
BEUTEL GOODMAN MANAGED FUNDS

Annual Management Report of Fund Performance
December 31, 2016

BEUTEL GOODMAN Fundamental Canadian Equity Fund

Beutel Goodman ■ Fundamental Canadian Equity 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
www.beutelgoodman.com

20 Eglinton Avenue West
Suite 2000, P.O. Box 2005
Toronto, Ontario
M4R 1K8
416.932.6403 (local)
1.855.247.9954 (toll free)

Management Discussion of Fund Performance

Investment Objectives and Strategies

This Fund seeks long-term capital appreciation primarily through investments in common shares and other equity securities of Canadian issuers with medium to large capitalization.

The Fund's advisor attempts to buy the best economic value in the market regardless of what sector the issuer operates in. Research efforts will be directed to identifying stocks of medium and large capitalization issuers that are undervalued in relation to the asset value or earnings power of the issuer. If earnings fall short of expectations, the intrinsic value of the underlying assets of the issuer will provide important downside protection. The investment portfolio of the Fund will usually display a price-to-earnings ratio and price-to-book ratio that are well below market averages.

The Fund may hold significant cash balances from time to time.

Investments by the Fund in non-Canadian securities will generally not exceed 49% of the Fund's assets taken at book value.

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 seeking capital growth with a medium tolerance for risk and a long-term investment horizon.

Results of Operations

The Fund modestly underperformed the S&P/TSX Composite Index benchmark over the twelve month period under review.

The S&P/TSX gained 21.1% during the year, the best of any developed market in 2016. Materials, Energy, Financials and Industrials sectors performed strongly for the year. All sectors in the index were positive, with the exception of Health Care and Real Estate. The Health Care sector performance was especially poor due to a steep decline in dominant member Valeant Pharmaceuticals.

North American Markets began the year on a weak note, as a drop in the price of oil to the mid-\$20 level and fallout from the first Fed rate increase in nearly a decade near the end of 2015 weighed on sentiment. The market regained its footing by March on central bank support outside the U.S., a recovery in oil prices and improving economic data. Another key development, in particular for the Canadian market, was the strong rally in gold stocks. The demand for precious metals has had two catalysts. The first was concern over the increased use of negative interest rates as a central bank policy tool and the second was the surprise victory for the 'leave' side in the U.K. referendum. That rally in gold stocks levelled off in the second half of the year, as a steady stream of positive economic news out of the U.S. set the stage for a second Fed rate increase in December. The year ended with the surprise election of Donald Trump as President of the United States. Rather than triggering a run to safety, as many had speculated prior to the election, investors focused on the

pro-growth implications of his platform and shifted investments in favour of economically sensitive stocks, as well as the likely beneficiaries of a steepening yield curve and Trump's campaign promises of regulatory relief. The other major development was an agreement by OPEC to cut oil production, which helped lift the benchmark WTI price to just under \$54 at year-end.

With respect to the portfolio's performance, added value was attributable to sector weighting effects, specifically an underweight in the Health Care sector. This was the leading positive contributor to performance. Information Technology also contributed to performance as a result of a holding in Open Text. Security selection in total, detracted from performance. Energy was the largest detractor from performance, with allocation and stock selection both negative. The portfolio manager remained cautious on the sector as valuations reflected overly optimistic views of the oil price and oil fundamentals. Canadian Natural Resources performed strongly, however this was offset by underperformance in the services names. Cenovus Energy contributed while Cameco declined for the year and detracted from performance. The Materials sector was also a significant detractor due to an underweight position and, to a lesser extent, stock selection. Diversified metals and mining, where the fund is underweight, performed strongly in the index.

In Financials, positive contributions from the banks, RBC, TD, Bank of Nova Scotia and CIBC were offset by weaker performance in IGM Financial and Onex. The banks benefited from rising yields and waning concerns over risks associated with the housing market. Strong double digit returns from SNC-Lavalin, Finning and CN Railway in Industrials contributed to performance. An improved economic outlook and a recovery in resources led to a positive cyclical rally.

Over the year, two new names were added to the portfolio: Suncor Energy and Franco Nevada. The portfolio also received shares in two entities as a result of stock distributions. A small position in PrairieSky Royalty was received from Canadian Natural Resources. The other was Brookfield Business Partners, distributed by Brookfield Asset Management. Both positions were sold given their limited upside potential at this point.

Two names were sold, Ensign Energy Services and Teck Resources.

Other transactions in the period mostly involved taking advantage of volatility to trim some of the better performers and add to others with relatively more attractive upside potential. Sales were largely focused in the Consumer Staples and Financial sectors, with proceeds going to a number of positions across the Energy, Materials, Industrials and the Consumer Discretionary sectors.

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

Recent Developments

There have been no changes to the Fund's Manager for the review period.

Well before the U.S. election, financial markets had already begun pricing in improvements in the U.S. economy and expectations for tighter monetary policy. Equity prices and bond yields had steadily moved higher through the summer and fall, as economic data consistently came in

stronger than expected. What the U.S. election result did was amplify these developments, accelerating rotation from defensive and safe-haven investments to those offering greater economic sensitivity.

As a result, a good amount of pro-growth sentiment has 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 cyclical stocks that have moved up well ahead of any U.S. policy or spending announcements. The portfolio manager continues 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 other 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 improved business conditions after having lagged in 2016 on an excess of caution. As always, the portfolio manager will continue to execute their investment process, selling holdings that reach their full business value and reinvesting proceeds into stocks that meet strict quality and return criteria.

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⁾
Fundamental Canadian Equity Fund	B	up to 1.85
Fundamental Canadian Equity Fund	F	up to 0.90

(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 \$718 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 0.00% 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
Fundamental Canadian Equity Fund	\$159,358	\$60,163

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 two years ended December 31 and from its inception date of June 23 to December 31, 2014. 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
Net assets attributable to holders of redeemable units per unit, beginning of year ⁽¹⁾	9.46	10.16	10.00 (as at June 23)
Increase (decrease) in net assets attributable to holders of redeemable units:			
Total Interest Revenue	—	—	—
Total Dividend Revenue	0.30	0.31	0.15
Total revenue	0.30	0.31	0.15
Total expenses	(0.24)	(0.41)	(0.43)
Realized gains for the year	0.08	(0.18)	—
Unrealized gains (losses) for the year	1.64	(0.38)	0.44
Total increase (decrease) in net assets attributable to holders of redeemable units ⁽²⁾	1.78	(0.66)	0.16
Distribution to holders of redeemable units per unit:			
Net interest income (excluding dividend)	—	—	—
Net dividend income	0.11	0.03	—
Net investment income	0.11	0.03	—
Realized gains on sale of investments	—	—	0.01
Total distribution to holders of redeemable units ⁽³⁾	0.11	0.03	0.01
Net assets attributable to holders of redeemable units, end of year ⁽⁴⁾	10.98	9.46	10.16

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

	2016	2015	2014
Total net assets attributable to holders of redeemable units (\$) (000's) ⁽⁵⁾	80	5	14
Number of outstanding redeemable units (000's) ⁽⁵⁾	7	1	1
Management expense ratio ⁽⁶⁾	2.20%	2.20%	2.15%
Management expense ratio before absorptions ⁽⁶⁾	N/A	N/A	N/A
Portfolio turnover rate ⁽⁷⁾	10%	18%	4%
Trading expense ratio (%) ⁽⁸⁾	0.06%	0.06%	0.10%
Net assets attributable to holders of redeemable units, end of year ⁽⁹⁾	10.98	9.46	10.16

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

\$	2016	2015	2014
Net assets attributable to holders of redeemable units per unit, beginning of year ⁽¹⁾	9.49	10.19	10.00 (as at June 23)
Increase (decrease) in net assets attributable to holders of redeemable units:			
Total Interest Revenue	—	—	—
Total Dividend Revenue	0.49	0.31	0.15
Total revenue	0.49	0.31	0.15
Total expenses	(0.16)	(0.21)	(0.23)
Realized gains for the year	0.23	(0.19)	—
Unrealized gains (losses) for the year	1.80	(0.48)	0.29
Total increase (decrease) in net assets attributable to holders of redeemable units ⁽²⁾	2.36	(0.57)	0.21
Distribution to holders of redeemable units per unit:			
Net interest income (excluding dividend)	—	—	—
Net dividend income	0.17	0.13	0.02
Net investment income	0.17	0.13	0.02
Realized gains on sale of investments	0.01	—	0.01
Total distribution to holders of redeemable units ⁽³⁾	0.18	0.13	0.03
Net assets attributable to holders of redeemable units, end of year ⁽⁴⁾	11.07	9.49	10.19

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

	2016	2015	2014
Total net assets attributable to holders of redeemable units (\$) (000's) ⁽⁵⁾	170	5	5
Number of outstanding redeemable units (000's) ⁽⁵⁾	15	1	1
Management expense ratio ⁽⁶⁾	1.13%	1.12%	1.12%
Management expense ratio before absorptions ⁽⁶⁾	N/A	N/A	N/A
Portfolio turnover rate ⁽⁷⁾	10%	18%	4%
Trading expense ratio (%) ⁽⁸⁾	0.06%	0.06%	0.10%
Net assets attributable to holders of redeemable units, end of year ⁽⁹⁾	11.07	9.49	10.19

Beutel Goodman ■ Fundamental Canadian Equity Fund

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

\$	2016	2015	2014
Net assets attributable to holders of redeemable units per unit, beginning of year ⁽¹⁾	9.49	10.20	10.00 (as at June 23)
Increase (decrease) in net assets attributable to holders of redeemable units:			
Total Interest Revenue	—	—	—
Total Dividend Revenue	0.31	0.32	0.14
Total revenue	0.31	0.32	0.14
Total expenses	(0.01)	(0.01)	(0.01)
Realized gains for the year	0.08	(0.21)	—
Unrealized gains (losses) for the year	1.75	(0.63)	0.14
Total increase (decrease) in net assets attributable to holders of redeemable units ⁽²⁾	2.13	(0.53)	0.27
Distribution to holders of redeemable units per unit:			
Net interest income (excluding dividend)	—	—	—
Net dividend income	0.17	0.24	0.06
Net investment income	0.17	0.24	0.06
Realized gains on sale of investments	0.01	—	0.01
Total distribution to holders of redeemable units ⁽³⁾	0.18	0.24	0.07
Net assets attributable to holders of redeemable units, end of year ⁽⁴⁾	11.19	9.49	10.20

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

	2016	2015	2014
Total net assets attributable to holders of redeemable units (\$) (000's) ⁽⁵⁾	488,250	119,287	74,887
Number of outstanding redeemable units (000's) ⁽⁵⁾	43,645	12,573	7,345
Management expense ratio ⁽⁶⁾	0.07%	0.07%	0.07%
Management expense ratio before absorptions ⁽⁶⁾	N/A	N/A	N/A
Portfolio turnover rate ⁽⁷⁾	10%	18%	4%
Trading expense ratio (%) ⁽⁸⁾	0.06%	0.06%	0.10%
Net assets attributable to holders of redeemable units, end of year ⁽⁹⁾	11.19	9.49	10.20

- (1) The information for December 2016, December 2015 and December 2014 is derived from the Fund's annual audited financial statements prepared in accordance with IFRS.
- (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 period 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 and December 2014 is derived from the Fund's annual audited financial statements prepared in accordance with IFRS.

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.

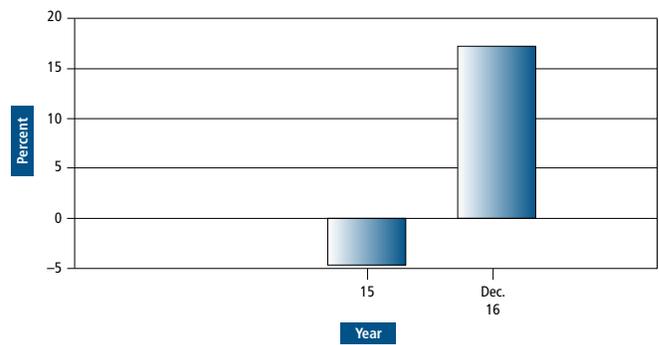
The performance returns in all cases:

- 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.**

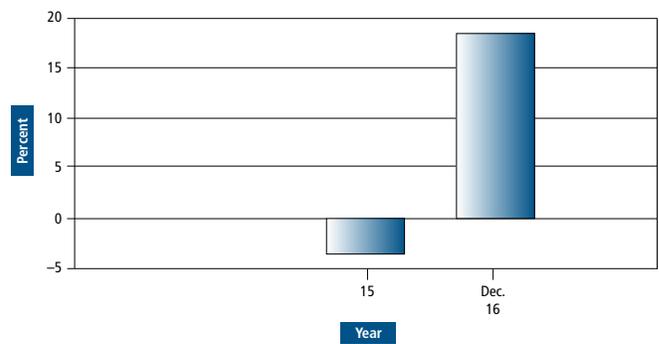
Please remember that the past performance of the Fund is not an accurate prediction of future returns.

Year-by-Year Returns

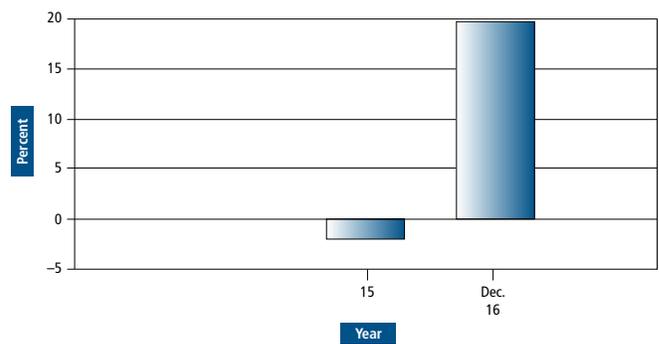
Class B



Class F



Class I



Beutel Goodman ■ Fundamental Canadian Equity Fund

Annual Compound Returns

The following table shows the historical annual compound total returns, as compared to the performance of the S&P/TSX Index.*

Class B	Since Inception	Past Year
Beutel Goodman Fundamental Canadian Equity Fund – Class B	4.37%	17.23%
S&P/TSX Index	3.54%	21.08%

For Class B units, a return calculated since its inception of June 23, 2014 and ended December 31, 2016 and for the one year period ended December 31, 2016 has been provided.

Class F	Since Inception	Past Year
Beutel Goodman Fundamental Canadian Equity Fund – Class F	5.49%	18.52%
S&P/TSX Index	3.54%	21.08%

For Class F units, a return calculated since its inception of June 23, 2014 and ended December 31, 2016 and for the one year period ended December 31, 2016 has been provided.

Class I	Since Inception	Past Year
Beutel Goodman Fundamental Canadian Equity Fund – Class I	6.61%	19.76%
S&P/TSX Index	3.54%	21.08%

For Class I units, a return calculated since its inception of June 23, 2014 and ended December 31, 2016 and for the one year period ended December 31, 2016 has been provided.

* The S&P/TSX Composite Index is designed to represent the Canadian mid-large cap equity market.

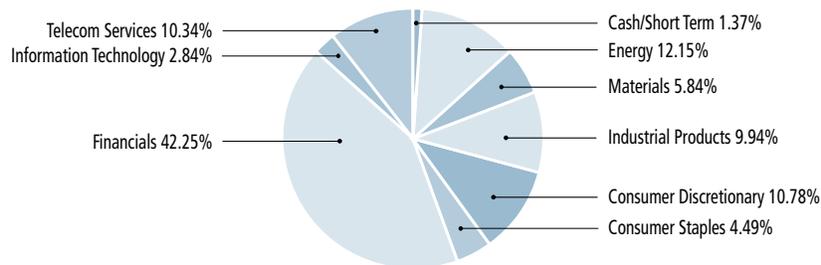
Summary of Investment Portfolio

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	% of Net Assets	Issuer Name	% of Net Assets
1. Royal Bank of Canada	9.55	14. TELUS Corp.	3.15
2. The Toronto-Dominion Bank	9.33	15. Manulife Financial Corp.	3.13
3. Rogers Communications Inc., Class B	7.16	16. Open Text Corp.	2.83
4. Bank of Nova Scotia	6.32	17. Molson Coors Canada Inc., Class B	2.72
5. Cenovus Energy Inc.	5.32	18. SNC-Lavalin Group Inc.	2.48
6. Canadian Natural Resources Ltd.	4.89	19. Quebecor Inc., Class B	2.32
7. Magna International Inc.	4.85	20. Finning International Inc.	2.12
8. Brookfield Asset Management Inc.	4.26	21. Canadian Pacific Railway Ltd.	1.89
9. Canadian Imperial Bank of Commerce	3.89	22. Cameco Corp.	1.68
10. Canadian Tire Corp Ltd., Class A	3.58	23. Thomson Reuters Corp.	1.57
11. Agrium Inc.	3.46	24. Potash Corp. of Saskatchewan Inc.	1.29
12. Canadian National Railway Co.	3.41	25. Franco-Nevada Corp.	1.08
13. Great-West Lifeco Inc.	3.26		

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 Fundamental Canadian Equity Fund is available in 3 classes of units: Class B, 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 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.

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 & Company Ltd. at mutualfunds@beutelgoodman.com.

Beutel, Goodman & Company Ltd.

20 Eglinton Avenue West

Suite 2000

P.O. Box 2005

Toronto, Ontario

M4R 1K8

Tel: (416) 932-6403

Fax: (416) 485-8194

Toll Free: 1 (855) 247-9954

E-Mail: mutualfunds@beutelgoodman.com

Web: www.beutelgoodman.com