

# Beutel Goodman Income Fund

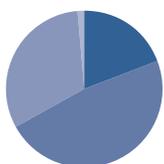
## Top 10 Holdings (%)

|                      |                 |      |
|----------------------|-----------------|------|
| ONTARIO PROV         | 4.650 JUN 02 41 | 5.80 |
| CANADA GOVT          | 1.000 JUN 01 27 | 4.30 |
| CANADA GOVT          | 2.750 DEC 01 48 | 3.90 |
| QUEBEC PROV          | 5.000 DEC 01 41 | 3.10 |
| QUEBEC PROV          | 4.500 DEC 01 20 | 2.70 |
| BNK NOVA SCOTIA DPNT | FLTG OCT 12 18  | 2.10 |
| ONTARIO PROV         | 4.700 JUN 02 37 | 2.10 |
| BNK OF MONTREAL DPNT | 1.610 OCT 28 21 | 2.00 |
| BNK OF MONTREAL DPNT | 2.100 OCT 06 20 | 1.90 |
| CANADA GOVT          | 1.000 SEP 01 22 | 1.80 |

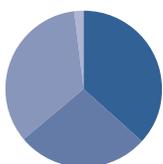
## BG Income Fund

## FTSE TMX Canada Bond Universe

### Sector Weights (%)



- Gov't of Canada Bonds (19.31)
- Corporate Bonds (47.74)
- Provincial Bonds (31.73)
- Cash (1.21)



- Gov't of Canada Bonds (36.75)
- Corporate Bonds (27.36)
- Provincial Bonds (34.01)
- Municipal Bonds (1.89)

### Bond Quality (%)



- AAA (19.50)
- AA (45.08)
- A (26.97)
- BBB (8.45)



- AAA (40.79)
- AA (31.71)
- A (16.96)
- BBB (10.53)

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

| BG Income Fund                      | Current Quarter | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | 10 Years |
|-------------------------------------|-----------------|--------|---------|---------|---------|---------|----------|
| Total Portfolio                     | 2.12            | 2.79   | 2.50    | 2.31    | 3.28    | 2.32    | 4.63     |
| FTSE TMX Canada Universe Bond Index | 2.02            | 2.52   | 2.09    | 2.56    | 4.09    | 3.01    | 4.67     |
| Management Effect                   | 0.10            | 0.27   | 0.41    | -0.25   | -0.81   | -0.68   | -0.04    |

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

| BG Income Fund                      | 2017 | 2016 | 2015  | 2014  | 2013  |
|-------------------------------------|------|------|-------|-------|-------|
| Total Portfolio                     | 2.79 | 2.21 | 1.93  | 6.24  | -1.41 |
| FTSE TMX Canada Universe Bond Index | 2.52 | 1.66 | 3.52  | 8.79  | -1.19 |
| Management Effect                   | 0.27 | 0.55 | -1.59 | -2.55 | -0.22 |

## Portfolio Characteristics

|                  | Beutel Goodman Income Fund | FTSE TMX Canada Bond Universe |
|------------------|----------------------------|-------------------------------|
| Average Term     | 10.32 YEARS                | 10.50 YEARS                   |
| Average Duration | 7.43 YEARS                 | 7.59 YEARS                    |
| Yield            | 2.49 %                     | 2.47 %                        |

Beutel Goodman Managed Funds Fourth Quarter (December 31, 2017)

## Investment Strategy

The Fund seeks to earn a high rate of income return by investing primarily in fixed income securities of Canadian government and corporate issuers.

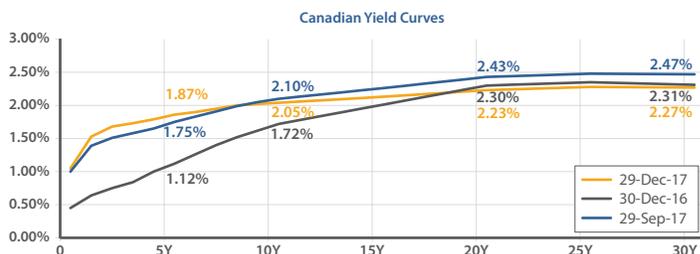
## Market Overview

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 10 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 (underweight); (2) our government security selection due to the relative outperformance of provincials versus federal bonds; and (3) a slight positive contribution from duration. Our curve positioning was neutral to performance. The outperformance was slightly offset by 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.



## 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 underweight Government of Canada bonds and are slightly underweight provincial bonds.

## 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.

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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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