

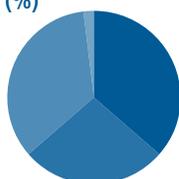
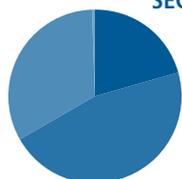
## ▶ TOP 10 HOLDINGS (%)

CANADA GOVT	0.750 MAY 01 19	6.8
CANADA GOVT	2.750 DEC 01 48	5.3
ONTARIO PROV	2.800 JUN 02 48	4.3
CANADA GOVT	1.500 SEP 01 17	3.2
QUEBEC PROV	3.500 DEC 01 48	3.0
BELL CANADA	4.400 MAR 16 18	2.8
ONTARIO PROV	2.600 JUN 02 25	2.7
ONTARIO PROV	3.500 JUN 02 24	2.6
TD BANK DPNT	2.563 JUN 24 20	2.2
ONTARIO PROV	6.200 JUN 02 31	2.1

## ▶ BG INCOME FUND

## ▶ FTSE TMX CANADA BOND UNIVERSE

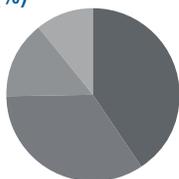
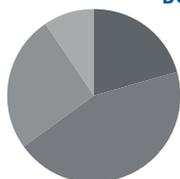
### SECTOR WEIGHTS (%)



- Gov't of Canada Bonds (20.6)
- Corporate Bonds (46.3)
- Provincial Bonds (32.8)
- Cash (0.3)

- Gov't of Canada Bonds (36.5)
- Corporate Bonds (27.2)
- Provincial Bonds (34.4)
- Municipal (1.9)

### BOND QUALITY (%)



- AAA (20.6)
- AA (44.6)
- A (25.4)
- BBB (9.4)

- AAA (40.7)
- AA (34.1)
- A (14.5)
- BBB (10.7)

## ▶ PERFORMANCE % (ANNUALIZED) TO JUNE 30, 2017

BG INCOME FUND	CURRENT QTR	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	10 YEARS
TOTAL PORTFOLIO	0.95	0.36	2.58	3.01	3.21	2.51	5.08
FTSE TMX CANADA UNIVERSE BOND INDEX	1.11	0.02	2.58	3.79	4.18	3.29	5.11
<b>MANAGEMENT EFFECT</b>	<b>-0.16</b>	<b>0.34</b>	<b>0.00</b>	<b>-0.78</b>	<b>-0.97</b>	<b>-0.78</b>	<b>-0.03</b>

## ▶ PERFORMANCE % (ANNUAL) TO JUNE 30TH

BG INCOME FUND	2017	2016	2015	2014	2013
TOTAL PORTFOLIO	0.36	4.85	3.87	3.81	-0.26
FTSE TMX CANADA UNIVERSE BOND INDEX	0.02	5.22	6.25	5.33	-0.17
<b>MANAGEMENT EFFECT</b>	<b>0.34</b>	<b>-0.37</b>	<b>-2.38</b>	<b>-1.52</b>	<b>-0.09</b>

## ▶ PORTFOLIO CHARACTERISTICS

	BEUTEL GOODMAN INCOME FUND	FTSE TMX CANADA BOND UNIVERSE
AVERAGE TERM	10.03 YEARS	10.44 YEARS
AVERAGE DURATION	7.31 YEARS	7.56 YEARS
YIELD	2.20 %	2.17 %

## ▶ INVESTMENT STRATEGY

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

## ▶ INVESTMENT RESULTS

Trump's pro-growth policies appear to have been sideswiped by investigations into Russian interference in the U.S. elections and an inability as of yet to get major items on his legislative agenda such as health care and tax reform passed. The bond market has faded the Trump euphoria trade and is no longer factoring in policy inspired growth nor inflationary pressures. Yields at the end of the quarter were almost at the same level as they were before the November election.

During the second quarter, the U.S. Federal Reserve hiked the Federal Funds rate by 25 basis points, to a target range of 1-1.25%. The Fed noted that the labour market has continued to strengthen and that economic activity has been rising moderately. While the Federal Reserve is maintaining its existing policy of reinvesting principal payments from its U.S. Treasury and MBS holdings, it currently expects to implement a balance sheet normalization program sometime this year, provided that the economy evolves broadly, as anticipated.

During the second quarter, the FTSE TMX Canada Universe Bond Index increased by 1.11% on a total return basis. The Provincial and Municipal sectors both outperformed the Index during the quarter returning 2.12% and 1.86%, respectively. The Corporate and Federal sectors both underperformed the Index during the quarter, returning 1.02%, and 0.20%, respectively. In the first part of the quarter interest rates declined, as the bond markets priced out any sort of growth and inflationary pressures from the Trump Administration's policies. Later in the quarter, in the wake of hawkish central bank comments, global interest rates increased and yield curves flattened. Yields across the Canadian curve increased by 10 basis points on average during the quarter, with the front end of the curve increasing the most as it priced in imminent Bank of Canada rate increases. The long-end of the curve decreased, likely attributable in part to the lack of inflation.

During the second quarter, our portfolio underperformed the benchmark by 16 basis points. Decisions that detracted from performance include the following: (1) our corporate security selection as our corporate bond holdings in the mid part of the curve, where we were significantly overweight, underperformed versus corporates in other areas of the curve; (2) our provincial security selection as some of our western provincial holdings (BC due to politics and Alberta due to a credit rating downgrade and commodity prices) underperformed versus their eastern counterparts; and (3) our curve positioning. The yield curve flattened during the quarter as the Bank of Canada unexpectedly changed its monetary policy stance prepping markets for a hike. We were positioned for the Bank of Canada to remain on hold with a steeper curve positioning. This underperformance was partially offset by our government sector allocation mainly attributable to our overweight in Government of Canada bonds which significantly underperformed versus provincials during the quarter.

## ▶ PORTFOLIO STRATEGY AND ACTIVITY

We are short duration versus the FTSE TMX Canada Universe Bond Index. The Canadian bond market has fully priced in two interest rate hikes by the Bank of Canada, in line with our expectations, so there are no opportunities for rates to increase significantly in the short-end of the curve. We are positioned for the yield curve to continue to flatten, as is reflective of tightening cycles. Our projected roll return 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 whether or not the central banks make good on their warnings to markets that they are planning to withdraw monetary policy stimulus. The change in central bank rhetoric has served to flatten the yield curve significantly. Another major factor that is keeping the yield curve flat is the lack of inflation. As rates continue to increase, it can start to bite on certain parts of the economy, for example corporations will no longer have access to easy money and consumers may no longer rely on low mortgage rates. Also, the flow of funds that have flooded into bond markets with positive yields may dissipate and even reverse, thereby lifting the downward pressure on Canadian and U.S. interest rates. Further, the positive backdrop to credit spreads that occurred when the ECB announced that it was extending its QE program to corporates may also reverse if the ECB starts to taper.

We believe that while we are in the late stages of the credit cycle, the economic backdrop should allow for some additional spread compression in 2017. We also believe that the corporate market is more vulnerable to beta events, as the market is not properly compensating for credit risk.

## 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 does 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.

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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