

Beutel Goodman Small Cap Fund

Top 10 Holdings (%)

COLLIERS INTL	7.20
EQUITABLE GROUP INC	6.50
LINAMAR CORPORATION	6.30
WESTJET AIRLINES	5.40
UNI SELECT INC	5.20
IND ALLNCE & FNCL	4.90
PARAMOUNT RES LTD	4.60
QUEBECOR INC	4.50
ALAMOS GOLD IN	4.40
CCL INDUSTRIES INC	4.10

Sector Weights vs Benchmark

SECTOR WEIGHTS (%)	UNDERWEIGHT/OVERWEIGHT %		
Sector	BG	BMOSC	
Consumer D.	21.10	10.07	11.0
Financials	14.10	6.96	7.1
Industrials	16.52	10.86	5.7
Telecom	0.00	0.00	0.0
Consumer S.	2.87	2.90	0.0
Utilities	2.79	4.22	-1.4
Real Estate	8.92	10.37	-1.4
Materials	17.74	22.34	-4.6
Info. Tech.	0.65	5.98	-5.3
Health Care	0.86	7.00	-6.1
Energy	13.10	19.30	-6.2
Cash	1.33		

Performance % (ANNUALIZED) to December 31, 2017

BG Small Cap Fund	Current Quarter	1 Year	2 Years	3 Years	4 Years	5 Years	10 Years
Total Portfolio	1.76	9.42	15.70	10.68	10.91	12.48	10.53
BMO Small Cap Index	5.28	6.38	20.01	7.50	5.55	5.99	4.30
Management Effect	-3.53	3.04	-4.31	3.18	5.36	6.50	6.23
S&P/TSX Small Cap Index	4.69	2.75	19.29	7.24	4.76	5.32	2.39
Management Effect	-2.94	6.66	-3.59	3.43	6.15	7.16	8.14

Performance % (ANNUAL) to December 31, 2017

BG Small Cap Fund	2017	2016	2015	2014	2013
Total Portfolio	9.42	22.34	1.29	11.60	19.00
BMO Small Cap Index	6.38	35.39	-13.75	-0.09	7.76
Management Effect	3.04	-13.05	15.04	11.69	11.24
S&P/TSX Small Cap Index	2.75	38.48	-13.13	-2.34	7.60
Management Effect	6.66	-16.14	14.60	13.94	11.40

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

For the fourth quarter of 2017, the Canadian small cap market posted gains of 5.3% for the BMO Small Cap Index and 4.7% for the S&P/TSX Small Cap Index. Both outperformed the large cap S&P/TSX Composite which had a total return of 4.5%. For the quarter, the Health Care and Industrials sectors led, while Energy and Telecommunications lagged on the BMO Small Cap Index, with negative returns for the period.

Canadian interest rates were virtually unchanged on average across the curve 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.

Oil prices rebounded during the quarter likely due to social unrest in Iran and the possibility of supply disruptions, along with OPEC's promised production cuts. WTI ended the period above \$60, a gain of 15%.

Despite outperforming significantly for the full year, the portfolio underperformed both indices in the fourth quarter, predominantly driven by stock selection. Sector weighting effects were slightly negative, primarily due to an underweight position in Health Care.

Real Estate was a positive area for the portfolio, mainly due to stock selection. Colliers International rose 22.6% during the quarter, a top contributor to performance. FirstService also advanced by 7.2%.

Stock selection was positive in the Financials sector. Equitable Group was the leading contributor for the quarter, gaining 28% on strong Q3 earnings, waning concerns about knock-on effects from the Home Capital debacle and declining long term interest rates during the quarter.

Maple Leaf Foods in Consumer Staples added value, increasing 5.6% on strong third quarter earnings.

A source of underperformance was the Materials sector, where negative selection effects slightly outweighed positive allocation effects. All of our Materials holdings declined for the quarter, with the exception of Intertape Polymer, which increased 19% as Q3 earnings exceeded expectations, and Major Drilling, which added 0.8%.

The Energy sector was a negative area of the portfolio, mainly due to stock selection. Although oil prices rose over 16% in the quarter, the sector declined in the index. After being the top contributor in Q2, Paramount Resources declined 21.4% during Q4. NuVista Energy rose 6.2%. Total Energy and Denison Mines also contributed for the quarter and rose moderately. Birchcliff Energy and Enerflex declined 26.9% and 16.2% respectively, as natural gas pricing continues to be challenged. For the full year 2017, natural gas prices have fell 20.7%.

Weighting effects were positive in Industrials, although stock selection effects detracted. Wajax and Rocky Mountain Dealerships performed strongly on solid earnings reports, as industrial and agricultural equipment demand showed signs of improvement in Western Canada. Several of our remaining Industrials holdings declined modestly, including Toromont Industries, after the excitement of the Hewitt acquisition abated somewhat, and WestJet, on higher oil prices and the perception of an increasingly complex operating model, offset by the outlook for improved operating margin and free cash flow generation over the 2018-2020 time frame.

Net effects in Consumer Discretionary were negative, mainly due to stock selection. Uni-Select, Quebecor and Leons Furniture added value, gaining 5.6%, 1.2% and 2.9% respectively. Linamar and Aritiza detracted, falling 3.8% and 14.1%. During the quarter, Quebecor underwent a 2:1 share split.

Net effects in Health Care were negative. Our single holding in the sector, CRH Medical, gained 1.9%.

Portfolio Strategy & Activity

One new position was added to our Industrials holdings. Héroux-Devtek is a leading manufacturer of landing gear and other components for a variety of aircraft in the commercial and military sectors.

We also added to several other positions within the portfolio. In Materials, we added to Major Drilling, increasing our exposure to the minerals sector, along with Badger Daylighting, K-Bro Linen and Ag Growth in Industrials. Our Aritiza position was also increased. All additions were based on attractive valuation.

During the fourth quarter our position in Asanko Gold was eliminated. Winpak and FirstService were trimmed.

Outlook

After a slow first half of the year, the Canadian small cap market made modest gains in the second half of 2017, although still lagged most global benchmark performance. Canadian M&A activity increased year-over-year in the latest quarter, although the aggregate value of the transactions decreased. Metals and Mining was the most active sector. Subsequent to strong GDP growth of 4.1% in Q2, Canada's economic growth slowed to an annualized rate of 1.7% in Q3, but is expected to be 3.0% for the year, leading the G7 nations. The Bank of Canada held rates steady in December, although it is expected that it will resume its tightening in 2018, particularly after stronger than expected CPI and employment reports, in addition to stabilizing energy markets.

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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