Beutel Goodman Small Cap Fund

TOP 10 HOLDINGS (%)

LINAMAR CORPORATION	6.7
PARAMOUNT RES LTD	6.0
COLLIERS INTL	6.0
WESTJET AIRLINES	5.5
EQUITABLE GROUP INC	5.2
UNI SELECT INC	5.0
IND ALLNCE & FNCL	4.7
ALAMOS GOLD IN	4.6
QUEBECOR INC	4.5
CCL INDUSTRIES INC	4.3

SECTOR WEIGHTS VS BENCHMARK

SECTOR WEIGHTS (%)			UNDERWEIGHT/OVERWEIGHT %
Sector	**BG**	**BMOSC**	
Consumer D.	21.5	9.7	11.8
Industrials	15.8	11.1	4.8
Financials	12.2	7.7	4.5
Telecom	0.0	0.0	0.0
Consumer S.	2.8	2.9	-0.1
Utilities	3.0	4.3	-1.3
Real Estate	7.8	10.2	-2.3
Health Care	0.9	4.4	-3.6
Info. Tech.	0.6	4.7	-4.1
Energy	15.1	19.9	-4.7
Materials	18.7	25.1	-6.4
Cash	1.4		

PERFORMANCE % (ANNUALIZED) TO SEPTEMBER 30, 2017

BG SMALL CAP FUND	CURRENT QTR	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	10 YEARS
TOTAL PORTFOLIO	0.29	11.65	18.09	9.25	12.86	12.62	10.04
BMO SMALL CAP INDEX	2.20	4.10	17.08	3.05	5.98	4.66	3.33
MANAGEMENT EFFECT	**-1.91**	**7.55**	**1.01**	**6.20**	**6.88**	**7.96**	**6.70**
S&P/TSX SMALL CAP INDEX	2.36	1.21	17.23	2.45	5.31	3.94	1.41
MANAGEMENT EFFECT	**-2.07**	**10.44**	**0.86**	**6.80**	**7.55**	**8.68**	**8.63**

PERFORMANCE % (ANNUAL) TO SEPTEMBER 30TH

BG SMALL CAP FUND	2017	2016	2015	2014	2013
TOTAL PORTFOLIO	11.65	24.84	-6.51	24.45	11.63
BMO SMALL CAP INDEX	4.10	31.68	-20.18	15.29	-0.44
MANAGEMENT EFFECT	**7.55**	**-6.84**	**13.67**	**9.16**	**12.07**
S&P/TSX SMALL CAP INDEX	1.21	35.79	-21.75	14.36	-1.34
MANAGEMENT EFFECT	**10.44**	**-10.95**	**15.24**	**10.09**	**12.97**

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.

INVESTMENT RESULTS

The Canadian small cap market strengthened in the third quarter of 2017, with returns of 2.2% for the BMO Small Cap Index and 2.4% for the S&P/TSX Small Cap Index. Year-to-date, the BMO Small Cap Index is slightly positive, with a return of 1.0%, while the S&P/TSX Small Cap Index is in negative territory, with a return of -1.9%. In contrast to the second quarter, where Energy was by far the largest declining sector, Energy led the gains, as WTI rose over 12% for the three months ending September. The Consumer Discretionary and Industrials sectors also outperformed during the period. Consumer Staples and Information Technology were the poorest performing sectors in the quarter.

The oil price strengthened during the quarter due to bullish sentiment following the International Energy Agency's upward revision of global demand expectations for 2017, in addition to OPEC's adherence to and possible extension of the current production cut agreement. An unexpected decline in inventory levels, as reported by the Energy Information Administration, also provided support.

Canadian interest rates increased by approximately 31 basis points across the curve during the quarter. While it was a quarter that swung between risk off and risk on momentum, driven by geopolitical tensions and hurricanes, the main catalyst for the increase was the two rate hikes by the Bank of Canada. With evidence of synchronized global economic strength, Canada's second quarter GDP was a barn burner, coming in at 4.5% (quarterly annualized) versus market expectations of 3.7% and the Bank of Canada's forecast of 3.4%.

After considerable outperformance last quarter and year-to-date, the portfolio underperformed both indices during the third quarter, primarily due to stock selection. Allocation effects were positive, mostly due to an overweight in Consumer Discretionary and an underweight positioning in Information Technology.

The Energy sector was a positive area of the portfolio, mainly due to stock selection. The rise in the oil price benefitted the sector, which rose and led the gains in the Index. Paramount Resources was the top contributor for the quarter, increasing by 29.4%. The company announced an accretive acquisition of Apache Canada for C$459.5 million, after which it will merge with Trilogy. Additionally, Paramount reported strong Q2 results.

Both stock selection and allocation effects added value in Industrials. WestJet, Toromont and Cervus Equipment all performed strongly, gaining 15.4%, 20.3% and 26.2% respectively. WestJet reported strong operating results for Q2 due to lower operating costs and strong capacity utilization.

The largest relative negative impact came from the Materials sector, due mostly to selection effects. Precious metals rose modestly during the quarter. Gold rose 3.3% and silver increased 0.2%, while copper was up over 8%. All of our holdings, with the exception of one, Lundin Mining, declined during the quarter. Lundin Mining was the strongest contributor in the sector, increasing by 16.5%, primarily due to the rise in the price of copper. CCL Industries was the top detractor in the sector, as the stock fell 7.9%, possibly due to investor rotation out of more stable cash flow generating companies like CCL into cyclical mining opportunities.

Stock selection was negative in Health Care as CRH Medical dropped 53.1%. The stock suffered after The Centres for Medicare and Medicaid Services (CMS) announced reduced pricing on anaesthesia services that CRH provides.

PORTFOLIO STRATEGY AND ACTIVITY

One new position was added to the portfolio during the quarter. **Rocky Mountain Dealerships** is the largest independent dealer of Case New Holland (CNH) farming and construction equipment in Canada. We feel that the Canadian agricultural equipment cycle is bottoming and the stock presents an opportunity to gain exposure to a relatively under-valued sector at a reasonable price, with little financial risk.

We also added to several positions with attractive upside. In Energy, we added to **Birchcliff Energy**, along with **Badger Daylighting** and **Cervus Equipment** in Industrials, and Major Drilling in **Materials**. We also added to **Aritzia** in Consumer Discretionary and **CRH Medical** in Health Care, all based on reasonable valuation.

During the quarter, one position was sold in full: **Crew Energy** on valuation considerations. **CCL Industries** and **FirstService** were also trimmed during the quarter based on valuation.

OUTLOOK

Although continuing to trail other indices globally, the Canadian small cap market exhibited positive returns in the third quarter, driven by strength in Energy. The oil price rebounded to a six month high, leading to the Energy sector's outperformance for the quarter. M&A activity in Canada continues to be healthy, although pulling back slightly from the start of the year. Year-to-date, Canada's GDP growth has exceeded market expectations. However, growth in the month of July has moderated and is tracking to expand by 3% for the year. Inflation remains stubbornly below the 2% target, wage growth remains muted, and concerns regarding household debt persist. Together, these factors may indicate that the Bank of Canada will slow its pace of tightening going forward after raising rates in July and September.

With steady growth, low inflation and attractive valuations, our outlook is positive for equity markets. We continue to find good value opportunities in the Consumer Discretionary, Financials and Industrials sectors, while we are cautious on the fundamentals of the Energy and Materials sectors.

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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