Beutel Goodman Small Cap Fund

TOP 10 HOLDINGS (%)

CCL INDUSTRIES INC	6.3
EQUITABLE GROUP INC	6.0
UNI SELECT INC	5.8
LINAMAR CORPORATION	5.4
COLLIERS INTL	5.1
WESTJET AIRLINES	5.0
IND ALLNCE & FNCL	4.8
PARAMOUNT RES LTD	4.4
WINPAK LTD	3.9
QUEBECOR INC	3.9

SECTOR WEIGHTS VS BENCHMARK

SECTOR WEIGHTS (%)			UNDERWEIGHT/OVERWEIGHT %
Sector	**BG**	**BMOSC**	
Consumer D.	17.1	9.2	7.9
Financials	13.1	7.0	6.1
Industrials	12.2	10.3	1.9
Materials	22.7	22.0	0.7
Telecom	0.0	0.0	0.0
Consumer S.	2.5	4.1	-1.6
Real Estate	7.9	9.9	-2.0
Health Care	1.9	3.9	-2.0
Utilities	3.3	5.3	-2.1
Info. Tech.	0.7	5.7	-5.1
Energy	14.9	22.6	-7.7
Cash	3.8		

PERFORMANCE % (ANNUALIZED) TO DECEMBER 31, 2016

BG SMALL CAP FUND	CURRENT QTR	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS	10 YEARS
TOTAL PORTFOLIO	3.89	22.34	11.32	11.41	13.26	12.33	9.88
BMO SMALL CAP INDEX	3.03	35.39	8.06	5.27	5.89	5.19	3.86
MANAGEMENT EFFECT	**0.86**	**-13.05**	**3.26**	**6.14**	**7.37**	**7.14**	**6.02**
S&P/TSX INDEX	4.54	21.08	5.36	7.06	8.52	8.25	4.72
MANAGEMENT EFFECT	**-0.64**	**1.26**	**5.96**	**4.35**	**4.75**	**4.08**	**5.16**

PERFORMANCE % (ANNUAL) TO DECEMBER 31ST

BG SMALL CAP FUND	2016	2015	2014	2013	2012
TOTAL PORTFOLIO	22.34	1.29	11.60	19.00	8.69
BMO SMALL CAP INDEX	35.39	-13.75	-0.09	7.76	2.46
MANAGEMENT EFFECT	**-13.05**	**15.04**	**11.69**	**11.24**	**6.23**
S&P/TSX INDEX	21.08	-8.32	10.55	12.99	7.19
MANAGEMENT EFFECT	**1.26**	**9.61**	**1.05**	**6.01**	**1.50**

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 added to this year's gains in the fourth quarter, with the S&P/TSX Small Cap Index advancing 3.1% and the BMO Small Cap Index up 3.0%. For the full year, the indices were up 38.5% and 35.4%, respectively. Market action in the fourth quarter was marked by an accelerated rotation out of defensive and safe-haven investments into resource and cyclical stocks, as well as the potential beneficiaries of a steeper yield curve. The impact of positive U.S. economic data was amplified by the surprise election of Donald Trump. The other major catalyst in the quarter was an agreement by OPEC to cut oil production, which was largely responsible for an Index-leading 18.9% gain for the Energy sector.

The U.S. Federal Reserve raised its key Fed Funds rate as expected in December, as U.S. economic data continued to show strength. Better than expected job gains of 178,000 in November helped push the unemployment rate to 4.6%, the lowest level since August 2007. One negative in the quarter was a sharp increase in the trade deficit, suggesting the strong U.S. dollar could be a headwind for the U.S. economy in 2017.

The portfolio returned 3.9% in the fourth quarter, 80 basis points ahead of the 3.1% advance of the S&P/TSX Small Cap Index and 90 basis points ahead of the 3.0% gain for the BMO Small Cap Index. Added value was attributable to stock selection. Sector weighting exposures were negative on a net basis, due entirely to an underweight in Energy.

With respect to stock selection, the largest positive impact came from the portfolio's holdings in the Materials sector. A general underweight to gold stocks was the prime reason, however several of our non-gold positions in the group added significant value relative to the sector's 9.7% decline. These positive effects were partly offset by declines of between 14.3% and 25.1% for the portfolio's three gold holdings, reflecting general weakness in the area.

Another positive area for the portfolio was the Industrials sector. Our holding in Wajax jumped 61.6% on third quarter results that came in much stronger than expected. Our positions in Cervus Equipment, Badger Daylighting and Toromont also performed well, advancing 37.4%, 13.6% and 8.7%, respectively. Stock selection in both the Health Care and Financials sectors also added value over the quarter.

The largest negative impact in the period came from stock selection in the Energy sector. Several of our holdings did perform well, led by advances for Paramount and Enerflex of 22.6% and 21.8%, respectively. Returns for our other positions in the sector fell in a range of between 2.7% and 9.5%. The portfolio's 12.1% return in the sector added significant value relative to the overall Index but fell short of the Index-leading 18.8% advance for the group.

Selection also had a negative relative impact in the Consumer Discretionary sector. Returns of between 5.4% and 12.2% for our holdings in Linamar, Leon's Furniture and Aritzia, all on better than expected results, were more than offset by declines for Uni-Select and Quebecor of 7.5% and 6.3%, respectively.

Across the rest of the portfolio, performance effects were modestly negative on a net basis, with positive contributions from Superior Plus and FirstService outweighed by weakness in Maple Leaf Foods and Colliers.

PORTFOLIO STRATEGY AND ACTIVITY

In the fourth quarter, we exited two positions and added to a number of existing holdings with attractive upside potential.

In the Financials sector, we exited our holding in property and casualty insurer **Intact Financial**. Much of the proceeds of the sale were reinvested in commercial real estate services firm **Colliers**.

In the Energy sector, we exited our small position in **Cathedral Energy Services**. On the buy side, we added to our holdings in **NuVista Energy** and **Total Energy Services**, both of which have a better risk/return profile.

In other transactions, we added to **Cervus Equipment** in the Industrials sector and **CRH Medical** in Health Care.

OUTLOOK

The change in market sentiment over the past few months is a positive development for small cap stocks. With the election of Donald Trump, the tentative and cautious tone of the market has been cast aside. Anticipation that the U.S. is about to make a major shift in emphasis from monetary easing to fiscal stimulus has ignited a strong risk-on trade in equity markets.

So far, the post-election trade has been one-way, and some stocks have gotten ahead of reasonable expectations. This is most notable in the case of resource stocks, where commodity prices have run up well ahead of any actual spending plans. In the case of oil, stocks have taken the recent OPEC agreement at face value, when history suggests caution is warranted, especially given the growing impact of non-OPEC producers. We continue to take a longer-term view in these situations, reviewing the valuations of our current positions and candidate investments against a commodity pricing environment that is truly sustainable in terms of fundamentals.

In general, valuations for our other holdings in the non-resource sectors continue to offer attractive upside potential, based on a combination of free cash flow support, verifiable asset values and strong business models.

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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