

Beutel Goodman Small Cap Fund



Top 10 Holdings (%)

| | |
|---------------------|------|
| COLLIERS INTL | 9.00 |
| LINAMAR CORPORATION | 6.40 |
| EQUITABLE GROUP INC | 5.20 |
| WESTJET AIRLINES | 5.10 |
| QUEBECOR INC | 5.00 |
| IND ALLNCE & FNCL | 4.60 |
| ARITZIA INC | 3.90 |
| ALAMOS GOLD IN | 3.80 |
| UNI SELECT INC | 3.80 |
| PARAMOUNT RES LTD | 3.70 |

Sector Weights vs Benchmark

| SECTOR WEIGHTS (%) | UNDERWEIGHT/OVERWEIGHT % | | |
|--------------------|--------------------------|------------|-------|
| Sector | BG | S&P/TSX SC | |
| Consumer D. | 20.41 | 8.69 | 11.7 |
| Financials | 12.17 | 5.92 | 6.3 |
| Industrials | 17.03 | 12.39 | 4.6 |
| Real Estate | 10.94 | 9.76 | 1.2 |
| Utilities | 3.07 | 1.94 | 1.1 |
| Consumer S. | 2.67 | 2.53 | 0.1 |
| Telecom | 0.00 | 0.17 | -1.2 |
| Health Care | 0.90 | 4.56 | -3.7 |
| Info. Tech. | 0.66 | 4.63 | -4.0 |
| Energy | 13.09 | 21.92 | -8.8 |
| Materials | 16.89 | 27.51 | -10.6 |
| Cash | 2.18 | | |

Performance % (ANNUALIZED) to March 31, 2018

| BG Small Cap Fund | Current Quarter | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years | 10 Years |
|-------------------------|-----------------|--------|---------|---------|---------|---------|----------|
| Total Portfolio | -6.19 | -3.71 | 11.81 | 6.11 | 6.96 | 9.83 | 10.02 |
| S&P/TSX Small Cap Index | -7.73 | -6.57 | 9.99 | 4.49 | 0.73 | 3.51 | 1.99 |
| Management Effect | 1.54 | 2.86 | 1.82 | 1.62 | 6.23 | 6.32 | 8.03 |

Performance % (ANNUAL) to March 31, 2018

| BG Small Cap Fund | 2018 | 2017 | 2016 | 2015 | 2014 |
|-------------------------|-------|-------|-------|-------|-------|
| Total Portfolio | -3.71 | 29.83 | -4.44 | 9.54 | 22.13 |
| S&P/TSX Small Cap Index | -6.57 | 29.48 | -5.69 | -9.75 | 15.41 |
| Management Effect | 2.86 | 0.35 | 1.25 | 19.29 | 6.72 |

Investment Strategy

The Fund seeks long-term capital appreciation primarily through investments in common shares and other equity securities of smaller capitalization Canadian issuers. The number of issues held is between 30-60.

Market Comment

After hitting highs in January following strong economic reports across the globe, the S&P/TSX Small Cap Index had a difficult first quarter, ending with a total return of -7.7%, underperforming the large cap S&P/TSX Composite Index, which returned -4.5%. A global selloff in February was the low point in the quarter, after interest rate and inflation fears drove profit taking in equities. The index recovered somewhat from its lows, but remained volatile in March, as a potential trade war between the U.S. and China worried markets. In addition, weakness in the U.S. tech sector after Facebook's data privacy issue and possible regulations on social media firms weighed on markets. The S&P/TSX Small Cap Index continues to reflect concerns surrounding NAFTA negotiations, increased protectionism and weak Canadian energy prices.

The Small Cap Fund outperformed the S&P/TSX Small Cap Index due to stock selection effects, primarily in Real Estate and Materials. Sector weighting effects were negative, mostly due to an overweight position in Consumer Discretionary and underweight in Information Technology.

In terms of stock selection, the largest positive contribution came from the Real Estate sector where our largest holding, Colliers International, gained 17.9%. The company reported strong quarterly results and a robust outlook into 2018. FirstService was also a positive contributor benefitting from solid quarterly operational performance.

Our holdings in Materials also added value, led by CCL Industries. Winpak and Lundin Mining were both slightly additive to performance. Major Drilling was also a detractor, declining in sympathy with weaker copper and zinc prices. Despite outperforming the sector, Intertape Polymer detracted from Fund performance.

The Energy sector was a positive area of the portfolio, mainly due to our underweight, as the entire sector has been weak. Our newest holding, Pinnacle Renewable Holdings, gained significantly after being re-priced down prior to its IPO. Enerflex was a slight contributor for the quarter, while Denison Mines and Total Energy Services were modest decliners.

Utilities was an area of relative outperformance for the portfolio. Our only holding in the sector, Superior Plus, gained 5.5% on stronger results. The company also confirmed 2018 guidance.

Stock selection in Consumer Discretionary was positive. Quebecor was the top contributor in the sector, increasing as wireless subscriber growth continues and cable losses are modest. The remaining positions declined, led to the downside by Uni-Select, which fell after the company reported weak margins from its newly acquired UK auto parts operations and weak organic growth in the U.S. paint business.

Weighting effects were positive in Industrials, although stock selection effects detracted. Ag Growth and Toromont Industries increased modestly, contributing positively to performance. The main detractor was WestJet Airlines as rising fuel costs (oil price) led analysts to lower estimates. The remaining Industrials holdings were modest detractors.

Health Care was an area of relative underperformance mainly due to our underweight position in the sector. CRH Medical declined 1.6% although quarterly results were inline. The stock declined in anticipation of the impact of the Jan 1, 2018 price reduction for its anaesthesia services.

The Financials sector was the main detractor during the quarter, as the banks face higher funding costs, which are modestly pressuring net interest margin (profitability). Our three holdings in the sector declined, as OSFI Guideline B-20 loan qualification standards implemented on January 1 are expected to slow mortgage originations.

Portfolio Strategy and Activity

A new position was initiated in **Pinnacle Renewable Holdings**. Globally, Pinnacle is the third largest and growing lowest-quartile cost producer of industrial wood pellets, selling principally to the UK, EU and Japan. Annual industrial wood pellet demand is expected to grow at double digits from 2016-2021 due to it being viewed favourably as a carbon-neutral form of renewable energy. Pinnacle represents a well-financed, stable cash flow generator, with some near term cash flow growth, as new capacity is brought to production in 2018.

We also added to several other positions within the portfolio. We continued to build our newer position in **Heroux-Devtek**. In Materials, we added to **Intertape Polymer**, along with **Badger Daylighting** in Industrials and **Leons Furniture** in Consumer Discretionary. All additions were based on attractive upside potential.

To fund these additions, our position in **CCL Industries** was trimmed.

Outlook

The weak Canadian equity market narrative continues: small cap performance not only lags large cap Canadian equity performance, but significantly lags other major market returns around the world, primarily due to poor Energy and Materials sector returns.

Uncertainties surrounding NAFTA negotiations, tariff and protectionist measures, in addition to signs of slowing growth and weak Canadian oil prices appear to be discounted, and current Canadian valuations are attractive. In fact, multiple compression outweighed reasonably positive earnings revisions for the S&P/TSX Composite during the quarter, while the valuation discount versus the S&P500 is currently quite large. With the global macro-economic backdrop remaining supportive and robust earnings results from our holdings, we remain confident in our portfolio positioning.

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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For more information on any of our pooled institutional products, please contact:

Nancy Chew | nchew@beutelgoodman.com
Craig Auwaerter | cauwaerter@beutelgoodman.com

Head Office

Beutel, Goodman & Company Ltd.
20 Eglinton Avenue West, Suite 2000,
P.O. Box 2005, Toronto, Ontario, Canada M4R 1K8

Telephone: 416 485 1010 | Toll-free: 1 800 461 4551

www.beutelgoodman.com