview by Governor Poloz tilted the market to price in additional rate hikes in 2018. Conversely, yields in the long end of the curve decreased by approximately 20 basis points as inflation data continued to disappoint market expectations.

During the fourth quarter, the U.S. Federal Reserve hiked the Federal Funds rate by 25 basis points to a target range of 1.25-1.5%. The Fed believes that the labour market has continued to strengthen and that economic activity has been rising at a solid rate. Inflation remains a thorn in the central bank's side, as the Fed noted that on a 12-month basis, both overall inflation and inflation ex-food and energy have declined and are running below 2%.

During the fourth quarter, the FTSE TMX Canada Universe Bond Index increased by 2.02% on a total return basis. The Provincial and Municipal sectors both outperformed the index during the quarter, returning 3.38% and 2.99% respectively. The Corporate and Federal sectors both underperformed the index during the quarter, returning 1.87%, and 0.87% respectively.

During the fourth quarter, our portfolio outperformed the benchmark by 24 basis points. Decisions that contributed to performance included the following: (1) our government sector allocation, as both provincials (market weight) and corporates (overweight) significantly outperformed federal bonds (significantly underweight); (2) our government security selection due to the relative outperformance of provincials versus federal bonds; and (3) a slight positive contribution from duration. The outperformance was slightly offset by the following: (1) a negative contribution from our corporate security selection, as our preferred high quality sectors of pipelines, utilities and infrastructure underperformed versus other higher beta corporates; and (2) our curve position due to the corporate overweight position in the 7 year area of the curve, which underperformed other areas of the curve.



## Portfolio Strategy

We are short duration versus the FTSE TMX Canada Overall Bond Universe. We believe that as central banks have adjusted their biases to removing monetary policy stimulus, both through hiking interest rates and tapering QE and balance sheets, interest rates will likely increase in accordance. The Canadian bond market has fully priced in a full tightening cycle by the Bank of Canada, in line with our expectations, so there are no opportunities for rates to increase significantly in the short-end of the curve. We are positioned for the yield curve to continue to flatten as is reflective of tightening cycles. Our projected roll return versus that of the benchmark remains positive. We are overweight corporate bonds and are maintaining our defensive and safe haven positioning. We are zero weight Government bonds and underweight provincials.

## Outlook

With respect to fixed income, the outlook for U.S. growth remains bright, especially with the passage of U.S. tax reform. Financial conditions have eased and historically have foreshadowed faster growth. While Canadian growth is expected to moderate after a robust first half of 2017, it will likely be held up by a strong U.S. economy and the recent strength in crude oil prices. While there is no doubt that the Canadian economy is strong and that the slack in the economy is being used up, there are a few areas of concern for the economic forecast. A significant amount of the strong growth has been led by the services sector and not by manufacturing nor by the export sectors that the Bank of Canada had expected to benefit from a lower Canadian dollar. As the Bank of Canada has repeatedly warned, consumer indebtedness is at very high levels. While a slowdown in the housing market will likely not lead to a rash of foreclosures in Canada as it did in the U.S., it will likely constrain consumer spending as mortgage payments take up a greater share of consumers' wallets.

Our base case is for the continuation of trends of relatively strong growth, steadily increasing inflation and gradual central bank tightening. Our base case also assumes that a deal to maintain NAFTA is cobbled together before the deadline. While this provides a constructive backdrop for credit spreads, we are mindful of the overall tightness of spreads currently as credit metrics are deteriorating and leverage is creeping up. There are a number of things that pose a risk to our base case, including (in no particular order): (1) a messy unwind of quantitative easing; (2) a swift abrogation of NAFTA; (3) a destruction of value of the crypto currencies; (4) a North Korea missile strike; (5) a banking crisis in China; (6) political unrest in Venezuela and the Middle East; (7) a Trump implosion; (8) a trade war; (9) a credit event; and (10) a shift in the European political landscape.

## Disclosure Notes

Investment returns are expressed in Canadian dollars unless otherwise noted, gross of investment management fees and net of operating expenses for Beutel Goodman funds. Returns are time weighted and annualized for periods greater than one year. Client returns may vary due to cash flow timing and client-specific constraints.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit values and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

The I class units of the Short Term Bond Fund were not offered under a prospectus for the period since performance inception to October 4, 2010 (the prospectus start date). The I class units of the Global Dividend Fund were not offered under a prospectus for the period since performance inception to September 14, 2010 (the prospectus start date). Please see the related product profiles for the inception dates of these funds. The I class units of the Global Equity Fund were not offered under a prospectus for the period since its 1995 performance inception to July 6, 2011 (the prospectus start date). Performance for each of these Funds is combined to include both of these periods. The expenses of these Funds would have been higher during these periods had these Funds been subject to additional regulatory requirements applicable to a fund whose units are offered under a prospectus.

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