Beutel Goodman **Long Term Bond Fund**

BG BEUTEL GOODMAN
Investment Counsel

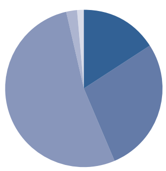
Top 10 Holdings (%)

CANADA GOVT	2.750 DEC 01 48	10.30
ONTARIO PROV	4.700 JUN 02 37	10.20
QUEBEC PROV	5.000 DEC 01 41	7.70
ONTARIO PROV	4.650 JUN 02 41	7.40
BC PROV	4.300 JUN 18 42	5.90
QUEBEC PROV	3.500 DEC 01 48	4.00
CANADA GOVT	5.000 JUN 01 37	3.80
ONTARIO PROV	2.900 DEC 02 46	3.60
ALBERTA PROV	3.050 DEC 01 48	3.20
TRANSCANADA PIPELINE	8.200 AUG 15 31-03	2.90

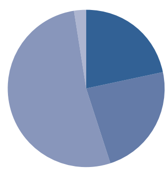
BG Long Term Bond Fund

FTSE TMX Canada Long Term Bond

Sector Weights (%)

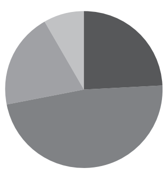


- Gov't of Canada Bonds (16.09)
- Corporate Bonds (27.55)
- Provincial Bonds (52.81)
- Municipal Bonds (2.34)
- Cash (1.21)

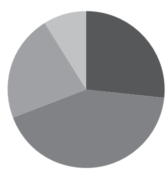


- Gov't of Canada Bonds (21.92)
- Corporate Bonds (23.25)
- Provincial Bonds (52.36)
- Municipal Bonds (2.47)

Bond Quality (%)



- AAA (24.39)
- AA (47.71)
- A (19.76)
- BBB (8.14)



- AAA (26.83)
- AA (42.46)
- A (22.00)
- BBB (8.71)

Performance % (ANNUALIZED) to March 31, 2018

BG Long Term Bond Fund	Current Quarter	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
Total Portfolio	-0.03	5.05	3.79	1.70	5.26	4.01	6.12
FTSE TMX Canada Long Term Bond Index	-0.01	5.06	3.37	2.04	6.20	4.70	6.45
Management Effect	**-0.02**	**-0.01**	**0.41**	**-0.35**	**-0.94**	**-0.69**	**-0.34**

Performance % (ANNUAL) to March 31, 2018

BG Long Term Bond Fund	2018	2017	2016	2015	2014
Total Portfolio	5.05	2.54	-2.36	16.71	-0.85
FTSE TMX Canada Long Term Bond Index	5.06	1.72	-0.56	19.72	-1.11
Management Effect	**-0.01**	**0.82**	**-1.80**	**-3.01**	**0.26**

Portfolio Characteristics

	Beutel Goodman Long Term Bond Fund	FTSE TMX Canada Long Term Bond
Average Term	21.96 YEARS	22.90 YEARS
Average Duration	14.47 YEARS	14.79 YEARS
Yield	2.98 %	3.05 %

Investment Strategy

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

Investment Results

Canadian interest rates rose by five basis points on average during the quarter, but there were significant and opposing movements in the short versus the long end, as the yield curve flattened. Yields in the 1 to 5 year area of the curve increased by 11 basis points as the market absorbed the January rate hike by the Bank of Canada and priced in further tightening. Conversely, yields in the long end of the curve decreased by approximately 4 basis points, as inflation data, although moving up, continued to disappoint market expectations.

The quarter was characterized by volatility in the stock markets, led in part by privacy concerns in the technology sector, concerns over a global trade war and mixed economic data. The Bank of Canada hiked the overnight rate by 25 basis points to 1.25% in the first quarter. The Bank cited that recent economic data has been strong, inflation is close to target, and the economy is operating roughly at capacity. The major caveat is uncertainty surrounding the future of NAFTA, which is clouding the economic outlook. During the first quarter, the U.S. Federal Reserve hiked the Federal Funds rate by 25 basis points to a target range of 1.5-1.75%. This was new Fed Chair Jerome Powell's first meeting and it did not represent a significant change versus the Janet Yellen Federal Reserve. The Fed believes that the labour market has continued to strengthen and that economic activity has been rising at a moderate rate.

During the first quarter, the FTSE TMX Canada Long Term Bond Index decreased by 0.01% on a total return basis. The long Federal and Corporate sectors both outperformed the Index during the quarter, returning 0.84% and 0.39% respectively. The long Provincial and Municipal sectors both underperformed the Index during the quarter, returning -0.53% and -0.13% respectively.

During the first quarter, our portfolio underperformed the benchmark by 2 basis points. Decisions that detracted from performance included the following: (1) our government sector allocation due to an underweight position in Government of Canada bonds as the long federal sector outperformed all other sectors during the quarter. Interest rates in the long-end of the curve declined by 4 basis points, yet increased in all other maturities; (2) our corporate security selection as even in a risk off scenario our higher quality credits underperformed more riskier and higher beta names, as investors continue to value yield over quality; (3) our short duration positioning as long interest rates declined during the quarter. The underperformance was partially offset by the following: (1) our government security selection mainly attributable to our overweight position in the province of BC; (2) our corporate sector allocation as corporates, where we are overweight, outperformed provincials, where we are neutral; and (3) our curve positioning as the portfolio was underweight the 10-year part of the curve which underperformed as the yield curve flattened.

Portfolio Strategy and Activity

We are short duration versus the FTSE TMX Canada Long Term Bond Index. 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. We are positioned for the yield curve to continue to flatten, as is reflective of tightening cycles. Our relative yield advantage 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

The path of interest rates in the near term will likely be determined by the pace and magnitude of the withdrawal of monetary policy stimulus by the major central banks. This withdrawal will likely reprice yield curves and lead global interest rates higher. Additionally, central bank tightening flattens the yield curve, as moves in the administered rates are felt more in the short-end of the curve. Both the Bank of Canada and the U.S. Federal Reserve are united in that they are both data dependent, monitoring how consumers and businesses react to higher interest rates and waiting to see if inflation will increase following the strong conditions in the labour markets and the underlying economies.

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 and an all-out global trade war is averted. While our base case 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. Threats to our base case scenario include: (1) a global trade war; (2) a messy unwind of global quantitative easing; (3) a swift abrogation of NAFTA; (4) a destruction of value of the crypto currencies; (5) a banking crisis in China; (6) political unrest in Venezuela, and the Middle East; (7) a Trump implosion; (8) a credit event; and (9) 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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