
BEUTEL GOODMAN MANAGED FUNDS

Annual Management Report of Fund Performance
December 31, 2016

BEUTEL GOODMAN Balanced Fund



Beutel Goodman ■ Balanced Fund

This Annual Management Report of fund performance contains financial highlights but does not contain the complete annual or interim financial statements of the investment fund. You can get a copy of the annual or interim financial statements at your request at no cost (contact details on this page) or by visiting our website at www.beutelgoodman.com or SEDAR at www.sedar.com.

Security holders may also request the investment fund's prospectus, proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

BEUTEL GOODMAN Managed Funds

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Management Discussion of Fund Performance

Investment Objectives and Strategies

This Fund invests in cash and cash equivalents, fixed-income securities and Canadian, U.S. and international equity securities.

The asset mix process is based upon the observation that over longer time years equities have historically generated higher nominal and real rates of return than fixed income assets. The asset mix of the Fund will normally fall within a range of 60% equity and 40% fixed income.

The Fund's advisor uses a value based approach to select equity investments which means the advisor looks for stocks that are undervalued in relation to the asset value or earnings power of the issuer. The Fund's fixed income portfolio is invested in a diversified group of Canadian government and Canadian corporate bonds.

The fundamental investment objective of the Fund cannot be changed without the approval of a majority of the investors who own units in the Fund.

Risk

The risks of investing in this Fund remain as discussed in the Prospectus.

This Fund continues to be suitable for investors who wish to preserve and enhance accumulated capital with less volatility than an all equity portfolio, and higher growth potential than an all bond portfolio. This Fund is appropriate for investors with a low to medium tolerance for risk and a medium-term investment horizon.

Results of Operations

The Beutel Goodman Balanced Fund achieved a positive return in the one year ending December 31, 2016, and outperformed its blended performance benchmark. Added value came from an underweight position in fixed income and overweight in equities, particularly the impact for much of the year of an overweight in Canadian equities, which was the best performing developed market in 2016. In addition, the Fund's fixed income, U.S. and international equity components outperformed their respective indices over the year.

The year started off in a state of pessimism with thoughts of recession, and contagion from a weakening Chinese economic outlook. Positive economic data and further central bank stimulus served to reverse the early year trends until the results of the British referendum on membership in the European Union caught markets completely off guard. Immediate market reaction to Brexit was visceral, with a massive flight to quality trade that sent stocks plummeting, bond yields spiraling down, gold up, oil down, the euro and pound freefalling and the U.S. dollar appreciating. Some relative calm returned to the market as it became clear that it will be a long and winding path for Great Britain to exit the European Union. A great deal of market reaction to the referendum result reversed and attention then shifted to economic data releases, central bank think and the U.S. election.

Once again the polls and the markets got the results incorrect and the Donald Trump Presidential election victory was mostly a shock. The first reaction in the early hours after it looked like Trump would win, was the

risk off safe haven flow that most had predicted reflecting the uncertainty of a Trump Presidency. Sentiment quickly shifted as the markets embraced Trump's promises of massive debt-financed infrastructure spending and tax cuts, believing that the campaign promises would be enacted as laid out thereby leading U.S. economy out of economic malaise with strong growth and higher inflation. There was also hope that a Republican controlled Presidency and Congress would end the gridlock of the past several years. In a repeat of the taper tantrum of May 2013, bond yields increased rapidly in the days following the election from repressed and oversold levels to levels more in line with fair value given the economic backdrop. Prior to the election, U.S. economic data was improving, but the market was more focused on the election uncertainty rather than the data so there was also some catch up being played during the bond market sell-off. Stock markets and the U.S. trade-weighted dollar were also strong post-election. Markets enter 2017 with visions of growth, inflation and rate hikes dancing in their heads.

A continued recovery for oil was a main story in the Canadian market. Prior to the Brexit vote, the benchmark WTI price had steadily moved up from this year's low of \$33 to just over \$50. After the Brexit vote, oil prices came under pressure, but the Energy sector was able to hold on to a good portion of its gains. A major catalyst for gains later in the period was an agreement by OPEC to cut production. After falling under \$44 in November on signs of dissension among OPEC members, oil prices then rose after the agreement was announced on November 30th, to end the year just below \$54.

The Canadian equity component of the Fund underperformed the return of the S&P/TSX Composite Index slightly for the year. While sector weighting effects added value slightly over the period, this was offset by negative effects from stock selection. In spite being underweight the two top performing sectors, Materials and Energy, which returned 41% and 35% respectively over the period, sector allocation added value primarily due to a lack of exposure to Health Care. Stock selection in Energy was the largest detractor to performance. A lack of exposure to the overvalued pipelines earlier in the period detracted. In addition, stock specific issues weighed on the Fund's energy holdings. Cameco declined in the period on weakness in the uranium price and the overhang of an ongoing tax dispute with the CRA and Ensign detracted over the period, prior to being sold in the first quarter due to reduced upside potential. Selection in Materials detracted, primarily due to a lack of exposure to gold and precious metals in the first half of the year and an overweight exposure to the fertilizers.

The portfolio's U.S. component outperformed the S&P 500 (C\$) Index significantly over the period, primarily due to stock selection, but with positive effects from sector allocation as well. In spite of negative effects from an underweight Energy and an overweight in Health Care, sector allocation added value due to overweights in Industrials, Financials and Telecommunications and an underweight in Consumer Discretionary. The largest contribution to stock selection came from Industrials, as Parker Hannifin, Ingersoll-Rand and Caterpillar outperformed significantly over the period. Selection in Health care added value as holdings in Baxter, Baxalta, Merck & Co and Johnson & Johnson all had double digit returns over the period, significantly outperforming the negative return of the

sector. Selection in Energy added value due to the Fund's single holding in the sector, Halliburton.

The international equity component produced a positive return, significantly outperforming the negative return of the MSCI EAFE (C\$) Index. Added value came primarily from stock selection, while sector allocation slightly added value. On a sector allocation basis, added value came from overweights in Materials and Industrials and underweight positions in Consumer Discretionary, Financials and Utilities, which outweighed negative effects from an underweight in Energy and overweights in Consumer Staples and Telecommunications. Stock selection in Consumer Staples was the largest contributor to performance over the period, primarily due to FamilyMart, the Japanese convenience store operator. It outperformed many of its peers and the Index on its inclusion in the Nikkei 225 as funds increased the demand for the stock, looking to gain exposure and mirror the index, and was also helped by a strong Japanese yen. In Industrials the largest contribution came from Konecranes, the Finnish industrial crane manufacturer, which added significant value after announcing and receiving unconditional approval from the U.S. and conditional approval from the European Union to acquire Terex's Materials Handling and Port Solutions business. Positive stock selection in Health Care was due to the Fund's holding in Merck KGaA, the German health care and specialty chemical company, which added significant value on a string of solid quarterly results, particularly in its Life Science business following the completion of the Sigma Aldrich acquisition.

For the one year period under review, the FTSE TMX Canada Bond Universe Index increased 1.66% on a total return basis. The Corporate, Provincial and Municipal sectors outperformed the Index while the Federal sector underperformed. Yields increased across the Canadian yield curve over the period, with the largest movement occurring in the long area of the curve. Corporate credit spreads tightened over the period, with the yield spread of the FTSE TMX Canada All Corporate Index versus the FTSE TMX Canada Government Bond Index decreasing by approximately 26 basis points. The strong demand for new issues spilled over into the secondary market and helped to tighten spreads. Corporate spread performance was also helped by positive business sentiment and strong stock market performance post the U.S. election.

The fixed income component added value relative to the FTSE TMX Canada Universe Bond Index over the period. Credit strategy added value, as corporate credit spreads narrowed significantly during the year, which led the corporate sector to strongly outperform both the provincial and federal sectors. The Fund was considerably overweight corporates during the year. In addition, corporate security selection contributed positively, as Energy and Infrastructure, where we have most of our credit exposure, were among the top performing corporate sectors during the year. Negative effects came from the Fund's mix of provincial ownership and slightly negative contributions from duration and curve positioning. Relative to its stated investment objectives and strategies, the Balanced Fund maintained its quality and diversification standards, and stayed within the limits of its allowable exposures to each underlying asset class.

The overall asset mix reflects the Fund manager's view that equities will outperform fixed income.

Detailed performance is provided under the heading "Past Performance" in this report.

Recent Developments

On January 11, 2016, Derek Brown joined as Senior Vice President, Fixed Income. On November 15, 2016, Stanley Wu joined as Vice President, U.S. and Global Equities.

By year end, a good amount of pro-growth sentiment had been brought forward. Anticipation of fiscal stimulus and regulatory relief has raised earnings expectations and/or expanded multiples across all but the most defensive, interest-sensitive areas of the market. The risk in this situation is that valuations run ahead of reality or fail to discount the less favourable consequences of accelerated growth such as inflation and higher capital costs. At present, this is the case with some resource stocks that have moved up well ahead of any U.S. policy or spending announcements. 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 of supply and demand.

Valuations for the Fund's domestic and foreign holdings in the Industrial, Consumer, Health Care, Financial, Information Technology and Telecom sectors are not stretched and continue to offer attractive upside potential. While many have had good performance of late, from a valuation perspective, most are just catching up to the improved business conditions after having lagged in 2016 on an excess of caution. As always, the portfolio manager will continue to execute their disciplined investment process, selling holdings that reach their full business value and reinvesting proceeds into stocks that meet strict quality and return criteria.

From a fixed income perspective, the portfolio manager remains cautious on the Canadian economy and has concerns over where growth and leadership will come from. The main engine of economic growth in Canada for the past several years has been related to the housing market, which could slow given new mortgage rules. With high levels of consumer debt, it is not clear how much the economy can rely on the consumer to drive economic growth especially with rising interest rates. Therefore economic leadership will likely have to come from a stronger U.S. economy, firmer commodity prices and/or infrastructure spending. As an additional concern, anti-trade and "Buy America" policies, as well as differences in carbon regulations, could also disadvantage Canadian industry versus that of the U.S. With that backdrop, Canada and the U.S. continue on diverging paths for monetary policy. The Federal Reserve has tightened twice, whereas the Bank of Canada is more likely to ease or at the very least keep the overnight rate at its current 0.50% level for a lengthy period of time. While the Federal Reserve has finally entered its tightening phase, the portfolio manager believes that this phase will be unlike any other in history. First, this tightening phase will likely be, as indicated by the Federal Reserve, gradual and data dependent. Second, the terminal rate will likely be lower than in previous tightening cycles mostly attributable to ageing demographics and reduced productivity.

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The fixed income component is neutral duration versus the benchmark, but is looking for opportunities to shorten duration. The Fund is positioned in the short-end of the curve for the Bank of Canada to remain on hold or ease. Projected roll return versus that of the Index remains positive. The Fund is positioned underweight Government of Canada bonds, overweight corporates, and slightly overweight provincials. The portfolio manager believes that we are late in the credit cycle, that corporate leverage is creeping up and credit metrics are deteriorating. The Fund's defensive and safe haven strategy for corporates becomes even more important, especially as the corporate market becomes vulnerable to credit beta events.

Related Party Transactions

Beutel, Goodman & Company Ltd. is the Portfolio Advisor to this Fund. The Fund did not rely on any recommendation or approval of its Independent Review Committee to proceed with any transaction involving related parties because it did not conduct any related party transactions, except for certain inter-fund trades, as approved by the Independent Review Committee by standing instructions, and subject to regulatory requirements.

Fees and Expenses

The following table lists the fees and expenses that you may have to pay if you invest in the Beutel Goodman Managed Funds. You may have to pay some of these fees and expenses directly. The Funds pay the other fees and expenses. This will reduce the value of your investment in a Fund.

Management Fees: We are entitled to a management fee from each class of each Fund based on the average daily net asset value of the particular class. The fee is payable monthly, in arrears, and is calculated at the annualized rate specified for each class of each Fund below. Management fees for Class I units are negotiated and paid directly by the investor, not by the Fund, and, therefore, are not listed.

| Fund | Class | Management Fees (%)⁽¹⁾ |
|---------------|--------------|--|
| Balanced Fund | B | up to 1.75 |
| Balanced Fund | D | up to 1.00 |
| Balanced Fund | F | up to 0.85 |

(1) Excludes GST/HST where applicable.

We may reduce our management fee for certain large investors who have substantial holdings in units of a Fund. To accomplish this, we reduce the management fee we charge to the Fund and the Fund pays out the difference to these investors as a special distribution. This is called a management fee distribution. We calculate and accrue the reduction daily and distribute it quarterly. The distribution is reinvested on behalf of such unitholders in additional units of the same class of the Fund. Management fee reductions for a unitholder may be increased at any time, but may only be decreased after at least 60 days prior written notice has been given to such unitholder.

We may waive our management fee in certain circumstances.

The Fund paid the Manager management fees, inclusive of HST, of \$2,080,392 for the year ending December 31, 2016. The management fee for each class of unit is calculated as a percentage of its net asset value, as of the close of business on each business day. The Fund's management fees were used by the Manager to pay costs for managing the investment portfolio, providing investment analysis and recommendations, making investment decisions, making brokerage arrangements for the purchase and sale of the investment portfolio and providing other services. The Manager also used the management fees to fund commission payments and other dealer compensation (collectively called "distribution-related costs") to registered dealers and brokers and financial consultants, for units of the Fund bought and held by investors, which amounted to 31.02% of total management fees paid by the Fund to the Manager.

Operating Expenses: The Manager pays certain operating expenses of the Fund. These expenses include audit and legal fees; custodian and transfer agent fees; costs attributable to the issue, redemption and change of units, including the cost of the security holder record-keeping system; expenses incurred in respect of preparing and distributing all regulatory reports; fund accounting and valuation costs; independent review committee fees and filing fees, including those incurred by us. In return, the Fund pays the Manager a fixed administration fee. The administration fee may vary by class of units and by Fund.

Please refer to the Financial Highlights section for the MERS of the classes of units.

Commissions

Commissions paid to brokers for portfolio transactions were as follows:

| Fund Name | 2016 | 2015 |
|------------------|-------------|-------------|
| Balanced Fund | \$1,488,313 | \$2,301,303 |

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 5 years ended December 31. This information is derived from the Fund's audited annual financial statements and is provided for each class of units.

Financial Highlights for Class B Units (for the years ended December 31)

| \$ | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|--------|--------|--------|--------|--------|
| Net assets attributable to holders of redeemable units per unit, beginning of year ⁽¹⁾ | 11.50 | 11.66 | 11.39 | 10.32 | 9.72 |
| Increase (decrease) in net assets attributable to holders of redeemable units: | | | | | |
| Total Interest Revenue | 0.10 | 0.12 | 0.13 | 0.12 | 0.23 |
| Total Dividend Revenue | 0.25 | 0.22 | 0.23 | 0.19 | 0.32 |
| Total revenue | 0.35 | 0.34 | 0.36 | 0.31 | 0.55 |
| Total expenses | (0.26) | (0.33) | (0.34) | (0.19) | (0.23) |
| Realized gains (losses) for the year | 0.45 | 0.39 | 0.58 | 0.47 | 0.41 |
| Unrealized gains (losses) for the year | 0.44 | (0.17) | 0.13 | 1.16 | 0.90 |
| Total increase (decrease) in net assets attributable to holders of redeemable units ⁽²⁾ | 0.98 | 0.23 | 0.73 | 1.75 | 1.63 |
| Distribution to holders of redeemable units per unit: | | | | | |
| Net interest income (excluding dividend) | 0.03 | 0.07 | 0.10 | 0.13 | 0.05 |
| Net dividend income | 0.09 | 0.04 | 0.05 | 0.06 | 0.08 |
| Net investment income | 0.12 | 0.11 | 0.15 | 0.19 | 0.13 |
| Realized gains on sale of investments | 0.19 | 0.36 | 0.40 | 0.28 | 0.15 |
| Total distribution to holders of redeemable units ⁽³⁾ | 0.31 | 0.47 | 0.55 | 0.47 | 0.28 |
| Net assets attributable to holders of redeemable units, end of year ⁽⁴⁾ | 12.12 | 11.50 | 11.66 | 11.39 | 10.31 |

Ratios and Supplemental Data for Class B Units (for the years ended December 31)

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|--------|--------|--------|-------|-------|
| Total net assets attributable to holders of redeemable units (\$ (000's) ⁽⁵⁾ | 28,230 | 21,294 | 14,244 | 6,147 | 560 |
| Number of outstanding redeemable units (000's) ⁽⁵⁾ | 2,329 | 1,852 | 1,222 | 540 | 54 |
| Management expense ratio ⁽⁶⁾ | 2.03% | 2.03% | 1.99% | 2.01% | 2.20% |
| Management expense ratio before absorptions ⁽⁶⁾ | N/A | N/A | N/A | N/A | N/A |
| Portfolio turnover rate ⁽⁷⁾ | 76% | 61% | 61% | 51% | 58% |
| Trading expense ratio (%) ⁽⁸⁾ | 0.04% | 0.06% | 0.08% | 0.09% | 0.08% |
| Net assets attributable to holders of redeemable units, end of year ⁽⁹⁾ | 12.12 | 11.50 | 11.66 | 11.39 | 10.32 |

Financial Highlights for Class D Units (for the years ended December 31)

| \$ | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|--------|--------|--------|--------|--------|
| Net assets attributable to holders of redeemable units per unit, beginning of year ⁽¹⁾ | 19.15 | 19.38 | 18.89 | 16.97 | 15.91 |
| Increase (decrease) in net assets attributable to holders of redeemable units: | | | | | |
| Total Interest Revenue | 0.17 | 0.19 | 0.21 | 0.19 | 0.23 |
| Total Dividend Revenue | 0.42 | 0.38 | 0.39 | 0.32 | 0.32 |
| Total revenue | 0.59 | 0.57 | 0.60 | 0.51 | 0.55 |
| Total expenses | (0.26) | (0.32) | (0.33) | (0.19) | (0.18) |
| Realized gains (losses) for the year | 0.74 | 0.67 | 0.94 | 0.72 | 0.41 |
| Unrealized gains (losses) for the year | 0.67 | (0.36) | 0.20 | 1.83 | 0.90 |
| Total increase (decrease) in net assets attributable to holders of redeemable units ⁽²⁾ | 1.74 | 0.56 | 1.41 | 2.87 | 1.68 |
| Distribution to holders of redeemable units per unit: | | | | | |
| Net interest income (excluding dividend) | 0.08 | 0.20 | 0.24 | 0.23 | 0.12 |
| Net dividend income | 0.25 | 0.11 | 0.11 | 0.11 | 0.18 |
| Net investment income | 0.33 | 0.31 | 0.35 | 0.34 | 0.30 |
| Realized gains on sale of investments | 0.32 | 0.59 | 0.66 | 0.47 | 0.24 |
| Total distribution to holders of redeemable units ⁽³⁾ | 0.65 | 0.90 | 1.01 | 0.81 | 0.54 |
| Net assets attributable to holders of redeemable units, end of year ⁽⁴⁾ | 20.22 | 19.15 | 19.38 | 18.89 | 16.95 |

Ratios and Supplemental Data for Class D Units (for the years ended December 31)

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|---------|---------|---------|--------|--------|
| Total net assets attributable to holders of redeemable units (\$ (000's) ⁽⁵⁾ | 166,136 | 143,296 | 112,436 | 65,963 | 35,946 |
| Number of outstanding redeemable units (000's) ⁽⁵⁾ | 8,216 | 7,482 | 5,801 | 3,492 | 2,118 |
| Management expense ratio ⁽⁶⁾ | 1.20% | 1.20% | 1.20% | 1.21% | 1.19% |
| Management expense ratio before absorptions ⁽⁶⁾ | N/A | N/A | N/A | N/A | N/A |
| Portfolio turnover rate ⁽⁷⁾ | 76% | 61% | 61% | 51% | 58% |
| Trading expense ratio (%) ⁽⁸⁾ | 0.04% | 0.06% | 0.08% | 0.09% | 0.08% |
| Net assets attributable to holders of redeemable units, end of year ⁽⁹⁾ | 20.22 | 19.15 | 19.38 | 18.89 | 16.97 |

Beutel Goodman ■ Balanced Fund

Financial Highlights for Class F Units (for the years ended December 31)

| \$ | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|-------------|-------------|-------------|-------------|-------------|
| Net assets attributable to holders of redeemable units per unit, beginning of year ⁽¹⁾ | 11.67 | 11.83 | 11.54 | 10.39 | 9.77 |
| Increase (decrease) in net assets attributable to holders of redeemable units: | | | | | |
| Total Interest Revenue | 0.10 | 0.12 | 0.13 | 0.12 | 0.23 |
| Total Dividend Revenue | 0.25 | 0.23 | 0.24 | 0.18 | 0.32 |
| Total revenue | 0.35 | 0.35 | 0.37 | 0.30 | 0.55 |
| Total expenses | (0.15) | (0.18) | (0.19) | (0.10) | (0.12) |
| Realized gains (losses) for the year | 0.47 | 0.38 | 0.57 | 0.52 | 0.41 |
| Unrealized gains (losses) for the year | 0.45 | (0.29) | 0.04 | 1.32 | 0.90 |
| Total increase (decrease) in net assets attributable to holders of redeemable units ⁽²⁾ | 1.12 | 0.26 | 0.79 | 2.04 | 1.74 |
| Distribution to holders of redeemable units per unit: | | | | | |
| Net interest income (excluding dividend) | 0.06 | 0.14 | 0.17 | 0.16 | 0.09 |
| Net dividend income | 0.17 | 0.08 | 0.08 | 0.07 | 0.13 |
| Net investment income | 0.23 | 0.22 | 0.25 | 0.23 | 0.22 |
| Realized gains on sale of investments | 0.20 | 0.36 | 0.40 | 0.28 | 0.15 |
| Total distribution to holders of redeemable units ⁽³⁾ | 0.43 | 0.58 | 0.65 | 0.51 | 0.37 |
| Net assets attributable to holders of redeemable units, end of year ⁽⁴⁾ | 12.30 | 11.67 | 11.83 | 11.54 | 10.37 |

Ratios and Supplemental Data for Class F Units (for the years ended December 31)

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|--------|-------|-------|-------|-------|
| Total net assets attributable to holders of redeemable units (\$) (000's) ⁽⁵⁾ | 11,148 | 7,335 | 4,334 | 1,638 | 472 |
| Number of outstanding redeemable units (000's) ⁽⁵⁾ | 906 | 629 | 366 | 142 | 45 |
| Management expense ratio ⁽⁶⁾ | 1.06% | 1.05% | 1.04% | 1.07% | 1.07% |
| Management expense ratio before absorptions ⁽⁶⁾ | N/A | N/A | N/A | N/A | N/A |
| Portfolio turnover rate ⁽⁷⁾ | 76% | 61% | 61% | 51% | 58% |
| Trading expense ratio (%) ⁽⁸⁾ | 0.04% | 0.06% | 0.08% | 0.09% | 0.08% |
| Net assets attributable to holders of redeemable units, end of year ⁽⁹⁾ | 12.30 | 11.67 | 11.83 | 11.54 | 10.39 |

Financial Highlights for Class I Units (for the years ended December 31)

| \$ | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|-------------|-------------|-------------|-------------|-------------|
| Net assets attributable to holders of redeemable units per unit, beginning of year ⁽¹⁾ | 19.95 | 20.21 | 19.69 | 17.71 | 16.64 |
| Increase (decrease) in net assets attributable to holders of redeemable units: | | | | | |
| Total Interest Revenue | 0.17 | 0.20 | 0.22 | 0.20 | 0.23 |
| Total Dividend Revenue | 0.44 | 0.40 | 0.41 | 0.34 | 0.32 |
| Total revenue | 0.61 | 0.60 | 0.63 | 0.54 | 0.55 |
| Total expenses | (0.05) | (0.04) | (0.06) | (0.03) | (0.03) |
| Realized gains (losses) for the year | 0.76 | 0.73 | 0.99 | 0.72 | 0.41 |
| Unrealized gains (losses) for the year | 0.66 | (0.35) | 0.25 | 1.83 | 0.90 |
| Total increase (decrease) in net assets attributable to holders of redeemable units ⁽²⁾ | 1.98 | 0.94 | 1.81 | 3.06 | 1.83 |
| Distribution to holders of redeemable units per unit: | | | | | |
| Net interest income (excluding dividend) | 0.15 | 0.36 | 0.40 | 0.38 | 0.21 |
| Net dividend income | 0.43 | 0.20 | 0.19 | 0.18 | 0.31 |
| Net investment income | 0.58 | 0.56 | 0.59 | 0.56 | 0.52 |
| Realized gains on sale of investments | 0.34 | 0.62 | 0.69 | 0.49 | 0.25 |
| Total distribution to holders of redeemable units ⁽³⁾ | 0.92 | 1.18 | 1.28 | 1.05 | 0.77 |
| Net assets attributable to holders of redeemable units, end of year ⁽⁴⁾ | 21.05 | 19.95 | 20.21 | 19.69 | 17.69 |

Ratios and Supplemental Data for Class I Units (for the years ended December 31)

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|-----------|-----------|-----------|-----------|-----------|
| Total net assets attributable to holders of redeemable units (\$) (000's) ⁽⁵⁾ | 3,498,150 | 3,424,755 | 3,356,090 | 3,209,050 | 2,350,126 |
| Number of outstanding redeemable units (000's) ⁽⁵⁾ | 166,146 | 171,628 | 166,077 | 162,921 | 132,717 |
| Management expense ratio ⁽⁶⁾ | 0.07% | 0.07% | 0.07% | 0.07% | 0.08% |
| Management expense ratio before absorptions ⁽⁶⁾ | N/A | N/A | N/A | N/A | N/A |
| Portfolio turnover rate ⁽⁷⁾ | 76% | 61% | 61% | 51% | 58% |
| Trading expense ratio (%) ⁽⁸⁾ | 0.04% | 0.06% | 0.08% | 0.09% | 0.08% |
| Net assets attributable to holders of redeemable units, end of year ⁽⁹⁾ | 21.05 | 19.95 | 20.21 | 19.69 | 17.71 |

- (1) The information for December 2016, December 2015, December 2014 and December 2013 is derived from the Fund's annual audited financial statements prepared in accordance with IFRS. The information for prior years is derived from the Fund's annual audited financial statements prepared based on Canadian GAAP.
- (2) Net assets attributable to holders of redeemable units per unit and distributions to holders of redeemable units per unit are based on the actual number of redeemable units outstanding for the relevant class at the relevant time. The increase (decrease) in net assets attributable to holders of redeemable units per unit is based on the weighted average number of redeemable units outstanding for the relevant class over the fiscal year.
- (3) Distributions were paid in cash or automatically reinvested in additional redeemable units of the Fund.
- (4) This is not a reconciliation of the beginning and ending net assets per redeemable unit.
- (5) This information is provided as at year end of the year shown.
- (6) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily net asset value during the year.
- (7) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the fiscal year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a higher turnover rate and the performance of a Fund. Portfolio turnover rate equals the lesser of purchases or sales divided by the average value of the portfolio securities of the Fund on a monthly basis, excluding short-term securities.
- (8) The trading expense ratio represents total commissions and other portfolio transaction costs disclosed in the Statements of Comprehensive Income expressed as an annualized percentage of daily average net asset value of the Fund during the year.
- (9) The information for December 2016, December 2015, December 2014 and December 2013 is derived from the Fund's annual audited financial statements prepared in accordance with IFRS. Prior to January 1, 2013, for the purpose of processing unitholder transactions, net assets were calculated based on the closing market price, while for financial statement purposes net assets were calculated based on bid/ask price. For the years ended December 31, 2016, December 31, 2015, December 31, 2014 and December 31, 2013, the information provided for processing unitholder transactions is consistent with the information provided for reporting purposes.

Past Performance

The past performance of each class of units of a Fund, if the class has been in continuous existence and offered to the public for at least 12 months (at the date of this document), is explained under the Year-by-Year Returns and Annual Compound Returns headings found below. In years where the class of a Fund has less than 12 months of performance data, the annual rate of return has been annualized.

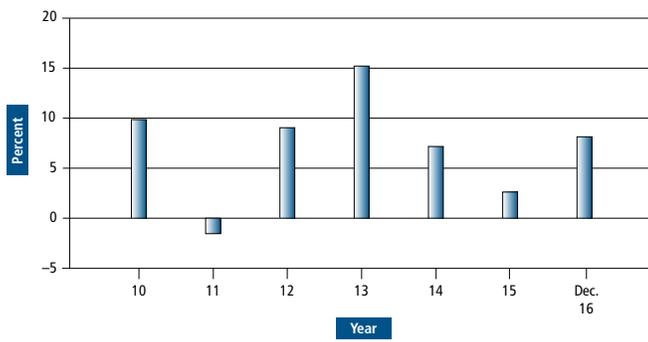
The performance returns in all cases:

- are calculated as of **December 31** in each year;
- assume **all distributions** made by the Fund are reinvested to purchase additional redeemable units; and
- show the returns of the particular class of the Fund after any applicable management fees and operating expenses have been deducted, **but are not reduced by any redemption charges, optional charges or income taxes payable by you.**

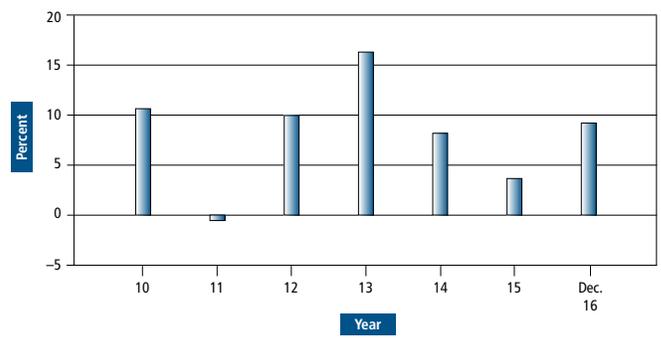
Please remember that the past performance of the Fund is not an accurate prediction of future returns.

Year-by-Year Returns

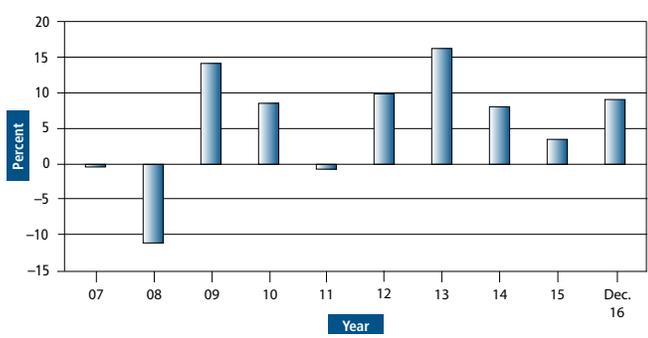
Class B



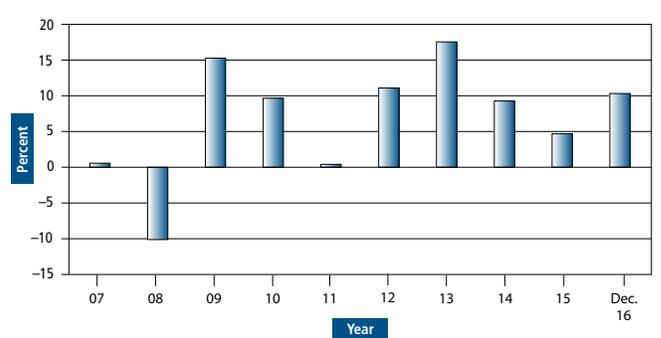
Class F



Class D



Class I



Beutel Goodman ■ Balanced Fund

Annual Compound Returns

The following table shows the historical annual compound total return, as compared to the performance of the Balanced Fund Benchmark, which is comprised of the FTSE TMX Canada Universe Bond Index (40%), Morgan Stanley EAFE Index (13%), S&P 500-Cdn. (12%), S&P/TSX (30%) and the Scotia Capital Markets (5%).*

| Class B | Since Inception | Past 5 Years | Past 3 Years | Past Year |
|--|-----------------|--------------|--------------|-----------|
| Beutel Goodman Balanced Fund – Class B | 7.03% | 8.54% | 6.45% | 8.15% |
| Balanced Fund Benchmark | 7.12% | 8.10% | 7.18% | 7.80% |

For Class B units, a return calculated since its inception of September 27, 2010 and ended December 31, 2016, and for the past five, three and one year periods ended December 31, 2016 has been provided.

| Class D | Past 10 Years | Past 5 Years | Past 3 Years | Past Year |
|--|---------------|--------------|--------------|-----------|
| Beutel Goodman Balanced Fund – Class D | 5.33% | 9.24% | 6.83% | 9.05% |
| Balanced Fund Benchmark | 5.03% | 8.10% | 7.18% | 7.80% |

For Class D units, a return calculated for the past ten, five, three and one year periods ended on December 31, 2016 has been provided.

| Class F | Since Inception | Past 5 Years | Past 3 Years | Past Year |
|--|-----------------|--------------|--------------|-----------|
| Beutel Goodman Balanced Fund – Class F | 8.09% | 9.62% | 7.52% | 9.21% |
| Balanced Fund Benchmark | 7.12% | 8.10% | 7.18% | 7.80% |

For Class F units, a return calculated since its inception of September 27, 2010 and ended December 31, 2016, and for the past five, three and one year periods ended December 31, 2016 has been provided.

| Class I | Past 10 Years | Past 5 Years | Past 3 Years | Past Year |
|--|---------------|--------------|--------------|-----------|
| Beutel Goodman Balanced Fund – Class I | 6.56% | 10.48% | 8.04% | 10.29% |
| Balanced Fund Benchmark | 5.03% | 8.10% | 7.18% | 7.80% |

For Class I units, a return calculated for the past ten, five, three and one year periods ended on December 31, 2016 has been provided.

* The Balanced Fund Benchmark is a benchmark prepared by the Manager and is designed to reflect the average asset mix of a universe of balanced fund managers, which consists of:
 The S&P/TSX Composite Index is designed to represent the Canadian mid-large cap equity market (30%)
 The S&P 500 (C\$) Index is designed to represent the U.S. equity market (12%)
 The MSCI EAFE (C\$) Index is designed to reflect non-North American stock markets (13%)
 The FTSE TMX Canada Universe Bond Index is designed to reflect the Canadian bond market (40%)
 The FTSE TMX Canada 91Day T-Bill Index is designed to reflect short term securities (5%)

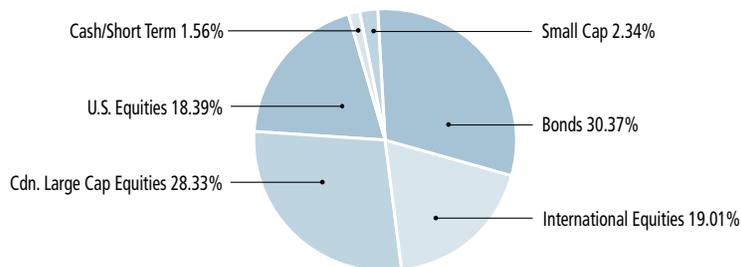
Summary of Investment Portfolio

The following information may change due to the ongoing portfolio transactions of the Fund. More current information regarding the holdings of the Fund may be obtained on our website at www.beutelgoodman.com.

Summary of Top 25 Holdings

| Issuer Name | Coupon Rate (%) | Maturity Date | % of Net Assets | Issuer Name | Coupon Rate (%) | Maturity Date | % of Net Assets |
|--|-----------------|---------------|-----------------|--------------------------------------|-----------------|---------------|-----------------|
| 1. The Toronto-Dominion Bank | | | 2.79 | 15. Ingersoll-Rand PLC | | | 1.08 |
| 2. Royal Bank of Canada | | | 2.78 | 16. Province of Ontario | 4.000% | 2-Jun-21 | 1.05 |
| 3. Rogers Communications Inc., Class B | | | 1.98 | 17. Teradyne Inc. | | | 1.03 |
| 4. Bank of Nova Scotia | | | 1.94 | 18. Oracle Corp. | | | 1.02 |
| 5. Cenovus Energy Inc. | | | 1.51 | 19. Province of Ontario | 2.800% | 2-Jun-48 | 1.00 |
| 6. Canadian Natural Resources Ltd. | | | 1.40 | 20. Canadian Government Bond | 2.750% | 1-Dec-48 | 0.99 |
| 7. Magna International Inc. | | | 1.31 | 21. Agrium Inc. | | | 0.98 |
| 8. Brookfield Asset Management Inc. | | | 1.27 | 22. Great-West Lifeco Inc. | | | 0.98 |
| 9. Verizon Communications Inc. | | | 1.20 | 23. Canadian Tire Corp Ltd., Class A | | | 0.97 |
| 10. Merck KGaA | | | 1.23 | 24. Symantec Corp. | | | 0.96 |
| 11. Canadian Imperial Bank of Commerce | | | 1.18 | 25. Province of Ontario | 3.500% | 2-Jun-24 | 0.96 |
| 12. Parker-Hannifin Corp. | | | 1.17 | | | | |
| 13. Canada Housing Trust No. 1 | 1.950% | 15-Jun-19 | 1.14 | | | | |
| 14. American Express Co. | | | 1.11 | | | | |

Asset Mix



Other Material Information

Classes of Units: Each of the Funds in the Beutel Goodman family of Funds issues Class B, Class D (formerly Class A), Class F and Class I units, with the exception of the Beutel Goodman Fundamental Canadian Equity Fund, Beutel Goodman Global Dividend Fund and Beutel Goodman Short Term Bond Fund, which issue only Class B, Class F and Class I units. Expenses of each class are tracked separately and a separate net asset is calculated for each class.

The Beutel Goodman Balanced Fund is available in 4 classes of units: Class B, Class D (formerly Class A), Class F and Class I.

Each Fund may issue an unlimited number of classes of units and may issue an unlimited number of units of each class. The different classes of units of a Fund represent an interest in the same portfolio investments of the Fund.

Class B Units: for retail investors investing a minimum of \$5,000 in a Fund through authorized third-party dealers;

Class D* Units: for retail investors investing a minimum of \$5,000 in a Fund;

Class F Units: for investors investing a minimum of \$5,000 in a Fund, who are enrolled in a dealer-sponsored fee-for-service or wrap program (where various mutual funds are bundled together) who are subject to a periodic asset-based fee, rather than commissions on each transaction and whose dealer has signed a Class F agreement, or any other investors for whom we do not incur distribution costs, such as our employees (or affiliated corporations);

Class I Units: for investors who have invested a minimum of \$500,000 in a Fund and who have entered into an investment management agreement with us. At our discretion, we may waive the investment minimum.

* Class A units distributed under prior simplified prospectuses have been renamed "Class D" units as of August 13, 2010.

Additional Information

Independent Review Committee

Beutel Goodman Managed Funds Inc., the former Manager of the Beutel Goodman Managed Funds, appointed an Independent Review Committee ("IRC") on May 1, 2007, for each of its public mutual Funds in accordance with the Canadian Securities Administrators' National Instrument 81-107. This Instrument has been designed to promote investor protection in mutual funds. Effective January 1, 2013, as the result of the amalgamation between Beutel Goodman Managed Funds Inc. and Beutel, Goodman & Company Ltd., Beutel, Goodman & Company Ltd. is the Manager of the Beutel Goodman Managed Funds. The IRC actively assumed its role and responsibilities on November 1, 2007. The IRC oversees conflict of interest matters that may arise out of the management of each of the Funds by providing its recommendations or approvals, as required, to the Manager on how these conflicts may be fairly resolved. The IRC for each of the Beutel Goodman Managed Funds consists of three industry professionals, none of whom have an interest in the Funds or Beutel, Goodman & Company Ltd. outside of their roles as members of the IRC. The IRC 2016 Report to Unitholders is available on the Beutel Goodman Managed Funds' website at www.beutelgoodman.com or at the unitholder's request, at no cost, by contacting Beutel, Goodman & Co. Ltd. at mutualfunds@beutelgoodman.com.

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