

## ▶ TOP 10 HOLDINGS (%)

CCL INDUSTRIES INC	7.4
COLLIERS INTL	7.1
UNI SELECT INC	5.8
LINAMAR CORPORATION	5.7
EQUITABLE GROUP INC	5.6
ALAMOS GOLD IN	5.1
WESTJET AIRLINES	4.8
IND ALLNCE & FNCL	4.8
PARAMOUNT RES LTD	4.7
QUEBECOR INC	4.2

## ▶ SECTOR WEIGHTS VS BENCHMARK

SECTOR WEIGHTS (%)	UNDERWEIGHT/OVERWEIGHT %		
Sector	BG	BMOSC	
Consumer D.	18.9	9.0	9.9
Financials	12.2	7.0	5.3
Industrials	12.7	10.1	2.5
Telecom	0.0	0.0	0.0
Materials	23.3	24.6	-1.3
Utilities	2.8	4.5	-1.7
Real Estate	9.7	11.4	-1.8
Consumer S.	2.7	5.4	-2.7
Health Care	1.4	4.4	-3.0
Energy	13.4	17.4	-4.1
Info. Tech.	0.7	6.2	-5.6
Cash	2.5		

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

BG SMALL CAP FUND	CURRENT QTR	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	10 YEARS
TOTAL PORTFOLIO	0.54	18.63	11.71	8.58	14.51	14.05	9.85
BMO SMALL CAP INDEX	-4.24	8.39	6.94	-0.80	7.37	6.25	2.50
<b>MANAGEMENT EFFECT</b>	<b>4.79</b>	<b>10.25</b>	<b>4.76</b>	<b>9.38</b>	<b>7.14</b>	<b>7.80</b>	<b>7.35</b>
S&P/TSX INDEX	-1.64	11.05	5.27	3.08	8.96	8.74	3.89
<b>MANAGEMENT EFFECT</b>	<b>2.18</b>	<b>7.59</b>	<b>6.43</b>	<b>5.49</b>	<b>5.55</b>	<b>5.31</b>	<b>5.95</b>

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

BG SMALL CAP FUND	2017	2016	2015	2014	2013
TOTAL PORTFOLIO	18.63	5.18	2.58	34.33	12.24
BMO SMALL CAP INDEX	8.39	5.52	-14.64	36.15	1.88
<b>MANAGEMENT EFFECT</b>	<b>10.25</b>	<b>-0.34</b>	<b>17.22</b>	<b>-1.82</b>	<b>10.36</b>
S&P/TSX INDEX	11.05	-0.20	-1.16	28.66	7.90
<b>MANAGEMENT EFFECT</b>	<b>7.59</b>	<b>5.38</b>	<b>3.74</b>	<b>5.67</b>	<b>4.34</b>

## ▶ 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

Canadian small cap stocks were weak in the second quarter of 2017, with the S&P/TSX Small Cap Index falling 5.5% while the BMO Small Cap Index lost 4.2%. For six months, the indices were down 4.1% and 1.1%, respectively. Energy was by far the largest declining sector, down 14.3% for the quarter for the benchmark BMO Small Cap Index, reflecting the weak oil price. Year-to-date, the Energy sector has lost 24.4%. The Consumer Staples, Information Technology and Real Estate sectors increased during the quarter, with returns of 6.5%, 4.3% and 3.5% respectively.

Oil was weak, trading to seven month lows during June, ending the quarter near \$46, down 9%. Despite concerning developments in the Middle East involving the cutting of diplomatic ties with Qatar over its involvement with Iran, the markets focussed on supply data showing surging crude and gasoline inventories. The latest data showed U.S. crude inventories rising, while expectations were for a considerable decline. A further bearish indicator is gasoline consumption which remains weak. OPEC-led production cuts have been offset by rising production in the U.S., Libya and Nigeria.

The portfolio had a positive return in the second quarter, considerably outperforming the BMO Small Cap Index return of -4.2% and the S&P/TSX Small Cap Index return of -5.5%. The primary driver of outperformance was almost entirely stock selection, specifically in Energy, Materials and Consumer Discretionary. Allocation effects were slightly positive as well due to our underweight in the Energy sector.

Energy provided the largest positive impact, with both selection and weighting effects being very strong. Our underweight positioning added value, as the sector had negative returns for the quarter. Paramount Resources increased, reporting better than expected results and a facility expansion that is ahead of schedule. Nuvista also added value, rising as the company reported results with good production growth. The largest laggards in the Energy sector included Birchcliff Energy, Denison Mines and Crew Energy.

Another positive area of the portfolio was Materials, primarily due to stock selection effects. CCL Industries was a strong contributor over the quarter. The company reported better than consensus first quarter earnings and the previously announced 5-for-1 stock split took effect during the quarter. Major Drilling rose significantly, adding to performance, along with Winpak and Tahoe Resources.

Stock selection added value in the Consumer Discretionary sector, offsetting negative weighting effects. Linamar, Quebecor and Leons all added value for the quarter. Uni-Select declined after reporting weaker than anticipated organic revenue growth. Aritzia detracted from performance based on general malaise in the bricks and mortar retail space due to increased penetration of internet shopping.

Our holdings in Real Estate were additive from a stock selection perspective. Colliers was the top contributor, increasing on lower interest rates and strong first quarter results. FirstService also rose on strong first quarter results.

Positive stock selection effects added value in Industrials. Ag Growth gained after it reported results that beat forecasts. WestJet, Toromont and K-Bro Linen also rose modestly. Our other holdings declined, including Wajax, Cervus Equipment, GDI Integrated and Badger Daylighting. Badger Daylighting was the weakest performer, falling as a result of an aggressive short report.

The largest negative impact in the period came from the Financials sector. Equitable Group, the largest detractor to performance, fell on misplaced association with Home Capital's funding issues. Canadian Western Bank and Industrial Alliance also declined, although to a lesser extent.

## ▶ PORTFOLIO STRATEGY AND ACTIVITY

During the quarter, we added a new position to the portfolio, **K-Bro Linen**. K-Bro Linen is the largest owner/operator of institutional laundry processing facilities in Canada, principally servicing the Health-care and Hospitality industries. We also added to several positions with attractive upside. In Industrials, our positions in **WestJet Airlines**, **Cervus Equipment** and **Badger Daylighting** were increased. We also added to **Aritzia** in Consumer Discretionary, **CRH Medical** in Health Care and **Alamos Gold** in Materials, all based on reasonable valuation.

Two positions were sold in full: **Tahoe Resources** on valuation considerations and **Merus Labs** due to a takeover offer. **Winpak** and **FirstService** were also trimmed during the quarter based on valuation.

## ▶ OUTLOOK

Canadian equities have faced headwinds during the first half of 2017, the strongest being a low oil price environment. Yields have recently rebounded in light of the Bank of Canada's shift in tone. However, M&A in Canada continues to be robust, with announced deals having increased to the highest level in five years. Despite the possibility of modestly rising interest rates, we expect the strengthening economic growth backdrop to remain supportive of corporate earnings growth and equity valuations.

We review business values versus market valuations of our holdings on a continual basis and remain positively inclined to equity markets. Generally, our holdings in Consumer Discretionary and Financials offer more attractive upside, while we are more cautious on valuations in Energy and Information Technology. Our focus remains on our disciplined process of investing in excellent businesses at an adequate valuation discount to generate positive long term returns and mitigate downside 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.

Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any

such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

FTSE TMX Global Debt Capital Markets Inc ("FTDCM"), FTSE International Limited ("FTSE"), the London Stock Exchange Group companies (the "Exchange") or TSX INC. ("TSX" and together with FTDCM, FTSE and the Exchange, the "Licensor Parties"). The Licensor Parties make no warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the relevant Index and/or the figure at which the said Index stands at any particular time on any particular day or otherwise. The Index is compiled and calculated by FTSEDCM and all copyright in the Index values and constituent lists vests in FTDCM. The Licensor Parties shall not be liable (whether in negligence or otherwise) to any person for any error in the Index and the Licensor Parties shall not be under any obligation to advise any person of any error therein. "TMX" is a trade mark of TSX Inc. and is used under licence. "FTSE®" is a trade mark of the FTSE International Limited and is used by FTDCM under licence".

The index information contained in this document has been obtained from sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such.

This document does not constitute an offer to buy or sell any securities, products or services and should not be construed as specific investment advice. All opinions and estimates expressed in this document are as of the time of its publication and are subject to change. No use of the Beutel Goodman name or any information contained in this report may be copied or redistributed without the prior written approval of Beutel, Goodman & Company Ltd.