



RBC Global
Asset Management

RBC FUNDS

Annual Information Form

December 19, 2011

Series 0 units

Fixed-Income Funds

Phillips, Hager & North Total Return Bond Trust

RBC High Yield Bond Trust

No securities regulatory authority has expressed an opinion about these units and it is an offence to claim otherwise.

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Name, formation and history of the funds

This annual information form contains information about the RBC Funds listed on the cover page. There are other RBC Funds, which are offered under separate simplified prospectuses and annual information forms. In this document:

- › *we, us* and *our* refer to RBC Global Asset Management Inc. (*RBC GAM*); and
- › *fund* or *funds* refers to the funds or series of the funds listed on the front cover.

The principal address of each of the funds is c/o RBC Global Asset Management Inc., 155 Wellington Street West, Suite 2200, Toronto, Ontario, M5V 3K7.

RBC GAM is the manager, trustee, portfolio advisor and principal distributor of each of the funds. RBC GAM was formed upon the amalgamation of Phillips, Hager & North Investment Management Ltd. (*PH&N*) and its affiliate, RBC Asset Management Inc., effective November 1, 2010. RBC GAM is the primary investment manager for the RBC® businesses serving the needs of private clients, including the funds, other RBC Funds and PH&N Funds. See *Responsibility for operations of the funds* on page 12. RBC GAM and RBC Dominion Securities Inc. (*RBC DS*) are both wholly-owned subsidiaries of Royal Bank of Canada (*Royal Bank*). We refer to Royal Bank and affiliated companies of Royal Bank as RBC.

Each fund is divided into Series O units of participation (*units*) representing interests in that fund held by unitholders (*unitholders*).

All dollar amounts in this document are in Canadian dollars, unless we state otherwise.

Each fund is an open-ended mutual fund organized as a trust governed by the laws of Ontario and governed by a master declaration of trust dated as of June 29, 2011 (*Declaration of Trust*) signed by RBC GAM as trustee of the funds and a regulation in respect of each fund.

Each fund was established on December 7, 2011.

Investment practices and restrictions

Investments

Each fund is designed to meet the investment objectives of different investors. Please refer to the simplified prospectus of the funds for a description of the investment objective of each fund.

The fundamental investment objective of a fund may not be changed without the consent of a majority of voting unitholders of the fund. The trustee can make other changes to the investment strategies and activities of a fund without the consent of unitholders, subject to any required approval of the Canadian securities regulators and/or the Board of Governors in its role as the independent review committee of the fund.

Investments in derivative instruments

The funds may use derivatives as permitted by the Canadian securities regulators for hedging or non-hedging purposes. The risk factors associated with the use of derivatives are disclosed in the simplified prospectus of the funds.

RBC GAM is responsible for managing the risks associated with the use of derivatives. RBC GAM has written guidelines that set out the objectives and goals for derivatives trading, which are established and reviewed annually by the board of directors of RBC GAM. In addition, RBC GAM has written control policies and procedures in place that set out the risk management procedures applicable to derivatives trading. These policies and procedures set out specific procedures for the authorization,

documentation, reporting, monitoring and review of derivative strategies ensuring that these functions are performed by individuals independent of those who trade. Limits and controls on derivatives trading are part of RBC GAM's compliance regime. All derivatives transactions are reviewed by a specially trained team that ensures that the derivative positions of the funds are within the existing control policies and procedures. As the use of derivatives by the funds is limited, RBC GAM does not currently conduct simulations to test the portfolio under stress conditions. Derivative strategies are regularly monitored by RBC GAM management and reviewed by the Financial Advisory Committee of the Board of Governors of the funds on an annual basis. See *Corporate governance of the funds* on page 18. Compliance with these policies and procedures is monitored periodically by internal auditors of Royal Bank.

Securities lending transactions, repurchase agreements and reverse repurchase agreements

The funds may enter into securities lending arrangements and repurchase and reverse repurchase transactions in accordance with the rules of the Canadian Securities Administrators.

Pursuant to an agency agreement, RBC GAM has appointed RBC Dexia Investor Services Trust to act as the agent of RBC GAM and the funds and to enter into securities lending transactions, repurchase agreements and reverse repurchase agreements on behalf of the funds. The agency agreement provides for the types of transactions that may be entered into by a fund, the types of portfolio assets of the funds that may be used, collateral requirements, limits on transaction sizes, permitted counterparties to the transactions and investment of any cash collateral. The agent will:

- › ensure that collateral is provided in the form of cash, qualified securities or securities that can be converted into the securities which are the subject of the securities lending, repurchase or reverse repurchase transactions;
- › value the loaned or purchased securities and the collateral every day to ensure that the collateral is worth at least 102 per cent of the value of the securities;
- › invest any cash collateral in accordance with the investment restrictions specified in the agency agreement;
- › invest no more than 50 per cent of the total assets of a fund in securities lending or repurchase transactions at any one time; and
- › assess the creditworthiness of the counterparties to securities lending, repurchase and reverse repurchase transactions.

The securities lending transactions of a fund may be terminated by the fund at any time. Repurchase agreements or reverse repurchase agreements of the funds will have a maximum term of 30 days.

RBC GAM and RBC Dexia Investor Services Trust review the agency agreement and the securities lending, repurchase and reverse repurchase arrangements annually to ensure that they comply with Canadian securities regulations and the fund governance policies as described above.

The risk factors associated with securities lending, repurchase and reverse repurchase transactions are disclosed in the simplified prospectus of the funds. RBC GAM is responsible for managing the risks associated with securities lending, repurchase and reverse repurchase transactions. RBC GAM has written guidelines that set out the objectives and goals with respect to securities lending arrangements, repurchase transactions and reverse repurchase transactions which are established and reviewed annually by the board of directors of RBC GAM. RBC GAM has written control policies and procedures in place that set out the risk management practices applicable to securities lending, repurchase and reverse repurchase transactions. As the use of securities lending, repurchase and reverse repurchase transactions by the funds is limited, RBC GAM does not currently conduct simulations to test the portfolio under stress conditions. Any securities lending arrangements and repurchase and reverse repurchase agreements are monitored regularly by RBC GAM management and reviewed by the Financial Advisory Committee of the Board of Governors of the funds on an annual basis. See *Corporate governance of the funds* on page 18. Internal auditors of Royal Bank monitor compliance with these policies and procedures periodically.

Investment restrictions

Subject to the exceptions described below, we manage each of the funds in accordance with the standard mutual fund investment restrictions and practices (*the restrictions*) contained in securities legislation, including National Instrument 81-102 – Mutual Funds (*NI 81-102*) and National Instrument 81-107 – Independent Review Committee for Investment Funds (*NI 81-107*). The restrictions are designed in part to ensure that the investments of the funds are diversified and relatively liquid and to ensure the proper administration of the funds. The exceptions applicable to all funds described below may only be relied upon by a fund where consistent with the investment objectives of the fund.

Related issuer securities

Generally, the restrictions prevent a fund from purchasing the securities of a related issuer. A fund is permitted, however, to purchase the securities of a related issuer if the purchase is made on an exchange on which the securities are listed and traded. This means a fund can purchase, for example, listed common and preferred shares. RBC GAM has received relief which permits a fund to purchase debt securities of a related issuer, provided that:

- (i) the purchase occurs in the secondary market;
- (ii) the debt security has an approved credit rating by an approved credit rating organization;
- (iii) the price payable is not more than the ask price of the security determined as follows:
 - (A) if the purchase occurs on a marketplace, in accordance with the requirements of the marketplace;
 - (B) if the purchase does not occur on a marketplace,
 - (1) the price at which an independent seller is willing to sell; or
 - (2) not more than the price quoted publicly by an independent marketplace or obtained from an independent party.

RBC GAM has also received relief which permits a fund to purchase debt securities of a related issuer (other than asset-backed securities), with a term to maturity of 365 days or more, offered in the primary market (i.e. from the issuer) (*an offering*), provided that:

- (i) the size of the offering is at least \$100 million;
- (ii) at least two arm's-length purchasers collectively purchase at least 20 per cent of the securities issued in the offering;
- (iii) following the purchase, the fund does not have more than five per cent of its net assets invested in the debt securities of the issuer;
- (iv) following the purchase, the fund and related mutual funds for which RBC GAM acts as portfolio advisor and/or manager collectively do not hold more than 20 per cent of the securities issued in the offering; and
- (v) the purchase price is no more than the lowest price paid by any arm's-length purchaser.

Principal trading

Generally, the restrictions prevent a fund from purchasing securities from or selling securities to a related party acting as principal. A fund is, however, permitted to engage in such transactions if the bid and ask price are reported by any public quotation. A fund is also permitted to purchase debt securities from or sell debt securities to another fund, subject to certain conditions in NI 81-102 and NI 81-107. RBC GAM has received relief which permits a fund to purchase debt securities from or sell debt securities to a related party that is a principal dealer in the Canadian debt securities market, provided that:

- (i) the transaction occurs in the secondary market;
- (ii) the bid and ask price of the security must be determined by reference to a quote from an independent party if not publicly available;
- (iii) a purchase must not be executed at a price higher than the ask price and a sale must not be executed at a price which is lower than the bid price.

Related party underwriting

Generally, a fund is prohibited from investing in securities in respect of which a related party has acted as underwriter during the distribution and for 60 days thereafter. A fund is, however, permitted to purchase debt and equity securities in respect of which a related party has acted as underwriter if certain conditions in NI 81-102 are met, including, in respect of equity securities, that a prospectus is filed in respect of the securities. RBC GAM has received relief which permits a fund to purchase equity securities where a prospectus has not been filed, provided that:

- (i) the issuer is a reporting issuer in Canada;
- (ii) the conditions which apply to purchases where a prospectus has been filed are complied with.

RBC GAM has obtained relief which permits a fund to purchase equity securities distributed in the United States provided that:

- (i) any related party that is involved in the distribution is regulated in respect of its underwriting activities in Canada or the United States;
- (ii) the securities issued in the distribution must be listed on a recognized exchange and if the securities are acquired during the 60-day period after the distribution they are acquired on a recognized exchange; and
- (iii) the conditions which apply to the purchase of equity securities distributed in Canada in respect of which a related party has acted as underwriter are complied with.

RBC GAM has obtained relief which permits a fund to purchase debt securities (other than asset-backed commercial paper) in respect of which a related party has acted as underwriter notwithstanding that the debt securities do not have an approved rating by an approved credit rating organization, provided that:

- (i) if the securities are acquired in a distribution,
 - (A) at least one underwriter acting as underwriter in the distribution is not a related dealer;
 - (B) at least one purchaser who is independent and arm's-length to the fund and the related dealer must purchase at least five per cent of the securities distributed under the distribution;
 - (C) the price paid for the securities by the fund in the distribution shall be no higher than the lowest price paid by any of the arm's-length purchasers who participate in the distribution; and
 - (D) the fund and any related funds for which RBC GAM or its affiliate or associate acts as manager and/or portfolio advisor can collectively acquire no more than 20 per cent of the securities distributed under the distribution in which a related dealer acts as underwriter;
- (ii) if the securities are acquired in the 60-day period,
 - (A) the ask price of the securities is readily available as provided in Commentary 7 to section 6.1 of NI 81-107;
 - (B) the price paid for the securities by a fund is not higher than the available ask price of the security; and
 - (C) the purchase is subject to market integrity requirements as defined in NI 81-107.

Inter-fund trades

Under NI 81-102 and NI 81-107, the funds are permitted to engage in certain inter-fund trades subject to certain conditions, including that the inter-fund trade be executed at the "current market price" of the security. RBC GAM has received relief which permits a fund to engage in inter-fund trades, if the security is an exchange-traded security or a foreign exchange-traded security, executed at the last sale price, immediately before the trade is executed, on the exchange upon which the security is listed or quoted.

Pursuant to exemptive relief obtained on behalf of the funds, each fund is permitted to engage in certain trades of portfolio securities, including mortgages, with investment funds that are not subject to NI 81-107 and with discretionary accounts managed by RBC GAM or related parties, subject to complying with similar conditions as those set out in NI 81-107, as well as additional terms and conditions that apply to mortgage transactions, including valuation requirements.

Board of Governors review

Appropriate records of the transactions described above (referred to, collectively, as *Related Party Trading Activities*) must be maintained and, in certain cases, particulars must be filed with the securities regulatory authorities. In addition, the Board of Governors, in its role as the independent review committee of a fund, must approve the policies and procedures of RBC GAM in respect of Related Party Trading Activities and the Board of Governors and RBC GAM must act in accordance with the requirements of NI 81-107 in respect of standing instructions and reporting to securities regulatory authorities.

The Board of Governors of the funds has approved standing instructions in respect of Related Party Trading Activities. In accordance with the conditions of the applicable standing instructions of the Board of Governors, the Board of Governors reviews Related Party Trading Activities at least quarterly with the exception of the principal trading activities, which are reviewed at least annually. In its review, the Board of Governors considers whether investment decisions in respect of Related Party Trading Activities:

- › were made by RBC GAM in the best interests of the fund and were free from any influence of Royal Bank and without taking into account any consideration relevant to Royal Bank or its associates or affiliates;
- › were in compliance with the conditions of the policies and procedures of RBC GAM;
- › were in compliance with the applicable standing instructions of the Board of Governors; and
- › achieved a fair and reasonable result for the fund.

The Board of Governors must advise the securities regulatory authorities if it determines that an investment decision in respect of Related Party Trading Activities was not made in accordance with the foregoing requirements.

Additional information about the members of the Board of Governors is disclosed under the heading *Corporate governance of the funds – Board of Governors* on page 19.

Derivative transactions

The funds have received an exemption from the securities regulatory authorities to extend the category of investments that constitute cash cover for specified derivatives entered into by the funds to include certain liquid fixed-income securities that have a remaining term to maturity of 365 days or less, floating rate securities that have an interest rate reset no later than every 185 days and securities of the RBC money market funds.

The funds have received from the securities regulatory authorities an exemption from certain of the derivatives rules in NI 81-102, which allows the funds, when they use derivative instruments as described under *Investments in derivative instruments* on page 2, to:

- › enter into interest rate swaps, credit default swaps and currency forwards with a remaining term to maturity of greater than three years; and
- › use as cover when a fund has a long position in a debt-like security that has a component that is a long position in a forward contract or in a standardized futures or forward contract or when a fund has a right to receive payments under a swap:
 - (i) cash cover in an amount that, together with margin on account for the specified derivative and the market value of the specified derivative, is not less than, on a daily mark-to-market basis, the underlying market exposure of the specified derivative;

- (ii) a right or obligation to sell an equivalent quantity of the underlying interest of the futures or forward contract, and cash cover that, together with margin on account for the position, is not less than the amount, if any, by which the strike price of the futures or forward contract exceeds the strike price of the right or obligation to sell the underlying interest;
- (iii) a right or obligation to enter into an offsetting swap on an equivalent quantity and with an equivalent term and cash cover that, together with margin on account for the position is not less than the aggregate amount, if any, of the obligations of the fund under the swap less the obligations of the fund under such offsetting swap; or
- (iv) a combination of the positions referred to in subparagraphs (i) and (ii) for debt-like securities with a long position in a forward or in a standardized futures or forward contract or of the positions referred to in subparagraphs (i) and (iii) in the case of a swap, that is sufficient, without recourse to other assets of the fund, to enable the fund to acquire the underlying interest of the futures or forward contract or satisfy its obligations under the swap.

Tax status

Units of the funds will **not** be qualified investments for trusts governed by registered plans or tax-free savings accounts (*TFSA*s). See *Income tax considerations – Eligibility for registered plans and TFSA*s on page 23.

Description of units of the funds

Each fund is divided into Series O units and such series of units is divided into units of participation of equal value. Series O units are only available to institutional investors who make the required minimum investment and minimum subsequent investment, as determined by RBC GAM from time to time. No management fees are payable directly by a fund in respect of Series O units. Unitholders of Series O units pay a negotiated fee directly to RBC GAM. Each fund is authorized to issue an unlimited number of Series O units. All Series O units of a fund have equal rights and privileges. The interest of each unitholder in a fund is shown by how many units are registered in the name of such unitholder. No Series O unit of a fund has any preference or priority over another Series O unit of the fund.

No unitholder owns any asset of a fund. Unitholders have only those rights mentioned in this annual information form, the simplified prospectus and in the Declaration of Trust and the regulation of the fund.

Units of each of the funds have the following attributes:

1. the units have distribution rights;
2. the units have no voting rights except as described below; as the funds are trusts, there are no annual unitholders' meetings;
3. on the termination of a fund, the assets of the fund will be distributed and all units in the fund will share in the value of the fund;
4. the units have redemption rights;
5. there are no conversion rights, except in limited circumstances;
6. there are no pre-emptive rights;
7. the units of a fund cannot be transferred, except in limited circumstances;
8. there is no liability for further calls or assessments;
9. the units of a fund may be sub-divided or consolidated by the trustee without notice to unitholders of the fund; and
10. subject to the unitholder approval and notice requirements described below, these attributes may be amended from time to time by RBC GAM, as trustee of the funds.

Please see *Meeting of unitholders* below for a description of your voting rights as a mutual fund unitholder.

Meeting of unitholders

Unless the funds receive an exemption from the Canadian securities regulatory authorities, the following changes cannot be made to a fund unless a majority of voting unitholders of the fund approve of them:

1. a change in the manager of the fund (other than to an affiliate of RBC GAM);
2. a change in the trustee of the fund (other than to an affiliate of RBC GAM);
3. a change in the fundamental investment objectives of the fund;
4. in certain cases, if the fund undertakes a reorganization with, or transfer of its assets to, another mutual fund or acquires another mutual fund's assets; and
5. if the unit value of the fund will be calculated less often.

At any meeting of unitholders of a fund, each unitholder will be entitled to one vote for each whole unit registered in the unitholder's name.

In certain circumstances, a fund's reorganization with, or transfer of assets to, another mutual fund may be carried out without the prior approval of the unitholders of the fund provided that the Board of Governors approves the transaction pursuant to NI 81-107, the reorganization or transfer complies with certain requirements of NI 81-102 and NI 81-107, as applicable, and unitholders of the fund are sent a written notice at least 60 days before the effective date of the change.

The auditor of a fund may be changed without the prior approval of the unitholders of the fund provided that the Board of Governors approves the change and unitholders of the fund are sent a written notice at least 60 days before the effective date of the change.

Unitholders will be given 60 days' notice of any amendment to the Declaration of Trust or regulation, except the Declaration of Trust may be amended without approval of, or notice to, unitholders of the funds, if the proposed amendment:

- › is not expected to materially adversely affect the interests of unitholders;
- › is intended to ensure compliance with applicable laws, regulations or policies;
- › is intended to provide additional protection to unitholders;
- › is intended to remove conflicts or inconsistencies or to correct typographical, clerical or other errors; or
- › is intended to facilitate the administration of a fund or to respond to amendments to the *Income Tax Act* (Canada) which might otherwise adversely affect the interests of the fund or its unitholders.

Because no sales charges and no redemption fees apply to Series O units of the funds, a meeting of unitholders of that series is not required to be held to approve the introduction of a fee or expense that could result in an increase in charges to that series or unitholders of that series, or any changes in the basis of calculation of a fee or expense that is charged to that series in a way that could result in an increase in charges to that series or unitholders of that series. Any such changes will only be made if notice is mailed to the applicable unitholders at least 60 days prior to the valuation date on which the increase is to take effect. The Board of Governors must review and provide a recommendation with regard to any proposed increase in the management fees or administration fees of a fund.

Copies of the simplified prospectus and financial statements of an underlying fund will be delivered to unitholders of a fund at no cost by calling us at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French).

Calculation of unit value

You buy or redeem units of a fund at the net asset value per unit for the series of the fund (*unit value*). The issue or redemption price of units of a series of a fund is the next unit value of that series of the fund determined after the receipt of the purchase or redemption order. The unit value of a series of a fund is determined on each valuation date after the Toronto Stock Exchange (*TSX*) closes or at such other time that the trustee of the funds decides (*valuation time*). The valuation date for a fund is any day when RBC GAM's office in Toronto is open for business.

Here is how we calculate the unit value of a series of a fund:

- › We take the fair value of all the investments and other assets allocated to the series.
- › We subtract the liabilities allocated to the series. This gives us the net asset value for the series.
- › We divide this amount by the total number of units of the series that investors in the fund are holding. That gives us the unit value for the series.

To determine what your investment in a fund is worth, simply multiply the unit value of the series you own by the number of units you own.

Valuation of securities held by a fund

The value of any security or property held by a fund or any of its liabilities will be determined in the following way:

- › Cash, bills, demand notes, accounts receivable, prepaid expenses, cash dividends received or receivable, distributions receivable and interest accrued and not yet received, will be valued at their full amount unless RBC GAM has determined that the cash or other asset is not worth that amount. RBC GAM will then determine a reasonable value.
- › Securities quoted in foreign currencies are translated to Canadian dollars using the prevailing rate of exchange as quoted by customary banking sources on the valuation date.
- › If the unit value of a fund is also expressed in a foreign currency, the value in foreign currency is determined by using the prevailing rate of exchange as quoted by customary banking sources on the valuation day.
- › Both funds value bonds, debentures and other obligations by taking the average of the latest available bid and ask quotations on the valuation date. Notes and money market instruments are valued at their current market value on the valuation date. RBC GAM may determine this value based on the cost of the investments, which approximates market value after taking into account accrued interest which is recorded separately from the investment. If short-term instruments are sold, the difference between the cost and the proceeds (less income previously credited for such security) will be recorded as income not capital.
- › The value of any security which is listed or dealt in any stock exchange or exchanges is generally determined by taking its latest available sale price of a board lot on the principal stock exchange on which it is listed. However, the following exceptions apply:
 - where RBC GAM is lacking any such sales or records, or if the last such sale is not within the latest available bid and ask quotations on the valuation date, RBC GAM will have the discretion to determine the fair value of the listed security based on market quotations RBC GAM believes most closely reflect the fair value of the investment;
 - in calculating the value of inter-listed investments, RBC GAM may permit over-the-counter (*OTC*) rather than stock exchange quotations to be used when they appear to reflect more closely the fair value of any particular investment; but if such stock exchange or *OTC* quotations do not properly reflect the prices which would be received by the fund upon the disposal of such investments, RBC GAM may place values upon such investments which appear to it to reflect most closely the fair value of such investments; and
 - in calculating the value of foreign securities listed or dealt in exchanges outside North America, RBC GAM will place values upon such securities which appear to reflect most closely the fair value of such securities.

- › Long positions in clearing corporation options, options on futures, OTC options, debt-like securities and listed warrants shall be valued at their current market value.
- › Where a covered clearing corporation option, option on futures or OTC option is written, the premium received by a fund shall be reflected as a deferred credit which shall be valued at an amount equal to the current market value of the clearing corporation option, option on futures or OTC option that would have the effect of closing the position. Any differences resulting from the revaluation will be treated as an unrealized gain or loss on investment. The deferred credit will be deducted in arriving at the net asset value of the fund. The securities, if any, which are the subject of a written clearing corporation option or OTC option will be valued at their current market value.
- › The value of a futures contract, forward contract or swap will be the gain or loss that would be realized if, on the valuation date, the position in the futures contract, forward contract or swap, as the case may be, were to be closed out unless *daily limits* are in effect, in which case fair value, based on the current market value of the underlying interest, shall be determined by RBC GAM.
- › Margin paid or deposited in respect of futures contracts and forward contracts will be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin.
- › The value of any security which is not listed or dealt in upon any stock exchange is determined at the most recently available sale price on a valuation date, or if such sale price is not available, at a sale price determined by RBC GAM, based on relevant market and/or company data that RBC GAM believes most closely reflects the fair value of the investment.
- › In this annual information form, unless otherwise indicated, *current market value* means the most recently available sale price applicable to the relevant security on the principal exchange on which it is traded immediately preceding the valuation time on the valuation date, provided that, if no sale has taken place on a valuation date, the average of the bid and ask quotations immediately prior to the valuation time on the valuation date shall be used.
- › Units of the various underlying funds that are managed by RBC GAM will be valued at their respective unit values on the relevant valuation date.
- › If a valuation date of a fund is not a business day for a specific market, the prices or quotations of the prior business day will be used to value any asset or liability for such market.
- › If the valuation principles described above are not appropriate, RBC GAM will determine a value which it considers to be fair and reasonable. For example, on November 26, 2009, RBC GAM could not apply the valuation principles described above with respect to U.S. equity securities due to market volatility. At that time, it used a value which it considered to be fair and reasonable for such securities.

In accordance with National Instrument 81-106 – Investment Fund Continuous Disclosure, the fair value of the securities used to determine the net asset value per unit of a series (*Pricing NAV*) will be based on the funds' valuation rules set out above, which may not be the same as the Canadian GAAP requirements. For example, Canadian GAAP requires that the fair value of actively traded securities held by a fund should be valued at the bid price, instead of the close price or last sale price of the securities for the day. Hence, the reported value of securities held by a fund in the annual and interim financial statements may be different from the fair value of the securities used to determine Pricing NAV. The financial statements of the funds will disclose the Pricing NAV for a series.

Copies of the simplified prospectus and financial statements of an underlying fund will be delivered to unitholders of a fund at no cost by calling us at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French).

Purchases, switches and redemptions of units

How to buy, redeem and switch

Series O units are only available to institutional investors who make the required minimum investment and minimum subsequent investment, as determined by RBC GAM from time to time. No management fees are payable directly by the fund in respect of Series O units. Unitholders of Series O units pay a negotiated fee directly to RBC GAM.

If your balance falls below the minimum required balance for a fund, or you otherwise become ineligible to hold a fund, we may redeem your units. Where a unitholder is or becomes a citizen or resident of the United States or a resident of any other foreign country, we may require such unitholder to redeem their units if their participation has the potential to cause adverse regulatory or tax consequences for a fund or other unitholders of a fund. If we redeem your units, the effect will be the same as if you initiated the transaction.

For us to act on an order to buy, redeem or switch units, the branch, telephone salesperson or dealer must send the order to us on the same day it is received and assume all associated costs.

If we receive your order before 4:00 p.m. Eastern time, your order will be processed using that day's unit value. If we receive your order after 4:00 p.m. Eastern time, your order will be processed using the next business day's unit value. If we determine that the unit value will be calculated at a time other than after the usual closing time of the TSX, the unit value paid or received will be determined relative to that time. All orders are processed within three business days. A dealer may establish earlier cut-off times. Check with your dealer for details.

Within three business days after a purchase order is received, the trustee will issue the units, subject to its right of rejection, at the unit value of the series on the date that the purchase order was received. Units may be issued only for cash.

RBC GAM may accept or reject purchase orders, in whole or in part, within one business day of the order. If a purchase order is rejected, the monies received with the order will be returned to the investor immediately.

Your dealer may make arrangements with you that will require you to compensate your dealer for any losses suffered by the dealer in connection with a failed purchase order caused by you.

Switches of units

A switch is the exchange of units of one mutual fund for units of another. You can switch units from one RBC Fund to another as long as you maintain the relevant minimum balance in each RBC Fund.

You can only switch between units of RBC Funds denominated in the same currency. See *Purchases, switches and redemptions – How to buy, redeem and switch* in the simplified prospectus for the funds.

Once we receive your order to switch, we will sell your units in the fund from which you are switching as described below under *Redemptions* and use the proceeds to buy units of the RBC Fund to which you are switching.

If a unitholder requests a switch from a fund to another RBC Fund, the purchase of units of the RBC Fund will be at the unit value of the series of units on the date of redemption from the fund.

Switching may result in a gain or loss for tax purposes. See *Income tax considerations* on page 21.

Redemptions

You can sell units at any time. This is called a redemption. Your dealer must send your redemption request on the same day it is received. Redemption requests will be processed in the order in which they are received. The fund will not process redemption requests specifying a forward date or specific price. Your dealer will assume all associated costs.

Redemption requests for the funds must be for an amount of at least \$25 (unless the account balance is less than \$25).

Within three business days following each valuation date, we will pay to each unitholder who has requested a redemption the value of the units determined on the valuation date. If all of a unitholder's units in a fund are redeemed, any net income and net realized capital gains relating to the units which have been made payable prior to the valuation date will also be paid to the unitholder. If a unitholder redeems only some of its units in a fund, the proceeds will be paid as described above and net income and net realized capital gains attributable to the units will be paid to the unitholder in accordance with the fund's distribution policy, as described in the fund's simplified prospectus. Payments will be considered made upon deposit of the redemption proceeds in the unitholder's bank account or the mailing of a cheque in a postage prepaid envelope addressed to the unitholder unless the cheque is not honoured for payment.

Your redemption (or switch) transaction will not be processed until your dealer has received all documentation. Your dealer will inform you of the documentation it requires. Your dealer must provide all required documents to us within 10 business days of the date of your redemption order. If not, we will repurchase the units for your account. If the cost of repurchasing the units is less than the sale proceeds, the fund will keep the difference. If the cost of repurchasing the units is more than the sale proceeds, your dealer must pay the difference and any related costs. Your dealer may require you to reimburse the amount paid if the dealer suffers a loss.

When you may not be allowed to redeem your units

Under extraordinary circumstances, you may not be allowed to redeem your units. We may refuse your order to redeem if:

- › normal trading is suspended on any stock exchange or market where more than 50 per cent of the assets of a fund are listed or traded; or
- › we get permission from the Canadian Securities Administrators to temporarily suspend the redemption of units.

A fund will not allow the purchase of units when the right to redeem units is suspended.

Responsibility for operations of the funds

Manager, trustee, portfolio advisor and principal distributor

RBC GAM is the manager, trustee, portfolio advisor and principal distributor of the funds. The address, phone number and website address of RBC GAM is 155 Wellington Street West, Suite 2200, Toronto, Ontario, M5V 3K7, 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French) and www.rbcgam.com. You can contact us by email at funds.investments@rbc.com (English) or fonds.investissements@rbc.com (French).

RBC GAM manages the funds pursuant to the Declaration of Trust. RBC GAM is responsible for the day-to-day operations of the funds, including valuation services and security holder records, and appoints portfolio advisors which manage the funds' investments and supervise brokerage arrangements for the purchase and sale of fund securities and other assets. RBC GAM also appoints distributors for the funds. No management fees are payable by a fund in respect of Series O units. Unitholders of Series O units pay a negotiated fee directly to RBC GAM. The amount of such fees is set out in the simplified prospectus of the funds. RBC GAM currently manages other mutual funds offered to the public.

As trustee, RBC GAM holds the property of each fund on behalf of the unitholders of the fund. RBC GAM may resign as trustee provided that unitholders of the fund approve of the new trustee. Unitholder approval is not required if the new trustee is an affiliate of RBC GAM but 60 days' notice of the new trustee will be given to unitholders of the fund. The Declaration of Trust may be amended in the manner described under *Description of units of the funds*.

The name and municipality of residence, position and office held with RBC GAM and current principal occupation of each of the directors and executive officers of RBC GAM are as follows:

| NAME | MUNICIPALITY OF RESIDENCE | POSITION AND OFFICE HELD WITH RBC GAM | CURRENT PRINCIPAL OCCUPATION |
|-----------------------|-----------------------------------|---|---|
| Wayne Bossert | Oakville, Ontario | Director | Executive Vice President, Sales, Canadian Banking, Royal Bank |
| Daniel E. Chornous | Toronto, Ontario | Director and Chief Investment Officer | Chief Investment Officer, RBC GAM |
| Douglas Coulter | Toronto, Ontario | Director and President, Retail | President, Retail, RBC GAM |
| Antonella Deo | Toronto, Ontario | Corporate Secretary | Head, Subsidiary Governance Office, Royal Bank |
| Katherine Gibson | Toronto, Ontario | Director | Vice President, Finance, Insurance & Wealth Management, Royal Bank |
| M. George Lewis | Toronto, Ontario | Director and Chairman | Group Head, Wealth Management, Royal Bank |
| Frank Lipka | Vaughan, Ontario | Chief Financial Officer and Chief Operating Officer | Chief Financial Officer and Chief Operating Officer, RBC GAM |
| John S. Montalbano | Vancouver, British Columbia | Director and Chief Executive Officer | Head, Global Asset Management, Wealth Management, Royal Bank |
| Lawrence A.W. Neilsen | Vancouver, British Columbia | Chief Compliance Officer | Chief Compliance Officer, RBC GAM |
| Vijay Parmar | Toronto, Ontario | Director and Vice President | President, RBC Phillips, Hager & North Investment Counsel Inc. |
| Stuart Rutledge | Toronto, Ontario | Director | Head, Global Wealth Services, Strategy & Transformation, Royal Bank |
| Richard E. Talbot | Toronto, Ontario | Director | Managing Director, RBC DS |
| Brian M. Walsh | North Vancouver, British Columbia | Chief Administrative Officer | Chief Administrative Officer, RBC GAM |
| Damon G. Williams | North Vancouver, British Columbia | Director and President, Institutional | President, Institutional, RBC GAM |

Each of the people listed above has held his or her current position with the manager or RBC Asset Management Inc., a predecessor to the manager, and his or her principal occupation during the five years preceding the date hereof, except for Daniel E. Chornous, who from May 2008 to November 2010 was also Chief Investment Officer, PH&N, Douglas Coulter, who from November 2005 to January 2009 was President and Chief Executive Officer, RBC DI, Antonella Deo, who from November 2004 has been Head, Subsidiary Governance Office, Royal Bank and who also became Corporate Secretary, RBC GAM in June 2011, Katherine Gibson, who prior to November 2010 held various finance positions in the Toronto Head Office, Royal Bank, John S. Montalbano, who from January 2009 to November 2010 was also Chief Executive Officer, PH&N, and from 2005 to 2009 was also President, PH&N, Stuart Rutledge, who prior to May 2007 held various finance positions in the Toronto Head Office, Royal Bank, Lawrence A. W. Neilsen, who from November 2009 to November 2010 was Chief Compliance Officer, PH&N, and prior thereto held various compliance positions at PH&N, Vijay Parmar, who from September 2009 has been President, RBC Phillips, Hager & North Investment Counsel Inc., and prior thereto was Branch Manager and Director, RBC DS, Damon G. Williams, who from February 2009 to November 2010 was President, PH&N, and from September 2005 to February 2009 was Vice President, PH&N and Brian M. Walsh, who from May 2008 to October 2010 was Chief Financial Officer, PH&N, and from May 2001 to May 2008 was Secretary, PH&N.

Investment advisors

RBC GAM is the investment advisor of the funds and provides investment analysis and recommendations with respect to the funds.

RBC GAM is responsible for the management of the funds' investment portfolios, subject to the control and direction of the trustee. RBC GAM is paid a fee as compensation for the services it provides to each fund. The amount of such fees is set out in the simplified prospectus of the funds under *Fees and expenses – Fees and expenses payable by the funds – Management fees*.

The name, title and length of service by persons employed by RBC GAM who are principally responsible for the day-to-day management of a fund or implementing its investment strategy are shown in the table below:

| NAME | FUNDS FOR WHICH RESPONSIBLE | POSITION AND OFFICE | PRINCIPAL BUSINESS ASSOCIATION DURING PRECEDING FIVE YEARS |
|--------------------|---|---|--|
| Daniel E. Chornous | All funds | Director and Chief Investment Officer | Received B. Comm. from University of Manitoba; Chartered Financial Analyst; associated with RBC GAM since 2002 |
| Frank Gambino | RBC High Yield Bond Trust | Vice President and Senior Portfolio Manager, Global Fixed Income and Currencies | Received MBA from McMaster University; Chartered Financial Analyst; associated with RBC GAM since November 2001 |
| Stephen D. Burke | Phillips, Hager & North Total Return Bond Trust | Vice President and Portfolio Manager, Fixed Income | Associated with RBC GAM or a predecessor since 2002 |
| William F. John | Phillips, Hager & North Total Return Bond Trust | Vice President and Portfolio Manager, Fixed Income | Associated with RBC GAM or a predecessor since 2008; prior thereto, several years of investment experience with two international investment banks |

The investment decisions of the individuals listed in the table above made on behalf of RBC GAM are not subject to the oversight, approval or ratification of any committee. The investment decision-making process is supported by research, analysis and internal investment committees. Investment decisions are overseen by the Chief Investment Officer.

Brokerage arrangements

RBC GAM makes decisions as to the purchase and sale of fund securities, including units of the underlying funds and other assets of the funds such as cash and term deposits as well as decisions regarding the execution of portfolio transactions of a fund, including the selection of market, broker and the negotiation of commissions.

In effecting these portfolio transactions, RBC GAM places brokerage business with numerous dealers and brokers on the basis of the best execution, which includes a number of considerations such as price, volume, speed and certainty of execution, and total transaction cost. RBC GAM uses the same criteria in selecting all of its dealers and brokers, regardless of whether the dealer or broker is an affiliate of RBC GAM. RBC GAM currently has in place brokerage arrangements with two affiliates, RBC DS and Commission Direct Inc. Each of RBC DS and Commission Direct Inc. may provide research goods and services, order execution goods and services and mixed-use goods and services in exchange for effecting brokerage transactions, which goods and services are more fully described below.

In certain circumstances, RBC GAM receives goods or services from dealers or brokers in exchange for directing brokerage transactions to such dealers or brokers. The types of goods and services for which RBC GAM may direct brokerage commissions are research goods and services (*research goods and services*) and order execution goods and services (*order execution goods and services*).

RBC GAM receives research goods and services, which include: (i) advice as to the value of securities and the advisability of effecting transactions in securities; and (ii) analyses and reports concerning securities, issuers, industries, portfolio strategy or economic or political factors and trends that may have an impact on the value of securities. Such goods and services may be provided by the executing dealer directly (known as proprietary research) or by a party other than the executing dealer (known as third party research). The research goods and services with which RBC GAM is provided in exchange for brokerage commissions include advice, analyses and reports that focus on, among other matters, specific stocks, sectors and economies.

RBC GAM may also receive order execution goods and services, such as data analysis, software applications and data feeds. These goods and services may be provided by the executing dealer directly or by a party other than the executing dealer.

The users of these research goods and services and order execution goods and services are RBC GAM's portfolio managers, analysts and traders.

In certain instances, RBC GAM may receive goods and services containing some elements that qualify as research goods and services and/or order execution goods and services and other elements that do not qualify as either of such permitted goods and services. These types of goods and services are considered to be mixed-use (*mixed-use goods and services*). If RBC GAM obtains mixed-use goods and services, RBC GAM only uses brokerage commissions to pay for the portion that would qualify as permitted goods and services that are used in its investment or trading decisions or in effecting securities transactions, each on behalf of the funds. The types of mixed-use goods and services that RBC GAM may receive include software applications and data analysis.

RBC GAM conducts extensive trade cost analysis to ensure that the funds and clients of RBC GAM receive a reasonable benefit considering the use of the research goods and services and order execution goods and services, as applicable, and the amount of brokerage commissions paid. Specifically, RBC GAM's investment management teams decide which dealers or brokers are allocated brokerage business based on their ability to provide best execution of trades, the competitiveness of the commission costs, and the range of services and quality of research received.

RBC GAM may use research goods and services and order execution goods and services to benefit the funds and clients of RBC GAM other than those whose trades generated the brokerage commission. However, RBC GAM has policies and procedures in place such that over a reasonable period of time, all clients, including the funds, receive fair and reasonable benefit in return for the commission generated.

For a list of any other dealer, broker or third party which provides research goods and services and/or order execution goods and services, at no cost, call us at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French) or send an email to funds.investments@rbc.com (English) or fonds.investissements@rbc.com (French).

Custodian

RBC Dexia Investor Services Trust of Toronto, Ontario is the custodian of the assets of the funds pursuant to an amended master custodial agreement between RBC GAM and RBC Dexia Investor Services Trust dated as of December 19, 20011 (the *Master Custodial Agreement*). RBC Dexia Investor Services Trust receives a fee from RBC GAM for the custodial services provided to the funds. Either party may terminate the Master Custodial Agreement by giving the other party 30 days' notice.

Auditor

The auditor of the funds is Deloitte & Touche LLP of Toronto, Ontario.

Registrar

Royal Bank, RBC Dexia Investor Services Trust and RBC GAM keep a record of who owns all fund units. The register of the funds is kept in Montreal, Quebec, Toronto, Ontario and Vancouver, British Columbia.

Independent Review Committee

The Board of Governors acts as the independent review committee that each fund is required to have under Canadian securities laws. The Board of Governors reviews and provides input on conflict of interest matters in respect of RBC GAM and the funds. The Board of Governors also provides advice to RBC GAM on other issues relating to the management of the funds. See *Corporate governance of the funds* on page 18.

Conflicts of interest

Principal holders of securities

(a) Funds

Except as stated below, as at December 7, 2011, no person or company owns of record or, to the knowledge of the relevant fund or the manager, beneficially, directly or indirectly, more than 10 per cent of the outstanding units of any series of the funds.

Phillips, Hager & North Total Return Bond Trust

| NAME | TYPE OF OWNERSHIP | NUMBER OF UNITS OWNED | SERIES | PERCENTAGE OF OUTSTANDING UNITS OF EACH SERIES |
|---------------------------------|-----------------------|-----------------------|--------|--|
| Capital Funding Alberta Limited | Record and Beneficial | 15,000 | 0 | 100% |

RBC High Yield Bond Trust

| NAME | TYPE OF OWNERSHIP | NUMBER OF UNITS OWNED | SERIES | PERCENTAGE OF OUTSTANDING UNITS OF EACH SERIES |
|---------------------------------|-----------------------|-----------------------|--------|--|
| Capital Funding Alberta Limited | Record and Beneficial | 15,000 | 0 | 100% |

(b) Manager

Except as stated below, as at December 7, 2011, no person or company owned of record or, to the knowledge of the manager, beneficially, directly or indirectly, more than 10 per cent of the outstanding shares of RBC GAM, the manager of the funds.

| NAME | TYPE OF OWNERSHIP | NUMBER OF SHARES OWNED | PERCENTAGE OF OUTSTANDING SHARES |
|----------------------|-----------------------|------------------------|----------------------------------|
| Royal Bank of Canada | Record and Beneficial | 75,000 Common Shares | 100.00% |

The percentage of securities of each class or series of voting or equity securities of Royal Bank beneficially owned, directly or indirectly, in aggregate, by all the directors and officers of RBC GAM is no more than 0.001 per cent, and by all members of the Board of Governors is no more than 0.00004 per cent.

Affiliated entities

The following companies that provide services to the funds or RBC GAM in relation to the funds are affiliated with RBC GAM:



* Indirect wholly owned subsidiaries of Royal Bank of Canada.

The fees paid to RBC DS and Commission Direct Inc. are contained in the audited financial statements of the funds.

The following individuals are directors or officers of RBC GAM and also of an affiliated entity of RBC GAM that provides services to the funds or RBC GAM in relation to the funds:

| NAME | POSITION WITH MANAGER | POSITION WITH AFFILIATE |
|-----------------|--------------------------------|--------------------------------------|
| Wayne Bossert | Director | Executive Vice President, Royal Bank |
| Douglas Coulter | Director and President, Retail | Senior Vice President, Royal Bank |
| Antonella Deo | Corporate Secretary | Corporate Secretary, RBC DS |

| NAME | POSITION WITH MANAGER | POSITION WITH AFFILIATE |
|--------------------|---|---|
| Katherine Gibson | Director | Vice President, Royal Bank |
| M. George Lewis | Director and Chairman | Group Head, Wealth Management, Royal Bank; Director, RBC DS |
| John S. Montalbano | Director and Chief Executive Officer and Ultimate Designated Person | Executive Vice President, Royal Bank |
| Stuart Rutledge | Director | Senior Vice President, Royal Bank |
| Richard E. Talbot | Director | Managing Director, RBC DS |
| Damon G. Williams | Director and President, Institutional | Vice President, Royal Bank |

As disclosed in the table above, certain directors or officers of RBC GAM may also be directors or officers of Royal Bank or RBC DS. RBC GAM has established appropriate policies and procedures to minimize the potential for conflicts between the interests of RBC GAM and any affiliated entities. In particular, RBC GAM has policies and procedures which deal with the trading in common shares of Royal Bank and offerings underwritten by RBC DS and to ensure that any brokerage business allocated to RBC DS will be on the basis of best execution and will be on competitive terms and conditions. See *Corporate governance of the funds – Board of Governors and Responsibility for operations of the funds – Brokerage arrangements*. RBC GAM monitors the application of such policies and procedures to ensure their continuing effectiveness.

Corporate governance of the funds

RBC GAM, in its role as trustee of the funds, has overall responsibility for management of the funds.

The Board of Governors acts as the independent review committee that each fund is required to have under Canadian securities laws. See *Board of Governors* below.

Policies, procedures, practices and guidelines

As manager of, and portfolio advisor to, the funds, RBC GAM is responsible for the day-to-day management, administration and operation of the funds, and provides investment advice and portfolio management services to the funds.

RBC GAM has established appropriate policies, procedures, practices and guidelines to ensure the proper management of the funds, including as required by NI 81-107, policies and procedures relating to conflicts of interest. The systems used by RBC GAM in relation to the funds monitor and manage the business and sales practices, risk and internal conflicts of interest relating to the funds, while ensuring compliance with applicable regulatory, compliance and corporate requirements. RBC GAM personnel responsible for compliance, together with management of RBC GAM, ensure that these policies, procedures, practices and guidelines are communicated from time to time to all relevant persons and are updated as necessary (including the systems referred to above) to reflect changing circumstances. RBC GAM also monitors the application of all such policies, procedures, practices and guidelines to ensure their continuing effectiveness.

Compliance with the investment practices and investment restrictions mandated by securities legislation is monitored by RBC GAM on a regular basis. The investment practices and restrictions for the funds and guidelines for derivative use, securities lending transactions, repurchase agreements and reverse repurchase agreements are outlined beginning on page 2.

RBC GAM has also developed a personal trading policy for employees (the *Policy*) which is designed to prevent potential, perceived or actual conflicts between the interests of RBC GAM and its staff and the interests of clients and the funds. Under the *Policy*,

certain RBC GAM personnel are required to pre-clear certain personal securities transactions in order to ensure that those trades do not conflict with the best interests of the funds and have not been offered to the person because of the position they hold in RBC GAM. RBC GAM has also adopted the basic principles set out in the Code of Ethics on Personal Investing established by the Investment Funds Institute of Canada.

Board of Governors

The Board of Governors reviews and provides input on conflict of interest matters in respect of RBC GAM and the funds. The Board of Governors also provides advice to RBC GAM on other issues relating to the management of the funds.

In its role as the independent review committee of the funds, the Board of Governors will, no less frequently than annually, review and assess the adequacy and effectiveness of:

- › RBC GAM's policies and procedures relating to conflict of interest matters in respect of the funds;
- › any standing instructions it has provided to RBC GAM pertaining to conflict of interest matters in respect of the funds;
- › RBC GAM's and the funds' compliance with any conditions imposed by the Board of Governors in a recommendation or approval; and
- › any subcommittee to which the Board of Governors, in its role as independent review committee, has delegated any of its functions.

In addition, the Board of Governors will, no less frequently than annually, review and assess the independence of its members, the compensation of its members, its effectiveness and the contribution and effectiveness of its members. The Board of Governors will provide RBC GAM with a report of the results of such assessment.

The Board of Governors prepares an annual report that describes its activities as the independent review committee of the funds. For a copy of this report, at no cost, call us at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French) or ask your dealer. You can also get a copy of this report on the RBC GAM website at www.rbcgam.com or by sending an email to funds.investments@rbc.com (English) or fonds.investissements@rbc.com (French).

This report and other information about the Board of Governors are also available at www.sedar.com.

The Board of Governors is composed of nine members and each is independent from RBC GAM, the funds and entities related to RBC GAM. Set forth below are the name, municipality of residence and principal occupation of each of the members of the Board of Governors:

| NAME | MUNICIPALITY OF RESIDENCE | CURRENT PRINCIPAL OCCUPATION |
|--------------------------------------|----------------------------|---|
| Selwyn B. Kossuth ^{1,2} | Mississauga, Ontario | Financial Consultant |
| Charles F. Macfarlane ^{1,2} | Toronto, Ontario | Corporate Director and Consultant |
| Lloyd R. McGinnis ⁴ | Winnipeg, Manitoba | Director, Airport Site Redevelopment, Winnipeg Airports Authority |
| Linda S. Petch ^{1,2} | Victoria, British Columbia | President, Petch & Associates Management Consultants Ltd. |
| Elaine C. Phénix ³ | Montreal, Québec | President, Phénix Capital Inc. |
| Mary C. Ritchie ^{1,2} | Edmonton, Alberta | President and Chief Executive Officer, Richford Holdings Ltd. |

| NAME | MUNICIPALITY OF RESIDENCE | CURRENT PRINCIPAL OCCUPATION |
|-----------------------------------|------------------------------|----------------------------------|
| Joseph P. Shannon ³ | Port Hawkesbury, Nova Scotia | President, Atlantic Corp. Ltd. |
| Michael G. Thorley ^{1,2} | Toronto, Ontario | Retired Lawyer |
| James W. Yuel ³ | Saskatoon, Saskatchewan | Chair, PIC Investment Group Inc. |

¹ Member of the Financial Advisory Committee of the Board of Governors

² Member of the Investment Conflicts Committee of the Board of Governors

³ Member of the Governance Committee of the Board of Governors

⁴ Chair of the Board of Governors

Policies and procedures regarding proxy voting

As portfolio advisor for the funds, RBC GAM has responsibility for the investment management of the funds, including the exercise of voting rights attaching to securities held by the funds.

Each fund has proxy voting policies and procedures that apply to securities of the fund to which voting rights are attached. RBC GAM has established proxy voting policies, procedures and guidelines (the *Proxy Voting Policy*) for securities held by the funds to which voting rights are attached. Each fund's proxy voting policy provides that the fund's voting rights will be exercised in accordance with the best interests of the fund.

The Proxy Voting Policy sets out the guidelines and procedures that RBC GAM will follow to determine whether and how to vote on any matter for which a fund receives proxy materials. Issuers' proxies most frequently contain proposals to elect corporate directors, to appoint external auditors and set their compensation, to adopt or amend management compensation plans, and to amend the capitalization of the company.

Pursuant to the Proxy Voting Policy, RBC GAM will generally cause the funds to vote on these matters as follows:

- (a) Boards of Directors – RBC GAM supports resolutions that promote the effectiveness of boards in acting in the best interests of shareholders. RBC GAM will generally cause a fund to vote in favour of the election of individual directors for boards having an independent chair and on which two-thirds of the directors are independent.
- (b) Auditors and Auditor Compensation – Where all members of an issuer's audit committee are independent, RBC GAM will generally cause a fund to support the election of directors, the appointment of auditors and the approval of the recommended auditor compensation.
- (c) Management Compensation – The goal of RBC GAM is to support compensation arrangements that are tied to long-term corporate performance and shareholder value. These arrangements should induce management to purchase and hold equity in the company to better align management's interests with those of shareholders. Stock option plans that are overly generous or excessively dilutive to other shareholders will not be supported.
- (d) Changes in Capitalization – RBC GAM recognizes the need for management of an issuer to have flexibility in the issue or buyback of shares to meet changing financial conditions. Changes in capitalization will generally be supported where a reasonable need for the change is demonstrated; however, changes resulting in excessive dilution of existing shareholder value will not be supported.

Other issues, including those business issues specific to the issuer or those raised by shareholders of the issuer, are addressed on a case-by-case basis with a focus on the potential impact of the vote on shareholder value.

RBC GAM has retained Institutional Shareholder Services Inc., a subsidiary of MSCI Inc., to provide administrative and proxy voting services to the funds. The Proxy Voting Policy includes procedures to ensure that voting rights are exercised in accordance with the funds' instructions.

If the potential for a conflict of interest arises in connection with proxy voting, the Proxy Voting Policy provides for consideration of the issue by the Board of Governors of the funds and provision of its recommendation to RBC GAM.

The Proxy Voting Policy is available on request, at no cost, by calling 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French) or by writing to RBC Global Asset Management Inc., 155 Wellington Street West, Suite 2200, Toronto, Ontario, M5V 3K7.

The proxy voting record for each fund for the most recent 12-month period ended June 30 of each year will be available at no cost to any unitholder of the fund upon request at any time after August 31 of that year. The proxy voting record for each fund will also be available from the RBC GAM website at www.rbcgam.com.

Voting rights and fund-of-fund investments

The funds may invest in other mutual funds (called the *underlying funds*), including, in some cases, other RBC Funds. If a unitholder meeting is called for an underlying fund that is managed by us or an affiliate, you will have the voting rights that come with the units of the underlying fund and we will not vote the units of the underlying fund.

Excessive trading

Buying, redeeming or switching units of a mutual fund within 30 business days after they were purchased, which is referred to as excessive or short-term trading, may have an adverse effect on other investors in the mutual fund because it can increase trading costs to the mutual fund to the extent the mutual fund purchases and sells portfolio securities in response to each redemption request. An investor who engages in short-term trading also may participate in any appreciation in the net asset value of the mutual fund during the short period that the investor was invested in the mutual fund, which reduces the amount of the appreciation that is experienced by other, longer term investors in the mutual fund. Due to the nature of the assets in which the funds invest, we believe that investors in the funds are not exposed to the adverse effects of short-term trading described above and therefore we do not restrict short-term trading in the funds.

Income tax considerations

This section describes the principal Canadian federal income tax considerations applicable to the funds and to investors in a fund who are not “financial institutions” for purposes of the mark-to-market rules contained in the *Income Tax Act* (Canada) and who, for purposes of the *Income Tax Act* (Canada), are residents of Canada, deal with the fund at arm’s-length and hold units of the fund as capital property.

The summary takes into account the current provisions of the *Income Tax Act* (Canada) and the regulations thereunder, as well as all publicly announced proposed amendments to the *Income Tax Act* (Canada) and regulations. It also takes into account the published administrative policies and assessing practices of the Canada Revenue Agency.

The summary is not intended to be exhaustive. It does not address provincial, territorial or foreign tax considerations. This summary does not constitute legal or tax advice to any particular purchaser or to any particular holder of units of a fund. Investors should consult their own tax advisors for advice with respect to the tax consequences of an investment in their particular circumstances.

Taxation of the funds

Each fund will qualify as a “unit trust”, but not a “mutual fund trust”, as defined in the *Income Tax Act* (Canada).

Each of the funds is subject to income tax under Part I of the *Income Tax Act* (Canada) on its income (including its net taxable capital gains, if any) for each year less the portion thereof that is paid or payable to the unitholders of the fund in the year. It is intended that each fund will distribute to its unitholders in each year its income (including its net taxable capital gains) to such an extent that it will not be liable in any year for ordinary income tax under Part I of the *Income Tax Act* (Canada).

Each fund will include in computing its income for a taxation year any interest (or amount that is considered to be interest for the purposes of the *Income Tax Act* (Canada)) that accrues or is deemed to accrue to the fund to the end of the year, or becomes receivable or is received by the fund before the end of the year, to the extent that such interest (or amount considered to be interest) was not included in computing the fund's income for a preceding taxation year.

The funds are required to compute their income and gains for tax purposes in Canadian dollars and may therefore realize foreign exchange gains or losses with respect to their foreign investments that will be taken into account in computing their income for tax purposes. If a fund's distributions to unitholders throughout a year do not completely offset its income for tax purposes as calculated in Canadian dollars, the fund may make an additional distribution to unitholders before the end of the year in an effort to ensure that the fund does not become liable for income tax.

A fund that invests in derivatives as a substitute for direct investment will include gains and deduct losses in connection with such derivative activities on income account rather than as capital gains and capital losses. Where a fund uses derivatives to hedge foreign currency exposure with respect to securities held on capital account, gains or losses realized on such derivatives will be treated as capital gains or losses in accordance with the Canada Revenue Agency's published administrative practice.

Losses incurred by a fund cannot be allocated to unitholders but may be carried forward and deducted by the fund in future years.

Since the funds are not mutual fund trusts under the *Income Tax Act* (Canada), the funds (i) may become liable for alternative minimum tax under the *Income Tax Act* (Canada), (ii) will not be eligible for capital gains refunds under the *Income Tax Act* (Canada), (iii) may be subject to the "mark-to-market" rules contained in the *Income Tax Act* (Canada), and (iv) may be subject to a special tax under Part XII.2 of the *Income Tax Act* (Canada).

A fund will be a "financial institution" for purposes of the mark-to-market rules contained in the *Income Tax Act* (Canada) at any time if more than 50 per cent of the fair market value of all interests in the fund is held at that time by one or more "financial institutions". The *Income Tax Act* (Canada) contains special rules for determining the income of a financial institution. For example, certain of the funds' investments would be considered mark-to-market properties so that capital gains treatment would not apply to gains and losses from the disposition of such investments. In addition, if a fund is a financial institution, the fund will be deemed to have disposed and reacquired its mark-to-market property at the end of each taxation year for fair market value and the gains from these dispositions will be taxed on income account and the losses will be fully deductible. Also, certain of the funds' investments may be "specified debt obligations" under the *Income Tax Act* (Canada). Generally, with respect to these investments, if a fund is a financial institution, it will compute its income from such investments on an accrual basis in accordance with prescribed rules.

Taxation of unitholders

Unitholders of a fund are required to include in their income for tax purposes for a year, the Canadian dollar amount of income (including net taxable capital gains) paid or payable to them by the fund in the year and deducted by the fund in computing its income for tax purposes, whether or not these amounts are reinvested in additional units of the fund. Any amount reinvested in additional units of the fund will be added to the unitholder's adjusted cost base of their units.

If a unitholder's distributions from a fund in a year exceed the unitholder's share of the fund's net income and net capital gains for the year, the excess will generally not be taxable but will reduce the adjusted cost base of the unitholder's units in the fund. However, where such excess distributions are reinvested in additional units, the overall adjusted cost base of the unitholder's units will not be reduced. If reductions to the adjusted cost base of a unitholder's units for the year would result in such adjusted cost base becoming a negative amount, that amount will be treated as a capital gain realized by the unitholder in that year and the unitholder's adjusted cost base of the units will be increased to zero.

Each fund will designate, to the extent permitted by the *Income Tax Act* (Canada), the portion, if any, of the net income distributed to unitholders as may reasonably be considered to consist of net taxable capital gains considered to be realized by the fund. Any such designated amount will be deemed for tax purposes to be realized by unitholders in the year as a taxable capital gain. Amounts designated as taxable capital gains will be subject to the general rules relating to the taxation of capital gains, which are described below. In addition, each fund may make designations in respect of income considered to be earned from foreign sources so that, for the purpose of computing any foreign tax credit to a unitholder, the unitholder will be deemed to have paid as tax to the government of a foreign country that portion of the taxes considered to be paid by the fund to that country that is equal to the unitholder's share of the fund's income from sources in that country. Unitholders will be advised each year of the composition of amounts, including non-taxable amounts, distributed to them.

When a unitholder acquires units in a fund, the net asset value of the units and therefore a portion of the price paid may reflect income and realized capital gains of the fund that have not been distributed, and accrued gains that have not been realized by the fund. This may particularly be the case near year-end before the final year-end distributions have been made. When and if such income and realized capital gains are distributed by the fund, and when and if such accrued gains are realized and distributed, such income and gains must be taken into account in computing the unitholder's income for tax purposes, even though such amounts were reflected in the price paid by the unitholder. If the amounts of such distributions are reinvested in additional units of the fund, the amounts will be added to the unitholder's adjusted cost base of its units. The funds intend to distribute net income quarterly and net capital gains annually, generally in December. A distribution reduces a fund's unit value.

A unitholder's adjusted cost base per unit will reflect the average cost to the unitholder of all units held by the unitholder, including units purchased on the reinvestment of distributions.

Upon the actual or deemed disposition of a unit of a fund, including the redemption of a unit by a fund and a switch of units of a fund into another fund, a capital gain (or a capital loss) will generally be realized to the extent that the proceeds of disposition of the units exceed (or are exceeded by) the aggregate of the adjusted cost base to the holder of such units and the costs of disposition. One-half of a capital gain realized on the disposition will be included in income as a taxable capital gain. One-half of any capital loss realized will be deducted against any taxable capital gains, subject to and in accordance with the detailed rules of the *Income Tax Act* (Canada).

Individuals may be subject to an alternative minimum tax which may apply in respect of amounts treated as capital gains.

Tax forms

Unitholders will receive an annual tax form relating to distributions of net income, net capital gains and non-taxable amounts (including a return of capital) distributed by the funds in which they hold units to enable them to complete their income tax returns. Unitholders should keep records of the cost of units acquired so that they can calculate any capital gain or loss on the redemption or other disposition of their units.

Eligibility for registered plans and TFSAs

The units of the funds will not be qualified investments for trusts governed by registered plans or TFSAs.

Remuneration of directors, officers and trustee

The funds do not have directors or officers. RBC GAM, in its capacity as the trustee of the funds, is not entitled to any remuneration. RBC GAM, in its capacity as manager of the funds, is entitled to receive a management fee set out in the simplified prospectus of the funds.

Material contracts

The material contracts of each fund are listed below:

- (a) the Declaration of Trust and the regulation of each fund; and
- (b) the Master Custodial Agreement.

Each of the foregoing is described under the heading *Responsibility for operations of the funds* on page 12.

Copies of the material contracts listed above may be examined by prospective or existing unitholders at the principal office of the funds during ordinary business hours.

Independent Auditor's Consent

Phillips, Hager & North Total Return Bond Trust
RBC High Yield Bond Trust

(collectively, the "Funds")

We have read the Simplified Prospectus (the "Prospectus") and Annual Information Form of the Funds dated December 19, 2011 relating to their sale and issue of Series O units. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned Prospectus of our reports dated December 19, 2011 to the unitholder of each of the Funds on their respective statement of net assets as at December 7, 2011.

"Deloitte & Touche LLP"

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
December 19, 2011

Certificate of the funds, the manager, the promoter and the principal distributor of the funds

This annual information form, together with the simplified prospectus and the documents incorporated by reference into the simplified prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by the simplified prospectus, as required by the securities legislation of each of the provinces and territories of Canada and do not contain any misrepresentations.

Dated: December 19, 2011

By: ***“John S. Montalbano”*** _____

John S. Montalbano
Chief Executive Officer
RBC Global Asset Management Inc.,
as trustee, manager, promoter and
principal distributor of the Funds

By: ***“Frank Lipka”*** _____

Frank Lipka
Chief Financial Officer
and Chief Operating Officer
RBC Global Asset Management Inc.,
as trustee, manager, promoter and principal
distributor of the Funds

On behalf of the Board of Directors
of RBC Global Asset Management Inc.,
as trustee, manager, promoter and principal distributor of the Funds

By: ***“Douglas Coulter”*** _____

Douglas Coulter
Director

By: ***“Daniel E. Chornous”*** _____

Daniel E. Chornous
Director

RBC Funds

Additional information about the funds is available in the funds' fund facts, management reports of fund performance and financial statements.

For a copy of these documents, at no cost, call us toll-free at 1-800-463-FUND (3863) (English) or 1-800-668-FOND (3663) (French), email us at funds.investments@rbc.com (English) or funds.investissements@rbc.com (French) or ask your dealer.

You can also get copies of this annual information form, the fund facts, the simplified prospectus, management reports of fund performance and the financial statements from the RBC GAM website at www.rbcgam.com.

These documents and other information about the funds, such as information circulars and material contracts, are also available online at www.sedar.com.

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