

# Beutel Goodman International Equity Fund

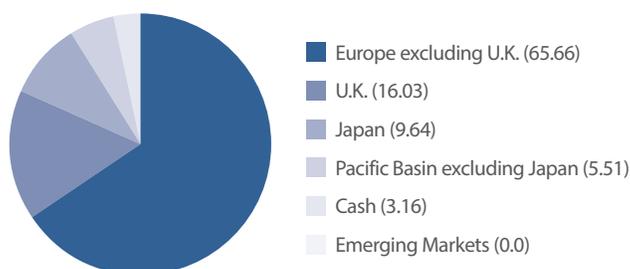
## Top 10 Holdings (%)

|                    |      |
|--------------------|------|
| KAO CORP           | 4.30 |
| MERCK KGAA         | 4.30 |
| MICHELIN(CGDE)     | 4.00 |
| CARLSBERG AS       | 3.90 |
| GEA GROUP AG       | 3.70 |
| SOFTWARE AG        | 3.40 |
| BASF SE            | 3.40 |
| ATEA ASA           | 3.40 |
| KON KPN NV         | 3.40 |
| HENKEL AG&CO. KGAA | 3.30 |

## Sector Weights vs Benchmark

| Sector      | SECTOR WEIGHTS (%) |               | UNDERWEIGHT/OVERWEIGHT % |
|-------------|--------------------|---------------|--------------------------|
|             | BG                 | MSCI EAFE C\$ |                          |
| Telecom     | 10.65              | 3.90          | 6.8                      |
| Consumer S. | 16.00              | 11.18         | 4.8                      |
| Materials   | 12.49              | 8.19          | 4.3                      |
| Info. Tech. | 8.47               | 6.44          | 2.0                      |
| Energy      | 6.01               | 5.32          | 0.7                      |
| Health Care | 10.56              | 10.10         | 0.5                      |
| Industrials | 12.29              | 14.63         | -2.3                     |
| Utilities   | 0.00               | 3.18          | -3.2                     |
| Real Estate | 0.00               | 3.57          | -3.6                     |
| Consumer D. | 8.55               | 12.28         | -3.7                     |
| Financial   | 11.81              | 21.21         | -9.4                     |
| Cash        | 3.16               |               |                          |

## Regional Weights (%)



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

| BG International Equity Fund | Current Quarter | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | 10 Years |
|------------------------------|-----------------|--------|---------|---------|---------|---------|----------|
| Total Portfolio              | 5.36            | 22.39  | 12.52   | 12.31   | 7.96    | 10.11   | 4.00     |
| MSCI EAFE Index C\$          | 4.42            | 16.61  | 6.89    | 10.58   | 8.82    | 12.98   | 4.38     |
| Management Effect            | 0.94            | 5.78   | 5.63    | 1.74    | -0.87   | -2.87   | -0.39    |

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

| BG International Equity Fund | 2017  | 2016  | 2015  | 2014  | 2013   |
|------------------------------|-------|-------|-------|-------|--------|
| Total Portfolio              | 22.39 | 3.45  | 12.00 | -4.11 | 19.17  |
| MSCI EAFE Index C\$          | 16.61 | -2.02 | 18.34 | 3.73  | 31.26  |
| Management Effect            | 5.78  | 5.47  | -6.34 | -7.84 | -12.09 |

## Investment Strategy

The Fund seeks long-term enhancement of capital primarily through investments in common stocks and other equity securities of non-North American issuers. The number of stocks held is between 25-50.

## Investment Results

The Beutel Goodman international equity portfolio posted a positive result for the fourth quarter, slightly ahead of the MSCI EAFE C\$ Index, which was also positive. Energy was the best performing sector in the index for the second quarter in a row, followed by strong participation from Materials and to a lesser extent, Information Technology and the Consumer sectors. Utilities, Health Care and Telecommunications were the more notable laggards. From a regional perspective, Europe ex-UK underperformed, while the Pacific region outperformed, with both Japan and Australia posting strong performance.

Global growth appears both robust and broad based. The latest Euro area manufacturing PMI was reported at the highest level it has been since inception, driven by stronger global demand. Although low, inflation in the region has shown signs of upward movement. Growth forecasts by the ECB for the area have been increased to 2.4% and 2.3% for 2017 and 2018 respectively. As well, the UK economy is showing solid expansion, despite Brexit concerns. Japan's economic outlook also continues to strengthen, with Q3 GDP expanding by 2.5%. During the quarter, Shinzo Abe was re-elected as Prime Minister of Japan with a supermajority, which propelled the Japanese market higher due to his favourable view on continued stimulus.

The portfolio outperformed the EAFE Index with positive stock selection aided slightly by positive sector allocation, as the benefit from our overweight in Materials and zero-weight in Utilities more than offset weakness from our overweight in Telecommunications.

In terms of stock selection, the strongest contribution came from the Financials sector. While all of our holdings outperformed in the period, DBS, and to a lesser extent, Resona, drove the majority of the outperformance.

The Consumer Staples sector was the second largest contributor to stock selection. Our Japanese holdings, FamilyMart and Kao, posted very strong returns while Carlsberg also contributed nicely.

The Information Technology and Telecommunications sectors were also solid contributors to the period's outperformance with Software AG, Atea, and Vodafone all showing strong returns. This more than offset poor performance from Telefonica Deutschland, which gave back a sizeable portion of its year-to-date outperformance.

Materials was a source of underperformance, as Norsk Hydro's good showing was not enough to offset the weakness from Akzo Nobel and Air Liquide, which lagged the strong mining rally.

Our two holdings within Energy both underperformed the oil-led rally, as both Caltex and TGS-NOPEC do not benefit directly from changes in the oil price.

The Consumer Discretionary sector showed a mixed result, with a strong return in Luxottica insufficient to offset the underperformance from Michelin, which gave back some of its very strong prior period performance.

Within Industrials there was modest underperformance, as underperformance from Smiths Group following its results more than offset the modest IMI rally, which pushed higher related to the positive sentiment for its end-market exposures.

## Portfolio Strategy & Activity

In the fourth quarter of 2017, the international equity portfolio initiated a new position in WPP, the world's leading advertising agency.

During the quarter, we continued to build our positions in our three new holdings from last quarter: Roche, Caltex, and Smiths Group. We also added to Smith & Nephew, Luxottica, Merck KGAA, and Akzo Nobel. The quarter was very busy for process-driven trims, which saw the fund trim Resona, DBS, NTT Docomo, and Norsk Hydro. We sold the balance of our holdings in Richemont and Norsk Hydro, both of which we felt offered less upside than warranted to continue to hold the positions.

## Outlook

Global equity markets rallied strongly in the year of 2017 and reached multi-year highs across many countries. The surprisingly synchronized global economic growth was the key reason behind the strong market movements. While no major economies are expected to grow at a particularly fast speed, all of them continue to show positive signs of improving growth momentum. In the U.S., the much anticipated tax reform seems within reach and may further strengthen business and investment confidence. In Europe, domestic consumption and construction show strong potential to catch up, after the EU political environment improved through the last two years. In Japan, inflation has finally showed up as a result of the record high employment and rekindled the hope of triggering a new business investment cycle. China looks poised to return to the growth path the government charted out after its recent policy meetings. Even the Brexit-troubled UK has maintained a decent GDP growth outlook. Overall, global growth is likely to be robust and broad-based in 2018.

On the other hand, monetary policy and financial conditions are expected to get tighter, as central banks in developed countries are turning away from their quantitative easing programs and entering a tapering phase. It's unpredictable whether the tapering process will have a visible impact on the real economy or the equity markets in the near term. However, the long term impact is even less clear. Globally, political and geopolitical risks continue to be elevated, but don't seem to be reflected in this exuberant market environment.

## 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.

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