



Annual Management Report of Fund Performance

December 31, 2018

Beutel Goodman Income Fund

Beutel Goodman Income 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 contact us using one of these methods to request the investment fund's prospectus, proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

Certain portions of this report, including, but not limited to, "Results of Operations" and "Recent Developments", may contain forward-looking statements about the Fund, including its strategy, risks, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and other similar forward-looking expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement. Forward-looking statements are based on current expectations and forecasts about future events and are inherently subject to, among other things, risks, uncertainties and assumptions which could cause actual events, results, performance or prospects to be incorrect or to differ materially from those expressed in, or implied by, these forward-looking statements.

These risks, uncertainties and assumptions include, but are not limited to, general economic, political and market factors, domestic and international, interest and foreign exchange rates, equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events. This list of important factors is not exhaustive. Please consider these and other factors carefully before making any investment decisions and avoid placing undue reliance on forward-looking statements. The Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

Beutel Goodman Managed Funds

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Beutel Goodman Income Fund

Management Discussion of Fund Performance

Investment Objectives and Strategies

This Fund seeks to earn income by investing primarily in fixed income securities of Canadian government and corporate issuers.

To achieve its objectives, the Fund focuses on creating a high-quality portfolio diversified across Government of Canada, Provincial and corporate bonds, which will usually have a credit rating of BBB or higher by a recognized rating agency. The average minimum quality of the fixed income portfolio will be A.

Risk

There were no significant changes to the investment objectives or strategies that affected the Fund's overall level of risk during the year. The risks of investing in this Fund and the suitability of the Fund for investors remain as discussed in the Prospectus.

There were no changes to the Fund's risk rating during the reporting period.

Results of Operations

The Bank of Canada (BoC) hiked the overnight rate by 25 basis points three times in the January 1 to December 31, 2018 period, bringing the overnight rate to 1.75%. At the time of the last rate hike in October, the Bank sounded a fairly upbeat tone on the Canadian economy, noting the reduction in trade uncertainty after the USMCA (the U.S. – Mexico – Canada Agreement that replaced NAFTA) was secured will likely increase business investment, and that the Canadian economy was operating close to its potential with the composition of growth more balanced. Fast forward to the Bank's monetary policy release in December and all of the perceived hawkishness was removed. The BoC noted signs had emerged that trade conflicts are weighing more heavily on global demand and growth has slowed in major economies, with the exception of the U.S. For Canada, the major change was the sharp decline in oil prices, which could materially weaken activity in the energy sector. The BoC also cautioned that data suggests there was less momentum for the Canadian economy going into the fourth quarter than previously expected.

In the U.S., the Federal Reserve (Fed) also continued its monetary tightening in the period, hiking the federal funds rate by 25 basis points in each of the four quarters of 2018 to end the year at a target range of 2.25-2.5%, in line with market expectations. The Fed highlighted continued strength in the U.S. labour market and strongly rising economic activity, but noted in December that further increases would be data-dependent (i.e., consistent with sustained economic activity, strong labour market conditions, and inflation near the 2% symmetric target over the medium term). In his post-meeting press conference, Fed Chairman Jerome Powell warned growth is expected to moderate in 2019, and that tightening financial conditions and signs of weaker growth abroad had led members of the Federal Open Market Committee (FOMC) to mark down their inflation and growth projections. The Chair further said he believed the federal funds rate is currently at the bottom end of the estimates of neutral and that there is real uncertainty about the pace and destination of further rate increases.

For the 2018 period, the FTSE Canada Universe Bond Index increased by 1.41% on a total-return basis.

Against this backdrop, Beutel Goodman Income Fund underperformed the benchmark for the period. Unlike the index, the Fund's return is net of fees and expenses paid by the Fund. Please refer to the "Annual Compound Returns" in the Past Performance section for the returns of all classes of the Fund. A long tactical duration position in May and June helped add value for the year, as it captured downward movements in rates. Curve positioning detracted slightly, as the curve flattened over the period. Government and corporate security selection also contributed, as higher-quality securities outperformed riskier ones.

Relative to its stated investment objectives and strategies the Fund has maintained its quality and diversification standards.

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

Recent Developments

The normalization of rates by central banks and the withdrawal of extraordinary monetary policy stimulus have led interest rates on a steady march upwards. Central bank tightening has flattened the yield curve as moves in the administered rates are felt more in the short-end of the curve and the term premium remains compressed. The BoC and the Fed are united in that they are both data dependent, monitoring how consumers and businesses react to higher interest rates and waiting to see if inflation will increase with tight conditions in labour markets and economies that are operating at potential. With both central banks well into their tightening cycles, focus now shifts to when and possibly if they will reach the neutral rate, or r^* , the inflation-adjusted, short-term interest rate that is consistent with full use of economic resources and steady inflation. However this is proving to be a moving target. Both the BoC and the Fed expect to continue to tighten, whereas markets are pricing in chances of less than one hike for each bank for the year. Whichever party proves correct has ramifications for duration positioning and the shape of the yield curve.

Overall, we believe we are late in the economic cycle: central banks have moved short-term rates close to neutral rate levels, yield curves are flat and economic growth is slowing. We do not necessarily believe a recession is imminent; however, the Canadian economy is being strained by the low price of oil and slowing housing market. We are watching the broader impacts of housing and oil carefully.

Should yields rise near 2.5%, we will likely extend duration, concentrate the portfolio's weighting in bonds with medium-term maturities, and once again reduce credit exposure.

Beutel Goodman Income Fund

Related Party Transactions

Beutel, Goodman & Company Ltd. ("BG") is the Manager, Trustee and Portfolio Advisor to this Fund. The Fund pays a management fee to BG as compensation for its services. The Fund pays a fixed administration fee to BG, which in turn pays certain operating expenses of the Fund. BG as trustee of the Fund earns a fee which is paid by the Manager from the fixed administration fee paid by the 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 and the management and administrative fees as described above, as approved by the Independent Review Committee by standing instructions, and subject to regulatory requirements.

Management Fees: As Manager, BG is paid a management fee from each class of the 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 the Fund as set out in the table below. Management fees for Class I units are negotiated and paid directly by the investor, not by the Fund, and, therefore, are not listed.

	As a Percentage of Management Fees		
	Maximum Annual Management Fee Rate %	Dealer Compensation %	General Administration, Investment Advice and Profit %
Class B	1.00	50	50
Class D	0.70	16	84
Class F	0.50	0	100

Administration Fee: The Manager receives a fixed administration fee to pay 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. The administration fee may vary by class of units and by Fund.

BG, as trustee of the Fund, earns a fee which is paid by the Manager from the administration fee paid by the Fund.

Beutel Goodman Income Fund

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 per unit

Class B Units

(for the years ended December 31)

\$	2018	2017	2016	2015	2014
Net assets, beginning of year	9.48	9.47	9.62	9.74	9.47
Increase (decrease) from operations					
Total revenue	0.27	0.27	0.28	0.31	0.33
Total expenses	(0.11)	(0.11)	(0.12)	(0.12)	(0.12)
Realized gains (losses) for the year	(0.09)	(0.10)	0.11	0.08	(0.03)
Unrealized gains (losses) for the year	(0.04)	0.13	(0.17)	(0.18)	0.31
Total increase (decrease) from operations ⁽¹⁾	0.03	0.19	0.10	0.09	0.49
Distributions to unitholders per unit:					
From net investment income (excluding dividends)	0.14	0.14	0.17	0.19	0.19
From dividends	–	–	–	–	–
From capital gains	–	–	0.08	–	–
From return of capital	–	–	–	–	–
Total annual distributions ⁽²⁾	0.14	0.14	0.25	0.19	0.19
Net assets, end of year ⁽³⁾	9.38	9.48	9.47	9.62	9.74

Ratios and Supplemental Data

Class B Units

(for the years ended December 31)

	2018	2017	2016	2015	2014
Total net asset value (\$) (000's) ⁽⁴⁾	1,949	1,977	2,546	2,590	3,098
Number of outstanding units (000's) ⁽⁴⁾	208	209	269	269	318
Management expense ratio ⁽⁵⁾	1.19%	1.19%	1.19%	1.21%	1.19%
Management expense ratio before waivers or absorptions ⁽⁶⁾	N/A	N/A	N/A	N/A	N/A
Portfolio turnover rate ⁽⁷⁾	217%	297%	237%	117%	114%
Trading expense ratio (%) ⁽⁸⁾	–	–	–	–	–
Net asset value per unit, end of year	9.38	9.48	9.47	9.62	9.74

Financial Highlights per unit

Class D Units

(for the years ended December 31)

\$	2018	2017	2016	2015	2014
Net assets, beginning of year	11.85	11.85	12.03	12.18	11.85
Increase (decrease) from operations					
Total revenue	0.34	0.33	0.34	0.39	0.40
Total expenses	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
Realized gains (losses) for the year	(0.12)	(0.12)	0.15	0.10	(0.03)
Unrealized gains (losses) for the year	(0.06)	0.13	(0.20)	(0.23)	0.38
Total increase (decrease) from operations ⁽¹⁾	0.07	0.25	0.20	0.17	0.66
Distributions to unitholders per unit:					
From net investment income (excluding dividends)	0.22	0.23	0.26	0.29	0.30
From dividends	–	–	–	–	–
From capital gains	–	–	0.10	–	–
From return of capital	–	–	–	–	–
Total annual distributions ⁽²⁾	0.22	0.23	0.36	0.29	0.30
Net assets, end of year ⁽³⁾	11.73	11.85	11.85	12.03	12.18

Ratios and Supplemental Data

Class D Units

(for the years ended December 31)

	2018	2017	2016	2015	2014
Total net asset value (\$) (000's) ⁽⁴⁾	35,121	45,685	59,553	68,740	86,972
Number of outstanding units (000's) ⁽⁴⁾	2,994	3,855	5,027	5,713	7,139
Management expense ratio ⁽⁵⁾	0.78%	0.78%	0.78%	0.78%	0.76%
Management expense ratio before waivers or absorptions ⁽⁶⁾	0.89%	0.89%	N/A	N/A	N/A
Portfolio turnover rate ⁽⁷⁾	217%	297%	237%	117%	114%
Trading expense ratio (%) ⁽⁸⁾	–	–	–	–	–
Net asset value per unit, end of year	11.73	11.85	11.85	12.03	12.18

Beutel Goodman Income Fund

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 per unit

Class F Units

(for the years ended December 31)

\$	2018	2017	2016	2015	2014
Net assets, beginning of year	9.53	9.53	9.68	9.79	9.53
Increase (decrease) from operations					
Total revenue	0.27	0.26	0.29	0.31	0.31
Total expenses	(0.06)	(0.06)	(0.07)	(0.07)	(0.06)
Realized gains (losses) for the year	(0.09)	(0.10)	0.11	0.08	0.01
Unrealized gains (losses) for the year	(0.04)	0.11	(0.19)	(0.02)	0.30
Total increase (decrease) from operations ⁽¹⁾	0.08	0.21	0.14	0.30	0.56
Distributions to unitholders per unit:					
From net investment income (excluding dividends)	0.19	0.20	0.22	0.23	0.27
From dividends	–	–	–	–	–
From capital gains	–	–	0.08	–	–
From return of capital	–	–	–	–	–
Total annual distributions ⁽²⁾	0.19	0.20	0.30	0.23	0.27
Net assets, end of year ⁽³⁾	9.43	9.53	9.53	9.68	9.79

Ratios and Supplemental Data

Class F Units

(for the years ended December 31)

	2018	2017	2016	2015	2014
Total net asset value (\$) (000's) ⁽⁴⁾	2,974	3,303	4,756	4,547	14,819
Number of outstanding units (000's) ⁽⁴⁾	315	347	499	470	1,514
Management expense ratio ⁽⁵⁾	0.67%	0.67%	0.67%	0.67%	0.66%
Management expense ratio before waivers or absorptions ⁽⁶⁾	N/A	N/A	N/A	N/A	N/A
Portfolio turnover rate ⁽⁷⁾	217%	297%	237%	117%	114%
Trading expense ratio (%) ⁽⁸⁾	–	–	–	–	–
Net asset value per unit, end of year	9.43	9.53	9.53	9.68	9.79

Financial Highlights per unit

Class I Units

(for the years ended December 31)

\$	2018	2017	2016	2015	2014
Net assets, beginning of year	12.15	12.15	12.34	12.50	12.16
Increase (decrease) from operations					
Total revenue	0.34	0.35	0.37	0.40	0.40
Total expenses	–	(0.01)	(0.01)	(0.01)	(0.01)
Realized gains (losses) for the year	(0.10)	(0.12)	0.16	0.14	(0.02)
Unrealized gains (losses) for the year	(0.03)	0.12	(0.20)	(0.20)	0.37
Total increase (decrease) from operations ⁽¹⁾	0.21	0.34	0.32	0.33	0.74
Distributions to unitholders per unit:					
From net investment income (excluding dividends)	0.32	0.33	0.36	0.40	0.41
From dividends	–	–	–	–	–
From capital gains	–	–	0.11	–	–
From return of capital	–	–	–	–	–
Total annual distributions ⁽²⁾	0.32	0.33	0.47	0.40	0.41
Net assets, end of year ⁽³⁾	12.02	12.15	12.15	12.34	12.50

Ratios and Supplemental Data

Class I Units

(for the years ended December 31)

	2018	2017	2016	2015	2014
Total net asset value (\$) (000's) ⁽⁴⁾	1,009,262	749,167	634,143	876,317	2,014,281
Number of outstanding units (000's) ⁽⁴⁾	83,949	61,660	52,185	70,989	161,090
Management expense ratio ⁽⁵⁾	0.03%	0.04%	0.04%	0.04%	0.04%
Management expense ratio before waivers or absorptions ⁽⁶⁾	0.11%	0.11%	N/A	N/A	N/A
Portfolio turnover rate ⁽⁷⁾	217%	297%	237%	117%	114%
Trading expense ratio (%) ⁽⁸⁾	–	–	–	–	–
Net asset value per unit, end of year	12.02	12.15	12.15	12.34	12.50

Beutel Goodman Income Fund

- (1) Net asset value per unit and distributions to unitholders per unit are based on the actual number of units outstanding for the relevant class at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding for the relevant class over the fiscal year.
- (2) Distributions were paid in cash or automatically reinvested in additional units of the Fund.
- (3) This is not a reconciliation of the beginning and ending net assets per unit.
- (4) This information is provided as at year end of the year shown.
- (5) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average net asset value during the year.
- (6) The Manager may have waived or absorbed some of the fund expenses. If this had occurred, the management fee ratio before any such waiver or absorption is listed. The Manager may terminate the waiver or absorption at any time, at its discretion. It is not known when such waivers or absorptions will be terminated.
- (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 the costs of purchases and the proceeds of sales of portfolio securities for the year divided by the average value of the portfolio securities of the Fund calculated 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.

Past Performance

The performance returns below:

- are calculated as of **December 31** in each year;
- assume **all distributions** made by the Fund **are reinvested** to purchase additional 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 that would have reduced returns on performance.**

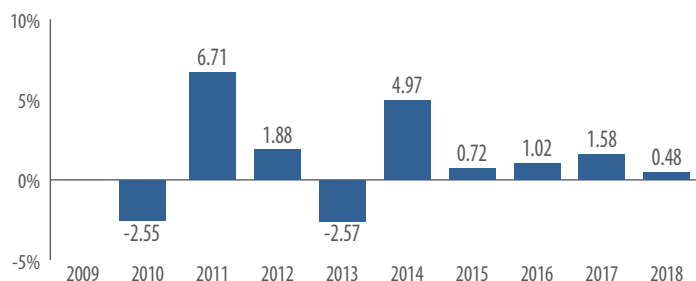
Please remember that the past performance of the Fund is not an accurate prediction of future returns.

Beutel Goodman Income Fund

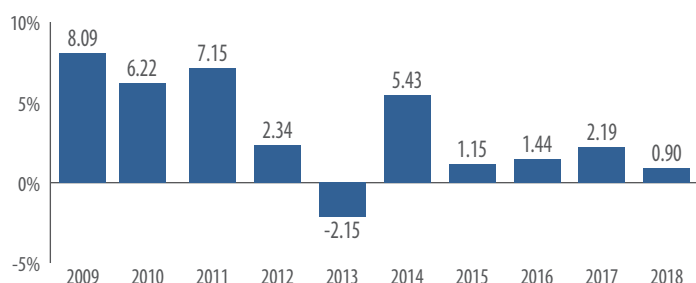
Year-by-Year Returns

The bar chart indicates the Fund's annual performance for each of the year's shown and illustrates how the Fund's performance has changed from year to year. The bar chart shows in percentage terms how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

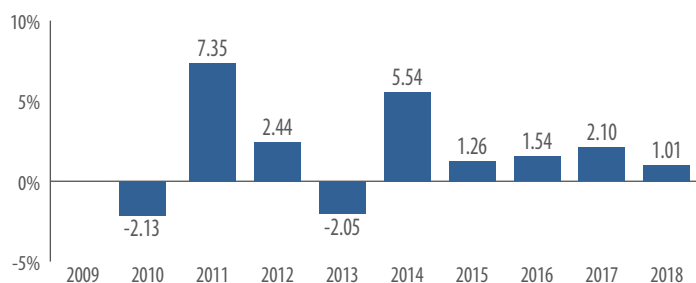
Class B



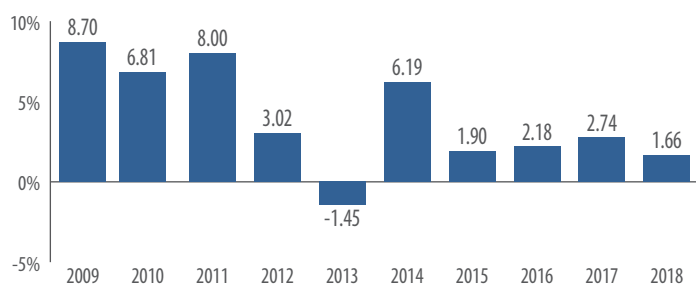
Class D



Class F



Class I



Annual Compound Returns

The following table shows the Fund's historical annual compound total returns for each of the periods indicated ended on December 31, 2018, as compared to the performance of the FTSE Canada Universe Bond Index.*

Class B

		Since Inception	10 Years	5 Years	3 Years	Past Year
Beutel Goodman Income Fund	%	1.72	–	1.74	1.03	0.48
FTSE Canada Universe Bond Index	%	3.49	–	3.54	1.86	1.41

Class B units have been available for sale to unitholders since September 27, 2010.

Class D

			10 Years	5 Years	3 Years	Past Year
Beutel Goodman Income Fund	%		3.21	2.17	1.44	0.90
FTSE Canada Universe Bond Index	%		4.16	3.54	1.86	1.41

Class F

		Since Inception	10 Years	5 Years	3 Years	Past Year
Beutel Goodman Income Fund	%	2.27	–	2.28	1.55	1.01
FTSE Canada Universe Bond Index	%	3.49	–	3.54	1.86	1.41

Class F units have been available for sale to unitholders since September 27, 2010.

Class I

			10 Years	5 Years	3 Years	Past Year
Beutel Goodman Income Fund	%		3.93	2.92	2.19	1.66
FTSE Canada Universe Bond Index	%		4.16	3.54	1.86	1.41

* The FTSE Canada Universe Bond Index is designed to reflect the Canadian bond market.

A discussion of the relative performance of the Fund is under the Results of Operations section of this report.

Beutel Goodman Income Fund

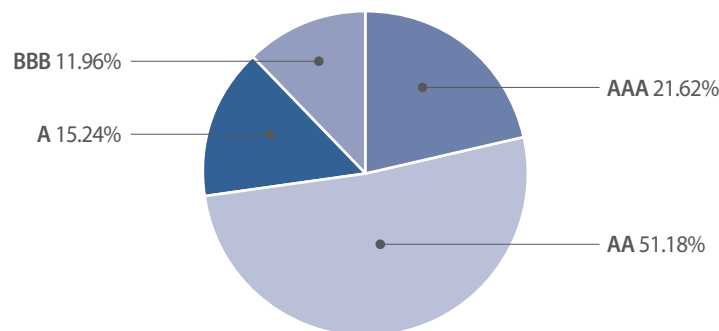
Summary of Investment Portfolio

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.

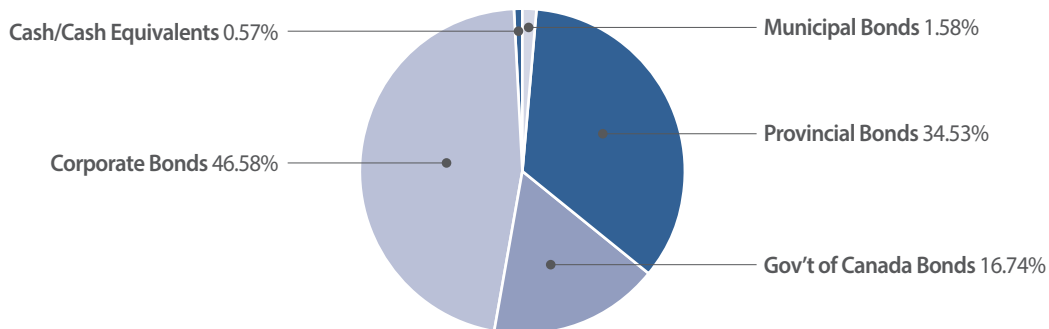
Summary of Top 25 Holdings

Issuer Name	Coupon Rate (%)	Maturity Date	% of Net Assets	Issuer Name	Coupon Rate (%)	Maturity Date	% of Net Assets
1. Canadian Government Bond	2.750	1-Dec-48	6.51	14. The Toronto-Dominion Bank	2.692	24-Jun-25	1.98
2. Province of Ontario	2.600	2-Jun-25	4.33	15. Royal Bank of Canada	3.296	26-Sep-23	1.89
3. Province of Alberta	2.900	1-Dec-28	3.20	16. Canadian Government Bond	2.000	1-Jun-28	1.81
4. Province of Quebec	2.750	1-Sep-28	3.05	17. Canadian Imperial Bank of Commerce	2.040	21-Mar-22	1.73
5. The Toronto-Dominion Bank	2.045	8-Mar-21	2.97	18. Canadian Government Bond	1.250	1-Feb-20	1.68
6. Province of Ontario	2.900	2-Jun-28	2.74	19. Province of Alberta	2.350	1-Jun-25	1.68
7. Bank of Nova Scotia	2.270	13-Jan-20	2.69	20. Canadian Government Real Return Bond	6.858	1-Dec-21	1.64
8. Province of British Columbia	2.950	18-Dec-28	2.54	21. Province of Ontario	2.600	8-Sep-23	1.60
9. Royal Bank of Canada	2.030	15-Mar-21	2.49	22. Canadian Imperial Bank of Commerce	1.900	26-Apr-21	1.54
10. Province of Ontario	2.900	2-Jun-49	2.20	23. Province of Ontario	2.800	2-Jun-48	1.50
11. Bank of Montreal	2.100	6-Oct-20	2.10	24. Province of Quebec	5.000	1-Dec-41	1.47
12. Bank of Montreal	1.610	28-Oct-21	2.10	25. Canadian Mortgage Pools	1.620	1-Mar-22	1.44
13. Province of Quebec	3.500	1-Dec-48	2.08				

Bond Quality



Asset Mix





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