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# BEUTEL GOODMAN MANAGED FUNDS

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Annual Management Report of Fund Performance  
December 31, 2016

BEUTEL GOODMAN Small Cap Fund





## Beutel Goodman ■ Small Cap Fund

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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](http://www.beutelgoodman.com) or SEDAR at [www.sedar.com](http://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](http://www.beutelgoodman.com)

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## **Management Discussion of Fund Performance**

### **Investment Objectives and Strategies**

The Fund seeks long-term capital appreciation primarily through investments in common shares and other equity securities of smaller capitalization Canadian issuers.

The Fund's advisor works to buy the best economic value in the market regardless of what sector the issuer operates in. The Fund's advisor focuses on purchasing companies at discounts to their business value, defined simply as the present value of sustainable free cash flow.

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 to high tolerance for risk and a long-term investment horizon.

### **Results of Operations**

The Fund posted a positive return, but underperformed its BMO Small Cap Index benchmark over the twelve month period under review.

The Canadian small cap market performed very strongly in 2016. The market 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. By March, the market regained its footing on central bank support outside the U.S., a recovery in oil prices and improving economic data. Another key development 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 this backdrop, the Material and Energy sectors were the star performers for the year, gaining over 50%.

Information Technology was the top contributor due to the Fund's underweight position. Industrials also contributed positively, mostly due to stock selection and to a lesser extent allocation. Within Industrials,

Wajax, a dealer specializing in industrial equipment and power systems, rose strongly on results that came in much stronger than expected, given the challenging environment in Western Canada. The Fund's Energy names were strong performers although the underweight positioning detracted from performance overall. The best performing holding in the year was Paramount Resources. The stock advanced 195% as a result of de-levering the balance sheet through the sale of deep basin assets and a rebound in oil prices. Nuvista Energy was another notable contributor in the Energy sector, gaining significantly for the year. Other strong contributors included Alamos Gold and CCL Industries in Materials and Invest in Financials.

The Consumer Discretionary and Materials sectors were the largest detractors for the year. Auto parts distributor Uni Select, the single largest contributor in 2015, was the largest detractor to performance in 2016. The stock weakness was due to results that came up short of expectations in terms of costs and synergies relating to recent acquisitions. Other detractors included Linamar due to concerns on the auto cycle and Colliers, a commercial real estate services firm. Recent concerns over post-Brexit challenges in the U.K. and the potential impact of higher interest rates on brokerage activity have weighed on the stock, presenting a good buying opportunity.

Over the period, the Fund sold positions Baxter Energy, Cathedral Energy, Ensign Energy, ZCL Composites, Hudbay Minerals, Innvest REIT, Intact Financial and Com Dev International and added positions in Birchcliff Energy, Lundin Mining, AG Growth International, Cervus Equipment, Aritzia and CRH Medical Corp. 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.

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.

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.

The portfolio is well positioned for this environment. For some time now, the better value opportunities have been found in areas of the market held back by undue growth concerns and the abnormally low yield backdrop. On the other hand, a demand for income and safety had kept a bid under the more defensive areas of the market, in particular gold stocks, leading to valuation levels for some that were risky from a downside perspective. Beutel Goodman's investment process has steered the fund towards the former and away from the latter. As a result, the portfolio benefitted from the rotation in the second half of 2016.

So far, however, 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

## Beutel Goodman ■ Small Cap Fund

the recent OPEC agreement at face value when history suggests caution is warranted, especially given the growing impact of non-OPEC producers. The portfolio manager continues to take a longer-term view in these situations, reviewing the valuations of current positions and candidate investments against a commodity pricing environment that is truly sustainable in terms of fundamentals.

In general, valuations for 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. 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 (%) <sup>(1)</sup> |
|----------------|-------|------------------------------------|
| Small Cap Fund | B     | up to 1.95                         |
| Small Cap Fund | D     | up to 1.25                         |
| Small Cap Fund | F     | up to 1.00                         |

(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 \$1,122,621 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 19.84% 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      |
|----------------|-----------|-----------|
| Small Cap Fund | \$738,293 | \$375,125 |

## 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   |
|---|--------|--------|--------|--------|--------|
| <b>Net assets attributable to holders of redeemable units per unit, beginning of year <sup>(1)</sup></b>  | 11.38  | 11.66  | 10.68  | 9.17   | 8.94   |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units:</b>                     |        |        |        |        |        |
| Total Interest Revenue  | —      | 0.05   | 0.02   | 0.02   | 0.02   |
| Total Dividend Revenue  | 0.17   | 0.21   | 0.20   | 0.16   | 0.27   |
| Total revenue   | 0.17   | 0.26   | 0.22   | 0.18   | 0.29   |
| Total expenses  | (0.30) | (0.33) | (0.34) | (0.28) | (0.23) |
| Realized gains (losses) for the year  | 0.65   | 0.33   | 0.52   | (0.19) | 0.80   |
| Unrealized gains (losses) for the year  | 1.60   | (0.42) | 0.55   | 1.82   | 0.52   |
| <b>Total increase (decrease) in net assets attributable to holders of redeemable units <sup>(2)</sup></b> | 2.12   | (0.16) | 0.95   | 1.53   | 1.38   |
| <b>Distribution to holders of redeemable units per unit:</b>  |        |        |        |        |        |
| Net interest income (excluding dividend)  | —      | —      | —      | —      | —      |
| Net dividend income   | —      | —      | —      | —      | —      |
| Net investment income   | —      | —      | —      | —      | —      |
| Realized gains on sale of investments   | —      | 0.16   | —      | —      | 0.37   |
| <b>Total distribution to holders of redeemable units <sup>(3)</sup></b>                                   | —      | 0.16   | —      | —      | 0.37   |
| <b>Net assets attributable to holders of redeemable units, end of year <sup>(4)</sup></b>                 | 13.62  | 11.38  | 11.66  | 10.68  | 9.12   |

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

|  | 2016  | 2015  | 2014  | 2013  | 2012  |
|--|-------|-------|-------|-------|-------|
| <b>Total net assets attributable to holders of redeemable units (\$ (000's) <sup>(5)</sup></b> | 5,354 | 4,428 | 4,695 | 3,632 | 2,727 |
| <b>Number of outstanding redeemable units (000's) <sup>(5)</sup></b>                           | 393   | 389   | 403   | 340   | 297   |
| <b>Management expense ratio <sup>(6)</sup></b>   | 2.29% | 2.29% | 2.20% | 2.20% | 2.32% |
| <b>Management expense ratio before absorptions <sup>(6)</sup></b>                              | N/A   | N/A   | N/A   | N/A   | N/A   |
| <b>Portfolio turnover rate <sup>(7)</sup></b>  | 23%   | 23%   | 19%   | 19%   | 21%   |
| <b>Trading expense ratio (%) <sup>(8)</sup></b>  | 0.12% | 0.06% | 0.09% | 0.11% | 0.06% |
| <b>Net assets attributable to holders of redeemable units, end of year <sup>(9)</sup></b>      | 13.62 | 11.38 | 11.66 | 10.68 | 9.17  |

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

| \$  | 2016   | 2015   | 2014   | 2013   | 2012   |
|---|--------|--------|--------|--------|--------|
| <b>Net assets attributable to holders of redeemable units per unit, beginning of year <sup>(1)</sup></b>  | 23.22  | 23.76  | 21.67  | 18.51  | 17.89  |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units:</b>                     |        |        |        |        |        |
| Total Interest Revenue  | —      | 0.10   | 0.04   | 0.04   | 0.02   |
| Total Dividend Revenue  | 0.36   | 0.42   | 0.40   | 0.32   | 0.27   |
| Total revenue   | 0.36   | 0.52   | 0.44   | 0.36   | 0.29   |
| Total expenses  | (0.40) | (0.43) | (0.44) | (0.37) | (0.26) |
| Realized gains (losses) for the year  | 1.29   | 0.75   | 1.01   | (0.31) | 0.80   |
| Unrealized gains (losses) for the year  | 3.51   | (0.81) | 1.36   | 3.49   | 0.52   |
| <b>Total increase (decrease) in net assets attributable to holders of redeemable units <sup>(2)</sup></b> | 4.76   | 0.03   | 2.37   | 3.17   | 1.35   |
| <b>Distribution to holders of redeemable units per unit:</b>  |        |        |        |        |        |
| Net interest income (excluding dividend)  | —      | 0.01   | —      | —      | —      |
| Net dividend income   | —      | 0.14   | 0.08   | 0.07   | 0.01   |
| Net investment income   | —      | 0.15   | 0.08   | 0.07   | 0.01   |
| Realized gains on sale of investments   | —      | 0.34   | —      | —      | 0.75   |
| <b>Total distribution to holders of redeemable units <sup>(3)</sup></b>                                   | —      | 0.49   | 0.08   | 0.07   | 0.76   |
| <b>Net assets attributable to holders of redeemable units, end of year <sup>(4)</sup></b>                 | 28.03  | 23.22  | 23.76  | 21.67  | 18.41  |

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

|  | 2016   | 2015   | 2014   | 2013   | 2012   |
|--|--------|--------|--------|--------|--------|
| <b>Total net assets attributable to holders of redeemable units (\$ (000's) <sup>(5)</sup></b> | 72,046 | 64,117 | 72,063 | 81,962 | 77,708 |
| <b>Number of outstanding redeemable units (000's) <sup>(5)</sup></b>                           | 2,570  | 2,761  | 3,033  | 3,782  | 4,198  |
| <b>Management expense ratio <sup>(6)</sup></b>   | 1.49%  | 1.49%  | 1.47%  | 1.48%  | 1.49%  |
| <b>Management expense ratio before absorptions <sup>(6)</sup></b>                              | N/A    | N/A    | N/A    | N/A    | N/A    |
| <b>Portfolio turnover rate <sup>(7)</sup></b>  | 23%    | 23%    | 19%    | 19%    | 21%    |
| <b>Trading expense ratio (%) <sup>(8)</sup></b>  | 0.12%  | 0.06%  | 0.09%  | 0.11%  | 0.06%  |
| <b>Net assets attributable to holders of redeemable units, end of year <sup>(9)</sup></b>      | 28.03  | 23.22  | 23.76  | 21.67  | 18.51  |

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## 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 <sup>(1)</sup>         | 23.67       | 24.28         | 22.21       | 18.95       | 18.28       |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units:</b>                     |             |               |             |             |             |
| Total Interest Revenue  | —           | 0.11          | 0.04        | 0.04        | 0.02        |
| Total Dividend Revenue  | 0.36        | 0.44          | 0.42        | 0.33        | 0.27        |
| Total revenue   | 0.36        | 0.55          | 0.46        | 0.37        | 0.29        |
| Total expenses  | (0.35)      | (0.36)        | (0.39)      | (0.31)      | (0.24)      |
| Realized gains (losses) for the year  | 1.55        | 0.48          | 0.99        | (0.22)      | 0.80        |
| Unrealized gains (losses) for the year  | 3.26        | (1.04)        | 0.99        | 3.23        | 0.52        |
| <b>Total increase (decrease) in net assets attributable to holders of redeemable units <sup>(2)</sup></b> | <b>4.82</b> | <b>(0.37)</b> | <b>2.05</b> | <b>3.07</b> | <b>1.37</b> |
| <b>Distribution to holders of redeemable units per unit:</b>  |             |               |             |             |             |
| Net interest income (excluding dividend)  | —           | 0.02          | —           | —           | —           |
| Net dividend income   | 0.05        | 0.25          | 0.21        | 0.09        | —           |
| Net investment income   | 0.05        | 0.27          | 0.21        | 0.09        | —           |
| Realized gains on sale of investments   | —           | 0.34          | —           | —           | 0.77        |
| <b>Total distribution to holders of redeemable units <sup>(3)</sup></b>                                   | <b>0.05</b> | <b>0.61</b>   | <b>0.21</b> | <b>0.09</b> | <b>0.77</b> |
| Net assets attributable to holders of redeemable units, end of year <sup>(4)</sup>                        | 28.61       | 23.67         | 24.28       | 22.21       | 18.85       |

## 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) <sup>(5)</sup> | 12,595 | 8,322 | 6,164 | 4,891 | 5,492 |
| Number of outstanding redeemable units (000's) <sup>(5)</sup>                           | 440    | 352   | 254   | 220   | 290   |
| Management expense ratio <sup>(6)</sup>   | 1.20%  | 1.21% | 1.19% | 1.19% | 1.21% |
| Management expense ratio before absorptions <sup>(6)</sup>                              | N/A    | N/A   | N/A   | N/A   | N/A   |
| Portfolio turnover rate <sup>(7)</sup>  | 23%    | 23%   | 19%   | 19%   | 21%   |
| Trading expense ratio (%) <sup>(8)</sup>  | 0.12%  | 0.06% | 0.09% | 0.11% | 0.06% |
| Net assets attributable to holders of redeemable units, end of year <sup>(9)</sup>      | 28.61  | 23.67 | 24.28 | 22.21 | 18.95 |

## 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 <sup>(1)</sup>         | 24.87       | 25.50       | 23.31       | 19.91       | 19.22       |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units:</b>                     |             |             |             |             |             |
| Total Interest Revenue  | —           | 0.11        | 0.04        | 0.04        | 0.02        |
| Total Dividend Revenue  | 0.38        | 0.45        | 0.44        | 0.36        | 0.27        |
| Total revenue   | 0.38        | 0.56        | 0.48        | 0.40        | 0.29        |
| Total expenses  | (0.06)      | (0.03)      | (0.04)      | (0.03)      | (0.03)      |
| Realized gains (losses) for the year  | 1.39        | 0.78        | 1.12        | (0.36)      | 0.80        |
| Unrealized gains (losses) for the year  | 3.74        | (0.92)      | 1.18        | 3.74        | 0.52        |
| <b>Total increase (decrease) in net assets attributable to holders of redeemable units <sup>(2)</sup></b> | <b>5.45</b> | <b>0.39</b> | <b>2.74</b> | <b>3.75</b> | <b>1.58</b> |
| <b>Distribution to holders of redeemable units per unit:</b>  |             |             |             |             |             |
| Net interest income (excluding dividend)  | —           | 0.03        | —           | —           | —           |
| Net dividend income   | 0.31        | 0.51        | 0.46        | 0.36        | 0.23        |
| Net investment income   | 0.31        | 0.54        | 0.46        | 0.36        | 0.23        |
| Realized gains on sale of investments   | —           | 0.37        | —           | —           | 0.82        |
| <b>Total distribution to holders of redeemable units <sup>(3)</sup></b>                                   | <b>0.31</b> | <b>0.91</b> | <b>0.46</b> | <b>0.36</b> | <b>1.05</b> |
| Net assets attributable to holders of redeemable units, end of year <sup>(4)</sup>                        | 30.12       | 24.87       | 25.50       | 23.31       | 19.80       |

## 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) <sup>(5)</sup> | 558,265 | 493,636 | 527,137 | 507,259 | 455,871 |
| Number of outstanding redeemable units (000's) <sup>(5)</sup>                           | 18,536  | 19,850  | 20,673  | 21,760  | 22,899  |
| Management expense ratio <sup>(6)</sup>   | 0.11%   | 0.11%   | 0.11%   | 0.11%   | 0.11%   |
| Management expense ratio before absorptions <sup>(6)</sup>                              | N/A     | N/A     | N/A     | N/A     | N/A     |
| Portfolio turnover rate <sup>(7)</sup>  | 23%     | 23%     | 19%     | 19%     | 21%     |
| Trading expense ratio (%) <sup>(8)</sup>  | 0.12%   | 0.06%   | 0.09%   | 0.11%   | 0.06%   |
| Net assets attributable to holders of redeemable units, end of year <sup>(9)</sup>      | 30.12   | 24.87   | 25.50   | 23.31   | 19.91   |

- (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:

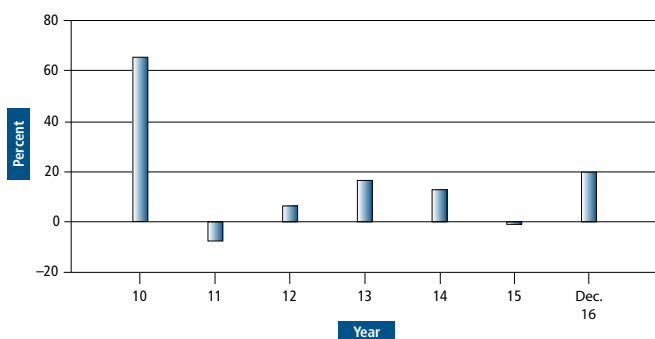
- are calculated as of **December 31** in each year;
- assume **all distributions** made by the Fund are **reinvested** to purchase additional redeemable units; and
- show the returns of the particular class of the Fund after any applicable management fees and operating expenses have been deducted, **but 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.**

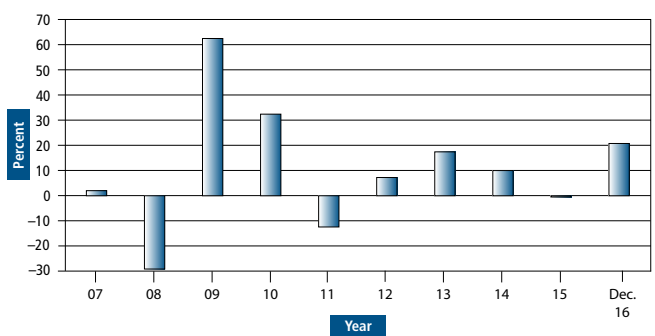


## Year-by-Year Returns

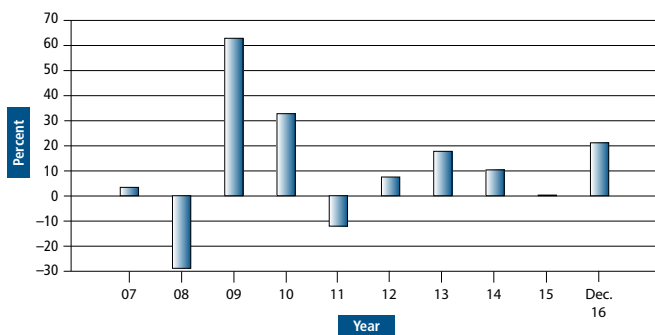
### Class B



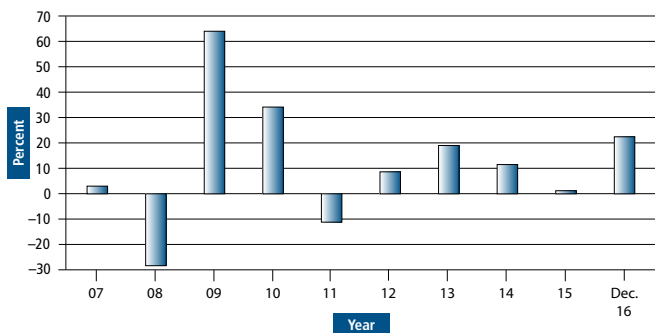
### Class D



### Class F



### Class I



## Annual Compound Returns

The following table shows the historical annual compound total returns, as compared to the performance of the BMO NBSC Index.\*

| Class B                                 | Since Inception | Past 5 Years | Past 3 Years | Past Year |
|---|-----------------|--------------|--------------|-----------|
| Beutel Goodman Small Cap Fund – Class B | 8.04%           | 9.91%        | 8.99%        | 19.76%    |
| BMO NBSC Index                          | 4.59%           | 5.19%        | 5.27%        | 35.39%    |

For Class B units, a return calculated since its inception of October 4, 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 Small Cap Fund – Class D | 8.55%         | 10.77%       | 9.84%        | 20.71%    |
| BMO NBSC Index                          | 3.86%         | 5.19%        | 5.27%        | 35.39%    |

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                                 | Past 10 Years | Past 5 Years | Past 3 Years | Past Year |
|---|---------------|--------------|--------------|-----------|
| Beutel Goodman Small Cap Fund – Class F | 8.94%         | 11.07%       | 10.15%       | 21.07%    |
| BMO NBSC Index                          | 3.86%         | 5.19%        | 5.27%        | 35.39%    |

For Class F units, a return calculated for the past ten, 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 Small Cap Fund – Class I | 9.92%         | 12.28%       | 11.36%       | 22.39%    |
| BMO NBSC Index                          | 3.86%         | 5.19%        | 5.27%        | 35.39%    |

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

\* The BMO NBSC Index is designed to represent the Canadian small cap equity market.

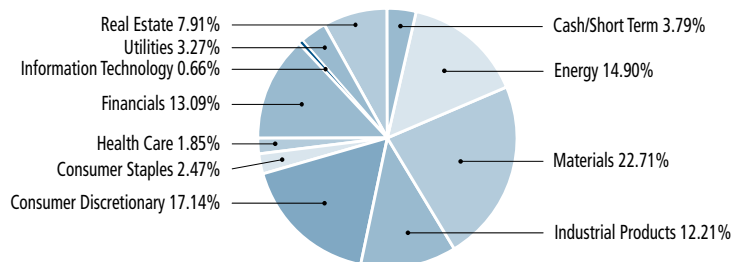
## Summary of Investment Portfolio

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](http://www.beutelgoodman.com).

### Summary of Top 25 Holdings

| Issuer Name  | % of Net Assets | Issuer Name                                 | Coupon Rate (%) | Maturity Date | % of Net Assets |
|--|-----------------|---|-----------------|---------------|-----------------|
| 1. CCL Industries Inc.                                     | 6.34            | 14. FirstService Corp.                      |                 |               | 2.77            |
| 2. Equitable Group Inc.                                    | 6.04            | 15. Maple Leaf Foods Inc.                   |                 |               | 2.46            |
| 3. Uni-Select Inc.   | 5.84            | 16. Major Drilling Group International Inc. |                 |               | 2.44            |
| 4. Linamar Corp.   | 5.44            | 17. Wajax Corp.                             |                 |               | 2.26            |
| 5. Colliers International Group Inc.                       | 5.12            | 18. NuVista Energy Ltd.                     |                 |               | 2.25            |
| 6. WestJet Airlines Ltd.                                   | 5.00            | 19. Lundin Mining Corp.                     |                 |               | 2.24            |
| 7. Industrial Alliance Insurance & Financial Services Inc. | 4.81            | 20. Canadian Western Bank                   |                 |               | 2.23            |
| 8. Paramount Resources Ltd.                                | 4.45            | 21. Government of Canada                    | 0.481%          | 9-Mar-17      | 2.18            |
| 9. Winpak Ltd.   | 3.93            | 22. Tahoe Resources Inc.                    |                 |               | 1.93            |
| 10. Quebecor Inc.  | 3.88            | 23. Intertape Polymer Group Inc.            |                 |               | 1.57            |
| 11. Alamos Gold Inc.                                       | 3.30            | 24. AG Growth International Inc.            |                 |               | 1.57            |
| 12. Superior Plus Corp.                                    | 3.27            | 25. Enerflex Ltd.                           |                 |               | 1.46            |
| 13. Birchcliff Energy Ltd.                                 | 2.88            |   |                 |               |                 |

### 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 Small Cap 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](http://www.beutelgoodman.com) or at the unitholder's request, at no cost, by contacting Beutel, Goodman & Company Ltd. at [mutualfunds@beutelgoodman.com](mailto:mutualfunds@beutelgoodman.com).

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